

**ANNUAL REPORT ABOUT THE REMUNERATION OF THE
DIRECTORS OF THE LISTED PUBLIC COMPANIES**

THE ISSUER'S IDENTIFICATION DETAILS

REFERENCE YEAR END DATE

31.12.2016

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Company name:

Talgo, S.A.

Registered address:

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28290 Las Rozas, Madrid

ANNUAL REPORT ABOUT THE REMUNERATION OF THE DIRECTORS OF THE LISTED PUBLIC COMPANIES

A. COMPANY REMUNERATION POLICY FOR THE YEAR IN PROGRESS

A.1 Explain the Company's remuneration policy. In this section, include information about the following considerations:

- General principles and foundations of the remuneration policy.
- The most significant changes made to the remuneration policy with respect to the policy applied last year, as well as any amendments made during the year to the conditions surrounding the exercise of options already granted.
- Criteria used and composition of the groups of comparable companies whose remuneration policies have been examined to establish the Company's remuneration policy.

Explain the remuneration policy

In accordance with the provisions of the Corporate Bylaws and the Rules of the Board, the general criteria under which the Directors' remuneration is set are as follows:

The remuneration of Directors, in their capacity as such, may comprise the following remuneration concepts:

- (i) a fixed element;
- (ii) out-of-pocket expenses for attending meetings;
- (iii) share of profits;
- (iv) variable remuneration on the basis of general reference indicators and parameters;
- (iv) remuneration in the form of shares or linked to movements in the share price;
- (v) compensation for termination, provided the termination is not motivated by any breach of a Director's functions; and
- (vi) the savings and welfare systems deemed appropriate.

Different remuneration concepts are applicable depending on the category of Directors involved. Thus:

External Directors:

The Board of Directors and the Appointments and Remuneration Committee shall adopt the measures within their power to ensure that the External Directors' remuneration is sufficient to compensate the dedication, qualification and responsibility demanded by the role, but not so high as to compromise their independence.

The remuneration policy shall incorporate the necessary technical safeguards to ensure that the remuneration reflects the relationship with the professional performance of its beneficiaries and does not simply result from the general evolution of the markets or the sector in which the Company operates or from any other similar circumstances.

Executive Directors:

Directors' remuneration must, in all cases, bear a reasonable resemblance to the importance of the Company, its economic circumstances at all times and the market standards for comparable companies. The remuneration system established should be aimed at promoting the long-term profitability and sustainability of the Company and should incorporate the necessary safeguards to avoid excessive risk taking and the reward of unfavourable results.

The remuneration that is applicable, in accordance with the general criteria described, fall in the middle of the range established by other listed companies, if we use turnover and company activity as the criteria for comparison.

The remuneration payable to the Executive Directors is designed by the Appointments and Remuneration Committee and includes fixed criteria, as well as other variable components, established in accordance with certain criteria, which are reviewed on an annual basis, in such a way that the remuneration mix (fixed and variable) depends on the performance of these Directors. The concepts that are taken into consideration for the determination of the variable element of remuneration are described in section A4 below.

A.2 Information about the preparatory work and decision making process that has been followed to determine the remuneration policy and role performed, where applicable, by the Remuneration Committee and other supervisory bodies for the configuration of the remuneration policy. This information should include details of the mandate and composition of the Remuneration Committee, where applicable, and the identity of the external advisors whose services have been used to define the remuneration policy. Moreover, provide details about the positions of any Directors who have intervened in the definition of the remuneration policy, where applicable

Explain the process for determining the remuneration policy

In 2016, the Company's Appointments and Remuneration Committee held several meetings at which it discussed and debated proposals to be submitted to the Board of Directors for approval regarding the remuneration policy applicable to the Company's Directors.

The Appointments and Remuneration Committee comprises three members, two of which are Independent Directors (including the Chairman) and one Proprietary Director.

To determine and define the remuneration policy, the Appointments and Remuneration Committee analysed the remuneration model applied in prior years, paying particular attention to: (i) the level of responsibility assumed and functions performed by each Director; (ii) the objective of creating value for the Company's shareholders and employees; and (iii) the remuneration trends observed in other comparable companies.

For the adoption of its decisions, the Appointments and Remuneration Committee received information and advice from the Company's internal services. Similarly, the Committee contrasted the main data with data relating to comparable markets and companies in accordance with the Company's size, scale, international presence and other characteristics, in order to ensure that the Company's remuneration policy is in line with international market practice.

