DOÑA MARIA JOSÉ ZUECO PEÑA, Secretario no Consejero del Consejo de Administración de la Sociedad **TALGO, S.A.** (antes denominada PEGASO RAIL INTERNATIONAL, S.A.) domiciliada en Las Matas (Madrid), Paseo del Tren Talgo, Número 2 y con N.I.F. A-84453075.

CERTIFICO:

Que las cuentas anuales consolidadas y el informe de gestión consolidado en idioma inglés adjuntos y referidos al ejercicio cerrado a 31 de diciembre de 2014, son una fiel traducción de las cuentas anuales consolidadas –comprensivas de Balance Consolidado, Cuenta de Pérdidas y Ganancias Consolidada (Estado de Resultado Global Consolidado), Memoria Consolidada, Estado de Flujos de Efectivo Consolidado y Estado de Cambios en el Patrimonio Neto Consolidado– e informe de gestión consolidado formulados por el Consejo de Administración en idioma español bajo los principios y criterios contables españoles y de acuerdo a lo establecido en las normas internacionales de información financiera (NIIF) adoptadas por la Unión Europea teniendo en consideración la totalidad de los principios y normas contables y los criterios de valoración de aplicación obligatoria de las NIIF – UE.

En caso de discrepancia entre la versión española e inglesa prevalecerá la versión española.

Y para que conste a los efectos oportunos, expido la presente Certificación en Madrid, a 20 de abril de 2015.

Deloitte

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

Consolidated Financial Statements for the ye
ended 31 December 2014 prepared in
accordance with International Financial Repc
Standards (IFRSs) as adopted by the Europe
Union and Consolidated Directors' Report,
together with Independent Auditor's Report

Translation of a report originally issued in Spanish based work performed in accordance with the audit regulations in Spain. In the event of a discrepancy, the Spanish-la

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

Consolidated Financial Statements for the year ended 31 December 2014 prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Consolidated Directors' Report, together with Independent Auditor's Report

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

Deloitte

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28020 Madrid
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Fax: +34 915 14 51 80
www.deloitte.es

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
Pegaso Rail International, S.A.,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Pegaso Rail International, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, 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.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Pegaso Rail International, S.A. and Subsidiaries as at 31 December 2014, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2014 contains the explanations which the Parent's directors consider appropriate about the situation of Pegaso Rail International, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2014. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Pegaso Rail International, S.A. and Subsidiaries.

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

Francisco Fernández
27 March 2015

PEGASO RAIL INTERNATIONAL, S.A.
AND SUBSIDIARIES

Consolidated annual accounts prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, for the year ended 31 December 2014 and the consolidated directors' report*

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

	Note	31.12.2014	31.12.2013
ASSETS			
Non-current assets			
Tangible fixed assets	6	70 898	64 743
Intangible assets	7	66 156	71 314
Goodwill	8	112 439	112 439
Investment in associates	2.3 & 10	10	10
Deferred tax assets	18	13 955	14 892
Other financial assets	10	3 664	11 409
		267 122	**274 807**
Current assets			
Non-current assets held for sale		6 114	-
Stock	12	71 723	49 428
Customers and other accounts receivable	11	158 470	113 644
Other financial assets	10	167	131
Asset accruals		1 803	2 508
Cash and cash equivalents	13	87 910	95 986
		326 187	**261 697**
TOTAL ASSETS		**593 309**	**536 504**

Notes 1 to 34 form an integral part of the consolidated statement of financial position.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEARS 2014 AND 2013
(Expressed in thousands of euros)

	Note	31.12.2014	31.12.2013
EQUITY			
Capital and reserves attributable to the owners of the Parent Company			
Share capital	14	41 187	41 187
Share premium	14	68 451	68 451
Other reserves	15	2 608	101
Retained earnings	15	106 855	68 405
Other equity instruments	14	30 512	12 152
		249 613	**190 296**
Non-controlling interests		-	-
Total equity		**249 613**	**190 296**
LIABILITIES			
Non-current liabilities			
Borrowings	17	73 809	72 767
Deferred tax liabilities	18	3 565	6 108
Provisions for other liabilities and charges	19	22 910	12 278
Government grants		5 101	2 143
		105 385	**93 296**
Current liabilities			
Suppliers and other payables	16	222 245	235 829
Current tax liabilities	25	125	55
Borrowings	17	12 379	2 586
Provisions for other liabilities and charges	19	3 562	14 442
		238 311	**252 912**
Total liabilities		**343 696**	**346 208**
TOTAL EQUITY AND LIABILITIES		**593 309**	**536 504**

Notes 1 to 34 form an integral part of the consolidated statement of financial position.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEARS 2014 AND 2013

(Expressed in thousands of euros)

	Note	31.12.2014	31.12.2013
Net turnover	5	**384 311**	**326 719**
Other income		2 281	1 157
Stock variation for work-in-progress and finished goods		5 249	(1 354)
Work performed and capitalized by the Company		8 380	17 040
Procurement costs		(180 809)	(136 950)
Personnel costs	20	(104 556)	(92 770)
Other operating expenses	22	(47 698)	(66 127)
Amortization and depreciation charge	6, 7	(16 811)	(7 210)
Loss on disposal of fixed assets		(1)	(82)
Other results	23	530	(233)
Operating profit		**50 876**	**40 190**
Financial income	24	1 714	14 179
Financial expenses	24	(7 125)	(10 567)
Net financial result	**24**	**(5 411)**	**3 612**
Profit before tax		**45 465**	**43 802**
Income tax charge	25	(6 981)	(12 821)
Profit for the year from continuing operations		**38 484**	**30 981**
Profit for the year		**38 484**	**30 981**
Attributable to:			
Owners of the parent	26	38 484	30 981
Non-controlling interests		-	-
Basic earnings per share attributable to the owners of the Company			
Continuing operations	26	28.12	22.64
Total		**28.12**	**22.64**
Diluted earnings per share attributable to the owners of the Company			
Continuing operations	26	28.12	22.64
Total		**28.12**	**22.64**

Notes 1 to 34 form an integral part of this consolidated statement of financial position.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS 2014 AND 2013
(Expressed in thousands of euros)

	31.12.2014	31.12.2013
Profit for the year	38 484	30 981
Other comprehensive income:		
Cash flow hedges:		
Direct assignment to equity:		
Cash flow hedge	-	-
Tax effect of the equity assignment	-	-
Transfer to results:		
Cash flow hedge	-	-
Tax effect of the cash flow hedge	-	-
Foreign currency translation differences	2 509	(73)
Total other comprehensive income	**2 509**	**(73)**
Total comprehensive income for the year	**40 993**	**30 908**
Attributable to:		
-Owners of the parent	40 993	30 908
-Non-controlling interests	-	-
Total comprehensive income for the year	**40 993**	**30 908**

Notes 1 to 34 form an integral part of this consolidated statement of comprehensive income.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2014 AND 2013
(Expressed in thousands of euros)

	Attributable to the owners of the company							
	Share capital (Note 14)	Retained earnings	Share premium	Other equity instruments (Note 14)	Other reserves (Note 15)	Total	Non-controlling interest	Total equity
Balance at 31 December 2012	**41 187**	**36 992**	**68 451**	**2 516**	**174**	**149 320**	-	**149 320**
Comprehensive income								
Profit or loss	-	30 981	-	-	-	30 981	-	30 981
Other comprehensive Income	-	-	-	-	-	-	-	-
Currency exchange differences	-	-	-	-	(73)	(73)	-	(73)
Total comprehensive Income	-	**30 981**	-	-	**(73)**	**30 908**	-	**30 908**
Transactions with owners								
Other movements	-	432	-	9 636	-	10 068	-	10 068
Total transactions with owners	-	**432**	-	**9 636**	-	**10 068**	-	**10 068**
Balance at 31 December 2013	**41 187**	**68 405**	**68 451**	**12 152**	**101**	**190 296**	-	**190 296**
Balance at 31 December 2013	**41 187**	**68 405**	**68 451**	**12 152**	**101**	**190 296**	-	**190 296**
Comprehensive income								
Profit or loss	-	38 484	-	-	-	38 484	-	38 484
Other comprehensive Income	-	-	-	-	-	-	-	-
Currency exchange differences	-	-	-	-	2 507	2 507	-	2 507
Total comprehensive Income	-	**38 484**	-	-	**2 507**	**40 991**	-	**40 991**
Transactions with owners	-	-	-	-	-	-	-	-
Other movements	-	(34)	-	18 360	-	18 326	-	18 326
Total transactions with owners	-	-	-	**18 360**	-	**18 326**	-	**18 326**
Balance at 31 December 2014	**41 187**	**106 855**	**68 451**	**30 512**	**2 608**	**249 613**	-	**249 613**

Notes 1 to 34 form an integral part of this consolidated statement of changes in equity.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE FINANCIAL YEARS 2014 AND 2013

(Expressed in thousands of euros)

	2014	2013
Cash flows from operating activities (note 27)	**19 717**	**174 561**
Cash used in operations	**(19 162)**	**(19 735)**
Interest paid	(5 496)	(8 944)
Interest received	1 596	435
Tax paid	(15 262)	(11 226)
Net cash flow generated from operating activities	**555**	**154 826**
Cash flows from investing activities		
Purchases of property, plant and equipment (note 6)	(17 666)	(20 539)
Purchases of intangible assets (note 7)	(6 221)	(15 407)
Other assets (note 10)	-	-
Acquisitions by Group Companies	-	(16 014)
Loans to third parties	-	(1 242)
Net cash used in investing activities	**(23 887)**	**(53 202)**
Cash flows from financing activities		
Disbursements for loan repayments (note 17)	(3 512)	(23 275)
Proceeds from borrowings (note 17)	18 178	1 037
Dividends and loans to related parties	-	-
Grants received	590	-
Net cash used / (generated) in financing activities	**15 256**	**(22 238)**
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	**(8 076)**	**79 386**
Cash, cash equivalents and bank overdrafts at the beginning of year (note 13)	95 986	12 471
Cash and cash equivalents resulting from the merger	-	4 129
Cash, cash equivalents and bank overdrafts at the end of year (note 13)	87 910	95 986

Notes 1 to 34 form an integral part of this consolidated statement of cashflows.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2014
(Expressed in thousands of euros)

1. General information

Pegaso Rail International, S.A. (hereinafter, the "Parent Company") was incorporated as a Limited Liability Company on 30 September 2005. The Company's registered office for corporate and tax purposes is in Las Rozas, Madrid (Spain) and the Company is duly registered in the Commercial Registry of Madrid. On 22 December 2011, the Company's corporate structure was modified to convert it from a Limited Liability Company to a Joint-Stock Company. This transformation was registered in the Commercial Registry of Madrid on 9 January 2012 and the Company's name was changed to Pegaso Rail International, S.A. from that date onwards.

The corporate purpose of the Parent Company is as follows:

- 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.

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

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

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

The Group undertakes its activity in Spain at its facilities in Rivabellosa (Álava) and Las Matas II (Madrid), as well as at RENFE's facilities in Las Matas I, Santa Catalina and Fuencarral in Madrid; San Andrés Condal and Can Tunis in Barcelona; and Los Prados in Málaga.
The Group carries out its international activity at its facilities in Kazakhstan (Astana and

Almaty), Uzbekistan (Tashkent), Russia (Moscow), Germany (Berlin) and United States of America (Seattle-Washington and Milwaukee-Wisconsin).

The parent company of the Group is Pegaso Transportation International, S.C.A. This company holds 63.6% of Pegaso Rail International, S.A.'s shares and is domiciled in Luxembourg.

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

<u>Patentes Talgo, S.L.U.</u>

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

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

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

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

<u>Talgo Deutschland GmbH</u>

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.

