

# **Talgo, S.A.**

Financial Statements for the year  
ended 31 December 2016 and  
Directors' Report together with  
Independent Auditor's Report

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

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## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of  
Talgo, S.A.:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Talgo, S.A. ("the Company"), which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

#### *Directors' Responsibility for the Financial Statements*

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of Talgo, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2.a to the accompanying financial statements for 2016) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 financial statements.

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

#### *Opinion*

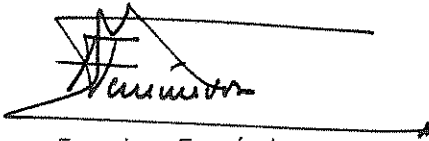
In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of Talgo, S.A. as at 31 December 2016, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

## Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2016 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2016. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.

Registered in ROAC under no. S0692

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

Francisco Fernández

27 February 2017

## **TALGO, S.A.**

Annual Accounts and Directors' Report for the year ended 31 December 2016

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

**TALGO, S.A.**

**BALANCE SHEETS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015**  
(Expressed in thousands of euros)

ASSETS	2016	2015
<b>NON CURRENT ASSETS</b>	<b>158 928</b>	<b>150 317</b>
Long-term financial investments in group companies and associates (note 5)	150 317	150 317
Investments in group companies	150 317	150 317
Deferred tax assets (note 6)	8 611	-
<b>CURRENT ASSETS</b>	<b>20 096</b>	<b>24 876</b>
Short-term financial investments in group companies and associates (note 5)	13 251	-
Other financial assets	13 251	-
Trade debtors and other accounts receivable (note 7)	6 655	24 667
Receivables from Public Administrations	6 655	24 667
Cash and cash equivalents (note 8)	190	209
<b>TOTAL ASSETS</b>	<b>179 024</b>	<b>175 193</b>
LIABILITIES AND SHAREHOLDER'S EQUITY	2016	2015
<b>EQUITY</b>	<b>67 509</b>	<b>57 309</b>
Equity (note 9)	67 509	57 309
Share capital	41 187	41 187
Share premium	68 451	68 451
Legal reserve	8 237	8 237
Negative results from previous years	( 60 566)	( 90 403)
Other Reserves	-	33 724
Result for the financial year	10 200	( 3 887)
<b>NON CURRENT LIABILITIES</b>	<b>88 504</b>	<b>103 598</b>
Long-term debts (note 10)	88 504	103 598
Debts with financial institutions	51 675	58 175
Debts with group companies and associates	36 829	45 423
<b>CURRENT LIABILITIES</b>	<b>23 011</b>	<b>14 286</b>
Short-term debts (note 11)	22 811	14 002
Debts with group companies and associates	15 967	7 211
Debts with financial institutions	6 844	6 791
Short-term creditors and other accounts payable (note 11)	200	284
Other debts with Public Administrations	-	81
Other creditors	200	203
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>179 024</b>	<b>175 193</b>

Notes 1 to 20 of these annual accounts form an integral part of the balance sheet at 31 December 2016.

**TALGO, S.A.**

**INCOME STATEMENT ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2016  
AND 2015**

**(Expressed in thousands of euros)**

<b>CONTINUING OPERATIONS</b>	<u>2016</u>	<u>2015</u>
Net turnover (note 5 and 12)	13 251	-
Other operating income	-	60
Non-core and other operating revenues (note 12)	-	60
Other operating expenses	( 1 057)	( 1 277)
External services (note 12)	( 417)	( 817)
Other current operating expenses (note 12)	( 640)	( 460)
<b>OPERATING RESULT</b>	<u>12 194</u>	<u>( 1 217)</u>
Financial income (note 12)	-	4
Financial expenses (note 12)	( 1 202)	( 835)
<b>FINANCIAL RESULT (note 12)</b>	<u>( 1 202)</u>	<u>( 831)</u>
<b>PROFIT BEFORE TAX</b>	<u>10 992</u>	<u>( 2 048)</u>
Income tax (note 13)	( 792)	( 1 839)
<b>EARNINGS FROM CONTINUING OPERATIONS</b>	<u>10 200</u>	<u>( 3 887)</u>
<b>RESULT FOR THE YEAR</b>	<u>10 200</u>	<u>( 3 887)</u>

Notes 1 to 20 of these annual accounts form an integral part of the income statement at 31 December 2016.

