Comisión Nacional del Mercado de Valores
Calle Edison 4
28006 Madrid

En Madrid, a 23 de abril de 2015

Ref.: Folleto Informativo de Talgo, S.A. (“Talgo”)

Don José María Oriol Fabra, en nombre y representación de Talgo, S.A., debidamente facultado al efecto,

CERTIFICO

Que el contenido del soporte informático adjunto a esta carta para su depósito en esa Comisión Nacional del Mercado de Valores, se corresponde con el Folleto Informativo (*Prospectus*) de Talgo, S.A. que ha sido verificado e inscrito en los registros oficiales de esa Comisión Nacional del Mercado de Valores el 23 de abril de 2015.

Se autoriza a esa Comisión Nacional del Mercado de Valores para que publique en su página Web el contenido del soporte informático del Folleto Informativo.

Atentamente,

Talgo, S.A.

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Don José María Oriol Fabra
Consejero Delegado

IMPORTANT NOTICE

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The document and the offer when made are only addressed to and directed at persons in member states of the European Economic Area ("**EEA**") who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU) and any implementing measure in each relevant Member State of the EEA (the "**Prospectus Directive**") ("**Qualified Investors**"). In addition, in the United Kingdom ("**UK**"), this document is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, and (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). The document must not be acted on or relied on (i) in the UK, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the UK, by persons who are not Qualified Investors. Any investment or investment activity to which the document relates is available only to (i) in the UK, relevant persons, and (ii) in any member state of the EEA other than the UK, Qualified Investors, and will be engaged in only with such persons.

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OR IN ANY OTHER JURISDICTION OTHER THAN SPAIN AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Confirmation of your Representation: By accepting the e-mail or accessing this document, you are deemed to have represented to the Company, the Selling Shareholders (as defined in the document) and the Managers that (i) you are acting on behalf of, or you are either (a) an institutional investor outside the United States (as defined in Regulation S under the Securities Act), or (b) in the United States and a QIB that is acquiring securities for your own account or for the account of another QIB; (ii) if you are in the UK, you are a relevant person; (iii) if you are in any member state of the EEA other than the UK, you are a Qualified Investor; (iv) the securities acquired by you in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors (as defined in the Prospectus Directive); and (v) if you are outside the US, UK and EEA (and the electronic mail addresses that you gave us and to which this document has been delivered are not located in such jurisdictions) you are a person into whose possession the document may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

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None of the Managers, or any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any responsibility whatsoever for the contents of the document or for any statement made or purported to be made by it, or on its behalf, in connection with the Company or the Offering (as defined in the document). The Managers and any of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of the document or any such statement. No representation or warranty express or implied, is made by any of the Managers or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in the document.

The Managers are acting exclusively for the Company and Selling Shareholders and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of the document) as their client in relation to the Offering and will not be responsible to anyone other than the Company and the Selling Shareholders for providing the protections afforded to their clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

The materials relating to the Offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and any of the Managers or any affiliate thereof is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the Managers or such affiliate on behalf of the Company in such jurisdiction.

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61,574,805 Ordinary Shares of

TALGO, S.A.

Offering Price Range: €9.00 to €11.50 per share

The *Comisión Nacional del Mercado de Valores* (the "**CNMV**"), which is the Spanish competent authority for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and the relevant implementing measures in Spain, has approved this document as a prospectus.

Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, FCR, MCH Inversiones Industriales, S.à.r.l. and the Minority Selling Shareholders described in "*Principal and Selling Shareholders*" (the "**Selling Shareholders**") are offering 61,574,805 ordinary shares with a par value of €0.301 each (the "**Initial Offer Shares**") of Talgo, S.A., a *sociedad anónima* incorporated under the laws of Spain (the "**Company**"), to qualified investors (the "**Offering**"). The Initial Offer Shares constitute 45% of the existing outstanding share capital of the Company.

This document comprises a prospectus relating to the Company and its subsidiaries (together, "**Talgo**" or the "**Group**") prepared in accordance with the Prospectus Directive, its implementing measures in Spain and Annexes I, III and XXII set out in Commission Regulation (EC) No 809/2004 (and amendments thereto, including Commission Delegated Regulation (EU) 486/2012 and Commission Delegated Regulation (EU) 862/2012) enacted in the European Union (the "**Prospectus Rules**") and the Securities Market Act 24/1988, July 28, 1988 (the "**Spanish Securities Markets Act**"). This document has been prepared in connection with the Offering and application for the admission of the Shares to the Madrid, Barcelona, Bilbao and Valencia stock exchanges (the "**Spanish Stock Exchanges**") and on the Automated Quotation System (the "**AQS**") or *Mercado Continuo* of the Spanish Stock Exchanges ("**Admission**"), which are regulated markets for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive).

In addition, the Selling Shareholders will grant an option to the Joint Global Coordinators on behalf of the Managers (the "**Over-allotment Option**"), exercisable within 30 calendar days from the date on which the Shares commence trading on the Spanish Stock Exchanges, to purchase a number of additional Shares (the "**Over-allotment Shares**") representing up to 10% of the total number of Initial Offer Shares sold by the Selling Shareholders in the Offering solely to cover over-allotments of Shares in the Offering, if any, and short positions resulting from stabilization transactions. The Company will not receive any of the proceeds from the sale of the Initial Offer Shares or Over-allotment Shares by the Selling Shareholders. The Initial Offer Shares and Over-allotment Shares (if any) are referred to herein as the "**Offer Shares**". The Offer Shares and the remaining outstanding shares in the Company are referred to herein as the "**Shares**".

The indicative offering price range at which Offer Shares are being sold in the Offering will be between €9.00 and €11.50 per Offer Share (the "**Offering Price Range**"). This price range has been determined based on negotiations between the Company, the Selling Shareholders and the Managers and no independent experts have been consulted in determining this price range. The price of the Offer Shares (the "**Offering Price**") will be determined based on negotiations between the Company, the Selling Shareholders and the Managers, upon the finalization of the book-building period (expected to occur on or about May 5, 2015) and will be announced through the publication of a relevant fact ("*hecho relevante*").

The Offer Shares are expected to be delivered through the book-entry facilities of *Sociedad de Gestión de los Sistemas de Registro, Cooperación y Liquidación de Valores, S.A.U.* ("**Iberclear**") on or about May 11, 2015.

Prior to the Offering, there has been no public market for the Shares. The Company will apply to have the Shares listed on the Spanish Stock Exchanges and to have the Shares quoted on the AQS. The Shares are expected to be listed on the Spanish Stock Exchanges and quoted on the AQS on or after May 7, 2015 under the symbol "TLGO".

Investing in the Company's Shares involves certain risks. See "Risk Factors" beginning on page 20 for a discussion of certain matters that investors should consider prior to making an investment in the Shares.

The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and are being offered and sold within the United States only to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on Rule 144A and outside the United States in reliance on Regulation S under the Securities Act. See "*Transfer and selling restrictions*" for additional information about eligible offerees and transfer restrictions.

Joint Global Coordinators

Banco Santander **J.P. Morgan** **Nomura**

Co-lead Managers

Bankinter **BBVA** **Crédit Agricole CIB** **JB Capital Markets** **N+1** **Natixis** **Société Générale Corporate and Investment Banking**

Financial Adviser to the Company

Rothschild

The date of this document is April 23, 2015

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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This document, including the financial information incorporated by reference herein, is in compliance with the Prospectus Rules, which comply with the provisions of the Prospectus Directive for the purpose of giving information with regard to the Company, the Group, the Selling Shareholders and the Offer Shares. The Company and the undersigned, Mr. Jose María Oriol Fabra, in his capacity as CEO ("*consejero delegado*") of the Company and acting under a special power of attorney granted by the Board of Directors and the general shareholders' meeting of the Company, accept responsibility for the information contained in this document. Having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Mr. Jose María Oriol Fabra, acting for and on behalf of the Minority Selling Shareholders listed in section "*Principal and Selling Shareholders*", acting under a special power of attorney, declares that the Minority Selling Shareholders accept responsibility for the information referred to the Minority Selling Shareholders in sections "*Principal and Selling Shareholders*" and "*Plan of Distribution*". Having taken all reasonable care to ensure that such is the case, the information referred to the Minority Selling Shareholders in "*Principal and Selling Shareholders*" and "*Plan of Distribution*" is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Mr. Javier Fernando Olascoaga Palacio, acting for and on behalf of Pegaso Transportation International S.C.A., acting under a special power of attorney, declares that Pegaso Transportation International S.C.A. accepts responsibility for the information referred to Pegaso Transportation International S.C.A. in sections "*Principal and Selling Shareholders*" and "*Plan of Distribution*". Having taken all reasonable care to ensure that such is the case, the information referred to Pegaso Transportation International S.C.A. in sections "*Principal and Selling Shareholders*" and "*Plan of Distribution*" is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Mr. Francisco Caro García, acting for and on behalf of MCH Iberian Capital Fund III, FCR, acting in his capacity as Managing Director of MCH Private Equity Investments, SGEIC, S.A., which in turn is the management company of MCH Iberian Capital Fund III, FCR, declares that MCH Iberian Capital Fund III, FCR, accepts responsibility for the information referred to MCH Iberian Capital Fund III, FCR, in sections "*Principal and Selling Shareholders*" and "*Plan of Distribution*". Having taken all reasonable care to ensure that such is the case, the information referred to MCH Iberian Capital Fund III, FCR, in sections "*Principal and Selling Shareholders*" and "*Plan of Distribution*" is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Mr. Germán Cabrera López, acting for and on behalf of MCH Inversiones Industriales, S.à.r.l., acting under a special power of attorney, declares that MCH Inversiones Industriales, S.à.r.l. accepts responsibility for the information referred to MCH Inversiones Industriales, S.à.r.l., in sections "*Principal and Selling Shareholders*" and "*Plan of Distribution*". Having taken all reasonable care to ensure that such is the case, the information referred to MCH Inversiones Industriales, S.à.r.l., in sections "*Principal and Selling Shareholders*" and "*Plan of Distribution*" is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import.

None of Banco Santander, S.A. ("**Banco Santander**"), J.P. Morgan Securities plc ("**J.P. Morgan**") or Nomura International plc ("**Nomura**") (together the "**Joint Global Coordinators**"), or Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., Crédit Agricole Corporate and Investment Bank, JB Capital Markets, S.V., S.A.U., Natixis, Nmás1 Equities Sociedad de Valores, S.A. and Société Générale (together the "**Co-Lead Managers**" and together with the Joint Global Coordinators, the "**Managers**") or Rothschild, S.A. ("**Rothschild**") (acting as financial adviser to the Company) or their respective affiliates make any representation or warranty, express or implied, nor accept any responsibility whatsoever, with respect to the content of this document, including the accuracy or completeness or verification of any of the information in this document. This document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholders, the Managers or Rothschild that any recipient of this document should purchase the Offer Shares. Each purchaser of Offer Shares should determine for itself the relevance of the information contained in this document, and its purchase of Offer Shares should be based upon such investigation, as it deems necessary, including the assessment of risks involved and its own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such investor in connection with the purchase of the Offer Shares.

This document does not constitute an offer to the public generally to purchase or otherwise acquire the Offer Shares. In making an investment decision regarding the Offer Shares, an investor must rely on its own examination of the Company and the Group and the terms of the Offering, including the merits and risks involved. Investors should rely only on the information contained in this document. None of the Company, the Selling Shareholders, the Managers or Rothschild has authorized any other person to provide investors with different information. If anyone provides any investor with different or inconsistent information, such investor should not rely on it. Investors should assume that the information appearing in this document is accurate only as of its date. The Group's business, financial condition, results of operations, prospects and the information set forth in this document may have changed since the date of this document.

Notwithstanding the foregoing, the Company is required to issue a supplementary prospectus in respect of any significant new factor, material mistake or inaccuracy relating to the information included in this document which is capable of affecting the assessment of the Offer Shares and which arises or is noted between the date hereof and the Admission, in accordance with Prospectus Directive and article 22 of Spanish Royal Decree 1310/2005, of November 4 (*"Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de Julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos"*) but assumes no further obligation to publish additional information other than under general rules for issuance relevant fact of statements ("*hechos relevantes*").

The contents of the website of the Company, or the website of any other member of the Group, do not form any part of this document.

Investors should not consider any information in this document to be investment, legal or tax advice. An investor should consult its own legal counsel, financial adviser, accountant and other advisers for legal, tax, business, financial and related advice regarding purchasing the Offer Shares. None of the Company, the Selling Shareholders, the Managers or Rothschild or their respective affiliates makes any representation or warranty to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under appropriate investment or similar laws.

Each Manager that is regulated in the United Kingdom by the Financial Conduct Authority is acting exclusively for the Company and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering. Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Managers under the Spanish Securities Markets Act or the regulatory regime established thereunder, none of the Managers accepts any responsibility whatsoever for the contents of this document or for any other statement made or purported to be made by it or any of them or on its or their behalf in connection with the Group or the Offer Shares. Each of the Managers accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this document or any such statement.

In connection with the Offering, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may purchase the Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Group or other related investments in connection with the Offering or otherwise. Accordingly, references in this document to the Offer Shares being offered, or otherwise dealt with should be read as including any offer to, or dealing by, the Managers or any of their respective affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

This document does not constitute or form part of an offer to sell, or a solicitation of an offer to purchase, any security other than the Offer Shares. The distribution of this document and the offer and sale of the Offer Shares may be restricted by law in certain jurisdictions. Any investor must inform themselves about, and observe any such restrictions. See "*Transfer and Selling Restrictions*" elsewhere in this document. Any investor must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Offer Shares or possesses or distributes this document and must obtain any consent, approval or permission required for its purchase, offer or sale of the Offer Shares under the laws and regulations in force in any jurisdiction to which such investor is subject or in which such investor makes such purchases, offers or sales. None of the Company, the Selling Shareholders or the Managers is making an offer to sell the Offer Shares or a solicitation of an offer to buy any of the Offer Shares to any person in any jurisdiction except where such an offer or solicitation is permitted or accepts any legal responsibility for any violation by any person, whether or not an investor, or applicable restrictions.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be sold within the United States, except to persons reasonably believed to be QIBs or outside the United States in offshore transactions in reliance upon Regulation S. Investors are hereby notified that sellers of the Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

For a discussion of certain restrictions on transfers of the Shares in other jurisdictions, see "*Transfer and Selling Restrictions*".

In connection with the Offering, J.P. Morgan Securities plc, or any of its agents, as stabilizing manager (the "**Stabilizing Manager**"), acting on behalf of the Managers, may (but will be under no obligation to), to the extent permitted by applicable law, engage in transactions that stabilize, support, maintain or otherwise affect the price, as well as over-allot Shares or effect other transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail in an open market. Any stabilization transactions shall be undertaken in accordance with applicable laws and regulations, in particular, Commission Regulation (EC) No 2273/2003 of December 22, 2003 as regards exemptions for buy-back programs and stabilization of financial instruments.

The stabilization transactions shall be carried out for a maximum period of 30 calendar days from the date of the commencement of trading of Offer Shares on the Spanish Stock Exchanges, provided that such trading is carried out in compliance with the applicable rules, including any rules concerning public disclosure and trade reporting. The stabilization period is expected to commence on May 7, 2015 and end on June 5, 2015 (the "**Stabilization Period**").

For this purpose, the Stabilizing Manager may carry out an over-allotment of Offer Shares in the Offering, which may be covered by the Managers pursuant to one or several loans granted by the Selling Shareholders in proportion. The Stabilizing Manager is not required to enter into such transactions and such transactions may be effected on any securities market or otherwise and may be taken at any time during the Stabilization Period. However, there is no obligation that the Stabilizing Manager or any of its agents effect stabilizing transactions and there is no assurance that the stabilizing transactions will be undertaken. Such stabilization, if commenced, may be discontinued at any time without prior notice, without prejudice to the duty to give notice to the CNMV of the details of the transactions carried out under Commission Regulation (EC) No 2273/2003 of December 22, 2013. In no event will measures be taken to stabilize the market price of the Shares above the Offering Price. In accordance with Article 9.2 of Commission Regulation (EC) No 2273/2003 of December 22, 2013, the details of all stabilization transactions will be notified by the Stabilizing Manager to the CNMV no later than closing of the seventh daily market session following the date of execution of such stabilization transactions.

Additionally, in accordance with Article 9.3 of Commission Regulation (EC) No 2273/2003 of December 22, 2013, the following information will be disclosed to the CNMV by the Stabilizing Manager within one week of the end of the Stabilization Period: (i) whether or not stabilization transactions were undertaken; (ii) the date at which stabilization transactions started; (iii) the date at which stabilization transactions last occurred; and (iv) the price range within which the stabilization transaction was carried out, for each of the dates during which stabilization transactions were carried out.

NOTICE TO PROSPECTIVE UNITED STATES INVESTORS

THE OFFER SHARES OFFERED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION IN THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THE OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES. THE OFFER SHARES ARE BEING OFFERED (A) IN THE UNITED STATES ONLY TO QIBS (AS DEFINED IN AND IN RELIANCE UPON RULE 144A) AND (B) OUTSIDE THE UNITED STATES ONLY IN OFFSHORE TRANSACTIONS (AS DEFINED IN, AND RELIANCE UPON, REGULATION S). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE OFFER SHARES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR CERTAIN RESTRICTIONS ON RESALES, SEE "*TRANSFER AND SELLING RESTRICTIONS*".

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED

UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY INVESTOR, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PROSPECTIVE UNITED KINGDOM INVESTORS

In the United Kingdom, this document is only being distributed to, and is only directed at, and any investment or investment activity to which this document relates is available only to, and will be engaged in only with, persons (i) having professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, or other persons to whom it may otherwise be lawfully communicated (all such persons together being referred to as "relevant persons"). Persons who are not relevant persons should not take any action on the basis of this document and should not act or rely on it.

This document is only being distributed to, and is only directed at, persons in the United Kingdom who are "qualified investors" as defined in Section 86(7) of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") or otherwise in circumstances which do not require the publication by the Company of a prospectus pursuant to section 85(1) of the FSMA.

NOTICE TO PROSPECTIVE EUROPEAN ECONOMIC AREA INVESTORS

This document has been prepared on the basis that all offers of Shares using this document will be made pursuant to an exemption under the Prospectus Directive, which includes any relevant implementing measure in each Member State of the EEA from the requirement to produce a prospectus for offers to the public of transferable securities. Accordingly, any person making or intending to make any offer within the EEA of Shares that are the subject of the Offering should only do so in circumstances in which no obligation arises for the Company, the Selling Shareholders or any of the Managers to produce a prospectus for such offer. None of the Company, the Selling Shareholders or the Managers has authorized, nor do they authorize, the making of any offer of Shares through any financial intermediary, other than offers made by the Managers that constitute the final placement of Shares contemplated in this document.

NOTICE TO PROSPECTIVE INVESTORS IN CERTAIN OTHER COUNTRIES

For information to investors in certain other countries, see "*Transfer and Selling Restrictions*".

CERTAIN TERMS AND CONVENTIONS

As used herein, the following terms shall have the meanings indicated:

"Admission" refers to the admission of the Shares to trading on the Spanish Stock Exchanges and on the AQS or *Mercado Continuo* of the Spanish Stock Exchanges.

"Agent Bank" refers to Banco Santander, S.A.

"Al-Shoula Consortium" refers to the consortium entered into by Administrador de Infraestructuras Ferroviarias (ADIF), Cobra Instalaciones y Servicios Intemacional, S.L., Consultrans, S.A.U., S.A. de Obras y Servicios, COPASA, Dimetronic, S.A., Imathia Construcción, S.L., Instalaciones Inabensa, S.A., Indra Sistemas, S.A., Ingeníera y Economía del Transporte, S.A., Obrascón Huarte Lain, S.A., Renfe-Operadora and Patentes Talgo, S.L.U. and two Saudi companies, Al-Shoula Group and Al-Rosan Contracting Company, for the construction, operation and supply and maintenance of trains under the project to link Mecca to Medina with a High Speed rail system (Phase II of the Haramain High Speed Rail Project).

"AQS" or "Automated Quotation System" means the Spanish Automated Quotation System (SIBE), or *Mercado Continuo*, of the Madrid, Barcelona, Bilbao and Valencia stock exchanges.

"Audited Annual Consolidated Financial Statements" refers to Talgo's audited consolidated financial statements as at and for the years ended December 31, 2012, 2013 and 2014, prepared in accordance with EU-IFRS, and the accompanying notes thereto.

"AVE" means *Alta Velocidad Española.*

"AVRIL" means *Alta Velocidad Rueda Independiente Ligero*.

"Board of Directors" refers to the board of directors of the Company.

"CIS" means the Commonwealth of Independent States and at present unites: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine.

"CNMV" refers to the Spanish National Securities Market Regulator (*Comisión Nacional del Mercado de Valores*).

"Co-Lead Managers" means Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., Crédit Agricole Corporate and Investment Bank, JB Capital Markets, S.V., S.A.U., Natixis, Nmás1 Equities Sociedad de Valores, S.A. and Société Générale.

"Company" means Talgo, S.A., a company incorporated under the laws of Spain in Madrid on September 30, 2005 pursuant to a notarized public deed of incorporation, under number 98 of the public notary's official records and registered with the Commercial Registry of Madrid in volume 25,792, page 157 and sheet M-369414, and holder of Spanish tax identification number A-84453075, with registered office at Paseo del Tren Talgo 2, Las Matas, 28290 Madrid (Spain) and phone number +34 916313800.

"Consorcio Español Alta Velocidad Meca Medina, S.A." refers to the company incorporated on November 2, 2011, by Administrador de Infraestructuras Ferroviarias (ADIF), Cobra Instalaciones y Servicios Intemacional, S.L., Consultrans, S.A.U., S.A. de Obras y Servicios, COPASA, Dimetronic, S.A., Imathia Construcción, S.L., Instalaciones Inabensa, S.A., Indra Sistemas, S.A., Ingeníera y

Economía del Transporte, S.A., Obrascón Huarte Lain, S.A., Renfe-Operadora and Patentes Talgo, S.L.U. for the purpose of taking decisions, the collection of proceeds and re-invoicing expenses regarding Phase II of the Haramain High Speed Rail Project.

"Euroclear" means Euroclear Bank, S.A./N.V., as operator of the Euroclear System.

"Directors" refers to the members of the Board of Directors.

"EEA" means the European Economic Area.

"EIB" means the European Investment Bank.

"EU" refers to the European Union.

"EU-IFRS" refers to the International Financial Reporting Standards, as adopted by the EU.

"Exchange Act" refers to the U.S. Securities Exchange Act of 1934, as amended.

"FSMA" refers to the Financial Services and Markets Act 2000.

"GDP" refers to Gross Domestic Product.

"Group" or "Talgo" refer to Talgo, S.A. and its consolidated subsidiaries.

"Iberclear" refers to *Sociedad de Gestión de los Sistemas de Registro, Cooperación y Liquidación de Valores, S.A.U.*

"Initial Offer Shares" refers to 61,574,805 shares of the Company, each with a nominal value of €0.301, offered in the Offering.

"Joint Global Coordinators" means Banco Santander, S.A., J.P. Morgan Securities plc and Nomura International plc.

"KTZ" means Kazakhstan Temir Zholy, the national railway company of Kazakhstan.

"Latam" means Latin America.

"Management Incentive Plan" means the management incentive plan referred to in "*Management and Board of Directors – Management Compensation – Management Incentive Plan*".

"Managers" means each of the Joint Global Coordinators and each of the Co-Lead Managers.

"Member State" refers to any state of the European Economic Area.

"MEA" means the Middle East and Africa.

"Minority Selling Shareholders" refers to Talgo's shareholders referred to in "*Principal and Selling Shareholders*" other than Pegaso Transportation International, S.C.A., MCH Iberian Capital Fund III, F.C.R. and MCH Inversiones Industriales, S.à.r.l.

"NAFTA" means the North American Free Trade Agreement.

"Offer Shares" means the Initial Offer Shares together with the Over-allotment Shares, if any.

"Offering" means the initial offering by the Selling Shareholders of the Initial Offer Shares, representing 45 per cent of the total number of Shares of the Company.

"Offering Price" means the price of the Offering.

"Offering Price Range" means the indicative price range of the Offering, which will be between €9.00 and €11.50 per Offer Share, as determined by the Company, the Selling Shareholders, and the Managers.

"Over-allotment Option" means the option that the Selling Shareholders will grant to the Joint Global Coordinators on behalf of the Managers to purchase the Over-allotment Shares in connection with the Offering.

"Over-allotment Shares" mean the additional Shares representing up to 10 per cent of the Initial Offer Shares to cover over-allotments, if any, and short positions resulting from stabilization transactions.

"Patentes Talgo, S.L.U." or "Patentes Talgo" refers to the wholly-owned subsidiary of Talgo, S.A. that conducts all of the Group´s business.

"Prospectus Directive" means Directive 2003/71/EC of November 4, 2003 (and amendments thereto, including Directive 2010/73/EU), and includes any relevant implementing measure in each relevant member state of the EEA.

"Prospectus Rules" refers to the prospectus rules and Annexes I, III and XXII set out in Commission Regulation (EC) No 809/2004 (and amendments thereto, including Commission Delegated Regulation (EU) 486/2012 and Commission Delegated Regulation (EU) 862/2012) enacted in the European Union.

"Return on Capital Employed (ROCE)" means the Operating profit divided by the capital employed (sum of equity and debt liabilities)

"QIBs" refers to qualified institutional buyers within the meaning of Rule 144A under the Securities Act.

"Regulation S" refers to Regulation S under the Securities Act.

"Relevant Member State" refers to each member state of the European Economic Area that has implemented the Prospectus Directive.

"R&D" refers to research and development.

"Rule 144A" refers to Rule 144A under the Securities Act.

"RZD" refers to the Russian Railways operator.

"Securities Act" refers to the United States Securities Act of 1933, as amended.

"Senior Managers" or "Senior Management" means those managers referred to in section "*Management and Board of Directors-Senior Management*".

"Shares" refers to all the shares of the Company, with a par value of €0.301 per share.

"Spain" refers to the Kingdom of Spain.

"Spanish Companies Act" means *Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*.

"Spanish Securities Markets Act" means *Ley 24/1988, de 28 de julio, del Mercado de Valores*.

"Spanish Stock Exchanges" refers to the Madrid, Barcelona, Bilbao and Valencia stock exchanges.

"SRO" means the national railway company of Arabia.

"Stabilizing Manager" refers to J.P. Morgan Securities plc. and any of its agents.

"Stabilization Period" refers to the period commencing on May 7, 2015 and ending on June 5, 2015 in which stabilization transactions may be carried out.

"UN" refers to United Nations.

"Underwriters" means Banco Santander, S.A., J.P. Morgan Securities plc., Nomura International plc, Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., Crédit Agricole Corporate and Investment Bank, JB Capital Markets, S.V., S.A.U., Natixis and Société Générale.

"UNIFE" means *Union des Industries Ferroviaires Européennes*, the Association of the European Rail Industry.

"United Kingdom" or "UK" refers to the United Kingdom of Great Britain and Northern Ireland.

"United States" or "US" refers to the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to its jurisdiction.

PRESENTATION OF FINANCIAL INFORMATION

General

The Company prepares its financial statements in euros. The euro is the currency of the member states of the European Union, including Spain, that form part of the Economic and Monetary Union.

As used in this document, the term "billion" means one thousand million (1,000,000,000).

Certain monetary amounts and other figures included in this document have been subject to rounding off. Any discrepancies in tables between the totals and the amounts listed are due to rounding off.

In addition, certain percentages shown in the tables in this document reflect calculations based upon the underlying information prior to rounding off and, accordingly, may not conform exactly to the percentages that would result if the relevant calculation were based upon the rounded off figures.

Audited Annual Consolidated Financial Statements

The Group's Audited Consolidated Financial Statements as at and for the years ended December 31, 2012, 2013 and 2014 (the "**Audited Annual Consolidated Financial Statements**") have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**EU-IFRS**").

The Audited Annual Consolidated Financial Statements for the year ended December 31, 2012 were audited by PricewaterhouseCoopers Auditores, S.L. and for the years ended December 31, 2013 and 2014 were audited by Deloitte, S.L. as stated in each of their unqualified reports.

The Audited Annual Consolidated Financial Statements are included elsewhere in this document and will also be available on the Company's website (www.talgo.com) upon Admission. The Audited Annual Consolidated Financial Statements in Spanish are incorporated by reference herein and are available on the CNMV´s website (www.cnmv.es), and will also be available on the Company's website (www.talgo.com) upon Admission. The Audited Annual Consolidated Financial Statements are originally drafted in Spanish. In the event of any discrepancy between the English and the Spanish versions, the latter will prevail.

The Group's Audited Annual Consolidated Financial Statements for the year ended December 31, 2014 (the "**2014 Audited Consolidated Financial Statements**") were formally prepared ("*formuladas*") by the Directors of the Company at the Board of Directors meeting held on March 24, 2015 and have been approved by the general shareholders´ meeting held on March 28, 2015.

Audited Annual Stand-Alone Financial Statements

The Company's Audited Stand-Alone Financial Statements as at and for the years ended December 31, 2012, 2013 and 2014 (the "**Audited Annual Stand-Alone Financial Statements**") have been prepared in accordance with the Spanish General Accounting Plan ("*Plan General Contable*").

The Audited Annual Stand-Alone Financial Statements for the year ended December 31, 2012 were audited by PricewaterhouseCoopers Auditores, S.L. and for the years ended December 31, 2013 and 2014 were audited by Deloitte, S.L. as stated in each of their unqualified reports.

The Audited Annual Stand-Alone Financial Statements in Spanish are incorporated by reference herein and are available on the CNMV´s website (www.cnmv.es) and will also be available on the Company's website (www.talgo.com) upon Admission.

The Company's Audited Annual Stand-Alone Financial Statements for the year ended December 31, 2014 (the "**2014 Audited Stand-Alone Financial Statements**") were formally prepared ("*formuladas*") by the Directors of the Company at the Board of Directors meeting held on March 24, 2015 and have been approved by the general shareholders´ meeting held on March 28, 2015.

Non-EU-IFRS Measures (unaudited)

In addition to the financial information presented herein and prepared according to EU-IFRS, the Group has included some financial measures, which have been extracted or derived from the accounting records of the Group, including "Adjusted EBIT", "EBITDA", "Adjusted EBITDA", "Working Capital", "Order Intake", "Backlog", "EBIT/Employee", "EBIT/production site", "3 year average EBIT Margin" and "Adjusted Cash Flow". The Group has presented these non-EU-IFRS financial measures, which are unaudited, because it believes they may contribute to a fuller understanding of the Group's results of operations by providing additional information on what the Group considers being some of the drivers of the Group's financial performance.

These measures are not defined by EU-IFRS and may be presented on a different basis than the financial information included in the Audited Annual Consolidated Financial Statements. Accordingly, they may differ significantly from similarly titled information reported by other companies, and may not be comparable. Investors are cautioned not to place undue reliance on these non-EU-IFRS financial accounting measures, which should be considered supplementary, and not a substitute for, the financial information prepared in accordance with EU-IFRS included elsewhere in this document.

Market and industry information

Market data and certain industry forecast data used in this document was obtained from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry and government publications. Industry and government publications generally state that the information they contain has been obtained from sources believed to be reliable, however the accuracy and completeness of such information is not guaranteed. Similarly, estimates and market research, while believed to be reliable and accurately extracted by Talgo for the purposes of this document, have not been independently verified.

Where information contained in this document has been sourced from a third party, the Company confirms that such information has been accurately reproduced and, so far as they are aware and have been able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where information in this document has been sourced from third parties, the source of such information has been clearly stated adjacent to the reproduced information.

Forward-looking statements

This document does not include any profit forecast or profit estimate pursuant to section 13 of Annex I of Commission Regulation (EC) No 809/2004. However, it does include forward-looking statements that reflect Talgo´s intentions, beliefs or current expectations and projections about its future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans, opportunities, project completion dates, costs and the industry in which Talgo operates. Forward-looking statements involve all matters that are not historical fact. Talgo has tried to identify those forward-looking statements by using the words “may”, “will”, “would”, “should”, “expect”, “intend”, “estimate”, “anticipate”, “project”, “believe”, “seek”, “plan”, “aim”, “objective”, “goal”, “strategy”, “target”, “budgeted”, “continue” and similar expressions or their negatives. These forward-looking statements are based on numerous assumptions regarding Talgo’s present and future business and the environment in which Talgo expects to operate in the future. Forward-looking statements may be found in sections of this document entitled “*Risk Factors*”, “*Operating and Financial Review*”, “*Industry Overview*”, “*Business*” and elsewhere.

These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions and other factors that could cause Talgo’s actual results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans, opportunities or project completion dates and costs, as well as those of the markets Talgo serves or intends to serve, to differ materially from those expressed in, or suggested by the forward-looking statements. Actual results may differ materially from those described in the forward-looking statements and, therefore, undue reliance should not be placed on any of such statements.

Risks and uncertainties that could cause actual results to vary materially from those anticipated in the forward-looking statements included in this document include those described in “*Risk Factors*”.

Additional risks that the Company may currently deem immaterial or that are not presently known could also cause the forward-looking events discussed in this document not to occur. Readers should not place undue reliance on any forward-looking statements, which refer only to the date of this document. Except as otherwise required by Spanish, US federal and other applicable securities laws and regulations and by any applicable stock exchange regulations, the Company expressly disclaims any obligation or undertaking to notify any updates or revisions to any forward-looking statement contained herein, to reflect any change in the Company’s expectations with regard thereto, or any other change in events, conditions or circumstances upon which any such statement is based.

The Managers and the Selling Shareholders assume no responsibility or liability for, and make no representation, warranty or assurance whatsoever in respect of any of the forward-looking statements contained in this document.

Backlog

Backlog is an unaudited measure used by Talgo to account for the contractual amount payable to it when awarded a contract (see “*Operating and Financial Review-Conversion of Backlog into turnover*”).

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A – E (A.1 – E.7). ***This summary contains all the Elements required to be included in a summary for this type of securities and company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.*** ***Even though an Element may be required to be inserted in the summary because of the type of securities and company, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of 'not applicable'.***

SECTION A- INTRODUCTION AND WARNINGS		
A.1	**Warning to investors**	This summary should be read as an introduction to the document. Any decision to invest in the shares of Talgo, S.A. (the "**Shares**" and the "**Company**", respectively) should be based on the consideration of the document as a whole by the investor. Where a claim relating to the information contained in the document is brought before a court, a plaintiff investor may, under the national legislation of the member state of the European Economic Area ("**EEA**") have to bear the costs of translating the document before legal proceedings are initiated. Civil liability attaches only to those who have tabled this summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the document or does not provide, when read together with the other parts of the document, key information in order to aid investors when considering whether or not to invest in the Shares.
A.2	**Information on financial intermediaries**	Not applicable. No consent has been given by the Company or any person responsible for drawing up this document to use this document for subsequent sale or placement of securities by financial intermediaries.

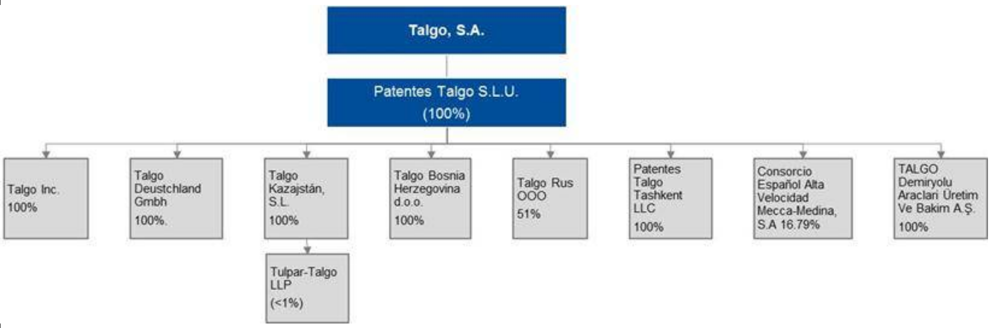
SECTION B- COMPANY		
B.1	**Legal and commercial name**	The legal name of the Company is Talgo, S.A. and the global brand name of the Company and its subsidiaries ("**Talgo**" or the "**Group**") is Talgo.
B.2	**Domicile/legal form/legislation/ country of incorporation**	The Company is a public limited company ("*sociedad anónima*") incorporated in and subject to the laws of the Kingdom of Spain. The Company´s registered address is Paseo del Tren Talgo 2, Las Matas, 28290 Madrid.

B.3	**Current operations/ principal activities and markets**	Talgo is a specialized rolling stock engineering company focused on designing, manufacturing and servicing technologically differentiated, fast, lightweight trains. Talgo currently serves the global Very High Speed, High Speed and Passenger Coaches markets and is planning to expand into the Regional Commuter trains market. Talgo's main business segments are: (i) **Rolling stock**, which includes both: (a) **Manufacturing:** engineering and manufacturing of rolling stock, acting as a system integrator and prime contractor and undertaking aluminum welding of the trains; and (b) **Maintenance services:** services required for a proper functioning of the trains, including repairs, cleaning, accessories, etc.; and (ii) **Maintenance equipment and other:** manufacturing of train maintenance equipment, with proprietary technology products sold to train operators worldwide. On average, during the 2012-2014 period, 60% of Talgo's net turnover was generated by its manufacturing division, 35% in maintenance services division and 5% from other activities including the sale of maintenance equipment and other activities. As at the date of this document, Talgo has sold rolling stock and signed maintenance services contracts in both developed and emerging economies, including Saudi Arabia, Kazakhstan, Russia, Uzbekistan, Germany and the United States which complement its position in the highly competitive domestic Spanish market (in all these countries Talgo has also sold maintenance equipment). Other countries in which Talgo has sold maintenance equipment include Switzerland, India, Mexico, Brazil, Peru, Argentina, France, UK, Italy, Poland, Norway, Ukraine, and Algeria, among other countries. As at December 31, 2014, Talgo had manufacturing plants in Spain, offices and operated in maintenance workshops in Spain, the United States, Germany, Uzbekistan and Kazakhstan and commercial agents and offices in Chile, Turkey, Saudi Arabia, India and Russia. As at December 31, 2014, Talgo's backlog (i.e. the unaudited measure used by Talgo to account for the contractual amount payable to it when awarded a contract less the portion already recorded as net turnover) amounted to €3,692 million, representing more than nine times its 2014 net turnover. As at December 31, 2014, 77% of Talgo's backlog came from its international activities. In recent years, a significant proportion of Talgo's growth has arisen from international expansion, with landmark orders won in Saudi Arabia, Kazakhstan and Russia. Talgo's average annual order intake (i.e. the value of new project orders received during a given year) amounted to €483,956 thousand per annum in 2012-2014, with over 90% of manufacturing orders since 2012 coming from international customers. One of Talgo's key competitive advantages is its unique suite of seven differentiated engineering technologies. Talgo designs innovative solutions for railway operators that require minimal infrastructure investment and aims to provide low life-cycle costs, increased safety, short journey times and comfortable units for rail passengers. The provision of maintenance services to Talgo's entire installed base of

		approximately 2,531 coaches and 191 power heads as at December 31, 2014, is a key component of Talgo's business model, which requires limited associated capital expenditure and provides enhanced proximity to Talgo's customers. In addition to providing maintenance services for Talgo's own rolling stock equipment (Talgo maintains 100% of the trains it has manufactured), Talgo also provides maintenance services to part of the non-Talgo fleet of Deutsche Bahn, the state-owned and principal rail operator in Germany. Talgo has signed contracts under which the Company will provide, over the next four years, maintenance services to 1,376 additional coaches and 72 additional power heads. Talgo is currently in active commercial discussions or competing for projects on a worldwide basis. Talgo is currently involved in commercial discussions in over 25 countries in Western Europe, Eastern Europe, Russia, Central Asia, Africa-Middle East-Asia and the Americas. Talgo operates a scalable, flexible and asset-light business model relying on design, engineering and manufacturing expertise. Capital-intensive operations carried out by Talgo are generally restricted to strategic and safety critical components and processes, with the majority of non-critical capital-intensive operations outsourced to ensure full manufacturing flexibility. The following table shows Talgo's net turnover for the years ended December 31, 2012, 2013 and 2014 corresponding to the "Rolling Stock" and "Maintenance Equipment and Other" segments in Spain, rest of Europe, United States, Middle-East and North-Africa and Commonwealth of Independent States (CIS):

	2012 (€ thousand)	**2013 (€ thousand)**	**2014 (€ thousand)**
Spain	137,406	118,035	106,143
Rest of Europe	18,253	16,370	11,125
United States	26,676	9,849	7,403
Middle East and North Africa	18,169	41,729	103,841
Commonwealth of Independent	129,414	140,736	155,799
Total	**329,918**	**326,719**	**384,311**

B.4	**Significant recent trends affecting the Group and the industries in which it operates**	Talgo is not aware of any significant recent trends influencing Talgo and the industries in which it operates, notwithstanding the risk factors described elsewhere in this Summary. Save as described in the paragraphs below, there has been no significant change in Talgo´s financial or trading position since December 31, 2014, the date on which the last audited consolidated information on Talgo contained herein was prepared. **Contract with the Saudi Arabia railway operator (SRO) to provide additional trains** In March 2015, Talgo was awarded by the Saudi Arabia railway operator

		(SRO) a tender to provide six High Speed trains for €176 million. **Potential acquisition of a 51% stake in Tulpar- Talgo LLP and signing of a new Regional Commuter manufacturing agreement** Talgo is currently at an advanced stage of negotiations with KTZ both to acquire a 51% stake in Tulpar-Talgo LLP ("**Tulpar**"), a Kazahkstan corporation owned by KTZ whose sole activity is the purchase and further assembly of Talgo trains for the delivery to the KTZ, and to enter into a contract under which Talgo would manufacture Regional Commuter trains. As of the date of this document, the Company indirectly owns 0.00074% of Tulpar (as Talgo was diluted in a capital increase executed by Tulpar in 2012). Talgo estimates that the acquisition price would amount to between €30,000 thousand and €35,000 thousand. **Loan agreement granted by Banco Santander S.A.** On April 16, 2015, the Company and its subsidiary Patentes Talgo, S.L.U. entered into a loan finance agreement with Banco Santander, S.A., for a total amount of €100,000 thousand. **New credit line facilities granted, among others, by Caixabank, S.A., Bankia, S.A. and Bankinter, S.A.** As of the date of this document, Talgo has agreed new credit line facilities, with financial entities comprising, among others, Caixabank, S.A., Bankia, S.A. and Bankinter, S.A., for the ordinary course of Talgo's business for a total amount of €130,000 thousand available (1 year revolving and interests payable is referenced to EURIBOR plus an applicable margin of 100 basis points), none of which are drawn down. Of these new credit line facilities, €70,000 thousand have already been signed.
B.5	**Group structure**	The Company is a holding company with no employees and no direct operations, which conducts all of its business through a wholly-owned subsidiary of the Company, Patentes Talgo, S.L.U. The Group is formed by nine directly and indirectly controlled subsidiaries, whose operations and activities have been described in item B.3 above. The following table shows the Company and its material subsidiaries: 

<table>
<tr>
<td>B.6</td>
<td>Selling shareholders</td>
<td>
Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, FCR, MCH Inversiones Industriales, S.à.r.l. and the Minority Selling Shareholders.
On the date hereof, the Selling Shareholders hold 100 per cent of the Company's share capital and voting rights and, therefore, control the Company.
The following table sets forth certain information with respect to the ownership of the Shares prior to the Offering and after the Offering assuming full execution of the Offering and full exercise of the Over-allotment Option.
<table>
<tr><th></th><th colspan="2">Prior to the Offering</th><th colspan="4">After the Offering</th></tr>
<tr><th>Owner</th><th>Number of Shares beneficially owned</th><th>%</th><th>Number of Shares owned (assuming a full exercise of the Over-allotment Option)</th><th>%</th><th>Number of Shares owned (assuming no exercise of the Over-allotment Option)</th><th>%</th></tr>
<tr><td>Pegaso Transportation International SCA</td><td>86,963,300</td><td>63.55%</td><td>43,916,466</td><td>32.09%</td><td>47,829,815</td><td>34.95%</td></tr>
<tr><td>MCH Iberian Capital Fund III, FCR</td><td>10,533,800</td><td>7.70%</td><td>5,319,569</td><td>3.89%</td><td>5,793,590</td><td>4.23%</td></tr>
<tr><td>MCH Inversiones Industriales, S.à.r.l.</td><td>11,591,800</td><td>8.47%</td><td>5,853,859</td><td>4.28%</td><td>6,375,490</td><td>4.66%</td></tr>
<tr><td>Total Minority Shareholders</td><td>27,744,000</td><td>20.28%</td><td>14,010,720</td><td>10.24%</td><td>15,259,200</td><td>11.15%</td></tr>
<tr><td>TOTAL</td><td>136,832,900</td><td>100.00%</td><td>69,100,614</td><td>50.50%</td><td>75,258,095</td><td>55.00%</td></tr>
</table>
All the Selling Shareholders, the Company and certain Senior Managers have entered into a shareholder´s agreement (the "Talgo SHA") in order to regulate the relation of the Selling Shareholders as shareholders of Talgo, S.A., with effect from Admission
Among the most relevant clauses, the Talgo SHA includes (i) rights of first refusal in non-material transfers of Shares to all parties to the Talgo SHA, (ii) the orderly sale of Shares by its shareholders, other than those contemplated for the right of first refusal (iii) tag-along rights to all parties to the Talgo SHA in relation to transfers other than non-material transfers (as defined in the Talgo SHA) and (iv) a drag-along right to Pegaso Transportation International, S.C.A. in the event of a sale strategically beneficial for the Company.
The Talgo SHA will expire the earlier of (i) the date on which two years have elapsed since the date of Admission and (ii) the date on which Pegaso Transportation International, S.C.A. ceases to hold a significant stake in the Company (3 per cent. or more of the Company's share capital according to legislation in force).
In addition, the Talgo SHA establishes certain undertakings regarding the "sense of vote" on any appointment and removal of directors and / or members of the aforementioned committees remain in full force and effect.
The Company and Pegaso Transportation International S.C.A., MCH Iberian
</td>
</tr>
</table>

		Capital Fund III, FCR and MCH Inversiones Industriales, S.à.r.l. (shareholders of the Company with a stake representing 79.72 per cent. of the Company's share capital prior to the Offering), consider that the Company should be excluded from the Talgo SHA. In this regard, each of the abovementioned signatories of the Talgo SHA undertakes to make their best efforts to reach an agreement with the majority of the Minority Selling Shareholders as soon as practicable, and in any event, prior to Admission, in order to exclude the Company as party to the Talgo SHA and therefore to amend the Talgo SHA.
B.7	**Summary of historical audited key financial information**	**<u>Summary audited consolidated income statement data</u>** The following table sets out Talgo's summary audited consolidated income statement for the years ended December 31, 2012, 2013 and 2014.

	For the year ended December, 31		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
Net turnover	**329,918**	**326,719**	**384,311**
Other income	628	1,157	2,281
Stock variation for work-in-progress and finished goods	583	(1,354)	5,249
Work performed and capitalized by the Company	18,935	17,040	8,380
Procurement costs	(141,896)	(136,950)	(180,809)
Personnel costs	(90,037)	(92,770)	(104,556)
Other operating expenses	(52,794)	(66,127)	(47,698)
Amortization and depreciation charge	(5,872)	(7,210)	(16,811)
Loss on disposal of fixed assets	-	(82)	(1)
Other results	293	(233)	530
Impairment and result of loss of significant influence over holdings in equity or joint control over a multigroup company	**1,264**	-	-
Operating profit	**61,022**	**40,190**	**50,876**
Net financial result	**(13,400)**	**3,612**	**(5,411)**
Profit before tax	**47,622**	**43,802**	**45,465**
Income tax charge	(10,791)	(12,821)	(6,981)
Profit for the year	**36,831**	**30,981**	**38,484**

Net turnover

Net turnover for 2013 was €326,719 thousand, a decrease of approximately 1.0% in comparison to net turnover of €329,918 thousand in 2012. In 2013, net turnover from Talgo's Rolling Stock segment was €306,370 thousand, a decrease of approximately 1.5% when compared to the €310,918 thousand in 2012. This decrease was partially offset by the increase in net turnover from Talgo's Maintenance equipment and Other segment, which increased by 7.1% from €19,000 thousand in 2012 to €20,349 thousand in 2013. This increase was primarily due to the sale of spare parts.

Net turnover for 2014 was €384,311 thousand, an increase of 17.6% compared to €326,719 thousand for 2013, driven by an increase in activity in 2014 related to Saudi Arabia (the first train under the contract was delivered in December 2014), Kazakhstan (Talgo manufactured 16 additional cars of the

420) and Russia manufacturing projects.

Work performed and capitalized by the Company

Work performed and capitalized in 2013 amounted to €17,040 thousand, as compared to €18,935 thousand in 2012. This decrease of 10.0% was primarily due to the development of the AVRIL project.

Work performed and capitalized by the Company for 2014 amounted to €8,380 thousand, as compared to €17,040 thousand for 2013. This decrease of 50.8% was primarily due to the finalization of the development of the AVRIL project.

Procurement costs

Procurement costs in 2014 were €180,809 thousand, an increase of 32.0% as compared to €136,950 thousand in 2013. In 2014, the increase of Talgo's procurement costs was primarily attributable to an increase in activity relating to assembly of third party components used in the Mecca-Medina manufacturing project.

Amortization and Depreciation charge

Talgo's amortization increased from €5,872 thousand in 2012 to €7,210 thousand in 2013 and to €16,811 thousand in 2014. The increase in 2014 was primarily due to the amortization of AVRIL project of €7,586 thousand and the increase in 2013 with respect to 2012 was primarily due to the amortization of the new investments in Rivabellosa and Las Matas II manufacturing facilities.

Audited consolidated balance sheet data

The following table sets out Talgo's summary audited consolidated balance sheet for the years ended December 31, 2012, 2013 and 2014.

	As at December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets	49,143	64,743	70,898
Intangible assets	33,099	71,314	66,156
Goodwill	112,439	112,439	112,439
Investment in associates	4	10	10
Deferred tax assets	13,368	14,892	13,955
Other financial assets	2,398	11,409	3,664
	210,451	**274,807**	**267,122**
Current assets			
Non-current assets held for sale	-	-	6,114
Stock	36,195	49,428	71,723
Customers and other accounts receivable	169,708	113,644	158,470
Other financial assets	529	131	167
Assets accruals	1,000	2,508	1,803
Cash and cash equivalents	12,471	95,986	87,910
	219,903	**261,697**	**326,187**
TOTAL ASSETS	**430,354**	**536,504**	**593,309**

	As at December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
EQUITY			
Capital and reserves attributable to owners of the Parent Company			
Share capital	41,187	41,187	41,187
Share premium	68,451	68,451	68,451
Other reserves	174	101	2,608
Retained earnings	36,992	68,405	106,855
Other equity instruments	2,516	12,152	30,512
	149,320	**190,296**	**249,613**
Non-controlling interests	-	-	-
Total equity	**149,320**	**190,296**	**249,613**
LIABILITIES			
Non-current liabilities			
Borrowings	63,807	72,767	73,809
Deferred tax liabilities	6,663	6,108	3,565
Provisions for other liabilities and charges	7,710	12,278	22,910
Government grants	1,709	2,143	5,101
	79,889	**93,296**	**105,385**
Current liabilities			
Suppliers and other payables	166,511	235,829	222,245
Current tax liabilities	1,215	55	125
Borrowings	24,021	2,586	12,379
Provisions for other liabilities and charges	9,398	14,442	3,562
	201,145	**252,912**	**238,311**
Total liabilities	**281,034**	**346,208**	**343,696**
Total equity and liabilities	**430,354**	**536,504**	**593,309**

Intangible assets

Intangible assets, as at December 31, 2012, 2013 and 2014, amounted to €33,099 thousand, €71,314 thousand and €66,156 thousand, respectively (which represented an increase of 115.46% and a decrease of 7.23% respectively). In addition, Talgo's total investments in intangible assets for the same years amounted to €16,035 thousand, €15,407 thousand and €6,221 thousand, respectively. These figures corresponded to 4.9%, 4.7% and 1.6% of net turnover during each of such years, respectively. The primary factor responsible for the decrease was the development of the AVRIL prototype.

Goodwill

Goodwill, as at December 31, 2012, 2013 and 2014, amounted to €112,439 thousand. This figure was originated as a consequence of the acquisition of Patentes Talgo, S.A. by Patentes Talgo, S.L. in 2006 and was recognized for accounting purposes after the merger of both companies in 2008.

Borrowings

On December 18, 2012, Talgo opened several credit facilities with different financial entities for up to €90,000 thousand. As at December 31, 2014 and 2013, the Group had credit facilities for an amount of €20,000 thousand, and €35,000 thousand, respectively, with no amounts drawn-down from these credit facilities on either date.

On December 19, 2012, Patentes Talgo, S.L.U. entered into a finance agreement with the European Investment Bank, for an amount of up to €50,000 thousand. At December 31, 2013, €40,000 thousand had been drawn down and the full €50,000 thousand had been drawn down at December 31, 2014.

Capitalization and indebtedness as at February 28, 2015 and December 31, 2014

The following table sets out Talgo's cash and cash equivalents, current borrowings and capitalization as at February 28, 2015 and as at December 31, 2014:

	February 28, 2015[1]	**December 31, 2014[2]**
	(€ thousand)	**(€ thousand)**
A. Total Current liabilities	**250,122**	**238,311**
Guaranteed	-	-
Secured	-	-
Unguaranteed/ Unsecured	250,122	238,311
B. Total Non-Current liabilities	**105,008**	**105,385**
Guaranteed	18,059	20,716
Secured	-	-
Unguaranteed/ Unsecured	86,949	84,669
C. Shareholder´s equity: Capital and reserves attributable to the owners of the Parent Company	**257,825**	**249,613**
Share capital	41,187	41,187
Legal Reserve	8,237	6,924
Share premium, other reserves, retained earnings, other equity instruments and net income	208,401	201,502
TOTAL (A+B+C)	**612,955**	**593,309**
D. Cash	33,262	47,927
E. Cash equivalent[1]	39,983	39,983
F. Trading securities	-	-
G. Cash and cash equivalents (D+E+F)	**73,245**	**87,910**
H. Other financial assets	**158**	**167**
I. Current Debt with credit institutions	10,153	10,231
J. Current portion of non-current liabilities	-	-
K. Current Finance lease creditors	685	685
L. Current Financial liabilities (I+J+K)	**10,838**	**10,916**

[1] Non-audited figures.

[2] Audited figures.

M. Net Current Financial Indebtedness (L-H-G)	**(62,565)**	**(77,161)**
N. Non-current Debt with credit institutions	42,000	42,000
O. Bonds Issued	-	-
P. Non-current Finance lease creditors	423	600
Q. Non-current Financial Indebtedness (N+O+P)	42,423	42,600
R. Net Financial Indebtedness (M+Q)	**(20,142)**	**(34,561)**

(1) The cash equivalent assets include cash, fixed term deposit and promissory notes.

As at December 31, 2014 and February 28, 2015 the Total Financial Debt/ Equity ratio was for both periods equal to 0.21 and the Total Net Financial Debt/ Equity was equal to (0.14) and (0.08), respectively.

The following table sets out Talgo's cash and cash equivalents, borrowings and capitalization as at February 28, 2015, as adjusted to give effect to: (i) the payment of the Management Incentive Plan, (ii) the disbursement of Shares to the employees in the Offering and the (iii) payment of the advisory costs and expenses associated of the Offering:

	As at February 28, 2015[1] Adjustments (€ thousand)
A. Total Current liabilities	250,122
B. Total Non-Current liabilities	205,008
C. Shareholder´s equity[23]: Capital and reserves attributable to the owners of the Parent Company	153,728
TOTAL (A+B+C)	**608,858**
D. Cash and cash equivalents[3]	28,666[4]
E. Other financial assets	158
F. Current Financial liabilities	10,838
G. Net Current Financial Indebtedness (F-E-D)	(17,986)
H. Non-current Financial Indebtedness	142,423
I. Net Financial Indebtedness (G+H)	124,437

(1) Non-audited figures.

(2) The shareholders equity takes into account the tax shield arising from the abovementioned costs

(3) The cash figure does not include the expected tax benefit arising from these payments. These payments will generate a 28% tax shield on the cost reflected in the 2015 Profit and Loss statement.

(4) Assuming a (i) disbursement of €135,953 thousand for the Management Incentive Plan according to the maximum price of the Offering Price Range a (ii) a disbursement of €5,126 thousand for the extraordinary compensation to Talgo's employees and (iii) €3,500 thousand costs of the Offering to be paid by the Company.

Assuming a disbursement of €97,944 thousand for the Management Incentive Plan according to the minimum price of the Offering Price Range, Cash and cash equivalents will amount to €66,675 thousand, Net Current Financial cash will amount to €55,995 thousand and Net Financial Indebtedness will amount to €86,428 thousand.

The Total Financial Debt/ Equity ratio would be equal to 1 and the Total Net Financial Debt/ Equity would be equal to 0.81.

In addition, the following table sets out Talgo's cash and cash equivalents, borrowings and capitalization as at February 28, 2015, as adjusted to give effect to the items reflected in the table above plus the potential disbursement of the price for the acquisition of Tulpar-Talgo LLP:

	As at February 28, 2015[1] Adjustments[2] (€ thousand)
A. Total Current liabilities	255,222
B. Total Non-Current liabilities	205,008
C. Shareholder´s equity[35]: Capital and reserves attributable to the owners of the Parent Company	153,728
TOTAL (A+B+C)	**613,958**
D. Cash and cash equivalents[4]	1,266[5]
E. Other financial assets	158
F. Current Financial liabilities	15,938
G. Net Current Financial Indebtedness (F-E-D)	14,514
H. Non-current Financial Indebtedness	142,423
I. Net Financial Indebtedness (G+H)	156,937

(1) Non-audited figures.

(2) Assuming a price of acquisition of € 32,500 thousand.

(3) The shareholders equity takes into account the tax shield arising from the abovementioned costs

(4) The cash figure does not include the expected tax benefit arising from these payments. These payments will generate a 28% tax shield on the cost reflected in the 2015 Profit and Loss statement.

(5) Assuming a (i) disbursement of €135,953 thousand for the Management Incentive Plan according to the maximum price of the Offering Price Range a (ii) a disbursement of €5,126 thousand for the extraordinary compensation to Talgo's employees and (iii) €3,500 thousand costs of the Offering to be paid by the Company.

Assuming a disbursement of €97,944 thousand for the Management Incentive Plan according to the minimum price of the Offering Price Range and a price of acquisition of Tulpar of €32,500 thousand, Cash and cash equivalents will amount €34,175 thousand, Net Current Financial cash will amount to €23,495 thousand and Net Financial Indebtedness will amount to €118,928 thousand.

The Total Financial Debt/ Equity ratio would be equal to 1.03 and the Total Net Financial Debt/ Equity would be equal to 1.02.

For clarification purposes, the table above only reflects the payment of the average purchase price range (€32,500 thousand) of the potential acquisition but does not include any estimation of the effect on Talgo's cash and capitalization that might follow the completion of the purchase due to the consolidation of Tulpar-Talgo into the Group.

Summary audited consolidated statement of cash flow data

The following table shows Talgo's summary audited consolidated cash flows for the years ended December 31, 2012, 2013 and 2014.

	For the year ended December 31,		
	2012 (€ thousand)	2013 (€thousand)	2014 (€ thousand)
Net cash flow generated from operating activities	(47,853)	154,826	555
Net cash used in investing activities	(21,884)	(53,202)	(23,887)

		Net cash used/(generated) in financing activities	(1,502)	(22,238)	15,256
		Net (decrease)/ increase in cash, cash equivalents and bank overdrafts	(71,239)	79,386	(8,076)

B.8	**Selected key pro forma financial information**	Not applicable.
B.9	**Profit forecast or estimates**	The Company has chosen not to include profit forecasts or estimates in this document.
B.10	**Qualifications in the audit report on historical information**	The audit reports corresponding to Talgo's audited consolidated and the Company's stand-alone financial statements for the year ended December 31, 2012 issued by PricewaterhouseCoopers Auditores, S.L. and for the years ended December 31, 2013 and 2014 issued by Deloitte, S.L. are unqualified.
B.11	**If the issuer´s working capital is not sufficient for its present requirements, an explanation should be included**	Not applicable**.**

SECTION C- SECURITIES		
C.1	**Description of class of the securities**	The Shares have the ISIN code ES0105065009, allocated by the Spanish National Agency for the Codification of Securities ("*Agencia Nacional de Codificación de Valores Mobiliarios*"), an entity dependent upon the Spanish Comisión Nacional del Mercado de Valores (the "**CNMV**"). It is expected that the Shares will be traded on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges and quoted on the AQS under the ticker symbol "TLGO". The Shares will, on Admission, comprise the entire issued ordinary share capital of the Company.
C.2	**Currency of the securities issue**	The Shares are denominated in euro.
C.3	**Number of issued and fully paid-up shares**	There is only one class of shares in the Company and each Share entitles its holder to one vote. On Admission, there will be 136,832,900 Shares of €0.301 nominal value each in issue. All Shares will be fully paid.
C.4	**Rights attached to the shares**	The Shares rank *pari passu* in all respects with each other, including for voting purposes and in full for all dividends and distributions on Shares declared, made or paid after their issue and for any distributions made on a liquidation of the Company. The Shares grant their owners the rights set forth in the Company's bylaws and in the *Real Decreto Legislativo 1/2010, de 2 de julio, que aprueba el Texto*

		Refundido de la Ley de Sociedades de Capital (as amended, the "**Spanish Companies Act**"), such as, among others: (i) the right to attend general shareholders' meetings of the Company with the right to speak and vote; (ii) the right to dividends proportional to their paid-up shareholding in the Company; (iii) the pre-emptive right to subscribe for newly issued Shares in capital increases with cash contributions; and (iv) the right to any remaining assets in proportion to their respective shareholdings upon liquidation of the Company.
C.5	**Description of restrictions on free transferability of the shares**	There are no restrictions on the free transferability of the Shares in the Company's bylaws ("*estatutos sociales*").
C.6	**Applications for admission to trading on regulated markets**	Application will be made to list the Shares on the Spanish Stock Exchanges and to have them quoted on the AQS. No application has been made or is currently intended to be made for the Shares to be admitted to listing or trading on any other exchange.
C.7	**Dividend policy**	The Company´s dividend policy and the amount of future dividends it decides to pay, if any, will depend on a number of factors, including, but not limited to, the Company's earnings, financial condition, debt servicing obligations, cash requirements (including capital expenditure and investment plans), prospects, market conditions and such other factors as may be deemed relevant at the time. The amount of dividends will be proposed by the Company's Board of Directors and determined by its shareholders at general shareholders' meetings. The Company intends to target a dividend of approximately 20-30% of its consolidated profit after tax, both against interim dividends and/or against freely available reserves, starting with dividends payments in 2016. The Company is a holding company with no direct operations, which conducts all of its business through a wholly-owned subsidiary of the Company (Patentes Talgo, S.L.U.). The distribution of dividends by the Company will be also subject to the distribution of dividends by Patentes Talgo, S.L.U. As of the date of this document, the Company does not have any statutory limitations, but it does have legal and contractual limitations to pay out dividends, such as, the credit facility agreement entered into Patentes Talgo, S.L.U. with EIB, which restricts the distribution of dividends to the Company as, in any event, cannot exceed 50% of the distributable net results (profits after taxes) in accordance with the audited consolidated financial statements of Patentes Talgo, S.L.U. and its subsidiaries.

SECTION D- RISKS		
D.1	**Key information on the key risks that is specific to the Group or**	Investing in the Company´s Shares involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with the other information contained in this document, before making any investment decision. Any of the following risks and uncertainties could have a material adverse effect on Talgo´s business, financial condition and results of operations. The market price of Talgo´s Shares could decline due to any of

	its industry	these risks and uncertainties and you could lose all or a part of your investment. **Risks Related to Talgo´s Business** ▪ The Company will, on or about the date of Admission, use part of its cash and cash equivalents in a series of non-recurrent transactions that will impact its capitalization and indebtedness position as at February 28, 2015. ▪ Talgo obtains a significant portion of its net turnover from a limited number of customers. ▪ A significant portion of Talgo´s net turnover comes from medium and long-term contracts. ▪ Talgo's results may fluctuate significantly both annually and semi-annually reflecting the nature of the business as well as changes in the deliveries schedule of its order book due to changes in costs or unforeseeable developments could result in a reduction or erosion of margins. ▪ The level of Talgo´s reported backlog may not be representative of future sales and its actual sales may fall short of the estimated sales value attributed to its backlog, due to adjustments and cancellations. ▪ Any failure to raise sufficient capital for its business and operations in a timely manner may adversely affect Talgo´s financial condition and results of operations. ▪ Early termination of contracts and failure to obtain replacement customers could adversely affect the Group's operations. ▪ In projects requiring a significant amount of working capital, delays in payments by customers may have a material adverse effect on Talgo's business, financial condition and results of operations. ▪ Talgo´s relationships with its joint venture and consortium partners could be unsuccessful, which could result in a material adverse effect on its business, financial condition and results of operations. ▪ Talgo relies upon a limited number of suppliers to provide it with raw materials, systems and components that are critical to its business and outsources part of its manufacturing and maintenance businesses and any disruption of these relationships could adversely affect its business, financial condition and results of operations. ▪ Talgo´s success depends upon its ability to design, manufacture, market and maintain new products that satisfy evolving market demand. ▪ Volatility in the prices of key raw materials could have an adverse effect on its operating margins. ▪ Exchange rate fluctuations may have a material adverse effect on its business, financial condition and results of operations. ▪ Talgo will need to attract, recruit or retain qualified employees in the different jurisdictions in which it operates and to manage successfully the relationship with its employees. Otherwise, its operations and ability to manage the day-to-day aspects of its business will be adversely

		affected. ▪ Talgo is required to provide several guarantee bonds to customers to cover potential issues associated with the contracts. ▪ Talgo´s activities could expose it to potentially significant warranty, product liability, accident or other claims and cause the Company to be a party to litigation. ▪ Talgo could be unable to procure adequate insurance, or at terns which are not cost-effective. ▪ Talgo may fail to adequately protect its intellectual property. ▪ Talgo is subject to anti-bribery and anti-corruption laws and regulations that govern and affect where and how its business may be conducted. ▪ Talgo must comply with strict customer requirements, international standards and national legislation. ▪ Forward-looking information included in this document may prove inaccurate. **Risks Related to Talgo's Industry** ▪ Talgo operates in a highly dynamic and competitive industry. If it is unable to compete effectively with its existing or new competitors, its business, financial condition and results of operations could be materially adversely affected. ▪ High Speed rail and other projects in which Talgo is involved may face opposition by certain individuals or groups, particularly because of concerns relating to landscape degradation, noise pollution, harm to animals or other damage to the environment. ▪ Talgo may be adversely affected by competition from other forms of transportation. **Risks Related to Economic Conditions** ▪ Talgo's business operations could be affected by adverse economic conditions in one or more of the geographic areas in which it operates or plans to operate posing business, financial, political and economic risks. ▪ Talgo´s results of operations are highly dependent upon government funding at a national and state level.
D.3	**Key information on the key risks that is specific to the shares**	**Risks Related to the Company´s Shareholding Structure and the Offering** ▪ The Selling Shareholders entered into a shareholder´s agreement in order to regulate their relation as shareholders of Talgo, S.A., including first refusal, tag-along and drag-along rights and sense of vote. ▪ Pegaso Transportation International, S.C.A. will continue to exercise significant influence on how the Company´s business is conducted. ▪ The Company is a holding company and its only material sources of net turnover are and are expected to be dividends, distributions and other payments from Patentes Talgo, which is subject to certain legal and contractual restrictions on its ability to pay dividends.

		▪ The sale of a substantial number of Shares or the perception that such a sale may take place could adversely affect the price of Talgo´s shares. ▪ There is no established trading market for the Shares and there can be no assurance that any active market will develop and volatility of the stock markets and the market price of the Shares may mean that investors are not be able to resell their shares at a price equal to or greater than the Offering price. ▪ The Offering may be subject to withdrawal and automatic revocation. ▪ Shareholders in certain jurisdictions other than Spain - EU, including the United States, may not be able to exercise their preemptive rights to acquire further shares. ▪ Shareholders in countries with currencies other than the euro face additional investment risk from currency exchange rate fluctuations in connection with their holdings of Talgo shares. ▪ The ability of shareholders residing outside Spain to effect service of process on the Company or any of its Directors or officers or to enforce any foreign court judgments against them may be limited. ▪ The Offer Shares will not be freely transferable in the United States.

SECTION E- ADMISSION AND THE OFFER		
E.1	**Total net proceeds of the Offering and estimated expenses**	Pursuant to the Offering, the Selling Shareholders expect to raise gross proceeds of between €554.17 million and €708.11 million (assuming the whole sale of the Initial Offer Shares and the non-exercise of the Over-allotment Option). The Company will not receive any proceeds from the sale of the Offer Shares by the Selling Shareholders. Due to the difficulty in determining the expenses incurred as at the date of this document, for purely information purposes, the maximum estimated expenses (underwriting commissions, fees and expenses) payable by the Selling Shareholders and the Company in relation to the Offering (VAT excluded, which shall be added where applicable) amount to approximately €22 million.
E.2	**Reasons for the Offering and use of proceeds**	The Company will not receive any of the proceeds from the sale of Offer Shares to be sold by the Selling Shareholders in the Offering. The Company believes that the Offering will enable the Group to expand the number of shareholders of the Company and access equity capital markets, which could allow the Company to improve its financing agreements for the future development of the Group's business. In addition, it is expected that the Offering will enhance the Group's brand name as a result of it being a listed company and provide liquidity on the Spanish Stock Exchanges for the shares held by its shareholders.
E.3	**Terms and conditions of the Offering**	Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, FCR, MCH Inversiones Industriales, S.à.r.l. and the Minority Selling Shareholders described in "*Principal and Selling Shareholders*" are offering 61,574,805 ordinary shares with a par value of €0.301 each of Talgo, S.A., to

		qualified investors. The Initial Offer Shares constitute 45% of the existing outstanding share capital of the Company. In addition, the Selling Shareholders will grant an option to the Joint Global Coordinators on behalf of the Managers, exercisable within 30 calendar days from the date on which the Shares commence trading on the Spanish Stock Exchanges, to purchase a number of additional Shares representing up to 10% of the total number of Initial Offer Shares sold by the Selling Shareholders in the Offering solely to cover over-allotments of Shares in the Offering, if any, and short positions resulting from stabilization transactions. The Initial Offer Shares and Over-allotment Shares (if any) are referred to herein as the "Offer Shares". The Offer Shares and the remaining outstanding Company shares shall be referred to as the "**Shares**". The indicative offering price range at which Offer Shares are being sold in the Offering will be between €9.00 and €11.50 per Offer Share (the "**Offering Price Range**"). This price range has been determined based on negotiations between the Company, the Selling Shareholders and the Managers and no independent experts have been consulted in determining this price range. The price of the Offer Shares (the "**Offering Price**") will be determined based on negotiations between the Company, the Selling Shareholders and the Managers, upon the finalization of the book-building period (expected to occur on or about May 5, 2015) and will be announced through the publication of a relevant fact ("*hecho relevante*"). The Offering Price Range implies a market capitalization of the Company totalling between €1,231.5 and €1,573.6 million approximately and the Price Earning Ratio as at December 31, 2014 is 32.0x and 40.9x. The Company will purchase from the Selling Shareholders in aggregate between 6,034,147 and 6,474,104 of the Initial Offer Shares at the Offering Price based on the Offering Price Range to comply with the Management Incentive Plan. The aggregate number of Shares that the management team will receive pursuant to the Management Incentive Plan will represent between 4.41% and 4.73% of the Company share capital (after withholding taxes) and the total cost of the Management Incentive Plan will amount to between €97,944 thousand and €135,953 thousand. In addition, the Company will purchase from the Selling Shareholders Initial Offer Shares at the Offering Price up to a maximum amount of €4,207 thousand (excluding related €919 thousand that correspond to Social Security expenses) to compensate Talgo's employees (excluding executive directors and senior managers). The aggregate number of Shares that Talgo's employees will receive will be between 467,426 and 365,812 of the Initial Offer Shares and will represent between 0.34% and 0.27% of the share capital of the Company. For the purpose of settling this compensation, the Company will purchase the relevant Shares at the Offering. The aggregate Initial Offer Shares that the Company will purchase at the Offering will be between 4.75% and 5.00% of the share capital of the Company. In this regard, the minimum aggregate Initial Offer Shares that the qualified investors will purchase at the Offering will be 40.00% of the share capital of the Company. The Offer Shares have not been and will not be registered under the United

States Securities Act of 1933, as amended (the "**Securities Act**"), and are being offered and sold within the United States only to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on Rule 144A and outside the United States in reliance on Regulation S under the Securities Act.

The Company, the Selling Shareholders and the Managers will enter into an underwriting agreement (the "**Underwriting Agreement**") with respect to the Initial Offer Shares and the Over-allotment Shares being sold by the Selling Shareholders upon the finalization of the book-building period (expected to be on or about May 5, 2015). Subject to the satisfaction of certain conditions set out in the Underwriting Agreement and the Underwriting Agreement not being terminated in accordance with its terms, each of the entities included in the table below (the "**Underwriters**") will agree, severally but not jointly, to procure purchasers or, failing which, to purchase the number of Initial Offer Shares as is set forth opposite its name in the following table:

Underwriters	**% of the Initial Offer Shares***
Banco Santander, S.A.	27.62191%
J.P. Morgan Securities plc	27.62191%
Nomura International plc	27.62191%
Banco Bilbao Vizcaya Argentaria, S.A.	2.855714%
Bankinter, S.A.	2.855714%
Crédit Agricole Corporate and Investment Bank	2.855714%
JB Capital Markets, S.V., S.A.U.	2.855714%
Natixis	2.855714%
Société Générale	2.855714%
TOTAL	**100%**

* Excluding Shares to be acquired by the Company at the Offer to settle the existing Management Incentive Plan and to deliver a package of Shares at no cost (for free) to Talgo's employees (excluding executive Directors and Senior Managers).

Additionally, it is expected that (i) Nmás1 Equities Sociedad de Valores S.A. will enter into the Underwriting Agreement but exclusively as a Manager and placement agent (i.e. with no underwriting commitment) and will receive commissions from its placement activities, and (ii) Mercavalor, Sociedad de Valores, S.A., a wholly-owned subsidiary of Bankinter, S.A. will take part in the marketing activities of the Offering, although it will not be a party to the Underwriting Agreement and it will not receive any commissions from the Selling Shareholders.

The closing date of the Offering or the "**Closing Date**" ("*fecha de operación bursátil*") is expected to be on or about May 6, 2015. The Company will make public the result of the Offering through a relevant fact disclosure ("*hecho relevante*") reported to the CNMV on the Closing Date or the following business day. Under Spanish law, on the Closing Date, investors become unconditionally bound to pay for, and entitled to receive, the relevant Initial Offer Shares purchased in the Offering.

Payment by the final investors for the Initial Offer Shares will be made no later

		than the third business day after the Closing Date against delivery through the facilities of Iberclear of the Initial Offer Shares to final investors, which is expected to take place on or about May 11, 2015 (the "**Settlement Date**"). The Shares are expected to be listed on the Spanish Stock Exchanges and quoted on the AQS on or about May 7, 2015, under the symbol "TLGO". In case of withdrawal or revocation of the Offering, all offers to purchase shall be cancelled and all purchase orders related to the Offering of the Offer Shares shall be terminated. Additionally, the Selling Shareholders shall have no obligation to deliver the Offer Shares and the investors (including, for the purposes of this section, the Underwriters) shall have no obligation to purchase the Offer Shares. In the event that the Offer Shares have already been delivered by the Selling Shareholders and the purchase price has been paid by the investors, the investors would be required to return title to the Offer Shares to the Selling Shareholders and the Selling Shareholders will repurchase the Offer Shares from the holders of the Shares for an amount equal to moneys paid by the investors in respect of the sale of the Offer Shares in the Offering, together with interest calculated at the statutory rate ("*interés legal*", currently set at 3.5 per cent) from the date on which the investors paid for the Offer Shares until the date on which they repay the purchase price.
E.4	**Material interests in the Offering**	As at the date of this document, Nomura International plc, through Nomura European Investment Limited holds a 25.5% stake in Pegaso Transportation Investments S.C.A., which in turn holds a 23.9% stake in Pegaso Transportation International, S.C.A., a Selling Shareholder. Banco Santander, S.A. is lender under a loan agreement granted to the Company and Patentes Talgo, as joint and several borrowers, for a total amount of €100,000 thousand.
E.5	**Entities offering the shares and lock-up arrangements**	**A) Entities offering the Shares** The Selling Shareholders are the entities and individuals offering the Shares. **B) Lock-up arrangements** Pursuant to the terms of the Underwriting Agreement to be entered into between the Company, the Selling Shareholders and the Managers, the following parties will be subject to a lock-up for the periods set out below from Admission: Talgo, S.A.……………………………………….……………………...180 days Selling Shareholders…………………………………………………180 days Directors and management shareholders…………………………….360 days The lock-up agreements are subject to customary exceptions including the sale of Shares pursuant to the Offering or, in the case of the Company, transfers of Shares in the context of the implementation by the Company of incentive plans.
E.6	**Dilution**	As all of the Offering is secondary, it will not involve any dilution effect. If the Over-allotment Option is exercised in full, following the Offering, the Selling Shareholders will hold 50.5% of the Company's share capital and voting rights.

		If the Over-allotment Option is not exercised, following the Offering the Selling Shareholders will hold 55% of the Company's share capital and voting rights.
E.7	**Expenses charged to the Investors**	Notwithstanding any expenses, broker fees or commissions that might be charged by the participating entities in Iberclear in accordance with their respective fees (and which are external to the Company), for the purposes of the transfer of the Shares, the Company will not charge final investors any expense in addition to the Offering Price. In addition, purchasers of Offer Shares may be required to pay stamp taxes and other charges in compliance with the laws and practices of their country of purchase in addition to the Offering Price.

RISK FACTORS

You should carefully consider the following risk factors and the other information contained in this document before making an investment decision. The risks described below are not the only risks that Talgo faces. Additional risks not presently known to Talgo or that Talgo currently believes to be immaterial may also materially adversely affect Talgo's business, financial condition, results of operations and prospects. The trading price of the Shares could decline due to any of these risks and, as a result, you may lose part or all of your investment. This document also contains forward-looking statements that are based on estimates and assumptions on future events and, as such, are subject to risks and uncertainties. Actual results could differ materially from those anticipated in such forward-looking statements, whether as a result of the risks described below and elsewhere in this document or otherwise.

Prospective investors should note that the risks relating to Talgo, its industry and the Shares are the risks that the Company believes to be the most essential in an assessment by a prospective investor of whether to consider investing in the Shares. However, as the risks facing Talgo relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks provided in the Summary of this document but also, amongst other issues, the risks and uncertainties described below.

Risks Related to Talgo´s Business

The Company will, on or about the date of Admission, use part of its cash and cash equivalents in a series of non-recurrent transactions that will impact its capitalization and indebtedness position as at February 28, 2015.

As at February 28, 2015 Talgo's net financial cash amounted to €20,142 thousand and its cash and cash equivalents amounted to €73,245 thousand.

After Admission, Talgo's liquidity will be used for the following purposes (see "*Capitalization and Indebtedness*"):

(i) *Payment of the Management Incentive Plan*: Talgo estimates that the compensation to be paid to the beneficiaries of the incentive plan will represent between 4.41% and 4.73% of the share capital of the Company (after withholding taxes) and amount to between €97,944 thousand and €135,953 thousand, which will be used both in acquiring Shares and paying withholding taxes on behalf of the Chairman, the CEO and Senior Management. For the purpose of settling the incentive plan, the Company will purchase the relevant Shares at the Offering.

(ii) *Disbursement of Shares to the employees in the Offering:* Talgo estimates that this extraordinary compensation to Talgo's employees will amount to a maximum of €5,126 thousand (of which €919 thousand correspond to Social Security expenses) and will represent between 0.34% and 0.27% of the share capital of the Company. For the purpose of settling this compensation, the Company will purchase the relevant Shares at the Offering.

(iii) *Advisory costs and expenses associated to the Offering:* As per the estimates included in section "*Plan of Distribution-Other relationships-Offering expenses*", the costs of the Offering to be paid by the Company will amount up to a maximum of €3,500 thousand.

In addition, as commented in "*Operating and Financial Review-Recent Group Performance*" Talgo is currently at an advanced stage of negotiations with KTZ to acquire a 51% stake in Tulpar-Talgo LLP. Talgo estimates that in the event of the completion of this transaction, the acquisition price would amount to between €30,000 thousand and €35,000 thousand.

Talgo´s sources of liquidity to cover the abovementioned items will be: (i) Talgo's existing cash resources and (ii) the drawdown of the loan agreement executed with Banco Santander, S.A., for a total amount of €100,000 thousand and (iii) the drawdown of the relevant amounts of the new credit facilities (as at the date of this document €130,000 thousand available) (see "*Operating and Financial Review-Indebtedness and Contingent Liabilities-Borrowings*"), the latter only in the event of the completion of the acquisition of Tulpar-Talgo LLP and assuming the maximum price of the Offering Price Range.

In this regard, based on Talgo's calculations, assuming a disbursement of €135,953 thousand for the Management Incentive Plan according to the maximum price of the Offering Price Range, Talgo's net financial cash is expected to change from a net financial cash amount of €20,142 thousand as at February 28, 2015 to net financial debt of €124,437 thousand and to €156,937 thousand (including the potential impact of the acquisition of Tulpar-Talgo LLP) and its liquidity is expected to decrease from €73,245 thousand to €28,666 thousand (without including the potential impact of the acquisition of Tulpar-Talgo LLP) and to €1,266 thousand (including the potential impact of the acquisition of Tulpar-Talgo LLP).

Talgo obtains a significant portion of its net turnover from a limited number of customers.

Talgo obtains a significant portion of its net turnover from a limited number of customers pursuant to medium-and long-term fixed price rolling stock supply and maintenance contracts. Talgo's top five customers accounted for 85.9%, 85.6% and 93.3% of its total net turnover in 2012, 2013 and 2014, respectively and Talgo's top three customers accounted for 77.1%, 69.2% and 76.3% of its total net turnover in 2012, 2013 and 2014, respectively.

As a result of this customer concentration, Talgo is indirectly subject to the business risks of its key customers. In particular, these business risks include circumstances in which any of Talgo's key customers: (i) ceases trading for any reason; (ii) is adversely affected by macroeconomic conditions; (iii) ceases to operate a railway route or network; (iv) experiences contract non-performance by its own customers; or (v) is unable to obtain financing on reasonable terms. In addition, any of Talgo's key customers may have material financial and liquidity issues or, as a result of operational incidents or other events, may reduce the number or frequency of orders placed with Talgo. The loss or reduced demand from any of Talgo's key customers could have a material adverse effect on the Group's business, financial condition and results of operations

In addition, although to date all of Talgo's maintenance agreements entered into with its top five customers that have come up for renewal have been renewed, there can be no guarantee that its current maintenance agreements will be renewed on commercially favorable terms, or at all. Failure to renew its current maintenance agreements on favorable terms, or at all, could have a material adverse effect on Talgo's business, financial condition and results of operations.

A significant portion of Talgo´s net turnover comes from medium and long-term contracts.

As at December 31, 2014, 65% of Talgo´s net turnover comes from contracts with a duration exceeding 12 months.

The costs incurred and the profits earned under a fixed price contract may differ from Talgo's original estimates. The increase in actual costs compared to estimates may be due to several factors, such as: (i) underestimation of manufacturing and maintenance costs and manufacturing time during the initial bidding stage, particularly for new rolling stock products; (ii) unanticipated decreases in productivity and increased labor costs; (iii) unexpected increases in the cost of raw materials and other materials, equipment, components, machinery, plant, supplies, subcontracting and other costs (including labor costs and overheads) which may be due to factors such as unanticipated increases in general costs, inflation, material shortages, labor disputes, certification, non-accomplishment and an increase in demand by competing companies and companies in other industries or regulatory changes; (iv) unanticipated delays in the delivery of raw materials and other materials, equipment, components, plant, machinery and supplies; (v) failure or non-performance by suppliers and defects in raw materials and other materials, equipment, parts, components, machines and supplies; (vi) delays and corrective measures due to poor workmanship or any other failure to meet customer specifications, including those resulting from design defects and (vii) fluctuations in exchange rates.

Although there are Consumer Price Index-linked and other price adjustment provisions in the majority of Talgo's maintenance agreements, Talgo may not be able to correctly project and sustain its margins. Unexpected variations in estimated costs and actual costs in connection with its medium and long-term projects could have a material adverse effect on Talgo's business, financial condition and results of operations.

Talgo's results may fluctuate significantly both annually and semi-annually reflecting the nature of the business as well as changes in the deliveries schedule of its order book due to changes in costs or unforeseeable developments could result in a reduction or erosion of margins.

A significant portion of Talgo´s net turnover (in particular, from manufacturing contracts) is recognized under the percentage-of-completion method of accounting, which is commonly used in the industry for long term, fixed-price contracts. Those contracts are generally tied to specific contract milestones so that changes in the delivery schedule or other delays may affect Talgo's financial condition and results of operations.

The degree of completion is calculated as a percentage of the costs incurred under the contract in relation to the total costs estimated to complete the contract. This accounting practice results in the recognition of contract net turnover as a "gross-up" of the cost incurred. The "gross-up" is calculated assuming the overall estimated project margin. Net turnover and costs over a certain quarter do not necessarily reflect Talgo´s potential annual net turnover or costs. The net turnover or costs recognized under individual contracts are based on significant estimates relative to the total costs necessary to complete the contract.

Talgo records adjustments to the estimated costs of contracts when it believes the change in estimates is probable and the amounts can be reasonably estimated. These adjustments could result in increases or decreases in profit margins. Actual results could differ from estimated amounts and could result in a significant reduction or erosion of margins. Such adjustments could have a material adverse effect on Talgo´s business, financial condition and results of operations.

The level of Talgo´s reported backlog may not be representative of future sales and its actual sales may fall short of the estimated sales value attributed to its backlog, due to adjustments and cancellations.

Talgo's reported backlog may not be converted into actual net turnover in any particular period, or at all, and the actual net turnover from its contracts may not equal its reported estimates of backlog value. Furthermore, any contract included in the reported backlog that actually generates net turnover may not be profitable. Therefore, the current level of the reported backlog may not be representative of the level of profits Talgo will generate in any future period.

Furthermore, in the case of certain of Talgo's maintenance contracts included in backlog, the net turnover expected from such contracts is based partially on an estimate of the number of kilometers that the maintained trains will run in the future. These estimates are based on Talgo's prior experience. However, the actual number of kilometers travelled by maintained trains may vary from Talgo's estimates, thereby resulting in Talgo receiving more or less net turnover than anticipated in the estimated backlog. In other maintenance contracts, Talgo's net turnover is based on annual fees or the number of trains serviced. In some cases, maintenance contracts are for fixed periods. In the event of delay in delivery, the duration of the maintenance contracts will be shortened, thus resulting in a reduction in previously reported backlog.

Talgo´s backlog is not an audited measure and there are no generally accepted accounting principles for its calculation. As a result, other companies' calculations of backlog may differ significantly from those carried out by Talgo.

Any failure to raise sufficient capital for its business and operations in a timely manner may adversely affect Talgo´s financial condition and results of operations.

Talgo´s capital expenditure is made both on a regular basis for maintenance purposes and, from time to time, to increase its capacity, allowing Talgo to execute new awarded supply contracts and conduct research and development associated with new products.

Talgo invests in areas such as R&D, refurbishment, maintenance, upgrading and expansion of manufacturing facilities and upgrading efficiency of its processes, using the cash generated from its operations and financing activities. However, there can be no assurance that these sources of funding will be sufficient to continue to adequately meet Talgo´s business needs, particularly with regard to its growth and expansion plans. As at December 31, 2012, 2013 and 2014, Talgo´s total financial debt / equity ratio represented 0.45, 0.24 and 0.21, respectively.

Recently, Talgo has increased its manufacturing capacity to meet existing commitments in its backlog. In 2013 and 2014, Talgo invested €31 million in its manufacturing facilities at Rivabellosa and Las Matas II. However, Talgo may also require further funding for future orders, working capital, other investments, potential acquisitions, joint ventures, debt servicing and other corporate requirements. If Talgo is unable to secure sufficient external funds on acceptable terms when required, it may not be able to fund necessary capital expenditure. In addition, its future investments in business projects and expansion of its business may not generate the profits it expects.

The availability of external funding is subject to various factors beyond Talgo's control, including governmental approval of subsidies, prevailing capital market conditions, credit availability, interest rates and its business performance. Talgo´s inability to arrange additional financing in a timely manner and on satisfactory terms could result in a material and adverse effect on its business, results of operations and expansion plans.

Early termination of contracts and failure to obtain replacement customers could adversely affect the Group's operations.

Under Talgo's typical rolling stock manufacturing contracts, customers have a right to terminate their contracts in certain specified circumstances, such as the unremedied breach of contractual obligations. Whenever this happens, the specific terms of the applicable contract apply which, in certain cases, may allow Talgo to retain the trains and, in others, provide for the customer to demand delivery of the unfinished trains. If Talgo terminates a purchase agreement due to an unremedied breach by the customer, in certain cases, Talgo may keep the trains and seek to resell them to another customer.

In Talgo´s 73 years of history, it has never had a contract cancelation relating to the supply of rolling stock products and services due to Talgo's underperformance. The only contract that a client has cancelled was one in relation to the supply of rolling stock to Wisconsin in the year 2012 following the election of a new governor in Wisconsin and was not due to underperformance by Talgo.

In circumstances where Talgo is able to retain the trains, it may seek to find purchasers for the relevant rolling stock. In this instance, Talgo may incur storage expenses until the date the rolling stock is sold. If Talgo is unable to find alternative purchasers for the rolling stock, especially in light of the specific and highly customized nature of its rolling stock, or if the price of the sale of the rolling stock to alternative purchasers or contractors is not sufficient to ensure that the profitability of the contract remains unaltered, it could have a material adverse effect on Talgo's business, financial condition and results of operations.

In projects requiring a significant amount of working capital, delays in payments by customers may have a material adverse effect on Talgo's business, financial condition and results of operations.

The majority of Talgo´s net turnover relates to projects with a duration exceeding 12 months, in which manufacturing projects are principally financed through prepayments by the customer before and during the project, based on certain pre-agreed milestones being met. Due to potential differences in the timing of Talgo incurring a cost and receiving a customer payment, if its customers are unable to pay Talgo when contractually required, Talgo would be indirectly financing, through financial facilities with third parties, the projects and customers and, as a result, assuming a significant part of the related credit risk. Consequently, if Talgo's customers do not meet their payment obligations in a timely manner, interest rates or other financial costs may disadvantage the Company, or delay the projects in which Talgo is involved, which could have a material adverse effect on Talgo's, business, financial condition and results of operations. In addition, future projects may not be financed by prepayments from the customer and would require financing by Talgo.

If any such failure, delay in payment, termination of prepayments or other adverse event were to occur, Talgo could have insufficient cash or financing capabilities to carry out its business, or may suffer other negative consequences that could have a material adverse effect upon its business, financial condition and results of operations.

Talgo´s relationships with its joint venture and consortium partners could be unsuccessful, which could result in a material adverse effect on its business, financial condition and results of operations.

A significant portion of Talgo´s net turnover is obtained from activities carried out jointly or in partnership with other companies, its participation in project consortia and joint ventures and the establishment of companies for the purpose of undertaking specific projects. In particular, in the past Talgo has entered into agreements with Bombardier (consortium for manufacturing and maintenance of Talgo Very High Speed and High Speed trains in Spain) and Renfe (Tarvia company for maintenance of Talgo Very High Speed trains in Spain), and Talgo currently has agreements with the Al-Shoula Consortium for the Mecca Medina High Speed railway project and BTREN (joint venture between Bombardier and Renfe for maintenance of Talgo Very High Speed and High Speed trains). As at December 31, 2012, 2013 and 2014, Talgo's net turnover obtained from activities carried out via project consortia and joint ventures amounted to 30.51%, 35.03% and 44.20% of Talgo's total net turnover.

Although Talgo typically seeks to collaborate with partners with proven experience and track records in projects, the joint participation of local partners at times may be required under local government and regulatory requirements relating to public tenders. In such cases, Talgo may be required to compete where there is a limited number of potential local partners or the knowledge or expertise of available local partners does not adequately cover project needs. Consequently, if it is forced to compete with other international suppliers, it may have reduced bargaining power in negotiating the terms of local joint venture agreements.

Although Talgo attempts to lead the projects and takes into account all these factors when forecasting its profitability, if local partners do not have sufficient knowledge or expertise to meet project needs or the local partnership is otherwise unsuccessful, it could increase project costs. Talgo may also face disruptions in manufacturing or services projects; moreover, the required investments in its joint ventures may be significantly greater than initially estimated. Any of these factors could have a material adverse effect on Talgo's business, financial condition and results of operations.

In addition, in certain projects in which Talgo collaborates, such as the Al-Shoula Consortium for the Mecca Medina High Speed railway, it is joint and severally liable, together with the other members of the consortium or joint venture, for compliance with the obligations of all members of the consortium or joint venture and, consequently, to the extent that its partners, subcontractors or suppliers underperform or fail to fulfill their contractual obligations, Talgo could be financially liable. Although its contracts with partners typically include indemnification clauses in the event a party fails to perform its obligations satisfactorily, such indemnification may not be sufficient to cover the financial losses incurred in connection with a given project as a result of a partner's breach, which could have a material adverse effect on Talgo's business, financial condition and results of operations.

Talgo relies upon a limited number of suppliers to provide it with raw materials, systems and components that are critical to its business and outsources part of its manufacturing and maintenance businesses and any disruption of these relationships could adversely affect its business, financial condition and results of operations.

The success of Talgo's business depends on its capacity to offer reliable, high-quality products and services and to supply customers with rolling stock products and related services which, in turn, depends to a certain extent on the products and services provided by a limited number of suppliers.

Invoicing of the Talgo's ten largest suppliers of materials (raw materials, systems and components) and industrial services represented 20.3%, 15.8% and 14.9% of Talgo's net turnover for the years 2012, 2013 and 2014 respectively.

For the years ended December 31, 2012, 2013 and 2014, invoicing of materials (raw materials, systems and components) and industrial services procured from Talgo's three largest suppliers accounted for approximately 11.0%, 7.3% and 8.5% in relation to Talgo's total net turnover, respectively.

None of those suppliers of materials and industrial services accounted for more than 6% of Talgo's total net turnover in 2012, 2013 and 2014. In 2012 only Renfe and Interserve Facilities Services (cleaning services provider) invoices represented more than 3% (5.1% and 4.0%, respectively) of Talgo's total net turnover of such corresponding year. In 2013 Interserve Facilities Services invoices represented 3.8% of Talgo's total net turnover of such year and in 2014, Bombardier European Holding represented 3.9% of Talgo's total net turnover. In the event of a reduction in the number of its main or other suppliers, or if any of such suppliers cease doing business with Talgo, refuse to continue the supply or are subject to industrial labor stoppages, Talgo may encounter delays and increased costs in contracting alternative sources of supply, which could result in a material adverse effect on its relationship with customers and which could result in a material adverse effect on its operating margins and its business, financial condition and results of operations.

In addition, the tender process relating to certain projects may require Talgo to use specific suppliers (selected by the relevant customer) for certain components. These suppliers may, as a result, demand prices in excess of the market price for such components, which could have a material adverse effect on the price that Talgo is able to offer in such tenders. Its ability to pass increased costs on to its customers may be limited by pressure from competitors, customer resistance and price adjustment limitations in its product purchase contracts with customers, which could result in a material adverse effect on its business, financial condition and results of operations.

Talgo attempts to select reliable suppliers with a history of fulfilling their obligations in a diligent and timely manner, closely supervising their work pursuant to its procedures for tracking and monitoring the services provided by its suppliers. In the event that a third-party supplier breaches its product quality requirements, delivery terms or other contractual obligations under the relevant supply relationship, Talgo's ability to fulfill its own project obligations could be adversely affected.

In the past, Talgo has obtained most of its raw materials and components from manufacturers and suppliers in Western Europe. Although in recent projects Talgo has used several cost-competitive platforms (such as China and CIS) to procure non-core components (not affecting product safety, such as cable ties, lighting elements, wiring trays, gangways and mechanic-welded elements), if its competitors were to reduce the cost of their inputs by using cost-competitive suppliers and Talgo was unable to observe and maintain the same strategy, it could be at a competitive disadvantage, resulting in downward pressure on prices, reductions in profit margins and a loss of market share, which could materially and adversely affect its business, financial condition and results of operations.

In addition, pursuant to Spanish employment legislation and, as applicable, in other jurisdictions in which Talgo operates, it is or may be jointly and severally liable for breaches by third parties to which Talgo outsources part of its manufacturing and maintenance businesses, of regulations relating to health and safety in the workplace as well as their failure to pay salaries and social security contributions, which could have a material adverse effect on Talgo's business, financial condition and results of operations.

Talgo´s success depends upon its ability to design, manufacture, market and maintain new products that satisfy evolving market demand.

Talgo primarily designs, manufactures, markets and maintains Very High Speed trains, High Speed trains, Passenger coaches and and is planning to expand into the Regional Commuter trains market. Talgo's success depends partly upon its ability to upgrade its manufacturing processes and applied technologies in a cost-effective and timely manner, as well as its ability to develop new products that meet its customers' current and future demands.

Talgo´s competitors may introduce new products and technologies that are more efficient or affordable than Talgo´s or that render its existing or new products obsolete or uncompetitive. Talgo may be unable to develop and manufacture new products and technologies in a timely and profitable manner, to obtain the necessary certificates or patents to achieve market acceptance, or may otherwise be unable to deliver new products and technologies. Failure to keep pace with technological advances in the market could have a material adverse effect on its ability to compete effectively in its industry and on its business, financial condition and results of operations.

Talgo relies on a set of differentiated technologies that, as far as the Company is aware, have not been copied as a whole by its current competitors. However, Talgo cannot guarantee that either current and/or potential competitors may not attempt to copy its technology or develop similar technology.

Volatility in the prices of key raw materials could have an adverse effect on its operating margins.

Talgo´s manufacturing business model, which is focused on system integration of components, reduces its direct purchases of raw materials and, as a result, cost of raw materials (aluminum and steel) comprised only about 1.7% of the total procurement costs for the year ended December 31, 2014. Talgo´s policy is to contract its aluminum and steel needs for two-year periods at a fixed price with the aim of minimizing the impact of price volatility on its manufacturing costs. Nevertheless, because the duration of Talgo's contracts may be for periods of longer than two years or six months (as the case may be), increases in the prices of raw materials (such as aluminum and steel) across such longer periods could result in a decrease in its margins as a result of its inability to fix the prices of raw materials for the entire duration of the longer contracts, which could have an adverse effect on its business, results of operations and financial condition.

Exchange rate fluctuations may have a material adverse effect on its business, financial condition and results of operations.

Talgo's reporting currency is the euro. However, some contracts entered into by Talgo are determined in other currencies or in euros but allowing the customer to pay in its local currency, using market exchange rates in effect at the time of payment (therefore Talgo bears the exchange rate risk between invoicing and payment). For the years ended December 31, 2012, 2013 and 2014, 6.4%, 2.6% and 2.0% of Talgo's total consolidated net turnover, respectively, was denominated in currencies other than euro. During these same periods, approximately 15.6%, 7.76% and 7.88%, respectively, of Talgo's domestic purchases, intra-Community acquisitions and imports were denominated in currencies other than the euro.

Given that the proportion of Talgo's net turnover in euros exceeds the proportion of its operating expenses in euros, its margins are subject to transaction exposure to other currencies (principally the Kazakhstan tenge, the Saudi riyal, the Russian ruble and the US dollar). A decline in the value of the euro in relation to these currencies could make Talgo products and services more competitive, but the decline would also have the effect of increasing Talgo's operating expenses and reducing its operating margins, which could have a material adverse effect on its business, financial condition and results of operations. A revaluation of the euro in relation to these currencies would have the opposite effect. Given Talgo´s limited exposure to exchange rate fluctuations, Talgo currently has not entered into hedging transactions to manage its exposure to these currencies.

Timing risks may also arise in cases in which Talgo bids in tender processes in currencies other than the euro. In such cases, Talgo calculates its bid and expected profitability based partly on an assessment of current and historic exchange rates between the euro and the local currency. Significant fluctuations in the exchange rate between the time of bidding and the award of the contract could have a material adverse effect on the profitability of the contract.

Talgo's exposure to exchange rate fluctuations could increase in the future as Talgo continues expanding its operations outside the euro zone, in line with its business strategy and enter into more contracts in currencies other than the euro. Any of these factors could have a material adverse effect on Talgo's business, financial condition and results of operations.

Talgo will need to attract, recruit or retain qualified employees in the different jurisdictions in which it operates and to manage successfully the relationship with its employees. Otherwise, its operations and ability to manage the day-to-day aspects of its business will be adversely affected.

The industry in which Talgo operates requires the services of employees with specific technical skills and training, who must be physically present at the geographic locations in which it operates. Talgo´s success thus depends on its ability to attract, recruit and retain qualified employees, with a particular emphasis on certain skills at the local Spanish and international facilities at which it conducts its operations. Talgo´s inability to attract and retain sufficiently qualified personnel, as well as increases in recruitment costs and the potential need to send employees from one jurisdiction to another that lacks the appropriate qualified personnel, could increase its personnel-related costs and materially and adversely affect its operating margins.

Talgo also believes its success depends to a significant degree on the continued contribution of its executive officers and key employees, both individually and as a group. The loss of one or more members of its Senior Management team, as they have many years of experience in its business and industry, would be difficult to replace without adversely affecting its business.

In certain jurisdictions, such as Spain, Talgo employees are partly or fully unionized or, according to applicable regulations, represented within the company by an employee committee. In some cases, Talgo is required to inform or consult with the employee committee and, in certain jurisdictions, request the approval or opinion of union representatives or employee committees in certain labor matters. In addition, labor regulations in many European and North American countries are highly restrictive. All these factors could limit its flexibility to rationalize its workforce in the event of poor market conditions or require Talgo to change its working conditions.

Talgo´s future success will also depend partly on the maintenance of good relations with its employees. Collective bargaining processes result in regular agreements with members of the unions that represent its employees. The breaking down of these collective bargaining processes or other negotiations with employees could destabilize its operations or adversely affect its business performance in the event any of its facilities are significantly affected, having a material adverse effect on Talgo's business, financial condition and results of operations.

Any work stoppage that may occur in the future at Talgo's premises or the premises belonging to third parties (such as Renfe and Adif) where Talgo performs maintenance services or stoppages of the relevant railway operator's workforce would have an impact on Talgo´s services and, in turn, may have a material adverse effect on its business, financial condition and results of operations.

Talgo is required to provide several guarantee bonds to customers to cover potential issues associated with the contracts.

As part of the rolling stock manufacturing business, it is customary to be required to provide guarantee bonds ("*avales y seguros de caución*") (in particular, bid bonds, performance bonds, advance payment bonds and milestone bonds) issued by banks, insurance companies and other third parties and certain guarantees, as a condition to bidding, entering into contracts or receiving advance and progress payments. Talgo is required to seek out third parties to issue such guarantee bonds. As at December 31, 2014, Talgo had €422 million in guarantee bonds issued out of its total available facilities of €781 million. Talgo's ability to meet the requirement to issue guarantee bonds and guarantees depends, amongst others, on its financial condition and the ability to meet its contract obligations.

If Talgo is unable to obtain sufficient credit from banks, insurance companies or third parties in order to issue such bonds or guarantees, it may not be able to obtain new orders from customers or to receive the advance payments, which could have a material adverse effect on its business, financial condition and results of operations.

If Talgo defaults on its contractual obligations or there are defects or malfunctions in the rolling stock delivered, the bonds or guarantees may be enforced by the customer and Talgo may be required to reimburse the amount paid by the credit institution, insurance company or other third party that issued the guarantee. Although none of Talgo´s guarantees have ever been enforced to date, any such potential future enforcement may have a material adverse effect on its business, financial condition and results of operations, including the ability to fund new bonds.

Talgo´s activities could expose it to potentially significant warranty, product liability, accident or other claims and cause the Company to be a party to litigation.

Talgo normally offers general limited warranties to its customers for many of its products, and so could be subject to warranty or contractual claims in the event any of its products and services not complying with contractual specifications. Such claims could be particularly significant in the case of multiple claims based on a single defect repeated throughout the manufacturing or maintenance process, or claims for which the cost of repairing the faulty part is highly disproportionate to the original cost of the part. This type of claim could result in costly product recalls, customers seeking monetary damages, significant repair costs and damage to Talgo´s reputation. There can be no assurance that Talgo will not have to pay penalties in the future as a result of an increase in failures attributable to Talgo, which could have a material adverse effect on its business, financial condition and results of operations.

In addition, the nature of its business makes Talgo vulnerable to physical damage and product liability claims. An accident involving Talgo rolling stock or third party rolling stock maintained by Talgo could lead to Talgo facing damages to its reputation even if it was subsequently established that Talgo's actions did not contribute to the cause of the accident. Tender processes usually require bidders to have a track record without accidents during a given period of time. Therefore, an accident involving Talgo rolling stock may mean the Group is unable to comply with such requirements during the investigation period and until the cause of such accident is clear. This could have a material adverse effect on Talgo's business, financial condition and results of operations.

During the course of its normal operations, Talgo may become involved in litigation. Possible lawsuits and claims include those related to product defects, nonconforming or delayed delivery of goods and services, breach of contract and labor disputes. Failure to meet the schedule requirements of contracts may also result in penalties for late completion. Successful claims against Talgo may result in business interruption and adversely affect its financial condition and results of operations.

Talgo could be unable to procure adequate insurance, or at terms which are not cost-effective.

Talgo purchases and maintains the product liability insurance coverage it believes to be consistent with industry practice and sufficient to insure Talgo against the immediate financial risk of successful claims based on product liability. Its ability to insure its businesses, facilities and assets is an important feature of its ability to manage risk. However, as there are only a limited number of providers of insurance to the High Speed train industry, there can be no guarantee that such insurance will be available on a cost-effective basis, or at all. In 2014, premium payments under Talgo´s insurance policies accounted for 0.3% of its net turnover for the year.

Accidents, natural disasters, terrorism, power loss or other catastrophes may also result in significant property damage, disruption of operations, personal injury or fatalities and reputational damage. In the event of uninsured loss or a loss in excess of the insured limits, Talgo could suffer damage to its reputation and/or lose all or a part of its manufacturing capacity, as well as future net turnover expected from the relevant facilities. Any material loss not fully covered by insurance could adversely affect its business, financial condition and results of operations.

Talgo may fail to adequately protect its intellectual property.

Talgo´s ability to compete effectively partly depends on the maintenance and protection of its intellectual property, including the know-how required for its day-to-day operations in relation to its products and services. Talgo holds certain trademarks and patents that enable it to protect a portion of its intellectual property.

Talgo's pending or future applications for trademarks, patents or other intellectual property rights may not be approved or, if allowed, not sufficient. Conversely, third parties may claim that the intellectual property rights asserted by Talgo breach their rights. In either case, litigation may result in substantial costs and could adversely affect its business, financial condition and results of operations.

Talgo is subject to anti-bribery and anti-corruption laws and regulations that govern and affect where and how its business may be conducted.

Talgo is subject to a number of laws and regulations including the US Foreign Corrupt Practices Act 1977, the UK Bribery Act 2010, the Organization for Economic Co-operation and Development Convention, regulations established by the US Department of the Treasury Office of Foreign Assets Control and the Spanish Criminal Code, which was amended in 2010 and sets out the criminal liability of legal persons, which are subject to additional anti-corruption laws in other jurisdictions.

Talgo has established internal policies and procedures to facilitate compliance with applicable laws and regulations (e.g. when recruiting local agents within the framework of its activities abroad). At the date of this document, Talgo is not and has not been subject to any anti-bribery or anti-corruption sanctions and has not been notified of the initiation of any investigation procedures. However, there can be no assurance that Talgo´s policies and procedures will be observed at all times or effectively detect and prevent all breaches of applicable law and regulations and every case of fraud, bribery and corruption in every jurisdiction in which Talgo operates. As a result, Talgo could suffer a material adverse effect on its business, financial condition and operations.

Talgo must comply with strict customer requirements, international standards and national legislation.

Talgo´s industry is constantly evolving to meet changing passenger needs and demands for higher traveling speeds, increased safety standards and greater hauling capacity, as well as international standards and/or national legislation imposed by government, regulatory and industry authorities. In the years ended December 31, 2012, 2013 and 2014, Talgo's total investments in intangible assets were €16,035 thousand, €15,407 thousand and €6,221 thousand, respectively, of which €14,224 thousand, €11,725 thousand and €3,891 thousand correspond to R&D investments for the development of AVRIL. These figures represent 4.9%, 4.7% and 1.6% of net turnover during each of such years, respectively.

Rail industry legislation includes manufacturing specifications and standards for train design, mechanical and maintenance standards and standards for railroad safety. The enactment of new legislation that involves the use of new materials, changes to systems, the need for greater financial resources and other new requirements could increase its costs, render some of its technologies obsolete or adversely affect the economic value of its assets, which could have a material adverse effect on its financial condition and its results of operations.

Talgo is also subject to a wide range of national, regional and local regulations regarding air quality and handling, disposal and control of waste products, fuel products and hazardous substances.

Environmental laws and regulations may impose obligations to investigate and remediate or pay for the investigation and remediation of environmental contamination and compensate public authorities and private entities for related damages. If Talgo breaches or fails to comply with these requirements, which are complex, changing and more stringent over time, it could be fined or otherwise sanctioned by the relevant authorities.