<u>Talgo Rus</u>

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

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

Its registered office is in St. Petersburg, Russia.

This Company did not undertake any activity at the end of 2014 or 2013.

Talgo Inc.

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

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

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

Talgo Bosnia Herzegovina d.o.o.

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

Talgo Kazajstán S.L.

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

Its registered office is in Las Rozas, Madrid.

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

Given the ownership stake, as well as the fact that Talgo Kazajstán, S.L. does not have any control, decision-making power or voting rights, this company has not been considered part of the Talgo Group since the date the addendum took effect. Therefore, although the earnings generated by the company were consolidated in 2012, for the period during which the participation in this company was 50%, they were excluded from the consolidation perimeter from the aforementioned date onwards.

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.

<u>Talgo Demiryolu Aracli Üretim VE BA. A.S.</u>

The Parent Company owns 100% of this company.

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

Its registered office is located in Istanbul, Turkey.

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

<u>Consorcio Español Alta Velocidad Meca-Medina, S.A.</u>

This consortium was constituted on 2 November 2011. Patentes Talgo, S.L.U. holds 10,074 shares in the consortium, which have a nominal value of €1 per share; 100% of their nominal value had been disbursed at the end of 2014 and 2013. These shares represent a percentage stake of 16.79% in that company. Therefore, the Parent Company indirectly owns 16.79% of the company's shares.

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

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

This investment is classified as an associate investment.

2. Summary of the main accounting policies

The main accounting policies applied in the preparation of these consolidated annual accounts for 2014 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 2014, which have been prepared on the basis of the accounting records maintained by the Parent Company and by the other entities that form part of the Group, were formulated by the Directors of the Parent Company at the meeting of the Board of Directors held on 24 March 2015.

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 2014, the comprehensive income arising from its operations, the changes in net equity and the consolidated cash flow generated by the Group during the financial year that ended on that date.

Nevertheless, given that the accounting principles and valuation criteria applied for the preparation of the Group's consolidated annual accounts for the financial year 2014 may vary from those used by some of the entities that form part of the Group, certain adjustments and reclassifications were made during the consolidation process in order to homogenize the principles and the criteria and adapt them to International Financial Reporting Standards.

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

The consolidated annual accounts of the Group corresponding to 2013 were approved at the General Meeting of the Shareholders of the Parent Company on 27 June 2014. The consolidated annual accounts of the Group and the annual accounts of the entities within the Group for the financial year 2014 are still pending approval by their corresponding Shareholders or Owners. Nevertheless, the Board of Directors of the Parent Company understands that these accounts will be approved without any modification.

2.1.1 Changes in accounting criteria

During 2014, no changes were made in the accounting criteria with respect to the criteria applied in 2013.

2.1.2. Functional currency

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

2.2. Adoption of International Financial Reporting Standards

The consolidated annual accounts of the Group corresponding to the financial year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) and Regulation (EC) nº 1606/2002, issued by the European Parliament and the Board on 19 July 2002. In Spain, the obligation to file consolidated annual accounts in accordance with IFRS approved in Europe, is regulated by the final eleventh provision of Law 62/2003, dated 30 December 2003 governing tax, administrative and social order measures.

(Expressed in thousands of euros)

The Parent Company's shares are not listed in any stock exchange, however, the Group has decided to voluntarily apply the aforementioned preparation criteria in accordance with the aforementioned IFRSs, in the context of the Group's potential IPO on a regulated stock exchange in the future.

During 2014, 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 2014:

2.2.1. Mandatory standards, interpretations and amendments for financial years beginning on or after 1 January 2014:

New standards, modifications and interpretations:		**Obligatory application for financial years starting on or after:**
Approved for use in the European Union		
IFRS 10 Consolidated financial statements (published in May 2011)	Substitutes the current consolidation requirements of IAS 27	Annual periods starting on or after 1 January 2014 (1)
IFRS 11 Joint arrangements (published in May 2011)	Substitutes the existing standard IAS 31 regarding joint ventures.	Annual periods starting on or after 1 January 2014 (1)
IFRS 12 Disclosure of participations in other entities (published in May 2011)	Single standard, which establishes the disclosure required for participations held in associates, joint ventures and non-consolidated entities.	Annual periods starting on or after 1 January 2014 (1)
Transition rules: Amendment of IFRS 10, 11 and 12 (published in June 2012)	Clarification of the transition rules that apply to these standards.	Annual periods starting on or after 1 January 2014 (1)
IAS 27 (Revised) Individual financial statements (published in May 2011)	The standard has been revised, since following the publication of IFRS 10, it will now only affect the separate financial statements of an entity.	Annual periods starting on or after 1 January 2014 (1)
IAS 28 (Revised) Investments in associates and joint ventures (published in May 2011)	Revision in parallel with the publication of IFRS 11 regarding Joint arrangements.	Annual periods starting on or after 1 January 2014 (1)
Investment companies: Amendment of IFRS 10, IFRS 12 and IAS 27 (published in October 2012)	Exception to consolidation for parent companies that meet the definition of investment companies.	Annual periods starting on or after 1 January 2014
Amendment to IAS 32 Presentation. Offsetting of financial assets and liabilities (published in December 2011)	Additional clarifications to the rules for offsetting financial assets and liabilities under IAS 32.	Annual periods starting on or after 1 January 2014
Amendments to IAS 36- Disclosure of the recoverable amount of non-financial assets (published in May 2013)	Clarifies when certain disclosures are necessary and expands the requirements when the recoverable amount is based on fair value less selling costs.	Annual periods starting on or after 1 January 2014
Amendments to IAS 39 – Novation of derivations and the continuation of accounting hedges (published in June 2013)	The amendments establish the cases and criteria whereby the novation of a derivative does not require the discontinuation of the corresponding accounting hedge	Annual periods starting on or after 1 January 2014

(1) The European Union delayed the obligatory application date by one year. The original application date set by the IASB was 1 January 2013.

The Group has been applying the standards and interpretations described above since they entered into force on 1 January 2014, without any significant impact on the preparation of the consolidated annual accounts.

In this sense, IFRS 10 amended the definition of control that existed until it came into force, in such a way that it comprises three elements, which must be fulfilled:

- Power must be exercised over the investee company
- The investing company must have exposure to or the right to receive variable returns on its investment
- The investing company must have the capacity to use this power in such a way that influences the amount of those returns

The standard also covers the situation known as "de facto control" in which an entity may exert control without holding the majority of the voting rights. As a result of this and having conducted an analysis of the Group, we have not identified any amendments to the consolidation method that should be used for the various companies in the Group.

Meanwhile, the fundamental change set out by IFRS 11 with respect to the standard that was previously in force, is the elimination of the proportional consolidation option for companies that are jointly controlled; they should now be consolidated under the equity method. In this sense, in 2013, the Group proportionally consolidated the financial statements of the company Tarvia Mantenimiento Ferroviario, S.A. for the first 9 months of that year. As explained in note 31, given the non-material effect of having consolidated the financial statements of this company under the proportional method rather than under the equity method that now applies, the Group has not proceeded to restate the consolidated financial statements for 2013, in accordance with IAS 1, paragraph 40.

The aforementioned standards have not had a significant impact on the consolidated accounts of the Group.

2.2.2. New mandatory standards, modifications and interpretations for financial years after the calendar year, which began on 1 January 2014 (applicable from 2015 onwards):

At the date of approval of these consolidated annual accounts, the following standards and interpretations have been published by IASB, but have not yet entered in force, because their effective dates fall after the date of the consolidated annual accounts or because they have not yet been adopted by the European Union:

(Expressed in thousands of euros)

Approved for use in the European Union		Obligatory application for financial years starting on or after:
IFRIC 21 Levies (published in May 2013)	Interpretation about when to recognize a liability for fees or levies that are conditional on an entity's participation in an activity on a specific date.	17 June 2014 (1)
Not approved for use in the European Union		
IFRS 9 Financial instruments: Classification and valuation (published in November 2009 and October 2010) and subsequent amendment to IFRS 9 and IFRS 7 regarding the effective date and transition disclosure (published in December 2011) and hedge accounting and other amendments (published in November 2013)	Replaces the requirements for classification, valuation of financial assets and liabilities, derecognition and hedge accounting established by IAS 39.	Undefined
IFRS 15 Revenue from contracts with customers (published in May 2014)	New revenue recognition standard (which replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31)	Financial years beginning on or after 1 January 2017
Amendment to IAS 19 – Employee contributions to defined benefit plans (published in November 2013)	The amendment was issued to facilitate the possibility of deducting these contributions from the service cost in the same period they are paid if certain requirements are fulfilled.	1 July 2014
Amendment to IAS 16 and IAS 38 – Acceptable methods of depreciation and amortization (published in May 2014)	Clarifies the acceptable methods for amortizing and depreciating tangible and intangible assets	Financial years beginning on or after 1 January 2016
Amendment to IFRS 11 Accounting for the acquisition of participations in joint ventures (published in May 2014)	Specifies how to account for the acquisition of a participation in a joint venture whose activity constitutes a business.	1 January 2016

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

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

2.3 Consolidation principles

a) Subsidiaries

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

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

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

The annual accounts of the subsidiary companies are consolidated with those of the Parent Company under the full consolidation method, and all intercompany transactions, balances and unrealized gains on transactions between the Group companies are eliminated. All unrealized losses are also eliminated. Furthermore, the accounting policies of the subsidiaries are changed where necessary to ensure 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 2013 and 2014. The members of the Board of Directors appointed by the Group are considered to exert significant influence over this consortium, but not control or joint control, since decisions are agreed in accordance with the shareholding rights of the consortium members and as a general rule, a majority of 75% is required.

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

	€ in thousands	
	2014	**2013**
Current assets	91 640	112 466
Non-current assets	96	94
Total Assets	91 736	112 560
Current liabilities	91 998	112 499
Non-current liabilities		-
Total liabilities	91 998	112 499
Equity	(262)	61
Operating income	8 030	23 348
Operating expenses	(8 234)	(23 187)
Net result	(322)	1

The auditor of this company is KPMG S.A.

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

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

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

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

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

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

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

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

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

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

c) Joint ventures

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

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

At the end of the financial years 2013 and 2014, the Group did not have any joint ventures, following the business combination that it undertook with Tarvia Mantenimiento Ferroviario, S.A. in 2013 (note 31).

Prior to the business combination described in note 31, Tarvia Mantenimiento Ferroviario, S.A. was regarded as a joint venture, on the basis that the unanimous consent of the two shareholders was required for the adoption of all agreements.

During 2013, the Group proceeded to integrate the shareholding it jointly controlled in the company Tarvia Mantenimiento Ferroviario, S.A., under the proportional integration method, in accordance with the alternative treatment permitted by IAS 31, known as "Interests in joint ventures" (which was effective during that year).

In addition, the Group has analysed the impact that the application of IFRS 11 would have on the proportionate consolidation of Tarvia Mantenimiento Ferroviario, S.A. during the first 9 months of 2013, and identified that there would not have been a significant impact if it had been consolidated under the equity method.

2.4 Variations in the consolidation perimeter

No changes were made to the consolidation perimeter during 2014. In 2013, the only change to the Group's consolidation perimeter related to the business combination of the subsidiary Tarvia Mantenimiento Ferroviario, S.A. (note 31).

On 30 September 2013, the subsidiary Patentes Talgo, S.L.U. proceeded to acquire 49% of the share capital in the company Tarvia Mantenimiento Ferroviario, S.A., and so became the sole shareholder from that moment on. On 3 October 2013, the merger by

acquisition of Tarvia Mantenimiento Ferroviario, S.A. (acquired company) by Patentes Talgo, S.L.U. (the acquiring company) was approved, with effect from 30 September 2013 for accounting purposes, which is when the acquiring company took control.
As a result of the aforementioned merger, the acquired company was dissolved without liquidation and all of its assets were transferred en bloc to the acquiring company, which through universal succession inherited all of the rights and obligations of the acquired company.