TALGO, S.A.

**STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2016 AND 2015**  
(Expressed in thousands of euros)

**STATEMENT OF RECOGNIZED INCOME AND EXPENSES**

	<u>2016</u>	<u>2015</u>
<b>Result from the income statement</b>	<b>10 200</b>	<b>( 3 887)</b>
<b>Direct assignment to equity</b>		
Cash flow hedge	-	-
Grants, donations and bequests received	-	-
Opening balance adjustments for changes in value	-	-
	-	-
<b>Transfers to the income statement</b>		
Cash flow hedge	-	-
Grants, donations and bequests received	-	-
	-	-
<b>TOTAL RECOGNIZED INCOME AND EXPENSES</b>	<b><u>10 200</u></b>	<b><u>( 3 887)</u></b>

Notes 1 to 20 of these annual accounts form an integral part of the statement of recognized income and expenses at 31 December 2016.

**TALGO, S.A.**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2016 and 2015**  
(Expressed in thousands of euros)

**TOTAL STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Legal reserve	Negative results from previous financial years	Other Reserves (share compensation plan)	Result for the financial year	Total
<b>Balance at 31 December 2014</b>	41 187	68 451	6 924	( 9 368)	30 512	2 978	140 684
Total recognized income and expenses	-	-	-	-	-	( 3 887)	( 3 887)
Other movements	-	-	-	( 82 700)	3 212	-	( 79 488)
Distribution of results for 2014	-	-	1 313	1 665	-	( 2 978)	-
<b>Balance at 31 December 2015</b>	41 187	68 451	8 237	( 90 403)	33 724	( 3 887)	57 309
Total recognized income and expenses	-	-	-	-	-	10 200	10 200
Other movements	-	-	-	33 724	( 33 724)	-	-
Application of results for 2015	-	-	-	(3 887)	-	3 887	-
<b>Balance at 31 December 2016</b>	41 187	68 451	8 237	( 60 566)	-	10 200	67 509

Notes 1 to 20 of these annual accounts form an integral part of the total statement of changes in equity at 31 December 2016.



**TALGO, S.A.**

**CASH FLOW STATEMENT FOR THE YEARS 2016 AND 2015**  
**(Expressed in thousands of euros)**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>2 113</b>	<b>( 3 006)</b>
<b>Result for the financial year before taxes</b>	<b>10 992</b>	<b>( 2 048)</b>
<b>Adjustments to the result</b>	<b>1 202</b>	<b>771</b>
- Financial income	-	( 4)
- Financial expenses	1 202	835
- Other incomes and expenses	-	( 60)
<b>Changes in working capital</b>	<b>(13 335)</b>	<b>( 1 475)</b>
- Debtors and other accounts receivable	(13 251)	( 166)
- Creditors and other accounts payable	( 84)	( 1 309)
<b>Other cash flows from operating activities</b>	<b>3 254</b>	<b>( 254)</b>
- Interest payments	( 1 149)	( 541)
- Income tax	4 403	287
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>( 2 132)</b>	<b>3 101</b>
<b>Collections and payments on financial liability instruments</b>	<b>( 2 132)</b>	<b>110 098</b>
- Collections from credit entities and other debts	-	65 000
- Payment of debt with credit institutions and other debts	( 6 500)	( 325)
- Debt with group companies and associates	4 368	45 423
<b>Payments for dividends and remuneration on other equity instruments</b>	<b>-</b>	<b>( 106 997)</b>
- Shares	-	( 106 997)
<b>NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>( 19)</b>	<b>95</b>
Cash and cash equivalents at the beginning of the year	209	114
Cash and cash equivalents at the end of the year	190	209

Notes 1 to 20 of these annual accounts form an integral part of the cash flow statement for the financial year 2016.

