

Talgo, S.A. and Subsidiaries

**Consolidated Financial Statements for
the year ended 31 December 2020 and
Consolidated Directors' Report,
together with Independent Auditor's
Report**

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

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Talgo, S.A.,

Opinion

We have audited the consolidated financial statements of Talgo, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2020, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

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 Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of manufacturing revenue by reference to the stage of completion

Description

The Group engages mainly in the manufacture of railway transport materials, systems and equipment and, in relation to long-term manufacturing contracts, it recognises the revenue and profit or loss thereon by reference to the estimated stage of completion, determined on the basis of the costs incurred as a percentage of the total estimated costs of each contract.

Determination of the stage of completion necessarily involves a high degree of complexity and estimation by the Group's management and directors in relation to, inter alia, the estimation of the total costs to be incurred in each contract and the estimation of the margin taking into consideration the expected revenue and the estimated costs to be incurred. Accordingly, the situation described was considered to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the process to recognise revenue by reference to the stage of completion, as well as tests to verify that the aforementioned controls operate effectively. In particular, we selected the controls performed by those in charge of each area, supervised by Group management, relating to reviews of costs, the estimated percentage of completion and the assessment of any penalties or obligations provided for in the contracts.

Also, we performed substantive audit procedures including, among others, a sample selection based on both quantitative and qualitative criteria, of the most significant contracts, and the in-depth analysis of these contracts and the clauses contained therein in order to obtain an appropriate understanding of the terms and conditions agreed upon. For these contracts, we reviewed whether the revenue was consistent with the contractual terms and conditions and verified the price agreed on under those contracts and the reasonableness of the cost budgets considered on the basis of comparable historical information and inquiries made of the Group's technical personnel.

In addition, we evaluated the reasonableness of the estimates made by management, reviewing the consistency of the estimates made in previous years with the actual data for the contracts in the current year. Lastly, we checked that the disclosures included in Note 2.21 to the accompanying consolidated 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 4.1-b, when calculating the provision for income tax, the Group 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 Group 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 consolidated 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 25, in 2019 the Group received tax assessments that it signed on a contested basis and against which it filed an economic-administrative appeal. It also assessed, together with its external tax advisers, the uncertainty associated with the various matters in dispute, recognising provisions of EUR 11.5 million and derecognising deferred tax assets of EUR 8.3 million, and disclosing the other contingencies in the notes to the consolidated financial statements.

In 2020 the Group submitted pleas to the Central Economic-Administrative Tribunal and the contingency was reassessed by management and the directors, concluding that the accounting policies applied and the disclosures made in the previous year should be maintained in the same terms.

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 of the responses from the Group's tax advisers, on which management and the directors relied to assess the uncertainty associated with the matters in dispute and to determine whether the impacts on the tax assets and tax provisions to be recognised determined in 2019 remained valid.

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 Group's tax advisers.
- Conducted a review of the reasonableness of the conclusions reached by said experts on the possible outcomes.
- Reviewed the method adopted by the Group (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 consolidated financial statements (Notes 4.1-b, 18, 19 and 25) contained the required disclosures on these matters.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2020, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the consolidated directors' report, in accordance with the audit regulations in force, consists of:

- a) Solely checking that the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report, to which the Spanish Audit Law refers, have been furnished as provided for in the applicable legislation and, if this is not the case, reporting this fact.
- b) Evaluating and reporting on whether the other information included in the consolidated directors' report is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements, as well as evaluating and reporting on whether the content and presentation of this section of the consolidated 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 furnished as provided for in the applicable legislation and that the other information in the consolidated directors' report was consistent with that contained in the consolidated financial statements for 2020 and its content and presentation were in conformity with the applicable regulations.

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

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

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated 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

European Single Electronic Format

We have examined the digital files in European Single Electronic Format (ESEF) of Talgo, S.A. and subsidiaries for 2020, which comprise the XHTML file including the consolidated financial statements for 2020 and the XBRL files with the tagging performed by the entity, which will form part of the annual financial report.

The directors of Talgo, S.A. are responsible for presenting the annual financial report for 2020 in accordance with the format and markup requirements established in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 ("ESEF Regulation").

Our responsibility is to examine the digital files prepared by the Parent's directors, in accordance with the audit regulations in force in Spain. Those regulations require that we plan and perform our audit procedures in order to ascertain whether the content of the consolidated financial statements included in the aforementioned digital files corresponds in full to that of the consolidated financial statements that we have audited, and whether those consolidated financial statements and the aforementioned files were formatted and marked up, in all material respects, in accordance with the requirements established in the ESEF Regulation.

In our opinion, the digital files examined correspond in full to the audited consolidated financial statements, and these are presented and have been marked up, in all material respects, in accordance with the requirements established in the ESEF Regulation.

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 25 February 2021.

Engagement Period

The Annual General Meeting held on 10 June 2020 appointed us as auditors for a period of one year from the year ended 31 December 2019, i.e., for 2020.

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 uninterruptedly since the year ended 31 December 2013 and, therefore, since the year ended 31 December 2015, the year in which the Parent became a Public Interest Entity.

DELOITTE, S.L.

Registered in ROAC under no. S0692



Bruno Rodriguez Martínez

Registered in ROAC under no. 21.439

25 February 2021

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 consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent'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 Parent'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 Parent's audit committee, we determine those matters that were of most significance in the audit of the consolidated 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. AND SUBSIDIARIES

Consolidated annual accounts prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, for the year ended 31 December 2020 and the consolidated directors' report

**Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with International Financial Reporting Standards (IFRS) (see Note 35). In the event of a discrepancy, the Spanish-language version prevails.*

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEARS 2020 AND 2019

(Expressed in thousands of euros)

	Note	<u>31.12.2020</u>	<u>31.12.2019</u>
ASSETS			
Non-current assets			
Tangible fixed assets	6	62 136	61 044
Intangible assets	7	53 095	44 946
Goodwill	8	112 439	112 439
Investments accounted for using the equity method	2,3, 10	29	29
Deferred tax assets	18	28 192	28 990
Other financial assets	10	<u>1 079</u>	<u>2 513</u>
		<u>256 970</u>	<u>249 961</u>
Current assets			
Stock	12	145 336	129 784
Customers and other accounts receivable	11	260 233	165 107
Other financial assets	10	10 128	10 128
Asset accruals		1 899	2 367
Cash and cash equivalents	13	<u>228 304</u>	<u>325 550</u>
		<u>645 900</u>	<u>632 936</u>
TOTAL ASSETS		<u>902 870</u>	<u>882 897</u>

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

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEARS 2020 AND 2019

(Expressed in thousands of euros)

	Note	<u>31.12.2020</u>	<u>31.12.2019</u>
EQUITY			
Capital and reserves attributable to the owners of the parent company			
Share capital	14	38 228	41 105
Share premium	14	871	6 784
Treasury Stock	14	(23 051)	(62 562)
Other reserves	15	1 479	3 177
Retained earnings	15	<u>240 142</u>	<u>303 222</u>
Total equity		<u>257 669</u>	<u>291 726</u>
LIABILITIES			
Non-current liabilities			
Borrowings	17	265 004	219 469
Derivative financial instruments		48	68
Deferred tax liabilities	18	8 420	7 646
Provisions for other liabilities and charges	19	53 475	44 180
Government grants		<u>2 211</u>	<u>1 925</u>
		<u>329 158</u>	<u>273 288</u>
Current liabilities			
Suppliers and other payables	16	265 143	244 716
Current tax liabilities		252	166
Borrowings	17	48 000	65 829
Provisions for other liabilities and charges	19	<u>2 648</u>	<u>7 172</u>
		<u>316 043</u>	<u>317 883</u>
Total liabilities		<u>645 201</u>	<u>591 171</u>
TOTAL EQUITY AND LIABILITIES		<u>902 870</u>	<u>882 897</u>

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

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS 2020 AND 2019

(Expressed in thousands of euros)

	Note	<u>2020</u>	<u>2019</u>
Net turnover	5	487 100	401 695
Other income		1 882	3 136
Stock variation for work-in-progress and finished goods		(245)	3 241
Work performed and capitalized by the Group		13 195	11 168
Procurement costs	22	(309 686)	(167 220)
Personnel costs	20	(123 710)	(127 205)
Other operating expenses	22	(55 286)	(58 560)
Amortization and depreciation charge	6, 7	(16 742)	(15 815)
Loss on disposal of fixed assets		(19)	(26)
Other results	23	295	430
Operating profit		(3 216)	50 844
Financial income	24	308	460
Financial expenses	24	(9 395)	(8 368)
Net financial cost	24	(9 087)	(7 908)
Results from entities accounted for by the equity method		-	(8)
Profit before tax		(12 303)	42 928
Income tax charge	25	(5 143)	(4 462)
Profit for the year from continuing operations		(17 446)	38 466
Profit for the year		(17 446)	38 466
Attributable to:			
Owners of the parent	26	(17 446)	38 466
Basic earnings/(loss) per share attributable to the owners of the Company			
Continuing operations	26	(0.14)	0.30
Total		(0.14)	0.30
Diluted earnings/(loss) per share attributable to the owners of the Company			
Continuing operations	26	(0.14)	0.30
Total		(0.14)	0.30

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

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS 2020 AND 2019

(Expressed in thousands of euros)

	<u>31.12.2020</u>	<u>31.12.2019</u>
Profit for the year	(17 446)	38 466
Other comprehensive income:		
Cash flow hedges:		
Direct assignment to equity:		
Cash flow hedge	20	(68)
Tax effect of the equity assignment	(5)	17
Foreign currency translation differences	(1 713)	377
Transfer to results:		
Cash flow hedge	-	-
Tax effect of the cash flow hedge	-	-
Total Other comprehensive income	(1 698)	326
Total comprehensive income for the year	(19 144)	38 792
Attributable to:		
-Owners of the parent	(19 144)	38 792
-Non-controlling interests	-	-
Total comprehensive income for the year	(19 144)	38 792

Notes 1 to 35 form an integral part of this consolidated statement of recognised income and expense.

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEARS 2020 AND 2019

(Expressed in thousands of euros)

	Share capital (Note 14)	Share premium	Treasury Stock	Other reserves (Note 15)	Retained earnings	Total equity
Balance at 31 December 2018	41 105	6 784	(4 046)	2 851	281 421	328 115
Comprehensive income						
Profit or loss	-	-	-	-	38 466	38 466
Other comprehensive Income						
Currency translation differences	-	-	-	377	-	377
Hedging Derivatives	-	-	-	(51)	-	(51)
Total comprehensive Income	-	-	-	326	38 466	38 792
Acquisition of treasury stock (Stock Repurchase plan, note 14)	-	-	(58 516)	-	-	(58 516)
Other operations (compensation plan, note 14)	-	-	-	-	1 000	1 000
Other movements (note 25)	-	-	-	-	(17 665)	(17 665)
Balance at 31 December 2019	41 105	6 784	(62 562)	3 177	303 222	291 726

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

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEARS 2020 AND 2019

(Expressed in thousands of euros)

	Share capital (Note 14)	Share Premium	Treasury Stock	Other reserves (Note 15)	Retained Earnings	Total equity
Balance at 31 December 2019	41 105	6 784	(62 562)	3 177	303 222	291 726
Comprehensive Income						
Profit or loss	-	-	-	-	(17 446)	(17 446)
Other comprehensive Income						
Currency translation differences	-	-	-	(1 713)	-	(1 713)
Hedging derivative	-	-	-	15	-	15
Total comprehensive Income	-	-	-	(1 698)	(17 446)	(19 144)
Acquisition of Treasury Stock (Stock Repurchase Plan, note 14)	-	-	(13 969)	-	-	(13 969)
Share capital reduction (note 14)	(2 877)	(5 913)	53 480	-	(44 690)	-
Total transactions with owners	(2 877)	(5 913)	39 511	-	(44 690)	(13 969)
Other operations (compensation plan, note 14)	-	-	-	-	(1 000)	(1 000)
Other movements	-	-	-	-	56	56
Balance at 31 December 2020	38 228	871	(23 051)	1 479	240 142	257 669

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

TALGO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEARS 2020 AND 2019

(Expressed in thousands of euros)

	2020	2019
Cash flows from operating activities (note 27)	(76 409)	62 163
Cash used in operations	(9 150)	(15 791)
Interest paid	(6 076)	(7 079)
Interest received	43	17
Tax paid	(3 117)	(8 729)
Net cash flow generated from operating activities	(85 559)	46 372
Cash flows from investing activities		
Purchases of property, plant and equipment (note 6)	(8 839)	(4 220)
Purchases of intangible assets (note 7)	(15 860)	(14 491)
Sale of tangible fixed assets (Note 6)	-	5 350
Collection from disinvestments in group companies	-	32
Other assets (note 10)	-	(10 000)
Net cash used in investing activities	(24 699)	(23 329)
Cash flows from financing activities		
Disbursements for loan repayments (note 17)	(68 639)	(51 330)
Proceeds from borrowings (note 17)	95 886	29 021
Share-based payments granted	(14 235)	(58 917)
Net cash used / (generated) in financing activities	13 012	(81 226)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	(97 246)	(58 183)
Cash, cash equivalents and bank overdrafts at the beginning of year (note 13)	325 550	383 733
Cash, cash equivalents and bank overdrafts at the end of year (note 13)	228 304	325 550

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

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2020

(Expressed in thousands of euros)

1. General Information

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

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

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

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

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

- 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.
- The manufacture, assembly, repair, conservation, maintenance, sale & purchase, import, export, representation, distribution and marketing of engines, machinery and parts and components thereof, intended for the electromechanical, iron & steel and transport industries.
- 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.
- The subscription, acquisition, disposal, possession and administration of stocks, shares, or interests, within the limits set forth by the regulations governing the stock market, collective investment companies and other regulations in force that may apply.

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2020

(Expressed in thousands of euros)

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

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

The Parent company holds direct or indirect interests in the following companies:

Patentes Talgo, S.L.U.

Patentes Talgo, S.L.U. was constituted as a joint-stock company in Spain on 12 December 2005, for an indefinite period of time. Its registered address for corporate and tax purposes is in Las Rozas, Madrid and it is registered in the Commercial Registry of Madrid. On 13 March 2006, the Company was converted from a joint-stock company into a limited liability company. The Parent company owns 100% of this company.

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

Talgo Deutschland, GmbH

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

Talgo Rus

The company Talgo Rus was constituted in 2001. Patentes Talgo, S.L.U. held a 51% interest in this company at year-end 2019, meaning that the Group's parent company indirectly held 51% of its share capital. The other shareholder of the company was RZD (Russian Federal Railways) which held 49% of the company. At year-end 2020, this company has been dissolved.

Talgo, Inc.

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

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

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

TALGO, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2020

(Expressed in thousands of euros)

Talgo Kazajstán, S.L.U.

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

Its registered office is in Las Rozas, Madrid.

Patentes Talgo Tashkent, LLC

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

Its registered office is located in Tashkent, Uzbekistan.

Talgo Demiryolu Aracli Üretim VE BA, A.S.

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

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

Its registered office is located in Istanbul, Turkey.

This company did not undertake any activity at the end of 2019 and 2020.

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

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

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

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

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This investment is classified as an associate investment.

OOO, Talgo

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

Its primary corporate purpose is the manufacture and maintenance, certification and technical approval of railway rolling stock.

Its registered office is located in Moscow, Russia.

Motion Rail, S.A.

In 2018, the Parent, through its subsidiary Patentes Talgo, S.L.U., had a 100% ownership interest in this company. In 2019, 32,250 shares of this company were sold at a par value of €1. The Parent's ownership interest in Motion Rail decreased to 46.25% in 2019. In view of the change in the percentage of ownership, at 2019 and 2020 year-end this company is considered an associate and therefore consolidated using the equity method.

The corporate purpose is basically the operation of all types of passenger and freight transport activities by rail, and the sale of services associated with these activities. The assets and liabilities of this company are irrelevant.

Its registered office is in Las Rozas, Madrid.

Talgo India Private Limited

The Parent company indirectly owns 100% of this company.

It was constituted in 2017. Its corporate purpose is basically the manufacture and maintenance of railway rolling stock and auxiliary equipment.

Its registered office is in Delhi, India.

Talgo Shanghai Railways Equipment CO LTD

The Parent company owns 100% of this company, indirectly, through its subsidiary Talgo Kazajstán, S.L.U.

Its corporate purpose is the import, export, purchase, sale of railway products and its materials, machinery, metals, hardware and electric and electronic material, and services related to management consulting and marketing services.

Its registered office is in Shanghai, China.

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Talgo UK Limited

In 2019, the Parent company, through its subsidiary Patentes Talgo, S.L.U., incorporated the subsidiary Talgo UK Limited, in which it had a direct 100% interest at 31 December 2020.

Its corporate purpose is mainly the manufacture and maintenance of railway equipment and auxiliary equipment.

Its registered office is located in Chesterfield, United Kingdom.

This company had no activity at the end of 2020.

2. Summary of the main accounting policies

The main accounting policies applied in the preparation of these consolidated annual accounts for 2020 are set out below. These policies have been consistently applied in all of the years presented, unless otherwise stated.

2.1 Basis of presentation

The Group's consolidated annual accounts for the financial year 2020, which have been prepared on the basis of the accounting records maintained by the Parent company and by the other entities that form part of the Group, were prepared by the Directors of the Parent company at the meeting of the Board of Directors held on 25 February 2021.

These consolidated annual accounts have been formulated by the Directors of the Parent company, in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union, taking into consideration all of the accounting principles and rules, and compulsory applicable valuation criteria of IFRS-EU, in order to reflect an accurate view of the equity and consolidated financial position of the Group as at 31 December 2020, the comprehensive income arising from its operations, the changes in equity and the consolidated cash flow generated by the Group during the financial year that ended on that date.

Nevertheless, given that the accounting principles and valuation criteria applied for the preparation of the Group's consolidated annual accounts for the financial year 2020 may vary from those used by some of the entities that form part of the Group, certain adjustments and reclassifications were made during the consolidation process in order to homogenize the principles and the criteria and adapt them to International Financial Reporting Standards.

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

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The consolidated annual accounts of the Group corresponding to 2019 were approved at the General Meeting of the Shareholders of the Parent company on 10 June 2020. The consolidated annual accounts of the Group and the annual accounts of the entities within the Group for the financial year 2020 are still pending approval by their corresponding Shareholders Meeting or Owners. Nevertheless, the Board of Directors of the Parent company understands that these accounts will be approved without any modification.

2.1.1 Changes in accounting criteria

During 2020, no changes were made in the accounting criteria with respect to the criteria applied in 2019.

2.1.2. Functional currency

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

2.2. Adoption of International Financial Reporting Standards

The consolidated annual accounts of the Group corresponding to the financial year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) and Regulation (EC) n° 1606/2002, issued by the European Parliament and the Board on 19 July 2002. In Spain, the obligation to file consolidated annual accounts in accordance with IFRS approved in the European Union, is regulated by the final eleventh provision of Law 62/2003, dated 30 December 2003 governing tax, administrative and social order measures.

During 2020, the following compulsory rules and interpretations came into force, and have already been adopted by the European Union. Where appropriate, the Group has applied these rules in its preparation of these Consolidated Annual Accounts at 31 December 2020.

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2.2.1. Mandatory standards, interpretations and amendments for financial years beginning on 1 January 2020:

New standards, modifications and interpretations:		Mandatory application for financial years starting on:
Approved for use in the European Union		
Amendments or/and modifications		
Amendment to IAS 1 and IAS 8. Definition of "materiality" (published October 2018).	Modifications to IAS 1 and IAS 8 to align the definition of "materiality" with that contained in the conceptual framework.	January 1, 2020
Modifications to IFRS 9, IAS 39 and IFRS 7. Reform of Reference Interest Rates (published in September 2019).	Modifications to IFRS 9, IAS 39 and IFRS 7 related to the ongoing reform of benchmarks.	January 1, 2020
Amendment to IFRS 3. Business definition (published October 2018).	Clarifications to the business definition.	January 1, 2020
Amendment to IFRS 16 Leases - Rent improvements (published May 2020).	Amendment on leases to help lessees accounting for covid-19-related rent concessions.	June 1, 2020

None of these standards, interpretations and amendments has been applied in advance. The application of these standards, interpretations and amendments has had no significant impact on these consolidated financial statements. The Group is applying the aforementioned standards and interpretations as from their entry into force on January 1, 2020.

2.2.2. At the date of preparation of these consolidated annual accounts, the most significant rules and interpretations that had been published by the IASB, but had not yet entered into force, either because their effective date is after the date of the consolidated annual accounts or because they have not yet been adopted by the European Union, are the following:

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New standards, amendments and interpretations:		Mandatory application for financial years starting on:
Modifications		
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments) Benchmark Interest Rate Reform - Phase 2	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 related to benchmark reform (second phase).	June 1, 2021
Amendment to IFRS 4. Difference in the application of IFRS 9	Deferral of the application of IFRS 9 until 2023	June 1, 2021
Amendment to IFRS 3. Reference to the conceptual framework.	IFRS 3 is updated to align the definitions of assets and liabilities in a business combination with those contained in the conceptual framework	January 1, 2022
Amendment to IAS 16. Revenue before planned use.	The amendment prohibits deducting from the cost of tangible fixed assets any revenue from the sale of items produced while the entity is preparing the asset for its intended use.	January 1, 2022
Amendment to IFRS 37 Onerous contracts - Cost of fulfilling a contract.	The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to the performance of the contract.	January 1, 2022
Improvements to IFRS 2018-2020 Cycle	Minor amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.	January 1, 2022
Amendment to IAS 1. Classification of liabilities as current or non-current.	Clarifications regarding the presentation of liabilities as current and non-current.	January 1, 2023
New standards		
IFRS 17. Insurance contracts and its amendments.	It replaces IFRS 4 and includes the principles of recording and valuation, presentation and disclosure of insurance contracts with the objective that the entity provides relevant and reliable information that enables users of financial information to determine the effect that insurance contracts have on the financial statements.	January 1, 2023

The Group's managers do not expect significant impacts from the application of the rules detailed above.

2.3 Consolidation principles

a) Subsidiaries

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

The Group uses the acquisition method to account for the acquisition of subsidiaries. The consideration transferred for the acquisition of a subsidiary corresponds to the fair value of the transferred assets, liabilities assumed and equity

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

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

The annual accounts of the subsidiary companies are consolidated with those of the Parent company under the full consolidation method, and all intercompany transactions, balances and unrealized gains on transactions between the Group companies are eliminated. All unrealized losses are also eliminated. Furthermore, the accounting policies of the subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group. All of the Group's subsidiaries have their accounting close date on 31 December.

b) Associates

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

The company Consorcio Español Alta Velocidad Meca-Medina, S.A. was accounted for as an associate company as at 31 December 2020 and 2019. The members of the Board of Directors appointed by the Group are considered to exert significant influence over this consortium, but not control or joint control, since decisions are agreed in accordance with the shareholding rights of the consortium members and as a general rule, a majority of 75% is required.

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

	<u>2020</u>	<u>2019</u>
Current assets	205 030	178 360
Non-current assets	<u>94</u>	<u>94</u>
Total Assets	205 124	178 454
Current liabilities	205 064	171 884
Non-current liabilities	<u>-</u>	<u>6 510</u>
Total liabilities	205 064	178 394
Equity	60	60
Operating income	10 244	13 880
Operating expenses	(10 064)	(13 700)
Financial result	(180)	(179)
Net Result	-	1

The auditor of this company is KPMG Auditores, S.L. The 2020 and 2019 figures included are under auditing process.

This heading also includes the company Motion Rail, S.A., in which Talgo, S.A., through its subsidiary Patentes Talgo, S.L.U., has a 46.25% interest.

The most relevant financial information with respect to the aforementioned associated company is presented below, in thousands of euros:

	<u>2020</u>	<u>2019</u>
Current assets	33	39
Non-current assets	<u>-</u>	<u>3</u>
Total Assets	33	42
Current liabilities	-	1
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	-	1
Equity	33	41
Operating income	-	-
Operating expenses	(6)	(1)
Financial result	-	-
Net Result	(9)	(1)

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

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

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

In general, except in the event of negative goodwill arising from the acquisition of a significant influence, investments are initially valued at cost. The profit generated by a company consolidated under the equity method is recognized from the date that significant influence is acquired.

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

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

Changes in the value of associate companies that correspond to the results for the year of the associate company form part of the consolidated results, and should appear within the caption 'Share of profit (losses) made by companies accounted for

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under the equity method'. However, if an associate company incurs losses, the reduction in the representative account of the investment shall be limited to the book value of the shareholding itself. If the shareholding is reduced to zero, any additional losses and corresponding liabilities shall be recognized to the extent that legal, contractual, implicit or tacit obligations are incurred, or as if the Group had made payments on behalf of the investee company.

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

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

c) Joint ventures

Joint control is when the sharing of control is contractually agreed, which exists only when the decisions about the important activities require the unanimous consent of the parties that share the control. When a company in the Group carries out its business under a framework of joint ventures, the Group, as the joint operator will recognize a joint venture for its participation:

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

At the end of the financial years 2020 and 2019, the Group did not have any joint ventures.

2.4 Variations in the consolidation perimeter

During 2020, the only change in the consolidation perimeter was the dissolution of the company Talgo Rus (note 1).

2.5 Foreign currency transactions

a) Functional and reporting currency

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

b) Transactions and balances

Foreign currency transactions are converted into the functional currency using the exchange rates in force on the dates of the transactions. Foreign currency profit and

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losses resulting from the settlement of these transactions, and from the conversion of monetary assets and liabilities denominated in foreign currencies at closing exchange rates, are recognized in the income statement, except if they are deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges. Profits and losses arising due to translation differences on borrowings and cash and cash equivalents are presented in the income statement within the 'financial income' and 'financial expenses' captions.

c) Group companies

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

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

2.6 Tangible fixed assets

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

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

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

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derecognized. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated systematically using the straight-line method to allocate their costs up to the amount of their residual values, over their estimated useful lives. Each item of property, plant and equipment that has a significant cost, as a percentage of the total caption cost, is depreciated separately. The estimated useful lives of the Group's assets are:

	<u>Years</u>	<u>%</u>
Buildings	50 – 33	2 - 3
Machinery	8	12.5
Other facilities, Tools and Furniture	3 - 14	33.3 – 7.14
Other tangible fixed assets	4 - 12	25 – 8.3

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

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

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

Rights of use

As a result of the entry into force of IFRS 16 on 1 January 2019, the Group recognizes an asset for right of use and the corresponding lease liability for leases that meet the criteria defined in that standard.

Under this standard, lessees recognise an asset for right of use and the corresponding lease liability. The right of use is depreciated over the contractual term or, in some cases, over its useful economic life. The financial liability is measured at initial recognition by discounting future minimum rental payments over a period of time to present value using a discount rate that represents the interest rate implicit in the lease or, if this cannot be reliably determined, the incremental interest rate on the lessee's liability. The liability shall thereafter accrue interest until maturity.

The Group applies exemptions from recognising an asset and a liability in accordance with the method described above for lease contracts with a term of less than 12 months (provided that they do not contain purchase or renewal options) and for contracts in which the acquisition of an individual asset under the contract is less than \$5 thousand. Therefore, payments for such leases continue to be recognized as an expense in consolidated operating income.

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2.7 Intangible assets

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

a) Software

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

b) Development expenses

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

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

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

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

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

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

c) Industrial property

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

d) Intangible assets acquired through a business combination:

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

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

2.8 Goodwill

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

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

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

2.9 Losses on impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill, are not subject to amortization, but are instead tested annually for impairment; the same principle applies to intangible assets not yet available for use. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the fair value of an asset less selling costs or its value in use, whichever is greater. For

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the purposes of evaluating impairment losses, assets are grouped together at the lowest level for which separate cash flows may be identified (cash generating units). Non-financial assets, other than goodwill, that have suffered an impairment loss are subject to review at each statement of financial position date, to assess whether the reversals of any losses have been triggered.

2.10 Financial assets: classification, recognition and valuation

Classification

The classification of financial assets will depend on how the Group manages its financial instruments (its business model) and the existence or not of contractual cash flows of the specifically defined financial assets.

In this sense, IFRS 9 sets out two differentiated scenarios when defining the accounting record of the financial instrument:

On the one hand, if the objective of the business model is to maintain a financial asset in order to collect contractual cash flows and, under the conditions of the contract, cash flows are collected on specific dates that constitute exclusively payments of the principal plus interest on principal, the financial asset will be measured at amortized cost.

On the other hand, if the business model aims to collect contractual cash flows as well as its sale and, under the conditions of the contract, cash flows are collected on specific dates that constitute exclusively payments of the principal plus interest on principal, financial assets will be measured at fair value with changes in equity. Interest, impairment and translation differences are recorded against profit or loss as in the amortized cost model. All other fair value variations are recorded in equity items and may be recorded to profit and loss on sale.

Recognition and assessment

Based on its valuation criteria, the following categories of financial assets are distinguished:

- Financial assets at amortized cost. The financial assets at amortized cost are those that i) are held within a business model whose objective is to collect the contractual cash flows and ii) the contractual terms of the financial asset give rise, on specific dates, to cash flows that are only payments of principal and interest on the amount of the outstanding principal.
- Financial assets at fair value with changes in equity. Financial assets at fair value with changes in equity are those whose business model is based on collecting contractual cash flows and selling financial assets, in addition to their contractual terms giving rise, on specific dates, to cash flows that are only payments of principal and interest on the amount of the outstanding principal.

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- Financial assets at fair value with changes in other comprehensive income, which are those that do not meet the characteristics to be measured at amortized cost or at fair value with changes in equity, since: i) have a business model other than those looking for collection contractual cash flows, or collect contractual cash flows and sell the financial assets, or ii) the cash flows generated are not solely payments of principal and interest on the outstanding principal.