The effects of this business combination are disclosed in note 31 of these consolidated annual accounts.

2.5 Foreign currency transactions

a) Functional and reporting currency

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

b) Transactions and balances

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

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

c) Group companies

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

i) The assets and liabilities at each statement of financial position are converted at the closing rate on the date of the corresponding statement of financial position; the equity is converted at the historical rate;

(Expressed in thousands of euros)

ii) The income and expenses recorded in each income statement are converted at average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are converted at the rate on the transaction dates; and

iii) All resulting exchange differences are recognized in other comprehensive income.

2.6 Tangible fixed assets

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

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

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

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

	Years	%
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'.

2.7 Intangible assets

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

a) Software

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

b) Development expenses

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

i) It is technically feasible to complete the production of the intangible asset so that it will be available for use or sale;

ii) Management intends to complete the intangible asset to use or sell it;

iii) The entity has the ability to use or sell the intangible asset;

iv) It is possible to show that the intangible asset will generate probable future economic benefits;

v) Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and

vi) The expenditure attributable to the intangible asset during its development can be reliably measured.

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

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

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

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

c) Industrial property

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

d) Intangible assets acquired through a business combination:

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

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

2.8 Goodwill

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

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

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

2.9 Impairment of non-financial assets

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

2.10 Non-current assets held for sale

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

2.11 Financial assets: disclosure, recognition and measurement

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

a) Loans and accounts receivable

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

2.12 Offsetting financial instruments

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

2.13 Impairment of financial assets

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

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

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

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

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

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

2.14 Stock

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

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

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

2.15 Cash and cash equivalents

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

2.16 Share capital

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

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

2.17 Trade payables

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

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

2.18 Borrowings

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

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

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

2.19 Current and deferred taxes

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

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

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

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

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

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

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

2.20 Employees benefits

a) Defined contribution pension plan

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

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

b) Compensation for redundancies

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

c) Profit participation plans and bonus

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

Since the last quarter of 2012, on an exceptional basis, by virtue of the new contracts signed with the Group's 21 executives through one of its subsidiaries, Patentes Talgo, S.L.U., the entity has held a number of obligations with the management team in the form of a long-term share compensation plan. This share compensation plan is linked, on one hand, to the fulfillment of objectives, linked to the fulfillment of the Group's business plan (EBITDA, % gross margin and operating cash), as well as growth objectives (the signing of new contracts); and on the other hand, to the continuation (of the management team) in the Group over the next few years. The amount is calculated as a fixed percentage based on the estimated increase in the value of the Talgo Group pursuant to the formula specified in the contract signed to that effect, in accordance with the fulfillment of the hypotheses underlying the share compensation plan, with the most important hypotheses being the estimated plan payment date and the degree of compliance with the aforementioned management objectives. This plan may be paid in cash or shares, at the discretion of the Group. Nevertheless, based on the best estimates of the Group, the remuneration that the executives will end up receiving will take the form of shares in the Parent Company on the date on which either it is listed on an organized market or control of the Group is taken over by a third party; in any case, they will accrue for a maximum period of 4 years. The increase in personnel costs recorded in 2014 with respect to 2013 is due to the advancement of the accrual for those costs from March 2016 to June 2015, because at the estimated listing date, and therefore at the settlement date of the plan, they have been brought forward from the initial estimate of March 2016 to June 2015.

The estimated value of the Talgo Group on the date the plan was granted (in 2012) was calculated in accordance with the contract signed for this purpose, based on valuation techniques, primarily cash flow projections and its valuation based on multiples, performed in the year the contracts were signed. The main assumptions used for this valuation, namely the growth and discount rates, are coherent with those disclosed in note 8 regarding goodwill impairment tests, following the criteria established in the long-term share compensation plan. The fair value of services received from the employee is recognized as a personnel expense in the Group's income statement, with a corresponding balancing entry being recognized in the Equity reserves of the Parent Company (note 14.d). The aforementioned fair value was calculated during 2012 on the basis of the following assumptions:

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

The estimated value of the Talgo Group may be favourably impacted as a result of: the consistent improvement in the macroeconomic outlook since 2012, both in Spain, as well as in several of the regions where the Group has a presence; and the recent awarding of new projects and the improvement in the Company's prospects for securing additional projects in the future. The increase in the Group's value on the settlement date of the plan will be calculated on the basis of the initial IPO share price, and so the Group estimates that the remuneration may range anywhere between the valuation at the date of assignment and up to an expected maximum of €125 million, which will be paid in shares, after the tax costs associated with such remuneration have been deducted.

For the purposes of the settlement of these contracts, the Group's parent company will turn to the stock market to buy the equity instruments. At the end of 2014, the Group had not contracted any hedging instruments to cover its exposure to changes in the value of the aforementioned shares that it will purchase for subsequent settlement.

2.21 Provisions

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

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

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

2.22 Revenue recognition

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

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

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

- It is probable that the customer will approve the plan and the amount that will result from the variation; and

- The size of the variation can be measured with sufficient reliability.

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

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

In 2014 and 2013, the Group did not recognize any revenue for variations or customer claims. Not any relevant penalties have been recorded as costs in both financial years.

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

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

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

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

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

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

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

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

Interest income

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

2.23 Government grants

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

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

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

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

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

2.24 Operating leases

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

2.25 Finance leases

The Group leases some of its tangible assets. When the Group leases fixed assets and assumes substantially all of the risks and rewards associated with the ownership of the asset, then it classifies these leases as finance leases. Finance leases are capitalized at the beginning of the lease term based on the fair value of the leased property or the present value of the minimum lease payments required by the lease, the lesser of the two. The present value is calculated using the implicit interest rate in the contract and, if that cannot be determined, the interest rate paid by the Group on similar operations.

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

2.26 Dividend distribution

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

2.27 The environment

The costs of business actions undertaken by the Group that have an impact on the environment, as detailed in note 32, are recorded as an expense during the year or as an increase in the value of the corresponding asset, provided that the conditions detailed in note 2.6 regarding the valuation of tangible fixed assets are fulfilled.

2.28 Segment reporting

a) Segmentation criteria

Operating segments are disclosed in accordance with the internal information that is presented to the highest authorized body for decision making. The highest decision making body is responsible for allocating resources to operating segments and evaluating the performance of these segments. In this case, the Board of Directors of Pegaso Rail International, 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 Pegaso Rail International Group that are subject to risks and returns that are different from those associated with other operating components that conduct their business in different environments.

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

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

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

2.29 Business combinations

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

- deferred tax assets and liabilities or assets and liabilities relating to staff benefit agreements are valued using IAS 12 and IAS 19 respectively.

- liabilities or equity instruments relating to a share compensation plan for employees are valued in accordance with IFRS 2 at acquisition date.

- assets that are classified as held for sale are valued in accordance with IFRS 5.

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

The combination cost is determined by aggregating the following:

- The fair values of the assets transferred, the liabilities incurred or assumed and the equity instruments issued, on the date of the acquisition.

- The fair value of any contingent consideration that depends on future events or on the fulfillment of the predetermined conditions.

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

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

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

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

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

Any profit or loss that arises as a consequence of the fair value valuation of any previously-held investment on the date on which control is taken of the acquired company shall be recognized in the profit and loss account. 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 profit and loss account. 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.

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

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

a) Market risk

(i) Foreign currency risk

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

(ii) Price risk

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

(iii) Cash flow interest rate risk

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

b) Credit risk

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

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

The Group's portfolio of clients mostly belong to the public railway sector and therefore the exposure to credit risk resulting from the insolvency of or late payments by these customers is very low. Nevertheless, the Group's financial management team considers this risk to represent a key aspect in the daily management of the business, and it focuses its efforts on ensuring the appropriate supervision and control of the evolution of receivables balances and defaulted payments. During, 2014 and 2013, 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.

(Expressed in thousands of euros)

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

c) Liquidity risk

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

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

At 31 December 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Debt with credit entities	10 231	8 000	30 000	4 000
Suppliers and other payables (note 16) (*)	132 688	-	-	-
Debts for refundable advances (note 17 b)	1 403	1 993	6 734	19 780
Finance lease creditors (note 17 c)	685	600	-	-
	145 007	**10 593**	**36 734**	**23 780**
At 31 December 2013				
Debt with credit entities	1 717	1 467	24 000	16 000
Suppliers and other payables (note 16) (*)	121 509	-	-	-
Debts for refundable advances (note 17 b)	184	1 416	5 692	18 758
Finance lease creditors (note 17 c)	685	685	607	-
	124 095	**3 568**	**30 299**	**34 758**

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

3.2 Capital risk management

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

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

	€ in thousands	
	31 December 2014	31 December 2013
Debt with financial institutions (note 17)	52 231	43 184
Finance lease creditors (note 17)	1 285	1 977
Cash and cash equivalents (note 13)	(87 910)	(95 986)
Total net financial debt	**(34 394)**	**(50 825)**

The negative sign reflects the fact that the Group has a positive net cash position.

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	
	31 December 2014	31 December 2013
Total Net Financial Debt	**(34 394)**	**(50 825)**
Equity attributable to the owners of the parent	249 613	190 296
Total share capital	215 219	139 471
Indebtedness	**(15.9%)**	**(36.4%)**

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 IAS 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 Group did not hold any assets or liabilities in this category during 2014 (level 3).

4. Significant accounting estimates and judgments

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

4.1 Significant estimates and hypotheses

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

a) Estimated loss due to goodwill impairment

The Groups 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 2013 and 2014, the recoverable amount of CGUs to which goodwill has been allocated exceeded its book value, even after performing certain sensitivity analyzes on the discount rates and growth rates. This sensitivity has been analyzed by applying variations of 100 basis points to the discount rates used and variations of 50 basis points to the growth rates used.

b) Income tax and assets of a fiscal nature

The Group is subject to income taxes in several jurisdictions. A significant degree of judgment is required to determine the provision for income taxes at the global level. The Group recognizes liabilities for any eventual tax claims based on estimates of whether additional taxes will be required. When the final tax outcome of these matters is different from the amounts initially recognized, such differences will affect the income tax and deferred tax provisions in the year in which such a determination is made.

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 favorable and unfavorable evidence, as well as current and historical evidence, its objective verification and / or prove-ability, and the weight assigned to each piece of evidence.

c) Revenue recognition

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

d) Useful lives of tangible and intangible assets

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

e) Provisions for guarantees

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

f) Provision for compensation

As indicated in Note 2.20 c), the Group has contracted a number of obligations relating to a compensation plan; and for the calculation of these obligations, it must make a series of estimates, as explained in the aforementioned note.

