PATENTES TALGO, S.L.U.
(Incorporated in Spain in accordance with the Spanish Companies Act - Ley de Sociedades de Capital)

Commercial Paper Programme TALGO 2024
Maximum outstanding balance of €150,000,000

INFORMATION MEMORANDUM *(DOCUMENTO BASE INFORMATIVO)* OF THE ADMISSION (*INCORPORACIÓN)* OF COMMERCIAL PAPER NOTES (*PAGARÉS*) ON THE ALTERNATIVE FIXED-INCOME MARKET (*MERCADO ALTERNATIVO DE RENTA FIJA*)

Patentes Talgo, S.L.U. ("**Patentes Talgo**" or the "**Issuer**"), and together with the entities of a group headed by Talgo, S.A. (the "**Parent Company**", and jointly all of them, "**Talgo**" or the "**Group**"), is a private limited liability company (*sociedad de responsabilidad limitada*) organised under the laws of Spain, with corporate address at Paseo del Tren Talgo, 2, Las Rozas, 28290, Madrid, Spain registered with the Madrid Companies Register under volume 22,063, page 88, sheet M-393,505, with tax identification number B-84528553 and LEI number 95980020140005616089. The Issuer will request the admission (*incorporación*) of the commercial paper notes (*pagarés*) (the "**Notes**") to be issued under the "Commercial Paper Programme TALGO 2024" (the "**Programme**") at the Alternative Fixed-Income Market (*Mercado Alternativo de Renta Fija*) ("**MARF**") in accordance with this information memorandum *(documento base informativo)* (the "**Information Memorandum**").

MARF is a multilateral trading facility (*sistema multilateral de negociación*) ("**MTF**") and it is not a regulated market, pursuant to the provisions of article 68 of Law 6/2023 of 17th March on Securities Markets and Investment Services (*Ley 6/2023, de 17 de marzo, de los Mercados de Valores y de los Servicios de Inversión*) ("**Securities Markets and Investment Services Act**"). The Information Memorandum is the document required by Circular 2/2018 of 4 December on the admission (*incorporación*) and removal of securities on the Alternative Fixed-Income Market (*Circular 2/2018, de 4 de diciembre, sobre incorporación y exclusión de valores en el Mercado Alternativo de Renta Fija*) (the "**Circular 2/2018**").

The Notes will be represented through book entries (*anotaciones en cuenta*) at the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. ("**IBERCLEAR**"), which, together with its participating entities, will be the entity entrusted with the book-keeping (*registro contable*) of the Notes.

Investment in the Notes involves certain risks.

Potential investors should consider carefully and fully understand the risks set forth herein under the "Risk Factors" section, along with all other information

contained the Information Memorandum, prior to making investment decisions with respect to the Notes.

MARF has not made any kind of verification or check with regard to the Information Memorandum nor over the rest of the documentation and information contributed by the Issuer in compliance with the requirements set forth by the Circular 2/2018.

The Notes issued under the Programme are targeted exclusively at professional clients, eligible counterparties and qualified investors pursuant to the provisions set out in articles 194 and 196 of the Securities Markets and Investment Services Act and article 2.e) of the Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (*Reglamento (UE) 2017/1129 del Parlamento Europeo y del Consejo de 14 de junio de 2017 sobre el folleto que debe publicarse en caso de oferta pública o admisión a cotización de valores en un mercado regulado y por el que se deroga la Directiva 2003/71/CE*) (the "Prospectus Regulation"), respectively, or any provision which may replace or supplement it in the future.

No action has been taken in any jurisdiction to permit a public offering of the Notes or permit the possession or distribution of the Information Memorandum or any other offer material where a specific action is required for said purpose. The Information Memorandum must not be distributed, directly or indirectly, in any jurisdiction in which such distribution represents a public offering of securities.

The Information Memorandum is not a public offering for the sale of securities nor a request for a public offering to purchase securities, and no offering of securities shall be made in any jurisdiction in which such offering or sale would be considered in breach of the applicable legislation. In particular, the Information Memorandum does not represent a prospectus approved and registered with the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (the "CNMV") and the subscription of the Notes issued under the Programme does not represent a public offering pursuant to the provisions set out in Article 35 of the Securities Markets and Investment Services Act, which removes the obligation to approve, register and publish a prospectus at the CNMV.

PAYING AGENT AND REGISTERED ADVISOR

Banca March, S.A.

PLACEMENT ENTITIES

Banca March, S.A. **Banco de Sabadell, S.A.** **Renta 4 Banco, S.A.**

IMPORTANT NOTICE

Potential investors should not base their investment decision on information other than that contained in the Information Memorandum.

The Placement Entities assume no liability for the content of the Information Memorandum. The Placement Entities have signed placement agreements with the Issuer for placement of the Notes, but neither the Placement Entities nor any other entity have made any commitment to underwrite the Notes, without prejudice to the ability of the Placement Entities to acquire Notes on its own name.

There is no guarantee that the price of the Notes in MARF will be maintained. There is no assurance that the Notes will be widely distributed and actively traded on the market. Nor is it possible to ensure the development or liquidity of the trading markets for the Notes.

PRODUCT GOVERNANCE RULES UNDER MiFID II

THE TARGET MARKET WILL ONLY BE PROFESSIONAL CLIENTS, ELIGIBLE COUNTERPARTIES AND QUALIFIED INVESTORS

Exclusively for the purposes of the product approval process to be carried out by each producer, following the assessment of the target market for the Notes, it has been concluded that: (i) the market to which the Notes are intended to be issued is solely for "professional clients", "eligible counterparties" and "qualified investors" as defined for each of these terms in the Directive 2020/1504/EU of the European Parliament and of the Council of October 7, 2020 amending Directive 2014/65/EU of the European Parliament and of the Council of May 15, 2014 on markets in financial instruments and amending Directive 2011/61/EC ("MiFID II"), in Directive (EU) 2016/97 of the European Parliament and of the Council, of 20 January 2016, on insurance distribution ("Directive (EU) 2016/97") and in their respective implementing regulations (in particular, in Spain, the Securities Markets and Investment Services Act and its implementing regulations and the Prospectus Regulation); and that (ii) all channels of distribution of the Notes to professional clients, eligible counterparties and qualified investors are appropriate. Accordingly, in each issuance of Notes, the manufacturers shall identify the potential target market using the list of five categories mentioned in number 18 of the Guidelines on MiFID II Product Governance Requirements, published on 5 February 2018, by the European Securities and Markets Authority ("ESMA").

Any person who, after the initial placement of the Notes, offers, sells, places, recommends or otherwise makes available the Notes (the "Distributor") shall take into account the assessment of the producer's target market. However, any Distributor subject to MiFID II shall be responsible for carrying out its own assessment of the target market with respect to the Notes, either by applying the target market assessment made by the producer or by perfecting such assessment, and to identify the appropriate distribution channels.

BAN ON SALES TO RETAIL INVESTORS IN THE EUROPEAN ECONOMIC AREA- PRIIPS REGULATION

The Notes are not intended for offer, sale or any other form of making available, nor should they be offered, sold to or made available to retail investors in the European Economic Area ("EEA"). For these purposes, "retail investor" means a person who meets either or both of the following definitions: (i) a retail investor in the sense of paragraph (11) of Article 4(1) of MiFID II; or (ii) a client within the meaning of paragraph (10) of article 4(1) of MiFID II; or (iii) retail client according to the implementing legislation of MIFID II in any Member State of the EEA (in particular, in Spain, according to the definition of article 193 of the Securities Markets and Investment Services Act and its implementing legislation). For this reason, none of the key information documents required by Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of November 26, 2014 on key information documents for packaged retail and insurance-based investment products (the "Regulation 1286/2014") has been prepared for the purposes of offering or sale of the Notes, or to make the it available to retail investors in the EEA, and therefore, any such activities could be unlawful pursuant to the provisions of Regulation 1286/2014.

SELLING RESTRICTIONS

No action has been taken in any jurisdiction to permit a public offering of the Notes or the possession or distribution of the Information Memorandum or any other offering material in any country or jurisdiction where such action is required for said purpose and in particular in the United Kingdom or the United States of America.

Financial promotion: it has only been communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

General compliance: it has been complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from otherwise involving the United Kingdom

The Notes have not been and will not be registered under the Securities Law of 1933 of the United States of America, with its respective amendments (the "Securities Law") and may not be offered or sold in the United States unless it is registered or exempt from registration under the Securities Law. There is no intention to register any Note in the United States or to make an offer of any kind of the securities in the United States.

FORWARD LOOKING STATEMENTS

Certain statements in the Information Memorandum may be prospective in nature and therefore constitute forward-looking statements. These forward-looking

statements include, but are not limited to, any statements that are not declarations of past events set out in the Information Memorandum including, without limitation, any statements relating to future financial positions and the results of the operations carried out by the Issuer, its strategy, business plans, financial situation, its development in the markets in which the Issuer currently operates or that it could enter into in the future and any future legislative changes that may be applicable. These statements may be identified because they make use of prospective terms such as "intend", "propose", "project", "predict", "anticipate", "estimate", "plan", "believe", "expect", "may", "try", "must", "continue", "foresee" or, as the case may be, their negatives or other variations and other similar or comparable words or expressions referring to the results from the Issuer's operations or its financial situation or offer other statements of a prospective nature. Forward-looking statements, due to their nature, do not constitute a guarantee and do not predict future performance. They are subject to known and unknown risks, uncertainties and other items such as the risk factors included in the section called "Risk Factors" in the Information Memorandum. Many of these situations are not in the Issuer's control and may cause the actual results from the Issuer's operations and its actual financial situation to be significantly different from those suggested in the forward-looking statements set out in the Information Memorandum. The users of the Information Memorandum are warned against placing complete confidence in the forward-looking statements.

Neither the Issuer, nor its executives, advisors, nor any other person make statements or offer certainty or actual guarantees as to the full or partial occurrence of the events expressed or insinuated in the forward-looking statements set out in the Information Memorandum.

The Issuer will update or revise the information in the Information Memorandum as required by law or applicable regulations. If no such requirement exists, the Issuer expressly waives any obligation or commitment to publicly present updates or revisions of the forward-looking statements in the Information Memorandum to reflect any change in expectations or in the facts, conditions or circumstances that served as a basis for such statements.

ALTERNATIVE PERFORMANCE MEASURES

The Information Memorandum includes financial figures and ratios that are considered to be Alternative Performance Measures ("APM") in accordance with the Guidelines published by the European Securities and Markets Authority (ESMA) in October 2015.

The APM originate or are calculated based on the financial statements in the audited consolidated annual accounts or the interim consolidated summarized financial statements subject to limited review by the Issuer's auditors, generally adding or deducting amounts from the items in those financial statements, the result of which uses a nomenclature habitual in business and financial terminology, but not used by the General Accounting Plan in Spain approved by Royal Decree 1514/2007 or by the International Financial Reporting Standards

issued by the International Accounting Standards Board (IASB) adopted by the European Union ("IFRS-EU").

The APM are presented so that a better assessment may be made of the financial performance, cash flows and the financial situation of the Issuer since they are used by the Company to take financial, operating or strategic decisions within the Group. Nevertheless, the APM are not audited and are not required or presented in accordance with the General Accounting Plan in Spain approved by Royal Decree 1514/2007 or IFRS-EU. The APM therefore must not be taken into consideration on an isolated basis, but rather as information supplementing the audited consolidated financial information regarding 5 the Company. The APM used by the Company and included in the Information Memorandum may not be comparable to the same or similarly named APM by other companies.

ROUNDING

Certain figures contained in the Information Memorandum, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables or elsewhere contained in the Information Memorandum may not conform exactly to the total figure given for that tables or elsewhere.

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1. RISK FACTORS

The Issuer believes that the risk factors set forth in this section represent the principal risks inherent in investing in the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. The order in which these risks are described does not necessarily reflect a greater probability of their materialization.

If any of these risks, or any others not described herein, were to materialize, the Group's activity, business, financial condition and results of operation, and the Issuer's capacity to make the repayments corresponding to the Notes upon maturity, could be adversely affected, in which case the market price of the Notes could fall, resulting in the total or partial loss of any investment made in it.

The Issuer, moreover, gives no assurance that the account of risk factors provided below in this section is exhaustive. It is possible that the risks described in the Information Memorandum may not be the only ones which the Issuer and of the companies of the Group are exposed to and there may be other risks, currently unknown or which, at this point in time, are not considered significant, which in themselves or in conjunction with others (whether identified in the Information Memorandum or not) could potentially have a material adverse effect on the Group´s activity, business, financial condition and results of operations and the Issuer's capacity to make the repayments corresponding to the Notes upon maturity, in which case the market price of the Notes could decrease as a result and any investment made in it could be totally or partially lost.

Potential investors should consider carefully and fully understand the risks set forth in this section, along with all other information contained the Information Memorandum prior to making any investment decision and reach their own view prior to making any investment decision.

Potential investors should carefully consider and fully understand the risks presented in this section, together with the rest of the information contained in the Information Memorandum, before making any investment decision and reaching its own point of view before making any investment decision.

1.1 Risks relating to the Group

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 84% and 82% of its total net turnover as of December 31, 2021 and December 31, 2022.

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, pandemic, wars or any other reason; (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.

There can be no guarantee that its current maintenance agreements will be renewed on commercially favourable terms, or at all. Failure to renew its current maintenance agreements on favourable 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

Majority of contracts signed has execution schedules above 12 months. Among the rolling stock business activity, maintenance services are usually provided through long-term contracts. In this sense, as at December 31, 2021 and December 31, 2022, above 30% and above 40% of Talgo´s net turnover comes from maintenance services contracts with a duration exceeding 12 months, respectively.

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.

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 kilometres that the maintained trains will run in the future. These estimates are based on Talgo's prior experience. However, the actual number of kilometres 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 obtain 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 research and development, 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 of December 31, 2021 and December 31, 2022, Talgo´s total financial debt / equity ratio represented 1.0 and 1.2, respectively.

Talgo may require 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 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 Issuer, 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. As at December 31, 2021 and 2022, Talgo’s net turnover obtained from activities carried out via project consortia and joint ventures amounted to 24% and 36% 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, 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 fulfil 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 15 largest suppliers of materials (raw materials, systems and components, among others) and industrial services represented 35% and 29% of Talgo's net turnover for the years 2021 and 2022 respectively.

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 fulfil its own project obligations could be adversely affected.

If Talgo's 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, regional commuter trains, "InterCitys" and locomotives. 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 (mainly aluminium, steel and copper) comprised below 20% of the total procurement costs of a manufacturing project.

Because the duration of Talgo's contracts may be for periods of longer than two years, increases in the prices of raw materials (such as aluminium 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.

Talgo needs 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 Issuer 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 or 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, 2021 and December 31, 2022, Talgo had 953 million euros and 1,081 million euros in guarantee bonds issued out of its total available facilities of 1,726 million euros and 1,862 million euros, respectively.

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 guarantee 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. Premium payments under Talgo´s insurance policies account for less than 1% of its net turnover.

Accidents, natural disasters, pandemics, wars, 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 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, 2021, and December 31, 2022, Talgo's total investments in R&D were 14 million euros, and 16 million euros, respectively. These figures represent 2.5% and 3.4% 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.

The interests of the holders of the Notes could differ from the interests of the Parent Company of the Issuer or future prospective shareholders of the Parent Company

As of the date of the Information Memorandum, the sole shareholder of the Issuer is the Parent Company. The interests of the Parent Company may differ from the interests of the holders of the Notes (the "**Noteholders**"), for example, regarding any acquisitions or sales made or the timing and amount of dividends paid by the Issuer.

The corporate goals of the Parent Company may not always align with the Issuer and there can be no assurance that the interests of the Parent Company nor the Issuer will coincide with the interests of the Noteholders or that the Parent Company or the Issuer will act in a manner that is in the Noteholders' best interests.

As of the date of the Information Memorandum, it is not possible to know whether the shareholder composition of the Parent Company will change. Therefore, it is possible that the Parent Company's policies may change and may not be consistent with the policies of the Issuer as of date of the Information Memorandum.

1.2 Risks relating to the Group's business and industry

a) Risks due to macroeconomic factors

The Issuer's business could be adversely affected by the deterioration of global economic conditions

The business performance of the Group is closely connected with the economic development of the countries and regions in which the Issuer carries out its activities.

The business operations, as well as the financial condition and the results of operations of the Issuer, may be adversely affected by the global economic environment, and in particular the economic environment in those zones where there is a greater concentration of the Issuer's business.

According to the World Economic Outlook Update dated January 2024, the rise in central bank policy rates to fight inflation continues to weight on economic activity. Moreover, intensification of the wars in Ukraine and Israel and extreme weather-related events could trigger more restrictive monetary policy. Global growth is projected to fall from an estimated 3.5% in 2022 to 3.1% in 2024 and 3.2% in 2025. While the forecast for 2024 is modestly higher than predicted in July it remains weak by historical standards.

Global headline inflation is expected to fall to 5.8% in 2024 and to 4.4% in 2025. Underlying (core) inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upwards. Spanish growth is projected at 1.5% in 2024 and 2.1% in 2025 and European's growth is projected at 0.9% in 2024 and 1.7% in 2025.

As at December 31, 2022, clients outside of Spain accounted for 69% of Talgo's backlog. Talgo principally operates in seven countries outside Spain: Saudi Arabia, Germany, Kazakhstan, Uzbekistan, the United States, Denmark and Egypt. 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 in thousand euros for the years ended December 31, 2021 and December 31, 2022 corresponding to the "rolling stock" and "maintenance equipment and other" segments:

	As of December 31,	
	2022	**2021**
Spain	246,801	302,464
Rest of Europe	40,478	62,933
United States	11,007	17,802
Middle East and North Africa	123,781	97,971
Commonwealth of Independent	46,630	73,199
APAC	421	1,044
Total	**469,118**	**555,413**

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, 2021 and December 31, 2022, Talgo's top five customers accounted for, in total, approximately 84%, and 83% of its total net turnover, 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.

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.

b) Financial risks

Liquidity and funding risk

The Issuer carries out prudent management of liquidity risk, based on maintaining sufficient cash or immediately available cash deposits. The Group is not significantly exposed to liquidity risk due to keeping sufficient cash and credit availability to meet the necessary outputs in its daily operations.

The objective of the Issuer is to maintain a balance between the flexibility, term and conditions of the credit facilities in accordance with the needs of funds foreseen in the short, medium and long term. However, a long period of market turmoil, particularly in the event of tightening of bank credits, could impede the renovation of credit facilities and reduce the Issuer's liquidity.

Interest rate fluctuations

Changes in interest rates may affect the fair value of assets and liabilities that accrue a fixed interest rate and the future flows from assets and liabilities indexed to a variable rate.

The Issuer may try to limit its exposure to the interest rate risk by procuring funds through fixed-rate loans and using interest rate swaps.

As of December 31, 2021 and December 31, 2022, 71% and 64% of the Group's debt was fixed rate, respectively. Funds procured at floating interest rates are affected by interest rate fluctuations. Furthermore, the fluctuation of interest rates in the future may affect the funding cost of the Group and, as a consequence, its profitability, earnings and cash flow.

Foreign currency fluctuation risk

The international activity of the Issuer and the entities of the Group involves the generation of income, investment and indebtedness in certain currencies other than the functional of the Group (euros). The main foreign currencies in which the Group operates are the US Dollar and the Saudi Riyal.

Foreign currency rate fluctuations expose the Issuer to the risk of exchange rate losses, and therefore could have a material adverse effect on the financial condition and the results of operations of the Group.

c) Risks relating to the Group's sector

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 which may have greater financial resources than Talgo.

Moreover, it faces competition from companies expanding their international activities, and from others entering into the high-speed market.

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 may enable them to invest considerably greater amounts in research and development, 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

Changes in oil prices could lead to significant changes in transport preferences. In the event of price changes 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.

Talgo may be required to bear the costs of tendering for new contracts, contract renewals and/or extensions with no control over the selection process nor certainty of winning the tender

A substantial portion of Talgo’s work is awarded through competitive tender processes and it is difficult to predict whether the Group will be awarded new contracts due to multiple factors, such as qualifications, references, experience, reputation, technology, customer relationships, financial strength, and ability to provide the relevant services in a timely, safe, and cost-efficient manner.

In these circumstances, Talgo may be unable to secure contracts in the geographical areas in which it operates or be obliged to accept the execution of certain projects with lower returns than those obtained in the past.

If Talgo is unable to secure the award sufficient projects or can only do it under less favourable terms, these circumstances could have a material adverse effect on the Issuer's business, financial condition and results of operations.

Bidding costs associated with tendering for new contracts, extensions in the scope of work, or renewals of existing contracts can be significant and may not necessarily result in the award of a contract. Furthermore, the preparation for bids occupies management and operating resources. If Talgo fails to win a particular tender, bidding costs are generally not recoverable.

The Group participates in a significant number of tenders each year and the failure to win such tenders may have a material adverse effect on the business, financial condition and results of operations of the Group.

Talgo may be adversely affected if it fails to obtain or renew, or if there are any material delays in obtaining, requisite government approvals for its projects

Talgo is established in jurisdictions where the transportation industry in which it operates may be regulated. In order to bid, develop and complete a project, the Group may need to obtain permits, licences, certificates and other approvals from the relevant administrative authorities before bidding for the project or at various stages of the project process. There can be no assurances that the Group will be able to obtain or maintain such governmental approvals or fulfil the conditions required for obtaining the approvals or adapt to new laws, regulations or policies that may come into effect from time to time, without undue delay or at all.

If Talgo is unable to obtain the relevant approvals or fulfil the conditions of such approvals for a significant number of its projects in a timely manner, this could lead to delays and Talgo´s business, financial condition and results of operations may be adversely affected.

Risks related to unexpected adjustments and cancellations of projects

Talgo's project portfolio is exposed to unexpected adjustments and cancellations. A material portion of the agreements entered into by the Group's companies to carry out their projects are usually entered into for periods of more than two years. This increases the risk of early cancellation of these agreements. Furthermore, in certain circumstances the Group's companies may not be entitled to a reasonable compensation for early termination or not entitled to it at all. In addition, the scope of the agreed work as part of a project may change. This may lead to an increase in costs in connection with the project as well as to reduced profits or to losses.

Any cancellations of or changes in projects as well as changes in the corporate strategy of the clients of the Group may negatively affect its project portfolio, which may have a material adverse effect on the results of operations and the profit of the Group.

Risk of termination or early withdrawal of the concessions by public authorities

The public authorities in those countries in which Talgo has been awarded concessions may unilaterally terminate or withdraw from such agreements on public interest grounds or otherwise.

There can be no assurances that the public authorities in those jurisdictions in which Talgo operates will make decisions that adversely affect its business, for example by enacting new laws or regulations that are unfavourable to the Issuer's operations, or by amending existing laws or regulations, or the interpretation and implementation thereof, in ways that are similarly unfavourable.

If a public authority client decides to terminate or withdraw a concession awarded to Talgo, it may have a claim for compensation. However, such compensation may be insufficient to cover the full amount of the loss incurred by the Talgo, including lost profits.

In circumstances where a public authority has terminated a concession due to a breach of the terms thereof by Talgo, it may only have a limited claim for reimbursement of its investment. Should any such developments arise, this would have a material adverse effect on the business, the financial condition and the results of operations of the Issuer.

Any inability to negotiate adequate compensation for terminated and repurchased concessions could reduce the future revenues of the Issuer

Under the relevant public laws, the governments of the countries in Talgo operates may unilaterally terminate or repurchase concessions in the public interest, subject to judicial supervision. If a governmental authority exercises its option to terminate or repurchase some of Talgo's concessions, in general it may receive the compensation provided by law or contract to cover its anticipated profits for the remaining duration of the concession. There can be no assurances, however, that under such arrangements Talgo would be sufficiently compensated for lost profits.

In certain cases, a governmental authority may decide to terminate long term concession due to a serious violation of its contractual obligations. Each contract may have different provisions regarding the compensation provided by the relevant authority in the event of early termination of the agreement. Depending on each contract's terms and conditions, recovery of its investment might be limited to certain capped costs.

If Talgo is unable to negotiate adequate compensation for terminated agreements or repurchased concessions, the revenues may be reduced, and the business, financial condition and results of operations of the Issuer may be materially adversely affected.

Export control

The act of exporting products from the markets in which they are produced can be restricted or subject to checks or to the receipt of an export licence. Certain countries are subject to export control regulations, embargoes, economic sanctions or other forms of trade restrictions imposed by the United States, Canada, the EU or other countries or organisations (the "**Sanctions**"). The Sanctions imposed on countries may restrict or prevent Talgo's business in such countries or result in amendments to the Group's practices.

No assurance can be given that checks on export goods, to which Talgo is subject, will not be made more stringent, that new generations of products developed by the Group will not also be subject to similar checks, or even more rigorous checks, and that geopolitical factors or changes in the international context will not prohibit the receipt of export licences for certain customers or will not reduce Talgo's ability to execute previously signed contracts.

Limited access to exported goods could have a material adverse effect on the business activities, financial position, earnings, or future outlook of the Group.

d) Risks relating the Group's ability to implement its strategy

Political instability, war, international hostilities, pandemics and other national emergencies risk

The Issuer's business, results of operations, cash flows and financial condition may be adversely affected by the effects of political instability, war, international hostilities, accidents, natural disasters, pandemics, terrorism or other emergencies. In the event of uninsured loss or a loss in excess of the insured limits, the Issuer could suffer damage to its reputation. Any of these occurrences could cause a significant disruption in the Group business and could adversely affect its business operations, financial position, and operational results.

Risks related to technological changes

The technologies used in the sectors in which the Issuer operates are subject to fast and continued development. Increasingly complex technological solutions, which are continuously evolving, are used in these sectors. Should the Issuer be unable to react appropriately to the current and future technological developments in the sectors in which it carries out its activities, this could have material adverse effects on the business, the financial condition and the results of operations of the Issuer.

e) Legal, regulatory and compliance risks

The Issuer's anti-money laundering, anti-terrorism and anti-bribery policies may be circumvented or otherwise not be sufficient to prevent all money laundering, terrorism financing or bribery

The Group is subject to rules and regulations regarding money laundering, the financing of terrorism and bribery, including the collection and processing of confidential information. Monitoring compliance with anti-money laundering, anti-terrorism financing rules and anti-bribery rules can create a financial burden for the Issuer and pose significant technical problems.

The Issuer cannot guarantee that its anti-money laundering, anti-terrorism financing and anti-bribery policies and procedures will not be circumvented or otherwise be sufficient to prevent all money laundering, terrorism financing or bribery. Any of such events may have severe consequences, including sanctions, fines and notably reputational consequences, which could have a material adverse effect on the Issuer's business, financial condition and results of operations.

1.3 Risks relating to the Notes

Market risk

The Notes are fixed-income securities and their market price is subject to possible fluctuations, mainly concerning the interest rate. Consequently, the Issuer cannot guarantee that the Notes will be traded at a market price that is equal to or higher than the subscription price.

Credit risk

The Issuer is liable with its assets for the payment of the Notes. The credit risk would materialize were the Issuer unable to comply with commitments assumed, and this could generate a possible economic loss for the counterparty.

Risk of change in the Issuer's solvency

The Issuer's solvency could be deteriorated as a result of an increase in borrowings or due to deterioration in its financial ratios, which would represent a decrease in the Issuer's capacity to meet its debt commitments.

The Noteholders ability to sell the Notes may be limited

The Issuer cannot assure the Noteholders as to the liquidity of any market in the Notes, their ability to sell the Notes or the prices at which would be able to sell their Notes. Future trading prices for the Notes will depend on many factors, including, among other, prevailing interest rates, the Issuer operating results and the market for similar securities.

Although an application will be made for the Notes to be listed on the MARF, the Issuer cannot assure that the Notes will be or will remain listed. Although no assurance is made as to the liquidity of the Notes as a result of the admission (*incorporación*) to MARF market, the failure to be approved for admission (*incorporación*) or the exclusion (whether or not for an alternative admission (*incorporación*) to listing on another stock exchange) of the Notes from the MARF market may have a material effect on a holder's ability to resell the Notes, as applicable, in the secondary market.

Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in the Information Memorandum or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Risk relating to Spanish Insolvency Law

According to the classification and order of priority of debt claims laid down in the Royal Legislative Decree 1/2020, of 5 May, approving the revised text of the Insolvency Law (*Real Decreto Legislativo 1/2020, de 5 de mayo, por el que se aprueba el texto refundido de la Ley Concursal*), in its current wording (the "**Insolvency Law**"), in the event of insolvency (*concurso*) of the Issuer, claims relating to the Notes (which are not subordinated pursuant Article 281 of the Insolvency Law) will be ordinary claims (*créditos ordinarios*). Those ordinary claims will rank below creditors with privilege (*créditos privilegiados*) and above subordinated credits (*créditos subordinados*) (unless they can be classed as such under Article 281 of the Insolvency Law) and would not have any preference among them. According to Article 281 of the Insolvency Law, the following claims, among others, are classed as subordinated claims:

(i) Claims which, having been communicated late, are included by the insolvency administrators (*administradores concursales*) in the list of creditors, and those which, having not been communicated or having been communicated late, are included in such list as a result of subsequent communications, or by the judge when resolving on an action contesting the list.

(ii) Claims corresponding to surcharges and interest of any kind, including late-payment interest, except for those corresponding to claims which are secured by an in rem guarantee, up to the amount covered by the respective guarantee.

(iii) Claims held by any of the persons specially related to the debtor, as referred to in Articles 282 and 283 of the Insolvency Law.

2. FULL NAME OF THE ISSUER, ADDRESS AND IDENTIFICATION DATA

2.1 Issuer's general information

The Issuer is a private limited liability company (s*ociedad de responsabilidad limitada*) governed by the Spanish Companies Act (*Ley de Sociedades de Capital*) and its implementing regulations, and was established on 12 December 2005, for an indefinite period of time.

Its registered office is established at Paseo del Tren Talgo 2, Las Rozas, Madrid. The Issuer is registered in the Madrid Companies Register under volume 22,063, page 88 and sheet M-393,505.

The share capital stock of the Issuer is represented by 1,822,151 shares with a par value of 28.49 euros each, meaning a nominal value of 51,913,081.99 euros. The shares are fully paid in.

The Issuer's corporate tax code is B-84528553 and its LEI code is 959800201400056160 89.

The website of the Parent Company is https://talgo.com/es/en

The Issuer does not have its own website, but all relevant information can be found on the Parent´s website.

The consolidated annual accounts of the Parent Company for the fiscal years ended on December 31, 2021, December 31, 2022 and for the first half-year as of June 30, 2023, are attached hereto as **Schedule 1**.

The consolidated annual accounts of the Issuer for the fiscal years ended on December 31, 2021 and December 31, 2022, are attached hereto as **Schedule 2**.

The Parent Company is the holding of a number of subsidiary companies which comprise the Group. The Parent Company subsidiaries are listed in the consolidated annual accounts attached hereto as **Schedule 1**.

2.2 Brief description of the Issuer

A. Organizational structure of the Issuer

At the date of the Information Memorandum, the sole shareholder of the Issuer is the Parent Company. The Parent Company subsidiaries (including the Issuer) are listed in the consolidated annual accounts attached hereto as **Schedule 1**.

B. Corporate purpose

The corporate purpose of the Issuer is as follows:

1. The manufacture, repair, conservation, maintenance, purchase, sale, import, export, representation, distribution and marketing of material, systems and equipment for transport, especially in the railway sector.

2. The manufacture, assembly, repair, conservation, maintenance, purchase, sale, import, export, representation, distribution and marketing of engines, machinery and pieces and components thereof, destined for the electromechanical, iron and steel and transport industries.

3. The research and development of products and technologies relating to the two paragraphs above, along with the acquisition, operation, assignment and disposal of patents and trademarks relating to the corporate activity.

4. The subscription, acquisition, disposal, possession and administration of shares, investments and quotas, within the limits set forth by the stock market regulations, collective investment companies and other regulations in force that may apply.

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

C. Activity

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

Talgo currently serves the global very high-speed, high-speed, passenger coaches, regional commuter, “InterCitys” and locomotives markets.

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 aluminium 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.

As at the date of the Information Memorandum, Talgo has sold rolling stock and signed maintenance services contracts in both developed and emerging economies, including Saudi Arabia, Kazakhstan, Germany, Uzbekistan, the United States, Denmark and Egypt, which complement its position in the highly competitive domestic Spanish market (in all these countries Talgo has also sold maintenance equipment).

As at December 31, 2022, Talgo had manufacturing plants in Spain, offices and operated in maintenance workshops in Spain, the United States, Germany, Uzbekistan and Kazakhstan.

D. Revenues

As abovementioned, the main activities carried out by the Group are the design, construction and maintenance of railway rolling stock, along with auxiliary machinery for the maintenance of railway systems.

The main services that generate a revenue recognition are the manufacturing activities and the maintenance of trains built using Talgo technology and the manufacture of lathes and other equipment, repairs, modifications and the sale of spare parts.

The Group operating segments are the basis for regular review, discussion and evaluation. Thus, the segments and their turnover in 2022 and 2021 are the following:

- Rolling stock: turnover of 436,506 thousand euros in 2022 and 515,399 thousand euros in 2021.

- Auxiliary machines and others: turnover of 32,627 thousand euros in 2022 and 40,029 thousand euros in 2021.