The balances included under the heading "Customers and other accounts receivable" are classified within the amortized cost category.

Cancellation

The Group derecognises a financial asset transferred from the consolidated statement of financial position when all the contractual rights to receive the cash flows generated by said asset have expired, have been transferred or when still retaining these rights, it assumes the contractual obligation to pay them to the transferees and the risks and benefits associated with the ownership of the asset are substantially transferred. In the specific case of accounts receivable, it is understood that this occurs in general if the risks of insolvency and default have been transmitted.

In the case of transfers of assets in which the risks and benefits associated with the ownership of the asset are substantially retained, the financial asset transferred is not derecognized from the consolidated statement of financial position, recognizing an associated financial liability for an amount equal to the consideration received, which is subsequently valued at amortized cost. The financial asset transferred continues to be valued using the same criteria used before the transfer. In the consolidated income statement, the income of the transferred financial asset and the expenses of the financial liability are recognized without offsetting.

2.11 Offsetting financial instruments

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

2.12 Losses on impairment of financial assets

The Group uses an impairment model based on the expected credit losses, instead of the losses incurred, applicable to the financial assets subject to such evaluation (financial assets measured at amortized cost and their value reasonable with changes in equity), as well as accounts receivable for leases, contract assets, certain written loan commitments and financial guarantee contracts. The expected credit losses on these financial assets are estimated from the origin of the asset at each closing date, taking as a reference the historical experience of the Group's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, the economic conditions and an evaluation of both the current direction and the forecast of future conditions.

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- Accounts receivable. The Group has adopted a simplified calculation model of expected loss; by which it recognizes the expected credit losses during the life of the account receivable. The Group analyses its portfolio of accounts receivable from customers, in order to determine if there are significant customers for whom it requires an individual evaluation. In these cases, the Group has identified the most significant customers, analysed and evaluated them individually, requesting alternative credit risk quotes and comparing them with other risk indicators according to the geographical area and market to which they belong and performing slack tests on the values obtained.

On the other hand, customers with less significant balances at the close of the financial year 2020 that have similar characteristics and share credit risks (participation in the portfolio of accounts receivable, market type, sector, geographical area, etc.) are grouped together to be evaluated collectively.

- Other financial instruments: No significant balances have been identified in this section that give rise to expected credit losses.

Based on the previous estimate, the Group considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

- The debtor does not comply with the payment schedules; or
- The information developed internally or obtained from external sources indicates that it is unlikely that the debtor pays his creditors, including the Group, in full (without considering any guarantee held by the Group).

Other financial instruments. The Group recognizes expected credit losses over the life of the asset of all financial instruments for which there have been significant increases in credit risk since its initial recognition (evaluated on a collective or individual basis), considering all available information, including that with reference to the future. If at the reporting date, the credit risk of a financial instrument has not increased significantly since the initial recognition, the Group calculates the provision for losses for that financial instrument as the amount of expected credit losses in the next 12 months.

In both cases, the Group recognizes in the result of the period the decrease or increase in the provision for credit losses expected at the end of the period.

2.13 Stock

Raw and auxiliary materials are valued at the lower of cost and net realizable value. Cost is determined according to the weighted average cost. The cost of finished goods and work in progress items comprises the cost of materials, direct labour, other direct costs and indirect construction costs accumulated during the execution of projects at the amounts effectively incurred. The net realizable value is the estimated selling price that would be obtained during the ordinary course of business, less any applicable variable

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selling costs, as well as the estimated costs to complete production in the case of raw materials and work in progress.

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

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

2.14 Cash and cash equivalents

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

2.15 Equity instruments

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

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

2.16 Trade payables

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

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

2.17 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and redemption value is recognized in the income

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statement over the term of the borrowings in accordance with the effective interest rate method.

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

Financial liabilities are classified, for the purposes of their valuation, in the following categories: financial liabilities at amortized cost and financial liabilities at fair value with changes in the income statement.

The Group only has financial liabilities at amortized cost. This category includes financial liabilities arising from the purchase of goods and services of Group's trade operations and debits for non-trade operations that are not derivative instruments.

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

Hedge derivatives

Derivative financial liability instruments are measured at fair value.

The Group uses derivative financial instruments to hedge the risks to which its activities, operations and future cash flows are exposed.

These risks are mainly related to changes in interest rates.

For these financial instruments to qualify as accounting hedges, they are initially designated as such and the hedging relationship is documented.

The Group also verifies initially and periodically throughout their life (at least at each accounting close) that the hedging relationship is effective.

The Group applies fair value hedges, which are accounted for with the changes in value of the hedging instrument and the hedged item attributable to the risk being hedged being recognised in profit and loss.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer meets the criteria for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument that has been recognised in equity remains in equity until the forecast transaction occurs. When the transaction being hedged is not expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

2.18 Current and deferred taxes

The tax expense for the period comprises current and deferred taxes. Taxes are

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recognized in the income statement unless they relate to items that are recognized in other comprehensive income or directly in equity.

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

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

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

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

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

2.19 Employees benefits

a) Defined contribution pension plan

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

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

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company outsourced this pension plan in March 2000.

b) Compensation for redundancies

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

c) Bonus

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

d) Benefits to employees of the Group - Compensation with equity instruments

During 2019, the Parent company 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 Parent 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 aforementioned plan may be paid in cash or in shares of the Parent, at the Parent's discretion, after three years from the start of the plan, the best estimate being that it will be paid with shares of the Parent at the end of 2020. The maximum amount under the plan approved by the Parent company's shareholders at the Annual General Meeting is €3.1 million.

The Parent's Directors recognised the accrued contribution of €1,000 thousand at year-end 2019 using the fair value of the equity instruments at the time of grant.

Taking into account the evolution of the objectives linked to the business plan during the financial year 2020 as well as the prospects foreseen for 2021, they have decided to consider the accrual of the plan highly unlikely and have therefore decided to reverse the contribution made in 2019 in the amount of €1,000 thousand with a balancing entry in Other Reserves.

2.20 Provisions

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

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

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

2.21 Revenue recognition

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

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

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

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

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

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

Revenues from manufacturing contracts for rolling stock and auxiliary machines that are specifically negotiated on the basis of the technical characteristics defined by the end client, which involve the manufacture of an asset or group of assets that are very closely related to each other in terms of design, technology and function, or in terms of their final

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

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

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

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

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

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

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

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

Interest income

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

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income.

2.22 Government grants

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

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

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

Subsidized loans without interest or at lower than market rates, granted primarily to fund research and development works, are recognized within liabilities at fair value. In the case of grants awarded to fund development projects, the difference between the fair value and redemption value of the amount received is recognized as a grant under the caption Government grants and is released to the income statement as the associated assets are amortized. If a grant applies to research expenses, the difference between its fair value and redemption value is recognized in the income statement when the related expenses are incurred.

This heading basically includes advances refundable at zero or reduced rates, when they are considered as capital grants conceded as part of the Competitiveness Plan promoted by the Ministry of Industry, as are others granted by the Centre for Industrial Technological Development (CDTI).

2.23 Dividend distribution

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

2.24 Environment

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

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2.25 Segment reporting

a) Segmentation criteria

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

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

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

b) Basis and methodology for segment reporting

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

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

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

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

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

The general segment includes general corporate expenses not directly assignable to

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other segments (note 5).

2.26 Business combinations

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

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

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

The combination cost is determined by aggregating the following:

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

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

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

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

- The business combination cost plus the fair value of any previous participation held by the acquiring company in the acquired company at the acquisition date and,

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- The value of the identifiable assets acquired less the value of the liabilities assumed, determined in accordance with the description above.

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

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

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

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

3. Financial risk management

3.1 Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including exchange rates, interest rates and prices), credit risk and liquidity risk.

The Group's global risk management program focuses on minimizing the effects resulting from uncertainties in the financial markets and seeks to minimize the potential adverse effects on the Group's financial profitability.

The global expansion of SARS-CoV-2 (COVID-19) has significantly affected the global economy due to interruption or slowdown in supply chains and significant increase in economic uncertainty, evidenced by increased asset price volatility, exchange rates and long-term interest rate declines.

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

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risks to the Group.

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

a) Market risk

(i) Foreign currency risk

The foreign currency risk is low, as most transactions are carried out in the functional currency. In addition, foreign currency sales to other countries outside the aforementioned environment are made to the United States, Saudi Arabia and Kazakhstan, although they do not represent a significant weight in the Group's total turnover, and in the case of significant volumes, the Group enters into currency hedging contracts.

(ii) Price risk

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

(iii) Cash flow interest rate risk

The Group's interest rate risk arises on its long-term borrowings. The debt securities issued at variable (interest) rates expose the Group to cash flow interest rate risk. Hence, Management has put a policy in place to manage its interest rate risk, as it has been the negotiation of fixed (interest) rates or the contracting of hedging derivative instruments to mitigate the exposure to this risk. Most of the Group's funding is debt at a fixed rate, so the exposure to interest rate variations is low.

b) Credit risk

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

The Group's credit risk is primarily attributable to its customers and other receivables balance. The amounts reflected on the consolidated statement of financial position are net of any provisions for bad debt, estimated by the Group's Management based on the policy described in notes 2.10 and 2.12 for financial assets.

The Group operates with a portfolio of clients who mostly belong to the public rail sector, for which no indication of relevant credit risk derived from the

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solvency or late payments of such customers has become apparent.

In the financial year 2020, the effects of COVID-19 have led to a significant reduction in revenues in the Group's activities, mainly in maintenance. However, the Group's cash flow has not been significantly affected, given that the different milestones have been collected from our customers in train construction and refurbishment. In the maintenance activity, the different remuneration models for the activity, which are included in most of the contracts, have been applied in each case with regard to the probability of a possible fluctuation in activity depending on passenger demand.

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

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

c) Liquidity risk

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

The general market situation has led to a general increase in liquidity tensions in the economy as well as a contraction of the credit market. In this respect, the Group has increased its financial capacity by increasing available credit lines and renegotiating part of its bank debt (note 17).

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

	€ in thousands			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2020				
Debt with credit entities (note 17 a)	41 147	97 717	136 348	4 286
Suppliers and other payables (note 16) (*)	213 811	-	-	-
Lease creditors (note 17 b)	3 424	2 326	891	221
Debts for refundable advances (note 17 c)	3 278	6 202	6 202	5 425
	261 660	106 245	143 441	9 932
At 31 December 2019				
Debt with credit entities (note 17 a)	58 609	52 150	70 196	76 359
Suppliers and other payables (note 16) (*)	181 431	-	-	-
Lease creditors (note 17 b)	3 339	3 725	1 857	-
Debts for refundable advances (note 17 c)	3 752	2 929	7 253	3 690
	247 131	58 804	79 306	80 049

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

3.2 Capital risk management

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

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

	€ in thousands	
	31.12.20	31.12.19
Debt with financial institutions (note 17)	279 498	257 314
Finance lease creditors (note 17)	6 862	8 921
Cash and cash equivalents (note 13)	(228 304)	(325 550)
Total Net Financial Debt	58 056	(59 315)

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

	€ in thousands	
	<u>31.12.20</u>	<u>31.12.19</u>
Total net financial debt	58 056	(59 315)
Equity attributable to the owners of the parent	257 669	291 726
Total share capital	315 725	231 018
Indebtedness	18%	(26%)

3.3 Fair value estimates

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

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

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

The only assets and liabilities recognized at fair value at 31 December 2020 relate to derivatives (note 9) and the investment in money market funds (notes 9 and 10).

For the purposes of the breakdown by level, we consider that the valuation of derivatives (interest rate swaps) is classified as level 2.

The valuation of the investment in money market funds is classified as level 3, since it was obtained from the Net Asset Value provided by the fund manager at year-end. The main inputs affecting its valuation are the estimation of the recoverability of the assets in which the fund invests and the fund administration expenses. Given the nature of these assets, which are short-term receivables guaranteed by CESCE, the sensitivity of the fair value is not significant in relation to the value of the fund or to the annual accounts.

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4. Significant accounting estimates and judgments

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

4.1 Significant estimates and hypotheses

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

a) Estimated loss due to goodwill impairment

The Group performs an annual test to determine whether its goodwill has suffered any loss due to impairment, in accordance with the accounting policy described in note 2.8. The recoverable amounts of cash generating units (CGU) are determined based on the calculation of their value in use. These calculations require the use of estimations. Based on the calculations of value in use, prepared in accordance with the hypothesis described in note 8 for the years 2020 and 2019, the recoverable amount of CGUs to which goodwill has been allocated exceeded its book value, even after performing certain sensitivity analyzes on the discount rates and growth rates. This sensitivity has been analyzed by applying variations of 100 basis points to the discount rates used and variations of 50 basis points to the growth rates used.

b) Income tax and assets and liabilities of a fiscal nature

The Group is subject to income taxes in several jurisdictions. A high degree of judgment is required to determine the provision for income taxes at the global level.

In determining the provision for income tax, and the related tax assets and/or liabilities, the Group assesses whether there is any uncertainty as to the acceptability of the tax treatment of any particular transaction or circumstance. If the Group 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 Group 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 probable 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 in a range of possible outcomes, in cases other than the above.

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As described in note 25, on 10 July 2017 the Parent and its subsidiary Patentes Talgo S.L.U. received notification from the tax authorities of the partial verification of Income Tax for 2012 to 2015 and Personal Income Tax for the periods from May 2013 to December 2015. As a result 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 Group recorded the associated tax assets and liabilities, taking into account the most likely amount that will be derived from these assessments. During the 2020 financial year, the estimates made have not changed as no new events have occurred that would cause them to change. The doctrine on the matters under discussion is scarce and disparate.

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

- The existence of future taxable income against which these assets may be offset.
- The existence of adequate documentary support, especially in relation to certain types of deductions, on the one hand to reliably prove the amount of tax assets recognized and on the other, to provide Management with a basis for its estimates on the reliability and amount of the deductions to activate. In the event that on a certain date, Management does not have all of the appropriate documentation to allow it to measure reliably the tax assets, based on its own judgment, and therefore its recovery is unlikely, then such tax assets may not be activated until the moment when the two aforementioned conditions are met, in accordance with all of the supporting documentation relating to the tax assets.
- The assessment by Management of all of the available evidence to justify or not the recognition of tax assets. For this assessment, Management takes into account both favourable and unfavourable evidence, as well as current and historical evidence, its objective verification and/or demonstration, and the weight assigned to each piece of evidence.

The Group reassesses its judgments and estimates when the facts and circumstances on which they are based change or when new information arises that affects the judgment or estimate made, reflecting the changes in such estimate prospectively.

c) Revenue recognition

The Group uses the percentage completion method, based on the percentage of completion to account for revenues from manufacturing contracts for trains and auxiliary machinery. The completion percentage is calculated as the percentage of contract costs incurred over the total estimated costs for the completion of the contract. This revenue recognition method only applies when the income from the contract can be reliably estimated and it is likely that the contract will generate a profit. If the contract income

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cannot be estimated reliably, revenue is recognized to the extent that the costs will be recovered. When it is probable that the contract costs exceed the contract revenue, the loss is recognized immediately as an expense. Using this method requires the Group to make significant estimates with respect to the total costs necessary for completing each contract. These estimates are reviewed periodically in order to verify whether a loss has been generated and whether it is possible to continue to apply the percentage completion method and to re-estimate the expected margin on the contract. During the contract term, the Group also estimates the probable contingencies relating to any total estimated cost increase and varies the recognition of revenues accordingly.

d) Useful lives of Tangible and Intangible assets

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

e) Provisions for guarantees

The Group generally offers two or three-year guarantee for trains and auxiliary machinery it manufactures and the repair work it performs. Management estimates the provision for future works under guarantee on the basis of historical information about actual costs during previous warranty periods, as well as on recent trends if they suggest that past information may differ from the cost of future works. Estimates are made based on the best available information and circumstances at 31 December 2020 and 2019, and no significant changes in those estimations are expected.

f) Provision for compensation

When the conditions are met, the Group recognizes a liability and an expense regarding the bonus payment in accordance with the individual agreements with each employee.

The Group approved a remuneration plan for its management team linked to the fulfilment of strategic objectives and the evolution of the share price. This plan may be paid in cash or in shares of the Parent company, at the Group's discretion. During 2019 €1 million was recorded in respect of the estimated fair value of the aforementioned plan. The administrators of the Parent company, taking into account the evolution of the objectives linked to the business plan during the 2020 financial year as well as the prospects envisaged for 2021 have decided to consider highly unlikely the accrual of the plan so that they have decided to reverse the contribution made in 2019 (note 2.19.d).

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Impacts and uncertainties related to the COVID-19 pandemic

The global spread of SARS-CoV-2 (COVID-19) to a large number of countries following its emergence in January 2020, has led to this viral outbreak being considered a pandemic by the World Health Organization since 11 March.

Considering the complexity of the markets due to their globalization, the implications for the Group's operations have been detailed in the note 33.

Group's Management is not aware of the existence of any major uncertainties, other than those disclosed in the financial statements, with regard to events or risks that may result in significant changes to the value of the assets and liabilities at the end of 2020.

5. Segment reporting

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

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

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

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

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

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The segment information reported to the Board of Directors of Talgo, S.A. for decision making relating to the financial years ended 31 December 2020 and 2019 is obtained from the Group's management reporting systems and does not differ significantly from the IFRS information. It is presented below:

	€ in thousands			
	31.12.2020			
	Rolling stock	Auxiliary machines and others	General	Total
Total segment revenues	423 681	63 419	-	487 100
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	423 681	63 419	-	487 100
Amortization and depreciation charge	12 721	508	3 513	16 742
Operating result	27 986	6 138	(37 340)	(3 216)
Financial income	7	1	300	308
Financial expenses	(7 934)	(666)	(795)	(9 395)
Result before tax	20 059	5 473	(37 835)	(12 303)
Total Assets	788 420	82 444	32 006	902 870
Total Liabilities	492 787	52 232	100 182	645 201
Fixed asset investments	21 405	1 371	3 307	26 083

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	€ in thousands			
	31.12.2019			
	Rolling stock	Auxiliary machines and others	General	Total
Total segment revenues	345 902	55 793	-	401 695
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	345 902	55 793	-	401 695
Amortization and depreciation charge	12 440	442	2 933	15 815
Operating result	81 059	10 108	(40 323)	50 844
Financial income	450	10	-	460
Financial expenses	(5 725)	(685)	(1 958)	(8 368)
Result before tax	75 784	9 433	(42 289)	42 928
Total Assets	742 008	99 977	40 912	882 897
Total Liabilities	471 289	39 348	80 534	591 171
Fixed assets investments	17 327	168	4 681	22 176

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

Total Net Turnover from external customers in 2020 and 2019 is distributed geographically as follows:

	€ in thousands	
	2020	2019
Spain	340 430	234 776
Rest of Europe	38 891	25 577
America	17 452	27 272
Middle East and North Africa	32 954	52 835
Commonwealth of Independent States	55 534	59 698
APAC	1 839	1 537
	487 100	401 695

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Total non-current assets, other than financial instruments and deferred tax assets is distributed geographically as follows in 2020 and 2019:

	<u>€ in thousands</u>	
	<u>2020</u>	<u>2019</u>
Spain	215 589	206 888
Abroad	<u>12 081</u>	<u>11 541</u>
	<u>227 670</u>	<u>218 429</u>

The Group's turnover from the Permanent Establishment in Kazakhstan amounted to €20,845 thousand in 2020 (2019: €46,474 thousand).

The Group's turnover from the Permanent Establishment in Uzbekistan amounted to €3,825 thousand in 2020 (2019: €4,216 thousand).

The Group's turnover from the Permanent Establishment in Russia amounted to €4,421 thousand in 2020 (2019: €5,375 thousand).

The Group's turnover from the Permanent Establishment in Saudi Arabia amounted to €11,538 thousand in 2020 (2019: €32,322 thousand).

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6. Tangible fixed assets

The movements in the accounts included within tangible fixed assets in 2020 and 2019 were as follows:

	€ in thousands					
	Balance at 31.12.19	Translation differences	Additions	Disposals	Transfers	Balance at 31.12.20
Cost						
Land	9 894	-	-	-	-	9 894
Right-of-use assets	9 310	(199)	1 384	-	-	10 495
Buildings	48 324	(79)	60	-	13	48 318
Technical installations & machinery	31 215	(164)	1 418	(488)	503	32 484
Other facilities, tools & furniture	55 700	(83)	153	(358)	1 589	57 001
Advances and work in progress	2 426	(2)	7 094	-	(2 305)	7 213
Other fixed assets	10 071	(22)	114	(81)	614	10 696
	<u>166 940</u>	<u>(549)</u>	<u>10 223</u>	<u>(927)</u>	<u>414</u>	<u>176 101</u>
Depreciation						
Right-of-use assets	(2 186)	139	(2 853)	-	-	(4 900)
Buildings	(28 486)	79	(1 361)	-	-	(29 768)
Technical installations & machinery	(24 094)	164	(1 827)	481	34	(25 242)
Other facilities, tools & furniture	(43 745)	83	(2 730)	350	122	(45 920)
Other fixed assets	(7 385)	4	(675)	77	(156)	(8 135)
	<u>(105 896)</u>	<u>469</u>	<u>(9 446)</u>	<u>908</u>	<u>-</u>	<u>(113 965)</u>
Net book value	<u>61 044</u>	<u>(80)</u>	<u>777</u>	<u>(19)</u>	<u>414</u>	<u>62 136</u>

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	€ in thousands						
	Balance at 31.12.18	Translation differences	IFRS 16 transition	Additions	Disposals	Transfers	Balance at 31.12.19
Cost							
Land	9 894	-	-	-	-	-	9 894
Right-of-use assets	-	52	5 912	3 465	(119)	-	9 310
Buildings	55 522	18	-	3	(7 517)	298	48 324
Technical installations & machinery	30 857	37	-	156	(153)	318	31 215
Other facilities, tools & furniture	53 927	19	-	145	(432)	2 041	55 700
Advances and work in progress	2 611	-	-	3 895	-	(4 080)	2 426
Other fixed assets	8 648	2	-	21	(23)	1 423	10 071
	<u>161 459</u>	<u>128</u>	<u>5 912</u>	<u>7 685</u>	<u>(8 244)</u>	<u>-</u>	<u>166 940</u>
Depreciation							
Right-of-use assets	-	(3)	-	(2 220)	37	-	(2 186)
Buildings	(29 067)	(18)	-	(1 617)	2 216	-	(28 486)
Technical installations & machinery	(22 457)	(35)	-	(1 714)	112	-	(24 094)
Other facilities, tools & furniture	(41 575)	(18)	-	(2 400)	248	-	(43 745)
Other fixed assets	(6 802)	(1)	-	(605)	23	-	(7 385)
	<u>(99 901)</u>	<u>(75)</u>	<u>-</u>	<u>(8 556)</u>	<u>2 636</u>	<u>-</u>	<u>(105 896)</u>
Net book value	<u>61 558</u>	<u>53</u>	<u>5 912</u>	<u>(871)</u>	<u>(5 608)</u>	<u>-</u>	<u>61 044</u>

The entry into force of IFRS 16 on 1 January 2019 has led the Group increased its tangible fixed assets and debt (note 17) by €5,912 thousand, due to the recognition of assets for rights of use relating to contracts, which meet the definition of a lease under IFRS 16.

The main additions to tangible assets are related to investments in the Las Matas II and Rivabellosa factories and in the Milwaukee base, as well as investments in IT hardware.

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

During 2019, the main additions to tangible assets are related to investments in the Las Matas II and Rivabellosa factories, adaptation of new corporate offices in Majadahonda and investments in IT hardware.

In 2019 the office building owned by the subsidiary Patentes Talgo, S.L.U. in Las Rozas

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(Madrid) was sold for €5,350 thousand.

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

a) Updates

Net accumulated updates as at 31 December 2020, made in accordance with RDL 7/1996, dated 7 June, amounted to €184 thousand (2019: €194 thousand) and the depreciation charge for 2020 corresponding to these updates amounted to €10 thousand (2019: €13 thousand).

The expected effect of updating the statements of financial position in accordance with Royal Decree Law 7/1996, dated 7 June, on the depreciation charge for the next financial year amounts to €3 thousand. The expected effect in the previous year amounted to €10 thousand.

b) Fully-depreciated tangible assets

At 31 December 2020, tangible fixed assets with an initial cost of €67,969 thousand are fully depreciated and are still operational (2019: €66,748 thousand). From this amount, €14,336 thousand belongs to Buildings (2019: 14,172 thousand).

c) Insurances

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

d) Impairment losses

During 2020 and 2019, no valuation corrections have been either recognized or reversed due to the impairment of any individual tangible fixed asset.

e) Tangible fixed assets subject to guarantees

In 2020 and 2019, none of the Group's tangible fixed assets were subject to guarantees.

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f) Fixed assets located overseas

At 31 December 2020 and 2019, the Group has fixed asset investments located overseas whose net book values are detailed below:

	€ in thousands	
Fixed assets	2020	2019
Land and buildings	16 556	16 576
Technical installations and machinery	12 182	10 970
Other facilities, tools and furniture	3 849	3 850
Other tangible fixed assets	103	136
Right-of-use assets	6 541	6 504
Accumulated depreciation	(27 224)	(27 218)
Net Book Value	12 007	10 818

g) Purchase commitments

At 31 December 2020, the Group held purchase commitments for tangible fixed assets amounting to €7,320 thousand (€4,263 thousand in 2019).

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7. Intangible assets

The movements in the intangible assets accounts during 2020 and 2019 were as follows:

	€ in thousands					
	Balance at 31.12.19	Translation differences	Additions	Disposals	Transfers	Balance at 31.12.20
Cost						
Development	116 670	-	-	-	266	116 936
Industrial property	1 749	-	-	-	-	1 749
Software	15 425	(82)	5	-	832	16 180
Right-of-use assets	3 967	-	-	-	-	3 967
Maintenance contracts	25 069	-	-	-	-	25 069
Advances and work in progress	16 167	-	15 855	-	(1 512)	30 510
	<u>179 047</u>	<u>(82)</u>	<u>15 860</u>	<u>-</u>	<u>(414)</u>	<u>194 411</u>
Amortization and impairment losses						
Development	(106 380)	-	(2 930)	-	-	(109 310)
Industrial property	(22)	-	-	-	-	(22)
Software	(12 674)	81	(1 644)	-	-	(14 237)
Right-of-use assets	(1 728)	-	(794)	-	-	(2 522)
Maintenance contracts	(11 568)	-	(1 928)	-	-	(13 496)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	<u>(134 101)</u>	<u>81</u>	<u>(7 296)</u>	<u>-</u>	<u>-</u>	<u>(141 316)</u>
Net book value	<u>44 946</u>	<u>(1)</u>	<u>8 564</u>	<u>-</u>	<u>(414)</u>	<u>53 095</u>

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	Balance at 31.12.18	Translation differences	IFRS 16 transition	Additions	Disposals	Transfers	Balance at 31.12.19
Cost							
Development	115 510	-	-	-	-	1 160	116 670
Industrial property	1 749	-	-	-	-	-	1 749
Software	15 414	18	(2 931)	84	-	2 840	15 425
Right-of-use assets	-	-	2 931	-	-	1 036	3 967
Maintenance contracts	25 069	-	-	-	-	-	25 069
Advances and work in progress	6 796	-	-	14 407	-	(5 036)	16 167
	<u>164 538</u>	<u>18</u>	<u>-</u>	<u>14 491</u>	<u>-</u>	<u>-</u>	<u>179 047</u>
Amortization and impairment losses							
Development	(103 188)	-	-	(3 192)	-	-	(106 380)
Industrial property	(22)	-	-	-	-	-	(22)
Software	(12 245)	(18)	1 004	(1 415)	-	-	(12 674)
Right-of-use assets	-	-	(1 004)	(724)	-	-	(1 728)
Maintenance contracts	(9 640)	-	-	(1 928)	-	-	(11 568)
Impairment losses	(1 729)	-	-	-	-	-	(1 729)
	<u>(126 824)</u>	<u>(18)</u>	<u>-</u>	<u>(7 259)</u>	<u>-</u>	<u>-</u>	<u>(134 101)</u>
Net book value	<u>37 714</u>	<u>-</u>	<u>-</u>	<u>7 232</u>	<u>-</u>	<u>-</u>	<u>44 946</u>

Development expenses at 31 December 2020 and 2019 mainly include costs incurred by the Patentes Talgo, S.L.U. for the development of projects relating high-speed rail and auxiliary machines, among others.

In 2020 the main fixed assets additions within the work in progress caption relate to the costs incurred in the research and development projects known as Shift2Rail, PARFAIT (Self-configurable and Interoperable Railway Platform), AVRIL 2nd Generation and the TSmart platform. There are also additions of work in progress relating to process optimization projects in the IT area.

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

The asset recognised under "Customer Contracts" arose as a result of the business combination performed by the subsidiary Patentes Talgo, S.L.U. in 2013, as the difference between the cost of this combination and the fair value of the net assets acquired from the absorbed company Tarvia Mantenimiento Ferroviario, S.A. This asset is being amortized over the remaining terms of the contracts with which it is associated, i.e. over 13 years as at 31 December 2013, having started its depreciation in the fiscal year 2014.

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a) Fully-amortized intangible assets

At 31 December 2020, the Group holds intangible assets that are fully amortized and still operational, which had an initial cost of €114,672 thousand (2019: €113,419 thousand).

b) Insurance

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

c) Grants and subsidies

At 31 December 2020, within the fixed asset acquisitions, €9,318 thousand were partially financed through grants and loans received from official entities (2019: €3,967 thousand).

d) Impairment losses

During the 2020 and 2019, no valuation corrections were recognized or reversed due to the impairment of any individual intangible assets. Furthermore, the impairment tests performed on the intangible assets that were not yet operational as at 31 December 2020 and 2019 did not show any signs of impairment.