5. Segment reporting

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

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

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

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

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

The segment information supplied to the Board of Directors of Pegaso Rail International, S.A. for decision making relating to the financial years ended 31 December 2013 and 2014 was obtained from the Group's management reporting systems and does not differ significantly from the IFRS information. It is presented below:

	31.12.2013 € in thousands			
	Rolling stock	Auxiliary machines and others	General	Total
Total segment revenues	306 370	20 349	-	326 719
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	**306 370**	**20 349**	**-**	**326 719**
Amortization and depreciation charge	5 913	38	1 259	7 210
Operating result	**73 897**	**3 737**	**(37 444)**	**40 190**
Financial income	14 157	22	-	14 179
Financial expenses	(9 117)	(522)	(928)	(10 567)
Result before tax	**78 937**	**3 237**	**(38 372)**	**43 802**
Total Assets	**380 252**	**19 585**	**136 667**	**536 504**
Total Liabilities	**260 927**	**10 444**	**74 837**	**346 208**
Fixed asset investments	**31 892**	**483**	**3 571**	**35 946**

	31.12.2014 € in thousands			
	Rolling stock	Auxiliary machines and others	General	Total
Total segment revenues	370 909	13 402	-	384 311
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	**370 909**	**13 402**	**-**	**384 311**
Amortization and depreciation charge	15 548	33	1 230	16 811
Operating result	**81 783**	**5 410**	**(36 317)**	**50 876**
Financial income	1 510	204	-	1 714
Financial expenses	(6 872)	(253)	-	(7 125)
Result before tax	**76 421**	**5 361**	**(36 317)**	**45 465**
Total Assets	**433 129**	**14 149**	**146 031**	**593 309**
Total Liabilities	**266 569**	**9 323**	**67 804**	**343 696**
Fixed asset investments	**22 280**	**521**	**1 086**	**23 887**

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 2014 and 2013 was distributed geographically as follows:

	€ in thousands	
	2014	**2013**
Spain	106 143	118 035
Rest of Europe	11 125	16 370
USA	7 403	9 849
Middle East and North Africa	103 841	41 729
Commonwealth of Independent States	155 799	140 736
	384 311	**326 719**

Total non-current assets, other than financial instruments and deferred tax assets were distributed geographically as follows in 2014 and 2013:

	€ in thousands	
	2014	**2013**
Spain	238 948	242 109
Overseas	10 545	6 387
	249 493	**248 496**

The Group's turnover from the permanent establishment in Kazakhstan amounted to €19,255 thousand in 2014 (2013: €12,566 thousand).

The Group's turnover from the permanent establishment in Uzbekistan amounted to €1,952 thousand in 2014 (2013: €1,810 thousand).

In 2013, the Group registered a permanent establishment in Russia in the form of a branch, whose main activity is the maintenance of Talgo trains. Its registered office is in Moscow, Russia. This branch did not undertake any activity as at 31 December 2014 or 2013.

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

Furthermore, the Company constituted the company Talgo Demiryolu Aracli Uretim VEBA. A.S. in Turkey, whose main activity is the construction and maintenance of trains. This company did not undertake any activity as at 31 December 2014.

6. Tangible fixed assets

The movements in the accounts included within tangible fixed assets in 2013 and 2014 were as follows:

€ in thousands

	Balance at 31.12.12	Exchange differences	Additions	Disposals	Transfers	Business combination (*)	Balance at 31.12.13
Cost							
Land	9 894	-	-	-	-	-	9 894
Buildings	40 900	(35)	-	-	6 849	-	47 714
Technical installations and machinery	17 836	(67)	169	(702)	3 404	29	20 669
Other facilities, tools and furniture	39 855	(39)	250	(1 529)	6 241	273	45 051
Advances and work in progress	3 778	-	20 120	-	(16 558)	-	7 340
Other fixed assets	7 003	(2)	-	(82)	64	2	6 985
	119 266	(143)	20 539	(2 313)	-	304	137 653
Depreciation							
Land	-						
Buildings	(18 519)	34	(1 494)	-	-	-	(19 979)
Technical installations and machinery	(14 307)	58	(943)	680	-	(19)	(14 531)
Other facilities, tools and furniture	(31 897)	34	(2 337)	1 466	-	(168)	(32 902)
Advances and work in progress	(5 400)	1	(179)	82	-	(2)	(5 498)
	(70 123)	127	(4 953)	2 228	-	(189)	(72 910)
Net book value	**49 143**	**(16)**	**15 586**	**(85)**	**-**	**115**	**64 743**

(*) Corresponds to the 49% stake acquired in Tarvia Mantenimiento Ferroviario, S.A.'s balances in 2013 (note 31).

Various types of investments were classified within the 'additions' figure recorded in 2013 (€20,539 thousand), which was split as follows:

Recurrent investment: €1,709 thousand
Investment to increase production capacity: €18,830 thousand.

€ in thousands

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

The transfers caption at the end of the year included a transfer made by the Group to classify a property as a non-current asset as held for sale, amounting to €6.114 thousand. The Group has a recent appraisal of this property, performed by an independent expert, which shows that its current value exceeds its book value.

Various types of investments were classified within the 'additions' figure recorded in 2014 (€17,666 thousand), which was split as follows:

Recurrent investment: €1,292 thousand
Investment to increase production capacity: €16,374 thousand

As in 2013, the main additions to tangible assets in 2014 related to investment projects at the factories in Rivabellosa and Las Matas II, which are owned by the company Patentes Talgo, S.L.U.

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

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

a) Updates

Net accumulated updates as at 31 December 2014, made in accordance with RDL 7/1996, dated 7 June, amounted to €258 thousand (2013: €271 thousand) and the depreciation charge for the year 2014 corresponding to these updates amounted to €13 thousand (2013: €13 thousand).
The expected effect of updating the statements of financial position in accordance with Royal Decree Law 7/1996, dated 7 June, on the depreciation charge for the next financial year amounts to €13 thousand. The amount for the previous financial year also amounted to €13 thousand.

b) Fully depreciated tangible assets

At 31 December 2014, tangible fixed assets with an initial cost of €38,983 thousand had been fully depreciated and were still operational (2013: €35,729 thousand).

c) Insurance

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 2014 and 2013, no valuation corrections have been either recognized or reversed due to the impairment of any individual tangible fixed asset.

(Expressed in thousands of euros)

e) Tangible fixed assets subject to guarantees

In 2014 and 2013, none of the Group's tangible fixed assets were subject to guarantees.

f) Assets under operating leases

The profit and loss account for 2014 includes operating lease expenses for the rental of computer systems amounting to €889 thousand (2013: €880 thousand), transport vehicles amounting to €350 thousand (2013: €286 thousand), buildings amounting to €597 thousand (2013: €772 thousand), and other leases amounting to €250 thousand (2013: €328 thousand). The volume of leases for the coming years will be in line with those registered at the end of 2014.

At the end of 2014 and 2013, the Group had committed to making the following minimum lease instalments, based on its current existing contracts, which do not take into account the impact of common costs, any future increments in CPI or any future updates in the rents agreed under the contracts:

Operating leases	Nominal Value in € thousands	
Minimum instalments	2014	2013
Less than 1 year	1 112	1 151
Between one and five years	2 801	2 938
More than five years	-	-
	3 913	**4 089**

g) Assets under finance leases

At the end of 2014, the Group had contracted one finance lease agreement for several spare parts (note 17.c).

h) Fixed assets not used directly in operations

At 31 December 2014, certain fixed assets that were not directly assigned to operations were classified within 'Non-current assets held for sale'. The net book value of these assets amounted to €6,114 thousand at 31 December 2014.

The Group is looking to complete the sale of the building it owns in Las Rozas within the next twelve months. The Group is currently negotiating with potential buyers. No impairment losses have been recognized with respect to the aforementioned property since the Directors of the Company estimate that its fair value less selling costs will exceed the book value of the asset.

i) Fixed assets located overseas

At 31 December 2014 and 2013, the Group had fixed asset investments located overseas whose net book values are detailed below:

	€ in thousands	
Fixed assets	**2014**	**2013**
Land and buildings	15 997	12 403
Technical installations and machinery	8 487	6 063
Other facilities, tools and furniture	3 420	3 235
Advances and work in progress	-	1 427
Other tangible fixed assets	147	125
Accumulated depreciation	(17 906)	(16 446)
Net book value	**10 145**	**6 807**

j) Purchase commitments

At 31 December 2014, the Group held purchase commitments for tangible fixed assets amounting to €5,863 thousand (€4,589 thousand in 2013).

7. Intangible assets

The movements in the intangible assets accounts during 2013 and 2014 were as follows:

€ in thousands

	Balance at 31.12.12	Exchange differences	Additions	Disposals	Transfers	Business combinations	Balance at 31.12.13
Cost							
Research and Development	48 781	-	-	-	3 039	-	51 820
Industrial property	1 749	-	-	-	-	-	1 749
Software	7 453	(33)	123	-	1 928	554	10 025
Maintenance contracts	-	-	-	-	-	25 069	25 069
Advances and work in progress	31 145	-	15 284	-	(4 967)	-	41 462
	89 128	(33)	15 407	-	-	25 623	130 125
Amortization and impairment losses							
Research and Development	(47 930)	-	(1 075)	-	-	-	(49 005)
Industrial property	(20)	-	(1)	-	-	-	(21)
Software	(6 350)	25	(1 181)	-	-	(550)	(8 056)
Impairment losses	(1 729)	-	-	-	-	-	(1 729)
	(56 029)	25	(2 257)	-	-	(550)	(58 811)
Net book value	**33 099**	**(8)**	**13 150**	**-**	**-**	**25 073**	**71 314**

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

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

Various types of investments were classified within the 'additions' figure recorded in 2013 (€15,407 thousand), which was split as follows:

Recurrent investment: €638 thousand
Investment in new products: €13,336 thousand
Investment to increase production capacity: €1.433 thousand

Various types of investments were classified within the 'additions' figure recorded in 2014 (€6,221 thousand), which was split as follows:

Recurrent investment: €693 thousand
Investment in new products: €5,146 thousand
Investment to increase production capacity: €382 thousand

Development expenses at 31 December 2014 and 2013 mainly included the costs incurred by Patentes Talgo S.L.U. for the development of the AVRIL project, and for the projects relating to the maintenance of the gauge-change system, high speed rail and auxiliary machines.

At 31 December 2014 and 2013, the main fixed asset additions within the work in progress caption related to costs incurred during the development of the AVRIL project, a very high-speed train with integrated Talgo traction, which has a very high capacity and a continuous low floor.

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

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

a) Fully-depreciated intangible assets

At 31 December 2014, the Group held intangible assets that were fully depreciated and still operational, which had an initial cost of €54,796 thousand (2013: €53,073 thousand).

b) Insurance

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

c) Grants and subsidies

Some of the fixed asset acquisitions (€5,412 thousand at 31 December 2014) were partially financed through grants and loans received from official entities (2013: €13,580 thousand).

d) Impairment losses

During the 2014 and 2013, 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 2014 and 2013 did not shown 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 did not indicate that the "Maintenance Contracts" showed any signs of impairment.

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

e) Intangible assets located overseas

At 31 December 2013, the Group held the following investments in intangible assets that were located overseas:

				€ in thousands
Intangible assets	**Cost**	**Accumulated amortization**	**Impairment losses**	**Net book value**
Software	1 703	(1 249)	-	454
	1 703	**(1 249)**	**-**	**454**

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

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

8. Goodwill

The movement in goodwill was as follows:

	€ in thousands
Balance at 31.12.12	**112 439**
Additions	-
Disposals	-
Balance at 31.12.13	**112 439**
Additions	-
Disposals	-
Balance at 31.12.14	**112 439**

Goodwill impairment tests

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

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

	31.12.2014	31.12.2013
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" 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 2014 and 2013 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.

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 2014 were: a discount rate of 9% (10.89% in 2013) and a growth rate of 0.5% in both years.

Sensitivity analysis:

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

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

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

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

During the years 2014 and 2013, none of the CGUs evaluated has shown any signs of impairment.