If Talgo were to breach new or existing legislative or regulatory requirements, it could face sanctions and penalties that could have a negative impact on its financial condition. Although Talgo has not been sanctioned or sued in connection with these issues, if they were to occur in the future, its net turnover could decrease, its costs increase and its reputation could be adversely affected, all of which could result in a material adverse effect on its business, financial condition or results of operations.

Forward-looking information included in this document may prove inaccurate.

This document contains certain forward-looking statements and information relating to Talgo that are based on the beliefs of Talgo´s management and on assumptions made according to information currently available to its management. Certain statements reflect the current view of Talgo´s management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors described in this document.

Risks Related to Talgo's Industry

Talgo operates in a highly dynamic and competitive industry. If it is unable to compete effectively with its existing or new competitors, its business, financial condition and results of operations could be materially adversely affected.

The market in which Talgo operates is highly competitive, and faces competition from large, international companies such as, among others, Alstom, Siemens, Bombardier, the CRRC Group (the result of the merger of China South Locomotive & Rolling Stock Corporation Limited and China CNR Corporation Limited) and AnsaldoBreda, all of which are large, diversified industrial groups with greater financial resources than Talgo. Moreover, it faces competition from companies expanding their international activities, such as Hitachi, and from others entering into the High Speed market, such as the Spanish company, Construcciones y Auxiliar de Ferrocarriles (CAF), or the Swiss company, Stadler.

The principal factors affecting competition in Talgo's industry include, amongst others: technological innovation, track record of delivering on time and with no underperformance, product life cycle costs, price, availability of after-sale service and customer training, the quality and reliability of products and services, ability to deliver rolling stock requiring low infrastructure investments, experience and knowledge of customer requirements, ease of system configuration, passenger comfort and features, compliance with delivery requirements, engineering support and the absence of customer lawsuits and litigation or proceedings relating to unfair awards.

In addition, consolidation within the industry and among Talgo's competitors (e.g., the abovementioned merger between China South Locomotive & Rolling Stock Corporation Limited and China CNR Corporation Limited and the acquisition of AnsaldoBreda by Hitachi), may enable them to invest considerably greater amounts in R&D, potentially placing Talgo at a competitive disadvantage in terms of its ability to keep pace with innovation. These factors could have a material adverse effect on its business, financial condition and results of operations.

High Speed rail and other projects in which Talgo is involved may face opposition by certain individuals or groups, particularly because of concerns relating to landscape degradation, noise pollution, harm to animals or other damage to the environment.

High Speed rail and other rail projects that require approval by the relevant public authorities in the jurisdictions in which Talgo operates or seeks to operate could face opposition by certain individuals or groups, particularly because of concerns related to landscape degradation, noise pollution, harm to animals or other damage to the environment. The rail projects in which Talgo is involved as a rolling stock supplier and/or maintenance provider may not be accepted by the public or the local population, or planned rail networks under these projects may be rerouted or cancelled.

The postponement or withdrawal of rail infrastructure projects as a result of public opposition could lead to the suspension or cancelation of contract tender processes for the supply and maintenance of new rolling stock (as happened in the Rio-São Paulo High Speed railway project). This could preclude Talgo from submitting bids or being able to supply trains and/or related maintenance services for these new rail lines, which could reduce its capacity to grow its business and have a material adverse effect on its business, financial condition and results of operations.

Talgo may be adversely affected by competition from other forms of transportation.

The recent drop in oil prices could lead to significant changes in transport preferences. In the event of price reductions in air and/or road transport, the two main alternatives to railway transport, rail customers could be more likely to choose alternative means of transport, thereby reducing overall passenger volumes on railways. In addition, negative perceptions of railways as a form of transport due to rail accidents (for example, train crashes or derailments) could result in customers choosing alternative means of transport. Any of these factors could have a material adverse effect on Talgo´s business, financial condition and results of operations.

Risks Related to Economic Conditions

Talgo's business operations could be affected by adverse economic conditions in one or more of the geographic areas in which it operates or plans to operate posing business, financial, political and economic risks.

The global economy continued to expand in 2014 at a moderate pace, due to the prolonged recovery from the global financial crisis. Gross Domestic Product ("**GDP**") growth for many of the world economies was generally lower than pre-crisis levels. The current outlook for GDP is more positive, with some of Talgo´s current and target countries, such as Saudi Arabia and India, experiencing positive growth, whereas others such as Spain have experienced slower growth.

Moreover, worldwide geopolitical and economic risks, such as the political situation in Ukraine, and subsequent potential international sanctions, or the political instability in Greece and the recent decreases in the price of oil that have led to significant net turnover shortfalls in many energy exporting nations, such as Russia and Kazakhstan, have raised new concerns in international economies.

Given the combination of the above factors, the global recovery remains modest and fragile, with increased volatility in the financial markets, negatively affecting stock markets worldwide. Any of these factors may have a material adverse effect on the Group's business, results of operations and financial condition.

As at December 31, 2014, clients outside of Spain accounted for 77% of Talgo's backlog. Talgo principally operates in six countries outside Spain: Saudi Arabia, Kazakhstan, Russia, Germany, Uzbekistan and the United States. Talgo intends to remain active in these markets and an important element of its growth strategy is the further expansion of its international sales into emerging markets such as Brazil, Turkey and India, as well as into more developed markets such as other European countries. As a result of its sales outside of Spain, Talgo is exposed to various risks associated with conducting its business in other countries and regions, including differences in general business operating environments, high entry barriers, potentially adverse tax consequences, differences in licensing regimes, contract bidding and payment practices, a shortage of qualified labor, trade restrictions and economic sanctions, foreign currency controls and fluctuations, competition from other international, large-scale rolling stock manufacturing companies, logistic challenges including transportation delays, the cyclical nature of demand and political risks, as well as abrupt changes in foreign government regulations or policies. Failure to effectively manage such risks and volatility could have a material adverse effect on Talgo's business, financial condition and results of operations.

Talgo believes its sales in emerging markets as a proportion of overall net turnover will continue to increase in future periods, as a result of the natural evolution of its business and as demand for its rolling stock products and services increases in developing markets around the world. Emerging market operations pose a number of risks, including volatility in GDP growth, civil disturbances, economic and governmental instability, the potential for nationalization of privately held assets, the imposition of exchange controls and unexpected changes in the legal system. To the extent that any of the above-mentioned risks were to occur in any of the markets in which Talgo operates or may seek to operate in the future, this could have a material adverse effect on its business, financial condition and results of operations.

Talgo´s results of operations are highly dependent upon government funding at a national and state level.

Talgo´s industry and the markets, in which it supplies rolling stock and provides maintenance services and equipment, fluctuate in response to factors beyond its control.

The following table shows Talgo's net turnover for the years ended December 31, 2012, 2013 and 2014 corresponding to the "Rolling Stock" and "Maintenance Equipment and Other" segments in Spain, rest of Europe, United States, Middle-East and North-Africa and Commonwealth of Independent States (CIS):

	As at December 31		
	2012 (€ thousand)	**2013 (€ thousand)**	**2014 (€ thousand)**
Spain	137,406	118,035	106,143
Rest of Europe	18,253	16,370	11,125
United States	26,676	9,849	7,403
Middle East and North Africa	18,169	41,729	103,841
Commonwealth of Independent States	129,414	140,736	155,799
Total	**329,918**	**326,719**	**384,311**

Talgo´s net turnover is principally generated by the sale and maintenance of rolling stock to state-owned rail operators at a national and state level. These operators depend on government funding in order to purchase the Group's products and services, with such funding often provided through the annual government budget process, or by public transport projects promoted by the relevant public transport authorities. In particular, for the years ended December 31, 2012, 2013 and 2014, Talgo's top five customers accounted for, in total, approximately 85.9%, 85.6% and 93.3% of its total net turnover, respectively and Talgo's top three customers accounted for, in total, approximately 77.1%, 69.2% and 76.3% of its total net turnover in 2012, 2013 and 2014, respectively. Each of these customers is a state-owned company.

Government spending programs are generally subject to review in annual budget processes and may therefore be delayed or cancelled at any time. The cancellation of any project that Talgo is tendering for or is anticipating tendering for or of any contract under which it is expecting to deliver rolling stock or maintenance services could have a material adverse effect on Talgo's business, financial condition and results of operations.

Economic downturns may result, inter alia, in a slowdown or stoppage of new or existing projects (e.g., additional AVE routes linking Madrid to Galicia and the Basque Country were postponed by the

Spanish government or the announced postponement of High Speed projects in Brazil and Mexico) as well as a reduction in the availability of new tenders for the supply of rolling stock (e.g., there have been no contract tenders in Spain for the delivery of rolling stock since 2007). Continued low levels of demand or further declines in demand for rolling stock and maintenance services could result in a decrease in new tenders for Talgo products and services and an increase in competitive pressures, resulting in downward pressure on the Group's prices, profit margins and market share, which could have a material adverse effect on its business, financial condition and results of operations.

Another development in recent years has been the liberalization of the railway services market in Europe (e.g., the United Kingdom and Sweden), including the entry of private operators. The liberalization of the railway industry (i.e., change from state-owned to private operators), although representing an important business opportunity, could affect the competitive dynamics of the markets and therefore have a material adverse effect on the Group's business, financial condition and results of operations.

Risks Related to the Company´s Shareholding Structure and the Offering

The Selling Shareholders entered into a shareholders' agreement in order to regulate their relations as shareholders of Talgo, S.A., including first refusal, tag-along and drag-along rights and sense of vote.

On April 26, 2012, Pegaso Transportation International, S.C.A., the Company and certain Senior Managers and Selling Shareholders entered into a shareholder´s agreement (the "**Talgo SHA**") in order to regulate their relation as shareholders of Talgo, S.A., with effect from Admission. Subsquently, all the Selling Shareholders adhered to the Talgo SHA. In addition, on March 28, 2015, Pegaso Transportation International, S.C.A., MCH Iberian Capital Fund III, FCR, MCH Inversiones Industriales, S.à.r.l., the Company and certain Senior Managers and Selling Shareholders executed an amendment to the Talgo SHA, all the Selling Shareholders having adhered to such amendment as at the date of this document.

Among the most relevant clauses, the Talgo SHA includes (i) rights of first refusal in non-material transfers of Shares to all parties to the Talgo SHA, (ii) the orderly sale of Shares by its shareholders, other than those contemplated for the right of first refusal (iii) tag-along rights to all parties to the Talgo SHA in relation to transfers other than non-material transfers (as defined in the Talgo SHA) and (iv) a drag-along right to Pegaso Transportation International, S.C.A. in the event of a sale strategically beneficial for the Company.

Third parties conducting activities similar to those of the Company or operating in the same business segments of the Company and/or controlling shareholders of such competing companies that may acquire Shares by virtue of any of the ordered sale of Shares procedures established in the Talgo SHA, or in the event of permitted transfers, must become a party to the Talgo SHA and shall thereafter have the same rights and obligations as the transferring party.

The Talgo SHA will expire the earlier of (i) the date on which two years have elapsed since the date of Admission and (ii) the date on which Pegaso Transportation International, S.C.A. ceases to hold a significant stake in the Company (3 per cent. or more of the Company's share capital according to legislation in force). In the event of termination due to expiry of the two-year period, the drag-along right of Pegaso Transportation International, S.C.A. referred to above will remain effective until the date it ceases to hold a significant stake in the Company.

In addition, the original agreement signed on April 26, 2012 established different provisions regarding the structure of the Board of Directors, the adoption of resolutions for the appointment, removal and replacement of directors and the structure of the Company´s Audit and Compliance Committee and Nominations and Compensation Committee. By virtue of the addendum executed on March 28, 2015, the Selling Shareholders have considered these provisions partially ineffective as a consequence of the amendment of the Spanish Companies Act passed in December 2014 and the publication in February 2015 of the Good Governance Code for Listed Companies. It is clarified by virtue of the addendum that the existing agreements regarding the "*sense of vote*" on any appointment and removal of directors and / or members of the aforementioned committees remain in full force and effect.

The Company and Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, FCR and MCH Inversiones Industriales, S.à.r.l. (shareholders of the Company with a stake representing 79.72%. of the Company's share capital prior to the Offering), consider that the Company should be excluded from the Talgo SHA. In this regard, each of the abovementioned signatories of the Talgo SHA undertakes to use their best efforts to reach an agreement with the majority of the Minority Selling Shareholders as soon as practicable, and in any event, prior to Admission, in order to exclude the Company as party to the Talgo SHA and therefore to amend the Talgo SHA.

For more information regarding this agreement see "*Principal and Selling Shareholders-Shareholders' agreements*".

Following Admission, Shares subject to the Talgo SHA will represent a maximum of 55 per cent of the share capital of the Company (assuming that the Over-allotment Option is not exercised) and accordingly the liquidity of the Shares may be negative affected.

Pegaso Transportation International, S.C.A. will continue to exercise significant influence on how the Company´s business is conducted.

As at the date of this document, Pegaso Transportation International, S.C.A., directly holds approximately 63.6% of the Company´s Shares and the Selling Shareholders, in total, held 100% of the Company´s Shares. Upon completion of the Offering, Pegaso Transportation International, S.C.A. and the Selling Shareholders will directly and indirectly hold a maximum total of approximately up to 55% of the Company´s shares (up to 50.5% if the Over-allotment Option is exercised in full). Pegaso Transportation International, S.C.A. will hold, if the Over-allotment Option is exercised in full, 32.09% of the share capital of the Company and will have a significant influence when changing the Company´s management and determining the outcome of substantially all matters to be decided by a vote of shareholders, including bylaw amendments, dividends distribution, the remuneration of members of the Board of Directors and executive officers and day-to-day management. The interests of Pegaso Transportation International, S.C.A. and the Selling Shareholders may differ significantly from the interests of other shareholders.

The Company is a holding company and its only material sources of net turnover are and are expected to be dividends, distributions and other payments from Patentes Talgo, which is subject to certain legal and contractual restrictions on its ability to pay dividends.

The Company is a holding company and all its assets (which generate all its net turnover) are held by Patentes Talgo and its subsidiaries. Consequently, the Company's net turnover and cash flow depend on dividends, distributions and other payments from Patentes Talgo. Moreover, Patentes Talgo generally subject to certain legal restrictions on their ability to pay dividends. In addition, Patentes Talgo has agreed to a number of contractual restrictions (e.g. the credit facility agreement entered into Patentes Talgo with EIB, restricts the distribution of dividends to the Company by, in any event, cannot exceed 50% of the distributable net results (profits after taxes) in accordance with the audited consolidated financial statements of Patentes Talgo, S.L.U. and its subsidiaries) that affect their ability to pay dividends (see "*Dividends and Dividend Policy*"). Finally, foreign-sourced dividends by the subsidiaries of Patentes Talgo may be subject to unrecoverable withholding tax in certain jurisdictions.

The sale of a substantial number of Shares or the perception that such a sale may take place could adversely affect the price of the Company´s Shares.

The sale by the Selling Shareholders of a substantial number of the Company's Shares on the market following the Offering, or the perception that such sales may take place could adversely affect the market price of the Shares.

The Company has and will continue to have 136,832,900 Shares outstanding immediately after the Offering. All its Shares are freely transferable, without restriction, on the market (see "*Principal and Selling Shareholders-Shareholders agreements*"). However, in the Underwriting Agreement, the Selling Shareholders and the Company will agree to certain restrictions on the ability to sell, transfer and otherwise deal in Shares for period of 180 days as from the date of admission to listing of the Shares on the Spanish Stock Exchanges, unless otherwise consented to by the Joint Global Coordinators, subject to certain exceptions. In addition, some of Talgo's Directors and Senior Managers will also agree not to sell their Shares, without the prior written consent of the Joint Global Coordinators, for a period of 360 days as from the date of admission to listing of the Shares on the Spanish Stock Exchanges, subject to certain exceptions. Following the aforementioned period, the Selling Shareholders, the Company and the aforementioned Directors and Senior Managers may transfer all or part of their holdings in the Company. The Company is unable to predict whether or not substantial amounts of its Shares will be sold in the open market following the termination of the lock-up period. The future sale of these Shares could adversely affect the trading price of the Shares.

There is no established trading market for the Shares and there can be no assurance that any active market will develop and volatility of the stock markets and the market price of the Shares may mean that investors are not be able to resell their shares at a price equal to or greater than the Offering price.

The Offering constitutes the Company´s initial offering of Shares and no public market for the Shares currently exists. Before the Shares are admitted to trading on the Spanish Stock Exchanges following the Offering, no prior market has existed for trading the Company's Shares nor can it be assured that an active trading market will develop following the completion of the Offering. The Offering is aimed at qualified investors. Accordingly, the number of shareholders after the Offering may be small, which could adversely affect the liquidity of the Shares. In addition, there can be no assurance that after the Offering, the Shares will trade at a market price equal to or greater than the Offering Price (which will be agreed pursuant to negotiations between the Company, the Selling Shareholders and the Managers (see "*Plan of Distribution*") and may not be indicative of the market price).

In recent years, stock markets have experienced significant price and volume fluctuations. In particular, the market prices of securities of companies with no prior trading history have, in some instances, been extremely volatile. This volatility has affected the market prices of securities of companies for reasons frequently unrelated or disproportionate to their operating performance. Some of these factors are: historical and anticipated results of operations, large purchases of shares, announcements of innovations by competitors, conditions and trends in the industry, legislative or regulatory changes and general market and economic conditions.

The liquidity of any market for the Shares depends on the number of holders of the Shares, the market for similar securities and other factors, including general economic conditions and Talgo´s financial condition, performance and prospects, as well as the recommendations of securities analysts. Therefore, the market price of the Shares may be subject to significant fluctuations. In recent years, and more specifically in recent months, securities markets, in and outside Spain, have experienced significant volatility in prices and trading volumes. If an active trading market for the Shares does not develop, investors may not be able to sell the Shares they purchased at or above the Offering Price at which they acquired them, or at all. As a result, investors could lose all or part of their investment in the Shares.

The Offering may be subject to withdrawal and automatic revocation.

The Selling Shareholders have reserved the right to withdraw from the Offering, postpone it, defer it or suspend it at any time before the Offering Price is established, without having to give reasons for their decision.

Furthermore, if the Shares are not admitted to trading on the Spanish Stock Exchanges before 11.59 p.m. Madrid time of May 25, 2015, the Offering shall be deemed as automatically revoked under the terms established in the "*Plan of Distribution*" section of this document. The Offering may also be revoked in the other cases envisaged in the "*Plan of Distribution*" section of this document.

Shareholders in certain jurisdictions other than Spain - EU, including the United States, may not be able to exercise their pre-emptive rights to acquire further shares.

Under Spanish corporate law, holders of shares generally have the right to subscribe and pay for a sufficient number of shares to maintain their relative ownership percentages prior to the issuance of any new shares against monetary contributions, unless such right is excluded under special circumstances by a resolution passed at the general shareholders' or Board of Directors meeting, in accordance with the Spanish Companies Act. Even if the right is not excluded and therefore exercisable, holders of the Shares in certain jurisdictions other than Spain may not be able to exercise pre-emptive subscription rights unless applicable securities law requirements are complied with or exemptions are available, although the option provided under the Prospectus Rules to passport a prospectus into other member states of the EEA may facilitate the exercising of such rights by residents in the EEA. The Company may determine that it is not in its best interests to comply with these formalities and there can be no assurance that such exemptions will be available. Accordingly, the pre-emptive subscription rights of any such affected shareholders may lapse and their proportionate interests may be reduced. In particular, holders of Shares resident in the United States may not be able to exercise any future pre-emptive subscription rights in respect of the Shares they hold unless a registration statement under the Securities Act is effective or an exemption from the registration requirements under the Securities Act is available. No assurance can be given that Talgo would file or has declared any such registration statement as effective or that any exemption from such registration requirements would be available to allow for the exercising of the pre-emptive subscription rights of US holders, or that the Company would make use of an exemption, if available.

Shareholders in countries with currencies other than the euro face additional investment risk from currency exchange rate fluctuations in connection with their holdings of Talgo shares.

The Shares will be quoted only in euros and any future payments of dividends on Talgo´s shares will be in euros. The euro has recently fluctuated significantly in value against many major world currencies, including the US dollar. The US dollar or other currency equivalents of any dividends paid on the Shares or received in connection with a sale of the Shares could be adversely affected by the depreciation of the euro against the US dollar or other currencies.

The ability of shareholders residing outside Spain to effect service of process on the Company or any of its Directors or officers or to enforce any foreign court judgments against them may be limited.

The Company is organized and exists under the laws of Spain. The rights of its shareholders are governed by Spanish law and its bylaws and may differ from the rights of a shareholder of a foreign corporation. The majority of the Company's Directors and officers are resident in Spain and a substantial part of its assets and those of its Directors and officers are located in Spain. As a result, it may not be possible for Company shareholders residing outside the EU to effect service of process upon such persons or to enforce foreign court judgments against them or the Company.

The Offer Shares will not be freely transferable in the United States.

Any Shares offered and sold to investors located in the United States will be "restricted securities" (as defined in Rule 144 of the Securities Act) and such Shares may not be reoffered, resold, pledged or otherwise transferred, except: (i) outside the United States in accordance with Rule 903 or Rule 904 under Regulation S; (ii) to a QIB in a transaction that is exempt from registration under the Securities Act and that meets the requirements of Rule 144A; (iii) pursuant to an effective registration statement under the Securities Act; (iv) in accordance with Rule 144 of the Securities Act; or (v) in another transaction not requiring registration under the Securities Act; and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

USE OF PROCEEDS

Talgo, S.A. will not receive any of the proceeds from the sale of Offer Shares to be sold by the Selling Shareholders in the Offering.

The Company believes that the Offering and subsequent Admission will enable the Group to expand the number of Company shareholders and access capital markets, which could allow the Company to improve its financing agreements for the future development of the Group's business. In addition, it is expected that the Offering will enhance the Groups' brand name as a result of it being a listed company and provide liquidity on the Spanish Stock Exchanges for the shares held by its shareholders.

DIVIDENDS AND DIVIDEND POLICY

In accordance with Spanish law, dividends may only be distributed from profit for the year or unrestricted reserves and only if the requirements under the Company's bylaws and applicable law are met and the value of the Company's shareholders' equity, as a result of the distribution, is not less than its share capital. If losses from previous years have caused the value of the Company's net assets to be less than its share capital, then the Company's profits will be used to offset such losses (see "*Description of Capital Stock-Dividend and Liquidation Rights*").

In addition, Spanish law requires companies incorporated in Spain to contribute at least 10% of their profit for the financial year to the legal reserve until the balance of such reserve is equivalent to at least 20% of the respective company's issued share capital. A company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation.

Talgo, S.A.

As at December 31, 2014, the Company's mandatory legal reserve amounted to €6,924 thousand, representing 16.81% of the Company's share capital.

As at December 31, 2014, the Company's stand-alone balance sheet reflected a share premium ("*prima de emisión*") of €68,451 thousand, losses obtained by the Company in previous years of €9,368 thousand and other reserves corresponding to the management incentive plan of €30,512 thousand (see "*Management and Board of Directors-Management Compensation-Compensation of Directors and Senior Management-Management Incentive Plans*"). The share premium may be freely distributed to shareholders of the Company as dividends, provided that the requirements set forth by the Spanish Companies Act are met (see "*Description of Capital Stock-Dividend and Liquidation Rights*").

As of the date of this document, the Company does not have any statutory limitations to pay out dividends. In addition, the Company has no R&D expenses nor any goodwill recorded as assets in its balance sheet that may limit the Company`s capacity to pay dividends. However, as the Company is a holding company with no direct operations, which conducts all of its business through a wholly-owned subsidiary of the Company (Patentes Talgo, S.L.U.), the distribution of dividends by the Company will be subject to the distribution of dividends by Patentes Talgo, S.L.U. which in turn, is subject to the fulfillment of the requirements set forth in Spanish law and certain requirements described below.

In 2012, 2013 and 2014, no dividends were paid out by the Company. In 2012 and 2013, stand-alone losses of the Company amounted to €25 thousand (Talgo's consolidated profit of the year was €36,831 thousand) and €9,307 thousand (Talgo's consolidated profit of the year was €30,981 thousand), respectively. In financial year 2014, the Company's profit for the year was €2,978 thousand (Talgo's consolidated profit of the year was €38,484 thousand) of which the Company has allocated €1,313 thousand to the legal reserve (which has been now fully provisioned) and €1,665 thousand to set-off losses from previous fiscal years.

Patentes Talgo, S.L.U.

In the years ended December 31, 2012, 2013 and 2014, no dividends were paid out by Patentes Talgo, S.L.U. In 2014, Patentes Talgo, S.L.U.'s profit for the year was €31,713 thousand, of which €6,816 thousand was applied to non-distributable goodwill reserves and €24,897 thousand to distributable reserves.

In this regard, the distribution of dividends by Patentes Talgo, S.L.U., as there are not any statutory limitations, will be subject to the fulfillment of the requirements set forth in Spanish law and in the credit facility agreement with EIB as described below:

- In accordance with article 273.3 of the Spanish Companies Act, dividends may only be paid if the distributable reserves are at least equal to the amount of R&D expenses recorded as assets in the balance sheet. As at December 31, 2014, R&D expenses recorded as an asset amounted to €34,137 thousand which is a lower amount than the distributable reserves of Patentes Talgo, S.L.U. as at December 31, 2014 (€131,829 thousand).

- In accordance with article 273.4 of the Spanish Companies Act, Patentes Talgo, S.L.U., must provide a non-distributable reserve equivalent to the goodwill included as an asset in its balance sheet, targeting profits of at least 5% of goodwill. If there is no profit, or if they are insufficient, distributable reserves will be used. As at December 31, 2014 the goodwill reserve amounted to €40,899 thousand and therefore, an additional €95,430 thousand need to be provisioned as non-distributable reserve in order to reach the total amount of goodwill recorded as an asset.

- As at December 31, 2014, Patentes Talgo's legal reserve was equivalent to at least 20% of its issued share capital.

- Finally, the credit facility agreement entered into Patentes Talgo, S.L.U. with EIB, restricts the distribution of dividends to the Company as, in any event, cannot exceed 50% of the distributable net results (profits after taxes) in accordance with the audited consolidated financial statements of Patentes Talgo, S.L.U. and its subsidiaries. For a description of the credit facility agreement executed with EIB, see "*Operating and Financial Review-Bank Borrowings*".

The Company's dividend policy and the amount of future dividends it decides to pay, if any, will depend on a number of factors, including, but not limited to, the Company's earnings, financial condition, debt servicing obligations, cash requirements (including capital expenditure and investment plans), prospects, market conditions and such other factors as may be deemed relevant at the time. The amount of dividends will be proposed by the Company's Board of Directors and determined by its shareholders at the general shareholders' meetings.

The Offer Shares sold in the Offering will be eligible for any dividends paid out or declared thereafter.

The Company intends to target a dividend of approximately 20-30% of its consolidated profit after tax, both against interim dividends and/or against freely available reserves, starting with dividends payments in 2016.

CAPITALIZATION AND INDEBTEDNESS

The following table represents a statement of capitalization and indebtedness, distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness, as of February 28, 2015 and December 31, 2014. The table should be read in conjunction with "*Selected Consolidated Financial Information*" and "*Operating and Financial Review*".

	As at February 28, 2015[1]	**As at December 31, 2014**[2]
	(€ thousand)	**(€ thousand)**
A. Total Current liabilities	**250,122**	**238,311**
Guaranteed	-	-
Secured	-	-
Unguaranteed/ Unsecured	250,122	238,311
B. Total Non-Current liabilities	**105,008**	**105,385**
Guaranteed	18,059	20,716
Secured	-	-
Unguaranteed/ Unsecured	86,949	84,669
C. Shareholder´s equity: Capital and reserves attributable to the owners of the Parent Company	**257,825**	**249,613**
Share capital	41,187	41,187
Legal Reserve	8,237	6,924
Share premium, other reserves, retained earnings, other equity instruments and net income	208,401	201,502
TOTAL (A+B+C)	**612,955**	**593,309**
D. Cash	33,262	47,927
E. Cash equivalent[1]	39,983	39,983
F. Trading securities	-	-
G. Cash and cash equivalents (D+E+F)	**73,245**	**87,910**
H. Other financial assets	**158**	**167**
I. Current Debt with credit institutions	10,153	10,231
J. Current portion of non-current liabilities	-	-
K. Current Finance lease creditors	685	685
L. Current Financial liabilities (I+J+K)	**10,838**	**10,916**
M. Net Current Financial Indebtedness (L-H-G)	**(62,565)**	**(77,161)**

[1] Non-audited figures.

[2] Audited figures.

	As at February 28, 2015[1]	As at December 31, 2014[2]
	(€ thousand)	**(€ thousand)**
N. Non-current Debt with credit institutions	42,000	42,000
O. Bonds Issued	-	-
P. Non-current Finance lease creditors	423	600
Q. Non-current Financial Indebtedness (N+O+P)	**42,423**	**42,600**
R. Net Financial Indebtedness (M+Q)	**(20,142)**	**(34,561)**

(1) The cash equivalent assets include cash, fixed term deposit and promissory notes.

As at December 31, 2014 and February 28, 2015, Talgo had provided guarantee bonds for €422,384 thousand and €436,567 thousand, respectively, primarily related to the Rolling Stock segment. Available guarantee bond facilities as at December 31, 2014 and February 28, 2015 amounted to an additional €358,191 thousand and €347,136 thousand, respectively.

Post-Offering Capitalization and indebtedness

Following Admission, Talgo's liquidity will be used for the following purposes:

(i) *Payment of the Management Incentive Plan*: Talgo estimates that the compensation to be paid to the beneficiaries of the incentive plan, as discussed in the "*Management and Board of Directors – Management Compensation – Compensation of Directors and Senior Management – Management Incentive Plans*" section, will represent between 4.41% and 4.73% of the share capital of the Company (after withholding taxes) and amount to between €97,944 thousand and €135,953 thousand, which will be used both in acquiring shares and paying withholding taxes on behalf of the Chairman, the CEO and Senior Management. For the purpose of settling the incentive plan, the Company will purchase the relevant Shares at the Offering.

(ii) *Disbursement of Shares to the employees in the Offering:* Talgo estimates that this extraordinary compensation to Talgo's employees will amount a maximum amount of €5,126 thousand (of which €919 thousand correspond to Social Security expenses) and will represent between 0.34% and 0.27% of the share capital of the Company (after social security contributions). For the purpose of settling this compensation, the Company will purchase the relevant Shares at the Offering.

(iii) *Advisory costs and expenses associated to the Offering:* As per the estimates included in section "*Plan of Distribution-Other relationships-Offering expenses*", the costs of the Offering to be paid by the Company will amount up to a maximum of €3,500 thousand.

In addition, as described in *"Operating and Financial Review-Recent Group Performance"*, Talgo is currently at an advanced stage of negotiations with KTZ to acquire a 51% stake in Tulpar-Talgo LLP. Talgo estimates that in the event of completion of this transaction, the acquisition price would amount to between €30,000 thousand and €35,000 thousand.

Talgo´s sources of liquidity to cover the abovementioned items will be: (i) Talgo's existing cash resources (as at February 28, 2015 Talgo's Cash and cash equivalents amounted to €73,245 thousand), (ii) the drawdown of the loan agreement executed with Banco Santander, S.A., for a total amount of €100,000 thousand (see "*Operating and Financial Review-Indebtedness and Contingent Liabilities-*

Borrowings") and (iii) the drawdown of the relevant amounts of the new credit facilities (as at the date of this document €130,000 thousand available) (see "*Operating and Financial Review-Indebtedness and Contingent Liabilities-Borrowings*"), the latter only in the event of the completion of the acquisition of Tulpar-Talgo LLP and assuming the maximum price of the Offering Price Range.

In this regard, based on Talgo's calculations, assuming a disbursement of €135,953 thousand for the Management Incentive Plan according to the maximum price of the Offering Price Range, Talgo's net financial position is expected to change from a net financial cash amount of €20,142 thousand to a net financial debt amount of €124,437 thousand and its liquidity is expected to decrease from €73,245 thousand to €28,666 thousand (without including the potential impact of the acquisition of Tulpar-Talgo LLP).

As at December 31, 2014 and February 28, 2015 the Total Financial Debt/ Equity ratio was equal to 0.21 and the Total Net Financial Debt/ Equity ratio was equal to (0.14) and (0.08), respectively.

The following table sets out Talgo's cash and cash equivalents, borrowings and capitalization as at February 28, 2015, as adjusted to give effect to: (i) the payment of the Management Incentive Plan, (ii) the disbursement of Shares to the employees in the Offering and the (iii) payment of the advisory costs and expenses associated of the Offering:

	As at February 28, 2015[1]
	Adjustments
	(€ thousand)
A. Total Current liabilities	250,122
B. Total Non-Current liabilities	205,008
C. Shareholder´s equity[2]: Capital and reserves attributable to the owners of the Parent Company	153,728[4]
TOTAL (A+B+C)	**608,858**
D. Cash and cash equivalents[3]	28,666[4]
E. Other financial assets	158
F. Current Financial liabilities	10,838
G. Net Current Financial Indebtedness (F-E-D)	(17,986)
H. Non-current Financial Indebtedness	142,423
I. Net Financial Indebtedness (G+H)	124,437

(1) Non-audited figures.

(2) The shareholders equity takes into account the tax shield arising from the abovementioned costs

(3) The cash figure does not include the expected tax benefit arising from these payments. These payments will generate a 28% tax shield on the cost reflected in the 2015 Profit and Loss statement.

(4) Assuming a (i) disbursement of €135,953 thousand for the Management Incentive Plan according to the maximum price of the Offering Price Range a (ii) a disbursement of €5,126 thousand for the extraordinary compensation to Talgo's employees and (iii) €3,500 thousand costs of the Offering to be paid by the Company.

Assuming a disbursement of €97,944 thousand for the Management Incentive Plan according to the minimum price of the Offering Price Range, Cash and cash equivalents will amount to €66,675 thousand, Net Current Financial cash will amount to €55,995 thousand and Net Financial Indebtedness will amount to €86,428 thousand. The Total Financial Debt/ Equity ratio would be equal to 1 and the Total Net Financial Debt/ Equity would be equal to 0.81.

In addition, the following table sets out Talgo's cash and cash equivalents, borrowings and capitalization as at February 28, 2015, as adjusted to give effect to the items reflected in the table above plus the potential disbursement of the price for the acquisition of Tulpar-Talgo LLP:

	As at February 28, 2015[1]
	Adjustments[2]
	(€ thousand)
A. Total Current liabilities	255,222
B. Total Non-Current liabilities	205,008
C. Shareholder´s equity[3]: Capital and reserves attributable to the owners of the Parent Company	153,728[4]
TOTAL (A+B+C)	**613,958**
D. Cash and cash equivalents[4]	1,266[5]
E. Other financial assets	158
F. Current Financial liabilities	15,938
G. Net Current Financial Indebtedness (F-E-D)	14,514
H. Non-current Financial Indebtedness	142,423
I. Net Financial Indebtedness (G+H)	156,937

(1) Non-audited figures.
(2) Assuming a price of acquisition of € 32,500 thousand.
(3) The shareholders equity takes into account the tax shield arising from the abovementioned costs
(4) The cash figure does not include the expected tax benefit arising from these payments. These payments will generate a 28% tax shield on the cost reflected in the 2015 Profit and Loss statement.
(5) Assuming a (i) disbursement of €135,953 thousand for the Management Incentive Plan according to the maximum price of the Offering Price Range a (ii) a disbursement of €5,126 thousand for the extraordinary compensation to Talgo's employees and (iii) €3,500 thousand costs of the Offering to be paid by the Company.

Assuming a disbursement of €97,944 thousand for the Management Incentive Plan according to the minimum price of the Offering Price Range and a price of acquisition of Tulpar of €32,500 thousand, Cash and cash equivalents will amount €34,175 thousand, Net Current Financial cash will amount to €23,495 thousand and Net Financial Indebtedness will amount to €118,928 thousand. The Total Financial Debt/ Equity ratio would be equal to 1.03 and the Total Net Financial Debt/ Equity would be equal to 1.02.

For clarification purposes, the table above only reflects the payment of the average purchase price range (€32,500 thousand) of the potential acquisition but does not include any estimation of the effect on Talgo's cash and capitalization that might follow the completion of the purchase due to the consolidation of Tulpar-Talgo into the Group.

Working Capital

The Company is of the opinion that, taking into account the bank facilities available and its existing cash resources, the Group has sufficient working capital for its present requirements, that is, for at least twelve months from the date of this document.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following tables provide the selected financial information and other data relating to Talgo as at and for the periods indicated.

The selected consolidated financial information as at and for the years ended December 31, 2012, 2013 and 2014 presented below has been taken from and should be read together with the Company's Audited Annual Consolidated Financial Statements prepared in accordance with EU-IFRS, which are included elsewhere in this document.

For a description of the Audited Annual Consolidated Financial Statements, see "*Presentation of Financial Information*".

This section also contains other financial and non-financial data in which the Company focuses to monitor the economic, financial and operating performance of the Group. The non-financial data, which is unaudited information, has been derived from management information used in monitoring and controlling the activities of the Group.

In particular, the financial indicators used by management include "Adjusted EBIT", "EBITDA", "Adjusted EBITDA", "Working Capital", "Order Intake", "Backlog", "EBIT/Employee", "EBIT/production site", "3 year average EBIT Margin" and "Adjusted Cash Flow" (see definitions in "*Other financial and non-financial data (unaudited)*"). These figures are used by management to monitor the underlying performance of Talgo`s business and operations. These indicators are not recognized as measures of financial performance or liquidity by EU-IFRS. Investors should not place any undue reliance on these non-EU-IFRS measures as financial indicators and should not consider the figures as: (a) an alternative to operating income or net income as determined in accordance with EU-IFRS, or as measures of operating performance; (b) an alternative to cash flow from operating, investing or financing activities (as determined in accordance with EU-IFRS), or as a measure of the Group's ability to meet cash needs; or (c) an alternative to any other measures of performance under EU-IFRS. These measures are not indicative of the Group's historical operating results, nor are they meant to be predictive of future results. Since all companies do not calculate these measures in an identical manner, the Group's presentation may not be consistent with similar measures used by other companies. Therefore, investors should not place undue reliance on this data.

The selected consolidated financial information should be read in conjunction with the *"Operating and Financial Review"* and the Audited Annual Consolidated Financial Statements.

Selected audited consolidated income statement data

The following table sets out the Group's selected audited consolidated income statement for the years ended December 31, 2012, 2013 and 2014.

	As at December 31,				
	2012 (€ thousand)	**2013 (€ thousand)**	**Change (%)**	**2014 (€ thousand)**	**Change (%)**
Net turnover	**329,918**	**326,719**	**(0.97)**	**384,311**	**17.63**
Other income	628	1,157	84.23	2,281	97.15
Stock variation for work-in-progress and finished goods	583	(1,354)	(332.25)	5,249	487.67
Work performed and capitalized by the Company	18,935	17,040	(10.01)	8,380	(50.82)
Procurement costs	(141,896)	(136,950)	3.49	(180,809)	(32.03)
Personnel costs	(90,037)	(92,770)	(3.04)	(104,556)	(12.70)
Other operating expenses	(52,794)	(66,127)	(25.25)	(47,698)	27.87
Amortization and depreciation charge	(5,872)	(7,210)	(22.79)	(16,811)	(133.16)
Loss on disposal of fixed assets	-	(82)	-	(1)	(98.78)
Other results	293	(233)	(179.52)	530	327.47
Impairment and result of loss of significant influence over holdings in equity or joint control over a multigroup company	**1,264**	**-**	**(100)**	**-**	**-**
Operating profit	**61,022**	**40,190**	**(34.14)**	**50,876**	**26.59**
Financial income	1,370	14,179	934.96	1,714	(87.91)
Financial expenses	(14,770)	(10,567)	28.46	(7,125)	32.57
Net financial result	**(13,400)**	**3,612**	**126.96**	**(5,411)**	**(249.81)**
Profit before tax	**47,622**	**43,802**	**(8.02)**	**45,465**	**3.80**
Income tax charge	(10,791)	(12,821)	(18.81)	(6,981)	45.55
Profit for the year from continuing operations	**36,831**	**30,981**	**(15.88)**	**38,484**	**24.22**
Profit for the year	**36,831**	**30,981**	**(15.88)**	**38,484**	**24.22**
Attributable to:					
Owners of the parent	35,380	30,981	(12.43)	38,484	24.22
Non-controlling interests	1,451	-	(100)	-	-
Basic earnings per share attributable to the owners of the Company					
Continuing operations	28.14	22.64	(19.55)	28.12	24.20
Total	**28.14**	**22.64**	(19.55)	**28.12**	24.20
Diluted earnings per share attributable to the equity holders of the Company					
Continuing operations	25.30	22.64	(10.51)	28.12	24.20
Total	**25.30**	**22.64**	(10.51)	**28.12**	24.20

The following tables show the Group income and expenses and some balance sheet data for the years ended December 31, 2012, 2013 and 2014 corresponding to the "rolling stock" segment(1), the "maintenance equipment and other" segment(2) and the "general" segment(3).

				2012 (€ thousand)
	Rolling Stock	**Maintenance Equipment and Other**	**General**	**Total**
Total segment revenues	310,918	19,000	-	329,918
Inter-segment revenues	-	-	-	-
Ordinary revenues from external customers	**310,918**	**19,000**	**-**	**329,918**
% of the total net turnover	94.24%	5.76%	-	100%
Amortization and depreciation charge	(4,634)	(38)	(1,200)	(5,872)
Operating result	**84,012**	**3,804**	**(26,794)**	**61,022**
% of the total operating profit	137.67%	6.23%	(43.9%)	100%
Financial Income	1,278	78	14	1,370
Financial Expenses	(13,937)	(833)	-	(14,770)
Result before tax	**71,353**	**3,049**	**(26,780)**	**47,622**
Total assets	**279,818**	**20,823**	**129,713**	**430,354**
Total liabilities	**165,115**	**16,784**	**99,135**	**281,034**
Fixed asset investments	**17,890**	**-**	**2,067**	**19,957**

(1) The "rolling stock" segment includes the activities of manufacturing and maintenance of trains.

(2) The "maintenance equipment and other" segment, fundamentally includes the activities of construction of pit lathes and other equipment, repairs, modifications and spare parts sales.

(3) The "general" segment includes general corporate expenses not directly assignable to other segments.

				2013 (€ thousand)
	Rolling stock	**Maintenance Equipment and Other**	**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**
% of the total net turnover	93.77%	6.23%	-	100%
Amortization and depreciation charge	5,913	38	1,259	**7,210**
Operating result	**73,897**	**3,737**	**(37,444)**	**40,190**
% of the total operating profit	183.87%	9.3%	(93.17%)	100%
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**

2014
(€ thousand)

	Rolling stock	Maintenance Equipment and Other	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**
% of the total net turnover	96.51%	3.49%	-	100%
Amortization and depreciation charge	15,548	33	1,230	16,811
Operating result	**81,783**	**5,410**	**(36,317)**	**50,876**
% of the total operating profit	160.75%	10.63%	(71.38%)	100%
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**

Selected audited consolidated balance sheet data

The following table shows the Group's selected audited consolidated balance sheet as at December 31, 2012, 2013 and 2014.

	At December 31,				
	2012	**2013**	**Change**	**2014**	**Change**
	(€ thousand)	**(€ thousand)**	**(%)**	**(€ thousand)**	**(%)**
ASSETS					
Non-current assets					
Tangible fixed assets	49,143	64,743	31.74	70,898	9.51
Intangible assets	33,099	71,314	115.46	66,156	(7.23)
Goodwill	112,439	112,439	-	112,439	-
Investment in associates	4	10	150	10	-
Deferred tax assets	13,368	14,892	11.40	13,955	(6.29)
Other financial assets	2,398	11,409	375.77	3,664	(67.88)
	210,451	**274,807**	**30.58**	**267,122**	**(2.80)**
Current assets					
Non-current assets held for sale	-	-	-	6,114	-
Stock	36,195	49,428	36.56	71,723	45.10
Customers and other accounts receivable	169,708	113,644	(33.04)	158,470	39.44
Other financial assets	529	131	(75.24)	167	27.48
Asset accruals	1,000	2,508	150.8	1,803	(28.11)
Cash and cash equivalents	12,471	95,986	669.67	87,910	(8.41)
	219,903	**261,697**	**19.01**	**326,187**	**24.64**
TOTAL ASSETS	**430,354**	**536,504**	**24.67**	**593,309**	**10.59**

	As at December 31,				
	2012	2013	Change	2014	Change
	(€ thousand)	(€ thousand)	(%)	(€ thousand)	(%)
EQUITY					
Capital and reserves attributable to owners of the Parent Company					
Share capital	41,187	41,187	-	41,187	-
Share premium	68,451	68,451	-	68,451	-
Other reserves	174	101	(41.95)	2,608	2,482.18
Retained earnings	36,992	68,405	84.92	106,855	56.21
Other equity instruments	2,516	12,152	382.99	30,512	151.09
	149,320	**190,296**	**27.44**	**249,613**	**31.17**
Non-controlling interests	**-**	**-**	**-**	**-**	**-**
Total equity	**149,320**	**190,296**	**27.44**	**249,613**	**31.17**

LIABILITIES					
Non-current liabilities					
Borrowings	63,807	72,767	14.04	73,809	1.43
Deferred tax liabilities	6,663	6,108	(8.33)	3,565	(41.63)
Provisions for other liabilities and charges	7,710	12,278	59.25	22,910	86.60
Government grants	1,709	2,143	25.39	5,101	138.03
	79,889	**93,296**	**16.78**	**105,385**	**12.96**
Current liabilities					
Suppliers and other payables	166,511	235,829	41.63	222,245	(5.76)
Current tax liability	1,215	55	(95.47)	125	127.27
Borrowings	24,021	2,586	89.23	12,379	378.69
Provisions for other liabilities and charges	9,398	14,442	53.67	3,562	(75.34)
	201,145	**252,912**	**25.74**	**238,311**	**(5.77)**
Total liabilities	**281,034**	**346,208**	**23.19**	**343,696**	**(0.73)**
Total equity and liabilities	**430,354**	**536,504**	**24.67**	**593,309**	**10.59**

Selected audited consolidated statement of cash flow data

The following table shows the Group's selected audited consolidated statements of cash flows for the years ended December 31, 2012, 2013 and 2014.

	2012 (€ thousand)	2013 (€ thousand)	Change (%)	2014 (€ thousand)	Change (%)
Cash flows from operating activities	**(30,402)**	**174,561**	**674.18**	**19,717**	**(88.70)**
Cash used in operations	**(17,451)**	**(19,735)**	**(13.09)**	**(19,162)**	**2.90**
Interest paid	(12,950)	(8,944)	30.93	(5,496)	38.55
Interest received	1,370	435	(68.25)	1,596	266.90
Tax paid	(5,871)	(11,226)	(91.21)	(15,262)	35.95
Net cash flow generated from operating activities	**(47,853)**	**154,826**	**423.55**	**555**	**(99.64)**
Cash flows from investing activities					
Purchases of property, plant and equipment	(4,016)	(20,539)	(411.43)	(17,666)	13.99
Purchases of intangible assets	(15,939)	(15,407)	3.34	(6,221)	59.62
Other assets	(1,452)	-	100	-	-
Acquisitions by Group Companies	-	(16,014)	-	-	100
Loans to third parties	(477)	(1,242)	(160.38)	-	100
Net cash used in investing activities	**(21,884)**	**(53,202)**	**(143.11)**	**(23,887)**	**55.10**
Cash flows from financing activities					
Disbursements for loan repayments	(74,579)	(23,275)	68.79	(3,512)	84.91
Proceeds from borrowings	71,623	1,037	(98.55)	18,178	1,652.95
Dividends and loans to related parties	1,454	-	(100)	-	-
Grants received	-	-	-	590	-
Net cash used / (generated) in financing activities	**(1,502)**	**(22,238)**	**(1,380.56)**	**15,256**	**168.60**
Net (decrease)/ increase in cash, cash equivalents and bank overdrafts	**(71,239)**	**79,386**	**211.44**	**(8,076)**	**(110.17)**
Cash, cash equivalents and bank overdrafts at the beginning of year	83,710	12,471	(85.10)	95,986	669.67
Cash and cash equivalents resulting from the merger	-	4,129	-	-	(100)
Cash, cash equivalents and bank overdrafts at the end of year	**12,471**	**95,986**	**669.67**	**87,910**	**(8.41)**

Selected audited consolidated statement of changes in equity data

The following table shows the Group's selected audited consolidated statements of changes in equity for the years ended December 31, 2012, 2013 and 2014.

	Attributable to owners of the company							
	Share Capital	Retained earnings	Share premium	Other equity instruments	Other reserves	Total	Non-controlling interests	Total equity
Balance at December 31, 2011	**34,618**	**47,079**	**-**	**-**	**(335)**	**81,362**	**31,396**	**112,758**
Comprehensive income								
Profit or loss	-	35,380	-	-	-	35,380	1,451	36,831
Other Comprehensive Income								
Currency exchange differences	-	-	-	-	242	242	-	242
Hedging derivatives	-	-	-	-	267	267	-	267
Total Comprehensive Income	**-**	**35,380**	**-**	**-**	**509**	**35,889**	**1,451**	**37,340**
Transactions with owners	-	-	-	-	-	-	-	-
Capital increase	10,296	(45,467)	68,451	-	-	33,280	(32,847)	433
Capital decrease	(3,727)	-	-	-	-	(3,727)	-	(3,727)
Dividends	-	-	-	-	-	-	-	-
Other movements	-	-	-	2,516	-	2,516	-	2,516
Total transactions with owners	**6,569**	**(45,467)**	**68,451**	**2,516**	**-**	**32,069**	**(32,847)**	**(778)**
Balance at December 31, 2012	**41,187**	**36,992**	**68,451**	**2,516**	**174**	**149,320**	**-**	**149,320**
Balance at December 31, 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**

	Attributable to owners of the company							
	Share Capital	**Retained earnings**	**Share premium**	**Other equity instruments**	**Other reserves**	**Total**	**Non-controlling interests**	**Total equity**
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 December 31, 2013	**41,187**	**68,405**	**68,451**	**12,152**	**101**	**190,296**	**-**	**190,296**
Balance at December 31, 2013	**41,187**	**68,405**	**68,451**	**12,152**	**101**	**190,296**	**-**	**190,296**
Comprehensive income	-	38,484	-	-	-	38,484	-	38,484
Profit or loss	-	-	-	-	-	-		-
Other Comprehensive Income	-	-	-	-	2,507	2,507	-	2,507
Currency exchange differences	-	38,484			2,507	40,991	-	40,991
Total Comprehensive Income	-		-	-				
Transactions with owners	-	-	-	-	-	-	-	-
Other movements	-	(34)	-	18,360	-	18,326	-	18,326
Total transactions with owners	**-**	**-**	**-**	**18,360**	**-**	**18,326**	**-**	**18,326**
Balance at December 31, 2014	**41,187**	**106,855**	**68,451**	**30,512**	**2,608**	**249,613**	**-**	**249,613**

Other financial and non-financial data (unaudited)

Reconciliation between EBIT, EBITDA, adjusted EBITDA and adjusted EBIT

The Company adjusts its EBITDA to take out non-recurring elements (such as an extraordinary donation to the Talgo Foundation in 2013 for an amount of €1,000 thousand and severance payments which amounted for the years ended December 31, 2012, 2013 and 2014, €482 thousand, €622 thousand and €262 thousand etc.) and to adequately consider the long-term management incentive plan (see "*Operating and Financial Review*"). This incentive plan is currently in line with other precedents in private companies owned by financial sponsors. Accordingly, the incentive plan will be terminated upon Admission and will be replaced by a new incentive plan (see "*Management and Board of Directors-Management Compensation-Compensation of Directors and Senior Management-Management Incentive Plan Post-Admission*"). Therefore, historically recorded costs in respect of the existing incentive plan are not representative of the potential future cost of the Company's future incentive plan.

Regarding adjusted EBIT, the Company believes that adding back extraordinary provisions to the EBIT figure (such as the one-off extraordinary loss related to a tax inspection in the Company amounting to €8,644 thousand that has no relationship with the operating company) and AVRIL amortization (which is extraordinary and does not reflect the recurrent R&D needs of the business) presents a more accurate picture of its financial position.

The following table shows reconciliation between EBIT, EBITDA, adjusted EBITDA and adjusted EBIT for the years ended December 31, 2012, 2013 and 2014.

	2012 (**€ thousand**)	**2013** (**€ thousand**)	**2014** (**€ thousand**)
Operating profit (EBIT)	**61,022**	**40,190**	**50,876**
% margin over Net Turnover	*18.5%*	*12.3%*	*13.2%*
Amortization and depreciation charge	(5,872)	(7,210)	(16,811)
Depreciation provisions	(499)	(10,617)	(2,058)
EBITDA(1) (unaudited)	**67,393**	**58,017**	**69,745**
% margin over Net Turnover	*20.4%*	*17.8%*	*18.1%*
Other adjustments (2)	442	3,297	1,940
Long-term stock compensation plan	10,941	9,636	18,360
Adjusted EBITDA(1) (unaudited)	**78,776**	**70,950**	**90,045**
% margin over Net Turnover	*23.9%*	*21.7%*	*23.4%*

Operating profit (EBIT)	**61,022**	**40,190**	**50,876**
% margin over Net Turnover	*18.5%*	*12.3%*	*13.2%*
Other adjustments (2)	442	3,297	1,940
AVRIL Amortization	-	-	7,586
Depreciation provisions	-	8,644	-
Long-term stock compensation plan	10,941	9,636	18,360
Adjusted EBIT(3) (unaudited)	**72,405**	**61,767**	**78,762**
% margin over Net Turnover	*21.9%*	*18.9%*	*20.5%*

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) is calculated by adding back fixed assets depreciation/amortization and depreciation provision to operating profit, in each case determined in accordance with EU-IFRS. Talgo calculates Adjusted EBITDA as EBITDA adding the historical compensation levels of the

management referred to the long-term stock compensation plan (which will be terminated upon Admission) and other adjustments referred to in the footnote 2 below.

(2) Other adjustments include severance payments, donation to the Talgo Foundation in 2013 for an amount of €1,000 thousand and other minor adjustments related to financial fees and insurance fees.

(3) Talgo calculates Adjusted EBIT as EBIT adding back AVRIL amortization, a depreciation provision related to the Group's holding company tax expense arising from a tax inspection referred to in "*Other Operating Expenses*" which amounted for €8,644 thousand, which Talgo management defines and considers to be non-recurrent, historical compensation levels of the management referred to the long-term stock compensation plan (which will be terminated upon Admission) and other adjustments referred to in the footnote 2 above.

Adjusted Cash Flow Statement (non-audited)

The following table shows certain adjusted cash flow data for the years ended December 31, 2012, 2013 and 2014 (see "*Presentation of Financial Information*").

	2012 (€ thousand)	**2013 (€ thousand)**	**2014 (€ thousand)**
Adjusted EBITDA	78,776	70,950	90,045
Other Capex	(5,731)	(6,325)	(6,745)
Change in working capital	(108,103)	102,317	(61,965)
Taxes paid	(5,871)	(11,226)	(15,262)
Operating cash flow	**(40,929)**	**155,716**	**6,073**
AVRIL capex	(14,224)	(11,725)	(3,891)
Manufacturing facilities capex (Las Matas II and Rivabellosa)	-	(17,896)	(13,251)
Other	(1,075)	1,294	(7,773)
Net interest paid	(11,580)	(8,509)	(3,900)
Group Companies Acquisitions	-	(16,014)	-
Other assets	(1,452)	-	-
Accounts Receivables of third parties	(477)	(1,242)	-
Pre-financing cash flow	**(69,737)**	**101,624**	**(22,742)**
Disbursements for loan repayments	(74,579)	(23,275)	(3,512)
Proceeds from borrowings	71,623	1,037	18,178

Dividend from non-controlling interest	1,454	-	-
Post-financing cash flow	**(71,239)**	**79,386**	**(8,076)**
Cash, cash equivalents and bank overdrafts at the beginning of year	**83,710**	**12,471**	**95,986**
Cash and cash equivalents resulting from the merger	-	4,129	-
Cash, cash equivalents and bank overdrafts at the end of year	**12,471**	**95,986**	**87,910**

The Company believes the above information provides a better explanation of Talgo's cash flow for the years ended December 31, 2012, 2013 and 2014. The line items presented in the table above consist on a mere relocation of items from the Audited Annual Consolidated Financial Statements together with a further disclosure of certain items in the Notes included in the Company's Audited Annual Consolidated Financial Statements. In this Adjusted Cash Flow Statement, the Company presents the annual cash flow generation starting with Adjusted EBITDA, which represents the Profit & Loss-related operating metric more closely linked with the Groups's cash generation. The subsequent items include Other capex (considered to be recurrent by Talgo and therefore excluding recent specific investments in expansion of manufacturing capacity and the AVRIL development), Change in working capital and Taxes paid and correspond to the main cash inflows or outflows of a certain year to reach to the cash flow from ordinary operations of Talgo. The next lines include extraordinary investments (including specific investments in expansion of manufacturing capacity and the AVRIL development), Other items (including amongst others provisions, grants and other non-recurrent items), Net interest paid and financial liabilities repaid (or raised) in order to arrive to the yearly change in cash.

Backlog and order intake

The following tables show the main unaudited non-financial indicators used by Talgo to monitor and assess its operations.

In the years ended December 31, 2012, 2013 and 2014, the order intake was divided as follows:

	2012 (€ million)	**2013 (€ million)**	**2014 (€ million)**
Total order intake	**413**	**696**	**344**

As at December 31, 2012, 2013 and 2014, the backlog was as follows:

	As at December 31,		
	2012 (€ million)	**2013 (€ million)**	**2014 (€ million)**
Total Backlog	**3,331**	**3,751**	**3,692**

As at December 31, 2012, 2013 and 2014, the backlog was divided as follows:

	As at December 31,		
	2012 (€ million)	**2013 (€ million)**	**2014 (€ million)**
Manufacturing	1,159	1,229	1,025
Maintenance	2,152	2,502	2,632
Maintenance equipment and other	20	20	35
Total Backlog	**3,331**	**3,751**	**3,692**

Talgo's backlog as at December 31, 2014 was approximately €3,692 million and was more than nine times its net turnover for the year ended December 31, 2014 (backlog of more than 10 and 11 times the net turnover for years ended December 31, 2012 and 2013, respectively). The Company believes that its backlog provides it with visibility in respect of its future net turnover (see "*Operating and Financial Review-Conversion of backlog into turnover"*).

BUSINESS

Overview

Talgo is a specialized rolling stock engineering company focused on designing, manufacturing and servicing technologically differentiated, fast, lightweight trains.

Talgo currently serves the global Very High Speed, High Speed and Passenger Coaches markets and is planning to expand into the Regional Commuter trains market.

Talgo's main business segments are: (i) **Rolling stock**, which includes both: (a) **Manufacturing:** engineering and manufacturing of rolling stock, acting as a system integrator and prime contractor and undertaking aluminum welding of the trains; and (b) **Maintenance services:** services required for a proper functioning of the trains, including repairs, cleaning, accessories, etc.; and (ii) **Maintenance equipment and other:** manufacturing of train maintenance equipment, with proprietary technology products sold to train operators worldwide. On average, during the 2012-2014 period, 60% of Talgo's net turnover was generated by its manufacturing division, 35% in maintenance services division and 5% from other activities including the sale of maintenance equipment and other activities.

As at the date of this document, Talgo has sold rolling stock and signed maintenance services contracts in Saudi Arabia, Kazakhstan, Russia, Uzbekistan, Germany and the United States which complement its position in the highly competitive domestic Spanish market (in all these countries the Company has also sold maintenance equipment). Other countries in which Talgo has sold maintenance equipment include Switzerland, India, Mexico, Brazil, Peru, Argentina, France, UK, Italy, Poland, Norway, Ukraine, and Algeria, among other countries. As at December 31, 2014, Talgo had manufacturing plants in Spain, offices and operated in maintenance workshops in Spain, the United States, Germany, Uzbekistan and Kazakhstan and commercial agents and offices in Chile, Turkey, Saudi Arabia, India and Russia.

As at December 31, 2014, Talgo's backlog amounted to €3,692 million, representing more than nine times its 2014 net turnover. As at December 31, 2014, 77% of Talgo's backlog came from its international activities, reflecting the successful consolidation of Talgo's international expansion strategy since 2007. In recent years, a significant proportion of Talgo's growth has arisen from international expansion, with landmark orders won in Saudi Arabia, Kazakhstan and Russia. Talgo's average annual order intake (i.e. the value of new project orders received during a given year) amounted to €483,956 thousand per annum in 2012-2014, with over 90% of manufacturing orders since 2012 coming from international customers.

One of Talgo's key competitive advantages is its unique suite of seven differentiated engineering technologies (see "*New Products and Technologies*"). Talgo designs innovative solutions for railway operators that require minimal infrastructure investment and aims to provide low life-cycle costs, increased safety, short journey times and comfortable units for rail passengers.

The provision of maintenance services to Talgo's entire installed base of approximately 2,531 coaches and 191 power heads as at December 31, 2014, is a key component of Talgo's business model, which requires limited associated capital expenditure and provides enhanced proximity to Talgo's customers. In addition to providing maintenance services for Talgo's own rolling stock equipment (Talgo maintains 100% of the trains it has manufactured), Talgo also provides maintenance services to part of the non-Talgo fleet of Deutsche Bahn, the state-owned and principal rail operator in Germany. Talgo has signed contracts under which the Company will provide, over the next four years, maintenance services to an additional 1,376 coaches and 72 power heads.

Talgo is currently in active commercial discussions or competing for projects on a worldwide basis. Talgo is currently involved in commercial discussions in over 25 countries in Western Europe, Eastern Europe, Russia, Central Asia, Africa-Middle East-Asia and the Americas.

Talgo operates a scalable, flexible and asset-light business model relying on design, engineering and manufacturing expertise. Capital-intensive operations carried out by Talgo are generally restricted to strategic and safety critical components and processes including, for example, specialist aluminum welding of bogies and wheel sets, with the majority of non-critical capital-intensive operations outsourced to ensure full manufacturing flexibility as for example lighting, air conditioning, bathrooms, windows or floors. Talgo believes it enjoys strong relationships with its suppliers, which are well-integrated into Talgo's value chain. However, due to its active procurement policies, Talgo is not dependent on any individual supplier for any critical component/part of the system integration.

By leveraging Talgo's expertise, technological capabilities and ability to offer value-enhancing yet economically competitive services, the Company believes it can apply its differentiated service model to new market opportunities, as state-owned and private railway operators increasingly seek further efficiencies in their operations in liberalized rail markets. The Company believes its focus on design, engineering, manufacturing, maintenance services and maintenance equipment creates a virtuous circle whereby Talgo's engineers are able to identify and optimize technology and design that would otherwise become apparent only after years of use, thus allowing the Group to regularly upgrade its product offering.

History

From Talgo's inception 73 years ago, Talgo has focused on designing and engineering light, fast and energy efficient trains for the markets in which Talgo operates. Talgo's history can be separated into three clearly differentiated periods:

1) <u>1942-2000: Technological development and product endorsement</u>

In 1942, Talgo (*Tren Articulado Ligero Goicoechea Oriol*) began operations with the incorporation of Patentes Talgo. Talgo was originally founded with the objective of developing a new type of rapid, lightweight train that would operate throughout the Spanish railway system. Development of Talgo's first commercial product, the Talgo II train, began in 1948 and commercial sales began in 1950. In the same year, regular commercial service on Talgo II trains began between Madrid, Irún and Hendaya.

Over the next 20 years, Talgo's business grew steadily as it extended its presence in the Spanish market. In 1964, a regular commercial service using Talgo III trains began between Madrid and Barcelona. In 1966, a Talgo III train reached 200 km/h in test runs between Seville and Los Rosales. Talgo continued to expand in the wider European market in the mid-1960s with the introduction of its proprietary variable gauge technology, which enabled Talgo trains to operate on non-Spanish railways with different rail gauges. As a result, in 1968, a Talgo III train made the first ever journey between Madrid and Paris without passengers having to change trains at the border. In 1969, regular commercial service using Talgo trains began between Barcelona and Geneva.

In the 1970s, regular commercial service using Talgo's first hotel train (i.e. trains fitted with sleeping coaches and related equipment) began between Barcelona and Paris.

In 1980, Talgo introduced the Talgo Pendular tilting train, which Talgo believes to be the first commercially operated train in the world to use natural tilting, one of Talgo's core technologies. Talgo adapted the natural tilting technology for use in Talgo hotel trains, with regular commercial service of natural tilting-equipped Talgo hotel trains beginning in 1981 between Madrid and Paris. In 1988, a Talgo Pendular tilting train successfully completed tests for use in Amtrak services on the Boston–New York City corridor. In the same year, the Talgo Pendular reached speeds of 291 km/h on Deutsche Bahn test tracks.

In the 1990s and 2000s, Talgo broadened its operations by expanding its market presence into Germany and the United States and entering the High Speed market (speeds of greater than 250 km/h). In 1992, Talgo signed a contract with Deutsche Bahn for the sale of 112 Talgo Pendular tilting hotel coaches. In 1994, Talgo was awarded a contract to provide trains for rail services between Seattle and Portland and became the first European rolling stock company to have trains operating in regular commercial service in the United States. Also in 1994, test runs began on the Madrid–Seville High Speed line, with Talgo trains reaching speeds of 303 km/h. In the same year, Talgo trains reached speeds of 360 km/h on test tracks in Germany.

2) <u>2001-2006: Establishment of Very High Speed capabilities</u>

Talgo entered the High Speed market in 2001, winning a contract from Renfe to produce 16 AVE (*Alta Velocidad Española*) trains for Very High Speed lines in Spain, which are today used primarily on the Madrid-Valencia, Madrid-Málaga, Madrid-Valladolid, Madrid-Barcelona and Madrid-Seville lines. In 2002, one of Talgo's trains broke the Spanish speed record, traveling at 362 km/h on the Madrid–Barcelona line. Talgo delivered its first AVE train to Renfe in 2003. In the same year, Talgo completed delivery of two Talgo tilting hotel trains to Kazakhstan that would connect Almaty and Astaná, reducing time duration by approximately 8 hours (from 20 to 12 hours). In 2004, Talgo was awarded a contract to supply a further 30 AVE trains to Renfe, primarily for commercial services on the Madrid-Valencia line.

3) <u>2007-2014: Internationalization and product and capacity expansion</u>

Talgo's international expansion consolidated in 2007 and accelerated in 2009 and 2010, with the strengthening of Talgo's international sales team, which resulted in awards of contracts in Central Asia (Kazakhstan and Uzbekistan) and the United States.

In 2010, Talgo signed an agreement with Passazhirskie Perevozki (KTZ passenger operations subsidiary) in Kazakhstan to provide 420 coaches. In 2011, Talgo completed a corporate restructuring in which it established Talgo, S.A. (formerly named Pegaso Rail International S.A.) as a Spanish public limited company and its principal holding company. In connection with the restructuring, shares of Patentes Talgo S.L.U. were exchanged for shares of Talgo, S.A., resulting in Patentes Talgo S.L.U. being a wholly-owned subsidiary of Talgo, S.A.

In addition, in June 2011, Talgo signed an agreement with RZD to provide seven High-Speed trains, each with 20 coaches, for the Moscow-Kiev and Moscow-Berlin lines.

In November 2011, the Al-Shoula Consortium won the Mecca Medina line contract. The Mecca Medina project has been the most emblematic and competitive Very High Speed global tender in the last five years. Under this contract, Talgo will manufacture 35 Very High Speed trains and 1 VIP train and provide maintenance services for such trains.

In July 2012, Talgo signed an agreement with Passazhirskie Perevozki (the passenger operations subsidiary of the KTZ in Kazakhstan) for the maintenance of 1,044 passenger coaches for 15 years, amounting to almost €900 million.

In 2013, Talgo signed an agreement with Tulpar-Talgo LLP to provide 603 passenger coaches, which in turn will supply those coaches to Passazhirskie Perevozki.

In September 2013, Patentes Talgo, S.L.U. acquired from Renfe 49% of the share capital of Tarvia Mantenimiento Ferroviario, S.A. (a company focused on Very High Speed maintenance services) becoming sole shareholder of the company, which was later merged with Patentes Talgo, S.L.U.

In December 2014, under the Mecca Medina contract, Talgo transported to Saudi Arabia its first train at the request of the customer.

In February 2015, Talgo was awarded by the Saudi Arabia railway operator (SRO) a contract to provide six High Speed trains for €176 million.

Since 2012, Talgo has introduced the “next generation” of Very High Speed train platforms, for use on dedicated High Speed networks that Talgo refers to as “AVRIL” and are in the final homologation phase by Bureau Veritas. In the same period, Talgo has started to develop a new product to enter into the Regional Commuter train market.

In addition, since 2012 Talgo has invested €31,147 thousand in Las Matas II and Rivabellosa manufacturing existing facilities, the latter being the main facility of the Company.

The general shareholders’ meeting held on March 28, 2015, changed the Company’s name from Pegaso Rail International, S.A. to Talgo, S.A.

Products and Services

Talgo’s main business segments are: (i) **Rolling stock**, which includes both: (a) **Manufacturing:** engineering and manufacturing of rolling stock, acting as a systems integrator and prime contractor and aluminum welding of the trains; and (b) **Maintenance services:** services required for proper functioning of the trains, including repairs, cleaning, accessories, etc.; and (ii) **Maintenance equipment and other:** manufacturer of train maintenance equipment, with proprietary maintenance products sold to train operators worldwide.

The following table shows the Group’s income for the years ended December 31, 2012, 2013 and 2014 corresponding to the “Rolling Stock” and “Maintenance Equipment and Other” segments:

	2012 (€ thousand)	**2013** (€ thousand)	**2014** (€ thousand)
Total Net Turnover	**329,918**	**326,719**	**384,311**
Rolling Stock	310,918	306,370	370,909
Maintenance Equipment and Other	19,000	20,349	13,402
Operating profit (EBIT)	**61,022**	**40,190**	**50,876**
% margin over Net Turnover	*18.5%*	*12.3%*	*13.2%*

The following table shows Talgo's income for the years ended December 31, 2012, 2013 and 2014 corresponding to the "Rolling Stock" and "Maintenance Equipment and Other" segments in Spain, rest of Europe, United States, Middle-East and North-Africa and Commonwealth of Independent States (CIS):

	2012 (€ thousand)	**2013 (€ thousand)**	**2014 (€ thousand)**
Spain	137,406	118,035	106,143
Rest of Europe	18,253	16,370	11,125
USA	26,676	9,849	7,403
Middle-East and North-Africa	18,169	41,729	103,841
Commonwealth of Independent States	129,414	140,736	155,799
Total	**329,918**	**326,719**	**384,311**

The following table shows the total price amount of the main contracts in force executed by Talgo with its Rolling Stock customers and their respective terms of execution:

Customer	**Total Amount of existing contracts (€ thousand)**	**Term**	
Kazakhstan Railways	1,368,783	2011	2027
Renfe (Spanish Railways)	2,394,912	2003	2027
Saudi Railways Organization	1,580,068	2014	2030
Other	664,505	1999	2055
Total	**6,008,269**		

Out of the €6,000,245 thousand, €2,343,625 has already been recognized in the Profit and Loss account as of December 31, 2014 and €3,656,620 is included in Talgo's Backlog as of December 31, 2014.

- Kazakhstan Railways includes the two companies Tulpar Talgo LLP and Passazhirskie Perevozki JSC, which belong to this group. The main existing contracts are the contract for the provision of 436 passenger coaches and 603 passenger coaches and the contract for the maintenance of 1,044 coaches.

- Renfe includes the three main maintenance contracts in relation to passenger coaches, High Speed and Very high speed executed with Renfe (1 contract) and BTREN (2 contracts), apart from the last operations carried out under the contract for the manufacturing of Hybrid High Speed trains.

- Saudi Railways Organization (SRO) comprises the manufacturing and maintenance contract of 36 very high speed trains.

- Other includes among others, manufacturing and maintenance contract with other operators such as RZD in Russia, Themir Zholary in Uzbekistan, Deutsche Bahn in Germany and Amtrak in the United States.

The following table shows the total price amount of the Rolling Stock contracts, the net turnover recognized since the date of the execution of such contracts and the relevant Backlog as at December 31, 2014, distributed by type of product.

Type of product	Total Amount of existing contracts (€ thousand)	Net turnover recognized (€ thousand)	Existing Rolling Stock Backlog as at December 31, 2014 (€ thousand)
Passenger Coaches	2,486,733	1,003,203	1,475,507
High Speed	616,668	259,398	357,269
Very High Speed	2,904,868	1,081,024	1,823,844
Total	**6,008,269**	**2,343,625**	**3,656,620**

The Passenger Coaches item includes the maintenance contracts executed in Spain and the maintenance and manufacturing contracts in relation to this type of coaches executed in Russia and Kazakhstan. The High Speed item comprises the maintenance contracts of Talgo 250 trains in Spain and Uzbekistan and the pending operations of the contracts in relation to the manufacturing of Hybrid High Speed trains. Finally, in the Very High Speed item the maintenance contracts in Spain and Saudi Arabia as well as the manufacturing contract in the latter country are included.

Rolling Stock

Talgo's Rolling Stock segment includes the activities of engineering, manufacturing and maintenance of trains. For the years ended December 31, 2012, 2013 and 2014, net turnover from Talgo's manufacturing and maintenance services business was €310,918 thousand, €306,370 thousand and €370,909 thousand, respectively. On average during the 2012-2014 period, manufacturing represented 60% of Talgo's net turnover and maintenance services represented 40%.

Manufacturing

This activity includes the engineering and manufacturing of rolling stock mainly for the Very High Speed, High Speed and Passenger Coaches segments. Talgo is also planning to expand into the Regional Commuter trains segment. Talgo acts as system integrator and prime contractor responsible for the final delivery. Talgo specializes in the aluminum welding of the trains, and the manufacturing of all parts critical to safety (i.e., bogies and wheel sets). The manufacturing of the remaining components is subcontracted (i.e., lighting, air conditioning, bathrooms, windows, floors, etc.).

Talgo's backlog includes products it has manufactured in the past and that have been tested and proven, thus allowing the Company to seek to minimize product risk. For example, Talgo has been able to use, with the necessary modification, their "T350" model in the Mecca Medina project, where the first train was delivered in December 2014, ahead of schedule (the same model has been used in the past for its project in Spain with AVE), and in Kazakhstan the Company has already delivered 339 of the total 1,095 coaches contracted, achieving a reduction on travel time between Astana and Almaty of c.45% on existing infrastructure.

The following table provides key information on Talgo's different rolling stock products:

Segment	Talgo Product	Max. Commercial Speed (km/h)	Typical Journey (km)	Trains in circulation	Rail Operator Requirements	Selected Technical Features
Very High Speed	AVRIL	350 km/h	300-800 km	1 prototype (an average of 12 coaches)	Very High Speed trains on dedicated High Speed infrastructure	Wide body, high capacity, lightweight, airtight design. Integrated traction Permanent steering Low floor, single deck
Very High Speed	Talgo 350	330 km/h	300-800 km	47 (an average of 12 coaches)	Very High Speed trains on dedicated High Speed infrastructure	Lightweight, airtight design Integrated traction Permanent steering Low floor, single deck
High speed	Talgo 250	250 km/h	300-800 km	2 (an average of 8 coaches)	High speed trains on dedicated High Speed infrastructure and conventional electrified infrastructure	Lightweight, airtight design Integrated traction Permanent steering Low floor single deck with multiple controls Manual and prefixed speed driving systems
High speed	Talgo 250 RD	250 km/h	300-800 km	33 (an average of 11 coaches)	High speed trains on dedicated High Speed and conventional electrified, variable gauge infrastructures	Automatic variable gauge system Multi-voltage, multi-signaling system
High speed	Talgo 250 Hybrid	250 km/h	300-800 km	11 (an average of 11 coaches)	High speed trains on dedicated High Speed and conventional electrified and non-electrified, variable gauge infrastructures	Extremely versatile High Speed product, running on all types of track, including non-electrified routes Dual diesel-electrical traction Automatic variable gauge Multi-voltage, multi-signaling system
High speed	Talgo XXI	220 km/h	200-1000 km	2 (an average of 3 coaches)	Conventional non-electrified infrastructure	Diesel traction Optional variable gauge system Natural tilting Low floor
Passenger coaches	Talgo Tilting passenger coaches	220 km/h	200-1000 km	88 (an average of	Conventional electrified infrastructure	Traction with standard own operator locomotives Optional variable gauge

Segment	Talgo Product	Max. Commercial Speed (km/h)	Typical Journey (km)	Trains in circulation	Rail Operator Requirements	Selected Technical Features
				16 coaches)		Natural tilting Low floor
Passenger coaches	Talgo Tilting night trains	220 km/h	600-1500 km		Conventional electrified infrastructure over long distances	Combination of sleepers and super-reclining seats coaches Natural tilting Low floor

Very High Speed

Talgo's main commercialized product in the Very High Speed segment is the Talgo 350 train, which is designed for use on dedicated High Speed networks and is a global High Speed design. These trains feature an optimized aerodynamic design, with the floor of the car close to platform height; maximum redundancy in traction and critical systems; single-axle wheelsets between coaches, with independent wheels and primary suspension; articulated connections between coaches; and light-weight construction which is airtight and pressurized for tunnels and crossings. The Talgo 350 trains are designed to reach maximum speeds of up to 363 km/h, although commercial services currently limit speeds to 330 km/h. In addition, Talgo 350 trains feature integrated traction (formed by two Talgo High Speed power-head units), a trainset consisting of up to 12 passenger coaches, permanent steering which keeps wheels parallel to the track on both straight and curved stretches and an intelligent computerized system for ongoing control of onboard safety systems.

Talgo has developed a "next generation" train platform for use on dedicated High Speed networks that Talgo refers to as "AVRIL". Talgo believes that its product offering in segments other than the High Speed and Very High Speed segments can benefit from some of the concepts developed for the AVRIL platform (for example the new wide body shell concept has been already used in the Kazakhstan project). Key opportunities identified in this segment include Turkey, Spain and Uzbekistan, although there are several additional opportunities like Malaysia, United States, United Kingdom, India and Brazil that are expected to come to market in the short and medium term. Talgo has currently identified a Very High Speed and High Speed manufacturing contract pipeline of €5.4-7.4 billion over the next 4 years. For additional information please see *"Industry Overview"*.

AVRIL is a pioneering prototype designed to anticipate the upcoming industry requirements in the short / medium term and is a Very High Speed train designed to reduce investment costs by operators. Talgo designed the AVRIL platform to reach maximum speeds of up to 350 km/h. The platform also benefits from car floors with the same height as platform, a maximum train length of 200 meters and a wider body that increases seat capacity up to 595 passengers. In addition, the trains have been designed to achieve higher efficiency, higher capacity, lower weight and attrition, better accessibility and to be environmental friendly in comparison with other trains of its kind, allowing for comparable speeds at a significantly lower life cycle costs.

In summary, AVRIL is based on Talgo's technology which allows: optimum accessibility, less energy consumption due to its lightweight construction and lower CO2 emissions compared to other trains of its type, less noise and lower operational and maintenance costs compared to other trains of its type. The first train has been built and certification is expected by Bureau Veritas in Spain by the third quarter of 2015.

High Speed

Talgo's main High Speed product offering comprises the "Talgo 250" and the "Talgo 250 Hybrid" trains. These trains can reach maximum commercial speeds of up to 250 km/h and are designed to ensure maximum adaptability to railway systems around the world. In addition, all Talgo High Speed trains include the "Talgo RD" automatic variable gauge system as an option and dual voltage converters, allowing them to travel on conventional and High Speed tracks. Some of Talgo's High Speed trains also employ its natural tilting system, as further described below.

Talgo's Talgo 250 Hybrid train provides interoperability on both electrified and non-electrified lines with a powerful onboard generator set that offers both electric traction power and diesel traction power (for non-electrified lines). Changing between power systems is effected automatically and without stopping the train, thereby enhancing efficiency and reducing journey times.

The "Talgo XXI" train is an intercity High-Speed train for use on non-electrified networks. The Talgo XXI train, which can reach maximum speeds of up to 220 km/h, is principally designed for intercity services, incorporating traction coaches at both the head and tail of the trainset.

In March 2015, Talgo was awarded a tender by the Saudi Arabia railway operator (SRO) to supply six High-Speed trains.

Passenger Coaches

Talgo produces a wide range of natural tilting passenger coaches designed for day and night services on long distance, intercity and international journeys. Talgo's passenger coaches are available in multiple configurations, including first class, tourist class, bistro and restaurant coaches, as well as "hotel" or sleeper coaches and coaches for passengers with reduced mobility. Talgo's passenger coaches are designed to maximize passenger comfort and can be fitted with armchairs, super-reclining seats, sleeper cabins and restroom and shower units.

All of Talgo's passenger coaches offer a number of technological enhancements designed to increase efficiency, enhance passenger comfort, reduce journey times and minimize wear and tear. For example, all of Talgo's passenger coaches employ the Talgo pendular system, which Talgo refers to as its natural tilting system. This system works by elevating the suspension of the passenger coaches above their centers of gravity, thereby allowing the bases of the coaches to tilt like a pendulum away from the center of the curve in direct relationship to the traveling velocity. As a result, Talgo's natural tilting system reduces the lateral forces that affect passengers when traveling on curves, enabling trains to maintain higher speeds and reduce travel times by 20-50%, as compared to trains that do not employ the technology (depending on the type of track) and reducing energy consumption. For example, the use of Talgo passenger coaches in Kazakhstan has enabled the reduction of journey times on routes between 1,081 km and 2,695 km by 35-57%. In addition, the placement of the suspension and the mono-axle wheelsets allow the floor height of Talgo trains to be positioned level with the train platform, improving accessibility and reducing loading and unloading times at stations. These technological features allow use of the train on existing infrastructure, thereby drastically reducing investment requirements for operators (e.g. Kazakhstan, Russia).

All Talgo trains use articulated mono-axle wheelsets that allow each wheel to rotate and turn along the tracks independently. Talgo's mono-axle wheelsets decrease lateral forces, lower track and wheel wear and tear and, as a result, ultimately reduce maintenance costs.

Maintenance Services

Talgo's maintenance division provides all necessary services for a proper functioning of the trains it maintains and typically generates, assuming that the maintenance contracts are renewed, a net turnover equivalent to 1.5-2 times the original train sale price during the useful life of the train (approximately 30 years).

As at December 31, 2014, Talgo maintained a fleet of 2,531 coaches and 191 power heads. The size of the fleet maintained by Talgo in the future will be a function of the Company starting to provide maintenance services to new rolling stock equipment under contracts already signed (once the equipment is delivered and starts to operate), new potential maintenance contracts and the future reduction of the fleet currently maintained. In this regard, Talgo has already signed contracts by which Talgo will commence to provide over the next four years maintenance services to an additional 1,376 cars and 72 power heads which are included in Talgo's backlog as of February 28, 2015.

The following table shows the average size of the total fleet manufactured by Talgo for which it provided maintenance services during the years 2012, 2013 and 2014:

	Average fleet (1)		
	2012	**2013**	**2014**
Coaches	1,809	2,098	2,209
Powerheads	165	190	188

(1) Only includes coaches and powerheads manufactured by Talgo

The following table shows the average size of total fleet manufactured by Talgo for which it provided maintenance services during the year 2014 in Europe, Commonwealth of Independent States (CIS) and America:

	Average fleet (1)	
	Coaches	**Powerheads**
Spain	1,830	184
Commonwealth of Independent States (CIS)	286	4
America	93	-
Total	**2,209**	**188**

(1) Only includes coaches and powerheads manufactured by Talgo

Talgo currently provides maintenance services for all of the trains it has manufactured, as well as for part of Deutsche Bahn's fleet, which as at December 31, 2014 amounted to 130 coaches and 4 powerheads, of trains produced by other manufacturers. Talgo's maintenance services fall into the following categories:

- Maintenance engineering (including the optimization of maintenance processes and methods, as well as the repair of technical operational faults);
- Maintenance management (including the management of maintenance resources and methods to ensure best practices, fulfill cost and quality requirements and comply with customer deadlines);

- Facilities maintenance (including the maintenance of equipment and installation of workshops to ensure that facilities are properly equipped to meet train maintenance needs);

- After-sales service (including customer follow-up and customer services with regard to the operations of rolling stock supplied to Talgo's customers); and

- Overhaul services (including upgrades of particular equipment on trains, as well as renovation of train interiors).

Talgo is a pioneer in offering the complete cycle of the maintenance services for railway operators worldwide. The maintenance services cycle is divided in the following phases; (i) corrective (repair the element when there is a failure): (ii) preventive (inspections based on components wear and life expectation, weak point based on the average time between faults); (iii) predictive (anticipate mistakes by evaluating the state of the machine and preventive diagnosis by thermography, ultrasound, oil analysis, etc.) and (iv) reliability centered maintenance (maintenance costs optimization and recurrent processes).

Talgo also intends to capitalize on other new opportunities for its maintenance business, including on-going maintenance service contracts relating to sales of used trains from developed markets to emerging economies.

Talgo's clients include operators in different countries, such as Saudi Arabia, Spain, United States, Kazakhstan, Uzbekistan, Germany and Russia.

Talgo's employees typically carry out the maintenance at facilities owned by the operator. Talgo provides maintenance services on a customized basis, offering its clients maximum flexibility. Talgo's offerings span the full range of maintenance services, from those that can be performed on-site, such as cleaning services and diagnostic care, to more comprehensive procedures, such as large-scale repairs resulting from accidents or modifications or other adaptations stemming from regulatory or similar changes. In most of its maintenance agreements, Talgo outsources activities where it is unable to add a great degree of value, such as cleaning, painting and diagnostic care.

Talgo typically provides its maintenance services via long-term contracts within a range duration ranging from five to twenty years although (one contract signed by Talgo contemplates a 40 year term of provision of services), after which these contracts are typically renewed. The maintenance period is typically divided into three contracts. As at the date of this document, all expired maintenance agreements entered into by Talgo have been renewed.

Talgo's maintenance services enhance its customer relationships by increasing customer contact, and generate valuable customer feedback with respect to how Talgo's products perform, thereby enhancing new product development. This customer feedback supports Talgo's R&D efforts by allowing Talgo to refine its products in response to actual customer experience, ultimately enhancing Talgo's product offerings. As a result, Talgo's operations facilitate and improve the integration of both customers and suppliers into Talgo's value chain.

Maintenance Equipment and Other

Talgo's Maintenance Equipment and Other segment includes the manufacturing of pit lathes and other equipment, repairs, modifications, spare parts sales and refurbishments. For the years ended December 31, 2012, 2013 and 2014, net turnover from Talgo's Maintenance Equipment and Other segment was

€19,000 thousand, €20,349 thousand and €13,402 thousand, respectively. During the period 2012-2014 more than 65% of Talgo's net turnover of this segment came from international activities.

Talgo offers three principal maintenance equipment products: underfloor wheel lathes, measuring equipment (dynamic and manual) and shunting coaches.

Underfloor Wheel Pit Lathes

Talgo's underfloor wheel lathes are designed for turning or profiling of railway wheels (mounted on their axles) and their corresponding bearing boxes. Talgo's underfloor lathes allow customers to turn the railway wheels on the underside of a train car without having to first remove them from their axles, thereby reducing repair times and increasing efficiency. Talgo produces different underfloor lathe models for the different types of trains used by Talgo customers. Talgo's product offerings include the Talgo Model 2112 (trams, underground railway and intercity trains not exceeding 18 tons per axle), the Talgo Model 3112 (High Speed trains, long distance trains and freight trains not exceeding 25 tons per axle) and the Talgo Model 4112 (High Speed trains, long distance trains and freight trains not exceeding 40 tons per axle).

Measuring Equipment

Talgo's principal product offering in this category is the Talgo Wheel Monitoring Equipment system, which consists of a set of modular systems used to measure and control the key parameters of the wheelset and to detect superficial defects in the rail wheels while the train is in motion. This system includes advanced automatic vehicle detection, vehicle identification, wheel cleaning, superficial defects detection, wheel parameter control and shunt measuring equipment. The Talgo Wheel Monitoring Equipment system can be used in both High Speed unit maintenance facilities (which place emphasis on measurement of wear and tear and train maintenance) and by other types of rail operators whose trains run at lower speeds.

Shunting Carts

Talgo produces shunting carts that are specially designed for positioning trains over underfloor wheel lathes or moving trains through washing plants without requiring the assistance of locomotives or other tractive vehicles. Talgo's system consists of a remote control-driven electric vehicle that runs along the track bed and automatically takes the load off a vehicle's axle, moving it along at a slow speed. An entire shunting facility can therefore consist of one or two remote-controlled shunting coaches that move along a track. Talgo's system does not occupy any space on a track, so ordinary use of the track is not interrupted, resulting in time savings, greater accuracy in vehicle positioning and improved safety.

Technology and New Products

Although performance history and price are key elements for customers, Talgo believes technology is often the main decision factor in tender processes. Talgo believes that its distinctive technological platform delivers superior solutions to the tendering operators.

In this regard, Talgo has leveraged its technological advantages to become a global player in selected growing passenger coach manufacturing and maintenance market segments, targeting markets that are not dominated by an incumbent (some markets such as France, Germany, China or Japan have a heavily protected national supplier) and where Talgo's technological solutions are particularly suited to meet market trends and customer needs.

Talgo’s technology is based on seven fundamental pillars:

- *Aluminum-based lightweight construction:* Talgo’s trains require less power to operate, leading to reduced energy consumption. Lighter trains are subject to reduced wear and tear, resulting in lower operating and track maintenance costs. Because of its lighter weight, aluminum has a follow-on effect in that it allows other train components to also be lighter in weight. Talgo trains are more than 20% lighter than its competitors’ trains (Source: Talgo’s estimates). Lighter weights, in turn, result in faster acceleration and deceleration, reducing journey times (in Kazakhstan it achieved a reduction on travel time between Astana and Almaty of c.45% on existing infrastructure) and providing additional flexibility in rail operations. In addition, the design of Talgo trains allows a reduced number of axles as compared to conventional trains, thus making trains more weight-efficient in relation to axle load (the total weight borne by the rails for all wheels connected to a given axle) in compliance with regulatory limitations.

- *Permanently guided, independent wheelsets:* Instead of bogies, Talgo trains use articulated, mono-axle wheelsets, which allow each wheel to rotate and turn on the tracks independently to the other wheels. The independent wheels must always be guided. To do this, an external mechanism is required in order to always keep the angle between the wheels and the rail at around zero. Talgo’s independent wheel axles have a mechanism that always keeps the wheels parallel to the rail, both on straight and curved tracks, also preventing the lengthwise running of the wheelset with respect to the car bodies. Consequently, its wheelsets minimize lateral forces, simultaneously reducing wheel and track wear and tear and, ultimately, maintenance costs. In addition, this technology also allows for improved accessibility.

- *Articulated, mono-axle, low-floor trainsets:* This feature leads to higher safety levels, fewer aerodynamic losses, ease of axle guiding, lower maintenance costs and greater reliability. Shorter car lengths and articulated coupling allow the dynamic forces acting on a rail car to influence the adjacent car as well. Articulation and mono-axles also allow Talgo trains to have lower floor levels, resulting in more comfortable and step-free access. Talgo is the only company to produce High Speed trains with step-free access which reduces station dwell times by 20% (Source: Talgo’s estimates).

- *Natural tilting:* Tilting trains increase travelling speed around curves without decreasing safety or comfort levels. The Talgo tilting system is called the “natural tilting” system and consists of raising the suspension’s “instantaneous rotation centre” above the system’s “centre of gravity”. This gives rise to an “over-banking on the carbody” which provides a decrease in the lateral acceleration felt by passengers for a similar travelling speed around a curve. In this way, an increase in the lateral comfort level is obtained. The system is completely inertial and does not require either internal or external elements to make the carbody tilt; it is therefore completely reliable and has no maintenance expenses. Talgo’s “natural tilting” system has achieved 25% higher speeds on curves for non-High Speed tracks (Source: Talgo’s estimates).

- *Automatic variable gauge system:* This change system can be used in independent wheel axles both on motor bogies and bogies without traction and Talgo trucks (exclusive to Talgo). The feature allows Talgo trains to operate on cross-border or domestic routes that include changes in track gauge (e.g. Spain and Russia). Wheelbase change operation is performed automatically, without stopping and without direct human intervention, at a speed of 10 or 15 km/h over a special assembly located on tracks with different gauges. It is a 12 meter assembly, meaning that the axle passage time, in other words, the time spent in the wheelbase change operation, is about 5 seconds.

- *Hybrid traction technology:* Talgo's hybrid products can switch their power generation modes from electrical to diesel without stopping, significantly increasing flexibility and minimizing costly infrastructure upgrades of non-electrified routes.

- *Wide-body, short coach concept:* Talgo's design results in a capacity of c.595 passengers for a standard 200 meter single-deck concentrated traction AVRIL train (as compared to an average capacity of 450 passengers on a typical 200-meter single-deck train), with improved accessibility. This gives Talgo a highly competitive cost per seat.

Talgo's train designs reduce the need for costly infrastructure investments (which typically account for approximately 80-90% of the overall cost of installing a High Speed rail line) and reduce the energy usage and wear rate of equipment and infrastructure. Talgo's differentiated train designs also allow rail operators to increase their net turnover through expanded passenger capacity, reduced train driven times at stations and reduced journey times.

One of the principal components of Talgo's business strategy is to enhance and adapt its technologies and services to related products and across difficult terrains. Talgo believes that executing this component of its strategy will play a key role in ensuring its future competitiveness in the industry.

Research and Development

Talgo only capitalizes the R&D investments that relate to developments not linked to execution of already awarded projects. In addition, the Company undertakes additional R&D in relation to the execution of awarded projects; even though these developments could be used in other potential future contracts, the Company follows a conservative approach and does not capitalize this R&D (i.e. it is accounted as a cost of the project). The following table summarizes details of Talgo's capitalized R&D gross investments for the years ended December 31, 2012, 2013 and 2014:

	2012 (€ thousand)	**2013 (€ thousand)**	**2014 (€ thousand)**
AVRIL development	14,224	11,725	3,891
Other	1,811	3,682	2,330
Total	**16,035**	**15,407**	**6,221**

In the years ended December 31, 2012, 2013 and 2014, Talgo's total investments in intangible assets were €16,035 thousand, €15,407 thousand and €6,221 thousand, respectively. These figures corresponded to 4.9%, 4.7% and 1.6% of net turnover during each of such years, respectively. "Other" includes the amount invested for development of Regional Commuter trains and other R&D projects.

Many of Talgo's R&D activities are the result of customer demand for customized systems, components and services and Talgo's new products reflect the continuing evolution and refinement of its core technologies. As a key component of Talgo's business strategy focuses on the development and manufacturing of new products and services. Talgo has a long-term capital expenditure cycle with new product development and capacity expansion requirements, which imply occasional large investments from time to time (as required when, for example, Talgo is developing a new train prototype) and there are other periods when R&D investment is relatively modest, given that a limited number of new product launches is required. Talgo finances its R&D activities primarily by means of its own operating cash flow.

In addition to the development of the new AVRIL Very High Speed platform for which R&D costs have been mostly already incurred (only pending final expenses, which are linked to the final certification by Bureau Veritas, and expected to amount to approximately €5 million in the year 2015) following the investments in the years ended December 31, 2012, 2013 and 2014 were €14,224 thousand, €11,725 thousand and €3,891 thousand, respectively, Talgo has identified a number of attractive investment opportunities and is developing a variety of products, including a prototype for the Regional Commuter trains market and a distributed traction product. Talgo aims to pursue these opportunities in the coming years (see "*New Products and Technologies- Regional Commuter*"). In the two-year period ended December 31, 2014, Talgo's total capital expenditure to develop Regional Commuter trains was €1.9 million. Talgo expects to increase the extraordinary capex incurred up to €16 million to €18 million over the 2 year period ended December 31, 2016 for new product development. Talgo expects to finance this pending capital expenditure primarily by means of its own operating cash flow.

New Products and Technologies

In addition to the recent development of the new AVRIL platform (see *"Products and services-Rolling Stock*"), Talgo has the following new products under development and/or production.

Regional Commuter

Talgo has leveraged its existing technological platform and capabilities to build a differentiated offering in the Regional Commuter train segment with an estimated market size of €11.9 billion vs. €8.4 billion for High Speed, Very High Speed and passenger coaches in 2017-2019 (UNIFE 2014) (see "*Industry Overview*").

Selective entry into this market is part of Talgo's business strategy, as it believes this market constitutes a larger addressable market with a recurring high number of tenders. In particular, there are important needs for this product segment from emerging market customers (India / Latam / CIS) and Talgo could benefit from its existing local presence and already established customer relationships.

In addition, the selective and opportunistic entry into this Regional Commuter segment will require a limited amount of capital expenditures and will allow Talgo to further increase its maintenance business as the Company wins new manufacturing orders. In this regard, Talgo is already in the final stages of product design and has already incurred €1.9 million in R&D investments in this segment and it is expected to increase by an additional €14-€16 million during the years 2015-2016 (only requires limited capital expenditures in manufacturing facilities). Talgo believes that it has sufficient resources to develop this product without negatively affecting its traditional business lines as the Company expects that Very High Speed and High Speed will continue to be the core Talgo segment in the future.

Key opportunities identified in this segment include opportunities in Kazakhstan, France, Germany and Russia, although there are several additional opportunities in India, Gulf countries, Turkey, Italy, Brazil and the US, that are expected to come to market in the short term. Talgo has identified a Regional Commuter Trains manufacturing contract pipeline of €3.0-€4.1 billion over the next 4 years (see "*Industry Overview*").

Talgo has already started to bid for particular projects in the Regional Commuter market and is currently negotiating its first potential contract in this segment.

Traction

Talgo, as an overall rolling stock systems integrator, has consolidated the traction system scope within the range of its technological expertise through the capacity of specifying, procuring, integrating and controlling such scope, thanks to its worldwide installed base of technologists and suppliers. As traction systems represents one of the most important costs, Talgo believes the expansion of its product mix in this area represents a natural extension of its technical know-how and differentiated suite of products and will allow Talgo to capture significant additional value in the manufacturing chain. Consistent with Talgo's philosophy of integrating both its customers and suppliers into the value chain, it has developed a train control system (TCMS) using its proprietary software. In addition, the traction department designs and develops traction chain systems and components using the latest technologies in terms of energy efficiency and reliability. Every component of the traction chain is specified and tested by Talgo, widening the competition of traction parts suppliers. The latest awarded contracts by Talgo are being developed under this approach. All R&D investment incurred for developing this traction system is integrated in AVRIL development R&D investments.

In addition, Talgo is currently considering the potential development of a distributed traction product, in which a part of the traction equipment will be located on the underside of the traction vehicle, allowing for increased hauling capacity by creating additional space in the tractor head where a conventional traction unit would typically be installed. Talgo is analyzing the potential development of a distributed traction product in conjunction with its new AVRIL train platform. Talgo's distributed traction product is intended for use in all of Talgo's accessible High Speed markets.

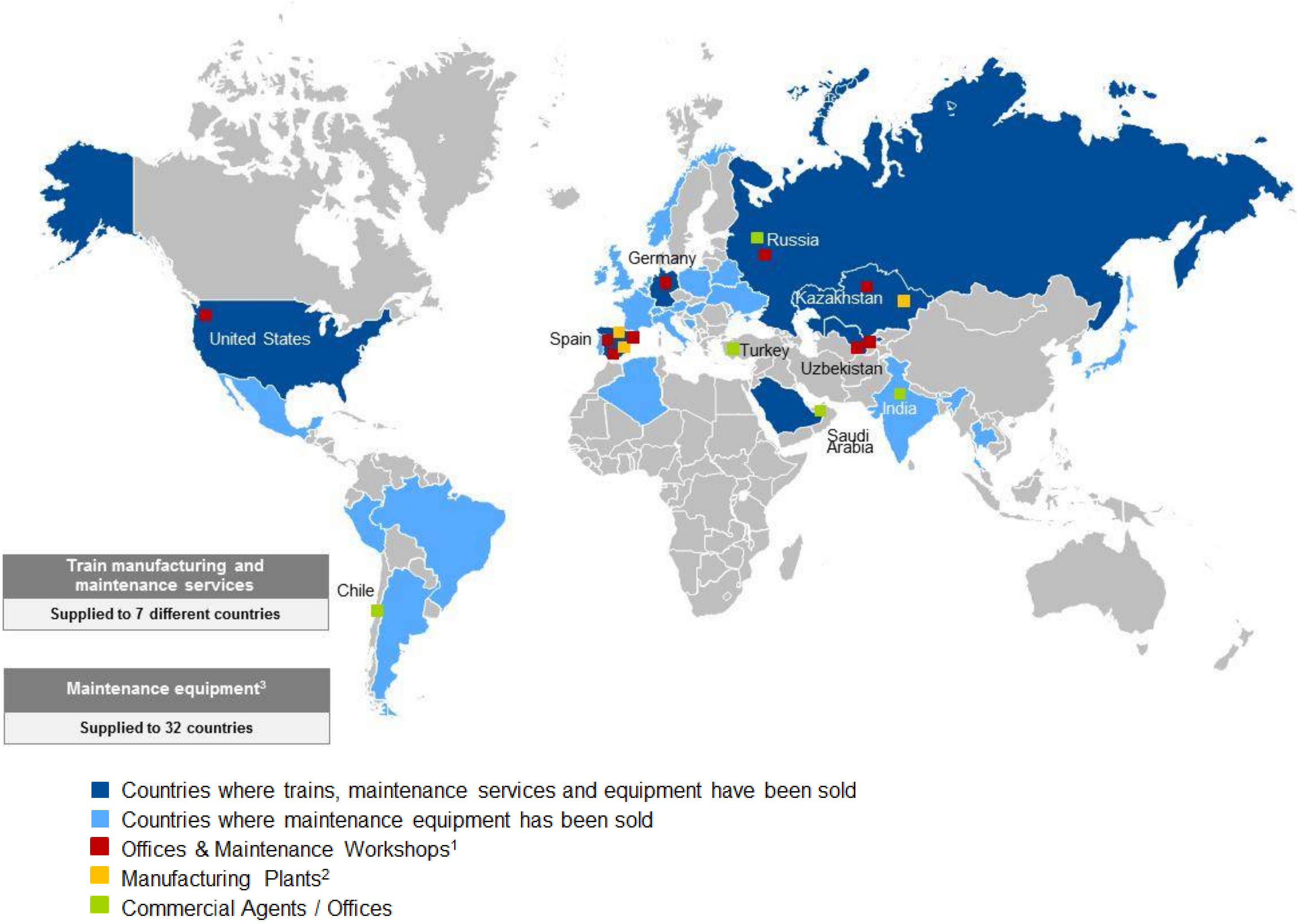
Customers

Talgo sells its rolling stock products and related services to a variety of customers around the world, with state-owned operators accounting for the majority of Talgo's sales. Purchase orders from these customers are generally based on their specific requirements and often awarded by public tender (see "*Business-Project Development*" and "*Business-Tender Process*"). Talgo has won contracts in both developed economies and fast-growing emerging markets, including Saudi Arabia, Kazakhstan, Russia, Uzbekistan and the United States, which complement its position in the highly competitive domestic Spanish market.

In Spain, Talgo has enjoyed a market share (in terms of number of units supplied) of 46% in the High Speed and Very High Speed market (speeds of greater than 250 km/h) (source: Talgo internal database based on the current number of trains in service). The Spanish High Speed rail market is the world's largest market in terms of kilometers of High Speed rail per person (54 km/1 million persons) (Source: La experiencia internacional en alta velocidad ferroviaria" – Fedea – March 2015).

Other countries in which Talgo has sold maintenance equipment include Switzerland, India, Mexico, Brazil, Peru, Argentina, France, UK, Italy, Poland, Norway, Ukraine, and Algeria, among others. As at December 31, 2014, Talgo had operations or sales (including facilities, trains running, the provision of maintenance services and maintenance equipment in use) in 32 countries around the world. For the years ended December 31, 2012, 2013 and 2014, 70.8%, 99.9% and 100% of Talgo's manufacturing orders were from international customers.

The following map shows Talgo's presence:



Source: Company information

Notes

1 Maintenance workshops are owned by railway operators. Two new maintenance workshops are under construction in Kazakhstan and two additional ones are expected to be built in Saudi Arabia in the next two years

2 Talgo holds a minority stake (0.0001%) in the manufacturing plant in Kazakhstan

3 Underfloor wheel lathes, measuring equipment and shunting cars

Talgo maintains 100% of the trains it has manufactured and to date its maintenance agreements have always been renewed.

For the years ended December 31, 2012, 2013 and 2014, Talgo's top five customers accounted for approximately 85.9%, 85.6% and 93.3% of its total net turnover, respectively and Talgo's top three customers accounted for 77.1%, 69.2% and 76.3% of its total net turnover in 2012, 2013 and 2014, respectively. Each of these customers is a state-owned company.

The buying criteria for many of Talgo's customers (both state-owned operators and private operators) focus on a number of factors in addition to acquisition and maintenance prices, including, amongst others, track record of delivering on time and with no underperformance, technological innovation and product life cycle costs (see "*Business-Competition*").

Backlog

As at December 31, 2014, Talgo's backlog was comprised of projects with a total value of approximately €3,692 million, as compared to €3,751 million as at December 31, 2013, and €3,331 million as at December 31, 2012. Talgo's backlog for rolling stock represented €3,657 million as at December 31, 2014, of which €1,025 million corresponded to manufacturing and €2,632 million to maintenance services. As at December 31, 2014, Talgo's backlog reflected an outstanding average duration of Talgo's maintenance contracts of approximately 14 years (weighted by revenue) and 3-5 years regarding Talgo's manufacturing contracts (weighted by revenue). The maintenance equipment and other backlog as at December 31, 2014 represented €35 million. Talgo accounted for 77% of backlog from operations outside Spain. Talgo expects to realize as cumulative net turnover in 2015-16 between 30-35% of its backlog as at December 31, 2014 (see "*Operating and Financial Review - Conversion of backlog into turnover"*).

In Talgo's 73 years of history, it has never had a contract cancelation relating to the supply of rolling stock products and services due to Talgo's underperformance. The only contract that a client has cancelled was the one in Wisconsin in the year 2012 following the election of a new governor in Wisconsin and not due to underperformance by Talgo (2 trains under the agreement were manufactured, but not delivered).

The following table summarizes the value of Talgo's backlog and order intake as at the dates and periods indicated:

	As at December 31		
(unaudited)	**2012 (€ million)**	**2013 (€ million)**	**2014 (€ million)**
Order Intake(1)	413	696	344
Backlog(2)	3,331	3,751	3,692

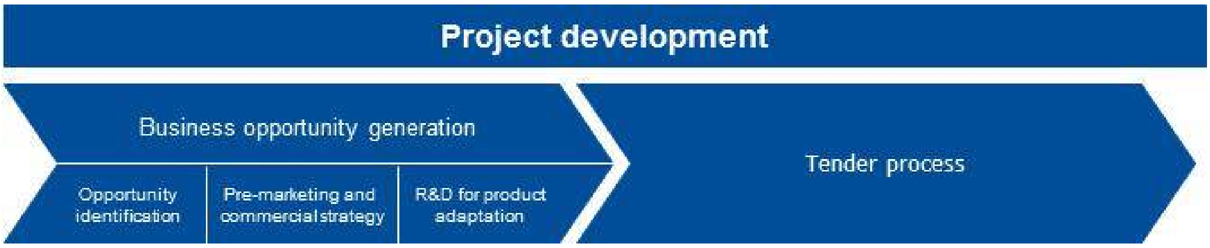
(1) Amount of new awarded contracts, including additions and amendments, signed by Talgo in each period.

(2) Residual value of uncompleted orders.

For risks relating to new orders and backlog see "*Risk Factors*". The level of Talgo's reported backlog may not be representative of future sales and its actual sales may fall short of the estimated sales figure in its backlog.

Project Development

The following chart illustrates Talgo's project development process.



Identification of New Project Opportunities

Talgo follows a "bottom up" approach in targeting potential new projects by regularly monitoring and compiling data relating to its relevant markets. Talgo gathers data from a variety of sources, including direct contact with its clients, specialized industry publications and websites, trade organizations, consulting firms, trade partners and its area managers for particular jurisdictions. Talgo also maintains a central database of potential projects, which includes the relevant characteristics of each project and related information.

Talgo also has extensive knowledge of the market and devotes a great deal of time to identifying new opportunities in order to begin talks with operators so as to seek to maximize its chances of being awarded the contract (either through a negotiated or tender process).

Talgo's proprietary database currently contains approximately 130 upcoming manufacturing tenders, of which 40 are considered to be a priority by Talgo, having a total estimated value of between €9.9 and €13.4 billion (€15.9-21.5 billion including potential related maintenance contracts) and expected to be awarded between 2015-2018 both in existing Talgo's markets like the EU and in new markets, including countries such as India and Turkey and regions such as Africa and Latin America (see "*Business*-*Competitive Strengths*" and *"Industry Overview*"). Such upcoming manufacturing tenders correspond 55% to Very High Speed and High Speed tenders (ranging from €5.4-7.4 billion pipeline), 15% correspond to Passenger coaches tenders (ranging from €1.5-2.0 billion pipeline) and 30% correspond to Regional Commuter trains tenders (ranging from €3.0-4.1 billion pipeline). The identified tenders are distributed among NAFTA (ranging from €1.1 to €1.5 billion), Europe (ranging from €3.4 to €4.6 billion), CIS (ranging from €1.9 to €2.6 billion), Latam (ranging from €1.5 to €2.1 billion), MEA (ranging from €0.7 to €1.0 billion) and Asia & Oceania (ranging from €1.3 to €1.7 billion).

Through its bottom up approach, Talgo seeks to identify potential project opportunities up to five years in advance, so that the Company is able to present its bids as quickly as possible once commercial negotiations begin.