**TALGO, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016**  
**(Expressed in thousands of euros)**

**1. General Information**

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

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

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

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

The corporate purpose of the Company is as follows:

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

## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

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

#### 2. Basis of presentation

##### a) Applicable regulatory financial reporting framework

These annual accounts for 2016 have been prepared on the basis of the Company's accounting records and are presented in accordance with the applicable regulatory framework for financial information, in order to show a fair presentation of the equity, financial position and results of the Company. The regulatory framework is based on:

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

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

##### b) Fair presentation

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

On February 23, 2017, the Directors formulated the annual accounts for the financial year 2016. The deposit of the annual accounts is made at the Commercial Registry of Madrid.

##### c) Critical aspects of the valuation and estimation of uncertainty

The Company's Management is not aware of the existence of any major uncertainties with regard to events or risks that may result in significant changes to the value of the assets and liabilities at the end of 2016.

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016**  
(Expressed in thousands of euros)

d) Grouping items

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

e) Comparison of information

The information contained in these annual accounts pertaining to the year 2015 is presented for comparative purposes only, alongside the information for 2016.

**3. Accounting principles**

The main valuation principles used by the Company in preparing its financial statements for 2016, in accordance with the General Accounting Plan in force, are as follows:

a) Financial assets

Loans and accounts receivable

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

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

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

The amount of the loss due to impairment is the difference between the book value of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate at the time of initial recognition. These corrections in value, along with their subsequent reversal where appropriate, are recognized in the income statement.

Investments in group companies, multigroup and associates

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

## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

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

#### b) Financial liabilities

##### Debts and accounts payable

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

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

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

#### c) Share capital

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

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

#### d) Current and deferred taxes

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

**TALGO, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016  
(Expressed in thousands of euros)**

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

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

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

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

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.

**e) Revenue recognition**

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

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

Income from the Company's financial activity (dividends) has been considered as an ordinary activity in accordance with the resolution of the Spanish Accounting and Audit Institute (ICAC), published in bulletin 79 in 2009, therefore it has been registered in the income statement under the heading "Net turnover".

**f) Related party transactions**

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

## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

#### g) Provisions and contingent liabilities

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

No provisions are recognized for future operating losses.

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

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

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

Meanwhile, contingent liabilities are considered to be those potential obligations arising as a result of past events, whose materialization depends on the occurrence of future events lying beyond the will of the Company. Such contingent liabilities are not registered in the accounting records.

#### h) Foreign currency transactions and balances

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

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

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

TALGO, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016**  
(Expressed in thousands of euros)

**4. Information on the nature and level of risk**

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

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

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

The movements in the "Investments in group companies and associates" balance during 2015 were as follows:

	€ in thousands			
	Balance at 31.12.14	Additions	Disposals	Balance at 31.12.15
Investments in group companies	147 105	3 212	-	150 317
	<b>147 105</b>	<b>3 212</b>	<b>-</b>	<b>150 317</b>

The additions recorded during the financial year 2015 corresponded to Patentes Talgo, S.L.U equity instruments-based payment transaction to its employees.

The movements in the "Investments in group companies and associates" balance during 2016 are as follows:

	€ in thousands			
	Balance at 31.12.15	Additions	Disposals	Balance at 31.12.16
Investments in group companies	150 317	-	-	150 317
	<b>150 317</b>	<b>-</b>	<b>-</b>	<b>150 317</b>

The total balance registered in this caption, relates to the investments that Talgo, S.A. holds in the company Patentes Talgo, S.L.U., being this stake of 100% for the years 2015 y 2016.