9. Financial instruments by category

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

	Loans and accounts receivable	Hedge Derivatives	€ in thousands Total
31 December 2013			
Assets on the statement of financial position			
Customers and other accounts receivable (note 11)*	112 224	-	112 224
Other financial assets (note 10)	3 757	-	3 757
Cash and cash equivalents (note 13)	95 986	-	95 986
	211 967	**-**	**211 967**
31 December 2014			
Assets on the statement of financial position			
Customers and other accounts receivable (note 11)*	147 874	-	147 874
Other financial assets (note 10)	3 841	-	3 841
Cash and cash equivalents (note 13)	87 910	-	87 910
	239 625	**-**	**239 625**

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

	Hedge Derivatives	Financial liabilities at amortized cost	€ in thousands Total
31 December 2013			
Liabilities on the statement of financial position			
Borrowings (note 17)	-	75 353	75 353
Suppliers and other payables (note 16)*	-	97 187	97 187
	-	**172 540**	**172 540**
31 December 2014			
Liabilities on the statement of financial position			
Borrowings (note 17)	-	86 188	86 188
Suppliers and other payables (note 16)*	-	127 557	127 557
	-	**213 745**	**213 745**

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

b) Credit quality of financial assets

The credit quality of financial assets that have not yet expired and have not suffered

impairment losses can be assessed according to the credit ratings assigned by external specialist entities.
In terms of the 'Customers' and other financial assets' balances, which do not have a specific credit rating, the Group considers that there is no significant impairment risk, since the balances are owed by Public Entities or similar, which normally carry lower impairment risk. The financial assets that do have specific ratings are short-term deposits held with credit entities that have prestigious reputations and do not carry impairment risk. Of this balance 69.62% (0.27% in 2013) was held with A-rated entities and 30.38% was held with entities rated BBB or higher (99.73%) in 2014.

Five customers accounted for 93.3% of the Group's turnover in 2014 (2013: 85.6%), which mainly corresponded to the Rolling Stock segment.

10. Other financial assets and investments in associates

The breakdown of this balance is as follows:

		€ in thousands
	31.12.14	31.12.13
Other non-current financial assets and investments in associates		
Loans to third parties and other loans (note 10 a)	1 046	1 097
Loans to associates (note 10 c)	1 719	1 719
Deposits and guarantees (note 10 b)	899	800
Investment in associates	10	10
Customers and other long-term receivables (note 10 d)	-	7 793
	3 674	**11 419**
Other current financial assets		
Loans to third parties	51	51
Deposits and guarantees	116	80
Other financial assets	-	-
	167	**131**
Total other financial assets	**3 841**	**11 550**

a) Loans to third parties and other loans

The 'Loans to third parties' caption includes balances with related parties amounting to €637 thousand (note 20) and a receivables balance from financial institutions relating to the monetization of loans from the CDTI amounting to €409 thousand.

b) Deposits and guarantees

The 'Deposits and guarantees' caption included in the non-current assets balance at 31 December 2014 and 2013 mainly comprises a deposit made by the Group's American subsidiary, Talgo Inc., for the maintenance contract held by this subsidiary, which was due to mature in more than five years at 31 December 2014.

c) Credits to associates

This balance contains a credit granted to the company Consorcio de Alta Velocidad Meca Medina, S.A. amounting to €1,719 thousand in 2014 and 2013, which accrues interest at the market rate.

d) Customers and other long-term receivables

At 31 December 2013, the 'long-term receivables' caption reflected the balance that will be liquidated over the long term from the receivables account of the American subsidiary Talgo Inc., associated with the manufacturing contract. During 2014, this balance was reclassified to Stock.

11. Customers and other accounts receivable

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

During 2014, the Group has continued the construction contracts in its portfolio, which included 420 and 603 coaches for the Kazakhstan Republic Railways, 7 trains for the Russian Railways and 36 high-speed trains for the Meca-Medina route for the Saudi Arabian state railway company SRO.

During 2014, the Group continued its maintenance activity of the hauled coaches, Intercity trains and high-speed trains for RENFE Operadora. Furthermore, it continued to carry out train maintenance work through its permanent establishments in Kazakhstan and Uzbekistan for the national railways companies Temir Zholy and Temir Yullari, respectively.

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

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

This caption is broken down as follows:

	€ in thousands	
	31.12.14	**31.12.13**
Customers	91 750	90 757
Construction completed not yet invoiced	40 634	4 249
Customers – group companies and associates	6 089	5 471
Provision for impairment losses	(4 927)	(11 308)
Customers – Net	**133 546**	**89 169**

Public entities	22 248	22 214
Sundry debtors	2 329	1 952
Personnel	347	309
Total	**158 470**	**113 644**

Construction contract revenues recognized in 2014 amounted to €238,242 thousand (2013: €175,083 thousand).

At 31 December 2013, the "Customers – group companies and associates" caption included a balance held with the subsidiary Consorcio Español de Alta Velocidad Meca Medina S.A. At 31 December 2014, as in the previous year, the caption included the balance held with Consorcio Español de Alta Velocidad Meca Medina S.A., as well as another balance receivable from the parent company Pegaso Transportation S.C.A.

At 31 December 2014, the customer accounts receivable balance not yet due amounted to €97,991 thousand (2013: €64,241 thousand).

At 31 December 2014, the Group's sale commitments amounted to €3,703 million (2013: €3,751 million.

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

		€ in thousands
	31.12.14	**31.12.13**
Not yet due	97 991	55 572
Between 0 and 1 month	10 263	24 891
Between 1 and 3 months	4 461	6 670
Between 3 and 6 months	20 435	945
Between 6 and 12 months	93	181
More than 12 months	303	910
	133 546	**89 169**

At 31 December 2014, the customer accounts receivable balances that have suffered impairment and have been provisioned against amounted to €4,927 thousand (2013: €11,308 thousand). The ageing analysis of these accounts is as follows.

		€ in thousands
	31.12.14	**31.12.13**
Between 0 and 3 months	-	8 669
Between 3 and 6 months	313	-
More than 6 months	4 614	2 639
	4 927	**11 308**

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.

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

	€ in thousands	
	31.12.14	**31.12.13**
Euro	132 513	85 947
Swiss francs	-	38
American dollars	825	2 936
Saudi riyal	208	248
	133 546	**89 169**

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

	€ in thousands	
	2014	**2013**
At 1 January	**11 308**	**1 018**
Provision recognition	2 394	11 056
Disposals	(8 775)	(766)
31 December	**4 927**	**11 308**

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).

In 2013, the Group also recognized a loss in the consolidated profit and loss account for non-recoverable commercial credits amounting to €287 thousand. No loss was recognized in this regard in 2014.

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 balance do not contain any assets that have suffered any impairments.

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

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

	€ in thousands	
	31.12.14	31.12.13
Public administrations tax receivables for VAT	4 031	3 335
Public administrations debtors for grants	11 652	13 002
Public administrations debtors for other taxes	1 025	986
Public administrations tax withholding and prepayments	5 540	4 891
	22 248	**22 214**

At year end 2014 and 2013, the 'Public administrations debtors for grants' caption primarily included an amount receivable from the Center for Industrial Technological Development (CDTI) relating to the research project Condextrain, and to the Smart Urban Train project.

The 'Public administrations tax withholding and prepayments' caption also included the consolidated tax Group's corporation tax rebate for the financial years 2014 and 2013.

12. Stock

The composition of this caption is shown below:

	€ in thousands	
	31.12.14	31.12.13
Raw Materials	47 562	45 892
Work in progress	16 372	2 282
Advances	10 542	3 914
Provision for the depreciation of raw materials	(2 753)	(2 660)
	71 723	**49 428**

At 31 December 2014, the Group's commitments for the purchase of raw materials and other services amounted to €320,130 thousand (2013: €88,038 thousand).

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

	Balance at 31.12.13	Exchange differences	Provision	Application	Balance at 31.12.14
Provision for the depreciation of raw materials	(2 660)	(12)	(431)	350	(2 753)
	(2 660)	**(12)**	**(431)**	**350**	**(2 753)**

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

13. Cash and cash equivalents

The breakdown of this caption is as follows:

	€ in thousands	
	31.12.14	31.12.13
Cash	47 927	95 986
Cash equivalents	39 983	-
Total	**87 910**	**95 986**

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

All of the cash equivalent assets belong to the subsidiary Patentes Talgo, S.L.U. They include a fixed term deposit amounting to €25,000 thousand, which matures on 5 March 2015. It also includes a promissory note amounting to €14,983 thousand, which matures on 25 March 2015. Both instruments are held with Spanish financial institutions.

14. Share capital and share premium

The variations in the number of shares and in the Share Capital accounts of the Parent Company during 2013 and 2014 were as follows:

		€ in thousands
	Number of shares	Share capital
At 31 December 2012	**1 368 329**	**41 187**
Capital increases	-	-
Capital reductions	-	-
At 31 December 2013	**1 368 329**	**41 187**
Capital increases	-	-
Capital reductions	-	-
At 31 December 2014	**1 368 329**	**41 187**

Share capital amounts to €41.186.702,90 in total and comprises 1,368,329 shares with a nominal value of €30.10.

These shares are divided into 851,339 Class A shares, which are freely transferable by the holders; 174,925 Class B shares, which are freely transferable in favor of the holders of the Class A shares and in favor of the companies that form part of the same Group of companies as the transferor of the shares, and subject to the right of first refusal by the other shareholders, in the event that they are sold to parties other than the aforementioned; and 342,065 Class C shares, which are freely transferable in favor of the holders of Class A shares, to the relatives of the transferor shareholder, and to the companies within the same group of Companies as the transferor of the shares, and subject to the right of first refusal by the rest of the shareholders, in the event that they are sold to parties other than the aforementioned. The percentage participation held by each one of the shareholders at the end of 2013 and 2014 was as follows:

(Expressed in thousands of euros)

		31.12.13
	No. shares	% stake
Pegaso Transportation International SCA	746 001	54,52%
MCH Inversiones Industriales, S.a.r.l. and MCH Iberian Capital Fund III	221 256	16,16%
Other shareholders	401 072	29,32%
	1 368 329	100,00%

		31.12.14
	No. shares	% stake
Pegaso Transportation International SCA	869 633	63,55%
MCH Inversiones Industriales, S.a.r.l. and MCH Iberian Capital Fund III	221 256	16,16%
Other shareholders	277 440	20,29%
	1 368 329	100,00%

Pegaso Rail International, S.A.'s class B shares numbered 1 to 115,918, which are owned by MCH Inversiones Industriales, S.a.r.l., had been pledged at the end of the year by virtue of a financing contract signed by its shareholder MCH Inversiones Midco, S.a.r.l.

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 2014 and 2013 amounted to €6,924 thousand.

- Patentes Talgo, S.L.U. must recognize an unavailable reserve equivalent to the goodwill balance on the asset side of the individual statement of financial position and assigning, for this purpose, a percentage of profits equal at least 5% of the goodwill balance. If there is no profit, or the profits are not sufficient, then the freely available reserves shall be used.

b) Result for the year

Based on local accounting principles, the distribution of the Parent Company's profit for 2013, approved at the General Meeting of the Shareholders, and the proposed distribution of its profit for 2014 is detailed below:

	€ in thousands	
	2014	2013
Basis for distribution		
P&L	2 978	(9 307)
Total	**2 978**	**(9 307)**
Application		
Legal Reserve	1 313	-
Interim dividend	-	-
Losses from previous years	1 665	(9 307)
Total	**2 978**	**(9 307)**

c) Dividend per share

During the years 2013 and 2014, no dividends were distributed.

d) Other equity instruments

This caption includes the equity component mentioned in note 2.20, which amounts to €30,512 thousand.