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

This impairment test was performed by discounting the cash flows of the manufacturing projects, using a discount rate of 6.4% and a growth rate of 0.5%.

e) Right-of-use assets

As indicated in note 17, the Group has contracted various finance leases on its intangible assets, which were classified after the entry into force of IFRS 16 as right-of-use assets (note 2.6). The cost of intangible assets under finance leases, relating to the right-of-use of various IT platforms, amounts to €3,967 thousand at the end of 2020 and 2019.

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f) Intangible assets located overseas

At 31 December 2020, the Group held the following investments in intangible assets that were located overseas:

Intangible assets	€ in thousands			Net book value
	Cost	Accumulated amortization	Impairment losses	
Software	1 989	(1 915)	-	74
	1 989	(1 915)	-	74

At 31 December 2019, the Group held the following investments in intangible assets that were located overseas:

Intangible assets	€ in thousands			Net book value
	Cost	Accumulated amortization	Impairment losses	
Software	2 066	(1 952)	-	114
	2 066	(1 952)	-	114

8. Goodwill

The movement in goodwill was as follows:

	€ in thousands
Balance at 31.12.18	112 439
Additions	-
Disposals	-
Balance at 31.12.19	112 439
Additions	-
Disposals	-
Balance at 31.12.20	112 439

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Goodwill impairment tests

Goodwill has been allocated to the Group's cash generating units (CGU's) on the basis of the operating segments. The table below shows a summary of the allocation of goodwill by segment:

	€ in thousands	
	31.12.20	31.12.19
Rolling stock	101 886	101 886
Auxiliary machines and other	10 553	10 553
Total Goodwill	112 439	112 439

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

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

The key hypotheses used for the value in use calculations in 2020 and 2019 are detailed below:

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

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Key hypothesis:

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

The key hypotheses used for the value in use calculations in 2020 and 2019 has been a discount rate of 6.4% and a growth rate of 0.5%.

Sensitivity analysis:

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

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

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

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

During the years 2020 and 2019, none of the CGUs evaluated has shown any signs of impairment.

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9. Financial instruments by category

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

	€ in thousands		
	Loans and Accounts receivable	Assets at fair value	Total
31 December 2020			
Assets on the statement of financial position			
Customers and other accounts receivable (note 11)*	247 269	-	247 269
Other financial assets (note 10)	1 192	10 044	11 236
Cash and cash equivalents (note 13)	228 304	-	228 304
	476 765	10 044	486 809
31 December 2019			
Assets on the statement of financial position			
Customers and other accounts receivable (note 11)*	159 087	-	159 087
Other financial assets (note 10)	2 642	10 028	12 670
Cash and cash equivalents (note 13)	325 550	-	325 550
	487 279	10 028	497 307

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

	€ in thousands		
	Financial liabilities at amortized cost	Hedge Derivatives	Total
31 December 2020			
Liabilities on the statement of financial position			
Borrowings (note 17)	313 004	-	313 004
Derivative financial instruments	-	48	48
Suppliers and other payables (note 16)*	206 126	-	206 126
	519 130	48	519 178
31 December 2019			
Liabilities on the statement of financial position			
Borrowings (note 17)	285 298	-	285 298
Derivative financial instruments	-	68	68
Suppliers and other payables (note 16)*	171 288	-	171 288
	456 586	68	456 654

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

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b) Credit quality of financial assets

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

In relation to the balances of Customers and Other financial assets, which do not have a specific credit classification, the Group considers that they do not present significant risks of impairment since they correspond to Public Sector entities or entities of a similar nature, which generally present lower risks of impairment.

The financial assets that do have a specific credit rating are cash and cash equivalents at credit institutions of recognised prestige that do not present any risk of impairment with an A rating of 52.74% (69.27% in 2019) and with BBB or higher in 47.26% of cases (30.73% in 2019).

90.22% of the Group's turnover in 2020 comes from 7 customers (2019: 94.47% from 6 customers) and mainly belongs to the Rolling Stock segment.

10. Other financial assets and investments in associates

The breakdown of this balance is as follows:

	€ in thousands	
	31.12.20	31.12.19
Other non-current financial assets and investment in associates		
Loans to third parties and other loans (note 10 a)	756	807
Deposits and guarantees (note 10 b)	323	1 706
Investment in associates	29	29
	1 108	2 542
Other current financial assets		
Money Market Funds investments (note 10 c)	10 044	10 028
Loans to third parties	51	51
Deposits and guarantees	33	49
	10 128	10 128
Total Other financial assets and investment in associates (note 9)	11 236	12 670

a) Loans to third parties and other loans

The 'Loans to third parties' caption includes balances with related parties amounting to €654 thousand (note 20) and a receivables balance from financial institutions relating to the monetization of loans from the CDTI amounting to €102 thousand.

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b) Deposits and guarantees

The 'Deposits and guarantees' caption included in the non-current assets balance at 31 December 2019 comprised a deposit made by the Group's American subsidiary, Talgo Inc., for the maintenance contract held by this subsidiary. During the 2020 fiscal year, since this contract was terminated, the deposit has been collected.

c) Investments in Money Market Funds

On 19 April 2019, the subsidiary Patentes Talgo, S.L.U. made an investment in a monetary fund amounting to €10,000 thousand and acquired 98,570.724 shares of the fund. This investment is characterized by its high liquidity component and its profitability is linked to the value of the investment on the date of its recovery.

11. Customers and other accounts receivable

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

The Group does not have any doubts about the creditworthiness and solvency of the aforementioned clients, based on the sector they belong to, and their experience.

The carrying amount of the Customers and other accounts receivable's balances approximates their fair value.

This caption is broken down as follows:

	<u>€ in thousands</u>	
	<u>31.12.20</u>	<u>31.12.19</u>
Customers	70 793	128 049
Construction completed not yet invoiced	175 243	29 131
Customers – associated companies (note 30)	55	3 797
Provision for impairment losses	(5 048)	(4 523)
Customers – Net	<u>241 043</u>	<u>156 454</u>
Public entities	17 619	7 566
Sundry debtors	1 159	586
Personnel	412	501
Total	<u>260 233</u>	<u>165 107</u>

At 31 December 2020, as in the previous year, the caption "Customers – group companies and associates" included the balance held with Consorcio Español de Alta Velocidad Meca Medina S.A.

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At 31 December 2020, the Group's sale commitments amounted to €3,184 million (2019: €3,374 million).

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

	€ in thousands	
	31.12.20	31.12.19
Balances not yet due	230 789	120 685
Between 0 and 1 month	5 860	10 753
Between 1 and 3 months	928	22 131
Between 3 and 6 months	876	2 680
Between 6 and 12 months	799	205
More than 12 months	1 791	-
	241 043	156 454

At 31 December 2020, the customer accounts receivable balances that have suffered impairment and have been provisioned against amounts to €5,048 thousand (2019: €4,523 thousand). The ageing analysis of these accounts is as follows.

	€ in thousands	
	31.12.20	31.12.19
Between 0 and 3 months	-	62
Between 3 and 6 months	-	161
More than 6 months	5 048	4 300
	5 048	4 523

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

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The detail of the carrying amount of trade receivables denominated in foreign currency is as follows:

	€ in thousands	
	31.12.20	31.12.19
Euro	231 810	135 300
Swiss francs	566	-
American dollars	1 250	4 129
Rubles	1 267	616
Saudi riyal	3 532	13 082
Tenge	2 618	3 327
	241 043	156 454

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

	€ in thousand	
At 31 December 2019	(4 523)	(4 522)
Provision recognition	(579)	(201)
Reversals	54	200
At 31 December 2020	(5 048)	(4 523)

The recognition and application of the provision for the Group's impaired accounts receivable balances has been included within Other operating expenses in the income statement (note 22).

The amounts charged to the impairment provision account are written off when there is no expectation that any additional cash will be received.

The remaining accounts included within the customer accounts receivable and other receivables balances do not contain any assets that have suffered any impairment.

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

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

	€ in thousands	
	31.12.20	31.12.19
Public administrations tax receivables for VAT	9 306	1 966
Public administrations debtors for grants	4 655	1 546
Public administrations debtors for other taxes	812	539
Public administrations tax receivables for Income Tax	2 846	3 515
	17 619	7 566

The heading of "Public administrations debtors for grants" mainly includes at 2020 year-end, the amount receivable with the Centre for Industrial Technological Development for the Rodemav and PARFAIT projects, as well as the amount receivable for the HORIZONTE2020 Programme of the European Commission, for the projects integrated in the Shift2Rail. The liability side associated with this project is registered in the long term under the heading "Other financial liabilities" (note 17).

Taxes Receivable for Income Tax at 2020 and 2019 includes the consolidated group's income tax refund for 2020 and 2019, respectively.

12. Stock

The composition of this caption is shown below:

	€ in thousands	
	31.12.20	31.12.19
Raw Materials	122 897	93 631
Work in progress	21 370	22 418
Advances	21 213	22 186
Provision for the depreciation of raw materials and in progress	(20 144)	(8 451)
	145 336	129 784

At 31 December 2020, the Group's commitments for the purchase of raw materials and other services amounted to €370,123 thousand (2019: €352,616 thousand).

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The variation in the caption “Provision for the depreciation of raw materials” during 2020 and 2019 is as follows:

	€ in thousands				
	<u>Balance at 31.12.19</u>	<u>Translation differences</u>	<u>Provision</u>	<u>Application</u>	<u>Balance at 31.12.20</u>
Provision for the depreciation of raw materials	(8 451)	1 301	(13 347)	353	(20 144)
	<u>(8 451)</u>	<u>1 301</u>	<u>(13 347)</u>	<u>353</u>	<u>(20 144)</u>

The provisions made in 2020 mainly reflect the impairment made by the subsidiary Talgo, Inc to write down the full carrying amount of the two trains it holds on the balance sheet by €9 million.

	<u>Balance at 31.12.18</u>	<u>Translation differences</u>	<u>Provision</u>	<u>Application</u>	<u>Balance at 31.12.19</u>
Provision for the depreciation of raw materials	(8 409)	(108)	(274)	340	(8 451)
	<u>(8 409)</u>	<u>(108)</u>	<u>(274)</u>	<u>340</u>	<u>(8 451)</u>

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

13. Cash and cash equivalents

The breakdown of this caption is as follows:

	€ in thousands	
	<u>31.12.20</u>	<u>31.12.19</u>
Cash	225 859	312 028
Cash equivalents	2 445	13 522
Total (note 9)	<u>228 304</u>	<u>325 550</u>

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

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The balance included in “Cash equivalents” corresponds to a deposit made by the subsidiary Talgo, Inc. whose maturity is daily and which accrues a yearly market interest rate.

14. Share capital and share premium

The variations in the number of shares and in the Share Capital accounts of the Parent company during 2020 and 2019 were as follows:

	€ in thousands	
	Number of shares	Share capital
At 31 December 2018	136 562 598	41 105
Capital increases	-	-
Capital reductions	-	-
At 31 December 2019	136 562 598	41 105
Capital increases	-	-
Capital reductions	(9 559 382)	(2 877)
At 31 December 2020	127 003 216	38 228

As at 31 December 2019 the share capital comprised 136,562,598 shares with a nominal value of €0.301 each.

On 21 May 2019, the General Shareholders' Meeting of the Parent company approved a capital reduction through the redemption of a maximum of 12,973,446 treasury shares representing a maximum of 9.50% of the Parent company's current share capital. On 27 February 2020 the Parent company's Board of Directors agreed to reduce share capital by €2,877 thousand through the redemption of 9,559,382 treasury shares with a nominal value of €0.301 each amounting to €53,480 thousand, representing 7% of the Parent company share capital, previous to the aforementioned capital reduction.

In accordance with the agreement adopted by the General Meeting, the reduction of capital was charged against freely available reserves by providing a reserve for an amount equal to the face value of the amortized shares, i.e. €2,877 thousand, which may be available only with the same requirements for the reduction of share capital, pursuing Article 335.c) of the consolidated text of the Companies Law.

The aforementioned transaction of capital reduction was filed on 10 June 2020 in the Commercial Registry of Madrid.

The share capital at 31 December 2020, after the operation described above, is represented by a total of 127,003,216 ordinary shares with a par value of €0.301.

According to the reports filed with the National Securities Exchange Commission regarding the number of company shares, the following owners held significant stakes in

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the share capital of the Parent company, both directly and indirectly, which individually exceeded 3% of the Share Capital as at 31 December 2020:

Company	% stake
Trilantic Capital Investment GP Limited	38.2%
Santa Lucia S.A. Insurance Company	4.9%
	<u>43.1%</u>

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

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

a) Limitations on the distribution of dividends

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

- Dividends may not be distributed if they reduce the balance of reserves to an amount lower than the total sum of the activated development costs balance pending to amortize.
- The companies domiciled in Spain are obliged to transfer 10% of their profits each year to a Legal Reserve until that reserve amounts to at least 20% of the share capital. The reserve cannot be distributed and if it is used to compensate for losses, in the event no other sufficient reserves are available for that purpose, then it must be replenished with future profits. The Legal Reserve of the Parent company at 31 December 2020 and 2019 amounted to €8,237 thousand and it is fully recorded.
- Until 31 December 2015, the Company Patentes Talgo, S.L.U. endowed, on an annual basis, 5% of the amount of goodwill. During 2017, in accordance with Final Disposition 13 of Law 22/2015 of July 20, Audit of Accounts, the Group has ceased endowing this reserve. At year-end 2020 and 2019 this reserve is unavailable and it amounts €54,531 thousand.

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b) Result for the year

Based on local accounting principles, the distribution of the Parent company's profit for 2019, approved at the General Meeting of the Shareholders on May 21, 2020, and the proposed distribution of its profit for 2020 is detailed below:

	€ in thousands	
	2020	2019
Basis for distribution		
P&L	43 759	53 085
Total	43 759	53 085
Application		
Losses from previous years	-	-
To Reserves	43 759	53 085
Total	43 759	53 085

c) Dividend per share

During 2020 and 2019 no dividend was distributed.

d) Treasury stock

On 15 November 2018, the Board of Directors of the Parent 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.

In accordance with the provisions of that resolution, the Repurchase Program aims to reduce the Parent 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 Parent company's shareholder by increasing the earnings per share.

The Repurchase Program, in accordance with the terms approved, 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 would be €100,000,000.

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During the year 2020, the Parent company acquired a total of 2,414,246 shares at cost of €13,969 thousand. The acquisition of these shares was carried out in compliance with the Repurchase Program.

During the year 2019, the Parent 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 of the year, which were settled on the first days of the 2020 financial year.

On 6 May 2020, the resolution adopted by the Board of Directors of the Parent company was announced, whereby the agreement to repurchase treasury shares adopted on 15 November 2018 was declared expired and fully executed, after its expiry date on 19 May 2020.

Following the capital reduction through the redemption of treasury stock described above, carried out after the completion of the share Repurchase Program, the treasury stock at 30 June consisted of 4,083,222 own shares.

As at 31 December 2020 the Parent company holds 4,083,222 treasury shares, at 31 December 2019 the Parent company held 11,228,358 treasury shares.

The breakdown of the latter is as follows:

	<u>Nr. Shares</u>	<u>Average purchase price</u>	<u>Closing price</u>	<u>Stock price</u>	<u>% Share Capital</u>
Treasury shares at 31.12.2020	4,083,222	5.6	4.1	16,884	3.22%
Treasury shares at 31.12.2019	11,228,358	5.6	6.1	68,380	8.22%

15. Other reserves and accumulated gains

The movements in the "Other reserves" caption were as follows:

	<u>€ in thousands</u>	
	<u>Translation differences</u>	<u>Total</u>
Balance at 31 December 2018	2 851	2 851
Translation differences on foreign currency - Group	326	326
Balance at 31 December 2019	3 177	3 177
Translation differences on foreign currency - Group	(1 713)	(1 737)
Cash Flow hedges	15	15
Balance at 31 December 2020	1 479	1 455

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a) Translation differences

The exchange rate difference recognized within "Other reserves" corresponds entirely to the translation of the functional currency of the financial statements of the Group's subsidiaries with a functional currency other than the euro.

b) Accumulated earnings

The contribution of each Group companies to the retained earnings caption, at 2020 and 2019 year-end has been as follows:

	€ in thousands	
	31.12.20	31.12.19
Talgo, S.A.	(73 242)	(26 367)
Patentes Talgo, S.L.U.	284 501	290 801
Talgo, Inc.	14 155	25 549
Talgo Deutschland, GmbH	14 533	13 154
Motion Rail, S.A.	(18)	(18)
Talgo India Private Limited	182	119
Patentes Talgo Tashkent, LLC	155	111
Talgo Shanghai Railways Equipment CO LTD	(127)	(130)
OOO Talgo	3	3
Total Accumulated earnings	240 142	303 222

16. Suppliers and other payables

The caption is broken down as follows:

	€ in thousands	
	31.12.20	31.12.19
Suppliers	186 575	149 579
Associate company suppliers (note 30)	11 382	8 903
Advances on orders	51 332	63 285
Social Security and other taxes	7 685	10 143
Personnel	8 169	12 806
Total	265 143	244 716

The caption 'Advances on orders' includes advances received from the Group's customers, in accordance with the accounting policy described in note 2.21.

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 consolidated annual accounts in relation to the average period of payment of the Spanish companies for trade operations to suppliers.

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	<u>2020</u>	<u>2019</u>
Average period of payment to suppliers	43	52
Ratio operations paid	84	78
Ratio operations pending to be paid	<u>47</u>	<u>30</u>
Total payments made	385 625	474 677
Total pending payments	178 191	141 484

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 of the of the Spanish companies that comprise the consolidated Group.

For the sole purpose of detailing the information required by the Resolution, it is considered suppliers the trade creditors for debts with suppliers for goods and services, included within the “other accounts payable” items on the current liabilities side of the consolidated statement of financial position.

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

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

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17. Borrowings

The breakdown of this caption is as follows:

	€ in thousands	
	31.12.20	31.12.19
Non-current		
Debt with credit institutions	238 351	198 705
Lease creditors (note 7)	3 438	5 582
Other financial liabilities	23 215	15 182
	<u>265 004</u>	<u>219 469</u>
Current		
Debt with credit institutions	41 147	58 609
Lease creditors (note 7)	3 424	3 339
Other financial liabilities	3 429	3 881
	<u>48 000</u>	<u>65 829</u>
Total borrowings	<u>313 004</u>	<u>285 298</u>

a) Debt with credit institutions

The detail of the loans included under Debt with credit institutions is as follows:

Entity	Currency	Interest rate	Grant date	Non-current	Current	Total	Interests
Entity A	EUR	Fixed	25/01/2019	61 087	-	61 087	72
Entity B	EUR	Fixed	20/12/2017	25 714	4 286	30 000	12
Entity C	EUR	Fixed	22/12/2020	20 000	-	20 000	114
Entity D	EUR	Fixed	13/12/2020	20 000	-	20 000	5
Entity E	EUR	Fixed	23/06/2020	15 000	-	15 000	3
Entity F	EUR	Fixed	23/06/2020	10 000	-	10 000	2
Entity G	EUR	Fixed	28/12/2018	5 000	5 000	10 000	-
Entity H	EUR	Fixed	22/12/2020	15 000	-	15 000	3
Entity I	EUR	Variable	12/03/2019	6 250	2 500	8 750	44
Entity J	EUR	Fixed	14/01/2019	4 875	1 500	6 375	16
Entity K	EUR	Fixed	14/01/2019	8 000	2 000	10 000	114
Entity L	EUR	Variable	02/12/2020	15 000	-	15 000	14
Entity M	EUR	Fixed	07/03/2017	-	25 000	-	25
Entity N	EUR	Fixed	15/04/2020	32 425	-	32 425	91
Bank guarantees and credit facilities interests				-	-	-	346
				<u>238 351</u>	<u>40 286</u>	<u>278 637</u>	<u>861</u>

The contracts included in the table above contain a number of associated obligations and covenants known as Guarantee Ratio, Commitment Ratio and Financial Expense Ratio, which the Group has not breached since the beginning of the contracts, together with the

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other obligations and commercial restrictions set out therein.

At 31 December 2020, the Group has credit lines amounting to €150,000 thousand (€100,000 thousand in 2019). At 31 December 2020 and 2019 the Group did not have a balance drawn down under these facilities.

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

	€ in thousands					
31 December 2020	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Subsequent years</u>	<u>Totals</u>
Debt with credit institutions	41 147	15 146	82 571	31 904	108 730	279 498
31 December 2019	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Subsequent years</u>	<u>Totals</u>
Debt with credit institutions	58 609	52 150	27 146	22 146	97 263	257 314

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

b) Lease liabilities

This heading includes, among others, debts incurred under leases that meet the requirements of IFRS 16. With the entry into force of this standard and the disappearance of the distinction between operating and finance leases, the Group has unified and recognised the contracts that meet the definition of a lease under a single model.

In addition, in 2017 Patentes Talgo, S.L.U. entered into a five-year agreement with various technology suppliers for the use of IT platforms relating to human resources, supplier management, etc. (note 7).

The maturities of the commitments undertaken are summarized below:

	€ in thousands					
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Subsequent years</u>	<u>Totals</u>
Lease liabilities	<u>3 424</u>	<u>1 241</u>	<u>1 085</u>	<u>737</u>	<u>375</u>	<u>6 862</u>
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Subsequent years</u>	<u>Totals</u>
Lease liabilities	<u>3 339</u>	<u>2 510</u>	<u>1 497</u>	<u>942</u>	<u>633</u>	<u>8 921</u>

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c) Other financial liabilities

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

	€ in thousands	
	31.12.20	31.12.19
Non-current		
Debts due to reimbursable advances	16 843	12 904
Other debts	6 372	2 278
	23 215	15 182
Current		
Debts due to reimbursable advances	3 278	3 752
Other debts	151	129
	3 429	3 881
Total other financial liabilities	26 644	19 063

c.1) Debts due to reimbursable advances

This heading includes the debts at zero rate, or at a lower than market rate, than the subsidiary Patentes Talgo, S.L.U., holds with the Center for Industrial Technological Development (CDTI) for various technological development projects, as well as with the Ministry for Education and Science. These loans bear interest at below market rates and the Group records the related grant for the difference with market rates.

The refundable advances were granted to Patentes Talgo, S.L.U. and its technology partner, mainly in connection with projects for the development of gauge-switching and high-speed systems.

The face value before the financial update of the reimbursable advances at 31 December 2020 amounted to is €21,107 thousand (2019: €17,624 thousand) (note 3.1.c).

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

	€ in thousands					
	2021	2022	2023	2024	Subsequent years	Totals
31 December 2020						
Debts due to reimbursable advances	3 278	2 647	2 938	2 339	8 919	20 121
31 December 2019						
Debts due to reimbursable advances	3 752	2 631	2 694	2 661	4 918	16 656

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c.2) Other debts

At 31 December 2020, this heading includes debts convertible into non-current grants amounting to €6,159 thousand (2019: €2,185 thousand). This heading mainly includes the funds received by the European Commission for the "Shift2Rail" research project, as well as funds received from the Centre for Industrial Technological Development (CDTI) for the PARFAIT project.

The fair values of other borrowings approximate their carrying amount.

18. Deferred taxes

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

	<u>€ in thousands</u>	
	<u>31.12.20</u>	<u>31.12.19</u>
Deferred tax assets	<u>28 192</u>	<u>28 990</u>
	<u>28 192</u>	<u>28 990</u>
Deferred tax liabilities	<u>8 420</u>	<u>7 646</u>
	<u>8 420</u>	<u>7 646</u>
Deferred tax assets (net)	<u>19 772</u>	<u>21 344</u>

The movement in the deferred tax asset balance during the financial years 2020 and 2019 was as follows:

	<u>€ in thousands</u>					
	<u>Balance at 31.12.19</u>	<u>Translation differences</u>	<u>Additions</u>	<u>Disposals</u>	<u>Other Movements</u>	<u>Balance at 31.12.20</u>
Temporary differences						
Guarantees	4 190	-	4 384	(4 131)	(69)	4 374
Other concepts	3 863	-	1 308	(1 431)	-	3 740
Tax credits						
Tax loss carryforwards	18 284	(514)	5	(405)	55	17 425
Deductions	<u>2 653</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2 653</u>
	<u>28 990</u>	<u>(514)</u>	<u>5 697</u>	<u>(5 967)</u>	<u>(14)</u>	<u>28 192</u>

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	<u>Balance at 31.12.18</u>	<u>Translation differences</u>	<u>Additions</u>	<u>Disposals</u>	<u>Other Movements</u>	<u>Balance at 31.12.19</u>
Temporary differences						
Guarantees	4 524	-	4 200	(4 506)	(28)	4 190
Other concepts	4 564	-	958	(1 659)	-	3 863
Tax credits						
Tax loss carryforwards	17 709	105	7 207	(8 494)	1 757	18 284
Deductions	1 735	-	1 122	-	(204)	2 653
	<u>28 532</u>	<u>105</u>	<u>13 487</u>	<u>(14 659)</u>	<u>1 525</u>	<u>28 990</u>

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

In 2019 the Parent company derecognised the deferred tax asset relating to tax losses incurred in 2015 (a base of €33,107 thousand and a tax liability of €8,277 thousand) arising from the tax assessments signed under disagreement, as explained in note 25, although the Parent company does not waive the right to offset these losses in the future in the event that it receives economic-administrative claims are in its favour.

Movements in deferred tax assets during 2020 and 2019 are as follows:

	€ in thousands			
	<u>Tax credits</u>	<u>Deductions</u>	<u>Other concepts</u>	<u>Total</u>
Balance at 31 December 2018	<u>17 709</u>	<u>1 735</u>	<u>9 088</u>	<u>28 532</u>
Credit/(Charge) to income statement	7 209	1 122	(1 007)	7 324
Other movements and transfers	(6 634)	(204)	(28)	(6 866)
Balance at 31 December 2019	<u>18 284</u>	<u>2 653</u>	<u>8 053</u>	<u>28 990</u>
Credit/(Charge) to income statement	5	-	130	135
Other movements and transfers	(864)	-	(69)	(933)
Balance at 31 December 2020	<u>17 425</u>	<u>2 653</u>	<u>8 114</u>	<u>28 192</u>

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At December 31, 2020, the tax loss carryforwards pending offset in the USA, relating to the subsidiary Talgo Inc., amount to €31,378 thousand (€27,201 thousand in 2019). Of these, an amount of €22,519 thousand is activated in the balance sheet asset as of 31 December 2020.

As of December 31, 2020 the expiration of the tax loss carryforwards is as follows:

Year	€ in thousands	Final year
2004	7 175	2024
2005	7 578	2025
2006	6 447	2026
2012	3 469	2032
2020	<u>6 709</u>	Indefinite
	<u>31 378</u>	

As a result of changes in US tax legislation in 2020, the tax loss carryforwards generated in 2020 will expire indefinitely.

A portion of the deferred tax assets indicated above has been recorded in the balance sheet because the Parent company's Directors consider that, based on the best estimate of the Group's future results, including certain tax planning actions, it is probable that these assets will be recovered.

At December 31, 2020, the tax loss carryforwards pending offset of the Tax Group 65/06 in Spain are the following:

Year	€ in thousands
2015	33 107
2018	23 933
2019	36 733
2020	<u>18 879</u>
	<u>112 652</u>

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a) Deductions

At December 31, 2020 the Group had the following deductions pending application:

Year	€ in thousands	Last year
2017	511	2035
2018	1 098	2036
2019	6 922	2037
2020	2 299	2038
Total deductions	10 830	

b) Other Concepts

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

Deferred tax liabilities

The movement in the deferred tax liabilities balance during the financial years 2020 and 2019 was as follows:

	€ in thousands		
	Cash flow hedge	Other concepts	Total
Balance at December 2018	-	6 889	6 889
Credit/(Charge) to income statement	-	757	757
Tax (credit) / charge to equity	-	-	-
Other movements	-	-	-
Balance at December 2019	-	7 646	7 646
Credit/(Charge) to income statement	-	845	845
Tax (credit) / charge to equity	-	-	-
Other movements	-	(71)	(71)
Balance at December 2020	-	8 420	8 420

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

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19. Provisions for other liabilities and charges

The movement of these captions during 2020 was as follows:

	€ in thousands					
	Non-current			Current		
	Other provisions	Guarantee provision	Subtotal	Other provisions	Guarantee provision	Subtotal
Balance at 31/12/2019	30 059	14 121	44 180	-	7 172	7 172
Provisions	5 654	1 294	6 948	124	4 103	4 227
Applications	(4 410)	-	(4 410)	-	(1 816)	(1 816)
Transfers	-	6 935	6 935	-	(6 935)	(6 935)
Translation differences	-	(178)	(178)	-	-	-
Balance at 31/12/2020	31 303	22 172	53 475	124	2 524	2 648

At the 2020 year-end, the Group has recognized the necessary provisions to meet its service guarantees, which normally cover a period of between 2-3 years and other obligations included in the contracts signed.

“Other provisions” includes, on the one hand, the provision recognised in 2019 amounting to €11,522 thousand relating to the tax assessments signed in disagreement explained in note 25, and, on the other hand, the reasonable estimates made by the Group in relation to contractual obligations relating to maintenance contracts signed with customers, mainly in connection with major maintenance costs.

20. Employee benefit expenses

a) The breakdown of this caption is as follows:

	€ in thousands	
	2020	2019
Wages, salaries and similar	90 446	94 875
Contributions and provisions for defined pension contributions and other obligations	2 543	2 353
Other welfare charges	30 721	29 977
	123 710	127 205

The ‘Wages, salaries and similar’ caption includes compensation costs, which amounted to €1,452 thousand in 2020 (2019: €509 thousands).