F. Administrative and management bodies

The management of the Issuer is entrusted to a Board of Directors, which is, as of the date of the Information Memorandum, composed of the following three (3) members:

Director	Title and category
Mr. Carlos María de Palacio y Oriol	Chairman
Mr. Gonzalo Urquijo Fernández de Araoz	Chief Executive Officer
Mr. Ramón Hermosilla Gimeno	Secretary of the Board and board member

Additionally, Mr. Ramón Hermosilla Gimeno and Mr. Mario Álvarez García hold the office of secretary and non-director vice-secretary of the Board of Directors, respectively.

In addition, the Board of Directors of Parent Company (Talgo S.A.), as of the date of the Information Memorandum, is composed of the following ten (10) members:

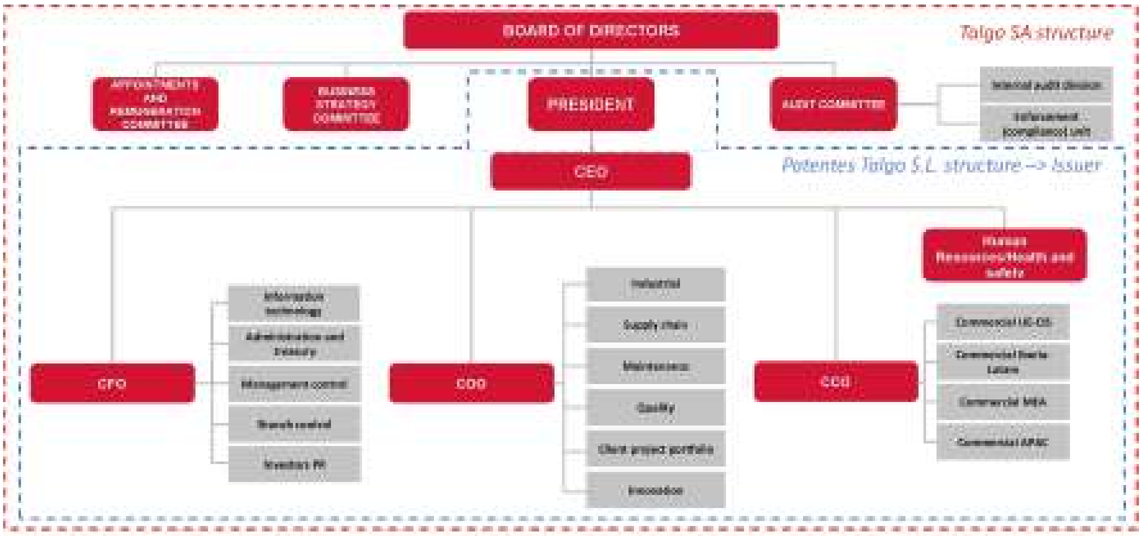
Director	Title and category
Mr. Carlos María de Palacio y Oriol	Executive
Mr. Gonzalo Urquijo Fernández de Araoz	Executive
Mr. José María de Oriol Fabra	Non-executive Vice-chairman
Mr. Francisco Javier Bañón Treviño	Proprietary
Mr. Emilio Novela Berlín	Independent
Mr. Antonio Oporto del Olmo	Independent
Ms. Marisa Poncela García	Independent

Nueva Compañía de Inversiones, S.A., represented by Mr. Pedro del Corro García-Lomas	Proprietary
Mr. Jack Pope	Independent
Pegaso Rail International, S.C.A., represented by Mr. Javier Olascoaga	Proprietary

Additionally, Ms. María José Zueco Peña and Mr. Mario Álvarez García hold the office of non-director secretary and non-director vice-secretary of the Board of Directors, respectively.

Functional Structure

The following diagram shows the functional structure of the Parent Company (outlined in red) and the Issuer (outlined in blue):



2.3 Milestones of the Group

From the Group’s inception 81 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 mainly separated into four clearly differentiated periods:

1) 1942-2000: Technological development and product endorsement

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) 2001-2006: Establishment of very high-speed capabilities

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) 2007-2014: Internationalization and product and capacity expansion

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 the Parent Company (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 were exchanged for shares of the Parent Company, resulting in Patentes Talgo being a wholly-owned subsidiary of the Parent Company.

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 euros.

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 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.

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

The general shareholders' meeting held on March 28, 2015, changed the Company's name from Pegaso Rail International, S.A. to the Parent Company and the General Shareholder`s Meeting approved the application for the admission to trading of the Company´s shares on the Spanish stock exchanges. On May 7, 2015 an Initial Public Offering was made for 45% of the shares of the Company and they were admitted to trading.

4) 2015-2023: New projects and worldwide expansion

On July 13, 2016, Talgo set a speed record in India when they surpassed 180 Km/h during testing on the 84 Km Mathura – Palwal line. In November, Talgo won the most important railway tender in Europe for the supply of 15 very high-speed trains to the Spanish railway operator Renfe.

In 2017, under the framework arrangement for the supply of very high-speed trains, Renfe awarded a new call-off contract adding 15 units to the previously ordered ones and, therefore, increasing to 30 the total number of VHS trains to deliver. Kazakhstan and Uzbekistan started commercial operation of the new wide-carbody Talgo trains on the international route linking Almaty and Tashkent.

In 2019, Talgo signed several new contracts: First, a framework contract with the Deutsche Bahn, the German national railway operator, for the supply of up to 100 Talgo 230 trains, and the first order of 23 trains for a total of 550 million euros. Secondly, Egypt awarded Talgo a contract for the manufacture and supply of 6 cutting-edge units with an operating speed of 160 km/h. Thirdly, Uzbekistan purchased two Talgo 250 trains and four extra passenger cars for the units currently in operation. Fourthly, the joint venture Talgo-Systra receives a contract for the revamp of up to 121 cars of the Metrolink commuter network in Los Angeles, California (USA), for a total of 138,9 million dollars. Lastly, Adif places an order with Talgo for the manufacture of a high-speed rail inspection train Avril provided with a variable track gauge running gear.

In 2020, DSB, the Danish National Railway operator, signed a contract with Talgo for the purchase of 8 Talgo 230 trains to run on the international route between Copenhagen and Hamburg. In 2020, the first Avril trains for Renfe were completed and ready for dynamic and structural testing.

In 2021, 35 high-speed trains for the Mecca-Medina route were accepted by the Saudi Arabian State railway company SRO. Also, the first steps were taken to establish a new maintenance centre in Cairo (Egypt).

In 2021 Talgo appoints Gonzalo Urquijo Fernández de Araoz as new CEO. Mr. Urquijo has extensive experience in industrial sectors as CFO of Aceralia, General Manager of Arcelor, Chairman ArcelorMittal Spain and Chairman of Abengoa, and being member of the Board of the listed companies Ferrovial and Gestamp.

In 2022, Talgo was awarded three new train supply contracts. The first one for the construction of 7-night trainsets for the Egyptian National Railways (ENR). Also, the Company inaugurated the Cairo-Alexandria line, a very important milestone in its internationalization strategy.

In 2023, Talgo signed an extension of the contract with the Danish DSB Railways comprising the supply of 8 additional type 230 trains together with 16 cab-cars. Also, Deutsche Bahn confirmed an extension of order to Talgo for the supply of 56 additional Talgo 230 trains.

In line with the foregoing, the main milestones of the Group are summarized in the following table:

Year(s)	Main Milestones
1942	Start of activity of the Group
1948-1950	Development and commercialization of Talgo's first product, the Talgo II train.
1964-1970	Regular commercial service using Talgo III trains and Talgo's

	first hotel train began between Madrid, Barcelona and Paris.
1988	A Talgo Pendular tilting train successfully completed tests for use in Amtrak services on the Boston–New York City corridor.
1990-2000	Talgo broadened its operations by expanding its market presence into Germany and the United States and entering the High-Speed market.
2011-2015	In November 2011, the Al-Shoula Consortium won the Mecca Medina line contract. In July 2012, Talgo signed an agreement with Passazhirskie Perevozki for the maintenance of 1,044 passenger coaches for 15 years, amounting to almost 900 million euros. 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
2015-2016	The general shareholders' meeting held on March 28, 2015, changed the Company's name from Pegaso Rail International, S.A. to Talgo, S.A. and the General Shareholder`s Meeting approved the application for the admission to trading of the Company´s shares on the Spanish stock exchanges. On May 7, 2015 an Initial Public Offering was made for 45% of the shares of the Company and they were admitted to trading. In November 2016, Talgo won the most important high-speed open railway tender in Europe for the supply of up to 30 very high-speed trains to the Spanish railway operator Renfe, placing a first order of 15 units
2017	Renfe awarded a new call-off contract adding 15 units to the previously ordered ones and, therefore, increasing to 30 the total number of VHS trains to deliver with a total value amounting 580 million euros. Kazakhstan and Uzbekistan started commercial operation of the new wide-carbody Talgo trains on the international route linking Almaty and Tashkent.
2019	Talgo signed a framework contract with the Deutsche Bahn, the German national railway operator, for the supply of up to 100 Talgo 230 trains, and the first order of 23 trains for a total of 550 million euros. The JV Talgo-Systra receives a contract for the revamp of up to 121 cars of the Metrolink commuter network in USA for 138,9 million USD. Adif places an order with Talgo for the manufacture of a high-

	speed rail inspection trail.
2020	DSB, the Danish National Railway operator, signed a contract with Talgo for the purchase of 8 Talgo 230 trains to run on the international route between Copenhagen and Hamburg. Contract included maintenance services and equipment, with a total project value of approximately 130 million euros.
2021	36 High-speed trains for the Mecca-Medina route were accepted by the Saudi Arabian State railway company SRO. Also, the first steps were taken to establish a new maintenance centre in Cairo (Egypt). In 2021 Talgo appoints Gonzalo Urquijo Fernández de Araoz as new CEO.
2022	Talgo was awarded with a supply contract for the construction of seven-night trainsets for the Egyptian National Railways (ENR) with a value amounting 280 million euros. Meanwhile, Cairo-Alexandria line was inaugurated.
2023	Talgo was awarded new train supply contract extension with the Danish DSB for the manufacturing of eight new Talgo 230 compositions for approximately 180 million euros Deutsche Bahn confirms to Talgo an extension within the framework contract signed in 2019, comprising the manufacturing of 56 new Talgo 230 trains, for a value amounting above 1,500 million euros.

Values of the Group

- Technological innovation.
- Customer service.
- Identification and commitment and career development
- Integrity.
- Health and safety of staff.

Mission of the Group

To be the leading company in the Spanish railway sector, with an international industrial presence, recognised worldwide for its capacity for innovation, technology, quality, reliability and the added value of its products and services.

Vision of the Group:

To be a supplier of products and services capable of implementing integral and innovative solutions in new segments and markets.

2.4 Financial information of the Issuer

The Issuer´s consolidated annual accounts for the financial years ended December 31, 2021 and December 31, 2022 are attached as **Schedule 2** to the Information Memorandum.

Deloitte, S.L. with corporate address at Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid and registered in R.O.A.C. (*Registro Oficial de Auditores de Cuentas*) with number S0692 has audited the consolidated annual accounts of Patentes Talgo corresponding to the financial years ended December 31, 2021 and December 31, 2022 in both cases, issuing unqualified opinions.

Since the publication of the latest audited annual accounts as of and for the year ended December 31, 2022 and until the date of the Information Memorandum, there has been no material adverse change in the outlook for Patentes Talgo.

3. FULL NAME OF THE SECURITIES ISSUE

"Commercial Paper Programme TALGO 2024".

4. PERSONS RESPONSIBLE

Mr. Gonzalo Urquijo Fernández de Araoz and Mr. Álvaro Segura Echaniz, acting on behalf of Patentes Talgo and expressly authorized thereto, hereby assume responsibility for the content of the Information Memorandum.

Mr. Gonzalo Urquijo Fernández de Araoz and Mr. Álvaro Segura Echaniz are expressly authorized to grant any public or private documents as may be necessary for the proper processing of the Notes issued by virtue of the decisions adopted by the Board of Directors on 17 January 2024.

Mr. Gonzalo Urquijo Fernández de Araoz and Mr. Álvaro Segura Echaniz hereby declare that the information contained in the Information Memorandum is, to the best of their knowledge and after executing the reasonable diligence to ensure that it is as stated, compliant with the facts and does not suffer from any omission that could affect the content.

5. FUNCTIONS OF THE REGISTERED ADVISOR

Banca March, S.A. is a company incorporated before the Notary of Madrid, Mr. Rodrigo Molina Pérez, on 1946, June 24th, registered in the Baleares Companies Register in volume 20, boo, 104, sheet 230, page PM-195, and in the Registered Advisors Market Register pursuant to the market Operative Instruction 8/2014, 24 March (*Instrucción Operativa 8/2014 de 24 de marzo)* ("**Banca March**" or the "**Registered Advisor**").

Banca March is designated as the Registered Advisor of the Issuer and therefore has acquired the compromise to collaborate with the Issuer to enable it to comply with its obligations and responsibilities to be assumed by incorporating the issue on MARF, acting as specialised interlocutor between both MARF and the Issuer and as a means to facilitate its insertion and development in the new trading regime of their securities trading.

Banca March shall provide the MARF with the periodic reports required by it, and the MARF, in turn, may seek any information deemed necessary in connection with the Registered Advisor's role (and obligations as Registered Advisor). MARF may take any measures in order to check the information that has been provided.

The Issuer must have, at all times, a designated Registered Advisor listed in the "MARF's Registered Advisors Market Register" (*Registro de Asesores Registrados*).

As Registered Advisor, Banca March shall cooperate with the Issuer, among other, on (i) the admission (*incorporación*) of the Notes issued, (ii) compliance with any obligations and responsibilities that apply to the Issuer for its participation in MARF, (iii) the preparation and presentation of financial and business information required thereby and (iv) review of the information to ensure that it complies with applicable standards.

As Registered Advisor, Banca March, with respect to the admission (*incorporación*) of the Notes to be issued under the Programme to trading at MARF: (i) has confirmed that the Issuer complies with the requirements of the MARF regulations required for the admission (*incorporación*) of the Notes to trading; and (ii) has assisted the Issuer in the preparation of the Information Memorandum and reviewed all information furnished to the market in connection with the application for admission (*incorporación*) of the Notes on MARF and that the information contributed by the Issuer, to the best of its knowledge, complies with the requirements of the applicable laws and contains no omission likely to confuse potential investors.

Once the Notes are admitted, Banca March, will:

(i) review the information that the Issuer prepares for sending to MARF periodically or on an ad hoc basis and verify that the content meets the requirements and time limits provided in the rules;

(ii) advise the Issuer on the events that might affect the performance of the obligations it has assumed to admit the Notes to trading on MARF and on the best way to treat such events to avoid breaching those obligations;

(iii) inform the MARF of the facts that would constitute a breach by the Issuer of its obligations in the event of a potential material breach by the Issuer which had not been cured by its advice, and

(iv) manage, attend and answer queries and requests for information that the MARF may request in relation to the situation of the Issuer, the evolution of its activity, the level of performance of its obligations and such other market data deemed relevant.

To this effect, the Registered Advisor shall perform the following actions:

(i) maintain regular and necessary contact with the Issuer and analyse exceptional situations that may occur in the evolution of the market price, trading volume and other relevant circumstances in the trading of the Notes of the Issuer;

(ii) signing such statements, in general, as may be required under the regulations as a result of the admission (*incorporación*) on the MARF and in relation to the information required from companies listed on said market, and

(iii) forward to the MARF, as soon as possible, the information received in response to inquiries and requests for information that the latter may issue.

6. MAXIMUM OUTSTANDING AMOUNT OF THE NOTES

The maximum outstanding amount of the Notes to be issued under the Programme is €150,000,000.

This amount is understood to be the maximum outstanding amount to which the aggregate nominal value of the Notes in circulation—issued under the Programme and admitted (*incorporados*) to the MARF by virtue of the Information Memorandum —shall be limited at any given point in time.

Notwithstanding the above, in accordance with Article 401 of the Spanish Companies Act, the aggregate outstanding amount of the issues of the Issuer shall not be greater than twice its equity *(recursos propios)* unless the issue is secured by a mortgage, a pledge of securities, a public guarantee or a joint and several guarantee by a credit institution.

7. DESCRIPTION OF THE TYPE AND CLASS OF SECURITIES. NOMINAL VALUE

The Notes are discounted securities that represent a debt for the Issuer, accrue interest and are reimbursable for its nominal value on maturity.

An ISIN Code (International Securities Identification Number) will be assigned to each issue of the Notes with the same maturity.

Each Notes will have a nominal value of one hundred thousand euros (€100,000), meaning that the maximum number of securities in circulation at any given time cannot exceed one hundred and fifty (150).

8. APPLICABLE LEGISLATION AND JURISDICTION GOVERNING THE SECURITIES

The Notes will be issued in accordance with Spanish legislation applicable to the Issuer and to the Notes. More specifically, the Notes will be issued in accordance with the Spanish Companies Act, the Securities Markets and Investment Services Act, in their wording in force, and their respective implementing or concordant regulations.

The courts of the city of Madrid (Spain) will have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes.

9. REPRESENTATION OF THE SECURITIES THROUGH BOOK ENTRY FORM (*ANOTACIONES EN CUENTA*)

The Notes to be issued under the Programme will be represented by book entry form (*anotaciones en cuenta*), as set out in the mechanisms for trading on the MARF to which admission (*incorporación*) of the securities will be sought.

IBERCLEAR, with registered office in Madrid, Plaza de la Lealtad, 1, will be in charge of the accounting records together with its participating entities, pursuant to the provisions of article 8.3 of the Securities Markets and Investment Services Act and the Royal Decree 814/2023 of 8 November on financial instruments, admission to trading, registration of negotiable securities and market infrastructures *(Real Decreto 814/2023, de 8 de noviembre, sobre instrumentos financieros, admisión a negociación, registro de valores negociables e infraestructuras de mercado)* (the "**RD 814/2023**").

10. CURRENCY OF THE ISSUE

The Notes to be issued under the Programme will be denominated in euros (€).

11. CLASSIFICATION OF THE SECURITIES: ORDER OF PRIORITY

The Notes will not be secured by any in rem guarantees or guaranteed by any personal guarantees by third parties. The capital and interest of the Notes are unsecured and are guaranteed by the personal liability of the Issuer.

According to the classification and order of priority of debt claims laid down in the Insolvency Law, claims relating to the Notes (which are not subordinated pursuant Article 281 of the Insolvency Law) will be ordinary claims (*créditos ordinarios*). Those ordinary claims will rank below creditors with privilege (*créditos privilegiados*) and above subordinated credits (*créditos subordinados*) (unless they can be classed as such under Article 281 of the Insolvency Law) and would not have any preference among them.

12. DESCRIPTION OF THE RIGHTS INHERENT TO THE SECURITIES AND THE PROCEDURE FOR EXECUTING THESE RIGHTS. METHODS AND DEADLINES FOR PAYMENT OF THE SECURITIES AND HANDOVER OF THE SAME

In accordance with the applicable legislation, the Notes issued under the Programme will not represent, for the investor that acquires them, any present and/or future political rights over the Issuer.

The economic and financial rights of the investor associated to the acquisition and holding of the Notes will be those arising from the conditions of the interest rate, yields and redemption prices with which they are issued, specified in sections 13, 14 and 16 below.

The date of disbursement of the Notes will coincide with its date of issuance, and the effective value of the Notes will be paid to the Issuer by Banca March, S.A. (as paying agent), into the account specified by the Issuer on the corresponding date of issuance.

In all cases the Placement Entities will issue a nominative and non-negotiable certificate of acquisition. The referred document will provisionally credit the subscription of the Notes until the appropriate book entry is practiced, which will grant its holder the right to request the relevant legitimacy certificate (*certificado de legitimación*).

In addition, the Issuer will notify the payment of the subscription of the Notes to MARF and to IBERCLEAR through the corresponding certificate.

13. DATE OF ISSUE. PROGRAMME VALIDITY

The Programme will be in force for one (1) year from the date of admission (*incorporación*) of the Information Memorandum by MARF.

As this is a continuous type of Programme, the Notes may be issued, subscribed and admitted (*incorporados*) on any day during the validity period of the same. However, the Issuer reserves the right not to issue new securities when it deems such action appropriate, pursuant to the cash needs of the Issuer or because it has found more advantageous conditions of funding.

The issue date and disbursement date of the Notes will be indicated in the complementary certificates (*certificaciones complementarias*) corresponding to each issue. The date of issue, disbursement and admission (*incorporación*) of the Notes may not be subsequent to the expiry date of the Information Memorandum.

14. NOMINAL INTEREST RATE. INDICATION OF THE YIELD AND CALCULATION METHOD

The annual nominal interest rate for the Notes will be set in each issue.

The Notes will be issued under the Programme at the interest rate agreed by and between the Placement Entities (as this term is defined under section 15 below) and the Issuer. The yield will be implicit in the nominal value of the Notes, to be reimbursed on the maturity date.

The interest rate at which the Placement Entities transfers the Notes to third parties will be the rate freely agreed with the interested investors.

As these are discounted securities with an implicit rate of return, the cash amount to be paid out by the investor varies in accordance with the issue interest rate and period agreed.

Thus the cash amount of the Notes may be calculated by applying the following formulas:

- When securities are issued for a maximum term of 365 days:

$$E = \frac{N}{1 + i_n \frac{d}{365}}$$

- When securities are issued for more than 365 days:

$$E = \frac{N}{(1+i)^{\frac{d}{365}}}$$

Whereby:

N= nominal amount of the Notes

E = cash amount of the Notes

n = number of days of the period to maturity

i_n = nominal interest rate, expressed as an integer value

A table is included to help the investor, specifying the cash value tables for different rates of interest and redemption periods, and there is also a column showing the variation of the effective value of the Notes by increasing the period of this by 10 days.

EFFECTIVE VALUE OF € 100,000 NOTIONAL NOTE

(Less than one-year term)

	7 days			14 days			30 days			60 days		
Nominal rate	Subscription Price	IRR/AER	+10 days	Subscription Price	IRR/AER	+10 days	Subscription Price	IRR/AER	+10 days	Subscription Price	IRR/AER	+10 days
(%)	(euros)	(%)	(euros)	(euros)	(%)	(euros)	(euros)	(%)	(euros)	(euros)	(%)	(euros)
0,25	99.995,21	0,25	-6,85	99.990,41	0,25	-6,85	99.979,46	0,25	-6,85	99.958,92	0,25	-6,84
0,50	99.990,41	0,50	-13,69	99.980,83	0,50	-13,69	99.958,92	0,50	-13,69	99.917,88	0,50	-13,67
0,75	99.985,62	0,75	-20,54	99.971,24	0,75	-20,53	99.938,39	0,75	-20,52	99.876,86	0,75	-20,49
1,00	99.980,83	1,00	-27,38	99.961,66	1,00	-27,37	99.917,88	1,00	-27,34	99.835,89	1,00	-27,30
1,25	99.976,03	1,26	-34,22	99.952,08	1,26	-34,20	99.897,37	1,26	-34,16	99.794,94	1,26	-34,09
1,50	99.971,24	1,51	-41,06	99.942,50	1,51	-41,03	99.876,86	1,51	-40,98	99.754,03	1,51	-40,88
1,75	99.966,45	1,77	-47,89	99.932,92	1,76	-47,86	99.856,37	1,76	-47,78	99.713,15	1,76	-47,65
2,00	99.961,66	2,02	-54,72	99.923,35	2,02	-54,68	99.835,89	2,02	-54,58	99.672,31	2,02	-54,41
2,25	99.956,87	2,28	-61,55	99.913,77	2,27	-61,50	99.815,41	2,27	-61,38	99.631,50	2,27	-61,15
2,50	99.952,08	2,53	-68,38	99.904,20	2,53	-68,32	99.794,94	2,53	-68,17	99.590,72	2,53	-67,89
2,75	99.947,29	2,79	-75,21	99.894,63	2,79	-75,13	99.774,48	2,78	-74,95	99.549,98	2,78	-74,61
3,00	99.942,50	3,04	-82,03	99.885,06	3,04	-81,94	99.754,03	3,04	-81,72	99.509,27	3,04	-81,32
3,25	99.937,71	3,30	-88,85	99.875,50	3,30	-88,74	99.733,59	3,30	-88,49	99.468,59	3,29	-88,02
3,50	99.932,92	3,56	-95,67	99.865,93	3,56	-95,54	99.713,15	3,56	-95,25	99.427,95	3,55	-94,71
3,75	99.928,13	3,82	-102,49	99.856,37	3,82	-102,34	99.692,73	3,82	-102,00	99.387,34	3,81	-101,38
4,00	99.923,35	4,08	-109,30	99.846,81	4,08	-109,13	99.672,31	4,07	-108,75	99.346,76	4,07	-108,04
4,25	99.918,56	4,34	-116,11	99.837,25	4,34	-115,92	99.651,90	4,33	-115,50	99.306,22	4,33	-114,70
4,50	99.913,77	4,60	-122,92	99.827,69	4,60	-122,71	99.631,50	4,59	-122,23	99.265,71	4,59	-121,34
4,75	99.908,99	4,86	-129,73	99.818,14	4,86	-129,50	99.611,11	4,85	-128,96	99.225,23	4,85	-127,96
5,00	99.904,20	5,12	-136,54	99.808,59	5,12	-136,28	99.590,72	5,12	-135,68	99.184,78	5,11	-134,58
5,25	99.899,42	5,39	-143,34	99.799,03	5,38	-143,05	99.570,35	5,38	-142,40	99.144,37	5,37	-141,18
5,50	99.894,63	5,65	-150,14	99.789,49	5,65	-149,83	99.549,98	5,64	-149,11	99.103,99	5,63	-147,78
5,75	99.889,85	5,92	-156,94	99.779,94	5,91	-156,60	99.529,62	5,90	-155,81	99.063,64	5,89	-154,36
6,00	99.885,06	6,18	-163,74	99.770,39	6,18	-163,36	99.509,27	6,17	-162,51	99.023,33	6,15	-160,93
6,25	99.880,28	6,45	-170,53	99.760,85	6,44	-170,12	99.488,93	6,43	-169,20	98.983,05	6,42	-167,48
6,50	99.875,50	6,71	-177,32	99.751,30	6,71	-176,88	99.468,59	6,70	-175,88	98.942,80	6,68	-174,03

EFFECTIVE VALUE OF € 100,000 NOTIONAL NOTE												
	(Less than one-year term)						(Equal to one-year term)			(More than one-year term)		
	90 days			180 days			365 days			730 days		
Nominal rate	Subscription Price	IRR/AER	+10 days	Subscription Price	IRR/AER	+10 days	Subscription Price	IRR/AER	+10 days	Subscription Price	IRR/AER	+10 days
(%)	(euros)	(%)	(euros)	(euros)	(%)	(euros)	(euros)	(%)	(euros)	(euros)	(%)	(euros)
0,25	99.938,39	0,25	-6,84	99.876,86	0,25	-6,83	99.750,62	0,25	-6,81	99.501,19	0,25	-6,78
0,50	99.876,86	0,50	-13,66	99.754,03	0,50	-13,63	99.502,49	0,50	-13,56	99.006,10	0,50	-13,43
0,75	99.815,41	0,75	-20,47	99.631,50	0,75	-20,39	99.255,58	0,75	-20,24	98.514,69	0,75	-19,94
1,00	99.754,03	1,00	-27,26	99.509,27	1,00	-27,12	99.009,90	1,00	-26,85	98.026,93	1,00	-26,32
1,25	99.692,73	1,26	-34,02	99.387,34	1,25	-33,82	98.765,43	1,25	-33,39	97.542,79	1,24	-32,58
1,50	99.631,50	1,51	-40,78	99.265,71	1,51	-40,48	98.522,17	1,50	-39,87	97.062,22	1,49	-38,72
1,75	99.570,35	1,76	-47,51	99.144,37	1,76	-47,11	98.280,10	1,75	-46,29	96.585,19	1,73	-44,73
2,00	99.509,27	2,02	-54,23	99.023,33	2,01	-53,70	98.039,22	2,00	-52,64	96.111,66	1,98	-50,63
2,25	99.448,27	2,27	-60,93	98.902,59	2,26	-60,26	97.799,51	2,25	-58,93	95.641,61	2,23	-56,41
2,50	99.387,34	2,52	-67,61	98.782,14	2,52	-66,79	97.560,98	2,50	-65,15	95.175,00	2,47	-62,08
2,75	99.326,48	2,78	-74,28	98.661,98	2,77	-73,29	97.323,60	2,75	-71,31	94.711,79	2,71	-67,63
3,00	99.265,71	3,03	-80,92	98.542,12	3,02	-79,75	97.087,38	3,00	-77,41	94.251,96	2,96	-73,08
3,25	99.205,00	3,29	-87,55	98.422,54	3,28	-86,18	96.852,30	3,25	-83,45	93.795,46	3,20	-78,43
3,50	99.144,37	3,55	-94,17	98.303,20	3,53	-92,36	96.618,50	3,50	-89,45	93.342,27	3,44	-83,66
3,75	99.083,81	3,80	-100,76	98.184,26	3,79	-98,94	96.385,54	3,75	-95,35	92.892,36	3,68	-88,80
4,00	99.023,33	4,06	-107,34	98.065,56	4,04	-105,28	96.153,85	4,00	-101,21	92.445,69	3,92	-93,84
4,25	98.962,92	4,32	-113,90	97.947,14	4,30	-111,58	95.923,26	4,25	-107,02	92.002,23	4,16	-98,78
4,50	98.902,59	4,58	-120,45	97.829,00	4,55	-117,85	95.693,78	4,50	-112,77	91.561,95	4,40	-103,63
4,75	98.842,33	4,84	-126,98	97.711,15	4,81	-124,09	95.465,39	4,75	-118,46	91.124,83	4,64	-108,38
5,00	98.782,14	5,09	-133,49	97.593,58	5,06	-130,30	95.238,10	5,00	-124,09	90.690,82	4,88	-113,04
5,25	98.722,02	5,35	-139,98	97.476,30	5,32	-136,48	95.011,88	5,25	-129,67	90.259,91	5,12	-117,62
5,50	98.661,98	5,62	-146,46	97.359,30	5,58	-142,62	94.786,73	5,50	-135,19	89.832,06	5,36	-122,10
5,75	98.602,01	5,88	-152,92	97.242,57	5,83	-148,74	94.562,65	5,75	-140,66	89.407,25	5,59	-126,50
6,00	98.542,12	6,14	-159,37	97.126,13	6,09	-154,82	94.339,62	6,00	-146,07	88.985,44	5,83	-130,82
6,25	98.482,29	6,40	-165,80	97.009,97	6,35	-160,88	94.117,65	6,25	-151,44	88.566,60	6,07	-135,05
6,50	98.422,54	6,66	-172,21	96.894,08	6,61	-166,90	93.896,71	6,50	-156,75	88.150,72	6,30	-139,20

Given the diversity of the issue rates that are forecast to be applied throughout the term of the Programme, we cannot predetermine the resultant return for the investor (IRR). In any case, it will be determined, for Notes up to 365 days, with the formula detailed below:

$$IRR = \left[\frac{N^{\frac{365}{d}}}{E} - 1 \right]$$

in which:

IRR= Effective annual interest rate, expressed as an integer value

N= Nominal amount of the Notes

E = Cash amount at the time of subscription or acquisition

d = Number of calendar days between the date of issue (inclusive) and the date of maturity (exclusive)

IRR will be the annual interest of the Notes described in this section for periods of time longer than 365 days.

15. PLACEMENT ENTITIES, PAYING AGENT AND DEPOSITARY ENTITIES

15.1 Placement Entities

The initial placement entities of the Programme (the "**Placement Entities**") are Banca March, S.A., Banco de Sabadell, S.A. and Renta 4 Banco, S.A.

The Issuer and the Placement Entities have executed placement agreements for the Programme for placement of the Notes, which include the possibility of selling to third parties.

The Issuer reserves the right at any time to vary or terminate the relation with the Placement Entities in accordance with the corresponding placement agreement and to appoint successor placement entities and additional or successor placement entities. Notice of any change in the placement entities shall promptly be communicated, if applicable, to MARF by means of the corresponding other relevant information notice (OIR).

15.2 Paying Agent

Acting under the paying agency agreement and in connection with the Notes, the paying agent acts solely as agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for or with any of the holders of the Notes (the "**Paying Agent**"). The initial paying agent is Banca March, S.A.

The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent in accordance with the corresponding paying agency agreement and to appoint a successor agent and additional or successor agents provided, however, that the Issuer shall at all times maintain a single Paying Agent. Notice of any change in the Paying Agent shall promptly be communicated via the MARF website (www.bolsasymercados.es) by means of a communication of other relevant information *(otra información relevante)*, in addition to the corresponding addendum to the issue document (*adenda al documento de emisión*) and supplement to the Information Memorandum *(suplemento al documento base informativo)* to be submitted to the MARF and Iberclear, as applicable.

15.3 Depositary entities

Although IBERCLEAR will be the entity entrusted with the book-keeping (*registro contable*) of the Notes, the Issuer has not designated a depository entity for the Notes. Each subscriber may designate, from among the participants in IBERCLEAR, which entity to deposit the securities with. Holders of the Notes who do not have, directly or indirectly through their custodians, a participating account with IBERCLEAR may participate in the Notes through bridge accounts maintained by each of Euroclear Bank, SA/NV and Clearstream Banking, Société Anonyme, Luxembourg.