15. Other reserves and accumulated gains

The movements in this caption were as follows:

			€ in thousands
	Exchange differences	Hedge reserve	Total
Balance at 31 December 2012	**174**	**-**	**174**
Exchange differences on foreign currency - Group	(73)	-	(73)
Cash flow hedges: profit at fair value	-	-	-
Tax on profits at fair value	-	-	-
Balance at 31 December 2013	**101**	**-**	**101**
Exchange differences on foreign currency - Group	2 507	-	2 507
Cash flow hedges: profit at fair value	-	-	-
Tax on profits at fair value	-	-	-
Balance at 31 December 2014	**2 608**	**-**	**2 608**

a) Exchange rate differences

The exchange rate difference recognized within Other reserves corresponds entirely to the translation of the functional currency of the financial statements of the Group's subsidiary Talgo Inc.

b) Accumulated earnings

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

In 2013, the consolidated company reserves comprised: €6,425 thousand contributed by the subsidiary Talgo Deutschland, GmbH; a negative amount (€3,302 thousand) contributed by the subsidiary Talgo Inc.; €40 thousand contributed by the subsidiary Talgo Rus; €50 thousand contributed by the subsidiary Talgo Bosnia, d.o.o.; and a negative amount (€6 thousand) contributed by the subsidiary Patentes Talgo Tashkent, LLC.

16. Suppliers and other payables

The breakdown of this caption is as follows:

	€ in thousands	
	31.12.14	**31.12.13**
Suppliers	106 477	81 323
Associate company suppliers	11 160	3 970
Advances on orders	89 557	114 320
Social Security and other taxes	5 131	24 322
Personnel	9 920	11 894
Total	**222 245**	**235 829**

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

The payments for trade operations due at the closing of the financial year comply with the maximum legal terms provided for by the Law 15/2010, since they are payments regulated by contracts signed later than the effective date of the Law 15/2010, in which the payment terms agreed comply with the maximum legal term provided for by the Law 15/2010; or are payment terms longer but agreed in contracts signed later than the effective date of the Law 15/2010, therefore not being applicable what is established by such law, by action of its First Transitory Article.

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

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

The exceeded weighted average term for payments was calculated as a ratio formed in the numerator as a sum of the multiplications of each payment to suppliers made in the financial year, and the number of days exceeded of the corresponding term, and in the denominator the total sum of the payments made in the year with the delay more than the legal payment term.

The breakdown of trade payments made during the financial year 2014 by the Spanish subsidiaries (affected by this regulation) and the breakdown of outstanding payments at year end relating to the maximum terms established by Law 15/2010 were as follows:

	Payments made and outstanding payments at 31.12.14	
	2014	
	€ in thousands	%
Payments made during the year within the maximum legal term	63 940	24%
Others	202 091	76%
Total payments made during the year	266 031	100%
Average term for overdue payments (Days)	31	
Balance pending payment at year end that exceeds the maximum legal term	13 950	

At the date of the formulation of these consolidated annual accounts, the total pending balance at year end that exceeded the maximum legal term has been settled.

The breakdown of trade payments made during 2013 and pending payment at year end relating to the maximum terms established by Law 15/2010 were as follows:

	Payments made and outstanding payments at 31.12.13	
	2013	
	€ in thousands	%
Payments made during the year within the maximum legal term	30 881	15%
Others	179 748	85%
Total payments made during the year	210 629	100%
Average term for overdue payments (Days)	36	
Balance pending payment at year end that exceeds the maximum legal term	9 908	

At the date of the formulation of the consolidated annual accounts for 2013, the total pending balance at year-end 2013 that exceeded the maximum legal term had been settled.

17. Borrowings

The breakdown of this caption is as follows:

	€ in thousands	
	31.12.14	**31.12.13**
Non-current		
Debt with credit institutions	42 000	41 467
Finance lease creditors	600	1 292
Other financial liabilities	31 209	30 008
	73 809	72 767
Current		
Debt with credit institutions	10 231	1 717
Finance lease creditors	685	685
Other financial liabilities	1 463	184
	12 379	2 586
Total borrowings	**86 188**	**75 353**

a) Debt with credit institutions

On 19 December 2012, the subsidiary Patentes Talgo S.L.U. signed a financing contract with the European Investment Bank consisting of a loan for €50,000 thousand, of which €40,000 thousand had been drawn down at the end of 2013 and €50,000 thousand had been drawn down at the end of 2014. This loan accrues interest at a market rate.

The amount of interest and commissions accrued and unpaid at year end 2014 in relation to the aforementioned contract amounted to €398 thousand (€190 thousand in 2013), which was recognized within current liabilities on the consolidated statement of financial position.

At year end 2014, €42,000 thousand of the aforementioned loan was classified as a long-term liability and €8,000 thousand was classified as a short-term liability.

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

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

At 31 December 2014, the Group held lines of credit amounting to €20,000 thousand (€35,000 thousand in 2013) through its subsidiary Patentes Talgo S.L.U. At 31 December 2014 and 2013, no balances had been drawn down on them.

On the 13 December 2011, the subsidiary Talgo Deutschland, GmbH signed a financing contract with HypoVereinsbank amounting to €4,400 thousand, of which €1,833 thousand was classified as a short-term liability at 31 December 2014. This loan accrues interest at a market rate.

Similarly, during 2014, the subsidiary Patentes Talgo, S.L.U. signed guarantee lines and surety bonds with various financial institutions amounting to €368,450 thousand; €25,000 thousand in 2013.

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

	€ in thousands					
31 December 2013	**2014**	**2015**	**2016**	**2017**	**Subsequent years**	**Totals**
Debt with credit institutions	1 717	1 467	8 000	8 000	24 000	**43 184**
31 December 2014	**2015**	**2016**	**2017**	**2018**	**Subsequent years**	**Totals**
Debt with credit institutions	10 231	8 000	10 000	10 000	14 000	**52 231**

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

b) Other financial liabilities

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

	€ in thousands	
	31.12.14	**31.12.13**
Non-current		
Debts due to reimbursable advances	28 507	25 866
Other debts	2 702	4 142
	31 209	**30 008**
Current		
Debts due to reimbursable advances	1 403	184
Other debts	60	-
	1 463	**184**
Total other financial liabilities	**32 672**	**30 192**

b.1) Debts due to reimbursable advances

This caption includes zero-rate debts that the Group's subsidiary Patentes Talgo, S.L.U. holds with the Center for Industrial Technological Development (CDTI) for various technological development projects, as well as with the Ministry for Education and Science. These loans accrue interest at a lower rate than charged in the market, as such the Group recognizes a grant to reflect the difference between the two rates.

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

The fair value of the reimbursable advances at 31 December 2014 amounted to is €30,328 thousand (2013: €27,076 thousand).

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

	€ in thousands					
31 December 2013	**2014**	**2015**	**2016**	**2017**	**Subsequent years**	**Totals**
Debts due to reimbursable advances	184	1 416	2 256	3 436	18 758	**26 050**
31 December 2014	**2015**	**2016**	**2017**	**2018**	**Subsequent years**	**Totals**
Debts due to reimbursable advances	1 403	1 993	3 169	3 565	19 780	**29 910**

b.2) Other debts

At 31 December 2014, this caption included non-current debt convertible into grants amounting to €2,644 thousand (2013: €4,084 thousand). These related to funds received from the Ministry for Science and Innovation relating to the AVRIL and EMU research and development projects, as well as to project CONDEXTRAIN.

The fair values of other borrowings approximate their carrying amount.

c) Finance lease creditors

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

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

The movements in this caption during the year 2013 were as follows:

	31.12.2012	Additions	Disposals	Transfers	Business combinations	31.12.2013
Long term finance lease creditors	**996**	-		(168)	464	**1 292**
Short term finance lease creditors	**350**	-	(168)	168	335	**685**
	1 346	**-**	**(168)**	**-**	**799**	**1 977**

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

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

The maturity of the Group's debts with credit institutions under finance leases at the year-end 2014 is presented below:

	€ in thousands
Payments due within 1 year	685
Payments due between 1 and 5 years	600
Payments due beyond 5 years	-
	1 285

18. Deferred taxes

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

	€ in thousands	
	31.12.14	31.12.13
Deferred tax assets:		
- Deferred tax assets to be recovered in more than 12 months	13 955	14 892
	13 955	**14 892**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered in more than 12 months	3 565	6 108
	3 565	**6 108**
Deferred tax assets (net)	**10 390**	**8 784**

The movement in the deferred tax asset balance during the financial years 2014 and 2013 was as follows:

	Balance at 31.12.12	Additions	Disposals	Other Movements	Balance at 31.12.13
Guarantees	936	1 573	(823)	(113)	1 573
Deductions	7 360	6 195	(10 190)	-	3 365
Other concepts	5 072	4 804	(261)	339	9 954
	13 368	**12 572**	**(11 274)**	**226**	**14 892**

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

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

	€ in thousands			
	Tax credits	Deductions	Other Concepts	Total
Balance at 31 December 2012	**-**	**7 360**	**6 008**	**13 368**
Credit/(Charge) to income statement	-	6 195	5 519	11 714
Other movements and transfers	-	(10 190)	-	(10 190)
Balance at 31 December 2013	**-**	**3 365**	**11 527**	**14 892**
Credit/(Charge) to income statement	-	2 647	2 528	5 175
Other movements and transfers	-	(6 012)	(100)	(6 112)
Balance at 31 December 2014	**-**	**-**	**13 955**	**13 955**

Almost all of the 'Other movements and transfers' caption within 'deductions' correspond to the deductions used for the calculation of corporation tax for the year 2014.

Similarly, the Group has not registered any deferred tax assets on the statement of financial position that are associated with the negative tax bases generated by the subsidiary Talgo Inc. considered, based on their current assessment, that it is likely that positive taxable bases will be generated in the future to allow their recovery. At 31 December 2014, the negative taxable bases pending offset in the USA, relating to the subsidiary Talgo Inc., amounted to €40,259 thousand (€41,675 thousand in 2013) and their expiry dates are detailed below:

Year	**€ in thousands**	**Final year**
2002	2 882	2022
2003	4 870	2023
2004	12 155	2024
2005	7 660	2025
2006	6 516	2026
2012	6 176	2032
	40 259	

a) Deductions

At 31 December 2013, deductions pending application existed for the concepts of scientific research and technological innovation, export company, and training. The amounts and terms of these deductions are indicated below:

Year	**€ in thousands**	**Final year**
2013	3 365	2 031
	3 365	

No deductions pending application existed at 31 December 2014.

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; and for commitments held with personnel.

Deferred tax liabilities

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

	Cash flow hedge	Other concepts	€ in thousands Total
Balance at 31 December 2012	**-**	**6 663**	**6 663**
Credit/(Charge) to income statement	-	260	260
Tax (credit) / charge to equity	-	-	-
Other movements	-	(815)	(815)
Balance at 31 December 2013	**-**	**6 108**	**6 108**
Credit/(Charge) to income statement	-	(2 643)	(2 643)
Tax (credit) / charge to equity	-	-	-
Other movements	-	100	100
Balance at 31 December 2014	**-**	**3 565**	**3 565**

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.

19. Provisions for other liabilities and charges

€ in thousands

	Non-current			Current		
	Other provisions	Guarantee provision	Subtotal	Other provisions	Guarantee provision	Subtotal
Balance at 31/12/2013	**5 545**	**6 733**	**12 278**	**10 195**	**4 247**	**14 442**
Provisions	2 723	-	**2 723**	594	3 545	4 139
Applications	(500)	-	**(500)**	(2 246)	(4 364)	(6 610)
Transfers	8 645	(236)	**8 409**	(6 629)	(1 780)	(8 409)
Balance at 31/12/2014	**16 413**	**6 497**	**22 910**	**1 914**	**1 648**	**3 562**

At the 2014 year-end, the Group has recognized the necessary provisions to meet its service guarantees, which normally cover a period of between 2-3 years and other obligations included in the contracts signed.

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

20. Employee benefit expenses

a) The breakdown of this caption is as follows:

	€ in thousands	
	2014	**2013**
Wages, salaries and similar	82 041	72 129
Contributions and provisions for defined pension contributions and other obligations	1 655	1 556
Other welfare charges	20 860	19 085
	104 556	**92 770**

The 'Wages, salaries and similar' caption includes compensation costs, which amounted to €262 thousand as at 31 December 2014 (2013: €675 thousand) and the cost relating to the remuneration paid to Senior Management explained in note 20 b.