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



## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

The amounts of share capital, reserves, result for the financial year and other relevant information as shown in the individual audited annual accounts of subsidiary company at 31 December 2016 are shown as follows in thousands of euro:

Company	Share Capital	Reserves	Result 2016	Other items	Operating Results	Net book value in parent company books
Patentes Talgo, S.L.U.	51 914	276 367	44 144	-	71 465	150 317

The amounts of share capital, reserves, result for the financial year and other relevant information as shown in the individual audited annual accounts of subsidiary company at 31 December 2015 are shown as follows in thousands of euro:

Company	Share Capital	Reserves	Result 2015	Other items	Operating Results	Net book value in parent company books
Patentes Talgo, S.L.U.	51 914	184 312	58 331	33 724	77 091	150 317

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

On December 16, 2016, the subsidiary Patentes Talgo, S.L.U has approved the distribution of a dividend charged to income for the year 2016 amounting to €13,251 thousand. The aforementioned dividend has been registered in the "Net Turnover" caption based on the activity like holding of the Company. The dividend is pending to collection on December 31, 2016

Talgo, S.A. consolidated annual accounts for the financial year 2016, have been formulated by the Directors of the Company at the meeting of the Board of Directors held on 23 February 2017, in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and deposited in the Commercial Registry of Madrid. They show that the Group recorded equity of € 293,783 thousand, a profit of €61,854 thousand, total assets of €762,808 thousand and total turnover of €579,770 thousand.

The consolidated annual accounts of Talgo S.A. corresponding to 2015 were approved at the General Meeting of the Shareholders of the Parent Company on 3 May 2016 and deposited in the Commercial Registry in Madrid.

## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

#### 6. Other long-term assets

The breakdown of "Other long-term assets" is shown below:

	<u>2016</u>	<u>2015</u>
Long-term deferred tax assets	8 611	-
	<u>8 611</u>	<u>-</u>

This caption contains the deferred tax asset related to the negative tax basis generated during the year 2015 and pending to offset at year-end 2016 (note 13).

#### 7. Trade debtors and other accounts receivable

The breakdown of the "Trade debtors and other accounts receivable" balances at 31 December 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Receivables from Public Administrations	6 655	24 667
	<u>6 655</u>	<u>24 667</u>

This caption contains at year-end the refunds of corporate tax of the consolidated Tax Group for the year 2016.

#### 8. Cash and cash equivalents

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

	<u>2016</u>	<u>2015</u>
Cash	190	209
	<u>190</u>	<u>209</u>

The balance included in this caption is entirely freely available.

#### 9. Equity

##### a) Share capital

As at 31 December 2016 and 2015, the Company's share capital amounted to €41,186,702.90 and comprised 136,832,900 shares with a nominal value of €0.301 each.

On 28 March 2015, the General Shareholders' Meeting of the Company approved the application for the admission of the company's shares onto the Spanish stock exchange, as well as their inclusion in the Spanish Stock Exchange Interconnection System.

On 23 April 2015, the National Securities Market Commission approved the prospectus and registered the supporting documents, annual accounts and prospectus relating to the

## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

share Sales Offer transaction aimed at qualifying investors in the official registers, as provided for in Article 92 of Law 24/1988, dated 28 July 1988 governing the Securities Market, for their subsequent admission for trading of Talgo, S.A. on the Stock Exchanges of Madrid, Barcelona, Valencia and Bilbao.

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

According to the reports filed with the National Securities Exchange Commission regarding the number of company shares, the following owners held significant stakes in the share capital of the Company, both directly and indirectly, which individually exceeded 3% of the Share Capital as at 31 December 2016:

Company	% of share
Trilantic Capital Investment GP Limited	34,9%
MCH Inversiones Industriales, S.A.R.L.	4,7%
MCH Iberian Capital Fund III, FCR	4,2%
Universities Superannuation Scheme	3,0%
AVIVA, PLC	3,0%
	<u>49,8%</u>

The percentage stake of the shareholders with more than 3% of the Share Capital at year-end 2015 was as follows:

Company	% of share
Trilantic Capital Investment GP Limited	34,9%
MCH Inversiones Industriales S.A.R.L.	4,7%
MCH Iberian Capital Fund III, FCR	4,2%
Smallcap World Fund Inc. (SCWF)	3,3%
Universities Superannuation Scheme	3,0%
	<u>50,1%</u>

#### b) Share Premium

The share Premium is €0.50025 per share, with a total of €68,451 thousand. This share premium is freely available.

#### c) Legal reserve

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

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

## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

At 31 December 2016, the legal reserve had reached the legally required minimum.