16. REDEMPTION PRICE AND PROVISIONS CONCERNING MATURITY OF THE SECURITIES. DATE AND METHODS OF REDEMPTION

The Notes to be issued under Programme will be redeemed for their nominal value on the date given in the document proving acquisition. Where appropriate, the corresponding withholding at source will be applicable. As they are expected to be included for trading on the MARF, the redemption of the Notes will take place pursuant to the operating rules of the clearance system of said market. To this end, the Paying Agent, shall pay, on the maturity date, the nominal amount of the Notes to the legitimate holder of the same, but being the Paying Agent a delegated paying agent, Banca March, S.A. does not accept nor take a liability whatsoever *vis-à-vis* reimbursement by the Issuer of the Notes on the maturity thereof.

If reimbursement falls on a non-business day in accordance with the T2 calendar, reimbursement will be deferred to the first subsequent business day without such event having any effect whatsoever on the amount to be paid.

17. VALID DEADLINE WITHIN WHICH REIMBURSEMENT OF THE PRINCIPAL MAY BE CLAIMED

Pursuant to the provisions set out in article 1964 of the Spanish Civil Code, reimbursement of the nominal value of these securities will no longer be callable five (5) years after maturity thereof.

18. MINIMUM AND MAXIMUM ISSUE PERIOD

During the validity of the Information Memorandum, the Notes may be issued with a redemption period of between three (3) business days and seven hundred and thirty-one (731) calendar days (that is, twenty-four (24) months).

19. EARLY REDEMPTION

The Notes will not include an early redemption option either for the Issuer (*call*) or for the holder of the Notes (*put*). Notwithstanding the foregoing, the Notes may be redeemed early providing that, on whatsoever grounds; they are in the legitimate possession of the Issuer.

20. RESTRICTIONS ON THE FREE TRANSFERABILITY OF THE SECURITIES

In accordance with current legislation, there are no specific or general restrictions on the free transferability of the Notes to be issued.

21. TAXATION OF THE NOTES

In accordance with the provisions set out in current legislation, the Notes are classified as financial assets with implicit yield. Income resulting from the Notes is considered to be income from movable capital, and subject to personal income-tax (the "**PIT**"), corporate income tax (the "**CIT**") and non-residents income-tax (the "**NRIT**") and to its withholding system, under the terms and conditions set out in the respective regulatory laws and other rules that implement said laws.

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of the Information Memorandum:

- Of general application, the First Additional Provision of Law 10/2014, of 26 June 2014 on the regulation, supervision and solvency of credit institutions (the "**Law 10/2014**") and Royal *Decree 1065/2007 of 27 July 2007, which approves the General Regulations on inspection and collection actions and procedures and for the development of the common rules of tax enforcement of the procedures for the application of taxes, in the wording given therein ("**Royal Decree 1065/2007**").*

- *Law 35/2006*, of 28 November, governing Personal Income Tax and partially amending the laws on corporate income tax, non-residents income-tax and wealth tax (*Ley 35/2006, de 28 de noviembre, del Impuesto sobre la Renta de las Personas Físicas y de modificación parcial de las leyes de los Impuestos sobre Sociedades, sobre la Renta de no Residentes y sobre el Patrimonio*) (the "**PIT Law**"), as well as, those contained in articles 74 *et seq* of Royal Decree 439/2007, of 30 March, approving the Personal Income-Tax and amending the Regulations on Pension Funds and Plans approved through Royal Decree 304/2004, of 20 February (*Real Decreto 439/2007, de 30 de marzo, por el que se aprueba el Reglamento del Impuesto sobre la Renta de las Personas Físicas y se modifica el Reglamento de Planes y Fondos de Pensiones, aprobado por Real Decreto 304/2004, de 20 de febrero*).

- Corporate Income Tax Law 27/2014 (*Ley 27/2014, de 27 de noviembre, del Impuesto sobre Sociedades*) (the "**CIT Law**") as well as articles 60 *et seq* of the Corporate Income Tax Regulations approved through Royal Decree 634/2015, of 10 July *(Reglamento del Impuesto sobre Sociedades aprobado por el Real Decreto 634/2015, de 10 de julio)*.

- Royal Legislative Decree 5/2004, of 5 March, approving the revised Non-residents Income Tax Law (*Real Decreto Legislativo 5/2004, de 5 de marzo, por el que se aprueba el texto refundido de la Ley del Impuesto sobre la Renta de no Residentes*) and those contained in Royal Decree 1776/2004 of 30 July approving *the Non-residents Income Tax (Real Decreto 1776/2004, de 30 de julio por el que se aprueba el Reglamento del Impuesto sobre la Renta de no residentes).*

- Law 19/1991 of 6 June 1991 on Wealth Tax *(the "Wealth Tax Law"), as amended by Law* 38/2022 of 27 June 1992 (the "Wealth Tax Law"), which establishes a *temporary levy on energy and on financial credit institutions and establishments, which also creates a temporary solidarity tax on large fortunes (the* ***"Temporary Solidarity Tax on Large Fortunes"****).*

- Law 29/1987 of 18 December 1987 on Inheritance and Gift Tax, as amended (the **"Inheritance and Gift Tax"**)

All is the above, without prejudice to any regional tax regimes which may be applicable, particularly those corresponding to the historic territories of the Basque Country and of the Regional Community of Navarre, or any other regimes that could be applicable due to the particular circumstances of the investor.

As a general rule, in order to dispose of or obtain reimbursement of financial assets with implicit yield that are subject to withholding the time of the transfer, redemption or reimbursement, prior acquisition of the same as well as the transaction price, must be evidenced by a public notary or the financial institutions obliged to withhold. The financial institutions through which the payment of interest is made or which intervene in the transfer, redemption or reimbursement of the securities are obliged to calculate the yield attributable to the securities holder and notify this to both the holder of the security and the Tax Authorities. The Tax Authorities must also be provided with the data of those persons involved in the aforementioned transactions.

Likewise, ownership of the Notes is subject, if applicable, to Wealth Tax and the Inheritance and Gift Tax on the date of accrual of said taxes, by virtue of the provisions set out in regulations in force in each case.

In any case, given that this summary is not a thorough description of all the tax considerations, we recommend investors to consult with their own legal or tax advisors, who may render tailored advice in view of their specific circumstances. Likewise, investors and potential investors should take into consideration potential changes in legislation or its criteria of interpretation.

Investors that are individuals with tax residence in Spain

Personal Income-Tax

In general, income from movable capital obtained from the Notes (*pagarés*) by individuals that are tax resident in Spain subject to withholding tax at the current rate of 19%. The withholding carried out may be deducted against the PIT's payable amount, giving rise, where appropriate, to the tax returns provided for in the current legislation.

Furthermore, the difference between the asset's subscription or acquisition value and its transfer, redemption, swap or reimbursement value will be considered as an implicit income from movable capital and will be include in the taxable savings base for the financial year in which the sale, redemption or reimbursement takes place. Tax will be paid at the rate in force at any given time, which is currently 19% up to €6,000, 21% from €6,000.01 to €50,000 euros and 23% from €50,000.01 to €200,000.00, 27% from €200,000.01 to €300,000 and 28% from €300,000.01 upwards.

In order to carry out the transfer or reimbursement of the assets, the prior acquisition of the same must be certified by notaries public or financial institutions obliged to perform the withholding, and the price at which the transaction was carried out must be evidenced. The issuer cannot perform reimbursement when the holder fails to substantiate such status through the opportune certificate of acquisition.

In the case of income obtained through the transfer, the financial institution acting on behalf of the transferring party will be obliged to withhold.

In the case of income obtained through reimbursement, the entity obliged to make the withholding will be the issuer or the financial institution responsible for the transaction.

Similarly, to the extent that the securities are subject to application of the tax regime set out in Additional Provision One of Law 10/2014, of 26 June, the reporting regime set out in article 44 of Royal Decree 1065/2007 in the wording given to it by Royal Decree 1145/2011 will be applicable to securities issued at a discount for a period of 12 months or less.

Wealth Tax and Temporary Solidarity Tax for Large Fortunes

Individuals resident in Spanish territory are liable for Wealth Tax ("**IP**") to the extent that its net worth exceeds €700,000 as at December 31 of each calendar year, irrespective of where their properties are located or where their rights can be exercised.

Therefore, they must take into account the value of the Promissory Notes they hold at December 31 of each calendar year, the applicable rates range from 0.2% to 3.5%, without prejudice to the specific legislation adopted, where applicable, by each Autonomous Community, as the case may be.

The Temporary Solidarity Tax on Large Fortunes is levied at the state level (the Autonomous at State level (the Autonomous Communities have no powers) in 2022 and 2023 (payable in 2023 and 2024, respectively) as a 2022 and 2023 (payable in 2023 and 2024, respectively) as a complementary tax to the IP, which complementary to the IP which is levied on net wealth above 300,000 euros 300,000 at rates of up to 3.5%. The IP paid will be deductible in the Temporary Solidarity Tax on Taxes Temporary Solidarity Tax on Large Fortunes,

Inheritance and Gift Tax

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Inheritance and Gift Tax in accordance with the applicable Spanish regional or State rules (subject to any regional tax exemptions being available to them). The applicable effective tax rates can range between 0 per cent and 81.6 per cent subject to any specific regional rules, depending on relevant factors.

Investors that are entities with tax residence in Spain

Corporate Income Tax

The Income obtained by CIT taxpayers when said profits arise from these financial assets is exempt from the withholding tax providing that the Notes (i) are represented by book -entry form (*anotaciones en cuenta*) and (ii) are traded in a Spanish official secondary market of securities, or MARF. If the exemption is not applicable, such withholding will be made at the rate currently in force of 19%. The withholding carried out may be credited against the CIT payable tax amount.

The procedure to introduce the exemption described in the previous paragraph will be the one set out in the Order of 22 December 1999.

The financial institutions that take part in the transfer or reimbursement transactions will be obliged to calculate the yield attributable to the securities holder and to notify this to both the holder as well as the Tax Authorities.

Notwithstanding the foregoing, to the extent that the securities are subject to the special tax regime contained in Additional Provision One of Law 10/2014, the reporting obligations set out in article 44 of Royal Decree 1065/2007 will be applicable to securities issued at a discount for a period of 12 months or less.

Wealth Tax

Legal entities are not subject to Wealth Tax.

Inheritance and Gift Tax

Legal entities do not pay Inheritance and Gift Tax.

Investors that are not tax resident in Spain

Non-residents income-tax for investors not resident in Spain acting through a permanent establishment

Non-resident investors with a permanent establishment in Spain will be subject to a tax regime similar to the one described for investors that are legal entities resident in Spain.

Non-residents income-tax for investors not resident in Spain not acting through permanent establishment

To the extent that the requirements set forth in Additional Provision One of Law 10/2014 are met and that the non-resident investor without permanent establishment accredits its condition, income derived from the Notes will be exempt from IRNR, on the same terms as those established for income derived from public debt securities according to article

14.1.d) of the IRNR Law, regardless of the place of residence. In the case of Notes issued at a discount for a period of 12 months or less, in order for that exemption to apply, the procedure set forth in article 44 of Royal Decree 1065/2007 will be applicable.

In any case, the interest and other income derived from the transfer to third parties of own capital, obtained other than through a permanent establishment, by residents of another Member State of the European Union or by permanent establishments of those residents located in another Member State of the European Union, will be exempt.

If no exemption applies, the income resulting from the difference between the value of redemption, transfer, and reimbursement or exchange of the securities issued under the Program and their subscription or acquisition value, obtained by investors without tax residence in Spain, will generally be subject at the tax rate of 19%, without prejudice to what is established in the tax treaties signed by Spain.

Wealth Tax and Temporary Solidarity Tax for Large Fortunes

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, under the current IP Law and the Temporary Solidarity Tax for Large Fortunes, individuals not resident in Spain whose assets and rights are located in Spain (or which can be exercised in Spain) could be subject to Wealth Tax and the Temporary Solidarity Tax on Large Fortunes during the year 2023).

Notwithstanding, after the Court of Justice of the European Union judgment on September 3rd 2015 (Case C-127/12), individuals that are not resident in Spain for tax purposes but who are resident in an European Union 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.

In accordance with subarticle 2 of the single article of Royal Decree-Law 13/2011, of 16 September, reinstating wealth tax, amended by article 3 of Royal Decree-Law 18/2019, of 28 December, a 100% reduction would apply to the wealth tax payable, starting on 1 January 2021, unless the application of this reduction is postponed or repealed as in previous years.

In any case, given that the income derived from the Commercial Notes is exempt from IRNR, non-resident individuals who are holders of the Notes as at December 31, 2023 will be exempt from Wealth Tax for such holding. Legal entities with tax residence outside Spain are not subject to Wealt Tax or the Temporary Solidarity Tax on Large Fortunes.

Inheritance and Gift Tax

Individuals not tax resident in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to inheritance and gift tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with Spanish legislation. The tax rate will range between 0 and 81.6%.

However, if the deceased, heir or the done are resident in an European Union 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.

Also, as a consequence of the Judgements of 19 February, 2018 and 21 and 22 March, 2018, the Supreme Court has declared that the application of state regulations when the deceased, heir or done is resident outside of a Member State of the European Union or the European Economic Area violates Community law to the free movement of capital, so even in that case it would be appropriate to defend the application of regional regulations in the same cases as if the deceased, heir or donee was resident in a Member State of the European Union. The General Directorate for Taxation has recently ruled in accordance with those judgements (V3151-18 and V3193-18).

In this regard, to date, the national legislation of the tax has not been amended to include the criterion of the Supreme Court expressed in those judgments, which constitute case law.

However, the Directorate-General of Taxes, in binding rulings V3151-18 and V3193-18, have admitted de facto the possibility for this group of taxpayers to elect to also apply the legislation of the autonomous communities.

Indirect taxation on the acquisition and transfer of the securities issued

Whatever the nature and residence of the investors, the acquisition and transfer of the Notes will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December, regulating such tax.

Disclosure obligations in connection with payments on the Notes

In the event that the requirements and formalities provided for in Law 10/2014 and in article 44, section 4, of RD 1065/2007 are complied with, applicable to the extent that the Notes are originally registered with Iberclear, no withholding tax will be levied on the income derived from the Notes obtained by legal entities subject to PIT and by non-residents in Spanish territory to the extent that certain formalities are complied with.

Among others, the entities that hold the Promissory Notes registered in third party accounts in IBERCLEAR or, where applicable, the entities that manage the securities clearing and settlement systems based abroad that have an agreement signed with IBERCLEAR, must submit to the Issuer, in due time and form, a declaration in accordance with the model that appears as an annex to RD 1065/2007 which, in accordance with what is recorded in their records, contains the following information:

a) identification of the Notes;

b) date of payment of the yield (or redemption date if they are Promissory Notes issued at a discount or segregated);

c) total amount of the yield (or total amount to be repaid, in either case, if they are Notes issued at a discount or in stripped form);

d) amount of income corresponding to personal income taxpayers; and

e) the amount of income to be paid in full (or the total amount to be repaid in the case of discounted or stripped promissory notes).

The said declaration must be submitted on the business day prior to the date of each redemption of the Notes, reflecting the situation at the close of business on that same day.

Failure to comply with the requirements to apply Law 10/2014 or article 44 of Royal Decree 1065/2007 and failure to file the return within the aforementioned period will result in the entire return paid to the holders of the Notes being subject to withholding tax on account of IRNR (currently at the tax rate of 19%).

Without prejudice to the foregoing, and in the event that the withholding is due to the failure to file the return, the holders of the Notes who are legal entities subject to PIT and non-residents may receive a refund of the amount initially withheld provided that the entities obliged to do so send the Issuer the aforementioned return before the 10th day of the month following the month in which the maturity has occurred. In this case, the Issuer shall, as soon as it receives the aforementioned statement, pay the amounts withheld in excess.

If the declaration is not sent to the Issuer within the periods mentioned in the preceding paragraphs, investors who are not resident for tax purposes in Spain and who do not act in relation to the Notes through a permanent establishment in Spain may, where applicable, apply to the Tax Authorities for a refund of the amount withheld in excess, subject to the procedure and declaration form provided for in Order EHA/3316/2010 of 17 December 2010. Potential investors are advised to consult their advisors on the procedure to be followed, in each case, in order to request the aforementioned refund from the Spanish Tax Authorities.

Without prejudice to the foregoing, the Issuer must inform the Tax Authorities of the identity of the IRPF taxpayers and PIT taxpayers who are holders of the Notes issued by the Issuer, as well as IRNR taxpayers who obtain income from such Notes through a permanent establishment located in Spanish territory.

22. PUBLICATION OF THE INFORMATION MEMORANDUM

The Information Memorandum will be published on the MARF website (www.bolsasymercados.es).

23. DESCRIPTION OF THE PLACEMENT SYSTEM AND WHERE APPROPRIATE, SUBSCRIPTION AND ADMISSION (*INCORPORACIÓN*) OF THE ISSUE

The Placement Entities may act as intermediary in the placement of the Notes, notwithstanding the Placement Entities may subscribe Notes on its own behalf.

For these purposes, the Issuer may receive any business day, between 10:00 and 14:00 (CET), customized requests by the Placement Entities for a minimum amount of one million euros (€1,000,000) whereby the nominal value of each Note is one hundred thousand euros (€100,000).

The determination of the price, amount, interest rate, date of issuance and payment, due date and other terms for each issuance thus placed shall be determined by agreement between the Issuer and the Placement Entities. The terms of these agreements will be confirmed by sending a document setting out the terms of the issue to be remitted by the Issuer to the Placement Entities. Also, the terms for each issuance could be determined by agreement between the Issuer and the prospective Noteholders.

In the event that an issuance of the Notes is initially subscribed by the Placement Entities to be subsequently passed on to the final investors, it is stated that the price shall be freely agreed between the interested parties and might not coincide with the issue price (i.e. with the cash amount).

24. COSTS FOR LEGAL, FINANCIAL AND AUDITING SERVICES AND OTHER SERVICES PROVIDED TO THE ISSUER IN RELATION TO THE EXECUTION OF THE PROGRAMME

The costs for all legal, financial and audit services and other services provided to the Issuer in relation to the execution of the Programme amount to approximately 90,000.00 euros not including taxes but including the fees of MARF and IBERCLEAR.

25. ADMISSION (*INCORPORACIÓN*)

25.1 Application for admission (*incorporación*) of the securities to the MARF. Deadline for admission (*incorporación*)

An application will be filed for the admission (*incorporación*) of the Notes described in the Information Memorandum to the multilateral trading facility ("**MTF**") known as the Alternative Fixed-Income Market (MARF). The Issuer hereby undertakes to carry out all of the formalities required so that the Notes are listed on the aforementioned market within a deadline of seven business days from the date the Notes are issued under the Programme, which is the same as the payment date.

The date of admission (*incorporación*) of the Notes to the MARF must in any event be a date falling within the period for which the Information Memorandum is valid, and which precedes the respective Notes maturity date. Under no circumstances will the deadline exceed the maturity of the Notes. In the event of breach of the aforementioned deadline, the reasons for the delay will be notified to MARF and will be published in the webpage of the MARF (by a relevant notice (*OIR*)). This is without prejudice to any possible contractual liability that may be incurred by the Issuer.

MARF has the legal structure of a MTF, under the terms set out in Articles 27, 42, 68 and concordant of the LMVSI.

Neither MARF nor the CNMV nor the Placement Entities have approved or carried out any kind of check or verification with regard to the content of the Information Memorandum nor the audited annual accounts. The intervention of the MARF does not represent a statement or recognition of the full, comprehensible and consistent nature of the information set out in the documentation provided by the Issuer.

Potential investors should consider carefully and fully understand the Information Memorandum, prior to making investment decisions with respect to the Notes.

The Issuer hereby expressly states that it is aware of the requirements and conditions demanded for the admission (*incorporación*), permanence and exclusion of the Notes at the MARF, according to current legislation and the requirements of MARF, and hereby agrees to comply with them.

The Issuer hereby expressly places on record that it is aware of the requirements for registration and settlement on IBERCLEAR. The settlements of transactions will be performed through IBERCLEAR.

25.2 Publication of the admission (*incorporación*) of the issues of the Notes

The admission (*incorporación*) of the issues of the Notes will be reported on the MARF website (www.bolsasymercados.es).

26. LIQUIDITY AGREEMENT

The Issuer has not entered into any liquidity undertaking with any entity regarding the Notes to be issued under the Programme.

As the persons responsible for the Information Memorandum, on February 12, 2024:

PATENTES TALGO, S.L.U.

Mr. Gonzalo Urquijo Fernández de Araoz	Mr. Álvaro Segura Echaniz

ISSUER

Patentes Talgo, S.L.U.
Paseo del Tren Talgo, 2
28290 Las Rozas
Madrid, Spain

PAYING AGENT AND REGISTERED ADVISOR

Banca March, S.A.
Avenida Alexandre Rosselló, 8
07002 Palma de Mallorca
Illes Balears, Spain

PLACEMENT ENTITIES

Banca March, S.A.
Avenida Alexandre Rosselló, 8
07002 Palma de Mallorca
Illes Balears, Spain

Banco de Sabadell, S.A.
Avenida Óscar Esplá,
03007 Alicante
Alicante, Spain

Renta 4 Banco, S.A.
Paseo de la Habana 74
28036 Madrid
Madrid, Spain

LEGAL ADVISOR

J&A Garrigues, S.L.P.
Calle Hermosilla, 3
28001 Madrid
Madrid, Spain

SCHEDULE 1

FINANCIAL INFORMATION OF THE PARENT COMPANY

Spanish version of the audited consolidated financial statements of the Parent Company for the first half-year as of June 30, 2023 can be found at:

https://investors.talgo.com/documents/116597/1207477/Talgo+S.A+Estados+financieros+resumidos+consolidados+Primer+Semestre+2023+.pdf/0649e4d3-7485-65e5-f5f0-a569d370bd03?t=1690478774980

Spanish version of the audited consolidated annual accounts of the Parent Company for the fiscal year ended on December 31, 2022 can be found at:

https://investors.talgo.com/documents/116597/273827/TSA+Cons+2022+NIIF+.pdf/7bead1e3-6134-1784-d7d0-f322c8b775ca?t=1677741483252

English translation of the audited consolidated annual accounts of the Parent Company for the fiscal year ended on December 31, 2021 can be found at:

https://investors.talgo.com/documents/116597/273827/OC+Talgo+Conso+ingl%C3%A9s.pdf/9b88a59a-0e02-26f6-9841-69c0c9bdb8a0?t=1648025371437

SCHEDULE 2

FINANCIAL INFORMATION OF THE ISSUER

Patentes Talgo, S.L. (Sole-Shareholder Company) and its subsidiaries

Consolidated Financial Statements for the year ended 31 December 2021 and Consolidated Directors' Report, together with Independent Auditor's Report

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

Deloitte.

Deloitte, S.L.
Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
España

Tel: +34 915 14 50 00
www.deloitte.es

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Sole Shareholder of Patentes Talgo, S.L. (Sole-Shareholder Company),

Opinion

We have audited the consolidated financial statements of Patentes Talgo, S.L. (Sole-Shareholder Company) (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2021, and its consolidated results and its consolidated cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Group (identified in Note 2.a to the consolidated financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Most Significant Audit Matters

The most significant audit matters are those matters that, in our professional judgement, were considered to be the most significant risks of material misstatement in our audit of the consolidated financial statements of the current period. These risks were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those risks.

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

Recognition of manufacturing revenue by reference to the stage of completion	
Description	**Procedures applied in the audit**
The Group engages mainly in the manufacture of railway transport materials, systems and equipment and, in relation to long-term manufacturing contracts, it recognises the revenue and profit or loss thereon by reference to the estimated stage of completion, determined on the basis of the costs incurred as a percentage of the total estimated costs of each contract. Determination of the stage of completion necessarily involves a high degree of complexity and estimation by the Parent's management and directors in relation to, inter alia, the estimation of the total costs to be incurred in each contract and the estimation of the margin taking into consideration the expected revenue and the estimated costs to be incurred. These judgements and estimates are made by the persons in charge of the performance of the projects, are subsequently reviewed at the various levels of the organisation, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied. In this regard, among other things, the project budgets require a significant degree of monitoring. Accordingly, occurrence in the recognition of revenue from these contracts was considered to be one of the most significant matters in our audit.	Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the process involved in recognising revenue by reference to the stage of completion, as well as tests to verify that the aforementioned controls operate effectively. In particular, we selected those performed by the persons in charge of each area, supervised by management of the Group, relating to the reviews of the cost variances and budgets of the projects and the estimated percentage of completion. Also, we performed substantive audit procedures including, among others, a sample selection, based on both quantitative and qualitative criteria, of the contracts, and the in-depth analysis of these contracts and the clauses contained therein in order to obtain an appropriate understanding of the terms and conditions agreed upon. For those contracts we checked that the contract revenue was consistent with the contractual terms and conditions, verifying the price agreed on under those contracts, and analysed, with the involvement of our technical specialists, the reasonableness of the stage of completion and of the cost budgets. In this regard, for the purpose of analysing the reasonableness of the estimates made by management, we analysed it on the basis of comparable historical information, and evaluated the consistency of the estimates made in prior years with the actual data for the contracts in the current reporting period, analysing any possible variances and modifications reflected in the cost budgets. Lastly, we checked that the disclosures included in Notes 4-m and 18 to the accompanying consolidated financial statements were in conformity with the applicable financial reporting framework.

Provisions for tax contingencies

Description

As indicated in Note 2.c, when calculating the provision for income tax, the Group assesses whether there is an uncertainty as to the acceptability by the taxation authorities of the tax treatment afforded to any specific transaction or circumstance. For those cases in which it is considered unlikely that the tax treatment will be accepted, the Group recognises a provision based on its best estimate. In all other cases, no provision is recognised, and the possible contingencies or uncertainties are disclosed in the notes to the consolidated financial statements.

The aforementioned assessment, and the determination, as the case may be, of the provision to be recognised, is subject to a significant level of judgement and, therefore, the directors and management are advised by experts in the subject.

As described in Note 19, in prior years the Parent of the Group and its parent, Talgo, S.A., received tax assessments that they signed on a contested basis and against which they filed an economic-administrative appeal. They also assessed, together with their external tax advisers, the uncertainty associated with the various matters in dispute, with each entity recognising the corresponding provisions in their financial statements (EUR 1.4 million in the Group's consolidated financial statements) and disclosing the other contingencies in the notes to those financial statements.

During the previous financial year, the Parent of the Group and its parent, Talgo, S.A., submitted pleas to the Central Economic-Administrative Tribunal, which have not yet been resolved, and the risk was reassessed by management and the directors, concluding that the accounting policies applied and the disclosures made in prior years should be maintained in the same terms.

The significance of the associated tax contingencies and of the judgements and estimates made in the calculation of the aforementioned provision meant that this matter was considered to be a significant matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, the obtainment of the responses from the Group's tax advisers, on which management and the directors relied to reassess the uncertainty associated with the matters in dispute and to determine whether the impacts on the tax assets and tax provisions recognised in prior years remained valid.

In this connection, with the assistance of our internal experts in the tax area, we:

- Obtained an understanding of the matters in dispute, as well as the opinions, on each of them, of the Group's tax advisers.

- Conducted a review of the reasonableness of the conclusions reached by said experts on the possible outcomes.

- Reviewed the method adopted by the Group (most likely amount) to determine the associated tax assets and liabilities, as well as the reasonableness of their quantification.

Lastly, we verified that the notes to the consolidated financial statements (Notes 2.c, 15 and 19) contained the disclosures on these matters required by the applicable financial reporting framework.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2021, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

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

a) Solely checking that the consolidated non-financial information statement has been furnished as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) Evaluating and reporting on whether the other information included in the consolidated directors' report is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements, as well as evaluating and reporting on whether the content and presentation of this section of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we observed that the information described in section a) above was furnished as provided for in the applicable legislation and that the other information in the consolidated directors' report was consistent with that contained in the consolidated financial statements for 2021 and its content and presentation were in conformity with the applicable regulations.

Responsibilities of the Parent's Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in the Appendix to this auditor's report. This description, which is included below, forms part of our auditor's report.

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

Bruno Rodríguez Martínez
Registered in ROAC under no. 21.439

24 February 2022

Appendix to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

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

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.

- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated with the Parent's directors, we determine those risks that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the most significant assessed risks.

We describe those risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

PATENTES TALGO, S.L.U.
AND SUBSIDIARIES

Consolidated annual accounts and Directors' report
for the year ended 31 December 2021

**Translation of consolidated financial statements originally issued in Spanish prepared in accordance with generally accepted auditing standards in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails*

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020
(Expressed in thousands of euros)

ASSETS	2021	2020
NON-CURRENT ASSETS	**241 401**	**245 886**
Intangible assets (note 6)	**115 369**	**121 257**
Tangible fixed assets (note 7)	**57 231**	**56 541**
Long-term financial investments in group companies and associates (note 8)	**39 736**	**39 736**
Investments recorded under the equity method	29	29
Long-term loans to group companies and associates	39 707	39 707
Long-term financial investments (note 8)	**1 302**	**1 079**
Third party receivables	699	756
Derivative financial instruments	168	-
Deposits and guarantees	435	323
Deferred tax assets (note 19)	**27 763**	**27 273**
CURRENT ASSETS	**765 310**	**644 221**
Stock (note 9)	**133 219**	**145 336**
Trade and other receivables (note 10)	**361 202**	**260 205**
Accounts receivable for sales and services provided	346 743	241 220
Receivables from group companies and associates	75	73
Sundry debtors	666	1 159
Staff	681	412
Other receivables from Public Administrations (note 19)	13 037	17 341
Short-term financial investments (note 11)	**2 801**	**11 675**
Loans to group companies	1 468	1 547
Derivative financial instruments	1 218	-
Other financial assets	115	10 128
Short-term accruals and deferrals	**17 224**	**1 897**
Cash and cash equivalents (note 12)	**250 864**	**225 108**
TOTAL ASSETS	**1 006 771**	**890 107**

LIABILITIES AND SHAREHOLDER'S EQUITY	2021	2020
EQUITY	**322 842**	**303 200**
Equity (note 13)	**313 789**	**300 005**
Share capital	51 914	51 914
Legal reserve	10 383	10 383
Other reserves	204 821	227 043
Reserves in consolidated companies	28 883	38 793
Result for the financial year	17 788	(28 128)
Valuation adjustments	**2 751**	**1 478**
Translation differences	1 731	1 514
Hedging transactions	1 020	(36)
Grants, donations and bequests received (note 14)	**2 408**	**1 717**
Non-controlling interest	**3 894**	-
NON-CURRENT LIABILITIES	**283 999**	**273 704**
Long-term provisions (note 15)	**40 842**	**43 351**
Other provisions	40 842	43 351
Long-term debt (note 16)	**241 875**	**229 607**
Debts with financial institutions	215 624	205 926
Non-current finance leases	320	418
Derivatives	26	48
Other financial liabilities	25 905	23 215
Deferred tax liabilities (note 19)	**1 282**	**746**
CURRENT LIABILITIES	**399 870**	**313 203**
Short-term provisions (note 15)	**2 198**	**2 648**
Short-term debt (note 16)	**39 640**	**45 252**
Debts with financial institutions	35 933	41 055
Current finance leases	438	768
Other financial liabilities	3 269	3 429
Short-term debts with group companies (note 17)	**3 035**	**2 846**
Short-term creditors and other accounts payable	**354 997**	**262 457**
Suppliers	160 934	168 902
Other creditors	20 186	26 152
Staff	14 569	8 169
Current tax liabilities	429	249
Other debts with Public Administrations (note 19)	12 136	7 653
Advances on orders	146 743	51 332
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1 006 771**	**890 107**

Notes 1 to 25 of these consolidated annual accounts form an integral part of the consolidated balance sheet at 31 December 2021.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT ACCOUNTS FOR THE YEARS 2021 AND 2020
(Expressed in thousands of euros)

CONTINUING OPERATIONS	2021	2020
Net turnover (note 18)	**555 428**	**487 101**
Stock variation for work-in-progress and finished goods	**(405)**	**(245)**
Work performed by the company on fixed assets	**8 612**	**13 195**
Procurement costs (note 18)	**(314 738)**	**(309 687)**
Consumption of raw materials and other consumables	(241 044)	(240 858)
External services	(73 065)	(55 835)
Impairment of stock, raw materials and other supplies (note 9)	(629)	(12 994)
Other operating income	**675**	**1 434**
Non-core and other operating revenues	668	1 423
Capital grants included in the result for the year	7	11
Personnel expenses (note 18)	**(142 511)**	**(123 709)**
Wages, salaries and similar	(105 336)	(90 445)
Employee welfare expenses	(37 175)	(33 264)
Other operating expenses	**(48 794)**	**(57 541)**
External services	(51 633)	(50 937)
Taxes	(330)	(325)
Losses, impairment and variation in provisions for trade operations	3 169	(6 279)
Amortization and depreciation charge (notes 6 and 7)	**(29 872)**	**(27 521)**
Allocation of grants for non-financial fixed assets and others (note 14)	**423**	**463**
Impairment and gain/(losses) on disposal of fixed assets	**24**	**(19)**
Result from disposal of fixed assets and others	24	(19)
Other results	**657**	**295**
OPERATING RESULT	**29 499**	**(16 234)**
Financial income (note 18)	**12**	**292**
Financial expenses (note 18)	**(7 543)**	**(5 837)**
Change in fair value of financial instruments (note 18)	**10**	**16**
Translation differences (note 18)	**2 392**	**(2 904)**
FINANCIAL RESULT (note 18)	**(5 129)**	**(8 433)**
Share in income of equity-accounted companies	**-**	**-**
PROFIT BEFORE TAX	**24 370**	**(24 667)**
Income tax (note 19)	(6 606)	(3 461)
EARNINGS FROM CONTINUING OPERATIONS	**17 764**	**(28 128)**
RESULT FOR THE YEAR	**17 764**	**(28 128)**
NET INCOME ATTRIBUTABLE TO THE PARENT COMPANY	**17 788**	**(28 128)**
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	**(24)**	**-**