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

The role of the Director of the Parent Company is not remunerated.

In 2014, the remuneration paid to the senior management team, which is understood to be formed by those members that sit on the Steering Committee, amounted to €2,009 thousand and the amount relating to the share compensation plan totalled €9,547 thousand (€1,612 thousand and €3,084 thousand, respectively, in 2013) note 2.20, for both fixed and variable remuneration. Meanwhile, the remuneration paid to the directors of the group amounted to €999 thousand and the amount relating to the share compensation plan totalled €7,344 thousand at 31 December 2014 (€1,325 thousand and €5,782 thousand, respectively, at 31 December 2013).

The Group has taken out life insurance for all of its employees, including management personnel. The cost of this insurance for management personnel amounted to €71 thousand in 2014 (€77 thousand at 31 December 2013). The amount corresponding to the pension plan of this same collective amounted to €147 thousand in 2014 and €121 thousand in 2013. In addition, the Group has taken out civil liability insurance policies for some members of its Senior Management member, whose coverage is considered sufficient

(Expressed in thousands of euros)

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

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

During 2014 and 2013, no compensation was paid to the members of the Board of Directors of Pegaso Rail International for their performance of this role.

21. Average headcount

The distribution of the average headcount by job category and gender during the years 2014 and 2013 is as follows:

	2014		2013	
	Men	Women	Men	Women
Board members and Senior Management	11	2	11	2
Management	25	2	25	2
Middle management	187	24	177	25
Technicians	1 233	200	1 125	200
	1 456	**228**	**1 338**	**229**

Similarly, the distribution of the headcount at year-end 2014 and 2013 by job category and gender was as follows:

	2014		2013	
	Men	Women	Men	Women
Board members and Senior Management	11	2	11	2
Management	26	2	25	2
Middle management	185	24	175	24
Technicians	1 282	203	1 182	200
	1 504	**231**	**1 393**	**228**

As at year-end 2014, the Group employed 17 people with disabilities (18 in 2013), of which 4 were women (4 in 2013) and 13 were men (14 in 2013).

22. Cost of materials and other operating expenses

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

	2014	2013
Domestic purchases	106 405	86 247
Intra-Community acquisitions	29 320	19 038
Imports	3 640	1 182
Change in stock	(1 670)	(6 307)
Consumption of raw materials and other consumables	**137 695**	**100 160**
Other expenses	43 033	38 047
Other external expenses	**43 033**	**38 047**
Impairment of raw materials and other supplies (note 12)	81	(1 257)
Impairment of raw materials and other supplies	**81**	**(1 257)**

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

	€ in thousands	
	2014	2013
External Services	45 102	48 595
Taxes	344	312
Losses, impairment and variation in provisions	2 109	17 038
Other current operating expenses	143	182
Total other operating expenses	**47 698**	**66 127**

23. Other results

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

	€ in thousands	
	2014	2013
Other expenses	(337)	(1 236)
Other income	867	1 003
Total Other Results	**530**	**(233)**

At 31 December 2014 and 2013, the 'Other income' caption mainly included proceeds

received as compensation for claims, whose related expenses were recorded in previous years. It also included proceeds received from the sale of scrap metal.

24. Financial income and expenses

The breakdown of this caption is as follows:

		€ in thousands
	2014	**2013**
Interest expenses:		
- Bank borrowings and other charges	(7 125)	(10 061)
- Hedge derivatives	-	-
- Exchange differences	-	(506)
Financial expenses	**(7 125)**	**(10 567)**
- Interest income on short term deposits with credit institutions	1 596	2 158
- Group and associate companies	-	10
- Variation of the fair value of the financial instruments - result allocated to the business combination (note 31) (*)	-	12 011
- Exchange differences	118	-
Financial income	**1 714**	**14 179**
Net financial result	**(5 411)**	**3 612**

(*) In accordance with IFRS 3, Patentes Talgo, S.L.U. registered the fair value of the previous participation (of 51%) that it held in Tarvia Mantenimiento Ferroviario, S A., generating a capital gain of €12,063 thousand, before the merger was accounted for. The consolidated profit and loss account includes an amount (€12,011 thousand) relating to this operation; the difference proceeded from the results obtained by Tarvia Mantenimiento Ferroviario, S.A. until 30 September 2013. These results were proportionally integrated in the corresponding captions of the consolidated profit and loss account.

25. Income tax

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

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

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:

(Expressed in thousands of euros)

	2014	2013
Profit before tax	**45 465**	**43 802**
Consolidated tax at 30%	13 640	13 141
Tax effects of:		
Differences due to differing tax rates in each country	1 454	3 267
Permanent differences	(6 269)	(1 911)
Activation of deductions	(2 647)	(6 195)
Other concepts	481	4 494
Prior years' adjustment	322	25
Tax expense	**6 981**	**12 821**

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

At the end of the year, the tax Group 65/06 was subject to an inspection by the tax authorities with respect to the consolidated Group's tax returns for the years 2012 onwards.

In 2013, the Tax Authority notified all of the Spanish companies in the tax Group 65/06 that it would begin checking the following concepts:

- Value added tax for the years 2009 to 2011
- Corporation tax for the years 2008 to 2011
- Deductions/income on account for individuals' income tax for the years 2009 to 2011
- Deductions and income on account for capital and property for the years 2009 to 2011
- Deductions and income on account for non-residents for the years 2009 to 2011

The aforementioned inspection questioned some of the deductions paid to non-residents by the Parent Company amounting to €8,644 thousand, which were fully provisioned for in 2013 (note 11).

In addition, it questioned some of the negative tax bases accrued during the years 2008 to 2011 by the company Patentes Talgo, S.L.U., which had come from years 1999 to 2006, as well as some of the deductions for export activity applied during the years open to inspection.

The impact of the aforementioned questions had an effect on the tax for the year in 2013 of €4.494 thousand.

(Expressed in thousands of euros)

The Tax Authorities have not issued any formal proceedings with respect to the adjusted concepts explained above as it considers that there has been a reasonable interpretation of the rules by the companies subject to testing.

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

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

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

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

	2014	**2013**
Total current tax	8 587	14 900
Total deferred tax	(1 606)	(2 079)
Income tax	**6 981**	**12 821**

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	
	2014	2013
Profit attributable to the owners of the Parent Company	38 484	30 981
Weighted average number of ordinary shares in issue	1 368 329	1 368 329
Basic earnings per share from continued operations	28.12	22.64
	28.12	**22.64**

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	
	2014	2013
Profit attributable to the owners of the Parent Company	38 484	30 981
Profit used to determine diluted earnings per share	38 484	30 981
Weighted average number of ordinary shares in issue	1 368 329	1 368 329
Adjustments for hypothetical conversion of convertible loan		
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1 368 329	1 368 329
Diluted earnings per share from continued operations	28.12	22.64
	28.12	**22.64**

27. Cash flows from operating activities

The breakdown of cash generated from operations is as follows:

	€ in thousands	
	2014	2013
Profit for the year before tax	**45 465**	**43 802**
Adjustments for:		
- Depreciation of tangible fixed assets (note 6)	5 683	4 953
- Amortization of intangible assets (note 7)	11 128	2 257
- (Gain)/loss on the sale of non-current assets held for sale	1	82
- Net change in provisions (notes 19 and 11)	20 079	26 152
- (Gain)/loss in the fair value of derivative financial instruments	-	-
- Financial expenses (note 24)	7 125	10 060
- Financial income (note 24)	(1 596)	(14 179)
- Result from the loss of the joint control	-	-
- Allocation of grants	(1 215)	(883)
- Other income and expenses	(4 988)	-
Changes in working capital (excluding the effects of the acquisition and exchange differences on consolidation):	**(61 965)**	**102 317**
Stocks (note 12)	(9 570)	(7 032)
Other financial assets (note 10)	37	(1 073)
Customers and other account receivables (note 11)	(47 536)	67 217
Suppliers and other payables (notes 16 and 17)	(4 896)	43 205
Cash flows from operating activities:	**19 717**	**174 561**

28. Guarantees and other contingencies

At 31 December 2014, the Group had a volume of bank guarantees and surety bonds amounting to €422 million (2013: €375 million), of which, €386 million (2013: €345 million) correspond to manufacturing projects, either as performance bonds or advances received.

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

At 31 December 2014, the amount available from the bank guarantee lines amounted to €358 million (€229 million in 2013).

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 2014 year-end.

29. Commitments

a) Commitments to purchase fixed assets

At 31 December 2014, the Group had commitments to purchase fixed assets amounting to €5,863 thousand (2013: €4,589 thousand).

b) Operating lease commitments

The directors of the consolidated Group do not expect any material changes in the future operating lease expense with respect to the expenditure incurred in 2014 and 2013 (note 6.f).

30. Related party and foreign currency transactions

The shareholders of the Parent Company that hold stakes of more than 10% are disclosed in note 14. The Group conducts all of its transactions with related parties at market prices. In addition, the transfer prices are adequately supported and so the Directors of the Parent Company consider that there is no significant risk that any significant liabilities may arise in the future for this concept.

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

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

a) Transactions with the Parent Company's significant shareholders

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

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

b) Transactions with the Parent Company's Board members

During 2014 and 2013, no compensation was paid to the members of the Board of Directors of Pegaso Rail International S.A. for the performance of this role.

c) Shareholdings, duties and activities that the members of the Board of Directors held in companies with the same, analogous or complementary activity as the activity that constitutes the corporate purpose of the Parent Company in 2014:

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

d) Commercial transactions with related parties

	€ in thousands	
	2014	**2013**
Raw material purchases:		
Tarvia Mantenimiento Ferroviario, S.A.	-	100
External services:		
Consorcio Español de Alta Velocidad Meca-Medina, S.A.	7 235	-
Tarvia Mantenimiento Ferroviario, S.A.	-	
Expenses	**7 235**	**100**

	€ in thousands	
	2014	**2013**
Sales and services provided:		
Tarvia Mantenimiento Ferroviario, S.A.	-	7 705
Other operating income:		
Tarvia Mantenimiento Ferroviario, S.A.	-	178
Financial income:		
Consorcio Español Alta Velocidad Meca Medina S.A.	-	10
Revenues	-	**7 893**

e) Share compensation plan

Through its subsidiary, Patentes Talgo, S.L.U., the Group has a share compensation plan in place with the employees of that company relating to shares in the parent company (note 2.20.c). The amount accrued in this regard amounted to €18,360 thousand in 2014 (€9,636 thousand in 2013).

f) Breakdown of supplier / customer balances with group companies and associates

	€ in thousands	
	31.12.14	**31.12.13**
Customers – group companies and associates (note 11)	6 089	5 471
Customers – group companies and associates	**6 089**	**5 471**

	€ in thousands	
	31.12.14	31.12.13
Suppliers - group companies and associates (note 16)	11 160	3 970
Suppliers – group companies and associates	**11 160**	**3 970**

At 31 December 2014 and 2013, the "Customers – group companies and associates" caption corresponded to a balance held with Consorcio Español Alta Velocidad Meca Medina, S.A.

At 31 December 2014 and 2013, the "Suppliers - group companies and associates" caption corresponded to a balance held with Consorcio Español Alta Velocidad Meca Medina, S.A. amounting to €5.489 thousand, as well as a balance held with the company Pegaso Transportation, S.C.A. amounting to €600 thousand. In 2013, the entire balance related to Consorcio Español Alta Velocidad Meca Medina, S.A... This company is included within the consolidation perimeter under the equity method.

g) Foreign currency transactions

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

	2014	2013
Purchases	10 985	8 258
Sales	7 539	8 356

31. Business combinations

On 30 September 2013, Patentes Talgo, S.L.U. acquired a 49% stake in the share capital of the company Tarvia Mantenimiento Ferroviario, S.A. from Renfe Operadora. The entity is dedicated to the comprehensive maintenance of the rolling stock and railway facilities in Spain.