Once Talgo has identified and added a potential project to its database, it undertakes a methodical competitive analysis, evaluating the project's technical feasibility, attractiveness and Talgo's potential competition for the project in order to determine whether or not to pursue the opportunity. Talgo analyzes a number of factors before it determines to pursue an opportunity, including, amongst others:

- the project's technical requirements;

- Talgo's prior experience with the client (if applicable) and with similar projects;
- estimates of the market price for the project based on the potential client and type of product;
- Talgo's projected costs and targeted margins; and
- Talgo's competitive profile in respect of other potential competitors.

Based on the foregoing analysis, Talgo then estimates the likelihood of a successful bid and determines whether to proceed if it believes it has a reasonable chance of winning the project.

Talgo's unique suite of proprietary technologies provides it with a key competitive advantage in Very High Speed and High Speed segments. This competitive advantage is even more important in Passenger Coaches, where Talgo trains allow for significant reductions in journey times without investment in dedicated High Speed infrastructure and place a strong focus on minimizing lifecycle costs of rolling stock. Talgo's selective pipeline of Passenger Coaches projects centers on potential upcoming orders where Talgo's technically differentiated lightweight natural tilting coaches would provide clear and substantial economic advantages to the operator. Talgo's experience in Kazakhstan serves as an example of this dynamic. Talgo's targeted regions for Passenger Coaches are among the world's largest passenger railway markets and include India, Saudi Arabia and CIS, in addition to several others in the NAFTA region, South Africa, Middle East and Southeast Asia. Talgo has currently identified a Passenger Coaches contract pipeline of €1.5-€2.0 billion over the next 4 years. For additional information please see *"Industry Overview"*.

In addition, in emerging markets, where budgetary constraints often prevent extensive High Speed projects, Talgo's lighter weight trains and Passenger Coaches typically offer a highly cost-effective solution for increasing railway network speed capacity.

Premarketing and Commercial Strategy

Talgo pre-markets and conducts commercial negotiations with its clients with regard to a project in a variety of different ways, depending upon the market, client and type of project. In Spain and Uzbekistan, for example, Talgo conducts pre-marketing and related commercial activities directly with clients and does not rely on agents or representatives. In certain other markets, such as Russia or Saudi Arabia, Talgo has agents or representatives in the local market who work on a success fee basis and, in addition to gathering information on the local market and working with Talgo to identify project opportunities, assist in commercial negotiations with potential clients. In other markets, notably the United States and Germany, Talgo manages its commercial strategy through its subsidiaries. In some markets, particularly Kazakhstan, Talgo uses a combination of agents or representatives in the local market and the activities of a local subsidiary to manage commercial strategy. In other jurisdictions such as India and Turkey, Talgo works with industrial partners with local presence to conduct pre-marketing and related commercial activities.

As Talgo identifies potential projects and conducts its pre-marketing activities with potential clients, it also focuses on the related R&D required to execute the projects in which it is interested in developing countries. For further information regarding Talgo's R&D activities, see "*Research and Development*".

Tender Process

Bidding

Before deciding whether or not to bid for a particular project, Talgo carries out a prior study, cooperating closely with the public authority and seeking to ensure it meets all requirements needed for success. Once Talgo has decided to bid for a particular project, it makes a formal approach to the potential client. Depending on its relationship with the prospective client, the type of project and specific project and technology requirements, Talgo may bid for a project on a bilateral basis, which gives Talgo more possibilities of success, or through competitive bidding. Talgo follows a very selective tender approach that has allowed Talgo, in conjunction with its technological offering, to achieve an approximate 70% success rate in the 25 tender processes where it submitted a final offer during the 2009-2014 period.

Talgo believes that it enjoys a sustainable technological competitive advantage thanks to the barriers to entry posed by R&D costs, ongoing technological innovation, strict and regulation-driven safety measures in train manufacturing and operations and its track record with respect to previous contracts.

In general, tender processes for rolling stock contracts are solely addressed to manufacturers. In the case of larger scale development projects covering rail, signaling, infrastructure, and rolling stock, Talgo participates as part of a consortium formed for the purpose of executing the project. Talgo's consortium projects tend to be large scale, "greenfield" Very High Speed projects, typically subject to legislative or other governmental approval. Consortium partners are often Spanish companies that have participated in the development of the Spanish High Speed network. As at the date of this document, Talgo is only part of the Mecca Medina consortium and a consortium with BTREN (which in turn is a joint venture between Renfe and Bombardier) for the maintenance of Very High-Speed and High-Speed trains in Spain. Talgo believes it is well placed to compete for consortium projects worldwide, as it enjoys strong relations with many leading rail operators.

In some cases, Talgo's maintenance services are contracted at the time of placement of the rolling stock order; in other cases, its maintenance services is contracted closer to the time of actual delivery of the rolling stock. To date, Talgo has been awarded maintenance contracts for all the rolling stock it has sold (including all maintenance services for its backlog as at December 31, 2014).

Talgo operates in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances strict compliance with anti-bribery laws may conflict with local customs and practices. In this regard, Talgo is subject to the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act of 2010, the Spanish Criminal Code and similar anti-bribery laws in other jurisdictions. Currently there have been no specific breaches detected in this regard. Talgo has approved formal anti-bribery internal policies. These internal policies require that Talgo to train its personnel with regard to anti-bribery laws and issues and also informs its partners, subcontractors, suppliers, agents and others who work for the Company that they must comply with anti-bribery law requirements. Talgo is also in the process of setting up procedures and controls to monitor such compliance.

Bidding Process

In bidding for a tender, the first step is pre-qualification. In order to pre-qualify for a project, Talgo must submit the relevant documentation demonstrating is technical and financial ability (including its historical track record) to execute the project to specification.

Following pre-qualification, an internal bidding process is launched through a bidding project team that reports to a bidding project manager. The bidding project manager's chief responsibilities include managing customer requirements, preliminary product design and adaptation according to customer requirements, budget and cash flow estimates and competitive and risk analysis. An analysis is then carried out to understand and convert all customer requirements into internal specifications. In order to minimize the risk of errors and limit the number of future amendments, the analysis, carried out internally with the corresponding department, covers Talgo's past experiences with the customer regarding similar biddings. After the return of experience phase, the team defines the competitive objective positioning based on customer evaluation criteria, identifying bid target conditions and probability of success. Before submitting the bid to the Bid Committee, the team carries out a control and approval process. At the higher level, decisions on which tender processes to participate in are made by a committee comprising senior managers from the head office, the sales department and the directors of each facility. When a new contract is awarded and signed, a master plan is designed specifying the involvement of each facility in the project, the timing of milestones. The plan has to be confirmed by the customer. If a bid exceeds a certain threshold, ultimate responsibility for the terms of the bid rests with an internal bid committee of Talgo. Formal bids are also reviewed and approved by Talgo's Bid Committee, which is chaired by Talgo's Chief Executive Officer.

The bidding process of one single tender usually takes approximately 4 months for smaller tenders and more than 1 year for larger tenders and implies a disbursement for the bidder of c.€100 thousand for smaller tenders and c.€1,000 thousand for larger tenders.

Pricing

Competitive pricing of a project is essential for the project to be completed profitably. Consequently, budgeting accuracy is a critical component of Talgo's project development process, allowing it to achieve the targeted prices Talgo feels will be competitive at margin levels in accordance with its targets. An integral component of Talgo's pricing analysis involves a process Talgo refers to as "return of experience", through which Talgo makes a detailed risk assessment in respect of a potential project based on its past experience with the customer, the type of project, project requirements and current market conditions. Talgo also estimates the current and future costs of inputs, including the time required to complete the project. In addition, Talgo uses these estimates to determine the amount and type of financing necessary to participate in a project, including the amount of all bonds and guarantees. Talgo has achieved high budgeting accuracy and, out of the last 9 projects executed by Talgo (during the period 2001-2014), each over €100 million, 8 projects achieved margins which exceeded initial targeted levels.

After pricing the project and obtaining the relevant bid bonds and guarantees, Talgo submits its bid. The criteria for a winning bid vary depending on the client, but are typically based on a formula assigning different weightings to several characteristics of the bid. Typically, the most important factors are technological innovation, product life cycle costs, price and technical performance and Talgo attempts to make its bid accordingly.

Guarantee Bonds

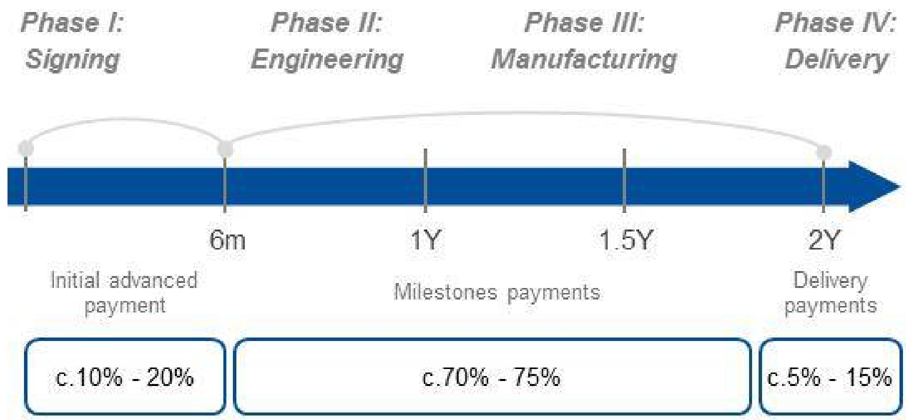
As part of the rolling stock manufacturing business, Talgo is customarily required to provide guarantee bonds (in particular, bid bonds, performance bonds, advance payment bonds and milestone bonds) issued by banks, insurance companies and other third parties and certain guarantees, as a condition to bidding, entering into contracts or receiving advance and progress payments.

Customers typically request Talgo to provide a bid bond as a means of demonstrating its commitment to the project. The bid bond is either replaced by a performance bond, procurement bond or advance payment bond, if Talgo is awarded the tender, or canceled, if another bidder is awarded the tender.

As of December 31, 2014, Talgo had €422 million in guarantee bonds issued out of its total available financial facilities of €781 million. To date, none of the performance bonds, procurement bonds or advance payment bonds issued in the benefit of Talgo has been called upon.

Project Execution

The chart below shows an illustrative example of development of a manufacturing project:



Note: % represent cash inflows to Talgo as a % of total contract size

Once Talgo is awarded a tender and signs a contract, it assigns a project manager to lead the project and serve as the link between Talgo and the customer. The project manager is then responsible for the remaining stages of planning and executing the project, with emphasis on monitoring costs, risks and deadlines. The project manager is also responsible for coordinating Talgo's activities with those of third parties acting as customers, suppliers, subcontractors or partners. In addition, a project engineer is selected to manage the technical aspects of the project.

Before installing any of Talgo's products, Talgo conducts tests at its facilities or on site to determine whether the design and functionality of its products comply with the technical specifications of the tender. Additional tests are carried out with the customer at the project site where final installation takes place. Once the customer accepts the project, the contract typically provides for a warranty period from two to five years as from the first date of operation. It should be noted that Talgo has never had a project cancelled due to its underperformance after the project contract was signed.

See "*Material Contracts*" for the description of the Group's relevant material contracts.

Delivery

Talgo performs delivery of its rolling stock products pursuant to the terms of the sales and purchase agreements with its customers. Delivery takes place in several ways, including delivery on site at Talgo's assembly plants (domestic orders only) or via railway networks or sea freight (largely international orders). Delivery is deemed complete when a trial test on railways is successfully completed and the representatives of Talgo's customers take control of the product. Delivery of Talgo's products is covered by its applicable transportation insurance policies.

Project Accounting

Once Talgo is awarded a tender, it records the face value of its part of the contract as "backlog". As work on the manufacturing project progresses, net turnover and expenses are recorded using the percentage-of-completion method of accounting and a corresponding decrease in the amount of backlog is made. Customer invoicing under these contracts is generally linked to specific contract milestones rather than net turnover recognition. Talgo has visibility with regard to its costs at the beginning of a project and actual project costs typically do not vary significantly from initial estimates. As a result, in accounting for a manufacturing project, Talgo refers to these estimated costs and grosses up its net turnover as appropriate. Accordingly, the amount of net turnover recorded is not necessarily related to the timing of the cash flows generated by the contracts. This means that either Talgo or Talgo's customer is effectively required to finance substantial parts of work on the contracts from working capital, credit facilities and/or upfront payments and milestones payments (see "*Operating and Financial Review*"). Cancelation of a contract by the customer reduces backlog. Nonetheless, the customer typically pays some form of compensation if a contract is cancelled.

Facilities

Talgo utilizes a number of rolling stock facilities around the world to assemble, manufacture, maintain, upgrade and refurbish locomotives, passenger coaches, multiple units, rapid transit vehicles and other rolling stock products. As part of its asset light business model, much of the asset-intensive manufacturing in respect of its products (including the manufacture of individual train components) is performed by third parties. Talgo's focus, on the other hand, is on the design, development, manufacturing, sales and maintenance of its products, as indicated in the table below. In addition, Talgo performs specialist, high value-added operations such as aluminum welding in-house, as well as safety-critical operations such as wheelset and body set assembly.

A key part of Talgo's business strategy has been to increase its manufacturing capacity by investing in its existing Spanish facilities, in particular those of Las Matas II and Rivabellosa, the latter being the main facility of the Company. With the expansion of its Las Matas II and Rivabellosa facilities, Talgo believes it has sufficient capacity to execute its existing and future manufacturing contractual commitments.

Talgo has already incurred the majority of the capital expenditure regarding its Las Matas II and Rivabellosa manufacturing facilities investment. In the years ended December 31, 2013 and 2014, Talgo's total capital expenditure in Las Matas II and Rivabellosa manufacturing facilities amounted to respectively €17,896 thousand and €13,251 thousand, this investment was primarily related to increasing manufacturing capacity to be able to deliver the recently awarded projects (Saudi Arabia, Russia and Kazakhstan). For the finalization of the investments in those manufacturing facilities, Talgo expects to incur in cumulative extraordinary capital expenditure of around €15 million in 2015 and 2016. Talgo expects to finance this pending capital expenditure primarily by means of its own operating cash flow.

The table below shows summary information relating to Talgo's different owned premises. To date, none of Talgo's facilities have been the subject of any lien or other property encumbrance.

Owned

Facility and Location	Approximate Size (m^2)	Net value[1] (€ thousand)	Purpose
Madrid, Spain (Las Matas II)	26,710	27,762	Manufacturing and Maintenance
Rivabellosa (Álava), Spain	25,125	27,875	Manufacturing
Las Rozas, Spain[2]	4,163	6,114	Offices
Astaná, Kazakhstan[3]	38,143	N/A	Manufacturing

[1] Including machinery and other installations
[2] 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 this document, unless a delay occurs due to events or circumstances beyond Talgo's control and Talgo continues to be committed to its intention to sell the asset
[3] 0.00074% ownership rights

Talgo also performs maintenance activities at client premises where Talgo's employees are located to perform such activities. The table below shows the most relevant premises:

Facility and Location	Approximate Size (m^2)	Purpose	Owner
Málaga, Spain	12,000	Maintenance	Renfe
Madrid, Spain (Las Matas I)	19,600	Maintenance	Renfe
Madrid, Spain (Fuencarral)	22,200	Maintenance	Renfe
Barcelona, Spain (San Andrés Condal)	17,700	Maintenance	Renfe
Barcelona, Spain (Can Tunis)	18,700	Maintenance	Renfe
Madrid, Spain (Santa Catalina)	7,000	Maintenance	Renfe
Seattle, WA, USA	465	Maintenance	Amtrak
Berlin, Germany	7,600	Maintenance	DB Fernverkehr AG
Almaty, Kazakhstan	2,217	Maintenance	Remlocomotiv
Astaná, Kazakhstan	12,744	Maintenance	Remlocomotiv

Suppliers: Raw Materials, Systems and Components

Talgo's network of suppliers is comprised of more than one thousand suppliers that provide various products and services. Among the ones that provide products, suppliers can be classified between those that supply raw materials and components (i.e. steel, aluminum, etc.) and those that provide Talgo with integrated systems (i.e. traction chain, signaling, etc.). On the other hand and from a service perspective, Talgo requires a variety of services which range from cleaning services for maintenance purposes to manufacturing workforce hired and outsourced to balance the workload of the different factories.

Talgo maintains active procurement policies to facilitate sourcing from multiple suppliers in order to enhance its bargaining power with regard to prices and avoid over-reliance on a single supplier where possible, which Talgo believes encourages supplier competitiveness and helps to minimize supplying costs.

Invoicing of Talgo's ten largest suppliers of materials (raw materials, systems and components) and industrial services represented 20.3%, 15.8% and 14.9% of Talgo's net turnover for the years 2012, 2013 and 2014 respectively.

For the years ended December 31, 2012, 2013 and 2014, invoicing of materials (raw materials, systems and components) and industrial services procured from Talgo's three largest suppliers (corresponding to traction, braking systems and cleaning systems suppliers) accounted for approximately 11.0%, 7.3% and 8.5% in relation to Talgo's total net turnover, respectively.

None of those Talgo's suppliers of materials and industrial services accounted for more than 6% of Talgo's total net turnover in 2012, 2013 and 2014. In 2012 only Renfe and Interserve Facilities Services (cleaning services provider) invoicing represented more than 3% (5.1% and 4.0%, respectively) of Talgo's total net turnover of such corresponding year. In 2013 Interserve Facilities Services invoicing represented 3.8% of Talgo's total net turnover of such corresponding year and in 2014, Bombardier European Holding represented 3.9% of Talgo's total net turnover. In the event any of Talgo's suppliers cease doing business with Talgo, Talgo has different alternatives to replace each supplier.

Focus on raw materials, components and systems

Talgo usually purchases each of its key raw materials, components and systems following ISO's procedures a minimum of three vendors, following a procurement selection procedure wherein the selection process involves Talgo's manufacturing, quality, after sales, supply chain and engineering departments. Talgo selects its suppliers based on various criteria, including supply quality, price, industrial & technical capabilities, financial robustness, contract performance and customer service, and not only on commercial terms. Talgo reviews the performance of each of its suppliers according to such criteria at monthly meetings of the Purchasing, Quality and Supply Chain departments, in addition to changes in market conditions, subsequently renewing its supplier database. Talgo believes that it maintains stable relations with its main suppliers.

On certain occasions, Talgo's specific project agreements require the latter to source raw materials, systems and components from specified suppliers (see "*Risk Factors-Talgo relies on a limited number of suppliers to provide it with raw materials, systems and components that are critical to business and outsources part of its manufacturing and maintenance business and any disruption of these relationships could adversely affect its business, financial condition and results of operations*"). Talgo carefully follows its established procurement processes, which are, as abovementioned, ISO and IRIS Certified, to carry out homologation (i.e. the process by which a local authority certifies that a given rail vehicle is appropriately constructed for use on the local rail infrastructure), selection, risk management and continuous monitoring of Talgo's supplier network (see "*Risk Factors-Volatility in the price of key raw materials could have an adverse effect on its operating margins*"). With respect to modular systems and components, Talgo has adopted a strategic procurement strategy to foster a technology-cooperative relationship with some of its suppliers. This strategy has allowed Talgo to enter into framework agreements to ensure long-term supply relations, the latest of which Talgo signed in 2010 with ABB in connection with the development of traction equipment for its AVRIL platform. With less costly components, Talgo generally makes purchases by selecting suppliers that offer competitive prices.

The main raw materials and components that Talgo uses in connection with its rolling stock products include steel and aluminum extrusion profiles for powerheads and coach bodyshells, copper for all the wiring and racks used to control on-board electronics and high / medium technology composite materials used for interior and structural components, rolling systems (including wheelsets, which contain wheels, axles and bearing systems, as well as surrounding casted and forged components), traction components (including traction motors, traction converters and transformers), signaling equipment, traction control and monitoring systems, pantographs, auxiliary converters and battery chargers, passenger information systems, coupling systems, braking equipment, high ventilation air conditioning, exterior doors, catering equipment, seats and restrooms.

Most of the materials and components stated in the previous paragraph are supplied to Talgo by manufacturers and suppliers in Western Europe, while Talgo is in the process of establishing arrangements to source a smaller portion of these requirements from manufacturers and suppliers in China, Russia and certain CIS countries. In 2014, less than 3% of Talgo's purchase orders related to components sourced from cost-competitive countries (e.g. China and CIS). In the medium term, Talgo plans to procure c.15% of its components (as a percentage of its total purchase orders) from suppliers located in cost-competitive countries.

Because of Talgo's asset light business model, its manufacturing cost structure is more heavily weighted towards components than towards raw materials and the manufacture of components, allowing for lower processing costs. In addition, electricity is the primary source of energy for Talgo's operations. Talgo receives its electric power supplies from local grids where its facilities are located.

As at December 31, 2014, Talgo's largest suppliers of the 10 main raw materials, systems and components were: Constellium Valais (formerly Alcan Aluminum Vallais) and Nedal Aluminum B.V. (aluminum extrusion profiles); Aernnova, and Aeroepoxy (interior fairings); Voith Turbo Schafenberg GmbH & Dellner Couplers (coupling systems); Knorr Bremse & Faiveley Transport Division (brake equipment); Fainsa, Borcad and Kiel (seat systems); Merak (Knorr Bremse Group), Faiveley Transport Division & Alte (Air Conditioning); Gebr Bode GmbH, Faiveley Transport Division & IFE (Knorr Bremse GmbH) (door systems); CAF, Bonatrans, Valdunes & Lucchini (wheels & axles), Bombardier, ABB (traction); Timken, SKF & NTN-SRN (bearing systems).

Competition

Talgo faces competition from a range of different players in its industry, including large international conglomerates (e.g., Siemens, Alstom and Ansaldobreda), other large-scale international companies (e.g., CRRC Group, which is the result of the merger between China South Locomotive & Rolling Stock Corporation Limited and China CNR Corporation Limited), medium-sized and/or regional companies (e.g., CAF and Stadler) and new private operators, such as NTV in Italy and Virgin Trains in the United Kingdom, that are increasingly entering the market. Talgo believes that barriers to entry discourage new entrants in its industry. These barriers include the importance to potential customers of reputation for successfully completed projects and the cost of the R&D necessary to compete.

Talgo believes that it competes effectively with respect to these factors (see "*Risk Factors-Talgo operates in a highly dynamic and competitive industry. If it is unable to compete effectively with its* *existing or new competitors, its business, financial condition and results of operations could be materially adversely affected*").

Intellectual Property

Talgo is the owner of 54 patents which are currently in force and 17 which are in process of being registered, relating to its core business (i.e. rolling stock) in Spain and other countries where Talgo operates, such as the United States and Germany. Although Talgo's patents are important to its business, Talgo believes that no single patent or group of patents is of material importance to its business as a whole. Talgo also relies on trade secrets, confidentiality agreements, unpatented know-how, creative product development and continued technological advancement in order to maintain a competitive position in the industry. Under its R&D strategy, Talgo maintains ongoing relationships of collaboration and technological exchange with a number of leading technological universities, institutes and state-owned organizations, subject to confidentiality agreements and the protection of research results, in order to promote the technological advancement of its products and maintain its competitive industry position. Technologies used by Talgo for manufacturing and maintenance are not generally covered by intellectual property rights.

Talgo believes that its suite of technologies is unique and that the implementation of a similar technological package by its competitors would be likely to require significant structural changes in their overall design and manufacturing processes. After 70 years, to the best of Talgo's knowledge, none of its competitors has been successful in copying its technology.

Talgo is currently not a party to any material litigation or any other dispute concerning its intellectual property.

Quality Control

Talgo has implemented quality control measures throughout its facilities and for each of its projects, in accordance with applicable Spanish and European standards, as well as with applicable international quality management standards, including IRIS (International Railway Industry Standard) and ISO 9001 and 14001. Talgo maintains IRIS and ISO 9001 certifications with respect to its design and assembly activities, and is currently in the process of obtaining IRIS certification for its maintenance activities. Each of its facilities has a dedicated quality control department and, at all stages of its manufacturing process, Talgo adopts measures to control the capability, function and safety of its products, such as defect prevention, software testing and reliability testing. Compliance with applicable Spanish regulations, including necessary approval and authorization for the operation of a rail equipment maintenance facility, is overseen by Bureau Veritas.

Health and Safety

Talgo's operations involve the use of electrical, smelting, welding, heavy lifting, mechanical, transportation processes and, in some cases, flammable and explosive materials. As a result, its employees may face risks of a range of work-related injury and accidents. As at the date of this document, no material accidents have occurred. Talgo is subject to relevant rules and regulations on occupational health and safety, such as Spain's Labor Risk Prevention Act (*Ley de Prevención de Riesgos Laborales*) and related regulations. As Talgo believes that safe construction is the best way to ensure employee safety, it conducts regular training sessions for employees on accident prevention and management through safety and environmental protection departments at different levels.

Talgo imposes safety measures as well as regular internal safety inspections at all stages during its operations, including but not limited to the purchase, installation and operation of new equipment as well as the construction of new facilities and the assembly of products in order to minimize the possibility of work-related accidents and injuries. Talgo also monitors occupational safety conditions and risks to employee safety in third party-owned facilities where it performs some of its services. Talgo provides different healthcare benefits and insurance, as well as safety education to its employees, in accordance with applicable law and regulations. Talgo also invests in training for its employees that are involved in formulating and implementing measures to comply with occupational health and safety protection issues, while assisting personnel in attaining the required certification to ensure they have the appropriate expertise to handle work safety matters.

Environmental Issues

Talgo's manufacturing, maintenance and repair processes primarily involve technical processing and assembly rather than construction. However, Talgo considers environmental compliance to be important to its operations. Talgo's operations are subject to a number of environmental protection standards, laws and regulations, including the prevention of pollution (e.g., Act 16/2002, July 1, on the Prevention and Control of Pollution), waste materials (e.g., Act 22/2011, of July 28, on Waste Materials and Contaminated Soils and Royal Decree 833/1988, of July 20, on the approval of Regulations implementing Act 20/1986, on Hazardous and Toxic Wastes), emissions to the atmosphere (e.g., Act 34/2007, of November 15, on Air Quality and Protection of the Atmosphere and Royal Decree 100/2011, of January 28, on activities that can potentially pollute the atmosphere), transportation of goods (e.g., Act 16/1987, of July 30, on the Regulation of Ground Transportation), industrial safety (e.g., the Industry Act 21/1992, of July 16), soil pollution (Royal Decree 9/2005, January 14, on Potentially Polluting Activities and Criteria and Standards for Soil Pollution Declaration), environmental assessment (Act 21/2013, of December 9, on Environmental Assessment) and volatile organic compounds (Royal Decree 117/2003, January 31, on Limitations on VOC Emissions due to the use of dissolvent in certain activities).

Talgo also performs its own assessment of the environmental impact of its projects. Talgo is also required to closely monitor the emission of waste water, polluted air, noise and other waste to ensure full compliance with state and local regulations. Talgo is committed to strict and full compliance with the relevant environmental protection requirements and it endeavors to use raw materials that have low or non-toxic levels and are either harmless or less harmful to the environment. Talgo also uses new technologies that do not contaminate or produce significant levels of pollution, in an effort to prevent, minimize and manage pollution during its manufacturing processes. Moreover, its products are designed in accordance with ISO 14001, which requires companies to minimize the negative environmental impact of their products. The levels of waste water, gas pollution, noise pollution and solid waste produced by Talgo during its manufacturing process after internal processing are within permitted levels. Talgo is also committed to full compliance with applicable environmental regulations in the other countries in which it operates.

Talgo has not engaged in, nor is it currently a party to any material litigation or administrative proceedings concerning environmental matters.

Employees

The Company does not have any employees, as all the Group's workforce is employed by Patentes Talgo, S.L.U. and other subsidiaries of the Company. As at December 31, 2014, the Group had 1,735 employees, of which 77% were located in Spain and 93% were permanent workers. The following table shows the average distribution of its employees according to their functions in 2012, 2013 and 2014.

	2012		2013		2014	
	Men	**Women**	**Men**	**Women**	**Men**	**Women**
Directors and management	40	4	36	4	36	4
Middle management	163	21	177	25	187	24
Technicians	1,125	199	1,125	200	1,233	200
Total	**1,328**	**224**	**1,338**	**229**	**1,456**	**228**

(1) Talgo calculates the average distribution of its employees by adding the existing workforces at the end of any month of a year and dividing the result into 12.

Almost 25% of Talgo's workforce is engineers, reflecting the Group's focus on design and engineering.

The collective bargaining agreement governing Talgo's employees at its operating facilities in Spain expired in December 2014 and its extension is being negotiated. In addition to workers that are directly covered by the agreement, a number of other workers at its Spanish operating facilities incorporate specific clauses from the collective bargaining agreement in their respective employment contracts. Talgo has never experienced a work stoppage due to labor dispute at any of its facilities. Overall, Talgo believes its relations with its employees are good.

Insurance

Talgo maintains the types and amounts of insurance coverage that it believes are consistent with Talgo's customary industry. In 2014, premium payments under Talgo's insurance policies accounted for 0.3% of its net turnover for the year.

Talgo has contracted insurance policies with renowned insurance companies, such as Zurich, Generali Seguros, Markel and Catlin, which cover civil liability, physical damage and loss of profit, civil liability for Directors and Managers, train dynamic tests, environmental civil liability, own vehicles, construction of facilities, rental of buildings and facilities and train manufacturing. The coverage provided by each of the insurance policies Talgo has contracted is based on the terms and conditions included in each specific policy. Talgo continually reviews and assesses its risk profile and is committed to making any necessary adjustments to its insurance arrangements as it considers to be keeping with its corporate requirements and with industry practice in the jurisdictions in which it operates.

Legal Proceedings

Historically Talgo has been involved in a low number of disputes. From time to time, nonetheless, Talgo is involved in civil and administrative legal proceedings. It is Talgo's policy to evaluate the risks involved in relation to potential and actual litigation and to reflect such risks in its financial statements through provisions that it deems appropriate, based on its assessment of the risk of litigation. Talgo considers such reserves to be appropriate (see "*Risk Factors*").

As at the date of this document, Talgo is not involved in any material civil or administrative legal proceedings.

Competitive Strengths

1. Pure global player in Very High Speed and High Speed and selected segments.

Talgo has become a global pure player in the attractive Very High Speed and High Speed market segment, mainly due to its distinctive technological platform, diversified geographic presence and successful international expansion (see "*New Products and Technologies*" and "*Customers*").

2. Unique proprietary technologies underpin innovative and cost-effective products and services.

Talgo has developed throughout the years a distinctive technological platform which is based on its differentiated technologies (see "*New Products and Technologies*"). The combination of these technologies provides significant benefits to its customers, leading to lighter trains, higher capacity due to the exclusive wider car body, better accessibility and a highly competitive cost per seat.

Its unique suite of proprietary technologies provides Talgo with a key competitive advantage in the Very High Speed and High Speed segments. This competitive advantage is even more important in Passenger Coaches, where Talgo trains allow for significant reductions of journey times without investment in infrastructure.

Although performance history and price are key elements for Talgo's customers, Talgo believes technology is the main decisive factor to successfully bid in tender processes (see "*Tender Process-Bidding*").

3. Talgo operates in attractive end-markets with multiple drivers of accessible demand growth.

The Very High Speed and High Speed market segments are highly consolidated, with major barriers to entry, both from a technological and commercial perspective, which limit the threat of potential new entrants (see "*Industry Overview*").

Talgo's operations are supported by positive market trends in the passenger railway market such as: increased demand for mobility, with railway taking market share from air and road, alleviating congestion problems; urbanization and population growth, especially in regions such as Asia Pacific and Latin America; the gradual replacement of existing High Speed fleets in Western Europe and the upgrading of aging equipment in CIS and Eastern Europe; railway operator liberalization process in Europe, providing further business opportunities in the mid-long term; and growing environmental concerns, as passenger railway is considerably less polluting than car, bus or air travel (Source: UNIFE 2014 report) (see "*Industry Overview*").

4. Talgo operates a resilient business model based on asset-light operations and sizeable maintenance activity.

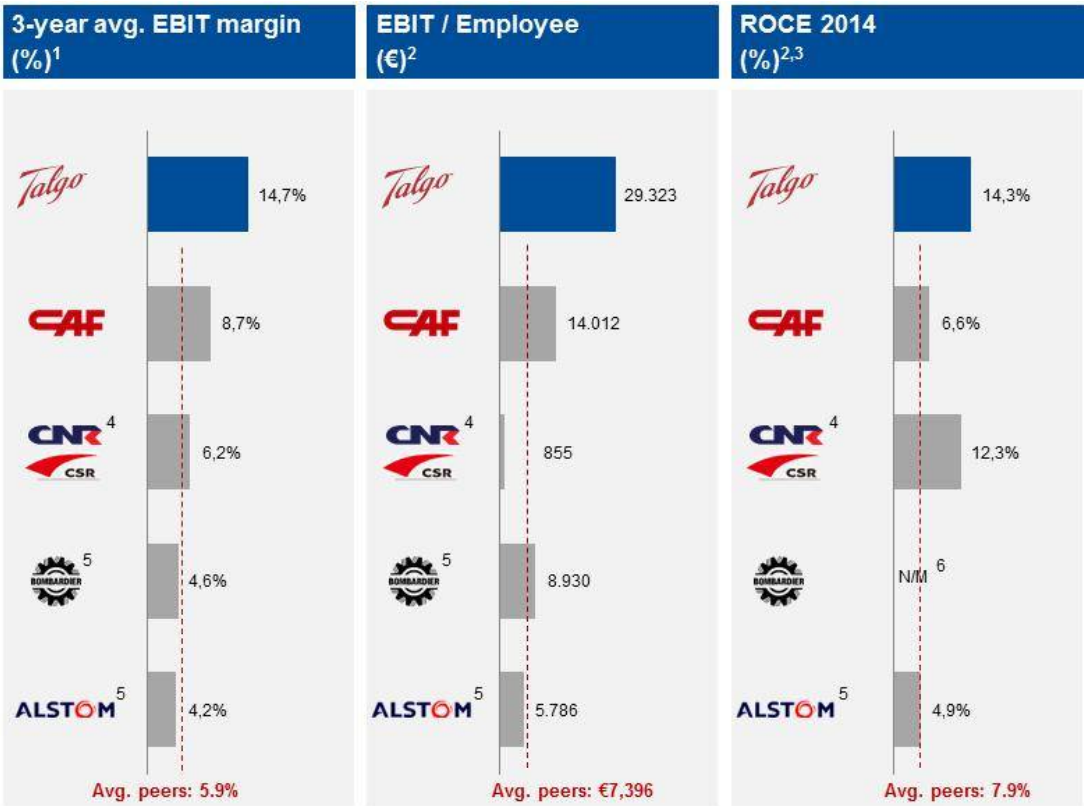
Talgo operates a lean and efficient asset-light business model that has enabled the Company to deliver EBIT margins of 18.5%, 12.3% and 13.2% in 2012, 2013 and 2014, respectively (see "*Selected Consolidated Financial Information and Other financial and non-financial data*").

A strong network of premium suppliers, providing capital-intensive operations, such as component manufacture, allows Talgo to operate with a minimal asset base and just focus on design and engineering (see "*Product and Services-Manufacturing*").

Talgo also operates an asset-light maintenance services business model, as it outsources the more capital intensive, lower value-added operations (see "*Product and Services-Maintenance services*").

5. Track-record of delivering strong operating margins.

Talgo continues to deliver superior margins well above those reported by rolling stock competitors (whose margins range from 4.2% to 8.7% for the same period). This profitability is driven by the following factors: (i) selective tender approach across large, medium and small projects; (ii) asset-light operations; (iii) integrated, one P&L approach (including both manufacturing and maintenance services); (iv) flexibility to maximize industrial capacity; (v) attractive business mix; and (vi) focus on high value-added areas.



(Source: Company information)

(1) 3 year average as of the latest reported annual financial statements

(2) Latest reported figures based on CAF financial year ended 2014, CNR financial year ended 2013, CSR financial year ended 2013, Bombardier financial year ended 2014 and Alstom financial year ended 2014

(3) Defined as EBIT / (total assets – current liabilities)

(4) Pro-forma for merger, calculated as addition of 2013 reported numbers

(5) Figures only for Alstom Transport and Bombardier Transport divisions

(6) Figures for Bombardier Transport only are unavailable

6. Talgo has a strong financial profile with high revenue visibility driven by a backlog of €3,692 million as at December 31, 2014.

As at December 31, 2014, Talgo's backlog amounted to €3,692 million. Talgo expects to realize as net turnover in 2015 and 2016 between 30-35% of its backlog as at December 31, 2014. Talgo's manufacturing backlog is contracted to be delivered over 2 to 3 years while its maintenance backlog is to be performed over a longer term of 14 years, which provides long-term revenue visibility.

In addition, Talgo has an excellent track record of executing projects profitably, on time and within budget, being able to target both large and small profitable projects (see "*Tender Process-Pricing*").

7. Talgo benefits from attractive growth opportunities both in terms of geographies and products.

Based on Talgo's proprietary database (see "*Industry Overview*"), the Company has currently identified approximately 40 manufacturing processes for new orders over the period 2015-2018, worth between €9.9 and €13.4 billion (see "*Identification of New Project Opportunities*"). Talgo has identified these opportunities based on its current competitive advantages and where Talgo believes it is well positioned to compete.

Talgo's strategy is clearly oriented towards consolidating its presence in the Very High Speed and High Speed segment, expanding its presence in the passenger coaches segment, penetrating in the Regional Commuter segment and gaining new maintenance contracts related to the award of new manufacturing contracts (€6.0-8.2 billion linked to new manufacturing pipeline based in Talgo having maintained 100% of its rolling stock) (based on the Company's database) (see *"Strategy"*).

8. Talgo is led by an experienced management team with a defined strategy and strong execution track record.

Talgo's management team and current Board of Directors possesses the required leadership, vision and in-depth industry knowledge to anticipate and seize market opportunities, direct Talgo's R&D and sales and marketing efforts to high growth areas, formulate sound business strategies and execute them in a way that effectively maximizes Talgo's shareholder value.

Talgo's management team has been instrumental in achieving the successful internationalization previously mentioned and has a strong track record of successfully bringing complex projects to completion, both on schedule and within budget, being well-positioned to drive the growth of Talgo's operations.

Talgo also has a number of professional employees who possess the skills and knowledge that are critical in the industry in which Talgo operates. Talgo believes that management with a direct stake and long-term incentive plans contribute to the alignment of interests between management and shareholders.

Talgo's management team has been supported by a Board of Directors whose members have many years of experience in the railway industry.

Talgo's Strategy

The following are the key components of Talgo's strategy:

Talgo is focused on the efficient delivery of current contract book and continuously seeks to improve its manufacturing processes.

Efficient delivery of the manufacturing and maintenance services projects pursuant to the agreements currently in force, both on time and on budget, is essential for Talgo to deliver short-term visible growth and be better positioned to continue to win new orders to sustain high growth.

The Company has a strong execution track-record, having been able to consistently achieve superior margins benefitting from its asset-light business model as well as from a proven budgeting accuracy.

In addition, Talgo seeks to optimize its manufacturing operations by developing and expanding its relations with component suppliers from lower-cost regions (see "*Suppliers: Raw Materials, Systems and Components"*). Talgo has developed a strategy designed to make increasing use of suppliers of non-critical component in cost-competitive countries, as it enters these markets through new contracts.

Talgo believes that making increasing use of local assembly opportunities will not affect the overall quality of Talgo products. Talgo also believes that increasing its local assembly capacity where required, will result in higher revenue and margins for the same sales effort, as well as greater flexibility to meet local product and other requirements.

Talgo seeks to grow further in existing locations and new markets.

Talgo intends to pursue international and domestic opportunities in segments where it has an established presence, such as Very High Speed, High Speed and Passenger Coaches. Talgo believes it is well placed to compete for new projects due to its technological advantages, which allow for low life cycle cost for operators, amongst others. Its strong competitiveness will be further strengthened with the development of the AVRIL platform (see "*Products*").

Talgo will continue to be selective and disciplined in its search for new projects and focus on projects where its technological advantages and customer relations provide a competitive edge.

Talgo aims to develop its portfolio of products and services by leveraging and expanding its suite of technologies in order to capitalize on new market opportunities.

Talgo seeks to leverage its High Speed and Passenger Coaches technology to selectively enter the much larger markets for Regional Commuter trains, with an estimated market size of €11.9 billion vs. €8.4 billion for Very High Speed, High Speed and Passenger Coaches in 2017-2019 (UNIFE 2014) (see "*Industry Overview*"). Talgo believes that the technologies it has already pioneered in the Very High Speed, High Speed and Passenger Coaches segments, such as coaches without steps to access the train and low floor throughout the entire train, shorter dwell times and low maintenance life cycle costs, will allow Talgo to enter this sizeable market with a competitive product.

Talgo aims to increase its ongoing and highly attractive maintenance business both for its own rolling stock and for third party rolling stock.

Talgo is targeting significant growth in its maintenance business, partly from new maintenance contracts relating to manufacturing contracts already won, including for example, its ongoing expansion in Saudi Arabia and Kazakhstan. Talgo maintains 100% of the trains it has manufactured and, to date, maintenance agreements have always been renewed (see "*Maintenance Services*"). In addition, Talgo is targeting maintenance services to rolling stock manufactured by third parties, as it is already doing with Deutsche Bahn. Talgo believes that the outsourcing of maintenance services by state-owned operators typically results in a reduction of their costs, although the potential meaningful expansion of third party maintenance is expected to come if and when railway markets liberalize in different countries.

OPERATING AND FINANCIAL REVIEW

The following discussion of the Group's financial condition and results of operations as at and for the years ended December 31, 2012, 2013 and 2014 should be read in conjunction with the Audited Annual Consolidated Financial Statements, as defined in "Certain Terms and Conventions", including the notes thereto and the other information included elsewhere in this document. See also "Presentation of Financial Information". The Audited Annual Consolidated Financial Statements are prepared in accordance with EU-IFRS.

This section contains forward-looking statements, which are based on assumptions and estimates, and, as such, are subject to risks and uncertainties. Accordingly, the Group's actual results may differ materially from those expressed or implied in such forward-looking statements, as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements". In this section, unless otherwise indicated, the financial information discussed is extracted or derived from the Audited Annual Consolidated Financial Statements.

You should read the following information together with the other financial and non-financial data included in section entitled "Selected Consolidated Financial Information and Other Data" that are used by Talgo to monitor the economic, financial and operating performance of the Group and which Talgo believes are more indicative of its underlying performance.

In addition, you should read the following information together with the sections entitled "Capitalization and Indebtedness" and "Risk Factors".

Basis of Presentation of Audited Annual Consolidated Financial Statements

This operating and financial review for the three years ended December 31, 2012, 2013 and 2014 is based on the financial information included in the Audited Annual Consolidated Financial Statements. The Audited Annual Consolidated Financial Statements are included in this document and available on the CNMV's website (www.cnmv.es) and will be available on the Company's website (www.talgo.com) upon Admission.

The Group has three reportable segments:

(i) Rolling stock: includes train manufacturing activity and the maintenance of trains manufactured by Talgo and other manufacturers.

(ii) Maintenance equipment and other: includes the activities of manufacturing and sale of pit lathes and other equipment, repairs, modifications and spare parts sales.

(iii) General: includes general corporate expenses not directly assignable to other segments.

Factors Affecting Talgo's Results of Operations

Talgo's business and results of operations have been, and will continue to be, affected by a number of factors, some of which are beyond its control. These factors include, amongst others:

Conversion of backlog into turnover

When Talgo is awarded a contract, it accounts for the contractual amount payable to it in its “backlog”. Talgo generates a substantial part of its turnover from medium- and long-term contracts for work to be performed over a period of more than twelve months.

In the case of consortium agreements, Talgo includes in its backlog only the portion of the contract that relates to the scope of its participation in the consortium.

For maintenance services, Talgo accounts in its backlog the contractual amount of a contract less the portion already recorded as net turnover, and associated to its original term. Any potential renewal of any specific contract is not accounted in Talgo’s backlog until the relevant parties agree to execute such renewal. In addition, if any contract establishes the right of any party to reduce the original term of the contract under certain circumstances, Talgo accounts the backlog related to the complete original term until such party express its intention to reduce it, as the case may be.

As work on train manufacturing and manufacturing of maintenance equipment projects progresses, turnover is recognized using the percentage-of-completion accounting method. This method consists of applying the percentage of work completed from time to time to the total turnover expected to be realized upon completion of the project (i.e. the contract price). The percentage of work completed for a project is calculated by dividing actual costs incurred from time to time by the total estimated costs. The latter and, therefore, the corresponding margin of each project, are reviewed on a quarterly basis.

Costs and, consequently, recognized turnover for manufacturing projects are typically higher in the later phases of a project, as costs are incurred to a greater extent during the phase of the project in which more expensive third party equipment is installed as part of the assembly. For a description of the phases involved in a train manufacturing project, see “*Business Overview*”.

Turnover from maintenance service contracts is recognized either by a flat fee scheme per vehicle or train per year, or by reference to the number of kilometers and price per kilometer travelled by the trains or cars under maintenance, as specified in the relevant contract.

Pursuant to the above, Talgo’s recognition of turnover during a fiscal year is not evenly spread across the different quarters or across any given fiscal year and depends on (i) the number, size and timing of projects under execution within the different quarters of each year; (ii) the different phases of the projects, as they have different cost intensities; and (iii) seasonality – the usage of a maintained fleet varies during each year (during holiday periods, the use of the fleet of trains by railway operators is more intensive. Consequently these periods do not allow for operations that usually involve greater technical complexity and in parallel, higher maintenance costs). Consequently, Talgo’s results of operations of a particular quarter are not necessarily indicative of the Group’s results of operations over a fiscal year or any other period.

As at December 31, 2014, Talgo’s backlog was comprised of projects with an aggregate value of approximately €3,692 million, compared to €3,751 million as at December 31, 2013 and €3,331 million as at December 31, 2012. Talgo’s backlog for Rolling stock was €3,657 million as at December 31, 2014, of which €1,025 million corresponded to manufacturing and €2,632 million to maintenance services. The maintenance equipment and other backlog as at December 31, 2014 was €35 million. As at December 31, 2014, Talgo recognized 77% of its backlog from operations outside Spain.

Based on the current stage of the different contracts that Talgo is currently executing, Talgo expects cumulative backlog completion of approximately 30-35% during 2015 and 2016, providing high visibility on net turnover for those two years given its contracted nature. The Company is also working towards securing new orders to replenish the order backlog in order to secure additional contracted revenues for the following years. For more information see "*Business Overview*".

Talgo's backlog fluctuates from time to time, increasing with new awarded orders and decreasing as work on individual projects is performed and/or amended as per adjustments to estimates on maintenance service contracts linked to the distance in kilometers traveled by the trains or cars.

Procurement Costs

Given the nature of Talgo's asset-light business model and its outsourcing of less value-added activities, the largest element of Talgo's procurement costs, which represented 43.0%, 41.9% and 47.0% of net turnover in 2012, 2013 and 2014, respectively, is the cost of the components Talgo uses in its products. Talgo's most important raw materials include aluminum and steel. Components and Systems include, amongst others, traction systems (including traction motors), signaling equipment, traction converters and transformers, traction control and monitoring systems, pantographs, auxiliary converters and battery chargers, passenger information systems, coupling systems, braking equipment, powerhead bodyshells and bogies components.

Procurement costs and other operating expenses are affected by the specific phase of development of each manufacturing project. As a result, Talgo's margins are driven primarily by its Rolling stock segment projects, and the expected profitability of the various projects executed in the relevant period.

Talgo maintains active procurement policies to facilitate sourcing from multiple suppliers with the aim of reducing reliance on any specific supplier where possible, in order to maintain supplier diversification and minimize purchasing costs to achieve project targets. While Talgo sources its aluminum and steel (its most important raw materials), systems and components from a variety of different manufacturers and suppliers, Talgo's project agreements may require it to source these inputs from specified suppliers. Talgo has also adopted a procurement strategy to foster a technology-cooperative relationship with some of its suppliers. With respect to non-critical components which do not affect safety, Talgo generally makes purchases by selecting suppliers that offer competitive prices. Moreover, Talgo usually purchases each of its key components from a selection of three suppliers in order to enhance Talgo's bargaining power on prices and to avoid over-reliance on a single supplier. Talgo believes that its procurement strategy lowers its input costs and ensures a reliable supply of high-quality components.

Talgo seeks to source non-critical components from suppliers located in cost-competitive countries. During 2014 less than 3% of Talgo's purchase orders related to components sourced from cost-competitive countries. Over the medium term, Talgo plans to procure c.15% of its components (as a percentage of its total purchase orders) from suppliers located in cost-competitive countries.

Invoicing of the Talgo's ten largest suppliers of materials (raw materials, systems and components) and industrial services represented 20.3%, 15.8% and 14.9% of Talgo's net turnover for the years 2012, 2013 and 2014 respectively.

For the years ended December 31, 2012, 2013 and 2014, invoicing of materials (raw materials, systems and components) and industrial services procured from Talgo's three largest suppliers (corresponding to traction, braking systems and cleaning systems suppliers) accounted for approximately 11.0%, 7.3% and 8.5% in relation to Talgo's total net turnover, respectively.

Foreign Exchange Effects

Most of Talgo's total consolidated net turnover comes from contracts denominated in euros. Because certain of Talgo's contracts are denominated in US dollars, particularly in relation to its subsidiary in the United States, its results of operations, reported in euros, can be affected by fluctuations in foreign exchange rates between the euro and the US dollar. Talgo also incurs certain costs in local currencies, and its results of operations can be affected by fluctuations in foreign exchange rates between the euro and such local currencies, particularly the Kazakhstani tenge, the Uzbekistani sum and the Russian ruble. For the years ended December 31, 2012, 2013 and 2014, 6.4%, 2.6% and 2.0% of Talgo's total consolidated net turnover, respectively, was denominated in currencies other than the euro (mainly USD). During these same periods, approximately 15.6%, 7.88% and 7.76%, respectively, of Talgo's purchase costs were denominated in currencies other than the euro (mainly USD).

In addition, Talgo has some contracts which are denominated in euro, but invoices customers in the local currency (using the exchange rate at the date of the invoice). Fluctuations in the exchange rate between the date of the invoice and the date of the payment are borne by Talgo.

In the preparation of Talgo's Audited Annual Consolidated Financial Statements, the Company converts assets, liabilities, income and expenses that are accounted for in other currencies into euro. Consequently, even if the value of these items remains unchanged in the original currency, changes in foreign currency exchange rates will cause changes in the entries in Talgo's Audited Annual Consolidated Financial Statements, both in terms of net turnover and operating margins.

Capital expenditure

For the years ended December 31, 2012, 2013 and 2014, Talgo's total capital expenditure was €19,955 thousand, €35,946 thousand and €23,887 thousand, respectively. Capital expenditure for the fiscal years 2013 and 2014 included investments in the manufacturing facilities of Rivabellosa and Las Matas II of €31,147 thousand, which related primarily to production capacity increase for new projects in Saudi Arabia, Kazakhstan, Russia and other future projects. In addition, during the three-year period ended December 31, 2014, capital expenditure related to the development of AVRIL amounted to €29,840 thousand. The remaining "other" capital expenditure of €5,731 thousand, €6,325 thousand and €6,745 thousand for the years 2012, 2013 and 2014, respectively, corresponds to other investments, which Talgo's management considers and defines as recurrent for the maintenance of its day-to-day business operations.

With regard to maintenance capital expenditure, as defined by Talgo's management, going forward Talgo expects to invest a similar level of "Other" capital expenditures, which Talgo considers and defines as recurrent capital expenditure. In addition, Talgo expects to incur approximately €35 million in cumulative extraordinary capex over the two year period ended December 31, 2016 for: (i) finalization of capacity expansion approximately €15 million, (ii) new product development (Regional Commuter) approximately €14-16 million and (iii) certification of AVRIL approximately €5 million. It should be noted that Talgo has a long-term capital expenditure cycle, with new product development requiring occasional significant capital expenditures that will be paid with Talgo's internal resources.

Critical Accounting Policies

Critical accounting policies are those accounting policies that require the application of management's subjective or complex judgment, often as a result of the need to make estimates as to the effect of matters that are inherently uncertain and may subsequently change. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. Actual results may differ from these estimates, given the uncertainty surrounding the assumptions and conditions upon which the estimates are based. Talgo believes that its most critical accounting policies are those described below.

A detailed description of certain of the principal accounting policies Talgo uses in preparing its financial statements is set forth in Note 2 to Talgo's Audited Annual Consolidated Financial Statements for the year ended December 31, 2014.

Estimates of Turnover and Costs in Respect of Medium- and Long-term Contracts

The turnover under the percentage-of-completion method recognized in any particular period depends on management's estimates of costs to be incurred until completion of each project. These costs include, amongst others, the cost of warranties and other costs which Talgo may incur to complete each contract.

On a quarterly basis, Talgo reviews its estimates of the Company's contracts that are accounted for under the percentage-of-completion method. Moreover, to support such estimates, Talgo makes use of operating and monitoring systems to enable management to monitor risks associated with the execution of contracts. As such, the amounts recorded in Talgo's Audited Annual Consolidated Financial Statements are a function of management's best estimates based on the application of such systems.

Talgo's management also estimates turnover from maintenance service contracts which are referenced to the number of kilometers and price per kilometer travelled by trains or cars under maintenance, as fees under these contracts are based on estimates, which are regularized on an annual basis.

Estimates of turnover are also used by Talgo in calculating the value of some of the maintenance contracts value within its unaudited backlog.

For additional information see "*Business-Project Development/Tender Process/Pricing*".

Employees' Benefits

Defined contribution pension plan

Talgo has an agreement with its employees for a defined contribution pension plan under which Talgo makes an annual contribution, in twelve monthly installments, equivalent to 4% of the annual gross salary of each employee, to a fund specifically assigned to each employee. Once the contributions have been paid, Talgo is under no obligation to make additional payments in relation to previous periods of service. The contributions are paid to a financial institution which manages the pension plan on behalf of the employees.

Profit participation plans and bonus

Since the last quarter of 2012 Talgo has had a number of obligations to the management team under a long-term share-based compensation plan. This share-based compensation plan is related, on one hand, to the reaching of objectives linked to the performance of the Group's business plan (EBITDA, gross margin percentage and operating cash flow) as well as growth objectives (signing of new agreements) and on the other, to remaining employed by Talgo in the forthcoming years (see "*Management and Board of Directors-Management Compensation-Compensation of Directors and Senior Management-Management Incentive Plans*").

Useful Lives of Tangible Fixed Assets and Intangible Assets

Management determines the estimated useful lives and corresponding amortization charges in relation to Talgo's tangible fixed assets and intangible assets. These estimates are based on the period during which the assets are expected to generate economic benefits. Talgo reviews these estimates annually and, to the extent it has to make adjustments to the estimates, all changes are accounted for on a going-forward basis by making appropriate adjustments to the income statement for the period in which the adjustment is made.

Goodwill

On an annual basis, Talgo tests whether goodwill is subject to impairment. The recoverable amounts of the cash generating units are determined based on fair value calculations. Should the fair values result in a lower value than the book value of the asset, Talgo records impairment. The allocation of goodwill among cash-generating units and the fair value calculation requires Talgo to make estimates that depend upon many factors that can change over time.

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

	As at December 31,		
	2012 (€ thousand)	**2013 (€ thousand)**	**2014 (€ thousand)**
Rolling stock	101,886	101,886	101,886
Maintenance equipment and other	10,553	10,553	10,553
Total Goodwill	**112,439**	**112,439**	**112,439**

This goodwill as of each of the above dates was originated as a consequence of the acquisition of Patentes Talgo, S.A. by Patentes Talgo, S.L. in 2006 and was recognized for accounting purposes after the merger of both companies in 2008. The goodwill represents the excess of acquisition cost over the fair value of Patentes Talgo, S.A.'s net identifiable assets at the date of such acquisition.

For further information on goodwill see Note 8 of the Audited Annual Consolidated Financial Statements.

General Warranty Claims

Talgo offers warranties on its rolling stock and related equipment with a typical duration of two or three years, extending to five years in certain projects, or limited to a fixed number of operating kilometers. Management estimates the levels of provisions in respect of future warranty claims on the basis of the best available information, including historical warranty claims and recoveries, as well as current information that may cause such historical data to be less reliable. Talgo recognizes liabilities if and when a loss is probable and can be reasonably estimated. Talgo's determination of whether a loss is probable requires the Company to exercise judgment based on information obtained from internal and external specialists and historical experience. Where losses are determined to be probable, estimation of the related liability may be performed using both internal and external sources based on applicable law.

Selected Income Statement Items

Net turnover

Talgo generates its net turnover from two main sources, which are accounted for as different segments: (i) the manufacturing, sale and maintenance of Talgo rolling stock products and maintenance of third party rolling stock products (reported as "Rolling stock"); and (ii) the sale of maintenance equipment and spare parts activity and modification and refurbishment of used rolling stock (reported as "Maintenance equipment and other").

The following table sets forth Talgo's net turnover in each of these segments, for the years ended December 31, 2012, 2013 and 2014.

	For the year ended December 31,		
	2012 (€ thousand)	2013 (€ thousand)	2014 (€ thousand)
Rolling Stock	310,918	306,370	370,909
Maintenance equipment and other	19,000	20,349	13,402
Net Turnover	**329,918**	**326,719**	**384,311**

For the years ended December 31, 2012, 2013 and 2014, Talgo generated 41.6%, 36.1% and 27.6% of its net turnover from operations in Spain.

In addition, in 2014, 93.3% of Talgo's net turnover (mainly from the Rolling Stock segment) came from five customers (85.6% in 2013 and 85.9% in 2012).

The average percentage of net turnover for the three-year period ended December 31, 2014 from manufacturing, maintenance services (each of which are included within the Rolling Stock segment) and maintenance equipment and other contracts was 60.2%, 34.7% and 5.1%, respectively.

The following table sets forth the geographical distribution of Talgo's net turnover in the years 2012, 2013 and 2014:

	As at December 31,		
	2012 (€ thousand)	2013 (€ thousand)	2014 (€ thousand)
Spain	137,406	118,035	106,143
Rest of Europe	18,253	16,370	11,125
United States	26,676	9,849	7,403
Middle East and North Africa	18,169	41,729	103,841
Commonwealth of Independent States	129,414	140,736	155,799
Total	**329,918**	**326,719**	**384,311**

Talgo recognizes net turnover on its manufacturing contracts using the percentage-of-completion method. It determines the stage of completion of a contract by calculating the proportion of the contract costs incurred for work performed to date to the most recent estimate of total contract costs. Net turnover is then recognized as a "gross-up" cost. The "gross-up" is calculated assuming the overall estimated project margin.

Work performed and capitalized by the Company

Talgo's work performed and capitalized accounts for the expenditure incurred by the Group in producing property, plant and equipment using its own facilities and personnel. In addition, the cost of R&D work outsourced to other companies is also included.

Procurement costs

Talgo's procurement costs are the main part of its direct production costs, and primarily include the input cost and components the Group uses in its products, including rolling stock systems, traction chain components, signaling equipment and other items, for Talgo's Rolling Stock and Maintenance equipment and other segments.

Employee welfare expenses

Talgo's employee welfare expenses consist primarily of wages for Talgo's staff, amounts attributable to incentive plans, pension contributions and other social security costs.

Other operating expenses

Talgo's other operating expenses consist primarily of external services, taxes, losses, deterioration and changes in provisions, administrative costs and other operating expenses.

Amortization and depreciation charge

Talgo's amortization and depreciation charge consist primarily of (i) depreciation on property, plant and equipment and (ii) amortization of Talgo's intangible assets, including R&D, and information technology.

Other results

The "Other results" line item is a catch-all line item that includes operations not related to Group activities, which primarily comprise indemnity payments for claims in respect of which Talgo had incurred expenses in prior periods, as well as scrap sales.

Net financial expenses

Talgo's net financial expenses represent Talgo's financial income, net of financial expenses. Financial expenses consist primarily of interest on bank loans, guarantee bonds costs and other borrowings. Financial income and financial expenses fluctuate from period to period due primarily to fluctuations in Talgo's level of outstanding indebtedness, the issued amount of bank guarantees and the interest rates applicable to Talgo's debt.

Taxation

Corporate Income Tax expenses primarily consist of income tax expense payable by Talgo and its subsidiaries pursuant to relevant Spanish and overseas income tax rules and regulations. The corporate tax rate in Spain applicable to Talgo was 30% for the years ended December 31, 2012, 2013 and 2014. As at January 1, 2015, the corporate tax rate was reduced to 28% and by January 1, 2016, it will be reduced to 25%.

Tax expenses are primarily paid in Spain. The effective tax rate may be lower than the statutory rate due to several tax deductions generated and different corporate tax rates applicable in other jurisdictions in which Talgo operates.

Results of Operations

The following table sets out certain items derived from Talgo's consolidated income statement for the years ended December 31, 2012, 2013 and 2014:

	2012 (€ thousand)	**2013** (€ thousand)	**2014** (€ thousand)
Net Turnover	**329,918**	**326,719**	**384,311**
Other income	628	1,157	2,281
Stock variation for work-in-progress and finished goods	583	(1,354)	5,249
Work performed and capitalized by the Company	18,935	17,040	8,380
Procurement costs	(141,896)	(136,950)	(180,809)
Employee Welfare expenses	(79,096)	(83,134)	(86,196)
Long-term stock compensation plan	(10,941)	(9,636)	(18,360)
Personnel costs	(90,037)	(92,770)	(104,556)
Other operating expenses	(52,794)	(66,127)	(47,698)
o/w depreciation provisions	*(499)*	*(10,617)*	*(2,058)*
Amortization and depreciation charge	(5,872)	(7,210)	(16,811)
Loss on disposal of fixed assets	-	(82)	(1)
Other results	293	(233)	530
Impairment and P&L from loss of significant influence over holdings in equity or joint control over a multigroup company	**1,264**	-	-
Operating profit (EBIT)	**61,022**	**40,190**	**50,876**
Net financial result	(13,400)	3,612	(5,411)
Profit before tax	**47,622**	**43,802**	**45,465**
Income tax charge	(10,791)	(12,821)	(6,981)
Profit for the year	**36,831**	**30,981**	**38,484**

Recent Group performance

Backlog as at February 28, 2015

Talgo's backlog as at February 28, 2015 was €3,818 million, of which manufacturing backlog was €1,146,253 thousand, maintenance services backlog was €2,637,045 thousand and maintenance equipment and other backlog was €34,334 thousand. The major order won in the period from January 1, 2015 to February 28, 2015, which contributed €176 million to the backlog, was the new contract awarded by the SRO to supply 6 High-Speed trains. Talgo believes that, as at the date of this document, it is on track to realize the portion of its December 31, 2014 backlog that it had budgeted for at the beginning of the year.

Potential acquisition in Kazakhstan of a 51% stake in Tulpar-Talgo LLP and signing of a new Regional Commuter agreement

Talgo is currently at an advanced stage of negotiations with KTZ to acquire a 51% stake in Tulpar-Talgo LLP ("**Tulpar**"), a Kazahkstan corporation owned by KTZ whose sole activity is the purchase and further assembly of Talgo trains for the delivery to the KTZ) and to enter into a contract under which Talgo would manufacture Regional Commuter trains. As of the date of this document, the Company indirectly owns 0.00074% of Tulpar (as Talgo was diluted in a capital increase executed by Tulpar in 2012).

Talgo estimates that the acquisition price would amount to between €30,000 thousand and €35,000 thousand.

The potential acquisition would not imply a significant gross change (i.e. a variation of more than 25% in Talgo's net turnover, profits and/or assets as adjusted following the consolidation process). Following the acquisition, Tulpar will become a consolidated subsidiary of Patentes Talgo.

Loan agreement with Banco Santander, S.A.

On April 16, 2015, Talgo entered into a finance agreement with Banco Santander, S.A., for a total amount of €100,000 thousand (see "*Borrowings*").

Analysis of Results for the Years Ended December 31, 2012, 2013 and 2014

Net turnover

In 2014, Talgo focused its production on the initial stages of the three projects with the most activity relating to the Kazakhstan 420 cars project. Net turnover for 2014 was €384,311 thousand, an increase of 17.6% compared to €326,719 thousand for 2013, driven by an increase in activity in 2014 related to the Saudi Arabia (the first train under the contract was delivered in December 2014), Kazakhstan (Talgo manufactured 16 additional cars of the 420) and Russia manufacturing projects.

Regarding the maintenance projects, in 2014 net turnover in Spain decreased by approximately 3% compared to 2013, mainly due to the lower number of kilometers run by maintained trains. This effect was more than offset by the substantial increase of 53% in net turnover from the maintenance of rolling stock in Kazakhstan.

The net turnover of Maintenance equipment and other segment in 2013 increased from €19,000 thousand to €20,349 thousand mainly due to the completion of the modification of Series 7 cars for Renfe and the manufacturing of pit lathes in France, Austria and Switzerland. In 2014, the net turnover of the segment decreased from €20,349 thousand to €13,402 thousand, which was mainly due to the commencement of activities under new contracts for the overhauling of Series 4 cars for Renfe and the production of new pit lathes. Also during 2014, Talgo generated additional net turnover from the provision of training and technical assistance in Kazakhstan.

Additionally, in 2014 Talgo included 100% of the High Speed trains maintenance turnover of Tarvia Mantenimiento Ferroviario, S.A. which was consolidated into the Group as a result of the Group's acquisition of the remaining 49% interest in its share capital in September 2013. On September 30, 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 for an amount of €16 million. The entity is involved in the comprehensive maintenance of rolling stock and railway facilities in Spain.

Following this acquisition, Patentes Talgo, S.L.U. took over the subsidiary Tarvia Mantenimiento Ferroviario, S.A. and the subsidiary was therefore no longer integrated in the proportional integration method from such date.

On December 10, 2013, the Group registered the merger in the Commercial Registry. The merger was agreed and formalized by the directors of the subsidiary on November 5, 2013 whereby Patentes Talgo, S.L.U. acquired Tarvia Mantenimiento Ferroviario, S.A. The merger implied the winding up of the acquired company and the *en block* transfer of its equity to Patentes Talgo S.L.U., which acquired all the rights and obligations of Tarvia Mantenimiento Ferroviario, S.A. by universal succession.

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

The date from which all Tarvia Mantenimiento Ferroviario, S.A. operations are considered to be performed by Patentes Talgo, S.L.U. for accounting purposes is September 30, 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 net turnover of €3,879 thousand and a net profit of €98 thousand to the Group in 2014.

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

For further information, see Note 31 of the Audited Annual Consolidated Financial Statements.

Net turnover for 2013 was €326,719 thousand, a decrease of approximately 1.0% in comparison to net turnover of €329,918 thousand in 2012. In 2013, net turnover from Talgo's Rolling Stock segment was €306,370 thousand, a decrease of approximately 1.5% when compared to the €310,918 thousand in 2012. This decrease was partially offset by the increase in net turnover from Talgo's Maintenance equipment and other segment, which increased by 7.1% from €19,000 thousand in 2012 to €20,349 thousand in 2013. This increase was primarily due to the sale of spare parts.

Works performed and capitalized by the Company

Works performed and capitalized by the Company for 2014 amounted to €8,380 thousand, as compared to €17,040 thousand for 2013. This decrease of 50.8% was primarily due to the finalization of the development of the AVRIL project.

Works performed and capitalized in 2013 amounted to €17,040 thousand, as compared to €18,935 thousand in 2012. This decrease of 10.0% was primarily due to the development of the AVRIL project.

Procurement costs

Procurement costs in 2014 were €180,809 thousand, an increase of 32.0% as compared to €136,950 thousand in 2013. In 2014, the increase of Talgo's procurement costs was primarily attributable to an increase in activity relating to assembly of third party components used in the Mecca-Medina manufacturing project. See explanation on how procurement costs vary substantially depending on the specific phase of the manufacturing process of a contract at any given time, in "*Conversion of backlog into turnover*" and "*Factors Affecting Talgo's Results of Operations-Procurement costs*".

The following table sets forth Talgo's procurement costs for the years ended December 31, 2012, 2013 and 2014.

	For the year ended December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
Domestic purchases	66,250	86,247	106,405
Intra-community acquisitions	15,653	19,038	29,320
Imports	10,479	1,182	3,640
Changes in stock	15,744	(6,307)	(1,670)
Consumption of raw materials and other consumables	**108,126**	**100,160**	**137,695**
Other expenses	34,361	38,047	43,033
Other external expenses[1]	**34,361**	**38,047**	**43,033**
Impairment of raw materials and other supplies	(591)	(1,257)	81
Impairment of raw materials and other supplies	**(591)**	**(1,257)**	**81**
Total	**141,896**	**136,950**	**180,809**

[1] Includes mainly train cleaning and other subcontracted activities.

Personnel costs

The following table sets out a breakdown of Talgo's personnel costs for the years ended December 31, 2012, 2013 and 2014:

	For the year ended December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
Wages, salaries and similar	59,723	62,493	63,681
Long-term stock compensation plan	10,941	9,636	18,360
Contributions and provisions for defined pension contributions and other obligations	1,445	1,556	1,655
Other welfare charges	17,928	19,085	20,860
Total Employee benefit expenses	**90,037**	**92,770**	**104,556**

Talgo's personnel costs increased by €11,786 thousand, or 12.7%, from €92,770 thousand in 2013 to €104,556 thousand in 2014. €8,724 thousand of this increase was due to the increase in the provision for the long-term stock compensation plan in 2014 in anticipation of Admission taking place during 2015 and the remaining €3,061 thousand was due to an increase in the average number of employees from 1,567 in 2013 to 1,684 in 2014.

Talgo's personnel costs in 2013 increased by approximately 3.0% compared to €90,037 thousand in 2012, which was primarily due to the increase in the average number of employees from 1,552 in 2012 to 1,567 in 2013 and internal promotions.

Other operating expenses

The following table sets out a breakdown of Talgo's other operating expenses for the years ended December 31, 2012, 2013 and 2014:

	For the year ended December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
External services[1]	52,141	48,595	45,102
Taxes	483	312	344
Losses, impairment and variation in provisions	(612)	17,038	2,109
Other current operating expenses	782	182	143
Other operating expenses	**52,794**	**66,127**	**47,698**

[1] Mainly includes the supply of services such as electricity, gas, telecommunications, office materials, meals, insurance, external legal advisors, auditors, travel expenses, marketing, etc.

Talgo's other operating expenses decreased by 27.9% to €47,698 thousand in 2014, as compared to €66,127 thousand in 2013. This decrease was mainly due to the change of provisions as a result of a bad debt provision accrued in 2013 of €10,401 thousand, primarily related to tax expenses for 2013, that Talgo management defines and considers to be non-recurrent, due to a tax inspection of the Company referred to in Note 25 of the Audited Annual Consolidated Financial Statements and a provision related to inventory in 2013 of €1,738 thousand.

Talgo's other operating expenses increased by 25.25%, to €66,127 thousand in 2013, as compared to €52,794 thousand in 2012. This increase was primarily due to the increase in changes in provisions of €17,038 thousand in 2013 from €(612) thousand in 2012, which was driven by the net effect of a bad debt provision accrued in 2013 of €10,401 thousand, primarily related to the tax expense that Talgo management defines and considers to be non-recurrent, and the provision relating to inventory referred to in the paragraph above. Talgo management considers the net effect to be extraordinary.

Amortization and Depreciation charge

Talgo's amortization increased from €5,872 thousand in 2012 to €7,210 thousand in 2013 and to €16,811 thousand in 2014. The increase in 2014 was primarily due to the amortization of AVRIL project of €7,586 million and the increase in 2013 with respect to 2012 was primarily due to the amortization of the new investments in Rivabellosa and Las Matas II manufacturing facilities.

Other results

Other results were income of €530 thousand in 2014, as compared to an expense of €233 thousand in 2013, due to an increase in scrap sales in 2014 and an indemnity received from FREMAP (the mutual insurance company covering work-related accidents), given Talgo's low accident rate, and also because a €1,000 thousand donation to the Talgo Foundation made in 2013, that Talgo management defines and considers to be non-recurrent, and which was not repeated in 2014. Other results included an income of €293 thousand in 2012.

Net financial result

The breakdown of the Group's net financial result is shown in the table below:

	For the year ended December 31,		
	2012 **(€ thousand)**	**2013** **(€ thousand)**	**2014** **(€ thousand)**
Interest expenses:			
- Bank borrowings and other charges	(13,666)	(10,061)	(7,125)
- Hedge derivatives	(978)	-	-
- Exchange differences	(126)	(506)	-
Financial expenses	**(14,770)**	**(10,567)**	**(7,125)**
- Interest income on short term deposits with credit institutions	1 370	2,158	1,596
- Group and associate companies	-	10	-
- Variation of the fair value of the financial instruments - result allocated to the business combination	-	12 011	-
- Exchange differences	-	-	118
Financial income	**1,370**	**14,179**	**1,714**
Net financial cost	**(13,400)**	**3,612**	**(5,411)**

Talgo's net financial results were €5,411 thousand of financial expenses in 2014, as compared to €3,612 thousand of net financial income in 2013. The income in 2013 included financial income of €12,063 thousand recognized in 2013, due to the merger of Patentes Talgo, S.L.U. and Tarvia Mantenimiento Ferroviario, S.A. and the resulting revaluation of the 51% stake in Tarvia Mantenimiento Ferroviario, S.A. already held by Talgo pursuant to EU-IFRS 3. Financial expenses in 2014 were €7,125 thousand, as compared to €10,567 thousand in 2013, due to a decrease in bank guarantee bonds costs.

Talgo's net financial results were €3,612 thousand of net financial income in 2013, as compared to €13,400 thousand of net financial loss in 2012 due to the abovementioned financial income recognized in 2013 regarding to the referred merger. Financial expenses were €10,567 thousand in 2013, as compared to €14,770 thousand in 2012. This decrease was due to the payment of upfront fees related to bank guarantee bonds in connection with the Mecca-Medina project in 2012.

Tax

Talgo's income tax expenses in 2014 decreased by 45%, to €6,981 thousand, as compared to €12,821 thousand in 2013. The decrease was primarily due to the fact that, despite lower deductions for R&D in 2014 (€2,647 thousand) compared to the amounts in 2013 (€6,195 thousand), the tax expense resulting from the inspection referred to in "*Other Operating Expenses*", that Talgo management defines and considers to be non-recurrent, substantially increased income tax expenses in 2013.

Talgo's income tax expense in 2013 increased by 18.8% to €12,821 thousand, from €10,791 thousand in 2012, due to a tax expense resulting from the tax inspection referred to in the paragraph above, which Talgo management defines and considers as being non-recurrent.

Profit for the year

Talgo's profit for 2014 was €38,484 thousand, an increase of 24.2% as compared to €30,981 thousand in 2013. This increase was primarily the result of an increase in net turnover, together with (i) an improvement in the average operating profit from the projects in 2014; and (ii) the decrease in income tax expense described in "*Taxation*" above, although the net financial result in 2013 was higher, due to the effect of the acquisition of Tarvia Mantenimiento Ferroviario, S.A., as explained in "*Net Financial Expenses*".

Talgo's profit for 2013 was €30,981 thousand, a decrease of 15.9% compared to €36,831 thousand in 2012. This decrease was primarily due to the decrease in the turnover from rolling stock and the increase in personnel costs and other operating expenses, as explained above.

Liquidity and Capital Resources

Cash Flows

The following table presents selected data from Talgo's cash flow statements for each of the years ended December 31, 2012, 2013 and 2014.

	For the year ended December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
Cash, cash equivalents and bank overdrafts at the beginning of year	**83,710**	**12,471**	**95,986**
Cash and cash equivalents resulting from the merge	-	4,129	-
Net cash inflow/(outflow) generated from operating activities	(47,853)	154,826	555
Net cash inflow/(outflow) used in investing activities	(21,884)	(53,202)	(23,887)
Net cash inflow/(outflow) used / (generated) in financing activities	(1,502)	(22,238)	15,256
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	(71,239)	79,386	(8,076)
Effect of foreign exchange rate changes	-	-	-
Cash, cash equivalents and bank overdrafts at the end of year	**12,471**	**95,986**	**87,910**

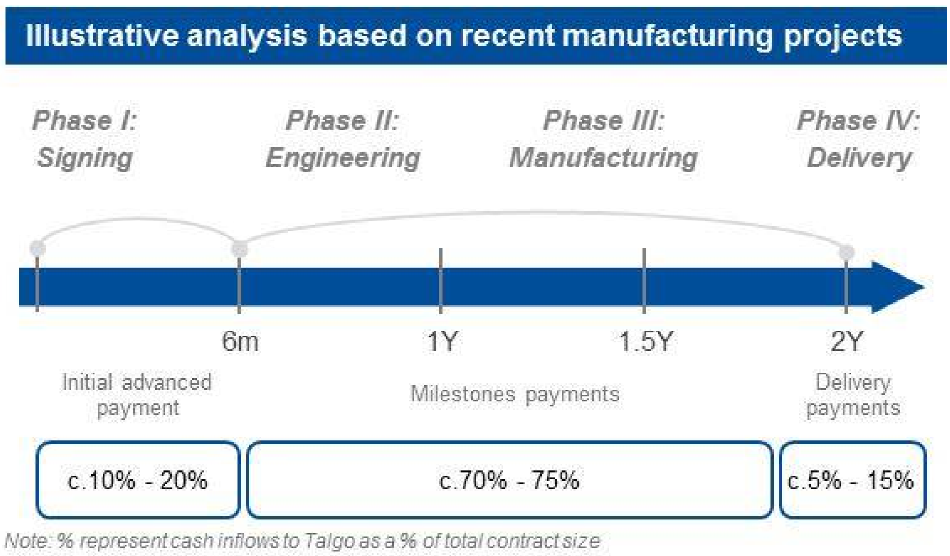
Cash flow from operating activities

Talgo derives its cash inflow from operations principally relating to rolling stock activities. Talgo's cash outflow from operations is principally comprised of procurement costs, materials, salaries and indirect costs.

Talgo had a net cash inflow from operating activities of €555 thousand in 2014, as compared to a net cash inflow from operating activities of €154,826 thousand in 2013 and a net cash flow outflow from operating activities of €47,853 thousand in 2012. These fluctuations were affected by: (i) significant advance payments received in rolling stock activities in 2013 related to manufacturing contracts which resulted in a lower cash inflow from its rolling stock manufacturing activities in 2014; (ii) a delay in collections from rolling stock customers in the fourth quarter of 2012 and received in the first quarter of 2013 relating to two of Talgo's top five customers; and (iii) in 2014, Talgo incurred higher cash outflows to suppliers compared to 2013, which was primarily attributable to costs relating to the procurement of third party components given the increase in its rolling stock activities.

In contracts where the percentage-of-completion accounting method is used, Talgo's turnover is not tied to specific invoicing contract milestones, but to the percentage of work completed. However, Talgo receives cash from customers according to milestones established in the different contracts. Therefore, the amount of turnover Talgo recognizes is not necessarily related to the cash inflows from such contracts.

Talgo's cash cycle can vary significantly depending on the size and stage of each contract and agreed payment milestones. As shown in the following illustrative chart, Talgo typically receives pre-payments from its customers once a new manufacturing contract of any product is signed. Consequently, Talgo expects to have cumulative net cash positions throughout the execution of each manufacturing project. An illustrative chart of Talgo's cash cycle under a standard contract is included below:



Cash flow from investment activities

Talgo's investment activities mainly comprise investment in technology / new products, investments in the manufacturing facilities, acquisitions of interests in subsidiaries and disposals of associated companies and available-for-sale investments.

Talgo also incurs other capital expenditures for its day-to-day operations and these expenditures represented 1.74%, 1.94% and 1.76% of its net turnover for the years ended December 31, 2012, 2013 and 2014, respectively. Talgo's management defines and considers these "other" capital expenditures to be recurrent investments. In addition, Talgo has a long-term capital expenditure cycle. Any new product development and investment in facilities may require significant investments from time to time.

For 2014, Talgo's net cash outflow from investment activities was €23,887 thousand, as compared to a net cash outflow of €53,202 thousand in 2013, primarily due to the acquisition in 2013 of the remaining 49% interest in Tarvia Mantenimiento Ferroviario, S.A. previously owned by Renfe. As a result of this acquisition and the subsequent merger between Patentes Talgo, S.L.U. and Tarvia Mantenimiento Ferroviario, S.A. at the end of 2013, in 2014 and future periods the Group will reflect 100% of the net turnover relating to High Speed train maintenance undertaken for Renfe. Investments in the AVRIL prototype amounts €14,224 thousand €11,725 thousand and €3,821 thousand for 2012, 2013 and 2014, respectively.

Talgo had a net cash outflow from investment activities of €53,202 thousand in 2013, as compared to a net cash outflow of €21,884 thousand in 2012. This increase primarily resulted from the investments in new products and the investments in the manufacturing facilities of Rivabellosa and Las Matas II described in "*Capital Expenditure*" below and the acquisition of the 49% stake in Tarvia Mantenimiento Ferroviario, S.A., as mentioned above.

Cash flow from financing activities

Talgo's financing activities consist primarily of credit entity accounts payable and low interest loans from public entities.

In 2013, a net cash outflow of €22,238 thousand was recorded, primarily for the repayment of previously drawn-down bank credit facilities.

In 2014, a net cash inflow of €15,256 thousand occurred as a result of the €10,000 thousand draw-down under the European Investment Bank (EIB) facility and other low-interest loans received during the year.

Financing Arrangements

Talgo has historically financed its business primarily through internally generated cash flows (no dividends have been paid out in years 2012, 2013 and 2014 to be reinvested in Talgo's business) and certain types of external funding, as summarized below:

- ***Bank loans***. Talgo has used bank loans to finance its working capital needs. For a description of Talgo's bank loans, see "*Indebtedness and Contingent Liabilities-Borrowings*" below.

- ***Governmental entities loans***. Talgo has used Spanish Science and Innovation Ministry low interest loans to finance its R&D projects. For a discussion of Talgo's governmental entities loans, see "*Indebtedness and Contingent Liabilities-Borrowings*" below.

- ***EIB loan***. Talgo has used an EIB low-interest loan to finance its R&D projects. EIB is currently the main lender to Talgo. For a description of the main terms and conditions of the EIB loan, see "*Borrowings-Credit entities payable*".

During the years 2012, 2103 and 2014 external governmental entities loans and the EIB loan represented 28%, 26% and 24% of Talgo's total financing, respectively.

In the future, Talgo expects to use funds from a combination of sources to fund new projects, including internally generated cash flow, bank loans, proceeds from potential offerings of securities and other funds raised in the capital markets from time to time.

Working capital

Talgo's cash cycle can vary significantly depending on the size and stage of each contract and agreed payment milestones. Customers generally make prepayments on the signing of a contract, which payment generally accounts for 10-20% of the total contract size. Project execution is generally pre funded by the prepayments, with only a limited portion of the total contract size being payable after the final delivery (c.5-15% of the total contract size).

Talgo targets cumulative net cash positions throughout each project. Nevertheless, Talgo secures financing arrangements on the project by project and corporate levels in order to have sufficient financing flexibility to manage cash flow movements in case they are needed at a specific time or due to changes in manufacturing programs.

Working capital includes trade and other receivables, assets held for sale, inventories and trade and other payables. The table below presents Talgo's working capital as at December 31, 2012, 2013 and 2014.

	As at December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
Customers and other accounts receivable(1)	169,708	113,644	158,470
Asset accruals and other financial assets(2)	1,529	2,639	1,970
Non-current assets held for sale	-	-	6,114
Stock	36,195	49,428	71,723
Suppliers and other payables (excl. advances)	(119,376)	(121,509)	(132,688)
Advances on orders(3)	(47,135)	(114,320)	(89,557)
Provisions for other liabilities and changes and current tax liabilities(4)	(10,613)	(14,497)	(3,687)
Working capital (unaudited) (5)	**30,308**	**(84,615)**	**12,345**

(1) Includes work performed pending to be invoiced of €39.3 million, 4.2 million and €40.6 million as at December 31, 2012, 2013 and 2014, respectively.

(2) Includes asset accruals and other financial assets.

(3) Includes advances invoiced from clients pending to be received of €3.6 million, €25.0 million and €37.2 million as of December 31, 2012, 2013 and 2014, respectively.

(4) Includes current tax liability and provisions for other liabilities.

(5) Working capital is an unaudited measure which is derived from the Audited Annual Consolidated Financial Statements.

Talgo 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 is the case of its Las Rozas offices in Madrid. 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 a delay occurs due to events or circumstances beyond Talgo's control and Talgo continues to be committed to its intention to sell the asset.

The working capital position at any point in time is highly influenced by the stage of development and the relative size of different manufacturing contracts. Talgo believes that its working capital position has to be analyzed over a period of several years, as such period will capture the entire manufacturing cycle.

During the period 2012 to 2014, the main change to the Group's working capital was the decrease in 2013, mainly driven by the advances received in relation to projects that will be executed in future years.

Any changes in Talgo's working capital position does not necessarily imply an equivalent change in cash or cash equivalents as Talgo may recognize short-term provisions or reclassify non-current assets or non-current liabilities to current assets or current liabilities (any of which would not affect the Talgo's cash or cash equivalents as of that date).

Talgo expects to experience a significant working capital outflow in 2015 due to the stage of development of its key manufacturing projects. This trend is expected to reverse over the following three years.

Indebtedness and Contingent Liabilities

Indebtedness

The table below summarizes Talgo's net financial debt as at December 31, 2012, 2013 and 2014:

	As at December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
Debt with credit institutions [(1)]	65,418	43,184	52,231
Financial lease creditors[(1)]	1,346	1,977	1,285
Total financial debt	**66,764**	**45,161**	**53,516**
Cash and cash equivalents	(12,471)	(95,986)	(87,910)
Total net financial debt	**54,293**	**(50,825)**	**(34,394)**
EBITDA/ Financial Expenses	**4.56**	**5.49**	**9.79**
Total Financial Debt / Equity	**0.45**	**0.24**	**0.21**
Total Financial Net Debt / EBITDA	**0.81**	**(0.88)**	**(0.49)**

(1) Including non-current and current

Borrowings

Talgo's borrowings as at December 31, 2012, 2013 and 2014 were as follows:

	As at December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
Borrowings included in non-current liabilities:			
Debt with credit institutions	42,900	41,467	42,000
Financial lease creditors	996	1,292	600
Other financial liabilities	19,911	30,008	31,209
Total non-current borrowings	**63,807**	**72,767**	**73,809**
Borrowings included in current liabilities:			
Debt with credit institutions	22,518	1,717	10,231
Financial lease creditors	350	685	685
Other financial liabilities	1,153	184	1,463
Total current borrowings	**24,021**	**2,586**	**12,379**
Total borrowings	**87,828**	**75,353**	**86,188**

Interest rates on Talgo's financial debt denominated in euros ranged from 2.7% to 2.0% as at December 31, 2014 and are based on euro interest rates.

The table below sets out the amount of bank loans drawn by the Group as at December 31, 2014:

Borrower	Lending Bank	Total Loan (€ thousand)	Interest Rate (%)	Loan Maturity Date
Patentes Talgo, S.L.U.	EIB	40,000	2.53%*	December 2019
Patentes Talgo, S.L.U.	EIB	10,000	2.72%*	May 2021
Talgo Deutschland GmbH	UniCredit Bank AG	1,833	2.00%**	December 2015

* Fixed interest rate
** Variable interest rate applicable as of December 31, 2014.

As at December 31, 2014, Talgo had total credit facilities of €20,000 thousand available, none of which were drawn down. As of the date of this document those credit facilities have been cancelled and Talgo has agreed, with financial entities comprising Caixabank, S.A., Bankia, S.A. and Bankinter, S.A, new credit line facilities for the ordinary course of Talgo's business for a total amount of €130,000 thousand available (1 year revolving and interests payable is referenced to EURIBOR plus an applicable margin of 100 basis points), none of which are drawn down. Of these new credit line facilities, €70,000 thousand have already been signed. Talgo's borrowing requirements are not subject to seasonality.

Loan granted by Banco Santander, S.A.

On April 16, 2015, the Company and Patentes Talgo, as joint and several borrowers, entered into a finance agreement with Banco Santander, S.A., for a total amount of €100,000 thousand. The loan matures in April 2020. The intermediate repayments of the loan in 2016, 2017, 2018, 2019 and 2020 amount to 10%, 10%, 10%, 10%, and 60% of the loan, respectively. The interest payable is referenced to EURIBOR plus an applicable margin of 150 basis points. The principal covenants included in this new finance agreement include that Talgo should maintain a total financial debt / Adjusted EBITDA ratio below 3x.

Credit entities payable

On December 19, 2012, Patentes Talgo, S.L.U. entered into a finance agreement with the European Investment Bank, for an amount of up to €50,000 thousand. At December 31, 2013 €40,000 thousand had been drawn down and the full €50,000 thousand had been drawn down at December 31, 2014. At December 31, 2014, the loan had been classified as a non-current liability for €42,000 thousand and as a current liability for €8,000 thousand. The average interest rate payable under the agreement is 2.57%.

The contract contains associated customary obligations, prepayment clauses, restrictions and financial covenants with which Talgo has complied from the date the contract entered into force.

Amongst other customary restrictions, the principal restrictions in the contract are in relation to dividend distributions (which cannot exceed 50% of the distributable net results for any given financial year), restrictions on asset disposals, negative pledge, *pari passu* ranking and limitation of the amount of subsidiary indebtedness.

The contract requires Talgo to comply with certain financial covenants that are calculated on the basis of Talgo's audited annual consolidated financial statements and of Patentes Talgo, S.L.U. and its subsidiaries consolidated semi-annual financial statements, including:

(i) a commitment ratio of net financial indebtedness to EBITDA (equal to or less than 3.0x). As at December 31, 2014 Talgo had complied with this commitment ratio;

(ii) a financial expenses ratio which compares EBITDA to financial expenses (equal to or higher than 4.0x). As at December 31, 2014 Talgo had complied with this financial expenses ratio;

(iii) a total indebtedness to equity ratio (equal to or lower than 1.0x). As at December 31, 2014 Talgo had complied with this total indebtedness to equity ratio; and

(iv) a guarantee ratio: Patentes Talgo, S.L.U. shall represent at all times at least 80% of the total assets of Patentes Talgo, S.L.U. and its subsidiaries (including non-recourse subsidiaries, if any), 80% of the EBITDA of Patentes Talgo, S.L.U. and its subsidiaries (including non-recourse subsidiaries, if any) and 80% of the total income of Patentes Talgo, S.L.U. and its subsidiaries calculated on the basis of Patentes Talgo, S.L.U. and its subsidiaries' audited annual consolidated financial statements.

On December 18, 2012, Talgo opened several credit facilities with different financial entities for up to €90,000 thousand. As at December 31, 2014 and 2013, the Group had credit facilities for an amount of €20,000 thousand, and €35,000 thousand, respectively, with no amounts drawn-down from these credit facilities on either date.

On December 13, 2011, the subsidiary company Talgo Deutschland, GmbH signed a finance agreement with UniCredit Bank AG amounting to €4,400 thousand, of which €1,833 thousand are classified as short-term liabilities. The loan accrues a market interest rate.

The interest and commission accrued and unpaid as at December 31, 2014 under the above mentioned contracts amounted to €398 thousand and were recorded as current liabilities.

The maturity of Talgo's credit entity accounts payable as at December 31, 2014 is described below:

	2015	**2016**	**2017**	**2018**	**Subsequent years**	**Total**
Debt with credit institutions (€ thousand)	10,231	8,000	10,000	10,000	14,000	**52,231**

Financial lease creditors

On August 1, 2011, the Group entered into a lease agreement with Bankinter for main spare parts amounting to €3,427 thousand. The maturity date of the agreement is May 1, 2016 and it includes a purchase option exercisable for the amount of €192 thousand upon maturity.

The "Financial lease creditors" payment schedule as at December 31, 2014, was as follows:

	2015 (€ thousand)	**2016** (€ thousand)	**Total** (€ thousand)
Financial lease creditors	685	600	1,285
Total	**685**	**600**	**1,285**

Other financial liabilities

"Other liabilities" mainly include Talgo's debts with the Spanish Center of Industrial Technological Development (CDTI) and the Spanish Ministry of Science and Innovation for several technological development projects (Governmental Entities Loans). These loans were granted to Talgo for the development of projects regarding track gauge shifting systems and High Speed.

These loans are provided at subsidized interest rates (a weighted average interest rate of 0.71% on drawn amounts), and Talgo expects the amounts under these captions to remain relatively stable as the Company continues to invest in R&D (in particular in relation to new potential manufacturing orders).

The maturities of these debts, as at December 31, 2014, were as follows:

As at December 31, 2014	**2015**	**2016**	**2017**	**2018**	**2019**	**Subsequent years**	**Total**
	(€ thousand)						
Debts due to reimbursable advances	1,403	1,993	3,169	3,565	4,000	15,780	**29,910**

Contractual Obligations

The following table describes Talgo's contractual obligations and commitments with definitive payment terms which may require significant cash outlays in the future. The amounts payable (including accrued interest payments) are given as at December 31, 2014. For additional information, see Note 17 of the Audited Annual Consolidated Financial Statements.

	Due in				
	Less than 1 year	**1-2 Years**	**2-5 Years**	**More than 5 years**	**Total**
			(€ thousand) (unaudited)		
Debt with credit institutions	10,231	8,000	30,000	4,000	**52,231**
Suppliers and other payables[1]	132,688	-	-	-	**132,688**
Debts due to reimbursable advances	1,403	1,993	10,734	15,780	**29,910**
Financial lease creditors	685	600	-	-	**1,285**
Total	**145,007**	**10,593**	**40,734**	**19,780**	**216,114**

[1] Includes suppliers and other accounts payable, excluding advance payments.

Contingent Liabilities

As at December 31, 2014, Talgo had provided guarantee bonds for €422,384 thousand primarily related to the Rolling Stock segment. The remaining ones are (i) granted to governmental entities in connection with low interest loans aimed at financing Talgo's R&D projects; (ii) related to Maintenance equipment and other segment; and (iii) related to public bid processes and other minor items. Available guarantee bond facilities as at December 31, 2014 amounted to an additional €358,191 thousand. The principal providers of those guarantees were BBVA, Bankinter and Banco Popular. The cost of such guarantees amounted to €6,995 thousand, as of December 31, 2014.

The detail of the €422,384 guarantee bonds as of December 31, 2014 was as follows:

	As at December 31, 2014 (€ thousand)
Manufacturing	386,300
Maintenance	9,074
Maintenance Systems	3,648
Repairs & Modifications	3,418
Loans	18,059
Awarded	1,691
Other	194
Total	**422,384**

		As at December 31, 2014
Customer	**Country**	**(€ thousand)**
Renfe	Spain	97,260
ADIF	Spain	1,229
RZD Federal Passenger Company	Russia	84,666
Saudi Arabia Railways	Saudi Arabia	216,989
Others	Others	4,182
CDTI	Spain	16,969
Innovation and Science Ministry	Spain	1,089
Total		**422,384**

According to the agreement between the Consorcio Español Alta Velocidad Meca Medina, S.A. and the Saudi Railway Organization and the consortium and shareholders agreement executed among the shareholder of Consorcio Español Alta Velocidad Meca Medina, S.A., all consortium members (including Patentes Talgo, S.L.U.) are jointly and severally liable to the end customer, allowing in any case for each member of the consortium to claim *vis-à-vis* the other parties, according to the distribution of contractual performance obligations. Guarantees granted by Talgo as of December 31, 2014 related to this agreement amounted to €216,989 thousand. For additional information on the contract, see "*Material Contracts*".

Save as disclosed above, as at December 31, 2014, Talgo did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or any other material contingent liabilities.

For additional information, see "*Capitalization and indebtedness*".

Off-Balance Sheet Commitments and Arrangements

Save as provided in "*Operating and Financial Review-Indebtedness and Contingent Liabilities-Contingent Liabilities*" regarding the guarantee bonds, as at December 31, 2014, Talgo did not have any material off-balance sheet arrangements.

Capital Expenditure

Talgo's capital expenditure includes investments in the manufacturing facilities of Rivabellosa and Las Matas II, which primarily relate to the industrial production capacity increase for new projects in Saudi Arabia, Russia and Kazakhstan and future projects, as well as machinery used to manufacture and refurbish rolling stock products and maintenance equipment.

Talgo's capital expenditure also includes R&D investment, such as, during the period under review, in relation to the development of the AVRIL prototype.

Other capital expenditure includes all what Talgo's management considers to be the maintenance investments in facilities and machinery that were required to perform Talgo's activities.

During the years ended December 31, 2012, 2013 and 2014, Talgo's total capital expenditure was €19,955 thousand, €35,946 thousand and €23,887 thousand, respectively. These amounts corresponded to 6.0%, 11.0% and 6.2% of net turnover during each year, respectively. The table below shows the breakdown of capital expenditure amongst the categories mentioned above for the financial years ended December 31, 2012, 2013 and 2014.

	As at December 31,		
Capital Expenditure	**2012 (€ thousand)**	**2013 (€ thousand)**	**2014 (€ thousand)**
Rivabellosa and Las Matas II	-	17,896	13,251
AVRIL development	14,224	11,725	3,891
Other	5,731	6,325	6,745
Total	**19,955**	**35,946**	**23,887**

Talgo's capital expenditure commitments as at December 31, 2014 included the Rivabellosa facility works completion, Regional Commuter engineering completion and bodyshells manufacturing, AVRIL final testing certification and Russian wide bodyshells and light components, amongst others, and such commitments amounted to approximately €5,863 thousand at such date. Talgo expects to fund these commitments with cash generated from Talgo's operations and bank credit facilities.

In the coming years, Talgo expects to maintain a similar level of "Other" capital expenditures in absolute terms, which Talgo management defines and considers as recurrent capital expenditure. In addition, Talgo expects to incur approximately €35 million in cumulative extraordinary capex over the two year period ended December 31, 2016 for: (i) finalization of capacity expansion (approximately €15 million), (ii) new product development (Regional Commuter) (approximately €14-16 million) and (iii) certification of AVRIL (approximately €5 million). It should be noted that Talgo has a long-term capital expenditure cycle, with new product development requiring occasional significant capital expenditures that will be paid with Talgo's internal resources.

Talgo's current planned capital expenditure is subject to change, the progress of Talgo's capital projects, market conditions and Talgo's outlook of future business conditions.

Investment in intangible assets

The table below sets forth Talgo's capital expenditure in intangible assets for each of the years ended December 31, 2012, 2013 and 2014.

Capital Expenditure	2012 (€ thousand)	2013 (€ thousand)	2014 (€ thousand)
AVRIL development	14,224	11,725	3,891
Other	1,811	3,682	2,330
Total	**16,035**	**15,407**	**6,221**

For 2012, 2013 and 2014 Talgo's intangible capital expenditure corresponded to 4.9%, 4.7% and 1.6% of net turnover during those years. The primary factor responsible for the decrease was the development of the AVRIL prototype.

Investment in tangible assets

The table below sets forth Talgo's capital expenditure in tangible assets for each of the years ended December 31, 2012, 2013 and 2014.

Capital Expenditure	2012 (€ thousand)	2013 (€ thousand)	2014 (€ thousand)
Las Matas II and Rivabellosa	-	17,896	13,251
Other	3,920	2,643	4,415
Total	**3,920**	**20,539**	**17,666**

For 2012, 2013 and 2014, Talgo's tangible capital expenditure corresponded to 1.2%, 6.3% and 4.6% of net turnover during those years. The primary factor responsible for the high levels of investments in 2013 and 2014 was the investment associated with the investment made at the Group's Rivabellosa facility.

Market Risks

Talgo is exposed to various types of market risk, including risks relating to changes in interest rates, foreign exchange, liquidity and inflation in the ordinary course of its business.

For additional information, see "*Risk Factors*".

Interest Rate

Talgo regards fluctuations in interest rates as a market risk exposure. The Company's exposure to changes in interest rates is primarily attributable to its borrowings. Borrowings at variable rates expose it to cash flow interest-rate risk. Borrowings at fixed rates expose it to fair value interest-rate risk. The interest rates and terms of repayment of Talgo's borrowings are disclosed in Note 17 to the Audited Annual Consolidated Financial Statements, which provides further information.

Tangible assets located in Spain

As at December 31, 2012, 2013 and 2014, Talgo had investments in Spain in tangible fixed assets, with a net book value as at such dates as detailed below:

	As at December 31,		
	2012	2013	2014
	(€ thousand)	(€ thousand)	(€ thousand)
Tangible fixed assets			
Land and buildings	38,356	45,205	41,340
Technical installations and machinery	13,481	14,606	18,875
Other facilities, tools and furniture	36,784	41,816	44,555
Advances and work in progress	3,087	5,913	4,673
Other fixed assets	6,876	6,860	7,130
Depreciation	(54,951)	(56,464)	(55,820)
Net book value	**43,633**	**57,936**	**60,753**

As at 31 December 2012, 2013 and 2014, Talgo had investments in Spain in intangible fixed assets with the net book values detailed below:

	As at December 31,		
	2012	2013	2014
Intangible fixed assets	(€ thousand)	(€ thousand)	(€ thousand)
Research and development	48,781	51,820	91,724
Industrial property	1,749	1,749	1,749
Maintenance contracts	-	25,069	25,069
Software	5,924	8,322	8,385
Advances and work in progress	31,145	41,462	7,576
Accumulated amortization and impairment losses	(54,908)	(57,562)	(68,747)
Net book value	**32,691**	**70,860**	**65,756**

Tangible assets located abroad

As at December 31, 2012, 2013 and 2014, Talgo had investments abroad in tangible fixed assets, with a net book value as at such dates as detailed below:

	As at December 31,		
	2012	2013	2014
	(€ thousand)	(€ thousand)	(€ thousand)
Tangible fixed assets			
Land and buildings	12,438	12,403	15,997
Technical installations and machinery	4,355	6,063	8,487
Other installations, tools and furniture	3,071	3,235	3,420
Advances and Construction in progress	691	1,427	-
Other tangible fixed assets	127	125	147
Accumulated amortization	(15,172)	(16,446)	(17,906)

Net book value	**5,510**	**6,807**	**10,145**

As at December 31, 2012, 2013 and 2014, Talgo had investments abroad in intangible fixed assets with the net book values detailed below:

	As at December 31,		
Intangible fixed assets	**2012 (€ thousand)**	**2013 (€ thousand)**	**2014 (€ thousand)**
Software cost	1,529	1,703	1,906
Accumulated amortization	(1,121)	(1,249)	(1,506)
Net book value	**408**	**454**	**400**

Foreign Exchange

The conversion of foreign currencies into euros exposes Talgo to foreign currency risk. Talgo's functional currency is the euro and most of Talgo's transactions are settled in euros. However, Talgo often uses foreign currencies, in particular the U.S. dollar, to settle invoices from overseas operations, Talgo purchases of machinery and components from overseas suppliers and for certain expenses. Talgo also holds certain amounts of cash and cash equivalents in U.S. dollars and, as a result, faces a currency risk from fluctuations in the exchange rates used to convert foreign currency denominated assets into euros. Based on Talgo's forecasts regarding trends in foreign exchange rates, the Company periodically establishes its own policies for hedging against risks associated with the fluctuation of such rates. See Note 2.5 to Talgo's 2014 Audited Annual Consolidated Financial Statements for further information.

Liquidity

The proper management of liquidity requires maintaining sufficient cash, the availability of finance, a sufficient amount of committed credit facilities and the ability to settle market positions. Talgo manages liquidity risk by continuously monitoring its forecast and actual cash flow to match the maturity profiles of Talgo's financial assets and liabilities. Talgo maintains sufficient cash to meet its liquidity needs. See Note 3.1(c) to Talgo's 2014 Audited Annual Consolidated Financial Statements for further information.

Inflation

In general, Talgo's costs are somewhat affected by inflation. The Company attempts to restrict increases in its costs below the inflation rate through productivity improvement and capital expenditure. However, general inflation affects selling, general, administrative and similar costs for Talgo and its competitors.

INDUSTRY OVERVIEW

Talgo is specialized rolling stock engineering company mainly focused on designing, manufacturing and servicing fast, technologically differentiated, lightweight trains. The key markets in which Talgo operates are manufacturing of rolling stock and maintenance services, in the following segments: Very High Speed, High Speed and Passenger Coaches. Additionally, the Company is targeting a selective expansion into the Regional Commuter Trains[1] segment.

Global Trends Driving Demand for Passenger Rail Equipment

Talgo expects its accessible market to continue to expand as a result of a number of growth drivers, including: demand for mobility, urbanization and population growth, emerging market growth, replacement demand, market liberalization and environmental concerns. Compared to other means of transportation, passenger rail offers significant advantages, such as speed of travel, convenience and close proximity to city centers, safety, energy and environmental efficiency. Talgo believes these advantages will allow rail to further gain market share at the expense of other modes of transportation, representing a growth opportunity for the rail equipment industry.

Demand for mobility

Increasing road and air congestion, caused to a considerable extent by the urbanization and population growth described below, is expected to lead to a favorable shift in transport modes towards rail, for the freight, High Speed and mainline rail markets.

The High Speed rail market, in particular, is expected to continue to take market share from airlines due to its substantially greater convenience. Rail transport offers the advantage of terminal locations in close proximity to city centers, as opposed to air transport, where terminals are frequently located at a considerable distance from the population centers they serve. High Speed rail routes are typically shorter than 700 km, although longer routes of up to 2,000 km could also be targeted, providing travelers with an alternative to air transportation on such routes.

Historically, following the introduction of commercial services on High Speed lines, the market share for air and road transportation (including car, bus and airplane) often declined by almost half on certain routes. For example, following the construction of the Madrid-Seville line, rail market share increased to 53% (from 19%) of aggregate demand (in terms of passengers travelled) in 6 years at the expense of air and road transportation (RAC Foundation). The table below provides the evidence of the strong market shares achieved by High Speed rail lines following their introduction, compared to air travel's market shares, (*The economics of investment in High Speed rail*-OECD report 2014).

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[1] Segment includes regional and intercity multiple units

	Length	Travel Time by Rail	Average Rail Speed	Market share (%)	
	(km)	(h:mm)	(km/h)	Rail	Air
Cologne-Frankfurt	180	01:03	171.00	95%	5%
Tokyo-Sendai	325	01:42	191.00	100%	0%
Paris-Lyon	409	01:57	210.00	90%	10%
Stockholm-Goteborg	455	02:45	165.00	60%	40%
London-Paris	470	02:20	201.00	71%	29%
Madrid-Seville	471	02:20	202.00	81%	19%
Paris-Strasbourg	475	02:17	208.00	80%	20%
Tokyo-Osaka	515	02:26	212.00	80%	20%
Hamburg-Frankfurt	517	03:19	156.00	40%	60%
Osaka-Fukuoka	554	02:35	214.00	80%	20%
Madrid-Barcelona	621	02:38	236.00	50%	50%
Hannover-Munchen	625	04:15	147.00	40%	60%
Rome-Milan	632	02:59	212.00	58%	42%
Paris-Marseille	769	03:02	254.00	50%	50%

Moreover, Steer Davies Gleave (a consultancy to the rail sector) has observed that on routes where rail journey times are below four hours, the rail share of the rail-air market increases rapidly as journey times decrease, and rail tends to have a market share of at least 70% on those routes (Network Rail: *High Speed Rail Investment: an overview of the literature).*

Urbanization and population growth

The increasing concentration of populations in urban areas is a global trend. In 2007, for the first time since it began maintaining records, the UN estimated that more people lived in cities than in rural areas, with 54% of the world's population residing in urban areas as of 2014. Currently, 453 million people live in 28 megacities (defined by the UN as cities with a population of greater than 10 million inhabitants) and the trend towards urbanization has been accelerating. By 2050, c. 66% of the world's population is projected to live in urban areas (c. 6.4 billion) and the global population is expected to exceed 9.5 billion people, with c. 90% of this population growth taking place in Africa and Asia. In Africa and Southeast Asia, only 40% and 47% of the population, respectively, currently live in urban areas. By 2050, these shares are expected to rise to 56% and 64%, respectively (*2014 Revision World Urbanization Prospects* – UN).

At its Rio +20 Conference, the UN noted that the rapid urban population growth will require a holistic approach to urban planning so that the benefits of urbanization are shared equitably and sustainably. In particular, the UN's *2014 Revision World Urbanization Prospects* publication stresses the need for an expansion of transportation infrastructure. Any such expansion of transportation infrastructure would imply attractive opportunities for both High Speed rail solutions, and regional and intercity rail networks.

Emerging market growth

The trends driving demand for passenger rail equipment described above are generating an increased focus on, and policy shift towards, public rail infrastructure spending. This is most evident in emerging markets, where current infrastructure is insufficient to support significant population growth and urbanization. Global High Speed infrastructure increased fourfold between 2000 and 2013 and more than doubled from 2009 to 2013, with the significant majority of this growth occurring in emerging economies, notably China and Turkey (UIC, *Railway Handbook 2014*).

Developing nations are also in a stronger financial position to support public rail investments, with average public debt-to-GDP ratios of 45.5%, as compared with developed countries[1], which currently exhibit average public debt-to-GDP ratios of 86.6% (*2013 CIA World Fact Book*).

In particular, the Middle East and North Africa region currently has one of the lowest density rail networks in the world (c. 34,000km of track, according to Frost & Sullivan), which is expected to grow rapidly with c. $200 billion of projects underway or in the pipeline as per Gulf Cooperation Council. Historically, Gulf nations have not focused on rail given the availability of cheap fuel and complex geographical conditions. However, rapid urbanization (in addition to local factors, such as Qatar's preparation for the World Cup in 2022) has prompted Gulf countries to develop their public transport.

Malaysia has identified urban public transport as a National Key Results Area and has announced plans to spend c. $49 billion on rail-related programs, including a High Speed 330km Malaysia-Singapore line as well as three additional lines for a mass rapid transit system.

Turkey has also entered the High Speed market, with a line linking Ankara to Istanbul due to be fully completed by 2016 (the first phase of the Ankara-Istanbul line, linking Ankara to İnönü, was completed in 2009, while the second phase, running from İnönü to Pendik, was opened in 2014). Railway Turkey estimates further High Speed projects (Ankara-Sivas, Ankara-Izmir and Bandirma-Bursa) are all due to be completed by the end of 2017.