Notes 1 to 25 of these consolidated annual accounts form an integral part of the consolidated income statement account for the financial year 2021.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2021 AND 2020
(Expressed in thousands of euros)

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSES

	2021	2020
Result from the income statement	**17 764**	**(28 128)**
Income and expenses attributed directly to equity	**2 079**	**578**
Cash flow hedges	1 408	20
Grants, donations and bequests received (note 14)	1 364	**751**
Tax effect	(693)	(193)
Transfers to the income statement	**(332)**	**(362)**
Grants, donations and bequests received (note 14)	(424)	(464)
Tax effect	92	102
TOTAL RECOGNIZED INCOME AND EXPENSES	**19 511**	**(27 912)**
TOTAL RECOGNIZED INCOME AND EXPENSES ATTRIBUTABLE TO THE PARENT COMPANY	**19 535**	**(27 912)**
TOTAL RECOGNIZED INCOME AND EXPENSES ATTRIBUTABLE TO MINORITY INTERESTS	**(24)**	**-**

Notes 1 to 25 of these consolidated annual accounts form an integral part of the consolidated statement of recognized income and expenses for the financial year 2021.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2021 AND 2020
(Expressed in thousands of euros)

B) TOTAL STATEMENT OF CHANGES IN EQUITY

	Registered share capital	Legal reserve	Other reserves	Translation differences	Consolidation reserves	Result of the year	Other shareholders contributions	Valuation adjustments	Grants, donations and bequests received	Minority interests	Total
Opening balance at 2020	**51 914**	**10 383**	**249 080**	**3 227**	**33 410**	**28 384**	**1 000**	**(51)**	**1 516**	**-**	**378 863**
Total recognized income and expenses	-	-	-	-	-	(28 128)	-	15	201	-	(27 912)
Application of results for 2019	-	-	22 963	-	5 421	(28 384)	-	-	-	-	-
Dividends	-	-	(45 000)	-	-	-	-	-	-	-	(45 000)
Other variations in equity	-	-	-	(1 713)	(38)	-	(1 000)	-	-	-	(2 751)
Closing balance at 2020	**51 914**	**10 383**	**227 043**	**1 514**	**38 793**	**(28 128)**	**-**	**(36)**	**1 717**	**-**	**303 200**
Opening balance at 2021	**51 914**	**10 383**	**227 043**	**1 514**	**38 793**	**(28 128)**	-	**(36)**	**1 717**	**-**	**303 200**
Total recognized income and expenses	-	-	-	-	-	17 788	-	1 056	691	(24)	19 551
Application of results for 2020	-	-	(18 222)	-	(9 906)	28 128	-	-	-	-	-
Dividends (note 13)	-	-	(4 000)	-	-	-	-	-	-	-	(4 000)
Changes in the consolidated group	-	-	-	-	-	-	-	-	-	3 918	3 918
Other variations in equity	-	-	-	217	(4)	-	-	-	-	-	213
Closing balance at 2021	**51 914**	**10 383**	**204 821**	**1 731**	**28 883**	**17 788**	**-**	**1 020**	**2 408**	**3 894**	**322 842**

Notes 1 to 25 of these consolidated annual accounts form an integral part of the consolidated total statement of changes in equity for the financial year 2021.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS 2021 AND 2020
(Expressed in thousands of euros)

	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES	**33 822**	**(83 242)**
Result for the financial year before taxes	**24 370**	**(24 667)**
Adjustments to the result	**33 738**	**50 247**
- Amortization and depreciation charge	29 872	27 521
- Accumulated impairment losses	577	14 311
- Allocation of grants	(423)	(463)
- Results from disposals	(24)	19
- Financial income	(12)	(292)
- Financial expenses	7 543	5 837
- Other income and expenses	(632)	(1 620)
- Changes in fair value of financial instruments	(10)	(16)
- Change in provisions	(3 153)	4 950
Changes in working capital	**(13 250)**	**(100 929)**
- Stock	11 689	(29 839)
- Debtors and other accounts receivable	(102 026)	(92 824)
- Creditors and other accounts payable	92 462	20 334
- Other current assets and liabilities	(15 279)	(259)
- Other non-current assets and liabilities	(96)	1 659
Other cash flows from operating activities	**(11 036)**	**(7 893)**
- Interest payments	(7 117)	(5 545)
- Interest income	12	43
- Tax paid	(3 931)	(2 391)
CASH FLOW FROM INVESTING ACTIVITIES	**(11 179)**	**(24 698)**
Collections from disinvestment	**10 080**	**-**
- Tangible fixed assets	27	-
- Investments in financial assets	10 053	-
Amounts paid on investments	**(21 259)**	**(24 698)**
- Intangible assets	(16 236)	(15 859)
- Tangible fixed assets	(8 914)	(8 839)
- Consolidated companies, net cash	3 891	-
CASH FLOW FROM FINANCING ACTIVITIES	**3 113**	**16 938**
Collections and payments on financial liability instruments	**7 113**	**27 328**
- Collections from credit entities and other debts	117 367	63 467
- Payment of debt with credit institutions and other debts	(111 040)	(36 139)
- Debt with group companies	786	-
Dividends	**(4 000)**	**(10 390)**
- Dividend payment	(4 000)	(10 390)
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	**25 756**	**(91 002)**
Cash and cash equivalents at the beginning of the year	225 108	316 110
Cash and cash equivalents at the end of the year	250 864	225 108

Notes 1 to 25 of these consolidated annual accounts form an integral part of the consolidated cash flow statement for the financial year 2021.

1. General information

The Parent company, Patentes Talgo, S.L.U. was established as a joint-stock company in Spain on 12 December 2005, for an indefinite period. The Company's registered office 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 Parent company converted from a joint-stock company into a limited liability company.

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

On 23 April 2015, the National Securities Market Commission approved the prospectus and registered the supporting documents, annual accounts and prospectus in the official registers, as provided for by Article 92 of Law 24/1988, dated 28 July 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 Talgo S.A. and they were admitted to trading on the aforementioned markets.

The corporate purpose of the Parent company is as follows:

- The manufacture, repair, conservation, maintenance, purchase, sale, import, export, representation, distribution and marketing of material, systems and equipment for transport, especially in the railway sector.

- The manufacture, assembly, repair, conservation, maintenance, purchase, sale, import, export, representation, distribution and marketing of engines, machinery and pieces and components thereof, destined for the electromechanical, iron and steel and transport industries.

- The research and development of products and technologies relating to the two paragraphs above, 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 shares, investments and quotas, within the limits set forth by the stock market regulations, 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.

The main activity of the Parent company is the design, construction and maintenance of railway rolling stock, along with auxiliary machinery for the maintenance of railway systems.

The Group operates in Spain at its own facilities in Rivabellosa (Álava) and Las Matas II (Madrid), as well as at RENFE Operadora's facilities in las Matas I, Santa Catalina and Fuencarral in Madrid, Valladolid, San Andres Condal and Can Tunis in Barcelona, and Los Prados in Malaga.

The Group conducts its international activity at its facilities in Kazakhstan (Astana and Almaty), Uzbekistan (Tashkent), Russia (Moscow), Berlin (Germany), Seattle (Washington) and Milwaukee (Wisconsin) and Saudi Arabia (Medina).

Patentes Talgo, S.L.U. is wholly owned by Talgo, S.A., established in Madrid, which holds 100% of its shares. The consolidated annual accounts of Talgo, S.A. are prepared in accordance with International Financial Reporting Standards, adopted by the European Union and are filed in the Commercial Registry in Madrid.

For the purposes of the preparation of the consolidated annual accounts, it is understood that a Group exists when a Parent company owns one or more subsidiaries and exerts control over those subsidiaries, either directly or indirectly. The principles applied for the preparation of the Group's consolidated annual accounts, as well as the consolidation perimeter, are described in note 3.

The Parent company holds a direct stake in the following companies:

<u>Talgo Deutschland GmbH</u>

Talgo Deutschland Company (GmbH), which was established on 1 June 1993. Its corporate purpose is the marketing, maintenance and repair of trains and their components. The Parent company owns 100% of this subsidiary.

Its registered office is located in Berlin, Germany.

<u>Talgo, Inc.</u>

Patentes Talgo, S.L.U. owns 100% of the company Talgo, Inc.

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. It also overhauls coaches in Milwaukee (Wisconsin).

Its registered office is in Milwaukee, in the state of Wisconsin (United States).

Talgo Kazakhstan, S.L.U.

The Parent company owns 100% of this company. It was established in May 2010 and its primary corporate purpose is the manufacture and maintenance of railway rolling stock.

Its registered office is in Las Rozas, Madrid.

Patentes Talgo Tashkent, LLC

The Parent company owns 100% of this company.

It was established in December 2011 and its primary corporate purpose is the construction and maintenance of railway rolling stock.

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 construction and maintenance of railway rolling stock. Its registered office is located in Istanbul, Turkey.

The company had no business activity at the end of 2021 and 2020.

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

This consortium was constituted on 2 November 2011. The Parent company holds 10,074 shares in the consortium, which have a nominal value of €1 per share; 100% of their nominal value had been disbursed. These shares represent a percentage stake of 16.79% in the consortium.

The corporate purpose of this company is the performance of the design, manufacturing, operation, 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.

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 investment in associated companies.

<u>OOO Talgo</u>

The Parent company owns 87.5% of this company and, indirectly, 12.5% through its subsidiary Talgo Kazakhstan, S.L.U.

Its primary corporate purpose is the manufacture and maintenance, certification and technical approval of railway rolling stock. It´s registered office is located in Moscow, Russia.

<u>Motion Rail, S.A.</u>

The Parent company owns the 46.25% of this company.

This company is considered an associated company and will be consolidated using the equity method.

Its corporate purpose is mainly the operation of all kind of passenger and commodity train transport activities and sale of all kind of related services.

Its registered office is in Las Rozas, Madrid.

<u>Talgo India Private Limited</u>

The Parent company owns 99% of this company and, indirectly, 1% through its subsidiary Talgo Kazajstán, S.L.U.

Its corporate purpose is the manufacture and maintenance of railway rolling stock and maintenance equipment.

Its registered office is in Delhi, India.

<u>Talgo Shanghai Railways Equipment CO LTD</u>

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

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

Its registered office is in Shanghai, China.

<u>Talgo UK Limited</u>

In 2019, the Parent company incorporated the subsidiary Talgo UK Limited, in which it has a direct 100% interest on 31 December 2021 and 2020.

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

Its registered office is located in Chesterfield, United Kingdom.

This company had no business activity at the end of 2021 and 2020.

<u>Tarvia Mantenimiento Ferroviario, S.A.</u>

The parent company in 2021 incorporated the company Tarvia Mantenimiento Ferroviario, S.A., owning 51% of this company. The remaining 49% is owned by Renfe Fabricación y Mantenimiento S.M.E, S.A.

Its corporate purpose is the development and execution of full maintenance work on trains in the fleet of vehicles owned by the Renfe Group, through the maintenance or repair of all kinds of industrial, electronic, electrical or mechanical elements, including all the engineering, supply logistics, stock management, human resources and other tasks necessary to achieve the aforementioned purposes.

Its registered office is in Las Rozas (Madrid).

The consolidated annual accounts were prepared by the Board of Directors of the Parent company on 24 February 2022, according with the legal requirements established on article 253 of the Corporation Tax Law and the Commercial Code on article 37. Consolidated annual accounts will be deposited in the Mercantile Registry of Madrid, once approved by the Sole Shareholder in accordance with the deadlines established by current legislation.

2. Basis of presentation

a) Applicable regulatory financial reporting framework

The consolidated annual accounts were formulated by the Directors of the Parent company, in accordance with the regulatory framework for financial information that is applicable to the Group, which is based on:

- The Commercial Code and other commercial legislation.

- The rules for the formulation of consolidated annual accounts approved by the Royal Decree 1159/2010 and the General Accounting Plan, approved by Royal Decree 1514/2007 and Royal Decree 1/2021, and its respective sectoral adaptations.

- 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.

b) Fair presentation

These consolidated annual accounts have been prepared on the basis of the accounting records maintained by the Parent company and its subsidiaries, whose respective annual accounts have been formulated by the Directors of each company. They have been presented in accordance with the applicable regulatory framework for financial information and, in particular, the accounting principles and the criteria included herein, in such a way so as to show a fair presentation of the equity, financial position, consolidated results of the Group and consolidated cash flow during the corresponding financial year.

These consolidated annual accounts, which have been formulated by the Directors of the Parent company, will have to be submitted for approval, in the same way as the accounts of the subsidiary companies, at their respective General Shareholders' Meetings. We believe that they will be approved without any modifications.

The figures contained in the documents that comprise these consolidated annual accounts, the consolidated balance sheets, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and this annual report, are expressed in thousands of euros (unless otherwise indicated).

In these financial statements information or breakdowns have been omitted which, not requiring detail due to their qualitative importance, have been considered immaterial or not relevant in accordance with the concept of materiality or relative significance as defined in the conceptual framework of the General Accounting Plan.

c) Critical aspects of the valuation and estimation of uncertainty

To prepare the consolidated annual accounts, the Group's Management has had to make certain estimates and judgments pertaining to the future, which are being evaluated continuously. They are based on past experience and other factors, including expectations of future events that may be considered reasonable under certain circumstances, especially those relating to the (i) recognition of revenue by stage of completion; (ii) estimates of valuation adjustments for any impairment losses on goodwill; (iii) the estimation of the useful lives of fixed assets, as mentioned in notes 4.a.3), 4.b), 4.m), 6 and 7, (iv) the estimation of provisions contained in note 4.k), (v) recoverability of deferred tax assets (note 4. i) and risks of a fiscal nature (note 19).

Although these estimations are based on the best information available at the end of 2021, it is possible that events may take place in the future that will require their modification (upwards or downwards) during the next few years. If necessary, these will be made on a prospective basis.

In relation to risks of a fiscal nature, in determining the provision for income tax, and the related tax assets and/or liabilities, the Group assesses whether there is any uncertainty as to the acceptability of the tax treatment of any particular transaction or circumstance. If the Group considers that it is likely that the tax authorities will accept the uncertain tax treatment, it determines the taxable profit (loss) and related tax assets and/or liabilities in a manner consistent with that tax treatment. Conversely, if the Group concludes that it is not likely that the tax authorities will accept the uncertain tax treatment, it will reflect the effect of the uncertainty in determining taxable profit (loss) and related tax assets and liabilities by one of the following methods:

- The most probable amount, if the possible outcomes of the uncertainty are dual or concentrated in a single value.
- The expected value, i.e. the sum of amounts weighted by their probability in a range of possible outcomes, in cases other than the above.

As described in note 19, on 10 July 2017 the Parent company and its parent company (Talgo, S.A.) received notification from the tax authorities of the partial verification of Income Tax for 2012 to 2015 and Personal Income Tax for the periods from May 2013 to December 2015. As a result of the aforementioned procedure, in October 2019 assessments were signed in disagreement, which were confirmed by settlement agreements notified in November 2019. At the end of 2019, the directors evaluated the matters under discussion, taking into account the opinion of their tax advisors, and the Group recorded the associated tax assets and liabilities, considering the most likely amount that will be derived from these assessments. During the 2021 fiscal year, the estimates made have not been subject to changes as no new events have occurred that would cause them to be modified. The doctrine on the matters under discussion is scarce and disparate.

Impacts and uncertainties related to the COVID-19 pandemic

The different waves of SARS-CoV-2(COVID-19) after its emergence in January 2020 have significantly affected the economy. Taking into consideration the complexity of the markets due to the globalisation of markets, the consequences for the Company's operations have been detailed in note 23.

The Group's Management is not aware of the existence of any major uncertainties, other than those disclosed in the financial statements, with regard to events or risks that may result in significant changes to the value of the assets and liabilities at the end of 2021.

d) Grouping items

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

e) Applicable accounting principles

The Directors have prepared these consolidated annual accounts by taking into consideration all of the applicable compulsory accounting principles and regulations.

None of the compulsory or significant accounting principles have ceased to apply.

f) Changes in accounting criteria

As from January 1, 2021, the new criteria for recording and valuing financial instruments and revenues from sales and services rendered, provided for in Royal Decree 1/2021, which are included in Notes 4.c and 4.g, respectively, are applicable and represent a modification with respect to those applied in previous years.

The Group has carried out an analysis of the impact of this standard on its financial statements, verifying the various items covered by the standard, and has concluded that it does not have to make any adjustments, reclassifications or modifications to its financial statements in this respect.

g) Comparison of information

The information contained in these consolidated annual accounts pertaining to the year 2020 is presented for comparative purposes only, alongside the information for 2021.

3. Consolidation principles

Transfer of control

A business combination occurs when the Parent company (or any other of the Group company) takes control of a subsidiary; this is recorded in the books in accordance with the acquisition method. This method requires the acquiring company to account for the identifiable assets acquired and liabilities assumed in a business combination on the date of acquisition and, where appropriate, the relevant goodwill or negative difference arising. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation on the date on which that control ceases.

The acquisition cost is determined as the sum of the fair values on the acquisition date of the assets transferred, the liabilities incurred or assumed, the equity instruments issued by the acquirer and the fair value of contingent consideration, which depends on future events or the fulfillment of certain conditions, to be registered as an asset, a liability or as equity in accordance with its characteristics.

Expenses relating to the issuance of equity instruments or financial liabilities that are transferred do not form part of the cost of the business combination, but are recorded in accordance with the rules applicable to financial instruments. Fees paid to legal advisors and other professionals involved in the business combination are recorded in the books as an expense when they are incurred. Costs generated internally for these concepts are not included in the cost of the business combination either, even if they are incurred by the acquired company.

At the date of acquisition, any excess costs of the business combination over the proportional part of the value of identifiable assets acquired minus the liabilities assumed which are representative of the equity interest in the acquired company, is recognized as goodwill. On an exceptional basis, if this amount is greater than the cost of the business combination, then the excess shall be recorded in the income statement as income.

Phased transfer of control

When control of a subsidiary is acquired through various transactions on different dates, then the goodwill (or negative difference) is calculated as the difference between the cost of the business combination plus the fair value of any prior investment held by the acquiring company in the acquired company on the acquisition date, and the value of the identifiable assets acquired less the liabilities assumed.

Any profit or loss arising as a result of the valuation at fair value, on the date on which control of the prior investment in the acquired company is assumed by the acquiring company, is recognized in the income statement. If the investment is valued at fair value beforehand anyway, then any valuation adjustments pending inclusion in the result for the year are transferred to the income statement.

a) Subsidiaries

Subsidiaries are all of the companies, including special purpose entities, over which the Group exerts or may exert control, either directly or indirectly. Control is understood to be the power to govern the financial and operating policies of a business, with the aim of generating financial profits from its activities.

When it comes to evaluating whether or not a 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 from the date on which control is transferred to the Group, and they are excluded from consolidation from the date on which that control ceases.

The details of Group's subsidiaries at December 31, 2021 are shown below:

Name and place of business	Activity	Ownership stake (% direct)	Investment cost (€ in thousands)	Auditor
Talgo Deutschland, GmbH. Berlin. Germany	Maintenance of railway rolling stock (Talgo stock and conventional stock owned by Deutsche Bahn).	100%	585	Deloitte GmbH
Talgo Kazajstán LLC, Almaty. Kazakhstan	Constituted in 2003 to import spare parts for railways and to render maintenance services (no activity).	100%	1	Non audited
Talgo, Inc. Seattle. USA	Construction and maintenance of railway rolling stock owned by Amtrak and ODOT.	100%	6,782	Deloitte LLP
Talgo Kazajstán, S.L.U. Madrid, Spain	Construction and maintenance of railway rolling stock	100%	18	Non audited
Patentes Talgo Tashkent, LLC. Tashkent, Uzbekistan	Construction and maintenance of railway rolling stock	100%	1	Non audited
Talgo Demiryolu Aracli Üretim. VE BA. A.S. Istanbul, Turkey	Construction and maintenance of railway rolling stock (no activity)	100%	4	Non audited
OOO, Talgo. Moscow, Russia	Construction and maintenance of railway rolling stock	87.5%*	1	Non audited
Talgo India Private Limited, Delhi, India	Construction and maintenance of railway rolling stock	99%*	3	Non audited
Talgo Shanghai Railways Equipment CO LT	Import, export, purchase, sale of railway products and its materials	0%**	-	Non audited
Talgo UK Limited	Construction and maintenance of railway rolling stock	100%	-	Non audited
Tarvia Mantenimiento Ferroviario, S.A.	Maintenance and repair of railway rolling stock	51%	4 080	Non audited

* The remaining ownership stake (direct %) corresponds to Talgo Kazajstán S.L.U.
** Talgo Kazajstán S.L.U. owns 100% of the stake of this company.

The details of Group's subsidiaries at 31 December 2020 were as shown below:

Name and place of business	Activity	Ownership stake (% direct)	Investment cost (€ in thousands)	Auditor
Talgo Deutschland, GmbH. Berlin. Germany	Maintenance of railway rolling stock (Talgo stock and conventional stock owned by Deutsche Bahn).	100%	585	Deloitte GmbH
Talgo Kazajstán LLC, Almaty. Kazakhstan	Constituted in 2003 to import spare parts for railways and to render maintenance services (no activity).	100%	1	Non audited
Talgo, Inc. Seattle. USA	Construction and maintenance of railway rolling stock owned by Amtrak and ODOT.	100%	6,782	Deloitte LLP
Talgo Kazajstán, S.L.U. Madrid, Spain	Construction and maintenance of railway rolling stock	100%	18	Non audited
Patentes Talgo Tashkent, LLC Tashkent, Uzbekistan	Construction and maintenance of railway rolling stock	100%	1	Non audited
Talgo Demiryolu Aracli Üretim VE BA. A.S. Istanbul, Turkey	Construction and maintenance of railway rolling stock (no activity)	100%	4	Non audited
OOO Talgo. Moscow, Russia	Construction and maintenance of railway rolling stock	87.5%*	1	Non audited
Talgo India Private Limited, Delhi, India	Construction and maintenance of railway rolling stock	99%*	3	Non audited
Talgo Shanghai Railways Equipment CO LT	Import, export and sale of railway products and parts	0%**	-	Non audited
Talgo UK Limited	Construction and maintenance of railway rolling stock	100%	-	Non audited

* The remaining ownership stake (direct %) corresponds to Talgo Kazajstán, S.L.U.
** Talgo Kazajstán S.L.U. owns 100% of the stake of this company.

Assets, liabilities, income, expenses, cash flows and other items recorded in the annual accounts of the aforementioned subsidiaries are included in the Group's consolidated annual accounts under the global integration method, which requires the following:

1. Homogenization of timings. The consolidated annual accounts are drawn up on the same date and for the same period as the annual accounts of the company that is obliged to be consolidated. The inclusion of companies with different year-end dates is performed using interim accounts that relate to the same date and period as the consolidated accounts.

2. Homogenization of value. Assets and liabilities, revenue and expenses and other items recorded in the annual accounts of the Group’s companies are valued in a uniform way. Any elements of the assets and liabilities, or revenue and expenses that are valued in accordance with criteria that are not consistent with those applied in the consolidated accounts are revalued and the necessary adjustments are made for consolidation purposes.

3. Aggregation. Different items in the individual annual accounts, which have been homogenized previously, are aggregated in accordance with their nature.

4. Investment-equity elimination. The book values that correspond to investments held in the capital of subsidiaries, owned directly or indirectly by the Parent company, are offset by the proportional part of the equity in the subsidiary attributable to the investment, which is generally based on the acquisition method described above. For consolidation processes after the financial year in which control is transferred, any excess or shortfall in equity generated by the subsidiary, since the date of acquisition, that is attributable to the Parent company, is presented in the consolidated statement of financial position within reserves or adjustments for changes in value, in accordance with their nature. The part attributable to third party interests is recorded within the "Minority interest" caption.

5. Minority interests. The valuation of the stakes held by external shareholders is performed on the basis of their effective participation in the subsidiary's equity, once the aforementioned adjustments have been made. Goodwill on consolidation is not attributable to minority interests. The excess of any losses attributable to the minority interests of a subsidiary and the amount of equity that proportionally corresponds to them is attributed to them, even when that results in a debtor balance under that heading.

6. Elimination of intercompany transactions. Intercompany receivables, debts, revenue, expenses and cash flows are fully eliminated. Moreover, all of the results arising from internal operations are eliminated and deferred until they are carried out with third parties outside of the Group.

Changes in ownership without loss of control

Once a parent company has taken control of a subsidiary, any subsequent transactions that result in changes in the parent company's ownership interest in that subsidiary, without leading to a loss of control, are considered as transactions involving own shares instruments in the consolidated annual accounts, and the following rules apply:

1. No modifications are made to the amount of goodwill or recognized negative difference or to the amounts of other assets or liabilities recognized;

2. Any profit or loss recognized in the individual accounts is eliminated, upon consolidation, and a corresponding adjustment is recorded in the reserves of the company whose shareholding decreases;

3. Adjustments are made to the amounts included in "Adjustments for changes in value" and "Grants, donations or gifts and legacies received" to reflect the shareholding held by the Group's companies in the subsidiary's share capital;

4. The stake held by external shareholders in the equity of a subsidiary is shown on the basis of the percentage stake that the third parties not relating to the Group own in the subsidiary, once the transaction has been completed, including the percentage stake of goodwill recorded in the consolidated accounts and associated with the change that has occurred;

5. The corresponding adjustment resulting from rules 1, 2 and 3 above will be recorded within reserves.

Loss of control

When a parent company loses control of a subsidiary, the following rules apply:

1. Adjustments are made to the profit or loss recognized in the individual annual accounts for consolidation purposes.

2. If the subsidiary is classified as a jointly controlled entity or associate, it is consolidated and the equity method is applied initially, considering for the purposes of the initial valuation, the fair value of retained interest on that date.

3. The stake in the equity of a subsidiary that is retained after the loss of control, but which is not included in the consolidation perimeter, is valued in accordance with the criteria applicable to financial assets considering, for the initial valuation, the fair value on the date on which that subsidiary ceases to fall within the perimeter.

4. An adjustment is made to the consolidated income statement to show the minority interest share of the profit or loss generated by the subsidiary during the year until control is lost, as well as to the amount transferred to the income statement for the income and expenses registered directly within equity.

b) Multi-group companies

Multi-group companies are those managed by the Group in conjunction with other external companies. They are included in the consolidated annual accounts under the equity method.

At year-end 2021 and 2020, the Group did not hold any investments in multi-group companies.

The application of the method is explained in section c) below.

c) Associates

Associates are those entities over which any of the companies included in the consolidation exercise exert significant influence. It is understood that significant influence exists when a Group owns a stake in a company and is able to intervene in decisions regarding financial and operating policy, but is not able to exert control.

The company Consorcio Español Alta Velocidad Meca-Medina, S.A. was classified as an associate as at 31 December 2021 and 2020. We consider that the Group exerts significant influence over this consortium since the Talgo Group appointed some of the members of its Board of Directors; decisions are agreed on the basis of the participatory rights of the consortium's members; and, as a general rule, a majority of 75% is required.

Associates are included in the consolidated annual accounts under the equity method.

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

The difference between the net book value of the investment in the individual accounts and the amount indicated in the previous paragraph constitutes goodwill, which is recorded within the "Investments recorded under the equity method" caption. In the exceptional case in which the difference between the amount at which the investment is accounted for in the individual accounts, and the share of the fair value of company's equity is negative, then that difference is recorded in the income statement, after reassessing the assignment of fair values to the assets and liabilities of the associate.

Generally, except in the event of negative goodwill arising as a result of the acquisition of the acquisition of significant influence, investments are initially measured at cost.

The results generated by a company consolidated under the equity method are recognized from the date on which significant influence is acquired.

The book value of an investment is modified (increased or decreased) in proportion with the stake held by the Group's companies, to reflect any variations in the equity of the investee company since the initial assessment, after eliminating the proportion of unrealized results generated in transactions between the company and the Group's companies.

The highest value assigned to the share as a consequence of the application of the acquisition method is reduced in subsequent years and charged to the corresponding consolidated results or equity caption to the extent that the corresponding equity assets depreciate, are derecognized or disposed of to third parties. Similarly, a charge will apply in the consolidated income statement when losses arise due to the impairment of the assets of the investee company, up to the limit of the goodwill allocated to them on the date that they were first consolidated under the equity method.

Changes in the value of shares corresponding to the results of the investee company form part of the consolidated results, and are disclosed within "Share in the profit (loss) of companies accounted for under the equity method". However, if the associated company incurs losses, the decrease in the investment account shall be limited to the book value of the shareholding. If the share is reduced to zero, any additional losses and subsequent liabilities shall be recognized to the extent that any legal, contractual, implied or tacit obligations are incurred, or if the Group makes payments on behalf of the investee company.

Changes in the value of the investment pertaining to other equity changes are shown in the relevant sections of equity based on their nature.

Homogenization in terms of timing and value applies to associate investments in the same way as for subsidiaries.

Conversion of financial statements presented in foreign currencies

The financial statements of the subsidiaries whose currency differs from the reporting currency, euros, have been converted in accordance with the following procedures:

- The assets and liabilities on the statement of financial position are converted at the exchange rate on the corresponding year-end date. The income and expenses recorded in each of the result captions are converted at the cumulative average exchange rate during the accounting period in which they are recorded. All translation differences arising from the above are recognized as a separate component in equity, within the "Adjustment for changes in value" caption, specifically within "Translation differences".

- When control, joint control or significant influence is lost over a company that has a functional currency other than the euro, then the translation differences recorded within equity relating to that company, are recognized in the income statement at the same time as the result arising from the disposal is recognized. If the company that has a functional currency other the euro is an associate and a partial sale of the shareholding takes place (that does not result in a change in the classification of the associate), then only the proportional part of the translation difference is allocated to the income statement.

Variations in the consolidation perimeter

During 2020, the only change in the consolidation perimeter was the dissolution of the company Talgo Rus. In 2021, the company Tarvia Mantenimiento Ferroviario, S.A. was incorporated, with the parent company holding a 51% interest (note 1).

4. Recognition and measurement

The main valuation standards used by the Group in the preparation of its financial statements for the year ended December 31, 2021 in accordance with the applicable financial reporting framework described in note 2.1. were as follows:

a) Intangible assets

As a general rule, intangible fixed assets are initially valued for their acquisition price or production cost. Subsequently, it is valued at its cost discounting by the corresponding accumulated amortization and, where appropriate, by any related impairment loss.

Intangible fixed assets are finite useful life assets, and if the latter is not possible to be reliably estimated, they will be amortized in ten years, unless a different period is provided for in another legal or regulatory provision in force.

a.1) 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. These costs are amortized on a straight-line basis over their estimated useful life, of 4 years.

Expenses relating to the maintenance of software are recognized when they are incurred. Costs that directly relate to the development of unique and identifiable software programs that are controlled by the Group, and are likely to generate profits that exceed their costs for more than a year, are recognized as intangible assets and amortized over their estimated useful life, of 4 years. Direct costs include the expenses of personnel involved in the development of software and an appropriate percentage of overhead expenses.

a.2) Research and development expenses

Research and development expenses, whose results are satisfactory from a technical and commercial perspective, to have sufficient technical and financial resources available for their completion, and for which the costs incurred can be determined reliably and the generation of profits is likely, are carried forward as an asset and amortized over a maximum period of 5 years. In the event of any variation in the circumstances in favour of the project that allowed them to be capitalized, then the part pending amortization is carried over to the results for the financial year in which those changes take place.

Other development expenses are recognized as costs when they are incurred. Any development costs previously recognized as expenses are not recognized as assets in subsequent years.

When the book value of an asset is greater than its estimated recoverable amount, its value is immediately reduced to its recoverable value.

Any work performed to develop intangible 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.

a.3) Goodwill

Goodwill represents the excess, on the acquisition date, of the cost of the business combination over the value of the identifiable net assets acquired as a result of the transaction. It has been acquired from an onerous commitment and corresponds to future economic benefits arising from the assets that it has not been possible to identify individually or recognize separately.

Subsequent to the initial recognition, the goodwill will be measured at its acquisition price less accumulated amortization and, if applicable, the accumulated amount of the recognized impairment losses. Goodwill will be amortized over its useful life. The useful life will be determined separately for each cash generating unit to which goodwill has been assigned. Goodwill has finite useful life and is presumed unless proven otherwise to have a useful live up to ten years and is amortized in a linear basis.

It is analysed, at least on an annual basis, if there is evidence of impairment in these CGU's and, if positive, they are assessed for impairment in accordance with what is stated in note 6, proceeding, where appropriate, with the recording of the corresponding impairment loss. A loss due to impairment is recognized for any excess in the book value of the asset over its recoverable value, where this is understood to be the fair value of the asset less the costs of sale or value in use, whichever is greater. For the purposes of evaluating losses due to impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Adjustments for impairment losses recognized against goodwill are not subject to reversal in subsequent financial years.