Through the remuneration policy applicable to Directors and Senior Management, the Company seeks to recognise the quality of their performance and fulfil the objective of the Board of Directors to reward, attract and retain talent and managerial capability.

A.3 Indicate the amount and nature of the fixed remuneration components, with a breakdown, where applicable, of: the remuneration for the performance of senior management roles by the Executive Directors; the additional remuneration for the role of Chairman or for being a member of a Board committee; expense allowances for participating in Board meetings and committees; and other fixed remuneration paid to Directors; as well as an estimation of the fixed annual remuneration received. Identify other benefits that are not settled in cash and the fundamental parameters that need to be fulfilled for them to be awarded

Explain the fixed remuneration components

The fixed remuneration of the Executive Directors comprises: (i) salaries; (ii) benefits

in kind; (iii) pension plans; (iv) life insurance; (v) insurance for sick leave; (vi) health insurance. During 2016, the total amount paid for all of these items amounted to €528 thousand.

The Executive Directors do not receive any additional remuneration for serving as members of the Board of Directors, nor do they receive out-of-pocket expense allowances or fees or any other fixed remuneration for serving as Directors.

No additional remuneration is paid for the performance of the role of Chairman of the Board of Directors – a role that in the case of the Company is performed by an Executive Director -.

None of the Company's two Executive Directors belong to any advisory committees.

The Company's Board of Directors and Appointments and Remuneration Committee have not modified the Executive Directors' fixed remuneration.

The Independent External Directors receive the following fixed remuneration for serving as members of the Board of Directors and its committees:

	Independent External Director	80,000€	80,000€	80,000€	80,000€
PLUS	Member of an advisory committee		10,000€	10,000€	10,000€
PLUS	Chairman of an advisory committee			10,000€	10,000€
PLUS	Independent Director and Coordinator				20,000€
		80,000€	90,000€	100,000€	120,000€

A.4 Explain the amount, nature and main features of the variable components of the remuneration system

In particular:

- Identify each one of the remuneration plans from which the Directors may benefit, together with their scope, approval dates, implementation dates, validity periods, as well as their main features. In the case of share option plans and financial instruments, the general characteristics of the plan should include information about the conditions for exercising those options or financial instruments in the case of each plan.
- Indicate any remuneration that may be received from sharing in profits or bonuses, and the reasons why they were granted.
- Explain the main parameters and basis of any annual bonus plans.
- The categories of Directors (Executive Directors, External Proprietary Directors, External Independent Directors or Other External Directors) who are beneficiaries of remuneration systems or plans that include variable remuneration).
- The basis of those variable remuneration systems or plans.

Explain the variable remuneration components of the remuneration policy

The only Directors who received variable remuneration were the Executive Directors. The Board of Directors has resolved to maintain the maximum limit for the annual variable remuneration of the Chairman and CEO as 100% of their respective gross annual salaries (in other words, €229,658.04 in the case of the Chairman and €217,310.88 in the case of the CEO) in 2016, which is the same level that was applied in 2016.

During 2016, the Chairman of the Company received variable remuneration amounting to €158,250 and the CEO received €158,250 for the same concept.

In 2016, the parameters to which the payment of annual variable remuneration will be linked focus on the evolution of the Company over the medium term and essentially rest on four variables: (i) EBITDA, (ii) Net Financial Debt, (iii) Gross Margin and (iv) the volume (amount) of new contracts signed during the year.

A.5 Explain the main features of the long-term savings schemes, including for retirement and any other provision for survival, financed in whole or in part by the Company, whether they are funded internally or externally, with an estimation of their amount or annual equivalent cost, indicating the type of plan, whether it is defined contribution or defined benefit, the conditions for consolidating economic rights in favour of the Directors and their compatibility with any other type of compensation for the early termination or cancellation of the contractual relationship between the Company and the Director.

Explain the long-term savings plans

The Company pays premiums for the insurance policies that it has taken out with certain insurance companies for the coverage of: (i) life insurance; (ii) pension funds and plans; and (iii) sick leave.

In addition, the Company pays premiums for civil liability policies for the exercise of the role of Director.

The total estimated cost of the aforementioned premiums amounts to €48 thousand (including the premiums for life insurance, sick leave insurance and pension plan insurance).