In India, the government has identified its rail network as instrumental to the country's long-term economic development and its *Indian Railways Vision 2020* targets 10% annual growth in Indian Railway net turnover over 2010 – 2020. In February 2015, the Indian government announced plans to invest $137 billion in the country's rail network over five years, including $16 billion in 2015. Priorities will include network expansion, accelerating the rate of railway electrification (6,608 route km to be electrified by March 2016), expanding freight handling capacity, improving train speeds (9 corridors have been identified for speed increases from 100kmph to 130kmph and 160kmph to 200kmph, respectively) and completing a feasibility study for a High Speed rail line between Mumbai and Amadabad (Indian Railways *Rail Budget Highlights 2015-2016*).

In emerging markets, where there is no dominant incumbent or national state-owned supplier, Talgo believes that opportunities exist for a range of players to bid competitively on new contracts. Countries such as Saudi Arabia, India, Brazil, Oman and Qatar have emerged with large rail infrastructure and equipment needs and no legacy or national incumbent suppliers.

In addition to emerging markets, the US is currently placing a strong focus on developing its passenger rail network from a relatively low base for the economy of its size. US expenditure on rail transport is expected to reach $29 billion in 2015, to expand a network currently being tested by a surge in energy and agriculture deliveries (Association of American Railroads). This follows c. $27 billion of expenditure in 2014 and c. $25 billion in 2013. Rail operators including BNSF Railway Co, CSX Corp and Union Pacific Corp are facing increasing calls from regulators and politicians to boost rail sector spending. Significant announced projects include the California High-Speed Rail Program, which is currently in the planning phase and is due to connect San Francisco to the Los Angeles basin by 2029, before eventually extending to Sacramento and San Diego. Federal, state, local and private sources are

[1] Developed countries include: Australia, Austria, Belgium, Canada, Cyprus, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Malta, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, the United Kingdom and the United States. Developing countries include the rest of the world

all expected to assist in funding the project, with the first segment (linking Madera to Bakersfield) receiving $3.3 billion of federal funding and $2.6 billion of additional bond proceeds (California High Speed Rail Authority). In 2010, Amtrak also announced plans to upgrade the Northeast Corridor (a 735.5km line connecting highly urbanized areas of the United States) to a High Speed corridor by 2040 and estimated that the project will require a total investment of $151 billion (Amtrak, *The Amtrak Vision for the Northeast Corridor*).

Replacement demand

The replacement of aging equipment is expected to generate demand for rolling stock in a number of markets. Western Europe represents one of the most developed and mature markets for High Speed rail. As a result of its established network, the majority of High Speed vehicles in operation in Western Europe were delivered prior to 2001 and had an average age of approximately twelve years as of 2010 (SCI Verkehr). In addition, a significant increase in demand for new mainline procurement is expected in the coming years, with estimates suggesting that c. 10,300 locomotives and c. 1,860 railcars[1]are likely to be replaced in Europe between 2015 and 2022 (Frost & Sullivan). In 2013, SNCF (the French state-owned operator) announced plans to renew its entire fleet of intercity trains between 2015 and 2025, while Deutsche Bahn (Germany) started the replacement of its regional commuter trains. This follows Deutsche Bahn's 2011 agreement with Siemens for up to 300 new generation (ICx series) long distance trains by the year 2030 to replace its aging fleet.

Market liberalization

Historically, many established national markets for rail equipment (e.g., France, Germany and Japan) have been dominated by their respective domestic suppliers, typically serving national state-owned rail operators. However, these markets have been characterized by ongoing liberalization in recent years both for commercial reasons, and due to the passage of EU-wide regulations. Fourth Railway Package (2013) adopted by the European Commission proposes that domestic railway operations in member states be opened to competitive entry from December 2019. To date, among the EU members, only Sweden and the United Kingdom have fully opened their rail markets, while Germany, Austria, Italy, Czech Republic, Spain and the Netherlands have opened theirs to a limited extent, presenting a large incremental opportunity from further liberalization by member states going forward. Talgo management believes that the main opportunities in the mid-term to be driven by increasing market liberalization are in Spain and Italy, in addition to those arising from the fully-liberalized market in the United Kingdom.

Recent liberalization of domestic markets and greater international competition has resulted in smaller international private operators gaining access to previously closed markets. This trend is expected to continue as domestic suppliers internationalize their business mix and strategy. As an example, in 2012 Italy opened the rail transportation industry for private operators. The train company was the first to compete with the state-run Trenitalia on High Speed domestic service. In addition, in summer 2014 the Spanish National Markets and Antitrust Commission ("*Comisión Nacional de los Mercados y la Competencia"*) approved the liberalization of the country's domestic market, which is expected to begin by granting the operation of the Madrid-Levante line to a private operator for seven years. The tender process has yet to commence, but c. 10 parties have shown interest in competing for the tender.

[1] Railcar is defined by Frost & Sullivan as a self-propelled vehicle designed for the transportation of passengers; it can be used in multiples to form train sets.

More generally, recent trends suggest that rail operators are not necessarily awarding renewal contracts to incumbent suppliers, but rather are increasing the openness of competitive processes. In 2010, for example, Eurostar, the sole operator of passenger trains through the English Channel tunnel, awarded a €700 million contract to Siemens over Alstom, although Alstom had traditionally supplied Eurostar's fleet. This was the first time that a company affiliated with the French state-owned rail operator, SNCF, had opted not to award a High Speed contract to a French company. Also in 2010, SNCF awarded an €8 billion framework contract to supply regional trains in France to Bombardier. This was the first time that a non-French company had a won a contract to produce regional trains in France. As another example, in 2012, Alstom was awarded by the Italian train operator Trenitalia for the supply of 70 regional train sets.

With regards to maintenance services for rolling stock, with the notable exceptions of North America, Spain, and to a lesser extent Germany, accessibility in most established markets is limited in practical terms because most large state-owned rail operators maintain their own equipment. As at 2013, c. 65% of the global after-sale market was in the hands of operators, while manufacturers and independent suppliers accounted for c. 25% and c. 10% respectively (SCI/Verkehr). However, Talgo believes that over the medium to long term these operators will increasingly outsource their maintenance needs to specialized providers as they intensify their focus on reducing costs and improving efficiency. As an example of this trend, in 2014 Trenitalia awarded Bombardier with a €154 million 10 year contract for fleet maintenance. Talgo has also benefitted from this trend, having secured a maintenance contract with Germany's Deutsche Bahn in 2009.

Environmental concerns

Concerns about ongoing climate change are driving heightened awareness of the environmental impact of transportation. This is likely to further drive demand for rail equipment, given rail's energy efficiency compared to roads.

Overall, rail transportation remains one of the most effective investment strategies available to public authorities to address environmental and energy challenges. National governments of emerging economies (e.g., the CIS and Eastern Europe, Africa, the Middle East and South America) with above-average GDP growth and significant urbanization trends are expected to continue prioritizing rail network expansion and fleet renewal to satisfy the growing demand for energy efficient intercity connections and infrastructure.

Accessible Markets

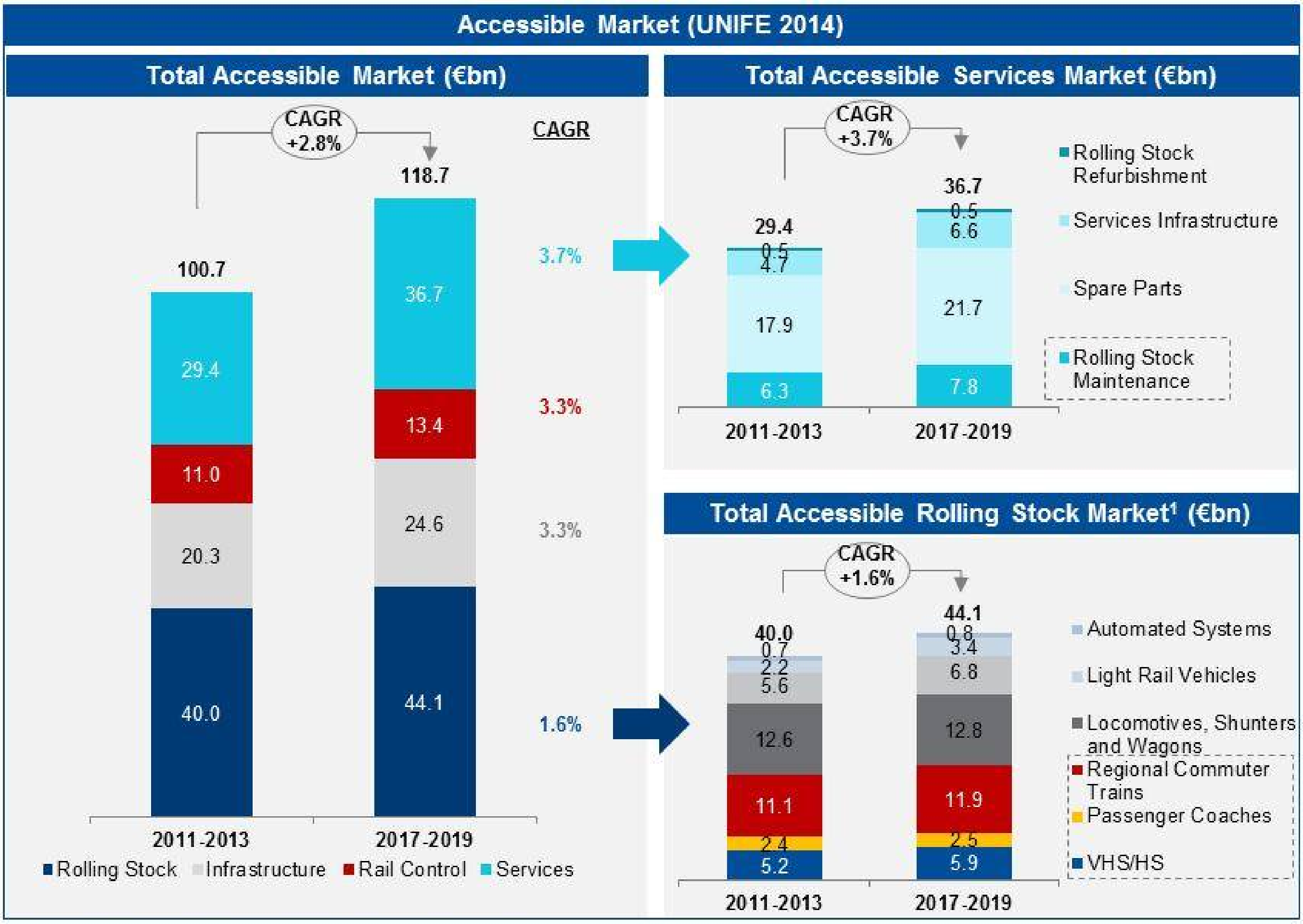
Market analysis

The global rail equipment industry is biennially evaluated by UNIFE. One of the principal references for industry practitioners, UNIFE's biennial studies measure historical and projected demand for rail equipment globally, while also providing visibility into market demand by major product categories and geographic regions. The latest study in this series is the *World rail market study – forecast 2014 to 2019* which is referred to herein as the UNIFE 2014 report. Roland Berger was commissioned to conduct the latest report.

The UNIFE 2014 report is based on a survey of 55 focus countries, including the major existing rail markets and the most promising emerging ones, which together account for virtually the entire installed rail network and traffic volumes worldwide. The UNIFE 2014 report defines the rail supply industry as the market comprising all systems, subsystems and components used in urban, mainline and High Speed rail systems, including infrastructure, rolling stock, rail control and services required to install systems and maintain both infrastructure and rolling stock. The UNIFE 2014 report estimates the total annual accessible global rail supply industry at approximately €100.7 billion, based on the average of annual order intake over the 2011-2013 period. A market is considered accessible by the UNIFE 2014 report if it is open to any external supplier and is not serviced by in-house railways or domestic manufacturers. The UNIFE 2014 report expresses the degree of accessibility by applying an accessibility ratio ranging from zero (not accessible) to one (fully accessible) in respect of the market forecast for each product and country combination.

The UNIFE 2014 report also provides forecasts of future demand for rail equipment for the 2017-2019 period by projecting the level of average annual order intake during that period, taking into account any changes in expected accessibility of individual markets over the forecast period. These forecasts are derived from a comprehensive, integrated set of all available information regarding rolling stock, infrastructure, and rail control projects. Service projects (such as maintenance) are included, if contracted at the time of purchase of the respective system/component. UNIFE 2014 projects the rail equipment accessible market size in 2017-2019 at approximately €118.7 billion, implying a compound annual growth rate (CAGR) of c. 2.8% from the 2011-2013 level.

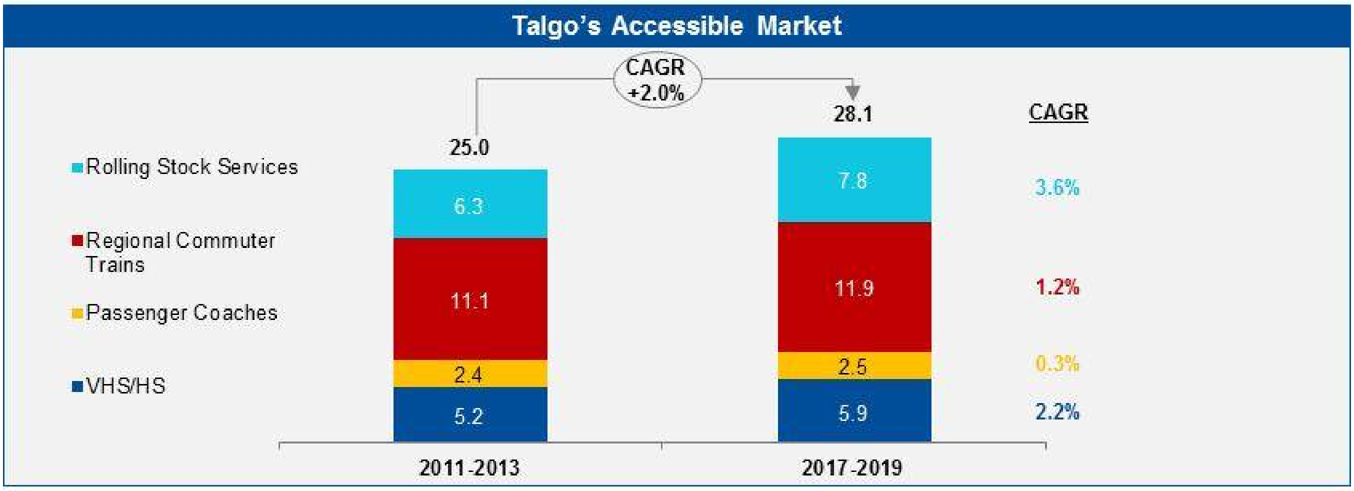
The chart below provides an overview of the total global accessible market for rail equipment based on the UNIFE 2014 report.



Note: ⬚ Segments included in Talgo's accessible market

1. *Total 2020 market for Passenger Coaches, Locomotives, Shunters and Wagons are a weighted calculation based on 2014 total market size figures for each category*

Within the broader accessible market as defined by UNIFE, Talgo targets a selected subset of segments in which it already operates, as well as additional ones it intends to target over the next four years. These segments include: the manufacturing of Very High Speed and High Speed trains, Passenger Coaches, Regional Commuter Trains, as well as the provision of rolling stock maintenance services for these segments. The expected development of Talgo's accessible market based on UNIFE, as well as its split by segment and geography is shown in the chart below.

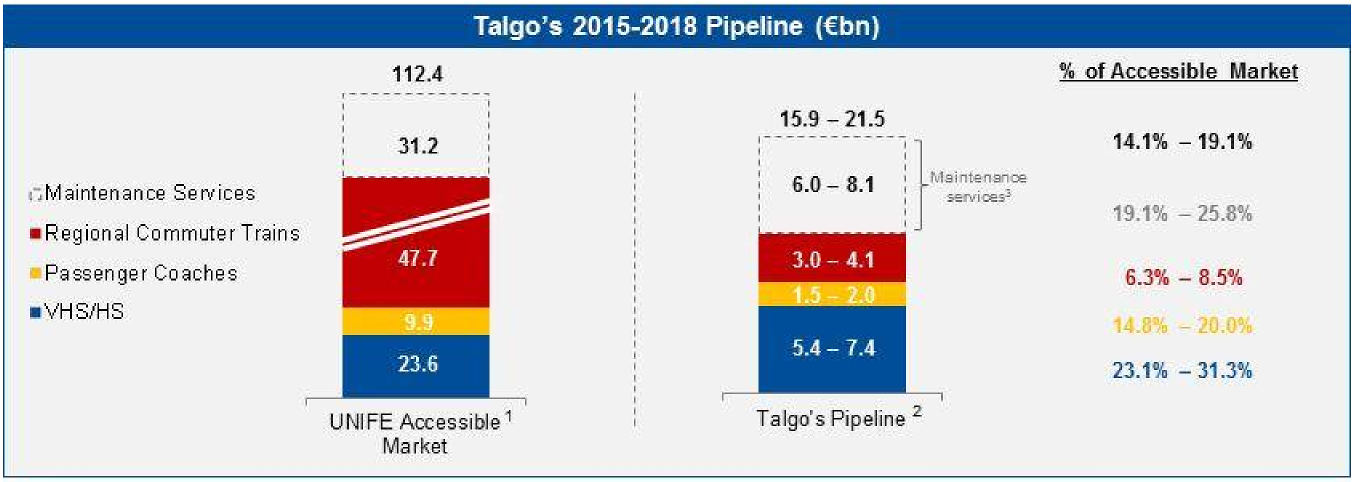


Source: UNIFE 2014

In addition to external industry sources (such as UNIFE), Talgo analyzes its accessible market through regular in-depth assessment based on a proprietary, detailed database and "bottom-up" analysis of expected demand in the rail equipment market globally, both regionally and by segment. Talgo uses this database to monitor its accessible markets. In addition, Talgo evaluates the potential opportunities within its accessible markets, considering, among others, the following factors: the project's technical requirements and the potential competitive advantage granted by Talgo technology; the Company's prior experience with the client (if applicable) and with similar projects; Talgo's estimated costs and targeted margins; and the Company's competitive profile compared against other competitors. On this basis, Talgo's proprietary addressable pipeline of potential tenders for the next four years (2015-2018 as of December 31, 2014) is then identified.

In summary, Talgo's business development strategy centers on identifying potential projects worldwide over the next seven years from within its selected accessible market (more than 130 potential projects identified as of December 31, 2014). This broad list of potential projects is then refined to arrive at a focused targeted pipeline which comprises projects with a relevant likelihood of being awarded over the next four years (2015-18) and where the Company expects to have strong competitive positioning. As at December 2014, the date of its most recent update, Talgo's pipeline included c. 40 announced tenders and expected upcoming projects in its target markets, with an estimated cumulative value of c. €15.9 – €21.5 billion (€9.9 – €13.4 billion excluding maintenance services). Maintenance service contracts' estimated pipeline of €6.0 – €8.1 billion for the 2015-2018 period have been calculated as a 60% gross-up of estimated manufacturing contracts' pipeline (with this assumption based on industry precedents and Talgo's historical experience).

All of Talgo's estimates of its pipeline contained in this document are based on Talgo's proprietary database as of December 31, 2014 and represent the compilation of actual, announced or expected new contracts analyzed on a project-by-project basis. A notable difference between Talgo's proprietary pipeline and the accessible market based on 2014 UNIFE forecasts is that Talgo estimates cumulative expected volume of pipeline opportunities for the 2015-18 period, whereas UNIFE 2014 accessible market provides the average annual order volume for the 2017-19 period. Talgo therefore believes, that on a like-for-like basis, its 2015-18 addressable pipeline should be compared to a four-year amount of the annual accessible market for 2017-19 based on UNIFE. An illustration of both Talgo's pipeline and UNIFE comparable four-year accessible market is provided below. Talgo's pipeline targets 14.1% – 19.1% of the accessible market, with emphasis placed upon the Very High Speed and High Speed and Passenger Coaches segments, where Talgo is targeting 23.1% – 31.3% and 14.8% – 20.0% of the market respectively, given that these have historically been areas of product expertise and commercial success for the Company. Notwithstanding the foregoing, Talgo does not ensure that tenders and expected upcoming projects included in Talgo's estimated pipeline will be finally awarded or even executed.

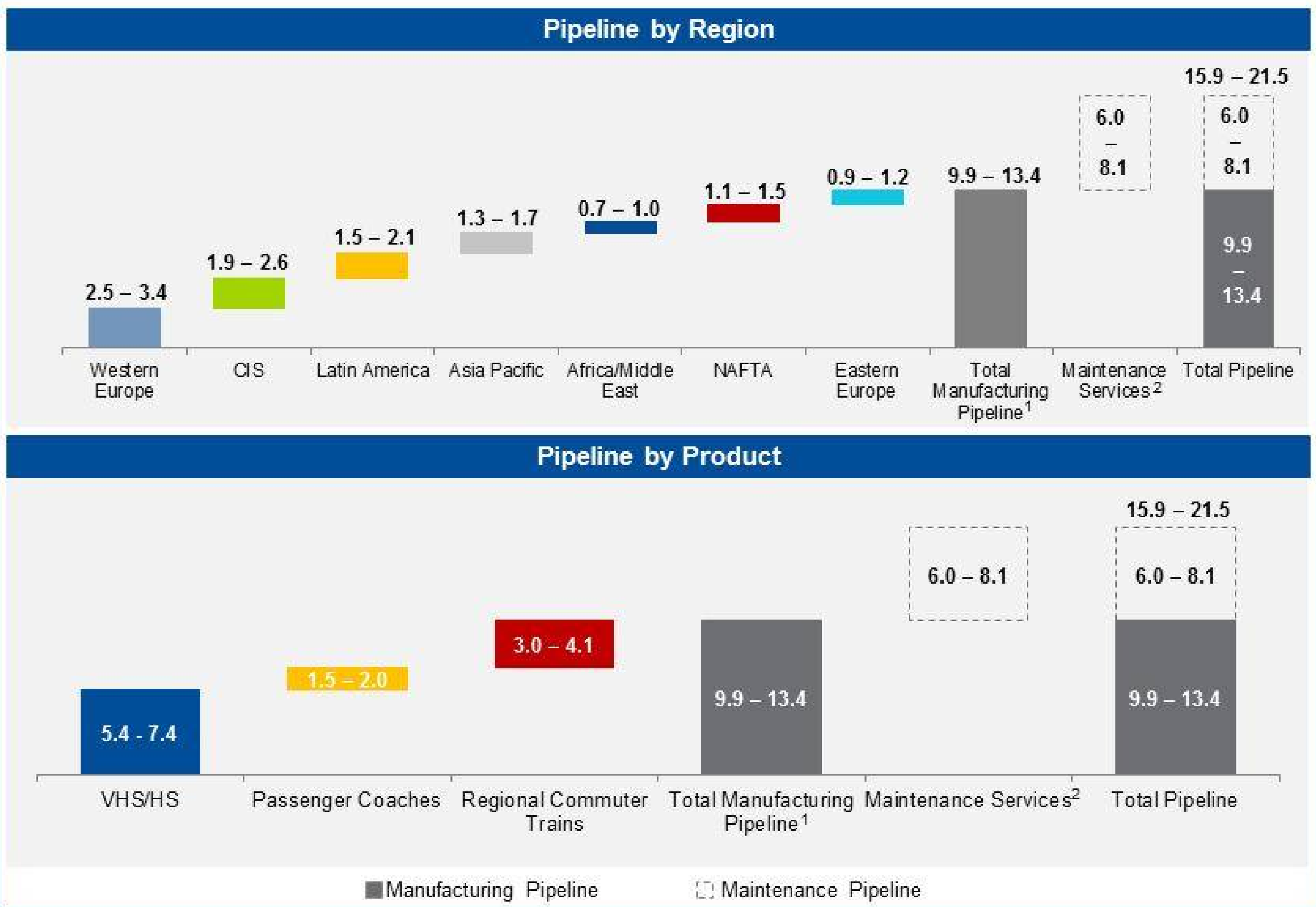


Note: Segments included in Talgo's accessible market

1. *Based on average annual market size from 2017-2019 for select segments (inc. VHS/HS, Passenger coaches, MUs according to UNIFE definitions), cumulated to a four year period for comparison purposes*
2. *Reflects total potential pipeline for Tier I / II opportunities excluding maintenance services*
3. *Estimate for maintenance service contracts calculated as 60% gross-up of estimated manufacturing contracts*

The charts below provide further detail of Talgo's addressable pipeline as of December 31, 2014, both by region and by target business segment (Very High Speed / High Speed trains, Passenger Coaches and Regional Commuter trains in all major regions of the world).

Talgo's 2015-2018 Pipeline by Region and Product (€bn)



Source: Company information.

1. *Reflects total potential pipeline for Tier I / II opportunities excluding maintenance services*
2. *Estimate for maintenance service contracts calculated as 60% gross-up of estimated manufacturing contracts*

High Speed and Very High Speed

The UNIFE 2014 report defines a Very High Speed train as operating at speeds greater than 300 km/h (e.g., the Talgo AVRIL and 350, Alstom AGV, Siemens ICE 3 and the CRH3 series by CNR of China), and a High Speed train as operating at speeds from 220 to 299 km/h (e.g., the Talgo 250). As per UNIFE 2014, the total installed base worldwide of High Speed and Very High Speed trains amounted to approximately 30,257 units in 2013. The largest fleet of High Speed trains is installed in Asia-Pacific (7,210 units, or approximately 23.8% of total units worldwide), followed by Western Europe (4,355 units, or approximately 14.4% of total units worldwide), while the largest fleet of Very High Speed trains is installed in Western Europe (9,697 units, or approximately 32.0% of total units worldwide), followed by the Asia-Pacific region (8,610 units or approximately 28.5% of total units worldwide).

Major contract opportunities in the Very High Speed and High Speed markets that are fully open to global competition often originate in a form of greenfield projects, from regions where the High Speed rail network has not yet been constructed. As such, projects in this segment are often characterized by longer lead times for rolling stock manufacturers, with an infrastructure construction phase preceding the delivery of rolling stock. Tendering by customers is situation-specific and can range from consortia tenders targeted at securing a turnkey solution to tendering separately for specific solutions and products constituting a High Speed project (infrastructure, rolling stock, rail control and network operations) with the relevant set of suppliers. As the large size and cost of greenfield railway projects entail payback periods extending beyond a horizon commercially acceptable for private sector players, clients in this segment are typically state owned or directly affiliated entities, with direct access to public funding.

While Talgo views Very High Speed and High Speed train product segments as its core competency, the Company intends to maintain a selective and disciplined approach to tendering for new projects. Talgo's pipeline of potential projects in this segment is global in nature with opportunities identified in a number of major rail markets worldwide. In terms of individual markets, an opportunity for 90 Very High Speed trains in Turkey is expected within one year as the infrastructure construction phase is nearing completion. A near-term opportunity in Spain is also expected to materialize, following Infrastructure Minister Ana Pastor's March 2015 announcement that Renfe will acquire 40 new trains (30 of which are Very High Speed), for a total of €1.1bn. The tender is expected to be launched in Q3 2015. Tenders for the construction of the High Speed line connecting Kuala Lumpur to Singapore are also expected by the end of 2015. Other major projects are expected in the US, the UK, India and Brazil. Additional opportunities for projects are expected in Russia, Mexico, Italy and the CIS.

Passenger Coaches

The current total installed base of Passenger Coaches is approximately 225,000 units worldwide (Source: UNIFE 2014 report). More than 50% of this installed fleet is deployed in the Asia-Pacific region. The largest markets for Passenger Coaches outside of the Asia-Pacific region are Western Europe and the CIS. The accessible market for Passenger Coaches is expected to remain relatively stable due to continuing demand for Passenger Coaches in less developed regions.

In the Passenger Coaches segment, Talgo focuses on commercial opportunities in rail markets where the operators (state-owned and private) target improving journey times without investing in dedicated High Speed infrastructure or just in improving existing conventional network and place a strong focus on minimizing lifecycle costs of rolling stock. Talgo's selective pipeline of Passenger Coaches projects centers on potential upcoming orders where Talgo's technically differentiated lightweight natural tilting coaches would provide clear and substantial economic advantages to the operator (in particular, allowing the operator to achieve significant journey time reduction). Talgo's experience in Kazakhstan serves as an example of this dynamic. Given that there is no infrastructure requirement, and that execution times are shorter than in Very High Speed and High Speed, customers in this segment typically include both state-owned and private operators.

Talgo's targeted regions for Passenger Coaches are among the world's largest passenger rail markets and include India and CIS, in addition to several others in the NAFTA region, South Africa and Southeast Asia.

Regional Commuter Trains

Western Europe is the largest market for Regional Commuter rolling stock, accounting for c. 42% of the total global market in 2011-2013, according to the UNIFE 2014 report. The second largest region is Asia Pacific, which accounts for c. 22% of the total market in 2011-2013. With €11.1 billion of accessible orders per annum in 2011-2013, this market (in which Talgo is not yet present but intends to enter) is the largest among Talgo's accessible segments for rolling stock manufacturing and accounts c. 44% in 2011-2013. UNIFE projects the annual accessible market for Regional Commuter rolling stock to grow to €11.9 billion by 2017-2019, implying an average growth rate of 1.2% per annum.

The market for Regional Commuter trains is characterized by more frequent and smaller orders compared to the market for the Very High Speed and High Speed trains. The operations of Regional Commuter trains are comparatively more liberalized with a larger number of operators at regional and local levels (many of them private) serving as potential customers.

The Regional Commuter rolling stock manufacturing market features a larger number of players and is more competitive, compared to the market for Very High Speed and High Speed rolling stock.

Talgo will seek to capitalize on its existing technology and to leverage existing customer relationships in entering this new market. At present, Talgo envisages its main opportunities in the Regional Commuter train segment are likely to be in CIS. Additional opportunities are envisaged in Denmark, Italy, Poland and the UK (in addition to several other European countries), the Middle East (Saudi Arabia and other countries in the Gulf region), India, Turkey, Brazil and Chile. From the customers' perspective, Talgo views higher accessibility and LCC efficiency, inherent in its designs, as key differentiating features with respect to the Regional Commuter rolling stock. In its decision to enter this new market in the next four years, Talgo intends to pursue the opportunities where its continuous lower floor trains would position it strongly versus competition. On this basis, Talgo's Regional Commuter Train manufacturing pipeline reflects a limited and highly selective number of projects where Talgo anticipates a strong possibility of business wins.

Rolling Stock Maintenance Services

The maintenance service market in most regions is currently less accessible as a proportion of the total market, when compared to manufacturing segments, with established rail operators generally maintaining their own equipment. As liberalization continues and cost pressures persist, particularly in Western Europe characterized by public fiscal constraints, Talgo believes opportunities will emerge in the medium term for independent companies with competitive service offerings. Moreover, Talgo believes that private railway companies, which are expected to progressively gain market share over the mid/long term from established regional operators, will likely be more commercially focused in taking business decisions and outsource maintenance services to external suppliers.

The Company estimates that this maintenance service pipeline for 2015-18 will correspond to 60% of the value of the contracts identified for its manufacturing pipeline. It should be noted that Talgo's estimates of the size of the maintenance service opportunity, associated with its manufacturing pipeline, are based on industry tender history and its own experience and are subject to the continued customer practice of awarding Talgo with maintenance contracts for the rolling stock it supplies.

MANAGEMENT AND BOARD OF DIRECTORS

Board of Directors of the Company

Spanish corporate law provides that a company's board of directors is responsible for the management, administration and representation of a company in all matters concerning the business of the company, subject to the provisions of the company's bylaws ("*estatutos*") and except for those matters expressly reserved to the general shareholders' meetings.

The Company's bylaws provide for a board of directors consisting of between five (5) and fifteen (15) members, elected to serve for a term of up to four (4) years with no limits with respect to re-election (except for independent directors that cannot be considered as independent directors whether they have been directors for a continuous term of more than twelve years). The Company's Board of Directors currently comprises thirteen (13) members. If a Director does not serve out his or her term, the Board of Directors may fill the vacancy by appointing a replacement Director to serve until the next general shareholders' meeting is held. Any natural or legal person may serve on the Board of Directors, except for persons specifically prohibited by applicable law or the bylaws. A Director may be removed from office by the shareholders at a general shareholders' meeting, even if such removal is not included on the agenda for that general shareholders' meeting. The Chairman of the Board of Directors, appointed among its members and upon report from the Appointments and Compensation Committee, shall be the top executive.

The Board of Directors of the Company is comprised of two (2) executive directors, one (1) external director, six (6) independent directors and four (4) directors representing the Company's significant shareholders (i.e. proprietary directors or "*consejeros dominicales*").

Directors

The thirteen (13) Directors, their positions within the Board of Directors, their category as directors and, where relevant, the shareholder they represent are detailed in the table below. As of the date of this document, all of the Directors have been appointed by the Company's general shareholders' meeting held on March 28, 2015.

Name	Age	Date of first appointment	Expiry date of appointment	Title	Category[1]
Carlos Palacio Oriol	62	March 29, 2006	March 28, 2019	Chairman	Executive
José María Oriol Fabra	52	March 28, 2015	March 28, 2019	CEO	Executive
Ramón Hermosilla Gimeno	50	March 28, 2015	March 28, 2019	Director	Other External[2]
Javier Bañón Treviño[3]	51	March 29, 2006	March 28, 2019	Director	Proprietary
Jose María Muñoz Domínguez[4]	50	March 29, 2006	March 28, 2019	Director	Proprietary
Emilio Novela Berlín[5]	63	March 28, 2015	March 28, 2019	Director	Independent
Christian Burkhard Schuchmann	72	March 28, 2015	March 28, 2019	Director	Independent
Michel Moreau	69	March 28, 2015	March 28, 2019	Director	Independent
John Charles Pope[6]	66	March 28, 2015	March 28, 2019	Director	Independent

Name	Age	Date of first appointment	Expiry date of appointment	Title	Category[1]
Albertus Meerstadt	53	March 28, 2015	March 28, 2019	Director	Independent
Belén Villalonga Morenés	46	March 28, 2015	March 28, 2019	Director	Independent
Pegaso Transportation International, S.C.A. represented by Javier Olascoaga Palacio	35	March 28, 2015	March 28, 2019	Director	Proprietary
Nueva Compañía de Inversiones, S.A.[7] represented by Miguel Abelló Gamazo	37	March 28, 2015	March 28, 2019	Director	Proprietary
María José Zueco Peña	-	March 30, 2015	-	Secretary non director	-
Mario Álvarez García	-	March 30, 2015	-	Deputy Secretary non director	-

(1) The categories of directors have been determined by applying the definitions set out in the Spanish Companies Act, which has been recently amended by Law 31/2014, December 3, on the improvement of corporate governance of listed companies. As of the date of this document, the category assigned to each Director has not been confirmed by the Company's Appointments and Compensation Committee, as this committee was not in place yet on the date of each of the appointments. However, once this committee is formed and as soon as practicable following Admission, it will confirm the assigned categories in accordance with applicable law and the Board of Directors Regulations.

(2) Mr. Hermosilla is considered "other external" director because the law firm he founded on January 2015, Ramón Hermosilla Abogados, and where he is currently partner is rendering legal services to Talgo. In the year ended December 31, 2014, the net turnover that Ramón Hermosilla & Gutiérrez de la Roza, S.L.P., in which Mr. Hermosilla was Chairman and founding partner prior to incorporating Ramón Hermosilla Abogados, received from Talgo has not exceeded 5% of the total turnover of the law firm. During the fiscal year ended December 31, 2014 Talgo paid Ramón Hermosilla & Gutiérrez de la Roza, S.L.P. for services provided approximately €559 thousand.

(3) Proposed by Pegaso Transportation International, SCA at the request of its general partner, Pegaso Transportation, S.à.r.l. (see "*Principal and Selling Shareholders*").

(4) Proposed by MCH Iberian Capital Fund III, FCR and MCH Inversiones Industriales, S.à.r.l. The companies do not have any agreements in place between them regarding their stake in the Company.

(5) Independent coordinating director appointed pursuant to article 529.septies.2 of the Spanish Companies Act. Although Mr. Emilio Novela indirectly holds 0.6% of the economic rights in the Company, it can be considered an independent director as he does not hold a significant stake.

(6) Although Mr. John Charles Pope indirectly holds 0.1% of the economic rights in the Company, he can be considered an independent director as he does not hold a significant stake.

(7) Proposed by Pegaso Transportation International, SCA at the request of Torreal S.A. (subsidiary of Nueva Compañía de Inversiones, S.A) which in turn holds a 9.6% stake in Pegaso Transportation International, SCA.

All the independent Directors of the Company that also were directors at Patentes Talgo, S.L.U. comply with the requirements set forth in article 529.duodecies of the Spanish Companies Act except that the independent directors were not proposed for appointment by the Appointments and Compensation Committee.

All members of the Board of Directors designate the Company's registered address as their professional address for the purpose of this document.

Biographical information

Mr. Carlos Palacio Oriol

Mr. Palacio Oriol is the current Chairman of Patentes Talgo since his appointment in 2002. He joined Talgo in 1998 as a director representing his family branch and took over a role of institutional representation at a European level.

Prior to that, Mr. Palacio Oriol gained professional experience in the area of Community Law acting as a member of the Legal Services and the Competition Services of the EU Commission and as a practicing lawyer in Spain and the United Kingdom. He simultaneously performed teaching activities serving as assistant professor of the College of Europe in Bruges (Belgium).

Mr. Jose María Oriol Fabra

Mr. Oriol Fabra is the current CEO of Patentes Talgo and has 28 years of experience in the railway industry. In December 2002, he was elected CEO.

Mr. Oriol Fabra joined Talgo in 1987 and since then he has been involved in the Group assuming different roles among others, responsible for outsourcing, Chief Financial Officer and Managing Director of different subsidiaries of Talgo. Prior to that, he worked as a Credit Analyst in Citibank.

Additionally, he has significant experience as a board member at different companies, among others, Montalbán XIV and Iberrail, a company providing transportation services to railway travelers, and he has been a member of the advisory board of BBVA.

Mr. Oriol Fabra earned an Executive Master's Degree in Business Administration from IE Business School and a Bachelor's in Business Administration from Saint Louis University.

In addition, he was awarded in 2011 with the "Dostyk II" by the Prime Minister of the Republic of Kazakhstan and in 2012 with the "*Encomienda de la Orden del Mérito Civil*" by H.M. the King of Spain.

Mr. Ramón Hermosilla Gimeno

Mr. Hermosilla Gimeno is currently one of the Senior Partners and Founder of the law firm Ramón Hermosilla Abogados since January 2015. Mr. Hermosilla is also director of Patentes Talgo.

He started his professional career as a lawyer in the law firm of Melchor de las Heras (currently named as Albiñana & Suárez de Lezo). In addition, he was Chairman of the law firm Ramón Hermosilla & Gutiérrez de la Roza, S.L.P. until December 2014.

Mr. Hermosilla has an extensive experience in the areas of practice of Arbitration and Litigation, M&A and Stock and Financial Market, among others. He is a current Member and Secretary of the Board of Directors and legal advisor of various companies which operate in different and varied fields.

Additionally, he has performed various teaching and doctrinal activities. He has been a Company Law teacher at the *Escuela de Práctica Jurídica Federico de Castro* and at the *Centro de Estudios Superiores Jurídicos y Empresariales* (CESJE).

At present, he gives lectures in the Master in Company Law at the University of *Instituto Católico de Administración y Dirección de Empresas* of the *Universidad Pontificia de Comillas* in Spain (ICADE) and at the *Instituto de Empresa* (IE), among others. Regarding his most relevant publications it is necessary to highlight the Chapter 2 "*Request and judicial declaration of Bankruptcy*" of the 2009-2010 and 2011-2012 *Memento Práctico Concursal* and his collaboration in the book "*Treaty of Regulation in the Electrical field*" in 2009.

Mr. Hermosilla has a Law Degree from the *Universidad Complutense de Madrid* and has completed an Executive Advanced Management and Leadership Programme from the University of Oxford.

Mr. Javier Bañón Treviño

Mr. Javier Bañón is a founding partner of Trilantic Capital Partners ("**TCP**") and was Co-Head for Lehman Brothers Merchant Banking in Europe between 2004 and 2008

He has a significant experience in origination, execution, oversight and monetization of private equity transactions as it was managing director of DB Capital Partners and Bankers Trust Private Equity Group.

Prior to DB Capital Partners, Mr. Bañón was Chief Financial Officer of the industrial division of IF Group, a privately owned group with industrial and financial operations throughout Spain, the United States and Latin America.

Before the aforementioned, he was Deputy General Manager of Serpeska Group, a Spanish group dedicated to food processing and distribution. Additionally, Mr. Bañón also practiced as an Attorney at Law.

Mr. Bañón is currently a director of Euskaltel.

Mr. Bañón holds a Degree in Law and Business Administration from the *Instituto Católico de Administración y Dirección de Empresas of the Universidad Pontificia de Comillas* in Spain (ICADE).

Mr. Jose María Muñoz Domínguez

Mr. Muñoz Domínguez is a founding partner of MCH Private Equity, S.L.

Prior to found MCH, he focused on the consulting sector working for several years in the consulting firm McKinsey & Company in the United States and Spain and as consultant in the Strategic Consulting Division of Andersen Consulting.

Mr. Muñoz Domínguez has an extensive experience in private equity operations as he has participated in more than twenty of those, mainly in the Spanish midmarket buyouts in variety of sectors including specialized industry, distribution, business services and consumer products. In addition, he has been a director of companies like Azulev, Comess Group, Qualytel, IP Systems, IQAP, Marco Aldany and Gamo.

He holds a Master's Degree in Business Administration from Harvard Business School and a degree in Industrial Engineering from ETSII of Madrid. He has been Visiting Professor of Entrepreneurship at the IE Business School and is an active member of the *Círculo de Empresarios*.

Mr. Emilio Novela Berlín

Mr. Novela currently represents Banco Santander on the board of the Spanish Private Banking Association and he is also member of the Board of OpenBank, S.A. In addition, Mr. Novela holds an important number of directorships including Spanish Enterprise Association (CEIM), Reyal Urbis, S.A. and the Spanish Conference Board and Dixi Media Digital, S.A.

Mr. Novela has an extensive experience holding board positions at several other Spanish financial institutions including Vice Chairman of Banco Banif Private Banking (Santander Group), Banco de Jerez, Banco Urquijo, Blackrock Global Funds, Hispamer, Central Hispano Generali, Banesto, Banco Mercantil, Citi Leasing and Saudesbank. Mr. Novela has also served on the Boards of Cortefiel, Larios (Pernod Ricard), Campsa, Spanair, Union Fenosa, Vallehermoso, Testa, YMCA Spain, US-Spain Foundation, Euro America Foundation, Viajes Internacional Expreso, Gesinar (3i) and Cap Gemini Ernst & Young where he served on the Advisory Board.

Furthermore, was also named CFO of Repsol, the leading Spanish oil company, and the first Vice-Chairman and CEO of Vallehermoso.

Mr. Christian Burkhard Schuchmann

From 1986 to 2005 he was CEO of Vossloh AG, which developed from a family-owned conglomerate to one of the global leading and listed companies in the railway industry.

Prior to his engagement at Vossloh AG, Mr. Schuchmann served 8 years in leading positions at Bayerische Elektrizitaetswerke and further 8 years as CFO at Knuerr AG. He is a current member of the board of Patil Group India, the largest Indian producer of rail infrastructure components and Chairman of the International Transportation Conference in connection with the world largest railway fair "Innotrans" in Berlin, and member of the Supervisory Board of several other German companies.

Mr. Michel Moreau

Mr. Moreau began his career at IBM France, where he served for 4 years. In 1974, he joined the Alstom Group at the Compagnie Générale de Productive and 18 years later, was appointed Deputy managing director of the *Compagnie Européenne d'Accumulateurs* (CEAC), a subsidiary of Alcatel Alstom and a world leader in lead-acid batteries, in charge of the industrial batteries business.

Mr. Moreau has been managing director of the French Main Lines Group, in charge of the main rolling stock activities: high speed trains, electric and Diesel locomotives, electrical and Diesel multiple units. He was appointed President until 2003 and is no longer with the Group.

In addition, he is former Chairman of UNIFE *(*Union de l'Industrie ferroviaire Européenne).

Mr. Moreau is a graduate of the *l'Ecole Centrale du Paris*.

Mr. John Charles Pope

Mr. Pope is a Chairman of PFI Group, LLC and of the board of R.R. Donnelley & Sons, Inc. Prior to that, he was Chairman of the Board of Waste Management, Inc., and of the board of MotivePower Industries, Inc.

Before joining MotivePower Industries, Mr. Pope was president and chief operating officer and a member of the board of directors of United Airlines and UAL Corporation until it was purchased by its employees in July 1994. He formerly served as senior vice president of finance, chief financial officer and treasurer for American Airlines and its parent, AMR Corporation.

Mr. Pope currently serves on the boards of Con-way, Inc. (CNW), Kraft Foods Inc. (KFT), R.R. Donnelley & Sons, Co. (RRD), and Wast Management Inc. (WMI).

Mr. Pope holds a Bachelor's Degree in Engineering and Applied Science from Yale University and a Master's Degree from the Harvard Graduate School of Business Administration.

Mr. Albertus Meerstadt

Mr. Meerstadt was CEO of the Executive Board of the NV Nederlandse Spoorwegen (Netherlands Railways), leading train and stations operating company in The Netherlands. Since he joined this company in 2001 he has held various positions working as President and as Chief Commercial Officer. He is no longer working for the company.

Before joining the Netherlands Railways, he had worked for 6 years in the marketing and advertising sector in the companies Young & Rubicam and Marketing and Consult Brand Strategies.

In addition, Mr. Meerstasd has formerly worked in McKinsey & Company, having a significant experienced as a management consultant.

Mr. Meerstadt has Certification of an International Director's Programme and a Master's Degree in Business Administration from INSEAD European Business School and a MSc Degree in Architectural Engineering from Delft University of Technology.

Ms. Belén Villalonga Morenés

Mrs. Villalonga is now an independent director and audit committee chair of Grifols, S.A., a global leader in the hemoderivatives (plasma) industry since 2013 and independent director of Acciona, S.A. Previously Ms. Villalonga held different positions in companies, such as IBM.

Ms. Villalonga has also worked as a professor at different universities, among others New York University and the Harvard Business School.

Ms. Villalonga has a degree in economics and management science from *Colegio Universitario de Estudios Financieros* (CUNEF). She also has a Master's Degree in Economics from the University of California, a Ph.D. in Economic and Management Science from the *Universidad Complutense de Madrid* and a Ph.D. in Management from the University of California. She is the author of several publications. She has a Degree in Law from the *Universidad de Zaragoza*. Ms. Villalonga also prepared the public competitive examination to obtain the title of Notary Public and studied several master's degrees in finance.

Mr. Javier Olascoaga Palacio

Mr. Olascoaga is a Principal of Trilantic Capital Partners, having previously been a member of the European team of Lehman Brothers Merchant Banking from 2004 to 2007.

Prior to joining Trilantic, Mr. Olascoaga was a founding partner from 2007 to 2013 of Rasa Land Investors, a private equity real estate fund focused on land and resort development in Mexico. Mr. Olascoaga started his professional career at Goldman Sachs in London where he was part of the M&A team covering Spain.

Mr. Olascoaga has a degree in Business Administration from CUNEF in Madrid, Spain.

Mr. Miguel Abelló Gamazo

Mr. Miguel Abelló Gamazo is currently a member of the Strategic Investments Department and of the Executive Committee at Torreal, S.A.

Prior to joining Torreal between 2007 and 2012, he was one of the founders of Iberasia International Limited, one-stop-shop for Strategic Commodities, and of Africa Cement Limited, owner of a leader quality brand of cement, in which remains as its shareholder. In addition, he was formerly a Foreign Legal Specialist in Winston & Strawn LLP in New York where he participated in several international corporate projects.

Mr. Abelló Gamazo has a Master's degree in General Legal Practice awarded A marks from the IE Business School and a Law Degree from the *Universidad Complutense de Madrid*. He also has completed a Postgraduate in International Business awarded A marks from the University of California.

Ms. María José Zueco Peña

Ms. Zueco Peña is a lawyer at the law firm Ramón Hermosilla Abogados. She specializes in the area of Private Law and in the fields of Commercial Contracts Law and Civil Law.

Ms. Zueco is also the secretary and legal counsel of the board of directors of different companies and teaches Civil Law at the *Universidad C.E.U. San Pablo de Madrid*.

Ms. Zueco has a Degree in Law from the *Universidad de Zaragoza* and has also prepared the public competitive examination to obtain the title of Notary Public and studied several master's degrees in finance.

Mr. Mario Álvarez García

Mr. Álvarez is a lawyer at the law firm Ramon Hermosilla Abogados. He specializes in the area of Private Law and in the fields of Commercial Contracts Law and Civil Law. Mr. Álvarez also renders ongoing advisory services regarding the expansion and internationalization of companies.

Mr. Álvarez has a Degree in Law from the *Universidad Complutense de Madrid* and studied the Corporate Legal program at the *Instituto de Empresa*.

The table below sets out all entities (except those family-owned asset-holding companies not relevant for Talgo) in which the members of the Board of Directors have been appointed as members of the administrative, management or supervisory bodies or in which they have held shareholdings at any time during the five year period preceding the date of this document, indicating whether or not each person is still a member of such bodies or holds any shares in any such entities.

Director	Company	Office	Shareholding
Carlos Palacio Oriol	-	-	-
Jose María Oriol Fabra	Multienvíos JPI, S.L.	-	Yes
	Talgo (Deutschland) GmbH	Manager (Geschäftsführer)	No
	Montalban XIV	Board Member	No
	Talgo Inc.	Chairman	No
	Iberrail Spanish Railroads, S.A.	Board Member	No
Ramón Hermosilla Gimeno	Ramón Hermosilla Gimeno Abogados, S.L.P.	Chairman	Yes
	Ramón Hermosilla & Gutierrez De La Roza, S.L.P.	Former Chairman and CEO	Former Partner
	Ramon Hermosilla & Cia. Abogados	Former Director	Former Partner
	Dinosol Supermercados, S.L.	Secretary of the Board of Directors	No
	Legal Rhgr Internacional, S.L.P.	CEO and board member	No
	Vacaciones Edreams, S.L.U.	Secretary of the board of Directors	No
	Fundación Eugenio Rodriguez Pascual	Secretary	No
	City Sightseeing España, S.L.	Secretary of the board of Directors	No
	Yelmo Films, S.L.	Board Member	No
	Yelmo Cineplex, S.L.	Board Member	No
	Patentes Talgo, S.L.U.	Secretary of the board of Directors	No
	Kay Films & Movies, S.L.	Secretary of the board of Directors	No
	Golf La Moraleja, S.A.	Former Secretary of the board	No
	F. Tapias grupo de sociedades e inversiones, S.L.	Former Secretary of the board	No
	Alsa City Sightseeing, S.L.	Former Secretary of the board	No
	Logigas, S.A	Former Secretary of the board	No
	La Petrolifera Transportes, S.A.	Former Secretary of the board	No
	Viajes Sandra's	Former Secretary of the board	No
Javier Bañón Treviño	Advanced Risk Private Equity SICAR S.à.r.l	Chairman of the Board	No
	Invesmerchant AB	Chairman of the Board	No
	Trilantic Capital Management GP Ltd	Board Member	Yes
	Trilantic Capital Partners L.P. Inc.	Member	Yes (limited partner)
	Trilantic Capital Partners LLP	Member of the management Board	Yes
	Trilantic Capital Partners Management Ltd	Board Member	Yes
	Trilantic Capital Partners V Management Ltd	Board Member	Yes
	Trilantic Capital Partners IV Europe Lux GP S.à.r.l	Board Member	Yes
	Trilantic Capital Partners V Europe GP S.à.r.l	Manager	Yes
	Pegaso Transportation S.à.r.l.	Class B Manager	Yes
	Patentes Talgo S.L.U.	Board Member	No
	International Hospitals Network (GP) Ltd	Board Member	No

Director	Company	Office	Shareholding
	Trilantic Capital Partners Cable S.à.r.l	Director	No
	International Cable B.V.	Class A Director	No
	Euskaltel S.A	Director	No
	Pegaso Transport S.à.r.l	Former Manager	No
	LeYa Global SA	Former Director	No
	LeYa SA	Former Director	No
	Wing Aero S.à.r.l	Former Board Member	No
	Wing Turbo SL	Former Board Member	No
	Sener Aeronautica SL	Former Board Member	No
	LBMB Associates IV (Europe) S.à.r.l	Former Board Member	No
	LBMB Europe Capital Partners Management Ltd	Former Board Member	No
Jose María Muñoz Domínguez	IQAP	Former Board Member	No
	Televida	Former Board Member	No
	Gamo	Former Board Member	No
	Europastry	Board Member	No
	Lenitudes	Board Member	No
	MCH Private Equity SGECR	Board Member	No
Emilio Novela Berlín	BANIF	Former board member	No
	Reyal Urbis, S.A.	Board Member	No
	Círculo de Empresarios	Board Member	No
	CEIM	Board Member	No
	AEB	Board Member	No
	BlackRock G.F.	Former board member	No
	Merril Lynch Institutional Investors	Former board member	No
	Diximedia Digital, S.A.	Former board member	No
	Noqca Partner, S.L.	Board Member	No
	Soto de Valdejudios	Board Member	No
	OPENBANK	Board Member	No
Christian Burkhard Schuchmann	Vossloh AG	Former CEO	No
	One Equity Partners	Former partner	No
	Siegwerk AG	Former non-executive member of the board	No
	Patil Rail Industries	Non-executive member of the board	No
	Patentes Talgo S.L.U.	Non- executive vice chairman of the board	No
	Demag Cranes AG	Chairman of the supervisory board	No
	Alternative Rail Investments AG	CEO	No
	Schuchmann Wines e.K.,	-	Yes
	Schuchmann Wines Georgia	-	Yes
	Alternative Rail Investments AG, Frankfurt	Former board member	No
John Charles Pope	Con-way, Inc.	Board Member	No
	Dollar Thrifty Automotive Group, Inc.	Board Member	No
	Kraft Foods, Inc.	Board Member	No
	R. R. Donnelley and Sons, Inc.	Board Member	No
	Federal Mogul Corporation	Former board member	No
	Dollar Thrifty Automotive Group	Former Board Member	No

Director	Company	Office	Shareholding
	Waste Management, Inc.	Board Member	No
Michel Moreau	-	-	-
Albertus Meerstadt	Baarsma Wine Group Holding	CEO executive board Director	No
	ABN AMRO Group	member supervisory board	No
	Lucas Bols	member supervisory board	No
	Nederlandse Spoorwegen	Former CEO executive board member	No
Belén Villalonga Morenés	Grifols, S.A	Board Member	No
	Acciona, S.A.	Board Member	No
Javier Olascoaga Palacio	Rasa Land Investors plc	Former Board Member	Yes
Miguel Abelló Gamazo	Torreal, S.A.	Board Member	No
	Torreal SCR de Régimen Simplificado, S.A.	Board Member	No
	Banca Leonardo, S.p.A.	Board Member	No
	Ibadesa Africa Cement Limited	Board Member	No
	Iberasia International Limited	Board Member	No
	Minning Supplies Source limited	Board Member	No
	Ibadesa Asia Limited	Former Board Member	No

The Company's Board of Directors is governed by the Company's bylaws and regulations that were adopted by Talgo's Board of Directors on March 30, 2015 ("*Reglamento del Consejo de Administración*") (''**Board of Directors Regulations**'') and are registered with the Mercantile Register. The Board of Directors Regulations develop Talgo's bylaws and establish the principles for the functioning of the Company's Board of Directors, including the basic rules for its organization and functions and the standards of conduct for and rights and duties of the Board members.

None of the following shall be appointed as members of the Board of Directors nor shall be entitled to act on behalf of any of them: (i) legal entities, Spanish or foreign, or those whose significant shareholders, directly or indirectly, hold a stake in any other company of the railway sector in which Talgo operates, or any of its directors or senior management, (ii) individuals that have held any senior management seat in state-owned companies incompatible, according to national and state level legislation, with its duties as director of a listed company within two years prior to its appointment, or a position of responsibility in any sector in which Talgo operates; and (iii) individuals or legal entities involved in any situation of incompatibility or prohibition.

Pursuant to the Board of Directors Regulations, Board members must tender their resignation to the Board and the Board may accept such resignation, in its discretion, under the following circumstances: (i) when the Board member ceases to hold the executive officer position to which such member's appointment to the Board of Directors was related; (ii) when such Board member's participation on the Board of Directors is contrary to applicable law for reasons of ineligibility or incompatibility; (iii) when the Board member has taken actions contrary to the diligence with which he/she is to serve in office or infringes upon his/her duties and obligations as a Board member; (iv) when for reasons attributable to the Board member, the continued participation of that Board member on Talgo's Board may, in the opinion of Talgo's Board, damage the value of Talgo's equity or Talgo's reputation; (v) when a Board member represents a shareholder that has subsequently ceased to be a shareholder in the Company.

The Board of Directors is responsible for Talgo's management and establishes Talgo's strategic, accounting, organizational and financing policies. The Board of Directors Regulations provide that the

Chairman of the Board of Directors, and the Vice-Chairman, who acts as Chairman in the event of the Chairman's absence or incapacity, shall be elected from among the members of the Board of Directors. The Secretary and, where appropriate, the Deputy-Secretary of the Board of Directors need not be Directors.

Pursuant to articles 249bis and 529ter of the Spanish Companies Act, the Company's bylaws and the Board of Directors Regulations, the following matters must be approved by the Board of Directors in full and, subject to certain exceptions, may not be delegated to any board committee or to any of our attorneys or representatives:

- The supervision of effective functioning of the committees it has constituted and the actions of the delegated bodies and executives it has appointed.
- The determination of the Company's general strategies and policies.
- The authorization or waiver of the obligations deriving from the duty of loyalty as provided in article 230 of the Spanish Companies Act.
- Its own organization and functioning.
- The preparation of the annual accounts, the management report and proposed allocation of profits and losses and their submission to the general shareholders' Meeting.
- The making of any kind of report required by law to the Board of Directors, provided that the operation covered by the report is non-delegable.
- The appointment and removal of managing Directors of the company.
- The appointment and removal of Directors of the Company, as well as the establishment of the terms of their contracts.
- The decisions related to compensation of Directors, within the framework set by the bylaws and, if applicable, the compensation policy approved by the general shareholders meeting.
- The call of the general shareholders' meeting and the preparation of the agenda and proposed resolutions.
- The policy regarding treasury shares.
- The powers the general shareholders' meeting has delegated to the Board of Directors, unless expressly authorized by it to sub-delegate them.
- The approval of the business or strategic plan, the management objectives and annual budget, the financing and investment policy, the corporate social responsibility policy and the dividend policy.
- The determination of the policy for management and control of risks, including tax risks and supervision of the internal information and control systems.

- The determination of the Company's corporate governance policy and that of the group of which it is the controlling entity; its organization and functioning and, in particular, the approval and amendment of its own regulations.

- The approval of the financial information listed companies must periodically disclose.

- The definition of the structure of the group of companies of which the Company is the controlling entity.

- The approval of all kinds of investments and transactions which, due to their high value or special characteristics, are strategic in nature or have high tax risk, unless their approval is reserved to the general shareholders' meeting.

- The approval of the creation or acquisition of interests in special purpose vehicles or entities resident in countries or territories considered to be tax havens, and any other transactions or deals of a comparable nature the complexity of which might impair the transparency of the Company or its Group.

- The approval, after a report from the audit committee, of the transactions that the Company or companies in its group enter into with Directors, on the terms of articles 229 and 230 of the Spanish Companies Act, or with shareholders that individually or as a group hold a significant interest, including shareholders represented on the Board of Directors of the Company or other companies that are a part of the same group, or with persons related thereto. The affected Directors, or those representing or related to the affected shareholders, must refrain from participating in deliberating and voting on the resolution in question. Only transactions simultaneously having the three following characteristics are exempt from this approval:

  1º. They are governed by standard form agreements applied on an across-the-board basis to a large number of customers;

  2º. They are entered into at market rates, set on a general basis by the person supplying the goods or services in question; and

  3º. The amount is no more than one percent of the Company's annual net turnover.

- The determination of the tax strategy of the Company.

In urgent cases that are duly justified, decisions on the foregoing matters may be adopted by delegated bodies or persons, but need to be ratified at the first Board of Directors meeting held after the decision is adopted.

Pursuant to article 245 of the Spanish Companies Act, the board of directors shall meet at least once per quarter. The Board of Directors Regulations require the Board of Directors to meet as often as determined, as the case may be, in the action plan approved by the Board of Directors in a given year and in any case, at least 8 times each year. The meetings scheduled may be amended by the Board of Directors. The Chairman of the Board of Directors may call a meeting whenever he or she considers it necessary or advisable, and the Chairman of the Board of Directors is also required to call a meeting at the request of three Board members or the Independent Coordinating Director. The Company's bylaws state that half of the members of the Board of Directors (represented in person or by proxy by another member of the Board of Directors) constitute a sufficient quorum. Except as otherwise provided by law or specified in the bylaws and Board of Directors Regulations, Board of Directors resolutions are passed by an absolute majority of the Directors present or represented at a Board meeting.

The Company's bylaws state that the Board of Directors may delegate, according to law, its functions to an executive Committee or in one or several chief executive officers (*consejeros delegados*). As at the date of this document Mr. Jose María Oriol Fabra has been appointed as Chief Executive Officer.

Board Committees

Audit Committee ("Comité de Auditoría")

The Audit Committee shall be comprised of a minimum of three (3) and a maximum of five (5) members, appointed by the Board of Directors.

The Audit Committee is currently comprised of three (3) members of the Board of Directors. The Spanish Companies Act, the bylaws and the Board of Directors Regulations require all members of the Audit Committee to be non-executive Directors, of which at least two (2) must be independent Directors and one of those shall be appointed taking into account the appointees' knowledge and experience in accountancy, auditing and risk management standards.

Name	Date of first appointment	Title	Category
Emilio Novela	March 30, 2015	Chairman	Independent
Michel Moreau	March 30, 2015	Member	Independent
Jose María Muñoz	March 30, 2015	Member	Proprietary
María José Zueco	March 30, 2015	Secretary	-

Pursuant to article 529 quaterdicies of the Spanish Companies Act, the Chairman of the Audit Committee is appointed by the Board of Directors, from amongst the independent members of the Committee to serve for a maximum term of four years and may be re-elected as Chairman at least one year after his or her removal.

The Audit Committee must meet at least 4 times a year (once each quarter). The Audit Committee may also meet at the request of one member of the Audit Committee, or whenever a meeting is necessary to perform the duties for which the Audit Committee was established. The Audit Committee has not yet met as of the date of this document.

The Audit Committee is responsible for reviewing and overseeing the economic and financial information on the Company and the Board of Directors and any other information that the Board of Directors deems relevant. In particular, duties of the Audit Committee include but are not limited to the following:

-Reporting to the general shareholders' meeting on questions posed regarding matters within the competence of the committee.

-Monitoring the effectiveness of the Company's internal control, the internal audit and systems for management of risks, including tax risks, and discussing with the statutory auditor any significant weaknesses in the internal control system identified during the course of the audit.

-Supervising the process of preparation and presentation of the required financial information.

-Referring to the Board of Directors the proposals for selection, appointment, re-election and replacement of the external auditor, as well as the conditions of the engagement thereof and regularly gather information from it regarding the audit plan and its implementation, in addition to preserving its independence in the exercise of its functions.

-Establishing the appropriate relationships with the external auditor to receive information regarding such questions as may compromise its independence, for review by the committee, and any others related to the process of auditing accounts, and such other communications as may be contemplated in the legislation regarding auditing of accounts and audit standards. In any event, annually it must receive from the external auditors a declaration of their independence as regards the entity or entities directly or indirectly related thereto, as well as information on additional services of any kind provided to and the corresponding fees received from such entities by the external auditor or persons or entities related thereto, pursuant to the legislation on auditing accounts.

-Annually, prior to the issue of the audit report, issuing a report stating an opinion regarding the independence of the statutory auditor. This report in any event must contain the valuation of the provision of the additional services referred to in the preceding paragraph, taken individually and as a whole, other than the legal audit, as regards the scheme of independence of the auditors and regulations governing audits.

-Reporting, prior to the Board of Directors meetings, on all matters contemplated in law, the by-laws and the Board of Directors Regulations, in particular regarding:

1. The financial information the Company must periodically disclose;

2. The creation or acquisition of interests in special purpose entities or those domiciled in countries or territories that are treated as tax havens; and

3. Transactions with related parties.

Appointments and Compensation Committee ("Comisión de Nombramientos y Retribuciones")

The members of the Appointments and Compensation Committee are appointed by the Board of Directors, taking into account the appointees' knowledge and experience required to carry out their responsibilities.

The Appointments and Compensation Committee shall be comprised of between three (3) to five (5) members. The Spanish Companies Act, the bylaws and Board of Directors Regulations require all members of the Appointments and Compensation Committee to be non-executive Directors, of which at least two (2) must be independent Directors. The initial members are:

Name	Date of first appointment	Title	Category
Albertus Meerstadt	March 30, 2015	Chairman	Independent
John Charles Pope	March 30, 2015	Member	Independent
Javier Bañón	March 30, 2015	Member	Proprietary
María José Zueco	March 30, 2015	Secretary	-

The Chairman of the Appointments and Compensation Committee is appointed by the Board of Directors from amongst the independent members of the Committee. The Appointments and

Compensation Committee meets at the request of its Chairman, when so requested by two (2) of its members or whenever is necessary to perform the duties for which the Appointments and Compensation Committee was established.

The Appointments and Compensation Committee is responsible, among other duties, for:

-Evaluating the skills, knowledge and experience required on the Board of Directors. For these purposes, it will define the functions and skills required of candidates that are to fill each vacancy and will evaluate the time and dedication necessary for them to be able to effectively perform their duties.

-Establishing a goal for representation of women on the Board of Directors, and developing guidance on how to achieve that goal.

-Making proposals to the Board of Directors of independent Directors to be appointed by co-option or for submission to decision by the general shareholders meeting, and proposals for re-election or removal of those Directors by the general shareholders meeting.

-Reporting on proposals for the appointment of the other Directors to be appointed by co-option or for submission to decision by the general shareholders meeting, and proposals for their re-election or removal by the general shareholders meeting.

-Reporting on proposals for appointment and removal of Senior Managers and the basic terms of their contracts.

-Examining and organizing the succession of the Chairman of the Board of Directors and the CEO of the Company and, if appropriate, making proposals to the Board of Directors so that that succession will occur in an orderly and planned manner.

-Proposing to the Board of Directors the remuneration policy for Directors and general managers or those performing Senior Management functions under the direct supervision of the Board of Directors, executive committees or managing Directors, as well as the individual remuneration and other contractual conditions of executive Directors, ensuring compliance therewith.

-Drafting of the annual report on corporate governance ("*informe anual de gobierno corporativo*") and the annual report on board compensation ("*informe anual de remuneraciones de los consejeros*").

The Appointments and Compensation Committee has not yet met as of the date of this document.

Directors of Patentes Talgo, S.L.U.

The members of the board of directors of the operating company Patentes Talgo at the date of this document are the following:

Name	Date of first appointment	Expiry date of appointment	Title
Carlos Palacio Oriol	November 28, 2012	April 1, 2021	Chairman
Jose María Oriol Fabra	November 28, 2012	April 1, 2021	CEO
Ramón Hermosilla Gimeno	November 28, 2012	April 1, 2021	Director
María José Zueco	March 30, 2015	-	Secretary non director

As at December 31, 2014 the directors of Patentes Talgo were Carlos Palacio Oriol, Jose María Oriol Fabra, Javier Bañón Treviño, John Charles Pope, Nueva Compañía de Inversiones, S.A., Eduardo Fernández-Gorostiaga, Albertus Meerstadt, Ramón Hermosilla Gimeno, Emilio Novela Berlín, Christian Burkhard Schuchmann, Michel Moreau and Whitley, S.L. (all of them appointed on November 28, 2012 except for Mr. Albertus Meerstadt that was appointed on May 28, 2014).

All of the current members of the board of directors of Patentes Talgo are also Directors of the Company.

Senior Management

There is no senior management at the level of the Company different from the Directors with executive authorities. Aside from the Board of Directors and the Directors with executive authorities, Talgo is managed on a day-to-day basis by the senior management at the level of Patentes Talgo.

The following table sets out the key current members of the Group's Management Committee and their respective ages and positions.

Name	Date of first appointment	Title	Age
Mrs. Ana de Nicolás	2014	Deputy Chairman & Public Relations (PR)	43
Mr. Segundo Vallejo Abad	1995	General Director	66
Mr. Eduardo Fdez-Gorostiaga	2003	Chief Financial Officer (CFO)	42
Mr. Fernando Aznar	2009	Business Development	45
Mr. Luis Alfonso Henar	2014	Chief Operational Officer (COO)	48
Mr. José Ignacio García	2009	Procurement	40
Mr. Roberto Martínez	2006	Manufacturing	50
Mrs. Yolanda Juanas	2003	Human Resources	49
Mrs. Mercedes Izarra	2014	Organization	41
Mr. Diego Sobrón	2004	Deputy Chief Financial Officer (CFO)	43
Mr. Jesús Aranda Bayona	2004	Maintenance Systems	50

Besides the executive Directors, biographical information for each of the members of the Senior Management team, including a brief description of each person's business experience and education, is presented below:

Biographical information

- Ms. Ana de Nicolás, 43 years old, is Deputy Chairman and Institutional Affairs and Communication Director. Ana has 20 years of press and media industry experience. She has a Degree in Law from the *Universidad Complutense de Madrid (CEU San Pablo)*. Ana also holds a Protocol, Communication and Integral Organization of Events Master. She works in TV, and runs her own advisory company. She joined Talgo in 1999.

- Mr. Segundo Vallejo, 66 years old, is General Director. Segundo has 46 years rail industry experience. He has a Degree in Industrial Engineering from the ICAI (Madrid) obtained while combining his studies with a part-time job at Talgo. He joined Talgo in 1968. He started at Talgo as a technician and was promoted to a wide range of positions, such as Head of Engineering and COO.

- Mr. Eduardo Fernández-Gorostiaga, 42 years old, has been Talgo CFO since 2003 in order to execute a restructuring plan for the Company and to search for a financial partner. He was formerly a financial auditor at Arthur Andersen and PwC. He holds a Degree in Business Administration from the *Universidad de Deusto*, Bilbao. He is a visiting professor of Finance at IE Business School and Member of *Círculo de Empresarios Vascos*.

- Mr. Fernando Aznar, 45 years old, is Talgo's Business Development Director. He was formerly Project Manager at Valeo. Fernando has 21 years industry experience. Engineer from the ICAI, Madrid. He joined Talgo in 2005.

- Mr. Luis Alfonso Henar, 48 years old, is COO. Engineer from the Universidad Politécnica de la Almunia. Luis has 22 years rail industry experience. He joined Talgo in 1992.

- Mr. José Ignacio García, 40 years old, is now Procurement Director. Formerly Procurement Manager at Cesa (EADS-CASA) and business consultant at Accenture, he has more than 14 years industry experience. Mechanical Engineer from UPS-Madrid & MSc from the University of Manchester. He joined Talgo in 2006.

- Mr. Roberto Martínez, 50 years old, is Manufacturing Director. Engineer from the *Escuela Superior de Ingenieros de Zaragoza*. Roberto has 24 years rail industry experience. He joined Talgo in 1991.

- Ms. Yolanda Juanas, 49 years old, is Human Resources Director. She has a Law Degree from the *Universidad de Burgos*, and a Masters in Labor Relations from *Universidad Complutense de Madrid*. She joined in Talgo in 1989.

- Ms. Mercedes Izarra, 41 years old, is Organization Director. Mechanical Engineer from UPS-Madrid. She has 17 years industry experience. She joined Talgo in 1999.

- Mr. Diego Sobrón, 43 years old, is Deputy CFO since 2004 and Vice-Chairman of Spanish Consortium for the High Speed Mecca-Medina project since 2011. Formerly financial auditor at PwC. BA in Business Administration from the *Universidad del País Vasco*, Bilbao.

- Mr. Jesús Aranda Bayona, 50 years old, is Maintenance System Director. Technical Mechanical Engineer from the ICAI (Madrid). Jesus has 26 years of rail industry experience. He joined Talgo in 1989.

The table below sets out all entities (except those family-owned asset-holding companies not relevant for Talgo) in which the members of the Senior Management have been appointed as members of the administrative, management or supervisory bodies or in which they have held shareholdings at any time during the five year period preceding the date of this document, indicating whether or not each person is still a member of such bodies or holds any shares in any such entities.

Senior Manager	Company	Office	Shareholding
Eduardo Fernández- Gorostiaga	Tarvia Mantenimiento Ferroviario, S.A.	Former board member	No
	Patentes Talgo, S.L.U.	Former board member	No

Segundo Vallejo Abad	Tarvia Mantenimiento Ferroviario, S.A.	Former board member	No
Diego Sobrón Jiménez	Consorcio Español Alta Velocidad Meca Medina, S.A.	Vice-Chairman	No

Conflicts of Interest

Pursuant to article 229 of the Spanish Companies Act, Directors are required to report all circumstances that may give rise to a conflict of interests to the Board of Directors as soon as they become aware of such circumstances. Directors should refrain from voting on matters in which they may have a personal interest, whether directly or indirectly. Additionally, according to the Spanish Companies Act, the Board of Directors Regulations and recommendations by the Spanish Corporate Governance Code, Directors should refrain from engaging in commercial or professional transactions with the Company, without having first informed and received approval for the transaction from the Board of Directors, which shall request a report from the Audit Committee. Such authorization shall not be necessary if all the following conditions are met in respect of the relevant transaction: (a) the transaction is performed pursuant to an agreement with standard conditions ("*contratos de adhesión*"); (b) the transaction is performed for a price generally applied by the party acting as the supplier; and (c) the transaction does not exceed one per cent of the Company's annual turnover. Those Directors representing significant shareholders must also refrain from participating in the debate and voting of decisions relating to conflict of interests between the Company and the significant shareholder.

Save as explained in "*Principal and Selling Shareholders – Shareholders' Agreements*" and "*Related Party Transactions*" with regards to the provision of certain legal services by Mr. Ramón Hermosilla to Talgo, to the best of the Company's knowledge, as at the date of this document, there are no real or potential conflicts of interest amongst the Directors of the Company and Senior Management of Talgo and none are engaged in self-dealing or personally engaged in any business that could be deemed as part of the Group's operations.

Non-compete obligation

Directors, or persons related to them are not entitled to engage in activities, whether directly or indirectly, that completely or partially have a business objective or involve activities that are similar to those carried out by Talgo, except with the express authorization of the general shareholders' meeting and provided that they fulfil the requirements set out in articles 230.3 and 529.ter (h) of the Spanish Companies Act. Directors are not entitled to hold office or render services to entities that are competitors of the Group. Any person holding interests that are contrary to the Company's best interests must resign from his/her office at the request of the general shareholders' meeting, when the risk of damage to the Company becomes relevant.

In addition, pursuant to article 11 of the Company's Board of Director Regulations, companies, either Spanish or foreign, or those whose principal shareholders, directly or indirectly, hold a significant stake in a company performing activities in the railway market or other sectors that compete with the Company, as well as their directors, senior management or those individuals proposed by the same shall not be appointed as Director of the Company or representative in the Board of a legal person appointed as Director of the Company.

Before accepting an office in the management body of any company or entity outside the Group, the Directors concerned shall consult the Appointments and Compensation Committee.

To the best of the Company's knowledge, as at the date of this document, no Director renders services to an entity that is a competitor of Talgo.

Internal Code of Conduct and Corporate Governance ("*Reglamento Interno de Conducta*")

On March 30, 2015, the Board of Directors approved the internal capital markets code of conduct ("*Reglamento Interno de Conducta en los Mercados de Valores*") (the "**Internal Code of Conduct**"), to take effect upon Admission. The Internal Code of Conduct regulates, amongst other issues, the conduct of Directors and management with regard to the treatment, use and disclosure of non-public material information relating to the Group. The Internal Code of Conduct applies, amongst others, to all members of the Board of Directors, Senior Management and employees with access to material non-public information, as well as to the Company's external advisors handling such non-public material information.

The Spanish Companies Act, as amended by Act 31/2014, on the improvement of corporate governance of listed companies, sets out certain mandatory legal provisions applicable to Spanish companies whose shares are listed on Spanish Stock Exchanges. In addition, the Spanish Good Governance Code of Listed Companies ("*Código de Buen Gobierno de las Sociedades Cotizadas*") approved by the CNMV Board on February 18, 2015, sets out certain recommendations on corporate governance to be considered (on a "comply or explain" basis) by companies whose shares are listed on Spanish Stock Exchanges. As at the date of this document, Talgo believes that it substantially complies with these recommendations.

Some of Talgo's corporate practices currently vary from the recommendations in certain respects. Nevertheless, Talgo is committed to observe strict corporate governance policies and adapt its practices as appropriate to all the above mentioned principles of good governance, as soon as possible after Admission, in a consistent manner.

Talgo's corporate practices vary from the recommendations in the following ways:

- Talgo's Board of Directors submitted to the general shareholder's meeting held on March 28, 2015 a proposal for delegation of powers, in order to increase capital, with an exclusion of pre-emptive rights, for an amount of up to 50% of the share capital at the time of the delegation, contrary to recommendation 5;

- The Board of Directors have not approved yet a policy on selection of directors which: (a) is specific and verifiable, (b) ensures that proposals for appointment or reelection are based on a prior analysis of the needs of the Board of Directors and (c) favors diversity of knowledge, experience and gender, contrary to recommendation 14. In addition, only one Board member is a woman, contrary to the objective that on 2020 the number of female directors constitutes at least 30% of the total number of members of the board of directors.

- Talgo's Board of Directors has not yet approved a policy for risk management and control, contrary to recommendation 45;

- Talgo's Board of Directors do not expressly confer the task of supervising compliance with corporate governance rules, internal code of conduct and corporate social responsibility policy to one board committee, or split between several committees, contrary to recommendation 53; and

- As at the date of this document, Talgo's Board of Directors has not approved at the corporate social responsibility policy, contrary to recommendation 54 which, pursuant to section 529 ter of the Spanish Companies Act, establishes that corporate social responsibility policy for listed companies should be approved by the Board of Directors.

Pursuant to article 529.decies of the Spanish Companies Act, proposal of appointment or re-election of members of the board of listed companies corresponds to the Appointment and Compensation Committee, in the case of independent Directors, and to the board itself in other cases and such proposal of appointment or re-election must be preceded by a report by the Appointment and Compensation Committee. The appointment of the current members of the Board of Directors of the Company was not preceded by proposals and reports of the Appointments and Compensation Committee.

As set forth in the Board of Directors Regulations, the Compensation and Appointments Committee is required to periodically review the level of compliance by the Company and, where appropriate, the subsidiaries, with the internal rules and rules on corporate governance approved in March 2015, submitting its proposals and recommendations to the Board of Directors in order to improve such rules. Furthermore, pursuant to the Company's bylaws and the Board of Directors Regulations, the Compensation and Appointments Committee is required to prepare an annual corporate governance report (the first report to be prepared will be the report referred to the year ended December 31, 2015).

Management Compensation

Compensation of Directors and Senior Management

Compensation of Directors, directors of Patentes Talgo and Senior Management during the fiscal year ending on December 31, 2014 and the three months ended March 31, 2015

The Company did not pay any remuneration during the fiscal year ending on December 31, 2014 to the Senior Management or the members of the Board of Directors of the Company during such financial year.

The remuneration received from Patentes Talgo during the fiscal year ending on December 31, 2014 by the Senior Management (senior management as at December 31, 2014 is comprised of the same individuals than as of the date of this document), Mr. Palacio Oriol and Mr. Oriol Fabra (current executive Directors of the Company), classified by item, was as follows (in thousand of euros):

		2014		
Director	**Salary**	**Pension Schemes**	**Insurance Premium**	**Total**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**	**(€ thousand)**
Carlos Palacio Oriol	484	9	23	516
José María Oriol Fabra	457	9	16	482
Total	**941**	**18**	**39**	**999**

		2014	
Item	**Senior Management**	**Executive Directors**	**Total**

	(€ thousand)	(€ thousand)	(€ thousand)
Salary	1,911	941	2,852
Pension Schemes	51	18	68
Insurance Premiums	47	39	86
Total	**2,009**	**999**	**3,006**

The aggregate amount Patentes Talgo has paid to the remaining members of the board of directors of Patentes Talgo during the fiscal year ending on December 31, 2014 on allowance and attendance fees was €180 thousand.

During the three months ended March 31, 2015, the Company did not pay any compensation to the Senior Management or the members of the Board of Directors of the Company. Remuneration received from Patentes Talgo during the three months ended March 31, 2015 by the Senior Management, Mr. Palacio Oriol and Mr. Oriol Fabra (current executive Directors of the Company) classified by item, was as follows (in thousand of euros):

	Three months ended March 31, 2015			
Director	**Salary (€ thousand)**	**Pension Schemes (€ thousand)**	**Insurance Premium (€ thousand)**	**Total (€ thousand)**
Carlos Palacio Oriol	117.84	2.30	5.85	125.99
José María Oriol Fabra	110.35	2.17	3.78	116.30
Senior Management	481.87	12.75	11.59	506.21
Total	**710.05**	**17.21**	**21.22**	**748.50**

The aggregate amount Patentes Talgo has paid allowance and attendance fees to the remaining members of the board of directors of Patentes Talgo during the three months ended March 31, 2015 was €45 thousand.

Compensation of Directors

A compensation policy in relation to the Company's Directors was approved at its general shareholders' meeting held on March 28, 2015 in compliance with the Spanish Companies Act and will be approved by the Company's new Board of Directors with the prior proposal of the Appointments and Compensation Committee.

Pursuant to the Company's bylaws and the Board of Directors Regulations, as members of the Board, Directors shall be entitled to receive an allowance payable quarterly that consists of a fixed annual amount, plus an attendance fee for each Board or Committee meeting attended.

The general shareholders' meeting of the Company held on March 28, 2015 approved the maximum aggregate amount that the Company may pay its Directors, which cannot exceed €1,000 thousand for 2015. The distribution of said amount to Company Directors has not been decided as at the date of this document and will be proposed by the Appointments and Compensation Committee.

Provided applicable laws are complied with, all compensation received by Directors in accordance with the Company's bylaws (as set out above) will be independent from salaries, remuneration, indemnification, pensions, contributions to social security systems, life insurance or compensation of any other kind, whether fixed or variable, annual or multiple-year, established on a general basis or individually for those Directors performing executive duties, provided such compensation is set out in a specific contract entered into between the Company and each executive Director in accordance with the provisions of articles 249.3 and 249.4 of the Spanish Companies Act, with the vote in favor of at least two thirds of the Board members and the abstention of the Director concerned. The contracts to be entered into by the Company and Company's executive Directors will be executed in the near future and in any event will be approved by the Appointments and Compensation Committee.

Talgo estimates that the annual compensation to be received during 2015 by the Chairman and the CEO (including total salary, pension schemes, and insurance premiums) will be approximately of €503.90 thousand and €465.19 thousand, respectively. In any case, as of the date of this document those amounts have not been reviewed by the Appointment and Compensation Committee and approved by the Board of Directors and, therefore, are subject to changes.

Apart from the Management Incentive Plan described below, no additional compensation by the Directors will be accrued as a result of the Admission.

None of the Directors and the Senior Management receive any compensation from other companies of the Group.

Remuneration of the directors of Patentes Talgo

Since March 30, 2015, the office of director of Patentes Talgo is not remunerated.

Remuneration of the Senior Management Team

Talgo estimates that the annual compensation to be received during 2015 by Senior Management (including total salary, pension schemes, insurance premiums), excluding the Chairman and the CEO, will be approximately and €2,025 thousand. In any case, as of the date of this document those amounts have not been reviewed by the Appointment and Compensation Committee and approved by the Board of Directors and, therefore, they are subject to changes.

Apart from the management incentive plan described below, no additional compensation will be accrued as a result of the Admission.

Loans to the Senior Management

During 2012, Patentes Talgo granted loans to its Senior Management for the purchase of shares in Pegaso Rail International, S.C.A. amounting to €377 thousand. The aforementioned loans accrue interest at a rate that is linked to Euribor plus a market spread. No loans have been granted by the Company to any Director.

Agreements with Directors and Senior Management including post-termination benefits

Contracts entered with the executive Directors and two of the Senior Managers expressly regulate the amounts to be paid by the Company in case of termination. The clauses regulate different grounds for termination and payments due in each of them; specifically, in case of termination decided by the Company without cause or decided by the Directors or the Senior Managers with cause (as defined in the contracts), the Directors or Senior Managers are entitled to a severance payment equivalent to 12 months of fixed remuneration plus variable remuneration and the retention and performance bonus. The amounts of the retention and performance bonus are both linked to the increase in the equity value of Patentes Talgo. According to the salaries as of December 2014, the 12 months of remuneration severance payments of the Chairman and the CEO would amount approximately to €484 thousand and €457 thousand, respectively.

Apart from the foregoing, neither the Company nor any of its subsidiaries have, as at the date of this document, entered into any agreement with a Director or Senior Manager providing for benefits upon termination of office, including, contributions to retirement or pension plans, severance payments or insurance policies.

Management Incentive Plan

Since the last quarter of 2012, on an exceptional basis, based on the new contracts executed by Patentes Talgo with 21 managers (including all the Senior Managers and the two executive Directors), Talgo has had a number of obligations towards the management team in the form of a long-term share-based compensation plan that will be settled upon Admission. This share compensation plan is related, on one hand, to the performance of objectives linked to the performance of the Group's business plan (EBITDA, gross margin percentage and operating cash flow) as well as to growth objectives (execution of new agreements) and on the other, to remaining with Talgo until the earlier of (i) Admission or (ii) October 2016.

The performance and growth objectives have already been achieved as at the date of this document. They are determined as a fixed percentage referenced to the increase in the estimated value of Talgo according to the formulas stipulated in the contract executed for such purpose, having regard to compliance with the assumptions underlying the share-based compensation plan, the principal assumptions being the plan's estimated payment date and the degree of performance of the management objectives mentioned above.

The plan compensation may be paid in cash or in Shares, at the discretion of Talgo. Nonetheless, the compensation finally received by the managers upon Admission will be paid in Shares of the Company. The increase in personnel costs recorded in 2014 with respect to 2013 is due to the advancement of the accrual for such costs from March 2016 to June 2015, given that as at the estimated date of Admission 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 Talgo on the execution date of the plan (2012) was determined, pursuant to the contracts executed for such purpose, using valuation techniques based essentially on projections of cash flows and valuation by multiples made in the year the contracts were executed. Assumptions relating to growth and discount rates in the valuation are consistent with those indicated in Note 8 to Talgo's Audited Consolidated Annual Financial Statements in order to evidence the impairment of goodwill using the methods established in the long-term share-based compensation plan. The reasonable value of services received from employees is recognized as a personnel expense in Talgo's income statement, recording the related balancing entry in net worth. The aforesaid reasonable value was calculated in 2012 based on the following premises:

- The cash flow discount rate being the capital cost of the Group for each year.

- The time horizon being the same as the period of termination of the agreements in the portfolio of the projects.

- The charges attributed in the different years being calculated with regard to the clauses on delivery and billing that appear in the agreements.
- Payments were estimated according to the budgeted standards of costs based on the Group's cost accounting.

The consistent improvement in macroeconomic prospects since 2012, both in Spain and in some of the regions in which Talgo operates, as well as the recent performance of Talgo's projects and the improvement of prospects in connection with the performance of future projects could have a favorable impact on the estimated value of Talgo. Talgo's increase in value on the settlement date of the plan will be calculated with the initial market price, the compensation estimated to fall between €97,944 thousand and €135,953 thousand, which will be paid in Shares after deducting the tax commitments associated with the compensation. According to the indicative non-binding Offering Price Range, the aggregate number of Shares that the management team will receive will represent between 4.41% and 4.73% of the share capital of the Company, of which Talgo's Chairman will receive Shares accounting for between 0.84% and 0.92%, the CEO Shares accounting for between 0.84% and 0.92%, Senior Managers Shares accounting for between 2.28% and 2.45% and other officers accounting for between 0.44% and 0.45% of the share capital of the Company.

As of December 31, 2012, 2013, and 2014 Talgo has provisioned €2.52 million, €9.64 million and €18.36 million, respectively, for the compensation plan. In 2015, €3.21 million is expected to be included as personal expenses in the Company's Consolidated Income Statement Data. The remaining amount of the compensation plan will not be recognized as a personnel expense on the Company's Consolidated Income Statement Data and will be directly recorded against equity.

For the purpose of settling these contracts, the Company will purchase the relevant Shares at the Offering. Such Shares to be acquired by the Company will not be taken into consideration for the book-building process to set the Offering Price (see "*Plan of Distribution*").

At the close of 2014, Talgo had not contracted any instrument to cover the value of the aforesaid Shares that are to be purchased for subsequent award.

Delivery of Shares by the Company to the recipients of the Management Incentive Plan will be made as soon as practically possible.

The recipients of the Management Incentive Plan will not be subject to the undertakings established under the Talgo SHA but will be subject to the lock-up periods referred to in section "*Plan of Distribution-Lock-Up Agreements*".

Management Incentive Plan Post-Admission

Talgo plans to approve a new long-term compensation plan for its management team that will be submitted for approval to the Company's Board of Directors and the Appointments and Compensation Committee. This new long-term incentive plan will be linked to the Company's share price performance and the achievement of certain financial objectives, and will be in line with market standards for listed companies of a similar size to Talgo.

D&O insurance policy

The Company has taken out an insurance policy, effective until July 31, 2015 (and which may be renewed or replaced by a similar policy thereafter), which covers, amongst other contingencies, all liability claims against the Group’s Directors and Senior Managers in connection with their offices, as well as all defense costs incurred as a result of applicable claims, including any related attorneys’ fees. This policy has a total aggregate annual limit of €15 million. The policy covers all claims made during the term of the policy, irrespective of the date on which the acts are committed.

Family relationships

There are no family relationships and no “close relatives” (as this term is defined in applicable regulations for related party transactions and, in particular, in Order EHA/3050/2004, of September 15, 2004, on information to be disclosed by listed companies regarding related party transactions) amongst the Directors, the Directors and other Members of the Group’s Senior Management team or the Members of the Group’s Senior Management team.

No convictions and other negative statements

Except for Mr. Emilio Novela who was independent director of the Spanish company Reyal Urbis, S.A. at the time of the voluntary insolvency proceeding filing on February 2013, to the best of the Company’s knowledge, none of its Directors or members of its Senior Management team have, in the five years preceding the date of this document: (i) been convicted in relation to fraudulent offences; (ii) acted as directors or Senior Managers of entities affected by bankruptcy, receivership or liquidation; (iii) been publicly incriminated and/or sanctioned by statutory or regulatory authorities (including designated professional bodies); or (iv) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer of securities or from acting in the management or conduct of the affairs of any issuer.

PRINCIPAL AND SELLING SHAREHOLDERS

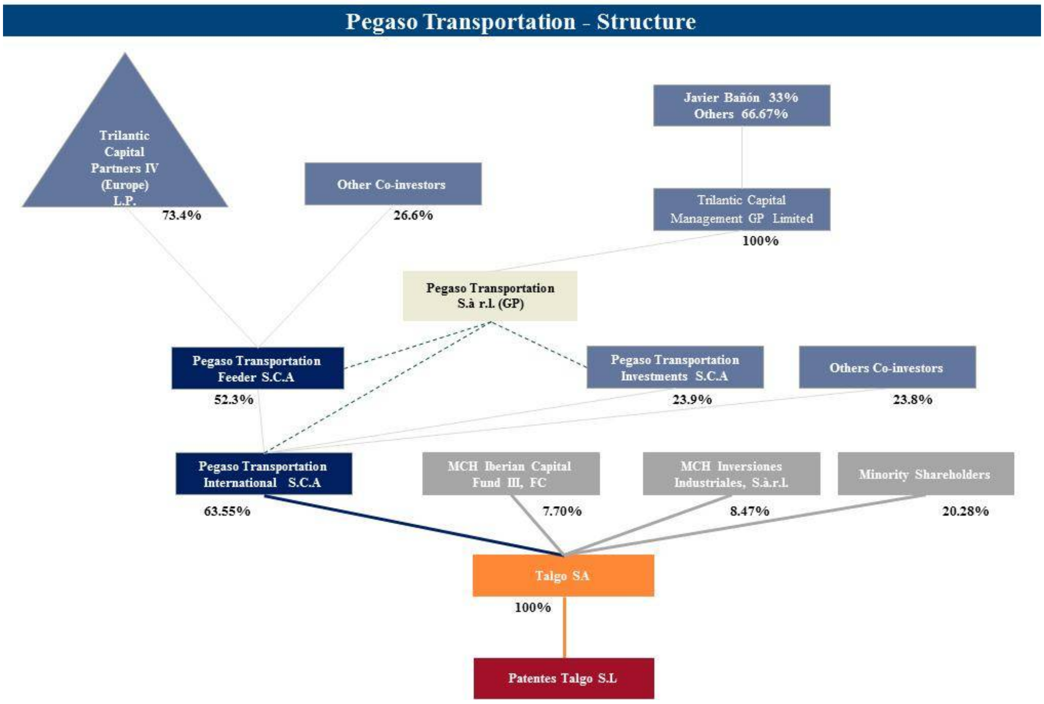
Pursuant to the Offering, the Selling Shareholders are currently expected to sell 61,574,805 Shares, representing 45% of the total issued ordinary share capital of the Company.

The following table sets forth certain information with respect to the ownership of the Shares prior to the Offering and after the Offering assuming full execution of the Offering and full exercise of the Over-allotment Option.

	Prior to the Offering		Number of shares offered in the Offer	Over-Allotment Option	Total (number + Over-allotment Option)	After the Offering			
Owner	Number of Shares beneficially owned	%	Number of Shares			Number of Shares owned (assuming a full exercise of the Over-allotment Option)	%	Number of Shares owned (assuming no exercise of the Over-allotment Option)	%
Pegaso Transportation International SCA	86,963,300	63.55%	39,133,485	3,913,349	43,046,834	43,916,466	32.09%	47,829,815	34.95%
MCH Iberian Capital Fund III, FCR	10,533,800	7.70%	4,740,210	474,021	5,214,231	5,319,569	3.89%	5,793,590	4.23%
MCH Inversiones Industriales, S.à.r.l.	11,591,800	8.47%	5,216,310	521,631	5,737,941	5,853,859	4.28%	6,375,490	4.66%
Lucas María de Oriol López Montenegro	547,100	0.40%	246,195	24,620	270,815	276,286	0.20%	300,905	0.22%
Nicolás Domecq Oriol	51,100	0.04%	22,995	2,300	25,295	25,806	0.02%	28,105	0.02%
Alfonso Carlos de Oriol Muñoz	48,200	0.04%	21,690	2,169	23,859	24,341	0.02%	26,510	0.02%
Ignacio María de Oriol Muñoz	48,200	0.04%	21,690	2,169	23,859	24,341	0.02%	26,510	0.02%
María Magdalena de Oriol Muñoz	48,200	0.04%	21,690	2,169	23,859	24,341	0.02%	26,510	0.02%
Santiago María de Oriol Muñoz	48,200	0.04%	21,690	2,169	23,859	24,341	0.02%	26,510	0.02%
Juan Pedro de Oriol Muñoz	48,200	0.04%	21,690	2,169	23,859	24,341	0.02%	26,510	0.02%
Inmajor, S.A.	48,200	0.04%	21,690	2,169	23,859	24,341	0.02%	26,510	0.02%
María del Patrocinio de Oriol Muñoz	48,200	0.04%	21,690	2,169	23,859	24,341	0.02%	26,510	0.02%
María de Palacio y de Oriol	337,800	0.25%	152,010	15,201	167,211	170,589	0.12%	185,790	0.14%
Luis María de Palacio Guerrero	482,700	0.35%	217,215	21,722	238,937	243,764	0.18%	265,485	0.19%
María Sacramento de Palacio Guerrero	482,700	0.35%	217,215	21,722	238,937	243,764	0.18%	265,485	0.19%
Isabel María de Palacio y Delattre	826,000	0.60%	371,700	37,170	408,870	417,130	0.30%	454,300	0.33%
Luis Felipe de Palacio y Delattre	826,000	0.60%	371,700	37,170	408,870	417,130	0.30%	454,300	0.33%
Leonor María de Palacio y Delattre	826,000	0.60%	371,700	37,170	408,870	417,130	0.30%	454,300	0.33%
José María de Palacio y de Oriol	32,100	0.02%	14,445	1,445	15,890	16,211	0.01%	17,655	0.01%
María de las Nieves de Oriol Pastega	1,463,600	1.07%	658,620	65,862	724,482	739,118	0.54%	804,980	0.59%
Mario de Oriol Pastega	249,200	0.18%	112,140	11,214	123,354	125,846	0.09%	137,060	0.10%
Alejandra Paula de Oriol Pastega	166,900	0.12%	75,105	7,511	82,616	84,285	0.06%	91,795	0.07%
Proyectos Dunbar, S.L.	902,000	0.66%	405,900	40,590	446,490	455,510	0.33%	496,100	0.36%

María del Dulce Nombre del Río y de Oriol	184,100	0.13%	82,845	8,285	91,130	92,971	0.07%	101,255	0.07%
Gonzalo del Rio y de Oriol	153,600	0.11%	69,120	6,912	76,032	77,568	0.06%	84,480	0.06%
Jaime del Rio y de Oriol	164,200	0.12%	73,890	7,389	81,279	82,921	0.06%	90,310	0.07%
Luisa Fernanda del Rio y de Oriol	164,200	0.12%	73,890	7,389	81,279	82,921	0.06%	90,310	0.07%
Blanca del Rio y de Oriol	164,200	0.12%	73,890	7,389	81,279	82,921	0.06%	90,310	0.07%
Carlos del Rio y de Oriol	164,200	0.12%	73,890	7,389	81,279	82,921	0.06%	90,310	0.07%
San Ignacio, S.L.	1,968,900	1.44%	886,005	88,601	974,606	994,295	0.73%	1,082,895	0.79%
Patrimonial Orlesa, S.A.	3,558,000	2.60%	1,601,100	160,110	1,761,210	1,796,790	1.31%	1,956,900	1.43%
María Begoña de Oriol e Ybarra	1,379,100	1.01%	620,595	62,060	682,655	696,446	0.51%	758,505	0.55%
Casilda Castillejo Oriol	1,221,400	0.89%	549,630	54,963	604,593	616,807	0.45%	671,770	0.49%
Catalina Castillejo Oriol	1,046,100	0.76%	470,745	47,075	517,820	528,281	0.39%	575,355	0.42%
María Dolores Castillejo Oriol	1,021,800	0.75%	459,810	45,981	505,791	516,009	0.38%	561,990	0.41%
María del Dulce Nombre Castillejo Oriol	994,700	0.73%	447,615	44,762	492,377	502,324	0.37%	547,085	0.40%
Juan Castillejo Oriol	289,900	0.21%	130,455	13,046	143,501	146,400	0.11%	159,445	0.12%
Miguel de Oriol Ybarra	1,756,800	1.28%	790,560	79,056	869,616	887,184	0.65%	966,240	0.71%
DR.L I.Recasens, S.L.	137,500	0.10%	61,875	6,188	68,063	69,438	0.05%	75,625	0.06%
Eduardo Serra Arias	181,900	0.13%	81,855	8,186	90,041	91,860	0.07%	100,045	0.07%
Casa Cuna, S.L.	160,900	0.12%	72,405	7,241	79,646	81,255	0.06%	88,495	0.06%
E.D.T., S.A.	369,100	0.27%	166,095	16,610	182,705	186,396	0.14%	203,005	0.15%
Luis Ignacio Recasens Castillejo	107,900	0.08%	48,555	4,856	53,411	54,490	0.04%	59,345	0.04%
María Gracia Recasens Castillejo	107,900	0.08%	48,555	4,856	53,411	54,490	0.04%	59,345	0.04%
Camilo Pedro de Oriol Fabra	523,900	0.38%	235,755	23,576	259,331	264,570	0.19%	288,145	0.21%
José Luis de Oriol Ybarra	2,821,400	2.06%	1,269,630	126,963	1,396,593	1,424,807	1.04%	1,551,770	1.13%
Esperanza Macarena de Oriol Fabra	523,900	0.38%	235,755	23,576	259,331	264,570	0.19%	288,145	0.21%
María Gracia de Oriol Fabra	523,900	0.38%	235,755	23,576	259,331	264,570	0.19%	288,145	0.21%
Alfonso de Oriol Fabra	523,900	0.38%	235,755	23,576	259,331	264,570	0.19%	288,145	0.21%
TOTAL	**136,832,900**	**100%**	**61,574,805**	**6,157,481**	**67,732,286**	**69,100,614**	**50.50%**	**75,258,095**	**55.00%**
Total Minority Shareholders	**27,744,000**	**20.3%**	**12,484,800**	**1,248,481**	**13,7/33,281**	**14,010,720**	**10.24%**	**15,259,200**	**11.15%**

The following chart shows the shareholding structure of Pegaso Transportation International S.C.A. as at the date of this document:



The following table shows the economic rights in Pesago Transportation International, S.C.A.:

Shareholder	% of economic share
Pegaso Transportation Feeder, S.C.A.	52.3%
Pegaso Transportation Investments, S.C.A.	23.9%
Other Co-investors	23.8%
Total	**100.00%**

The following table shows the economic rights in Pegaso Transportation Feeder, S.C.A.:

Shareholder	% of economic share
Trilantic Capital Partners IV (Europe) L.P.	73.4%
Other Co-investors	26.6%
Total	**100.00%**

Pegaso Transportation International, S.C.A., Pegaso Transportation Feeder, S.C.A. and Pegaso Transportation Investments, S.C.A. are managed and represented by their general partner, Pegaso Transportation, S.à.r.l. which controls the 100% of the voting rights of such companies. Pegaso Transportation International S.C.A., as per article 4 of the Spanish Securities Market Act, is controlled by Pegaso Transportation S.à r.l. which is, in turn, controlled by Trilantic Capital Management GP Limited.

Mr. Javier Bañón indirectly holds a stake of 33% in such general partner in which nobody exercises control as per the meaning of article 4 of the Spanish Securities Market Act.

Nomura International plc, through Nomura European Investment Limited holds a 25.5% economic stake in Pegaso Transportation Investments S.C.A.

The following table shows the economic rights of the Directors and Senior Management in the Company:

Director / Senior Management	Prior the Offering and the settlement of the Management Incentive Plan		Following the Offering and the settlement of the Management Incentive Plan[1]	
	% of direct economic share	% of indirect economic share	% of direct share	% of indirect economic share (assuming full exercise of the Over-allotment Option)
Mr. Carlos Palacio Oriol	-	2.9%[2]	0.88%	1.49%[2]
Mr. José María Oriol Fabra	-	2.0%[3]	0.88%	1.01%[3]
Mr. Emilio Novela Berlín	-	0.6%[4]	-	0.302%[4]
Mr. John Charles Pope	-	0.1%[5]	-	0.1%[5]
Nueva Compañía de Inversiones, S.A.	-	6.1%[6]	-	3.08%[6]
Senior Management	-	1.10%[7]	2.38%	1.04%[7]

[1] Assuming that, with respect to the settlement of the Management Incentive Plan, the Offering Price is the mid-point price of the Offering Price Range, €10.25 per Offer Share.

[2] Through Pegaso Transportation International S.C.A. (which holds 3.9% of the economic rights) and Pegaso Transportation Feeder, S.C.A. (which holds a 1.4% of economic rights).

[3] Through Pegaso Transportation International S.C.A. (which holds 2.4% of the economic rights) and Pegaso Transportation Feeder, S.C.A. (which holds a 1.4% of economic rights).

[4.] Through Pegaso Transportation Feeder, S.C.A. (which holds 1.8% of the economic rights, of which 0.2% is through his wife).

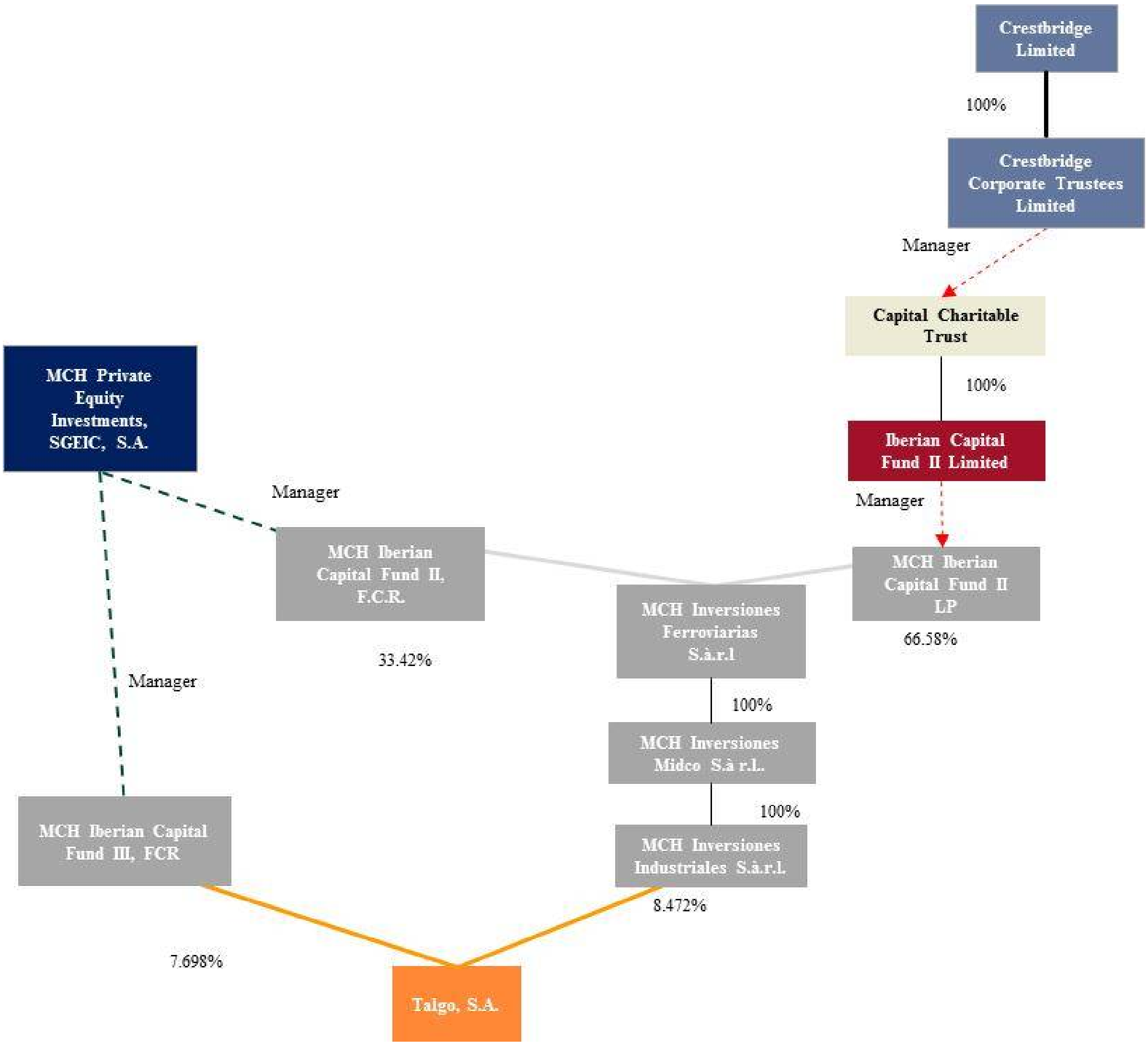
[5] Through Pegaso Transportation Feeder, S.C.A. (which holds 0.3% of the economic rights).

[6] Through Torreal, S.A. which holds a 9.6% of the economic rights in Pegaso Transportation International S.C.A.

[7] Through Pegaso Transportation International S.C.A. (which holds 3.2% of the economic rights) and Pegaso Transportation Feeder, S.C.A. (which holds 3.3% of economic rights).

Mr. Javier Bañón is indirectly a limited partner at Trilantic Capital Partners IV (Europe), L.P. with a minority stake representing less than 0.01%.

The following chart shows the shareholding structure of MCH Iberian Capital Fund III, FCR and MCH Inversiones Industriales S.à.r.l. as at the date of this document:



MCH Iberian Capital Fund III, FCR is managed by MCH Private Equity Investments, SGEIC, S.A. a private equity funds management company incorporated under the laws of Spain, and registered with the Special Register for Private Equity & Venture Capital entities at the CNMV under number 41. MCH Private Equity Investments, SGEIC, S.A. is not controlled as per article 4 of the Spanish Securities Market Act as it can freely exercise its voting rights of the entities managed by it, including MCH Iberian Capital Fund III, FCR.

The sole shareholder of MCH Inversiones Industriales S.à.r.l. is MCH Inversiones Midco S.à r.l., a limited liability company incorporated under the laws of Luxembourg being its sole shareholder MCH Inversiones Ferroviarias S.à.r.l., a limited liability company incorporated under the laws of Luxembourg. MCH Inversiones Ferroviarias S.à.r.l.'s shareholders are MCH Iberian Capital Fund II, F.C.R. (which holds 33.42% of its share capital) and MCH Iberian Capital Fund II LP, a *limited partnership* incorporated under the laws of UK (which holds the remaining 66.58% of its capital). None of the limited partners, either individually or jointly, has control of MCH Iberian Capital Fund II LP.

MCH Iberian Capital Fund II LP is managed by Iberian Capital Fund II Limited, incorporated under the laws of the United Kingdom, whose sole shareholder is Iberian Capital Charitable Trust, incorporated under the laws of the United Kingdom, which trustee is Crestbridge Corporate Trustees Limited, incorporated under the laws of United Kingdom ("Crestbridge Trustees").