#### d) Result for the year

The proposed distribution of the result which will be presented to the shareholders at the Company's Annual General Meeting, prior to offset in full in prior years' losses with the share premium is as follows:

	<u>2016</u>	<u>2015</u>
To dividend	10 000	-
To reserves	<u>200</u>	<u>(3 887)</u>
	<u><b>10 200</b></u>	<u><b>(3 887)</b></u>

#### e) Other reserves

The "Other reserves" caption at 31 December 2015 contains the equity component related to the share's compensation plan, which amounts to €33,724 thousand. Given that the mentioned plan has been accomplished in 2015 and after it has been settled in full, the balance has been reclassified to "Negative results from previous years", which it is now freely available.

## 10. Long-term debts

The breakdown of the "Long-term debts" balances at 31 December 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Debts with financial institutions	51 675	58 175
Debts with group companies and associates	<u>36 829</u>	<u>45 423</u>
	<u><b>88 504</b></u>	<u><b>103 598</b></u>

#### a) Debts with financial institutions

On 16 April 2015 the Company and the subsidiary Patentes Talgo S.L.U. have signed a loan agreement, amounting to €100,000 thousand. The loan to Talgo, S.A. amounted €65,000 thousand. At year-end 2016, €51,675 thousand of the aforementioned loan was classified as a long-term liability and €6,500 thousand was classified as a short-term liability. The amount of interest accrued and unpaid at year-end 2016 in relation to the aforementioned contract amounted to €344 thousand. The aforementioned contract contains a number of associated obligations which the Group has complied with since the beginning of the contract. This loan accrues fixed interest at a market rate.

## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

The composition of this caption at 31 December 2016 and 2015 was as follows:

	<u>€ in thousands</u>					
<b>Balance at 31.12.15</b>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Subsequent years</u>	<u>Totals</u>
Debt with credit institutions	<u>6.791</u>	<u>6.500</u>	<u>6.435</u>	<u>6.444</u>	<u>38.796</u>	<u>64.966</u>
<b>Balance at 31.12.16</b>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Subsequent years</u>	<u>Totals</u>
Debt with credit institutions	<u>6.844</u>	<u>6.435</u>	<u>6.444</u>	<u>38.796</u>	<u>-</u>	<u>58.519</u>

#### b) Debts with group companies and associates

The Company has received on 2015 a long-term loan from its subsidiary Company Patentes Talgo, S.L.U. amounting to €45,423 thousand, and accrues interest at a market rate. At year-end 2016, €36,829 thousand of the aforementioned loan was classified as a long-term liability and €15,967 thousand was classified as a short-term liability.

#### 11. Short-term debts and other accounts payable

The breakdown of the "Short-term creditors and other accounts payable" balances at 31 December 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Debts with group companies and associates	15 967	7 211
Debts with financial institutions	6 844	6 791
Other debts with Public Administrations	-	81
Other creditors	200	203
	<u>23 011</u>	<u>14 286</u>

The caption "Debts with group companies and associates" contains registered balances with the subsidiary Patentes Talgo, S.L.U. for income tax outstanding balances with the Tax Authority, furthermore includes the concepts of short-term debt contracted with the Group mentioned in note 10b.

The caption short-term debts contain the Debts with financial institutions (note 10.a), furthermore outstanding interests and commissions at year-end 2016 are included.

Below is detailed the information required by the third additional Provision of Act 15/2010, of 5 July (amended by the second final Provision of Act 31/2014, 3 December) prepared in accordance with the ICAC (Accounting and Audit Institute) Resolution of 29 January 2016, on the information to provide in the annual accounts in relation to the average period of payment for trade operations to suppliers.

## TALGO, S.A.

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	€ in thousands	
	2016	2015
Average Suppliers payment period (days)	41	34
Paid operations ratio (days)	44	41
Pending to be paid operations ratio (days)	32	7
Total payments	580	827
Total pending payments	200	203

Pursuant to the ICAC (Accounting and Audit Institute) resolution, the average period of payment to suppliers calculation is based on the trade operations corresponding to goods delivered or services provided accrued from the date from which Act 31/2014, 3 December, came into force.