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

The remuneration paid to Senior Management, which is understood comprise those members that sit on the steering committee, amounted to €1,679 thousand for both fixed

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and variable short-term remuneration (€2,597 thousand for both fixed and variable short-term remuneration in 2019). Meanwhile, the remuneration paid to the directors for fixed and variable short-term remuneration amounted to €997 thousand at 31 December 2020 (€2,068 thousand for both fixed and variable short-term remuneration at December 31, 2019), these amounts include the remunerations detailed in section c.

During 2019 the Long-Term Incentive Plan (2019-2021) was approved as a variable share remuneration system, the collection of which is conditional upon the fulfilment of certain strategic and share value objectives of the Parent company and the permanence of the beneficiary during the consolidation period (3 years) (note 2.19). The maximum amounts of this remuneration, which is accrued over three years and only received if the plan's objectives are met, amount to €1,240 thousand in the case of the directors and €1,118 for senior management. The directors, taking into account the evolution of the objectives linked to the business plan during the 2020 financial year as well as the prospects envisaged for 2021, have decided to consider highly unlikely the accrual of the plan so that they have reverse the contribution made in 2019 in the amount of €1,000 thousand.

The Group has taken out life insurance for all of its employees, including management personnel, the cost of which for management personnel amounted to €49 thousand in 2020 (€54 thousand in 2019), included in fixed and variable remuneration. The amount corresponding to the pension plan of this same group amounted to €98 thousand in 2020 (€102 thousand in 2019). In addition, there are civil liability insurance policies for some members of its Senior Management and its Directors, whose premiums, are already paid during 2020 and 2019 amounting to €42 thousand. Its coverage is considered sufficient.

During 2015, loans were granted to members of the management team for the purchase of shares in the ultimate parent company, whose outstanding balance is €654 thousand (€653 thousand at 2019 year-end). The aforementioned loans accrue interest at a rate that is linked to Euribor plus a market spread (note 10).

c) Remuneration to Directors of the Parent company for the performance of their duties

The role of member of the Board of Directors of the Group was remunerated during 2020 for an amount of €464 thousand (€768 thousand during 2019).

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21. Personnel

The distribution of the average headcount by job category and gender during the years 2020 and 2019 is as follows:

	2020		2019	
	Men	Women	Men	Women
Board members and Senior Management	11	3	11	3
Management	39	4	38	3
Middle management	297	45	242	32
Technicians	1 938	295	1 832	251
	2 285	347	2 123	289

Similarly, the distribution of the headcount at year-end 2020 and 2019 by job category and gender was as follows:

	31.12.2020		31.12.2019	
	Men	Women	Men	Women
Board members and Senior Management	11	3	11	3
Management	40	4	37	4
Middle management	302	50	241	34
Technicians	1 952	306	1 978	289
	2 305	363	2 267	330

As at year-end 2020, the Group employed 23 people with disabilities (18 in 2019), of which 9 were women (9 in 2019) and 14 were men (13 in 2019).

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22. Cost of materials and Other operating expenses

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

	€ in thousands	
	2020	2019
Domestic purchases	207 331	114 906
Intra-community acquisitions	44 121	23 541
Imports	18 662	11 666
Change in stock	(29 257)	(31 815)
Consumption of raw materials and other consumables	240 857	118 298
Other external expenses	55 835	48 988
Other external expenses	55 835	48 988
Impairment of raw materials and other supplies (note 12)	12 994	(66)
Impairment of raw materials and other supplies	12 994	(66)

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

	€ in thousands	
	2020	2019
External Services	48 228	58 422
Taxes	325	283
Losses, impairment and variation in provisions	6 269	(913)
Other current operating expenses	464	768
Total other operating expenses	55 286	58 560

23. Other results

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

	€ in thousands	
	2020	2019
Other expenses	(29)	(37)
Other income	324	467
Total Other Results	295	430

At 31 December 2020 and 2019, the 'Other income' caption mainly included proceeds received as compensation for claims, whose related expenses were recorded in previous

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years. It also included proceeds received from the sale of scrap metal.

24. Financial income and expenses

The breakdown of this caption is as follows:

	€ in thousands	
	2020	2019
Interest expenses:		
- Bank borrowings and other charges	(6 491)	(8 368)
- Translation differences	(2 904)	-
Financial expenses	(9 395)	(8 368)
- Interest income on short term deposits with credit institutions and change in fair value of financial instruments	53	53
- Income from associated companies	-	54
- Other financial income	255	-
- Translation differences	-	353
Financial income	308	460
Net financial result	(9 087)	(7 908)

25. Income tax

The Parent company and its subsidiaries Patentes Talgo, S.L.U. and Talgo Kazakhstan, S.L. are included in the Consolidated Tax Group 65/06. The company Motion Rail, S.A. 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 46.25%.

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

	€ in thousands	
	2020	2019
Profit before tax	(12 303)	42 928
Consolidated tax at 25%	-	10 732
Tax effects of:		
Differences in tax rates in each country	4 369	(4 847)
Permanent differences	-	101
Tax deductions	-	(1 122)
Tax inspection adjustment	-	1 197
Deferred tax adjustment	757	-
Prior years' adjustment	17	(1 599)
Tax expense	5 143	4 462

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The differences in tax rates for each country mainly correspond to the adjustments of the permanent establishments in Kazakhstan, Uzbekistan, Russia and Arabia whose pre-tax results are included in the Group's pre-tax profit and the tax base is subsequently adjusted as a permanent difference.

During the 2020 financial year, the Directors of the Parent company, following a conservative criterion, have decided not to activate the tax loss carryforwards generated during the financial year or the deductions generated, although they are expected to be used in the near future.

On 10 July 2017, the Parent 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 of the withholdings and payments on account (income from employment and professional activities) for Personal Income tax for the periods from May 2013 (the Parent company)/April 2013 (its subsidiary) to December 2015.

As a result of the aforementioned procedure, in October 2019 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 and €3.3 million is late payment interest.

The debt of €21.2 million from the settlement relates to adjustments to the taxable income of Patentes Talgo S.L.U. and adjustments to the Parent 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 Parent company and its subsidiary filed economic-administrative claims against the aforementioned settlement agreements. In addition, a request was made in due time (in January 2020) for the automatic suspension of the execution of the debt through the provision of a bank guarantee amounting to €21.2 million. The suspension was granted.

As the tax settlement eliminates the tax loss carryforwards generated in 2015 by the tax group, which was partially used by the group in 2016 and 2017, if the settlement is confirmed by the courts there will be an effect on the tax payable in 2016 and 2017 of €3 million. 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 Parent 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 4.1.b, after evaluating the uncertainty associated with the matters under discussion, derived from the scarce and disparate doctrine existing in relation to the issues discussed, in 2019 financial year the directors derecognised tax assets amounting to €8.3 million (note 18) and recorded a provision of €11.5 million under long-term

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provisions (note 19). Of the aforementioned amounts, €0.9 million related to interest on arrears recorded as financial expenses, €1.2 million as an increase in income tax expense 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 (IAS 12.58).

Additionally, the tax Group has open to verification the last 4 financial years for the rest of taxes that are not being subject to verification but applicable. In the rest of the countries where the Group operates, all the taxes that are applicable to the different companies are open to verification in the financial years that indicate their respective tax legislations.

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

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

	€ in thousands	
	2020	2019
Total current tax	3 571	4 163
Total deferred tax	1 572	299
Income tax	5 143	4 462

26. Earnings per share

Basic earnings per share

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

	€ in thousands	
	2020	2019
Profit/(loss) attributable to the owners of the Parent company	(17 446)	38 466
Weighted average number of ordinary shares in issue	123 573 927	129 522 725
Basic earnings/(loss) per share from continued operations	(0.14)	0.30
	(0.14)	0.30

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Diluted earnings per share

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

	€ in thousands	
	2020	2019
Profit/(loss) attributable to the owners of the Parent company	(17 446)	38 466
Profit/(loss) used to determine diluted earnings per share	(17 446)	38 466
Weighted average number of ordinary shares in issue	123 573 927	129 856 059
Weighted average number of ordinary shares for the purposes of diluted earnings per share	123 573 927	129 856 059
Diluted earnings/(loss) per share	(0.14)	0.30
Diluted earnings/(loss) per share from continued operations	(0.14)	0.30

27. Cash flows from operating activities

The breakdown of cash generated from operations is as follows:

	€ in thousands	
	2020	2019
Profit for the year before tax	(12 303)	42 928
Adjustments for:		
- Depreciation of tangible fixed assets (note 6)	9 446	8 556
- Amortization of intangible assets (note 7)	7 296	7 259
- (Gain)/loss on the sale of non-current assets held for sale	19	26
- Net change in provisions (notes 19 and 11)	19 251	(1 245)
- Financial expenses (note 24)	6 491	8 368
- Financial income (note 24)	(292)	(79)
- Change in fair value of financial instruments (note 24)	(16)	(28)
- Allocation of grants	(463)	(801)
- Other income and expenses	(4 597)	(4 491)
Changes in working capital (excluding the effects of the acquisition and translation differences on consolidation):	(101 241)	1 670
Stocks (note 12)	(29 840)	(44 821)
Other financial assets (note 10)	675	182
Customers and other accounts receivable (note 11)	(92 341)	24 966
Suppliers and other payables (notes 16 and 17)	20 265	21 343
Cash flows from operating activities:	(76 409)	62 163

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28. Guarantees and other contingencies

At 31 December 2020, the Group had a volume of bank guarantees and surety bonds amounting to €707 million, of which, €471 million corresponded to manufacturing projects, either as performance bonds or advances received. The remaining sum comprised bank guarantees provided to public entities for the awarding of grants, for bidding in tender competitions and for other items.

At 31 December 2020, the amount available from the bank guarantee and surety bonds lines amounted to €892 million.

At 31 December 2019, the Group had a volume of bank guarantees and surety bonds amounting to €941 million, of which, €800 million corresponded to manufacturing projects, either as performance bonds or advances received. The remaining sum comprised bank guarantees provided to public entities for the awarding of grants, for bidding in tender competitions and for other items.

At 31 December 2019, the amount available from the bank guarantee and surety bonds lines amounted to €809 million.

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

The Group's Management is not aware of any contingent liabilities that it may have in the normal course of its business, other than those provided for at 2020 year-end.

29. Commitments

a) Operating lease commitments

The Directors of the consolidated Group do not expect any material changes in the operating lease contracts in the future, with respect to the current contracts in 2020 and 2019.

30. Related party and foreign currency transactions

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

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

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

a) Transactions with the Parent company's significant shareholders

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

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

b) Transactions with the Parent company's Board members

The compensation paid during 2020 to the Board members amounted to €464 thousand (2019: €768 thousand).

c) Information on situations of conflict of interest of the Board of Directors of the Parent company

Pursuant to the provisions of Article 229 of the Revised Text of the Corporation Tax Law, the Directors of the Company have made the notifications, 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.

d) Commercial transactions with related parties

	€ in thousands	
	2020	2020
Financial income		
Consorcio Español de Alta Velocidad Meca-Medina, S.A.	-	54
Income	-	54

	€ in thousands	
	2020	2019
Operating expenses	445	2 500
Consorcio Español de Alta Velocidad Meca-Medina, S.A.	445	2 500
Expenses	445	2 500

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

	<u>€ in thousands</u>	
	<u>31.12.20</u>	<u>31.12.19</u>
Customers –associates companies (note 11)	55	3 797
Customers –associates companies	55	3 797

	<u>€ in thousands</u>	
	<u>31.12.20</u>	<u>31.12.19</u>
Suppliers - associates companies (note 16)	2 846	8 903
Suppliers – associates companies	2 846	8 903

At 31 December 2020 and 2019, “Customers – associates companies” and “Suppliers – associates companies” captions corresponded to a balance held with Consorcio Español Alta Velocidad Meca- Medina, S.A.

f) Foreign currency transactions

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

	<u>2020</u>	<u>2019</u>
Purchases	27 175	28 344
Sales	38 717	74 622

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31. The environment

The breakdown of the expenses incurred during 2020 and 2019 to protect and improve the environment were as follows:

	<u>€ in thousands</u>	
	<u>2020</u>	<u>2019</u>
Periodic (waste management, periodic analysis and other):		
Drinking water and waste water analysis and waste water purifier expenses	78	71
Management of hazardous and inert waste	119	81
Material purchases and other	23	23
Safety Advisor	4	4
Dumping tax and legionellosis control	3	1
Atmospheric emission controls	2	-
Legislation updates	2	2
Total periodic expenses	<u>231</u>	<u>182</u>
	<u>€ in thousands</u>	
	<u>2020</u>	<u>2019</u>
Non-periodic:		
Energy audits	11	-
ISO 14001 Certification	3	3
Total non-periodic expenses	<u>14</u>	<u>3</u>

In 2019, no investments were made to protect and improve the environment. The investments made in the financial year 2020 for the protection and improvement of the environment are as follows:

	<u>€ in thousands</u>
	<u>2020</u>
Investments :	
Luminaries replacement	<u>232</u>
Total investments	<u>232</u>

The Group's Management considers that there are no potential inherent risks or significant foreseeable expenses regarding its environmental actions to record any provision.

32. Fees for audit and other services provided

During 2020 and 2019, the fees regarding the services provided for the audit of annual accounts and non-audit services by the Group's auditor Deloitte, S.L. or by any other

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company related to the auditor by means of common ownership, control or management, are as follows:

Description	€ in thousands	
	2020	2019
Audit fees	348	360
Other assurance services	191	25
Total of audit and audit related services	539	385
Tax consultancy services	13	12
Tax consultancy services	13	12
Other consultancy services	-	-
Other consultancy services	-	-
Total of professional services	552	397

33. COVID-19 Impacts

As indicated in notes 3 and 4, the global spread of SARS-CoV-2(COVID-19) and the measures taken to prevent the spread of the pandemic in Spain and the other countries in the world where the Group operates have significantly affected its activity during 2020.

The impact on the activity suffered in train construction and refurbishment projects can be estimated at between 10-15% of the activity and, therefore, the expected revenue. The consequences, in principle, have been more limited, since, after a two-week stop of activity, work could be resumed; however, they have been greatly affected by delays in the procurement of materials from national and international suppliers affected by the pandemic, as well as by lower productivity ratios recorded in the plants. In all ongoing projects, our customers have been informed of the possible effects of the pandemic on the modification of contract deadlines.

Maintenance services have suffered a significant reduction in expected revenues during the year, with drops of more than 50% over the year as a whole compared to normal expected activity. This reduction in activity has varied according to the impact of COVID-19 and the mobility restriction measures implemented in the different countries, reaching maximum reduction levels in the second quarter of the year of 75-80% in Spain, between 20-30% in Germany or Russia, and recording temporary complete service stops in Kazakhstan, Uzbekistan, the United States and Saudi Arabia. However, maintenance activity recovered progressively throughout the year in all markets except Saudi Arabia, where it remained at a standstill throughout the period.

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The Group's cash flow has not been significantly affected by the COVID-19 effect, as mentioned in note 3, given that the different milestones have been collected from our customers as planned in train construction and refurbishment and the maintenance thereof, applying in each case the different remuneration models for the activity that include, in most cases, the probability of a possible fluctuation in activity depending on passenger demand.

As a result of the interruption of activity for some months, specifically in the maintenance activity, a Temporary Suspension of Employment or similar was approved at various locations where the Group operates, which has been gradually reduced in line with the recovery of activity, as well as the relocation of these employees in other activities of the Group such as construction and remodelling of trains or accompanying on-board, cleaning and disinfection thereof.

In Spain, Temporary Suspension of Employment has affected some 384 employees and 180 contract cleaners. At year-end 2020, 116 employees and 141 contract cleaners were subject to this plan.

In Arabia, part of its workers (mainly Saudi personnel) has been in situations assimilated to Temporary Suspension of Employment, understood as a temporary suspension of contracts with a reduction in salaries partly compensated by the State of each country.

In Russia, Kazakhstan, Uzbekistan, the USA (personnel assigned to maintenance activities) and Arabia (non-Saudi personnel), salaries and services have been temporarily reduced in the same proportion.

34. Subsequent events

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

35. Explanation added for translation to English

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

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Organizational structure

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

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

Strategy

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

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

Business model

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

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

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

Business performance

Talgo Group's backlog reached €3,184 million by the end of 2020, 5.6% less than the previous year (€3,374 million). New order intake amounted to €387 million, including the contract signed with the Danish public operator DSB for the manufacture of eight Talgo 230 trainsets and equipment for €134 million, within a framework agreement that provides additional potential for extensions worth up to €500 million.

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Net Turnover in 2020 reached €487 million, 21% higher than the previous year as a result of the increased industrial activity and therefore revenue contribution recorded from contracts awarded in recent years and in the manufacturing phase, including the project to manufacture 30 Renfe Very High-Speed trains in Spain and the project for the German public operator, Deutsche Bahn, which includes the manufacture of 23 Talgo 230 trains. On the other hand, revenues from maintenance activity decreased significantly during the period as a result of the situation generated by COVID-19 and its impact on intercity mobility, resulting in lower commercial activity of all the fleets maintained by Talgo.

The Group's Ebitda (Earnings before interest, taxes, depreciation and amortization) at year-end 2020 fell to €28 million (€68 million in 2019), mainly due to the impact of the pandemic. In this regard, the delays in the supply chain of the projects, together with the impact on the maintenance activity in the various markets, significantly affected the group's profitability for the year. However, the measures implemented to provide security to all employees and to be able to continue with the activities, as well as the efforts made by the Group to reduce costs, helped to partially mitigate this impact and positioned the Group to recover activity and profitability in the second half of the year. In relative terms, the margin was 5.7%. Ebitda adjusted for non-recurring items and financial costs recorded in gross margin (mainly compensations and financial bank guarantees for the projects) reached €34.2 million (margin of 7.0%).

Group EBIT (Earnings before interest and taxes) at year-end 2020 stood at €-3.2 million (€50.8 million in 2019) as a result of the impact generated by COVID-19. Additionally, in 2020 the depreciation of Talgo trains sold to the state of Wisconsin. EBIT adjusted for this extraordinary depreciation and other non-recurring expenses amounted to €16.4 million.

Net profit at year-end 2020 was a loss of €-17.5 million (profit of €38.4 million in 2019).

In terms of shareholder remuneration, on 15 November 2018, Talgo's Board of Directors approved to execute a Stock Repurchase Plan, pursuant to the resolutions approved by the Ordinary General Shareholders' Meeting of the same year, for up to €100 million or 22.5 million shares representing 16% of the Share Capital. At year-end 2020, the Parent company had acquired 13.1 million shares for a value of €74 million. The purpose of the shares acquired in accordance with the approved Agreement is to redeem them, which will result in an 11% increase in the shareholders' stake in Talgo's share capital and a corresponding increase in Net Profit per Share. In this regard, a first redemption of 9.6 million shares, representing 7.0% of the share capital, was made in 2020, while the remaining 3.6 million shares will be redeemed in 2021. Once all shares acquired under the Repurchase Plan are redeemed in full, the Parent company's share capital will be represented by 123.4 million shares.

The higher industrial activity in the first phases of manufacturing implied, in line with expectations and normal business dynamics, an increase in the investment in Working Capital Requirements, reaching a volume of €149,5 million at the end of the year. The main variations recorded were the consumption of advances received in previous phases of the projects and the normal increase in work in progress and accounts receivable linked to

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these projects, although this increase was partially offset by an adequate management of suppliers. On the other hand, the investments recorded in the period amounted to €24.7 million. As a result, the Free Cash Flow generated during the period was negative €-101 million.

In 2020, the Group took actions to protect cash in order to shield the Group's balance sheet as a precautionary measure in the context of the uncertainty generated by COVID-19. In this regard, during 2020, bank debt maturities were refinanced and new loans were issued, resulting in net positive changes of €27 million of additional gross debt.

As a result, the final cash position stood at €228 million at year-end, resulting in a Net Financial Debt of 48.1 million euros (1.4x NFD over adjusted Ebitda, including the financial investment explained in note 10) and with a long-term debt repayment profile which, together with the availability of credit lines of up to €150 million, makes the balance sheet very solid and provides the Group with an extraordinary financial capacity to finance current and future projects.

Talgo stock performance

The year 2020 has been marked by the effects caused by the COVID-19 pandemic whose overall impact has been reflected in Talgo in both the performance of the business and the Talgo share during the financial year.

The strong confinement measures carried out by the authorities with the aim of curbing contagion and combating the spread of the virus, have had as collateral a global economic stop and the consequent fall in GDP unprecedented globally, being in Spain more notable for the greater impact on the services sector, highlighting tourism-related activities. Mobility confinement and limitation measures have had an unprecedented impact on the transport sector in general, being not lower particularly for rail transport, where major fleets in general, and those maintained by Talgo in particular, drastically reduced its commercial operations, even reaching total standstill in some markets.

Central banks have announced historic monetary policy measures by injecting money into economies to increase the money supply that, together with strong balance sheets in financial institutions, lay the right foundations for adequate liquidity transmission to households and businesses for a consequent recovery in consumption. In addition, the European Union announced and launched a programme (NextGenerationUE) as a temporary instrument designed to drive recovery, with the largest stimulus package ever funded through the EU budget. A total of 1.8 trillion euros will help rebuild Europe after COVID-19 with a focus on ecology, digitization and resilience. On the other hand, the approval for distribution of vaccines developed by different laboratories to combat COVID-19 was a change in the sentiment and trend of the markets in the last quarter of the year, reducing the losses recorded until then.

In this context, Talgo informed through a statement published in CNMV at the end of March 2020 the desirability of withdrawing the expectations and objectives of the business

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established for the year, as a result of the effects caused by COVID-19 and the lack of visibility caused by them in the performance of the business expected for the whole year.

In the area of capital markets, the uncertainty caused by the pandemic generated a significant flight of capital towards shelter values and liquidity that severely impacted the whole stock exchanges, with particular emphasis on values considered cyclical and industrial profile.

As a result, ibex-35 dropped by -15.5% in the year, while Ibex Medium Cap, made up of Spanish mid-cap companies including Talgo, fell by -9.7%. National markets, however, performed worse than major European indexes, where the Euro Stoxx 50 fell by -5.1% in the year. Far from the negative behaviour of European markets were the US markets, where the indexes strongly recovered the falls recorded in the first few months with rises that hit all-time highs. In this way, the S&P 500 traded 16.3% higher in the year.

Talgo's shares recorded a negative performance, recording losses of 32.1% in the year. The stock reached a peak of 6.29 euros in February, prior to the outbreak of contagion in Spain of COVID-19, and a low of 3.0 euros in November, closing the financial year at 4.14 euros, without recovering the pre-COVID-19 price.

The evolution of the stock in the year has been mainly impacted by the shock caused by COVID-19. While the impact on the business has been particularly remarkable in rolling stock maintenance activity, the opening up of intercity mobility and consequent increase in demand for rail transport will bring back the volume and profitability to that business. However, the weight of the lack of visibility in the short term throughout the year and at the current juncture of COVID-19, has not allowed the stock to put in value the sustainability of its business in the long term, with a significant high quality order book and a solid balance sheet with surplus financial capacity that guarantees the correct performance of the business in the coming years even in adverse scenarios such as the current one.

Talgo's average daily trading volume for the year fell by -47.5% to 141,923 shares. The average volume of small and mid-cap companies was penalized relative to larger companies by the economic uncertainties, with capital fleeing to larger-cap companies with a defensive profile, as well as to other alternative assets.

The Company's market capitalization at year-end was 543 million euros. The price earnings ratio or P/E for the year was negative due to a negative net result for the year.

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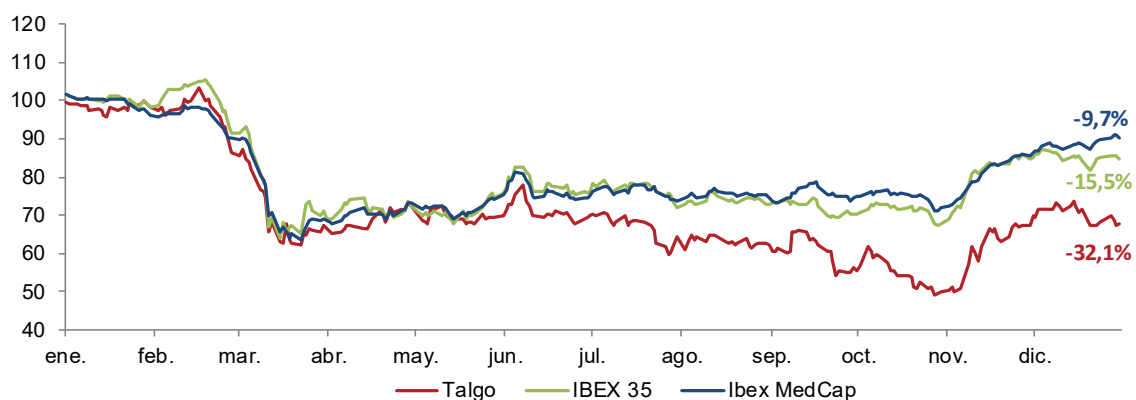
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Talgo stock performance for the period January-December 2020



Price evolution Talgo vs. Ibex 35 vs. Ibex MedCap in 2020



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Talگو key trading data at December 31, 2020	
Number of publicly traded shares	127.003.216
Average number of shares in 2020	131.243.564
Share price (€)	4,14
Market capitalization (€m)	542,7
Earnings per share (€) LTM	n.a.
PER ¹ over profit last 12 months (LTM)	n.a.

(1) Calculated over the average number of shares in 2020

Talگو key trading data in 2020	
% change in Share price for the year 2020	-32,1%
Number of trading days (days)	258
Maximum share price (€)	6,29
Minimum share price (€)	3,00
Weighted average share price (€)	4,32
Average daily volume (# shares)	141.923

Business development

The year 2020 was marked by the global spread of the COVID-19 virus, with the operational performance of the Group's business being affected by the measures adopted by the various governments of the countries in which it operates.

In 2020, the Group continued to execute the train construction contracts it had in its portfolio, most notably 36 high-speed trains of the Mecca-Medina route for the Saudi Arabia State Railway Company SRO, of which all the units, including the VIP train, have been shipped to Arabia. This project has already completed the testing and homologation phase, with only a few residual tests pending completion of the infrastructure work. At the same time, the completion of the tests has been simultaneous with the completion of commercial passenger services using 12 to 16 trains to run between Mecca and Medina.

Moreover, technical development and the first phases of construction have continued for the supply of the 15 high speed trains for UIC gauge tritension (with maximum speed at 330 km/h) plus 15 additional trains with variable-gauge running gear for RENFE, where Talگو has successfully marketed its new high-capacity AVRIL train model. The first train for UIC-gauge tracks of the series left the factory for commissioning and certification testing in the third quarter of the year.

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In 2020, the Group has also begun technical development works on the latest contracts awarded, such as:

- i) The first order for the supply of 23 trains under the framework contract with the German railways (Deutsche Bahn) for the manufacture of up to 100 self-propelled trains for a maximum speed of 230 km/h.
- ii) The contract for the supply of two new high-speed trains for the Uzbek State Railway Company (UTY) identical to those already in service in the country.
- iii) A contract for the supply of 6 trains with capacity for around 500 passengers for the Egyptian National Railways (ENR), which also includes the maintenance of the trains for a period of 8 years.
- iv) The contract for the supply and maintenance of an AVRIL-type test train for the Spanish railway infrastructure manager ADIF.

Despite 2020 being a year of drastic reduction of investments in railway infrastructure in the world, the Group has managed to expand its train order book a new contract with Danish operator DSB for the supply of 8 Talgo 230 type trains (from the same series as those of the Deutsche Bahn) as well as the supply for 16 years of park parts for maintenance. This award is part of a framework contract of up to 500 million euros, achieved after a competitive and open international tendering process. DSB has chosen the Talgo 230 platform for conventional and high-performance lines as the new train model for its fleet, based on its high-performance and with the aim of decarbonizing its transport system.

During the year, maintenance equipment activities contributed to the order book with various contracts, most notably the contracts signed for the sale of pit lathes and/or machine vision and DSR measuring equipment in Switzerland, Germany or Thailand, for clients such as VBZ, RailAdventure GmbH München JURA, A.C.E., among others.

In relation to the activity of remodelling railway material, work has continued on transforming 13 train-hotel compositions into compositions suitable for running at 330 km/h. Similarly, during the 2020 financial year, work has continued on improvements to RENFE's high-speed trains to increase seating capacity (high-capacity AVLO trains) or to install Wi-Fi.

Finally, it should be noted that the refurbishment of 74 railway units for the Los Angeles County Metropolitan Transportation Authority (LACMTA) continued in the United States, and the technical phase of the contract with the Southern California Regional Rail Authority (SCRRA) to execute a remodelling programme for the first 50 for up to 121 rail vehicles. In addition, in February, Patentes Talgo closed a contract for the refurbishment of 28 Series 6 cars owned by Talgo for KSL Systems Private Limited to operate them in India. This order reinforces Talgo's commitment to this new line of business of major maintenance and refurbishment operations, as well as extending the geographical scope of the Group's international portfolio to India, a strategic country for the railway in the coming decades.

With regard to train maintenance activity, in 2020 the Group continued to execute multi-year train maintenance contracts in the various countries where it is established, such as

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Spain (RENFE and ADIF), Kazakhstan (KTZ), Uzbekistan (UTY), the United States (Amtrak and Oregon State), Saudi Arabia (SRO) and Russia (RZD). As previously mentioned, in Saudi Arabia, the Group, through its Permanent Establishment, provides advanced commercial maintenance services on 12 to 16 of the high-speed trains on routes with passengers.

In some of these countries, especially in Arabia, given the increase in the fleet in operation, new staff have been incorporated and trained to carry out the necessary activities.