A.6 Indicate any compensation agreed or paid in the event of the termination of the functions of a Director

Explain any severance payments

The Company has not agreed or paid any severance payments for the termination of the functions of any Directors.

A.7 Indicate the conditions that the contracts governing the relationship with the Executive Directors who exercise senior management functions must reflect. Provide information about: the duration of the contracts, any limits to compensation payments, clauses relating to tenure, notice periods, as well as the payment required to avoid the aforementioned notice period, and any other clauses relating to hiring bonuses, compensation payments or golden handshakes, amongst other aspects, due to the early termination or cancellation of the contractual relationship between the Company and the Executive Director. Include details of any clauses that cover non-competition, exclusivity, tenure or loyalty agreements or any post-contractual non-competition agreements

Explain the terms of the Executive Directors' contracts

The Executive Directors' contracts have indefinite terms and establish the payment of financial compensation in the event of the termination of the contractual relationship with the Company, provided that such terminations are not the result of a breach of the Directors' obligations. The notice period established in these contracts is six (6) months.

The contracts include a post-contractual non-competition clause for a term of two (2) years starting from the date that the employment relationship is terminated and a penalty clause that applies in the case of any breach.

The two Executive Directors' contracts establish a payment of twelve (12) months salary in both cases, by way of compensation for the termination of the contractual relationship.

A.8 Explain any supplementary remuneration accrued by the Directors as consideration for services rendered other than those inherent to their role.

Explain the supplementary remuneration

NONE

A.9 Indicate all types of remuneration paid in the form of early payments, loans and guarantees, and provide details of the interest rate, the key features and the amounts to be returned, as well as the obligations assumed on their behalf in the case of guarantees

Explain the early payments, loans and guarantees granted

NONE

A.10 Explain the main features of any benefits in kind

Explain the benefits in kind

The benefits in kind paid to all of the members of the Board of Directors relate only to the Executive Directors. The other Directors do not receive any benefits in kind whatsoever. The benefits in kind paid to the Executive Directors amount to €20,205,94.

A.11 Indicate the remuneration accrued by the Director by virtue of payments made by the listed company to a third party entity to which the Director renders services, when the purpose of those payments is to remunerate the services provided to that entity.

NONE

Explain the remuneration accrued by the Director by virtue of payments made by the listed company to a third party entity to which the Director renders services

NOT APPLICABLE

A.12 Provide details about any other remuneration concept not specified above, regardless of its nature or the group company that pays it, especially when it is regarded as a related party transaction or its **emission/omission** distorts the fair picture of the total remuneration accrued by the Director.

NONE

Explain the other remuneration concepts

No other remuneration concepts exist.

A.13 Explain the actions adopted by the Company regarding the remuneration system to reduce its exposure to excessive risks and to adapt it to the long-term objectives, values and interests of the Company, which shall include, where applicable, references to: the planned measures to guarantee that the remuneration policy reflects the long-term results of the Company; measures that establish an applicable balance between the fixed and variable remuneration components; measures adopted in relation to those categories of personnel whose professional activities have a material repercussion on the risk profile of the entity; recovery formula or clauses to enable the Company to demand the return of variable

remuneration components based on results, when such components have been paid on the basis of data whose accuracy is later challenged in a clear way; as well as any planned measures to avoid conflicts of interest, where applicable

Explain the actions adopted to reduce risks

The Company's remuneration policy is designed and supported by studies and analysis conducted by the Board of Directors and the Appointments and Remuneration Committee, taking into consideration the size of the company, the market, prudence and in light of both industrial and financial objectives.

The Appointments and Remuneration Committee receives advice from an independent company to develop these policies .

B PLANNED REMUNERATION POLICY FOR FUTURE YEARS

Repealed.

C OVERVIEW OF HOW THE REMUNERATION POLICY WAS APPLIED LAST YEAR

C.1 Provide an overview of the main features of the structure and remuneration concepts of the remuneration policy applied last year, including details about the individual remuneration accrued by each Director, as reflected in Section D of this report, as well as a summary of the decisions taken by each Director for the application of these concepts

Explain the structure and remuneration concepts of the remuneration policy applied during the year

The structure and remuneration concepts of the remuneration policy applied during 2016 reflect those described in Section A of this Report.