Non-financial assets, other than goodwill, that suffer a loss due to impairment are subject to review at each year-end date to determine whether any reversals of the loss have taken place.

b) Tangible fixed assets

Tangible fixed asset elements are recognized at their acquisition price or production cost less accumulated depreciation and the accumulated amount of any recognized losses.

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 is 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.

The costs of expanding, modernizing and improving tangible fixed assets are incorporated by increasing the asset balance only when the change results in an increase in the capacity, productivity or extension in the useful life of the asset, provided it is possible to determine or estimate the book value of the elements that are derecognized from stock for use as replacements.

The costs of major repairs are capitalized and depreciated over their estimated useful life, whilst recurrent maintenance expenses are charged to the consolidated income statement during the financial year in which they are incurred.

With the exception of land, which is not depreciated, all tangible fixed assets are depreciated using the straight-line method on the basis of their estimated useful lives, bearing in mind the depreciation effectively suffered due to their operation, use and enjoyment. The estimated useful lives are:

	Years	%
Buildings	50- 33	2 - 3
Machinery	8	12.5
Other installations, tools and furniture	3 - 14	33.3 – 7.14
Other tangible fixed assets	4 - 12	25 – 8.3

The residual value and useful life of the assets are reviewed periodically and are adjusted where necessary at each year-end date.

Any profits or losses arising from the sale of tangible fixed assets are calculated by comparing the income obtained from the sale against the book value and are recorded in the consolidated income statement.

Financial expenses directly attributable to the acquisition or construction of elements relating to fixed assets that require more than one year to be in a usable condition are recognized at cost until they are in an operational condition.

When the net book value of an asset is greater than its estimated recoverable amount, its value is immediately decreased to reflect its recoverable value.

b) Financial assets

Classification

The financial assets held by the Company are classified into the following categories:

Financial assets at amortized cost:

Includes financial assets, for which the Company holds the investment with the objective of receiving cash flows from the performance of the contract, and the contractual terms of the asset give rise, at specified dates, to cash flows that are solely collections of principal and interest on the principal amount outstanding.

In general, this heading includes:

i) Trade receivables: arising from the sale of goods or the rendering of services under trade transactions with deferred payment; and,

ii) Non-trade receivables: arising from loans or credits granted by the Company for which collections are determined or determinable.

Financial assets at fair value through equity:

Financial assets whose contractual terms give rise, at specified dates, to cash flows that are solely collections of principal and interest on the principal amount outstanding, and are not held for trading and are not classified in the previous category. Investments in equity instruments irrevocably designated by the Company on initial recognition are also included in this category if they are not held for trading and are not required to be measured at cost.

Financial assets at cost:

This category includes the following investments: a) Equity instruments whose fair value cannot be reliably measured and derivatives that have these investments as their underlying; b) Hybrid financial assets whose fair value cannot be reliably estimated, unless they qualify for recognition at amortised cost; c) contributions made in joint ventures and similar contracts; d) participating loans with contingent interest; e) financial assets that should be classified in the following category but whose fair value cannot be reliably estimated.

Financial assets at fair value through profit or loss:

Includes financial assets held for trading and financial assets not classified in any of the above categories. Also included in this category are financial assets that are optionally designated by the Company at initial recognition, which would otherwise have been included in another category, because such designation eliminates or significantly reduces a valuation inconsistency or accounting mismatch that would otherwise arise.

Initial measurement:

Financial assets are generally recognised initially at the fair value of the consideration given plus directly attributable transaction costs. However, transaction costs directly attributable to the assets recorded at fair value through profit or loss are recognised in the income statement for the year.

Subsequent measurement:

Financial assets at amortised cost are recognised at amortised cost and interest accrued using the effective interest method is taken to the profit and loss account.

Financial assets included in the fair value through equity category shall be carried at fair value, without deducting any transaction costs that might be incurred on disposal. Changes in fair value are recognised directly in equity until the financial asset is derecognised or impaired, at which time the amount so recognised is taken to the income statement.

Financial assets at fair value through profit or loss are measured at fair value and changes in fair value are recognised in profit or loss.

Investments classified in category financial asset at cost are measured at cost less any accumulated impairment losses. These adjustments are calculated as the difference between the carrying amount and the recoverable amount, the latter being the higher of fair value less costs to sell and the present value of future cash flows from the investment. Unless there is better evidence of the recoverable amount of investments in equity instruments, the equity of the investee, adjusted for any unrealised gains existing at the measurement date, net of tax, is taken into account.

Impairment

At least at year-end the Company performs an impairment test for financial assets that are not carried at fair value through profit or loss. Objective evidence of impairment is considered to exist if the recoverable amount of the financial asset is less than its carrying amount. In any case, for equity instruments at fair value with changes in equity, impairment is presumed to exist if their market price has fallen by one and a half years or 40% without the value having recovered. Impairment is recognised in the income statement.

The Company derecognises financial assets when they expire or the rights to the cash flows of the related financial asset have been transferred and substantially all the risks and rewards of ownership have been transferred, such as in firm asset sales, factoring of trade receivables in which the company does not retain any credit or interest rate risk or securitisations of financial assets in which the transferor does not retain any subordinated financing or provide any guarantees or assume any other type of risk.

In contrast, the Company does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership, such as bill discounting, are retained, factoring with recourse, sales of financial assets with repurchase agreements at a fixed price or at the sale price plus interest, and securitisations of financial assets in which the transferor retains subordinated financing or other collateral that absorbs substantially all the expected losses.

d) Stock

Raw and auxiliary materials are valued at costs (average weighted cost). Work in progress items include the cost of materials, labour and the direct and indirect manufacturing costs incurred during the execution of projects at the amounts effectively incurred.

When the net realizable value of inventories is lower than their cost, a corresponding impairment provision is recognized and recorded as an expense in the consolidated income statement.

The net realizable value is the estimated selling price that would be obtained during the ordinary course of business, less any estimated sales costs that would be incurred, as well as the estimated costs to complete production in the case of raw materials and work in progress items.

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

e) 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 or specific characteristics, are considered to be demand deposits and accrue interest at a referenced rate for a period of more than three months.

f) Share capital

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

g) Financial liabilities

Financial liabilities assumed or incurred by the Company are classified into the following valuation categories:

Financial liabilities at amortized cost:

These are the Company's debts and payables arising from the purchase of goods and services in the Company's ordinary course of business, or those arising from loans or credit facilities received by the Company that do not have a commercial origin and are not derivative instruments. These liabilities are initially measured at the fair value of the consideration received, adjusted for directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Financial liabilities at fair value through profit or loss:

Derivative financial liabilities are measured at fair value, following the same criteria as for financial assets at fair value through profit or loss described in the previous section.

Assets and liabilities are presented separately in the balance sheet and are only presented at their net amount when the company has the enforceable right to offset the recognised amounts and, in addition, intends to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously.

The Group derecognises financial liabilities when the obligations giving rise to them are extinguished.

Hedge derivatives

Derivative financial instruments are measured at fair value.

The Group uses derivative financial instruments to hedge the risks to which its activities, operations and future cash flows are exposed. These risks are mainly related to changes in interest rates and exchange rates.

For these financial instruments to be classified as accounting hedges, they are initially designated as such and the hedging relationship is documented. Also, the Group checks initially and periodically throughout its life (at least at each accounting closing) that the hedging relationship is effective, i.e. that it is expected prospectively that the changes in fair value or in the cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the results of the hedge will have varied within a range of 80 to 125% of the results of the hedged item.

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

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

h) Grants received

Grants that may be refundable are recorded as liabilities until the conditions have been met for them to be considered as non-refundable; meanwhile non-refundable grants are recorded as income directly attributable to equity on a systematic and rational basis, in a way that is correlated to the expenses relating to the grant. Non-refundable grants received from partners are recorded directly in equity and do not constitute income for the year.

For these purposes, a grant is considered to be non-refundable when: an individual agreement exists to award the grant; all of the conditions have been met for it to be granted; and there is no reasonable doubt that it will be collected.

Grants of a monetary nature are valued at the fair value of the amount granted and non-monetary grants are valued at the fair value of the goods received, with both values referring to their initial recognition.

Non-refundable grants relating to the acquisition of intangible and tangible fixed assets and financial investments are allocated as income during the financial year in proportion to the amortization of the corresponding assets or, where appropriate, when they are disposed of, impaired or derecognized from the balance sheets. Meanwhile, non-refundable grants relating to specific expenses are recognized in the income statement during the same financial year in which the corresponding expenses accrue, and those granted for offsetting operating deficits during the financial year are allocated to the financial year in which they are granted, unless they are going to be used to offset operating deficits in future years, in which case they are allocated to those years.

i) Income tax

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

The charge 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.

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. 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 regulations and tax rates that have been approved 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 recognized to the extent that it is likely that future taxable profits will be available against which the temporary differences may be offset.

At each accounting close the deferred tax assets recognised are reviewed and appropriate adjustments are made where there are doubts as to their future recoverability. In addition, at each balance sheet date deferred tax assets not previously recognized are reviewed to determine whether they should be recognized to the extent that future taxable profit will allow the deferred tax asset to be recovered.

The Parent company of the Group, Patentes Talgo, S.L.U. pays income tax on a consolidated basis; it forms part of the Tax Group 65/06 headed up by the parent company Talgo, S.A.

j) Employees benefits

Defined contribution pension plan

The Parent company operates a defined contributed pension plan for its active employees, whereby the Parent company 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 Parent company is under no obligation to make any additional payments. The contributions are recognized as employ benefits when they accrue.

The agreement regarding the rights accrued, which has been signed with the workers, establishes a sole contribution to a financial entity, which manages the pension fund plus the future contributions that the Parent company has been making. The Parent company has outsourced the pension fund since March 2000.

The expense incurred in the financial year amounted to €2,682 thousand (€2,543 thousand in 2020) and was classified within the “Personnel expenses” caption (note 18.d).

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.

Compensation for redundancies

Compensation for redundancy is paid to employees in the event that each of the companies of 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 year-end date are discounted to their current value.

Remuneration with equity instruments.

The Group recognises, on the one hand, the goods and services received as an asset or as an expense, depending on their nature, when they are obtained and, on the other hand, the corresponding increase in equity or passive depending on the means approved for its liquidation.

In the case of transactions settled with equity instruments, both the services rendered and the increase in equity are measured at the fair value of the equity instruments transferred, referring to the date of the concession agreement.

Other incentive plans

During the 2021 financial year, the Parent Company agreed to launch a Long-Term Incentive Plan, with a three-year time horizon (2021-2023), as a variable remuneration system aimed at both executive directors and members of the Company's management team (eligible group). This cash remuneration plan with share purchase commitment is linked on the one hand to the cumulative fulfilment over three years of strategic objectives linked to the consolidated Group's business plan (EBITDA, gross margin, cash flows, order book) and to the increase in the value of the share of the parent company Talgo, S.A., all linked to the permanence until the end of the aforementioned time horizon. The maximum amount derived from the aforementioned plan approved by the General Meeting of Shareholders amounts to 3.1 million euros.

This plan has been recognised in the personnel expenses account of the parent company with a balancing entry of Euros 1,061 thousand in the personnel provisions account (note 18).

k) Provisions and contingent liabilities

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.

The Group recognizes provisions relating to guarantee obligations, which are multi-annual in nature, and deliveries associated with construction contracts and other contracts relating to the Group’s activity.

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.

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 Group. Such contingent liabilities are not registered in the accounting records.

l) Foreign currency transactions and balances

The Group’s consolidated annual accounts are presented in euros, which is the reporting and functional currency of the Parent company.

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 translation differences resulting from changes in the amortized cost of the instrument and other changes in the security's carrying value. Translation differences are recognized in the income statement and other changes in carrying value are recognized in equity.

Translation 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. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets are included within equity.

m) 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 best estimate of the variable consideration will be included in the valuation of income when its reversal is not considered highly probable.

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.

Revenues from construction contracts for rolling stock 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. 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 year-end 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 ‘Accounts receivable for sales and services provided’ caption for the amount of any completed contracts, when the costs incurred plus the profits recognized (less any losses recognized) exceed the amount partially invoiced.

The Group recognizes a liability (‘Advanced orders") for the amount of all of the contracts in progress, for which the 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 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.

n) Leases

Operating leases:

Leases in which the lessor substantially retains the risks and rewards resulting from ownership 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 lease period.

Finance leases:

When the Company acts as a lessor in finance lease operations, it discloses the cost of the assets leased on the balance sheets, in accordance with the nature of the asset governed by each contract and, simultaneously, a liability for the same amount. This amount is the lower of the fair value of the asset leased and the present value of the minimum lease payments required by the lease contract, including the cost of the purchase option, when there is no reasonable doubt that the option will be exercised. No contingent installments, costs of services or taxes payable by the lessor are included in the calculation. The total financial charges are distributed over the lease term and are recognized in the income statement over the years during which they accrue under the effective interest rate method. Contingent installments are recognized as expenses in the financial years in which they are incurred. Any assets recorded under this type of operations are depreciated in accordance with the same criteria that applies to tangible fixed assets, in accordance with their nature.

o) Related party transactions

All the accounts and transactions between the consolidated companies were eliminated during the consolidation process.

In general, transactions between the Group's 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. Subsequent valuations are recorded in accordance with the provisions of the corresponding regulations.

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.

p) Environment

The costs of business actions undertaken by the Group that have an impact on the environment, as detailed in note 21, 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 4.b. regarding the valuation of tangible fixed assets are fulfilled.

q) Segmentation

1. 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 the Parent company 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 “Rolling Stock” and “Auxiliary Machines and Others”.

- The corporate general services segment has been classified as "General".

2. 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 Talgo Group distinguishes between the identifiable components of its business 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.

r) Business combinations

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.

The goodwill 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, since 1 January 2010, 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 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 under any circumstances. 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.

s) Current and non-current accounts

Current assets are assets related to the normal operating cycle, which is generally considered to be a year, as well as other assets whose maturity, disposal or realisation is expected to take place in the short term from the reporting date, financial assets held for trading, with the exception of financial derivatives with a settlement period exceeding one year, and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current.

Similarly, current liabilities are those associated with the normal operating cycle, financial liabilities held for trading, except for financial derivatives with a settlement period exceeding one year and, in general, all obligations maturing or extinction in the short term. Otherwise, they are classified as non-current.

5. Financial risk management

5.1 Financial risk factors

The Group’s activities are exposed to various financial risks: market risk (including interest rates, exchange 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

Management mitigates the exchange rate risk arising from transactions in foreign currencies by entering into hedging instruments (note 11) and other instruments, as multi-currency credit facilities (note 16).

(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. The main burden of financing of the Parent company is fixed rate debt, therefore the exposure to interest rates fluctuations is low.

b) Credit risk

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

The Group's credit risk is primarily attributable to its trade receivables balance. The amounts reflected on the consolidated balance sheets are net of any provisions for bad debt, estimated by the Group's Management based on the policy for financial assets.

The Group’s portfolio of clients mostly belongs to the public railway sector and therefore no evidence of credit risk has arisen concerning the insolvency of or late payments by, these customers.

The Group's cash flow in 2021 has not been significantly affected by the effect of COVID-19, as the various milestones have been collected from our customers as planned in the case of train construction and refurbishment. In the maintenance activity, the different remuneration models for the activity have been applied in each case, most of which include the probability of a possible fluctuation in activity depending on passenger demand.

The Group only works with prestigious financial institutions and qualified with ratings that do not present impairment risks with an A rating for 58% in 2021 (53 % in 2020) and BBB or higher for 42% (47% in 2020).

c) Liquidity risk

Prudent management of liquidity risk requires 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 general market situation has led to a general increase in liquidity tensions in the economy as well as a contraction of the credit market. In this respect, the Group has continued increasing its financial capacity by enlarging available credit lines and renegotiating part of its bank debt during 2021 (note 16).

The Group's Management regularly monitors its liquidity projections on the basis of its expected cash flows. The Group maintains enough cash to meet its liquidity needs.

Fair value estimates

The fair values of financial instruments that are listed on active markets (such as securities held-for-trading and those available for sale) are based upon market prices at the year-end date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not listed on an active market is determined by applying valuation techniques. The Group uses a variety of methods and makes assumptions based on the conditions in the market at each year-end date. Quoted market prices or dealer quotes are used for long-term debt. For the remaining financial instruments, other techniques are used to assess the fair value, such as the present value of the estimated future cash flows.

The Group assumes that the book value of credits and debits for trade operations is close to their fair value. The fair value of financial liabilities, for the purpose of reporting financial information, is estimated as the present value of contracted future cash outflows at the current market interest rate available to the Group for similar financial instruments.

6. Intangible assets

The movements in the accounts included within Intangible assets in 2021 have been as follows:

						€ in thousands
	Balance at 31.12.20	**Translation differences**	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.21**
Cost						
Research and development	116 936	-	-	-	4 176	121 112
Industrial property	1 749	-	-	-	-	1 749
Software	20 147	74	1	(1 096)	1 963	21 089
Advances and construction in progress	30 506	-	16 235	-	(6 139)	40 602
Merger Goodwill	136 329	-	-	-	-	136 329
Client contracts	25 069	-	-	-	-	25 069
	330 736	**74**	**16 236**	**(1 096)**	**-**	**345 950**
Amortization and impairment losses						
Research and development	(109 310)	-	(3 718)	-	-	(113 028)
Industrial property	(22)	-	-	-	-	(22)
Software	(16 757)	(74)	(2 649)	900	-	(18 580)
Merger Goodwill	(68 165)	-	(13 633)	-	-	(81 798)
Client contracts	(13 496)	-	(1 928)	-	-	(15 424)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(209 479)	**(74)**	**(21 928)**	**900**	**-**	**(230 581)**
Net Book Value	**121 257**	**-**	**(5 692)**	**(196)**	**-**	**115 369**

The amounts included under "Research and Development" relate mainly to development expenses incurred by the Group, which include, among others, the costs of high-speed rail projects, regional trains and auxiliary equipment for maintenance.

In 2021 the main fixed assets additions within the work in progress caption relate to the costs incurred in the research and development projects known as Shift2Rail, PARFAIT (Self-configurable and Interoperable Railway Platform), AVRIL 2nd Generation and the TSmart platform and the development of a hydrogen prototype system. There are also additions of work in progress relating to process optimization projects in the IT area.

The 2021 additions include capitalized expenses incurred by the company for its assets amounted to €8,612 thousand.

Disposals during the year 2021 relate to assets that have been written off as they are no longer in a usable condition for the company.

The movements in the accounts included within Intangible assets in 2020 were as follows:

						€ in thousands
	Balance at 31.12.19	**Translation differences**	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.20**
Cost						
Research and development	116 670	-	-	-	266	116 936
Industrial property	1 749	-	-	-	-	1 749
Software	19 392	(82)	5	-	832	20 147
Advances and construction in progress	16 164	-	15 854	-	(1 512)	30 506
Merger goodwill	136 329	-	-	-	-	136 329
Client contracts	25 069	-	-	-	-	25 069
	315 373	**(82)**	**15 859**	**-**	**(414)**	**330 736**
Amortization and impairment losses						
Research and development	(106 380)	-	(2 930)	-	-	(109 310)
Industrial property	(22)	-	-	-	-	(22)
Software	(14 401)	81	(2 437)	-	-	(16 757)
Merger goodwill	(54 532)	-	(13 633)	-	-	(68 165)
Client contracts	(11 568)	-	(1 928)	-	-	(13 496)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(188 632)	**81**	**(20 928)**	**-**	**-**	**(209 479)**
Net Book Value	**126 741**	**(1)**	**(5 069)**	**-**	**(414)**	**121 257**

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

- Fully-amortized intangible assets in use

At 31 December 2021, the Group held intangible assets that are fully amortized and still operational, which had an initial cost of €117,002 thousand. This figure amounted to €114,672 thousand in 2020.

- 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.

- Grants and subsidies

Some of the fixed asset acquisitions €14,927 thousand at 31 December 2021 have been partially financed through grants and loans received from official entities. This figure amounted to €9,318 thousand in 2020.

- Goodwill arising from the merger

The merger Goodwill was recognized as a result of the merger conducted during 2008 between the Parent company and Patentes Talgo S.A. On a yearly basis, the Parent company endowed 5% of that goodwill amount to the unavailable Reserves (note 13.c) until 2015 year-end. For the financial years starting January 1, 2016, that amount is no longer endowed, being linearly amortized the mentioned goodwill over a period of 10 years.

- Impairment of Goodwill

Goodwill is assigned to the cash generating units (CGU) that coincide with the companies in which it has been generated.

In the years 2021 and 2020, no valuation corrections due to impairment have been either recognized or reversed for any individual intangible asset. The impairment tests performed on intangible assets at 31 December 2021 and 2020 did not show any impairment in the value of those assets.

The recoverable amount from a Cash Generating Unit is determined on the basis of the calculation of the value in use and fair value. Fair value is determined on the basis of the Group's market price.

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, provided that the growth rate does not exceed the average long-term growth rate for the business in which the Cash Generating Unit operates.

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 for 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 2021 and 2020 are detailed below:

a) Growth rate in perpetuity: The Group has assumed that cash flows grow 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 hypotheses:

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 have been a discount rate of 7.24% and a growth rate in perpetuity of 0.5%.

Sensitivity analysis:

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

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

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

Aditionally, 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 7.24% and a growth rate of 0.5%.

- Assets under finance lease

As indicated in note 16 the Group, through its Parent company, has contracted various financial leasing operations on its intangible assets. The cost of intangible fixed assets subject to financial leasing contracts, corresponding to the right of use of various IT platforms, amounts to €3,170 thousand at the end of 2021 (€3,967 thousand at the end of 2020).

- Intangible assets located overseas

At 31 December 2021, the Group had the following investments in intangible assets that were located overseas:

				€ in thousands
Intangible assets	**Cost**	**Accumulated amortization**	**Impairment losses**	**Net book value**
Software	2 047	(2 024)	-	23
	2 047	**(2 024)**	**-**	**23**

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

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

7. Tangible fixed assets

The movements in the accounts included within tangible fixed assets in 2021 have been as follows:

						€ in thousands
	Balance at 31.12.20	Translation differences	Additions	Disposals	Transfers	Balance at 31.12.21
Cost						
Land	9 894	-	-	-	-	9 894
Buildings	48 318	71	-	-	60	48 449
Technical installations and machinery	32 484	245	334	(2 937)	5 760	35 886
Other facilities, tools and furniture	57 001	75	86	(2 717)	2 273	56 718
Advances and work in progress	7 213	8	8 324	(201)	(8 671)	6 673
Other fixed assets	10 696	7	170	(526)	578	10 925
	165 606	**406**	**8 914**	**(6 381)**	**-**	**168 545**
Amortization and impairment losses						
Buildings	(29 768)	(71)	(1 351)	-	-	(31 190)
Technical installations and machinery	(25 242)	(168)	(2 627)	2 936	-	(25 101)
Other facilities, tools and furniture	(45 920)	(75)	(3 198)	2 712	-	(46 481)
Other fixed assets	(8 135)	(5)	(768)	490	-	(8 418)
Impairment loss		(4)	(120)	-	-	(124)
	(109 065)	**(323)**	**(8 064)**	**6 138**	**-**	**(111 314)**
Net book value	**56 541**	**83**	**850**	**(243)**	**-**	**57 231**

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

Disposals recognised in 2021 amounting to Euros 4,864 thousand relate to the delivery of facilities located at the Las Matas I and San Andrés Condal bases to one of the Parent Company's customers, by virtue of the conservation and maintenance contract signed between the parties. The result of the derecognition of these assets amounts to Euros 33 thousand, recognised under "Impairment and gains/losses on disposal of fixed assets" in the consolidated income statement. The remaining amount relates mainly to items derecognised as they are no longer in usable condition.

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

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

						€ in thousands
	Balance at 31.12.19	Translation differences	Additions	Disposals	Transfers	Balance at 31.12.20
Cost						
Land	9 894	-	-	-	-	9 894
Buildings	48 324	(79)	60	-	13	48 318
Technical installations and machinery	31 215	(164)	1 418	(488)	503	32 484
Other facilities, tools and furniture	55 700	(83)	153	(358)	1 589	57 001
Advances and work in progress	2 426	(2)	7 094	-	(2 305)	7 213
Other fixed assets	10 071	(22)	114	(81)	614	10 696
	157 630	**(350)**	**8 839**	**(927)**	**414**	**165 606**
Depreciation						
Buildings	(28 486)	79	(1 361)	-	-	(29 768)
Technical installations and machinery	(24 094)	164	(1 826)	481	34	(25 242)
Other facilities, tools and furniture	(43 745)	83	(2 730)	350	122	(45 920)
Other fixed assets	(7 385)	4	(675)	77	(156)	(8 135)
	(103 710)	**330**	**(6 593)**	**908**	**-**	**(109 065)**
Net book value	**53 920**	**(20)**	**2 246**	**(19)**	**414**	**56 541**

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

The majority of the disposals in 2020 were related to assets that were retired since they were no longer in operational condition.

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

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

a) Updates

Net accumulated updates as at 31 December 2021, made in accordance with RDL 7/1996, dated 7 June, amounted to €181 thousand (2020: €184 thousand) and the depreciation charge corresponding to these updates amounted to €3 thousand (€10 thousand for 2020).

The expected effect of updating the balance sheets in accordance with Royal Decree Law 7/1996, dated 7 June, on the depreciation charge for the next financial year amounts to €0.5 thousand (2020: €3 thousand).

b) Fully-depreciated tangible assets in use

At 31 December 2021, tangible fixed assets with an initial cost of €66,694 thousand (2020: €67,969 thousand) had been fully depreciated and were still operational, of which €15,525 thousand (2020: €14,336 thousand) related to Buildings.

c) Purchase commitments

At 31 December 2021, the Group's purchase commitments for fixed assets amounted to €6,069 thousand (2020: €7,320 thousand).

d) 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.

e) Impairment losses

In 2021, in the subsidiary Talgo Inc a custom-made equipment was impaired in the amounted to €120 thousand, as it was no longer in a usable condition. During the year 2020, no impairment write-downs were recognised or reversed for any property, plant and equipment.

f) Assets under operating leases

At the end of 2021 and 2020, the Group had committed to making the following minimum lease installments, 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 € in thousands**	
Minimum installments	**2021**	**2020**
Less than 1 year	3 038	2 864
Between one and five years	6 542	7 047
	9 580	**9 911**

The consolidated income statement includes operating lease expenses for the rental of computer systems amounting €60 thousand in 2020, and no expenditure recognised for this item in 2021. Transport vehicles amounting to €699 thousand (2020: €773 thousand), buildings amounting to €2,768 thousand (2020: 1,979 thousand) and other leases amounting to €848 thousand (2020: €947 thousand).

g) Fixed assets located overseas

At 31 December 2021, the Group had fixed asset investments located overseas whose net book values are detailed below:

				€ in thousands
Fixed assets	**Cost**	**Accumulated depreciation**	**Impairment losses**	**Net book value**
Land and buildings	16 607	(15 373)	-	1 234
Technical installations and machinery	12 362	(8 140)	-	4 222
Other facilities, tools and furniture	3 995	(3 547)	-	448
Advances and fixed assets in progress	124	-	(124)	-
Other tangible fixed assets	160	(117)	-	43
	33 248	**(27 177)**	**(124)**	**5 947**

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

				€ in thousands
Fixed assets	**Cost**	**Accumulated depreciation**	**Impairment losses**	**Net book value**
Land and buildings	16 556	(14 893)	-	1 663
Technical installations and machinery	12 182	(7 380)	-	4 802
Other facilities, tools and furniture	3 849	(3 355)	-	494
Other tangible fixed assets	103	(95)	-	8
	32 690	**(25 723)**	**-**	**6 967**

8. Long-term financial investments

a) Investments under the equity method

At the end of 2021 and 2020 the Group recognizes under this heading the investment in the Consorcio Español Alta Velocidad Meca-Medina amounting to €10 thousand and the investment in Motion Rail, S.A. amounting to €19 thousand (note 1).

The most significant financial information relating the aforementioned companies is presented below:

(Expressed in thousands of euros)

Consorcio Español Alta Velocidad Meca-Medina, S.A

	2021	**2020**
Current assets	238 450	205 030
Non-current assets	94	94
Total Assets	238 544	205 124
Current liabilities	238 483	205 064
Non-current liabilities	-	-
Total liabilities	238 484	205 064
Equity	60	60
Operating income	7 981	10 244
Operating expenses	(7 773)	(10 064)
Financial result	(180)	(180)
Net Result	-	-

The auditor of this company is KPMG Auditors, S.L. For 2021 and 2020, the figures are in the process of being audited.

Motion Rail, S.A.

	2021	**2020**
Current assets	33	33
Non-current assets	-	-
Total Assets	33	33
Current liabilities	1	-
Non-current liabilities	-	-
Total liabilities		-
Equity	32	33
Operating income	-	-
Operating expenses	(1)	(6)
Financial result	-	-
Net Result	(1)	(9)

b) Long-term loans to group companies and associates

The "Long-term loans to Group companies and associates" caption includes the following detail:

	€ in thousands	
	2021	**2020**
Talgo, S.A.	39 707	39 707
	39 707	**39 707**

The amount registered under this heading, corresponds to a loan granted by the company Patentes Talgo, S.L.U. to its Parent, Talgo, S.A.

c) Long-term financial investments

The detail, by maturity and investment category, of the Group's long-term investments at 2021 year-end is as follows:

	€ in thousands					
	2023	**2024**	**2025**	**2026**	**Subsequent years**	**Total**
Other financial investments						
Third party receivables (*)	51	-	-	-	648	699
Deposits and guarantees (*)	-	-	-	-	435	435
Derivatives (note 11) (**)	168	-	-	-	-	168
	219	**-**	**-**	**-**	**1 083**	**1 302**

(*) Financial assets at amortized cost according to the new classification of financial assets.
(**)Financial assets at fair value with changes in equity according to the new classification of financial assets.

The breakdown by maturity at 31 December 2020 is as follows:

	€ in thousands					
	2022	**2023**	**2024**	**2025**	**Subsequent years**	**Total**
Other financial investments						
Third party receivables (*)	51	51	-	-	654	756
Deposits and guarantees (*)	-	-	-	-	323	323
	51	**51**	**-**	**-**	**977**	**1 079**

(*) Financial assets at amortized cost according to the new classification of financial assets.

In 2021, the "Third party receivables" caption included receivables from financial entities relating to the monetization of the CDTI loans, which amounted to €51 thousand (€102 thousand in 2020), and receivables from the loan granted to the Group's management which amounted to €606 thousand (note 18.d.1), together its accrued interests, which were €42 thousand, and in 2020 were €36 thousand.

9. Stock

The composition of the heading “Stock” is as follows:

	€ in thousands	
	2021	**2020**
Raw materials	115 854	122 897
Work in progress	22 944	21 370
Advances	16 588	21 213
Provision for depreciation of raw materials	(22 167)	(20 144)
	133 219	**145 336**

At 31 December 2021, purchase commitments for raw materials and other services amounted to €373,775 thousand; the corresponding amount in 2020 was €370,123 thousand.

The movement in the provision for obsolescence in the year 2021 has been as follows:

	€ in thousands				
	Balance at 31.12.20	**Translation differences**	**Provision**	**Reversals**	**Balance at 31.12.21**
Provision for depreciation of raw materials	(20 144)	(1 394)	(892)	263	(22 167)
	(20 144)	**(1 394)**	**(892)**	**263**	**(22 167)**

The movement in the provision for obsolescence in the year 2020 was as follows:

	€ in thousands				
	Balance at 31.12.19	**Translation differences**	**Provision**	**Reversals**	**Balance at 31.12.20**
Provision for depreciation of raw materials	(8 451)	1 301	(13 347)	353	(20 144)
	(8 451)	**1 301**	**(13 347**	**353**	**(20 144)**

The provisions made during the 2020 financial year mainly reflected the impairment made by the subsidiary Talgo, Inc of the book value of the two trains it held on the balance sheet amounting to €9 million.

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

10. Trade and other receivables

The breakdown of the balances in this caption at 31 December 2021 and 2020 is shown below:

	€ in thousands	
	2021	**2020**
Trade and other receivables		
Accounts receivable for sales and services provided	52 190	70 801
Construction completed not yet invoiced	295 834	175 243
Receivables from group companies and associates	75	73
Sundry debtors	666	1 159
Staff	681	412
Other receivables from Public Administrations (note 19)	13 037	17 341
Provision for bad debt	(1 281)	(4 824)
	361 202	**260 205**

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

The Parent Company has signed during 2021 contracts with credit institutions that implement a financial facility offered and provided by a client, in the context of an ongoing manufacturing project. Through these contracts, the client allows the Company to anticipate partial collections of the contract for up to 60% of the total value of the contract. During the financial year, partial provisions have been made for these advances taking into account the degree of progress of the project.

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

The Group recognizes the necessary provision for all of the accounts receivable whose future recoverable cash flows are considered unlikely, based on facts.