With regard to maintenance equipment activity, production of lathes and measuring equipment has continued during the year. In addition, as a complement to this production activity, the Group has continued with its maintenance work and the sale of spare parts for the equipment installed throughout the world.

The Group, continuing with its policy of innovation and diversification of its product portfolio, during this year 2020 and among other projects, has continued with the development and testing of optimization and improvement for the 2nd generation of the AVRIL high-speed train platform. At the same time, various transversal projects are being carried out in a wide range of areas such as interoperability, digitalization and industry 4.0, signalling, safety, passenger experience and accessibility, energy efficiency and sustainability, lightening of materials and mechatronic solutions, self-configuration, versatile installations for automated on-railway diagnostics, neural networks for the application of intelligence to large volumes of data and parameters, improvements in comfort, noise and vibration, standardization, additive manufacturing, joints of elements, new fuels in the traction chain as hydrogen and wheel-wear optimization.

COVID-19 Pandemic Impact

As indicated in note 3 and 33, the global expansion of COVID-19 has posed significant challenges to the business activities affecting the Group's various lines of business during the financial year 2020.

Due to the measures adopted to prevent the spread of the COVID-19 pandemic in Spain and in other countries around the world where the Group has a presence, the activity has been significantly affected during 2020. The impacts that the Group has had are specified in note 33.

Group strategy and objectives

To mitigate the effects of the pandemic on the Group's business, management and its Board of Directors introduced new strategies with the fundamental objective of securing the resources available to the Group to overcome the crisis period and preserve our ability to recover from it.

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The main strategies and objectives were:

- Protecting the health of the Group's employees: Implementing concrete measures to facilitate the safety distance, distribution of means of protection and information.
- Establish the necessary measures to maintain the employment of the workforce and, if this is not possible, where appropriate, use the mechanisms for temporary suspension of contracts permitted by current or extraordinary legislation in force at any given time.
- Create a Crisis Committee to take the right decisions and ensure correct internal and external communication.
- Establish coordination, cooperation and communication measures with our main stakeholders, especially with our customers and critical suppliers, in order to adapt to the current situation in a way that minimally affects our common activities.
- Establish communication mechanisms with the market to explain the measures implemented during and after the crisis.
- Protecting the Group's cash flow. Refinance debt and obtain new financing to deal with a possible cash deficit during the crisis and to be able to face the exit from the crisis (note 17)
- Training and raising managers' awareness to lead their teams during this new exceptional situation.
- Implementation of teleworking in a productive manner and greater flexibility that allows for its efficient application and future prospects, facilitating the reconciliation and balance of the personal and professional lives of workers.
- Policy of reducing fixed costs and delaying or cancelling, as far as possible, planned investments.

Specific actions taken arising from strategies

To prevent the spread of COVID-19, several measures have been adopted to prevent the spread of COVID-19 from the various Human Resources and Occupational Risk Prevention departments to limit the movement of people, strict risk prevention and healthcare protocols have been implemented for employees, such as the suspension of staff travels, the temporary closure of various work centres and the reorganization of shifts and workspaces, more flexible workday to promote a work-life balance and teleworking has been strongly promoted, which has led to additional investments in technology. Moreover, investments have been made in protective equipment and materials, diagnostic tests available to the entire workforce, and donations have been made to various entities to contribute to preventing the spread of the virus. Pro bono Talgo trains have been adapted for RENFE with medicalized configurations for the transport of patients.

The Group has established working committees and specific procedures aimed to monitor and manage all the time the evolution of its operations and improvement of its processes in order to minimize the impact of the pandemic on the Group's income statement. In that sense, the Group has extended its spending optimization policy to all its areas of activity, continuing to develop the mechanism for improvement and systematic and structured cost

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saving and operating investments, the implementation of which since mid-2020 is producing satisfactory results.

Significant events after the statement of financial position date

The subsequent events that may have a significant influence on these annual accounts are detailed in note 34.

Research and development activities

Continual commitment to innovation and sustainable development has earned Talgo international recognition as a highly competitive rolling stock manufacturer and enabled it to successfully participate in different railway tenders on a global scale. Today Talgo trains are seen traveling across Spain, Russia, Kazakhstan, Uzbekistan, Saudi Arabia and the USA among other countries.

Since the beginning of its activity, and even with more emphasis in the recent years Talgo bets for innovation as the main pillar on which present and mainly future of the Group is sustained. In addition, this principle is understood from a corporate point of view, not being focused only on product, but in generating and improving activities, which involve the whole innovation ecosystem which surrounds Talgo. In this way, we take advantage of the whole creative collective potential and generating an even more powerful innovative culture. In this way, innovation helps the Group to knit a system which permits overcoming future challenges, promotes technological surveillance and forecast activities, and generates an even more optimum environment for the evolutionary and disruptive thinking.

With this objective, we work with an Innovation Model based on the Corporate Innovation Strategy, which promotes a focus on continuous improvement by promoting new initiatives at a global level year after year. An example of this would be the "Corporate Venturing" area development whose fundamental task is the systematic search for companies and technologies that, in an agile way, can improve the Group's product portfolio. To this end, from the direction of innovation, a specialized team, supported by advisors with extensive experience in this field, works continuously with the aim of linking, through this mechanism, the aforementioned innovation strategy with the railway market, both present and future.

Also noteworthy are the Lessons learned, Open Innovation, Technology Transfer and Innovation Acceleration tools used in the Group, which are enabling an evolution towards a much deeper understanding of causes and consequences of each of the Group's critical activities, towards a broader concept of collaborative innovation, and towards a much more agile innovation model.

Talgo has continued its policy of investing in research and development activities that seek to continuously improve its products and maintenance services. Among others, it has collaborated with various partners at European level, including universities and prestigious technology centres, as well as some of the main railway industries. Some of the main collaborations of this type are part of the Shift2Rail programme, which in turn is part of the

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European Commission's "Horizon 2020" initiative, where Talgo plays a very important role in some of the key projects for traction, primary structure lightening, active systems for running gear, energy efficiency and noise and vibration improvement.

From the outset, Talgo has been and continues to be committed to the design and manufacture of tailor-made products, with the aim of meeting the specific needs of customers, offering customised solutions, which is favoured by the size, structure and values of the Group. This philosophy of work and permanent attention to the customer marks the difference between the Group and its competitors and is highly valued in commercial competitions.

In short, Talgo continues to look to the future, convinced of facing and overcoming new challenges. Only the continuous improvement of a railway system, seen from its most global perspective, will allow this dream, now in its seventieth year, to continue, which definitively links the Group to an innovative spirit that has been its, de facto, hallmark from the outset.

Information about delaying payments to suppliers

The Spanish Group companies are making an effort to progressively adjust their payment periods to adapt to the provisions of Law 15/2010, of 60 days, with an average payment period of 43 days during the financial year 2020.

In addition, the Group has broken down the information to be included in the notes to the annual accounts, in accordance with the provisions of the Resolution of 29 January 2016 of the Spanish Accounting and Audit Institute (Instituto de Contabilidad y Auditoría de Cuentas).

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 25, 2021.

Quality and the environment

The quality, the environment and the prevention of risks are fundamental elements in the Group business and culture. A sample of this, is the Environmental Certificate, under the norm UNE in ISO 14001 hold by the Design, Manufacturing and rolling stock Maintenance activities.

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

To that end, the Group is committed to delivering products and services in perfect conditions and not causing any environmental impact; meeting the applicable regulations

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and standards; establishing actions to eradicate the source of the identified problems as well as preventing them to occur again and promoting both a continuous training and the professional capacities of the personnel.

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

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

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

The breakdown of the expenses incurred by the Group to protect and improve the environment is disclosed in note 31. The costs relating to the prevention of risks form part of the costs of the projects.

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

Own Shares

The Parent company holds, at 2020 year-end, 4,083,222 treasury shares (note 14.d).

Use of financial instruments

The Group does not trade with relevant financial instruments which could eventually affect to the right valuation of the assets or liabilities recorded in the balance sheet.

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Non-financial information

Pursuant to article 49 of the Commercial code, non-financial information is presented in this Director's report. This non-financial information forms an integral part of the Director's report and has been submitted to the same criteria approval, file and publication as the Director's report.

1. Business model and Risk policy

The information relating to the Group's business model is given in the first section of the Consolidated Management Report.

In relation to the risk policy, the Group is exposed to different risks inherent in the various countries in which it operates that may prevent it from achieving its objectives. For this reason, Talgo has implemented a risk management model, approved and monitored by the Audit Committee, which is applicable to all subsidiaries and permanent establishments in all countries where it operates and which ensures that the main risks are identified, assessed and prioritized and, on the other hand, establishes the basic mechanisms and principles for achieving a level of risk that allows: (i) sustainable growth of the business, (ii) protecting the Group's reputation and promoting good Corporate Governance practices and (iii) delivering a product and providing a quality service in all the geographical areas in which Talgo trains and auxiliary machines operate.

The Directors consider that the Group's main risks are those usual in the activities in which it operates, inherent in the industry itself and the current macroeconomic environment. The Group actively manages these risks and considers that the controls designed and implemented in this regard are effective in mitigating their impact, should they materialize.

The main objective of financial risk management is to ensure the availability of funds to meet commitments to third parties. This management is based on the identification of risks, analysis of tolerance and coverage of these risks to mitigate them.

Talgo's risk management model aims to ensure the achievement of the Group's main objectives, the main risks that may affect the achievement of these objectives and the corresponding control measures being the following:

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Risk type	Main risks	Control measures
Environment and regulatory risk	Country risk. Regulatory and socio-political changes. Entry of new competitors. Catastrophic risks. Pandemic Risk.	Selective internationalization and growth policy. Strategy and business development committees. Coordination to ensure appropriate compliance with existing local legislation and the anticipation of regulatory changes. Insurance cover. Health and Safety Committees.
Financial risks	Liquidity risk Exchange rate risk Cash flow interest rate risk	Access to several sources of financing Hedging of interest rate and exchange rate risk.
Financial information, fraud and compliance risk	Integrity and security of financial information and operations. Risk of information security, corruption and misappropriation. Tax risk. Compliance of the internal and contractual legal regulations with the Public Administration.	System of Internal Control over Financial Information (SCIIF). Compliance model implemented in the Group. Cybersecurity. External tax and financial advice from first-rate entities Cybersecurity Committee
Industrial risks	Safety of clients and employees. Risks of adaptation and rapid response to technological changes in systems and to the emergence of new technologies. Risks of project control. Risks of training and retention of talent. Dependency on suppliers. Environmental risks.	Specific policies, procedures, plans and control systems for each environment. Monitoring and control of projects (Project and Program Committees) Training programs and key staff retention. Supplier diversification. Environmental management systems. Insurance coverages.

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2. Relevant non-financial aspects for Talgo

In a dynamic and highly competitive business environment, as is currently the case in the rail sector, it is essential to identify, analyse and assess the relevant aspects for the development of the business.

Talgo has analysed a set of aspects that have or could potentially have an economic, environmental and social impact on the Group's activity or on its stakeholders. Material aspects have been considered those that, after such analysis, have finally been determined to be the most relevant and, therefore, should be included.

To develop this process, Talgo has developed a materiality analysis in Corporate Social Responsibility (CSR) guided by the indications established by the Global Reporting Initiative (GRI) standard, which has consisted of the following stages:

1. Identification

The aspects that have an impact on Talgo were determined, both at the level of products and services, as well as in its relations with third parties and in the activities.

Talgo has considered different sources of information:

- ✓ The most relevant international standards in CSR (GRI).
- ✓ The context of the railway sector.
- ✓ The most important competitors of Talgo.
- ✓ The perception of the most relevant areas of Talgo in this regard.

2. Prioritization and evaluation

It has made it possible to assess the importance of the relevant aspects previously identified in order to define which are material (depending on their economic, social and environmental importance and their influence on the decisions and valuations of the stakeholders).

3. Review

This is carried out on an annual basis.

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Finally, in 2020, 15 material aspects encompassed in 5 categories have been maintained:

Business Model and Innovation	Innovation
	Quality and product safety
	Customer Satisfaction
	Supply chain management
Corporate Governance	Regulatory compliance
	Risk management
	Fraud prevention and anti- corruption measures
	Business Ethics
Human Capital	Employee health and safety
	Employee development and talent management
Environment	Environmental footprint in operations
	Environmental footprint of products and solutions
	Waste management
Social value	Community Relations
	Economic and Social Development

For all this aspects Talgo has policies, management framework and measurement indicators.

3. Information on environmental matters

3.1. Talgo Policy

The Group's general policy on environmental matters aims to maintain respect for the environment in the development of current and future projects, promoting continuous improvement and mitigation of risks.

The Group has authorized waste managers who carry out the management of hazardous and non-hazardous waste that is generated, accredited laboratories that implement the control of atmospheric emissions and wastewater, as well as collaborators, technical and legal advisors that serve as guidelines when it comes to safeguarding the environment.

In addition to complying with legislation and applicable regulations, Talgo has also established a set of environmental indicators that is monitored on a regular basis, the details of which are attached in section 3.3 below.

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Talgo carries out internal and external audits that provide compliance of its environmental management system, complying with ISO 14001 requirements, as well as the organization's own internal requirements.

Environmental certifications

Talgo's environmental management system has been certified since 2003 according to the UNE-EN ISO 14001 standard, whose scope covers the facilities located in Las Matas II, Rivabellosa, Fuencarral, Málaga, Can Tunis, Santa Catalina and Moscow for activities involving the design, manufacture and maintenance of railway material. As a way of encouraging and promoting continuous improvement, Talgo had its certificates renewed in 2020 under the UNE-EN ISO 14001: 2015 standard.

Resources for environmental protection

Talgo has human resources dedicated to the environment in all its work sites.

All Talgo work sites have part of their budget allocated to environmental policy in areas such as:

- ✓ Waste and recycling management
- ✓ Updating environmental legislation.
- ✓ Performance of External Audits
- ✓ Maintenance of the treatment plants.
- ✓ Drinking water analysis.
- ✓ Improvement of processes that have an environmental impact.
- ✓ Training and awareness of the agents involved.

Commitments or challenges

The commitment of Talgo is to minimize the impact that is generated on the environment and going in many cases beyond what the regulations require. To this end, environmental factors are taken into account throughout the entire production process, from the design of the different products we offer to the end of the manufacturing chain, supply, assembly, commissioning, maintenance and end of their useful life.

Talgo has a Strategic Sustainability Plan with 4 fundamental vectors of action:

- 1.- Strengthening of the environmental strategy and transparency.
- 2.- Transition towards a carbon-neutral economy. Fight against climate change.
- 3.- Minimization of impacts through sustainable operations in production centres.
- 4.- Offer railway products, services and solutions for the transition towards a sustainable economy: recyclability and recoverability and environmental label type III (EPD).

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Additionally, following the principle of respect for the environment and reduction of greenhouse gas (GHG) emissions, good practices are carried out in different day-to-day activities, in facilities and office buildings

3.2. Identified risks

In addition to what is detailed above, Talgo carries out a Strengths, Weaknesses, Opportunities and Threats analysis (SWOT), as a result of which, the risks are identified and assessed and an action and follow-up plan is drawn up as determined by each risk assessment. The risk assessment procedure consists of the assignment of probability and impact, on which a decision will be made regarding the risk.

Some of the risks that have been detected at the corporate level and that are common to the work sites are:

- ✓ Possible accidental spills in storage areas or transport.
- ✓ Possible changes in the legislation that have a direct effect.
- ✓ Negative influence of nearby factories.

Talgo has an environmental liability insurance to comply with Act 27/2003, of October 23, on Environmental Responsibility by which the operators of the economic or professional activities covered by this law are required to adopt and execute the measures of prevention, avoidance and repair of environmental damage and to defray its cost, whatever its amount, when they are responsible for it. The coverage of this insurance is considered sufficient taking into account the diagnosis of risks and controls to mitigate the same that the Group has implemented. In addition, there is civil liability insurance for environmental damage.

At the close of fiscal years 2020, the Group does not have provisions and/or guarantees for environmental risks, as indicated in note 31 of the accompanying consolidated annual accounts report, since no risks associated with this area have materialized.

3.3. Main indicators of management and performance

3.3.1. Climate change

Talgo is aware of the global warming and in order to know the source and magnitude of our emissions, efforts are being made to reduce our greenhouse gas emissions, calculating our carbon footprint with scope 1, 2 and 3 setting emission reduction targets for specific sites.

Various measures have been taken to reduce air pollution and lessen the impact on the environment, such as minimizing paint in aerosol form, among others, and substituting products with a lower percentage of Volatile Organic Compounds.

Talgo has carried out and continues carrying out different awareness campaigns in this

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aspect both internally and externally, extending this commitment to all those interested in contracting with us, these being essential requirements for the performance of work and contracting with third parties. Among the measures adopted, it is worth mentioning, for example, the procedures for waste segregation, soil contamination and spill prevention, among others.

The main indicators monitored by the Group in 2020 are the following:

Indicator	Aim of measurement	Measurement
Direct GHG emissions (scope 1) derived from fuel consumption (natural gas and diesel) (*).	Monitor and measure direct GHG emissions derived from fuel consumption.	1,827.95 Ton CO ₂ eq
Indirect GHG emissions when generating energy derived from electricity consumption (scope 2) (*).	Monitor and measure direct GHG emissions derived from electricity consumption.	0 Ton CO ₂ eq
Indirect GHG emissions (scope 3) (**).	Monitor and measure GHG emissions from the movement of workers from home to work	2,610.43 t CO ₂ eq
GHG Emissions intensity	Monitor and measure direct GHG emissions from Scope 1 and 2 relative to the number of employees at closing.	1,33 t CO ₂ eq/employee
Electric power consumed (*).	Measure the continuous improvement of the Environmental Management System by controlling the amount of electricity consumed.	9,926 thousand Kwh
Fuel (automotive diesel) (*).	Measure the continuous improvement of the Environmental Management System through the control of diesel consumption.	17,115.10 litres
Fuel (gas oil used for boilers) (*).	Measure the continuous improvement of the Environmental Management System through the control of diesel consumption.	209,021 litres
Natural Gas consumed based on lower calorific value (PCI) (*).	Measure the continuous improvement of the Environmental Management System through the control of natural gas consumption.	6,995 thousand kwh
Water consumed (*)	Measure the continuous improvement of the Environmental Management System through the water consumption.	23,103.00 m ³
Index of environmental accidents.	Control the number of accidents that take place during the year with the intervention of emergency services.	0
Corrective and Preventive Action.	Determine the percentage of corrective and preventive actions implemented.	100%

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Costs derived from the management of expired products.	Quantify the expense incurred for the management of expired products.	93,374.73 €
Deviations in internal and external audits closed after the deadline.	Quantify the continuous improvement of the system through this control.	0
Hazardous waste generated.	Improve the amount of hazardous waste generated in the year.	211,54 ton
Non-hazardous waste generated.	Measure the amount of non-hazardous waste generated in the year.	2,293.69 ton
Consumption of solvents and paints.	Measure the amount of volatile organic compounds consumed in the year.	42,577.46 kg
Energy intensity (*).	Measure the continuous improvement of the Environmental Management System by controlling the electrical energy consumed in relation to the number of workers.	14,158 KWh/employee

(*) Data calculated for the following Talgo Spain work sites: Las Matas I, Las Matas II, Rivabellosa and San Andrés. The rest of the information included in this table refers to all Talgo Spain work sites.

(**) Data calculated for all Talgo Spain sites. These data have been calculated on the basis of a survey on employee travel, extrapolating the results, thus obtaining the emissions associated with these trips for the entire workforce in Spain. The methodology of the GHG Protocol "Corporate Value Chain (Scope 3) Accounting and Reporting Standard" has been followed in its 2019 revision. The emission factors are taken from Spanish emissions data from the 2006 IPCC Guidelines for National Greenhouse Gas Inventories, in their latest revision.

For the calculation of emissions, the tool provided by the Ministry for Ecological Transition (Government of Spain) was used. "Organizational Carbon Footprint Calculator. Scope 1 +2. Version 2020".

The emissions derived from the consumption of electricity are 0 for the sites Las Matas I, Las Matas II, Rivabellosa and San Andrés since the energy consumed came exclusively from 100% renewable energy sources according to the certificate issued by the corresponding utility company.

Reduction in energy consumption

During 2020, various actions were carried out in order to optimize the Group's energy consumption, including the gradual replacement of luminaires and changes in lighting systems in the different factories

While during 2020 energy consumption has increased in absolute terms, taking into account the workloads of the centres, variation in the number of workers and hours of direct and indirect labour, energy consumption in relative terms has decreased.

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Reduction of the energy requirements of products and services

Talgo maintains the Eco-design working group to obtain a type III EPD (Environmental Product Declaration) label, derived from the life cycle analysis of a train, and with the aim of, optimizing the energy consumption, recyclability and recoverability of the products we offer.

In 2020, the study of recyclability and recoverability values of the high-speed project was carried out with highly satisfactory results and which demonstrate the commitment to the market of environmentally friendly materials considering the entire life cycle. The results have been a value of 96.8% recoverability and 94.2% recyclability.

Energy efficiency

Talgo has carried out various actions to contribute to a greater degree of energy efficiency, among which the following stand out:

- ✓ Replacement of luminaires with better energy performance.
- ✓ 100% of the energy supply comes from renewable energies.
- ✓ Energy monitoring and automation.
- ✓ Rationalisation of the use of work equipment.

3.3.2. Consumption and resource management

Talgo is committed to the reduction in the consumption of waste from the first stages of the design and conception of the products and services offered to customers, with the following order of priorities:

1. Reduce (minimize the weight of the piece, use whenever possible, recycled or natural materials).
2. Reuse (identify alternatives for reusing a piece, reuse of packaging materials such as wood or cardboard boxes for new shipments of materials).
3. Recycling (raw materials at source allow virgin material to be manufactured again, recycled material with the same properties or inferior to virgin material, recycled materials for secondary applications with respect to the source material, energy recovery or recycling).

Likewise, during manufacturing, awareness-raising measures are carried out with employees regarding waste segregation and waste management.

Talgo prohibits working with products and chemical substances that are not permitted under the Reach, Rohs and other European directives in force. No polluting materials that are considered hazardous to health and the environment are used in the manufacture of trains. Water-based cleaners are used in the manufacturing and maintenance activity, avoiding solvent-based cleaners, as well as detergents free of boron salts. In relation to fluorinated gases, the refrigerant gas in refrigerators has been replaced by a gas with a

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lower global warming potential.

All waste is collected by authorised waste managers. Based on an analysis of the destinations, considering their nature and quantity generated in 2020, around 83% of non-hazardous waste is destined for recovery and around 17% for disposal.

No hazardous waste goes directly to the landfill, all are collected by authorized managers. Based on an analysis of the waste, considering its nature, from the centres in Spain of Las Matas II and Rivabellosa, around 70% of the hazardous waste is destined for recovery (recycling, recovery, etc.) and around 30% for disposal.

See section 3.3.1. above for the quantitative indicators related to hazardous materials and waste.

4. Information on social and personnel issues

4.1. Talgo Policy

Through its human resource management model, Talgo promotes staff loyalty, generating stable, long-term relationships based on trust, commitment, involvement and know-how of all the professionals who make up the Group.

Within the framework of the Active Employment Policies, Talgo is clearly committed to employment stability as a means of improving the productivity of professionals, being an essential mechanism to increase their motivation and satisfaction. Proof of this commitment is that, during 2020, the rate of indefinite-term contracts reached 93.98% of the Group's total workforce.

It also has human resources policies and internal practices that ensure equal opportunities and non-discrimination of any kind both in access to the various positions offered and once the candidate becomes part of the organization, guaranteeing equality and non-discrimination in terms of remuneration, access to training, positions of responsibility and promotions among all employees.

Talgo, committed to active employment policies, includes in its business practices programs and initiatives aimed at improving the employability of young people, among others. To this end, it has been collaborating for years with universities and professional training centres that allow young people in the final years of their studies to do professional practices at our workplaces. These internships undoubtedly contribute to obtaining the corresponding academic or professional title. In 2020, 6 new collaboration agreements were signed with educational centres or institutions, in addition to the agreements signed in previous years.

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4.2. Main indicators of management and performance

4.2.1. Employment

The number of Talgo Group employees at the close of the 2020 and 2019 financial years is detailed in note 21 of this annual report.

The detailed data in the following sub-sections are data obtained from the Group's records.

4.2.1.1. Employees by contract type

The staff breakdown as of December 31, 2020 by gender, age and professional category is as follows:

Professional category	Female	Male	Total
Senior Management	3	11	14
Between 30 and 50	2	3	5
Under age of 50	1	8	9
Management	4	40	44
Between 30 and 50	1	15	16
Under age of 50	4	40	44
Middle management	50	302	352
Under age of 30	3	15	18
Between 30 and 50	43	217	260
Over age of 50	4	70	74
Technicians, administrative and others	306	1 952	2 258
Under age of 30	59	408	467
Between 30 and 50	215	1 299	1 514
Over age 50	32	245	277
Total	363	2 305	2 668

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The staff breakdown as of December 31, 2020 by gender, age and professional category is as follows:

Professional category	Open-ended	Remainder	Total	Percentage Open-ended	Percentage remainder
Senior Management	14	-	14	100%	0%
Female	3	-	3	100%	0%
Male	11	-	11	100%	0%
Management	43	1	44	98%	2%
Female	3	1	4	75%	25%
Male	40	-	40	100%	0%
Middle management	338	14	352	96%	4%
Female	46	4	50	92%	8%
Male	292	10	302	97%	3%
Technicians, administrative and others	2 117	141	2 258	94%	6%
Female	293	13	306	96%	4%
Male	1 824	128	1 952	93%	7%
Total	2 512	156	2 668	94%	6%

The breakdown of the workforce at 31 December 2020 between full-time and part-time contracts by gender, age and professional classification is as follows:

Professional category	Full-time	Part-time	Total	Percentage Full-time	Percentage Part-time
Senior Management	14	-	14	100%	-
Female	3	-	3	100%	-
Male	11	-	11	100%	-
Management	44	-	44	100%	-
Female	4	-	4	100%	-
Male	40	-	40	100%	-
Middle management	352	-	352	100%	-
Female	50	-	50	100%	-
Male	302	-	302	100%	-
Technicians, administrative and others	2 249	9	2 258	99%	1%
Female	302	4	306	99%	1%
Male	1 947	5	1 952	99%	1%
Total	2 659	9	2 668	99%	1%

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The annual average of open-ended contracts and others as of December 31, 2020, broken down by gender, age and professional category, excluding employees with reduced hours, is as follows:

Professional category	Open-ended	Remainder	Total
SENIOR MANAGEMENT	14	-	14
Female	3	-	3
Between 30 and 50	2	-	2
Over age of 50	1	-	1
Male	11	-	11
Between 30 and 50	4	-	4
Over age of 50	7	-	7
MANAGEMENT	42	1	43
Female	3	1	4
Between 30 and 50	2	1	3
Over age of 50	1	-	1
Male	39	-	39
Between 30 and 50	24	-	24
Over age of 50	15	-	15
MIDDLE MANAGEMENT	333	9	342
Female	42	3	45
Under age of 30	1	-	1
Between 30 and 50	37	3	40
Over age of 50	4	-	4
Male	291	6	297
Under age of 30	14	1	15
Between 30 and 50	210	4	214
Over age of 50	67	1	68
TECHNICIANS, ADMINISTRATIVE AND OTHERS	2 082	151	2 233
Female	281	14	295
Under age of 30	53	6	59
Between 30 and 50	197	8	205
Over age of 50	31	-	31
Male	1 801	137	1 938
Under age of 30	348	90	438
Between 30 and 50	1 225	44	1 269
Over age of 50	228	3	231
TOTAL	2 471	161	2 632

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4.2.1.2. Employees by type of working hours

The annual average of full-time and part-time contracts at the close of the 2020 financial year, broken down by gender, age and professional category, excluding employees with reduced hours, is as follows:

Professional category	Full-time	Part-time	Total
SENIOR MANAGEMENT	14	-	14
Female	3	-	3
Between 30 and 50	2	-	2
Over age of 50	1	-	1
Male	11	-	11
Between 30 and 50	4	-	4
Over age of 50	7	-	7
MANAGEMENT	43	-	43
Female	4	-	4
Between 30 and 50	3	-	3
Over age of 50	1	-	1
Male	39	-	39
Between 30 and 50	24	-	24
Over age 50	15	-	15
MIDDLE MANAGEMENT	342	-	342
Female	46	-	46
Under age of 30	1	-	1
Between 30 and 50	41	-	41
Over age of 50	4	-	4
Male	296	-	296
Underage of 30	15	-	15
Between 30 and 50	214	-	214
Over age of 50	67	-	67
TECHNICIANS, ADMINISTRATIVE AND OTHERS	2 225	8	2 233
Female	291	3	294
Under age of 30	58	-	58
Between 30 and 50	203	2	205
Over age of 50	30	1	31
Male	1 934	5	1 939
Under age of 30	439	-	439
Between 30 and 50	1 268	1	1 269
Over age of 50	227	4	231
TOTAL	2 624	8	2 632

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An employment contract will be understood as part-time when the services are provided in a number of days per month or per year, which is less than the number of days envisaged. A reduction in working hours is not considered a part-time contract. The contract is considered to be full-time when the services are provided during the working hours set out in the Talgo collective agreement.