D DETAILS OF THE INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

Name	Category	Accrual period during 2016
MR CARLOS DE PALACIO Y ORIOL	CHAIRMAN	From 01/01/2016 until 31/12/2016.
MR JOSÉ Mª ORIOL FABRA	CEO	From 01/01/2016 until 31/12/2016
MR RAMÓN HERMOSILLA GIMENO	DIRECTOR	From 01/01/2016 until 31/12/2016
MR JAVIER BAÑÓN TREVIÑO	DIRECTOR	From 01/01/2016 until 31/12/2016
MR JOSÉ Mª MUÑOZ DOMÍNGUEZ	DIRECTOR	From 01/01/2016 until 31/12/2016
MR EMILIO NOVELA BERLÍN	DIRECTOR	From 01/01/2016 until 31/12/2016
MR JUAN JOSÉ NÁRDIZ AMURRIO	DIRECTOR	From 01/01/2016 until 31/12/2016
MR MICHEL MUREAU	DIRECTOR	From 01/01/2016 until 31/12/2016
MR JOHN CHARLES POPE	DIRECTOR	From 01/01/2016 until 31/12/2016
MR ALBERTUS MEERSTADT	DIRECTOR	From 01/01/2016 until 31/12/2016
MRS BELÉN VILLALONGA MORENÉS	DIRECTOR	From 01/01/2016 until 31/12/2016
PEGASO TRANSPORTATION INTERNACIONAL S.C.A	DIRECTOR	From 01/01/2016 until 31/12/2016
NUEVA COMPAÑÍA DE INVERSIONES S.A.	DIRECTOR	From 01/01/2016 until 31/12/2016

D.1 Complete the following tables detailing the individual remuneration accrued by each Director (including remuneration accrued for the performance of executive functions) during the year.

a) Remuneration accrued in the Company covered by this report:

i) Remuneration in cash (€ in thousands)

Name	Salary	Fixed remun.	Expenses	Short-term variable remun.	Long-term variable remun.	Remun. for serving on mgmt. committees	Compensation	Other concepts	Total 2016	Total 2015
MR CARLOS DE PALACIO Y ORIOL	0	230	0	158	0	0	0		388	459

MR JOSÉ Mª ORIOL FABRA	0	217	0	158	0	0	0	0	375	393
MR RAMÓN HERMOSILLA GIMENO	0	80	0	0	0	0	0	0	80	60
MR JAVIER BAÑÓN TREVIÑO	0	0	0	0	0	0	0	0	0	0
MR JOSÉ Mª MUÑOZ DOMÍNGUEZ	0	0	0	0	0	0	0	0	0	0
MR EMILIO NOVELA BERLÍN	0	100	0	0	0	20	0	0	120	90
MR JUAN JOSÉ NÁRDIZ AMURRIO	0	80	0	0	0	0	0	0	80	20
MR MICHEL MOREAU	0	80	0	0	0	10	0	0	90	67
MR JOHN CHARLES POPE	0	80	0	0	0	10	0	0	90	67
MR ALBERTUS MEERSTADT	0	80	0	0	0	20	0	0	100	75
MRS BELÉN VILLALONGA MORENÉS	0	80	0	0	0	0	0	0	80	60
PEGASO TRANSPORTATION INTERNACIONAL S.C.A	0	0	0	0	0	0	0	0	0	0
NUEVA COMPAÑÍA DE INVERSIONES S.A.	0	0	0	0	0	0	0	0	0	0

ii) Share-based remuneration plans

iii) Long-term savings plans

iv) Other benefits (€ in thousands)

b) Remuneration accrued by Directors of the Company for serving on the Board of other companies in the group:

i) Remuneration in cash (€ in thousands)