Finally, the sole shareholder of Crestbridge Trustees is Crestbridge Limited, a consulting and advisory services company incorporated under the laws of the United Kingdom. Crestbridge Limited is not controlled as per article 4 of the Spanish Securities Market Act.

MCH Iberian Capital Fund III, FCR and MCH Inversiones Industriales, S.à.r.l. do not have any agreements place between them regarding their stake in the Company and therefore their respective managers shall adopt, where appropriate, decisions regarding their investment in Talgo independently and in the best interests of their respective entities under management and their respective investors.

Principal Shareholders

Save as described in section "*Management and Board of Directors*" and further to the Management Incentive Plan, the Company is not aware of (i) any intention of its principal shareholders and/or members of its management to acquire any Offer Shares in the Offering or (ii) any intention of a particular person to acquire more than 5 per cent. of the Offer Shares in the Offering.

Shareholders' agreements

The Selling Shareholders and the Company executed a shareholders' agreement that will remain in force until Admission. Upon Admission, such shareholders' agreement will be substituted by the Talgo SHA (as defined below).

Additionally, on April 26, 2012, Pegaso Transportation International, S.C.A., the Company and certain Senior Managers and Selling Shareholders entered into a shareholder´s agreement (the "**Talgo SHA**") in order to regulate their relation as shareholders of Talgo, S.A., upon Admission. Subsequently, all the Selling Shareholders adhered to the Talgo SHA. In addition, on March 28, 2015, Pegaso Transportation International, S.C.A., MCH Iberian Capital Fund III, FCR, MCH Inversiones Industriales, S.à.r.l., the Company and certain Senior Managers and Selling Shareholders executed an amendment to the Talgo SHA, all the Selling Shareholders having adhered to such amendment as at the date of this document. The Talgo SHA includes the following provisions:

Term

The Talgo SHA will expire the earlier of (i) the date on which two years have elapsed since the date of Admission (ii) the date on which Pegaso Transportation International, S.C.A. ceases to hold a significant stake in the Company (3 per cent. or more of the Company's share capital according to legislation in force). In the event of termination due to expiry of the two-year period, the drag-along right of Pegaso Transportation International, S.C.A. referred to below will remain effective until the date it ceases to hold a significant stake in the Company.

Managing body of the Company

The original agreement signed on April 26, 2012 established different provisions regarding the structure of the Board of Directors, the adoption of resolutions for the appointment, removal and replacement of directors and the structure of the Company´s Audit and Compliance Committee and Nominations and Compensation Committee.

By virtue of the addendum executed on March 28, 2015, the Selling Shareholders have considered these provisions partially ineffective as a consequence of the amendment of the Spanish Companies Act passed on December 2014 and the publication in February 2015 of the Good Governance Code for Listed Companies.

Notwithstanding the foregoing - on the understanding that in all cases the provisions of the bylaws and the Company Board of Directors Regulations should prevail in order to determine the structure of the Board and the delegated and advisory commissions – it is clarified by virtue of the addendum that the existing agreements regarding the "*sense of vote*" on any appointment and removal of directors and / or members of the aforementioned committees remain in full force and effect.

Transfer of the shares of the Company

Non-material transfers. Right of first refusal

In the event that a shareholder party to the Talgo SHA wishes to transfer a number of Shares which does not exceed the lower of the following two limits:

a) 50% of the Shares owned by the shareholder wishing to transfer them, considered individually and calculating such percentage on the number of Shares owned immediately preceding the Offering; or

b) 3% of the Shares representing the Company's capital stock at the time the shareholder wishes to transfer, each shareholder wishing to transfer considered individually and additionally if several shareholders group together in order to transfer their Shares jointly, the total Shares to be transferred must not exceed 2% of the Shares representing the Company's capital stock at the time they wish to transfer,

The related transfer shall be permitted, subject to the right of first refusal described below:

(i) If the transfer takes place within the first six months immediately after the end of the Lock-Up Period (see "*Plan of Distribution-Lock-Up Agreements*"), the Shares which the shareholder transferred as part of the Offering must be included in the calculation of the 50% indicated above.

(ii) If the transfer takes place within a period of six months following the end of the first six-month period, another 50% of the holding referred to above may be transferred in addition to that transferred pursuant to section (i) above and shall be subject in all cases to the limit stipulated in section b) above.

(iii) If the transfer takes place after the end of the second six-month period indicated in section (ii) above, the shareholder may transfer any number of the Shares owned that it deems appropriate, provided that the limit indicated under section b) above is not exceeded.

All shareholders selling Shares pursuant to this procedure undertake not to transfer, pledge or in any other way dispose of any of the remaining Shares during a lock-up period of sixty (60) days after the date of the transfer.

Orderly sale of shares. Block Trade, tag-along and drag-along right

Any transfer of Shares by its shareholders, other than those contemplated above, must be carried out according to the following procedure:

a) Following the appropriate Lock-Up Period (see "*Lock-Up Agreements*") in each case, when a shareholder or group of shareholders intends to transfer a number of Shares that represents a percentage exceeding 3% of the total capital stock at such time ("**Block Trade**"), the remaining shareholders other than the transferring shareholder (or group of shareholders) shall have a tag-along right by virtue of which they may state their wish to jointly transfer a percentage of their total holding in the Company equal to the percentage of the holding that the transferring shareholder (or group of shareholders) intends to transfer.

b) The shareholder (or group of shareholders) that wishes to initiate a Block Trade must designate an investment bank from among the institutions designated at any given time by the Company's Board (the "**Investment Bank**"). The Investment Bank shall issue a binding opinion stating whether or not it is appropriate to transfer the number of Shares that would be included in the Block Trade if the tag-along right of the non-transferring shareholders is executed in full, or, as the case may be, the need to sell a different number of Shares (indicating in any case the maximum number of shares it believes can be transferred at such time via a Block Trade); the price at which the transfers are to be made; the method and time(s) at which they are to take place; and any other requirements or aspects which the Investment Bank believes should be taken into account in order to carry out the transfers in the most efficient way possible for the shareholders, and at the same time without damaging the Company's interests or infringing the rules of the market.

c) The shareholder (or group of shareholders) wishing to initiate a Block Trade shall provide notice thereof to the Chairman of the Board of Directors of the Company via e-mail not before 15.00 (CET) of the relevant Block Trade date and not after 16.00 (CET) of such date. As soon as the Chairman receives the notice of the Block Trade, he shall forward it to the non-transferring shareholders by e-mail within 30 minutes following the notification made by the shareholder (or group of shareholders) wishing to initiate a Block Trade and in any event, not before 16.00 (CET) of the relevant Block Trade date, attaching the opinion of the Investment Bank and indicating the characteristics of the Block Trade and the possibility of exercising the tag-along right, as well as asking the shareholders to notify him, by the same means and prior to 17.30 (CET) on that same day, if they wish to exercise their tag-along right. If a shareholder fails to serve notice in this regard prior to 17.30 (CET) on the same day, it shall be assumed that it does not to wish to exercise its tag-along right.

d) Any shareholder may exercise its tag-along right and transfer Shares, even if during the related period of six months it had made a non-significant transfer of Shares, although an exception shall be made for the shareholders that had made such non-significant transfer and whose individual Lock-Up Period had not expired on the date of the Block Trade.

e) The Chairman of the Board of Directors of the Company, after receiving the replies from the Shareholders sent prior to 17.30 (CET) on the date of the Block Trade, shall send the transferring shareholder (or group of shareholders), as soon as possible on the same date, a list of the shareholders who have stated their wish to exercise their tag-along right, stating the number of Shares that would initially be sold by each one and the percentage this represents with respect to the total capital stock. If necessary, the appropriate adjustments will be made, on a pro rata basis, to the percentage of each shareholder wishing to sell with respect to the total capital stock of the Company at that time, to avoid exceeding the maximum number of Shares indicated by the Investment Bank that may be transferred.

If there is a Block Trade in which Pegaso Transportation International, S.C.A. wishes to transfer Shares to a third party and, provided it is sale strategically beneficial for the Company, in addition to complying with the provisions stated above, Pegaso Transportation International, S.C.A. shall have a drag-along right (but not an obligation) on a percentage of the Shares of the remaining shareholders amounting to the percentage that Pegaso Transportation International, S.C.A. wishes to transfer. This drag-along right will cease to be effective on the date Pegaso Transportation International, S.C.A. ceases to hold a significant stake in the Company.

In such transfers, the right of first refusal contemplated above shall not apply.

All shareholders selling Shares pursuant to this procedure agree not to transfer, pledge or in any other way dispose of any of the remaining Shares for a lock-up period of 60 days after the date the transfer is made.

In the event of a Block Trade, the shareholders who had not transferred shares shall also have the obligation, despite not having exercised their tag-along right, not to transfer, pledge or in any other way dispose of any of their Shares for a lock-up period of 30 days after the date the transfer is made as part of the Block Trade.

Transfers not subject to restrictions

There shall be no restrictions relating to either timing or quantity, on the following types of transfer of Shares, notwithstanding any statutory restrictions that may be imposed:

(i) transfers made to companies forming part of the same group of companies as the transferring shareholder;

(ii) transfers made in the context of a tender bid on Shares, except for the drag-along right of Pegaso Transportation International, S.C.A. described above, which shall continue to apply; and

(iii) transfers made in the event of the Company's liquidation.

Becoming party to the Agreement

Third parties conducting activities similar to those of the Company or operating in the same business segments of the Company and/or controlling shareholders of such competing companies that may acquire Shares by virtue of any of the ordered sale of shares procedures established above, or in the event of transfers permitted, must become a party to the Talgo SHA and shall thereafter have the same rights and obligations as the transferring party.

Additionally to the above, the Company and Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, FCR and MCH Inversiones Industriales, S.à.r.l. (shareholders of the Company with a stake representing 79.72 per cent. of the Company's share capital prior to the Offering), consider that the Company should be excluded from the Talgo SHA. In this regard, each of the abovementioned signatories of the Talgo SHA undertakes to use their best efforts to reach an agreement with the majority of the Minority Selling Shareholders as soon as practicable, and in any event, prior to

Admission, in order to exclude the Company as party to the Talgo SHA and therefore to amend the Talgo SHA.

According to article 531 of the Spanish Companies Act, the Talgo SHA should be notified upon admission to the CNMV and be filed with the Commercial Registry.

RELATED PARTY TRANSACTIONS

During the period covered by the Audited Annual Consolidated Financial Statements and up to the date of this document, the Group has entered into transactions with parties related to or associated with the Group, as set out below. All the transactions with related parties are valued at market prices. Furthermore, transfer prices are adequately supported, thus the Company's Directors consider that no significant liabilities may arise in the future due to these transactions.

For the purposes of this document, any transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed herein.

For more information, please see the description of the Group's significant related party transactions below:

(a) Transactions entered into with the main shareholders of the Company

No transactions have been entered into with the shareholders of the Company except for the execution by the Company of the Talgo SHA.

(b) Transactions entered into with the Directors of the Company and the Senior Management

No remuneration has been paid by the Company to the members of the Board of Directors of Talgo, S.A. and the Senior Management for the performance of their duties during 2014.

Please see "*Management Compensation*" for further information on the remuneration received by the Directors of the Company from Patentes Talgo, S.L.U.

Mr. Ramón Hermosilla Gimeno, Director of the Company, was the Chairman of Ramón Hermosilla & Gutiérrez de la Roza (Ontier), law firm that provided professional legal services to the Group until December 2014. On November 2014 he set up, together with Ms. María José Zueco Peña, also secretary non-Director of the Companny, a new law firm, Ramón Hermosilla Abogados.

Mr. Hermosilla´s law firms provided legal advice to the Group in several matters, such as corporate, tax etc. These legal services have been and are provided both by Mr. Ramón Hermosilla Gimeno and by other partners and associates of the mentioned law firms. In any case, the Company does not exclusively work with Mr. Hermosilla´s law firms (Ramón Hermosilla & Gutiérrez de la Roza (Ontier) and Ramón Hermosilla Abogados) as they receive legal advice from other law firms. The legal fees received by Mr. Hermosilla´s law firms, during the three years ended December 31, 2012, 2013 and 2014, as well as from January 1, 2015, to the date of this document amount to:

Year	**Legal fees (€ thousand)**
2012	818.72
2013	681.49
2014	559.16
2015	83.320

(c) Equity participation, offices and activities of the members of the Board of Directors in companies with the same, similar or complementary activity as the Company, excluding companies within Talgo.

None of the members of the Board of Directors or Senior Managers have equity participation, offices or activities in companies with the same, similar or complementary activity as the Company.

None of the members of the Board of Directors or the Senior Managers has performed, either as an independent professional nor as an employee outside the Group any activities of the same, similar or complementary kind as the activity constituting the corporate purpose of the Company.

In 2014, none of the members of the Board of Directors or the Senior Management (or individuals related to them) has incurred directly or indirectly in a situation of conflict of interest in the sense of article 229 of the Spanish Companies Act.

(d) Commercial operations with related parties

	2012 (€ thousand)	2013 (€ thousand)	2014 (€ thousand)
Raw materials purchases:			
Tarvia Mantenimiento Ferroviario, S.A.[1]	74	100	-
External Services:			
Consorcio Español de Alta Velocidad Meca Medina, S.A.	4,431	-	7,235
Expenses	**4,505**	**100**	**7,235**

(1) Merged with Patentes Talgo, S.L.U. on December 19, 2013.

	2012 (€ thousand)	2013 (€ thousand)	2014 (€ thousand)
Sales and services provided:			
Tarvia Mantenimiento Ferroviario, S.A. [1]	4,933	7,705	-
Tulpar-Talgo LLP	67,893	-	-
Other operating income:			
Tarvia Mantenimiento Ferroviario, S.A. [1]	196	178	-
Financial income:			
Consorcio Español Alta Velocidad Meca Medina, S.A.	-	10	-
Revenues	**73,022**	**7,893**	-

(1) Merged with Patentes Talgo, S.L.U. on December 19, 2013.

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

Given the ownership stake, as well as the fact that Talgo Kazajstan, S.L. does not have any control, decision-making power or voting rights, this company has not been considered part of the 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 stake in the company was 50%, they were excluded from the consolidation perimeter as from the aforementioned date.

On September 30, 2013 Patentes Talgo, S.L.U. acquired from Renfe Operadora 49% of the share capital of the company Tarvia Mantenimiento Ferroviario, S.A., which performs the complex technical maintenance of the rolling stock and railway facilities in Spain. Since such time, the subsidiary company Patentes Talgo, S.L.U. has acquired the control of Tarvia Mantenimiento Ferroviario, S.A., and the Company ceased integrating the latter according to the proportional integration method.

Subsequently, on December 2013, Patentes Talgo, S.L.U. absorbed Tarvia Mantenimiento Ferroviario, S.A. The merger implied the winding up of Tarvia Mantenimiento Ferroviario, S.A. and the en transfer of its equity to Patentes Talgo, S.L.U., which acquired all the rights and the obligations of such company.

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

	As at December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
Customers – group companies and associates	1,760	5,471	6,089
Customers – group companies and associates	**1,760**	**5,471**	**6,089**

	As at December 31,		
	2012	**2013**	**2014**
	(€ thousand)	**(€ thousand)**	**(€ thousand)**
Suppliers - group companies and associates	4,431	3,970	11,160
Suppliers – group companies and associates	**4,431**	**3,970**	**11,160**

As at December 31, 2014 and 2013, the “Customers-group companies and associates” caption corresponded to a balance held with Consorcio Español Alta Velocidad Meca Medina, S.A.

As at December 31, 2014, 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. As at December 31, 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.

MATERIAL CONTRACTS

The following is a summary of the material terms of all those contracts to which the Company and certain of its subsidiaries are a party and which are considered material for the purposes of this document.

Haramain High Speed railway-contract (Mecca –Medina project)

The Mecca-Medina project shall be executed in two phases:

- Phase I, includes (i) civil works such as construction of bridges, viaducts, retaining walls, subways, shafts, tunnels and embankments; and (ii) the construction of the five passenger stations: Mecca Central in Mecca, Jeddah Central and Jeddah Airport in Jeddah (KAIA), King Abdullah Economic City in Rabig and Knowledge Economic City in Medina. The civil works were awarded to the Al Rajhi Alliance (includes Mada Group, Bouygues, Al Arrab Contracting, Arup, China Railway Engineering Corp), while the construction of the stations was awarded to Saudi Bin Laden Group (Mecca and Medina) and Saudi Oger (Jeddah and King Abdullah Economic City).

- Phase II which involves the design, construction, operation and maintenance of the track, installation of signaling and telecommunication systems, deployment of rolling stock, power supply and catenaries. The track and systems construction included in the Phase II is performed in six different stretches. This is the phase awarded to the Al Shoula Consortium, of which Patentes Talgo, S.L.U. is a party. The Al-Shoula Consortium starts working in each stretch once the handover has been done. The obligations and compliance of the contract of Phase II come after Phase I and are derived from it.

  On April 9/10, 2010, (i) Administrador de Infraestructuras Ferroviarias (ADIF), (ii) Cobra Instalaciones y Servicios Intemacional, S.L., (iii) Consultrans, S.A.U., (iv) S.A. de Obras y Servicios, COPASA, (v) Dimetronic, S.A., (vi) Imathia Construcción, S.L, (vii) Instalaciones Inabensa, S.A., (viii) Indra Sistemas, S.A., (ix) Ingeníera y Economía del Transporte, S.A., (x) Obrascón Huarte Lain, S.A., (xi) Renfe-Operadora, (xii) Patentes Talgo, S.L.U., (xiii) Al-Shoula Group and (xiv) Al-Rosan Contracting Company, entered into the Al-Shoula Consortium with the aim of regulating their relationship as members of the consortium to participate in the public tender for the Phase II. Under this agreement, all the parties are entirely responsible vis-à-vis each of the other parties for the performance of the Mecca-Medina project and, in case of default, the defaulting party undertakes to indemnify the other parties and keep them harmless from and against all losses suffered or incurred as a consequence of such event of default.

  On January 14, 2012 the Al-Shoula Consortium, the Ministry of Finance and the Ministry of Transportation of the Government of the Kingdom of Saudi Arabia entered into a contract made up of the following agreements: (i) the master agreement; (ii) the track and systems agreement; (iii) the rolling stock procurement agreement; (iv) the operation and maintenance agreement; and (v) the rolling stock maintenance agreement, having, each member of the Al-Shoula Consortium, joint and several liability for the performance of the contract.

The scope of work includes providing the services, manpower and materials necessary to execute and complete the phase two works of the Mecca Medina project in the contract including:

- designing, constructing and commissioning the balance of the work required to implement the Haramain High Speed Rail Project, including the design and construction of the track and associated systems;
- acquiring and maintaining rolling stock for the operation of passenger services;
- operating passenger services on and maintaining the new railway; and
- transferring custody of the railway and all related assets back to Government upon the expiry of the term of the agreement.

Talgo, as manufacturer under the contract, is to supply the Government with an initial order of 35 train sets and 1 VIP train set, which shall be produced in accordance with the technical specifications, set forth in the agreement. The Government has the option to purchase up to 20 additional train sets and under the rolling stock maintenance agreement, is responsible for all activities connected with the maintenance of the trains sets and the operation of the depots, including, among others: (i) design of the train sets maintenance program; (ii) servicing, corrective and pre-emptive maintenance, support, cleaning, inspection, repair of and remedy of rolling stock defects; (iii) provision of all services, labor, plant, goods, materials, equipment, special tools and other resources; (iv) transport of staff and materials to the relevant location where maintenance is to take place; (v) operation and management of the depots; (vi) technical assistance to the Government; and (vii) any ancillary or incidental services related to the above.

Talgo has already sent to Saudi Arabia the first train set of the contract in order to start the testing period according to the schedule agreed with the customer. Further train sets are expected to be delivered in accordance with the contract. The maintenance contract shall remain in force until the twelfth anniversary of the commencement of passenger services, but it includes a provision regarding the possibility to extend or reduce its term. The Government may, at its own discretion, reduce the term of the agreement to the seventh anniversary of the commencement of passenger services with notice prior to the sixth anniversary of the commencement of passenger services. The maintenance services to be rendered under the contract shall be rendered at the facilities assigned by the Government and built by the Consortium for such purposes in Mecca and Medina.

In relation to the rolling stock procurement agreement, the Consortium is paid in accordance with the schedule of rolling stock milestones set out in the agreement. The Consortium is entitled to apply for payment in respect of a given milestone following its receipt of a rolling stock milestone certificate. The consideration received by the Consortium under the rolling stock maintenance agreement is made up of the amounts paid to it for purchased equipment under the rolling stock procurement agreement and the service charge payable to it under the operation and maintenance agreement.

If the Al-Shoula Consortium fails to achieve the commencement of passenger services by the date for commencement of passenger services set out in the Contract, the Al-Shoula Consortium is liable to pay the Government liquidated damages and supervision and administrations costs incurred. The aggregate amount of liquidated damages under the contract shall not exceed a limited amount.

The Government has the right to serve a notice of termination upon the occurrence of the listed events of default set out in the contract and upon the occurrence of political and natural force majeure events.

In case of termination due to Al-Shoula Consortium's default, Al-Shoula Consortium shall be liable for the additional costs incurred by the Government in completing the railway and any loss or damage suffered by the Government arising as a consequence of the termination.

Kazakhstan supply contract

On June 26, 2013 Tulpar-Talgo LLP and Passazhirskie Perevozki JSC (KTZ passenger operations subsidiary) entered into a supply contract, amended in writing on June 26, 2013, by virtue of which Tulpar-Talgo LLP shall supply to Passazhirskie Perevozki JSC 603 passenger coaches.

The contract shall be effective from the date of its execution until the full performance of all contractual obligations by the parties.

Passazhirskie Perevozki JSC shall pay Tulpar-Talgo LLP in accordance with a payment schedule. However, Passazhirskie Perevozki JSC shall be entitled to postpone the dates of payment where there is delay in the delivery of certain passenger railway cars. The number of days of postponement shall correspond to the number of days of delay in delivery for a given railway passenger car.

The contract includes penalties that shall be paid by Tulpar-Talgo LLP in the case of any passenger railway cars not being delivered on time or in the case of violation by Tulpar-Talgo LLP of the terms set out in a defect act or warranty nonconformance act issued by Passazhirskie Perevozki JSC in relation to the elimination of nonconformities in the passenger railway cars. Furthermore, the contract includes penalties that shall be paid by Passazhirskie Perevozki JSC in the case of delays in payments, in the case of late signing of the certificate indicating that the railway passenger cars delivered comply with the technical specifications, and in the case of failure to pick up the passenger railway cars within seven (7) calendar days from the date of signing of the certificate referred to above.

On July 1, 2012, Patentes Talgo, S.L. and Passazhirskie Perevozki JSC entered into a maintenance contract. For more detailed information see "*Kazakhstan maintenance contract*" below.

Kazakhstan maintenance contract

On July 1, 2012 Patentes Talgo, S.L. and Passazhirskie Perevozki JSC (KTZ passenger operations subsidiary) entered into a maintenance contract, by virtue of which Patentes Talgo, S.L. shall carry out the maintenance services in respect of 31 train sets, consisting of 1,044 coaches, provided that such train sets are operated on the routes indicated in the contract. This figure includes 56 plus 436 coaches of the original deliveries and the second manufacturing contract respectively and 552 out of 603 coaches of the subsequent manufacturing agreement dated July 26, 2013 and described above (the Company expects to extend the agreement to the 51 remaining coaches).

The contract shall remain in full force and effect until July 1, 2027, but it includes a provision regarding the possibility to extend its term.

The maintenance services to be rendered are divided into two groups, on-board maintenance services; and maintenance services rendered in the client's maintenance facilities located in Almaty, Astana and Aktobe (in construction), especially built for these purposes and designed for the maintenance of long train sets.

Passazhirskie Perevozki JSC shall pay Patentes Talgo, S.L. a fixed amount per coach maintained per year. The price per coach shall be adjusted on an annual basis taking into account the consumer price (services sector) index in the Euro-zone.

The payment for the maintenance services is made monthly within 15 working days from the date of delivery by Patentes Talgo, S.L. of a certificate of work performed, and on the subsequent granting of an invoice. The contract establishes certain penalties payments are not made in the agreed time, such as the right of Patentes Talgo, S.L. to automatically cease the maintenance services or to terminate the contract.

Furthermore, the contract contains certain economic penalties where there are delays to the arrival of a passenger train to its destination station and such delays are attributable to Patentes Talgo, S.L., or where there are malfunctions in certain specified technical systems that lead to the reduction of passenger comfort. Also, Patentes Talgo, S.L. shall be liable, if due to causes directly attributable to the rendering of the maintenance services performed by Patentes Talgo, S.L., the train sets are not available and cannot provide the required service or trainsets suffer any damage, directly attributable to Patentes Talgo, S.L. and which occurs during the performance of the maintenance services.

Russian supply contract

On June 18, 2011, Patentes Talgo, S.L.U. and Joint Stock Company "Federal Passenger Company" (RZD) entered into a supply contract, amended in writing on November 26, 2012 and February 19, 2013, by virtue of which Patentes Talgo, S.L.U. shall design, manufacture and deliver to RZD, seven (7) trains, each composed of 20 passenger coaches.

The passenger rolling stock shall be manufactured in Spain and then delivered to Moscow in accordance with the delivery plan. The contract includes certain penalties in case of a delay caused by reasons attributable to Patentes Talgo, S.L.U.

The train computer software shall be an integral part of the relevant rolling stock. With respect to the software supplied, Patentes Talgo, S.L.U. grants RZD a non-transferable, non-exclusive license, free of any royalty, other than the one included in the total contract price, to use such software in respect of the equipment of the rolling stock for which it is provided.

The contract shall be effective until the full performance of all contractual obligations by the parties at the end of the applicable warranty period for the last rolling stock accepted by RZD.

RZD shall pay Patentes Talgo, S.L.U. in accordance with a payment schedule. Payment of the total contract price is effected in Euros by way of bank transfer.

Patentes Talgo, S.L.U. shall guarantee conformance of the quality of the delivered rolling stock and the requirements of the laws of the Russian Federation, absence of any defects, as well as their reliable and safe operation within the warranty period. The contract includes certain penalties to be paid by Patentes Talgo, S.L.U. in case of defects in the rolling stock revealed within the warranty period, if as a result of such defects there is a delay in the departure or the arrival or the rolling stock cannot make the scheduled trips.

In case of termination of the contract by Patentes Talgo, S.L.U. due to a substantial breach of the contract by RZD, Patentes Talgo, S.L.U. is entitled to claim the payment of the price of the development and design, manufacturing, transport and certification activities performed by Patentes

Talgo, S.L.U. up to the day of rescission, plus the relevant penalties, plus proven losses or costs up to a percentage of the total contract price.

As of the date of this document, passenger railway cars deliveries are expected to be completed in accordance with the contract.

Russia maintenance contract

On May 29, 2014 Patentes Talgo, S.L.U. and RZD entered into a maintenance contract by virtue of which Patentes Talgo, S.L.U. shall provide RZD with all necessary services specified in the contract relating to the maintenance and overhaul of the seven (7) trains of 20 passenger coaches each one delivered to RZD under the separate supply contract entered into between the parties on June 18, 2011 and referred to above, including the services with respect to the train software, the security system, and the train and internal communication system.

The contract shall be effective until 40 years after the acceptance of the last train received by RZD under the supply contract referred to above.

The services under the contract shall be provided in the Moscow facility (built by the customer for this purpose), the network in operation and other places as defined in the contract.

Payments for the scheduled services are made by RZD monthly. The payment amount per month is calculated by multiplying the mileage of each of the trains travelled in a given month by a price per kilometer mechanism. Patentes Talgo, S.L.U. is required to submit to RZD a monthly certificate setting out all of the scheduled services rendered in the terminated month in full and without defects in respect of each train. On the basis of such certificate, Patentes Talgo, S.L.U. shall submit an invoice to RZD for the scheduled services.

The contract contains penalty provisions setting out specified amounts payable by Patentes Talgo, S.L.U. where (i) there is non-performance in the daily order of operation of rolling stock as a result of circumstances for which Patentes Talgo, S.L.U. is responsible; (ii) there is a violation in the comfort requirements for which Patentes Talgo, S.L.U. is responsible; (iii) Patentes Talgo, S.L.U. uses RZD facilities for purposes different from the object of the contract; and (iv) there is an excess of the permitted unavailability of rolling stock in a given year, for reasons attributable to Patentes Talgo, S.L.U. Furthermore, the contract contains penalty provisions setting out specified amounts payable by RZD where (i) RZD delays in transferring the required documentation to Patentes Talgo, S.L.U.; and (ii) where payment of the contractual price is delayed by longer than 10 banking days as a result of RZD's fault.

Renfe maintenance contract (36 trains S102/S112)

On February 25, 2004, Patentes Talgo, S.A. and Bombardier Transportation GmbH. entered into a maintenance contract with Renfe ("*Red Nacional de los Ferrocarriles Españoles*") by virtue of which Patentes Talgo, S.A., and Bombardier Transportation GmbH shall render Renfe all necessary services regarding the maintenance of (i) 16 AVE trains Series102 (Talgo 350 km/h) manufactured by the Consortium composed by Patentes Talgo, S.A., Bombardier Transportation Spain, S.A. and Bombardier Transportation (Switzerland) Ltd.

On July 1, 2011, additional 30 AVE trains Series 112 manufactured by the Consortium were added to the scope of the contract and some conditions were updated to the new situation.

In 2007 Bombardier subrogated its scope of maintenance in BTREN Mantenimiento Ferroviario, S.A., a company founded between Renfe and Bombardier. BTREN Mantenimiento Ferroviario, S.A. is currently the Consortium partner of Patentes Talgo, S.L.U. in the 36 trains' maintenance contract with Renfe.

The maintenance services are performed in the maintenance facilities of Malaga and Madrid owned by Renfe, in the railway terminals and in any other that eventually could be necessary to perform the activities under the contract.

The contract shall be effective for a period of 16 years, from the date of acceptance of the last train of the AVE Series 112, (December 19, 2011)

The price is calculated as a variable fee for the maintenance of the trains on the basis of the kilometers annually travelled by the trains. Prices shall be adjusted annually according to a formula included in the contract and based on the consumer price index and on the labor cost index officially published.

The contract establishes penalties applicable in case Patentes Talgo, S.L.U., and BTREN Mantenimiento Ferroviario, S.A. breach the applicable standards of availability, reliability and quality of services.

Patentes Talgo, S.L., and BTREN Mantenimiento Ferroviario, S.A. shall act in regime of joint and several liabilities. Thus, each of such companies shall be liable for the fulfillment of all the obligations derived from the contract.

Among other circumstances, the contract may be terminated if Renfe decides, taking into account the railway sector requirements and in execution of the Public Administration decisions, to recover the usage of the premises in which the maintenance services are being rendered, or any other similar decision which may deprive the maintenance service of its cause. In such case, Renfe shall communicate its decision to the Consortium with six (6) months prior notice. Renfe and the Consortium shall agree on the economic consequences of such decision.

Renfe maintenance contract (30 trains series 130 and 15 trains series 730)

On June 30, 2008, Patentes Talgo, S.L.U., and Bombardier European Holdings, S.L.U. entered into a maintenance contract with Renfe (Red Nacional de los Ferrocarriles Españoles) by virtue of which Patentes Talgo, S.L.U., and Bombardier European Holdings, S.L.U. shall render Renfe all necessary services regarding the maintenance of 45 trains of the Series 130 (Talgo 250 km/h) manufactured by Patentes Talgo, S.L.U., Bombardier European Holding S.L.U and Bombardier Transportation GmbH.

On July 21, 2008 Bombardier European Holding, S.L.U. subrogates its scope of maintenance in BTREN Mantenimiento Ferroviario, S.A., a company founded between Renfe and Bombardier that is currently the consortium partner of Patentes Talgo, S.L.U. in the 45 trains maintenance contract with Renfe.

On July 31, 2013 the contract was partially modified to include the new series 730 coming from the modification of 15 trains of the former S130.

The contract shall be effective from November 6, 2007, the date of the commencement of the commercial operations of the trains, for a period of 14 years, from the date of acceptance of the last rolling stock, and in any case, until January 31, 2024.

The price shall be calculated on the basis of the kilometers annually travelled by the trains. Prices shall be adjusted annually according to a formula included in the contract and based on the consumer price index officially published.

The contract establishes penalties applicable in case Patentes Talgo, S.L.U. and BTREN Mantenimiento Ferroviario, S.A. breach the applicable standards of availability, reliability and quality of services. The annual limit of such penalties shall be the 10% of the amount received for the rendering of the maintenance services.

Patentes Talgo, S.L.U. and BTREN Mantenimiento Ferroviario, S.A. shall act in regime of joint and several liabilities. Thus, each of such companies shall be liable for the fulfillment of all the obligations derived from the contract.

Among other circumstances, the contract may be terminated if Renfe decides, taking into account the railway sector requirements and in execution of the Public Administration decisions, to recover the usage of the premises in which the maintenance services are being rendered, or any other similar decision which may deprive the maintenance service of its cause. In such case, Renfe shall communicate its decision to the Consortium with six (6) months prior notice. Renfe and the Consortium shall agree on the economic consequences of such decision.

Renfe maintenance contract (tilting passenger coaches)

On December 10, 2003, Patentes Talgo, S.L.U., and Renfe (Red Nacional de los Ferrocarriles Españoles) entered into a maintenance contract by virtue of which Patentes Talgo, S.L.U. shall render Renfe all necessary services regarding the maintenance of the relevant fleet of tilting passenger coaches previously manufactured by Talgo. The contract also included the maintenance of Locomotives 353 and 354 previously manufactured by third parties that are currently out of service. This fleet includes several different Series of Talgo coaches hauled by standard own operator locomotives. The fleet includes day and night coaches with the Talgo main technologies among others the natural tilting, the low floor and part of them includes also the variable gauge system.

The contract shall be effective from January 1, 2004, for a period of 14 years.

The price is calculated applying a table or price curve on the basis of the kilometers travelled by the maintenance coaches. Prices shall be adjusted annually according to a formula included in the contract and based on the consumer price index officially published.

The maintenance services shall include preventive maintenance activities, corrective maintenance activities, cleaning activities, repairing activities in order to fix damages caused by accidents, vandalism acts or others (ensuring the supply of consumables, extraordinarily provide maintenance services outside the maintenance centers, providing material and human resources to resolve incidents or accidents).

The maintenance services shall be provided principally in Renfe’s premises. All the personnel required for the execution of the contract and the necessary spare parts and consumables shall be supplied by Patentes Talgo, S.L.U.

Throughout the term of the contract, Patentes Talgo, S.L.U. shall comply with the availability and reliability specifications set out in the contract.

The contract establishes penalties applicable in the event that Patentes Talgo, S.L.U. breaches the applicable standards of availability, reliability and quality of services.

Agreements related to the Offering and shareholders of the Company

For a description of the material contracts relating to the Offering including the Underwriting Agreement and lock-up deeds, see "*Plan of Distribution*".

For a description of the agreement among the Selling Shareholders see "*Principal and Selling Shareholders-Shareholders Agreement*".

MARKET INFORMATION

Prior to the Offering, there has been no public market for the Shares. The Company will apply to list the Shares on the Spanish Stock Exchanges and to have them quoted on the AQS or Mercado Continuo.

The Spanish securities market for equity securities comprises four stock exchanges located in Madrid, Barcelona, Bilbao and Valencia (the "**Spanish Stock Exchanges**") and the AQS.

Automated Quotation System

The AQS links the Spanish Stock Exchanges, providing any equity securities listed on it with a uniform continuous market in order to eliminate certain differences arising among the various local exchanges. The principal feature of the system is the computerized matching of bid and offer orders at the time of placement. Each order is completed as soon as a matching order occurs, but can be modified or cancelled until completion. The activity of the market can be continuously monitored by investors and brokers. The AQS is operated and regulated by Sociedad de Bolsas, S.A. ("**Sociedad de Bolsas**"), a company owned by the companies that manage the Spanish Stock Exchanges. All trades on the AQS must be placed through a brokerage firm, a dealer firm, or a credit entity that is a member of one of the Spanish Stock Exchanges.

In a pre-opening session held each trading day from 8:30 a.m. to 9:00 a.m. (CET), an opening price is established for each equity security traded on the AQS based on a real-time auction in which orders can be placed, modified or cancelled, but not completed. During this pre-opening session, the system continuously displays the price at which orders would be completed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offering prices. If an auction price cannot be determined, the best bid and offering prices and their respective associated trading volumes are disclosed instead. The auction terminates with a random 30 second period in which the shares are allocated. Until the allocation process has finished, orders cannot be placed, modified or cancelled. In exceptional circumstances (including the admission of new securities to trade in the AQS) and subject to prior notice to the CNMV, Sociedad de Bolsas may fix an opening price disregarding the reference price (i.e., the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price.

The computerized trading hours, known as the open session, range from 9:00 a.m. to 5:30 p.m. (CET). The AQS sets out two ranges of prices for each security named "static" and "dynamic" in order to monitor the volatility of the trading price of each security. During the open session, the trading price of a security may fluctuate within a certain predetermined percentage above and below the "static" price (i.e., the price resulting from the closing auction of the previous trading day or the immediately preceding volatility auction in the current open session) (the "static range"). In addition, the trading price may range within a certain predetermined percentage above and below the "dynamic" price (i.e., the trading price of the immediately preceding trade of the same security) (the "dynamic range"). If, during the open session, there are matching bid and offer orders for a security within the computerized system which exceed any of the above "static" and/or "dynamic" ranges, trading on the security is automatically suspended and a new auction, known as volatility auction, is held where a new reference price is set, and the "static" and "dynamic" ranges will apply over such new reference price. The "static" and "dynamic" ranges applicable to each specific security are set up and reviewed periodically by Sociedad de Bolsas. From 5:30 p.m. to 5:35 p.m. (CET), known as the closing auction, orders can be placed, modified and cancelled, but no trades can be completed.

Between 5:30 p.m. and 8:00 p.m. (CET), trades may occur outside the computerized matching system without prior authorization of Sociedad de Bolsas (provided such trades are however disclosed to Sociedad de Bolsas) at a price within the range of five per cent over the higher of the average price and the closing price for the trading day and five per cent below the lower of the average price and closing price for the trading day provided that: (i) there are no outstanding bids or offers in the computerized system matching or improving the terms of the proposed off-system transaction; and (ii) among other requirements, the trade involves more than three hundred thousand euros (€300,000) and more than twenty per cent of the average daily trading volume of the relevant security during the preceding three months. These off-system trades must also relate to individual orders from the same person or entity and shall be reported to Sociedad de Bolsas before 8:00 p.m. (CET).

Trades may take place at any time (with the prior authorization of Sociedad de Bolsas) and at any price if:

(i) they involve more than one million five hundred thousand euros (€1,500,000) and more than 40 per cent of the average daily trading volume of the relevant security during the preceding three months;

(ii) the transaction results from a merger, spin-off or the restructuring of a group of companies;

(iii) the transaction is carried out for the purposes of settling a litigation process or completing a complex set of sale and purchase agreements; or

(iv) for any other reason which justifies the authorization of such transaction at the discretion of Sociedad de Bolsas.

Information with respect to computerized trades, which take place between 9:00 a.m. and 5:30 p.m., is made public immediately. On the other hand, information with respect to off-system trades is reported to Sociedad de Bolsas by the end of the trading day and is also published in the Stock Exchange Official Gazette ("**Boletín de Cotización**") and on the computer system by the beginning of the next trading day.

Clearance and Settlement System

Transactions carried out on the Spanish Stock Exchanges are cleared and settled through *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.* ("*Iberclear*"). Only those entities participating in Iberclear are entitled to use the clearance and settlement system and access to become a participating entity in Iberclear is restricted to: (i) authorized members of the Spanish Stock Exchanges; (ii) the Bank of Spain (in case an agreement is reached with Iberclear with prior approval of the Spanish Ministry of Economy and Competitiveness ("*Ministerio de Economía y Competitividad*") and; (iii) other brokers that are not members of the Spanish Stock Exchanges, banks, savings banks and foreign settlement and clearing systems with prior approval of the CNMV.

Iberclear is owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A., a holding company which holds 100 per cent interest in each of the Spanish official secondary markets and settlement systems. The clearance and settlement system and its participating entities are responsible for keeping records of purchases and sales in book-entry form ("*anotaciones en cuenta*"). Shares of listed Spanish companies are represented in book-entry form. Iberclear manages the clearance and settlement system and keeps a registry of the number of shares held by each of its participating entities on their own behalf and on behalf of third parties. Each participating entity, in turn, keeps a registry of the ultimate owners of such shares. Pursuant to Spanish law, the legal owner of the shares is deemed to be either:

(i) the participating entity registered in the records of Iberclear as holder of the shares in its own name; or

(ii) the investor registered in the records of the participating entity as holder of the shares.

Iberclear operates on the basis of the "T+3 Settlement System" pursuant to which the settlement of any trading transactions must occur within three business days from the date on which the transaction was actually completed.

The acquisition of a legal title over shares of a company listed in one of the Spanish Stock Exchanges requires the intervention of a Spanish official stockbroker, broker-dealer or another other entity authorized by Spanish law to record the transfer of listed shares. In order to evidence title over any given listed shares, the relevant participating entity must issue a certificate of ownership at the shareholder's request. If the shareholder is a participating entity, Iberclear must issue such certificate with respect to the shares held in the participating entity's name.

Notwithstanding the foregoing, it should be noted that Act 32/2011, of October 4, which amends Act 24/1988, of July 28, on the securities market (*Ley 32/2011, de 4 de octubre, por la que se modifica la Ley 24/1988, de 28 julio, del Mercado de Valores*), features some changes yet to be implemented in the Spanish clearing, settlement and registry procedures of securities transactions that will substantially modify the abovementioned system and will allow the connection of the post trading Spanish systems to the European system Target-2 Securities, which is scheduled to be fully implemented in February 2017.

In particular, Regulation (EU) No. 909/2014 of the European Parliament and of the Council of July 23, 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 provides that the maximum settlement period shall be no later than on the second business day after the relevant trade takes place. On September 24, 2014 the CNMV issued a release on the status of the reform of the Spanish securities settlement system where it stated that it expects that the new T+2 settlement standard will be introduced in the fourth quarter of 2015.

Euroclear and Clearstream, Luxembourg

Shares deposited with depositaries for Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("**Euroclear**"), and Clearstream Banking, Société Anonyme ("**Clearstream**"), and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream against payment to Euroclear or Clearstream, will be held in accordance with the Terms and Conditions Governing Use of Euroclear and Clearstream, the operating procedures of the Euroclear System (as amended from time to time), the Management Regulations of Clearstream and the instructions to Participants of Clearstream (as amended from time to time), as applicable. Subject to compliance with such regulations and procedures, those persons on whose behalf accounts are kept at Euroclear or Clearstream and to whom shares have been credited ("investors"), will be entitled to receive a number of shares equal to that amount credited in their accounts.

With respect to shares deposited with depositaries for Euroclear or Clearstream, such shares will be initially recorded in the name of Euroclear or one of its nominees or in the name of Clearstream or one of its nominees, as the case may be. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees (as described below), if any, and once the relevant recording in the book-entry records kept by the members of Iberclear has occurred.

Under Spanish law, only the shareholder of record in Iberclear's registry is entitled to dividends and other distributions and to exercise voting, pre-emptive and other rights in respect of such shares. Euroclear (or its nominees) or Clearstream (or its nominees) will, respectively, be the sole record holders of the shares that are deposited with any depositaries for Euroclear and Clearstream until investors exercise their rights to withdraw such shares and record their ownership rights over them in the book-entry records kept by the members of Iberclear.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositories for Euroclear and Clearstream will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, as the case may be, after deduction of any applicable withholding taxes, in accordance with the applicable regulations and procedures for Euroclear and Clearstream (see "*Taxation*" below).

Euroclear and Clearstream will endeavor to inform investors of any significant events of which they become aware affecting the shares recorded in the name of Euroclear (or its nominees) and Clearstream (or its nominees) and requiring action to be taken by investors. Each of Euroclear and Clearstream may, at their discretion, take such action, as they deem appropriate in order to assist investors in exercising their voting rights in respect of the shares. Such actions may include: (i) acceptance of instructions from investors to grant or to arrange for the granting of proxies, powers of attorney or other similar certificates; or (ii) exercise by Euroclear or its nominees and Clearstream or its nominees of voting rights in accordance with the instructions provided by investors.

In case the Company offers or causes to be offered to Euroclear or its nominees and Clearstream or its nominees, acting in their capacity as record holders of the shares deposited with the depositaries for Euroclear and Clearstream, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream will, respectively, endeavor to inform investors of the terms of any such rights of which they become aware in accordance with the applicable provisions in the aforementioned regulations and procedures. Such rights will be exercised, insofar as practicable and permitted by applicable law, according to written instructions received from investors, or, alternatively, such rights may be sold and, in such event, the net proceeds will be credited to the cash account kept on behalf of the investor with Euroclear or Clearstream.

Tender Offers

Tender offers are governed in Spain by Articles 34 and 60 of the Spanish Securities Market Act and Royal Decree 1066/2007, of July 27 ("*Real Decreto 1066/2007, de 27 de julio, de régimen de las ofertas públicas de adquisición de valores*"), which have implemented Directive 2004/25/EC of the European Parliament and of the Council of April 21, 2004. Other than the referred tender offer regulation, there is no other special regulation in Spain which may govern mandatory tender offers over the Shares.

Tender offers in Spain may qualify as either mandatory or voluntary.

Mandatory tender offers must be launched for all the shares of the target company and all other securities that might directly or indirectly entitle to acquire or subscribe such shares (including, without limitation, convertible and exchangeable notes) at an equitable price when any person or entity acquires control of a Spanish listed company, whether such control is obtained:

(i) by means of the acquisition of shares or other securities that directly or indirectly entitle to subscribe or acquire voting shares in such company;

(ii) through shareholder agreements with shareholders or other holders of said securities; or

(iii) as a result of other situations of equivalent effect as provided in the applicable Spanish regulation on tender offers (i.e., indirect control acquired through mergers, share capital decreases, changes in the target's treasury stock, etc.).

A person or entity is deemed to have control over a target company, either individually or jointly with concerted parties, whenever:

(i) it acquires, directly or indirectly, a percentage of the company's voting rights equal to or greater than 30 per cent; or

(ii) it has acquired less than 30 per cent of the voting rights and appoints, during the 24 month period following the date of acquisition of said percentage of voting rights, a number of Directors that, together with those already appointed by it (if any), represents more than one-half of the members of the target company's Board of Directors. The Spanish regulation on tender offers also sets forth certain situations where Directors are deemed to have been appointed by the bidder or persons acting in concert therewith unless evidence to the contrary is provided.

For the purposes of calculating the percentages of voting rights acquired, the Spanish regulation establishes the following rules:

(i) percentages of voting rights corresponding to: (i) companies belonging to the same group as the bidder; (ii) members of the Board of Directors of the bidder or of companies of its group (unless evidence to the contrary is provided); (iii) persons acting in concert with or on behalf of the bidder; (iv) voting rights which may be exercised freely and over an extended period by the bidder under proxy granted by the actual holders or owners of such rights, in the absence of their specific instructions with respect thereto; and (v) shares held by a nominee (such nominee being as a third- party whom the bidder totally or partially covers against the risks related to acquisitions or transfers of the shares or the possession thereof), will be deemed to be held by the bidder;

(ii) both the voting rights arising from the ownership of shares and those enjoyed under a usufruct or pledge or under any other contractual title, will also be deemed to be held by the bidder;

(iii) the percentage of voting rights shall be calculated based on the entire number of the company's shares with voting rights, even if the exercise of such rights has been suspended. Treasury stock held directly or indirectly by the target company (according to the information available on the date of calculation of the percentage of voting rights held by the bidder) shall be excluded from the calculation. Non-voting shares shall be taken into consideration only when they carry voting rights pursuant to applicable law; and

(iv) acquisition of securities or other financial instruments which entitle the holder to the subscription, conversion, exchange or acquisition of shares which carry voting rights will not result in the obligation to launch a tender offer either until such subscription, conversion, exchange or acquisition occurs.

Notwithstanding the foregoing, upon the terms established in the applicable Spanish regulation on tender offers, the CNMV will conditionally exempt a person or entity from the obligation to launch a mandatory bid when another person or entity not acting in concert with the potential bidder, directly or indirectly holds an equal or greater voting percentage in the target company.

The price of the mandatory tender offer is deemed to be equitable when it is at least equal to the highest price paid by the bidder or any person acting in concert therewith for the same securities during the twelve months preceding the announcement of the tender offer. Other rules used to calculate such equitable price are set forth in the applicable Spanish regulation. However, the CNMV may change the price determined pursuant to said rules in certain circumstances (extraordinary events affecting the price, evidence of market manipulation, etc.).

Mandatory offers must be launched as soon as possible and at any event within one month from the acquisition of the control of the target company.

Voluntary tender offers may be launched in those cases in which a mandatory offer is not legally required. Voluntary offers are subject to the same rules established for mandatory offers except for the following:

(i) they might be subject to certain conditions (such as amendments to the bylaws or adoption of certain resolutions by the general shareholders' meeting of the target company, acceptance of the offer by a minimum number of shares of the target company, approval of the offer by the general shareholders' meeting of the bidder; and any other condition deemed by the CNMV to be in accordance with law), provided that the fulfilment of such conditions may be verified by the end of the offer acceptance period; and

(ii) they may be launched at a price other than an equitable price.

The Spanish regulation on tender offers sets forth further relevant provisions, including, amongst others:

(i) the Board of Directors of the target company will be exempt from the prohibition to carry out frustrating or defensive actions against a foreign bidder provided the latter's Board of Directors is not subject to equivalent passivity rules and subject to prior approval by the company's general shareholders' meeting within the 18 month period before the date of the public announcement of the tender offer;

(ii) defensive measures included in a listed company's bylaws and transfer and voting restrictions included in agreements among a listed company's shareholders will remain in place whenever the company is the target of a tender offer, unless the shareholders decide otherwise (in which case any shareholders whose rights are diluted or otherwise adversely affected shall be entitled to compensation at the target company's expense); and

(iii) squeeze-out and sell-out rights will apply provided that following a mandatory tender offer (or as a result of a voluntary offer for all the of the target's capital stock) the bidder holds shares representing at least ninety per cent of the target company's voting capital stock and the tender offer has been accepted by the holders of securities representing at least ninety per cent of the voting rights over which the offer was launched.

DESCRIPTION OF CAPITAL STOCK

The following is a summary of material information regarding the Company's capital stock and certain applicable provisions in connection therewith to be found in the Company's bylaws ("*estatutos sociales*") and (amongst other regulations) the Spanish Companies Act, the Spanish Securities Market Act and Royal Decree 116/1992 on the representation of securities in book-entry form and the settlement of transactions in the stock exchanges ("*Real Decreto 116/1992, de 14 de febrero, sobre representación de valores por medio de anotaciones en cuenta y compensación y liquidación de operaciones bursátiles*").

This summary does not purport to be complete nor to describe all of the applicable provisions and regulations in connection with the matters described herein and is qualified in its entirety by reference to the Company's bylaws and to the Spanish Companies Act (or any other applicable regulations from time to time). It is recommended that prospective investors refer to the Company's bylaws and the Spanish Companies Act (or any other regulation referred herein) for further details. A copy of the Company's deed of incorporation and bylaws are available at the Company's registered office (Paseo del Tren Talgo 2, Las Matas, 28290 Madrid, Spain). Furthermore, a copy of the Company's bylaws will be also available on the Company's website (www.talgo.com) upon Admission, at the CNMV's offices.

General

As of the date of this document, the capital stock of the Company amounts to €41,186,702.9, issued as a single series of 136,832,900 Shares denominated in euro, with a nominal value of €0.301 per share, represented by book- entry records ("*anotaciones en cuenta*") and each with ISIN code ES0105065009 allocated by the Spanish National Agency for the Codification of Securities ("*Agencia Nacional de Codificación de Valores Mobiliarios*"), an entity dependent upon the CNMV. The Company's entire capital stock is fully paid-up and non-assessable. On the date hereof, the Company does not own Shares as treasury stock ("*autocartera*") and has not issued and the general shareholders' meeting has not decided to issue securities convertible or exchangeable into Shares, or securities with warrants over the Shares.

The Company was incorporated as a private limited company ("*sociedad de responsabilidad limitada*") under the name Global Quality Management, S.L. for an indefinite term under the public deed executed before the Madrid Notary, Mr. Carlos Fernández González, on September 30, 2005 under number 98 of his protocol and its capital stock amounted to €3,010, issued as a single series of 100 class A shares with a nominal value of €30.10 per share.

On March 29, 2006 the Company changed its name to Pegaso Rail International, S.L., by public deed granted before the Notary of Madrid Mr. Antonio Morenés Giles under number 416 of his personal records. On the same date, the Company's capital stock was increased by €14,706,860 and 239,430 new class A shares together with 249,170 new class B shares were issued with a nominal value of €30.10 per share, which resulted in a total amount of €14,709,870. This capital stock increase was approved by the Company's general shareholders' meeting as consideration for a monetary contribution.

On April 7, 2006, the Company's capital stock was increased by €2,399,993.40 and 79,734 new class B shares were issued with a nominal value of €30.10 per share, which resulted in a total amount of €17,109,863.40. This capital stock increase was approved by the Company's general shareholders' meeting as consideration for a monetary contribution.

On October 30, 2006, the Company's capital stock was increased by €2,686,093.90 and 89,239 new class A shares were issued with a nominal value of €30.10 per share which resulted in a total amount of €19,795,957.30. This capital stock increase was approved by the Company's general shareholders meeting as consideration for a monetary contribution.

On August 8, 2008, the Company's capital stock was increased by €1,418,643.10 and 47,131 new class B shares were issued with a nominal value of €30.10 per share which resulted in a total amount of €21,214,600.40. This capital stock increase was approved by the Company's general shareholders' meeting as consideration for a monetary contribution. On September 5, 2008, the Company's capital stock was increased by €22,348,738.30 and 742,483 new class A shares were issued with a nominal value of €30.10 per share which resulted in a total amount of €43,563,338.70. This capital stock increase was approved by the Company's general shareholders' meeting as consideration for the compensation of credit rights held by Pegaso Transport, S.à.r.l.

On September 19, 2008, the Company's capital stock was decreased by €31,785,359.20 and 875,996 class A shares together with 179,996 class B shares were redeemed with a nominal value of €30.10 per share which resulted in a total amount of €11,777,979.50. This capital stock decrease was approved by the Company's general shareholders meeting to redeem treasury stock ("*autocartera*").

On October 4, 2011, the Company's capital stock was increased by €22,840,391.70 and 758,817 new shares were issued with a nominal value of €30.10 per share, which resulted in a total amount of €34,618,371.20. This capital stock increase was approved by the Company's general shareholders' meeting as consideration for the compensation of credit rights held by Pegaso Transport, S.à.r.l.

On March 28, 2012, the Company's capital stock was decreased by €3,727,824.80 and 102,734 class A shares together with 21,114 class B shares were redeemed with a nominal value of €30.10 per share which resulted in a total amount of €30,890,546.4. This capital stock decrease was approved by the Company's general shareholders' meeting and was part of the consolidation process of all the minority shareholders in the Company in order the become Patentes Talgo, S.L.U in a whole-owned subsidiary.

On April 26, 2012, the Company's capital stock was increased by €10,296,156.50 and 342,065 class C shares were issued with a nominal value of €30.10 per share, which resulted in a total amount of €41,186,702.9. The issue premium amounted €68,450,627.15. This capital stock increase was approved by the Company's general shareholders' meeting as consideration for a nonmonetary contribution consisting of 455,521 Class B shares of the company Patentes Talgo, S.L.U. by its minority shareholders. As a result of this transaction, the Company became the sole shareholder of Patentes Talgo, S.L.U.

The Company was transformed from a private limited company ("*sociedad de responsabilidad limitada*") to a public limited company ("*sociedad anónima*") by public deed granted before the Notary of Madrid Mr. Jose Mª Suárez Sánchez-Ventura on December 21, 2011 under number 2,604 of his personal records.

The Company changed its name to Talgo, S.A., its current name, by public deed executed on April 1, 2015 before the Notary of Madrid Mr. Gerardo Delgado García under number 809 of his protocol records.

Besides the authorization granted on March 28, 2015 by the general shareholders' meeting to the Board of Directors to issue shares up to an amount equal to 50% of the Company's capital stock from the time of the general shareholders meeting until the fifth anniversary of such meeting, no additional authorizations have been granted by the general shareholders' meeting to increase the Company's capital stock.

At the general shareholders' meeting held on March 28, 2015, it was agreed to change the form of representation of the shares to book entries ("*anotaciones en cuenta*").

Also, at the general shareholders' meeting held on March 28, 2015, it was also agreed to eliminate different class of shares and to create a unique class with equal rights and a nominal value of €0.301 per Share.

The summary table below outlines the main changes in the Company's capital stock:

Date	**Corporate action**	**Nominal value**	**Share premium**	**Number of issued/redeemed shares**		**Number of resulting shares**		**Total shares**	**Resulting nominal value**	**Resulting share capital**
30.09.05	Incorporation	€ 30.10	-	Class A (since 29.03.06)	100	Class A	100	100	€30.10	€3,010
				Class B	0	Class B	0			
				Class C	0	Class C	0			
29.03.06	Capital increase	€ 30.10	-	Class A	239,430	Class A	239,530	488,700	€30.10	€14,709,870
				Class B	249,170	Class B	249,170			
				Class C	0	Class C	0			
07.04.06	Capital increase	€ 30.10	-	Class A	0	Class A	239,530	568,434	€30.10	€17,109,863.40
				Class B	79,734	Class B	328,904			
				Class C	0	Class C	0			
30.10.06	Capital increase	€ 30.10	-	Class A	89,239	Class A	328,769	657,673	€30.10	€19,795,957.30
				Class B	0	Class B	328,904			
				Class C	0	Class C	0			
8.08.08	Capital increase	€ 30.10	-	Class A	0	Class A	328,769	704,804	€30.10	€21,214,600.40
				Class B	47,131	Class B	376,035			
				Class C	0	Class C	0			
5.09.08	Capital increase	€ 30.10	-	Class A	742,483	Class A	1,071,252	1,447,287	€30.10	€43,563,338.70
				Class B	0	Class B	376,035			
				Class C	0	Class C	0			
19.09.08	Capital decrease	€ 30.10	-	Class A	875,996	Class A	195,256	391,295	€30.10	€11,777,979.50
				Class B	179,996	Class B	196,039			
				Class C	0	Class C	0			
04.10.11	Capital increase	€ 30.10	-	Class A	758,817	Class A	954,073	1,150,112	€30.10	€34,618,371.20
				Class B	0	Class B	196,039			
				Class C	0	Class C	0			
28.03.12	Capital decrease	€ 30.10	-	Class A	102,734	Class A	851,339	1,026,264	€30.10	€30,890,546.4
				Class B	21,114	Class B	174,925			
				Class C	0	Class C	0			
26.04.12	Capital increase	€ 30.10	68,450,627.15	Class A	0	Class A	851,339	1,368,329	€30.10	€41,186,702.90
				Class B	0	Class B	174,925			
				Class C	342,065	Class C	342,065			
28.03.15	Split	€ 0.301	-	-	-	-	-	136,832,900	€0.301	€41,186,702.90

Dividend and Liquidation Rights

Dividend distribution

The payment of dividends to the Company's shareholders shall be authorized by the Company's general shareholders' meeting by a majority of the attending shareholders (both personally and by proxy) at proposal of the Board of Directors. Shareholders are entitled to an amount of dividends proportional to their paid-up stockholding in the Company. Unless the general shareholders' meeting decides otherwise, dividends become payable by the Company from the next day on which the distribution agreement is adopted by the general shareholders' meeting.

Prior to any dividend distribution, the Spanish Companies Act requires companies to allocate at least 10 per cent of their annual net profit to a non-distributable mandatory reserve ("*reserva legal*") until such reserve amounts to, at least, 20 per cent of the Company's capital stock. As at the date of this document, legal requirements in connection with the minimum allocation of net profits to the non-distributable mandatory reserve have been satisfied.

Furthermore, the Spanish Companies Act also provides for the creation of a mandatory non-distributable reserve equal to the amount of goodwill ("*fondo de comercio*") recorded as an asset in the company's balance sheet. For that purpose, prior to any dividend distribution, companies shall allocate each year an amount of their annual net profit equal to, at least, 5 per cent of their accounted-for goodwill to such mandatory non-distributable reserve. If, in any given financial year, there is no positive net profit or it is insufficient for such purposes, the Spanish Companies Act requires that the shortfall be transferred to the mandatory non-distributable reserve from freely distributable reserves of the company. From the 2014 results, the Company has allocated €1,313 thousand to the mandatory legal reserve (which has been now fully provisioned) and €1,665 thousand to compensate losses from previous fiscal years.

These mandatory reserves will be distributed only upon liquidation of the Company.

According to the Spanish Companies Act, dividends may only be paid to shareholders of the Company from: (i) the Company's annual net profit (once the mandatory reserve requirements have been met, if applicable, and provided that net profits shall be applied to offset losses from previous years in the event that such losses cause the Company's net equity to fall below the capital stock amount); or (ii) distributable reserves, provided that (x) the value of the Company's net equity ("*patrimonio neto*") does not, and as a result of the payment of dividends will not, amount to less than the capital stock; and (y) the distributable reserves are equal or higher than the R&D expenses recorded as an asset in the company's balance sheet. Furthermore, net profits will in any case be applied to offset losses from previous years in the event that such losses cause the Company's net equity to fall below the capital stock amount.

Upon Admission the Company's equity structure will be sufficient to comply with the minimum thresholds set out in the Spanish Companies Act to permit dividend distribution (see "*Capitalization and Indebtedness*").

The Company is a holding company with no direct operations and no employees, which conducts all of its business through a wholly-owned subsidiary of the Company, Patentes Talgo, S.L.U. In this regard, the distribution of dividends by the Company will be subject to the prior fulfillment by Patentes Talgo, S.L.U. of the requirements set forth in its bylaws and Spanish law as described above (see "*Dividends and Dividend Policy*").

Therefore, the Company's ability to distribute dividends in the near future will depend upon a number of factors, including, but not limited to, Talgo's earnings, financial condition, debt service obligations, cash requirements (including capital expenditure and investment plans), prospects, market conditions and such other factors as may be deemed relevant at the time. There are no contractual restrictions to the distribution of dividends under financing arrangements that will be in place upon Admission, except for the restrictions established for Patentes Talgo, S.L.U. in the agreement entered with the European Investment Bank on December 19, 2012 (see "*Operating and Financial Review*").

In accordance with article 947 of the Spanish Commercial Code ("*Real Decreto de 22 de agosto de 1885, Código de Comercio*"), a shareholder's right to any given dividend expires if unclaimed during five years after the date it becomes payable.

Dividends payable to non-residents of the Kingdom of Spain for tax purposes are subject to Spanish withholding tax at a rate of 20 per cent for year 2015 and from 2016 onwards 19 per cent. However, residents of certain countries may be entitled to an exemption or reduction of withholding tax in certain cases (see "*Taxation-Spanish Tax Considerations-Taxation of Dividends*").

Shareholder liquidation rights

Upon liquidation of a company, shareholders are entitled to any remaining assets in proportion to their respective shareholdings, once the company's debts, taxes and any expenses related to the liquidation have been paid.

Shareholders' Meetings and Voting Rights

Meeting call

Pursuant to the Company's bylaws, the regulations of the Company's general shareholders' meeting ("*Reglamento de la Junta General de Accionistas*") which were approved on the general shareholders' meeting of the Company held on March 28, 2015 and registered with the Mercantile Register, and the Spanish Companies Act, ordinary general shareholders' meetings are to be held annually during the first six months of each fiscal year on a date fixed by the Board of Directors. Extraordinary general shareholders' meetings may be called by the Board of Directors: (i) whenever it deems appropriate; or (ii) at the request of shareholders representing at least three per cent of the Company's capital stock. Once the Shares are trading, meeting notices for all general shareholders' meetings shall either be published in the Commercial Registry's Official Gazette ("*Boletín Oficial del Registro Mercantil*") or in a newspaper of wide circulation in the Kingdom of Spain, on the Company's website and on the CNMV's website (www.cnmv.es).

Pursuant to the provisions of the Spanish Companies Act an extraordinary general shareholders' meeting may be called by the Board of Directors at least 15 days in advance of the date of the meeting (as opposed to the default one month period) if the shareholders are entitled to vote on the matters considered at the meeting by electronic means accessible to all such shareholders at any given general shareholders' meeting. The decision to shorten the default notice period before an extraordinary general shareholders' meeting must be adopted by the Company's ordinary general shareholders' meeting by a majority of at least two thirds of the voting capital stock. Such decision will remain in force, at least, until the following ordinary general shareholders' meeting.

Authority of the general shareholders' meeting

The following matters are reserved to the authority of the general shareholders' meeting: (i) the approval of the annual accounts, the allocation of profits and approval of corporate management, (ii) the appointment and removal of administrators, liquidators and, if applicable, statutory auditors, and exercise of the company's action to enforce liability against any of them, (iii) amendment of the articles of association, (iv) increase and reduction of the company's capital, (v) disapplication or limitation of the pre-emptive rights of subscription and assumption, (vi) acquisition, disposition or contribution to another company of essential assets, (vii) transformation, merger, split up or global transfer of assets and liabilities and transfer of the registered office abroad, (viii) winding up of the company, (ix) approval of the final liquidation balance sheet and (x) any other matters specified by law or the articles. In listed companies, in addition to the previous matters, the following are also reserved to the competence of the general meeting: (i) the transfer of essential activities until then undertaken by the company itself to subsidiary entities, even if the company maintains full ownership thereof, (ii) transactions the effect of which is equivalent to the company's liquidation and (iii) the remuneration policy for Directors, on the terms established herein. All the foregoing matters can be dealt with at ordinary or extraordinary general shareholders' meetings, provided that, with limited exceptions, they are included in the agenda, except for the approval of the annual accounts, the allocation of profits and approval of corporate management, which shall be dealt with only at ordinary general shareholders' meetings.

Voting and attendance rights

Each Share of the Company entitles the holder to one vote in the general shareholders' meeting and there is no limit as to the maximum number of votes that may be issued by any shareholder, companies belonging to the same group or any person acting in coordination with any of the former. Shareholders are not required to hold a minimum number of Shares in order to exercise their right to attend any general shareholders' meeting.

Holders of record of any number of Shares with voting rights are entitled to attend the Company's general shareholders' meeting with right to speak and vote. The general shareholders' meeting notice shall indicate the date on which shares must be held for a shareholder to be effectively entitled to attend the meeting and exercise any voting rights. Pursuant to the Spanish Companies Act, shareholders that are duly registered in the book-entry records ("*anotaciones en cuenta*") managed by Iberclear and its participating entities at least five days in advance to the date of the general shareholders' meeting shall in any case be entitled to attend and vote at such meeting.

Amendments to the Company's bylaws that directly or indirectly affect the rights of a specific class of shares, including any voting and attendance rights, shall only be valid when adopted by the general shareholders' meeting and adopted by the majority of shareholders affected in compliance with the requirements set out in the Spanish Companies Act. The Company's bylaws do not provide any particular provision in this respect.

Save for the prohibition for companies, either Spanish or foreign, or those whose principal shareholders, directly or indirectly, hold a significant stake in a company performing activities in the railway market or other sectors that compete with the Company to be appointed as Director (see "*Management and Board of Directors-Conflicts of Interests-Non-compete obligation*"), the Company's bylaws and internal regulations do not include any provision that would have the effect of delaying, deferring or preventing a change of control of the Company and do not provide for conditions to be met by changes in the capital of the Company which are more stringent than the provisions of the Spanish Companies Act.

Proxies

Pursuant to the Spanish Companies Act, shareholders may vote by proxy. Proxies must be given for each general shareholders' meeting in writing or by electronic means acceptable under the Company's bylaws. Proxies may be given to any person, whether or not a shareholder. Proxies may be revoked by the shareholder by giving the Company notice prior to the meeting or by personally attending the meeting.

Proxy holders are required to disclose any conflict of interest to the shareholder prior to their appointment. In case a conflict of interest arises after the proxy holder's appointment, it shall immediately be disclosed to the shareholder. In both cases, the proxy holder shall refrain from exercising the shareholder's voting rights after disclosure of the conflict of interest unless the shareholder has provided new specific voting instructions for each matter in respect of which the proxy holder is to vote on its behalf. A conflict of interest may (amongst other things) be deemed to arise when the proxy holder: (i) is one of the Company's controlling shareholders or an entity controlled by such shareholder; (ii) is a member of the Company's administrative, management or supervisory body, or that of one of the controlling shareholders or of another entity controlled by such shareholders; (iii) is the Company's employee or auditor, or that of a controlling shareholder or another entity controlled by any of such shareholders; (iv) is a natural person related to those mentioned in (i) to (iii) above ("*persona física vinculada*"), as this concept is defined under the Spanish Companies Act (i.e., the spouse or similar, at that time or within the two preceding years, as well as ascendants, descendants, siblings, and their respective spouses) and under the Spanish Ministry of Economy and Competitiveness Order ECC/3050/2004, of 15 September 2014 ("*Orden EHA/3050/2004 de 15 de septiembre sobre información de las operaciones vinculadas que deben suministrar las sociedades emisoras de valores admitidos a negociación en mercados secundarios oficiales*").

A proxy holder may act on behalf of more than one shareholder without limitation as to the maximum number of represented shareholders. Where a proxy holder holds proxies from several shareholders with diverging voting instructions, it shall be entitled to cast votes differently as appropriate for each shareholder.

Pursuant to the Spanish Companies Act, entities rendering investment services, acting in their capacity as professional financial intermediaries, can also be appointed as proxy holders. Seven days in advance of a general shareholders' meeting, financial intermediaries shall provide the Company with the identity of each client that has appointed them as proxy holders, the number of shares in respect of which votes shall be cast and the voting instructions received from each client. Financial intermediaries shall also be entitled to cast different votes for each indirect shareholder in observance of diverging voting instructions from their clients when the entities are registered as direct holders of the shares at the book-entry level.

Celebration of the meeting and adoption of resolutions

According to the Company's bylaws, by reference to the Spanish Companies Act and other applicable laws, holders of at least 25 per cent of the Company's voting stock shall attend (both personally and by proxy) a general shareholders' meeting on its first call in order to form a quorum at such meeting. If such quorum is not met on the meeting's first call, the meeting can be reconvened by a second call, which, according to the Spanish Companies Act, requires no minimum quorum. Pursuant to the

Spanish Companies Act, at least 50 per cent or 25 per cent of the Company's voting stock shall, respectively on a general shareholders' meeting first and second call, attend (both personally and by proxy) the meeting for the adoption of any agreement to amend the Company's bylaws (including, without limitation, increases and reductions of capital stock), issue notes, eliminate or limit pre-emptive rights over new shares, authorize a conversion, merger, or spin-off of the Company, approve global transfers of the Company's assets and liabilities or change the Company's registered office abroad.

At least 24 hours must lapse between a general shareholders' meeting's first and second call.

Generally, resolutions can be passed by simple majority of the votes issued by the attending shareholders (both personally and by proxy). However, where the general shareholders' meeting is in second call, the adoption of any agreement to amend the Company's bylaws (including, without limitation, increases and reductions of capital stock), issue notes, eliminate or limit pre-emptive rights over new shares, authorize a conversion, merger, or spin- off of the company, approve global transfers of the Company's assets and liabilities or change the Company's registered office abroad, the vote of two thirds of those attending shareholders (both personally and by proxy) is required, in case the attending shareholders (both personally and by proxy) hold less than 50 per cent of the total capital stock of the Company.

The Spanish Companies Act allows shareholders to voluntarily group their shares so that the capital stock in aggregate is equal to or greater than the result of dividing the total capital stock by the number of Directors on the Board. Such grouped shareholders have the right to appoint a corresponding proportion of the members of the Board of Directors (disregarding any fractions) provided that there is a vacancy. Shareholders who exercise this grouping right may not vote on the appointment of the remaining other Directors.

Legal effects of resolutions passed by the general shareholders' meeting and opposition to the resolutions of the general shareholders' meeting.

A resolution passed by the general shareholders' meeting is binding on all shareholders.

Resolutions which are either: (i) contrary to Spanish law or the bylaws or the general shareholders' meeting or Board of Directors regulations of the Company; or (ii) detrimental to the corporate interests of the Company in benefit of one or more shareholders or third parties, may be contested on the terms set out in the Spanish Companies Act.

In certain circumstances (such as a significant amendment of the Company's corporate purpose, certain cases of conversion of the corporate form of the company or the change of its registered office overseas), Spanish corporate law entitles dissenting or absent shareholders to withdraw from the Company. If this right were to be exercised, the Company would be obliged to repurchase the relevant shareholding(s) from the withdrawing shareholder in accordance with the procedures established under applicable law.

Shareholder Claims

Pursuant to the Spanish Companies Act, Directors are liable towards the company, the shareholders and the creditors for any actions or omissions that are illegal or contravene the bylaws and for failure to perform their legal and fiduciary duties diligently.

Under Spanish law, shareholders must bring any actions against the company's Directors as well as any other actions against the company or challenging corporate resolutions before the competent courts in the province where the company's registered office is located (in the Company's case, currently Las Matas (Madrid), Kingdom of Spain).

Representation and Transfer of Shares

The Shares are represented by book-entry records and are indivisible. Joint holders of one or several Shares must appoint a single representative to exercise their rights jointly on their behalf. However, they shall all be jointly and severally ("*solidariamente*") liable towards the Company for any obligations in their capacity as shareholders.

Iberclear (the managing entity for the Spanish clearance and settlement system of the Spanish Stock Exchanges) manages the central registry, which reflects the number of shares held by each of its participating entities ("*entidades participantes*") from time to time as well as the amount of shares held by beneficial owners. Each participating entity, in turn, keeps a record of the owners of such shares. Since the Shares are represented by book-entry records, the Company will keep an electronic shareholder registry for which Iberclear shall report to the Company all transactions entered into by the Company's shareholders in respect of the Shares.

The Shares are freely transferable in accordance with the Spanish Companies Act, the Spanish Securities Market Act and any implementing regulations.

Transfers of shares quoted on the Spanish Stock Exchanges must be made through or with the participation of a member of a Spanish Stock Exchange. For more information, see "*Market Information*". The transfer of shares may be subject to certain fees and expenses.

Restrictions on Foreign Investment

Exchange controls and foreign investments were, with certain exceptions, completely liberalized by Royal Decree 664/1999, of 23 April 1999 ("*Real Decreto 664/1999, de 23 de abril, de régimen jurídico de las inversiones exteriores*"), bringing the existing legal framework on foreign investments in line with the provisions of the Treaty of the European Union.

According to Royal Decree 664/1999, and subject to the restrictions described below, foreign investors may freely invest in shares of Spanish companies as well as transfer their interests, equity gains and dividends outside the Kingdom of Spain (subject to applicable taxes and exchange controls) by filing a standardized notice with the Spanish Registry of Foreign Investments ("*Registro de Inversiones Exteriores*") kept by the General Bureau of Commerce and Investments ("*Dirección General de Comercio e Inversiones*") within the Ministry of Economy and Competitiveness ("*Ministerio de Economía y Competitividad*") following the investment in or divestment of (if any) a Spanish company. Such filing is to be made solely for statistical, economic and administrative purposes. In case the shares belong to a Spanish company listed on any of the Spanish Stock Exchanges, the duty to file a notice regarding the foreign investment or divestment falls with the relevant entity with whom the shares (in book-entry form) have been deposited or which has acted as an intermediary in connection with such investment or disinvestment.

If the foreign investor is a resident of a tax haven, as defined under Royal Decree 1080/1991 of 5 July 1991 ("*Real Decreto 1080/1991, de 5 de julio*"), notice must be provided to the Registry of Foreign Investments ("*Registro de Inversiones Exteriores*") both before and after execution of the investment. However, prior notice from residents in tax havens is excluded in the following cases:

(i) investments in listed securities, whether or not trading in an official secondary market, as well as participations in investment funds that are registered with the CNMV; and

(ii) investments in connection with shareholdings that do not exceed 50 per cent of the capital stock of a Spanish company.

Additional regulations apply to investments in certain industries, including air transportation, mining, manufacturing and sales of weapons and explosives for non-military use, national defense, radio, television and telecommunications. These additional restrictions do not apply to investments made by EU residents, except for those related to the Spanish defense sector and the manufacturing and sale of weapons and explosives for non- military use.

The Spanish Council of Ministers ("*Consejo de Ministros*"), acting on the recommendation of the Ministry of Economy and Competitiveness, may suspend the application of the aforementioned provisions relating to foreign investments for reasons of public policy, health or safety, either generally or with respect to investments in particular industries. In such cases, any purported foreign investments falling within the scope of the suspension would be subject to prior authorization from the Council of Ministers of the Spanish government, acting on the recommendation of the Ministry of Economy and Competitiveness.

Exchange control regulations

Pursuant to Royal Decree 1816/1991 of December 20, 1991 ("*Real Decreto 1816/1991, de 20 de diciembre, de transacciones económicas con el exterior*"), as amended by Royal Decree 1360/2011 of October 7 ("*Real Decreto 1360/2011, de 7 de octubre, que modifica el Real Decreto 1816/1991, de 20 de diciembre, sobre transacciones económicas con el exterior"*) and EC Directive 88/361/EEC, any payments or transfers between non-residents and residents of the Kingdom of Spain must be effected through an official payment services supplier registered with the Bank of Spain ("*entidades registradas*") or through a foreign entity provided that such foreign account was duly declared to the relevant Spanish authorities. All payments or transfers which exceed €6,010 (or its equivalent in another currency) must be notified through the payment services supplier to the relevant Spanish general administration authorities ("*Administración General del Estado*") and the Bank of Spain if made in cash or by check payable to the bearer.

Pre-emptive Rights and Increases of Capital Stock

Pursuant to the Spanish Companies Act, shareholders have pre-emptive rights to subscribe for newly issued shares in consideration to cash contributions or newly issued notes that are convertible into shares. Such pre-emptive rights may be waived under special circumstances by a resolution passed by the general shareholders' meeting or the Board of Directors (in case the general shareholders' meeting of a listed company delegates the decision to increase the company's capital stock or issue convertible notes waiving pre-emptive rights to the Board of Directors), in accordance with the provisions of the Spanish Companies Act. In such cases, the resolution authorizing the waiver of pre-emptive rights will only be valid if, amongst other requirements: (i) a report is issued by an independent expert appointed by the Commercial Registry ("*Registro Mercantil*") stating, amongst other elements, the reasonable market value ("*valor razonable*") of the shares (quotation price in case of listed companies unless other arrangements can be justified) and determining the theoretical value ("*valor teórico*") of the pre-emptive rights and, in case of listed companies, also the net book value ("*valor neto patrimonial*") of the shares; and (ii) the nominal value and issue premium of the newly issued shares is equivalent to the reasonable value assigned to such shares in the aforementioned independent expert's report, provided, however, that pursuant to article 505 of the Spanish Companies Act, listed companies are entitled to issue shares at a value equal or higher than their net book value, as determined by the independent expert's report.

Furthermore, pre-emptive rights will not be exercisable by shareholders in case of a capital stock increase that is required for the purposes of issuing convertible notes, completing a merger, acquiring all or part of another company's assets or capital increases in-kind contributions ("*ampliaciones de capital no dinerarias*") or offsetting of credit rights. Pre-emptive rights are transferable, may be traded on the AQS and may be of value to existing shareholders since new shares may be offered for subscription at prices lower than prevailing market prices.

Reporting Requirements

Transactions affecting voting rights

Pursuant to Royal Decree 1362/2007 of October 19, 2007 ("*Real Decreto 1362/2007, de 19 de diciembre, que desarrolla la Ley 24/1988, del Mercado de Valores*"), any individual or legal entity who, by whatever means, purchases or transfers shares granting voting rights in a company listed in a secondary official market or other regulated market in the EU for which Spain is the country of origin (if the corporate address of the listed company is located in Spain), must notify the relevant issuer and the CNMV, if, as a result of such transaction, the proportion of voting rights held by that individual or legal entity reaches, exceeds or falls below a three per cent threshold over the company's total voting rights. The reporting obligations are also triggered at thresholds of five per cent and multiples thereof (excluding 55 per cent, 65 per cent, 85 per cent, 95 per cent and 100 per cent).

The notice shall be served by means of the standard form approved by the CNMV from time to time for such purpose, within four business days from the date on which the transaction is acknowledged (Royal Decree 1362/2007 deems a transaction to be acknowledged within two business days from the date on which it is entered into). Where the individual or legal entity effecting the transaction is a non-resident of the Kingdom of Spain, notice must also be served to the Spanish Registry of Foreign Investments ("*Registro de Inversiones Exteriores*") (kept by the General Bureau of Commerce and Investments ("*Dirección General de Comercio e Inversiones*") within the Ministry of Economy and Competitiveness ("*Ministerio de Economía y Competitividad*").

The foregoing disclosure requirements also apply to those transactions (other than sales and purchases of shares) by which the proportion of voting rights of an individual or legal entity reaches, exceeds or falls below the aforementioned thresholds that trigger the obligation to report.

Regardless of the actual ownership of the shares, any individual or legal entity with a right to acquire, transfer or exercise voting rights granted by the shares or who owns, acquires or transfers, whether directly or indirectly, other securities or financial instruments which grant a right to acquire shares with voting rights, shall also notify the company and the CNMV if the aggregate voting rights held by that individual or legal entity reaches, exceeds or falls below the aforementioned thresholds.

In case the person, legal entity or group effecting the transaction is a resident in a tax haven (as defined by applicable Spanish regulations), the threshold that triggers the obligation to disclose the acquisition or transfer of shares in a Spanish company is reduced to one per cent (and successive multiples thereof).

The Company shall report to the CNMV any self-acquisition of treasury stock which, together with all other acquisitions since the last disclosure, reaches or exceeds one per cent of the Company's capital stock (irrespective of whether the Company has sold any of the company's treasury stock in the same period). In such circumstances, the disclosure notice must include the number of shares acquired by the company since the last disclosure (detailed by transaction), the number of shares sold in such period (detailed by transaction), the share prices paid in such transactions and the resulting net holding of treasury stock.

The Company's bylaws and internal regulations do not provide for any significant shareholdings disclosure requirements more stringent than those established under Royal Decree 1362/2007 of October 19 (as mentioned in this sub-section) and Royal Decree 1333/2005 of November 11, (as mentioned in the following sub-section).

Disclosure requirements applicable to Directors and Senior Managers

All members of the Board of Directors must report both to the Company and the CNMV any percentage or number of voting rights held by them in the Company from time to time and within five trading days from the time of their appointment or resignation as Directors.

In addition, pursuant to Royal Decree 1333/2005 of November 11, 2005 ("*Real Decreto 1333/2005, de 11 de noviembre, que desarrolla la Ley 24/1988, del Mercado de Valores, en materia de abuso de mercado*") (implementing European Directive 2004/72/EC), any member of a company's Board of Directors or the company's Senior Managers ("*directivos*") (as defined therein) and any persons having a close link ("*vínculo estrecho*") with any of them, must similarly report any acquisition or transfer of the company's shares, derivatives and financial instruments linked to the company's shares, regardless of the amount and including information on the percentage of voting rights which they hold as a result of the relevant transaction. In addition, any member of a company's board of directors or the company's senior managers ("*directivos*") (as defined in Royal Decree 1333/2005, November 11, 2005), must also report any stock-based compensation that they may receive pursuant to any of the company's compensation plans.

Disclosure of shareholder agreements

The Spanish Companies Act requires the parties to disclose shareholder agreements that affect the exercise of voting rights at a general shareholders' meeting of a listed company or contain restrictions or conditions in connection with the transfer of shares or convertible notes. The execution, amendment or extension of such agreements shall be immediately disclosed by the parties to the shareholder agreements to the company and to the CNMV and a copy of the agreement shall be filed with the relevant Commercial Registry ("*Registro Mercantil*"). If these requirements are not fulfilled, any provisions contained in such shareholder agreements which affect the exercise of voting rights and/or restrict or place conditions upon the transfer of shares, will not be effective. The shareholder agreements will be disclosed as relevant facts ("*hechos relev*antes") on the CNMV's website.

The Selling Shareholders and the Company executed a shareholders agreement that will enter in force as of Admission (see "*Principal and Selling Shareholders-Shareholders agreement*" for further details).

Disclosure of net short positions

Moreover, in accordance with EU Regulation No. 236/2012 of the European Parliament and of the Council, of March 14, 2012, any person or legal entity holding net short positions on a company's shares must report them to the CNMV on a confidential basis in case they reach 0.2 per cent of the capital stock and disclose any subsequent reductions or increases by 0.1 per cent and successive multiples thereof no later than 3:30 p.m. on the following trading day. Positions over 0.5 per cent (and each 0.1 per cent increase above that) shall be publicly disclosed.

In addition, on December 19, 2007 the CNMV issued Circular 3/2007 ("*Circular 3/2007, de 19 de diciembre, de la Comisión Nacional del Mercado de Valores, sobre los Contratos de Liquidez a los efectos de su aceptación como práctica de mercado*"), which sets out the requirements to be met for liquidity contracts entered into between issuers and financial institutions for the management of treasury stock to be accepted as a market practice. The Company has no intention to sign any liquidity contract regarding the Offering.

Share Repurchases

Pursuant to the Spanish Companies Act, the Company may only repurchase the Company's own shares derivatively within certain limits and in compliance with the following requirements:

(i) the repurchase must be previously authorized by the general shareholders' meeting in a resolution establishing the maximum number of shares to be acquired, the minimum and maximum acquisition price (if any) and the duration of the authorization, which may not exceed five years from the date of the resolution; and

(ii) the repurchase, including the shares already acquired and currently held by the company or any person or company on the Company's behalf, does not reduce the company's net equity ("*patrimonio neto*") below the aggregate amount of the Company's share capital and non-distributable reserves.

For these purposes, net equity ("*patrimonio neto*") means the amount resulting from the application of the criteria used to draw up the Company's financial statements, minus the amount of profits directly allocated to such net equity, plus the amount of uncalled subscribed share capital and the total amounts of nominal value and issue premium for the subscribed share capital registered as a liability in the Company's accounting.

In addition:

(i) the aggregate nominal value of the shares directly or indirectly repurchased by the Company, together with the aggregate nominal value of the treasury stock already held by the Company and its subsidiaries, shall not exceed ten per cent of the Company's total capital stock; and

(ii) the repurchased shares shall always be fully paid-up. The repurchase shall be deemed null and void if: (i) the shares are partially paid-up (except in case of free repurchase); or (ii) the shares entail ancillary obligations.

Treasury stock lacks voting and economic rights. Economic rights bound to treasury stock (i.e. dividend distributions and liquidation rights) shall, except for the right to bonus shares, be distributed amongst the Company's shareholders in proportion to their respective shareholdings.

Directive 2003/6/EC of the European Parliament and the European Council dated January 28, 2003 on insider dealing and market manipulation establishes rules in order to ensure the integrity of European Community financial markets and to enhance investor confidence. Article 8 of the Directive establishes an exemption from the market manipulation rules regarding share buy-back programs by companies listed on a stock exchange in an EU member state. European Commission Regulation No. 2273/200 of December 22, 2003 implemented the aforementioned Directive with regard to exemptions for buy-back programs. Article 3 of the Regulation states that in order to benefit from the exemption provided for in article 8 of the Directive, a buy-back program must (i) comply with certain requirements established under such Regulation; and (ii) its sole purpose must be the reduction of an issuer's capital stock (either in value or in number of shares) or the fulfilment of obligations arising from either:

(i) debt financial instruments exchangeable into equity instruments; or

(ii) employee share option programs or other allocations of shares to employees of the issuer or those of an associated company.

Notwithstanding the foregoing, and except for commitments under [the Management Incentive Plan (see "*Management and Board of Directors-Corporate Governance-Compensation-Management Incentive Plan*") and the Underwriting Agreement (see "*Plan of Distribution-The Offering*"), on the date hereof no option over the shares of any member of the Group has been granted or has been agreed conditionally or unconditionally to be granted.

On March 28, 2015, the general shareholders' meeting of the Company authorized the acquisition of treasury stock ("*autocartera*") for a period of five (5) years, up to a maximum total of 10% of the share capital of the Company. The minimum acquisition price will not be below the par value of the shares and the maximum acquisition price will not be greater of (i) the Offer Price if the acquisition is carried out during the Offer or (ii) a maximum of 120 per cent of the market share price if the acquisition is performed after Admission. The acquired shares may be allocated under any existing or future remuneration plan to Directors or employees of the Company.

TAXATION

Spanish Tax Considerations

General

The following is a summary of certain Spanish tax implications of the acquisition, ownership and disposition of the Shares by Spanish and non-Spanish tax resident investors. This summary is not a complete analysis or description of all the possible Spanish tax implications of such transactions and does not purport to address all tax considerations that may be relevant to all categories of potential investors, some of whom may be subject to special rules (for instance, EU pension funds and EU harmonized collective investment institutions). In particular, this tax section does not address the Spanish tax consequences applicable to certain "look through" entities (such as trusts, estates or partnerships) that may be subject to a specific tax regime applicable under the Spanish Non-Residents Income Tax Act, approved by Royal Legislative Decree 5/2004 of March 5, as amended by 26/2014 of November 27 (hereinafter, the "**NRIT Act**") or under the Spanish Personal Income Tax Act, approved by Act 35/2006, of November 28, as amended by 26/2014 of November 27, (hereinafter, the "**PIT Act**").

Accordingly, prospective investors in the Shares should consult their own tax advisers as to the applicable tax consequences of their purchase, ownership and disposition of the Shares, including the implications arising under the tax laws of any other jurisdiction, based on their particular circumstances. The description of Spanish tax laws set forth below is based on the laws currently in effect in Spain as of the date of this document, and on administrative interpretations of Spanish law made public to date. As a result, this summary is subject to any changes in such laws or interpretations occurring after the date hereof, including changes having retrospective effect.

The description of Spanish tax laws set forth below is based on Spanish law as of the date of this document and on administrative interpretations of Spanish law, without taking into account the regional tax regimes applicable in the Historical Territories of the Basque Country and the Community of Navarre or the provisions passed by Regional Governments of Spain. This description is subject to any changes in such laws or interpretations occurring after the date hereof, including changes having retroactive effect.

As used in this particular section "*Spanish Tax Considerations*", the term "**Holder**" means a beneficial owner of the Shares:

- who is an individual or corporation resident for tax purposes in Spain; and
- who is an individual or corporation resident for tax purposes in any country other than Spain, and whose ownership of shares is not deemed to be effectively connected with a permanent establishment in Spain.

Resident Individuals

Personal Income Tax (PIT)

Taxation of dividends

Article 25.1 of the PIT Act provides for a definition of "investment income" that includes dividends and other income items derived from the ownership of an equity interest in an entity (such as, for instance, attendance fees at general shareholders' meeting, income derived from any arrangement aimed at allowing another person to use or enjoy the shares and, generally, any other income obtained as a result of being a shareholder).

Investment income earned by Holders as a result of their ownership of the Shares is calculated as the gross income less certain tax-deductible expenses, such as general securities administration and custody fees. Discretionary fees relating to an individualized management of a portfolio of securities are not treated as tax- deductible. The resulting net investment income will be considered as "savings income" (along with any other income item obtained by a Holder that is not related to the ownership of the Shares and that is treated as "savings income"), and subject to PIT at the following progressive rates (as applicable in fiscal year 2015):

Savings tax base	Gross tax payable	Rest of savings tax base	Applicable tax rate
0	0.00	6,000.00	20%
6,000.00	1,200.00	44,000.00	22%
50,000.00	10,880.00	Onward	24%

As from fiscal year 2016, the applicable PIT rates on savings income will be reduced. Consequently, investment income earned by Holders as a result of owning the Shares will be taxed at a fixed rate of 19 per cent (applicable on the first €6,000 of savings income obtained in a given fiscal year), 21 per cent (for the amount of such savings income in excess of €6,000 and up to €50,000) and 23% (for the amount of such savings income in excess of €50,000). Holders shall be liable for a PIT withholding on investment income at a rate of 20 per cent in fiscal year 2015 (19 per cent as from fiscal year 2016), on the whole amount of the income obtained. This PIT withholding will be credited against the taxpayer's annual PIT due.

The distribution of share premium is not considered as dividend. This amount will decrease the acquisition value of the Shares and any excess will be subject to PIT as "savings income" at the progressive rates mentioned above (20 per cent/22 per cent/24 per cent in fiscal year 2015 and 19 per cent/21 per cent/23 per cent as from fiscal year 2016). These amounts will not be subject to withholding tax unless they derive from non-distributed profits.

Capital gains and losses

If the Shares are sold or otherwise transferred, such transaction may give rise to the recognition of a capital gain or loss. Such capital gain or loss will be measured by the difference between the Holder's tax basis in the Shares and their transfer price. Such transfer price will be based on either (i) the trading price of the Shares at the transfer date or (ii) the agreed transfer price, whichever is higher. Both the acquisition price and the transfer price will be increased or decreased to reflect the taxes and expenses borne by the transfer or related to the acquisition and sale of the Shares, respectively.

Where the taxpayer owns other equivalent securities, the acquisition price of the transferred shares is based on the principle that those acquired first are sold first (FIFO).

Capital gains or losses that arise as a result of the transfer of the Shares are added to or netted from the "savings income" obtained by such Holder for the year in which such gain or loss was realized. Consequently, capital gains or losses derived from the transfer of Shares should be taxed at the progressive "savings income" PIT rates (see "*Taxation of dividends*").

Additionally, capital gains derived from the transfer of the Shares are not subject to withholding tax.

Finally, losses derived from the transfer of the Shares cannot be considered as capital losses when equivalent shares have been acquired within the two months preceding or following the transfer that has triggered the loss. In these cases, the capital losses arising in connection with such transferred Shares may only be claimed when the equivalent shares acquired by the taxpayer are subsequently transferred.

Preemptive subscription rights

During 2015 and 2016, proceeds derived from the sale of pre-emptive subscription rights in respect of the Shares are not treated as income but are deemed to reduce a Holder's tax basis in such shares. Proceeds in excess of such tax basis shall be treated as capital gains.

As it has been previously mentioned, capital gains or losses arising as a result of transfers of subscription rights on the Shares will be subject to the tax rates abovementioned (see *"Taxation of dividends*").

Net Wealth Tax

Under Royal Decree Law 13/2011, of September 16 – as amended by Act 36/2014, of December 26, in 2015, all Spanish-resident individual shareholders are liable for Net Wealth Tax (hereinafter, "**NWT**") on all net assets and rights deemed to be owned as of December 31, irrespective of where these assets are located or where the rights may be exercised, and amounting to more than €700,000 (such amount may be lower depending on the Spanish region of domicile of the taxpayer) A Holder who is required to file a NWT return should value the Shares at their average trading price in the last quarter of the year. Such average trading price is published on an annual basis by the Spanish Ministry of Finance and Public Administration.

NWT is levied at rates ranging from 0.2 per cent to 2.5 per cent depending on the Spanish region of domicile of the taxpayer, certain tax allowances may be available.

Inheritance and Gift Tax

The transfer of the Shares by inheritance, gift or legacy (on death or as a gift) to individuals resident in Spain is subject to Inheritance and Gift Tax (hereinafter, "**IGT**") as set out in Act 29/1987, of December 18, being payable by the person who acquires the securities, at an effective tax rate ranging from 0 per cent to 81.6 per cent, depending on relevant factors (such as e.g. the specific regulations imposed by each Spanish region, the amount of the pre-existing assets of the taxpayer and the degree of kinship with the deceased or donor).

Corporate Income Tax (CIT)

Taxation of dividends

Domestic corporations will include dividends received in connection with Shares in their taxable base, subject to a 28 per cent tax rate for tax periods starting in 2015 (and 25 per cent tax rate for tax periods starting from 2016 onwards), according to Act 27/2014, of November 27 (hereinafter, "**CIT Act**").

Unless one of the exclusions set out in article 21 of CIT Act may apply, Holders obtaining dividends or profit distributions in respect of the Shares shall be entitled to an exemption subject to (i) having a stake, direct or indirect, of at least 5 per cent or an acquisition value over €20 million and (ii) holding the stake uninterruptedly for a year – requirement which may be fulfilled after the distribution of such dividend (and provided that other requirements that need to be analyzed on a case by case basis are fulfilled).

As a general rule, the gross dividend received annually from the Shares will be subject to withholding tax at a 20 per cent tax rate for tax periods starting in 2015 (19 per cent for tax periods starting as of 2016 onwards). Holders shall be able to credit such withholding tax against their annual CIT due.

The distribution of share premium is not considered as dividend. This amount will decrease the acquisition value of the Shares and any excess will be subject to CIT at a 28 per cent tax rate for tax periods starting 2015 (25 per cent tax rate for tax periods starting as of 2016 onwards). These amounts will not be subject to withholding tax.

Taxation of gains and losses

Gains or losses arising from the sale of the Shares by a Holder will be included in its CIT taxable base, and shall generally be subject to CIT at the above tax rate.

Gains arising from the sale of the Shares will not be subject to withholding tax and may also be entitled to an exemption at the level of the Holder, provided that the requirements (briefly described in the precedent section) set out in article 21 of CIT Act are fulfilled.

Legal entities resident in Spain for tax purposes that acquire ownership or other rights over the Shares by inheritance, gift or legacy are not subject to the IGT but must include the market value of the Shares in their taxable income for CIT purposes.

Non-Resident Shareholders

Non-residents Income Tax (NRIT)

Taxation of dividends

According to the NRIT Act, dividends paid by a Spanish resident company to a non-Spanish tax resident Holder not holding the Shares through a permanent establishment located in Spain are subject to NRIT, withheld at the source on the gross amount of dividends, currently at a tax rate of 20 per cent (19 per cent as of 2016).

Certain corporate Holders resident in a EU Member State (other than a tax haven jurisdiction for Spanish tax purposes) may also be entitled to an exemption from NRIT dividend withholding tax to the extent that they are entitled to the benefits of the Spanish NRIT provisions that implement the regime of the EU Parent-Subsidiary Directive.

In order to be eligible for the exemption, the recipient of the dividends must hold, directly or indirectly, a stake of at least five per cent of the shares of the distributing entity or the acquisition value of the stake must be over €20 million. The abovementioned stake must be held uninterruptedly for at least one year prior to the distribution date or complete that period after the distribution of such dividend. Additionally, other requirements (including specific anti-abuse rules that need to be analyzed on a case-by-case basis and procedural formalities, such as the supply of a government-issued tax residence certificate) must be met. Holders claiming the applicability of such exemption that have not met a minimum one year holding period as of a given dividend distribution date (but who could meet such requirement afterwards) should be aware that the NRIT Act requires the Company to withhold the applicable NRIT on such dividends, and that such Holders will need to request a direct refund of such withholding tax from the Spanish tax authorities pursuant to the Spanish refund procedure described below under "*Spanish refund procedure*".

In addition, Holders resident in certain countries may be entitled to the benefits of a double taxation convention ("**DTC**") in effect between Spain and their country of tax residence providing from a reduced tax rate or an exemption on dividends, subject to the satisfaction of any conditions specified in the relevant DTC, including providing evidence of the tax residence of the Holder by means of a certificate of tax residence duly issued by the tax authorities of its country of tax residence making express reference to the Holders' entitlement to the benefits of such DTC (or equivalent specific form required under an applicable DTC). From a Spanish tax perspective, tax residence certificates issued by a foreign tax authority (or equivalent DTC forms) are deemed to be valid only for one year as from their date of issuance.

In accordance with the Order of the Ministry of Finance and Taxation of April 13, 2000, upon distribution of a dividend, the Company or the Company's paying agent will withhold an amount equal to the NRIT amount required to be withheld according to the general rules set forth above (generally, 20 per cent in fiscal year 2015, 19 per cent as from fiscal year 2016), transferring the resulting net amount to the financial institution acting as a depositary of the shares held by such Holder. For this purpose, the depositary is the financial institution with which the Holder has ratified a contract of deposit or management with respect to shares in the Company held by such Holders. If the applicable depositary is resident, domiciled or represented in Spain and it provides timely evidence of the Holder's right to obtain the DTC-reduced tax rate or exemption, it will immediately receive the amount withheld, which will be credited to the relevant Holder (the "Quick refund Procedure"). For these purposes, the relevant certificate of residence (or equivalent DTC form) stating that the Holder is resident of such country within the meaning of the DTC must be provided before the tenth day following the end of the month in which the dividends were paid.

If such certificate of tax residence or, as the case may be, the equivalent DTC form referred to above, is not provided to it by the relevant depositary within the mentioned time frame the relevant NRIT withheld will be paid to the Spanish tax authorities, and a Holder entitled to an exemption or reduction of NRIT pursuant to the NRIT Act or pursuant to an applicable DTC may subsequently request a refund of the amounts withheld in excess from the Spanish tax authorities, following the standard refund procedure described below under "*Spanish refund procedure*".

Spanish refund procedure

According to Royal Decree 1776/2004, dated 30 July (NRIT regulations) and the Order of the Ministry of Finance and Taxation EHA/3316/2010, of December 17, as amended, a refund of an amount withheld in excess of any applicable NRIT (taking into account an available exemption or reduction under the NRIT Act or applicable DTC) can be requested and obtained directly from the relevant Spanish tax authorities.

To pursue the refund claim, the Holder is required to file:

- the corresponding Spanish tax refund form (currently, Form 210);
- a valid certificate of tax residence issued by the relevant tax authorities of the Holder's country of residence stating that the Holder is a resident of such country (and, in case an exemption or reduction of NRIT is claimed pursuant to a DTC, such certificate must indicate that the relevant

Holder is a resident therein within the meaning of the relevant DTC) or, as the case may be, the equivalent DTC form, as referred to above under "*Taxation of dividends*"; and

- a withholding tax certificate from the Company stating that Spanish NRIT was withheld and collected with respect to such Holder.
- a proof of beneficial ownership, and
- documentary evidence of the bank account in which the excess amount withheld should be paid.

For further details, prospective Holders should consult their own tax advisors.

Taxation of capital gains

Capital gains derived from the transfer or sale of the Shares will be deemed to be income arising in Spain, and, therefore, subject to NRIT (currently, at a 20 per cent rate (19 per cent as from fiscal year 2016)).

Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses derived from a given transfer of shares against capital gains obtained upon another transfer of shares.

However, capital gains derived from the Shares will be exempt from taxation in Spain in either of the three following cases:

- Capital gains derived from the transfer of the Shares carried out on an official Spanish secondary stock market (such as the Spanish Stock Exchanges), by any Holder who is tax resident of a country that has entered into a DTC with Spain containing an "exchange of tax information" clause. This exemption is not applicable to capital gains obtained by a Holder through a country or territory that is classified as a tax haven under the Spanish tax regulations, nor by a Holder holding the Shares through a permanent establishment located in Spain.
- Capital gains obtained directly by any Holder resident of another EU Member State or indirectly through a permanent establishment of such Holder in a EU Member State (other than Spain), provided that:
    - the Company's assets do not mainly consist of, directly or indirectly, real estate property located in Spain;
    - for the specific case of individual taxpayers, the Holder has not held a direct or indirect interest of at least 25 per cent in the Company's capital or net equity during the preceding twelve months;
    - in the case of non-resident entities, the selling shall meet the requirements for the application of the exemption provided for in article 21 of the Corporate Income Tax Act; and
    - the gain is not obtained through a country or territory defined as a tax haven under the applicable Spanish tax regulations.
- Capital gains realized by Holders who benefit from a DTC entered into between their country of tax residence and Spain that provides for taxation of capital gains derived from the transfer of the Shares only in such Holder's country of tax residence.

In order to be eligible for the exemptions above mentioned, a Holder must timely file the applicable NRIT tax return before the Spanish tax authorities, attaching a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that the Holder is a resident of such country within the meaning of the relevant DTC) or, as the case may be, equivalent DTC form. As it has been mentioned above, certificates of tax residence (or equivalent DTC forms) will be generally valid only for a period of one year after their date of issuance.

Prospective Holders should consult their own tax advisors to obtain detailed information regarding NRIT filings they may be required to make before the Spanish Tax Authorities.

Net Wealth Tax

In relation to fiscal year 2015, non-Spanish tax resident individual Holders holding the Shares will be subject to Spanish NWT to the extent that such Holders own shares (along with other property located in Spain and rights which could be exercised in Spain) valued for a combined net amount in excess of €700,000 as of December 31, 2015. Spanish NWT rates vary between 0.2 per cent and 2.5 per cent. For NWT valuation purposes, the Shares should be valued at their average trading price during the last quarter of such year (according to information published on an annual basis by the Spanish Ministry of Finance and Public Administration). Holders who benefit from a DTC that provides for net wealth taxation only in the Holder's country of residence will not be subject to NWT.

Individuals that are not resident in Spain for tax purposes who are resident in an EU or European Economic Area member State may apply the rules approved by the autonomous region where the assets and rights with more value (i) are located, (ii) can be exercised or (iii) must be fulfilled. As such, prospective holders should consult their tax advisers.

Spanish Inheritance and Gift Tax

Unless otherwise provided under an applicable DTC, transfers of the Shares upon death and by gift to individuals not resident in Spain for tax purposes are subject to Spanish IGT if the shares are located in Spain (pursuant to Spanish Act 29/1987), regardless of the residence of the heir or the beneficiary. The effective tax rate, after applying all relevant factors (legislation of the autonomous region applicable, the net wealth of the heir or beneficiary of the gift, the kinship with the deceased or the donor and the qualification for tax benefits), may range between 0 per cent and 81.6 per cent.

However, if the deceased, heir or the donee are resident in an EU or European Economic Area member State, depending on the specific situation, the applicable rules will be those corresponding to the relevant autonomous regions according to the law. Accordingly, prospective shareholders should consult their tax advisers.

Non-Spanish tax resident legal entities that acquire ownership or other rights over the Shares by inheritance, gift or legacy are not subject to IGT, Such acquisitions will be subject to NRIT (as described above), without prejudice to the provisions of any applicable treaty for the avoidance of double taxation entered into by Spain.

Spanish Transfer Tax

The acquisition or subscription of the Shares and any subsequent transfer thereof will be exempt from Transfer Tax and Value Added Tax, under the terms and with the exemptions set out in article 108 of the Securities Market Act.

Additionally, no stamp duty will be levied on such acquisition, subscription and transfers.

U.S Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Shares that are U.S. Holders that will hold the Shares as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Shares by particular investors, and does not address state, local, non-U.S. or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly or indirectly) 10 per cent or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax or the Medicare tax on net investment income, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Shares as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organized under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Shares by the partnership.

The summary assumes that the Company is not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, which the Company believes to be the case. The Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for U.S. Holders.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and Spain (the "**Treaty**"), all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE SHARES, INCLUDING THEIR ELIGIBILITY FOR THE

BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Dividends

General

Distributions paid by the Company out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any Spanish withholding tax paid by the Company with respect thereto, will generally be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Company with respect to Shares will constitute ordinary dividend income. U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Company.

Dividends paid by the Company will generally be taxable to a non-corporate U.S. Holder at the special reduced rate normally applicable to long-term capital gains, provided the Company qualifies for the benefits of the Treaty. A U.S. Holder will be eligible for this reduced rate only if it has held the Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date.

Foreign Currency Dividends

Dividends paid in euros will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder, regardless of whether the euros are converted into U.S. dollars at that time. If dividends received in euros are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

Effect of Spanish Withholding Taxes

As discussed in "*Taxation-Spanish Tax Considerations*", under current law payments of dividends by the Company to foreign investors are currently subject to a 20 per cent (19 per cent as of 2016) Spanish withholding tax. The rate of withholding tax applicable to U.S. Holders that are eligible for benefits under the Treaty is reduced to a maximum of 15 per cent. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of Spanish taxes withheld by the Company, and as then having paid over the withheld taxes to the Spanish taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Company with respect to the payment.

A U.S. Holder will generally be entitled, subject to certain limitations, to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Spanish income taxes withheld by the Company. U.S. Holders that are eligible for benefits under the Treaty will not be entitled to a foreign tax credit for the amount of any Spanish taxes withheld in excess of the 15 per cent maximum rate, and with respect to which the holder is entitled to obtain a refund from the Spanish taxing authorities.

For purposes of the foreign tax credit limitation, foreign source income is classified in one of two "baskets", and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Dividends paid by the Company generally will constitute foreign source income in the "passive category income" basket. If a U.S. Holder receives a dividend from the Company that qualifies for the reduced rate described above under "Dividends-General", the amount of the dividend taken into account in calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign taxes imposed on a dividend if the U.S. Holder has not held the Shares for at least 16 days in the 31-day period beginning 15 days before the ex dividend date.

U.S. Holders that are accrual basis taxpayers, and who do not otherwise elect, must translate Spanish taxes into U.S. Dollars at a rate equal to the average exchange rate for the taxable year in which the taxes accrue, while all U.S. Holders must translate taxable dividend income into U.S. Dollars at the spot rate on the date received. This difference in exchange rates may reduce the U.S. dollar value of the credits for Spanish taxes relative to the U.S. Holder's U.S. federal income tax liability attributable to a dividend. However, cash basis and electing accrual basis U.S. Holders may translate Spanish taxes into U.S. Dollars using the exchange rate in effect on the day the taxes were paid. Any such election by an accrual basis U.S. Holder will apply for the taxable year in which it is made and all subsequent taxable years, unless revoked with the consent of the IRS.

Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of Spanish taxes.

Sale or other Disposition

Upon a sale or other disposition of Shares, a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Shares exceeds one year. The deductibility of capital losses is subject to significant limitations.

Any gain or loss will generally be U.S. source. Therefore, a U.S. Holder may have insufficient foreign source income to utilize foreign tax credits attributable to any Spanish withholding tax imposed on a sale or disposition. Prospective purchasers should consult their tax advisers as to the availability of and limitations on any foreign tax credit attributable to this Spanish withholding tax.