4.2.1.3. Dismissals

Disciplinary dismissals during the financial year 2020, broken down by gender, age and professional category, are as follows:

Professional category	Total
MIDDLE MANAGEMENT	2
Male	2
Over age of 50	2
TECHNICIANS, ADMINISTRATIVE AND OTHERS	43
Female	5
Under age of 30	2
Between 30 and 50	2
Over age of 50	1
Male	38
Under age of 30	9
Between 30 and 50	23
Over age of 50	6
TOTAL	45

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4.2.1.4. Average wages

The breakdown of the amount of the average wages (fixed, variable and salary supplements plus social benefits) for the year 2020 according to the payment criterion, broken down by gender, age and professional category, is as follows:

Professional category.	Fixed average wages without seniority
MANAGEMENT	93 987
Female	90 375
Between 30 and 50	72 927
Over age of 50	142 722
Male	94 356
Between 30 and 50	104 170
Over age of 50	94 356
MIDDLE MANAGEMENT	44 223
Female	45 017
Under age of 30	43 671
Between 30 and 50	45 176
Over age of 50	43 889
Male	44 101
Under age of 30	18 939
Between 30 and 50	43 828
Over age of 50	50 240
TECHNICIANS, ADMINISTRATIVE AND OTHERS	27 520
Female	31 341
Under age of 30	25 589
Between 30 and 50	32 905
Over age of 50	31 766
Male	26 948
Under age of 30	19 306
Between 30 and 50	28 390
Over age of 50	33 127
TOTAL	30 759

Remuneration has been calculated excluding Senior Management and the Board of Directors.

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The remuneration of the Directors is detailed in note 20 and in the Annual Report on the Remuneration of Directors 2020. The average remuneration of women in senior management accrued in 2020 amounted to €127 thousand, while that of men in the same group was €140 thousand. These amounts, like the other average remunerations provided in this report, include both fixed remuneration without seniority and variable remuneration.

Talgo offers an attractive and competitive remuneration package that provides well-being to its employees. This package is known by all professionals and has been designed under criteria of transparency, clarity and simplicity that allow easy understanding of it. The package consists of a fixed remuneration, salary supplements, and a series of social benefits, in accordance with the compensation practices of the countries where Talgo is established.

Fixed remuneration recognizes the knowledge, experience, understanding of the environment, responsibility for people, the degree of autonomy in decisions, the variety and difficulty of the problems faced by the occupants of the job, as well as the impact and customer service it requires, ensuring conditions of equality and non-discrimination for those who occupy it.

Salary supplements, which are not always consolidable, are those fixed according to circumstances relating to the employee's personal conditions, the work performed or the Group's situation and results.

Our compensation system allows us to maximize the performance of our professionals, ensuring both internal equity and external competitiveness.

Among the social benefits that the Group offers its employees, adapted to market practices in each of the countries include, among others, a private medical insurance policy, a defined contribution Occupational Pension Plan and a group life insurance policy with coverage for death, absolute permanent disability and total permanent disability declared by administrative resolution of the corresponding body, depending on the compensation practices in the countries where Talgo is established.

To optimize the remuneration of employees, Talgo Spain offers, by agreement with the worker, and upon request, the option to replace part of his fixed remuneration, with products or services, in accordance with the provisions of the legislation, and all within the limits in force at any given time for the collection of wages in kind.

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4.2.1.5. Wage gap

The Talgo Group's salary gap at the end of 2020, calculated as the difference between the hourly earnings of men and women employees, as a percentage of men's hourly earnings, amounts to -13.88%, meaning that on average women earn more than men of around 13.88%. Talgo is committed to equality and non-discrimination. The above data is explained by the combination of the following factors; a female population that is concentrated in higher-skilled, higher-cost hourly positions along with a lower number of women due to the industrial component of the sector in which the Group operates.

The calculation is based on the definition of the salary gap provided by the Spanish National Statistics Institute (INE), considering total remunerations (fixed plus salary supplements and social benefit) per hour for men and women in the categories of management (not including senior management and the Board of Directors), middle management, technical, administrative and others.

4.2.1.6. Implementation of measures to disconnect from work

Talgo is aware of the benefits provided to society by reconciling the work, personal and family life of its employees. The implementation of measures that allow conciliation fosters, without a doubt, people's vital and overall development.

Talgo allows for flexibility in forms of work organization, being well aware that people are more productive when they have their personal and family needs covered.

One of the measures that foster the conciliation of staff is that for manufacturing and maintenance activities, the workdays are continuous. For people who, due to their activity, work a split shift, Talgo offers a subsidized catering service. In workplaces where there is no catering service, a benefit equivalent to the amount of the aforementioned subsidy is established.

Talgo employees know exactly the length of their working hours, their work schedule, and the time they have to dedicate to the company, as well as their daily, weekly or monthly breaks.

The Group Management respects the rest and vacation time of all employees, as well as their personal and family privacy outside working time. Only by guaranteeing an improvement of the psychological and social well-being of workers can we offer a work model in which people are more productive, creative and more committed to their work.

During the 2020 financial year, Talgo has implemented a voluntary teleworking measure for those people who are able to work remotely, as a result of the state of alarm decreed and in order to minimise the impact of COVID-19. Talgo also offers employees the possibility of adapting their working hours to reconcile their personal lives, given the extraordinary

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situation resulting from the pandemic.

4.2.1.7. Disabled employees

At the end of the 2020 financial year, the Group had a staff of 23 people with disabilities exceeding 33%, of whom 9 are women and 14 are men, these people are represented in all categories of our staff.

Talgo Spain assumes the obligation to comply with the provisions of Law 51/2003, of December 2, 2003, on equal Opportunities, non-discrimination and universal accessibility for people with disabilities (LIOUNDAU), which establishes that at least 2% of staff with disabilities greater than or equal to 33% must be hired.

As Talgo Spain does not cover the number of employees with special abilities, it requests a certificate of exceptionality from the Ministry of Labour, and Social Security allowing the company to implement "Alternative Measures" that contribute to the development of activities of insertion and reinsertion into the labour market for groups of people with disabilities.

In this sense, in 2007 Talgo Spain signed a collaboration agreement with the Adecco Foundation for the implementation of these alternative measures. Within the framework of the collaboration agreement established between the two, Talgo is committed to the development of orientation and labour reinsertion projects aimed at the most disadvantaged groups of people, especially those with special abilities.

In addition, since 2007 Talgo Spain has had a Family Plan, a program for the advice, guidance and development of skills and abilities of family members of employees up to the age of 65 with a disability.

Within this agreement, since 2007 Talgo Spain is developed, a program for the advice, guidance and development of skills and capacities of relatives of employees up to 65 years of age who have a disability called Plan Familia This Plan served 22 people during 2020, all of them relatives of employees of Talgo Spain with some disabilities. These people have been able to benefit from therapies with psychologists, speech therapists, physical therapists and other health professionals who have allowed improving their skills and, in some cases, promoting their employability.

Section 7 below details various additional activities with which the Talgo Foundation collaborates in the area of integration and assistance for the disabled.

4.2.2. Work organisation

The Talgo Group's working conditions are set out in the Collective Bargaining Agreement or similar collective agreements in each country. The distribution of the working day, in

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general terms, is carried out in the monthly charts and in the annual calendars in each work centre.

An average of paid annual leave is established in all countries where Talgo is established, of 27 calendar days, with the distribution of the holiday period being set in an annual calendar, depending on the hours of annual working hours and the number of hours of daily work.

Holidays are established in an annual calendar with the distribution of the holiday period, according to the hours of the annual working day and the number of daily working hours.

The holiday period is established and known by all employees.

In maintenance centres, four shifts are established for holidays, without prejudice to the fact that, in certain departments or work centres, an extension of the number of shifts may be agreed with the works council of the centre concerned.

Talgo Spain's absenteeism rate, considering illness, accident and COVID casualties during 2020, was 2.91%.

To calculate the rate, the number of hours lost due to absenteeism (illness, accident and COVID casualties) has been divided by the number of working hours.

As part of the measures designed to make it easier for both parents to reconcile work and family life, 147 employees took parental leave in 2020.

4.2.3. Health and Safety

Talgo establishes as one of its basic pillars within its activity, the integration of Occupational Risk Prevention at all levels of the organization, expressing the firm commitment to provide the necessary resources to achieve the priority objective of zero accidents.

"The priority is to prevent". The prevention of risks and the safety of our workers are an unquestionable priority and commitment for the Group.

At Talgo, prevention is organized under the modality of our own prevention service, assigning prevention technicians to all work centres. These technicians are integrated into the day-to-day running of the activity, providing the necessary advice and support to ensure that tasks are carried out safely, as they consider this to be the best way to achieve the integration of prevention into all activities and areas of the company.

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The prevention service has adopted the four preventive specialities: safety, industrial hygiene, ergonomics, psychosociology and health surveillance. However, this last speciality is outsourced to maintenance centres located outside the Community of Madrid (Malaga, Barcelona, Valladolid and La Sagra).

In addition, the company's own centres in Las Matas and Rivabellosa have their own medical service. Occasionally, actions are carried out with external prevention services such as, for example, carrying out hygiene studies, risk prevention awareness talks, etc.

Throughout the 2020 financial year and due to the health crisis, the Group's prevention service has redoubled its efforts to ensure the health and safety of its employees in the event of exposure to the SARS-COV2 coronavirus. Among the measures adopted, we can highlight the following:

- Establishment of organisational measures in the workplace, such as canteen shift regulations, reinforcement of cleaning staff, social distance protocols, capacity limits, among others.
- Promotion of teleworking among office staff.
- Fitting out offices by placing partitions in workplaces, limiting capacity in offices and meeting rooms, limiting face-to-face meetings, among others.
- Carrying out a specific assessment of the risk of exposure to the virus.
- Creation of specific training in COVID given both in person and online.
- Carrying out surveys for workers to determine the existing conditions for teleworking.
- Creation and continuous updating of information sheets on the guidelines to be followed.
- Management of specific protective equipment related to COVID-19.

It should be noted that in 2020 the existing resources have continued to be strengthened, a strategy that is expected to continue in 2021.

Talgo has a Prevention Plan, signed by the Managing Director, which contemplates the functions and responsibilities, from a preventive point of view, of all levels of the company, from the President to all levels of the organization. This document also details the functions of the existing consultation and participation bodies, such as the Health and Safety Committee and the Prevention Delegates.

As for the Health and Safety Committees, they are constituted in all the centres, being bodies of equal composition, that is to say, with the same number of members on the part of the company as the workers' representatives. These Committees hold regular meetings every 3 months, being the forum for the representation and participation of the workers.

As a result of the commitment of Senior Management to Prevention, these two activities, among others, are carried out on a monthly basis:

- Prevention Committee meeting with the participation of the Operations Director and the

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Directors of the Industrial Area, Maintenance and HR, to review the most important points of the ORP system and its integration in the centres.

- Accident monitoring meeting with the participation of the Directors of all the Centres where the most relevant accidents are reviewed.

The preventive activity begins with the preparation of the corresponding risk assessments of each of the posts, as well as of the work centres themselves. Different types of inspections are also carried out, depending on the centre, on a weekly or quarterly basis, with the aim of detecting any deficiencies that may exist on a preventive level.

During 2020, the process of integrating the different activities that make up the occupational risk prevention service has been consolidated, with the use of the computer platform for integrated prevention management (6 Conecta), which has enabled:

- Integrating risk assessments into a single tool, which facilitates their preparation by technicians, as well as their consultation by workers.
- Facilitate the management of action and monitoring plans to reduce existing risks in the centres.
- Improve the validation times of the documentation when carrying out the coordination of business activities, as it does not have to be carried out by the ORP technicians.

In 2021, the development of this IT platform will continue, including the development of the accident investigation module, with the aim of improving the analysis process, which will result in the objective of reducing the accident rate in the Group.

Talgo has a system for reporting deficiencies, suggestions or improvements via the intranet, from a preventive point of view. These communications go directly to the Head of the Prevention Service and are subsequently dealt with at the level of each centre. During 2020, a total of 120 communications have been received, the subsequent management of which results in improved working conditions.

In order to manage the deficiencies and improvements detected through the above mechanisms, a preventive planning is established; this planning is specific to each work centre and consists of a list of the deficiencies detected, in which the Director of the centre must set the measures to be implemented to eliminate them, the person responsible for executing these measures, the period in which they must be resolved, and the economic amount (if necessary) that is allocated for this purpose, is reviewed fortnightly by the Centre Managers.

As for the people, within the welcome plan, it is established that on the day of their incorporation, they will receive from their team leader or direct supervisor, the documentation and information on the risk assessment, as well as the emergency measures of the centre. A prevention training plan is also defined, appropriate to the activities or equipment to be used.

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Safety instructions are also drawn up for the performance of work with special risks, such as work at height, with electrical risk, and manoeuvring, among others.

There is also a list of the PPE (personal protective equipment) required for the various activities, depending on the risks, which is available to all personnel in Talgo's internal network.

During 2020, the use of PPE vending machines has been extended to all centres in Spain, both manufacturing and maintenance. These machines improve the management of personal protective equipment, allowing:

- Increase efficiency in the process of requesting and delivering equipment.
- Ensure the traceability of equipment delivery to each worker.
- No accumulation of stocks in warehouses.

In accordance with the Prevention Plan, it is the responsibility of the direct managers to provide, communicate and inform the workers in their charge, of the existing prevention documentation, as well as of all those modifications that may occur in it.

On the Intranet, different preventive documentation is available from the centres, such as risk assessments, emergency measures, and, for example, that of the Renfe centres where work is carried out.

Immediate communication is also made of any incident that occurs at a centre, so that the rest are aware of what has happened, so that, if necessary, measures are taken to prevent the problem from recurring due to similar circumstances.

For the treatment of chemical products, it has been established that both the Environment and the Prevention departments must review the safety data sheets of the products to give their prior conformity.

With regard to accidents at work, the frequency and severity rates in Talgo Spain are indicated below. In 2020 there were no accidents involving women. The average percentage of women in the workforce for the year was 13.06%.

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Work accident rate - Talgo Spain	2020	
	Male	Female
Frequency rate (*)	6.66	-
Severity rate (**)	0.17	-

(*) The frequency rate is calculated by dividing the number of accidents with sick leave by hours worked and by one million. Excluding in-itinere accidents.

(**) Severity rate is calculated by dividing the number of days lost due to accidents with leave by the hours worked and by one million. Excluding in-itinere accidents

No cases of occupational diseases have been reported in 2020.

In 2019, through the company Preven Plus, an audit of the Occupational Risk Prevention management system was carried out in accordance with Article 30 of Royal Decree 39/1997, with a satisfactory result. On the other hand, the preparation process for obtaining the ISO 45001 certificate, which is the new standard of the International Organization for Standardization (ISO) on safety and health at work (OSH), has begun. It is expected that the certificate can be obtained during the year 2020.

4.2.4. Social relations

The Talgo Group's trade union action is set out in the Collective Bargaining Agreement or similar collective agreements depending on the country concerned.

In Talgo Spain, employee representation is implemented through Works Councils (workplaces), the Intercentre Committee and, where appropriate, the Union Delegates appointed by the trade unions. The Works Councils are informed by Management on the evolution of the business and the situation of production, work organisation systems, hiring, absenteeism rates, etc. Similarly, the Works Councils are responsible for monitoring various matters, such as labour and social security regulations, occupational health conditions, among others. At each work centre, there is an occupational safety committee made up of prevention delegates elected from among the workers' representatives and representatives of the management of each work centre.

The percentage of the Talgo Group's workforce covered in full or in part by the collective agreement or by similar collective agreements, depending on the country concerned, at 31 December 2020 was 99.92%.

Talgo respects the right of all employees to freely join trade unions, and allows employees who are members of a trade union to hold meetings, collect dues and distribute union information outside working hours and without disrupting the company's business.

Talgo has collaborative agreements with many universities, training centers and institutions

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to ensure access to internship programs for people with diverse skills and abilities.

The most relevant entities with which agreements have been maintained during 2020 have been Universidad Politécnica de Madrid, Universidad Carlos III de Madrid, Universidad Pontificia de Comillas, Universidad Politécnica de Deusto, Scottish Enterprise, Colegio de Huérfanos ferroviarios and Icxex, among others.

In addition, Talgo has collaboration agreements with various organizations and foundations for various social projects. It is worthy to highlight:

- ✓ Human Age: Non-profit organization that aims to promote talent in organizations and encourage employability as a guarantee of development.
- ✓ Adecco Foundation: Non-profit entity whose objective is the labour insertion of people at risk of social exclusion.
- ✓ Volunfair: Non-profit organisation that encourages participation in volunteer activities.
- ✓ Banco de Alimentos de Madrid: Non-profit charitable organisation whose aim is to provide food to organisations that work with people in disadvantaged situations.
- ✓ Consejo Superior de Investigaciones Científicas (CSIC): Organisation working on the development of a vaccine against COVID-19 and to which Talgo has made a donation.
- ✓ Municipal Council of Villaverde (Madrid): Due to the pandemic situation, Talgo has donated computer equipment to help with online schooling for children from families at risk of social exclusion.

4.2.5. Training

Talgo has a training plan that is drawn up each year based on the training needs detected. This plan aims to cover these needs in order to meet the challenges that arise in the development of its activities.

Without doubt, the Training Plan aims to be comprehensive, including actions aimed at developing skills, project development competencies, technical aspects, regulations and occupational risk prevention, without forgetting training in values or languages.

For the implementation of this plan, there is a training procedure that aims to ensure the acquisition of the training and skills mentioned above to ensure the effective performance of their work.

Continuous training becomes a source of loyalty and satisfaction of the staff and a key element to ensure professional and business success and equal opportunities. For this reason, the Talgo Group provided around 71,498 hours of training in 2020, with a ratio of training hours per employee of 27.16 hours. This figure has been calculated by dividing the total number of training hours given in 2020 by the total number of employees at the end of

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the year. Despite the pandemic situation and the confinement experienced in the different countries, Talgo has continued to ensure staff training through the digitalisation of training content and by transferring in-class training to virtual classrooms, using new training methodologies and tools.

Of the total number of hours of training, the most important were those given in occupational risk prevention days, compliance training, the code of ethics, diversity and equality, languages and skills and project management and the rest was spent mainly on the acquisition of technical knowledge and skills.

4.2.6. Accessibility

Our work sites and, in particular, doors, passages, stairs, toilets and workstations are conditioned so that anyone, regardless of their condition, can work in them.

In addition, these work centres have parking spaces reserved for people with disabilities in order to facilitate access to their workplace.

Therefore, anyone, regardless of their abilities, can perform their work on equal terms so that opportunities are the same for all.

4.2.7. Equality

People are a basic pillar at Talgo, in a work environment based on equal opportunities, non-discrimination and respect for the diversity of all employees is paramount.

Through its Equality and Diversity Policy, Talgo, S.L.U. is committed to:

- ✓ Ensure non-discrimination among all its professionals in all people processes.
- ✓ Develop, promote and maintain a culture of equality.
- ✓ Establish procedures to communicate any behaviour that could be considered as abuse, discrimination and/or harassment.
- ✓ Promote ongoing staff training to foster a culture of equality and non-discrimination.
- ✓ Establish a working environment of respect and equality.
- ✓ Encourage the use of transparent communication.

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This Equality Policy is implemented, reviewed and monitored through the Equality Plan and the Talgo Harassment Protocol in Spain.

Talgo's commitment to equality and non-discrimination, together with the involvement of the workforce, makes the Equality Plan an effective instrument for improving the working climate, optimizing the skills and potential of the entire workforce, and thereby improving quality of life and increasing productivity.

Through this plan, Talgo guarantees equality and non-discrimination in remuneration, access to training, positions of responsibility and promotions among all its employees.

We work to implement measures that enable a better balance and greater equality of the sexes in the various positions and departments. To this end, the initial situation of women and men is analysed and it is taken into account that, in the face of equal conditions and competencies, the person of the sex that is least represented has access.

Access to positions of responsibility under conditions of equality and non-discrimination is also a fundamental element in human resource management. Talgo has a process that allows candidates to apply for the positions offered from any of the Group's work centres. Objective, transparent and inclusive criteria are used during the evaluation process.

To ensure compliance with the Equality Plan, Talgo has an Equality Committee that monitors the actions implemented.

Talgo also has a Code of Ethics that sets out the rules of responsible behaviour that all Group professionals and employees must comply with. This is a key element of the internal control policy and is in line with the policy of crime prevention imposed by the new criminal legislation.

The Code of Ethics sets out the ethical values, commitments and good practices that must be applied in the Group. It serves as a framework for the development of the Human Rights Policy, the Diversity and Equality Policy and the Harassment Protocol, which aims to guarantee the adoption of measures to prevent any situation of harassment and to establish an action procedure to investigate and punish possible situations of harassment in the workplace.

In Spain, Talgo has an Ethics Committee in each of its workplaces to ensure compliance with the Harassment Protocol. This Committee guarantees the right to personal dignity, the free development of personality and the protection of physical and moral integrity. Situations of discrimination on the basis of sex, marital status, family status, birth, ethnic origin, age, religious beliefs, sexual orientation, opinion, disability, membership of trade unions or any other personal or social condition or circumstance may not be admitted.

The Group also has a Whistle-blower Channel or Ethical Channel, managed by a company not linked to the Group, with free internal access through the corporate intranet and

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external access through the website www.talgo.com through which anyone can report breaches of the aforementioned Code of Ethics.

Complaints made are investigated by the Group's Compliance Unit, applying the established sanctioning regime if necessary.

The Group's Compliance Unit is made up of two members of the Group's management and an external adviser. The personnel forming the Compliance Unit attend various workshops on related regulations, updates, etc., so as to ensure that they are in permanent contact with developments in the field and that their knowledge is up to date.

The Compliance Unit has permanent external and independent advice from top-level consulting firms and law firms.

As part of its commitment to equality and non-discrimination, the Talgo Group has a Diversity Plan. The objectives of this Plan include raising awareness, promoting and developing a culture of diversity within the organisation, as well as with its shareholders, customers and suppliers. The Plan is based on four fundamental principles: equality and non-discrimination, people, interest groups and society. The actions and initiatives implemented are aimed at the categories of age, gender, nationality and disability.

During the 2020 financial year, Talgo continues to be part of the "CEO for Diversity" alliance, which seeks to promote innovation in diversity, equity and inclusion strategies in Spanish companies, an initiative of the Adecco and CEOE Foundations.

The mission of the CEO for Diversity Alliance is to unite companies around a common and innovative vision of diversity, equity and inclusion (De&I) and to accelerate the development of strategies that contribute to (1) business excellence, (2) the competitiveness of talent in Spain and (3) the reduction of inequality and exclusion in Spanish society. The aim is to collaboratively build common missions that are aligned with the interests of our society.

Talgo also announces for the second year the Talgo Award for Women's Excellence in Engineering, which due to the pandemic situation cannot be held. However, Talgo donates the full amount of the prize to CSIC for research into the vaccine against COVID-19.

5. Information on respect for human rights

5.1. Talgo Policy

As mentioned in the previous section, Talgo has a Code of Ethics that establishes the rules for responsible behaviour and is designed to ensure that the Group as a whole complies with moral and ethical principles and all applicable regulations and legislation.

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Through the Code of Ethics, Talgo expresses its commitment to and commitment to human and labour rights, which are recognized in national and international legislation and the principles on which the Universal Declaration of Human Rights, the International Labour Organization (ILO) and the United Nations Global Compact are based.

Through its Human Rights policy, Talgo expresses its commitment to preventing any practice or conduct that may violate the freedom and equality in dignity and rights of individuals. It promotes actions to ensure compliance and awareness of human rights recognized by national and international legislation, in line with the principles set out in the Universal Declaration of Human Rights, the International Labour Organization (ILO) and the United Nations Global Compact.

The Group also expresses its commitment to Human Rights through its support for the Modern Slavery Act in the United Kingdom, rejecting any type of slavery, servitude, human trafficking and forced labour that violates the right to freedom and equality in dignity and rights of individuals.

In addition, among the initiatives launched is our adherence to the United Nations Global Compact, another sign of our commitment to human rights and sustainable development objectives.

Article 8 of the Code of Ethics sets out the Group's total rejection of forced labour, respect for freedom of association and collective bargaining and its commitment to comply with the provisions of the International Labour Organisation relating to the work of minors, not admitting practices that are contrary to this.

Similarly, it includes in article 11, the principle of non-discrimination and equal opportunities from which the right to dignity of the person, free development of the personality and protection of physical and moral integrity is promoted.

To ensure compliance with the Code of Ethics, Talgo has a Compliance Unit that will also be responsible, among other functions, for disseminating the Code, promoting preventive measures, and evaluating and proposing disciplinary measures in the event of non-compliance.

5.2. Main indicators of management and performance

Mechanisms of advice and ethical concerns

Talgo has established an internal whistle-blower channel for employees and third parties that can be accessed through the Group's website, being able to report irregular or improper situations that violate the company's code of conduct.

During 2020 financial year, three complaints were received in the Other non-compliances area which, after the corresponding investigations had been carried out, was resolved without any indication of non-compliance affecting the Group based on the outcome of the

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investigations.

6. Information relating to the fight against fraud, corruption and bribery

6.1. Talgo Policy

Talgo applies policies such as Compliance Policy and Good Tax Practices, Anti-fraud and anti-corruption policy and a code of conduct.

One of the basic principles of the Group's and employee behaviour is respect for current legislation. In the development of this basic principle, the Compliance and Good Tax Practices Policy has been approved, that:

- ✓ Expressly formulates the Group's general commitment to comply with tax regulations in Spain and in the rest of the countries in which it operates.
- ✓ It incorporates the development and implementation of best practices in tax matters to the Corporate Governance rules.

The anti-fraud and anti-corruption policy aim to project to all affected groups a clear message of opposition to corruption and fraud in all its forms, and the Group's will to eradicate fraudulent or criminal acts in all its activities. This policy constitutes a commitment to permanent vigilance and punishment of acts and fraudulent behaviour or those that encourage corruption in all its forms, to maintain effective communication mechanisms and raise the awareness of all employees as well as develop a business culture based on ethics and honesty.

2020 was a year of great challenges for the new Cybersecurity department, focusing on providing the Group with effective management and protection against the risks identified (with a growing threat scenario due to teleworking), as well as initiating the inclusion of Cybersecurity in the train.

The main lines of work have been focused on:

- Consolidating an adequate and efficient multidisciplinary team, based on relocation of internal talent, as well as external hires.
- Passing the 2nd audit review of ISO 27001 as a preliminary step for recertification in 2021.
- Review of the control's framework and its level of deployment, effectiveness and compliance.
- Implement next-generation technologies in the protection of mail and user equipment, significantly improving our capabilities against fraud, new disruptive threats or teleworking, in addition to reducing annual recurring costs.

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- Definition of the new secure factory architecture for Industry 4.0, for the integration of new machinery and risk reduction with respect to the corporate network.
- Collaboration with different areas for the incorporation of controls in their processes and internal operations.
- Consolidating the "cybersecurity culture" in people as another line of defense, running dedicated sessions in specific areas and "fraud simulations" to raise awareness among end users.

It has also started to move cybersecurity onto the train, improving the quality and value of the final product:

- By working closely with the commercial team on the cybersecurity requirements of offers.
- Creation of a joint working team of Engineering, Maintenance, Systems, to lead the security of the new train models.
- Risk model, requirements and cybersecurity controls on trains and their onboard systems.
- Collaborations with Renfe and CCN (National Cryptologic Center) with a vision of the future in new train cybersecurity measures and Talgo's predisposition in new offers.

IT Security Incidents

2020 was a year of considerable increase in cybersecurity incidents, both at a general level and at Talgo, becoming the target of specifically focused attacks.

- Almost twice as many incidents were detected and managed as in 2019, also as an effect of user awareness actions.
- 3 relevant incidents materialized.
- Defining new response procedures, priorities and crisis management.

6.2. Main indicators of management and performance

During the year, the following initiatives have been launched in order to reinforce compliance with legality:

- ✓ Internal compliance initiatives
 - Internal Code of Conduct Review.
 - Periodic meetings of the Compliance Body.
 - Review of the Risk Map adapted to the activity of the Talgo Group.
 - Improvement in everything related to cybersecurity

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- Review of internal processes susceptible to fraud (e.g. procurement cycle).
 - Review of the zero-tolerance protocol with corruption and tax fraud.
 - Review of the Group's fiscal policy.
 - Training in everything related to compliance, the Talgo Group's Code of Ethic and rules of conduct.
 - Greater awareness in the ORP area of the entire Group with a greater number of informative reports.
- ✓ External compliance initiatives
- Requirement of compliance with legal and tax obligations for the parties that want to enter into contracts with Talgo.
 - Inclusion of social responsibility, compliance and ethics requirements in supplier approval processes.
 - Inclusion of cybersecurity requirements in contracting with third parties.
 - Hiring of external advisors for the continuous improvement of the compliance unit's research work

The amount contributed by Talgo Spain in the year 2020 to different associations and non-profit making entities amounted to €799 thousand, the most significant being that made to the Adecco Foundation for the items described in point 4.2. and the Talgo Foundation itself.

It should be noted that in 2020, as indicated in note 4.2.4, a donation was made to CSIC as a contribution to research for the development of a vaccine against COVID-19.

In addition, during the 2020 financial year, a stand of trees was donated to the Colegio de Huérfanos Ferroviarios of Madrid in order to contribute to training in the Intermediate Grade Training Cycle for Rolling Stock Maintenance.

7. Information on social aspects

7.1. Talgo Policy

Since its foundation in 1942, Talgo has been advocating the use of the train as a sustainable and efficient method of transport that links countries and connects people.

The path towards a low-carbon economy is irreversible and our contribution to achieving it dates back to the very foundation of our company 78 years ago. Since then, the commitment to manufacture light and energy-efficient trains has been a response to the company's commitment to provide railway operators with products that structure the territory, promoting development and improving connections between populations, while contributing to the sustainability of transport and preserving the environment. Among other

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advantages that make Talgo trains more ecological, it is worth mentioning their lightness, since high-speed trains are up to 25% lighter than their direct competitors in the sector, which allows, among other characteristics of the train, to reduce its energy consumption by approximately 30% compared to other high-speed trains.