The movement in the provision for impairment losses on the customers' receivables balances in 2021 was as follows:

	€ in thousands					
	Balance at 31.12.20	**Additions**	**Disposals**	**Aplication**	**Translation differences**	**Balance at 31.12.21**
Provision for bad debt	(4 824)	(377)	429	3 493	(2)	(1 281)
	(4 824)	**(377)**	**429**	**3 493**	**(2)**	**(1 281)**

The movement in the provision for impairment losses on the customers' receivables balances in 2020 was as follows:

	€ in thousands				
	Balance at 31.12.19	**Additions**	**Disposals**	**Translation differences**	**Balance at 31.12.20**
Provision for bad debt	(4 289)	(579)	44	-	(4 824)
	(4 289)	**(579)**	**44**	**-**	**(4 824)**

During 2021, the Company has applied the provision for bad debts recorded in previous years in the amount of €3,493 thousand following the settlement agreement signed with one of its customers.

Usually, amounts charged to the impairment provision account are written off when there is no expectation of ultimately recovering the cash flow associated with them.

The fair values of the receivables items do not differ from those recorded in these consolidated annual accounts.

The breakdown of "Receivables from Group and associates companies" caption in the short term is as follows:

	€ in thousands	
	2021	**2020**
Consorcio Español Alta Velocidad Meca-Medina, S.A.	57	55
Talgo, S.A.	18	18
	75	**73**

The breakdown of the accounts receivable balances denominated in foreign currencies at 31 December 2021 and 2020 are as follows:

	€ in thousands	
	2021	**2020**
American dollars	11 514	1 250
Saudi riyal	13 810	3 532
Rubles	547	1 267
Tenge	2 752	2 618
Canadian dollars	375	-
Swiss francs	1 011	566
	30 009	**9 233**

11. Short-term financial investments

The movements in the accounts included within the Short-term financial investments caption during 2021 have been as follows:

	€ in thousands				
	Balance at 31.12.20	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.21**
Group companies debtors (*)	1 547	713	(792)	-	1 468
Money Market Funds investments (**)	10 044	-	(10 044)	-	-
Derivatives (***)	-	1 218	-	-	1 218
Other financial assets (*)	84	41	(61)	51	115
	11 675	**1 972**	**(10 897)**	**51**	**2 801**

(*) Financial assets at amortized cost according to the new classification of financial assets.
(**) Financial assets at fair value through profit or loss according to the new classification of financial assets.
(***) Financial assets at fair value with changes in equity according to the new classification of financial assets.

The amount recorded under the caption Group companies debtors, corresponds to the pending collection balances the company Patentes Talgo, S.L.U. recognized with its parent company, Talgo, S.A. as head of the Tax Group, relating to the income tax of the year 2021, as well as the short-term trench of the loan that the Company has granted to its parent company, Talgo, S.A. (note 8).

“Money Market Funds investments" includes an investment in a money market fund made by the Parent company on 19 April 2019, amounting to €10,000 thousand, in which it acquired 98,570.724 shares of the fund. This investment is characterized by its high liquidity component and its return is linked to the value of the investment on the date of its recovery. On 11 June 2021, this investment has been liquidated and the amount received for this investment is 10,053 thousand euros, generating a positive result of 10 thousand euros in 2021 (note 18-e).

At year-end 2021, the Parent Company has contracted derivative financial instruments with its financial institutions to hedge the risks to which some of its operations, activities and cash flows are exposed.

The Parent Company has complied with the requirements detailed in note 4.g on valuation standards in order to classify the financial instruments detailed below as hedges. Specifically, they have been formally designated as such, and the hedge has been verified to be effective.

The derivative financial hedging instruments outstanding at year-end are as follows:

	Ranking	Type	Contracted ammount	Maturity	Fair Value Current	Fair Value Non-current
					€ in thousands	
Foreign exchange transaction	Foreign exchange rate hedge	Purchase USD	27 462	2023	1 184	168
Foreign exchange transaction	Foreign exchange rate hedge	Purchase CHF	798	2022	34	-

The maturity of the hedging instruments is as follows:

	2022	2024	2025	2026	Following years	Total
						€ in thousands
Exchange rate hedging	1 218	168	**-**	**-**	**-**	**1 386**

The maturity of the hedging instrument matches the year in which the cash flows are expected to occur and affect the profit and loss account.

The movements in the accounts included in short-term financial investments in 2020 were as follows:

	Balance at 31.12.19	Additions	Retirements	Transfers	Balance at 31.12.20
					€ in thousands
Loans to Group companies (*)	4 518	1 288	(4 259)	-	1 547
Investments in money market funds (**)	10 028	16	-	-	10 044
Other financial assets (*)	100	13	(80)	51	84
	14 646	**1 317**	**(4 339)**	**51**	**11 675**

(*) Financial assets at amortized cost according to the new classification of financial assets.
(**) Financial assets at fair value through profit or loss according to the new classification of financial assets.

The heading "Loans to Group companies" at 31 December 2020 included the balance that the company Patentes Talgo, S.L.U. held with its parent company, Talgo, S.A., as head of the Tax Group, for corporate income tax for the financial year 2020, as well as the short-term portion of the loan that the Company has granted to its parent company, Talgo, S.A. (note 8).

12. Cash and cash equivalents

	€ in thousands	
	2021	**2020**
Cash	250 864	222 663
Other equivalent liquid assets	-	2 445
	250 864	**225 108**

This caption of the balance sheet is entirely freely available.

The balance included in “Other equivalent liquid assets” corresponds to a cancelled deposit made by the subsidiary Talgo, Inc., in 2021, with daily maturity and which accrues annual interest at market rate.

13. Share capital

a) Subscribed capital

At 31 December 2021 and 2020, the Parent company’s share capital amounted to €51,914 thousand and comprised 1,366,630 Class A shares and 455,521 Class B shares, all of which have a nominal value of €28.49. The shares that make up each class differ because they are subject to different systems of transfer.

At 31 December 2021 and 2020, 100% of the share capital of the group’s Parent company, Patentes Talgo S.L.U., belonged to Talgo, S.A. (note 1).

b) Limitations on the distribution of dividends

The reserves designated in the other sections of this note as freely distributable, along with the results for the financial year are, nevertheless, subject to the limitation that they may not be distributed as dividends if such a distribution reduces the balance of the aforementioned reserves to an amount that is less than the total sum of the balances pending amortization for research and development expenses.

c) Other reserves

At closing 2021, within this caption free disposal reserves are included, although €54,531 thousand correspond to goodwill reserves prior to 2016, which will only be available to the extent that the amount of the goodwill recorded in the balance sheet is lower than the latter (nota 6-c).

d) Legal reserve

The legal reserve has been recognized in accordance with article 274 of the Capital Company Act, which requires that a figure equal 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. At year-end 2021 and 2020 it was totally provided.

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.

e) Result for the year

The proposed distribution of the Parent company's result for 2021, which will be presented to its Sole Shareholder, is as follows:

	€ in thousands
	2021
To voluntary reserves	16 314
	16 314

f) Contribution by the companies to the consolidated result

The contribution made by each one of the companies to the consolidated result is as follows:

	€ in thousands	
	2021	**2020**
Patentes Talgo, S.L.U.	16 584	(18 223)
Talgo Deutschland, GmbH	647	1 379
Talgo, Inc.	466	(11 394)
Patentes Talgo Tashkent, LLC	36	44
OOO Talgo (Rusia)	1	-
Tarvia Mantenimiento Ferroviario S.A.	(25)	-
Talgo India Private Limited	68	63
Talgo Shanghai Railways Equipment CO, Ltd.	11	3
	17 788	**(28 128)**

g) Reserves of the consolidated companies

The contribution to reserves at consolidated companies by each of the companies is as follows:

	€ in thousands	
	2021	**2020**
Talgo Deutschland, GmbH	14 534	13 155
Talgo, Inc.	14 142	25 538
Tarvia Mantenimiento Ferroviario, S.A.	(3)	-
Patentes Talgo Tashkent, LLC	155	111
Talgo India Private Limited	182	119
Talgo Shanghai Railways Equipment CO, Ltd.	(127)	(130)
	28 883	**38 793**

h) Translation differences

The translation differences recognized in 2021 and 2020 correspond entirely to the translation of the functional currency of the financial statements of the Group's subsidiaries that have functional currency other than euro.

i) Dividend

On 4 October 2021, the Parent Company approved the distribution to its parent company Talgo, S.A. of unrestricted reserves corresponding to "Other contributions from shareholders" in the amount of 4,000 thousand euros, fully disbursed at the end of 2021.

On 6 February and 5 May 2020, the Parent's sole shareholder approved the distribution of dividends charged to unrestricted reserves in the amount of Euros 35,000 thousand and Euros 10,000 thousand, respectively, fully paid in 2020.

j) External partners

The movement in the external partners item is as follows:

	€ in thousands
Balance at 31 December 2020	**-**
First consolidation	3 918
Result for the financial year 2021	(24)
Balance at 31 December 2021	**3 894**

14. Capital grants

The movements in this heading in 2021 and 2020, which form part of equity and the results allocated to the profit and loss account thereof, are as follows:

	€ in thousands				
	Balance at 31.12.20	**Additions**	**Charged to income**	**Transfers**	**Balance at 31.12.21**
Capital grants	1 717	1 022	(331)	-	2 408
	1 717	**1 022**	**(331)**	**-**	**2 408**

	€ in thousands				
	Balance at 31.12.19	**Additions**	**Charged to income**	**Disposals**	**Balance at 31.12.20**
Capital grants	1 516	563	(362)	-	1 717
	1 516	**563**	**(362)**	**-**	**1 717**

The additions in the financial year 2021 mainly relate to the financial restatement of the loans granted for the "VITTAL ONE" and "LETS GO" projects. Similarly, the grant awarded for the Shift2Rail PIVOT project is recorded at year-end 2020 under the heading "Debts convertible into grants" (note 16), as the necessary conditions have been met for it to be considered non-revocable.

The transfer to results of the mentioned grants is done proportionally to the depreciation of the corresponding assets, where appropriate, when the corresponding assets are disposed of.

The Group’s management considers that is has complied with the obligations associated with these grants.

15. Long-term and short-term provisions

The movement in the provisions caption, over both the long-term and short-term during 2021 is as follows:

	€ in thousands				
	Balance at 31.12.20	**Translation differences**	**Provisions**	**Applications**	**Balance at 31.12.21**
Guarantees and others provisions	45 999	193	3 943	(7 095)	43 040
	45 999	**193**	**3 943**	**(7 095)**	**43 040**

At the 2021 year-end, the Group has recognized the necessary provisions to meet its service guarantees, which normally cover a period of between 2-3 years after the trains’ commissioning, 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. In addition, a provision has been recorded under non-current liabilities for tax contingencies amounting to €1.4 million (note 19).

16. Debts and accounts payable

a) Long-term debt

The composition of this caption at 31 December 2021 and 2020 is as follows:

	€ in thousands	
	2021	**2020**
Debt with credit institutions	**215 624**	**205 926**
Creditors for financial leasing	**320**	**418**
Derivatives	**26**	**48**
Other financial liabilities	**25 905**	**23 215**
Debt due to reimbursable advances	18 473	16 843
Other debts	213	213
Debt convertible into grants	7 219	6 159
	241 875	**229 607**

Debt with credit institutions

The details of the loans included in the heading Debts with credit institutions correspond in full to the loans contracted by the Parent company. The detail thereof is as follows:

Entity	Currency	Interest rate	Grant date	Non-current	Current	Total	Interests
Entity A	EUR	Fixed	27/05/2021	30 000	-	30 000	25
Entity B	EUR	Fixed	20/12/2017	21 429	4 286	25 715	13
Entity C	EUR	Fixed	22/12/2020	20 000	-	20 000	76
Entity D	EUR	Fixed	13/12/2020	20 000	-	20 000	4
Entity E	EUR	Fixed	23/06/2020	15 000	-	15 000	3
Entity F	EUR	Fixed	23/06/2020	10 000	-	10 000	2
Entity G	EUR	Fixed	28/12/2018	-	5 000	5 000	-
Entity H	EUR	Fixed	22/12/2020	15 000	-	15 000	4
Entity I	EUR	Variable	12/03/2019	3 750	2 500	6 250	31
Entity J	EUR	Fixed	14/01/2019	3 375	1 500	4 875	12
Entity K	EUR	Fixed	14/01/2019	6 070	1 976	8 047	92
Entity L	EUR	Variable	02/12/2020	15 000	-	15 000	14
Entity M	EUR	Fixed	18/06/2021	31 000	-	31 000	24
Entidad N	EUR	Variable	18/06/2021	25 000	5 000	30 000	3
Bank guarantees and credit facilities interests	EUR	-	-	-	-	-	235
				215 624	**20 262**	**235 887**	**538**

During the years 2021 and 2020, the Parent company carried out a restructuring of its bank debt, extending the maturities of some of its loans as well as the net increase of its debt in the amount of €30 million in 2020, no net increase in debt in 2021. The cost incurred as a result of this restructuring process has been recorded in the consolidated income statement for the years 2021 and 2020.

Some of the contracts included in the table above contain a number of associated obligations and covenants known as Guarantee Ratio, Commitment Ratio and Financial Expense Ratio, that the Group has not breached since the inception of the contract together with the other obligations and commercial restrictions set forth therein.

At 31 December 2021 the Group has credit facilities amounting to Euros 125,512 thousand (Euros 150,000 thousand in 2020), the amount drawn down being Euros 15,133 thousand recorded under Bank borrowings as part of current liabilities (note 16-b), with no balances drawn down at 31 December 2020.

The maturity dates of the 'Debt with credit institutions', at 31 December 2021 balances are shown below:

	€ in thousands					
	2023	2024	2025	2026	Subsequent years	Totals
Debt with credit institutions	55 285	52 059	31 708	72 286	4 286	**215 624**

The maturity dates of the 'Debt with credit institutions' balances at 31 December 2020 were the following:

	€ in thousands					
	2022	2023	2024	2025	Subsequent years	Total
Debt with credit institutions	15 146	50 146	31 904	93 161	15 569	**205 926**

Finance lease creditors

During 2017, 2019 and 2021, the Parent Company signed a five-year right of use agreement with various technology providers for IT platforms related to human resources, supplier management, etc.

The contractual maturities of the lease commitments at 2021 year-end are as summarized below:

	€ in thousands					
	2023	2024	2025	2026	Subsequent years	Total
Finance lease creditors	266	54	-	-	-	**320**

The contractual maturities of the lease commitments at 2020 year-end were as summarized below:

	€ in thousands					
	2022	2023	2024	2025	Subsequent years	Total
Finance lease creditors	206	212	-	-	-	**418**

Debts due to reimbursable advances

The “Debts due to reimbursable advances” caption includes debts that the Parent company holds with the Center for Industrial Technological Development (CDTI) for various technological development projects, as well as with the Ministry for Science and Innovation. The short-term part of this concept is recognized within the “Other financial liabilities” caption within current liabilities on the enclosed balance sheets at 31 December 2021 and amounts to €3,091 thousand (€3,278 thousand in 2020) (note 16.b).

The maturities of the debts due to reimbursable advances at 2021 year-end are as follows:

	€ in thousands					
	2023	**2024**	**2025**	**2026**	**Subsequent years**	**Total**
Debts due to reimbursable advances	2 633	2 286	2 816	1 995	8 743	**18 473**

The maturities of the debts due to reimbursable advances at 2020 year-end were as follows:

	€ in thousands					
	2022	**2023**	**2024**	**2025**	**Subsequent years**	**Total**
Debts due to reimbursable advances	2 647	2 938	2 339	2 225	6 694	**16 843**

Debts convertible into grants

The “Debts convertible into grants” caption includes funds received from European Commission for the “Shift2Rail” research project, as well as funds received from the Center for Industrial Technological Development (CDTI) for the projects “PARFAIT”, VITTAL ONE and LETS GO.

b) Short-term debt

The breakdown of this caption at 31 December 2021 and 2020 is as follows:

	€ in thousands	
	2021	**2020**
Debt with credit institutions (note 16.a)	35 933	41 055
Finance lease creditors	438	768
Debt due to reimbursable advances (note 16.a)	3 091	3 278
Other debts	178	151
	39 640	**45 252**

c) Suppliers and trade payables

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

	€ in thousands	
	2021	**2020**
Average suppliers payment period (days)	83	43
Paid operations ratio (days)	90	84
Pending to be paid operations ratio (days)	66	47
Total payments	421 571	385 625
Total pending payments	176 551	186 729

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 by the Spanish companies comprising the Group, 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 liabilities of the consolidated 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.

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

The breakdown of the accounts payable balances denominated in foreign currencies at 31 December 2021 and 2020 is as follows:

	€ in thousands	
	2021	**2020**
Swiss francs	916	930
Dollars	3 739	7 860
Kazakhstan Tenge	265	543
Sterling Pounds	1	25
Norwegian Krone	-	12
Rubles	33	25
Riyal Saudi	1 775	1 394
	6 729	**10 789**

17. Debts with Group companies and associates

The detail of debts to Group companies and associates at the end of 2021 and 2020 is as follows:

	€ in thousands	
	2021	**2020**
Consorcio Español Alta Velocidad Meca-Medina, S.A.	3 035	2 846
	3 035	**2 846**

Transactions between the Group and its related entities mainly refer to sales and the provision of services. The prices charged between related parties for the physical flows and provision of services is determined by applying the cost-plus method.

18. Income and expenses

a) Net turnover

Net turnover from the Group's ordinary activities was distributed geographically as follows:

	€ in thousands	
	2021	**2020**
Spain	302 480	340 231
Rest of Europe	62 932	38 891
USA	17 802	17 452
Middle East and North Africa	97 971	32 954
Commonwealth of Independent States	73 199	55 734
APAC	1 044	1 839
	555 428	**487 101**

Similarly, net turnover was distributed by type of activity as follows:

	€ in thousands	
	2021	**2020**
Rolling stock	515 399	423 682
Auxiliary machines and others	40 029	63 419
	555 428	**487 101**

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, the sale of spare parts.

(Expressed in thousands of euros)

The Parent company's turnover relating to the permanent establishment in Kazakhstan amounted to €32,268 thousand in 2021 and €20,845 thousand in 2020.

The Parent company's turnover relating to the permanent establishment in Uzbekistan amounted to €4,579 thousand in 2021 and €3,825 thousand in 2020.

The Parent company's turnover relating to the permanent establishment in Russia amounted to €5,108 thousand in 2021 and €4,421 thousand in 2020.

The Parent company's turnover relating to the permanent establishment in Saudi Arabia amounted to €53,287 thousand in 2021 and €11,538 thousand in 2020.

b) Segments

The Group's Segment information for 2021 is as follows:

	Rolling stock	Auxiliary machines and others	General	Total
Net turnover				
External customers	515 399	40 029	-	555 428
Inter-segments	-	-	-	-
Procurement costs	**286 656**	**28 082**	**-**	**314 738**
Personnel expenses	**115 936**	**9 061**	**17 514**	**142 511**
Amortization and depreciation charge	**24 334**	**1 764**	**3 774**	**29 872**
Losses, impairment and variation in provisions				
Current	52	-	-	52
Non-current	1 990	1 127	-	3 117
Operating result	**68 817**	**(1 907)**	**(37 411)**	**29 499**
Financial income	11	1	-	12
Financial expenses	6 916	379	248	7 543
Result before tax	**64 314**	**(2 285)**	**(37 659)**	**24 370**
Segment assets	**898 765**	**52 108**	**55 838**	**1 006 711**
Segment liabilities	**621 695**	**36 172**	**26 002**	**683 869**
Net cash flows of:				
Operating activities	**32 061**	**1 761**	**-**	**33 822**
Investing activities	**(16 545)**	**(89)**	**5 455**	**(11 179)**
Financing activities	**3 378**	**125**	**(390)**	**3 113**

The Group's Segment information for 2020 was as follows:

	Rolling stock	Auxiliary machines and others	General	Total
Net turnover				
External customers	423 682	63 419	-	487 101
Inter-segments	-	-	-	-
Procurement costs	**266 584**	**43 103**	**-**	**309 687**
Personnel expenses	**95 212**	**13 197**	**15 300**	**123 709**
Amortization and depreciation charge	**23 329**	**1 446**	**2 746**	**27 521**
Losses, impairment and variation in provisions				
Current	535	-	-	535
Non-current	4 689	1 055	-	5 744
Operating result	**15 498**	**4 859**	**(36 591)**	**(16 234)**
Financial income	7	1	284	292
Financial expenses	4 869	665	303	5 837
Result before tax	**7 748**	**4 195**	**(36 610)**	**(24 667)**
Segment assets	**742 446**	**77 885**	**69 776**	**890 107**
Segment liabilities	**478 404**	**51 054**	**57 449**	**586 907**
Net cash flows of:				
Operating activities	**(73 247)**	**(9 995)**	**-**	**(83 242)**
Investing activities	**(20 020)**	**(1 371)**	**(3 307)**	**(24 698)**
Financing activities	**24 597**	**2 731**	**(10 390)**	**16 938**

c) Procurement costs

	€ in thousands	
	2021	**2020**
Domestic purchases	167 695	207 332
Intra-Community purchases	46 320	44 121
Imports	19 977	18 671
Variation in stock (note 9)	7 052	(29 266)
Consumption of raw materials and other consumables	**241 044**	**240 858**
Other expenses	73 065	55 835
Other external expenses	**73 065**	**55 835**
Impairment of raw materials and other procurements (note 9)	629	12 994
Impairment of raw materials and other procurements	**629**	**12 994**

d) Personnel expenses

	€ in thousands	
	2021	**2020**
Wages, salaries and similar	105 336	90 445
Contributions and provisions for pensions (note 4.j)	2 682	2 543
Other welfare charges	34 493	30 721
	142 511	**123 709**

The ‘Wages, salaries and similar’ caption includes compensation costs, which amounted to €1,605 thousand in 2021 and €1,452 thousand in 2020, as well as the accrued amount of 1,601€ thousand corresponding to the Long-Term Incentive Plan signed in 2021 (note 4.j).

d.1) Compensation for the Senior Management and Directors

The role of Director of the Parent company was not remunerated during 2021 and 2020.

The remuneration paid to senior management, which is understood comprise those members that sit on the steering committee, amounted to €1,971 thousand for both fixed and variable remuneration (€1,679 thousand for both fixed and variable remuneration in 2020). Meanwhile, the remuneration paid to the directors for fixed and variable short-term remuneration amounted to €2,401 thousand at 31 December 2021 (€533 thousand for both fixed and variable remuneration at December 31, 2020).

During 2021 the Long-Term Incentive Plan (2021-2023) was approved as a variable share remuneration system, the collection of which is conditional upon the fulfilment of certain strategic and share value objectives of the Parent company and the permanence of the beneficiary during the consolidation period (3 years) (note 4.j.). The maximum amounts of this remuneration, which is accrued over three years and only received if the plan's objectives are met, amount to €3,100 thousand. The directors, taking into account the evolution of the objectives linked to the business plan during the 2021 financial year as well as the prospects envisaged for 2022, have decided to recognise a provision for this item amounting to 1,061 thousand euros. Additionally, the CEO has signed a commitment of remuneration in 889,878 shares of Talgo, S.A. as a retention incentive, payable according to certain future events. During the 2021 financial year, an accrual of 633 thousand euros has been recognized in the profit and loss account based on this commitment.

The Parent company has taken out life insurance for all of its employees, including management personnel. The cost of this insurance for management personnel amounted to €44 thousand in 2021 (€49 thousand in 2020). The amount corresponding to the pension plan of this same collective amounted to €80 thousand in 2021 (€98 thousand in 2020). In addition, the Company has taken out civil liability insurance policies for some members of its Senior Management and its Directors, whose premiums, are already paid during 2021 and 2020, amount to €53 thousand and €42 thousand. Its coverage is considered sufficient.

(Expressed in thousands of euros)

During 2015, loans were granted to members of the management team for the purchase of shares in the ultimate parent company, whose outstanding balance is €648 thousand (note 8). The aforementioned loans accrue interest at a rate that is linked to Euribor plus a market spread.

d.2) 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 made the notifications, in accordance with section 3 of the aforementioned Article, which indicate that neither they nor the persons linked to them, as defined by Art. 231 of the aforementioned legal text find themselves in any situations involving conflicts of interest, directly or indirectly, as provided for in the aforementioned legal text, which is why these annual accounts do not include any disclosure in this regard.

d.3) Staff

The distribution of the Group's headcount at year-end 2021 and 2020 by job category and gender was as follows:

	2021		**2020**	
	Men	**Women**	**Men**	**Women**
Board members and Senior Management	8	4	11	3
Management	44	6	40	4
Middle management	342	65	302	50
Technicians, administration staff and others	1 945	297	1 952	306
	2 339	**372**	**2 305**	**363**

The distribution of the Groups' average headcount by job category and gender during the years 2021 and 2020 was as follows:

	2021		**2020**	
	Men	**Women**	**Men**	**Women**
Board members and Senior Management	9	4	11	3
Management	42	4	39	4
Middle management	332	58	297	45
Technicians, administration staff and others	1 920	301	1 938	295
	2 303	**367**	**2 285**	**347**

As at year-end 2021, the Group employed 26 people with a disability of 33% or more (23 in 2020); of which 9 were women (9 in 2020) and 17 were men (14 in 2020), this group is represented in all categories of the staff.

e) The breakdown of the Group's financial result is as follows:

	€ in thousands	
	2021	**2020**
Financial income:		
From Trade securities and Other financial instruments		
- From third parties	12	37
- From group companies and associates	-	-
Oher financial income	-	255
	12	**292**
Financial expenses:		
- From debts with third parties	(7 543)	(5 837)
	(7 543)	**(5 837)**
Change in fair value of financial instruments (note 11)	10	16
	10	**16**
Translation differences	2 392	(2 904)
	2 392	**(2 904)**
Financial result	**(5 129)**	**(8 433)**

19. Income Tax and the fiscal situation

Since 2006, the Parent company has formed part of the Tax Consolidation Group 65/06, whose parent company is Talgo, S.A.

The reconciliation between the profit before tax and the taxable income at 31 December 2021 is as follows:

			€ in thousands
	Increases	Decreases	
Result before tax			**24 370**
Permanent differences:			
Profit from subsidiaries	-	(1 719)	(1 719)
Other permanent differences	7 361	(52 573)	(45 212)
Timing differences:			
- arising during the year	13 537	(3 379)	10 158
- arising in the previous years	14 667	(22 652)	(7 985)
Taxable income for the year (Tax Result)			**(20 388)**

The decrease in the permanent differences was mainly due to the tax-exempt income recorded by the Permanent Establishments in Kazakhstan, Uzbekistan, Russia and Saudi Arabia, whose pre-tax result is included in the pre-tax result of the Group and subsequently, the taxable base is adjusted as a permanent difference.

The reconciliation between the profit before tax and the Income tax expense at 31 December 2021 is as follows:

	€ in thousands
Profit before tax	24 370
Permanent differences	-
Tax rate 25% (*)	-
Income tax expense – subsidiaries and foreign permanent establishments	7 118
Income tax adjustment previous financial year	31
Deduction	-
Deferred taxes movements (*)	(543)
Total Income tax expense	**6 606**

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

During the 2021 financial year, the Parent company's Directors, following a conservative criterion, have decided not to capitalize additional tax loss carryforwards to those recorded at the end of the 2020 financial year or the deductions generated, although it is expected that they may be used in the near future.

Deferred tax assets

The increments of temporary differences correspond to expenses mainly provisions, whose tax expense will be deducted in subsequent periods.

Deductions have not been used during 2021 and 2020.

The movement in the deferred tax asset balance during 2021 is as follows:

	€ in thousands					
	Balance at 31.12.2020	Translation differences	Additions	Disposals	Other Movements	Balance at 31.12.2021
Temporary differences						
Guarantees	4 384	-	3 606	(4 319)	(64)	3 607
Goodwill	280	-	844	-	-	1 124
Other concepts	3 495	-	1 605	(1 344)	29	3 785
Tax Credits						
Tax loss carryforwards	16 461	352	-	(219)	-	16 594
Deductions	2 653	-	-	-	-	2 653
	27 273	**352**	**6 055**	**(5 882)**	**(35)**	**27 763**

The movement in the deferred tax asset balance during 2020 was as follows:

	€ in thousands					
	Balance at 31.12.2019	Translation differences	Additions	Disposals	Other Movements	Balance at 31.12.2020
Temporary differences						
Guarantees	4 200	-	4 384	(4 131)	(69)	4 384
Goodwill	-	-	280	-	-	280
Other concepts	3 675	-	1 251	(1 431)	-	3 495
Tax Credits						
Tax loss carryforwards	17 326	(514)	-	(406)	55	16 461
Deductions	2 653	-	-	-	-	2 653
	27 854	**(514)**	**5 915**	**(5 968)**	**(14)**	**27 273**

The Other charges caption includes mainly deferred taxes associated with the freedom of amortization and provisions for major repairs.

As of December 31, 2021, the Parent company has an amount of €94,645 thousand of tax loss carryforwards and an amount of €12,041 of deductions pending application. Of these, an amount of €48,460 thousand and €2,653 thousand respectively are activated on the balance sheet at 31 December 2021.

As of December 31, 2021 the expiration of the tax loss carryforwards and the deductions pending application is as follows:

Year	**€ in thousands**	**Last year**
Tax loss carryforwards		
2018	22 078	Indefinite
2019	34 091	Indefinite
2020	17 618	Indefinite
2021	20 748	Indefinite
Total Tax loss carryforwards	**94 535**	**Indefinite**
Deductions		
2017	511	2035
2018	1 098	2036
2019	6 203	2037
2020	2 310	2038
2021	1 919	2039
Total Deductions	**12 041**	

As of December 31, 2021, the tax loss carryforwards pending to offset in the United States, corresponding to the subsidiary Talgo Inc. are of €32,684 thousand (€31,378 thousand in 2020). Of these, an amount of €21,334 thousand has been capitalized in the balance sheet at December 31, 2021.

At December 31, 2021, the expiration of the tax loss carryforwards is detailed below:

Year	**€ in thousands**	**Final year**
2004	5 971	2024
2005	8 211	2025
2006	6 985	2026
2012	3 759	2032
2020	7 758	Indefinite
	32 684	

As a result of changes in U.S. tax legislation in the year 2020, tax loss carryforwards generated in that year will expire indefinitely.

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

At December 31, 2021, the Group has analyzed the recoverability of these deferred tax assets, in the context of the tax group to which it belongs, by using projections of results based on the business plans prepared by Management for the coming years, making the corresponding adjustments to the previous projections to convert them into the taxable tax base for each period and considering the limitations on the deductibility of financial expenses and offsetting of tax bases and deductions established in current tax legislation.

Deferred tax liabilities

The movement in the deferred tax liability balance during 2021 is as follows:

	€ in thousands				
	Balance at 31.12.2020	**Additions**	**Disposals**	**Other Movements**	**Balance at 31.12.2021**
Free amortization	253	-	(61)	-	192
Other concepts	493	687	(92)	2	1 090
	746	**687**	**(153)**	**2**	**1 282**

The movement in the deferred tax liability balance during 2020 was as follows:

	€ in thousands				
	Balance at 31.12.2019	**Additions**	**Disposals**	**Other Movements**	**Balance at 31.12.2020**
Free amortization	324	-	(74)	3	253
Goodwill	565	845	(1 410)	-	-
Other concepts	407	186	(100)	-	493
	1 296	**1 031**	**(1 584)**	**3**	**746**

The Parent company and its ultimate parent Talgo, S.A. received on July 10, 2017 notification of the tax authorities of partial verification of the income tax of the years from 2012 to 2015 and the income tax of the years 2013 to 2015.

As a result of the aforementioned procedure, in October 2019 assessments were signed in disagreement by both companies (for Personal Income tax) and by the parent company, as head of the tax group (for Income tax), which were confirmed by settlement agreements notified in November 2019.

During the 2020 financial year, both companies have submitted allegations to the Central Economic Administrative Court (TEAC), but no response has been received up to the date of preparation of these financial statements.

The Personal Income tax settlements do not give rise to any debt, while the Corporate Income tax settlement gives rise to a debt of €21.2 million, of which €17.9 million is the tax payable and €3.3 million is interest on arrears.

The €21.2 million debt arising from the settlement relates to adjustments to the taxable income of Patentes Talgo, S.L.U. and adjustments to the taxable income of Talgo, S.A. The contribution to this debt is €13.9 and €7.3 million, respectively.

In December 2019 the company Talgo, S.A., as head of the tax group, filed economic-administrative claims against the aforementioned settlement agreements. In addition, a request has been made (in January 2020) for the automatic suspension of the execution of the debt through the provision of a bank guarantee amounting to €21.2 million. The suspension was granted.

As the tax settlement eliminates the tax loss carryforwards generated in 2015 by the tax group, which was partially used by the fiscal group in 2016 and 2017, if the settlement is confirmed by the courts there will be an effect on the tax payable in 2016 and 2017 of €3 million. In addition, the tax loss carryforwards for 2015 from Parent company (Talgo, S.A.), amounting to €33.1 million and corresponding to a tax liability of €8.3 million, would be eliminated.

The Parent company's directors and its tax advisers consider that they have correctly filed the regularized taxes and have therefore filed the aforementioned claims. As a result of the scarce and disparate doctrine in relation to the issues discussed, as it is indicated in note 2.c), a provision of €1.4 million has been recognised in the 2019 financial statements under the heading of long-term provisions (note 15). Of the aforementioned amounts, €0.2 million relates to interest on arrears recorded as financial expenses, €1.2 million as an increase in income tax expense.

Also, the parent company Talgo, S.A. recorded, in 2019 financial year, a provision in its financial statements of €10.1 million and has written off €8.3 million of deferred tax assets in relation to the adjustments related to the taxable income of this company. At year-end 2020, the provision described above continues to be recorded in the Group's balance sheet.