Name	Salary	Fixed remun.	Expenses	Short-term variable remun.	Long-term variable remun.	Remun. for serving on mgmt. committees	Compensation	Other concepts	Total 2015	Total 2014
MR CARLOS DE PALACIO Y ORIOL	0	0	0	0	0	0	0	0	0	0
MR JOSÉ Mª ORIOL FABRA	0	0	0	0	0	0	0	0	0	0
MR RAMÓN HERMOSILLA GIMENO	0	0	0	0	0	0	0	0	0	0
MR JAVIER BAÑÓN TREVIÑO	0	0	0	0	0	0	0	0	0	0
MR JOSÉ Mª MUÑOZ DOMÍNGUEZ	0	0	0	0	0	0	0	0	0	0
MR EMILIO NOVELA BERLÍN	0	0	0	0	0	0	0	0	0	0
MR JUAN JOSÉ NÁRDIZ AMURRIO	0	0	0	0	0	0	0	0	0	0
MR MICHEL MUREAU	0	0	0	0	0	0	0	0	0	0
MR JOHN CHARLES POPE	0	0	0	0	0	0	0	0	0	0
MR ALBERTUS MEERSTADT	0	0	0	0	0	0	0	0	0	0
MRS BELÉN VILLALONGA MORENÉS	0	0	0	0	0	0	0	0	0	0
PEGASO TRANSPORTATION INTERNACIONAL S.C.A	0	0	0	0	0	0	0	0	0	0
NUEVA COMPAÑÍA DE INVERSIONES S.A.	0	0	0	0	0	0	0	0	0	0

ii) Share-based remuneration plans

iii) Long-term savings plans

c) Remuneration summary (€ in thousands):

The amounts corresponding to all of the remuneration concepts that have been accrued by the Directors included in this report should be presented in this summary, in thousands of euros.

In the case of the long-term Savings Plan, include the contributions or provisions made to these types of plans:

Name	Remuneration accrued in the Company				Remuneration accrued in group companies				Total 2016	Total 2015	Contributions to savings plans during the year
	Total cash remun.	Amount of shares awarded	Gross profit from options exercised	Company total 2016	Total cash remun.	Amount of shares awarded	Gross profit from options exercised	Group total 2016			
Carlos de Palacio y Oriol	0	0	0	0	388	0	0	388	388	11,244	9
José M ^a Oriol Fabra	0	0	0	0	375	0	0	375	375	11,178	9
Ramón Hermosilla Gimeno	80	0	0	80	0	0	0	0	80	60	0
Javier Bañón Treviño	0	0	0	0	0	0	0	0	0	0	0
José M ^a Muñoz Domínguez	0	0	0	0	0	0	0	0	0	0	0
Emilio Novela Berlín	120	0	0	120	0	0	0	0	120	98	0
Juan José Nárdiz Amurrio	80	0	0	80	0	0	0	0	80	20	0
Michel Moreau	90	0	0	90	0	0	0	0	90	75	0
John Charles Pope	90	0	0	90	0	0	0	0	90	75	0
Albertus Meerstadt	100	0	0	100	0	0	0	0	100	83	0
Belén Villalonga Morenés	80	0	0	80	0	0	0	0	80	60	0
PEGASO TRANSPORTATION INTERNATIONAL, S.C.A.	0	0	0	0	0	0	0	0	0	0	0
NUEVA COMPAÑÍA DE INVERSIONES, S.A.	0	0	0	0	0	0	0	0	0	0	0
Totals	640	0	0	640	763	0	0	763	1,403	22,893	18

D.2 Report about the remuneration received by Directors and the results or other performance measures for the entity, explaining, where applicable, how variations in the performance of the Company may have resulted in variations in the Directors' remuneration.

The criteria for determining the annual variable remuneration are only applicable to the Company's Executive Directors. Those criteria are determined by the Appointments and Remuneration Committee and are linked to the Company's evolution over the medium-term and long-term on the basis of economic-financial parameters, on the one hand, and long-term industrial development on the other hand, taking into consideration operating criteria and the development of specific projects.

To determine the individual objectives of each Executive Director, as well as of the Company's other Senior Management, the Appointments and Remuneration Committee takes into consideration both the progress and overall evolution of the Company, as well as the degree of performance and contribution to the achievement of the overall objectives made by each one of the aforementioned Directors.

D.3 Provide information about the result of the consultative vote by the General Shareholders' Meeting regarding the annual report about prior year remuneration, indicating the number of negative votes cast, where applicable.

Votes issued: 88.752.211	100%
Negative votes: 5.407.605	6,09%
Abstention: 28.072	0,04%

E OTHER RELEVANT INFORMATION

If there are any other significant aspects about the Directors' remuneration that have not been disclosed in any of the other sections of this report, but which need to be included to provide a more complete and reasoned set of information about the structure and remuneration practices of the Company regarding its Directors, provide brief details below

NOT APPLICABLE

This annual remuneration report was approved by the Company's Board of Directors at its meeting on 23/02/2017.

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

Yes |

xNo