Since its inception, the Talgo Foundation has faithfully fulfilled its mission to become a national and international benchmark, both in the promotion and defence of knowledge, training and studies, and in research into innovation, railway technological development, safety and social and occupational integration.

Its vision is to support communities, people and businesses in the countries where Talgo is present to live together and be better communicated with each other. To help consolidate rail transport as the means of transport most committed to technological development and innovation, raise awareness of human rights, promote socio-cultural integration and environmental conservation.

The Foundation's values are always in line with those of Talgo, which are Innovation, Commitment, Independence, Transparency, Objectivity and Integrity and Respect.

Following the external audit carried out in 2019 to determine the degree of implementation of ISO 26000 principles in the organization's policy, Talgo will undergo this assessment again in the first quarter of 2021 to determine the current state of implementation of ISO 26000 after two years.

Talgo has promoted the design of policies and the integration of social responsibility in its organization, aligning and ordering the various related actions carried out within a global framework.

7.2. Main indicators of management and performance

7.2.1. Talgo's commitments to sustainable development

7.2.1.1. Social action

Since its launch, the Talgo Foundation has experienced significant growth, not only in the number of projects carried out, but also in the commitment acquired in its projects, increasing from 7 projects in 2014 to 11 in 2020. Although it is true that this growth has been reduced with respect to the previous year due to the situation being experienced globally due to the COVID 19 pandemic, which has led to the postponement of some of the projects planned for 2020 for safety reasons for the beneficiaries of the projects.

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Although the Foundation's projects have been reduced compared to its initial proposal, they have been more important and have had a greater impact, thus increasing their scope. These have focused mainly on research training, external and internal training, gender equality, socio-cultural integration, the fight against discrimination, corporate volunteering, human rights, as well as, in terms of their scope, their impact on the societies where they are carried out and the involvement of Talgo staff in their implementation. All of this is focused on meeting the Sustainable Development Goals (SDGs) of the United Nations Global Compact, specifically goal 1 end poverty, 4 quality education, 5 Gender equality, 11 sustainable cities and communities and 17 Partnerships to achieve the goals.

In 7 of the 11 projects carried out in the 2020 financial year, the increase in active participation was significant. With 648 hours of Internal Corporate Volunteering by Talgo staff (37 people and 17 departments) and 1,161 hours of External Corporate Volunteering (25 people from 10 institutions) by some of Talgo's suppliers and Stakeholders, Talgo will have contributed significantly to its strategic plan as well as complementing Talgo's strategy to promote CSR in the Supply Chain.

In 2020, two projects are worth highlighting: firstly, the creation and implementation of the Talgo Classroom at the school of Industrial Engineering of the Polytechnic University of Madrid; and secondly, the awarding of the "Railway Technical" scholarships to study the Intermediate Level Railway Rolling Stock Maintenance Technician course at the Colegio de Huérfanos Ferroviarios of Madrid. The Talgo Foundation has granted three scholarships which include the cost of the second year of the course, the internship at Talgo and the possibility of joining the staff once the course is finished.

Talgo Classroom, is a preliminary step towards the future creation of the Talgo Chair. The aim of this Chair is to contribute to teaching, dissemination, research and technology transfer in a scientific-technical area of common interest, mainly in the field of railway engineering in important areas such as Maintenance and Industry 4.0, Railway Dynamics, Quality, Composite Materials, CSR and SDG, among others, as well as the comprehensive training of participants in the skills that today's society may demand in any other railway aspects.

In 2020, the Foundation also signed a total of 9 agreements and collaboration agreements with different organizations and institutions. Among which we can highlight the one signed with the "Cinco Palabras" Foundation, for the fight against child poverty, social and cultural integration of disadvantaged groups in underdeveloped countries, thus fighting against the end of poverty.

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With this initiative, the literacy of an orphanage in the rural area of Sanguera has been facilitated, which takes in orphans and children whose families do not have sufficient income for their education and food. The orphanage has 3 teachers who have been in charge of the education of 18 children. In addition, it has also covered the expenses of 3 adolescent girls who have attended an external school.

The Foundation has also collaborated in the V Welding prize and in the Spanish Orders Prize awarded by the Lux Hispaniarum Foundation of the Royal Council of the Spanish Military Orders of Santiago, Calatrava, Alcántara and Montesa.

Associations to which the Group belongs

Talgo participates in the "Life Cycle Assessment" working group of UNIFE. It is a platform for exchanging and defining common positions on issues of environmental sustainability, through which early information and dissemination actions on EU policy changes can be obtained.

Additionally, Talgo collaborates with the following associations:

- ✓ MAFEX.
- ✓ Royal Academy of Engineering of Spain.
- ✓ Railway Innovation.
- ✓ Unife.
- ✓ Australian Railway.
- ✓ Spanish Global Compact Network.
- ✓ Rail Group.
- ✓ Cotec Foundation.
- ✓ Knowledge and Creativity.
- ✓ Association of renowned brands.
- ✓ Innovating companies Forum.

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7.2.1.2. Relationships maintained with the actors of local communities

Talgo has identified its most relevant interest groups and the corresponding communication channels.

Interest Group	Communication channel
Employees	<ul style="list-style-type: none"> ✓ Intranet. ✓ Corporate email ✓ Noticeboard ✓ Interdepartmental meetings. ✓ Surveys ✓ Social networks. ✓ People management tools.
Customers	<ul style="list-style-type: none"> ✓ Corporate website ✓ Corporate email ✓ Business meetings ✓ Social networks.
Administration	<ul style="list-style-type: none"> ✓ Corporate website ✓ Corporate email ✓ Social networks. ✓ Sector forums. ✓ Associations ✓ Management platforms: Electronic notifications service.
Suppliers	<ul style="list-style-type: none"> ✓ Corporate website ✓ Corporate email ✓ Business meetings ✓ Social networks. ✓ Suppliers portal
Shareholders	<ul style="list-style-type: none"> ✓ Corporate website ✓ Press releases. ✓ Social networks. ✓ Meetings with investors. ✓ CNMV website. ✓ Meetings with shareholders ✓ Investor's website.
Society	<ul style="list-style-type: none"> ✓ Corporate website. ✓ Talgo Foundation website. ✓ Press releases. ✓ Social networks.

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7.2.2. Subcontracting and suppliers

7.2.2.1. Purchasing Policy

Talgo has a Purchasing Policy, which includes the highest guidelines and from which the purchasing processes and procedures of all the group's subsidiaries are deployed.

Talgo also has a Code of Ethics that sets out the rules of responsible behaviour that all professionals and collaborators of the Talgo Group must comply with. These documents are published on the Group's website, and are always at the disposal of employees, suppliers, and other interest groups.

Any supplier that wishes to offer its products or services to Talgo, can find the following information in the supplier's area of the Group's website:

- ✓ General Conditions for Purchasing and Hiring Services.
- ✓ Non-Disclosure and Confidentiality Agreement.
- ✓ Supplier manual.
- ✓ Registers for record as a supplier of materials and services.
- ✓ Purchasing Policy and Code of Ethics.
- ✓ Anti-fraud and anti-bribery policies.
- ✓ Information Security Policy.

In accordance with Corporate Social Responsibility criteria, in the aforementioned General Conditions for Purchasing and Hiring Services, Talgo's right to terminate any type of contract and purchase obligation to suppliers that fail to comply with environmental regulations, their tax obligations and with the Social Security, or any other type of applicable laws.

Likewise, it is worth highlighting the use of the digital tools (SAP ARIBA and Supplier Portal) as the main communication thread with suppliers, both in the negotiation and transaction phases, through which Talgo is committed to transparency and equal opportunities in its purchasing processes.

Talgo has a Comprehensive Strategic Purchasing Plan with a three-year projection, which covers all the purchasing activities themselves, as well as all those that affect the group's relationship with its suppliers.

This plan is structured around four fundamental pillars, one of which is Talgo's positioning in relation to the market and its suppliers, through which the following activities are developed as essential elements of the purchasing function:

- ✓ Development of lasting strategic alliances with major suppliers, under an approach of integration and maximization of the value contribution made by the supplier.

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- ✓ Diversification and internationalization of suppliers and supplies, guaranteeing the best global performance of the supply chain.
- ✓ Integration of suppliers in the process of product development and project management.
- ✓ Promote measurable continuous improvement in suppliers.
- ✓ Sustain all of the above in the best practices in terms of Social Responsibility and sustainable development of both the environment and local communities and society.

As a commitment to continuous improvement in its global purchasing processes, Talgo is certified according to the UNE-15896 Purchasing Management Systems standard in its corporate activity and for its manufacturing and maintenance centres in Spain. This certification accredits the adherence of the purchasing processes to the policies and processes established in the Group, and the company's commitment to adopting the best practices in the same sector and other related sectors.

The geographic distribution of materials and services invoiced to the Talgo Group during fiscal year 2020 is as follows:

Spain	71.45%
Rest of Europe	15.95%
America	3.62%
Middle East and North Africa	5.25%
Commonwealth of Independent States	3.16%
APAC (Asia-Pacific)	0.56%

The information detailed in the previous table has been obtained from subsidiaries in the United States and Spain, taking into account the Group's permanent establishments in Arabia, Kazakhstan, Uzbekistan and Russia and has been calculated on the basis of the turnover and the registered office of each of the suppliers.

7.2.2.2. Consideration of social and environmental aspects in relation to suppliers and subcontractors

To reach the previous volume of purchases, during the year 2020, commercial relationships with 1,696 suppliers have been maintained, of which 287 are considered critical suppliers for Talgo's activity, passing through specific approval and approval processes, including documentary and physical audits in many cases. In this period, 17 new suppliers considered highly critical for the Group's activity were incorporated, all of which were assessed according to criteria of Corporate Social Responsibility, including environmental considerations, identification of legal requirements from the environmental point of view, use of returnable packaging, waste management procedures, as well as aspects related to the prevention of occupational hazards.

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7.2.2.3. Monitoring systems

Talgo has a program of continuous improvement of suppliers based on scheduled re-assessment audits of suppliers, prioritizing among them based on compliance with indicators of service level and quality, and giving special attention to those suppliers that have signed Quality Assurance Agreements. The possible deviations detected during these re-assessment audits are reflected in an action plan agreed with the supplier, and which is monitored regularly.

During the year 2020, 86 face-to-face audits were carried out on suppliers considered critical for the Group's activity, with 76 of those approval audits and 10 re-assessment audits, all of which included criteria for Corporate Social Responsibility.

7.2.3. Consumers

7.2.3.1. Measures for the health and safety of consumers

Talgo guarantees the safety of its products, implementing a process of identification, evaluation and risk control throughout the life cycle of its products. This procedure is based on and follows the guidelines of the European standard EN50126 detailing the security activities to be carried out to reduce risks at acceptable levels.

Additionally, in order to maintain its quality standards, Talgo obtains the following certifications related to the Quality Management System and activities carried out by Talgo:

- Quality Management System according to IRIS rev3 (ISO TS 22163) (International Railway Industry Standard) in the manufacturing plants and in the maintenance sites in Spain.
- Quality Management System according to ISO9001.2015 at the maintenance centres in Kazakhstan (Almaty and Nur-Sultan), the maintenance centre in the United States (Seattle), the maintenance centre in Saudi Arabia (Medina), the maintenance centre in Russia (Moscow) and the maintenance centre in Uzbekistan (Tashkent).
- Certification granted by the AESF (State Railway Safety Agency) as the Entity Responsible for Maintenance of Rail Vehicle Maintenance, in accordance with Regulation (EU) 779/2019.
- Environmental Management System ISO14001.2015, in the Group's main centers.

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- Adhesive processes according to DIN 6701-2 at the manufacturing centres (Rivabellosa and Las Matas).
- Welding processes according to DIN EN 15085-2 at the manufacturing centres (Rivabellosa and Las Matas).
- Purchase Management System according to ISO 15896 (Value-added Purchasing Management).
- ISO 17025, of testing laboratories: Talgo has been accredited by ENAC to carry out certain train validation tests.
- ISO 55001, of Asset Management. Talgo has been certified in this Standard for the Management of assets used in the manufacture and maintenance of trains.
- ISO 27001: certification of the information security management system

During the last year, additional work has been carried out on the implementation of the following standards_(non-certifiable):

- ISO 26000, of Corporate Social Responsibility, annual reports are made (by independent companies) of review of the adequacy of the standard.
- ISO 31000, Risk Management, recently implemented.

7.2.3.2. Claims systems, complaints received and their resolution

Talgo has defined and implemented a system to obtain, monitor and review the information obtained regarding the customer's perception regarding the degree of compliance with their needs and expectations.

The latest data from customer surveys sent during 2020 (taking into consideration results received up to December 2020 from surveys sent in November 2020) in each of the established input channels are:

- Corporate Survey: 3.79 / 5
- Technical survey offer phase: 4.74 / 5
- Technical survey project phase: 4.15 / 5
- Technical survey maintenance: 3.85 / 5

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- Technical survey maintenance equipment: 3.92 / 5

Talgo has a system of control, response and monitoring of customer complaints and claims. All complaints received are analysed, responded to and, if appropriate, corrective actions are taken to correct them and avoid their repetition. In 2020 seven complaints were received through the formal channel managed by the quality department.

7.2.3.3. Tax information

The Group has generated a negative result of €38,637 thousand and €11,513 thousand in Spain and America, respectively, as well as a profit of €1,404 thousand in Europe and €31,667 thousand in the Rest of the World where it operates.

Total corporate income taxes paid by the Group in Europe amounted to €426 thousand, €3 thousand in the Americas, €5,665 thousand in the Rest of the World and a net tax collection in Spain of €2,977 thousand.

Information on public subsidies received by the Group is detailed in notes 15 and 17 to the accompanying consolidated annual accounts.

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8. Index of contents of Non- Financial Information

Contents of Act 11/2018 on non-financial information and diversity		Standard	Reference
Business Model			
Description of the group's business model	Brief outline of the group's business model, which will include its business environment, its organization and structure, the markets in which it operates, its objectives and strategies, and the main factors and trends that may affect its future development.	GRI 102-2	https://www.talgo.com Talgo Consolidated Management Report.
		GRI 102-4	https://www.talgo.com Talgo Consolidated Management Report.
		GRI 102-6	https://www.talgo.com Talgo Consolidated Management Report.
		GRI 102-15	NFIR 1. Business model and risk policy
		GRI 102-7	https://www.talgo.com Talgo Consolidated Management Report.
Information on environmental matters			
Policies	Policies applied by the group, including the due diligence procedures applied to the identification, assessment, prevention and mitigation of significant risks and impacts, and verification and control, as well as the measures that have been adopted.	GRI 103-2	NFIR 1. Business model and risk policy; 3.1. Talgo policy; 3.2. Identified risks
		GRI 103-3	NFIR 1. Business model and risk policy; 3.2. Identified risks
Key risks	Main risks related to these matters linked to the group's activities, including, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and assess them according to national, European or international reference frameworks for each area. Information on the impacts that have been detected must be included, along with a breakdown of them, particularly on the main short, medium and long-term risks.	GRI 102-15	NFIR 1. Business model and risk policy; 3.2. Identified risks
		GRI 102-11	3.1. Talgo policy; 3.2. Identified risks
General	· Current and foreseeable effects of the company's activities on the environment and, where applicable, on health and safety.	GRI 102-15	NFIR 1. Business model and risk policy; 3.2. Identified risks.

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	· Environmental assessment or certification procedures.	GRI 102-11	NFIR 3.1 Talgo policy.
	· Resources dedicated to the prevention of environmental risks.	GRI 102-29	Consolidated Annual Accounts 2020 Talgo, Note 31. NFIR 3.1.Talgo policy.
	· Application of the precautionary principle	GRI 102-11	NFIR 1. Business model and risk policy; 3.1. Talgo policy; 3.2. Identified risks
	· Provisions and guarantees for environmental risks.	GRI 307-1	Consolidated Annual Accounts 2020 Talgo, Note 31.
Pollution	Measures to prevent, reduce or remediate carbon emissions that seriously affect the environment, taking into account any form of air pollution specific to an activity, including noise and light pollution.	GRI 302-4	NFIR 3.3.1. Climate change
		GRI 302-5	NFIR 3.3.1. Climate change
		GRI 305-5	NFIR 3.3.1. Climate change
Circular Economy and prevention and waste management	Prevention measures, recycling, reuse, other forms of recovery and waste disposal. Actions to combat food wastage	GRI 103-2 GRI 306-2	NFIR 3.3.1, Climate change; 3.3.2. Resource consumption and management
Sustainable use of resources	Water consumption and water supply according to local constraints	GRI 303-1	Not material according to Talgo's activities.
		GRI 303-2	Not material according to Talgo's activities.
		GRI 303-3	Not material according to Talgo's activities.
	Consumption of raw materials and the measures adopted to improve the efficiency of their use.	GRI 103-2	Consumption of unprocessed raw materials not significant
		GRI 301-1	Consumption of unprocessed raw materials not significant
	Energy: Consumption, direct and indirect; Measures taken to improve energy efficiency, Use of renewable energy.	GRI 302-2	NFIR 3.3.1, Climate change
		GRI 302-1	NFIR 3.3.1, Climate change

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		GRI 302-3	NFIR 3.3.1, Climate change
		GRI 302-4	NFIR 3.3.1, Climate change
		GRI 302-5	NFIR 3.3.1, Climate change
Climate Change	Greenhouse gas emissions.	GRI 305-1	NFIR 3.3.1, Climate change
		GRI 305-2	NFIR 3.3.1 Climate change
		GRI 305-4	NFIR 3.3.1 Climate change
		GRI 305-3	NFIR 3.3.1 Climate change
	The measures adopted to adapt to the consequences of Climate Change.	GRI 305-5	NFIR 3.3.1 Climate change
Reduction goals established voluntarily in the medium and long term to reduce GHG emissions and means implemented for this purpose.	GRI 103-2	NFIR 3.3.1 Climate change	
Protection of biodiversity	Measures taken to preserve or restore biodiversity.	GRI 103-2	Not material according to the activities carried out by Talgo.
		GRI 304-3	Not material according to the activities carried out by Talgo.
		GRI 304-1	Not material according to the activities carried out by Talgo.
		GRI 304-2	Not material according to the activities carried out by Talgo.

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	Impacts caused by activities or operations in protected areas	GRI 304-4	Not material according to the activities carried out by Talgo.
Information on social and personnel matters			
Policies	Policies applied by the group, including the due diligence procedures applied to the identification, assessment, prevention and mitigation of significant risks and impacts, and verification and control, as well as the measures that have been adopted.	GRI 103-2	NFIR 1. Business model and risk policy; NFIR 4.1. Talgo policy.
Main risks	Main risks related to these matters linked to the group's activities, including, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and assess them according to national, European or international reference frameworks for each area. Information on the impacts that have been detected must be included, along with a breakdown of them, particularly on the main short, medium and long-term risks.	GRI 102-15	NFIR 1. Business model and risk policy; NFIR 4.1. Talgo policy.
Employment	Total number and distribution of employees by gender, age, country and professional category.	GRI 102-7	Consolidated Annual Accounts 2020 Talgo, Note 21. NFIR 4.2.1. Employment
		GRI 405-1	NFIR 4.2.1. Employment
	Total number and distribution of work contract modalities.	GRI 102-8	NFIR 4.2.1. Employment
	Annual average of permanent, temporary and part-time contracts by gender, age and professional category.	GRI 102-8	NFIR 4.2.1. Employment

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	Number of dismissals by gender, age and professional category.	GRI 401-1	NFIR 4.2.1. Employment
	Average wages and their evolution broken down by gender, age and professional category or equivalent.	GRI 405-2	NFIR 4.2.1. Employment
	Wage gap.	INE(*)	NFIR 4.2.1. Employment
	Remuneration of equivalent or average jobs in society.	GRI 405-2	NFIR 4.2.1. Employment
	The average wages of directors and executives, including variable remuneration, allowances, compensation, payment to long-term savings plans and any other earnings broken down by gender.	GRI 102-35	Consolidated Annual Accounts 2019 Talgo, Note 20 Annual Report on Directors' Remuneration 2019 NFIR 4.2.1. Employment
Employment	Implementation of labour disconnection measures.	GRI 103-2	NFIR 4.2.1. Employment
	Disabled employees.	GRI 405-1	NFIR 4.2.1. Employment
Work organisation	Work time Organization.	GRI 103-2	NFIR 4.2.2. Work organisation.
	Number of hours.	GRI 403-2	NFIR 4.2.2. Work organisation.
	Measures designed to facilitate the enjoyment of conciliation and encourage joint responsibility of these by both parents.	GRI 401-3	NFIR 4.2.2. Work organisation.
Health and Safety	Occupational Health and Safety.	GRI 103-2	NFIR 4.2.3. Health and safety.
	Work accidents (frequency and seriousness) broken down by gender.	GRI 403-2	NFIR 4.2.3. Health and safety.
	Occupational diseases (frequency and seriousness) broken down by gender.	GRI 403-3	NFIR 4.2.3. Health and safety
Social Relations	Organization of social dialogue, including procedures for informing and consulting staff and negotiating with them.	GRI 103-2	NFIR 4.2.4. Social relations.

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	Percentage of employees covered by collective agreement at a country level.	GRI 102-41	NFIR 4.2.4. Social relations.
	Balance of collective agreements, particularly in the field of health and safety at work.	GRI 403-1	NFIR 4.2.4. Social relations.
Training	Policies implemented in the field of training.	GRI 404-2	NFIR 4.2.5. Training.
	Total number of training hours by professional categories.	GRI 404-1	NFIR 4.2.5. Training.
Accessibility	Universal accessibility for people with disabilities.	GRI 103-2	NFIR 4.2.6. Accessibility.
Equality	Measures adopted to promote equal treatment and opportunities between men and women.	GRI 103-2	NFIR 4.2.7. Equality.
	Equality plans.	GRI 103-2	NFIR 4.2.7. Equality.
	Measures adopted in order to promote employment.	GRI 103-2	NFIR 4.2.7. Equality.
		GRI 404-2	NFIR 4.2.7. Equality.
	Protocols against gender-based sexual harassment.	GRI 103-2	NFIR 4.2.7. Equality.
	Universal accessibility for people with disabilities.	GRI 103-2	NFIR 4.2.7. Equality.
Policy against all types of discrimination and, where appropriate, management of diversity.	GRI 103-2	NFIR 4.2.7. Equality.	
Information on respect for human rights			
Policies	Policies applied by the group, including the due diligence procedures applied to the identification, assessment, prevention and mitigation of significant risks and impacts, and verification and control, as well as the measures that have been adopted.	GRI 103-2 GRI 103-3	NFIR 1. Business model and risk policy; 5.1. Talgo policy.

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Main risks	Main risks related to these matters linked to the group's activities, including, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and assess them according to national, European or international reference frameworks for each area. Information on the impacts that have been detected must be included, along with a breakdown of them, particularly on the main short, medium and long-term risks.	GRI 102-15 GRI 102-30	NFIR 1. Business model and risk policy; 5.1. Talgo policy.
Human Rights	Application of due diligence procedures in human rights.	GRI 103-2	NFIR 5.1. Talgo policy
	Prevention of the risks of violation of human rights and, where appropriate, measures to mitigate, manage and remediate possible abuse.	GRI 103-2	NFIR 1. Business model and risk policy; 5.1. Talgo policy.
	Complaints about cases of human rights violations.	GRI 411-1	NFIR 5.2. Main management and performance indicators.
	Promotion and compliance with the provisions of the fundamental ILO conventions related to respect for freedom of association and the right to collective bargaining, the elimination of discrimination in employment and occupation, the elimination of forced or compulsory labour and the effective abolition of child labour.	GRI 103-2	NFIR 5.1. Talgo policy
Information related to the fight against corruption and bribery			
Policies	Policies applied by the group, including the due diligence procedures applied to the identification, assessment, prevention and mitigation of significant risks and impacts, and verification and control, as well as the measures that have been adopted.	GRI 103-2 GRI 103-3	NFIR 1. Business model and risk policy; NFIR 6.1. Talgo policy

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Main risks	Main risks related to these matters linked to the group's activities, including, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and assess them according to national, European or international reference frameworks for each subject. Information on the impacts that have been detected must be included, along with a breakdown of them, particularly on the main short, medium and long-term risks.	GRI 102-15 GRI 102-30	NFIR 1. Business model and risk policy; NFIR 6.1. Talgo policy
Corruption and bribery	Measures taken to prevent corruption and bribery.	GRI 103-2	NFIR 5.1. Talgo policy ; 6.1 Talgo policy
	Measures to combat money laundering.	GRI 103-2	NFIR 5.1. Talgo policy ; 6.1 Talgo policy
	Contributions to foundations and non-profit entities.	GRI 103-2	NFIR 6.2. Main management and performance indicators.
Company information			
Policies	Policies applied by the group, including the due diligence procedures applied to the identification, assessment, prevention and mitigation of significant risks and impacts, and verification and control, as well as the measures that have been adopted.	GRI103-2 GRI103-3	NFIR 1. Business model and risk policy; NFIR 7.1. Talgo policy
Main risks	Main risks related to these matters linked to the group's activities, including, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and assess them according to national, European or international reference frameworks for each subject. Information on the impacts that have been detected must be included, along with a breakdown of them, particularly on the main short, medium and long-term risks.	GRI 102-15 GRI 102-30	NFIR 1. Business model and risk policy; NFIR 7.1. Talgo policy
Commitments of the company to sustainable development	Impact of the company's activity on employment and local development.	GRI 203-1 GRI 203-2	NFIR 7.1. Talgo policy; NFIR 7.2.1. Talgo's Commitment to Sustainable Development.

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	Impact of the company's activity on local communities and territory.	GRI 203-1 GRI 203-2	NFIR 7.1. Talgo policy; NFIR 7.2.1. Talgo's commitment to sustainable development
	Relationships maintained with the actors of the local communities and types of dialogue with them.	GRI 102-43	NFIR 7.2.1. Talgo's commitment to sustainable development
	Association or sponsorship actions.	GRI 102-13	NFIR 7.2.1. Talgo's commitment to sustainable development
Subcontracting and suppliers	Inclusion in the purchasing policy of social matters, gender equality and environmental matters.	GRI 103-3	NFIR 7.2.2. Subcontracting and suppliers.
	Consideration in relations with suppliers and sub-contractors of their social and environmental responsibility.	GRI 308-1 GRI 414-1	NFIR 7.2.2. Subcontracting and suppliers.
	Supervision systems and audits and their results.	GRI 308-1 GRI 414-1	NFIR 7.2.2. Subcontracting and suppliers.
Consumers	Measures for the health and safety of consumers.	GRI 103-2 GRI 416-1	NFIR 7.2.3. Consumers.
	Claims systems, complaints received and their resolution	GRI 103-2	NFIR 7.2.3. Consumers.
Tax information	Profits obtained by country.	GRI 201-1	NFIR 7.2.3. Consumers.
	Tax paid on profits.	GRI 201-1	NFIR 7.2.3. Consumers.
	Public subsidies received.	GRI 201-4	NFIR 7.2.3. Consumers.

[*] Calculation made on the basis of the definition of salary gap provided by the Spanish National Institute of Statistics (INE), considering fixed remunerations (not including seniority) per hour for men and women in the management categories (not including Senior management and Directors), intermediate, technical, administrative and other controls.

Calculated as the difference between wage-earning men and women gain/hour, as a percentage of the men gain/hour.



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

THE ISSUER'S IDENTIFICATION DETAILS

Reference year end date: 31/12/2020

TAX ID: A84453075

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
11/06/2020	38,227,968.02	127,003,216	127,003,216

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	4.91	0.00	0.00	0.00	4.91

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

- Santa Lucía S.A. Cía de Seguros y Reasegueros reported on 12/10/2020 a change in its position from 5.04% to 4.91%.

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	0.93	0.00	0.00	0.00	0.93	0.00	0.00
MR. JOSÉ MARIA DE ORIOL FABRA	1.38	0.00	0.00	0.00	1.38	0.00	0.00
MR. CARLOS DE PALACIO Y ORIOL	0.88	0.00	0.00	0.00	0.88	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	0.14	0.00	0.00	0.00	0.14	0.00	0.00
PEGASO TRANSPORTATION INTERNATIONAL SCA	38.16	0.00	0.00	0.00	38.16	0.00	0.00

% of total voting rights held by the Board of Directors	41.51
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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 linked director or representative	Name or corporate name of the linked significant shareholder	Corporate name of the group of the significant shareholder	Description relationship / position
MR. FRANCISCO JAVIER BAÑÓN TREVIÑO	PEGASO TRANSPORTATION INTERNATIONAL, SCA	PEGASO TRANSPORTATION, S.A.R.L.	Mr. Bañón is a legal person representative of Pegaso Transportation International, SCA, a significant shareholder of Talgo, S.A. In turn, Mr. Bañón 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.
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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	% of share capital affected	Brief description of the agreement	Expiry 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 DOMECCQ 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	49.30	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 favor 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 2020), 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
4,083,222		3.22

(*) Through:

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

Explain the significant variations during the year:

Explain the significant variations

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 said Repurchase Program, during 2020 Talgo S.A. acquired 1,914,276 of its own shares, representing 1.40% of the Company's Share Capital. Subsequently, the Board of Directors of the Company agreed at the meeting held on May 6, 2020 to declare the own share buy-back program completed and this was communicated to the market through the publication of the corresponding "relevant fact" on November 15, 2018 (registry no. 271608), once its expiry date is met May 19, 2020.

In addition, within the framework of the Buyback Program, in June 2020, a first capital reduction was carried out, of 9,559,382 treasury shares representing 7.00% of the Share Capital. Thus, 3,560,791 shares remain to be redeemed, foreseeably during the year 2021, representing 2.80% of the Share Capital, with which the aforementioned Repurchase Program would be completed.