A U.S. Holder's tax basis in a Share will generally be its U.S. dollar cost. The U.S. dollar cost of a Share purchased with euros will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Shares traded on an established securities market, within the meaning of the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. The amount realized on a sale or other disposition of Shares for an amount in euros will be the U.S. dollar value of this amount on the date of sale or disposition. On the settlement date, the U.S. Holder will recognize U.S. source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the U.S. dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of Shares traded on an established securities market that are sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), the amount realized will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognized at that time.

Disposition of Foreign Currency

Euros received on the sale or other disposition of a Share will have a tax basis equal to its U.S. dollar value on the settlement date. Euros that are purchased will generally have a tax basis equal to the U.S. dollar value of the euros on the date of purchase. Any gain or loss recognized on a sale or other disposition of a euro (including its use to purchase Shares or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Passive Foreign Investment Company Considerations

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75 per cent of its gross income is "passive income" or (ii) at least 50 per cent of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company does not believe that it should be treated as, and does not expect to become, a PFIC for U.S. federal income tax purposes but the Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be treated as a PFIC, U.S. Holders of Shares would be required (i) to pay a special U.S. addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of Shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Additionally, dividends paid by the Company would not be eligible for the special reduced rate of tax described above under "Dividends-General". Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

Backup Withholding and Information Reporting

Payments of dividends and other proceeds with respect to Shares, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Foreign Financial Asset Reporting

U.S. Holders are subject to reporting requirements on the holding of certain foreign financial assets, including equity of foreign entities, if the aggregate value of all of these assets exceeds $50,000 at the end of the taxable year or $75,000 at any time during the taxable year. The thresholds are higher for individuals living outside of the United States and married couples filing jointly. The Shares are expected to constitute foreign financial assets subject to these requirements unless the Shares are held in an account at a financial institution (in which case the account may be reportable by the financial institution). U.S. Holders should consult their tax advisors regarding the application of this legislation.

PLAN OF DISTRIBUTION

The Offering

The Company, the Selling Shareholders and the Managers will enter into an underwriting agreement (the "**Underwriting Agreement**") with respect to the Initial Offer Shares and the Over-allotment Shares being sold by the Selling Shareholders upon the finalization of the book-building period (expected to be on or about May 5, 2015). Subject to the satisfaction of certain conditions set out in the Underwriting Agreement and the Underwriting Agreement not being terminated in accordance with its terms, each entity listed in the following table (the "**Underwriters**") will agree, severally but not jointly, to procure purchasers or, failing which, to purchase percentage of Initial Offer Shares as is set forth opposite its name in the following table:

Underwriters	**% of the Initial Offer Shares***
Banco Santander, S.A.	27.62191%
J.P. Morgan Securities plc	27.62191%
Nomura International plc	27.62191%
Banco Bilbao Vizcaya Argentaria, S.A.	2.855714%
Bankinter, S.A.	2.855714%
Crédit Agricole Corporate and Investment Bank	2.855714%
JB Capital Markets, S.V., S.A.U.	2.855714%
Natixis	2.855714%
Société Génerale	2.855714%
TOTAL	**100.00%**

* Excluding Shares to be acquired by the Company at the Offer to settle the existing Management Incentive Plan and to deliver a package of Shares at no cost (for free) to Talgo's employees (excluding executive Directors and Senior Managers). Such shares to be acquired by the Company will not be taken into consideration for the book-building process to set the Offering Price. Therefore, the Initial Offer Shares subject to the underwritten commitment will be those addressed to qualified investors, will be 40.00% of the share capital of the Company.

Additionally, it is expected that (i) Nmás1 Equities Sociedad de Valores S.A. will enter into the Underwriting Agreement but exclusively as a Manager and placement agent (i.e. with no underwriting commitment) and will receive commissions from its placement activities, and (ii) Mercavalor, Sociedad de Valores, S.A., a wholly-owned subsidiary of Bankinter, S.A. will take part in the marketing activities of the Offering, although it will not be a party to the Underwriting Agreement and will not receive any commission from the Selling Shareholders.

In any event, the identity and number of Underwriters and/or placement agents and the exact number of Initial Offer Shares underwritten by each of them shall be fixed if and when the Underwriting Agreement is entered into. The Company will inform the market of any amendment of the number or identity of Underwriters and/or Managers or placement agents, or of the percentage of Initial Offer Shares underwritten by any of them which may occur through the same means used to distribute this document.

If one or more of the Managers shall fail at the Closing Date (May 6, 2015) to procure purchasers for or to purchase the Initial Offer Shares which it or they are obliged to purchase under the Underwriting Agreement (the "**Defaulted Shares**"), the Joint Global Coordinators shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Managers (excluding N+1), or any other Managers (excluding N+1), to procure purchasers for, or to itself purchase all, but not less than all, of the Defaulted Shares in such amounts as may be agreed upon and upon the terms set forth in the Underwriting Agreement; if, however, the Joint Global Coordinators shall not have completed such arrangements within such 24-hour period, then: (i) if the number of Defaulted Shares does not exceed 20 per cent of the number of Initial Offer Shares to be purchased on such date, each of the non-defaulting Managers (excluding N+1) shall be obliged, severally and not jointly, to procure purchasers for, or to itself purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Managers; or (ii) if the number of Defaulted Shares exceeds 20 per cent. of the number of Shares to be purchased on such date, the Underwriting Agreement, shall terminate without liability on the part of any non-defaulting Manager.

The Selling Shareholders will grant the Joint Global Coordinators, on behalf of the Managers, an option, exercisable in whole or in part on one occasion only for 30 days as from the date of admission to trading of the Shares on the Spanish Stock Exchanges to purchase additional Shares up to a number of Shares equal to 10% of the Initial Offer Shares (up to 6,157,481 Shares) at the Offering Price to cover over-allotments, if any (see "*Over-allotment Option*" below).

In consideration of the agreement by the Managers to purchase the Initial Offer Shares, the Selling Shareholders will pay to the Managers commissions amounting to a total of 1.75% of the aggregate Offering Price of the Offer Shares (excluding Shares to be acquired by the Company in relation to the Management Incentive Plan and the delivery of Shares to employees) sold in the Offering (including Over-allotment Shares, if and to the extent the Over-allotment Option is exercised). In addition, the Selling Shareholders may, at their sole discretion, pay the Managers discretionary commission of up to 1.25% of the aggregate Offering Price of the Offer Shares sold in the Offering (excluding Shares to be acquired by the Company in relation to the Management Incentive Plan and the delivery of Shares to employees), as the case may be, to be distributed among the Managers as determined by the Selling Shareholders, in a proportion that may differ from their respective underwriting obligations.

The closing date of the Offering or the "**Closing Date**" ("*fecha de operación bursátil*") is expected to be on or about May 6, 2015. The Company will make public the result of the Offering through a relevant fact disclosure ("*hecho relevante*") reported to the CNMV on the Closing Date or the following business day. Under Spanish law, on the Closing Date, investors become unconditionally bound to pay for, and entitled to receive, the relevant Initial Offer Shares purchased in the Offering.

Payment by the final investors for the Initial Offer Shares will be made no later than the third business day after the Closing Date against delivery through the facilities of Iberclear of the Initial Offer Shares (other than the Over-Allotment Shares) to final investors, which is expected to take place on or about May 11, 2015 (the "**Settlement Date**"). The Shares are expected to be listed on the Spanish Stock Exchanges and quoted on the AQS on or about May 7, 2015, under the symbol "TLGO".

The Company and the Selling Shareholders will give the Managers customary representations and warranties under the Underwriting Agreement.

The Underwriting Agreement will also provide that the Company and the Selling Shareholders will, subject to certain exceptions, indemnify the Managers against certain liabilities, including liabilities under applicable securities laws that may arise in connection with the Offering.

The Managers propose to resell the Offer Shares at the Offering Price within the United States to QIBs (as defined in and in reliance upon Rule 144A) and outside the United States in "offshore transactions" as defined in, and in reliance upon, Regulations S. The Offering Price Range is indicative only and the Offering Price may be higher or lower than the Offering Price Range.

The Offer Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Any offer or sale of Shares in reliance on Rule 144A under the Securities Act will be made by brokers or dealers that are registered as such under the Exchange Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Shares within the United States by a dealer that is not participating in the Offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Other than the Initial Offer Shares and the Over-allotment Shares (if any) that will be sold by the Selling Shareholders, no other Shares or classes of Shares of the Company will be simultaneously created for admission to trading or offered for purchase or subscription by investors.

Pricing of the Offering

Prior to the Offering, there has been no public market for the Shares.

Offering Price Range

The indicative Offering Price Range is €9.00 to €11.50 per Offer Share. The Offering Price Range has been determined by negotiations among the Company, Selling Shareholders and the Managers, and no independent experts were consulted in determining the Offering Price Range. The Offering Price Range implies a market capitalization of the Company totalling between €1,231.5 and €1,573.6 million approximately and the Price Earning Ratio as at December 31, 2014 is 32.0x and 40.9x.

Among the factors considered in determining the Offering Price Range were the Group's future prospects and the prospects of its industry in general, the Group's net turnover, adjusted EBITDA and net income and certain other financial and operating information in recent periods, and the financial ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to the Group's activities. The Offering Price Range is indicative only and the Offering Price may be higher or lower than the Offering Price Range. There can be no assurance that the prices at which the Offer Shares will sell in the public market after the Offering will not be lower than the Offering Price Range or that an active trading market in the Shares will develop and continue after the Offering.

Offering Price

The Offering Price will be determined by negotiations among the Company, the Selling Shareholders and the Managers upon the finalization of the book-building period (expected to be on or about May 5, 2015) and it will be announced through a relevant fact disclosure ("*hecho relevante*") reported to the CNMV no later than 11.59 p.m. Madrid time on the date the Underwriting Agreement is executed (or any prior date or subsequent date if it is previously reported to the CNMV).

Expenses and taxes charged to the investor

Purchasers of Shares may be required to pay stamp taxes and other charges in compliance with the laws and practices of their country of purchase in addition to the Offering Price to be fixed.

In addition, purchasers will have to bear the commissions payable to the financial intermediaries through which they will hold the Shares.

As commented in section "*Spanish Tax Consideration. Spanish Transfer Tax*" the acquisition or subscription of the Shares and any subsequent transfer thereof will be exempt from Transfer Tax, Stamp Duty and Value Added Tax.

Withdrawal and revocation of the Offering

Withdrawal of the Offering

The Selling Shareholders expressly reserve the right to withdraw the Offering, postpone it, defer it or suspend it temporarily or indefinitely for any reason at any time before the setting of the Offering Price.

The Selling Shareholders will notify the CNMV, the Agent Bank and the Joint Global Coordinators, on behalf of the Managers, of the withdrawal of the Offering on the date that the withdrawal takes place or as soon as practicable.

Revocation of the Offering

The Offering will be revoked (i) if the Underwriting Agreement is not executed on or before 11.59 p.m. Madrid time on the date the Offering Price is set (expected to be on May 5, 2015) or any postponement thereof duly notified to the CNMV; (ii) if the Underwriting Agreement is terminated before 7.30 p.m. on the Closing Date of the Offering at the discretion of the Joint Global Coordinators, acting in good faith and following consultation with the Company and the Selling Shareholders, upon the occurrence of any events set forth in the Underwriting Agreement, including among others a) if there has been any material adverse effect (as defined in the Underwriting Agreement, b) if there has occurred any material adverse change in the financial markets in Spain, the United States, the United Kingdom, or the international financial markets; or any outbreak of hostilities or escalation thereof or other calamity or crisis or c) if admission to listing of the Shares on the Spanish Stock Exchanges has been withdrawn, or if trading generally on the Spanish Stock Exchanges, the London Stock Exchange, the New York Stock Exchange or in the NASDAQ System has been suspended or materially limited or d) if a banking moratorium has been declared by the authorities of any of the United Kingdom, the United States, Spain or the State of New York or any other member state of the EEA; or e) if any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Spain, any other relevant member state of the EEA and/or the United States and which, in the judgement of the Joint Global Coordinators, acting in good faith and following consultation with the Company and the Selling Shareholders, (A) is materially adverse to, or is likely to materially and prejudicially affect, the business or financial or trading position or prospects of the Company or Talgo as a whole, or of financial or trading position or prospects of the Company or Talgo as a whole; or (B) makes, or is likely to make it, impracticable or inadvisable to proceed with the Offering or the delivery of Offer Shares at the Settlement Date; or (C) is likely to result in the successful completion of the Offering being prejudiced; (iii) in case the Offering is suspended or withdrawn by any judicial or administrative authority; (iv) if the Shares are not admitted to listing on the Spanish Stock Exchanges before 11.59 p.m. Madrid time of May 25, 2015.

In case of withdrawal or revocation of the Offering, all offers to purchase shall be cancelled and all purchase orders related to the Offering of the Offer Shares shall be terminated. Additionally, the Selling Shareholders shall have no obligation to deliver the Offer Shares and the investors (including for the purposes of this section, the Managers) shall have no obligation to purchase the Offer Shares.

In the event that the Offer Shares have already been delivered by the Selling Shareholders and the purchase price has been paid by the investors, the investors would be required to return title to the Offer Shares to the Selling Shareholders and the Selling Shareholders will repurchase the Offer Shares from the holders of the Shares for an amount equal to moneys paid by the investors in respect of the sale of the Offer Shares in the Offering, together with interest calculated at the statutory rate ("*interés legal*", currently set at 3.5 per cent) from the date on which the investors paid for the Offer Shares until the date on which they repay the purchase price.

Simultaneously to the issuance of purchase proposals, the investors purchasing Offer Shares shall be deemed to have consented to the aforementioned repurchase of Offer Shares. The Managers will expressly consent to such repurchase under the Underwriting Agreement.

Tentative calendar of the Offering

The Company expects that the Offering will take place according to the tentative calendar set out below:

Action	**Estimated Date**[(1)]
Registration of the prospectus with the CNMV	April 23, 2015
Commencement of the book-building period in which proposals are made by the Qualified Investors	April 24, 2015
Finalization of the book-building period	May 5, 2015
Setting of the Offering Price	May 5, 2015
Execution of the Underwriting Agreement	May 5, 2015
Allocation of the Initial Offer Shares	May 6, 2015
Closing Date of the Offering	May 6, 2015
Admission to trading on the Spanish Stock Exchanges and commencement of the stabilization period	May 7, 2015
Payment by final investors	No later than 9:30 a.m. on May 11, 2015
Settlement Date	May 11, 2015
Finalization of the stabilization period	June 5, 2015

(1) Each of the times and dates is subject to change without prior notice. Any change, including in particular any shortening of the book-building period, will be published through a relevant fact disclosure ("*hecho relevante*") in relation to the prospectus with the CNMV.

The purchase proposals of the Initial Offer Shares constitute only an indication of the interest of the investors interested in the Initial Offer Shares which shall not be binding either for the investors or the Selling Shareholders. However, the confirmation of the purchase proposals shall be irrevocable.

Banco Santander, S.A. acts as agent of the Offering (the "**Agent Bank**"). In such condition, the Agent Bank will be responsible for, among other things: maintaining the Initial Offer Shares deposited in the securities accounts held with it by the Selling Shareholders until settlement of the Offering; instructing the entities participating in the Offering on the procedures applicable to its execution; receiving and processing information on the selection and confirmation of purchase proposals and collaborating in the allocation of the Initial Offer Shares to the final investors, arranging the allocation of the corresponding registration references ("*referencias de registro*") by Iberclear, through the Spanish Stock Exchanges, and cooperating with the Company in the Admission process.

Authorizations of the Offering

On March 28, 2015, the general shareholders' meeting of the Company determined to apply for the Admission and the implementation by the Company of an offer for the sale of the Offer Shares, on behalf of the Selling Shareholders, as contemplated in the Offering. For the avoidance of doubt, no application has been made or is currently intended to be made for the Shares to be admitted to listing or trading on any exchange other than the Spanish Stock Exchanges and the AQS.

No pre-emptive subscription and/or acquisition rights are applicable in relation to the Offering, taking into account that no pre-emptive acquisition rights apply to the transfer of the Offer Shares and Over-allotment Shares.

The Offering shall not be subject to any administrative approval or authorization besides the regime applicable to the approval by the CNMV of this document as a "prospectus" for the purposes of the Offering and the subsequent Admission in accordance with the Spanish Securities Market Act and related regulation.

Agreements to Acquire Shares

Talgo estimates that the compensation to be paid to the beneficiaries of the Management Incentive Plan will represent between 4.41% and 4.73% of the share capital of the Company (after withholding taxes) and amount to between €97,944 thousand and €135,953 thousand. The Company will acquire up to a maximum of between €54,307 thousand and €74,452 thousand in treasury stock on the Offering to settle the Management Incentive Plan described in "*Management and Board of Directors-Incentive plans*".

In addition, Talgo has approved the granting of a package of Shares at no cost (for free) to the employees of Patentes Talgo, S.L.U. (excluding executive Directors and Senior Managers), equivalent to 10% of the annual fixed salary per employee, in the event the Company is listed on the Spanish Stock Exchanges; the amount of this remuneration is not significant. The Company will acquire up to a maximum of €4,200 thousand in Shares in treasury stock on the Offering to settle this package of Shares. The delivery of the package of Shares will be made after Admission.

The aggregate number of Shares that Talgo's employees will receive will represent between 0.34% and 0.27% of the share capital of the Company. For the purpose of settling this compensation, the Company will purchase the relevant Shares at the Offering.

Such Shares to be acquired by the Company will not be taken into consideration for the book-building process to set the Offering Price (see "*Plan of Distribution*").

Stabilization

In connection with the Offering, J.P. Morgan Securities plc, or any of its agents, as Stabilizing Manager, acting on behalf of the Managers, may (but will be under no obligation to), to the extent permitted by applicable law, engage in transactions that stabilize, support, maintain or otherwise affect the price, as well as over-allot Shares or effect other transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail in an open market. Any stabilization transaction shall be undertaken in accordance with applicable laws and regulations, in particular, Commission Regulation (EC) No 2273/2003 of 22 December 2003 as regards exemptions for buy-back programs and stabilization of financial instruments.

The stabilization transactions shall be carried out for a maximum period of 30 calendar days from the date of the commencement of trading of Shares on the Spanish Stock Exchanges, provided that such trading is carried out in compliance with the applicable rules, including any rules concerning public disclosure and trade reporting. The stabilization period is expected to commence on May 7, 2015 and end on June 5, 2015.

For this purpose, the Stabilizing Manager may carry out an over-allotment of Shares in the Offering, which may be covered by the Managers pursuant to one or several securities loans granted by the Selling Shareholders. The Stabilizing Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be taken at any time during the Stabilization Period. However, there is no obligation that the Stabilizing Manager or any of its agents effect stabilizing transactions and there is no assurance that the stabilizing transactions will be undertaken. Such stabilization, if commenced, may be discontinued at any time without prior notice, without prejudice of the duty to give notice to the CNMV of the details of the transactions carried out under Commission Regulation (EC) No 2273/2003 of 22 December 2013. In no event will measures be taken to stabilize the market price of the Shares above the Offering Price. In accordance with Article 9.2 of Commission Regulation (EC) No 2273/2003 of 22 December 2013, the details of all stabilization transactions will be notified by the Stabilizing Manager to the CNMV no later than closing of the seventh daily market session following the date of execution of such stabilization transactions.

Additionally, in accordance with Article 9.3 of Commission Regulation (EC) No 2273/2003 of 22 December 2013, the following information will be disclosed to the CNMV by the Stabilizing Manager within one week of the end of the Stabilization Period: (i) whether or not stabilization transactions were undertaken; (ii) the date at which stabilization transactions started; (iii) the date at which stabilization transactions last occurred; and (iv) the price range within which the stabilization transaction was carried out, for each of the dates during which stabilization transactions were carried out.

Liquidity providers

There are no entities which have a firm commitment to act as intermediaries in secondary trading providing liquidity through bid and offer rates.

Over-allotment Option

In connection with the Offering, the Selling Shareholders will grant to the Joint Global Coordinators, on behalf of the Managers, acting severally but not jointly, an option to purchase the Over-allotment Shares at the Offering Price. The Over-allotment Option is exercisable upon notice to the Selling Shareholders, on one occasion in whole or in part, only for the purpose of covering over-allotments (if any) and to cover any short positions resulting from stabilization transactions, at any time on or before the 30th calendar day after the commencement of trading of the Shares on the Spanish Stock Exchanges. This period is expected to commence on May 7, 2015 and end on June 5, 2015. Any Over-allotment Shares made available pursuant to the Over-allotment Option will rank pari passu in all respects with the Initial Offer Shares, including for all dividends and other distributions declared, made or paid on the Initial Offer Shares, will be purchased on the same terms and conditions as the Initial Offer Shares being sold in the Offering and will form a single class for all purposes with all other Shares.

The exercise of the Over-allotment Option is not subject to any conditions.

Lock-Up Agreements

The Company has agreed that, without the prior written consent of the Joint Global Coordinators, during the period commencing upon Admission and ending 180 days as from the listing of the Shares on the Spanish Stock Exchanges, neither the Company nor any of its subsidiaries nor any person acting on its or their behalf will directly or indirectly, issue, offer, pledge, sell, transfer, contract to sell, sell any option or contract to purchase, exercise any option to sell, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any Shares or other equity securities, or any securities convertible into or exercisable or exchangeable for Shares or other Company equity securities or file any prospectus under the Prospectus Directive and the prospectus rules thereunder (the **"Prospectus Rules**") or any similar document with any other securities regulator, stock exchange or listing authority with respect to any of the foregoing; or enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequences of ownership of Shares or other equity securities, whether any such transaction is to be settled by delivery of Shares or warrants of the Company or such other equity securities, in cash or otherwise; or publicly announce such an intention to effect any such transaction; provided however, that these restrictions shall not apply to Shares to be issued or options to purchase Shares granted pursuant to employee benefit plans of the Company as summarized and described in this document, or to transfer Shares among affiliated companies (within the meaning of article 4 of the Spanish Securities Markets Act), provided that the transferees of such Shares agree to be bound by restrictions substantially similar to those assumed by the Company for the remainder of the 180-day period; and provided further that any transfer of Shares pursuant to the last exception shall be performed under terms and conditions that do not conflict with the Offering.

The Selling Shareholders have each agreed to similar restrictions for a period of 180 days as from the listing of the Shares on the Spanish Stock Exchanges; provided however, that these restrictions shall not apply to the sale of Shares to be sold in the Offering, the transfer of Shares in connection with the Over-allotment Option (including the lending of Shares by the Selling Shareholders to the Stabilization Manager in connection therewith) and transactions of Shares to be entered into with affiliates of the Selling Shareholder, provided any such affiliate agrees to be bound by restrictions substantially similar to those assumed by the Selling Shareholder for the remainder of the 180-day period.

Directors and officers of the Company (including Senior Management) who are beneficieries of the existing Management Incentive Plan will each agreed to similar restrictions for a period of 360 days from listing of the Shares on the Spanish Stock Exchanges, subject to certain exceptions (e.g., transfers made to affiliates of the relevant Directors or officers of the Company, provided that such affiliates agree to be bound by restrictions that are substantially similar to those provided in this letter for the remainder of the 360 day period).

Other Relationships

The Managers and their respective affiliates may have engaged in transactions with and may have performed various investment banking, financial advisory and other services for the Company and the Selling Shareholders and their respective affiliates, for which they received customary fees, and they and their respective affiliates may provide such services for the Company and the Selling Shareholders and its respective affiliates in the future. Certain of the Managers are lenders (either directly or through their affiliates) under certain of the Group's debt facilities and or provide performance and other guarantees to the Group. Moreover, in the ordinary course of their business activities, the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments, including corporate debt facilities, of the Group and the Selling Shareholders.

As at the date of this document, Nomura International plc, through Nomura European Investment Limited holds a 25.5% stake in Pegaso Transportation Investments S.C.A., which in turn holds a 23.9% stake in Pegaso Transportation International, S.C.A., a Selling Shareholder (see "*Principal and Selling Shareholders*").

Banco Santander, S.A. is lender under a debt facility granted to the Company and Patentes Talgo, as joint and several borrowers, for a total amount of €100,000 thousand. For further information see "*Operating and Financial Review-Indebtedness and Contingent Liabilities-Borrowings"*.

Offering expenses

Due to the difficulty to determine the expenses incurred as of the date of this document, for purely informational purposes, the following table sets forth the estimated expenses payable by the Selling Shareholders (in the case of the Underwriting commissions) and the Company (other fees than the Underwriting commissions) related to the Offering (VAT excluded, which shall be added where applicable):

Expenses	**€ thousand**
Underwriting commissions[1]…………………………………………………...	18,770.1
Base commission……………………………………………………	10,949.2
Discretionary commission…………………………………………………..	7,820.9
Iberclear fee…………………………………………………………………	30.0
Spanish Stock Exchanges fee……………………………………………….	141.4
CNMV fee…………………………………………………………………..	70.0
Legal expenses (notary public, registration with the Commercial Registry) and others (publishing, legal and financial advice, audit, agent bank and others.)	3,258.6
TOTAL	**22,270**

1 Assuming that (i) the Offering Price is the mid-point price of the Offering Price Range, €10.25 per Offer Share; (ii) all the Offer Shares have been underwritten by each of the Underwriters and that the Over-allotment Option has been entirely exercised; and (iii) the discretionary commission is paid in full.

TRANSFER AND SELLING RESTRICTIONS

Transfer Restrictions

Because of the following restrictions, purchasers of Shares in the United States are advised to consult legal counsel prior to making any offer for, or resale, pledge or other transfer of, Shares.

The Offer Shares are being offered in accordance with Rule 144A and Regulation S under the Securities Act. Terms used in this section, which are defined in Rule 144A or in Regulation S under the Securities Act, are used herein as defined therein. The Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction within the United States and, accordingly, may not be offered, sold or delivered within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and outside the United States in accordance with Regulation S.

In addition, until 40 days after the closing of the Offering, any offer or sale of the Offer Shares originally distributed outside the United States in accordance with Regulation S that is made within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

Each purchaser of the Offer Shares hereby in reliance on Rule 144A will be deemed to have represented and agreed as follows:

(a) the purchaser is (i) a QIB, (ii) aware, and each beneficial owner of the Offer Shares has been advised, that the sale of Offer Shares to it is being made in reliance on Rule 144A and (iii) acquiring Offer Shares for its own account or for the account of a QIB; and

(b) the purchaser understands that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be reoffered, resold, pledged or otherwise transferred except (i) (A) to a person whom the purchaser and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and (ii) in accordance with all applicable securities laws of the states of the United States. Such purchaser acknowledges that the Offer Shares offered and sold in accordance with Rule 144A are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for re-sales of the Offer Shares.

Selling Restrictions

No action has been or will be taken in any jurisdiction that would permit a public offering of the Offer Shares, or possession or distribution of this document or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the Offering. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer of, or the solicitation of an offer to buy or subscribe for, any of the Offer Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction. There will be no public offering in the United States.

No Offer Shares have been marketed to, or are available for purchase in whole or in part by, the public in Spain or elsewhere in conjunction with the Offering. This document does not constitute a public offer or the solicitation of a public offer in Spain or elsewhere to subscribe for or to buy any securities in the Company or any other entity.

European Economic Area

In relation to each Relevant Member State, an offer to the public of any Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(A) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(B) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State; or

(C) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the Company, any Selling Shareholder or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplemental prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Offer Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with each of the Managers, each of the Selling Shareholders and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

United Kingdom

In the United Kingdom, this document is only addressed to and directed to Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”), and/or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, and other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “Relevant Persons”). The securities described herein are only available in the United Kingdom, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities in the United Kingdom will be engaged in only with Relevant Persons. Any person in the United Kingdom who is not a Relevant Person should not act or rely on this document or any of its contents.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) in connection with the issue or sale of any Offer Shares will be communicated or caused to be communicated and will only be communicated or caused to be communicated to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21(1) of the FSMA does not apply to the Selling Shareholders or the Company.

Australia

This document (a) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia ("**Corporations Act**"); (b) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act; (c) has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission ("ASIC"), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (d) may not be provided in Australia other than to select investors ("**Exempt Investors**") who are able to demonstrate that they (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act; and (ii) are "wholesale clients" for the purpose of section 761G of the Corporations Act.

The Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the Shares may be issued, and no draft or definitive prospectus, advertisement or other offering material relating to any Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Offer Shares, each purchaser or subscriber of Offer Shares represents and warrants to the Company, the Selling Shareholders, the Managers and their affiliates that such purchaser or subscriber is an Exempt Investor.

As any offer of Offer Shares under this document, any supplement or other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those Offer Shares for resale in Australia within twelve months may, under the Corporations Act, requires disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the Offer Shares each purchaser of Offer Shares undertakes to the Company, the Selling Shareholders and the Managers that such purchaser will not, for a period of twelve months from the date of purchase of the Offer Shares, offer, transfer, assign or otherwise alienate those Offer Shares to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

Japan

The Shares have not been, and will not be, registered under the Financial Instruments and Exchange Law of Japan (Act No. 25 of 1948, as amended, the "FIEL") and disclosure under the FIEL has not been, and will not be, made with respect to the Offer Shares. Neither the Shares nor any interest therein may be offered, sold, resold, or otherwise transferred, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and all other applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities. As used in this paragraph, a resident of Japan is any person that is resident in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares may not be circulated or distributed, nor may Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined under Section 275(2) and under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore ("**SFA**"); (ii) to a relevant person as defined under Section 275(2) and under Section 275(1), or any person under Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise under, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Offer Shares purchased under Section 275 of the SFA by a relevant person which is:

(A) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(B) a trust (where the trustee is not an accredited Investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares under an offer made under Section 275 of the SFA except:

(1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person under an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than US$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law.

Hong Kong

The Offer Shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and no advertisement, invitation or document relating to the Offer Shares, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong

Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offer Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance has been or will be issued, whether in Hong Kong or elsewhere.

Kuwait

The Shares have not been registered, authorized or approved for offering, marketing or sale in the State of Kuwait pursuant to Securities and Investment Funds Act of Kuwait No. 31/1990, as amended, and its executive bylaw, and as such the Offer Shares shall not be offered or sold in the State of Kuwait. Interested investors from the State of Kuwait who approach the Selling Shareholders, the Company, or any of the Managers acknowledge this restriction and that this Offering and any related materials shall be subject to all applicable foreign laws and rules; therefore, such investors must not disclose or distribute such materials to any other person.

Qatar

This document has not been filed with, reviewed or approved by the Qatar Central Bank, any other relevant Qatar governmental body or securities exchange. This document is being issued to a limited number of sophisticated investors and should not be provided to any person other than the original recipient. It is not for general circulation in the State of Qatar and should not be reproduced or used for any other purpose.

UAE (excluding the Dubai International Financial Centre)

The Offering has not been approved or licensed by the UAE Central Bank or any other relevant licensing authority in the United Arab Emirates, and does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Act, Federal Law No. 8 of 1984 (as amended) or otherwise. Accordingly, the Offer Shares may not be offered to the public in the United Arab Emirates.

The Offer Shares may be offered, and this document may be issued, only to a limited number of investors in the United Arab Emirates who qualify as sophisticated investors under the relevant laws of the United Arab Emirates. Each of the Company, the Selling Shareholders and the Managers represents and warrants that the Offer Shares will not be offered, sold, transferred or delivered to the public in the United Arab Emirates.

Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

Dubai International Financial Centre

This document relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This document is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it.

The Offer Shares to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares offered should conduct their own due diligence on the Offer Shares. If you do not understand the contents of this document you should consult an authorized financial adviser. The Offer Shares have not been and will not be offered, sold or publicly promoted or advertised in the Dubai International Financial Centre other than in compliance with laws applicable in the Dubai International Financial Centre, governing the issue, offering or the sale of securities.

Switzerland

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance of prospectuses under art. 652.a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Ordinary Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the Offering, the Company or the Offer Shares has been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of Offer Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Offer Shares.

Buyer's Representation

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Offer Shares pursuant to the Offering will be deemed to have represented, warranted and agreed to and with each Manager and the Company that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offer Shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this section, the expression "Prospectus Directive" means Directive EC/2003/71, as amended, and includes any relevant implementing measure in each Relevant Member State.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is a Spanish company, and a substantial majority of Talgo's assets are located within Spain. In addition, all of the Company's Directors, as well as its principal shareholders, reside or are located outside the United States, mainly in Spain and Luxembourg. As a result, investors may not be able to effect service of process upon the Company or these persons or to enforce judgments obtained against it or these persons in foreign courts predicated solely upon the civil liability provisions of U.S. securities laws.

The Company has been advised by J&A Garrigues S.L.P., the Company's Spanish counsel, that there is doubt that a lawsuit based upon U.S. federal or state securities laws could be brought in an original action in Spain and that a foreign judgment based upon U.S. securities laws would be enforced in Spain.

LEGAL MATTERS

Certain legal matters in connection with the Offering and governed by Spanish law will be passed on for the Company by J&A Garrigues S.L.P., Talgo's Spanish counsel, and for the Managers by Cuatrecasas, Gonçalves Pereira, S.L.P., Spanish counsel to the Managers.

Certain other matters governed by U.S. federal and New York state law will be passed on for the Company by Herbert Smith Freehills, LLP, Talgo's English and U.S. counsel, and for the Managers by Mayer Brown International LLP, English and U.S. counsel to the Managers.

AVAILABLE INFORMATION

The Company is currently neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. For as long as this remains the case, the Company will furnish, upon written request, to any shareholder, any owner of any beneficial interest in any of the Shares or any prospective purchaser designated by such a shareholder or such an owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act, if at the time of such request any of the Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Copies of the documents referred to below will be available for inspection in physical form at the Company's registered office: Paseo del Tren Talgo 2. 28290 Las Matas, Madrid. Spain.

(a) Talgo, S.A. public deed of incorporation

(b) Talgo, S.A. bylaws

(c) Board of Directors Regulations (upon Admission)

(d) General Shareholders Meeting Regulations (upon Admission)

(e) Internal Code of Conduct (upon Admission)

(f) Historic financial Information:

   (i) Audited Annual Consolidated Financial Statements for the years ended December 31, 2012, 2013 and 2014 (Spanish version)

   (ii) Audited Annual Stand Alone Financial Statements for the years ended December 31, 2012, 2013 and 2014 (Spanish version).

In addition to documents referred to in (a) to (f) above, the following documents will also be available for inspection in physical form at the CNMV's premises at: Edison 4, 28006 Madrid, Spain.

(g) Certificate of the resolutions approved by the General Shareholder Meeting and Board of Directors of Talgo, S.A. in connection with the Offering and Admission;

(h) Talgo, S.A. bylaws; and

(i) Shareholders Agreement (Talgo SHA).

This Prospectus and documents mentioned in (c); (d); (e); (f); and (i) and Audited Annual Consolidated Financial Statements for the years ended December 31, 2012, 2013 and 2014 (English version) will be available on the CNMV's website (www.cnmv.es) and documents (b); (c); (d); (e) and (f); will also be available on the Company's website (www.talgo.com) upon Admission.

INDEPENDENT AUDITORS

The Audited Annual Consolidated Financial Statements included elsewhere in this document have been audited by PricewaterhouseCoopers Auditores, S.L. for the financial year 2012 and by Deloitte, S.L. for the financial years 2013 and 2014, independent auditors as stated in their reports appearing herein.

In connection with the period covered by the Audited Annual Consolidated Financial Statements, PricewaterhouseCoopers Auditores, S.L. were not re-appointed as auditors of the Company for financial year 2013 as Deloitte, S.L. was appointed as auditor for financial years 2013, 2014 and 2015. Deloitte, S.L. has not resigned, been removed or not reappointed as auditors of the Company for financial years 2013 and 2014.

For a breakdown of fees paid to PricewaterhouseCoopers Auditores, S.L. and Deloitte and their affiliates for auditing services and other services provided to the Group during the years ended December 31, 2012, 2013 and 2014, see Notes 34, 34 and 33 to the Audited Annual Consolidated Financial Statements, respectively.

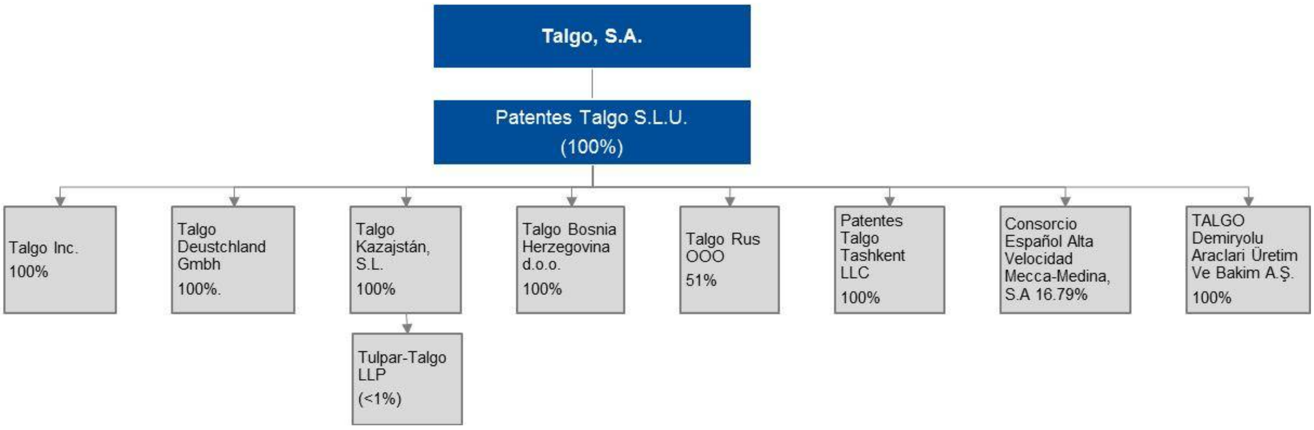
GENERAL INFORMATION

The following table sets out certain information required by the Prospectus Rules in respect of the Group's material subsidiaries as at December 31, 2014 according to the Audited Annual Consolidated Financial Statements and as at the date of this document:

Subsidiary	Country of incorporation	Ownership interest (%)
Patentes Talgo, S.L.U.	Spain	100
Talgo Deutschland GmbH	Germany	100
Talgo Kazakhstan, S.L.	Spain	100
Talgo Inc.	United States of America	100
Talgo Bosnia Herzegovina d.o.o.[1]	Bosnia and Herzegovina	100
Talgo Rus OOO[2]	Russia	51
Patentes Talgo Tashkent LLC	Uzbekistan	100
Consorcio Español Alta Velocidad Meca Medina, S.A.	Spain	16.79
Talgo Demiryolu AraçlarI Üretim Ve Bakim A.Ş[2]	Turkey	100

[1] Subject to a winding-up process.
[2] Without activity.

The following table shows the Company and its material subsidiaries:



EXCHANGE RATES

The Group reports its financial results in its functional currency, the euro. However, the Group operates in several countries worldwide and many of the Group's subsidiaries transact business in currencies other than the euro. The following table sets forth, for the periods indicated below, the high, low, average and period-end Bloomberg Composite Rate for the euro as expressed in US dollars (which, after the euro, is the principal currency referred to herein). The Bloomberg Composite Rate is a "best market" calculation in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this document. No representation is made that the euro could have been, or could be, converted into US dollars at that rate or any other rate.

The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for a month or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

Exchange rates	**Period End**	**Average**	**High**	**Low**
	(*US dollars per €1.00*)			
Year:				
2009	1.4321	1.3948	1.5134	1.2530
2010	1.3384	1.3266	1.4513	1.1923
2011	1.2961	1.3926	1.4830	1.2907
2012	1.3193	1.2860	1.3458	1.2061
2013	1.3743	1.3285	1.3802	1.2780
2014	1.2098	1.3285	1.3934	1.2098
2015 (through March 31)	1.0728	1.1264	1.2098	1.0491
Month:				
January 2015	1.1291	1.1630	1.2104	1.1204
February 2015	1.1193	1.1351	1.1474	1.1193
March 2015	1.0728	1.0817	1.1202	1.0491

FINANCIAL STATEMENTS

- Audited Annual Consolidated Financial Statements for the year ended December 31, 2014.
- Audited Annual Consolidated Financial Statements for the year ended December 31, 2013.
- Audited Annual Consolidated Financial Statements for the year ended December 31, 2012.

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 regulation in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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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.

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

Originally signed by

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.

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
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.

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:

Patentes Talgo, S.L.U.

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

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

On 30 May 2012, the Parent Company, 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.

Talgo Deutschland GmbH

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

Talgo Rus

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

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.

<u>Talgo Inc.</u>

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).

<u>Talgo Bosnia Herzegovina d.o.o.</u>

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.

<u>Talgo Kazajstán S.L.</u>

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

Its registered office is in Las Rozas, Madrid.

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.

<u>Patentes Talgo Tashkent LLC</u>

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

Talgo Demiryolu Aracli Üretim VE BA. A.S.

The Parent Company owns 100% of this company.

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

Its registered office is located in Istanbul, Turkey.

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

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

This consortium was constituted on 2 November 2011. Patentes Talgo, S.L.U. holds 10,074 shares in the consortium, which have a nominal value of €1 per share; 100% of their nominal value had been disbursed at the end of 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;
ii) The income and expenses recorded in each income statement are

(Expressed in thousands of euros)

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:

			€ in thousands
	Loans and accounts receivable	**Hedge Derivatives**	**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.

			€ in thousands
	Hedge Derivatives	**Financial liabilities at amortized cost**	**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:

			€ in thousands
	Cash flow hedge	**Other concepts**	**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.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Consolidated Directors' Report, together with Independent Auditor's Report

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

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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.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Pegaso Rail International, S.A.:

1. We have audited the consolidated financial statements of Pegaso Rail International, S.A. (''the Company'') and Subsidiaries (''the Group''), which comprise the consolidated balance sheet at 31 December 2013 and the related consolidated statement of 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. As indicated in Note 2.1 to the accompanying consolidated financial statements, the Company's directors are responsible for the preparation of the Group's consolidated financial statements 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. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying consolidated financial statements for 2013 present fairly, in all material respects, the consolidated equity and consolidated financial position of Pegaso Rail International, S.A. and Subsidiaries at 31 December 2013, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity 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.

3. On 30 April 2013, other auditors, PricewaterhouseCoopers Auditores, issued their auditors' report on the consolidated financial statements for the year ended 31 December 2012, in which they expressed an unqualified opinion.

4. The accompanying consolidated directors' report for 2013 contains the explanations which the directors of Pegaso Rail International, S.A. consider appropriate about the Group's situation, the evolution of its 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 2013. 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

Originally sigened by

Francisco Fern´andez
26 March 2014

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES
Consolidated annual accounts drawn up according to the International Financial Reporting Standards (IFRS) adopted by the European Union for the year ended at December 31, 2013 and consolidated director's report

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET OF THE FINANCIAL YEARS UP TO 2013 & 2012
(Shown in € thousands)

	Note	31.12.2013	31.12.2012
ASSETS			
Non-current assets			
Tangible assets	6	64 743	49 143
Intangible assets	7	71 314	33 099
Goodwill	8	112 439	112 439
Investment in associates	2.3 & 10	10	4
Deferred tax assets	19	14 892	13 368
Other financial assets	10	11 409	2 398
		274 807	**210 451**
Current assets			
Stock	12	49 428	36 195
Customers and other accounts receivable	11	113 644	169 708
Other financial assets	10	131	529
Asset accruals		2 508	1 000
Cash and cash equivalents	13	95 986	12 471
		261 697	**219 903**
TOTAL ASSETS		**536 504**	**430 354**

The notes 1 to 35 are an integral part of this consolidated balance sheet.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET OF THE FINANCIAL YEARS UP TO 2013 & 2012
(Shown in € thousands)

	Note	31.12.2013	31.12.2012
EQUITY			
Capital and reserves attributable to owners of the parent company			
Capital stock	14	41 187	41 187
Share premium	14	68 451	68 451
Other reserves	15	101	174
Retained earnings	15	68 405	36 992
Other equity instruments	14	12 152	2 516
		190 296	**149 320**
Non-controlling interests	16	**-**	**-**
Total equity		**190 296**	**149 320**
LIABILITIES			
Non-current liabilities			
Borrowings	18	72 767	63 807
Deferred income tax liabilities	19	6 108	6 663
Provisions for other liabilities and charges	20	12 278	7 710
Government grants		2 143	1 709
		93 296	**79 889**
Current liabilities			
Suppliers and other payables	17	235 829	166 511
Current tax liabilities	26	55	1 215
Borrowings	18	2 586	24 021
Provisions for other liabilities and charges	20	14 442	9 398
		252 912	**201 145**
Total liabilities		**346 208**	**281 034**
TOTAL EQUITY AND LIABILITIES		**536 504**	**430 354**

The notes 1 to 35 are an integral part of this consolidated balance sheet.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS 2013 & 2012

(Shown in € thousands)

	Note	31.12.2013	31.12.2012
Net Turnover	5	**326 719**	**329 918**
Other income		1 157	628
Product Stock Variation for processed and finished goods		(1 354)	583
Company works and capitalized		17 040	18 935
Procurements cost		(136 950)	(141 896)
Employee Welfare expenses	21	(92 770)	(90 037)
Other operating expenses	23	(66 127)	(52 794)
Amortization expenses	6 ,7	(7 210)	(5 872)
Disposals of fixed assets result		(82)	-
Other results	24	(233)	293
Impairment and P&L from loss of significant influence over holdings in equity or joint control over a multigroup company		**-**	**1 264**
Operating profit		**40 190**	**61 022**
Financial income	25	14 179	1 370
Financial expenses	25	(10 567)	(14 770)
Financial costs - net	**25**	**3 612**	**(13 400)**
Operating result		**43 802**	**47 622**
Income tax expense	26	(12 821)	(10 791)
Profit for the year from continuing operations		**30 981**	**36 831**
Profit for the year		**30 981**	**36 831**
Attributable to:			
Owners of the parent	27	30 981	35 380
Non-controlling interests		-	1 451
Basic Earnings per share attributable to the equity holders of the Company			
Continuing operations	27	22,64	28,14
Total		**22,64**	**28,14**
Diluted earnings per share attributable to the equity holders of the Company			
Continuing operations	27	22,64	25,30
Total		**22,64**	**25,30**

The notes 1 to 35 are an integral part of this statement of consolidated comprehensive income.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS 2013 & 2012
(Shown in € thousands)

	31.12.2013	31.12.2012
Profit for the year	30 981	36 831
Other comprehensive income:		
Cash flow hedges:		
Direct assignment to equity:		
Cash flow hedge	-	670
Tax effect of the equity assignment	-	(201)
Transfer to result:		
Cash flow hedge	-	(162)
Tax effect of the cash flow hedge	-	49
Transfer differences of foreign currency	(73)	153
Total Other comprehensive income	**(73)**	**509**
Total comprehensive income	**30 908**	**37 340**
Attributable to:		
-Owners of the parent	30 908	35 884
-Non-controlling interests	-	1 456
Total comprehensive income	**30 908**	**37 340**

The notes 1 to 35 are an integral part of this statement of consolidated comprehensive income.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEARS 2013 & 2012
(Shown in € thousands)

	Attributable to owners of the company							
	Capital Stock (note 14)	**Retained earnings**	**Share premium**	**Other equity instruments (Note 14)**	**Other Reserves (note 15)**	**Total**	**Non-controlling interests (Note 16)**	**Total equity**
Balance at December 31, 2011	**34 618**	**47 079**	**-**	**-**	**(335)**	**81 362**	**31 396**	**112 758**
Comprehensive income								
Profit or loss	-	35 380	-	-	-	35 380	1 451	36 831
Other Comprehensive Income	-	-	-	-	-	-	-	-
Currency exchange differences	-	-	-	-	242	242	-	242
Hedging derivatives	-	-	-	-	267	267	-	267
Total Comprehensive Income	**-**	**35 380**	**-**	**-**	**509**	**35 889**	**1 451**	**37 340**
Transactions with owners	-	**-**	**-**	-	-	**-**		
Capital increase (note 14)	10 296	(45 467)	68 451	-	-	33 280	(32 847)	433
Capital reduction (note 14)	(3 727)	-	-	-	-	(3 727)	-	(3 727)
Dividends	-	-	-	-	-	-	-	-
Other movements	-	-	-	2 516	-	2 516	-	2 516
Total transactions with owners	**6 569**	**(45 467)**	**68 451**	**2 516**	**-**	**32 069**	**(32 847)**	**(778)**
Balance at 31 December 2012	**41 187**	**36 992**	**68 451**	**2 516**	**174**	**149 320**	**-**	**149 320**
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 (note 14)	-	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**

The notes 1 to 35 are an integral part of this consolidated statement of changes in equity.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE FINANCIAL YEARS 2013 & 2012
(Shown in € thousands)

	2013	2012
Cash flows from operating activities (note 28)	**174 561**	**(30 402)**
Cash used in operations	**(19 735)**	**(17 451)**
Interest paid	(8 944)	(12 950)
Interest recovered	435	1 370
Income tax paid	(11 226)	(5 871)
Net cash generated from operating activities	**154 826**	**(47 853)**
Cash flows from investing activities		
Purchases of property, plant and equipment (note 6)	(20 539)	(4 016)
Purchases of intangible assets (note 7)	(15 407)	(15 939)
Other assets (note 10)	-	(1 452)
Acquisitions of Group Companies	(16 014)	-
Loans to third parties	(1 242)	(477)
Net cash used in investing activities	**(53 202)**	**(21 884)**
Cash flows from financing activities		
Disbursements for loans cancellations (note 18)	(23 275)	(74 579)
Proceeds from borrowings (note 18)	1 037	71 623
Dividends and loans to third parties	-	1 454
Net cash used / (generated) in financing activities	**(22 238)**	**(1 502)**
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	**79 386**	**(71 239)**
Cash, cash equivalents and bank overdrafts at the beginning of year (note 13)	12 471	83 710
Cash or equivalent incorporated by the merger	4 129	-
Cash, cash equivalents and bank overdrafts at the end of year (note 13)	95 986	12 471

The notes 1 to 35 are an integral part of this consolidated statement of cash flow.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2013
(Shown in € thousands)

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 and tax domicile is Las Rozas, Madrid (Spain) and it is duly registered in the Madrid Commercial Registry. On December, 22 of 2011 the social form was modified from Limited Liability Company to Public Limited Company. This transformation has been registered on January, 9 of 2012 in the Commercial Registry of Madrid; thereafter its name is Pegaso Rail International, S.A.

The corporate purpose of the Parent Company is as follows:

- Manufacture, repair, conservation, maintenance, purchase-sale, import, export, representation, distribution and marketing of material, systems and equipment for transport, especially in the railway sector.

- Manufacture, assembly, repair, conservation, maintenance, purchase-sale, import, export, representation, distribution and marketing of engines, machinery and pieces and components thereof, intended for the electromechanical, iron and steel and transport industries.

- Research and development of products and technologies related to the previous sections, along with the acquisition, operation, assignment and disposal of patents and trademarks related to the chartered activity.

- Subscription, acquisition, disposal, possession and administration of shares, holding or quotas, within the limits set forth in the stock market regulations, collective investment companies and other regulations in force that might apply.

- 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, either directly or in any of the ways permitted by law, including through equity interests in other companies with an identical or similar corporate purpose.

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

The Group develops its manufacturing activity in Spain in its facilities at Rivabellosa (Álava) and Las Matas II (Madrid) in addition to the facilities at las Matas I, Santa Catalina and Fuencarral in Madrid, San Andrés Condal and Can Tunis in Barcelona and Los Prados in Málaga, all the latter owned by RENFE.

As for the Group's international activity it is carried out in the facilities in Kazakhstan (Astana and Almaty), Uzbekistan (Tashkent), Berlin (Germany), Seattle (Washington) and

Milwaukee (Wisconsin).

The parent company of the Group is Pegaso Transportation International, S.C.A. This company holds 54,5% of the shares of Pegaso Rail International, S.A., and is domiciled in Luxembourg.

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

Patentes Talgo, S.L.U.

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

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

On May, 30 2012 the parent Company proceeded to notarize an increase in the share capital agreed on the Extraordinary and Universal General Meeting on April 26, 2012. The payment of the new shares has been performed by the non-cash contribution of shareholdings of the company Patentes Talgo, S.L.U.

From this capital injection, Pegaso International, S.A. becomes the holder of 100% of the interest of the company Patentes Talgo S.L.U.

Talgo Deutschland GmbH

The 100% of Talgo Deutschland, GmbH belongs to Patentes Talgo, S.L.U. (100% directly owned by the parent Company). The company was established on June 1, 1993. Its corporate purpose is the sale, maintenance and repair of trains and train parts. Its registered office is in Berlin, Germany.

Talgo Rus

The company Talgo Rus was established in the financial year 2001. Patentes Talgo S.L.U. owns 51% of this company hence the Group Parent’s indirect equity interest is 51%. The other shareholder (the remaining 49%) is RZD (Russian Railways).
Its corporate purpose is the sale, maintenance and repair of trains and train parts.

Its registered office is in Saint-Petersburg, Russia.

This Company has no activity at the year end of 2013 and 2012.

Talgo Inc.

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

It was established at the beginning of 2000 in the USA as a construction and maintenance company of Talgo trains operated in the American territory.

Its registered office is in Seattle, in the state of Washington (United States). In addition, it undertakes the manufacturing of trains in Milwaukee (Wisconsin).

Talgo Bosnia Herzegovina d.o.o.

Patentes Talgo, S.L.U. owns 100% of this company, so that the Parent's indirect equity interest is 100%. Talgo Bosnia Herzegovina d.o.o. was incorporated in October 2009 and its corporate purpose is the development and execution of integral maintenance railway equipment and all the required tasks to this end. Its registered office is located in Sarajevo (Bosnia-Herzegovina).

Talgo Kazakhstan S.L.

Patentes Talgo, S.L.U. owns 100% of this company, so that the Parent's indirect equity interest is 100%.

Its registered office is in Las Rozas, Madrid.

On August 6, 2012 the company Talgo Kazakhstan, S.L. signed an addendum to the foundation contract of Tulpar-Talgo LLP. According to this additional agreement, the share of this company in the previous one is reduced to 0,00074%.

Given that Talgo Kazajstan, S.L. has neither control, nor decision or voting rights, from the date of validity of the addenda, this company is not considered within the perimeter of the Group consolidation. Therefore, during the financial year 2012 the earnings generated were consolidated during the period when the participation of this company was 50%. From the above mentioned date it has been considered as excluded from the consolidation perimeter.

Patentes Talgo Tashkent LLC

Patentes Talgo, S.L.U. established this company on December 24, 2011 and owns 100% of the same, so that the Parent's indirect equity interest is 100%.

Its registered office is located in Tashkent, Uzbekistan.

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

Such consortium was established on November 2, 2011. Patentes Talgo, S.L. holds a total of shares of 10.074 nominal value of €1 per share, having disbursed 100% of their nominal value at the end of the financial year 2013. These shares represent a percentage stake of 16.79% of that company. Therefore, the Parent company indirectly shares 16.79%.

The corporate purpose of this company is the self-realization of the design, manufacturing, operation, maintenance and outsourcing activities in the field of passenger transport double line high-speed train between the cities of Mecca, Jeddah Medina and any other cities in the Kingdom of Saudi Arabia as well as to perform any other activity related to the project, signed in 2012; the members of the said consortium are jointly liable for liabilities of the consortium.

Such investment is considered as an investment in Associates.

2. Summary of significant accounting policies

The main accounting policies applied in the preparation of these consolidated annual accounts of 2013 are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation

The consolidated annual accounts of the Group in the financial year 2013, obtained on the basis of the accounting records maintained by the parent Company and by the rest of the entities integrated in it, have been formulated by the Board of Directors of the Parent Company in the Board of Director's Meeting held on March, 21 of 2014.

These consolidated annual accounts have been prepared according to the International Financial Reporting Standards (IFRS) adopted by the European Union, considering the total amount of accounting principles and norms and the compulsory applicable valuation criteria of IFRS-EU, in order to show the accurate image of the equity and the consolidated financial position of Pegaso Group as at December, 31 2013, its operations' global results, the changes in equity and of the consolidated cash flow generated in the Group in the financial year ended in that date.

Nevertheless, given that the accounting principles and the valuation criteria applied for the preparation of the consolidated annual accounts of the Group in the financial year 2013 may be different from those used by some of the entities which are part of the Group, some necessary adjustments and reclassifications were introduced in the consolidation process in order to homogenize the principles and the criteria and to adapt them to the International Financial Reporting Standards.

In order to present the different items of the consolidated annual accounts homogeneously, the principles and the valuation norms of the parent Company have been applied to each and every company within the Group.

The consolidated annual accounts of the Group corresponding to 2012 were approved by the General Shareholders Meeting of the Parent Company on June 27, 2013. The consolidated annual accounts of the Group and the annual accounts of the entities within the Group, corresponding to the financial year 2013 are still pending to be approved by the corresponding General Shareholders Meeting. Nevertheless, the Board of Directors of the parent Company assumes that these accounts will be approved without any modification.

2.1.1 Accounting criteria changes

During 2013, no changes in the accounting criteria were made regarding the applicable criteria in 2012.

2.1.2. Functional currency

These consolidated annual accounts are presented in Euro thousands, as euro is the main currency in the economic environment where the Group operates. The operations abroad are registered according to the policy described in the Note 2.5.

2.2. Adoption of the International Financial Reporting Standards

The consolidated annual accounts of the Group, corresponding to the financial year ended on December 31, 2013 have been prepared according to the International Financial Reporting Standards (IFRS) and to the Regulation (EC) nº 1606/2002 of the European Parliament and by the Board on July 19, 2002. In Spain, the obligation to present the consolidated annual accounts according to IFRS approved in Europe is regulated by the final provision eleven of the Law 62/2003 dated December 30, 2003 on administrative, tax and social measures.

The shares of the parent Company are not listed in any Stock Exchange, however, the Pegaso Group willingly decided to apply the above mentioned criteria according to IFRS.

During 2013 the following compulsory norms and interpretations, adapted by the European Union, became operational. The Group used these norms in order to prepare these Consolidated Annual accounts at the date December 31, 2013;

2.2.1. New standards, amendments and interpretations for the financial years beginning on January 1, 2013;

New standards, modifications and interpretations:		**Obligatory for all the financial years starting from:**
Approved to be used in the European Union		
Modification of IAS 12 – Income tax - deferred taxes related to the real estate (published in December 2010)	The calculation of the deferred taxes related to real estate according to the model of Fair value of IAS40.	Annual periods starting from January 1, 2013.

(Shown in € thousands)

New standards, modifications and interpretations:		Obligatory for all the financial years starting from:
IFRS 13 Fair value measurement (published in May 2011)	Establishes the scope to estimate the Fair Value.	Annual periods starting from January 1, 2013.
IAS 1 modification – Other Comprehensive Income presentation (published in June 2011)	Minor modifications related to the presentation of Other Comprehensive Income	Annual periods starting from, July 1, 2012.
IAS 19 modification – Retributions to the employees (published in June 2011)	The modifications mainly affect the benefits plans, because one of the main changes is the elimination of the "fluctuation range".	Annual periods starting from January 1, 2013.
IFRS 7 modification. Financial instruments; Information to disclose – Financial assets and liabilities compensation (published in December 2011)	Introductions of new breakdowns related to the financial assets and liabilities compensation IAS 32	Annual periods starting from January 1, 2013.
Improvements of IFRS Cycle 2009-2011 (published in May 2012)	Minor modifications of several standards.	Annual periods starting from January 1, 2013.
Interpretation IFRIC 20: Extraction costs on production phase in open air mines (published in October 2011)	The Interpretations Commission IFRS approaches the accounting treatment of the waste materials recycling costs in the open air mines.	Annual periods starting from January 1, 2013.

The previous standards have had no significant impact on the consolidated accounts of the Group.

(Shown in € thousands)

2.2.2. New mandatory standards, modifications and interpretations for the periods after the natural beginning of the year on January 1, 2013 (applicable from 2014 on):

At the date of these consolidated annual accounts approval, the following standards and interpretations have been published by IASB, but not yet in force, because its effective date is subsequent to the consolidated annual accounts date or because they have not been adopted by the European Union:

New standards, modifications and interpretations:		**Compulsory for all the financial years starting from:**
Approved to be used in the European Union		
IFRS 10 Consolidated financial statements (published in May 2011)	Substitutes the current consolidation requirements IAS 27	Annual periods starting from January 1, 2014 (1)
IFRS 11 Joint agreements (published in May 2011)	Substitutes current IAS 31 about joint business.	Annual periods starting from January 1, 2014 (1)
IFRS 12 Breakdowns of participations in other entities (published in May 2011)	Single standard which establishes the breakdowns related to the participations in associates, joint businesses and non-consolidated entities.	Annual periods starting from January 1, 2014 (1)
IAS 27 (Revised) Individual financial statements (published in May 2011)	The standard is revised, as after the IFRS 10 publishing, only separate financial statements of an entity are considered.	Annual periods starting from January 1, 2014 (1)
IAS 28 (Revised) Investments in associates and joint business (published in May 2011)	Revision in parallel with the emission of IFRS 11 Joint Agreements.	Annual periods starting from January 1, 2014 (1)
Transition rules: Modification IFRS 10, 11 and 12 (published in June 2012)	Transition rules of this standards clarification.	Annual periods starting from, January 1, 2014.
Modification of IAS 32 Financial assets and liabilities compensation (published in December 2011)	Additional clarifications to the financial assets and liabilities compensation rules IAS 32.	Annual periods starting from January 1, 2014.

(Shown in € thousands)

Not approved to be used in the European Union		
IFRS 9 Financial instruments: Classification and measurement (published in November 2009 and in October 2010) and modification IFRS 9 and IFRS 7 after the effective date and transition breakdowns (published in December 2011)	Substitutes the classification and the measurement requirements for financial assets and liabilities and cancellations in the accounts IAS 39.	Annual periods starting from January 1, 2015.
Investment entities: Modification IFRS 10, 12 and 27 (published in October 2012)	Exception in consolidation for the parent companies that meet the definition of the investment entities.	Annual periods starting from, January 1, 2014.
Modifications of IAS 36- Breakdowns of the recoverable amount of non-financial assets (published in May 2013)	Clarifies the breakdowns, when necessary, and amplifies the requirements when the recoverable amount is based on the fair value minus selling costs.	Annual periods starting from, January 1, 2014.
IFRIC 21 Levies (published in May 2013)	Interpretation on when to recognize a liability for levies that are conditional to the participation of the entity in an activity on a specified date.	Annual periods starting from January 1, 2014.
Modification IAS 19 – Employees´ contributions to defined benefit plans (published in November 2013)	The modification is issued in order to facilitate the possibility of deduction of these contributions of the service cost in the same period when they are paid if the requirements are met.	Annual periods starting from July 1, 2014.

(1) The European Union delayed the application date in one year. The original application date of IASB is January 1, 2013.

IFRS improvements

Compulsory changes in the periods starting from January 1, 2013:

Standard	Modification
IAS 1	Comparative information clarification requirements. When an entity changes its accounting policy or corrects any error or reclassification, the standard requires the third balance presentation at the beginning of the comparative period. The modification clarifies that the third balance sheet is required when this retrospective modification have a material in the figures of the opening balance sheet and the breakdowns related to this balance sheet are detailed, clarifying that no related notes are necessary. Also some clarifications are introduced in relation with the additional comparative information that can be included in an IFRS financial statements..
IAS 16	Auxiliary equipment classification This modification solves the inconsistency related to the auxiliary equipment classification that, so as the spare parts that meet the definition of fixed assets, have to be classified as properties, plant and equipment.
IAS 32	Tax effect of distributions to shareholders. Introduces clarifications in the standard in order to indicate that the tax effect of the distributions to shareholders or transaction costs related to the equity will be accounted according to IAS 12 Income tax.

Standard	Modification
IAS 34	Interim financial information and segments information The total amount of assets and liabilities of a reportable segment will be detailed in the interim financial statements only if this information is facilitated to the highest authority in decisions making and there was a material change since the reported figures for the segment in the last annual financial statements.

Currently the Group is evaluating the effects of this standard future application on the annual accounts, when it is valid. The preliminary evaluation of the Group shows that the application of these standards will not have significant effects.

2.3 Consolidation principles

a) Subsidiary companies

Subsidiaries are all companies (including special purpose companies) over which the Group has power to govern the financial and operating policies which generally comes with a stake of more than half of the voting rights. When it comes to evaluating whether the Group controls another firm, consideration is given to the existence and effect of potential voting rights that can currently be exercised or are convertible. Subsidiaries are consolidated as of the date on which control is transferred to the Group, and they are excluded from the consolidation on the date when this ceases.

To account for the acquisition of subsidiaries by the Group, the purchase method is used. The compensation transferred in the acquisition of a subsidiary corresponds to the fair value of the transferred assets, liabilities incurred and equity interests issued by the Group. The compensation transferred also includes the fair value of any asset or liability resulting from a contingent compensation arrangement. Acquisition expenses are recognized as expenses in the periods incurred therein. 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 the option of recognizing any non-controlling interest in the acquired at fair value or the proportionate share of the non-controlling of the identifiable net assets of the acquired.

Goodwill is measured as the excess of the amount of the compensation transferred, the amount of any non-controlling interest in the acquired and the fair value at the acquisition date of participation in the equity of the acquirer previously held by the acquirer on the net value at the date of acquisition of the identifiable assets acquired and liabilities assumed. If this amount is less than the fair value of equity of the acquired subsidiary, in case of a gain on a bargain purchase, the difference is recognized directly as income in the income statement.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. It also eliminates unrealized losses. The accounting policies of subsidiaries have been changed where it has been required to ensure consistency with the policies adopted by the Group. All Group subsidiaries have the accounting closing date on December, 31.

(Shown in € thousands)

b) Associates companies

Associates are all entities over which any of the companies included in the consolidation exercise provide significant influence. It is understood that significant influence exists when the Group has a stake in the company and it is able to intervene in decisions of financial and exploitation policy , but not having control.

Spanish High Speed Consortium Mecca-Medina, SA belongs to this group at December 31, 2012 and 2013. Members of the Management Board appointed by the Talgo Group are considered to have an existing influence in this consortium.

The most relevant financial information related to this associate company is indicated below:

	2013	2012
Current assets	112 466	19 163
Non-current assets	94	94
Total Assets	112 560	19 257
Current liabilities	112 499	19 242
Non-current liabilities	-	-
Total liabilities	112 499	19 242
Equity	61	15
Operating income	23 348	2 799
Operating expenses	(23 187)	(2 741)
Net result	1	-

The audit entity of this company is KPMG S.A.

Associates companies are incorporated in the consolidated annual accounts via the equity method.

When the equity method is applied for the first time, the company stake is valued for the amount that the percentage of investment in the Group companies over its equity, after adjusting its net assets at fair value at the date of acquisition of significant influence.

The difference between the net book value of holding in individual accounts and the amount which is indicated in the previous paragraph forms goodwill which is set out under the item "Investments in associates". In the rare case that the difference between the amount to which the investment is registered in the individual accounts and the share of the fair value of net assets of the company was negative, such difference will be recorded in the profit and loss account, after having reassessed the assignment of fair values to assets and liabilities of the associate company.

Generally, except in the event of a negative goodwill arising due to the acquisition of significant influence, the investment will be considered initially by its cost.

The profit generated by the company via the equity method of consolidation is recognized from the date that significant influence is acquired.

The book value of the participation is modified (increases or decreases) in proportion to the Group's company investment, by the variations in equity of the investee since the initial assessment, after the removal of the proportion of results unrealized generated in transactions among the company and Group companies.

Highest value assigned to the share as a consequence of the application of the acquisition method is reduced in subsequent years, charged to the consolidated results or to the equity item and as appropriate when they depreciate, causing giving up or disposed of to third parties the corresponding assets. Similarly, should the charge to consolidated income when losses due to impairment of assets of the investee company occur, with the limit of the goodwill allocated to them at the date of first equity method.

Changes in the value of sharing corresponding to income of the investee are part of the consolidated results, appearing under "Share in profit (loss) via equity method companies". However, if the associate company incurs in losses, the reduction of the investment account shall be limited to of the own book value share. If the share was reduced to zero, additional loss and the corresponding liability shall be identified to the extent it has been incurred in legal, contractual, implied or implicit obligations, or if the Group had made payments on behalf of the investee.

Those changes in the share value corresponding to other changes in equity are shown in the relevant sections of equity according to their nature.

The assessing and timing homogenization applies to investments in associates in the same way as for the dependent subsidiaries.

c) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognizes in its consolidated financial statements the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other ventures. The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. A loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(Shown in € thousands)

At the end of the financial year 2013 the Group has no joint ventures after the business combination with Tarvia Mantenimiento Ferroviario, S.A. in the year 2013 (note 32).

The comprehensive information on assets and liabilities at year-end 2012 was as follows:

	31.12.2012
Total long-term assets	202
Total short-term assets	14 888
Total assets	**15 090**
Total long-term liabilities	4 215
Total short-term liabilities	7 064
Total liabilities	**11 279**

The income from the joint ventures in the financial year 2012 amounted to €11.436 thousand. The expenses from the joint ventures in the financial year 2012 amounted to €11.568 thousand. Additionally, the net result in 2012 amounted to €25 thousand, and the generated net cash in this financial year was €2.921 thousand.

The average staff of the joint venture (corresponds to Tarvia Mantenimiento Ferroviario, S.A.) at the date December 31, 2012 is detailed below:

	Men	Women
Management	5	-
Middle management	17	2
Technical, administrative and others	54	6
	76	**8**

2.4 Variations in the consolidation perimeter

During the financial year 2013, the only change performed in the consolidation perimeter of the Pegaso Group is the one related to the business combination occurred in the financial year with the branch Tarvia Mantenimiento Ferroviario, S.A. (note 32).

On September 30 2013, the subsidiary company Patentes Talgo, S.L.U. proceeded to acquire the shares corresponding to 49% of the capital of the company Tarvia Mantenimiento Ferroviario, S.A., becoming from this moment the sole shareholder. On October 3, 2013 the merger by acquisition of Tarvia Mantenimiento Ferroviario, S.A. (acquired company) by Patentes Talgo, S.L.U. (acquirer company) is approved with the accounting effects since September 30, 2013 which coincides with the takeover date.

Following the above mentioned merger, the acquired company was dissolved without liquidation and the en bloc transmission of all its assets to the acquiring company, which through universal succession acquired all the rights and obligations of the acquired company.

The effects related to this business combination are indicated in the note 32 of these consolidated annual accounts.

2.5 Transactions in foreign currency

a) Functional and reporting currency

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

b) Transactions and balances

Transactions in foreign currency are converted into the functional currency using the exchange rates in force on the dates of the transactions. Profit and losses in foreign currency resulting from the settlement of these transactions and of the translation into the closing exchange rates of the monetary assets and liabilities denominated in foreign currency are recognized in the income statement, except if they are deferred in other comprehensive income as qualified cash flow hedges and qualified net investment hedges.
Exchange Profit and losses from external resources and cash and cash equivalents are presented in the income statement line "financial income" or "financial costs".

c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

i) Assets and liabilities for each balance sheet presented are translated at the closing rate on the date of that balance sheet and the equity at the historical exchange rate;

ii) Income and expenses for each income statement are translated 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 income and expenses are translated at the rate on the dates of the transactions); and

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

2.6 Tangible fixed assets

The tangible fixed assets elements are recognized for their acquisition price minus the accumulated amortization and the accumulated amount of recognized impairment losses. Cost includes expenditure directly attributable to purchases of property, plant and equipment.

Works performed for tangible fixed assets are reflected at the accumulated cost that results from adding the internal costs to the external costs, the former being set in line with own consumption of warehouse materials and the manufacturing costs, applied on the basis of the same hourly fee as those 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 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 the cost of the item can be measured reliably. The carrying amount of the replaced part is recognized. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated via the straight-line method to allocate their cost to their residual values over their estimated useful lives. Each part of an item of property, plant and equipment which has a significant cost in relation to the total cost of the item is depreciated separately. The estimated useful lives are:

	Years	**%**
Buildings	33	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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are established by comparing the proceeds with the carrying amount and are recognized in the income statement under the heading Result from disposals 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, minus accumulated amortization and any accumulated impairment losses.

a) Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software and are registered at acquisition cost. These costs are amortized over their estimated useful lives of four years.

b) Development expenses

Development costs that are directly attributable to the design and materialization of projects related 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 and use or sell it;

iii) There is an ability to use or sell the intangible asset;

iii) It can be proved how the intangible asset will generate probable future economic benefits;
iv) Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

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

Development costs capitalized as intangible assets show accumulated acquisition cost which are external costs plus in-house costs, established on the basis of own warehouse materials consumption and manufacturing costs allocated using hourly rates similar to those used to measure manufacturing projects.

Other development expenditures that do not meet these criteria are recognized as an expense when they are incurred. Development costs previously recognized as an expense are not recognized as an intangible asset in a subsequent period.

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

c) Industrial property

Industrial property is measured at cost minus accumulated amortization and any impairment losses recognized. These intangible assets are amortized via the straight-line method over their estimated useful lives.

d) Intangible assets acquired in business combination:

The intangible assets acquired in business combination and recognized separately from the goodwill are initially registered with the fair value at the acquisition date and are amortized on the basis of its lifetime.

Afterwards, the cost minus the accumulated amortization and recognized impairment corrections are valued in the same way as it is done for the remaining intangible assets.

2.8 Goodwill

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

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

Goodwill is allocated to cash generating units for the purpose of loss due to impairment testing. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combinations in which the goodwill arose, identified according to operating segments.

2.9 Borrowing costs

The Group capitalizes borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, when the same are relevant.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortization and are tested annually for impairment, and 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 refers to the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value minus the costs to sell or value in use, whichever is greater. For the sake of evaluating the losses of the value, the assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generator units). Non-financial assets, different from goodwill, which have suffered a loss due to impairment are subject to revisions on each balance sheet date in case any reversions of the loss have taken place.

2.11 Non-current assets held for sale and discontinued operations

The group classifies the non-current assets as assets held for sale when their carrying amount will be recovered especially through a sale transaction rather than through continued use. This condition is considered to be met only when the sale is highly likely, the asset is available for its immediate sale in its present condition and it will be foreseeable to be completed within a period of one year from the date of its classification, unless any delay occurs due to events or circumstances outside the control of the Group and the latter continues to be committed to its intention to sell the asset. Non-current assets held for sale are stated at the lower carrying amount and fair value minus the sale costs.

A discontinued operation is a component of the Group that has either been disposed of, or is classified as held for sale; and:

a) represents a line of business or geographical area is significant and can be considered separately from the rest;

b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

c) is a subsidiary acquired solely with a view to resale.

The results of discontinued operations are presented as a single amount in the income statement comprising the post-tax profit or loss of discontinued operations.

2.12 Financial assets: classification, recognition and measurement

The Group classifies its financial assets into the following categories: at fair value with results changes and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Loans and accounts receivable:

Loans and accounts are non-derivative financial assets with fixed or determinable instalments which are not quoted on an active market. They are included in current assets except those having maturity beyond 12 months as of the date of the balance sheet which 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. Interest accrued is recognized on the basis of the effective interest rate, which is understood to be the updated rate which equals the book value of the instrument with all its cash flows estimated up to its maturity. Notwithstanding this, receivables for trade operations with maturity no greater than one year are valued both at the time of the initial acknowledgment and later on for the par value whenever the effect of not updating the flows is not significant.

b) Financial assets at fair value with changes in results

Financial assets at fair value with changes in results are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Financial assets carried at fair value with changes in results are initially recognized at fair value, and transaction costs are expensed in the income statement; they are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets in this category are presented in the income statement within "Other expenses" in the period in which they arose.

Regular purchases and sales of the financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset.

c) Financial assets available for sale

The financial assets available for sale are non-derivative that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless they expire within 12 months after the balance sheet date or when the management intends to dispose the investment in that period.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.14 Loss due to devaluation of non-derivative financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a «event that causes loss ») and that loss event or events has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria used by the Group to identify objective evidence of an impairment loss include:

- Significant financial difficulty 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 difficulty, granting to the borrower a concession that it would not otherwise consider;
- Increasing probability that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the Group individual financial assets in the portfolio, including adverse changes in the payment status of the Group's borrowers; and national or local economic conditions that correlate with defaults on the Group's assets.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured 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 been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement in 'Other expenses'. If a loan has a variable interest rate, the discount rate for measuring any 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), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2.15 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into. They are subsequently re-measured at their fair value. The method of recognizing the resulting profit or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Movements on the hedging reserve in equity are shown in note 15. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognized in other comprehensive income in the Net financial costs heading. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within Finance Income Costs.

Amounts accumulated in equity are reclassified to the income statement in Finance Income or Finance Costs in the periods in which the hedged item affects results.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative benefit or loss that was reported in equity is immediately transferred to the income statement.

2.16 Stocks

Raw and auxiliary materials are stated 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 comprises materials, direct labor, other direct costs and indirect construction costs accumulated in project execution at the amounts effectively incurred. The net realizable value is the estimated selling price in the ordinary course of business, minus applicable sale variable estimated 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 its cost, the corresponding impairment provision is recognized in the income statement in the heading Procurement Cost.

If the circumstances causing the value correction cease to exist, the amount of the correction becomes the object of reversal and is recognized as income in the profit and loss account.

2.17 Cash and cash equivalents

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

2.18 Share capital

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

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

2.19 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 payment is due within one year or less. Otherwise they are presented as non-current liabilities.

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

2.20 Borrowings

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

External resources are classified as current liabilities unless the Group has an unconditional right to defer their liquidation during at least 12 months after the balance sheet date.

Borrowings are derecognized when they have expired or when the associated contractual liabilities have been settled or canceled.

2.21 Current and deferred taxes

The tax expense for the period comprises current and deferred taxes. Tax is recognized in the income statement unless the tax relates to items 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 balance sheet date in the countries where the Group taxable income is generated. Management periodically evaluates the positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, recognizing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, via the liability method, on 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 from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is set using tax rates that have been enacted or substantially enacted by the balance sheet date and 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 identified since they are likely to provide future taxable profits available against which temporary differences may be compensated.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except when the timing of the reversal of the temporary difference is 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 there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The parent Company has been granted from the tax authorities the consolidated taxation mode of the Corporate Tax, as the Group includes the subsidiaries Patentes Talgo, S.L.U. and Talgo Kazakhstan, S.L.

2.22 Employees benefits

a) Defined contribution pension plan

Patentes Talgo, S.L.U. maintains an agreement with its workers for a contributed pension plan by which the subsidiary Company makes a monthly contribution of 4% of the gross salary plus the length of service of each employee yearly, the fund being specially assigned to each worker. Once the contributions have been paid, the company is under no obligation to make additional payments.

The agreement signed with the workers regarding all rights accrued established a sole contribution to a financial body which manages the pension fund plus the future contributions which the company has been making. The company has been outsourcing the pension plan since March 2000.

b) Compensation for layoffs

Compensation for layoffs is paid to employees as a result of the Company's decision to terminate the contract of employment. The Group recognizes these benefits when it undertakes to produce the proven reduction of the staff. Benefits payable more than twelve months after the balance sheet date are deducted to their current value.

c) Profit participation plans and bonus

The Group, when the conditions are met, recognizes a liability and an expense for payment of objectives on the basis of individual agreements with each of the workers.

From the financial year 2006 the Group has had a number of obligations with the management team from a long-term share compensation plan. This compensation plan is linked, on one hand, to the fulfillment of certain management objectives and on the other hand, to stay in the Group in the subsequent years. It was determined as a percentage related to the estimated value increase of the Talgo Group pursuant to the formula specified in the contract signed to that effect, in accordance to the fulfillment of the compensation plan underlying assumptions, the main ones being the plan payment estimated date and the degree of compliance with the above mentioned management objectives.

The estimated value of the Talgo Group has been set according to the contract signed for this purpose, based on valuation techniques primarily cash flow projections. The main assumptions used for such assessments comply with those indicated in note 8 for the goodwill impairment tests according to the criteria established in the long-term remuneration plans. The fair value of services received by the worker was considered as personnel expense in the income statement registering the relevant "long-term provision for other liabilities and charges". In 2012 the obligations under this plan since 2006 and mentioned in the previous paragraphs, have been settled by agreement of the fulfillment of the conditions set therein.

Since the last quarter of 2012, under new contracts signed between the parties, the Group has a number of obligations with the management team derived from a long-term stock compensation plan. This compensation plan is linked, on the one hand, to the fulfillment of certain management objectives and on the other hand, to stay in the Company in the subsequent years. It is set as a percentage related to the estimated value increase of Talgo Group pursuant to the formula specified in the contract signed to that effect, in accordance to the fulfillment of the shares compensation plan underlying assumptions, the main ones being the plan payment estimated date and the degree of compliance with the above mentioned management objectives. This plan can be settled in cash or shares, on the Group´s discretion. Nevertheless, according to the Group most accurate estimates, it will be paid in Patentes Talgo, S.L.U. shares on the date that the acceptance to trading on a regulated market or Group takeover by a third party occurs, to be accrued in any case within a maximum period of 4 years.

The estimated value of the Talgo Group at the estimated accrual date has been determined according to the contract for this purpose, according to valuation techniques mostly based on cash flow projections. The main assumptions used for such assessments comply with those indicated in the note 8 for the goodwill impairment tests according to the criteria established in the long-term remuneration plans. The fair value of services received by the worker is considered as personnel expense in the income statement registering the reserve in the Company's equity (note 14 d).

2.23 Provisions

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

The provisions are valued at the present value of the disbursements that are expected to be necessary for settling the obligation using a pre-tax rate that reflects the evaluations of the current market of the temporary value of money and the specific risks of the obligation. The adjustments in the provision due to its updating are recognized as financial expenses as these are accrued.

The contingent liabilities are not recognized in the consolidated annual accounts, but the information about them is indicated according to the requirements of IAS 37.

2.24 Revenue recognition

Revenue is recorded at the fair value of the compensation to receive and represents the amounts receivable for goods delivered and services provided during the ordinary course of the Group's activities, minus returns, reductions, deductions and value-added tax.

The Group recognizes the revenue when the amount thereof can be valued reliably, when it is likely that the future economic profits are going to flow to the Group and when the specific conditions for each of the activities are met.

Revenues from rolling stock and auxiliary machines manufacturing contracts specifically negotiated on technical characteristics defined by the client, which involve the manufacturing of an asset or group of assets very close related among them in terms of design, technology and function, or related to its final allocation or use and with structural and technical characteristics different from other assets, are recognized during the contractual period if the result of the contract can be reliably predicted and it is likely that is going to be profitable. The criteria for recognizing revenue in train and auxiliary equipment construction contracts varies based on the estimated outcome. When the contractual costs are likely to exceed the total income from it, the expected loss is immediately recognized as an expense.

The Group uses the percentage of completion method to calculate the amount to be recognized in a given accounting period. The degree of realization is determined by reference to the costs of the contract incurred on the date of the balance sheet as a percentage of the total estimated costs for each contract.

The Group presents as an account receivable ("manufacturing executed pending to be invoiced") included in the heading Customers and other accounts receivable, the amount of the executed contracts, for which the costs incurred plus the profits recognized (minus the losses recognized) exceed the partial invoicing.

The Group recognizes as liability ('Advances on orders"), included in the heading Trade and other payables, the amount of all the contracts for which the partial invoicing / advances received are higher than the incurred costs plus the recognized benefits (minus the recognized losses).

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

Revenue from contracts in place to cover manufacturing of standard products to which small modifications are made for each class of customer so-requiring and 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 spare parts sales is recognized when the goods are delivered and the significant risks and rewards of ownership have been transferred.

Revenues from maintenance services, established on the basis of fees negotiated annually, are recognized based on the annual maintenance programs agreed with the end customers, tied to the distance in kilometers traveled by the trains maintained or based on flat fees agreed with customers.

Interest income

Income from interests is recognized via the method of effective interest rate. When an account receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, classifying the discount as lower interest income.

2.25 Government grants

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

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

Government grants relating to property, plant and equipment or intangible are included in non-current liabilities as deferred government grants and released to the income statement 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 work, is recognized within liabilities at fair value. In the case of grants awarded to fund capitalized development costs, the difference between the fair value and redemption value of the amount received is recognized as a grant under the heading Government grants and is taken to the income statement as the associated assets are amortized. If a grant is applicable to research expenses, the difference between the grant's fair value and the redemption value will be recognized in the income statement when the related expenses are incurred.

Under this heading are basically included the refundable advances at zero rate that have been considered as capital grants conceded inside the Competitiveness Plan promoted by the Ministry of Industry, as well as other granted by the Center of Industrial Technological Development (CDTI).

2.26 Operating leasing

Leases where 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 period of the lease.

2.27 Financial leasing

The Group leases certain tangible assets. Fixed assets leasing where the Group has all risks and rewards deriving from the ownership of the lease are classified as operating leasing. Financial leases are capitalized at the inception of the lease at the fair value of the leased property or the present value of minimum lease payments agreed by the lease, the lesser of the two. The present value is calculated using the interest rate implicit 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 charge is distributed over the lease term and recognized in the profit and loss account for the year in which they accrue via the effective interest rate method. Contingent rents are recognized as expenses in the the financial year in which they are incurred. The related lease obligations, net of finance charges are included in "Financial lease liabilities". Fix assets acquired under financial leases are depreciated over their useful lives or the contract term, the lesser of the two.

2.28 Dividend distribution

Dividend distributions to the Parent's shareholders are recognized as a liability in the Group's consolidated annual accounts in the period in which the dividends are approved.

2.29 Environment

The costs of actions undertaken by the Group having an impact on the environment, which are detailed in note 33, are recorded as an expense of the financial year or as a greater value of the corresponding asset, always provided the conditions detailed in note 2.6 on the valuation of tangible fixed assets are complied with.

2.30 Segment reporting

a) Segmentation Criteria

Operating segments are consistent with internal reporting that is presented to the highest authority body for decision making. The highest decision making body is responsible for allocating resources to operating segments and evaluation of the performance of these segments. The Board of Directors of Pegaso Rail International, S.A is the highest authority for strategic decision making.

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

- Segmentation is done according to business units, splitting the operating activities "Rolling Stock" and "Auxiliary Machines and others".

- The corporate general services segment has been classified as "General".

b) Basis and methodology for the segment reporting

Income and expenses assigned to each segment are those attributable to the segment. Although the measure of performance used by the highest decision-making body to evaluate segment performance is the operating Profit, the Group reports along with the latter, magnitudes of results by segment up to the Profit before tax. Assets and liabilities of the segments are those directly related to the operations thereof or the shareholding in companies dedicated to that activitiy.

It is identified by means of segmentation those identifiable components of the Pegaso Rail International Group subject to risks and returns that are different from those other operating components with activities in different environments.

In this way and in accordance with the past experience and future evolution of the Group, the following segments have been considered, complying with the requirements of internal homogeneity, and other segment differentiation.

Within the "rolling stock" segment both activities manufacturing and maintenance of trains built with Talgo technology are included, these being activities that are closely related to each other are included. Likewise, the activity "Auxiliary Machines and others", fundamentally includes the activities of construction of Pits Lathes and other equipment, reparation, modification and spare part sales.

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

2.31 Business combinations

Acquisition by the parent company of a subsidiary control makes up a business combination which the purchasing method will be applied. The business combinations are accounted according to the acquisition method; the acquisition date is established and the combination cost is calculated, registering the acquired identifiable assets and liabilities assumed at its fair value on the date mentioned, except when:

- assets and liabilities from deferred tax or assets and liabilities related to the staff benefits agreements are valued through IAS 12 and IAS 19 respectively.

- liabilities or equity instruments related to a retribution plan in shares to the employees are valued according to IFRS 2 at the acquisition date.

- Assets that are classified as held for sale are valued according to IFRS 5

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

The combination cost is determined aggregating the following:

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

– The fair value of any contingent compensation that depends on future events or on the observance of the predetermined conditions.

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

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

If the business combination is performed in phases, in the way that if before the acquisition date (takeover date) any previous investment existed, the goodwill or the negative difference is obtained on the basis of the difference between:

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

- The value of the acquired identifiable assets minus the value of the assumed liabilities, determined according to the above indicated.

Any profit or loss arisen as a consequence of the valuation at fair value on the date when the control of the acquired previous equity is taken over, is recognized in the profit and loss account. If, previously, the investment in this subsidiary was valued to fair value, the valuation adjustments pending to be transferred to the result of the year will be transferred to the profit and loss account. On the other hand, it is presumed that the business combination cost is the most accurate reference for the fair value estimation on the acquisition date of any previous participation.

The goodwill is not amortized and is valued afterwards by its cost minus the impairment value loss. The valuation corrections due to impairment recognized in the Goodwill are not subject to reversal in subsequent financial years.

If at the end of the year when the combination was produced, the necessary valuation processes for the implementation of the acquisition method mentioned above cannot be concluded, this accounting is considered provisional, and these provisional values can be adjusted in the necessary period for providing the necessary information. This period cannot be longer than one year. The effects of the adjustments performed in this period are accounted retroactively, modifying the comparative information if necessary.

The following changes of the fair contingent compensation value are adjusted according to the results, except when this compensation was classified as equity. In such case all changes of its fair value henceforth are not recognized.

3. Financial risk management

3.1 Financial risk factors

The Group's activities are exposed to various financial risks: market risk (exchange rates, interest rates and prices), credit risk and liquidity risk. The Group's global risk management programme is focused on the uncertainties in the financial markets and seeks to minimize the potential adverse effects on its financial profitability. The Group has used derivative financial instruments to hedge certain risk exposures.

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

The Board of Directors, based on an operating risk assessment, performs the control and management thereof, approving when required the actions to improve existing procedures.

a) Market risk

(i) Foreign currency risk

The foreign currency risk is low, since most transactions are made in the functional currency. Additionally, sales to other countries outside the neighboring countries are made to the United States, although they do not pose a significant weight on the Group's total turnover.

(ii) Prices risk

The Group, in order to mitigate the sale price risks, maintains a very competitive cost structure, via the clauses established and agreed in the various contracts entered into with its customers and suppliers.

(iii) Cash flow interest rate risk.

The Group's interest rate risk arises from non-current borrowings. The external resources issued at variable rates expose the Group to cash flow interest rate risk, for this purpose the management puts in place a policy to manage the interest rate risk.

b) Credit risk

The Group's main financial assets are cash and cash equivalents, trade debtors and other receivables and other financial assets, which represent the Group's maximum exposure to credit risk in relation to the financial assets.

Group's credit risk is primarily attributable to its trade receivables. The amounts reflected in the balance sheet are net of provisions for bad debt, estimated by the Group's Management based on the policy described in notes 2.12 and 2.14 for financial Assets.

The Group has a portfolio of clients who mostly belong to the railway public sector; therefore no indication of credit risk has been revealed deriving from the solvency or late payments of these customers.

The Group only works with reputable prestige financial institutions and qualified with ratings that pose no risk of insolvency.

c) Liquidity risk

Prudent management of liquidity risk entails the maintenance of sufficient cash, availability of financing through a sufficient level of committed credit facilities and the

capacity to settle market positions. The Group regularly monitors liquidity projections on the basis of expected cash flows. The Group maintains enough cash to meet liquidity needs.
The table below presents an analysis of the Group's financial liabilities, grouped by remaining term to contractual maturity at the balance sheet date:

At December 31, 2013	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Debt with credit entities	1 758	1 502	24 576	16 384
Trade and other payables (note 17)*	121 509	-	-	-
Debts due to reimbursable advances (note 18 b)	184	1 416	5 692	18 758
Financial lease Creditors (note 18 c)	685	685	607	-
	124 136	**3 603**	**30 875**	**35 142**
At December 31, 2012				
Debt with credit entities	22 518	12 300	22 200	10 300
Trade and other account payables (note 17)*	119 376	-	-	-
Debts due to reimbursable advances (note 18 b)	1 153	274	3 490	11 929
Financial lease Creditors (note 18 c)	324	324	698	-
	143 371	**12 898**	**26 388**	**22 229**

(*) The figures in this chapter contain the balance by payable showed in the note 17 with the deduction of the advances received.

3.2 Capital risk management

To date the Group's objective on capital management is to ensure that the Group's ability to continue a going concern in order to maximize returns and achieve greater profitability and efficiency.

The Group regularly monitors Net Debt and its impact over the total capital calculated as the equity attributable to owners of the Parent, as shown in the consolidated balance sheet plus the net debt:

	€ Thousands	
	December 31, 2013	**December, 31 2012**
Non-current borrowings (note 18)(*)	68 683	59 616
Borrowings (current) (note 18)(*)	2 586	24 021
Cash and cash equivalents (note 13)	(95 986)	(12 471)
Total Net debt	**(24 717)**	**71 166**
Equity attributable to owners of the parent	190 296	149 320
Total capital	165 579	220 486
Indebtedness	**(15%)**	**32%**

(*) Debts convertible into grants that are described in the note 18 b.2. are excluded.

3.3 Fair value estimation

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

The valuations of the registered assets and liabilities at their fair value are indicated according to the following hierarchy determined by IAS 7:

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

During 2013 the Group had no assets or liabilities in this category.

4. Significant accounting estimates and judgments

Estimates and judgments are continually valued 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 hypothesis

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

a) Estimate losses due to goodwill impairment

The Groups checks annually if the goodwill has had any loss due to impairment, in accordance with the accounting policy in note 2.8. The recoverable amounts of cash generating units (CGU) have been determined based on the calculation of the value in use. These calculations require the use of estimations. Based on calculations of value in use, according to the hypothesis described in note 8 for the years 2012 and 2013, the recoverable amount of CGUs to which goodwill has been allocated has exceeded its book value even after certain sensitivity analysis on discount rates or growth rates. This sensitivity has been analyzed with variations of 100 basis points in discount rates and variation of 50 basis points in the growth rates used.

b) Income tax and assets of a fiscal nature

The Group is subject to income taxes in several jurisdictions. It requires a significant degree of judgment in determining the overall provision for income taxes. The Group recognizes liabilities for any tax claims based on estimates of whether additional taxes will be needed. 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 determination is made.

The Group assesses at each balance sheet date the recoverability of tax assets, deferred tax assets primarily and deductions, 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 serve the Management as a base for its estimates on the reliability and the amount of the deductions to activate. In the event that management did not have, to a certain date of the annual accounts all appropriate documentation by which, based on its own judgment, tax assets could not be reliably measured and therefore it may be unlikely its recovery, such tax assets may not be activated until the moment when the two aforementioned conditions are met, in accordance with all supporting documentation related to tax assets.

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

c) Revenue recognition

The Group uses the percentage of completion method, based on the percentage of completion, for accounting revenues from manufacturing contract of trains and auxiliary machinery. The percentage of completion is calculated as a percentage of contract costs incurred on the total estimated costs for completion of the contract. This revenue recognition method only applies when the income of the contract can be reliably estimated and is likely that the contract generates benefits. If the contract income cannot be estimated reliably, revenue is recognized to the extent of cost recovery. When it is probable that contract costs exceed 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 carrying out the contract. These estimates are reviewed periodically in order to verify whether it has generated a loss and if possible to continue applying the percentage of completion method or to re-estimate the expected margin of the contract. During the course of the contract, the Group also estimates probable contingencies related to the total estimated cost increase and vary the recognition of revenues consistently.

d) Useful lives of tangible and intangible fixed assets

Group management determines the estimated useful lives and related amortization charges for Tangible Fixed Assets and Intangible Fixed Assets. This estimate is based on the period in which the elements of Tangible Fixed Assets and Intangible Assets will generate economic benefits. The Group reviews at each year end the useful lives of Tangible and Intangible Assets and whether the estimates differ from those previously made; the effect of the change is accounted for prospectively in the income statement of the year from which the exchange is performed.

e) Guarantee provisions

The Group generally offers two or three-year guarantee for train's construction, auxiliary machinery and repair works performed. The management estimates the provision for future guarantee works on the basis of historical information about costs in the guarantee period, as well as recent trends that might suggest that past information may differ on the cost of future work. Estimates are made according to the best available information and circumstances at 31 December 2013 and 2012, not expecting significant changes in those estimations.

f) Provision for compensations

As indicated in Note 2.22 c) the Group has undertaken a number of obligations relating to a compensation plan, being required to calculate these obligations the realization of 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 that are used to make strategic decisions, to analyze segment performance and to allocate resources thereof.

The Board of Directors monitors the business from a business line perspective, analyzing the performance of the operating segments Rolling stock and Auxiliary machines and Others , matching the reportable segments. The Board of Directors uses Operating Profit to assess the operating segments' performance.

Within the segment of "Rolling stock" are included both manufacturing activity and the maintenance of trains manufactured with Talgo technology, activities that are closely related.

Likewise, the activity "Auxiliary machines and Others", fundamentally includes the activities of Pit Lathes and other equipment manufacturing, repairs, modifications and spare part sales.

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

The following segment information delivered to the Board of Directors of Pegaso Rail International, S.A. for the decision making related to the financial years ended 31 December 2012 and 2013 has been obtained from the Group's management reporting systems and does not differ significantly from the IFRS information:

	31.12.2012			
	€ Thousands			
	Rolling stock	Auxiliary machines and others	General	Total
Total segment revenues	310 918	19 000	-	329 918
Intersegment revenues	-	-	-	-
Revenues from external customers	**310 918**	**19 000**	**-**	**329 918**
Amortizations	4 634	38	1 200	**5 872**
Operating result	**84 012**	**3 804**	**(26 794)**	**61 022**
Financial Income	1 278	78	14	1 370
Financial Expenses	13 937	833		14 770
Pre-tax results	**71 353**	**3 049**	**(26 780)**	**47 622**
Total Assets	**279 818**	**20 823**	**129 713**	**430 354**
Total Liabilities	**165 115**	**16 784**	**99 135**	**281 034**
Fixed assets investments	**17 890**	**-**	**2 067**	**19 957**

	31.12.2013			
	€ Thousands			
	Rolling stock	Auxiliary machines and other	General	Total
Total segment revenues	306 370	20 349	-	326 719
Intersegment revenues	-	-	-	-
Revenues from external customers	**306 370**	**20 349**	**-**	**326 719**
Amortizations	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)
Pre-tax results	**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 assets investments	**31 892**	**483**	**3 571**	**35 946**

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

The total net Turnover from external customers in 2013 and 2012 is distributed geographically as it is shown below:

	€ Thousands	
	2013	**2012**
Spain	118 035	137 409
Abroad	208 684	192 509
	326 719	**329 918**

Total non-current assets other than financial instruments and deferred tax assets in 2013 and 2012 are distributed geographically as follows:

	€ Thousands	
	2013	**2012**
Spain	242 109	188 763
Abroad	6 387	5 918
	248 496	**194 681**

The sales figure of the Group directly related to the permanent establishment in Kazakhstan comes to €12.566 thousand in 2013 (2012: €5.563 thousand).

The sales figure of such subsidiary directly related to the permanent establishment in Uzbekistan comes to €1.810 thousand in 2013 (2012: €1.689 thousand).

During 2013 the Group registered its permanent establishment in Russia as a branch, whose main activity is the maintenance of Talgo trains. Its registered office is in Moscow, Russia. At December 31, 2013 it had not activity.

6. Tangible fixed assets

The movements in the accounts included in intangible fixed assets in 2012 and 2013 are as follows:

€ Thousands

	Balance at 31.12.11	Exchange differences	Additions	Disposals	Transfers	Changes in the consolidation perimeter	Balance at 31.12..12
Cost							
Lands	9 894	-	-	-	-	-	9 894
Buildings	40 852	(16)	64	-	-	-	40 900
Technical installations and machinery	17 339	(28)	298	(41)	756	(488)	17 836
Other installations, tools and furniture	39 554	(16)	173	(6)	239	(89)	39 855
Advances and Construction in progress	2 745	-	3 373	-	(995)	(1 345)	3 778
Other fixed asset	7 169	(1)	12	-	-	(177)	7 003
	117 553	(61)	3 920	(47)	-	(2 099)	119 266
Amortization							
Lands	-	-	-	-	-	-	-
Buildings	(17 274)	15	(1 260)	-	-	-	(18 519)
Technical installations and machinery	(13 532)	25	(841)	41	-	-	(14 307)
Other installations, tools and furniture	(29 626)	15	(2 287)	-	-	1	(31 897)
Other fixed asset	(5 194)	1	(210)	-	-	3	(5 400)
	(65 626)	56	(4 598)	41	-	4	(70 123)
Net book value	**51 927**	**(5)**	**(678)**	**(6)**	**-**	**(2 095)**	**49 143**

€ Thousands

	Balance at 31.12.12	Exchange differences	Additions	Disposals	Transfers	Business combination (*)	Balance at 31.12.13
Cost							
Lands	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 installations, tools and furniture	39 855	(39)	250	(1 529)	6 241	273	45 051
Advances and Construction in progress	3 778	-	20 120	-	(16 558)	-	7 340
Other fixed asset	7 003	(2)	-	(82)	64	2	6 985
	119 266	(143)	20 539	(2 313)	-	304	137 653
Amortization							
Lands	-						
Buildings	(18 519)	34	(1 494)	-	-	-	(19 979)
Technical installations and machinery	(14 307)	58	(943)	680	-	(19)	(14 531)
Other installations, tools and furniture	(31 897)	34	(2 337)	1 466	-	(168)	(32 902)
Other fixed asset	(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 49% acquired in 2013 of the outstanding balances proceeding from Tarvia Mantenimiento Ferroviario, S.A. (note 32).

The main additions in 2012 and 2013 refer to extension projects in the factories of Las

Matas II and Rivabellosa of the subsidiary company Patentes Talgo, S.L.U.

Disposals mostly correspond to elements that have been retired due to not being in operational conditions.

Land and buildings include three properties located in Rivabellosa and Las Rozas (Madrid).

a) Updates

The amount of net accumulated updates at December 31, 2013 made under RDA 7/1996 of June 7, comes to €271 thousand (2012: €284 thousand) being the amortization in the year 2013 corresponding to these updates of €13 thousand (2012: €13 thousand).

The forecasted effect on the amortization for the next financial year due to updating of balance sheets carried out by virtue of Royal Decree Act 7/1996 of 7 June is €13 thousand .The amount for the previous financial year was €13 thousand.

b) Fully depreciated tangible assets

At December 31, 2013 there are tangible fixed assets with an initial cost of €35.729 thousand which is fully depreciated and still operational (2012: €30.336 thousand).

c) Insurances

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

d) Impairment losses

During the 2013 and 2012 financial years no valuation corrections have been either recognized or reverted due to impairment for any individual tangible fixed asset.

e) Tangible fixed assets subject to guarantees

In 2013 and 2012 there are no tangible fixed assets subject to guarantees.

f) Goods under operating leasing

The profit and loss account for 2013 includes operating lease expenses for the rental of computer systems amounting to €880 thousand (2012: €829 thousand), transport vehicles for a sum of €286 thousand (2012: €236 thousand), buildings amounting to €772 thousand (2012: €779 thousand), and other leasing for a sum of €328 thousand (2012: €440 thousand). The volume of leases for the coming years will be aligned with the registered at the year-end 2013.

At the end of 2013 and 2012, the Group had committed the following leasing quotes according to the current existing contracts, without considering the influence of the common costs, the future increments of CPI and future updates of the rents according to the contracts (in € thousands):

Operating leasing Minimum quotes	Nominal Value in € Thousands	
	2013	2012
Under than 1 year	1 151	1 217
Between one and five years	2 938	3 207
Over five years	-	-
	4 089	**4 424**

g) Goods under financial leasing

At the end of the year 2013, the Group has contracted a financial leasing agreement for several spare parts (note 18.c).

h) Fixed assets not used directly in operations

At December 31, 2013, there are fixed assets with a total net book value of €6.3 million not directly assigned to operations, being the estimated fair value of the mentioned fixed assets, higher than its carrying amount.

i) Intangible assets located abroad

At 31 December 2013 and 2012, the consolidated Group has investments abroad in tangible fixed assets whose net book value are detailed below:

	€ Thousands	
Fixed assets	**2013**	**2012**
Lands and buildings	12 403	12 438
Technical installations and machinery	6 063	4 355
Other installations, tools and furniture	3 235	3 071
Advances and Construction in progress	1 427	691
Other tangible fixed assets	125	127
Accumulated amortization	(16 446)	(15 172)
Net book value	**6 807**	**5 510**

j) Purchase commitments

At December 31, 2013 purchase commitments for tangible fixed assets come to €4.589 thousand (€6.374 thousand in 2012).

7. Intangible fixed assets

The movements in the intangible fixed assets accounts in 2013 and 2012 are as follows:

	€ Thousands					
	Balance at 31.12.11	Exchange differences	Additions	Disposals	Transfers	Balance at 31.12.12
Cost						
Research and Development	48 781	-	-	-	-	48 781
Industrial property	1 749	-	-	-	-	1 749
Software	6 693	(113)	87	-	786	7 453
Advances and Construction in progress	15 981	-	15 950	-	(786)	31 145
	73 204	**(113)**	**16 037**	**-**	**-**	**89 128**
Amortization						
Research and Development	(47 513)	-	(417)	-	-	(47 930)
Industrial property	(19)	-	(1)	-	-	(20)
Software	(5 509)	15	(856)	-	-	(6 350)
Provisions	(1 729)	-	-	-	-	(1 729)
	(54 770)	**15**	**(1 274)**	**-**	**-**	**(56 029)**
Net book value	**18 434**	**(98)**	**14 763**	**-**	**-**	**33 099**

	€ 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 Construction 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**

Development expenses at December 31, 2013 and 2012 mainly include costs incurred by Patentes Talgo S.L.U. in the AVRIL project development, gauge change system, high speed and maintenance auxiliary equipment projects.

At December 31, 2013 and 2012, the main additions of fixed assets in progress concern the costs incurred in the AVRIL project development, Talgo very high speed train with integrated traction, very high capacity and continuous low floor.

The amount of provisions relates to a patent owned by the group that has been impaired at 100% prior to the date of transition to IFRS, as their income-generating capacity was not ensured.

The difference generated in the business combination performed by the subsidiary Patentes Talgo, S.L.U. and explained in the note 32 arises between the cost of the combination and the fair value of the acquired net assets of the acquired company, has completely been assigned to the contracts with the clients formalized by the acquired company Tarvia Mantenimiento Ferroviario, S.A. This asset, recorded under "Maintenance contracts", will be depreciated during the remaining period of validity of the associated contracts, which shall last 13 years.

a) Fully-depreciated intangible assets

At December 31, 2013 there exist intangible fixed assets with an initial cost of €53.073 thousand which is fully depreciated and still operational (2012: €51.920 thousand).

b) Insurance

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

c) Grants and subsidies

At December 31, 2013 within acquisitions of fixed assets, €13.580 thousand have been partially financed by grants or loans received from official entities. (2012: €14.659 thousand).

d) Impairment losses

During the 2013 and 2012 financial years no valuation corrections have been either recognized or reverted due to impairment for any individual intangible assets. The impairment tests performed on intangible assets that were not yet operational at 31 December, 2012 and 2011 have not shown any impairment thereof.

The following impairment test has been performed by a cash flow discount of the manufacturing projects, using a discount rate of 10, 9% and a growth rate of 0,5%.

e) Intangible fixed assets located abroad

At December 31, 2012, the Group had the following investments abroad in intangible fixed assets:

				€ Thousands
Intangible fixed assets	**Cost**	**Accumulated amortization**	**Impairment losses**	**Net book value**
Software	1 529	(1 121)	-	408
	1 529	**(1 121)**	**-**	**408**

At December 31, 2013 the Group has the following investments abroad in intangible fixed assets:

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

8. Goodwill

The movement of goodwill is as follows:

	€ Thousands
Balance at 31/12/2011	**112 439**
Additions	-
Disposals	-
Balance at 31/12/2012	**112 439**
Additions	-
Disposals	-
Balance at 31/12/2013	**112 439**

Goodwill impairment tests

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

The following is a summary at segments level of the allocation of goodwill.

	31.12.2013	31.12.2012
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 the management covering a period of five years. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the rate of long-term average growth for the sector which the Group operates in.

(Shown in € thousands)

The key assumptions used in measuring the fair value used in 2013 and 2012 are indicated below:

	2013		2012	
	Rolling stock	Auxiliary machines	Rolling stock	Auxiliary machines
Discount rate [(1)]	10.9%	10,9%	10.9%	10.9%
Economic growth rate [(2)]	0.5%	0.5%	0.5%	0.5%

[(1)] Pre-tax discount rate applied to cash flow projections.
[(2)] Weighted average growth rate used to extrapolate cash flow projection beyond the budget period.

These assumptions have been used in analyzing each CGU within the operating segment.

Management determined the budgeted gross margin based on past performance and expectations of market development, keeping them in line with the margins of previous years. The average weighted growth rates are coherent with the forecasts included in reports of this field. The discount rates used are pre-tax and reflect specific risks related to the relevant segments.

During the years 2013 and 2012 there has not been impairment in any of the assessed CGU.

9. Financial instruments by category

a) The breakdown of financial instruments by category is the following:

	Loans and accounts receivables	Hedge Derivatives	Total
December 31, 2012			
Assets in balance sheet			
Customers and other accounts receivable (note 11)*	165 744	-	165 744
Other financial assets (note 10)***	2 927	-	2 927
Cash and cash equivalents (note 13)	12 471	-	12 471
	181 142	**-**	**181 142**
December 31,2013			
Assets in balance sheet			
Customers and other accounts receivable (notes 10 and 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**

* The balances under public entities, with the exception of grants have been excluded from the balance of

'Customers and other accounts receivable' as they are not financial instruments

** The amount "customers and other accounts receivable" for the financial year 2013 includes the outstanding balance for receivables indicated in the notes 10 and 11, except the balances that figure in these notes under public entities.

*** In 2012 the amounts corresponding to upfront fees related to the syndicated loan included under "Other financial assets" (non-current) were not included in "Other financial assets" in the tables above as this analysis is required only for financial instruments.

			€ Thousands
	Hedge Derivatives	**Financial liabilities at amortized cost**	**Total**
December 31, 2012			
Liabilities in balance sheet			
Borrowings (note 18)	-	87 828	87 828
Trade and other payables (note 17)*	-	95 255	95 255
	-	**183 083**	**183 083**
December 31, 2013			
Liabilities in balance sheet			
Borrowings (note 18)	-	75 353	75 353
Trade and other payables (note 17)*	-	97 187	97 187
	-	**172 540**	**172 540**

* The balances corresponding to advances received and social security and other taxes have been excluded from the Trade and other payables balance 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 been impaired can be assessed according to credit ratings assigned by external entities.