For the sole purpose of detailing the information required by the Resolution, it is considered suppliers the trade creditors for debts with suppliers for goods and services, included within the "suppliers" and "other creditors" items on the current asset of the balance sheets.

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

#### 12. Income and expenses

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

	2016	2015
Net turnover (note 5)	13 251	-
Other operating income	-	60
	<b>13 251</b>	<b>60</b>

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

	2016	2015
Professional services	( 417)	( 817)
Other current operating expenses	( 640)	( 460)
	<b>( 1.057)</b>	<b>(1 277)</b>

## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

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

	<u>2016</u>	<u>2015</u>
<b>Financial income:</b>		
Interest income	-	4
<b>Financial expenses:</b>		
Other financial expenses	(1 202)	(835)
<b>Financial result</b>	<b><u>(1 202)</u></b>	<b><u>(831)</u></b>

d) Personnel expenses

The Company has not employees for the years 2016 and 2015.

### 13. Income tax and the fiscal situation

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

The income tax expense for the year is calculated at the rate of 25% of the pre-tax profit (28% on 2015), adjusted for permanent differences and taking into consideration any applicable deductions

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

The reconciliation between profits before tax and taxable income for 2016 is as follows:

	<u>Increases</u>	<u>Decreases</u>	<u>31.12.16</u>
<b>Result before tax</b>			<b>10 992</b>
Permanent differences:	-	( 13 251)	( 13 251)
Timing differences:	-	-	-
Taxable income for the year (Tax Result)			<b><u>( 2 259)</u></b>
<b>Income tax</b>			<b><u>( 792)</u></b>

## TALGO, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

At 31 December 2016 At 31 December 2016, the negative tax bases pending offsetting in Tax Group 65/06 (note 6) are as follows:

Year	<u>€ in thousands</u>
2015	<u>34 443</u>
	<b>34 443</b>

Under current legislation, tax returns may not be considered to be definitively settled until they have been reviewed by the tax authorities or until the statute of limitations period has expired. At the close of fiscal year 2016 the Company has open to inspection the last four fiscal years of all taxes that are applicable to it.

The Company's Directors consider that the liquidations of the aforementioned taxes have been properly executed, so that, even if there were discrepancies in the current interpretation of the tax treatment granted to the operations, any resulting liabilities, if materialized, would not significantly affect the accompanying annual accounts.

#### 14. Other information

##### a) Foreign currency

The Company does not hold foreign currency balance sheet items during 2016 and 2015; furthermore foreign currency transactions have not been made during 2016 (€164 thousand in 2015) has not generated exchange differences (€0.2 thousand in 2015).

##### b) Transactions with related parties

	<u>2016</u>	<u>2015</u>
<b>External services</b>		
Patentes Talgo, S.L.U.	<u>15</u>	<u>15</u>
<b>Expenses</b>	<u><b>15</b></u>	<u><b>15</b></u>

#### 15. Compensation for the Senior Management and Directors

The role of member of the Board of Directors of the Company was remunerated during 2016 for an amount of €640 thousand (€460 thousand during 2015).

The Company has neither regular staff nor senior management members at year-end 2016 and 2015.

#### 16. The environment

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



**TALGO, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016  
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**17. Information on Director's conflicts of interest**

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

**18. Events after the balance sheets date**

On February 23, 2017, the Board of Directors of the Company has resolved to implement a buy-back programme of the Company's own shares, (the "Buy-back Programme") in accordance with the authorization granted by the General Shareholders' Meeting held on 28 March 2015, under item 12 of the agenda.

The Buy-back Programme will be executed under the following terms:

Subject of the Buy-back Programme: to reduce the share capital of the Company through the redemption of own shares, subject to the prior approval of the forthcoming General Shareholders' Meeting, under such terms as are approved by it, all within the framework of agreements of a capital increase charged to reserves for the purpose of remunerating shareholders ("scrip dividend"), which are scheduled to be submitted to the General Shareholders' Meeting.