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:

- (a) Acquisitions may be made directly by the Company or indirectly through its subsidiaries in the same terms of this agreement.
- (b) Acquisitions will be made through purchase and sale transactions, exchange or any other permitted by law.
- (c) Acquisitions may be made, at any time, up to the maximum amount allowed by law.
- (d) 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.
- (e) 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	50.37

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 neutralize 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 Corporation Law.

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					
% Absentee voting					
Date of General Meeting	% physical presence	% proxy	Electronic vote	Other	Total
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
10/06/2020	2.90	59.37	0.99	0.00	63.26
Of which floating capital	0.64	17.56	0.99	0.00	19.19

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



ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLIC AND LISTED COMPANIES

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:

<https://www.talgo.com/web/investors/corporate-governance>

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

<https://www.talgo.com/en/web/investors/2020-ordinary>

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	14

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
MS. MARISA PONCELA GARCIA		Independent	DIRECTOR	21/07/2020	21/07/2020	CO-OPTION

Total number of Directors	14
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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
No data available					

Cause of termination, if before the end of the term of office and other observations; information on whether the Director has sent a letter to the other members of the Board and, in the case of termination of Non-Executive Directors, explanation or opinion of the Director who has been removed by the General Meeting.

No data available

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 organizational 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)

Total number of Executive Directors	2
% of total Board	14.29

EXTERNAL PROPRIETARY DIRECTORS		
Name or corporate name of Director	Name or corporate name of the significant shareholder that he/she represents or that appointed him/her	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	21.43

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.

INDEPENDENT EXTERNAL DIRECTORS	
Name or corporate name of Director	Profile
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 Wharton 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.
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.

INDEPENDENT EXTERNAL DIRECTORS	
Name or corporate name of Director	Profile
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.Donnolley & 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.
MS. MARISA PONCELA GARCIA	Ms. Marisa Poncela García has a degree in Economics and has belonged to the High Corps of Spanish State Economists and Trade Experts since 1989 and to the Corps of Spanish State Trade Experts since 1984. Expert in definition of internationalization and business innovation strategies, in project and company financing and with a tremendous knowledge of the functioning of international Multilateral Organizations, as well as of the Spanish and European science and innovation system and its agents, Ms. Poncela has developed her professional career both in the private sector - thus, from 2007 to 2010 she held the positions of Director of Institutional Relations at Abbott Laboratories in Spain and Director General of the Abbott Foundation. She was also co-founder of ADD TALENTIA, S.L. (2008-2010) - as well as in the public sector, holding positions such as Secretary General of Science and Innovation (2013-2016) and Secretary of State of Commerce (2016-2018). Since May 2019 until the present day, Ms. Poncela has been the International Director of RENFE Operadora.

Total number of Independent Directors	7
% of total Board	50.00

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/her 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/her duties in his/her 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
MS. MARISA PONCELA GARCIA	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>In Section 5 of Article 8 of the TALGO Board of Directors' Regulations, it is established 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 connection, 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, Talgo Russia, Talgo Saudi Arabia and prototype Avril have been developed, manufactured and / or put into operation. The simultaneous development, manufacturing and maintenance of several projects with different clients worldwide stands out. Additionally, he was responsible for the design and start-up of new Talgo factories and maintenance centers 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 with a specialty in mechanics from the ICAI School of Engineering.</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>Since 2015, Mr. Hermosilla has been one of the managing partners and founders of the law firm Ramón Hermosilla Abogados. 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 the Board and legal counsel to several companies in various sectors of activity. 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 on the Master's in Commercial Law program at the Catholic Institute of Business Administration University, Company Management at the Universidad Pontificia de Comillas (ICADE) and at the Instituto de Empresa (IE), among others. In relation to his most significant publications, we should highlight chapter 2 "Request and judicial declaration of Bankruptcy" for 2009-2010 and 2011-2012 Memento Práctico Concursal, as well as his 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.</p>

Total number of Other External Directors	2
% of total Board	14.29

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 2020	Year 2019	Year 2018	Year 2017	Year 2020	Year 2019	Year 2018	Year 2017
Executives					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	1			1	14.29	0.00	0.00	7.69
Other External					0.00	0.00	0.00	0.00
Total	1			1	7.14	0.00	0.00	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, if any, that the Appointments Committee has agreed to ensure that the Company's selection procedures do not suffer from implicit biases that hinder the selection of female directors, and that the Company deliberately seeks and includes among the potential candidates, women who meet the professional profile sought thereby allowing a balanced presence of women and men to be achieved. Also indicate whether these measures include those necessary to achieve a significant number of female senior managers in the Company.

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 on the above-mentioned date.

In this regard, on July 21, 2020, Marisa Poncela García was appointed as a new member of the Board of Directors.

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 of the Appointments Committee on the verification of compliance with the policy aimed at favoring an appropriate composition of the Board of Directors.

The Appointments and Remuneration Committee proposed the appointment of a new female director, who was formally appointed at the Board meeting held on July 21, 2020.

In addition to the above, the Appointments and Remuneration Committee has the will and objective to continue with the search for female directors who, in line with the selection process expressed in the Diversity Policy in the Board of Directors (attached document), will fill any vacancies that may occur 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	This director has 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	This director has 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

Name or corporate name of Director	Corporate name of the group entity	Position	Does he perform executive tasks?
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 the Company:

Name or corporate name of Director	Corporate Name of the Public Corporation	Position
Mr. Ignacio Mataix Entero	Indra Sistemas, S.A.	DIRECTOR
Mr. Emilio Novela Berlín	Merlin Properties Socimi , 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 authorized 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 favor of the Board of Directors (thousand euros)	1,053
Amount of total remuneration for current directors corresponding to accumulated pension rights (thousand euros)	599
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	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
Mr. ALVARO SEGURA ECHANIZ	Chief Financial Officer (CFO)
MS. MARÍA LÓPEZ PACHECO	Internal Audit Director
MR. FRANCISCO JAVIER BORREGUERO DOMINGUEZ	COO

Number of women in senior management	3
Percentage of total number of members of senior management	25.00
Total remuneration of senior management (in thousands of euros)	1,679

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
N/A

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.

- 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/her 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, honorable people and of recognized solvency, competence, experience, qualification, training, availability and commitment to their role. It shall endeavor 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 honorability, 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/her 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/her 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/her absence, the director appointed for that purpose by the Board of Directors, should lead the debates, in accordance with the provisions of the Rules of the Board.

4. - REMOVAL OF DIRECTORS

Directors shall leave office when the period for which they 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/her 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/her resignation or the mandatory termination of his/her 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 organization 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 2020 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 Break down, 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 jeopardize, 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/her 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 him/herself 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	11
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	6
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	11
% attendance in person on total votes during the year	97.94
Number of meetings with face-to-face attendance, or representations made with specific instructions, of all the directors	8
% of votes cast with face-to-face attendance and representations made with specific instructions, on total votes during the year	97.94

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 authorization 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:

- 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).
- 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.
- Regularly reviewing the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed.
- 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.
- 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.
- 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/her work does not compromise his/her quality or his/her 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/her 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 the 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	185	204
Fees for non-audit work / Fees for audit work (in%)	76.00	53.16	58.62

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	8	8

	Individual	Consolidated
Number of years audited by the current audit firm / Number of years that the Company or its Group has been audited (in%)	66.66	66.66

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, unless there have been special circumstances that have been recorded in the minutes, whether the Board has been informed or has otherwise become aware of any situation affecting a director, whether or not related to his/her performance in the company itself, which could damage the credit and reputation of the company::

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 245 million euros.

C.1.39 Identify individually, in the case of directors, and in aggregate form in all other cases, and indicate, in detail, the agreements between the Company and its administrative and management positions or employees that provide for indemnities, guarantee or golden parachute clauses, when they resign or are unfairly dismissed or if the contractual relationship comes to an end as a result of a takeover bid or other types of transactions.

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	√	
	Yes	No
Is the General Meeting informed of the clauses?	√	

C.2. Board Committees

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

Audit Committee		
Name	Position	Category
MR. IGNACIO MATAIX ENTERO	MEMBER	Independent
MR. EMILIO NOVELA BERLÍN	CHAIRMAN	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.

- A) The Audit Committee shall be responsible for internal control and information systems:
- 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:
- (a) 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.
 - (b) 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.
 - (c) Ensure the independence of the external auditor.
 - (d) 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.
 - (e) 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.
 - (f) 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:
- (a) 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.
 - (b) The brochures for issuance, admission and other documentation relating to the issue or admission of shares.
 - (c) 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.
 - (d) 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
- (a) 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;
 - (b) The person responsible for the internal audit function will present his/her annual work plan to the Audit Committee.
 - (c) 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 materializing.
 - (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/her 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/her 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/her 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 delegated or attributed to this committee other than those already described in section C.1.9 and describe the procedures and rules of organization and operation thereof. For each of these functions, indicate its most important actions during the fiscal year and how it has exercised in practice each of the functions attributed to it, whether by law, in the bylaws or in other corporate resolutions.

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 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.

The Committee has carried out the activities assigned by law and by the rules that make up the Company's Corporate Governance System.

The Committee has exercised its powers in practice and reported on the most relevant activities:

- Support the Board of Directors in the coordination and organization of Talgo's strategy through the dissemination, implementation and monitoring of the general strategy.
- It provides technical, information and management support, both with respect to the functions of supervision and monitoring, as well as the planning of the business strategy that corresponds to the Board of Directors of the Company and to promote its Chairman and Chief Executive Officer and the rest of the management team, thus enabling the development of Talgo's business strategy.
- 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.
- 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 decision-making, 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 2020.
- 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, which 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 is 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 2020		Financial Year 2019		Financial Year 2018		Financial Year 2017	
	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

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 authorization of the Board of Directors, following a favorable report from the Appointments and Remuneration Committee, which must be approved with a favorable 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 authorization established in the previous paragraph shall not be necessary when dealing with operations that simultaneously fulfil the following three conditions:

(i) That they are carried out by virtue of contracts whose conditions are basically standardized and are habitually applied to customers contracting the type of product or service in question.

(ii) That they are carried out at prices or rates generally established by whoever acts as supplier of the good or service in question or, when the transactions refer to goods or services for which there are no established rates, under usual market conditions, similar to those applied in commercial relations maintained with clients of similar characteristics.

(iii) That their amount does not exceed one percent (1%) of the Company's annual income. If these conditions are met, the affected directors shall not be obliged to report such transactions or to seek the Board's authorization beforehand. The aforementioned transactions shall be assessed from the point of view of equal treatment and market conditions and shall be included in the Annual Corporate Governance Report and in the periodic public information under the terms set forth in the applicable regulations. Exceptionally, when reasons of urgency so advise, related transactions may be authorized, as the case may be, by the Executive Committee, with subsequent ratification 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/her, may undertake activities for his/her 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/her 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 authorized to do so by the Company, by resolution at the General Shareholders' Meeting.
- (iii) Directors should refrain from participating in discussions and votes about agreements and decisions in which they or any of their related parties have a conflict of interest, be it direct or indirect, except those agreements or decisions that affect him/her in his/her capacity as an administrator, such as his/her appointment or removal for positions on the Board of Directors or others of similar significance.
- (iv) Directors should report to the Board of Directors any situations involving conflicts of interest, be they direct or indirect, with the interests of the Company. In the case of conflict, the affected director should refrain from participating in the operation to which the conflict relates.

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

D.7. Indicate whether the Company is controlled by another entity within the meaning of Article 42 of the Commercial Code, whether listed or not, and has, directly or through its subsidiaries, business relationships with such entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to those of any of them.

- Sí
- 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 organization 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 organization, 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 organization.

Senior Management is responsible for designing and reviewing the organizational structure, for defining reporting lines and authorizing 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 2020, 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 defense, which have different roles and responsibilities. These lines are as follows:

-The organizational 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 organization. These systems collect, process and distribute the necessary information to users to enable the proper performance of their functions.

e) Supervision, organization 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 analyzing 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 fiscal risks and, to the extent significant, those arising from corruption (the latter understood within 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
- Pandemic risks

***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 materialization 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 materialization 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 characterize the target behavior of the Talgo Group and which cut across the whole organization.

These premises relate to the solvency, liquidity and robustness of the results.

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

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

During the 2020 financial year, the principal risk that materialized was the pandemic risk, the impacts and measures of which have been disclosed in the notes to the financial statements for this year.

E.6. Explain the plans for addressing and supervising for 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 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 recognized assets and liabilities, the Group's companies enter into currency hedging contracts, however the majority of the Group's operations are undertaken in the functional currency, euro. The aim of these hedges is to try to avoid the impact of 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 analyzed 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

The Group is increasingly sensitive to the correct management of the fiscal risk given the importance that an incorrect treatment of the same may have from a financial, reputational and corporate governance point of view.

The Group has an adequate system to address the correct analysis of fiscal risks that allows it to identify, evaluate and mitigate them. This analysis is carried out considering, on the one hand, the different types of risks to be managed and, on the other hand, where the risk may be located within the Group, taking into account that decisions with fiscal significance are taken in numerous departments of the Group.

The management of fiscal risks requires the effective control of them, both for their detection and for the implementation of mechanisms for their mitigation; considering the transcendence that risk mitigation has.

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 2020 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, June 22nd.

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 organizational 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 analyzing 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 organizational structure for the first line of reporting in the organization (i.e. the managers that report directly into him).

In turn, these managers are responsible for deciding any changes in the organizational structure under their immediate control, following authorization 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 organizational 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 analyzing 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 face-to-face and on-line training. It is available through the Group's intranet, 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 any 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 organization, 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" and "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/her 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 2020 were as follows:

- Courses relating to the submission of financial statements in computerized form (ESEF)
- 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. Principal changes.
- Training in management control.
- IT training on all updates, new SAP modules and new tools that contribute to improve the control of financial information (SAP GRC, Governance, Risk and Compliance).
- Fiscal changes.

The training programs are extended to members of the organization that may be affected by them in the performance of their functions.

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 financial reporting objectives (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 relationship 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 authorizing 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 investee companies
- Taxes on income 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. There is also a Cybersecurity department within the aforementioned department.

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 (Enterprise Resource Planning) 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 required from independent experts (valuation of assets and liabilities). In these cases, it is the Company's policy to resort to firms of recognized prestige and independence as well as the execution of controls and supervision of compliance with respect to the work of these experts, aimed at verifying their competence, training, accreditation or independence, as well as the validity of the data and methods used, and the reasonableness of the assumptions used.

When it is intended to use the work of an independent expert (understood as those third parties that give advice or judgment in specialized matters and that are advice or judgment in specialized matters and who have adequate and accredited training and experience in the required field) that may significantly affect the financial information, the following aspects are evaluated:

- Adequate professional competence and approval by the corresponding Professional Body (when required by a competent legal regulation).
- The relationships or links of the external professional with the organization in order to consider its independence. Additionally, the results obtained by the third party are evaluated, as well as the data used for their evaluation. During the year, valuations (valuation of assets and liabilities) and reports to independent experts have been required from time to time. In these cases, it is the Group's policy to resort to firms of recognized prestige and independence, as well as to execute the necessary controls to supervise as well as to execute the necessary controls to supervise compliance with respect to the work of these experts, aimed at verifying their competence, training, accreditation or independence, as well as the validity of the data and methods used, and the reasonableness of the assumptions 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 organization, 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 Reporting 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. Significant changes made are communicated to the subsidiaries to which they are applicable through the available technological tools or by holding specific meetings with their managers.

F.4.2 Mechanisms for collating and preparing financial information in standard formats that may be applied and used by all entity or group units, 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 ensure the reliability and correct treatment of the information received from the different subsidiaries. It is worth mentioning the centralized preparation of the various consolidation entries, the analysis of variations of all the equity items and results, changes in results obtained over previous periods and on approved budgets, analysis of the evolution of the most relevant events and 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/her 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/her 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/her assessment of the SCIIF to the Audit Committee, summarizing his/her 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 2020, 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.
- Audit of the relevant fiscal elements for the Group.
- 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 from technology experts in relation to the following areas within the management of the Company's information systems: information systems governance; information, operations and network security and application development and change management, as well as everything related to data protection, taking into consideration all recommendations detected and implementing an action and improvement plan 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, Capex, 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 2020, the Audit Committee held meetings at which the Internal Audit Department reported the results of the work performed and the action plans it had put in place to introduce corrective measures.

In addition, as part of the external audit, it meets with the external auditors so that they can present the conclusions of their audit work (including significant aspects detected in the area of internal control). The Committee met 6 times in the 2020 financial year, 5 of which were attended by the external auditors where it obtained information on regulatory developments, 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 performance 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.



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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 2020.

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 Comisión Nacional del Mercado de Valores (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 listed Company is controlled, within the meaning of Article 42 of the Commercial Code, by another entity, whether listed or not, and has, directly or through its subsidiaries, business relations with said entity or any of its subsidiaries (other than those of the listed Company) or carries out activities related to those of any of them, it should report publicly and with precision about:
 - a) The respective areas of activity and any business relationships between, on the one hand, the listed Company or its subsidiaries and, on the other hand, the parent company or its subsidiaries.
 - b) The mechanisms in place for resolving any potential conflicts of interest that may arise.

Compliant Partially compliant Explain Not applicable

3. During an ordinary General Shareholders' Meeting, in addition to distributing the written Annual Corporate Governance Report, the Chairman of the Board of Directors should verbally inform the shareholders about the most relevant corporate governance considerations for the Company, in sufficient detail, and, in particular, he should provide information about:
 - a) Any changes that have happened since the previous ordinary General Shareholders' Meeting.
 - b) The specific reasons why the Company 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 regarding communication and contacts with shareholders and institutional investors in the context of their involvement in the Company, as well as with proxy advisors that is fully respectful of the rules against market abuse and gives similar treatment to shareholders who are in the same position. The Company should make this policy public through its website, including information regarding the way in which it has been put into practice and identifying the interlocutors or those responsible for carrying it out.

Without prejudice to the legal obligations regarding the dissemination of privileged information and other types of regulated information, the Company should also have a general policy regarding the communication of economic-financial, non-financial and corporate information through the channels it deems appropriate (media, social networks or other channels) that contributes to maximizing the dissemination and quality of the information available to the market, investors and other stakeholders.

Compliant Partially compliant Explain

In line with the Internal Code of Conduct in the securities market, as well as with the recommendations of the CNMV, ESMA and good governance practices, the Company complies with clear protocols for communication and dissemination of privileged and relevant information, including, among others, regulated information, economic-financial, non-financial and corporate information both through the relevant channels with the CNMV and through a specific website:

<https://www.talgo.com/es/web/investors>

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.

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.

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.

<https://www.talgo.com/es/web/investors>

7. The Company should livestream the General Shareholders' Meetings via its website.

The Company should have mechanisms that allow the delegation and exercise of votes by telematic means and even, in the case of large cap companies and to the extent proportionate, attendance and active participation in the General Shareholders' Meeting.

Compliant [] Partially compliant [] Explain []

At the Meeting held in 2020, the Company provided the possibility to participate both telematically and in person. Likewise, the means were provided to be able to participate in the same with the formulation of questions channeled through the established shareholders' office.

The Company publishes all the information regarding the definitive quorum, composition of the body of the Shareholders and results of the voting on the resolutions immediately after the Meeting is held.

8. The Audit Committee should ensure that the annual accounts that the Board of Directors submits to the General Shareholders' Meeting are prepared in accordance with accounting regulations. In those cases in which the auditor has included a qualification in its audit report, the Chairman of the Audit Committee should clearly explain the Audit Committee's opinion on its content and scope at the general meeting, making it available to the shareholders at the time of publication of the notice of the meeting, together with the rest of the proposals and reports of the board, a summary of such opinion.

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.

Those requirements and procedures should favor 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/her 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 model attendance card or proxy or remote voting form with the necessary modifications so that the new items on the agenda and alternative proposals for resolutions can be voted on in 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 a 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 maximizes the Company's economic value.

In pursuit of the corporate interest, as well as with respect for the laws and rules and a behavior based on good faith, ethics and respect for commonly accepted uses and 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 aimed at favoring an appropriate composition of the Board of Directors and that:
- Is specific and verifiable.
 - Ensures that the proposals for appointment or re-election are based on a prior analysis of the Board of Directors and
 - promotes diversity of knowledge, experience, age and gender. For these purposes, measures that encourage the Company to have a significant number of female senior managers are considered to favor gender diversity.

The results of the prior analysis of the competencies required by the Board of Directors should be included in the report of the Appointments Committee published when the General Shareholders' Meeting is convened for the ratification, appointment or re-election of each director.

Compliance with this policy shall be verified annually by the Appointments Committee and reported 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.

The number of female directors should account for at least 40% of the members of the Board of Directors before the end of 2022 and thereafter, and not be less than 30% prior to that date.

Compliant Partially compliant Explain

The Appointments and Remuneration Committee is mandated by the Board of Directors to select female directors to fill vacancies that may arise within the Board.

In this regard, in 2020 the Company co-opted a new independent female director to the Board of Directors of Talgo.

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:

- In companies with large capitalization in which there are few shareholdings that have legally considered significant.
- 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 capitalization 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. 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 they do whatever their nature.
- c) An indication of the category of Director to which they belong, stating, in the case of Proprietary Directors, the shareholder that they represent or with whom they have 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. 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/her 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/her from devoting the necessary time to the performance of the duties inherent to the role of Director; when he/she breaches the duties inherent to his/her role; or when circumstances arise that cause him/her to lose his/her 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. Companies should establish rules obliging Directors to report and, where appropriate, resign when situations arise that affect them, whether or not related to their performance in the Company, that could damage the credit and reputation of the Company and, in particular, obliging them to inform the Board of any criminal proceedings in which they are under investigation, as well as the progress of the proceedings.

Having been informed or having otherwise become aware of any of the situations mentioned in the preceding paragraph, the Board should examine the case as soon as possible and, in view of the specific circumstances, decide, following a report from the Appointments and Remuneration Committee, whether or not to adopt any measure, such as opening an internal investigation, requesting the resignation of the director or proposing his/her removal. It should report thereon in the Annual Corporate Governance Report, unless there are special circumstances that justify it, which must be recorded in the minutes. This without prejudice to the information that the Company must disseminate, if appropriate, at the time the corresponding measures are adopted.

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.

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, either by resignation or by resolution of the General Meeting, a Director leaves office before the end of his/her term of office, he/she should sufficiently explain the reasons for his/her resignation or, in the case of Non-Executive Directors, his/her opinion on the reasons for removal by the Board, in a letter sent to all members of the Board of Directors.

Notwithstanding the fact that all of the above is reported in the Annual Corporate Governance Report, to the extent that it is relevant for investors, the Company should publish the resignation as soon as possible, including sufficient reference to the reasons or circumstances provided by the director.

Compliant Partially compliant Explain Not applicable

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

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. 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/her, should prepare and submit to the Board a calendar of dates and matters to discuss; organize 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 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/her with the following powers, in addition those powers that correspond to him/her 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, at least two Non-Executive Directors should sit on it, at least one of whom should be Independent; and its Secretary should be the Secretary of the Board of Directors.

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 as a whole, and in particular its Chairman, are appointed taking into account their knowledge and experience in accounting, auditing and risk management, both financial and non-financial.

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 in charge of the internal audit function should present its Annual Work Plan to the Audit Committee for approval by the Committee or the Board, report directly to it on its execution, including any incidents and limitations to the scope that may arise in its development, the results and follow-up of its recommendations, and submit an Activities 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 are the responsibility of the Audit Committee:

1. In relation with the information and control systems:
 - a) a) Supervise and evaluate the preparation process and the integrity of the financial and non-financial information, as well as the control and management systems for financial and non-financial risks relating to the Company and, if applicable, to the Group -including operational, technological, legal, social, environmental, political and reputational or corruption-related risks- reviewing the compliance with regulatory requirements, the adequate 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 and removal of the head of the internal audit service; propose the budget for that service; approve or propose approval to the Board of the orientation and Annual Work Plan of internal audit, ensuring that its activity is focused primarily on relevant risks (including reputational risks); receive periodic information on 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 employees and other persons related to the Company, such as Directors, shareholders, suppliers, contractors or subcontractors, to communicate irregularities of potential transcendence, including financial and accounting irregularities, or of any other nature, related to the Company that they notice within the Company or its Group. This mechanism must guarantee confidentiality and, in any case, provide for cases in which communications can be made anonymously, respecting the rights of both the whistleblower and the person reported.
 - d) To ensure in general that the policies and systems established in the area of internal control are effectively applied in practice.
2. In relation to the external auditor:
 - a) In the event that the external auditor resigns, examine the circumstances that have given rise to their resignation.
 - b) Ensure that the remuneration received by the external auditor for their work does not compromise his/her quality or independence.
 - c) Supervise the Company to notify the CNMV of the change of auditor and accompanies it with a statement on the possible existence of disagreements with the outgoing auditor and, if any, their content.
 - 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 [X] Partially compliant [] Explain [] Not applicable []

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

- a) The different types of risks, financial and non-financial (including operational, technological, legal, social, environmental, environmental, political and reputational risks, and also including those related to corruption) that the Company faces, including, among the financial or economic risks, contingent liabilities and other off-balance sheet risks.
- b) A risk control and management model based on different levels, of which a specialized Risk Committee shall form part when the industry standards so provide or when the Company deems it appropriate.
- c) The level of risk that the Company considers acceptable.
- d) The measures established to mitigate the impact of the risks identified, in the event that they materialize.
- e) 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 [X] 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 [X] 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 bodies - 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 capitalization 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.

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/her 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. Supervision of compliance with the Company's environmental, social and corporate governance policies and rules, as well as internal codes of conduct, should be entrusted to one or more committees of the Board of Directors, which may be the Audit Committee, the Nomination Committee, a committee specializing in sustainability or corporate social responsibility, or any other specialized committee that the Board of Directors, in the exercise of its self-organizing powers, has decided to create. Such committee shall be composed solely of Non-Executive Directors, the majority of whom shall be independent and be specifically attributed the minimum functions indicated in the following recommendation.

Compliant

Partially compliant

Explain

54. The minimum functions referred to in the above recommendation are as follows.

- a) Supervision of compliance with corporate governance rules and the Company's internal codes of conduct, also ensuring that the corporate culture is aligned with its purpose and values.
- b) The supervision of the application of the general policy regarding the communication of economic-financial, non-financial and corporate information as well as communication with shareholders and investors, proxy advisors and other stakeholders. Likewise, the way in which the entity communicates and relates to small and medium-sized shareholders shall also be monitored.
- c) The evaluation and periodic review of the corporate governance system and the Company's environmental and social policy, in order to ensure that they fulfill their mission of promoting the Company's interest and take into account, as appropriate, the legitimate interests of other stakeholders.
- d) The supervision that the Company's practices in environmental and social matters are in line with the agreed strategy and policy.
- e) The supervision and evaluation of the relationship processes with the different stakeholders.

Compliant [X]

Partially compliant []

Explain []

55. Sustainability policies on environmental and social matters should identify and include at least:

- a) The principles, commitments, objectives and strategy with respect to shareholders, employees, customers, suppliers, social issues, environment, diversity, corporate responsibility, respect for human rights and prevention of corruption and other illegal conduct.
- b) The methods or systems for monitoring compliance with policies, associated risks and their management.
- c) The mechanisms for monitoring non-financial risk, including those related to ethical aspects and business conduct.
- d) The channels of communication, participation and dialogue with stakeholders.
- e) Responsible communication practices that avoid manipulation of information and protect integrity and honor.

Compliant [X]

Partially compliant []

Explain []

56. The remuneration of Directors should be sufficient to attract and retain Directors of the desired profile and to reward the dedication, qualification and responsibility that the position requires, but not so high as to compromise the independent judgment of Non-Executive Directors.

Compliant [X] Explain []

57. The Executive Directors' variable remuneration should be 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 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

59. The payment of the variable components of the remuneration should be subject to sufficient verification that the previously established performance or other conditions have been effectively fulfilled. Entities shall include in the annual Directors' remuneration report the criteria regarding the time required and methods for such verification depending on the nature and characteristics of each variable component.

Additionally, the entities should consider the establishment of a reduction clause ('malus') based on the deferral for a sufficient period of time of the payment of a part of the variable components that implies their total or partial loss in the event that prior to the moment of payment, some event occurs that makes it advisable.

Compliant Partially compliant Explain Not applicable

60. Remuneration related 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 shares, options or financial instruments corresponding to the remuneration systems have been assigned, Executive Directors may not transfer ownership or exercise them until a period of at least three years has elapsed.

An exception is made in the case in which the Director maintains, at the time of the transfer or exercise, a net economic exposure to the variation in the price of the shares for a market value equivalent to an amount of at least twice his/her annual fixed remuneration through the ownership of shares, options or other financial instruments.

The foregoing shall not apply to shares that the Director needs to dispose of to meet the costs related to their acquisition or, subject to a favorable appraisal by the Appointments and Remuneration Committee, to meet extraordinary supervening situations that so require.

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 termination or extinction of the contract should not exceed an amount equivalent to two years of the total annual remuneration and should not be paid until the Company has been able to verify that the Director has complied with the criteria or conditions established for their receipt.

For the purposes of this recommendation, termination or contractual termination payments shall include any payments whose accrual or payment obligation arises as a result of or in connection with the termination of the contractual relationship linking the Director to the Company, including amounts not previously vested in long-term savings systems and amounts paid under post-contractual non-competition agreements.

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:

25/02/2021

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

Yes
 No

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.

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

The logo for Talgo, featuring the word "Talgo" in a red, cursive script font. The letters are thick and fluid, with a slight upward curve at the end of the 'o'.

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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 15 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.