Additionally, the tax Group has open to verification the last 4 financial years for the rest of taxes that are not being subject to verification but applicable. In the rest of the countries where the Group operates, all the taxes that are applicable to the different companies are open to verification in the financial years that indicate their respective tax legislations. The Group's directors consider that the aforementioned taxes have been properly settled and, accordingly, even if discrepancies arise in the interpretation of current legislation in relation to the tax treatment of the transactions, the resulting liabilities, if any, would not materially affect these consolidated financial statements.

(Expressed in thousands of euros)

The breakdown of the “Other loans with Public Administrations”

The detail of the balances receivable with the Public Administration, at 2021 and 2020 year-end, is as follows:

	€ in thousand	
	2021	**2020**
Public Administration tax receivables for VAT	6 007	9 306
Tax receivables for grants	6 348	4 655
Tax receivables for Other Taxes	496	534
Public Administrations withholding tax and prepayments	186	2 846
	13 037	**17 341**

The heading of "Tax receivables for grants" mainly includes at 2021 year-end, the amount receivable with the Centre for Industrial Technological Development for the *Rodemav and PARFAIT* projects, as well as the amount receivable for the HORIZONTE2020 Programme of the European Commission, for the projects integrated in the Shift2Rail. The liability side associated with this project is registered in the long term under the heading "Other financial liabilities" (note 16).

The detail of the balances payable with the Public Administration, at 2021 and 2020 year-end, is as follows:

	€ in thousand	
	2021	**2020**
Public Administration tax payable for VAT	4 565	787
Public Administration tax withholdings and pre-payments	2 919	3 082
Social security payables	4 652	3 784
	12 136	**7 653**

20. Other information

a) Foreign currency transactions

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

	€ in thousand	
	2021	**2020**
Purchases	25 181	27 175
Sales	62 929	38 717

b) Transactions with related parties

	€ in thousand	
	2021	**2020**
Other operating income	**15**	**15**
Talgo, S.A.	15	15
Revenues	**15**	**15**

	€ in thousand	
	2021	**2020**
Render of services	**926**	**445**
Consorcio Español Alta Velocidad Meca-Medina, S.A.	926	445
Expenses	**926**	**445**

The Group carries out all of its transactions with related parties at market values.

In addition, the transfer prices are adequately supported, and thus the Directors of the Parent company consider that no significant risks arise because of this that may result in significant liabilities in the future.

c) Fees for audit and other services provided by group auditor or other related companies.

During 2021 and 2020, the fees regarding the services provided for the audit of annual accounts and non-audit services by the Group's auditor Deloitte, S.L. or by any other company related to the auditor by means of common ownership, control or management are as follows, in thousands of euros:

Description	**2021**	**2020**
Audit fees	259	324
Total audit services	**259**	**324**
Other assurance services	27	172
Tax consultancy services	11	13
Total non-audit services	**38**	**185**
Total professional services	**297**	**509**

21. The environment

The breakdown of the expenses incurred during 2021 and 2020 to protect and improve the environment is as follows:

	€ in thousands	
	2021	**2020**
Periodic (waste management, periodic analysis and other):		
Drinking water and waste water analysis and waste water purifier expenses	22	78
Management of hazardous and inert waste	121	119
Material purchases and other	22	23
Safety Advisor	4	4
Dumping tax and legionellosis control	2	3
Atmospheric emission controls	31	2
Legislation updates	2	2
Total periodic expenses	**204**	**231**

	€ in thousands	
	2021	**2020**
Non-periodic:		
Energy audits	-	11
Storm Cleaning	3	-
Noise Study	1	-
ISO 14001 Certification	8	3
Total non-periodic expenses	**12**	**14**

The investments made in 2021 and 2020 for the protection and improvement of the environment were the following:

		€ in thousands
	2021	**2020**
Investments :		
Luminaire replacement in factory	8	232
Total investments	**8**	**232**

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

22. Guarantees and other contingencies

At 31 December 2021, the Group had a volume of bank guarantees and surety bonds amounting to €953 million (€707 million in 2020), of which, €743 million corresponded to manufacturing projects (€471 million in 2020), either as performance bonds or advances received. The remaining sum comprised bank guarantees provided to public entities for the awarding of grants, for bidding in tender competitions and for other items.

At 31 December 2021, the amount available from the bank guarantee and surety bonds lines amounted to €773 million (€892 million in 2020).

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 Parent Company has an arbitration in progress with cross-claims between parties, at the end of the year it has not concluded, based on its best estimate and taking into account the opinion of its legal advisors, the Company has registered an amount of 20,231 thousand euros under the heading "Short-term creditors and other account payable" and respectively 15,439 thousand euros under the heading "Short-term accruals and deferrals" of the balance sheet as of December 31, 2021, according to the execution progress of the project. It is not estimated that additional liabilities are arosen.

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 2021 year-end.

23. COVID-19 Impacts

The different waves of SARS-CoV-2 (COVID-19) significantly affected the global economy in 2020 and specifically the Group's activity, due to the interruption or slowdown of supply chains, restrictive mobility measures and reduced productivity.

Although, the strong monetary and fiscal measures carried out by competent institutions and central banks, together with balance sheets strengthened in the previous years of financial institutions, channeled the largest money supply providing financial capacity to companies and families.

Additionally, the appearance of vaccines against COVID-19 and the success of vaccination programs in the different countries, collaborated in alleviating the pandemic and consequently allowed to progressively recover mobility and industrial activity.

In line with the above, during 2021 Talgo's activity and productivity in its facilities gradually recovered and this was reflected in the evolution of quarterly operating margins. This recovery of the railway operation led to close the year with levels of activity of maintenance services close to 100% in international markets, and more than 85% in the case of the Spanish market.

Additionally, it is worth noting the process of strong inflation experienced by Western economies during 2021, a consequence in turn of the distortions in supply generated by COVID-19, which has generated a complex context for the management of costs related to projects. This scenario has had some negative impact on the profitability of the projects and therefore on the Group's margins.

The Talgo Group's cash flow during the 2021 financial year remained stable in the Group as a result of the existing schedule of collections and payments of manufacturing projects, increased maintenance activity and the measures implemented to optimize the use of cash. This good performance of flows is reflected in an improvement in financial debt, which stood at €36 million, with a resulting ratio of Net Financial Debt / EBITDA of 0.5x.

From a commercial point of view, COVID-19 generated certain delays in the bidding and negotiation processes for new rolling stock, maintenance and remodeling in which the Group has continued to invest efforts and resources.

These delays, however, have not been translated into cancellations and despite them the Group managed to register a considerable level of new awards in the year for a combined value of €519 million, thus being able to meet the objectives established for the year.

24. Subsequent events

On 19 January 2022, the European Investment Bank (EIB) and the Parent Company signed a EUR 35 million green loan. This operation, the third signed between the two entities, seeks to finance investment in research, development and innovation activities associated with the development of key components and systems for low-carbon rail transport vehicles, which are aligned with the EU's Horizon 2020 programme on "Smart, Green and Integrated Transport". The total amount of the loan is 35 million, whose disposition can be made in a period of two years with linear maturities in up to 9 years from the disposition including two years of grace.

25. 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 Parent company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2021
(Expressed in thousands of euros)

Organizational structure

The main responsibilities of the Parent 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 Group.

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

Strategy

The Group's strategy in recent years has led to stable margins in the key Rolling Stock segment, researching and developing new markets in order to grow steadily through international markets and with an increasingly diversified offer of solutions focused on specific customer needs, ranging from the manufacture and maintenance of rolling stock for the high-speed, long-distance and local/regional segments, to the remodelling and renewal of third-party rolling stock and the marketing of maintenance equipment.

Business model

The Group's business model is based on the flexibility of its manufacturing activity to adapt to market circumstances in the global economic context that also allows it to be excellent in efficiency and productivity.

An efficient, light and flexible structure provides the capacity to maintain discipline in the selection of projects that support the Talgo objective in the generation of long-term value to the various existing stakeholders, and contribute to the sustained growth of the Group, with a growing business, stable margins and the focus on sustainability and care for the environment and good corporate governance practices.

Business development

The Group continued to execute its rolling stock manufacturing contracts in its portfolio in 2021.

Most notably the 36 high-speed trains of the Mecca-Medina in Saudi Arabia State Railway Company SRO, were commissioned by the Saudi Arabian state railway company SRO. These trains are currently providing commercial services with excellent results and to the full satisfaction of our client and the passengers who use them.

During the months of August and September 2021, the two new high-speed trains identical to the 4 already in service in the country, as well as 4 additional cars to complete the existing trains, were delivered to the Uzbekistan State Railways (UTY).

On the other hand, once the technical development of 30 AVRIL type high-speed trains for RENFE has been completed (15 of them with UIC gauge and a maximum speed of 330 km/h and another 15 trains with sliding tracks), during this financial year the manufacturing of the trains has continued in the factories of Rivabellosa (Alava) and Las Matas II (Madrid) and at the end of January the track tests of the first units have begun.

During the financial year 2021, the Group also continued the technical development work and first manufacturing phases of the following contracts: i) supply of 23 trains within the framework contract with the German Railways (Deutsche Bahn) for the manufacture of up to 100 self-propelled trains for a maximum speed of 230 km/h. ii) the contract for the supply of 6 trains for the Egyptian National Railways (ENR) which also includes the maintenance of the trains for a period of 8 years, iii) the contract for the supply and maintenance of an AVRIL type Auscultator train for the Spanish rail infrastructure manager ADIF, iv) the contract with the Danish operator DSB for the supply of 8 Talgo 230 type trains (of the same series as those of Deutsche Bahn) as well as the supply for 16 years of maintenance fleet parts as part of a framework contract of up to 500 million euros.

The main supply contracts signed during 2021 include the following: i) contract for the supply of 16 additional coaches signed on April 9th 2021 with the Danish railway company DSB; ii) contract for the supply of 26 high-speed powerheads signed on December 9th 2021.

With regard to train maintenance activities, in 2021 the Group continued to execute multi-year train maintenance contracts in the various countries where it is established, such as Spain (RENFE and ADIF), Kazakhstan (KTZ), Uzbekistan (UTY), the United States (Oregon State), Germany (Deutsche Bahn and other railway operators) and Russia (RZD). Likewise, as mentioned above, in Saudi Arabia, the Group, through its permanent establishment in that country, provides maintenance services on the high-speed trains that run between the cities of Mecca and Medina.

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

In parallel, the first steps have begun to be taken during the year 2021 for: i) the establishment of a new maintenance centre in Cairo (Egypt) for the trains that will soon be delivered to the railways of that country ii) in coordination with RENFE, the preparation of all the infrastructure and resources necessary for the maintenance, through a joint venture, of the 30 AVRIL type high-speed trains for RENFE.

With regard to the main train maintenance contracts signed in 2021, the following are noteworthy: (i) renewal of the maintenance contract for the High Speed auscultator train owned by ADIF signed on 25 August 2021; (ii) renewal of the contract for the maintenance of 2 series 8 trainsets in the United States with the Oregon Department of Transportation signed on 30 November 2021; iii) contract for the maintenance of 13 high-speed rolling stock trains with RENFE signed on December 9^{th,} 2021; iv) renewal of the maintenance contract for 4 Uzbekistan trains for UTY and adding the two additional trains supplied during this financial year 2021 and signed on 28 December 2021.

In relation to the activity of rolling stock refurbishment, work continued on the transformation of 13 RENFE Hotel train sets to sets suitable for running at 330 km/h. Finally, in the United States, work continued on the remodelling of 74 railway units for the Los Angeles County Metropolitan Transportation Authority (LACMTA), and the technical phase of the contract with the Southern California Regional Rail Authority (SCRRA) for the execution of a remodelling programme for the first 50 of up to a maximum of 121 railway vehicles, with the first phases of the refurbishment having already begun.

The main contract signed in 2021 for train refurbishment consists of the retrofitting of RENFE's 130/730 series trains signed on 5 October 2021.

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

The maintenance equipment activities have contributed several contracts to the order book this year, including contracts signed for the sale of pit winches and/or machine vision and DSR measuring equipment in Canada, Switzerland, Germany, France and Spain for customers such as Hitachi, RNV Rhein-Neckar-Verkehr GmbH, Basler Verkehrs-Betriebe, S-Bahn Berlin, RNV Mannheim SNCF - Villeneuve and UTE Nazaret L10 Valencia, among others.

In line with the Group's policy of innovation and diversification of its product portfolio, during 2021 and among other projects, it has continued with the development and optimisation and improvement tests for the 2nd generation of the AVRIL high-speed train platform. In parallel, different transversal projects are being carried out, among others, in very diverse areas such as interoperability, digitalisation and industry 4. 0, signalling, safety, passenger experience and accessibility, energy efficiency and sustainability, lightening of materials, and mechatronic solutions, auto-configuration, versatile automated diagnostic installations on track, neural networks for applying intelligence to large volumes of data and parameters, improvements in comfort, noise and vibration, standardisation, additive manufacturing, element joints, new less polluting fuels for the traction chain such as hydrogen and optimisation of wheel wear.

Affection of the pandemic by COVID-19

Details of the main economic impacts and risks arising from the pandemic are set out in note 2.c to the accompanying consolidated financial statements.

Group strategy and objectives

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

- Protect the health of the Group's employees: Take specific measures to facilitate the safety distance, distribution of means of protection, information.

- Establish the necessary measures to maintain the employment of the staff and if this is not possible, if necessary, use the mechanisms for the temporary suspension of contracts permitted by current or extraordinary legislation in force at any given time.
- Create a Crisis Committee for correct decision-making and correct internal and external communication.
- Establish coordination, cooperation and communication measures with our main stakeholders, especially with our customers and critical suppliers, in order to adapt to the current situation in a way that minimally affects our common activities.
- Establish communication mechanisms with the market to explain the measures implemented during and after the crisis.
- Protecting the company's cash flow. Refinance debt and obtain new financing to deal with a possible cash shortfall during the crisis and to be able to face the exit from the crisis.
- Training and mentoring managers to lead their teams during this new exceptional situation.
- Implementation of teleworking in a productive manner and greater flexibility that allows for its efficient application and future prospects, facilitating the reconciliation and balance of the personal and professional lives of workers.
- Policy of reducing fixed costs and delaying or cancelling planned investments as far as possible.
- Carrying out preventive tests and diagnostic tests to prevent the spread of COVID.

Concrete measures taken as a result of the strategies

As a result of the suspension of activity for some months, specifically in the maintenance activity, a Temporary Redundancy Plan was implemented in 2020 in different locations where the Group operates, which has been gradually reduced depending on the recovery of activity in 2021 as well.

Likewise, to prevent the spread of COVID-19, various measures have been taken to limit the movement of people and apply strict risk prevention protocols and care for the health of employees, such as reducing staff travel, reorganising shifts and work spaces, making the working day more flexible, favouring the reconciliation of work and family life, with the significant promotion of teleworking, which has led to additional technological investments. Likewise, investments have been made in protective equipment and materials and diagnostic tests available to the entire workforce in order to contribute to the prevention of the spread of the virus.

As mentioned in note 3, in order to avoid the liquidity risk associated with the current situation, the Group continued to renegotiate maturities of bank debt and formalised new credit lines.

The Group has established working committees and specific procedures to monitor and manage the evolution of its operations at all times in order to minimise their impact. The Group continues to pursue its policy of cost optimisation in all its areas of activity.

Significant events after the end of the reporting period

The subsequent events that may have a significant influence on these consolidated annual accounts are detailed in note 24.

Innovation, research and development activities

Continual commitment to research and development of new products has earned Talgo international recognition, allowing it to compete with other railway equipment manufacturers in different tenders worldwide. Today Talgo trains are seen traveling across Spain, Russia, Kazakhstan, Uzbekistan, Saudi Arabia and the USA among other countries.

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

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

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

The aim of Talgo's Strategic Intelligence work is to systematically capture, analyse, disseminate and exploit information (technological, competitive, legislative, etc.) on the company's environment in order to define opportunities for Talgo that are reflected in a list of proposals for annual innovation projects, to warn of changes that could pose a threat to the company and to help detect opportunities for success.

Talgo has continued its policy of investing in research and development activities aimed at the continuous improvement of its products and maintenance services. Among others, it has collaborated with various partners at European level, including prestigious universities and technology centres, as well as some of the main entities in the railway industry. Some of the main collaborations of this type are part of the two major European initiatives dedicated to railway innovation, promoted by the European Commission: Shift2Rail, in which Talgo plays a very important role in key traction projects, lightening of structures through the use of composite materials, active systems for rolling, energy efficiency and improvement of noise and vibrations; and Europe's Rail, successor to the previous one, of which Talgo, together with Indra, is a founding member since December 2021. In Europe's Rail, Talgo will continue its lines of work, with a strong focus on developing technologies to improve the efficiency, attractiveness and operating and maintenance costs of its trains.

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

Also noteworthy is Talgo's intense and ongoing commitment to sustainability, manufacturing lighter and increasingly efficient trains, responding to the commitment to provide railway operators with products that provide the backbone of the territory, promoting development and improving connections between towns and cities while contributing to the sustainability of transport and preserving the environment. A clear example of this is the Vittal One train project, on which work is currently underway to develop a dual hydrogen train that will be able to run with hydrogen technology on non-electrified tracks and with conventional electric traction on catenary tracks, which represents a green, innovative and efficient alternative to replace diesel traction trains.

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

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

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

During the performance of its activities, priority is given to improving the efficiency of our management systems in a sustainable, safe manner and quality in order to obtain the maximum satisfaction of its clients, employees and suppliers. Materials that favour the recyclability and recoverability of products are promoted, and measures that develop Ecodesign and the Circular Economy are established.

To that end, the Group is committed to delivering products and services in perfect conditions and not causing any environmental impact; meeting the applicable regulations and standards; establishing actions to eradicate the source of the identified problems as well as preventing them to occur again and promoting both a continuous training and the professional capacities of the personnel.

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

Additionally, the implementation and certification of the Parent company, according to the requirements of the IRIS quality standard, specific to the railway sector, is a powerful tool for the improvement of all processes based on a deep reflection that allows to clearly identify the points of improvement of the organization, which allows a greater efficiency and competitiveness that results in the internationalization of the company.

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

The breakdown of the expenses incurred by the Group to protect and improve the environment is disclosed in note 21. The costs relating to the prevention of risks form part of the costs of the projects.

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

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, of 60 days, being the average payment period of 83 days during the year 2021.

In addition, pursuant to the ICAC (Accounting and Audit Institute) Resolution of 29 January 2016, the Group discloses the information to provide in the annual accounts.

Own shares and participations

The Group did not hold any of its own shares or participations at 31 December 2021.

Use of financial instruments

The Group does not trade with financial instruments which could eventually affect to the right valuation of the assets or liabilities recorded in the balance sheets with the exceptions indicated in notes 11 and 16 to the accompanying annual accounts.

Non-financial information

As indicated in note 1, the Parent company is the head of a group of subsidiaries which, in turn, belongs to a higher consolidated group of which, Talgo, S.A., is a parent company. The of non-financial information of Patentes Talgo, S.L.U. is integrated in the consolidated non-financial information of Talgo, S.A. and subsidiaries which is filed, attached to the annual accounts and consolidated director's report in the Mercantile Registry of Madrid.

Patentes Talgo, S.L. (Sole-Shareholder Company)

Consolidated Financial Statements
for the year ended 31 December 2022 and
Consolidated Directors' Report, together
with Independent Auditor's Report

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

Deloitte.

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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 Sole Shareholder of Patentes Talgo, S.L. (Sole-Shareholder Company),

Opinion

We have audited the consolidated financial statements of Patentes Talgo, S.L. (Sole-Shareholder Company) (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2022, and the consolidated statement of profit or loss, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2022, and its consolidated results and its consolidated cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Group (identified in Note 2.a to the consolidated financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Most Significant Audit Matters

The most significant audit matters are those matters that, in our professional judgement, were considered to be the most significant risks of material misstatement in our audit of the consolidated financial statements of the current period. These risks were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those risks.

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

Recognition of manufacturing revenue by reference to the stage of completion

Description

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

Determination of the stage of completion necessarily involves a high degree of complexity and estimation by the Parent's management and directors in relation to, inter alia, the estimation of the total costs to be incurred in each contract and the estimation of the margin taking into consideration the expected revenue and the estimated costs to be incurred.

These judgements and estimates are made by the persons in charge of the performance of the projects, are subsequently reviewed at the various levels of the organisation, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied. In this regard, among other things, the project budgets require a significant degree of monitoring.

Accordingly, occurrence in the recognition of revenue from these contracts was considered to be one of the most significant matters in our audit.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the process involved in recognising revenue by reference to the stage of completion, as well as tests to verify that the aforementioned controls operate effectively. In particular, we selected those performed by the persons in charge of each area, supervised by management of the Group, relating to the reviews of the cost variances and budgets of the projects and the estimated percentage of completion.

Also, we performed substantive audit procedures including, among others, a sample selection, based on both quantitative and qualitative criteria, of the contracts, and the in-depth analysis of these contracts and the clauses contained therein in order to obtain an appropriate understanding of the terms and conditions agreed upon. For those contracts we checked that the contract revenue was consistent with the contractual terms and conditions, verifying the price agreed on under those contracts, and analysed, with the involvement of our technical specialists, the reasonableness of the stage of completion and of the cost budgets.

In this regard, for the purpose of analysing the reasonableness of the estimates made by management, we analysed it on the basis of comparable historical information, and evaluated the consistency of the estimates made in prior years with the actual data for the contracts in the current reporting period, analysing any possible variances and modifications reflected in the cost budgets.

Lastly, we checked that the disclosures included in Notes 4.m and 18 to the accompanying consolidated financial statements were in conformity with the applicable financial reporting framework.

Provisions for tax contingencies

Description

As indicated in Note 2.c, when calculating the provision for income tax, the Group assesses whether there is an uncertainty as to the acceptability by the taxation authorities of the tax treatment afforded to any specific transaction or circumstance. For those cases in which it is considered unlikely that the tax treatment will be accepted, the Group recognises a provision based on its best estimate. In all other cases, no provision is recognised, and the possible contingencies or uncertainties are disclosed in the notes to the consolidated financial statements.

The aforementioned assessment, and the determination, as the case may be, of the provision to be recognised, is subject to a significant level of judgement and, therefore, the directors and management are advised by experts in the subject.

As described in Note 19, in prior years the Parent of the Group and its parent, Talgo, S.A., received tax assessments that they signed on a contested basis and against which they filed an economic-administrative appeal. They also assessed, together with their external tax advisers, the uncertainty associated with the various matters in dispute, with each entity recognising the corresponding provisions in their financial statements (EUR 1.4 million in the Group's consolidated financial statements) and disclosing the other contingencies in the notes to those financial statements.

During the current year, the Economic and Administrative Court (TEAC) has confirmed the conclusions of the aforementioned tax assessments, against which the Group has lodged an appeal for judicial review. Management and directors have reassessed the risk and concluded that the accounting criteria and disclosures already made in previous years should be maintained in the same terms.

The significance of the associated tax contingencies and of the judgements and estimates made in the calculation of the aforementioned provision meant that this matter was considered to be a significant matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, the obtainment of the responses from the Group's tax advisers, on which management and the directors relied to reassess the uncertainty associated with the matters in dispute and to determine whether the impacts on the tax assets and tax provisions recognised in prior years remained valid.

In this connection, with the assistance of our internal experts in the tax area, we:

- Obtained an understanding of the matters in dispute, as well as the opinions, on each of them, of the Group's tax advisers.
- Conducted a review of the reasonableness of the conclusions reached by said experts on the possible outcomes.
- Reviewed the method adopted by the Group (most likely amount) to determine the associated tax assets and liabilities, as well as the reasonableness of their quantification.

Lastly, we verified that the notes to the consolidated financial statements (Notes 2.c, 15 and 19) contained the disclosures on these matters required by the applicable financial reporting framework.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2022, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

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

a) Solely checking that the consolidated non-financial information statement has been furnished as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) Evaluating and reporting on whether the other information included in the consolidated directors' report is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements, as well as evaluating and reporting on whether the content and presentation of this section of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we observed that the information described in section a) above was furnished as provided for in the applicable legislation and that the other information in the consolidated directors' report was consistent with that contained in the consolidated financial statements for 2022 and its content and presentation were in conformity with the applicable regulations.

Responsibilities of the Parent's Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in the Appendix to this auditor's report. This description, which is included below, forms part of our auditor's report.

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

Bruno Rodríguez Martínez
Registered in ROAC under no. 21.439

28 February 2023

Appendix to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

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

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.

- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated with the Parent's directors, we determine those risks that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the most significant assessed risks.

We describe those risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

Consolidated annual accounts and Directors' report
for the year ended 31 December 2022

Translation of consolidated financial statements originally issued in Spanish prepared in accordance with generally accepted auditing standards in Spain (see Note 24). In the event of a discrepancy, the Spanish-language version prevails

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS FOR THE YEARS ENDED 31 DECEMBER 2022 AND 2021
(Expressed in thousands of euros)

ASSETS	2022	2021
NON-CURRENT ASSETS	**228 577**	**241 401**
Intangible assets (note 6)	**113 192**	**115 369**
Tangible fixed assets (note 7)	**52 119**	**57 231**
Long-term financial investments in group companies and associates (note 8)	**36 936**	**39 736**
Investments recorded under the equity method	29	29
Long-term loans to group companies and associates	36 907	39 707
Long-term financial investments (note 8)	**946**	**1 302**
Third party receivables	648	699
Derivative financial instruments	-	168
Deposits and guarantees	298	435
Deferred tax assets (note 19)	**25 384**	**27 763**
CURRENT ASSETS	**852 657**	**765 310**
Stock (note 9)	**189 518**	**133 219**
Trade and other receivables (note 10)	**416 177**	**361 202**
Accounts receivable for sales and services provided	397 286	346 743
Receivables from group companies and associates	1 606	75
Sundry debtors	840	666
Staff	756	681
Other receivables from Public Administrations (note 19)	15 689	13 037
Short-term financial investments (note 11)	**3 433**	**2 801**
Loans to group companies	1 468	1 468
Derivative financial instruments	1 882	1 218
Other financial assets	83	115
Short-term accruals and deferrals	**21 876**	**17 224**
Cash and cash equivalents (note 12)	**221 653**	**250 864**
TOTAL ASSETS	**1 081 234**	**1 006 711**

LIABILITIES AND SHAREHOLDER'S EQUITY	2022	2021
EQUITY	**303 402**	**322 842**
Equity (note 13)	**292 894**	**313 789**
Share capital	51 914	51 914
Legal reserve	10 383	10 383
Other reserves	209 405	204 821
Reserves in consolidated companies	30 058	28 883
Result for the financial year	(8 866)	17 788
Valuation adjustments	**4 405**	**2 751**
Translation differences	2 784	1 731
Hedging transactions	1 621	1 020
Grants, donations and bequests received (note 14)	**2 208**	**2 408**
Non-controlling interest	**3 895**	**3 894**
NON-CURRENT LIABILITIES	**288 165**	**283 999**
Long-term provisions (note 15)	**40 083**	**40 842**
Other provisions	40 083	40 842
Long-term debt (note 16)	**246 706**	**241 875**
Debts with financial institutions	217 339	215 624
Non-current finance leases	142	320
Derivatives	-	26
Other financial liabilities	29 225	25 905
Deferred tax liabilities (note 19)	**1 376**	**1 282**
CURRENT LIABILITIES	**489 667**	**399 870**
Short-term provisions (note 15)	**1 932**	**2 198**
Short-term debt (note 16)	**76 208**	**39 640**
Debts with financial institutions	66 510	35 933
Current finance leases	168	438
Other financial liabilities	9 530	3 269
Short-term debts with group companies (note 17)	**5 403**	**3 035**
Short-term creditors and other accounts payable	**406 124**	**354 997**
Suppliers	222 149	160 934
Other creditors	26 483	20 186
Staff	10 836	14 569
Current tax liabilities	-	429
Other debts with Public Administrations (note 19)	9 774	12 136
Advances on orders	136 882	146 743
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1 081 234**	**1 006 711**

Notes 1 to 24 of these consolidated annual accounts form an integral part of the consolidated balance sheet at 31 December 2022.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT ACCOUNTS FOR THE YEARS 2022 AND 2021
(Expressed in thousands of euros)

CONTINUING OPERATIONS	2022	2021
Net turnover (note 18)	**469 133**	**555 428**
Stock variation for work-in-progress and finished goods	**9 217**	**(405)**
Work performed by the company on fixed assets	**11 081**	**8 612**
Procurement costs (note 18)	**(221 856)**	**(314 738)**
Consumption of raw materials and other consumables	(156 104)	(241 044)
External services	(61 676)	(73 065)
Impairment of stock, raw materials and other supplies (note 9)	(4 076)	(629)
Other operating income	**988**	**675**
Non-core and other operating revenues	968	668
Capital grants included in the result for the year	20	7
Personnel expenses (note 18)	**(150 706)**	**(142 511)**
Wages, salaries and similar	(110 529)	(105 336)
Employee welfare expenses	(40 177)	(37 175)
Other operating expenses	**(76 064)**	**(48 794)**
External services	(75 901)	(51 633)
Taxes	(320)	(330)
Losses, impairment and variation in provisions for trade operations	157	3 169
Amortization and depreciation charge (notes 6 and 7)	**(29 357)**	**(29 872)**
Allocation of grants for non-financial fixed assets and others (note 14)	**763**	**423**
Impairment and gain/(losses) on disposal of fixed assets	**(46)**	**24**
Result from disposal of fixed assets and others	(46)	24
Other results	**599**	**657**
OPERATING RESULT	**13 752**	**29 499**
Financial income (note 18)	**302**	**12**
Financial expenses (note 18)	**(11 223)**	**(7 543)**
Change in fair value of financial instruments (note 18)	**-**	**10**
Translation differences (note 18)	**140**	**2 392**
FINANCIAL RESULT	**(10 781)**	**(5 129)**
Share in income of equity-accounted companies	**-**	**-**
PROFIT BEFORE TAX	**2 971**	**24 370**
Income tax (note 19)	(11 836)	(6 606)
EARNINGS FROM CONTINUING OPERATIONS	**(8 865)**	**17 764**
RESULT FOR THE YEAR	**(8 865)**	**17 764**
NET INCOME ATTRIBUTABLE TO THE PARENT COMPANY	**(8 866)**	**17 788**
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	**1**	**(24)**

Notes 1 to 24 of these consolidated annual accounts form an integral part of the consolidated income statement account for the financial year 2022.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2022 AND 2021
(Expressed in thousands of euros)

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSES

	2022	2021
Result from the income statement	**(8 865)**	**17 764**
Income and expenses attributed directly to equity	**986**	**2 079**
Cash flow hedges	801	1 408
Grants, donations and bequests received (note 14)	514	1 364
Tax effect	(329)	(693)
Transfers to the income statement	**(585)**	**(332)**
Grants, donations and bequests received (note 14)	(763)	(424)
Tax effect	178	92
TOTAL RECOGNIZED INCOME AND EXPENSES	**(8 464)**	**19 511**
TOTAL RECOGNIZED INCOME AND EXPENSES ATTRIBUTABLE TO THE PARENT COMPANY	**(8 465)**	**19 535**
TOTAL RECOGNIZED INCOME AND EXPENSES ATTRIBUTABLE TO MINORITY INTERESTS	**1**	**(24)**

Notes 1 to 24 of these consolidated annual accounts form an integral part of the consolidated statement of recognized income and expenses for the financial year 2022.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2022 AND 2021
(Expressed in thousands of euros)

B) TOTAL STATEMENT OF CHANGES IN EQUITY

	Registered share capital	Legal reserve	Other reserves	Translation differences	Consolidation reserves	Result of the year	Other shareholders contributions	Valuation adjustmens	Grants, donations and bequests received	Minority interests	Total
Opening balance at 2021	**51 914**	**10 383**	**227 043**	**1 514**	**38 793**	**(28 128)**	**-**	**(36)**	**1 717**	**-**	**303 200**
Total recognized incomes and expenses	-	-	-	-	-	17 788	-	1 056	691	(24)	19 511
Application of results for 2020	-	-	(18 222)	-	(9 906)	28 128	-	-	-	-	-
Dividends	-	-	(4 000)	-	-	-	-	-	-	-	(4 000)
Changes in the consolidated group	-	-	-	-	-	-	-	-	-	3 918	3 918
Other variations in equity	-	-	-	217	(4)	-	-	-	-	-	213
Closing balance at 2021	**51 914**	**10 383**	**204 821**	**1 731**	**28 883**	**17 788**	**-**	**1 020**	**2 408**	**3 894**	**322 842**
Opening balance at 2022	**51 914**	**10 383**	**204 821**	**1 731**	**28 883**	**17 788**	**-**	**1 020**	**2 408**	**3 894**	**322 842**
Total recognized incomes and expenses	-	-	-	-	-	(8 866)	-	601	(200)	1	(8 464)
Application of results for 2021	-	-	16 584	-	1 204	(17 788)	-	-	-	-	-
Dividends (note 13)	-	-	(12 000)	-	-	-	-	-	-	-	(12 000)
Changes in the consolidated group	-	-	-	-	-	-	-	-	-	-	-
Other variations in equity	-	-	-	1 053	(29)	-	-	-	-	-	1 024
Closing balance at 2022	**51 914**	**10 383**	**209 405**	**2 784**	**30 058**	**(8 866)**	**-**	**1 621**	**2 208**	**3 895**	**303 402**

Notes 1 to 24 of these consolidated annual accounts form an integral part of the consolidated total statement of changes in equity for the financial year 2022.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS 2022 AND 2021
(Expressed in thousands of euros)

	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES	**(26 309)**	**33 822**
Result for the financial year before taxes	**2 971**	**24 370**
Adjustments to the result	**40 398**	**33 738**
- Amortization and depreciation charge	29 357	29 872
- Accumulated impairment losses	5 035	577
- Allocation of grants	(763)	(423)
- Results from disposals	46	(24)
- Financial income	(302)	(12)
- Financial expenses	11 223	7 543
- Other income and expenses	(3 003)	(632)
- Changes in fair value of financial instruments	-	(10)
- Change in provisions	(1 195)	(3 153)
Changes in working capital	**(53 867)**	**(13 250)**
- Stock	(60 374)	11 689
- Debtors and other accounts receivable	(51 665)	(102 026)
- Creditors and other accounts payable	62 529	92 462
- Other current assets and liabilities	(4 569)	(15 279)
- Other non-current assets and liabilities	212	(96)
Other cash flows from operating activities	**(15 811)**	**(11 036)**
- Interest payments	(8 960)	(7 117)
- Interest income	302	12
- Tax paid	(7 153)	(3 931)
CASH FLOW FROM INVESTING ACTIVITIES	**(22 380)**	**(11 179)**
Collections from disinvestment	**-**	**10 080**
- Tangible fixed assets	-	27
- Investments in financial assets	-	10 053
Amounts paid on investments	**(22 380)**	**(21 259)**
- Intangible assets	(18 575)	(16 236)
- Tangible fixed assets	(3 805)	(8 914)
- Consolidated companies, net cash	-	3 891
CASH FLOW FROM FINANCING ACTIVITIES	**18 651**	**3 113**
Collections and payments on financial liability instruments	**30 651**	**7 113**
- Collections from credit entities and other debts	57 721	117 367
- Payment of debt with credit institutions and other debts	(29 870)	(111 040)
- Debt with group companies	2 800	786
Dividends	**(12 000)**	**(4 000)**
- Dividend payment	(12 000)	(4 000)
EFFECT OF EXCHANGE RATE VARIATIONS	**827**	**-**
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	**(29 211)**	**25 756**
Cash and cash equivalents at the beginning of the year	250 864	225 108
Cash and cash equivalents at the end of the year	221 653	250 864

Notes 1 to 24 of these consolidated annual accounts form an integral part of the consolidated cash flow statement for the financial year 2022.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2022
(Expressed in thousands of euros)

1. General information

The Parent company, Patentes Talgo, S.L.U. was established as a joint-stock company in Spain on 12 December 2005, for an indefinite period. The Company's registered office 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 Parent company converted from a joint-stock company into a limited liability company.