Maximum investment: the Buy-back Programme of the Company's own shares will reach up to a maximum of 2,500,000 shares, representing approximately 1.83% of the share capital of Talgo as of the date hereof and the maximum pecuniary amount allocated to the Buy-back Programme will be euro 10,000,000.

Price and volume terms: the shares will be purchased subject to the price and volume conditions set forth in article 3 of the Regulation.

- Price: the Company will not acquire shares at a price higher than the higher of: (i) the price of the last independent trade; and (ii) the highest current independent purchase bid on the trading venue where the purchase is carried out.
- Volume: the Company will not purchase more than 25 % of the average daily volume of the shares on the trading venue in which the purchase is carried out. Such limit will apply to the whole Buy-back Programme.

Period for execution: The Buy-back Programme will start on 1 March 2017 and will remain in force until 28 February 2018. Notwithstanding the above, Talgo reserves the right to early terminate the Buy-back Programme if, prior to the last effective date, the Company has acquired the maximum number of shares authorized by the Board of Directors or

**TALGO, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2016  
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when circumstances render it appropriate.

**19. Fees for audit and other services provided**

During 2016, the fees regarding the services provided for the audit of the individual and consolidated annual accounts by the Company's auditor Deloitte, S.L. amounted to €22 thousand (€20 thousand in 2015).

Non-audit services have not been provided by the auditor.

**20. Explanation added for translation to English**

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

## TALGO, S.A.

### DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2016 (Expressed in thousands of euros)

#### Organizational structure

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

#### Business development

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

	€ in thousands	
	2016	2015
Operating result	12 194	( 1 217)
Profit before taxes	10 992	( 2 048)
Result for the year	10 200	( 3 887)

#### Talgo stock performance

The performance of Talgo stock price in 2016 was penalized by the lower pace of new contracts awarded during the year, mainly due to the delay of different potential projects identified in economies where the fall in the crude price has limited their short-term capacity to carry out the scheduled investments in infrastructure projects and improvements in the rail transportation industry (Brent price dropped to less than \$ 30 per barrel in the first quarter of the year). However, the policies approved by OPEC encouraged the recovery of the crude price, which is expected to have an impact on the recovery of these investments over the medium term. However, the falls registered in the first months of the year were not compensated with the new contracts awarded to Talgo in the second half of the year. In this sense, Talgo was awarded on September 22, 2016 with a project to refurbish of 74 rail vehicles for Los Angeles County Metropolitan Transportation Authority, which states as a strategic contract for the Group following the current process of internationalization. Subsequently, on December 2, 2016 Talgo was awarded with the most relevant High Speed public tender of the year in Europe, consisting on the manufacture and maintenance of 15 Very High Speed trains for RENFE, with an option to 15 additional units to be executed in the next years.

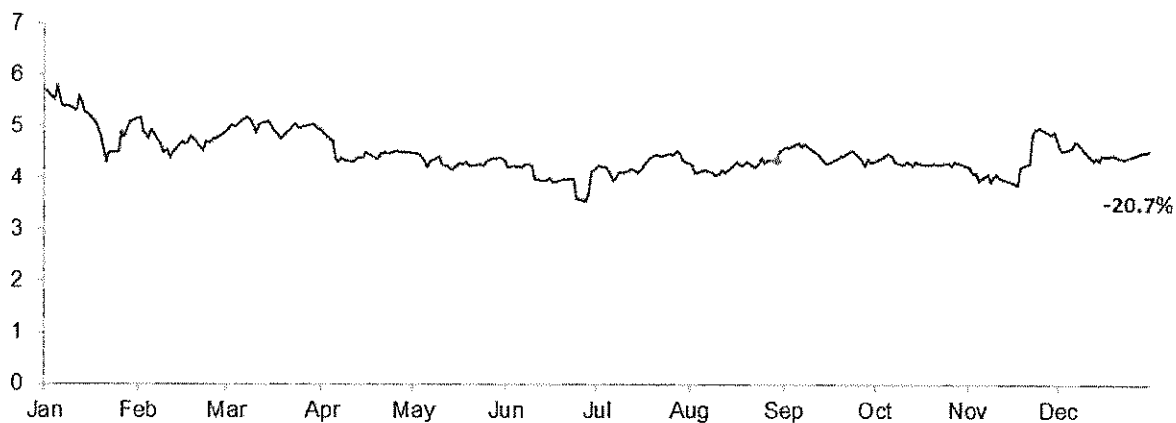
As a result, the stock price of Talgo closed at December 31, 2016 at 4.518 euros (-20.7% in the year), with an average annual volume of 229.1 thousand shares per day. Talgo's market capitalization at year-end reached 618.2 million euros.