As for the balances of the Customers and Other financial assets which do not maintain a specific credit rating, the Group considers that there is no significant impairment risk as they correspond to Public Entities or similar, that normally present less impairment risks. The financial assets with the specific rating, are the short-terms deposits in the credit entities with reputable prestige that do not present impairment risks with ranking A 0,27%, 12% in the year 2012, and with BB or higher 99,73% (88% in the year 2012).

The balance 32,75% of the Group customers in 2013 came from a single client, (2012: 40.02%) and mostly belong to the segment of Rolling Stock. Additionally, there are two clients in this segment, meaning 26% and 16% of the total customers' balance of the Group on December 31, 2013.

10. Other financial assets and investments in associates

The breakdown of this heading is as follows:

	€ Thousands	
	31.12.13	31.12.12
Other non-current financial assets and investments in associates		
Loans to third parties and other loans (note 10 a)	1 097	1 080
Loans to associates (note 10 c)	1 719	475
Deposits and guarantees (note 10 b)	800	843
Investment in associates	10	4
Customers and other receivables long term (note 10 d)	7 793	-
	11 419	**2 402**
Other current financial assets		
Loans to third parties (note 10 a)	51	367
Deposits and guarantees (note 10 b)	80	92
Other financial assets	-	70
	131	**529**
Other financial assets total	**11 550**	**2 931**

a) Loans to third parties and other loans

Under current and non-current Loans to third parties is primarily included at December 31, 2012 the amount of the debt, discounted at the market rate prevailing on the grant date, pending to collect –long term- from the Group technology partner against refundable advances granted by the Spanish Ministry of Science and Innovation to Patentes Talgo, S.L. U. The fair value of these loans at 31 December 2013 is zero (€2012: €367 thousand), additionally it includes the balance with the related parties with the amount of €637 thousand and a receivable balance with financial entities in relation to the monetization of the loans related to CDTI amounting to €460 thousand.

The breakdown of the loans for refundable advances by year of maturity is as follows:

December 31, 2012	**2012**	**2013**	**2014**	**2015**	**Subsequent years**	**Total**
Refundable advances	367	-	-	-	-	**367**

December 31, 2013	**2013**	**2014**	**2015**	**2016**	**Subsequent years**	**Total**
Refundable advances	-	-	-	-	-	-

b) Deposits and guarantees

Under ‘Deposits and guarantees’ in the non-current asset at 31 December 2013 and 2012 is mainly included a deposit made by the Group’s American subsidiary, Talgo Inc, for the maintenance contract held by this subsidiary, which has a maturing higher than five years at 31 December 2013.

c) Loans to associates

It contains a loan to Mecca Medina High-speed Consortium amounting to €1.719 thousand in 2013 (€475 thousand in 2012) bearing a market interest rate.

d) Customers and other long-term receivables

The heading "receivables long term" reflects the long-term balance to liquidate from the receivables account with the American subsidiary Talgo Inc, associated to a manufacturing contract.

11. Customers and other accounts receivable

The Group's main customers are the railway authorities of the countries where the Group operates and other related customers.

During 2013 the Group has continued performing construction contracts within its portfolio, among which 420 coaches for Kazakhstan Republic Railways and 7 trains for Russian Railways are the most remarkable ones. In the same way, the commissioning of the trains sold to Oregon State (USA) was performed, and the development works for the 36 high-speed trains for the Meca-Medina route for the Saudi Arabia state railway company SRO were continued.

In the financial year 2013 the Group continued its maintenance activity of the hauled coaches, Intercity trains and high-speed trains for RENFE Operadora. In September 2013 the company acquired from RENFE Operadora its 49% stake on the company Tarvia Mantenimiento Ferroviario, S.A. From that moment on the Group assumed 100% of the maintenance activity of the high-speed trains. Furthermore the trains’ maintenance in its permanent establishments in Kazakhstan and Uzbekistan for the national railways companies Temir Zholy and Temir Yullari respectively has been continued. Similarly, during the year 2013 the company signed the delivery contract for 603 new hauled type wide body coaches for the Kazakhstan Republic railways.

The balances included under this heading are related to trade operations and do not accrue any interest rate.

The carrying value of the Customers and Other accounts receivable balances approximates their fair value.

The composition of this heading is that shown below:

	€ Thousands	
	31.12.13	**31.12.12**
Customers	90 757	119 953
Construction executed pending to invoice	4 249	39 437
Multigroup Customers and associated companies	5 471	1 760
Provision for impairment losses	(11 308)	(1 018)
Customers - Net	**89 169**	**160 132**
Public entities	22 214	6 272
Sundry debtors	1 952	2 930
Personnel	309	374
Total	**113 644**	**169 708**

Construction contracts revenues recognized in 2013 amounted to €175.083 thousand (2012: €194.326 thousand).

At 31 December, 2012, the heading "Customers group companies and associates" corresponded to the balance maintained with the subsidiary Tarvia Mantenimiento, S.A. At 31 December 2013 this heading includes the balance maintained with Consorcio Español de Alta Velocidad Meca Medina S.A.

At 31 December 2013, the accounts receivable from customers not yet due amount to €55.597 thousand (2012: €76.925 thousand).
At December 31, 2013 the sale commitments of the Group come to €3.751 millon (2012: €3.329 million).

The overdue balances older than 6 months without any impairment registered are indicated below:

	€ Thousands	
	31.12.13	**31.12.12**
Between 6 and 12 months	6 779	9 275
More than 12 months	1 990	555
	8 769	**9 830**

At 31 December 2013, the amount of accounts receivable from clients impaired and provisioned amounts to €11.308 thousand (2012: €1.018 thousand). The aging analysis of these accounts is as follows:

	€ Thousands	
	31.12.13	**31.12.12**
Between 0 and 3 months	8 669	-
Between 3 and 6 months	-	-
More than 6 months	2 639	1 018

	11 308	**1 018**

The carrying amount of trade receivables of the Group and other receivables is denominated in the following currencies:

	€ Thousands	
	31.12.13	**31.12.12**
Euro	85 947	157 342
Swiss francs	38	673
US Dollar	2 936	2 117
Saudi Riyal	248	-
	89 169	**160 132**

Movements in the provision for impairment of customers' receivables and other receivables of the Group are as follows:

	€ Thousands	
	2013	**2012**
At January 1	**1 018**	**519**
Provision allowance	11 056	499
Disposals	(766)	-
At December 31	**11 308**	**1 018**

The allowance and application of the provision of impaired accounts receivable have been included in the item of Other operating expenses in the income statement (note 23).

Additionally, in 2013 it has been registered in the profit and loss account an amount of €287 thousand, corresponding to non-collectable receivables.

The amounts charged to the impairment provision account are written off when there is no expectation of finally recover the any cash.

The remaining accounts included in accounts receivable from customers and other receivables do not contain assets with impairment value.

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

The breakdown of the heading “Public Entities” is as follows:

	€ Thousands	
	31.12.13	**31.12.12**
Public administrations tax receivables for VAT	3 335	1 281
Public administrations debtors for grants	13 002	3 124
Public administrations debtors for other taxes	986	305
Public administrations tax withholding and prepayments	4 891	1 562
	22 214	**6 272**

The heading “Public administrations debtors for grants” primarily reflected at 2012 year-end the amount receivable from the Ministry of Science and Innovation related to the research and development AVRIL project. The liability part associated with this project is recorded in the long term under "Borrowings". In the year 2013 the same chapter additionally includes the receivables from the Center of Industrial Technological Development (CDTI) related to the research project Condextrain. The share of liability part associated with this project is recorded in the long term under " Borrowings".

12. Stock

The composition of this heading is that shown below:

	€ Thousands	
	31.12.13	**31.12.12**
Raw Materials	45 892	34 345
Work in progress	2 282	3 636
Advances	3 914	1 176
Provision for raw materials depreciation	(2 660)	(2 962)
	49 428	**36 195**

At 31 December 2013, commitments for the purchase of raw materials and other Group services amount to €88.038 thousand (2012: €36.014 thousand).

The variation of the heading “Provision for raw materials depreciation” is the following:

	Balance at 31.12.12	**Business combinations (Note 23)**	**Additions**	**Applications**	**Balance at 31.12.13**
Provision for Raw materials depreciation	(2 962)	(468)	(185)	955	(2 660)
	(2 962)	**(468)**	**(185)**	**955**	**(2 660)**

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

13. Cash and cash equivalents

The breakdown of this heading is as follows:

	€ Thousands	
	31.12.13	**31.12.12**
Cash	95 986	12 471
Cash equivalents	-	-
Total	**95 986**	**12 471**

The balance indicated in this balance sheet section is totally available.

14. Capital Stock and Share premium

The changes during 2012 and 2013 financial years in the number of shares and in the Share Capital accounts of the Parent company are the following:

		€ Thousands
	Number of shares	**Share Capital**
At December 31, 2011	**1 150 112**	**34 618**
Capital increase	342 065	10 296
Capital reductions	(123 848)	(3 727)
At December 31, 2012	**1 368 329**	**41 187**
Capital increase	-	-
Capital reductions	-	-
At December 31, 2013	**1 368 329**	**41 187**

On 28 March, 2012, the parent Company by public deed executed before Notary the reduction of the share capital agreed in the General Shareholders Meeting of the Company on February 23, 2012 amounting to €3.727.824, 80, through the refund of the invested capital to the shareholders partially compensating the loans previously granted. The payment of €30,10 was made by each holder of the shares class A and B. As a result, the capital share of the Company became of 1.026.264 shares with a nominal value of €30,10 each.

On May 30, 2012, the parent Company by public deed executed before Notary a capital increase agreed in the Extraordinary General Shareholders Meeting on April 26, 2012. This capital increase was carried out by issuing the class C shares with a nominal value of €30,10 each, with the global share premium of €68.450.627,15. The new shares payment was made through a non-monetary contribution, consisting of Class B shares of the company Patentes Talgo, S.L.U. The share premium of the Parent company is unrestricted.

(Shown in € thousands)

From this capital injection, Pegaso International, SA becomes the holder of 100% of the interest of the Company Patentes Talgo S.L.U.

The above shares are divided into €851.339 Class A shares that are freely transferable by holders, 174.925 Class B shares which are freely transferable in favor of the holders of Class A shares and in favor of companies that are part of the same Group of companies as the shares transferor, and subject to the right of first refusal by the other shareholders, in case of the selling to the parties different from the mentioned ones and 342.065 Class C shares which are freely transferable to the shareholders of Class A shares, to the relatives of the transferor shareholder, and to the companies within the same group of Companies of the transferor of the shares and subject to the right of first refusal by the rest of the shareholders, in case of the selling to parties different from the mentioned ones.

These new figures set the new share capital in €41.186.702,90 for 1.368.329 shares of nominal value 30,10, being the percentage of participation of each of the shareholders, after the operations, the following :

		31.12.12
	No. shares	**% of share**
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%**

		31.12.13
	No. shares	**% of share**
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%**

Other shareholders include members of the Group Directors.

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 for distribution set forth below:

- Dividends may not be distributed if they reduce the balance of reserves to an amount lower than the total sum of balances pending to amortize of the activated development costs.

- The companies domiciled in Spain are obliged to transfer 10% of profit of each financial year to a Legal Reserve until this reserve reaches an amount at least equal to 20% of the share capital. It cannot be distributed and if it is used to compensate for losses, in the event that there does not exist any other reserves available and sufficient for the purpose, then it must be refunded with future profits. The Legal Reserve of the parent Company at 31 December 2013 and 2012 amounts to €6.924 thousand.

- Patentes Talgo, S.L.U. must record an unavailable reserve equivalent to goodwill, included in the asset of the individual balance sheet, providing for this purpose profits that equal at least 5% of the goodwill. If there is no profit, or there is not enough, the freely disposable reserves will be used.

b) Financial year result

The distribution of profit of the parent Company, based on local accounting principles, for 2012, adopted by the General Meeting of Shareholders, and the proposed distribution of profit for 2013 is detailed below:

	€ Thousands	
	2013	**2012**
Basis for distribution		
P&L	(9 307)	(25)
Total	**(9 307)**	**(25)**
Application		
To Legal Reserve		-
To Interim dividend		-
To Previous years' losses	(9 307)	(25)
Total	**(9 307)**	**(25)**

c) Dividend per share

During the years 2012 and 2013, no dividends were distributed.

d) Other equity instruments

This heading includes the equity component mentioned in note 2.22., which amounts to €12.152 thousand.

15. Other reserves and accumulated gains

The changes in this heading were as follows:

	Exchange differences	Hedge reserve	Total
			€ Thousands
Balance at December 31, 2011	**(68)**	**(267)**	**(335)**
Exchange differences of foreign currency - Group	242	-	242
Cash flow hedges: profit in fair value	-	381	381
Profit taxes in fair value	-	(114)	(114)
Balance at December 31, 2012	**174**	**-**	**174**
Exchange differences of foreign currency - Group	(73)	-	(73)
Cash flow hedges: profit in fair value	-	-	-
Profit taxes in fair value	-	-	-
Balance at December 31, 2013	**101**	**-**	**101**

a) Currency exchange differences

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

b) Accumulated earnings

In the financial year 2013 an amount of €6.425 thousand of the reserves at consolidated companies is contributed by the subsidiary company Talgo Deutschland, GmbH, a negative amount of €3.302 thousand is contributed by the subsidiary company Talgo Inc., an amount of €40 thousand is contributed by the Subsidiary company Talgo Rus, an amount of €50 thousand by the subsidiary company Talgo Bosnia, d.o.o., and a negative amount of €6 thousand is contributed by the subsidiary Patentes Talgo Tashkent, LLC.

In the financial year 2012 an amount of €3.800 thousand of the reserves at consolidated companies was contributed by the subsidiary company Talgo Deutschland, GmbH, a negative amount of €132 thousand was contributed by the subsidiary company Talgo Inc., a negative amount of €1.677 thousand was contributed by Tarvia Mantenimiento Ferroviario, S.A., and an amount of €39 thousand was contributed by the Subsidiary company Talgo Rus.

16. Non-controlling interests

The breakdown of this heading is as follows:

	€ Thousands
Balance at December 31, 2011	**31 396**
Financial year 2012 result	1 451
Operations with minority shareholders	(32 847)
Balance at December 31, 2012	**-**
Financial year 2013 result	-
Operations with minority shareholders (note 15)	-
Balance at December 31, 2013	**-**

The result of the year 2012 includes the result attributable to minority shareholders until the non-monetary contribution mentioned in the note 14.

17. Trade and other payables

The breakdown of this heading is as follows:

	€ Thousands	
	31.12.13	**31.12.12**
Suppliers	81 323	83 770
Suppliers associate companies	3 970	-
Advances on orders	114 320	47 135
Social Security and other taxes	24 322	24 121
Personnel	11 894	11 485
Total	**235 829**	**166 511**

The heading Advances on orders includes advances received from Group's customers , in accordance with the accounting policy described in note 2.24.

The breakdown of trade payments made during the financial year by the Spanish branches (affected by this regulation) and the breakdown of outstanding at the closing in connection with the deadlines established by the Law 15/2010 is as follows:

	Made and outstanding payments at 31.12.13	
	2013	
	€ Thousands	**%**
Payments for the financial year within the legal deadline	30 881	15%
Other	179 748	85%
Financial year total payments	210 629	100%
Payment Term exceeded (Days)	36	
Outstanding balance at closing exceeding the maximum legal deadline	9 908	

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 liquidated.

The breakdown of the trade payments made during the financial year 2012 and outstanding at the closing of that year in connection with the deadlines established by the Law 15/2010 was as follows:

	Made and outstanding payments at 31.12.12	
	2012	
	€ Thousands	**%**
Payments for the financial year within the legal deadline	66 006	34%
Other	130 700	66%
Financial year total payments	196 706	100%
Payment Term exceeded (Days)	15	
Outstanding balance at closing exceeding the maximum legal deadline	18 474	

At the date of the preparation of the consolidated annual accounts, the outstanding balance at the end of the year that exceeded the maximum legal term was liquidated.

18. Borrowings

The breakdown of this heading is as follows:

	€ Thousands	
	31.12.13	**31.12.12**
Non-current		
Credit entities payable	41 467	42 900
Financial lease creditors	1 292	996
Other financial liabilities	30 008	19 911
	72 767	63 807
Current		
Credit entities payable	1 717	22 518
Financial lease creditors	685	350
Other financial liabilities	184	1 153
	2 586	24 021
Total Borrowings	**75 353**	**87 828**

a) Credit entities payable

On December 19, 2013 the branch Patentes Talgo S.L.U. signed a financing contract with the European Investment Bank consisting of a loan of €50.000 thousand, from which €40.000 thousand were used at the end of the years 2012 and 2013. This loan accrues a market interest rate.

The amount of interest and commissions accrued and unpaid at year end 2013 of the above contract amounted to €190 thousand (€581 thousand in 2012) and are listed in the balance sheet current liabilities.

As for the credit mentioned above, at the end of the year 2013 the amount of €40.000 thousand was classified as long term, as there was no sum registered on the short term.

That aforementioned contract contains a number of associated obligations and covenants named Guarantee Ratio, Commitment Ratio, Financial Expenses Ratio and Credit Ratio that the aforementioned subsidiary company has met since the beginning of the contract.

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

On December 18, 2012 Patentes Talgo S.L.U. signed several credit lines with different financial institutions with a total amount of €90.000 thousand. On December 31, 2013 the Group has different credit lines of €35.000 thousand; there is no balance available for these credit lines.

On the December 13, 2012 the subsidiary company Talgo Deutschland, GmbH signed a financing contract with HypoVereinsbank amounting to €4.400 thousand, classified in the short term €1.467 thousand. This loan accrues a market interest rate.

Likewise the branch Patentes Talgo, S.L.U. in 2013 signed bank guarantee lines and other guarantee instruments with various financial institutions amounting €25.000 thousand, €176.116 thousand in 2012.

The breakdown of debt to credit institutions by year of maturity is shown below:

	€ Thousands					
December 31, 2012	**2013**	**2014**	**2015**	**2016**	**Subsequent years**	**Total**
Credit entities payable	22 518	11 500	11 400	10 000	10 000	**65 418**
December 31, 2013	**2014**	**2015**	**2016**	**2017**	**Subsequent years**	**Total**
Credit entities payable	1 717	1 467	8 000	8 000	24 000	**43 184**

The fair value of debts to credit institutions is similar to its book value.

b) Other financial liabilities

The heading Other current financial liabilities and non-current is broken down as follows:

	€ Thousands	
	31.12.13	**31.12.12**
Non-current		
Debts due to reimbursable advances	25 866	15 693
Other debts	4 142	4 218
	30 008	**19 911**
Current:		
Debts due to reimbursable advances	184	1 153
Other debts	-	-
	184	**1 153**
Other financial liabilities total	**30 192**	**21 064**

b.1) Debts due to reimbursable advances

This heading includes the debts at zero-rate of Group subsidiary Patentes Talgo, S.L.U. maintains with the Center of Industrial Technological Development (CDTI)related to a series of technological development projects, as well as with the the Ministry of Education and Science. These credits are remunerated to an interest rate lower than the market,. Recording the Group the corresponding grant by the difference with the market interest rates. The refundable government advances have been granted to Patentes Talgo, S.L.U. and its technology party, mainly in connection with projects for the development of gauge-switching and high-speed systems. The branch act as coordinator and applicant for these advances as well as a participant, being the balance pending of collection from its technology partner is recognized within Other financial assets, as detailed in note 11.

The fair value of reimbursable advances at 31 December 2013 is €26.050 thousand (2012: €16.846 thousand).

The maturities of long term debts represented by reimbursable advances are as follows:

	€ Thousands					
December 31, 2012	**2013**	**2014**	**2015**	**2016**	**Subsequent years**	**Total**
Debt due to reimbursable advances	1 153	274	1 635	1 855	11 929	**16 846**
December 31, 2013	**2014**	**2015**	**2016**	**2017**	**Subsequent years**	**Total**
Debt due to reimbursable advances	184	1 416	2 256	3 436	18 758	**26 050**

b.2) Other debts

In this heading at 31 December, 2013 non-current convertible debts into grants are included in amounted to €4.084 thousand (2012: €4.189 thousand).

The fair value of other borrowings approximates their carrying amount.

c) Finance leasing creditors

In the financial year 2011 the Group signed a financial leasing contract with a financial entity being the maturity date of this contract is May 1, 2016. Such contract has a purchase option for an amount of €192 thousand.

The leased assets are spare parts valued at €3.427 thousand.

The movements in the year 2012 were as follows:

	31.12.2011	Additions	Disposals	Transfers	31.12.2012
Financial leasing creditors long term	**1 320**	-	-	(324)	**996**
Financial leasing creditors short term	**350**	-	(324)	324	**350**
	1 670	**-**	**(324)**	**-**	**1 346**

The movements during the financial year 2013 under this heading are:

	31.12.2012	Additions	Disposals	Transfers	Business combinations	31.12.2013
Financial leasing creditors long term	**996**	-		(168)	464	**1 292**
Financial leasing creditors short term	**350**	-	(168)	168	335	**685**
	1 346	**-**	**(168)**	**-**	**799**	**1 977**

The maturity of debts to credit institutions under finance leases at the year-end 2013 is as follows:

Future payments in 1 year	685
Future payments between 1 and 5 years	1 292
Future payments over 5 years	-
	1 977

19. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	€ Thousands	
	12.31.13	**12.31.12**
Deferred tax assets:		
- Deferred tax assets to be recovered in more than 12 months	14 892	13 368
	14 892	**13 368**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered in more than 12 months	6 108	6 663
	6 108	**6 663**
Deferred tax assets (net)	**8 784**	**6 705**

The movement of deferred tax assets during the financial years 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 charges	5 072	4 804	(261)	339	9 954
	13 368	**12 572**	**(11 274)**	**226**	**14 892**

The previously mentioned deferred tax assets were registered in the balance sheet since the parent Company Directors, according to the most accurate estimation of the future results of the Group, consider these assets as feasibly recoverable.

Also, the Group has not registered in the balance sheet the deferred tax assets associated to negative tax bases generated by the branch Talgo Inc. considering, based on the evaluation performed at the present time, it is not likely that in the future tax bases are generated that allow their recuperation.

At December 31, 2013 the negative bases pending to be offset in the USA corresponding to the branch Talgo Inc. are of €14.846 thousand.

	€ Thousands			
	Tax credits	Deductions	Other Concepts	Total
Balance at December 31, 2011	**-**	**2 232**	**14 202**	**16 434**
Credited/(Charged) to income statement		5 128	(8 194)	(3 066)
Other movements and transfers		-	-	-
Balance at 31 December, 2012	**-**	**7 360**	**6 008**	**13 368**
Credited/(Charged) to income statement		6 195	5 519	11 714
Other movements and transfers		(10 190)	-	(10 190)
Balance at 31 December 31, 2013	**-**	**3 365**	**11 527**	**14 892**

The amount of “Other movements and transfers” of deductions are mainly the deductions used in calculating the income Tax for the year 2013.

a) Deductions

At 31 December, 2012 there existed, yet to be offset, deductions for scientific research and technological innovation, exports and training whose amounts and terms are indicated below:

Year	€ Thousands
2010	1 276
2011	956
2012	5 128
	7 360

At December 31, 2013 there exist, yet to be offset, deductions for scientific research and technological innovation, etc. whose amounts and terms are as follows:

Year	€ Thousands	Last year
2013		
	3 365	2 031
	3 365	

b) Other Concepts

The heading of "Other assets" was mainly created due to timing differences arising from the allocations made during the financial year to provisions for bad debt, penalties and other similar concepts, for the tangible asset amortization and for maintained commitments to personnel.

Deferred tax liabilities

The movement of the deferred tax liabilities during the financial years has been as follows:

			€ Thousands
	Cash flow hedge	**Other concepts**	**Total**
Balance at 31 December, 2011	**150**	**5 328**	**5 478**
Credited/(Charged) to income statement	-	1 703	1 703
Tax (credited) / charged to equity	(150)	-	(150)
Other movements	-	(368)	(368)
Balance at 31 December, 2012	**-**	**6 663**	**6 663**

Credited/(Charged) to income statement	-	260	260
Tax (credited) / charged to equity	-		
Other movements	-	(815)	(815)
Balance at 31 December , 2013	**-**	**6 108**	**6 108**

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

20. Provisions for other liabilities and charges

						€ Thousands
	Non-current			Current		
	Other provisions	Guarantee provision	Subtotal	Other provisions	Guarantee provision	Subtotal
Balance at 31.12.2012	**977**	**6 733**	**7 710**	**5 938**	**3 460**	**9 398**
Endowments	248	-	**248**	4 257	3 506	7 763
Business combinations	4 320		**4 320**	-	-	-
Applications	-	-	**-**	-	(2 719)	(2 719)
Balance at 31.12.2013	**5 545**	**6 733**	**12 278**	**10 195**	**4 247**	**14 442**

At the 2013 year-end, the Group has endowed the necessary provisions to meet service guarantees, which covers a period between 2-3 years and other obligations included in the contracts signed.

21. Employee benefit expenses

a) The breakdown of this heading is as follows:

	€ Thousands	
	2013	**2012**
Salaries and Wages	72 129	70 664
Pension cost – provisions and contribution and other financial obligations	1 556	1 445
Other welfare charges	19 085	17 928
	92 770	**90 037**

The heading Wages and salaries includes compensation costs at 31 December, 2013 and amounts to €675 thousand (2012: €482 thousand) and the cost for the remuneration of Senior Management explained in note 21 b.

b) Compensation to the Group's senior management personnel and Directors:

The role of the Parent Company Director is not remunerated.

(Shown in € thousands)

The remuneration to the management team and the directors as members of the management team of the Group amounted to €15.024 thousand at 31 December 2013 (€17.999 thousand at 31 December 2012).

The Group has arranged for all employees, including the senior management, a life insurance, being the senior management cost during the year 2013 €77 thousand (€72 thousand at 31 December, 2012). The amount corresponding to the pension plan of this group is of €121 thousand for the financial years 2013 and €114 thousand for the year 2012. In addition, for some members of Senior Management liability insurance policies have been subscribed, which coverage is considered sufficient.

During 2012, the branch Patentes Talgo, S.L.U. has granted loans to board members for the purchase of shares of the ultimate parent company amounting to €637 thousand. The aforementioned loans are tied to Euribor plus a market spread (note 10).

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

During 2013 and 2012 no compensations have been paid to the members of the Board of Directors of Pegaso Rail International for the this role.

22. Average headcount

The distribution of the average headcount by job category and gender at the 2013 and 2012 year-end is as follows:

	2013		2012	
	Men	**Women**	**Men**	**Women**
Directors and Senior Management	36	4	40	4
Middle management	177	25	163	21
Technicians	1 125	200	1 125	199
	1 338	**229**	**1 328**	**224**

Similarly, the distribution by categories and gender in 2013 and 2012 is as follows:

	2013		2012	
	Men	**Women**	**Men**	**Women**
Directors and Senior Management	36	4	38	4
Middle management	175	24	177	24
Technicians	1 182	200	1 056	186
	1 393	**228**	**1 271**	**214**

The Group maintains at the closing of 2013 within the staff 18 people with disabilities (14 in 2012) of which 4 are women (3 in 2012) and 14 men (11 in 2012).

23. Other operating expenses

The breakdown of this heading is as follows:

	€ Thousands	
	2013	2012
External Services	48 595	52 141
Taxes	312	483
Losses, impairment and variation of provisions	17 038	(612)
Other current operating expenses	182	782
Other Operating expenses Total	**66 127**	**52 794**

24. Other results

The details of the amounts contained in the heading of Other results of the Group are as follows:

	€ Thousands	
	2013	2012
Other expenses	(1 236)	(343)
Other income	1 003	636
Total of Other Results	**(233)**	**293**

At 31 December, 2013 and 2012 the heading Other income mainly includes proceeds for compensations for claims, which related expenses have been recorded in previous years.

25. Financial income and costs

The breakdown of this heading is as follows:

	€ Thousands	
	2013	2012
Tax expense:		
- Bank borrowings and other charges	(10 061)	(13 666)
- Hedge derivatives	-	(978)
- Exchange differences	(506)	(126)
Financial costs	**(10 567)**	**(14 770)**
- Short-term interest income with banks on deposits	2 158	1 370
- Group and associate companies	10	-
- Variation of the fair value of the financial instruments - allocated to the business combination result (note 32) (*)	12 011	-
Financial income	**14 179**	**1 370**
Financial costs - net	**3 612**	**(13 400)**

(*) According to IFRS 3 Patentes Talgo, S.L.U. has registered the fair value of its previous participation of 51%

(Shown in € thousands)

of Tarvia Mantenimiento Ferroviario, S A., generating a capital gain of €12.063 thousand, previous to the merger accounting. The consolidated profit and loss account shows the amount of €12.011 thousand related to this operation and proceeding from the difference of the results obtained by Tarvia Mantenimiento Ferroviario, S.A. until the 30th of September 2013. These results were proportionally integrated in the corresponding chapters of the consolidated profit and loss account.

The impact of cash flow hedges on interest expenses on bank borrowings was €978 thousand in 2012. There is no impact in 2013, as no operations of interest rate coverage have been performed.

26. Income tax

Since 2006, the Parent and its Subsidiary, Patentes Talgo, S.L.U., form the consolidated Tax Group 65/06.

Group subsidiary Talgo Kazakhstan, S.L. was added to the tax group in 2010.

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

	2013	2012
Profit before tax	**43 802**	**47 622**
Taxes calculated at domestic rates on income in respective countries	16 408	16 740
Tax effects of:		
Permanent differences	(1 911)	(997)
Activation of deductions	(6 195)	(5 128)
Other concepts	4 494	-
Prior years' adjustment	25	176
Tax expense	**12 821**	**10 791**

At the end of the year, the tax Group had in course of inspection by the fiscal authorities of the consolidated Group fiscal declarations of the years from 2008 to 2011 for the corporation tax, and the fiscal declarations of the years from 2009 to 2011 for the concepts of VAT and personnel income tax. On February 10 and 14, 2014 the conformity acts were signed and the income statement and the tax payable account for 2013 were adjusted in accordance with the signed acts.

Each Group Company is open to inspection by the tax authorities in the years in which of the major taxes are applicable.. In case of the parent Company and the Group companies, when the open inspection is finished, all the applicable taxes in the years 2012 and 2013 are open for inspection.

As a result, among other things, of the different interpretations of the fiscal legislation in force, additional liabilities may arise in the event of a tax inspection. The directors consider, however, that those liabilities that might arise would not significantly affect these consolidated annual accounts.

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

	2013	2012
Total current tax	14 900	1 662
Total deferred tax	(2 079)	9 129
Income tax	**12 821**	**10 791**

27. Earnings per share

Basic earnings per share

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

	€ Thousands	
	2013	**2012**
Profit attributable to owners of the parent Company	30 981	35 380
Weighted average number of ordinary shares in issue (*)	1 368 329	1 257 274
Basic earnings per share from continued operations	22,64	28,14
	22,64	**28,14**

(*) Weighted average number calculated taking into account the capital increases and reductions included in note 14.

Diluted earnings per share

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

	€ Thousands	
	2013	2012
Profit attributable to owners of the parent Company	30 981	31 842
Interest expense on convertible loan (net of Tax)	-	-
Profit used to determine diluted earnings per share	30 981	31 842
Weighted average number of ordinary shares in issue	1 368 329	1 257 274
Adjustments for hypothetical conversion of convertible loan		-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1 368 329	1 257 274
Diluted earnings per share from continued operations	22,64	25,30
	22,64	**25,30**

28. Cash generated from operations

The breakdown of cash generated from operations is as follows:

	€ Thousands	
	2013	2012
Profit before tax, including discontinued operations	**43 802**	**47 622**
Adjustments for:		
Amortization of tangible fixed assets (note 6)	4 953	4 598
- Amortization of intangible fixed assets (note 7)	2 257	1 274
- (Gain)/loss on the sale of non-current assets held for sale	82	-
- Net Change in provisions (notes 20 and 11)	26 152	9 005
- (Gain)/loss in the fair value of derivative financial instruments	-	
- Financial expenses (nota 25)	10 060	14 354
- Financial income (note 25)	(14 179)	(1 370)
- Result from the loss of the joint control	-	(1 264)
- Allocation of grants	(883)	(299)
- Other income and expenses	-	3 781
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):	**102 317**	**(108 103)**
Stocks (note 12)	(7 032)	7 419
Other financial assets (note 10)	(1 073)	2 276
Customers and other account receivables (note 11)	67 217	(56 552)
Suppliers and other payables (notes 18 and 21)	43 205	(61 246)
Cash generated from operations:	**174 561**	**(30 402)**

During the financial year 2012 some non-cash transactions were carried out related to the increase in the share capital with share premium amounting to €78.747 thousand and to capital reduction of €3.727 thousand as detailed in note 14, in addition to €1.264 thousand due to the loss of the control in the company Tulpar-Talgo, LLP.

29. Guarantees and Other contingencies

At 31 December, 2013, the Group has a volume of bank guarantees and surety insurances totaling €375 million (2012: €339 million), of which, €345 million (2012: €302 million) correspond to manufacturing projects, either as performance bonds or advances received.

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

At 31 December, 2013, the amount available from the bank guarantee lines came to €229 million (€252 million in the 2012 financial year).

According to the agreement signed between the Spanish Consortium High Speed Mecca Medina with the end customer, all members of the Consortium shall be jointly and severally liable to the end customer, and each member of the consortium may, in any case, claim the other parties vis à vis, according to the distribution of performance of the contract.

The Group Management is not aware of any contingent liabilities that it could have in the normal course of its business, different from those provided and the 2013 financial year-end.

30. Commitments

a) Commitments to purchase fixed assets

At 31 December, 2013 purchase commitments for fixed assets came to €4.589 thousand (2012: €6.374 thousand).

b) Operating lease commitments

The consolidated Group directors do not expect material changes in operating lease future expense with respect to the expenditure incurred in 2013 and 2012 (note 6.f).

31. Transactions with related parties

The shareholders of the parent Company which have a share of the same greater than 10% are broken down in note 14. The Group carries all its transactions with related parties at market prices. Additionally, transfer prices are adequately supported, so the Directors of the parent company consider that there are no significant risks in this aspect, that may arise significant liabilities in future.

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

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

a) Transactions with the Parent's significant shareholders

No transactions with the parent Company shareholders have been performed.
Loans granted to shareholders are detailed in note 10 a.

b) Transactions with Parent's Board members

During 2013 and 2012 no compensations have been paid to the members of the Board of Directors of Pegaso Rail International S.A. for that role.

c) Participations, duties and corporate purposes of the Board of Directors members in companies with the same, analogous or complementary activity that constitutes the corporate purpose of the parent Company:

Administrator	Company with the same, analogous or complementary activity	Corporate purpose	Duties or post	Percentage stake
Fernando Tomé Muguruza	-	-	-	-
Francisco Javier Bañón Treviño	Patentes Talgo, S.L.U.	Construction and maintenance of railway Rolling Stock	Director	-
José María Muñoz Dominguez	Patentes Talgo, S.L.U.	Construction and maintenance of railway Rolling Stock	Director	-

No Board Member, during the financial year, has carried out as independent professional or as employee outside the Group Pegaso International, S.A., any activity that is identical, similar or complementary to the activity that constitutes the purpose of the parent Company.

During the 2013 financial year, the members of the Board of Directors, in addition to the individuals related to them as it is described in the art. 231 of the Spanish Corporate Law, have not incurred directly or indirectly in any conflict situation with companies outside the Group as it is defined in the art. 42 of the Commercial code.

b) Commercial transactions with related parties

	€ Thousands	
	2013	2012
Purchases of raw materials:		
Tarvia Mantenimiento Ferroviario, S.A.	100	74
Outside services:		
Consorcio Español de Alta Velocidad Meca-Medina, S.A.	-	4 431
Tarvia Mantenimiento Ferroviario, S.A.		-
Expenses	**100**	**4 505**

	€ Thousands	
	2013	2012
Sales and services provided:		
Tarvia Mantenimiento Ferroviario, S.A.	7 705	4 933
Tulpar Talgo, LLP	-	67 893
Other operating income:		
Tarvia Mantenimiento Ferroviario, S.A.	178	196
Financial income:		
Consorcio Español Alta Velocidad Meca Medina S.A.	10	-
Revenues	**7 893**	**73 022**

e) Suppliers / customers balances breakdown with multigroup and associate companies

	€ Thousands	
	31.12.13	31.12.12
Multigroup customers and associate companies (note 11)	5 471	1 760
Multigroup customers and associate companies	**5 471**	**1 760**

	€ Thousands	
	31.12.13	31.12.12
Multigroup suppliers and associate companies (note 17)	3 970	4 431
Multigroup suppliers and associate companies	**3 970**	**4 431**

At 31 December 2012, in the heading “Multigroup customers and associate companies” corresponded to a balance maintained with Tarvia Mantenimiento, S.A., included in these financial statements using the proportionate method of consolidation. At 31 December, 2013 the balance corresponds to the balance maintained with Consorcio Español Alta Velocidad Meca Medina, S.A.

At December 31, 2013, the heading “Suppliers multigroup companies and associates” corresponds to the balance maintained with Consorcio Español Alta Velocidad Meca Medina, S.A. included in the consolidation perimeter via the equity method.

32. Business combinations

On September 30, 2013, Patentes Talgo, S.L.U. acquired from RENFE 49% of the share capital of the company Tarvia Mantenimiento Ferroviario, S.A., which performs the complex technical maintenance of the rolling stock and the railway facilities in Spain.

From this moment, the subsidiary company Patentes Talgo, S.L.U. takes the control of the branch Tarvia Mantenimiento Ferroviario, S.A., hence this branch stops to integrate according to the proportional integration method.

On December 10, 2013, the merger project was deposited in the Commercial Registry, being on November 5, 2013 formulated and signed by the company management. According to this project, Patentes Talgo S.L.U. acquires Tarvia Mantenimiento Ferroviario, S.A. The merger has implied the extinction of the acquired company and the bloc transmission of its equity to Patentes Talgo S.L.U., which acquires all the rights and the obligations of Tarvia Mantenimiento Ferroviario, S.A.

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

The 30th of September is the date from which all the operations of Tarvia Mantenimiento Ferroviario, S.A. are considered for accounting purposes performed by Patentes Talgo, S.L.. This date is considered the takeover date.

Having acquired 49% of Tarvia Mantenimiento Ferroviario, S.A., the Group becomes the owner of all the maintenance contracts for 102 and 112 series trains, which constituted the main activity of Tarvia Mantenimiento Ferroviario, S.A.

The acquired business brought the revenue of €3.879 thousand and a net profit of €98 thousand to the Group.

If the acquisition had been performed on January 1, 2013, the revenue of the Group and the profit of the period would have ascended to €13.620 thousand and €154 thousand accordingly.

The details of the transferred compensation of the business combination, of the acquired net assets and of the intangible assets of the business combination are as follows:

	€ Thousands
Transferred combination compensation:	
Cash paid	16 006
Other delivered assets	-
Contingent compensation	-
Debt instruments	-
Previous investments	4 590
Correction of the fair value of previous shares (*)	12 063
Total acquisition cost	32 659
Fair value of acquired equity	(7 590)
Clients contracts (note 7)	**25 069**

(Shown in € thousands)

(*) According to IFRS 3 Patentes Talgo, S.L.U. has registered at fair value its previous participation of 51% of Tarvia Mantenimiento Ferroviario, S A., generating a capital gain of €12.063 thousand, previous to the merger accounting. The consolidated profit and loss account shows the amount of €12.011 thousand related to this operation and proceeding from the difference of the results obtained by Tarvia Mantenimiento Ferroviario, S.A. until the 30th of September 2013. These results were proportionally integrated in the corresponding chapters of the consolidated profit and loss account.

1 The merger was submitted to tax neutral system regulated in the Chapter VIII of the Title VII of the Royal Decree 4/2004 of the March, 5th, which approves the Refunded text of the Law about Corporate Taxes.

In the accomplishment of the requirements expressed in the article 93 of the Royal Decree 4/2004 issued on March 5, of the Refunded Text of the Law about Corporate Taxes, the following information is provided:

a) As at September, 30th 2013 the company Tarvia Mantenimiento Ferroviario, S.A. owned the following fixed assets liable to amortization (in €), detailed by years of acquisition:

							€
						Cost	Accumulated amortization
	31.12.09	31.12.10	31.12.11	31.12.2012	30.09.2013	30.09.2013	30.09.2013
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 installations, tools and furniture	32.253,24	338.579,26	163.144,70	23.563,20		557.540,40	(410.596,40)
Other fixed asset	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)**

(Shown in € thousands)

Tarvia Mantenimiento Ferroviario, S.A. audited balance sheet at September 30th, 2013 together with its assets and liabilities assumed in the merger, is as indicated below in €:

ASSETS	**2013**
NON CURRENT ASSETS	**228 717,10**
Intangible fixed 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
Staff	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**
Capital Stock	9 000 000,00
Reserves	(400 157,10)
Previous years' result	(1 123 158,75)
Financial year result	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**
Financial lease creditors	1 460 127.23
CURRENT LIABILITIES	**18 332 819,37**
Short-term debts	**752 347,87**
Financial 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 payable)	452 542,32
Other liabilities with Public Entities	629 874,07
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**34 922 463,30**

c) The assets incorporated in the accounting records of the Company maintain the same accounting value, they had in the acquired company, except for the recognition of the portfolio of the contracts which Tarvia Mantenimiento Ferroviario, S.A. had, mentioned previously in this note.

d) At the same time, the acquired company has no tax allowances, for which Patentes Talgo, S.L.U. should assume the accomplishment of some requirements.

The net cash flow derived from the business combination performed in the year 2013 is as follows:

	€ Thousands
Transferred compensation in cash	16 006
Minus	
Treasury and other equivalent liquid assets acquired	(4 129)
Total	**11 877**

33. Environment

The details of expenses incurred during the financial years 2013 and 2012 for protection and improvement of the environment are the following:

	€ Thousands	
	2013	**2012**
Periodic (waste management, periodic analysis and other)		
Drinking water and waste water analysis and waste water purifier expenditures	81	77
Management of hazardous waste and inert waste	93	102
Material purchases and other	18	47
Safety Advisor	3	4
Measuring of atmospheric and noise emissions	1	11
Dumping tax and legionellosis control	7	21
Diesel installation	3	5
Legislation updating	2	2
Total periodic expenses	**208**	**269**

	€ Thousands	
	2013	**2012**
Non-periodic:		
ISO 14001 Certification	4	3
Total non-periodic expenses	**4**	**3**

34. Fees for audit and other services provided

The fees regarding to the audit services provided to different companies of the Group amounted to €185 thousand (€183 thousand in 2012). From this amount, €161 thousand correspond to companies revised by the global firm Deloitte. In 2012 the costs incurred for the audit of the companies revised by the global firm PricewaterhouseCoopers amounted to €126 thousand.

The fees regarding to other services, different from the audit of annual accounts of the

Group companies ascend to €131 thousand (€251 thousand in 2012). Part of this amount was invoiced by other companies which use the name Deloitte in the amount of €78 thousand (€112 thousand in the year 2012 were invoiced by the firm PricewaterhouseCoopers).

35. Events after the balance sheet date

The subsequent events which could have a significant influence on the present consolidated annual accounts are indicated in note 26 and adjusted in the present consolidated financial statements at 31 December, 2013.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED DIRECTOR'S REPORT 2013
(Shown in € thousands)

Own Shares

The Group does not hold its own shares at December 31, 2013.

Business development

During 2013, through Patentes Talgo S.L.U. the Group has been awarded a delivery contract for 603 new type hauled wide body coaches for Kazakhstan and their technical maintenance in the scope of the global agreement existing for the Talgo coach fleet. Similarly, several contracts were signed for the sale of auxiliary equipment for maintenance such as pit lathes and measuring equipment abroad, in countries as Algeria, Russia, India, France and Germany.

On the other hand, during the year 2013 the company has been awarded different modification and improvement works of the Talgo fleet, being remarkable the improvements requested by ADIF for its auscultation trains. Also other railway administrations signed the contracts for additional maintenance works of their current fleets.

This year the Group continued the manufacturing of 7 trains for Russian railways and the development of the project Mecca-Medina for Saudi Arabia railways. As for the activities in the USA, two trains for the Oregon State were successfully commissioned with great commercial success.

Most relevant events subsequent to the financial year closing

The subsequent events which could have significant influence on the present annual accounts are indicated in the note 35 and adjusted in the present financial statements at the date of December 31, 2013.

Research and development activities

The Group has continued with its policy of investment in research and development activities which seek to continually improve its products and its maintenance services. Among others, the research and development works performed for the new generation high-speed train AVRIL are remarkable. During 2013 the Group completed the manufacturing of this new model prototype. The tests will be run during 2014.

Equally, the Group is focused on R+D activities for security improvement, accessibility and energy efficiency, as well as for introducing lighter materials, new technologies, energy saving and sustainability.

Risks policy

The Directors consider that the main risks for the Group are those inherent to the industry itself. Other possible uncertainties or risks such as those concerning exchange rates, prices, liquidity and cash flow are mitigated by means of the monitor of Group's risk coverage.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED DIRECTOR'S REPORT 2013
(Shown in € thousands)

Environment

The details of Group's expenses on environmental protection and improvement can be found in note 33.

PEGASO RAIL INTERNATIONAL, S.A.
AND SUBSIDIARIES

Audit report,
Consolidated annual accounts at 31 December 2012 and
Directors’ report for the year for 2012

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This version of our report is a free translation of the original, which was prepared in Spanish and signed by Mar Gallardo. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Pegaso Rail International, S.A.:

We have audited the consolidated annual accounts of Pegaso Rail International, S.A. (the "Parent company") and its subsidiaries (the "Group"), consisting of the consolidated balance sheet at 31 December 2012, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 2, the directors of the company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated financial position of Pegaso Rail International, S.A. and its subsidiaries at 31 December 2012 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated directors' report for 2012 contains the explanations which the Parent company's directors consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated directors' report is in agreement with that of the consolidated annual accounts for 2012. Our work as auditors is limited to checking the consolidated directors' report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Pegaso Rail International, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by
Mar Gallardo
Audit Partner

April 30, 2013

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PEGASO RAIL INTERNATIONAL, S.A.
AND SUBSIDIARIES

Consolidated annual accounts at 31 December 2012 and
Directors’ report 2012

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Given in thousands of euros)

	Note	12.31.2012	12.31.2011
ASSETS			
Non-current assets			
Intangible fixed assets	6	49 143	51 927
Intangible assets	7	33 099	18 434
Goodwill	8	112 439	112 439
Investment in associates	2.3	4	4
Deferred tax assets	20	13 368	16 434
Other financial assets	11	2 398	1 171
		210 451	**200 409**
Current assets			
Inventories	13	36 195	55 924
Customers and other accounts receivable	12	169 708	121 093
Other financial assets	11	529	781
Asset accruals		1 000	3 667
Cash and cash equivalents	14	12 471	83 710
		219 903	**265 175**
TOTAL ASSETS		**430 354**	**465 584**

The notes on pages 1 to 79 are part of these consolidated annual accounts.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Given in thousands of euros)

	Note	12.31.2012	12.31.2011
EQUITY			
Capital and reserves attributable to owners of the parent			
Share capital	15	41 187	34 618
Share premium		68 451	-
Other reserves	16	174	(335)
Retained earnings		39 508	47 079
		149 320	**81 362**
Non-controlling interests	17	**-**	**31 396**
Total equity		**149 320**	**112 758**
LIABILITIES			
Non-current liabilities			
Borrowings	19	63 807	84 515
Derivative financial instruments	10	-	703
Deferred income tax liabilities	20	6 663	5 478
Provisions for other liabilities and charges	21	7 710	45 069
Government grants		1 709	1 567
		79 889	**137 332**
Current liabilities			
Trade and other payables	18	166 511	185 186
Current tax liability	27	1 215	977
Borrowings	19	24 021	19 182
Provisions for other liabilities and charges	21	9 398	10 149
		201 145	**215 494**
Total liabilities		**281 034**	**352 826**
TOTAL EQUITY AND LIABILITIES		**430 354**	**465 584**

The notes on pages 1 to 79 are part of these consolidated annual accounts.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

(Given in thousands of euros)

	Note	12.31.2012	12.31.2011
Net turnover	5	**329 918**	**359 786**
Other income		628	1 799
Changes in inventories of finished products and work in progress		583	(366)
Own work capitalized		18 935	5 479
Raw materials and consumables used		(141 896)	(150 607)
Employee benefit expense	22	(90 037)	(96 311)
Other operating expenses	24	(52 794)	(45 798)
Depreciation and amortization	6, 7	(5 872)	(7 492)
Impairment charges and gains (losses) on disposal of fixed assets		-	(14)
Other results	25	293	214
Impairment and result of loss of significant influence over holdings in equity or joint control over a multigroup company		**1 264**	**-**
Operating profit		**61 022**	**66 690**
Financial income	26	1 370	2 336
Finance expenses	26	(14 770)	(5 667)
Finance costs - net	**26**	**(13 400)**	**(3 331)**
Profit before tax		**47 622**	**63 359**
Income tax expense	27	(10 791)	(18 476)
Profit for the year from continuing operations		**36 831**	**44 883**
Profit for the year		**36 831**	**44 883**
Attributable to:			
Owners of the parent	28	35 380	33 857
Non-controlling interests		1 451	11 026
Earnings per share attributable to the equity holders of the Company			
Continuing operations	28	28.14	58.95
Total		**28.14**	**58.95**
Diluted earnings per share attributable to the equity holders of the Company during the year			
Continuing operations	28	25.30	29.55
Total		**25.30**	**29.55**

The notes on pages 1 to 79 are part of these consolidated annual accounts.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

(Given in thousands of euros)

	12.31.2012	12.31.2011
Profit for the year	36 831	44 883
Other comprehensive income:		
Cash-flow hedges:		
Direct assignment to assets:		
Cash-flow hedge	670	(670)
Tax effect of the assets assignments	(201)	201
Transfer to result:		
Cash-flow hedge	(162)	162
Tax effect of the cash-flow hedges	49	(49)
Transfer differences of foreign currency	153	(37)
Total Other Comprehensive income	**509**	**(393)**
Balance of the year	**37 340**	**44 490**
Attributable to:		
-Owners of the parent	35 884	33 562
-Non-controlling interests	1 456	10 928
Balance of the year	**37 340**	**44 490**

The notes on pages 1 to 79 are part of these consolidated annual accounts.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER, 2012 and 2011

(Given in thousands of euros)

	Attributable to owners of the company							
	Share Capital (Note 15)	**Retained earnings**	**Share premium**	**Shareholder contributions (Note 19)**	**Other Reserves (note 16)**	**Total**	**Non-controlling interest (Note 17)**	**Total equity**
Balance at 31 December 2010	**11 778**	**115 770**	**-**	**20 882**	**(40)**	**148 390**	**55 941**	**204 331**
Comprehensive income								
Profit or loss	-	33 857	-	-	-	33 857	11 026	44 883
Other Comprehensive Income	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	(28)	(28)	(9)	(37)
Hedging derivatives	-	-	-	-	(267)	(267)	(89)	(356)
Total Comprehensive Income	**-**	**33 857**	**-**	**-**	**(295)**	**33 562**	**10 928**	**44 490**
Transactions with owners	-	**-**	-	-	-	**-**		
Profit (note 15)	22 840	1 686	-	(20 882)	-	3 644	-	3 644
Dividends	-	(104 151)	-	-	-	(104 151)	(35 000)	(139 151)
Other movements	-	1 246	-	-	-	1 246	(473)	773
Updated account receivables of third parties	-	(1 329)	-	-	-	(1 329)	-	(1 329)
Total transactions with owners	**22 840**	**(102 548)**	**-**	**(20 882)**	-	**(100 590)**	**(35 473)**	**(136 063)**
Balance at 31 December 2011	**34 618**	**47 079**	**-**	**-**	**(335)**	**81 362**	**31 396**	**112 758**
Balance at 31 December 2011	**34 618**	**47 079**	**-**	**-**	**(335)**	**81 362**	**31 396**	**112 758**
Comprehensive income								
Profit or loss	-	35 380	-	-	-	35 380	1 451	36 831
Other Comprehensive Income	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	242	242	-	242
Hedging derivatives	-	-	-	-	267	267	-	267
Total Comprehensive Income	**-**	**35 380**	**-**	**-**	**509**	**35 889**	**1 451**	**37 340**
Transactions with owners	-	**-**	**-**	-	-	**-**		
Capital increase (note 15)	10 296	(45 467)	68 451	-	-	33 280	(32 847)	433
Capital decrease (note 15)	(3 727)	-	-	-	-	(3 727)	-	(3 727)
Dividends	-	-	-	-	-	-	-	-
Other movements (note 15)	-	2 516	-	-	-	2 516	-	2 516
Total transactions with owners	**6 569**	**(42 951)**	**68 451**	-	-	**32 069**	**(32 847)**	**(778)**
Balance at 31 December 2012	**41 187**	**39 508**	**68 451**	**-**	**174**	**149 320**	**-**	**149 320**

The notes on pages 1 to 79 are part of these consolidated annual accounts.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH-FLOWS FOR THE YEARS ENDED 31 DECEMBER, 2012 and 2011
(Given in thousands of euros)

	2012	2011
Cash flows from operating activities (note 30)	**(30 402)**	**80 898**
Cash used in operations	**(17 451)**	**(15 814)**
Interest paid	(12 950)	(3 983)
Interests received	1 370	901
Income tax paid	(5 871)	(12 732)
Net cash generated from operating activities	**(47 853)**	**65 084**
Cash flows from investing activities		
Purchases of property, plant and equipment (note 6)	(4 016)	(3 860)
Purchases of intangible assets	(15 939)	(6 159)
Other financial assets (note 12)	(1 452)	(4)
Account receivables of third parties	(477)	(108 151)
Net cash used in investing activities	**(21 884)**	**(118174)**
Cash flows from financing activities		
Repayments of borrowings (note 19)	(74 579)	(10 596)
Proceeds from borrowings (note 19)	71 623	96 172
Dividend paid to non-controlling interest	1 454	(35 473)
Net cash (used in) / generated from financing activities	**(1 502)**	**50 103**
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	**(71 239)**	**(2 987)**
Cash, cash equivalents and bank overdrafts at beginning of year (note 14)	83 710	86 697
Cash, cash equivalents and bank overdrafts at end of year (note 14)	12 471	83 710

The notes on pages 1 to 81 are part of these consolidated annual accounts.

PEGASO RAIL INTERNATIONAL, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED DECEMBER 31 2012
(Given in thousands of euros)

1. General Information

Pegaso Rail International, S.L. (the Parent Company) was incorporated as a limited liability company on September 30, 2005. The Company registered office and tax domicile is in Las Rozas, Madrid (Spain) and it is duly registered in the Madrid Mercantile Registry. On December 22, 2011 the social form of the parent company has been modified to become Public Limited Company, the above transformation has been registered on January 9, 2012 in the Mercantile Registry in Madrid, since then changing its name to Pegaso Rail International, S.A.

The Parent core business is as follows:

- Manufacture, repair, conservation, maintenance, purchase-sale, import, export, representation, distribution and marketing of material, systems and equipment for transport, especially in the railway sector.

- Manufacture, assembly, repair, conservation, maintenance, purchase-sale, import, export, representation, distribution and marketing of motors, machinery and pieces and components thereof, intended for the electromechanical, iron and steel and transport industries.

- Research and development of products and techniques related to the above two sections, along with the acquisition, exploitation, assignment and disposal of patents and trademarks related to the chartered activity.

- Subscription, acquisition, disposal, possession and administration of shares, holding or quotas, in full compliance with the limits imposed by securities market legislation, collective investment companies and other regulations in force that might be applicable.

- Purchase, rehabilitation, redesign, construction, lease, promotion, exploitation and sale of all manner of real estate.

These activities may be carried out either in full or in part by the Parent either directly or in any of the ways permitted by law, including through equity investments in companies engaged in identical or similar business activities.

The parent Company and its subsidiaries have as their main activity the design, manufacture and maintenance of railway rolling stock, along with auxiliary machinery for the maintenance of railway systems.

The Group develops its manufacturing activity in Spain in its facilities at Rivabellosa (Álava) and Las Matas II (Madrid), in addition to the facilities at Las Matas I, Santa Catalina and Fuencarral in Madrid, San Andrés Condal and Can Tunis in Barcelona and Los Prados in Málaga which are owned by RENFE.

As for the Group's international activity, it is carried out in the facilities of Kazakhstan

(Astana and Almaty), Uzbekistan (Tashkent), Berlin (Germany), Seattle (Washington) and Milwaukee (Wisconsin).

The Group ultimate Parent company is Pegaso Transport Feeder, S.C.A. which takes an ownership of 33% of the shares of Pegaso Rail International, S.A, which is domiciled in Luxembourg.

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

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

Patentes Talgo, S.L.U. (previously known as Aurum Business, S.L.) was registered as a single shareholder company in Spain on December 12, 2005, for an indefinite period of time. It has its corporate head office in Las Rozas, Madrid and it is registered in the Madrid Mercantile Registry. On March 13, 2006, the Company changed from a chartered company into a single proprietorship shareholder limited company.

Patentes Talgo, S.L.U. has as its main activity the design, manufacturing and maintenance of railway rolling stock, along with auxiliary machinery for the maintenance of railway systems.

On March 29, 2006, Aurum Business, S.L. acquired 75,02% of the equity of the former Patentes Talgo, S.A.

On 24 May 2008, the merger of Patentes Talgo, S.A. into Aurum Business, S.L. was approved by the shareholders of both companies at the shareholders meetings. As for the the aforementioned merger, the Company availed itself of the special tax regime provided for in chapter 8 of Title VII of the consolidated text Income Tax Act.

On June 30, 2008, Aurum Business, S.L. changed its name as a result of the merger operation described coming to be known as of that date as Patentes Talgo, S.L.

On 30 May 2012, the Parent Company notarized a capital increase which was agreed by the General Shareholders Meeting on April 26, 2012. The payment of the new shares has been performed by a non-cash contribution shareholdings of the Company Patentes Talgo, S.L.U.

From this capital injection, Pegaso International, SA becomes the holder of 100% of the ownership interest of the Company Patentes Talgo S.L.U., the percentage at 2011 year-end was 75%.

<u>Talgo Deutschland GmbH</u>

Talgo Deutschland, GmbH, 100% owned by Patentes Talgo, S.L. and 100% directly owned by the Parent, was incorporated on June 1,1993. Its core business is the sale, maintenance and repair of trains and train parts. Its registered office is in Berlin, Germany.

Talgo Rus

The company Talgo Rus was established in the 2001 financial year. Patentes Talgo, S.L. owns 51% of this company, so that the Group Parent's indirect equity interest is 51%. The other shareholder (the remaining 49%) is RZD (Russian rail confederation).

Its core business is the sale, maintenance and repair of trains and train parts.

Its registered office is in Saint Petersburg, Russia.

This Company has no activity at the year end of the financial years 2012 and 2011.

Talgo Inc.

Patentes Talgo, S.L. owns 100% of Talgo Inc. company, which means that the Group Parent Company indirect shareholding is 100% of its social capital.

It was created at the beginning of 2000 in the USA as a company which main function is the manufacture and maintenance of Talgo trains operating.

Its registered office is in Seattle, in the state of Washington (United States). In addition, it undertakes the trains manufacturing in Milwaukee (Wisconsin).

Tarvia Mantenimiento Ferroviario, S.A.

Patentes Talgo, S.L. owns 51% of this company, so that the Group Parent's indirect equity interest is 51%. The other shareholder in this company (the remaining 49%) is RENFE Operadora.

It was incorporated in November 2008 and has the development and undertaking of integral maintenance work in railway stock as its corporate object along with tasks necessary for such purposes.

Its registered office is in Las Rozas, Madrid.

On July 1, 2011 Patentes Talgo, S.L. and Renfe Operadora signed the subrogation agreement to the subsidiary Tarvia Mantenimiento Ferroviario, S.A maintenance contract of S -112 trains through the transfer of assets and liabilities arising from this contract in the share of Patentes Talgo, S.L.Its activity is considered a joint controlled entity.

On December 27, 2012, framed in the Order HAP/583/2012 of March 20, 2012, by which the Council of Ministers on March 16, 2012, an agreement is published, approving the public sector plan of reorganization and rationalization of the subsidiary Patentes Talgo, S.L.U. has signed an agreement with the other partner Tarvia Mantenimiento Ferroviario, S.A., for the purchase of its shareholding. The formalization of the transaction is subject to conditions precedent, approval of the transaction by the relevant agencies, which to date of preparation of these financial statements have not been met.

Talgo Bosnia Herzegovina d.o.o.

Patentes Talgo, S.L. owns 100% of this company, so that the Parent's indirect equity interest is 100%. Talgo Bosnia Herzegovina d.o.o. was incorporated in October 2009 and its core business is the design and execution of end-to-end rail infrastructure maintenance projects and all the tasks required to this end. Its registered office is located in Sarajevo (Bosnia-Herzegovina).

Talgo Kazakhstan S.L.

Patentes Talgo, S.L. owns 100% of this company, so that the Parent's indirect equity interest is 100%.

Its registered office is in Las Rozas, Madrid.

The parent Company by the shareholding in this company, held 50% of the company Tulpar Talgo, LLP, which was incorporated on June 17, 2010, at 31 December, 2011. The corporate purpose of Tulpar- Talgo LLP is to proceed , by building a production plant, with the manufacturing of trains, using technology and materials by Patentes Talgo, S.L. The initial participation Talgo Kazakhstan, S.L. has on Tulpar-Talgo LLP amounts to 390 euros. However, subject to certain conditions, there is an agreement under which Talgo Kazakhstan, S.L. agrees to make capital contributions to Tulpar-Talgo, LLP in the amount of 19.000 thousand euros in the coming financial years.

Also, Talgo Kazakhstan, S.L., has the right under certain circumstances, to sell its stake in Tulpar-Talgo, LLP, and the other shareholder of the subsidiary, owner of the 50% of Tulpar-Talgo, LLC, the obligation to acquire it.

On August 6, 2012, the company Talgo Kazakhstan, S.L. signed an addendum to the contract of the Tulpar-Talgo, LLP. company, for which the stake in this company on the latter is reduced to 0,00074%, after the capital increase fully subscribed by the other shareholder of the subsidiary, the aforementioned 19.000 thousand euros contributions being made in the previous paragraphs by the other partner in the joint-venture. This addendum includes two year period executable purchase option, once being valuated the price of such option, the value of a the swap partner for the Kazakhstan Talgo S.L. company is zero.

According to the fact that Talgo Kazakhstan, S.L. holds no decision-making or voting rights, from the effective date of this addendum, this society is not considered part of the Talgo Group. In this regard, during the financial year 2012 the results generated during the period, in which this company was 50% owned, have been consolidated, to be considered outside the scope of consolidation as of that date.

Patentes Talgo Tashkent LLC

Patentes Talgo, S.L. created this company on December, 24 2011 and owns 100% of the same, so that the Parent's indirect equity interest is 100%. This company has no activity at the 2011 financial year end, being active during 2012.

Its registered office is located in Tashkent, Uzbekistan.

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

Such consortium was created on November, 2 2011. Patentes Talgo, S.L. holds a total of shares amounted to 10.074 nominal value of 1 euro per share, having disbursed only 25% of their nominal value at the end of the financial year 2012. These shares represent a percentage share of 16,79% of that company. Therefore, the parent company indirectly shares 16,79%.

The corporate purpose of this company is the self-realization of the design, manufacturing, operation, maintenance and outsourcing activities in the field of passenger transport double line high-speed train between the cities of Mecca, Jeddah Medina and any other cities in the Kingdom of Saudi Arabia as well as to perform any other activity related to the project, signed in 2012, the members of the said consortium jointly liable for liabilities of the consortium.

This company had no activity at the 2011 financial year end.

Such investment is considered as an investment in associates.

2. Summary of significant accounting policies

The main accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Presentation basis

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS - EU, hereinafter, IFRS) and IFRIC interpretations in force at 31 December 2012, and with all prevailing mercantile law applicable to companies reporting under IFRS.

The figures contained in the documents comprising these consolidated annual accounts (the balance sheet, income statement, statement of changes in equity, cash flow statement and these notes are expressed in thousand euros.

The consolidated annual accounts have been prepared under the historical cost method, but modified by the revaluation of assets and liabilities (including derivatives) at fair value.

These consolidated annual accounts have been prepared in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Note 4 provides the areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements.

These consolidated annual accounts have been prepared by the Board of Directors on March 20, 2013. The Directors present the consolidated annual accounts to the General Shareholders Meeting, and it is expected to be approved without changes.

2.2 Standards, amendments and interpretations for the financial year beginning at January 1, 2012

IFRS 7 (amendment), "Financial instruments: Disclosures - Transfers of financial assets"

The amendment to IFRS 7 requires the expansion of the disclosure of additional breakdowns of risk exposures arising from financial assets transferred to third parties. It may be required to include information on the assessment of risks and profit madeto transactions that have not qualified for derecognition of financial assets and financial liabilities identification associated thereto, and increases the detailed information on transactions that have been qualified for derecognition of financial assets: the result generated in the transaction, the risks and benefits remnants and their emission of book, initial and future, and the estimated fair value of the "continuing involvement" recorded in the balance sheet. Among others, this change would affect the sale financial assets transactions, factoring agreements, securitization of financial assets and securities lending contracts.

IFRS 7 amendments have to be applied mandatorily to all the financial years starting on July 1, 2011.

The application of this amendment has had no effect on the Group's financial statements.

IFRS 9 Financial assets: classification and assessment

IFRS 9 will eventually replace part of the current classification and valuation of IAS 39. There are significant differences with the current standard, in relation to financial assets, among others, the approval of a new classification model based only on two categories of amortized cost and fair value, the elimination of the current classifications "Investments held to maturity "and" Financial assets held for sale", impairment analyses only for assets measured at amortized cost and the non-separation of derivatives embedded in financial assets contracts.

In relation to financial liabilities classification categories set out by IFRS 9, these are similar to those currently existing in IAS 39, so that there should not be very significant differences except for the requirement of recognition of changes in fair value related to the risk own credit as a component of equity, in the case of financial liabilities of the fair value option.

This standard shall be applied to all financial years starting on January 1, 2015, being early adoption permitted.

The Group management estimates that the future application of IFRS 9 will not have a significant impact on the Group's assets and liabilities.

IFRS 10 ,Consolidated financial statement, IFRS 11 Joint agreements, IFRS 12 Breakdowns of holdings in other companies, IAS 27 (revised) Separate Financial Statements and IAS 28 (revised) Investments in associates and joint ventures.

IFRS 10 changes the definition of currently existing control. The new definition of control that contains three elements which must be met: power over the investee, exposure or rights to variable results of the investment and the ability to use that power so that it can influence the amount of those returns.

While this standard is mandatory for annual periods beginning after January 1, 2013, according to the date of entry into force established by IASB, for the purpose of the European Union, was established as the date of financial year entry into force starting on January 1, 2014.

Earlier application is allowed, provided they take at once both the IFRS 11 "Consolidated Financial Statements", IFRS 12 "Joint Agreements", IAS 27 "Disclosures of interests in other entities" (amended in 2011) and IAS 28 (amended in 2011) "Investments in associates and joint ventures."

The Group is currently assessing what impact this change will have and it will likely not result in any variation.

IFRS 11 Joint agreements will replace the current IAS 31. The major change IFRS 11 raised regarding the current standard is eliminating the option of proportionate consolidation for jointly controlled entities that will be incorporated by the equity method.

While this standard is mandatory for annual periods beginning after January 1, 2013, according to the date of entry into force established by IASB, for the purpose of the European Union, was established as the date of financial year entry into force starting on

January 1, 2014. Changes in accounting treatment required by IFRS 11 is reflected at the beginning of the earliest period presented in the financial statements. The standard itself contains specific guidance on how to complete the transition from proportionate consolidation to equity method and vice versa.

This new standard shall not have a significant impact for the Group while the consolidation method that has been used and is used for the consolidation of the joint ventures is the proportional consolidation of its financial statements.

The changes in the IAS 27 and 28 are parallel to the issuance of the new IFRS described above.

For the Pegaso Rail International Group International there will not be additional impacts to those listed above.

Finally, IFRS 12 is a breakdown standard which includes all accounts disclosure requirements relating holdings in other entities (either subsidiaries, associates, joint ventures or other equity) including new requirements for breakdowns.

Thus, its entry into force will, predictably, extend the breakdowns that the Group is already doing.

While this standard is mandatory for annual periods beginning after January 1, 2013, according to the date of entry into force established by IASB, for the purpose of the European Union, was established as the date of financial year effective start date is from January 1, 2014.

IFRS 13 Fair Value

This new standard has been issued for the sole source of law to calculate the fair value of assets and liabilities that are measured in this way according to the requirements of other standards. IFRS 13 modifies the current definition of fair value and adds new nuances to consider, in addition to expanding the breakdowns required in this area.

This standard is mandatorily applicable for annual periods beginning on January 1, 2013.

The new standard is applied prospectively from the beginning of the financial year in which it is first applied. The disclosure requirements do not apply to comparative information relating to periods before initial application application of IFRS 13.

The Group is currently assessing the potential impacts posed by the new definition of fair value and it will likely not result in significant changes regarding the assumptions, methods and calculations currently done.

IAS 19 Modification Employee Benefit

The fundamental change in this amendment to IAS 19 will affect the accounting treatment for defined benefit plans since it eliminates the "fluctuation band" for which it is currently possible to chose to differ some portion of actuarial gains and losses, they will recognize immediately the total deficit or surplus plan in the other comprehensive income to be recognized in the consolidated balance sheet. On the other hand, the interest cost and the expected return on plan assets are replaced in the new version by a net amount of interest, which is calculated by applying the discount rate to liability (or asset) obligation. It will also mean changes in the presentation of the components of the cost in the income statement to be grouped and presented differently.

The IAS 19 amendment is mandatorily applicable for annual periods after January 1, 2013. Earlier application is permitted.

The Group has no employee benefits with these features, thus the entry into force of this amendment will have no impact.

Amendments to IAS 32 Financial Instruments: presentation

The amendment to IAS 32 introduces a number of additional clarifications on the implementation guide on the requirements of the standard in order to offset an asset and a financial liability in its presentation in the balance sheet. IAS 32 already indicates that an asset and a financial liability may be offset only when the entity currently has legally enforceable right to offset the recognized amounts.

The modified implementation guide indicates, among other things, that to fulfill this condition, the right to compensation should not depend on future events and should be legally enforceable, in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

This amendment is mandatorily applicable for annual periods beginning on or after 1 January 2011 Earlier application is permitted.

Management estimates that this amendment will have no significant impact on the Group.

2.3 Consolidation principles

a) Subsidiary Companies

Subsidiaries are all companies (including special purpose companies) over which the Group has power to govern the financial and operating policies which generally comes with a stake of more than half of the voting rights. When it comes to evaluating whether the Group controls another firm, consideration is given to the existence and effect of potential voting rights that can currently be exercised or are convertible. Subsidiaries are consolidated as of the date on which control is transferred to the Group, and they are excluded from the consolidation on the date when this ceases.

To account for the acquisition of subsidiaries by the Group, the purchase method is used. The cost of acquisition of a subsidiary corresponds to the fair value of the transferred assets, liabilities incurred and equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition expenses are recognized as expenses in the periods incurred therein. 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 chose the option of recognizing any non-controlling interest in the acquiree at fair value or the proportionate share of the non-controlling of the identifiable net assets of the acquiree.

Goodwill is measured as the excess of the amount of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value at the acquisition date of participation in the equity of the acquirer previously held by the acquirer on the net value at the date of acquisition of the identifiable assets acquired and liabilities assumed. If this amount is less than the fair value of net assets of the acquired subsidiary, in case of a profit on a bargain purchase, the difference is recognized directly as income in the income statement.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. It also eliminates unrealized losses. The accounting policies of subsidiaries have been changed where it has been required to ensure consistency with the policies adopted by the Group. All Group subsidiaries have the accounting closing date on December, 31.

b) Associated companies

Associates are all entities over which any of the companies included in the consolidation exercise provide significant influence. It is understood that significant influence exists when the Group has a stake in the company and it is able to intervene in policy decisions and financial exploitation of this, but not having control.

Spanish High Speed Consortium Mecca-Medina, S.A. belongs to this group at 31 December, 2011 and 2012. Members of the Management Board appointed by the Talgo Group are considered to have an existing influence in this consortium.

The amount of the assets of the company at year-end 2012 amounts to 19.105 thousand euros, liabilities amounted to 19.089 thousand euros, income and expenses amounted to 2.792 thousand euros and the result is 140 euros.

Associated companies are incorporated in the consolidated annual accounts by the equity method.

When the equity method is applied for the first time, the company stake is valued for the amount that the percentage of investment in the Group companies over its equity, after adjusting its net assets at fair value at the date of acquisition of significant influence.

The difference between the net book value of holding in individual accounts and the amount which is indicated in the previous paragraph forms goodwill which is shown under "holdings in equity method". In the rare case that the difference between the amount to which the investment is counted for in the individual accounts and the share of the fair value of net assets of the company was negative, such difference will be recorded in the loss and profit accounts, after having reassessed the assignment of fair values to assets and liabilities of an associated company.

Generally, except in the event of a negative goodwill arising due to the acquisition of significant influence, the investment will be considered initially by its cost.

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

The book value of the participation is modified (increases or decreases) in proportion to the Group's company investment, by the variations in equity of the investee since the initial assessment, after removal of the proportion of unrealized transactions generated in the company and Group companies.

Highest value assigned to the share as a consequence of the application of the acquisition method is reduced in subsequent applications, charged to the consolidated or equity item and as appropriate when they depreciate, causing giving up or disposed of to third parties the corresponding assets. Similarly, should the charge to consolidated income when losses due to impairment of assets of the investee company occur, with the limit of the goodwill allocated to them at the date of first equity method.

Changes in the value of sharing corresponding to income of the investee are part of the consolidated results, appearing under "Share in profit (loss) of equity method companies". However, if the associated company incurs in losses, the reduction of the investment account shall be limited to of the own book value share. If the share was reduced to zero, additional loss and the corresponding liability shall be identified to the extent it has been incurred in legal, contractual, implied or implicit obligations, or if the Group had made payments on behalf of the investee.

Change in the share value corresponding to other changes in equity is shown in the relevant sections of equity according to its nature.

The assessing and timing homogenization applies to investments associated in the same way as for the dependent subsidiaries.

c) Transactions and non-controlling interests

Transactions with non-controlling interests are measured as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognizing the increased carrying amount of the investment against the profit and loss account. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts are previously recognized in other comprehensive income.

d) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognizes in its consolidated financial statements the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. A loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(Given in thousands of euros)

The comprehensive information on assets and liabilities at year-end 2012, is as follows:

	12.31.2012
Total long term assets	202
All short term assets	14 888
Total assets	**15 090**
Total long term liabilities	4 215
Total short term liabilities	7 064
Total liabilities	**11 279**

The comprehensive information on assets and liabilities at year-end 2011, is as follows:

	12.31.2011
Total long term assets	2 275
All short term assets	15 802
Total assets	**18 077**
Total long term liabilities	16 675
Total short term liabilities	653
Total liabilities	**17 328**

Income from joint ventures amounted 11.436 thousand euros in the financial year 2012 (17.976 thousand euros in in the financial year 2011). Expenses from joint ventures amounted to 17.586 thousand euros in the financial year 2012 (17.953 thousand euros in the financial year 2011).

The breakdown of the average workforce at 31 December 2012 of the joint ventures is as follows:

The corresponding staff for the Tarvia Mantenimiento Ferroviario S.A company is:

(Given in thousands of euros)

	Men	Women
Management	5	-
Middle management	17	2
Technical, administrative and others	54	6
	76	**8**

The breakdown of the average workforce at 31 December 2011 of the joint ventures is as follows:

The corresponding staff for the Tarvia Mantenimiento Ferroviario S.A company is:

	Men	Women
Management	4	-
Middle management	13	2
Technical, administrative and others	27	4
	44	**6**

Staff corresponding to the company Tulpar-Talgo, LLP is:

	Men	Women
Management	3	-
Middle management	1	1
Technical, administrative and others	11	5
	15	6

All joint ventures have the accounting closing date 31 December.

2.4 Segment reporting

a) Segmentation criteria

Operating segments are consistent with internal information that is presented to the highest authority body for decision making. The highest decision making body is responsible for allocating resources to operating segments and evaluate the performance of these segments. The Board of Directors is the highest authority body for decision making which takes strategic decisions.

The criteria for the segment reporting applied by the Talgo Group included in the consolidated accounts are:

- Segmentation is done according to business units splitting the operating activities “Rolling Stock” and “Auxiliary Machines and other”.

The general corporate services segment has been classified as "General" .

b) Basis and methodology for the segment reporting

Income and expenses assigned to each segment are those attributable to the segment. Although the measure of performance used by the highest decision-making body to evaluate segment performance is the Operating profit, the Group reports to the latter, magnitudes of results by segment to the Profit before tax. Segment of the assets and liabilities are those directly related with the operations or the shareholding in companies directly related with that kind of activities.

It is identified by means of the segmentation of distinguishable component of the Pegaso Rail International Group, subject to risks and returns that are different from those other operating components with activities in different environments.

In this way and according to the historical experience and evolution of the Group future, the following segments have been considered, complying with the requirements of internal homogeneity, and are different to other segments due to identical reasons.

"Rolling stock" activity includes, the activity of manufacturing and the maintenance of trains built with Talgo technology, activities are very closely related. Likewise, the “auxiliary machines and others” segment, fundamentally includes the manufacturing activities of lathe pits and other equipment, repair, modification and spare part sale.

The general segment includes general corporate expenses not directly attributable to other segments.

2.5 Transactions in foreign currency

a) Functional and presentation currency

Items included in the financial statements of each of the Group companies are measured using the currency of the main economic environment in which the company operates (functional currency). The consolidated financial statements are presented in thousand of euros, unless other indicated, which is the Parent’s functional and presentation currency.

b) Transactions and balances

Transactions in foreign currency are converted into the functional currency using the

exchange rates in force on the dates of the transactions. Losses and gains in foreign currency resulting from the settlement of these transactions and of the translation into the closing exchange rates of the monetary assets and liabilities denominated in foreign currency are recognized in consolidated financial statements, except if they are deferred in other consolidates income as qualified cash-flow hedges and qualified net investment hedges.
Exchange loss and gains on differences of external resources and cash and cash equivalents are presented in the income statement line "financial income" or "finance costs".

c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii) Income and expenses for each income statement are translated 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 income and expenses are translated on the dates of the transactions); and

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

2.6 Tangible fixed assets

The tangible fixed assets elements are recognized for their acquisition price minus the accumulated amortization and the accumulated amount of recognized impairment losses. Cost includes expenditure directly attributable to purchases of property, plant and equipment.

Works performed for tangible fixed assets are reflected at the accumulated cost that results from adding the internal costs to the external costs, the former being set in line with own consumption of warehouse materials and the manufacturing costs, applied on the basis of the same hourly fee as those used for the valuation of manufacturing projects.

Subsequent costs incurred to extend, modernize, improve, repair and maintain items of property, plant and equipment are included in the 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 flow to the Group and the cost of the item can be estimated reliably. The carrying amount of the replaced part is recognized. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Each part of an item of property which has a significant cost in relation to the total cost of the item is depreciated separately. The estimated useful lives are:

	Years	%
Buildings	33	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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Grains and losses on disposals are established by comparing the proceeds with the carrying amount and are recognized in the income statement under the heading Result from disposals of the fixed asset.

2.7 Intangible assets

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

a) Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software and are registered at their historical cost. These costs are amortized over their useful lives estimated at four years.

b) Development expenses

Development costs that are directly attributable to the design and materialization of projects related 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 and use or sell it;

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

iv) It can be proved how the intangible asset will generate probable future economic benefits;

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

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

Development costs capitalized as intangible assets show accumulated recorded cost which are external costs plus in-house costs, established on the basis of own warehouse materials consumption and manufacturing costs allocated using hourly rates similar to those used to assess manufacturing projects.

Other development expenditures that do not meet these criteria are recognized as an expense when they are incurred. Development costs previously recognized as an expense are not recognized as intangible assets in a subsequent period.

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

c) Industrial property

Industrial property is measured at cost less accumulated amortization and any impairment losses recognized. These intangible assets are amortized using the straight-line method over its estimated useful live.

2.8 Goodwill

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

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

Goodwill is allocated to cash generating units for the purpose of loss due to impairment testing. Allocation is applied to the CGUs or groups of CGUs expected to benefit from the business combinations in which the goodwill arose, identified according to operating segments.

2.9 Borrowing costs

The Group capitalizes borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, when the same are relevant.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortization and are tested annually for impairment, and 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 refers to the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value minus the costs to sell or value in use, whichever is greater. For the purposes of evaluating the losses of the value, the assets are grouped at the lowest level for which there are separately identifiable cash-flows (cash generator units). Non-financial assets, different from goodwill, which have have been affected by a loss due to impairment are subject to revisions on each balance sheet date, in the case that any reversion of the loss have taken place.

2.11 Non-current assets held for sale and discontinued operations

The group classifies the non-current assets as assets held for sale when their carrying amount will be recovered especially through a sale transaction rather than through continued use. This condition is considered to be met only when the sale is highly likely, the asset is available for its immediate sale in its present condition and it will be foreseeable to be completed within a period of one year from the date of its classification, unless any delay occurs due to events or circumstances outside the control of the Group and the latter continues to be committed to its intention to sell the asset. Non-current assets held for sale are stated at the lower carrying amount and fair value minus the sale costs.

A discontinued operation is a component of the Group that has either been disposed of, or is classified as held for sale, and:

a) represents a line of business or geographical area that is significant and can be considered separately from the rest;

b) b) is part of a single coordinated plan to dispose of or being provided with a separate major line of business or geographical area of operations; or

c) is a subsidiary acquired solely with a view to resale.

The results of discontinued operations are presented as a single amount in the income statement comprising the post-tax profit or loss of discontinued operations.

2.12 Financial assets: classification, recognition and assessment

The Group classifies its financial assets into the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Loans and accounts receivables:

Loans and accounts are non-derivative financial assets with fixed or determinable payable which are not quoted on an active market. They are included in current assets except those having maturities beyond 12 months as of the date of the balance sheet which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently are registered at amortized cost. Interest accrued is recognized on the basis of the effective interest rate, which is understood to be the updating rate that equals the book value of the instrument with all its cash-flows estimated up to its maturity. Notwithstanding this, receivables for trade operations with a maturity no greater than one year are valued both at the moment of the initial acknowledgment and later on for the par value whenever the the effect of not updating the flows is not significant.

b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement; they are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets in this category are presented in the income statement within "Other expenses" in the period in which they arose.

Regular purchases and sales of financial assets are recognized
on the trade-date – the date on which the Group commits to purchase or sell the asset.

c) Financial assets available for sale

Financial assets available for sale are non-derivative that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless they expire within 12 months after the balance sheet date or that management intends to dispose of the investment in that period.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and advantages of ownership.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.14 Loss due to devaluation of non-derivative financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an «event that causes loss ») and that loss event or events has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria used by the Group to identify objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obliger;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it would not otherwise consider;
- Increasing probability that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicate that there is a measurable decrease in the estimated future cash flow of a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the Group

individual financial assets, including adverse changes in the payment status of the the group's borrowers; and national or local economic conditions that correlate with defaults on the Group's assets.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted from the asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement in Other expenses. If a loan has a variable interest rate, the discount rate for measuring any 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), the reversal of the previously recognized impairment loss will be indicated in the consolidated income statement.

2.15 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into. They are subsequently re-measured at their fair value. The method of recognizing the resulting profit or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item is being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 10. Movements on the hedging reserve in equity are shown in note 16. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognized in other comprehensive income in the Net financial costs heading. The gain or loss existing in equity is recognized immediately in the income statement within Financial Costs.

Amounts accumulated in equity are reclassified to the income statement in Financial Income or Financial Costs in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative profit or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative benefit or loss that was reported in equity is immediately transferred to the income statement.

2.16 Inventories

Raw and auxiliary materials are stated 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 comprises materials, direct labor, other direct costs and indirect construction costs accumulated in project execution at the amounts effectively incurred. The net realisable value is the estimated selling price in the ordinary course of business, minus the applicable sale variable estimated 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 its cost, the corresponding impairment provision will be recognized in the income and loss statement in the heading Procurement Cost

If the circumstances causing the value correction stop existing, the amount of the correction becomes the object of reversion and is recognized as income in the profit and loss account.

2.17 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with credit institutions and other short-term investments with original maturities of three months or less, and those deposits which, by their contractual terms and specific characteristics, are considered deposits and accrue a benchmarked for a period exceeding three months.

2.18 Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

2.19 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 payment is due within one year or less. Otherwise they are presented as non-current liabilities.

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

2.20 Borrowings

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

Fees paid on the establishment of obtaining credit lines are considered transaction costs of the loan whenever it is probable that some or all of the credit line is drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.In this case, the fee is deferred until the draw-down occurs.

External resources are classified as current liabilities unless the Group has an unconditional right to defer their liquidation during at least 12 months after the balance date.

Borrowings are derecognized when they have expired or when the associated contractual liabilities have been settled or canceled.

2.21 Compound financial instruments

Compound financial instruments issued by the Group comprise a convertible loan that can be converted into shares at the option of the holder for which the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method and it will be classified as a non-current liability classified according to its settlement date. The equity component of a compound financial instrument is not re-measured subsequently except on conversion or expiry.

2.22 Current and deferred taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement unless the tax relates to items 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 balance sheet date in the countries where the Group taxable income is generated. Management periodically evaluates the positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, recognizing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on 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 from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is set using standard and tax rates that have been enacted or substantially enacted by the balance sheet date and 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 identified since they are likely to provide future taxable profits available against which temporary differences may be compensated.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except when the timing of the reversal of the temporary difference is 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 there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, where there is an intention to settle the balances on a net basis.

2.23 Employees benefits

a) Defined contribution pension plan

Patentes Talgo, S.L. has an agreement with its workers for a contributed pension plan by which the Company makes a monthly contribution of 4% of the gross salary plus the length of service of each employee yearly, the fund being specially assigned to each worker. Once the contributions have been paid, the company is under no obligation to make additional payments.

The agreement signed with the workers regarding all rights accrued established a sole contribution to a financial body which manages the pension fund plus the future contributions which the company has been making. The company has been outsourcing the pension plan since March 2000.

b) Termination benefits

Termination benefits are paid to employees as a result of the decision of the Company to terminate the contract of employment before the normal retirement age. The Group recognizes these benefits when it is demonstrably committed to terminate their current workers according to a detailed formal plan without possibility of withdrawal. Benefits payable more than twelve months after the balance sheet date are discounted to their current value.

c) Profit participation plans and bonus

The Group, when the conditions are met, recognizes a liability and an expense for payment of objectives on the basis of individual agreements with each of the workers.

Since the financial year 2006, the Group has a number of obligations with the management team from a long-term compensation plan. This compensation plan is linked, on the one hand, to the fulfillment of certain management objectives and on the other hand to remaining in the Company in the subsequent years. It was determined as a percentage related to the estimated value increase of the Talgo Group pursuant to the formulas specified in the contract signed to that effect, in accordance to the fulfillment of the compensation plan underlying assumptions, the main ones being the plan payment estimated date, the variation of the estimated value of the Group and the degree of compliance with the above mentioned management objectives.

The estimated value of the Talgo Group has been set according to the contract signed for this purpose, based on valuation techniques primarily cash flow projections. The main assumptions used for such assessments comply with those indicated in note 8 for the impairment tests for losses in value according to the criteria established in the long-term remuneration plans. The fair value of services received by the worker were considered as personnel expense in the income statement registering the relevant "provision for other liabilities and charges" in the long term. In 2012, obligations under this plan, in force since 2006 and mentioned in the previous paragraphs, have been settled for remembering the fulfillment of the conditions set therein.

Since the last quarter of 2012, under new contracts signed between the parties, the Group has a number of obligations with the management team derived from a long term stock compensation plan. This stock remuneration plan is linked, on the one hand to the fulfillment of certain management objectives and on the other hand to remaining in the Company in the subsequent years. It is set as a percentage related to the Talgo Group estimated value increase pursuant to the formula specified in the contract signed to that effect, in accordance to the fulfillment of the compensation plan underlying assumptions, the main ones being the plan payment estimated date, the variation of the estimated value of the Group and the degree of compliance with the above mentioned management objectives. This plan may be settled in cash or shares, at the choice of the Company. Nevertheless, according to the best estimates of the Group, it will be paid in Patentes Talgo, S.L. shares on the date that the acceptance to trading on a regulated market or Group takeover by a third party occurs, to be accrued in any case within a maximum period of 4 years.

The estimated value of the Talgo Group at the estimated date has been set according to the contract for this purpose, according to valuation techniques primarily based on cash flow projections. The main assumptions used for such assessments comply with those indicated in note 8 for the impairment tests for losses in value according to the criteria established in the long-term remuneration plans. The fair value of services received by the worker is considered as personnel expenses in the income statement registering the relevant provision for other liabilities and charges in the long term (note 15).

2.24 Provisions

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

The provisions are valued at the present value of the disbursements that are expected to be necessary for settling the obligation using a pre-tax rate that shows the evaluations of the current market of the temporary value of money and the specific risks of the obligation. The adjustments in the provision due to its updating are recognized as a financial expense as these are accrued.

2.25 Revenue recognition

Revenue is recorded for the fair value of the consideration to receive and represents the amounts receivable for goods delivered and services rendered during the ordinary course of the Group's activities, minus returns, reductions, discounts and value added tax.

The Group recognizes the revenue when the amount thereof can be valued reliably, when it is likely that the future economic profits are going to flow to the Group and when the specific conditions for each of the activities are met.

Revenues from rolling stock and auxiliary machines construction contracts specifically negotiated on technical characteristics defined by the client, which involve the construction of an asset or group of assets very closely related among them in terms of design, technology and function, or related to its final allocation or use and with structural and technical characteristics different from other assets, are recognized during the period of the contract if the result of the contract can be estimated reliably and it is likely that the it is going to be profitable. The criteria for recognizing revenue in train and auxiliary equipment construction contracts varies based on the estimated outcome. When the costs of the contract are likely to exceed the total income from it, the expected loss is immediately recognized as an expense.

The Group uses the percentage-of-completion method to calculate the amount to be recognized in a given accounting period. The degree of realization is determined by reference to the costs of the contract incurred on the date of the balance sheet as a percentage of the total estimated costs for each contract.

The Group presents as an account receivable (“manufacturing executed pending invoicing”) included in the heading “Clients for sales and services rendered”, the amount of the executed contracts, for which the costs incurred plus the profits recognized (minus the losses recognized) exceed the partial invoicing.

The Group recognizes a liability ("advances received for work performed under contracts" included in the heading Suppliers, the amount of all contracts in progress for which billings exceed costs incurred plus recognized profits (less recognized losses).

The Group reviews its budgets on an ongoing basis to keep its stage-of-completion calculations updated.

Revenue from contracts in place to cover manufacturing of standard products to which small modifications are made for each class of customer so-requiring and 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 spare part sales 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, are recognized based on the annual maintenance programs agreed with the end customers, tied to the distance in kilometers traveled by the trains maintained or based on flat fees agreed with customers.

Interest income

Income from interest is recognized using the method of effective interest rate. Interest income is recognized using the effective interest method. When an account receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues classifying the discount as lower interest income.

Income from dividends

Income from dividends is recognized as income in the profit and loss account when the right to receive the amount is established.

2.26 Government grants

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

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

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

Government assistance taking the form of interest-free loans, granted primarily to fund research and development work, is recognized within liabilities at fair value. In the case of grants awarded to fund capitalized development costs, the difference between the fair value and redemption value of the amount received is recognized as a grant under the heading Government grants and is taken to the income statement as the associated assets are amortized. If a grant is applicable to research expenses, the difference between the grant's fair value and the redemption value will be recognized in the income statement when the related expenses are incurred.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership which are retained by the lessor are classified as operating leases. 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 period of the lease.

2.28 Financial leasing

The Group leases certain tangible assets. Fixed assets leasing where the Group has all risks and benefits deriving from holding the lease classified as operative leasing. Financial leases are capitalized at the inception of the lease at the fair value of the leased property or the present value of minimum lease payments agreed by the lease, the lesser of the two. The present value is calculated using the interest rate implicit 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 liabilities and financial charges. The total financial charge is distributed over the lease term and recognized in profit and loss for the year in which they are incurred using the effective interest method. Contingent rents are expenses in the financial year in which they are incurred. The related lease obligations, net of financial charges are included in "Financial lease creditors". The assets acquired under financial leases are depreciated over their useful lives or the contract term, the lesser of the two.

2.29 Dividend distribution

Dividend distributions to the shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved.

2.30 Environmental expenses/assets

The costs of actions undertaken by the Group having an impact on the environment, which are detailed in note 33, are recorded as an expense of the financial year or as a greater value of the corresponding asset, always provided the conditions detailed in note 2.6 on the valuation of tangible fixed assets are complied with.

3. Financial risk management

3.1 Financial risk factors

The activities of the Group are exposed to various financial risks: market risk (including exchange rates, interest rates and prices), credit risk and liquidity risk. The management program for the Group's global risk is focused on the uncertainties in the financial markets and seeks to minimize the potential adverse effects on its financial profitability. The Group has used derivative financial instruments to hedge certain risk exposure.

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

The Board of Directors, based on an operational risk assessment, performs the control and management thereof, ,when required, the actions to improve existing procedures.

a) Market risk

(i) Foreign currency risk

The foreign currency risk is reduced, since most transactions are made in the functional currency. Additionally, sales to other countries outside the

neighboring countries are made to the United States, although they do not pose a significant weight on the Group total turnover.
The group carries out hedging contracts to mitigate this type of risk.

(ii) Prices risk

In order to mitigate sales price risk, the Group attempts to keep its cost structure highly competitive by means of the clauses established and agreed in the various contracts entered into with its customers and suppliers.

(iii) Cash flow interest rate risk.

The Group's interest rate risk arises from non-current borrowings. The external resources issued at variable rates expose the Group to cash flow interest rate risk, for this purpose the management puts in place a policy to manage the interest rate risk.

The Group manages this risk in its cash flow through interest rate swaps from variable to fixed rates of interest. Under interest rate swaps, the Group undertakes to exchange the difference between the fixed and floating interest rates biannually.

At 31 December, 2012 and 2011, if the interest rate of the debts with financial institutions rose or dropped by 100 basic points, maintaining the remaining variables constant, neither the Profit for the financial year of such years nor the Other global income would have been modified significantly.

b) Credit risk

The Group's main financial assets are cash and cash equivalents, trade debtors and other receivables and financial assets, representing the Group's maximum exposure to credit risk in relation to financial assets.

Group's credit risk is primarily attributable to its trade receivables. The amounts reflected in the balance sheet are net of provisions for insolvencies, estimated by the Group's management based on the policy in notes 2.12 and 2.14 for financial assets.

The Group has a portfolio of clients who mostly belong to the public sector of railways, therefore no indication of credit risk arising from the solvency of the delay in payment of these customers.

The Group only works with reputable financial institutions and qualified with ratings that have no risk of insolvency.

c) Liquidity risk

(Given in thousands of euros)

Prudent management of liquidity risk entails the maintenance of sufficient cash and tradable securities, availability of financing through a sufficient level of committed receivables facilities and the capacity to settle market positions. The Group regularly monitors liquidity projections on the basis of expected cash flows. The Group maintains enough cash to cover liquidity needs.
The table below presents an analysis of the Group's financial liabilities, grouped by the remaining term to contractual maturity at the balance sheet date:

At 31 December, 2012	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Debt with credit entities (note 19)	22 518	12 300	22 200	10 300
Financial derivative instruments (note 10)	-	-	-	-
Trade and other payables (note 18)	119 376	-	-	-
Debts due to reimbursable advances (note 19 b)	1 153	274	3 490	11 929
Debts with Group companies (note 19 c)	-	-	-	-
Financial lease creditors (note 19 c)	324	324	698	-
	143 371	**12 898**	**26 388**	**22 229**
At 31 December, 2011				
Debt with credit entities (note 19)	16 612	32 382	40 591	-
Financial derivative instruments (note 10)	-	703	-	-
Trade and other payables (note 18)	106 944	-	-	-
Debts due to reimbursable advances (note 19 b)	2 220	1 113	1 813	8 972
Debts with Group companies (note 19 c)	-	-	-	-
Financial lease creditors (note 19 c)	350	350	970	-
	126 126	**34 548**	**43 374**	**8 972**

3.2 Capital risk management

To date, the Group's objective on capital management is guaranteeing the Group's ability to continue a going concern in order to maximize returns and achieve greater profitability and efficiency.

(Given in thousands of euros)

The Group regularly monitors net Debt and its impact on the total capital calculated as the net assets attributable to owners of the Parent company as shown in the consolidated balance sheet plus the net debt:

	Thousands of euros	
	December 31, 2012	**December 31, 2011**
Non-current borrowings (note 19)(*)	59 616	81 976
Current borrowings (note 19)(*)	24 021	19 182
Cash and cash equivalents (note 14)	(12 471)	(83 710)
Net debt	**71 166**	**17 448**
Capital and reserves attributable to owners of the parent	149 320	81 362
Total capital	220 486	98 810
Debt	**32%**	**18%**

(*) Excluding debts convertible into grants that are described in note 19.

The increase in the net debt and worsening debt ratio during the reporting years can be explained by the new loans indicated in note 19.

3.3 Fair value balance

It is assumed that the carrying amount minus the provision for impairment of current receivables and payables approximates their fair value. The fair value of financial liabilities for the purpose of presenting financial information is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

On January 1, 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are valued in the balance sheet at fair value (note 11), which requires disclosure of fair value measurements by using the following hierarchy levels :

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

The only significant items held by the Group at their fair value are derivative financial instruments that are classified in Level 2 of the fair value hierarchy.

4. Significant accounting estimates and judgments

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

4.1) Significant estimates and assumptions

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

a) Estimate loss due to goodwill impairment

The Groups checks annually if the goodwill has had any loss due to impairment, in accordance with the accounting policy in note 2.8. The recoverable amounts of cash generating units (CGU) have been determined based the calculation of the value in use. These calculations require the use of estimates. Based on calculations of value in use, according to the assumptions and the assumptions described in note 8 for the years 2011 and 2012, the recoverable amount of CGUs to which goodwill has been allocated has exceeded to its book value even after certain sensitivity analysis on discount rates or growth rates. This sensitivity has been analyzed with variations of 100 basis points in discount rates and variation of 20 basis points in the growth rates used and 200 basis points in the expected range.

b) Income tax and tax assets and liabilities

The Group is subject to income taxes in several jurisdictions. It requires a significant degree of judgment in determining the overall provision for income taxes. The Group recognizes liabilities for any tax claims based on estimates of whether additional taxes will be needed. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

The Group assesses at each balance sheet date the recoverability of tax assets, deferred tax assets primarily and deductions, based on a number of criteria are:

- 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 which on one hand, reliably prove the amount of tax assets recognized, on the other hand serve the base Management to make their estimates as to the reliability and the amount of the deductions to activate. In the event that Management did not have, at a certain date, the annual accounts of all appropriate documentation, in its view, tax assets could not be reliably measured and therefore it may be unlikely to recover the same, such tax assets may not be activated until

the moment when the two aforementioned conditions are met, in accordance with all supporting documentation related to tax assets.

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

c) Revenue recognition

The Group uses the percentage of completion method, based on the percentage of completion accounting for revenue from contract manufacturing of trains and auxiliary machinery. The stage of completion is calculated as a percentage of contract costs incurred on the total estimated costs for completion of the contract. This revenue recognition method only applies when the outcome of the contract can be reliably estimated and is likely that the contract generates benefits. If the contract income can not be estimated reliably, revenue is recognized to the extent of cost recovery. When it is probable that contract costs exceed 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 carrying out the contract. These estimates are reviewed periodically in order to verify whether it has generated a loss and if it is possible to continue applying the percentage of completion method or to re-estimate the expected range of the contract. During the course of the contract, the Group also finds probable contingencies related to the total estimated cost increase and varies the recognition of revenues consistently.

d) Useful lives of Tangible and Intangible Assets

Group management determines the estimated useful lives and related depreciation charges for Tangible Fixed Assets and Intangible Assets. This estimate is based on the period in which the elements of Tangible Fixed Assets and Intangible Assets will generate economic benefits. The Group reviews at each year end the useful lives of Tangible and Intangible Assets and whether the estimates differ from those previously made, the effect of the change is accounted for prospectively in the consolidated results of operations from which the exchange is performed.

e) Warranty provisions

The Group generally offers three-year warranties for railway construction, auxiliary machinery and repair work performed. The management estimates the provision of warranty for future works based on historical information about costs in the warranty period, as well as recent trends that might suggest that past information may differ on the cost of future work. Estimates are made according to the best available information and circumstances at 31 December 2012 and 2011, not expecting significant changes in those estimates.

(Given in thousands of euros)

f) Provision for compensations

As indicated in Note 2.23 c) the Group has undertaken a number of obligations relating to a compensation plan, being required to calculate these obligations on the implementation of a series of estimates, as explained in the aforementioned note.

5. Segment information

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

The Board of Directors monitors the business from a business line perspective, analyzing the performance of the Rolling stock and Auxiliary machines and other equipment operating segments, matching the reportable segments. The Board of Directors uses operating profit to assess the operating segments' financial performance.

Within the segment of "Rolling stock" are included both manufacturing activity and the maintenance of trains manufactured with Talgo technology, activities that are closely related.

Likewise, the activity "Auxiliary machines and Other", fundamentally includes the activities of Pit Lathes and other equipment manufacturing, repair, modification and spare part sales.

The general segment includes general corporate expenses not directly attributable to other segments.

The following segment information supplied to the Board of Directors for the segments that must be reported for the financial years ended at 31 December 2011 and 2012 has been obtained from the Group's management reporting systems and does not differ significantly from the IFRS information:

	12.31.2011 Thousands of euros			
	Rolling stock	**Auxiliary machines and other**	**General**	**Total**
Total income of the segment	330 702	29 084	-	359 786
Intersegment revenues	-	-	-	-
Revenues from external customers	**330 702**	**29 084**	**-**	**359 786**
Amortizations	5 849	34	1 609	**7 492**
Operating result	**107 482**	**7 693**	**(48 485)**	**66 690**

(Given in thousands of euros)

Financial Income	1 034	80	1 222	2 336
Financial Expenses	(4 092)	(385)	(1 190)	(5 667)
Pre-tax results	**104 424**	**7 388**	**(48 453)**	**63 359**
Total Assets	**298 055**	**27 577**	**139 952**	**465 584**
Total Liabilities	**199 328**	**18 246**	**135 252**	**352 826**
Fixed asset investment	**9 252**	**240**	**527**	**10 019**

	12.31.2012			
	Thousands of euros			
	Rolling stock	**Auxiliary machines and other**	**General**	**Total**
Total income of the segment	310 918	19 000	-	329 918
Intersegment revenues	-	-	-	-
Revenues from external customers	**310 918**	**19 000**	**-**	**329 918**
Amortizations	4 634	38	1 200	**5 872**
Operating result	**84 012**	**3 804**	**(26 794)**	**61 022**
Financial Income	1 278	78	14	1 370
Financial Expenses	13 937	833		14 770
Pre-tax results	**71 353**	**3 049**	**(26 780)**	**47 622**
Total Assets	**279 818**	**20 823**	**129 713**	**430 354**
Total Liabilities	**165 115**	**16 784**	**99 135**	**281 034**
Fixed asset investment	**17 890**	**-**	**2 067**	**19 957**

38,4% of Group revenue in 2012 came from a single client, (2011: 52,9%).

Revenue from external customers, total assets and total liabilities of the reporting to the Governing Council are valued in accordance with principles consistent with those applied in the annual accounts.

The total net amount of revenues from external customers in 2012 and 2011 is distributed geographically as it is shown below:

	Thousands of euros	
	2012	**2011**
Spain	137 409	200 592
International	192 509	159 194
	329 918	**359 786**

(Given in thousands of euros)

Total non-current assets other than financial instruments and deferred tax assets in 2012 and 2011 are distributed geographically as follows:

		Thousands of euros
	2012	**2011**
Spain	189 171	176 051
International	5 510	6 749
	194 681	**182 800**

In June 2004, the subsidiary Patentes Talgo, S.L. registered its Permanent Establishment in Kazakhstan in the form of a branch, its main activity being the maintenance of Talgo trains owned by Temir Zholy (State railway administration of Kazakhstan).

The registered office is located in Almaty, Republic of Kazakhstan.

The sale figures of such subsidiary is directly related to the permanent establishment in Kazakhstan came to 5.563 thousand euros in 2012 (2011: 5.995 thousand euros).

During the financial year 2011 Patentes Talgo S.L. registered its permanent establishment in Uzbekistan in the form of a branch, its main activity being the maintenance of Talgo trains owned by Temir Zholary (State railway administration of Uzbekistan).The registered office is located in Tashkent, Republic of Uzbekistan.

The sale figures of such subsidiary are directly related to the permanent establishment in Uzbekistan came to 1.689 thousand euros in 2012, in 2011 it had no activity.

(Given in thousands of euros)

6. Intangible fixed assets

The movements in intangible assets in 2011 and 2012 were as follows:

Thousands of euros

	Balance at 12.31.10	Translation differences	Additions	Disposals	Transfers	Balance at 31.12.11
Cost						
Lands	9 894	-	-	-	-	9 894
Buildings	33 345	(26)	25	-	7 508	40 852
Technical installations and machinery	16 625	(46)	556	(60)	264	17 339
Other installations, tools and furniture	37 687	(26)	372	(154)	1 675	39 554
Advances and in progress	2 049	91	2 546	(2)	(1 939)	2 745
Other fixed assets	8 430	(2)	361	(1 620)	-	7 169
	108 030	**(9)**	**3 860**	**(1 836)**	**7 508**	**117 553**
Amortization						
Lands	-	-	-	-	-	-
Buildings	(15 473)	26	(1 827)	-	-	(17 274)
Technical installations and machinery	(12 831)	40	(782)	41	-	(13 532)
Other installations, tools and furniture	(27 290)	22	(2 358)	-	-	(29 626)
Other fixed assets	(6 588)	1	(227)	1 620	-	(5 194)
	(62 182)	89	(5 194)	1 661	-	(65 626)
Net book value	**45 848**	**80**	**(1 334)**	**(175)**	**7 508**	**51 927**

Thousands of euros

	Balance at 31.12.11	Translation differences	Additions	Disposals	Transfers	Changes in the consolidation perimeter	Balance at 31.12.12
Cost							
Lands	9 894	-	-	-	-	-	9 894
Buildings	40 852	(16)	64	-	-	-	40 900
Technical installations and machinery	17 339	(28)	298	(41)	756	(488)	17 836
Other installations, tools and furniture	39 554	(16)	173	(6)	239	(89)	39 855
Advances and in progress	2 745	-	3 373	-	(995)	(1 345)	3 778
Other fixed assets	7 169	(1)	12	-	-	(177)	7 003
	117 553	(61)	3 920	(47)	-	(2 099)	119 266
Amortization							
Lands	-	-	-	-	-	-	-
Buildings	(17 274)	15	(1 260)	-	-	-	(18 519)
Technical installations and machinery	(13 532)	25	(841)	41	-	-	(14 307)
Other installations, tools and furniture	(29 626)	15	(2 287)	-	-	1	(31 897)
Other fixed assets	(5 194)	1	(210)	-	-	3	(5 400)
	(65 626)	56	(4 598)	41	-	4	(70 123)
Net book value	**51 927**	**(5)**	**(678)**	**(6)**	**-**	**(2 095)**	**49 143**

The main additions in 2011 refer to investment projects in the premises of the factory of Las Matas II, Rivabellosa and Astana (Tulpar Talgo).

The main additions in 2012 refer to investment projects in the premises of the factories in Las Matas II and Rivabellosa.

Disposals mostly correspond to elements that have been replaced due to not being in a condition of use.

Land and buildings include three Group properties located in Rivabellosa and Las Rozas (Madrid).

Changes in the consolidation perimeter record fixed assets relating to the company Tulpar Talgo LLP (note 1).

a) Updates

The amount of net cumulative updates at 31 December, 2012 madeunder RDL 7/1996 of June 7, amounted to 284 thousand euros (2011: 297 thousand euros) being amortized in the year 2011 corresponding to these updates of 13 thousand euros (2011: 13 thousand euros).

The forecasted effect on the provision for amortization for the next financial year due to updating of balance sheets carried out by virtue of Royal Decree Act 7/1996 of 7 June, is 13 thousand euros matching with the recorded amount for the previous year.

b) Fully depreciated tangible assets

At 31 December, 2012 there are tangible fixed assets with an initial cost of 30.336 thousand euros which was fully depreciated and still in use (2011:26.600 thousand euros).

c) Insurances

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

d) Impairment losses

During the 2012 and 2011 financial years no valuation corrections have been either recognized or reverted due to impairment for any individual tangible fixed asset.

e) Tangible assets to guarantee

In 2012 and 2011 there are no guarantees tangible assets.

f) Goods under operational leasing

(Given in thousands of euros)

In the consolidated income statement for 2012 have been included operating lease expense for the rental of equipment amounting to (829 thousand euros (2011: 630 thousand euros), transport of elements amounted to 236 thousand euros (2011: 176 thousand euros), buildings amounted to 779 thousand euros (2011: 196 thousand euros), and other leasing amounted to 440 thousand euros (2011: 375 thousand euros). The volume of leases for the coming years will be in line with those recorded at year-end 2012.

g) Intangible assets abroad

At 31 December 2012 and 2011 the consolidated Group has investments abroad in tangible fixed assets as detailed below:

	Thousands of euros	
Intangible fixed assets	**2012**	**2011**
Lands and buildings	12 438	12 390
Technical installations and machinery	4 355	4 492
Other installations, tools and furniture	3 071	3 002
Advances and intangible fixed assets in progress	691	-
Other tangible fixed assets	127	406
Accumulated amortization	(15 172)	(13 541)
Net book value	**5 510**	**6 749**

h) Purchase commitments

At 31 December, 2012 purchase commitments for intangible fixed assets came to 6.374 thousand euros (8.794 thousand euros in 2011).