From that moment, the subsidiary Patentes Talgo, S.L.U. took control of the subsidiary Tarvia Mantenimiento Ferroviario, S.A. and so the aforementioned subsidiary was no longer integrated under the proportional integration method from that date onwards.

On 10 December 2013, the Group registered a merger in the Commercial Registry. This merger had been agreed and formalized by the Directors of the subsidiary on 5 November 2013, whereby Patentes Talgo, S.L.U. acquired Tarvia Mantenimiento Ferroviario, S.A. The merger implied the extinction of the acquired company and the bloc transmission of its equity to Patentes Talgo S.L.U., which acquired all the rights and the obligations of Tarvia Mantenimiento Ferroviario, S.A. by universal succession.

The merger project was registered by the Commercial Registrar on 19 December 2013.

The date from which all of Tarvia Mantenimiento Ferroviario, S.A.'s operations are considered to be performed by Patentes Talgo, S.L. for accounting purposes is 30 September 2013.

As a result of its acquisition of the 49% stake in Tarvia Mantenimiento Ferroviario, S.A., the Group became the owner of all the maintenance contracts for the 102 and 112 series trains, which constituted the main activity of Tarvia Mantenimiento Ferroviario, S.A.

The acquired business contributed revenue of €3,879 thousand and a net profit of €98 thousand to the Group.

If the acquisition had been performed on 1 January 2013, the revenue of the Group and the profit for the period would have increased by €13,620 thousand and €154 thousand, respectively.

The details of the consideration paid for the business combination, the acquired net assets and the intangible assets of the business combination were as follows:

	€ in thousands
Consideration paid for the combination:	
Cash paid	16 006
Other delivered assets	-
Contingent consideration	-
Debt instruments	-
Shares held previously	4 590
Correction for the fair value of shares held previously (*)	12 063
Total acquisition cost	32 659
Fair value of the net assets acquired	(7 590)
Client contracts (note 7)	**25 069**

(*) In accordance with IFRS 3, Patentes Talgo, S.L.U. registered the fair value of the previous participation (of 51%) that it held in Tarvia Mantenimiento Ferroviario, S A., generating a capital gain of €12,063 thousand, before the merger was accounted for. The consolidated profit and loss account includes an amount (€12,011 thousand) relating to this operation; the difference proceeded from the results obtained by Tarvia Mantenimiento Ferroviario, S.A. until 30.09.2013. These results were proportionally integrated in the corresponding captions of the consolidated profit and loss account.

1 The merger was subjected to the tax neutral system regulated by Chapter VIII, Title VII of Royal Decree 4/2004, dated 5 March, which approves the Revised Text of the Law governing Corporation Tax.

The following information is disclosed, in compliance with the provisions of article 93 of Royal Decree 4/2004, dated 5 March, from the Revised Text of the Law governing Corporation Tax:

(Expressed in thousands of euros)

a) As at 30 September 2013, the company Tarvia Mantenimiento Ferroviario, S.A. owned the following fixed assets, susceptible to amortization and depreciation (in euros), split by year of acquisition:

							Euros
						Cost	Accumulated amortization/ depreciation
	31.12.09	31.12.10	31.12.11	31.12.2012	30.09.2013	30.09.13	30.09.13
Software	-	641,331.33	53,496.67	-	-	694,828.00	(635,983.74)
Technical installations and machinery	-	47,969.50	-	-	12,250.00	60,219.50	(45,171.78)
Other facilities, tools and furniture	32,253.24	338,579.26	163,144.70	23,563.20	-	557,540.40	(410,596.40)
Other fixed assets	2,717.98	2,268.75	-	-	-	4,986.73	(4,703.15)
Total	**34,971.22**	**1,030,148.84**	**216,641.37**	**23,563.20**	**12,250.00**	**1,317,574.63**	**(1,096,455.07)**

b) The audited statement of financial position of the company Tarvia Mantenimiento Ferroviario, S.A. at 30 September 2013, together with the assets and liabilities assumed in the merger, is presented below, in euros:

(Expressed in thousands of euros)

ASSETS	2013
NON CURRENT ASSETS	**228 717.10**
Intangible assets	**58 844.26**
Tangible fixed assets	**162 275.40**
Long-term investments in group companies and associates	**7 597.44**
Equity instruments	7 597.44
CURRENT ASSETS	**34 693 746.20**
Stock	**10 090 324.65**
Trade debtors and other accounts receivable	**16 176 138.46**
Trade accounts for sales and services provided	180 891.54
Trade accounts receivable with Group and associate companies	15 471 485.97
Personnel costs	9 589.95
Other Receivables from Public Administrations	514 171.00
Cash and cash equivalents	**8 427 283.09**
TOTAL ASSETS	**34 922 463.30**

LIABILITIES AND SHAREHOLDER'S EQUITY	2013
EQUITY	**7 590 210.28**
Equity	**7 590 210.28**
Share capital	9 000 000.00
Reserves	(400 157.10)
Result from previous years	(1 123 158.75)
Result for the year	113 526.13
NON CURRENT LIABILITIES	**8 999 433.65**
Long term provisions	**7 539 306.42**
Other provisions	7 539 306.42
Long term debts	**1 460 127.23**
Finance lease creditors	1 460 127.23
CURRENT LIABILITIES	**18 332 819.37**
Short-term debts	**752 347.87**
Finance lease creditors	752 347.87
Short term creditors and other accounts payable	**17 580 471.53**
Suppliers and creditors	16 498 055.11
Personnel (remuneration pending payment)	452 542.32
Other liabilities with Public Entities	629 874.07
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**34 922 463.30**

c) The assets incorporated in the Company's accounting records have the same accounting value as when they were registered by the acquired company, except for the recognition of Tarvia Mantenimiento Ferroviario, S.A.'s portfolio of contracts, mentioned earlier in this note.

d) Similarly, the acquired company does not benefit from any tax allowances, for which Patentes Talgo, S.L.U. ought to assume compliance with certain requirements.

e) The net cash flow resulting from the business combination performed in 2013 was as follows:

	€ in thousands
Consideration paid in cash	16 006
Less	
Cash and cash equivalents acquired	(4 129)
Total	**11 877**

32. The environment

The breakdown of the expenses incurred during 2014 and 2013 to protect and improve the environment was as follows:

	€ in thousands	
	2014	**2013**
Periodic (waste management, periodic analysis and other)		
Drinking water and waste water analysis and waste water purifier expenses	65	81
Management of hazardous and inert waste	101	93
Material purchases and other	29	18
Safety Advisor	4	3
Measuring of atmospheric and noise emissions	-	1
Dumping tax and legionellosis control	11	7
Diesel installation	-	3
Legislation updates	2	2
Total periodic expenses	**212**	**208**

	€ in thousands	
	2014	**2013**
Non-periodic:		
ISO 14001 Certification	4	4
Total non-periodic expenses	**4**	**4**

33. Fees for audit and other services provided

The fees regarding the services provided for the audit of the different companies of the Group amounted to €191 thousand (€185 thousand in 2013). Of this amount, €131 thousand corresponded to companies audited by the global firm Deloitte (€161 thousand in 2013).

The fees corresponding to other services, besides those relating to the audit of the annual accounts of the Group companies, amounted to €179 thousand (€131 thousand in 2013). Some of that amount was invoiced by other companies that use the Deloitte brand, specifically, €179 thousand in 2014 (€78 thousand in 2013).

34. Events after the consolidated statement of financial position date

During the first quarter of 2015, the Group has been engaged in negotiations with the company National Company Kazakhstan Temir Zholy Joint Stock Company regarding the acquisition of 51% of the company Tulpar- Talgo LLP. However as at the formulation date of these consolidated annual accounts, no specific agreement has been reached with respect to the materialization of this transaction.

On 24 March 2015, the Board of Directors of the Parent Company approved a motion to grant a package of shares at no cost (for free) to the employees of the subsidiary Patentes Talgo, S.L.U, equivalent to 10% of the annual fixed salary per employee, in the event that the parent company lists on the stock exchange; the size of this remuneration is not significant.

35. Explanation added for translation to English

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

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2014
(Expressed in thousands of euros)

Organizational structure

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

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

Strategy

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

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

Business model

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

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

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

Results

During 2014, the Group generated a profit before tax of €45,465 thousand, compared with €43,802 thousand in the previous year, representing an increase of 4%. This improvement was due mainly to a cost optimization initiative carried out by the Group during the year, which affected both direct and indirect costs.

The Group's adjusted EBITDA amounted to €90 million at the end of 2014, compared with €71 million a year earlier. This improvement reflects an increase in productivity and the growth the Group has been experiencing in recent years.

The Group's amortisation charge amounted to €16,811 thousand in 2014, compared with €7,210 thousand in 2013. This increase was due mainly to the fact that the Group began to amortize the development costs associated with Project AVRIL in 2014; the charge for the year amounted to €7,586 thousand.

The Group's order book amounted to €3,703 million at the end of 2014, which was in line with the previous year, when it totaled €3,751 million. This portfolio continues to guarantee the normal development of the Group's activity.

Business development

During 2014, the Group signed a maintenance contract for the 7 trains that are being constructed for the Russian railways. In addition, several contracts were signed for the sale of gauge-changers and auxiliary machines for the maintenance of pit lathes and measuring equipment in countries such as Austria, Brazil, Germany, the Netherlands, Peru and Saudi Arabia.

Meanwhile, during 2014, the Group was awarded various contracts to modify and improve the Talgo train fleet, most notably those requested by Renfe in relation to the mid-life operations of the 6 Series.

During the year, Patentes Talgo S.L.U. continued its construction work to build 7 trains for the Russian railways and it continued with the development and construction of 36 trains for the Meca-Medina Project for the Saudi Arabian railways, whose first train in the series was sent to Saudi Arabia at the end of the year. In a similar way and during the last quarter of the year, construction commenced of 603 wide body coaches for Kazakhstan. Meanwhile, during 2014, the Group continued to provide services under the train maintenance contracts that it operates in the various countries in which it has a presence.

It is also noteworthy that, during the last few years, in order to fulfill the aforementioned train supply contracts, the Group has had to undertake a series of extraordinary investments to increase capacity at its train construction centres in Rivabellosa (Álava) and Las Matas II (Madrid), as a result of new contracts and new products in the portfolio. This investment has been made in addition to the recurrent annual investment in the maintenance of existing infrastructure and equipment.

In a similar way, and as a result of the creation of new train maintenance centres in Kazakhstan and in the near future in Saudi Arabia, the Group is undertaking new exceptional investments in these countries.

As disclosed in note 7 (Intangible assets), the Group has undertaken significant investment to launch new products, such as AVRIL and the new Regional Talgo train, as well as other investments to increase its production capacity, so that it can carry out the projects it has in its portfolio. All of this resulted in the following investments in 2014:

	€ in thousands
Recurrent investments	1 985
Investment in new products	5 146
Investments to increase capacity	16 756
Total acquisition cost	23 887

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

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

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

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

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

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

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

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

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

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

Risk policy

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

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

Quality and the environment

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

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

This commitment is promoted and encouraged at all levels of the organisation and across all of the countries in which the Group has a presence.

The breakdown of the expenses incurred by the Group to protect and improve the environment are disclosed in note 32. 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 complies with the guidelines set out by the following regulations: ISO 9001, ISO 14001 and IRIS.

Information about delaying payments to suppliers

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

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

Own Shares

The Group did not hold any of its own shares at 31 December 2014.