In 2016, the net profit per share reached 0.45 euros and, as of December 31, 2016, the profit price ratio (PER) was 10.0x.

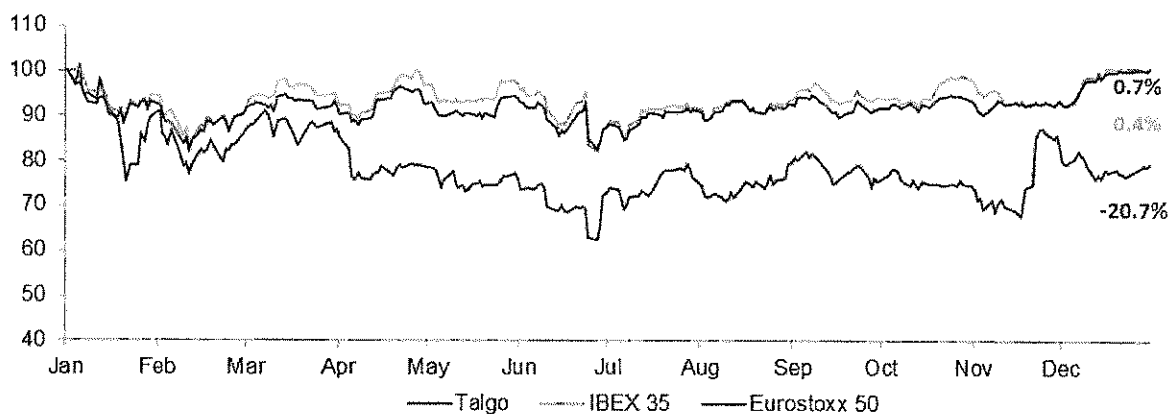
**TALGO, S.A.**

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2016  
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Talgo stock performance in 2016



Price evolution Talgo vs. Ibex 35 vs. EuroStoxx 50 in 2016



**Talgo key trading data at December 31, 2016**

Number of publicly traded shares at december 31, 2016	136,832,900
Average number of shares in 2016	136,832,900
Share price (in €)	4.518
Market capitalization (in € million)	618.21
Earnings per share over average number of shares (in €)	0.45
PER	10.0x

(1) Calculated over the average number of shares in 2016

**TALGO, S.A.**

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2016**  
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**Talgo key trading data in 2016**

% change in Share price for the period January - December 2016	-20.7%
Number of trading days	258
Maximum share price (€)	5.77
Minimum share price (€)	3.55
Weighted average share price (€)	4.46
Average daily volume (# shares)	229.1

**Significant events after the balance sheets date**

The subsequent events that may have a significant influence on these annual accounts are detailed in note 18.

**Research and development activities**

The Company has not undertaken any R&D investment during 2016.

**Risk policy**

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

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

**Quality and the environment**

The Company has not undertaken any investment which could have impact in the environment. Additionally to his knowledge, there is not any litigation which regards environment issues.

**Information about delaying payments to suppliers**

The Company, pursuant to the ICAC (Accounting And Audit Institute) Resolution of 29 January 2016, discloses the information to provide in the annual accounts (note 11).

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

**Annual Corporate Governance Report**

The Annual Corporate Governance Report forms an integral part of this Directors' Report and it will be published in the CNMV web, [www.cnmv.es](http://www.cnmv.es), on February 28, 2017.

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2016**  
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**Own shares**

The Company did not hold any of its own shares at 31 December 2016.