7. Intangible assets

The movements in intangible assets in 2012 and 2011 were as follows:

						Thousands of euros
	Balance at 31.12.10	**Translation differences**	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.11**
Cost						
Development	48 606	-	-	-	175	48 781
Industrial property	1 749	-	-	-	-	1 749
Software	6 295	(12)	56	(31)	385	6 693
Advances and intangible fixed assets in progress	10 438	-	6 103	-	(560)	15 981
	67 088	**(12)**	**6 159**	**(31)**	**-**	**73 204**
Amortization						
Development	(45 964)	-	(1 549)	-	-	(47 513)
Industrial property	(18)	-	(1)	-	-	(19)
Software	(4 804)	12	(748)	31	-	(5 509)
Provisions	(1 729)	-	-	-	-	(1 729)
	(52 515)	**12**	**(2 298)**	**31**	**-**	**(54 770)**
Net book value	**14 573**	**-**	**3 861**	**-**	**-**	**18 434**

(Given in thousands of euros)

						Thousands of euros
	Balance at 31.12.11	Translation differences	Additions	Disposals	Transfers	Balance at 31.12.12
Cost						
Research and Development	48 781	-	-	-	-	48 781
Industrial property	1 749	-	-	-	-	1 749
Software	6 693	(113)	87	-	786	7 453
Advances and intangible fixed assets in progress	15 981	-	15 950	-	(786)	31 145
	73 204	**(113)**	**16 037**	**-**	**-**	**89 128**
Amortization and impairment losses						
Research and Development	(47 513)	-	(417)	-	-	(47 930)
Industrial property	(19)	-	(1)	-	-	(20)
Software	(5 509)	15	(856)	-	-	(6 350)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(54 770)	**15**	**(1 274)**	-	-	**(56 029)**
Net book value	**18 434**	**(98)**	**14 763**	**-**	**-**	**33 099**

Development expenses at 31 December, 2012 and 2011 primarily include costs incurred by the Patentes Talgo S.L. in the AVRIL project development, gauge change system, high speed and maintenance auxiliary equipment projects.

At 31 December, 2012 and 2011, the main additions of fixed assets in progress concerning the costs incurred in the AVRIL project development, Talgo very high speed train with integrated traction of very high capacity and continuous low floor.

The amount of provisions relates to a patent owned by the group that has been damaged at 100% prior to the date of transition to IFRS, as their income-generating capacity was not guaranteed.

a) Fully-amortized intangible assets

At 31 December, 2012 there exists intangible fixed assets with an initial cost of 51.920 thousands of euros which is fully depreciated and still in use (2011: 50.708 thousand euros).

b) Insurance

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

c) Grants

At 31 December, 2012 within the acquisitions of fixed assets, 14.659 thousand euros have been partially financed by grants received from official bodies.(2011: 4.752 thousand euros).

(Given in thousands of euros)

c) Impairment losses

During the 2012 and 2011 financial years no valuation corrections have been either recognized or reverted due to impairment for any individual intangible assets. In the impairment tests performed on intangible assets that were not yet in use at 31 December, 2012 and 2011 has not shown any impairment thereof.

This impairment test was conducted using a discounted cash flow of manufacturing projects where the Company has currently considered using the Avril model, applying a discount rate of 10,9%.

8. Goodwill

The movement of goodwill is as follows::

	Thousands of euros
Balance at 31.12.10	**112 439**
Additions	-
Terminate	-
Balance at 31 12.11	**112 439**
Additions	-
Terminate	-
Balance at 31 12.12	**112 439**

Evidence of goodwill impairment

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

The following is a segment summary of the allocation of goodwill.

	12.31.2012	12.31.2011
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 calculation of the value in use. These calculations use cash-flow projections based on financial budgets approved by the management covering a period of five years. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the rate of long-term average growth for the sector in which the Group operates.

The key assumptions used in measuring the fair value used in 2012 and 2011 are indicated below:

	2012	2011

	Rolling stock	Auxiliary machines	Rolling stock	Auxiliary machines
Discount rate [1]	10.9%	10.9%	10.9%	10.9%
Economic growth rate [2]	0.5%	0.5%	0.5%	0.5%

[1] Pre-tax discount rate applied to cash flow projections.
[2] The growth rate used to extrapolate cash flow projection beyond the budget period.

These assumptions have been used in analyzing each CGU within the operating segment.

Management determined the budgeted gross margin based on past performance and expectations of market development, keeping them in line with the margins of previous years. The average weighted growth rates are coherent with the forecasts included in reports of this field. The discount rates used are pre-tax and show specific risks related to the relevant segments.

During the financial years 2012 and 2011 there has not been impairment in any of the assessed CGU.

9. Financial instruments by category

a) The breakdown of financial instruments by category is the following:

	Loans and accounts receivables	Hedging derivatives	Total
December 31, 2011			
Assets in balance			
Trade and other receivables (note 12)*	118 219	-	118 219
Other financial assets (note 11)	1 935	17	1 952
Cash and cash equivalents (note 14)	83 710	-	83 710
	203 864	**17**	**203 881**
December 31, 2012			
Assets in balance			
Trade and other receivables (note 12)*	165 744	-	165 744
Other financial assets (note 11)	2 927	-	2 927
Cash and cash equivalents (note 14)	12 471	-	12 471
	181 142	**-**	**181 142**

*The balances for the government section, with the exception of grants have been excluded from the balance of trade and other receivables due to not being financial instruments.
**the amounts of initial charges related to the syndicated loan described in note 19 which are included in the line 'other non-current financial assets' are not included in the balance sheet under other financial assets analysis required only for financial instruments.

(Given in thousands of euros)

	Thousands of euros		
	Hedging derivatives	Financial liabilities at amortised cost	Total
December 31, 2011			
Liabilities in balance			
Borrowings (note 10 and 19)	703	103 697	104 400
Trade and other account receivables (note 18)*	-	101 038	101 038
	703	**204 735**	**205 438**
December 31, 2012			
Liabilities in balance			
Borrowings (note 10 and 19)	-	87 828	87 828
Trade and other account receivables (note 18)*	-	95 255	95 255
	-	**183 083**	**183 083**

* The balances of advances received and social security and other taxes have been excluded from the balance of Suppliers and other receivables since their are not financial instruments.

b) Credit quality of financial assets

The credit quality of financial assets that have not yet expired and have not been impaired can be assessed in terms of credit rating ("rating") granted by bodies external to the Group.

In relation to Customer balances and Other financial assets, which do not maintain a specific credit rating, the Group believes that there is no risk of significant deterioration as they correspond to Public or of a similar nature, which generally have less risk of deterioration, or they represent short-term deposits with credit institutions with no risk of impairment with rating A (12%), 60% in the financial year 2011 and a BB or higher (88%) of the cases, 40 % in the financial year 2011.

The balance 40,02% of the Group customers in 2012 came from a single client, (2011: 38,7%) and mostly belong to the segment of Rolling Stock.

10. Derivative financial instruments

	Thousands of euros			
	December 31, 2012		December 31, 2011	
	Asset	Liability	Asset	Liability
Interest rate swaps - cash flow hedges	-	-	17	703
	-	**-**	**17**	**703**
Except non current party:				
Interest rate swaps - cash flow hedges	-	-	17	703
Current party	-	-	-	-

(Given in thousands of euros)

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

As it is mentioned in note 19, the financing agreement signed by the Patentes Talgo S.L. subsidiary in 2011 along with the swap associated with it have been fully settled during the year 2012.

The notional principal amounts of swaps outstanding interest rate at 31 December 2011 amounted to 36.000 thousand euros being canceled in the financial year 2012.

At 31 December 2012, variable interest rates are indexed to EURIBOR
plus a market spread.

11. Other financial assets

The breakdown of this heading is as follows:

	Thousands of euros	
	31.12.12	**31.12.11**
Other non-current financial assets		
Loans to third parties and other loans (note 11 a)	1 080	328
Loans to associates (note 11 c)	475	-
Deposits and guarantees (note 11 b)	843	843
Investment in associates	4	4
	2 402	**1 175**
Other current financial assets		
Loans to third parties (note 11 a)	367	704
Hedge derivatives (note 10)	-	17
Deposits and guarantees (note 11 b)	92	-
Other financial assets	70	60
	529	**781**
Other financial assets total	**2 931**	**1 956**

a) Loans to third parties and other loans

In the caption Loans to third parties non-current debt is collected primarily for the amount set, updated to the market rate at the grant date, pending long-term repayment of the technology partner for repayable advances granted by the Ministry of Science and Innovation of the subsidiary Patentes Talgo, S.L. The fair value of these loans at 31 December, 2012 amounted to 367 thousand euros (2011: 1.071 thousand euros) additionally including balances with related parties amounting to 637 thousand euros and balances with financial institutions concerning the monetization of loans related to CDTI amounting 443 thousand euros.

(Given in thousands of euros)

The breakdown of trade receivables repayable advances by maturity date is as follows:

December 31, 2011	2011	2012	2013	2014	Subsequent years	Total
Repayable advances	704	328	-	-	-	**1 032**

December 31, 2012	2012	2013	2014	2015	Subsequent years	Total
Repayable advances	367	-	-	-	-	**367**

b) Deposits and guarantees

The heading of deposits and guarantees of non-current assets at 31 December 2012 and 2011 mainly include a deposit made by the American subsidiary Talgo Inc. concerning the maintenance contract provided by this subsidiary, which has a maturing beyond five years at 31 December 2012.

d) Loans to associates

It contains a loan to the Consorcio Mecca Medina High Speed company amounting to 475 thousand euros in 2012, bearing a market interest rate.

12. Customers and other accounts receivable

The Group's main customers are the railway authorities of the countries where the Group operates and other related customers.

During 2012 the Group has continued implementing manufacturing contracts among which are included 420 coaches for the Republic of Kazakhstan, the 9 trains in the contract Bosnia-Herzegovina and the transformation of 15 Talgo 250 trains into diesel-electric Hybrids and 2 trains for the State of Wisconsin (USA) and 2 additional trains for the State of Oregon (USA) . Similarly, the latest work of commissioning of the two Talgo 250 trains for the Uzbekistan railways has carried out and has continued the development work of 7 trains for the Russian state railway company RZD.

In the financial year 2012 the Group continued the maintenance activity for RENFE Operadora, in addition to Intercity rolling stock and hauled stock, in addition to High Speed trains. Similarly, it has continued the train maintenance through its permanent establishment in Kazakhstan for Themor Zholy and the Talgo Inc. subsidiaries (USA) and Talgo (Deutschland) GmbH (Germany). Similarly, in this financial year 2012 the maintenance of 2 Talgo 250 trains for the railways of Uzbekistan, which started operating in 2011, have continued being performed. Similarly, during 2012 the Parent Company has signed, as a member of the High Speed Mecca Medina S.A. Consortium, of the contract for the manufacturing of 35 high-speed trains.

(Given in thousands of euros)

The balances included under this heading relate to traffic operations and do not accrue any interest rate.

The carrying value of the balances of Customers and Other accounts receivable approximates their fair value.

The composition of this heading is that shown below:

	Thousands of euros	
	12.31.12	**12.31.11**
Customers	119 953	65 584
Building construction pending bill	39 437	32 975
Group companies customers	1 760	5 376
Receivables to third parties	-	5 182
Provision for loss impairment	(1 018)	(519)
Customers - Net	**160 132**	**108 598**
Government authorities	6 272	9 512
Sundry debtors	2 930	2 601
Staff	374	382
Total	**169 708**	**121 093**

The amount of costs incurred and profits recognized under all manufacturing contracts in force at 31 December 2012 was 995.986 thousand euros (2011: 801.660 thousand euros).

The manufacturing contracts revenue recognized in 2012 amounted to 194.326 thousand euros (2011: 214.320 thousand euros).

At 31 December, 2011, the heading "Trade Group Companies" corresponded to the balance maintained with the subsidiary Tarvia Mantenimiento S.A.and Tulpar Talgo LLP which are included in the scope of consolidation by proportionate integration in that year. At 31 December 2012, this item only includes the balance kept with the subsidiary Tarvia Mantenimiento, S.A.

(Given in thousands of euros)

In 2011, the Parent Company entered into a series of loans to its shareholders, with a cost breakdown indicated below:

		Thousands of euros
	Creation date	Amount
Pegaso Transport, S.a.r.l.	04/01/2011	89 717
MCH Inversiones Ferroviarias S.a.r.l.	04/01/2011	12 215
Other	04/01/2011	6 219
		108 151

The loans above were granted on April 1, 2011 for the amounts outlined in the table above, being its maturity on December 31, 2011. The fair value of such loans calculated at a market rate of interest to the date of grant amounts to 106.815 thousand euros. The interest income recorded in the consolidated income statement at 31 December 2011 amounted to 1.336 thousand euros following the updating of the account receivable.

On December 9, 2011, the General Meeting of Members of the Company offset some of the loans marked with a dividend amounting to 104.151 thousand euros (of which 100.996 thousand euros are to report the result of 2011).

During the year 2012 the remainder of the aforementioned loans was canceled by offsetting the capital reduction by the return of the contributions mentioned in note 15, having canceled the remainder through cash contributions.

At 31 December, 2012, accounts receivable from customers due amount to 76.925 thousand euros (2011: 106.601 thousand euros).

At 31 December, 2012 the Group sales commitments amounted to 3.329 million euros (2011: 3.249 million euros).

Past due balances older than 6 months are broken down below:

		Thousands of euros
	12.31.12	12.31.11
Between 6 and 12 months	9 275	1 223
More than 12 months	555	774
	9 830	**1 997**

(Given in thousands of euros)

At 31 December, 2012, the amount of accounts receivable from clients which have suffered an impairment and accrued amounted to 1.018 thousand euros (2011: 519 thousand euros). The aging analysis of these accounts is as follows:

	Thousands of euros	
	12.31.12	**12.31.11**
Between 3 and 6 months	-	-
More than 6 months	1 018	519
	1 018	**519**

The carrying amount of trade receivables of the Group and other receivables are denominated in the following currencies:

	Thousands of euros	
	12.31.12	**12.31.11**
Euro	156 887	102 049
Swiss francs	673	596
US Dollar	2 117	5 953
	159 677	**108 598**

Movements in the provision for impairment of receivables from customers and other receivables of the Group were as follows:

	Thousands of euros	
	2012	**2011**
At 1 January	**519**	**519**
Provision allowance	499	-
Terminate	-	-
At 31 December	**1 018**	**519**

The provision and application of the provision of impaired receivables has been included in the line of Other operating expenses in the income statement (note 24). The amounts charged to the allowance account are written off for accounting purposes when there is no expectation of extra cash.

The remaining accounts included in the account receivables from customers and other receivables do not contain assets with value impairment.

The maximum exposure to credit risk at the reporting date is the carrying amount of each type of receivable mentioned above.

(Given in thousands of euros)

The breakdown of the heading “Public Administrations” is as follows:

	Thousands of euros	
	12.31.12	**12.31.11**
Public administrations debtors for VAT	1 281	1 990
Public administrations debtors for grants	3 124	6 638
Public administrations debtors for other taxes	305	486
Public administrations withholding and foreign payments	1 562	398
	6 272	**9 512**

The heading of tax receivables by grants primarily reflects 2012 and 2011 year-end the amount receivable from the Ministry of Science and Innovation related to the AVRIL project R & D. The share of liabilities associated with this project is long term recorded under "Other Financial Liabilities" (note 19b).

13. Inventories

The composition of this heading is that shown below:

	Thousands of euros	
	12.31.12	**12.31.11**
Raw Materials	31 383	46 530
Work in progress	3 636	3 889
Advances	1 176	5 505
	36 195	**55 924**

At 31 December, 2012, commitments for the purchase of raw materials and other Group services totaled 36.014 thousand euros (2011: 80.386 thousand euros).

The Group has made valuation adjustment corrections to the balance of raw materials reversal of provision amounting to 591 thousand euros during the financial year 2012 (2011: 1.513 thousand euros of provision allowance) has been offset by the charge to the consumption of raw materials, so the impact on the income statement has been zero.

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

14. Cash and cash equivalents

The breakdown of this heading is as follows:

(Given in thousands of euros)

	Thousands of euros	
	12.31.12	**12.31.11**
Liquidity	12 471	47 335
Other cash equivalents	-	36 375
Total	**12 471**	**83 710**

The balance of other cash equivalents corresponds to investments at 31 December, 2011 in commercial paper maturing in less than 3 months in the subsidiary Patentes Talgo, S.L bearing a market interest rate.

15. Share capital and Issue premium

The variations in the 2011 and 2012 financial years of the number of shares and share capital accounts of the parent company were as follows:

	Thousands of euros	
	Number of shares	**Share Capital**
At 31 December, 2010	**391 295**	**11 778**
Capital increase	758 817	22 840
Capital reductions	-	-
At 31 December 31, 2011	**1 150 112**	**34 618**
Capital increase	342 065	10 296
Capital reductions	(123 848)	(3 727)
At 31 December, 2012	**1 368 329**	**41 187**

At 31 December, 2010, the share capital was represented by 391.295 euros shares of 30,10 euros (thirty euros and ten cents) each, numbered consecutively from 1 to 391,295 euros, both inclusive, fully described and paid.

On October 4, 2011 the Parent Company notarized a capital increase before notary which was agreed by the General Shareholders Meeting on September 26, 2011 amounting to 22.840.391,70 euros fully subscribed by Pegaso Transport, S.A.R.L. by compensating for fixed sums for equity loan note in 2006 and canceled during the financial year 2010. On October 10, 2011 the above capital increase was entered in the Commercial Registry of Madrid.

On March 28, 2012 the Parent Company notarized capital reduction agreed at the AGM Universal of the Company dated February 23, 2012, amounting to 3.727.824.80 euros by return capital to shareholders provided loans are partially offset note 12. The amount of 30,10 euros was paid to each of the shareholders of Class A and B being the social capital of the Company total 1.026.264 euros shares with a nominal value of 30,10 euros.

(Given in thousands of euros)

On May 30 2012, the Parent Company notarized a capital increase which was agreed by the General Shareholders Meeting on April 26, 2012. The capital increase was carried out through the issuance of Class C shares, par value of 30,10 euros each, with a global premium of 68.450.627,15 euros. The new shares payment was made through a non-monetary contribution, consisting of Class B shares of the Patentes Talgo, S.L.U. company. The premium of the Parent company is unrestricted.

From this capital injection, Pegaso International, SA becomes the holder of 100% of the ownership interest of the Company Patentes Talgo S.L.U.

The above shares are divided into 851.339 euros Class A shares that are freely transferable by holders, 174 925 euros Class B shares that are freely transferable in favor of the holders of Class A shares and for companies that are part of the same group of companies as the shares transferor, and subject to the right of first refusal by the other shareholders. If they are sold to parties other than those mentioned and 342.065 euros Class C shares are freely transferable in favor of the Class A shareholders, on behalf of the transferor shareholder family, and for companies that are part of the same group of companies as that of the shareholder transferor. The latter being subject to the right of preferential acquisition and subject to the first refusal rights by the remaining shareholders, if sold to parties other than the aforementioned.

These figures make the new share capital to be fixed in 41.186.702,90 euros for 1.368.329 euros shares of a nominal value of 30,10euros, being the percentage of participation of each of the shareholders after operations that indicated below:

	12.31.11	
	Nº shares	**% of share**
Pegaso Transport, S.a.r..L.	954 073	82.95%
MCH Inversiones Ferroviarias,S.a.r..l.	129 900	11.30%
Other shareholders (percentage < 10%)	66 139	5.75%
	1 150 112	**100.00%**

	12.31.12	
	Nº shares	**% of share**
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 (percentage < 10%)	401 072	29.32%
	1 368 329	**100.00%**

Other shareholders with percentages below 10% include Group members of senior management.

a) Limitations on the distribution of dividends

The freely distributable benefits and earnings, determined based on local accounting principles, subject to limitations for distribution set forth below:

(Given in thousands of euros)

- Dividends may not be distributed insofar as they reduce the balance of reserves to an amount less than the total sum of capitalized development costs pending amortization.

- The Group companies domiciled in Spain are obliged to transfer 10% of profit for each year to a legal reserve until this reserve reaches an amount at least equal to 20% of share capital. It cannot be distributed and if it is used to compensate for losses, in the event that there does not exist any other reserves available and sufficient for the purpose, then it must be refunded with future profits. The Parent legal reserve at 31 December, 2012 amounted to 6.924 thousand euros (2.155 thousand euros at December 31, 2011).

- Patentes Talgo, S.L. must provide a reserve equivalent to goodwill, included in the asset (see note 8), targeting this end a number of benefits that equals at least 5% of the goodwill. If there is no profit, or it was not enough, freely disposable reserves will be used.

e) Financial year profit

The distribution of profit of the parent company, based on local accounting principles, for 2011, adopted by the General Meeting of Shareholders, and the proposed distribution of profit for 2012 is detailed below:

		Thousands of euros
	2012	**2011**
Basis for distribution		
Profit and Loss	(25)	105 774
Total	**(25)**	**105 774**
Application		
To Legal Reserve	-	4 769
Interim dividend	-	100 996
Negative outcome	(25)	9
Total	**(25)**	**105 774**

Interim dividend

On December 19, 2011, the General Partner of Pegasus Rail International, Ltd. agreed to distribute an interim dividend of results for the 2011 financial year amounting to 100.996 thousand euros.

(Given in thousands of euros)

The liquidity balance sheet referred to at 30 November , 2011 included in the General Meeting of Partners, in which it was agreed to distribute the interim dividend was the following:

PREVISIONAL STATEMENT OF LIQUIDITY	**Euros**
Liquidity	56
Receivables forecast for the next 12 months.	108 170
TOTAL INCOME	**108 226**
Forecast payments to trade creditors for the next 12 months	(60)
Other expenses forecast for the next 12 months	(400)
Provision of debt services for the next 12 months	-
Forecast dividend payment to be made	(105 000)
TOTAL PAYMENTS TO BE MADE	**(105 460)**
SURPLUS	**2 766**
PROFIT BEFORE TAX	**106 105**
Corporate tax on income generated	(340)
Mandatory Reserves Allocation	(4 769)
ENDOWMENTS (*)	**(5 109)**
MAXIMUM DIVIDENT TO DISTRIBUTE	**(100 996)**

c) Dividend per share

Dividends paid in 2011 were of 104.151 thousand euros, representing 90,5 euros per share.

During the financial year 2012 no dividends have been distributed.

d) Other equity

This heading records the equity component which is included in note 2.23. amounting to 2.516 thousand euros.

(Given in thousands of euros)

16. Other reserves

The changes in this heading have been as follows:

	Thousands of euros		
	Translation differences	Hedge reserve	Total
Balance at 31 December 2010	**(40)**	**-**	**(40)**
Transfer differences of foreign currency - Group	(28)	-	(28)
Cash flow hedges: profit in fair value	-	(381)	(381)
Profit taxes in fair value	-	114	114
Balance at 31 December 2011	**(68)**	**(267)**	**(335)**
Transfer differences of foreign currency - Group	242	-	242
Cash flow hedges: profit in fair value	-	381	381
Profit taxes in fair value	-	(114)	(114)
Balance at 31 December 2012	**174**	**-**	**174**

a) Currency translation differences

The currency translation difference included within the heading Other reserves corresponds entirety to the translation of the financial statements of the Talgo Inc. subsidiary.

b) Hedging reserve

The hedging reserve derives from financial instruments arranged by Group subsidiary Patentes Talgo, S.L. in order to mitigate the interest rate risk associated with its floating-rate syndicated loan (note 19).

17. Non-controlling interests

The breakdown of this heading is as follows:

	Thousands of euros
Balance at 31 December 2010	**55 941**
Other comprehensive income	(98)
Profit of the financial year 2011	11 026
Other movements	(35 473)
Balance at 31 December 2011	**31 396**
Profit of the financial year 2012	1 451
Operations with minority (note 15)	(32 847)
Balance at 31 December 2012	**-**

The Outcome for the year 2012 includes the outcome attributable to minority shareholders at the time of the non-monetary contribution referred to in note 15.

18. Trade and other payables

The breakdown of this heading is as follows:

(Given in thousands of euros)

	Thousands of euros	
	12.31.12	**12.31.11**
Suppliers	83 770	89 234
Advanced payments on supply contracts	47 135	78 242
Social Security and other taxes	24 121	5 906
Staff	11 485	11 804
Total	**166 511**	**185 186**

The heading Advances received on contract work includes advances received from customers of the Group, in accordance with the accounting policy described in note 2.25.

The breakdown of trade payments made during the financial year and outstanding at closing in connection with the deadlines established by the Law 15/2010 is as follows:

	Made and outstanding payments at 31.12.12	
	2012	
	Thousands of euros	**%**
Payments for the financial year within the legal deadline	66 006	34%
Other	130 700	66%
Financial year total payment	196 706	100%
Payment Term exceeded (Days)	15	
Outstanding balance at closing exceeding the maximum legal deadline	18 474	

At the date of preparation of these financial statements, the entire outstanding balance at year end exceeding the legal maximum was liquidated.

The breakdown of trade payments made during the financial year 2011 and outstanding at closing of that financial year in connection with the deadlines established by the Law 15/2010 is as follows:

	Made and outstanding payments at 31.12.11	
	2011	
	Thousands of euros	**%**
Payments for the financial year within the legal deadline	142 857	77%
Other	43 241	23%
Financial year total payment	186 098	100%
Payment Term exceeded (Days)	5	
Outstanding balance at closing exceeding the maximum legal deadline	642	

(Given in thousands of euros)

At the date of preparation of these annual financial statements of the financial year 2011, the entire outstanding balance at year end exceeding the legal maximum was liquidated.

19. Borrowings

The breakdown of this heading is as follows:

	Thousands of euros	
	12.31.12	**12.31.11**
Non current		
Credit entities payable	42 900	68 751
Borrowings from Group companies	-	-
Finance lease creditors	996	1 320
Other financial liabilities	19 911	14 444
	63 807	84 515
Current		
Credit entities payable	22 518	16 612
Finance lease creditors	350	350
Other financial liabilities	1 153	2 220
	24 021	19 182
Total Borrowings	**87 828**	**103 697**

a) Bank borrowings

On March, 4 2011 the subsidiary company Patentes Talgo S.L.U agreed a syndicated financing contract consisting of a loan of 80.000 thousand euros maturing on March, 4 2016 and a credit line of 50.000 thousand euros which at year end has not been drawn down. On December 18, 2012 the entire aforementioned contract, in addition to the interest rate swap associated with it, which had monthly statements and initial maturity in 2013, have been canceled. In 2011, taking into account the aforementioned effective rate swap of this loan was 4,97%, 6,06% in 2012. This contract contained a covenant "Ratio of Total Commitments" and other commercial obligations that the said subsidiary has completed during the term hereof. The aforementioned loan accrued market interest rate and had available balance at 31 December, 2011 of 72 million euros.

On December 19, 2012, the subsidiary company Patentes Talgo S.L.U signed a financing agreement with the European Investment Bank amounting to 50.000 thousand euros, with year-end ready to 40.000 thousand euros. The aforementioned contract accrues market interest rate.

That aforementioned contract contains a number of associated obligations and covenants denominated Debt Coverage Ratio, Commitment Ratio, Financial Expenses Ratio and Debt Ratio that the aforementioned subsidiary company has met since the commencement date of the contract.

Patentes Talgo, S.L.U. has also met other business obligations and restrictions set in the aforementioned financing agreement.

(Given in thousands of euros)

On December 18, 2012, the Patentes Talgo S.L.U. has signed credit lines totaling 90.000 thousand euros, being drawn down 20 375 thousand euros at the year end, with various financial institutions.

The aforementioned loan, at 31 December, 2012 was classified in the long term a total of 40.000 thousand euros, not being recorded in the balance in the short term.

On December 13, the subsidiary company Talgo Deutschland GmbH signinged a financing agreement amounting to 4.400 thousand euros, being classified as short-term 1.500 thousand euros, with HypoVereinsbank. This loan accrues market interest rate.

Likewise, the Patentes Talgo subsidiary, in 2012, signed insurance lines of bond guarantees with various financial institutions amounting 176.116 thousand euros, 65.000 thousand euros in the financial year 2011.

On October, 27 2011 the subsidiary Tulpar Talgo LLP signed a line of credit of 5.000.000 thousand tenges with the company Royal Bank of Scotland N.V in order to meet the capital needs up to the financial year 2012, this policy is fully guaranteed by the other partner of Tulpar Talgo LLP, the Joint Stock Company Kazakhstan Temir Zholy, that at year end had 25.502 thousand euros, 50% of this amount corresponding to the consolidated Group, the maturity of this line of receivables was on October 2013 accruing a market interest rate. The aforementioned contract contains an EBITDA covenant to be met by the guarantor thereof which is was fulfilled at 2011 year-end.

During the financial year 2012, after the ex-subsidiary stage, line of credit that is not part of the Consolidated Group.

The amount of interest and commissions earned and unpaid at year end 2012 of the above Group contracts amounted to 581 thousand euros (612 thousand euros in 2011) which are contained within the balance current liabilities.
The breakdown of debt to credit institutions by year of maturity is shown below:

	Thousands of euros					
December 31, 2011	**2012**	**2013**	**2014**	**2015**	**Subsequent years**	**Total**
Credit entities payable	16 612	28 751	16 000	16 000	8 000	**85 363**
December 31, 2012	**2013**	**2014**	**2015**	**2016**	**Subsequent years**	**Total**
Credit entities payable	22 518	11 500	11 400	10 000	10 000	**65 418**

The fair value of debts to credit institutions is similar to its book value.

(Given in thousands of euros)

b) Other financial liabilities

The heading Other current and non current financial liabilities is broken down as follows:

		Thousands of euros
	12.31.12	**12.31.11**
Non current		
Debts due to reimbursable advances	15 693	11 898
Other debts	4 218	2 546
	19 911	**14 444**
Current		
Debts due to reimbursable advances	1 153	2 220
Other debts	-	-
	1 153	**2 220**
Other financial liabilities total	**21 064**	**16 664**

b.1) Debts due to reimbursable advances

This heading includes zero debt of the subsidiary Patentes Talgo, S.L. maintained with the Center for Industrial Technological Development (CDTI) for various technology development projects as well as with the Ministry of Education and Science. The borrowings are interest-free.

The refundable government advances have been granted to Patentes Talgo, S.L. and its technology party, mainly in connection with projects for the development of gauge-switching and high-speed rail systems. The Company was the coordinator and requester of such advances, and as a participant, being recorded the receivable balance of the technology partner in line under the heading Other receivables Other financial assets as described in note 11.

The fair value of refundable government advances at 31 December 2012 was 16.846 (2011: 15.820 thousand euros).

The maturities of long term debts represented by reimbursable advances are as follows:

						Thousands of euros
December 31, 2011	**2012**	**2013**	**2014**	**2015**	**Subsequent years**	**Total**
Debt due to reimbursable advances	2 220	1 113	660	1 153	8 972	**14 118**

(Given in thousands of euros)

December 31, 2012	2013	2014	2015	2016	Subsequent years	Total
Debt due to reimbursable advances	1 153	274	1 635	1 855	11 929	**16 846**

b.2) Other debts

In this heading at 31 December, 2012 convertible debts are included in non-current grants amounted to 4.191 thousand euros (2011: 2.546 thousand euros).

The fair value of Other borrowings approximates their carrying amount.

c) Finance lease creditors

The Group, through the company Tarvia Mantenimiento Ferroviario, S.A. on August 1, 2011 has signed a lease with a financial entity, being the maturity date on May 1, 2016. Such contract has a purchase option for an amount of 192 thousand euros.

The leased assets are spare parts valued at 1.713 thousand euros which are included in the financial statements.

The movements during the financial year 2011 under this heading were:

	12.31.2010	Additions	Terminate	Transfers	12.31.2011
Creditors for long-term lease	-	1 670	-	(350)	**1 320**
Creditors for short-term lease	-	79	(79)	350	**350**
	-	**1 749**	**(79)**	**-**	**1 670**

The movements during the financial year 2012 were the following:

	12.31.2011	Additions	Terminate	Transfers	12.31.2012
Creditors for long-term lease	**1 320**	-	-	(324)	**996**
Creditors for short-term lease	**350**	-	(324)	324	**350**
	1 670	**-**	**(324)**	**-**	**1 346**

The maturity of debts to credit institutions under finance leases is as follows:

Future payments in 1 year	324
Future payments from 1 to 5 years	1 022
Future payments over 5 years	-
	1 346

(Given in thousands of euros)

20. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Thousands of euros	
	12.31.12	12.31.11
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	13 368	16 434
	13 368	**16 434**
Deferred tax liabilities:		
- Deferred tax liabilities to be settled within more than 12 months	6 663	5 478
	6 663	**5 478**
Deferred tax assets (net)	**6 705**	**10 956**

The movement of deferred tax assets during the financial years were as follows:

	Balance at 31.12.11	Additions	Terminate	Other Movements	Balance at 31.12.12
Guarantees	1 647	785	(1 496)	-	936
Deductions	2 232	5 128	-	-	7 360
Other charges	12 559	1 196	(8 683)	-	5 072
	16 438	**7 109**	**(10 179)**	**-**	**13 368**

	Thousands of euros			
	Tax credits	Deductions	Other Charges	Total
Balance at 31 December 2010	**-**	**8 565**	**4 725**	**13 290**
Credited/(Charged) to income statement	-	1 000	5 228	6 228
Other movements and transfers	-	(7 333)	4 249	(3 084)
Balance at 31 December 2011	**-**	**2 232**	**14 202**	**16 434**
Credited/(Charged) to income statement		5 128	(8 194)	(3 066)
Other movements and transfers		-	-	-
Balance at 31 December 2012		**7 360**	**6 008**	**13 368**

The amount of "Other movements and transfers" of deductions are mainly all the deductions used in calculating the income Tax for the year 2012.

(Given in thousands of euros)

a) Deductions

At 31 December, 2011 there exist, yet to be offset, deductions for scientific research, technological innovation, exports and training company, etc. which amounts are indicated below:

Year	**Thousands of euros**	**Last year**
2010	1 232	2020
2011	1 000	2021
	2 232	

At 31 December, 2012 there exist, yet to be offset, deductions for scientific research and technological innovation, exports and training company, etc. which are as follows:

Year	**Thousands of euros**	**Last year**
2010	1 276	2020
2011	956	2021
2012	5 128	2022
	7 360	

b) Other Assets

The heading of Other assets was mainly created due to timing differences arising from the allocations made during the financial year to provisions for bad debt, penalties and other similar assets for hedging derivative financial instruments and sustained commitments to the personnel.

(Given in thousands of euros)

The movement of the deferred tax liabilities during the financial years has been as follows:

	Cash-flow hedge	Other assets	Total
			Thousands of euros
Balance at 31 December 2010	**(2)**	**189**	**187**
Credited/(Charged) to balance statement	-	1 115	1 115
Tax (credited) / charged to equity	152	-	152
Other movements	-	4 024	4 024
Balance at 31 December 2011	**150**	**5 328**	**5 478**
Credited/(Charged) to balance statement	-	1 703	1 703
Tax (credited) / charged to equity	(150)	-	(150)
Other movements	-	(368)	(368)
Balance at 31 December 2012	**-**	**6 663**	**6 663**

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 income taxes assets and liabilities relate to income taxes levied by the same taxation authority

The heading of other assets in the 2011 financial year, proceeded to the reclassification of deferred tax liability related to goodwill and to accelerated depreciation of new fixed assets.

21. Provisions for other liabilities and charges

	Non current			Current		Thousands of euros
	Other provisions	Warranty provision	Subtotal	Other provisions	Warranty provision	Subtotal
Balance at 31/12/2011	**39 050**	**6 019**	**45 069**	**5 560**	**4 589**	**10 149**
Endowments	-	714	**714**	8 429	3 106	11 535
Applications	(38 073)	-	**(38 073)**	(8 051)	(4 235)	(12 286)
Balance at 31/12/2012	**977**	**6 733**	**7 710**	**5 938**	**3 460**	**9 398**

At the 2012 year-end, the Group has provided the necessary provisions to meet service guarantees, usually covering a period between 2-3 years, and other obligations, including as Other provisions related to obligations arising from employee compensation plans contractually established equity and related to construction contracts signed. Thus, under the heading of other provisions it is included a provision and application amounting to 8.425 thousand euros (21.341 thousand euros at 31 December, 2011) and 46.304 thousand euros (0 thousand euros at 31 December, 2011) at 31 December, 2012 respectively note (2.23 c), with the balance at year-end corresponding to this provision void.

(Given in thousands of euros)

22. Employee benefit expenses

a) The breakdown of this heading is as follows:

	Thousands of euros	
	2012	2011
Salaries, wages and assimilated	70 664	78 816
Pension cost – provisions and contribution and other financial obligations	1 445	1 283
Other welfare charges	17 928	16 212
	90 037	**96 311**

The heading Wages, salaries and similar includes compensation costs amounting to 482 thousand euros at 31 December 2012 (2011: 709 thousand euros) and the cost for the remuneration of senior management explained in note 21.

b) Compensation to the Group key management personnel and Directors:

The role of the Parent Company Administrator is not remunerated.

The remuneration of the management team and administrators as members of the management team of the Group amounted to 17.999 thousand euros at 31 December, 2012 (28.105 thousand euros at 31 December, 2011).

The Group has arranged for all employees, including the senior management, a life insurance, the senior management cost during the year 2012 amounting to 72 thousand euros (31 thousand euros at 31 December, 2011). The amount corresponding to the pension plan of this group amounted to 114 thousand euros for the fianncial years 2012 and 2011. In addition, for some members of Senior Management liability insurance policies, which hedge is considered sufficient.

During 2012, the subsidiary Patentes Talgo, S.L.U. has granted loans to board members for the purchase of shares of the ultimate parent company amounting to 637 thousand euros (0 thousand euros in 2011), the aforementioned loans tied to Euribor plus a market spread.

c) Transactions with directors of the parent Company and key executives of the Group

During 2012 and 2011 no compensations have been paid to the members of the Management Board of Pegaso Rail International for the performance of this position.

(Given in thousands of euros)

23. Average headcount

The breakdown of the average headcount by job category and gender is as follows:

	2012		2011	
	Men	**Women**	**Men**	**Women**
Directors and Senior Management	40	4	36	4
Middle management	163	21	134	16
Technicians	1 125	199	1000	177
	1 328	**224**	**1 170**	**197**

Similarly, the distribution by categories and gender in 2012 and 2011 is as follows:

	2012		2011	
	Men	**Women**	**Men**	**Women**
Directors and Senior Management	38	4	39	4
Middle management	177	24	130	17
Technicians	1 056	186	1 049	199
	1 271	**214**	**1 218**	**220**

24. Other operating expenses

The breakdown of this heading is as follows:

	Thousands of euros	
	2012	**2011**
External Services	52 141	46 644
Other taxes	483	440
Losses, impairment and variation of provisions	(612)	(1 998)
Other current operating expenses	782	712
Other operating expenses Total	**52 794**	**45 798**

(Given in thousands of euros)

25. Other results

The details of the amounts contained in the heading of Other results of the Group is as follows:

		Thousands of euros
	2012	2011
Other expenses	(343)	(1 201)
Other income	636	1 415
Total of Other Results	**293**	**214**

At 31 December, 2012 and 2011 the heading Other income mainly includes compensations for claims received from insurance companies, which related expenses have been recorded mainly in previous years.

26. Finance income and costs

The breakdown of this heading is as follows:

		Thousands of euros
	2012	2011
Tax expense:		
- Bank borrowings and other charges	(13 666)	(5 186)
- Hedge derivatives	(978)	(162)
- For updated convertible loan debt (note 20c)	-	(182)
- Exchange differences	(126)	(137)
Finance cost	**(14 770)**	**(5 667)**
- Short-term interest income with banks on deposits	1 370	864
- Updated account receivables of third parties	-	1 336
-Exchange differences	-	136
Financial income	**1 370**	**2 336**
Finance costs - net	**(13 400)**	**(3 331)**

The impact of cash flow hedges on interest expense on bank borrowings in 2012 was 978 thousand euros (162 thousand euros in 2011).

(Given in thousands of euros)

27. Income tax

Since 2006, the Parent and its Subsidiary, Patentes Talgo, S.L., form the consolidated Tax Group 65/06.

In the financial year 2010 it joined the tax group mentioned in the Talgo Kazakhstan, S.L. subsidiary.

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

	2012	2011
Profit before tax	**47 622**	**63 359**
Taxes calculated at the taxes rates for each country	16 740	20 177
Tax purposes of:		
Permanent differences	(997)	(1 103)
Activation of recoverable	(5 128)	(1 000)
Prior years' adjustments	176	402
Tax expense	**10 791**	**18 476**

The tax Group is open to inspection by the tax authorities of the the last four financial years those applicable to the same.

As a result, among other things, of the different interpretations of which current fiscal legislation, additional tax assessments may be raised in the event of a tax inspection. The directors consider, however, that any additional assets that might be made would not significantly affect these annual accounts.

	2012	2011
Total current tax	1 662	22 814
Total deferred tax	9 129	(4 338)
Income tax	**10 791**	**18 476**

(Given in thousands of euros)

28. Earnings per share

Basic earnings per share

The basic earnings per share are calculated by dividing the profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the financial year.

	Thousands of Euros	
	2012	**2011**
Profit attributable to owners of the Parent company	35 380	33 857
Weighted average number of ordinary shares in issue (*)	1 257 274	574 243
Basic earnings per share from continued operations	28.14	58.95
	28.14	**58.95**

(*) Weighted average number calculated taking into account the capital increases and reductions included in note 15.

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group at 31 December, 2010 had dilutive potential ordinary shares deriving from the convertible loan detailed in note 20. To calculate diluted earnings per share, the convertible debt is assumed to have been converted into ordinary shares at the start of each year, and profit attributable to owners of the parent is adjusted to eliminate the interest expense less the tax effect.

	Thousands of euros	
	2012	**2011**
Profit attributable to owners of the Parent company	31 842	33 857
Interest expense on convertible loan (net of Tax)	-	127
Profit used to determine diluted earnings per share	31 842	33 984
Weighted average number of ordinary shares in issue	1 257 274	574 243
Adjustments for hypothetical conversion of convertible loan	-	575 869
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1 257 274	1 150 112
Diluted earnings per share from continued operations	25.30	29.55
	25,30	**29,55**

(Given in thousands of euros)

29. Cash generated from operations

The breakdown of cash generated from operations is as follows:

	Thousands of euros	
	2012	**2011**
Profit before tax, including discontinued operations	**47 622**	**63 359**
Checked by:		
Depreciation of tangible fixed assets (note 6)	4 598	5 194
- Amortization of intangible assets (note 7)	1 274	2 298
- Gain on the sale of non-current assets held for sale	-	-
- Change in net provision (note 21)	9 005	18 774
- Fair value (gains)/losses on derivative financial instruments		-
- Financial expenses (note 26)	14 354	5 667
- Finance income (note 26)	(1 370)	(2 336)
- Results from the loss of the joint control	(1 264)	-
- Allocation of grants	(299)	(1 232)
- Other income and expenses	3 781	-
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):	**(108 103)**	**(10 826)**
Inventories (note 13)	7 419	(279)
Other financial assets (note 11)	2 276	(3 133)
Customers and other account receivables (note 12)	(56 552)	(14 027)
Suppliers and other payables (note 18 and 21)	(61 246)	6 613
Cash generated from operations:	**(30 402)**	**80 898**

During the financial year 2012 non-cash transactions have been carried out on increase in share capital amounting to 78.747 thousand euros and capital reduction amounting to 3.727 thousand euros detailed in note 15. In addition to 1.264 euros due to the loss of control over the company Tulpar-Talgo, LLP.

In 2011 it non-cash transactions were carried out amounting to 104 151 thousand euros related to the partial cancellation of loans and dividend distribution, and 22.840 thousand euros relating to the capitalization of the equity loan.

30. Guarantees and Other contingencies

At 31 December, 2012, the Group had a volume of guarantees and surety bonds totaling 339 million euros (2011: 208 million euros), of which, 302 million euros (2011: 177 million euros) which correspond to the manufacturing projects, either as performance bonds or to guarantee advances received.

The remaining sum consists of bank guarantees presented to public bodies for the allocation of grants, for bidding in tender competitions and for other assets

At 31 December, 2012, the amount available from the bank guarantee lines came to the sum of 252 million euros (271 million euros in the financial year 2011).

Under the agreement signed by the Spanish Consortium Mecca Medina High Speed with the end customer, all members of the Consortium are jointly liable to the end customer, and each member of the consortium may, in any case, claim the other parties vis à vis, according to the distribution of performance of the contract.

The Group Management is not aware of any contingent liabilities that it could have in the normal course of its business.

31. Commitments

a) Commitments to purchase fixed assets

At 31 December, 2012 purchase commitments for fixed assets came to 6.374 thousand euros (2011: 8.794 thousand euros).

b) Operating lease commitments

The Group directors do not anticipate material changes in operating lease expense with respect to the expenditure incurred in 2012 and 2011 (note 6.f).

32. Transactions with related parties

The shareholders of the Parent company which have a share of the same grater than 10% are broken down in note 15. Transactions with related parties during the years 2012 and 2011 are those of the ordinary business of the Group and have been made on market terms.

The following transactions were carried out with the related parties:

a) Transactions with the Parent core shareholders

The only transactions arranged by the Group with its shareholders are financing transactions.

(Given in thousands of euros)

	Thousands of euros	
	2012	2011
Loans from shareholders (note 19 c)	-	-
Finance costs (note 19 c)	-	182
Loans to shareholders (note 12)	-	5 182
Finance income (note 26)	-	1 336

Loans from shareholders are indicated in note 12.

b) Transactions with the Parent company directors

During 2012 and 2011 no compensations have been paid to the members of the Management board of Pegaso Rail S.A. International for the performance of this position.

c) Similar holdings, positions and activities of members of the Board of Directors:

Administrator	Shareholdings and directorships held by board members in companies with same or complementary activity	Activity	Duties or post	Percentage stake
Fernando Tomé Muguruza	-	-	-	-
Francisco Javier Bañón Treviño	Patentes Talgo, S.L.	Construction and maintenance of railway Rolling Stock	Managing Director	-
José María Muñoz Dominguez	Patentes Talgo, S.L	Construction and maintenance of railway Rolling Stock	Managing Director	-

No Director has carried out a self-employed activity or employed by others during the financial year, outside Grupo Pegaso International, S.L., of the the same, similar or complementary to the activity forming the object of the Company.

During the 2012 financial year, the members of the Management Board, in addition to the individuals related to them related in the art. 231 of the of Public Limited Companies with variable Capital, have not incurred directly or indirectly in any conflict situation with companies outside the Group as it is defined in art. 42 of the Commercial code.

(Given in thousands of euros)

d) Business transactions with related parties

	Thousands of euros	
	2012	**2011**
Purchases of raw materials:		
Tarvia Mantenimiento Ferroviario, S.A.	74	108
Outside services:		
Consorcio Español de Alta Velocidad Meca-Medina, S.A.	4 431	
Tarvia Mantenimiento Ferroviario, S.A.	-	464
Expenses	**4 505**	**572**

	Thousands of euros	
	2012	**2011**
Sales and services rendered:		
Tarvia Mantenimiento Ferroviario, S.A.	4 933	15 089
Tulpar Talgo, LLP	67 893	42 647
Other operating income:		
Tarvia Mantenimiento Ferroviario, S.A.	196	274
Other results:		
Tarvia Mantenimiento Ferroviario, S.A.	-	-
Income	**73 022**	**58 010**

e) Balance breakdown of group and associated companies suppliers / customers

	Thousands of euros	
	12.31.12	**12.31.11**
Group and associated companies customers (note 12)	1 760	5 376
Group and associated companies customers	**1 760**	**5 376**

	Thousands of euros	
	12.31.12	**12.31.11**
Group and associated companies suppliers	4 431	-
Group and associated companies suppliers	**4 431**	**-**

At 31 December, 2011, heading"Receivable from Group companies customers"

(Given in thousands of euros)

corresponds to a balance payable by Tarvia Mantenimiento, S.A., which is consolidated in these financial statements using the proportionate method of consolidation, and the balance with Tulpar-Talgo LLC.

At 31 December 2012, in the heading'Group companies customers' corresponded to a balance payable by Tarvia Mantenimiento, S.A., which is consolidated in these financial statements using the proportionate method of consolidation. At that date, the balance registered with the subsidiary company Tulpar Talgo, LLC, given the changes that have taken place in the scope of consolidation (note 1).

33. Environment

The details of expenses incurred during the financial year for protection and improvement of the environment are:

	Thousands of euros	
	2012	**2011**
Recurring (waste management, testing & other)		
Drinking water and waste water analysis and waste water treatment facility expenditures	77	64
Management of hazardous waste and inert waste	102	94
Material purchases and other	47	89
Security Advisor	4	
Measuring of atmospheric and noise emissions	11	19
Dumping tax and legionellosis control	21	3
Diesel installation	5	22
Updating of the legislation	2	2
Total periodical expenses	**269**	**293**

	Thousands of euros	
	2012	**2011**
Non periodical:		
ISO 14001 Certification	3	10
Total periodical expenses	**3**	**10**

34. Fees corresponding to auditing and other services

The fees for audit services provided to the various Group companies amounted to 183 thousand euros (196 thousand euros in 2011). Of this amount, the expenses incurred by the audits of the companies audited by PricewaterhouseCoopers global firms amounted to 126 thousand euros (128 thousand euros in 2011).

The fees for services other than auditing the accounts of the various Group companies amounted to 251 thousand euros (409 thousand euros in the financial year 2011) of which were billed by other companies using the trademark PricewaterhouseCoopers during the financial year 2012 amounted to 112 thousand euros (2011: 197 thousand euros). Within these amounts, 112 thousand euros (106 thousand euros at 31 December, 2011) are tax advisory services.

35. Events after the balance sheet date

There have been no subsequent events which could have a significant effect on these financial statements.

Own shares

The Group does not hold any own shares on at 31 December, 2012.

Business Performance

During the year 2012, Patentes Talgo S.L. was awarded a contract for the maintenance of the existing fleet and the fleet of cars under construction with duration of 15 years in Kazakhstan. Similarly, several contracts have been signed for the sale of auxiliary equipment such as maintenance pit lathe and measuring equipment abroad, in countries such as Poland, France, Austria and Switzerland. Contracts have also been signed for maintaining gauge changers for ADIF in the domestic market.

On the other hand, various remodeling and improving operations of the Talgo train fleet have been awarded to the Patentes Talgo, S.L. during the financial year 2012, among which are included the improvements requested by Russian Railways for the 7 train contracted and under construction, changing Hybrid trains for people with disabilities and the RAMS study for ADIF rail inspection trains.

Patentes Talgo,S.L. has continued the transformation works of the Series 7 to run at 250km/h and the compliance to NTC standard. Regarding the overseas activity, it is worth highlighting the continuation of manufacturing operations in the subsidiary Talgo Inc. for the scope of supply of 4 trains hired by the states of Wisconsin and Oregon.

Most relevant events subsequent to the financial year closing

There have been no subsequent events which could have a significant effect on these financial statements.

Activities in research and development matters

Patentes Talgo S.L. has continued with its policy of investment in research and development activities which seek to continually improve its products and its maintenance services. Notable among others are the research and development works related to the projects on new generation of High Speed trains (AVRIL) among which objectives are the minimization of power consumption.

Equally, Patentes Talgo S.L. has been developing other R&D activities among which are those for improving safety, efficiency and accessibility of trains and the introduction of lighter materials, application of new technologies, energy saving and sustainability.

Risks policy

The Administrators consider that the main risks for the Group are those inherent to the industry itself. Other possible uncertainties or risks such as those concerning exchange rates, prices, liquidity and cash-flow are mitigated by means of the Group's risk hedge policies.

Environment

The details of Group expenses incurred to protect and improve the environment are included in note 33.

SPANISH TRANSLATION OF THE SUMMARY

El presente resumen se compone de los requisitos de información denominados "Elementos". Dichos Elementos se encuentran numerados en las secciones de la A a la E (A.1-E.7). ***Este resumen contiene todos los Elementos que deben incluirse en un resumen teniendo en cuenta el tipo de valores y el tipo de sociedad. Puesto que los Elementos no tienen todos ellos carácter obligatorio, pueden existir secciones vacías en la secuencia de numeración de los Elementos.*** ***Aunque un Elemento deba incluirse obligatoriamente en el presente resumen teniendo en cuenta el tipo de valores y el tipo de sociedad, es posible que no pueda ofrecerse información relevante sobre dicho Elemento. En ese caso se incluye en el resumen la mención de "no aplicable".***

SECCIÓN A- INTRODUCCIÓN Y ADVERTENCIAS		
A.1	**Advertencia a los inversores**	Este resumen debe leerse como introducción al documento. Toda decisión de invertir en las acciones de Talgo, S.A. (las "**Acciones**" y la "**Sociedad**", respectivamente) deberá estar basada en la consideración por parte del inversor del documento en su conjunto. Cuando se interponga una demanda ante un tribunal sobre la información contenida en este documento, el inversor demandante podría, en virtud del derecho nacional de un Estado Miembro del Espacio Económico Europeo (el "**EEE**"), tener que soportar los gastos de traducción del documento antes de que dé comienzo el procedimiento judicial. Solo se exigirá responsabilidad civil a aquellos que hayan presentado este resumen incluyendo cualquier traducción del mismo, y únicamente cuando este resumen resultase engañoso, inexacto o incoherente en relación con las demás partes del documento o cuando, al ser leído junto con las demás partes del documento, no aporte información fundamental que sirva de ayuda a los inversores a la hora de determinar si invertir o no en las Acciones.
A.2	**Información sobre intermediarios financieros**	No aplicable. Ni la Sociedad ni las personas encargadas de redactar este documento han dado consentimiento alguno para usar este documento en posteriores reventas de valores o colocación final de valores por parte de intermediarios financieros.

SECCIÓN B- LA SOCIEDAD		
B.1	**Nombre legal y comercial**	La denominación social de la Sociedad es Talgo, S.A. y la Sociedad y sus filiales ("**Talgo**" o el "**Grupo**") operan comercialmente bajo el nombre de Talgo.
B.2	**Domicilio/forma jurídica/legislación/país de constitución**	La Sociedad es una sociedad anónima constituida y sujeta a la legislación española. Su domicilio social está sito en Paseo del Tren Talgo, número 2, Las Matas, 28290 Madrid.
B.3	**Operaciones en curso/principales actividades y mercados**	Talgo es una empresa de material rodante especializada en el diseño, fabricación y mantenimiento de trenes rápidos, ligeros y tecnológicamente diferenciados. Actualmente, Talgo opera en los mercados de muy alta velocidad, alta velocidad y coches de viajeros (*Passenger coaches*) y planea expandirse en el mercado del transporte regional (*Regional Commuter*). Las principales ramas de negocio de Talgo son: (i) **material rodante**, que incluye (a) fabricación: ingeniería y fabricación de material rodante, integradores de sistemas, proveedor principal y soladura de aluminio de los trenes; y (b) servicios de mantenimiento: servicios para un adecuado funcionamiento de trenes, incluyendo reparaciones, limpieza, accesorios, etc.; y (ii) **máquinas auxiliares y otros**: fabricación y posterior venta a distintos operadores de materiales para el mantenimiento de trenes. En promedio, durante el período 2012-2014, el 60% de la facturación neta de Talgo se debió a su rama de fabricación, mientras que el 35% procedía de los servicios de mantenimiento y el 5% restante de la fabricación y posterior venta de las citadas máquinas auxiliares. A la fecha de este documento, Talgo ha vendido material rodante y ha firmado contratos para el mantenimiento de trenes tanto en países desarrollados como en países con economías emergentes, incluyendo Arabia Saudí, Kazajistán, Rusia, Uzbekistán, Alemania y los Estados Unidos, lo que complementa su posición en el altamente competitivo mercado doméstico español (en todos estos países Talgo también ha vendido equipos de mantenimiento). Además de los países antes mencionados, Talgo también ha vendido equipos de mantenimiento en Suiza, India, Méjico, Brasil, Perú, Argentina, Francia, Reino Unido, Italia, Polonia, Noruega, Ucrania y Argelia, entre otros países. A 31 de diciembre de 2014 Talgo tenía sus principales instalaciones de fabricación en España, si bien opera también en instalaciones en España, Estados Unidos, Alemania, Uzbekistán y Kazajistán y agentes comerciales

		en Chile, Turquía, Arabia Saudí, India o Rusia. A 31 de diciembre de 2014, la cartera de pedidos (*backlog*) (la cifra no auditada que utiliza Talgo para contabilizar el importe que debe pagársele de un contrato cuando se le adjudica menos la parte ya incluida en el importe neto de la cifra de negocios) de Talgo se situaban en 3.692 millones de euros, que representan más de nueve veces los ingresos netos de Talgo de 2014. A 31 de diciembre de 2014, el 77% de la cartera de pedidos de Talgo provienen de sus actividades internacionales. En los últimos años, una porción significativa del crecimiento de Talgo se ha debido a su expansión internacional, con la adjudicación de contratos en Arabia Saudí, Kazajistán y Rusia. El promedio anual de ingresos por pedidos de Talgo (es decir, el valor de los nuevos contratos durante un año determinado) ascendió a 483.956 millones de euros por año en el período 2012-2014, con más del 90% de las órdenes de fabricación procedentes de clientes internacionales. Una de las ventajas competitivas claves de Talgo es su gama de siete soluciones tecnológicas diferenciadas. Talgo diseña soluciones innovadoras para operadores ferroviarios que requieren inversiones mínimas en infraestructuras y tratan de reducir los costes, incrementar seguridad, reducir la duración de los trayectos y proveer unidades confortables para los viajeros. La prestación de servicios de mantenimiento a la totalidad de la flota de Talgo que a 31 de diciembre de 2014 se compone aproximadamente de 2.531 vagones y 191 cabezas de potencia es una pieza clave del modelo de negocio de Talgo, que requiere inversiones limitadas en capital y consigue aumentar la proximidad a los clientes de Talgo. Además de prestar servicios de mantenimiento al material rodante fabricado por el propio Talgo (Talgo mantiene el 100% de los trenes que ha fabricado), Talgo presta servicios de mantenimiento a parte de la flota, no fabricada por Talgo, de Deutsche Bahn, el principal operador público de Alemania. Talgo ha suscrito acuerdos en virtud de los cuales en los próximos cuatro años comenzará a prestar servicios de mantenimiento a 1,376 vagones y 72 cabezas de potencia adicionales. A fecha del folleto, Talgo está llevando a cabo negociaciones con el fin de optar a nuevos proyectos a nivel global. Dichas negociaciones tienen lugar en más de 25 países, en regiones de Europa Occidental, Europa Oriental, Asia Central, África, Medio Oriente y América. Talgo opera a través de un modelo de negocio escalable, flexible y caracterizado por el peso relativo de sus activos y basado en su experiencia en diseño, ingeniería y fabricación. Talgo únicamente lleva a cabo aquellas actividades que requieren una inversión intensiva en capital cuando se trata

de elementos estratégicos y de componentes y procesos críticos relacionados con la seguridad mientras que la mayoría de las operaciones no críticas que requieren una inversión intensiva en capital se subcontratan para garantizar una flexibilidad de fabricación completa.

La tabla siguiente muestra el importe neto de la cifra de negocios de Talgo durante los años cerrados a 31 de diciembre de 2012, 2013 y 2014 correspondientes a los segmentos de "Material Rodante" y "Máquinas Auxiliares y Otros" en España, resto de Europa, Estados Unidos, Oriente Medio y Norte de África y la Comunidad de Estados Independientes (*Commonwealth of Independent States (CIS)):*

	2012 (€ miles)	**2013 (€ miles)**	**2014 (€ miles)**
España	137.406	118.035	106.143
Resto de Europa	18.253	16.370	11.125
Estados Unidos	26.676	9.849	7.403
Oriente Medio y Norte de África	18.169	41.729	103.841
Comunidad de Estados Ind. (CIS)	129.414	140.736	155.799
Total	**329.918**	**326.719**	**384.311**

B.4 **Tendencias recientes significativas que afectan al Grupo y a los sectores en los que opera**

Sin perjuicio de los factores de riesgo que se describen en el presente resumen, Talgo no tiene conocimiento de tendencias relevantes recientes que influyan a Talgo y en los sectores en los que opera.

Salvo lo expuesto en los párrafos siguiente, no se ha producido ninguna variación significativa en la posición financiera y comercial de Talgo desde 31 de diciembre de 2014, fecha de elaboración de la última información financiera consolidada y auditada, incluida en el presente documento.

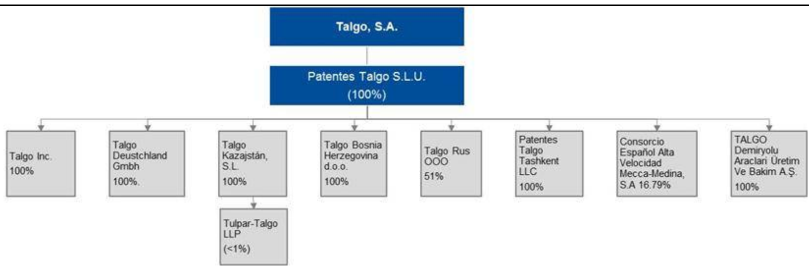
Contrato con el operador ferroviario de Arabia Saudí (SRO) para entregar nuevos trenes

En marzo de 2015, el operador ferroviario de Arabia Saudí (SRO) ha adjudicado a Talgo un contrato para entregar 6 trenes de alta velocidad, por un valor de 176 millones de euros.

Adquisición potencial del 51% de Tulpar- Talgo LLP y firma del contrato para la fabricación de trenes en el mercado del transporte regional

Actualmente, Talgo se encuentra en una fase avanzada de sus negociaciones con KTZ, tanto para la adquisición de un 51% del capital

		social de Tulpar-Talgo LLP (“**Tulpar**”), compañía kazaja titularidad de KTZ, cuyo objeto social consiste en la compra y posterior ensamblaje de trenes Talgo para ser entregados a KTZ, como para la firma de un contrato que consistirçia en la fabricación por Talgo de trenes en el mercado del transporte regional (Regional Commuter). A fecha del folleto, Talgo es titular, de manera indirecta, un 0,00074% del capital social de Tulpar (ya que su participación se vio diluida como consecuencia de la ampliación de capital realizada por Tulpar en 2012). Talgo estima que el precio de adquisición ascendería a un importe de entre 30.000 y 35.000 miles de euros. **Contrato de préstamo otorgado por Banco Santander, S.A.** El 16 de abril de 2015, la Sociedad y su filial Patentes Talgo, S.L.U. han suscrito un contrato de préstamo con Banco Santander, S.A. por un importe de 100 millones de euros. **Nuevas líneas de crédito otorgadas, entre otros, por Caixabank, S.A., Bankia, S.A. and Bankinter, S.A.** A la fecha de este documento, Talgo ha acordado nuevas líneas de crédito con entidades financieras como Caixabank, S.A., Bankia, S.A. y Bankinter, S.A., entre otros, para el curso ordinario del negocio de Talgo por un importe total disponible de 130.000 miles de euros (créditos a 1 año y al tipo de interés EURIBOR más 100 puntos básicos), ninguno de los cuales ha sido dispuesto. De dichas líneas de crédito ya han sido formalizadas líneas de crédito por importe de 70.000 miles de euros.
B.5	**Estructura del Grupo**	Talgo es una sociedad matriz que no tiene empleados ni lleva a cabo actividad alguna sino que opera a través de una filial íntegramente participada, Patentes Talgo, S.L.U. El Grupo Talgo está formado por 9 filiales en las que la Compañía mantiene participación directa e indirecta, y cuyas operaciones y actividades han sido descritas en la sección B.3 anterior. La estructura del Grupo se muestra en el siguiente organigrama.



B.6 **Accionistas Vendedores**

Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, FCR, MCH Inversiones Industriales, S.à.r.l. y los Accionistas Vendedores.

A fecha del presente documento, los Accionistas Vendedores son titulares del 100% del capital social y de los derechos de voto de la Sociedad y, por tanto, ejercen el control sobre ella.

La siguiente tabla refleja cierta información relacionada con la titularidad de las Acciones antes de la Oferta y después de la Oferta asumiendo una ejecución completa de la Oferta y un ejercicio completo de la Opción de Sobre-Adjudicación.

	Antes de la Oferta		**Después de la Oferta**			
Titular	**Número de acciones de las que son titulares**	**%**	**Número de acciones de las que son titulares (asumiendo la ejecución completa de la Opción de Sobre-Adjudicación)**	**%**	**Número de acciones de las que son titulares (asumiendo la no ejecución de la Opción de Sobre-Adjudicación)**	**%**
Pegaso Transportation International SCA	86.963.300	63,55%	43.916.467	32,09%	47.829.815	34,95%
MCH Iberian Capital Fund III, FCR	10.533.800	7,70%	5.319.569	3,89%	5.793.590	4,23%
MCH Inversiones Industriales, S.à.r.l.	11.591.800	8,47%	5.853.859	4,28%	6.375.490	4,66%
Total Accionistas minoritarios	27.744.000	20,28%	14.010.720	10,24%	15.259.200	11,15%
TOTAL	**136.832.900**	**100,00 %**	**69.100.615**	**50,50%**	**75.258.095**	**55,00%**

La totalidad de los Accionistas Vendedores, la Sociedad y algunos Altos Directivos (las "**Partes**") han firmado un contrato de accionistas (el "**Contrato de Accionistas**") para regular la relación entre los Accionistas Vendedores, como accionistas de Talgo, S.A., desde su admisión a cotización.

Entre las cláusulas más relevantes del Contrato de Accionistas, destacar (i) el derecho de tanteo reconocido a las Partes, en transmisiones no significativas de acciones, (ii) la transmisión ordinaria de acciones por los accionistas, distintas de las ya incluidas en el punto anterior, (iii) el derecho de acompañamiento reconocido a las Partes, en transmisiones de acciones distintas de las definidas en el Contrato de Accionistas como no significativas y (iv) el derecho de arrastre reconocido a Pegaso Transportation International, S.C.A., en el supuesto de transmisiones de acciones estratégicamente beneficiosas para la Sociedad.

El Contrato de Accionistas concluirá en la fecha anterior de las dos fechas siguientes: (i) el día en que se cumplan dos años de la fecha de admisión a cotización y (ii) el día en que Pegaso Transportation International, S.C.A. deje de ostentar una participación significativa en el capital social de la Sociedad (un 3% o más del capital social de la Sociedad de acuerdo con la legislación vigente).

De igual manera, el Contrato de Accionistas establece determinados compromisos en relación con el sentido de voto en nombramientos y destituciones de consejeros y/o miembros de cualquiera de los comités, que seguirán plenamente vigentes. La Sociedad, Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, FCR y MCH Inversiones Industriales, S.à.r.l. (Accionistas de la Sociedad con una participación del 79,72 por ciento del capital social previo a la Oferta), consideran que la Sociedad debe quedar excluida del Contrato de Accionistas. A este respecto, los firmantes del Contrato de Accionistas mencionados, se comprometen a realizar sus mejores esfuerzos para firmar un acuerdo con la mayoría de los Accionistas Minoritarios, tan pronto como resulte posible y, en cualquier caso, con anterioridad a la admisión a cotización, con el objetivo de excluir a la Sociedad como parte del Contrato de Accionistas y, por tanto, modificar tal contrato.

B.7 **Información financiera histórica auditada seleccionada**

Resumen de la cuenta de pérdidas y ganancias consolidada auditada

La siguiente tabla presenta un resumen de la cuenta de pérdidas y ganancias consolidada auditada de Talgo correspondiente a los ejercicios finalizados el 31 de diciembre de 2012, 2013 y 2014.

	Ejercicio finalizado a 31de Diciembre de		
	2012	**2013**	**2014**
	(miles €)	**(miles €)**	**(miles €)**
Importe neto de la cifra de	**329.918**	**326.719**	**384.311**

negocios			
Otros ingresos	628	1.157	2.281
Variación de las existencias de productos terminados y en curso	583	(1.354)	5.249
Trabajos realizados por la entidad y capitalizados	18.935	17.040	8.380
Coste de aprovisionamientos	(141.896)	(136.950)	(180.809)
Gastos por retribución de los empleados	(90.037)	(92.770)	(104.556)
Otros gastos de explotación	(52.794)	(66.127)	(47.698)
Gastos por amortización	(5.872)	(7.210)	(16.811)
Resultado de enajenaciones del inmovilizado	-	(82)	(1)
Otros resultados	293	(233)	530
Deterioro y resultado por pérdida de influencia significativa de participaciones en equivalencia o del control conjunto sobre una sociedad multigrupo	**1.264**	-	-
Beneficio de explotación	**61.022**	**40.190**	**50.876**
Costes financieros netos	**(13.400)**	**3.612**	**(5.411)**
Beneficio antes de impuestos	**47.622**	**43.802**	**45.465**
Gasto por impuesto sobre las ganancias	(10.791)	(12.821)	(6.981)
Beneficio del ejercicio	**36.831**	**30.981**	**38.484**

Importe neto de la cifra de negocios

El importe neto de la cifra de negocios en 2013 fue de 326.719 miles de euros, lo que implicó un descenso aproximado del 1% con respecto al año 2012, en el que el importe neto de la cifra de negocios era de 329.918 miles de euros. En el año 2013, en relación con el segmento de material rodante, se produjo un descenso del 1,5%, de 310.918 miles de euros en 2012 a 306.370 miles de euros, que se vió compensado con un incremento en el importe neto de la cifra de negocios del segmento de máquinas auxiliares y otros (pasó de 19.000 miles de euros en 2012 a 20.349 miles de euros en 2013), debido fundamentalmente a la venta de piezas de repuesto.

El importe neto de la cifra de negocios en 2014 fue de 384.311 miles de euros, lo que implicó un incremento aproximado del 17,6% con respecto al año 2013, en el que el importe neto de la cifra de negocios era de 326.719 miles de euros. Este aumento se debió principalmente al incremento de la actividad en Arabia Saudí (el primer tren bajo el contrato de Meca-Medina se entregó en diciembre 2014), Kazajastán (Talgo fabricó 16 nuevos trenes de los 420 que constituían el contrato) y contratos de fabricación en Rusia.

Trabajos realizados por la entidad y capitalizados

Los trabajos realizados por la entidad y capitalizados en el año 2013 ascendieron a 17.040 miles de euros, lo que significó un descenso del 10% con respecto a la cifra de 18.935 miles de euros del año 2012. Esta disminución se debió al desarrollo del proyecto AVRIL.

Los trabajos realizados por la entidad y capitalizados en el año 2014 ascendieron a 8.380 miles de euros que, en comparación con la cifra de 17.040 miles de euros del año 2013, implicó un descenso del 50,8%. Esta bajada se debió a la finalización del proyecto AVRIL.

Coste de aprovisionamientos

Los costes de aprovisionamiento en el año 2014 fueron de 180.809 miles de euros, lo que supuso un incremento del 32% con respecto a la los 136.950 miles de euros del año 2013. Este incremento tiene su justificación en el incremento del volumen de piezas montadas por terceros, ajenos a Talgo, en relación con el contrato de Meca-Medina.

Gastos por amortización

Los gastos de amortización en el año 2012 ascendieron a 5.872 miles de euros en 2012, 7.210 miles de euros en 2013 y 16.811 miles de euros en 2014. Estos incrementos se debieron a la amortización del proyecto AVRIL (de 2013 a 2014) por importe de 7.586 miles de euros y la amortización de las inversiones llevadas a cabo en las fábricas de Rivabellosa and Las Matas II (de 2012 a 2013).

Balance de situación consolidado auditado

La siguiente tabla presenta un resumen del balance de situación consolidado auditado de Talgo correspondiente a los ejercicios finalizados el 31 de diciembre de 2012, 2013 y 2014.

	A 31 de diciembre		
	2012 (miles €)	**2013 (miles €)**	**2014 (miles €)**
ACTIVOS			
Activos no corrientes			
Inmovilizado material	49.143	64.743	70.898
Activos intangibles	33.099	71.314	66.156
Fondo de comercio	112.439	112.439	112.439
Inversiones en asociadas	4	10	10
Activos por impuestos diferidos	13.368	14.892	13.955

Otros activos financieros	2.398	11.409	3.664
	210.451	**274.807**	**267.122**
Activos corrientes			
Activos no corrientes mantenidos para la venta	-	-	6.114
Existencias	36.195	49.428	71.723
Clientes y otras cuentas a cobrar	169.708	113.644	158.470
Otros activos financieros	529	131	167
Periodificaciones de activo	1.000	2.508	1.803
Efectivo y equivalentes al efectivo	12.471	95.986	87.910
	219.903	**261.697**	**326.187**
TOTAL ACTIVO	**430.354**	**536.504**	**593.309**

	A 31 de diciembre		
	2012	**2013**	**2014**
	(miles €)	**(miles €)**	**(miles €)**
PATRIMONIO NETO			
Capital y reservas atribuibles a propietarios de la dominante			
Capital social	41.187	41.187	41.187
Prima de emisión	68.451	68.451	68.451
Otras reservas	174	101	2.608
Ganancias acumuladas	36.992	68.405	106.855
Otros instrumentos de patrimonio	2.516	12.152	30.512
	149.320	**190.296**	**249.613**
Participaciones no dominantes	**-**	**-**	**-**
Total patrimonio neto	**149.320**	**190.296**	**249.613**
PASIVO			
Pasivo no corriente			
Recursos ajenos	63.807	72.767	73.809
Instrumentos financieros derivados	-	-	-
Pasivos por impuestos diferidos	6.663	6.108	3.565
Provisiones para otros pasivos y gastos	7.710	12.278	22.910
Subvenciones oficiales	1.709	2.143	5.101
	79.889	**93.296**	**105.385**
Pasivo corriente			
Proveedores y otras cuentas a pagar	166.511	235.829	222.245
Pasivos por impuesto corriente	1.215	55	125
Recursos ajenos	24.021	2.586	12.379
Provisiones para otros pasivos y gastos	9.398	14.442	3.562

	201.145	**252.912**	**238.311**
Total pasivo	**281.034**	**346.208**	**343.696**
Total patrimonio neto y pasivo	**430.354**	**536.504**	**593.309**

Activos intangibles

La cifra correspondiente a los activos intangibles, para los años 2012, 2013 y 2014, fue de 33.099 miles de euros, 71.314 miles de euros y 66.156 miles de euros, respectivamente (lo que representó un incremento del 115,46% y una posterior disminución del 7,23% respectivamente). Adicionalmente, las cifras de inversión total de Talgo en activos intangibles ascendió a 16.035 miles de euros, 15.407 miles de euros y 6.221 miles de euros, en los años 2012, 2013 y 2014, respectivamente. Estos importes representan un 4,9%, 4,7% y 1,6% del importe neto de la cifra de negocios del correspondiente año. El factor principal del desplome en 2014 radica en el desarrollo del prototipo del AVRIL.

Fondo de Comercio

La cifra correspondiente al fondo de comercio, para los años 2012, 2013 y 2014, fue de 112.439 miles de euros. Este fondo de comercio se originó como consecuencia de la adquisición de Patentes Talgo, S.A. por Patentes Talgo, S.L. en el año 2006 y su reconocimiento contable se produjo tras la fusión de ambas sociedades en el año 2008.

Recursos ajenos

El 18 de diciembre de 2012, Talgo abrió diferentes líneas de crédito con varias entidades financieras por importe de hasta 90.000 miles de euros. A 31 de diciembre de 2013 y 2014, tales líneas de crédito ascendían a 35.000 miles de euros y 20.000 miles de euros, respectivamente, sin ninguna cantidad dispuesta a tales fechas.

El 19 de diciembre de 2012, Patentes Talgo, S.L.U. firmó un contrato de financiación con el Banco Europeo de Inversión por un importe de hasta 50.000 miles de euros. A fecha de 31 de diciembre de 2013, habían sido dispuestos por la compañía un total de 40.000 miles de euros, siendo a 31 de diciembre de 2014, íntegramente dispuestos los 50.000 miles de euros.

Capitalización y endeudamiento a 28 de febrero de 2015 y a 31 de diciembre de 2014

La siguiente tabla muestra el efectivo y los medios equivalentes de efectivo, los préstamos y la capitalización actuales de Talgo a 28 de febrero de 2015 y a 31 de diciembre de 2014.

	28 de febrero de 2015[1] (miles €)	31 de diciembre de 2014[2] (miles €)
A. Total pasivos corrientes	**250.122**	**238.311**
Garantizada		
Asegurada		
No garantizada/no asegurada	250.122	238.311
B. Total pasivos no corrientes	**105.008**	**105.385**
Garantizada	18.059	20.716
Asegurada		
No garantizada/no asegurada	86.949	84.669
C. Patrimonio neto	**257.825**	**249.613**
Capital social	41.187	41.187
Reservas legales	8.237	6.924
Prima de emisión, otras reservas, ganancias acumuladas y otros instrumentos de patrimonio	208.401	201.502
TOTAL (A+B+C)	**612.955**	**593.309**
D. Efectivo	33.262	47.927
E. Equivalente de efectivo1	39.983	39.983
F. Valores emitidos	0	0
G. Efectivo y equivalentes de efectivo (D+E+F)	**73.245**	**87.910**
H. Otros activos financieros	**158**	**167**
I. Deuda corriente con entidades de crédito	10.153	10.231
J. Parte corriente de deuda no corriente	0	0
K. Acreedores por arrendamiento financiero corriente	685	685

[1] Cifras no auditadas

[2] Cifras auditadas

L. Deuda financiera corriente (I+J+K)	**10.838**	**10.916**
M. Deuda financiera neta (L-H-G)	**(62.565)**	**(77.161)**
	42.000	42.000
N. Deuda no corriente con entidades de crédito		
O. Acreedores por arrendamiento financiero no corriente	423	600
P. Otros préstamos no corrientes	42.423	42.600
Q. Deuda financiera no corriente (N+O+P)		
R. Endeudamiento financiero neto (M+Q)	**(20.142)**	**(34.561)**

1 Incluye efectivo, depósitos a plazo fijo y pagarés.

A 31 de diciembre de 2014 y a 28 de febrero de 2015, el ratio de Deuda financiera total / Capital era de 0,21 para ambos períodos mientras que el ratio de Deuda financiera neta total / Capital era de (0,14) y (0,08), respectivamente.

La siguiente tabla contiene los importes de Efectivo y equivalentes de efectivo, Recursos ajenos y Capitalización ajustados, para incluir el efecto de: (i) el pago del Plan de Incentivos a Directivos, (ii) el desembolso de Acciones a los trabajadores en la Oferta y (iii) las comisiones de aseguramiento, honorarios y gastos pagaderos en relación con la Oferta.

	A 28 de febrero de 2015[1]
	Ajustes
	(miles €)
A. Total pasivos corrientes	250.122
B. Total pasivos no corrientes	205.008
C. Patrimonio neto [23]: capital y reservas atribuibles a los accionistas de la matriz	153.728
TOTAL (A+B+C)	**608.858**
D. Efectivo y equivalentes de efectivo [3]	28.666[4]
E. Otros activos financieros	158
F. Deuda financiera corriente	10.838
G. Deuda financiera neta (F-E-D)	(17.986)
H. Deuda financiera no corriente	142.423
I. Endeudamiento financiero neto (G+H)	124.437

(5) Cifras no auditadas.

(6) La cifra de Patrimonio neto incluye el efecto fiscal por los gastos descritos anteriormente.

(7) La cifra de Efectivo no incluye el beneficio fiscal estimado por estos pagos. Estos pagos generarán un efecto fiscal de un 28% sobre los costes, que se verá reflejado en la cuenta de pérdidas y ganancias del ejercicio 2015.

(8) Asumiendo (i) un desembolso de 135.953 miles de euros por el Plan de Incentivos a Directivos, en caso de que el Precio alcance el límite superior del rango previsto para la Oferta, (ii) un desembolso de 5.126 miles de euros por la compensación extraordinaria a los trabajadores de Talgo y (iii) costes relativos a la Oferta, a pagar por la Sociedad, por importe de 3.500 miles de euros.

Asumiendo el desembolso de 97.994 miles de euros por el Plan de Incentivos a Directivos, en caso de que el Precio alcance el límite inferior del rango previsto para la Oferta, los importes de Efectivo y equivalentes de efectivo, de Deuda financiera corriente negativa y de Endeudamiento financiero neto serán de 66.675 miles de euros, 55.995 miles de euros y 86.428 miles de euros, respectivamente. El ratio de Deuda financiera total / Capital sería igual a 1 y el ratio de Deuda financiera neta total / Capital sería igual a 0,81.

La siguiente tabla contiene los importes de Efectivo y equivalentes de efectivo, Recursos ajenos y Capitalización ajustados a 28 de febrero de 2015, para incluir, en las cifras de la tabla anterior, el efecto del desembolso derivado de la adquisición de Tulpar-Talgo LLP.

	A 28 de febrero de 2015[1]
	Ajustes[2]
	(miles €)
A. Total pasivos corrientes	255.222
B. Total pasivos no corrientes	205.008
C. Patrimonio neto [35]: capital y reservas atribuibles a los accionistas de la matriz	153.728
TOTAL (A+B+C)	**613.958**
D. Efectivo y equivalentes de efectivo[4]	28.666[5]
E. Otros activos financieros	158
F. Deuda financiera corriente	10.838
G. Deuda financiera neta (F-E-D)	(17.986)
H. Deuda financiera no corriente	142.423
I. Endeudamiento financiero neto (G+H)	124.437

(1) Cifras no auditadas.

(2) Asumiendo un precio de adquisición de 32.500 miles de euros.

(3) La cifra de Patrimonio neto incluye el efecto fiscal por los gastos descritos anteriormente.

(4) La cifra de Efectivo no incluye el beneficio fiscal estimado por estos pagos. Estos pagos generarán un efecto fiscal de un 28% sobre los costes, que se verá reflejado en la cuenta de pérdidas y ganancias del ejercicio 2015.

(5) Asumiendo (i) un desembolso de 135.953 miles de euros por el Plan de Incentivos a Directivos, en caso de que el Precio alcance el límite superior del rango previsto para la Oferta, (ii) un desembolso de 5.126 miles de euros por la compensación extraordinaria a los trabajadores de Talgo y (iii) costes relativos a la Oferta, a pagar por la Sociedad, por importe de 3.500 miles de euros.

Asumiendo el desembolso de 97.994 miles de euros por el Plan de

<table>
<tr><td></td><td></td><td>
Incentivos a Directivos, en caso de que el Precio alcance el límite inferior del rango previsto para la Oferta, y asumiendo un precio de adquisición de Tulpar de 32.500 miles de euros, los importes de Efectivo y equivalentes de efectivo, de Deuda financiera corriente negativa y de Endeudamiento financiero neto serán de 34.175 miles de euros, 23.495 miles de euros y 118.928 miles de euros, respectivamente.
El ratio de Deuda financiera total / Capital sería igual a 1,03 y el ratio de Deuda financiera neta total / Capital sería igual a 1,02.
A efectos meramente aclaratorios, destacar que la tabla anterior únicamente refleja el rango de precio de compra medio (32.500 miles de euros) de la potencial adquisición de Tulpar, pero no incluye estimación alguna sobre el efecto que tendría, en el efectivo y la capitalización de Talgo, la consolidación de Tulpar en el Grupo con posterioridad a la compra.
<u>Resumen del estado de flujos de efectivo consolidado auditado</u>
La siguiente tabla muestra el resumen estado de flujos de efectivo auditado consolidado de Talgo de los ejercicios cerrados a 31 de diciembre de 2012, 2013 y 2014.
<table>
<tr><th></th><th colspan="3">Ejercicio finalizado a 31 de diciembre de,</th></tr>
<tr><th></th><th>2012
(miles €)</th><th>2013
(miles €)</th><th>2014
(miles €)</th></tr>
<tr><td>Efectivo neto generado por actividades de explotación</td><td>(47.853)</td><td>154.826</td><td>555</td></tr>
<tr><td>Flujos netos de efectivo de actividades de inversión</td><td>(21.884)</td><td>(53.202)</td><td>(23.887)</td></tr>
<tr><td>Flujos de efectivo de actividades de financiación</td><td>(1.502)</td><td>(22.238)</td><td>15.256</td></tr>
<tr><td>Variación neta de efectivo, equivalentes al efectivo y descubiertos bancario</td><td>(71.239)</td><td>79.386</td><td>(8.076)</td></tr>
</table>
</td></tr>
<tr><td>B.8</td><td>Información financiera seleccionada pro forma</td><td>No aplicable.</td></tr>
<tr><td>B.9</td><td>Previsiones o estimaciones de beneficios</td><td>La Sociedad ha optado por no incluir previsiones o estimaciones sobre beneficios en este documento.</td></tr>
</table>

B.10	**Salvedades en informes de auditoría**	Los informes de auditoría correspondientes a los ejercicios financieros consolidados e individuales de los ejercicios cerrados a 31 de diciembre de 2012 emitido por PricewaterhouseCoopers Auditores, S.L. y 2013 y 2014 emitidos por Deloitte, S.L. no contienen salvedades.
B.11	**Si el capital circulante no es suficiente para los requisitos presentes del emisor, deberá incluirse una explicación**	No aplicable**.**

SECCIÓN C- VALORES		
C.1	**Tipo y clase de valores**	Las acciones tienen el código ISIN ES0105065009, asignado por la Agencia Nacional de Codificación de Valores Mobiliarios, una entidad dependiente de la Comisión Nacional del Mercado de Valores (la "**CNMV**"). Se prevé que las Acciones coticen en las Bolsas de Valores de Madrid, Barcelona, Valencia y Bilbao, y se negocien a través del Sistema de Interconexión Bursátil (el "**SIBE**") bajo el símbolo (*ticker*) "TLGO". Las Acciones representarán, en el momento de admisión, la totalidad del capital social emitido de la Sociedad
C.2	**Divisa de emisión de los valores**	La Acciones están denominadas en euros.
C.3	**Número de Acciones emitidas y desembolsadas**	Existe únicamente una clase de acciones de la Sociedad y cada Acción da derecho a un voto. En el momento de Admisión, habrá 136.832.900 acciones de 0,301€ de valor nominal cada una. Todas las Acciones estarán íntegramente desembolsadas.
C.4	**Derechos vinculados a las Acciones**	Las Acciones serán iguales en derechos entre sí a todos los efectos, incluyendo el derecho de voto y cualesquiera derechos a percibir dividendos u otras cuantías a distribuir que se declaren, realicen o paguen tras su emisión, así como en

		relación con cualesquiera cuantías a distribuir con ocasión de la disolución de la Sociedad. Las Acciones otorgarán a sus titulares los derechos establecidos en los estatutos de la Sociedad y en el Real Decreto Legislativo 1/2010, de 2 de julio, que aprueba el Texto Refundido de la Ley de Sociedades de Capital (en su versión modificada, la "**Ley de Sociedades de Capital**"), tales como, entre otros: (i) el derecho de asistir a las juntas generales de la Sociedad con facultad para intervenir y votar; (ii) el derecho a percibir dividendos en proporción a la participación desembolsada en el capital social; (iii) el derecho preferente a suscribir nuevas Acciones emitidas en aumentos de capital con aportaciones dinerarias; y (iv) el derecho a recibir los activos distribuidos que correspondan en proporción a su participación en el capital social en caso de liquidación.
C.5	**Descripción de las restricciones sobre la libre transmisibilidad de las Acciones**	No existen en los estatutos sociales restricciones a la libre transmisibilidad de las Acciones.
C.6	**Solicitudes de admisión a cotización en mercados regulados**	Se solicitará la admisión a negociación de todo el capital social emitido de la Sociedad en las Bolsas Españolas y en el SIBE. No se ha efectuado ni se prevé actualmente que vaya a efectuarse ninguna solicitud para que las Acciones coticen o sean admitidas a negociación en ningún otro mercado regulado.
C.7	**Política de dividendos**	La política de dividendos de la Sociedad y el importe de los dividendos futuros que decida pagar, en su caso, dependerán de una serie de factores, incluyendo, entre otros, los beneficios de la Sociedad, la situación financiera, las obligaciones de servicio de la deuda, las necesidades de tesorería (incluidas inversiones de capital y los planes de inversión), las expectativas, las condiciones del mercado y cualesquiera otros factores que se consideren pertinentes en el momento. El importe de los dividendos será propuesto por el Consejo de Administración de la Sociedad y se determina por sus accionistas en las juntas generales de accionistas. La Sociedad tiene intención de repartir aproximadamente entre un 20% y un 30% de su beneficio consolidado después de impuestos, tanto con cargo al resultado del ejercicio como con cargo a reservas, a partir del 2016.

		La Sociedad, matriz del Grupo, carece de toda operatividad y lleva a cabo su actividad a través de una filial íntegramente participada, Patentes Talgo, S.L.U. El reparto de dividendos por la Sociedad estará sujeto al reparto previo de dividendos por Patentes Talgo, S.L.U. A fecha del presente documento, la Sociedad no tiene limitaciones estatutarias, pero sí legales y contractuales, relativas al reparto de dividendos, como el contrato de crédito suscrito entre Patentes Talgo, S.L.U. y EIB que restringe el reparto de dividendos a la Sociedad ya que no podrá exceder en ningún caso el 50% de los resultados después de impuestos de acuerdo con los estados auditados financieros consolidados de Patentes Talgo, S.L.U. y sus filiales.

SECCIÓN D- RIESGOS		
D.1	**Información clave sobre los riesgos clave específicos del Grupo o su sector**	Invertir en el capital de Talgo conlleva la asunción de un riesgo. Antes de efectuar cualquier decisión de inversión debe tener en cuenta los riesgos e incertidumbres que se describen a continuación, junto con el resto de información incluida en este documento. Cualquiera de los riesgos e incertidumbres siguientes puede tener un efecto material adverso en el negocio, la situación financiera y el resultado de las operaciones de Talgo. El precio de mercado de las acciones de Talgo puede reducirse debido a estos riesgos e incertidumbres, pudiendo usted perder todo o parte de su inversión. **Riesgos relacionados con el negocio de Talgo** ▪ Talgo destinará, en la fecha de admisión o en una fecha cercana, parte de su efectivo en una serie de transacciones no recurrentes que tendrán un impacto en las cifras de las partidas de capitalización y endeudamiento a fecha 28 de febrero de 2015. ▪ Talgo obtiene una importante parte de sus ingresos de un número limitado de clientes. ▪ Una parte importante de los ingresos de Talgo procede de contratos a medio y largo plazo. ▪ Los resultados de Talgo podrían fluctuar significativamente tanto anual como semestralmente, reflejando la naturaleza del negocio. Asimismo,

		podrían producirse cambios en los calendarios de entrega de su cartera de pedidos debido a cambios en los costes o a acontecimientos imprevisibles que pueden resultar en una reducción o empeoramiento de los márgenes. ▪ El nivel de cartera de ingresos estimados (backlog) comunicado por Talgo pudiera no ser representativo de ventas futuras y sus ventas actuales podrían caer por debajo del valor de venta estimado atribuido a su cartera, debido a ajustes y cancelaciones. ▪ Cualquier intento fracasado al momento de reunir capital suficiente para el negocio y las operaciones de Talgo podría afectar adversamente a la situación financiera y resultado de las operaciones de Talgo. ▪ La terminación anticipada de los contratos y el intento fallido de reemplazar los clientes podría afectar adversamente a las operaciones del Grupo. ▪ En proyectos que requieran una importante cifra de capital circulante, los retrasos en el pago de los clientes podrían tener un efecto adverso en el negocio, situación financiera y resultado de las operaciones de Talgo. ▪ La relación de Talgo con sus socios en las *joint venture* y consorcios podría fracasar, lo que podría resultar en un efecto material adverso en su negocio, situación financiera y resultado de las operaciones. ▪ Talgo depende de un número limitado de proveedores que le suministran materias primas, sistemas y componentes que son críticos para su negocio. Asimismo, externaliza parte de su negocio de fabricación y mantenimiento. Cualquier alteración de estas relaciones podría afectar negativamente a su negocio, situación financiera y resultado de las operaciones. ▪ El éxito de Talgo depende de su capacidad para diseñar, fabricar, comercializar y mantener nuevos productos que satisfagan la cambiante demanda del mercado. ▪ La volatilidad en los precios de las materias primas clave podría tener un efecto adverso en sus márgenes operativos. ▪ Las fluctuaciones de los tipos de cambio podría tener un efecto material adverso en su negocio, situación financiera y resultados de operación. ▪ Talgo deberá atraer, contratar o retener empleados

		cualificados en las diferentes jurisdicciones en las que opera y gestionar con éxito la relación con sus empleados. De lo contrario, sus operaciones y su capacidad para gestionar los aspectos del día a día de su negocio se verán afectados negativamente. ▪ Talgo está obligado a proporcionar varios avales y seguros de caución a los clientes para cubrir los posibles problemas derivados de los contratos. ▪ Las actividades de Talgo podrían exponerlo potencialmente al cumplimiento de garantías significativas por responsabilidad del producto, accidentes u otras reclamaciones y hacer que la Sociedad sea parte de un litigio. ▪ Talgo podría ser incapaz de conseguir un seguro adecuado, o bajo términos no rentables. ▪ Talgo podría proteger inadecuadamente su propiedad intelectual. ▪ Talgo está sujeta a leyes y reglamentos contra el soborno y la corrupción que rigen y afectan a las decisiones sobre dónde y cómo el negocio debe llevarse a cabo. ▪ Talgo debe cumplir con los estrictos requisitos del cliente, los estándares internacionales y la legislación nacional. ▪ La información futura incluida en este documento puede resultar inexacta. **Riesgos relacionados con la industria de Talgo** ▪ Talgo opera en una industria altamente dinámica y competitiva. Si no es capaz de competir de manera eficiente con sus competidores actuales o futuras, su negocio, situación financiera y resultado de operaciones podrían verse adversamente afectados. ▪ Es posible que los trenes de alta velocidad y otros proyectos en los que Talgo está involucrado sufran la oposición de determinados grupos o individuos, especialmente por cuestiones relacionadas con la degradación del paisaje, la contaminación acústica, daño a los animales u otros daños en el medio ambiente. ▪ Talgo que puede verse afectada por la competencia de otras formas de transporte.

		Riesgos relacionados con las condiciones económicas ▪ Las operaciones comerciales de Talgo podrían verse afectadas por las condiciones económicas adversas en una o más de las áreas geográficas en las que opera o tiene previsto operar estableciendo negocios, riesgos financieros, políticos y económicos. ▪ Los resultados de las operaciones de Talgo dependen en gran medida de la financiación del gobierno a nivel nacional y estatal.
D.3	**Información fundamental sobre los principales riesgos específicos de las acciones**	**Riesgos relacionados con la estructura de capital de Talgo y la Oferta** ▪ Los Accionistas Vendedores firmaron un contrato de accionistas con el fin de regular su relación como accionistas de la Sociedad que incluye, entre otras cláusulas, el derecho de adquisición, el derecho de arrastre y el derecho de acompañamiento y el sentido del voto. ▪ Pegaso Transportation International, S.C.A. continuará ejerciendo una influencia significativa en el modo en que Talgo desarrolla su negocio. ▪ La Sociedad es una sociedad matriz y sus únicas fuentes de ingreso son y se espera que sean dividendos, distribuciones y otros pagos de Patentes Talgo, que está sujetas a ciertas restricciones legales y contractuales en su capacidad para distribuir dividendos. ▪ La venta de un número importante de las acciones o la percepción de que esa venta pueda tener lugar podría afectar adversamente al precio de las acciones de Talgo. ▪ No hay un mercado establecido para las Acciones y no existe garantía alguna de que se desarrolle un mercado activo y la volatilidad de los mercados de valores y el precio de mercado de las Acciones podría implicar la imposibilidad de los inversores de revender sus acciones a un precio igual o mayor que el precio de la oferta. ▪ La Oferta puede ser objeto de suspensión y revocación automática. ▪ Los accionistas de ciertas jurisdicciones distintas de España – Unión Europea, incluido Estados Unidos, pueden no ser capaces de ejercer su derecho de

		adquisición preferente de acciones adicionales. ▪ Los Accionistas residentes en países con monedas distintas del euro se enfrentan a un riesgo de inversión adicional derivado de las fluctuaciones de los tipos de cambio en relación con las acciones de Talgo de su propiedad. ▪ La capacidad de los accionistas que residen fuera de España para emplazar a juicio a la Sociedad o a cualquiera de sus Consejeros o empleados o para hacer cumplir las sentencias judiciales extranjeras, puede ser limitada. ▪ Las Acciones objeto de la oferta no serán libremente transmisibles en Estados Unidos.

SECCIÓN E- ADMISIÓN Y OFERTA		
E.1	**Ingresos netos totales de la Oferta y gastos estimados**	En el marco de la Oferta, los Accionistas Vendedores esperan obtener unos ingresos brutos de entre 554,17 millones de euros y 708,11 millones de euros (asumiendo la venta de todas las Acciones Iniciales de la Oferta y que no se ejercite la Opción de Sobre-Adjudicación). La Sociedad no recibirá ningún ingreso de la venta de las Acciones Iniciales de la Oferta por parte de los Accionistas Vendedores. A efectos puramente informativos, debido a la dificultad en la determinación de los gastos contraídos a la fecha de este documento, el importe máximo de los gastos (comisiones de aseguramiento, honorarios y gastos) pagaderos por la Sociedad y los Accionistas Vendedores en relación con la Oferta (sin incluir IVA, que se añadirá según corresponda) serían de aproximadamente 22 millones de euros.
E.2	**Motivos de la Oferta y destino de los ingresos**	La Sociedad no recibirá ningún ingreso de la venta de las Acciones Existentes Ofrecidas por parte de los Accionistas Vendedores. La Sociedad considera que la Oferta permitirá al Grupo expandir el accionariado de la Sociedad y acceder a los mercados de capitales, lo cual permitirá a la Sociedad mejorar los acuerdos financieros para el futuro desarrollo de los negocios del Grupo. Adicionalmente, se espera que la Oferta mejore la marca del Grupo en tanto que esté admitida a cotización y otorgue una mayor liquidez a las acciones de sus accionistas en las Bolsas Españolas.

E.3	**Descripción de los términos y condiciones de la Oferta**	Pegaso Transportation International S.C.A., MCH Iberian Capital Fund III, FCR, MCH Inversiones Industriales, S.à.r.l. y los Accionistas Minoritarios Vendedores descritos en "*Principal and selling shareholders*" (los "**Accionistas Vendedores**") ofrecen 61.574.805 acciones ordinarias con un valor nominal de 0.301 cada una de Talgo, S.A a inversores cualificados (la "**Oferta**"). Las Acciones Iniciales de la Oferta representan un 45% del capital social de la Sociedad. Adicionalmente, los Accionistas Vendedores otorgarán una opción a las Entidades Coordinadoras Globales en nombre de las Entidades Aseguradoras (la "**Opción de Sobre-Adjudicación**") ejercitable en un plazo de 30 días naturales a partir de la fecha en que las acciones comiencen a cotizar en las Bolsas de Valores españolas, para la adquisición de un número de acciones adicionales que representen hasta el 10% de las Acciones Iniciales de la Oferta ofrecidas por los Accionistas Vendedores en la Oferta, para cubrir sobre-adjudicaciones, en caso de resultar necesario, y las posiciones cortas derivadas de las operaciones de estabilización. Las Acciones Iniciales de la Oferta y las Acciones Sobre-Adjudicadas (en su caso) se denominarán conjuntamente las "**Acciones Ofrecidas**". Las Acciones Ofrecidas y las restantes acciones existentes de la Sociedad se denominarán las "**Acciones**". La banda de precios indicativa en la que se venderán las Acciones Ofrecidas en el marco de la Oferta, se encuentra comprendida entre 9,00 euros y 11,50 euros por Acción Ofrecida (la "**Banda de Precios**"). Esta banda se ha fijado mediante negociaciones mantenidas entre la Sociedad, los Accionistas Vendedores y las Entidades Aseguradoras, sin consultar a expertos independientes. Al finalizar el periodo de prospección de la demanda (*book-building*) (previsto aproximadamente para el 5 de mayo de 2015), se fijará el Precio de las Acciones Ofrecidas, el cual será determinado mediante negociaciones mantenidas entre la Sociedad, los Accionistas Vendedores y las Entidades Aseguradoras y se comunicará a través de hecho relevante. La banda de precios de la Oferta implica asignar a la Sociedad

		una capitalización bursátil de la totalidad de sus acciones de entre 1.231,5 y 1.573,6 millones, aproximadamente. El ratio de Precio / Beneficio (PER) a 31 de diciembre 2014 es 32,0x y 40,9x, respectivamente. La Sociedad adquirirá, dependiendo de la Banda de Precios, de los Accionistas Vendedores un total de entre 6.034.147 y 6.474.104 Acciones al Precio de la Oferta para cumplir con el Plan de Incentivos a Directivos. El número total de Acciones que recibirá el equipo directivo de conformidad con el Plan de Incentivos a Directivos representará entre el 4,41% y el 4,73% del capital social de la Sociedad (después de impuestos) y el coste total del Plan de Incentivo a Directivos será de entre 97.944 miles de euros y 135.953 miles de euros. Por otra parte, la Sociedad comprará a los Accionistas Vendedores un número total de Acciones Iniciales de la Oferta al Precio de la Oferta por un importe máximo de 4,2 millones de euros (excluyendo los 919 miles de euros que se destinarían al pago de las contribuciones a la Seguridad Social social) para retribuir a los empleados de Talgo (excepto a consejeros ejecutivos y altos directivos). El número total de Acciones que los empleados de Talgo recibirán será de entre 467.426 y 365.812 de las Acciones Iniciales, que representarán entre 0,34% y el 0,27% del capital social de la Sociedad. Para atender este pago, la Sociedad comprará las correspondientes Acciones en la Oferta. El número total de las Acciones Iniciales de la Oferta que la Sociedad comprará en la Oferta será entre 4,75% y el 5,00% del capital social de la Sociedad. En este sentido, el número mínimo total de Acciones Iniciales de la Oferta que los inversores cualificados comprarán en la Oferta será el 40,00% del capital social de la Sociedad. La Oferta no ha sido ni será registrada conforme a lo establecido en la *Securities Act* de Estados Unidos de 1933, en su versión modificada (la "*Securities Act*"). La Acciones de la Oferta se ofrecerán y venderán en Estados Unidos únicamente a los compradores institucionales cualificados (*qualified institutional buyers*) ("**QIBs**") tal y como aparecen definidos en la *Rule 144A* de la *Securities Act* ("**Rule 144A**") con base en la Rule 144A y fuera de Estados Unidos con base en la *Regulation S* de la *Securities Act*.

La Sociedad, los Accionistas Vendedores y las Entidades Aseguradoras suscribirán un contrato de aseguramiento (el "**Contrato de Aseguramiento**") en relación con las Acciones Iniciales de la Oferta y las Acciones Sobre-Adjudicadas vendidas por los Accionistas Vendedores tras la finalización del periodo de prospección de la demanda (*book-building*) (previsto aproximadamente para el 5 de mayo de 2015). Sujeto al cumplimiento de determinadas condiciones establecidas en el Contrato de Aseguramiento, cada Entidad Aseguradora acepta, individualmente y de forma mancomunada (no solidaria), adquirir un porcentaje del número total de Acciones Iniciales de la Oferta que se recoge junto a su nombre en la siguiente tabla:

Entidades Aseguradoras	**Hasta el siguiente Porcentaje***
Banco Santander, S.A.	27,62191%
J.P. Morgan Securities plc	27,62191%
Nomura International plc	27,62191%
Banco Bilbao Vizcaya Argentaria, S.A.	2,855714%
Bankinter, S.A.	2,855714%
Crédit Agricole CIB	2,855714%
JB Capital Markets, S.V., S.A.U.	2,855714%
Natixis	2,855714%
Société Générale	2,855714%
TOTAL	**100,00%**

* Excluyendo aquellas Acciones que va a adquirir la Sociedad en la Oferta para cumplir con el Plan de Incentivos a Directivos y para la entrega, de manera gratuita, de un paquete de acciones a los empleados de Talgo (excepto a Consejeros ejecutivos y Altos Directivos).

Adicionalmente, se espera que (i) Nmás1 Equities Sociedad de Valores S.A. se adhiera al Contrato de Aseguramiento, exclusivamente como agente colocador (es decir, sin asumir compromiso de aseguramiento) cobrando comisiones de colocación, y (ii) Mercavalor, Sociedad de Valores, S.A., una sociedad totalmente participada por Bankinter, S.A., participará en las actividades de marketing de la Oferta, aunque no será parte del Contrato de Aseguramiento y no recibirá ninguna comisión por parte de la Sociedad o los Accionistas Vendedores.

Se prevé que la fecha de cierre de la Oferta o "*fecha de*

		operación bursátil" sea el 6 de mayo de 2015. La Sociedad hará público el resultado de la Oferta mediante la emisión de un hecho relevante que se comunicará a la CNMV en la fecha de cierre o en el día hábil siguiente. Conforme establece la legislación española, en la fecha de cierre de la oferta, los inversores quedarán incondicionalmente vinculados al pago y al derecho a la recepción de las Acciones Iniciales de la Oferta, adquiridas en la Oferta. El pago de las Acciones Iniciales de la Oferta por parte de los inversores finales, no se demorará más allá de los tres días hábiles a contar desde la fecha de cierre de la Oferta correspondiente contra la asignación de las correspondientes referencias de registro de Iberclear, de las Acciones Iniciales de la Oferta (salvo por las Acciones Sobre-Adjudicadas) a los inversores finales, prevista para el día 11 de mayo de 2015 (la "**Fecha de Liquidación**"). Las Acciones Iniciales de la Oferta cotizarán en las Bolsas Españolas y se negociarán a través del SIBE (Mercado Continuo) el 7 de mayo de 2015 o en una fecha cercana, bajo el símbolo "TLGO". En caso de desistimiento o revocación de la Oferta, todas las ofertas de compra deberán ser canceladas y todas las órdenes de compra relacionadas con la Oferta de las Acciones Ofrecidas se darán por terminadas. Adicionalmente, los Accionistas Vendedores no tendrán obligación de entregar las Acciones Ofrecidas y los inversores (incluyendo a los efectos de esta sección, a las Entidades Aseguradoras), no tendrán obligación de comprar las Acciones Ofrecidas. En el caso de que las Acciones Ofrecidas ya hayan sido entregadas por los Accionistas Vendedores y el precio de compra haya sido pagado por los inversores, se exigirá a los inversores la devolución de la titularidad de las Acciones Ofrecidas a los Accionistas Vendedores y los Accionistas Vendedores recomprarán las Acciones Ofrecidas a sus titulares por un importe igual al precio de compra incrementado en el interés legal (fijado actualmente en el 3,5 por ciento) a partir de la fecha de pago del precio de compra por los inversores hasta la fecha de reembolso del precio de compra.

E.4	**Descripción de cualquier interés que sea importante para la Oferta**	A la fecha del presente document, Nomura International plc, a través de Nomura European Investment Limited mantiene una participación del 25,5% en Pegaso Transportation Investments S.C.A., que a su vez tiene una participación del 23,9% en el Accionista Vendedor, Pegaso Transportation International, S.C.A. Banco Santander, S.A. es acreditante bajo un contrato de préstamo otorgado a la Sociedad y Patentes Talgo, como acreditados solidarios, por un importe total de 100.000 miles de euros.
E.5	**Entidades que ofrecen las Acciones y acuerdos de no disposición (lock-up)**	**A) Entidades que ofrecen las Acciones** Los Accionistas Vendedores son las entidades e individuos que ofrecen las Acciones. **B) Acuerdos de no disposición ("lock-up")** De conformidad con los términos previstos en el Contrato de Aseguramiento que suscribirán por la Sociedad, los Accionistas Vendedores y las Entidades Aseguradoras, las siguientes partes estarán sujetas a acuerdos de no disposición temporal (lock-up) por los periodos que se establecen a continuación contados a partir de la Fecha de Admisión: Talgo, S.A……………………………..……………...180 días Accionistas Vendedores…..………………..…………180 días Consejeros y directivos....……………………………360 días Los acuerdos de o disposición temporal (*lock-up*) están sujetos a las excepciones habituales entre las que se incluyen la emisión y venta de Acciones ofrecidas en el marco de la Oferta o, en el caso de la Sociedad, las transmisiones de Acciones para atender cualesquiera planes de incentivos de la Sociedad.
E.6	**Dilución**	Teniendo en cuenta que toda la Oferta es secundaria, no llevará consigo ningún efecto de dilución. Si se ejercitase la Opción de Sobre-Adjudicación íntegramente, tras la Oferta, los Accionistas Vendedores tendrán un 50,5% del capital y de los derechos de voto de la Sociedad. Si la Opción de Sobre-Adjudicación no se ejercitase, tras la

		Oferta, los Accionistas Vendedores tendrán un 55% del capital y de los derechos de voto de la Sociedad.
E.7	**Gastos aplicados a los inversores**	Con independencia de cualquier gasto, comisión de agencia o de cualquier otro tipo que pueda ser aplicada por las entidades que participan en Iberclear de conformidad con sus correspondientes comisiones (y que sean ajenas a la Sociedad), a efectos de la transmisión de las Acciones, la Sociedad no cobrará a los inversores finales gasto alguno de forma adicional al Precio de la Oferta. Además, se obligará a los compradores de Acciones Ofrecidas a pagar impuesto de actos jurídicos documentados y otros cargos en cumplimiento de las leyes y prácticas de su país de compra, además del precio de la Oferta.

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