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

On 23 April 2015, the National Securities Market Commission approved the prospectus and registered the supporting documents, annual accounts and prospectus in the official registers, as provided for by Article 92 of Law 24/1988, dated 28 July 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 Talgo S.A. and they were admitted to trading on the aforementioned markets.

The corporate purpose of the Parent company is as follows:

- The manufacture, repair, conservation, maintenance, purchase, sale, import, export, representation, distribution and marketing of material, systems and equipment for transport, especially in the railway sector.

- The manufacture, assembly, repair, conservation, maintenance, purchase, sale, import, export, representation, distribution and marketing of engines, machinery and pieces and components thereof, destined for the electromechanical, iron and steel and transport industries.

- The research and development of products and technologies relating to the two paragraphs above, 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 shares, investments and quotas, within the limits set forth by the stock market regulations, 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.

The main activity of the Parent company is the design, construction and maintenance of railway rolling stock, along with auxiliary machinery for the maintenance of railway systems.

The Group operates in Spain at its own facilities in Rivabellosa (Álava) and Las Matas II (Madrid), as well as at RENFE Operadora's facilities in las Matas I, Santa Catalina and Fuencarral in Madrid, Valladolid, San Andres Condal and Can Tunis in Barcelona, and Los Prados in Malaga.

The Group conducts its international activity at its facilities in Kazakhstan (Astana and Almaty), Uzbekistan (Tashkent), Berlin (Germany), Seattle (Washington) and Milwaukee (Wisconsin), Saudi Arabia (Medina) and Egypt (Cairo). In the course of the financial year and as a consequence of the war, the Group has ceased its activities in Russia.

Patentes Talgo, S.L.U. is wholly owned by Talgo, S.A., established in Madrid, which holds 100% of its shares. The consolidated annual accounts of Talgo, S.A. are prepared in accordance with International Financial Reporting Standards, adopted by the European Union and are filed in the Commercial Registry in Madrid.

For the purposes of the preparation of the consolidated annual accounts, it is understood that a Group exists when a Parent company owns one or more subsidiaries and exerts control over those subsidiaries, either directly or indirectly. The principles applied for the preparation of the Group's consolidated annual accounts, as well as the consolidation perimeter, are described in note 3.

The Parent company holds a direct stake in the following companies:

<u>Talgo Deutschland GmbH</u>

Talgo Deutschland Company (GmbH), which was established on 1 June 1993. Its corporate purpose is the marketing, maintenance and repair of trains and their components. The Parent company owns 100% of this subsidiary.

Its registered office is located in Berlin, Germany.

<u>Talgo, Inc.</u>

Patentes Talgo, S.L.U. owns 100% of the company Talgo, Inc.

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. It also overhauls coaches in Milwaukee (Wisconsin).

Its registered office is in Milwaukee, in the state of Wisconsin (United States).

Talgo Kazakhstan, S.L.U.

The Parent company owns 100% of this company. It was established in May 2010 and its primary corporate purpose is the manufacture and maintenance of railway rolling stock.

Its registered office is in Las Rozas, Madrid.

Patentes Talgo Tashkent, LLC

The Parent company owns 100% of this company.

It was established in December 2011 and its primary corporate purpose is the construction and maintenance of railway rolling stock.

Its registered office is located in Tashkent, Uzbekistan. At the end of 2022, this company is in the process of dissolution.

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 construction and maintenance of railway rolling stock. Its registered office is located in Istanbul, Turkey.

The company had no business activity at the end of 2022 and 2021.

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

This consortium was constituted on 2 November 2011. The Parent company holds 10,074 shares in the consortium, which have a nominal value of €1 per share; 100% of their nominal value had been disbursed. These shares represent a percentage stake of 16.79% in the consortium.

The corporate purpose of this company is the performance of the design, manufacturing, operation, 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.

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 investment in associated companies.

OOO Talgo

The Parent company owns 87.5% of this company and, indirectly, 12.5% through its subsidiary Talgo Kazakhstan, S.L.U.

Its primary corporate purpose is the manufacture and maintenance, certification and technical approval of railway rolling stock. It´s registered office is located in Moscow, Russia. The company had no business activity at the end of 2022 and it is in the process of dissolution.

Motion Rail, S.A.

The Parent company owns the 46.25% of this company.

This company is considered an associated company and will be consolidated using the equity method. Its corporate purpose is mainly the operation of all kind of passenger and commodity train transport activities and sale of all kind of related services.

Its registered office is in Las Rozas, Madrid.

The company had no business activity at the end of 2022 and 2021.

Talgo India Private Limited

The Parent company owns 99% of this company and, indirectly, 1% through its subsidiary Talgo Kazakhstan, S.L.U.

Its corporate purpose is the manufacture and maintenance of railway rolling stock and maintenance equipment.

Its registered office is in Delhi, India.

Talgo Shanghai Railways Equipment CO LTD

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

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

Its registered office is in Shanghai, China.

Talgo UK Limited

In 2019, the Parent company incorporated the subsidiary Talgo UK Limited, in which it has a direct 100% interest on 31 December 2022 and 2021. Its corporate purpose is mainly the manufacture and maintenance of railway equipment and auxiliary equipment.

Its registered office is located in Chesterfield, United Kingdom.

This company had no business activity at the end of 2022 and 2021.

<u>Tarvia Mantenimiento Ferroviario, S.A.</u>

The parent company in 2021 incorporated the company Tarvia Mantenimiento Ferroviario, S.A., owning 51% of this company. The remaining 49% is owned by Renfe Fabricación y Mantenimiento S.M.E, S.A.

Its corporate purpose is the development and execution of full maintenance work on trains in the fleet of vehicles owned by the Renfe Group, through the maintenance or repair of all kinds of industrial, electronic, electrical or mechanical elements, including all the engineering, supply logistics, stock management, human resources and other tasks necessary to achieve the aforementioned purposes.

Its registered office is in Las Rozas (Madrid).

The consolidated annual accounts were prepared by the Board of Directors of the Parent company on 28 February 2023, according with the legal requirements established on article 253 of the Corporation Tax Law and the Commercial Code on article 37. Consolidated annual accounts will be deposited in the Mercantile Registry of Madrid, once approved by the Sole Shareholder in accordance with the deadlines established by current legislation.

2. Basis of presentation

a) Applicable regulatory financial reporting framework

The consolidated annual accounts were formulated by the Directors of the Parent company, in accordance with the regulatory framework for financial information that is applicable to the Group, which is based on:

- The Commercial Code and other commercial legislation.

- The rules for the formulation of consolidated annual accounts approved by the Royal Decree 1159/2010 and the General Accounting Plan, approved by Royal Decree 1514/2007 and Royal Decree 1/2021, and its respective sectoral adaptations.

- 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.

b) Fair presentation

These consolidated annual accounts have been prepared on the basis of the accounting records maintained by the Parent company and its subsidiaries, whose respective annual accounts have been formulated by the Directors of each company. They have been presented in accordance with the applicable regulatory framework for financial information and, in particular, the accounting principles and the criteria included herein, in such a way so as to show a fair presentation of the equity, financial position, consolidated results of the Group and consolidated cash flow during the corresponding financial year.

These consolidated annual accounts, which have been formulated by the Directors of the Parent company, will have to be submitted for approval, in the same way as the accounts of the subsidiary companies, at their respective General Shareholders' Meetings. We believe that they will be approved without any modifications.

The figures contained in the documents that comprise these consolidated annual accounts, the consolidated balance sheets, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and this annual report, are expressed in thousands of euros (unless otherwise indicated).

In these financial statements information or breakdowns have been omitted which, not requiring detail due to their qualitative importance, have been considered immaterial or not relevant in accordance with the concept of materiality or relative significance as defined in the conceptual framework of the General Accounting Plan.

c) Critical aspects of the valuation and estimation of uncertainty

To prepare the consolidated annual accounts, the Group's Management has had to make certain estimates and judgments pertaining to the future, which are being evaluated continuously. They are based on past experience and other factors, including expectations of future events that may be considered reasonable under certain circumstances, especially those relating to the (i) recognition of revenue by stage of completion; (ii) estimates of valuation adjustments for any impairment losses on goodwill; (iii) the estimation of the useful lives of fixed assets, as mentioned in notes 4.a.3), 4.b), 4.m), 6 and 7, (iv) the estimation of provisions contained in note 4.k), (v) recoverability of deferred tax assets (note 4.i) and risks of a fiscal nature (note 19).

Although these estimations are based on the best information available at the end of 2022, it is possible that events may take place in the future that will require their modification (upwards or downwards) during the next few years. If necessary, these will be made on a prospective basis.

In relation to risks of a fiscal nature, in determining the provision for income tax, and the related tax assets and/or liabilities, the Group assesses whether there is any uncertainty as to the acceptability of the tax treatment of any particular transaction or circumstance. If the Group considers that it is likely that the tax authorities will accept the uncertain tax treatment, it determines the taxable profit (loss) and related tax assets and/or liabilities in a manner consistent with that tax treatment. Conversely, if the Group concludes that it is not likely that the tax authorities will accept the uncertain tax treatment, it will reflect the effect of the uncertainty in determining taxable profit (loss) and related tax assets and liabilities by one of the following methods:

- The most probable amount, if the possible outcomes of the uncertainty are dual or concentrated in a single value.
- The expected value, i.e. the sum of amounts weighted by their probability in a range of possible outcomes, in cases other than the above.

As described in note 19, on 10 July 2017 the Parent company and its parent company (Talgo, S.A.) received notification from the tax authorities of the partial verification of Income Tax for 2012 to 2015 and Personal Income Tax for the periods from May 2013 to December 2015. As a result of the aforementioned procedure, in October 2019 assessments were signed in disagreement, which were confirmed by settlement agreements notified in November 2019. At the end of 2019, the directors evaluated the matters under discussion, taking into account the opinion of their tax advisors, and the Group recorded the associated tax assets and liabilities, considering the most likely amount that will be derived from these assessments. During the 2022 fiscal year, the estimates made have not been subject to changes as no new events have occurred that would cause them to be modified. The doctrine on the matters under discussion is scarce and disparate.

The Group's Management is not aware of the existence of any major uncertainties, other than those disclosed in the financial statements, with regard to events or risks that may result in significant changes to the value of the assets and liabilities at the end of 2022.

d) Grouping items

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

e) Applicable accounting principles

The Directors have prepared these consolidated annual accounts by taking into consideration all of the applicable compulsory accounting principles and regulations.

None of the compulsory or significant accounting principles have ceased to apply.

f) Comparison of information

The information contained in these consolidated annual accounts pertaining to the year 2021 is presented for comparative purposes only, alongside the information for 2022.

3. Consolidation principles

Control Acquisition

A business combination occurs when the Parent company (or any other of the Group company) takes control of a subsidiary; this is recorded in the books in accordance with the acquisition method. This method requires the acquiring company to account for the identifiable assets acquired and liabilities assumed in a business combination on the date of acquisition and, where appropriate, the relevant goodwill or negative difference arising. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation on the date on which that control ceases.

The acquisition cost is determined as the sum of the fair values on the acquisition date of the assets transferred, the liabilities incurred or assumed, the equity instruments issued by the acquirer and the fair value of contingent consideration, which depends on future events or the fulfillment of certain conditions, to be registered as an asset, a liability or as equity in accordance with its characteristics.

Expenses relating to the issuance of equity instruments or financial liabilities that are transferred do not form part of the cost of the business combination, but are recorded in accordance with the rules applicable to financial instruments. Fees paid to legal advisors and other professionals involved in the business combination are recorded in the books as an expense when they are incurred. Costs generated internally for these concepts are not included in the cost of the business combination either, even if they are incurred by the acquired company.

At the date of acquisition, any excess costs of the business combination over the proportional part of the value of identifiable assets acquired minus the liabilities assumed which are representative of the equity interest in the acquired company, is recognized as goodwill. On an exceptional basis, if this amount is greater than the cost of the business combination, then the excess shall be recorded in the income statement as income.

Phased acquisition of control

When control of a subsidiary is acquired through various transactions on different dates, then the goodwill (or negative difference) is calculated as the difference between the cost of the business combination plus the fair value of any prior investment held by the acquiring company in the acquired company on the acquisition date, and the value of the identifiable assets acquired less the liabilities assumed.

Any profit or loss arising as a result of the valuation at fair value, on the date on which control of the prior investment in the acquired company is assumed by the acquiring company, is recognized in the income statement. If the investment is valued at fair value beforehand anyway, then any valuation adjustments pending inclusion in the result for the year are transferred to the income statement.

a) Subsidiaries

Subsidiaries are all of the companies, including special purpose entities, over which the Group exerts or may exert control, either directly or indirectly. Control is understood to be the power to govern the financial and operating policies of a business, with the aim of generating financial profits from its activities.

When it comes to evaluating whether or not a 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 from the date on which control is transferred to the Group, and they are excluded from consolidation from the date on which that control ceases.

The details of Group's subsidiaries at December 31, 2022 are shown below:

Name and place of business	Activity	Ownership stake (% direct)	Investment cost (€ in thousands)	Auditor
Talgo Deutschland, GmbH. Berlin. Germany	Maintenance of railway rolling stock (Talgo stock and conventional stock owned by Deutsche Bahn).	100%	585	Deloitte GmbH
Talgo, Inc. Seattle. USA	Construction and maintenance of railway rolling stock owned by Amtrak and ODOT.	100%	6 782	Non audited
Talgo Kazakhstan, S.L.U. Madrid, Spain	Construction and maintenance of railway rolling stock	100%	18	Non audited
Patentes Talgo Tashkent, LLC. Tashkent, Uzbekistan	Construction and maintenance of railway rolling stock	100%	1	Non audited
Talgo Demiryolu Aracli Üretim. VE BA. A.S. Istanbul, Turkey	Construction and maintenance of railway rolling stock (no activity)	100%	4	Non audited
OOO, Talgo. Moscow, Russia	Construction and maintenance of railway rolling stock (no activity)	87.5%*	1	Non audited
Talgo India Private Limited, Delhi, India	Construction and maintenance of railway rolling stock	99%*	3	Non audited
Talgo Shanghai Railways Equipment CO LT	Import, export, purchase, sale of railway products and its materials	0%**	-	Non audited
Talgo UK Limited	Construction and maintenance of railway rolling stock	100%	-	Non audited
Tarvia Mantenimiento Ferroviario, S.A.	Maintenance and repair of railway rolling stock	51%	4 080	Deloitte, S.L.

* The remaining ownership stake (direct %) corresponds to Talgo Kazakhstan, S.L.U.
** Talgo Kazakhstan S.L.U. owns 100% of the stake of this company.

The details of Group's subsidiaries at 31 December 2021 were as shown below:

Name and place of business	Activity	Ownership stake (% direct)	Investment cost (€ in thousands)	Auditor
Talgo Deutschland, GmbH. Berlin. Germany	Maintenance of railway rolling stock (Talgo stock and conventional stock owned by Deutsche Bahn).	100%	585	Deloitte GmbH
Talgo Kazakhstan LLC, Almaty. Kazakhstan	Constituted in 2003 to import spare parts for railways and to render maintenance services (no activity).	100%	1	Non audited
Talgo, Inc. Seattle. USA	Construction and maintenance of railway rolling stock owned by Amtrak and ODOT.	100%	6,782	Non audited
Talgo Kazakhstan, S.L.U. Madrid, Spain	Construction and maintenance of railway rolling stock	100%	18	Non audited
Patentes Talgo Tashkent, LLC. Tashkent, Uzbekistan	Construction and maintenance of railway rolling stock	100%	1	Non audited
Talgo Demiryolu Aracli Üretim. VE BA. A.S. Istanbul, Turkey	Construction and maintenance of railway rolling stock (no activity)	100%	4	Non audited
OOO, Talgo. Moscow, Russia	Construction and maintenance of railway rolling stock	87.5%*	1	Non audited
Talgo India Private Limited, Delhi, India	Construction and maintenance of railway rolling stock	99%*	3	Non audited
Talgo Shanghai Railways Equipment CO LT	Import, export, purchase, sale of railway products and its materials	0%**	-	Non audited
Talgo UK Limited	Construction and maintenance of railway rolling stock	100%	-	Non audited
Tarvia Mantenimiento Ferroviario, S.A.	Maintenance and repair of railway rolling stock	51%	4 080	Non audited

* The remaining ownership stake (direct %) corresponds to Talgo Kazakhstan, S.L.U.
** Talgo Kazakhstan S.L.U. owns 100% of the stake of this company.

Assets, liabilities, income, expenses, cash flows and other items recorded in the annual accounts of the aforementioned subsidiaries are included in the Group's consolidated annual accounts under the global integration method, which requires the following:

1. Homogenization of timings. The consolidated annual accounts are drawn up on the same date and for the same period as the annual accounts of the company that is obliged to be consolidated. The inclusion of companies with different year-end dates is performed using interim accounts that relate to the same date and period as the consolidated accounts.

2. Homogenization of value. Assets and liabilities, revenue and expenses and other items recorded in the annual accounts of the Group's companies are valued in a uniform way. Any elements of the assets and liabilities, or revenue and expenses that are valued in accordance with criteria that are not consistent with those applied in the consolidated accounts are revalued and the necessary adjustments are made for consolidation purposes.

3. Aggregation. Different items in the individual annual accounts, which have been homogenized previously, are aggregated in accordance with their nature.

4. Investment-equity elimination. The book values that correspond to investments held in the capital of subsidiaries, owned directly or indirectly by the Parent company, are offset by the proportional part of the equity in the subsidiary attributable to the investment, which is generally based on the acquisition method described above. For consolidation processes after the financial year in which control is transferred, any excess or shortfall in equity generated by the subsidiary, since the date of acquisition, that is attributable to the Parent company, is presented in the consolidated statement of financial position within reserves or adjustments for changes in value, in accordance with their nature. The part attributable to third party interests is recorded within the "Minority interest" caption.

5. Minority interests. The valuation of the stakes held by external shareholders is performed on the basis of their effective participation in the subsidiary's equity, once the aforementioned adjustments have been made. Goodwill on consolidation is not attributable to minority interests. The excess of any losses attributable to the minority interests of a subsidiary and the amount of equity that proportionally corresponds to them is attributed to them, even when that results in a debtor balance under that heading.

6. Elimination of intercompany transactions. Intercompany receivables, debts, revenue, expenses and cash flows are fully eliminated. Moreover, all of the results arising from internal operations are eliminated and deferred until they are carried out with third parties outside of the Group.

Changes in ownership without loss of control

Once a parent company has taken control of a subsidiary, any subsequent transactions that result in changes in the parent company's ownership interest in that subsidiary, without leading to a loss of control, are considered as transactions involving own shares instruments in the consolidated annual accounts, and the following rules apply:

1. No modifications are made to the amount of goodwill or recognized negative difference or to the amounts of other assets or liabilities recognized;

2. Any profit or loss recognized in the individual accounts is eliminated, upon consolidation, and a corresponding adjustment is recorded in the reserves of the company whose shareholding decreases;

3. Adjustments are made to the amounts included in "Adjustments for changes in value" and "Grants, donations or gifts and legacies received" to reflect the shareholding held by the Group's companies in the subsidiary's share capital;

4. The stake held by external shareholders in the equity of a subsidiary is shown on the basis of the percentage stake that the third parties not relating to the Group own in the subsidiary, once the transaction has been completed, including the percentage stake of goodwill recorded in the consolidated accounts and associated with the change that has occurred;

5. The corresponding adjustment resulting from rules 1, 2 and 3 above will be recorded within reserves.

Loss of control

When a parent company loses control of a subsidiary, the following rules apply:

1. Adjustments are made to the profit or loss recognized in the individual annual accounts for consolidation purposes.

2. If the subsidiary is classified as a jointly controlled entity or associate, it is consolidated and the equity method is applied initially, considering for the purposes of the initial valuation, the fair value of retained interest on that date.

3. The stake in the equity of a subsidiary that is retained after the loss of control, but which is not included in the consolidation perimeter, is valued in accordance with the criteria applicable to financial assets considering, for the initial valuation, the fair value on the date on which that subsidiary ceases to fall within the perimeter.

4. An adjustment is made to the consolidated income statement to show the minority interest share of the profit or loss generated by the subsidiary during the year until control is lost, as well as to the amount transferred to the income statement for the income and expenses registered directly within equity.

b) Multi-group companies

Multi-group companies are those managed by the Group in conjunction with other external companies. They are included in the consolidated annual accounts under the equity method.

At year-end 2022 and 2021, the Group did not hold any investments in multi-group companies.

The application of the method is explained in section c) below.

c) Associates

Associates are those entities over which any of the companies included in the consolidation exercise exert significant influence. It is understood that significant influence exists when a Group owns a stake in a company and is able to intervene in decisions regarding financial and operating policy, but is not able to exert control.

The company Consorcio Español Alta Velocidad Meca-Medina, S.A. was classified as an associate as at 31 December 2022 and 2021. We consider that the Group exerts significant influence over this consortium since the Talgo Group appointed some of the members of its Board of Directors; decisions are agreed on the basis of the participatory rights of the consortium's members; and, as a general rule, a majority of 75% is required.

Associates are included in the consolidated annual accounts under the equity method.

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

The difference between the net book value of the investment in the individual accounts and the amount indicated in the previous paragraph constitutes goodwill, which is recorded within the "Investments recorded under the equity method" caption. In the exceptional case in which the difference between the amount at which the investment is accounted for in the individual accounts, and the share of the fair value of company's equity is negative, then that difference is recorded in the income statement, after reassessing the assignment of fair values to the assets and liabilities of the associate.

Generally, except in the event of negative goodwill arising as a result of the acquisition of the acquisition of significant influence, investments are initially measured at cost.

The results generated by a company consolidated under the equity method are recognized from the date on which significant influence is acquired.

The book value of an investment is modified (increased or decreased) in proportion with the stake held by the Group's companies, to reflect any variations in the equity of the investee company since the initial assessment, after eliminating the proportion of unrealized results generated in transactions between the company and the Group's companies.

The highest value assigned to the share as a consequence of the application of the acquisition method is reduced in subsequent years and charged to the corresponding consolidated results or equity caption to the extent that the corresponding equity assets depreciate, are derecognized or disposed of to third parties. Similarly, a charge will apply in the consolidated income statement when losses arise due to the impairment of the assets of the investee company, up to the limit of the goodwill allocated to them on the date that they were first consolidated under the equity method.

Changes in the value of shares corresponding to the results of the investee company form part of the consolidated results, and are disclosed within "Share in the profit (loss) of companies accounted for under the equity method". However, if the associated company incurs losses, the decrease in the investment account shall be limited to the book value of the shareholding. If the share is reduced to zero, any additional losses and subsequent liabilities shall be recognized to the extent that any legal, contractual, implied or tacit obligations are incurred, or if the Group makes payments on behalf of the investee company.

Changes in the value of the investment pertaining to other equity changes are shown in the relevant sections of equity based on their nature.

Homogenization in terms of timing and value applies to associate investments in the same way as for subsidiaries.

Conversion of financial statements presented in foreign currencies

The financial statements of the subsidiaries whose currency differs from the reporting currency, euros, have been converted in accordance with the following procedures:

- The assets and liabilities on the statement of financial position are converted at the exchange rate on the corresponding year-end date. The income and expenses recorded in each of the result captions are converted at the cumulative average exchange rate during the accounting period in which they are recorded. All translation differences arising from the above are recognized as a separate component in equity, within the "Adjustment for changes in value" caption, specifically within "Translation differences".

- When control, joint control or significant influence is lost over a company that has a functional currency other than the euro, then the translation differences recorded within equity relating to that company, are recognized in the income statement at the same time as the result arising from the disposal is recognized. If the company that has a functional currency other the euro is an associate and a partial sale of the shareholding takes place (that does not result in a change in the classification of the associate), then only the proportional part of the translation difference is allocated to the income statement.

Variations in the consolidation perimeter

In 2021, the company Tarvia Mantenimiento Ferroviario, S.A. was incorporated, with the parent company holding a 51% interest (note 1). During 2022, the parent company's interest in Talgo Kazakhstan, LLC was derecognised as this company was wound up.

4. Recognition and measurement

The main valuation standards used by the Group in the preparation of its financial statements for the year ended December 31, 2022 in accordance with the applicable financial reporting framework described in note 2.a. were as follows:

a) Intangible assets

As a general rule, intangible fixed assets are initially valued for their acquisition price or production cost. Subsequently, it is valued at its cost discounting by the corresponding accumulated amortization and, where appropriate, by any related impairment loss.

Intangible fixed assets are finite useful life assets, and if the latter is not possible to be reliably estimated, they will be amortized in ten years, unless a different period is provided for in another legal or regulatory provision in force.

a.1) 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. These costs are amortized on a straight-line basis over their estimated useful life, of 4 years.

Expenses relating to the maintenance of software are recognized when they are incurred. Costs that directly relate to the development of unique and identifiable software programs that are controlled by the Group, and are likely to generate profits that exceed their costs for more than a year, are recognized as intangible assets and amortized over their estimated useful life, of 4 years. Direct costs include the expenses of personnel involved in the development of software and an appropriate percentage of overhead expenses.

a.2) Research and development expenses

Research and development expenses, whose results are satisfactory from a technical and commercial perspective, to have sufficient technical and financial resources available for their completion, and for which the costs incurred can be determined reliably and the generation of profits is likely, are carried forward as an asset and amortized over a maximum period of 5 years. In the event of any variation in the circumstances in favour of the project that allowed them to be capitalized, then the part pending amortization is carried over to the results for the financial year in which those changes take place.

Other development expenses are recognized as costs when they are incurred. Any development costs previously recognized as expenses are not recognized as assets in subsequent years.

When the book value of an asset is greater than its estimated recoverable amount, its value is immediately reduced to its recoverable value.

Any work performed to develop intangible 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.

a.3) Goodwill

Goodwill represents the excess, on the acquisition date, of the cost of the business combination over the value of the identifiable net assets acquired as a result of the transaction. It has been acquired from an onerous commitment and corresponds to future economic benefits arising from the assets that it has not been possible to identify individually or recognize separately.

Subsequent to the initial recognition, the goodwill will be measured at its acquisition price less accumulated amortization and, if applicable, the accumulated amount of the recognized impairment losses. Goodwill will be amortized over its useful life. The useful life will be determined separately for each cash generating unit to which goodwill has been assigned. Goodwill has finite useful life and is presumed unless proven otherwise to have a useful live up to ten years and is amortized in a linear basis.

It is analysed, at least on an annual basis, if there is evidence of impairment in these CGU's and, if positive, they are assessed for impairment in accordance with what is stated in note 6, proceeding, where appropriate, with the recording of the corresponding impairment loss. A loss due to impairment is recognized for any excess in the book value of the asset over its recoverable value, where this is understood to be the fair value of the asset less the costs of sale or value in use, whichever is greater. For the purposes of evaluating losses due to impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Adjustments for impairment losses recognized against goodwill are not subject to reversal in subsequent financial years.

Non-financial assets, other than goodwill, that suffer a loss due to impairment are subject to review at each year-end date to determine whether any reversals of the loss have taken place.

b) Tangible fixed assets

Tangible fixed asset elements are recognized at their acquisition price or production cost less accumulated depreciation and the accumulated amount of any recognized losses.

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 is 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.

The costs of expanding, modernizing and improving tangible fixed assets are incorporated by increasing the asset balance only when the change results in an increase in the capacity, productivity or extension in the useful life of the asset, provided it is possible to determine or estimate the book value of the elements that are derecognized from stock for use as replacements.

The costs of major repairs are capitalized and depreciated over their estimated useful life, whilst recurrent maintenance expenses are charged to the consolidated income statement during the financial year in which they are incurred.

With the exception of land, which is not depreciated, all tangible fixed assets are depreciated using the straight-line method on the basis of their estimated useful lives, bearing in mind the depreciation effectively suffered due to their operation, use and enjoyment. The estimated useful lives are:

	Years	%
Buildings	50- 33	2 - 3
Machinery	8	12.5
Other installations, tools and furniture	3 - 14	33.3 – 7.14
Other tangible fixed assets	4 - 12	25 – 8.3

The residual value and useful life of the assets are reviewed periodically and are adjusted where necessary at each year-end date.

Any profits or losses arising from the sale of tangible fixed assets are calculated by comparing the income obtained from the sale against the book value and are recorded in the consolidated income statement.

Financial expenses directly attributable to the acquisition or construction of elements relating to fixed assets that require more than one year to be in a usable condition are recognized at cost until they are in an operational condition.

When the net book value of an asset is greater than its estimated recoverable amount, its value is immediately decreased to reflect its recoverable value.

c) Financial assets

Classification

The financial assets held by the Company are classified into the following categories:

Financial assets at amortized cost:

Includes financial assets, for which the Company holds the investment with the objective of receiving cash flows from the performance of the contract, and the contractual terms of the asset give rise, at specified dates, to cash flows that are solely collections of principal and interest on the principal amount outstanding.

In general, this heading includes:

i) Trade receivables: arising from the sale of goods or the rendering of services under trade transactions with deferred payment; and,

ii) Non-trade receivables: arising from loans or credits granted by the Company for which collections are determined or determinable.

Financial assets at fair value through equity:

Financial assets whose contractual terms give rise, at specified dates, to cash flows that are solely collections of principal and interest on the principal amount outstanding, and are not held for trading and are not classified in the previous category. Investments in equity instruments irrevocably designated by the Company on initial recognition are also included in this category if they are not held for trading and are not required to be measured at cost.

Financial assets at cost:

This category includes the following investments: a) Equity instruments whose fair value cannot be reliably measured and derivatives that have these investments as their underlying; b) Hybrid financial assets whose fair value cannot be reliably estimated, unless they qualify for recognition at amortised cost; c) contributions made in joint ventures and similar contracts; d) participating loans with contingent interest; e) financial assets that should be classified in the following category but whose fair value cannot be reliably estimated.

Financial assets at fair value through profit or loss:

Includes financial assets held for trading and financial assets not classified in any of the above categories. Also included in this category are financial assets that are optionally designated by the Company at initial recognition, which would otherwise have been included in another category, because such designation eliminates or significantly reduces a valuation inconsistency or accounting mismatch that would otherwise arise.

Initial measurement:

Financial assets are generally recognised initially at the fair value of the consideration given plus directly attributable transaction costs. However, transaction costs directly attributable to the assets recorded at fair value through profit or loss are recognised in the income statement for the year.

Subsequent measurement:

Financial assets at amortised cost are recognised at amortised cost and interest accrued using the effective interest method is taken to the profit and loss account.

Financial assets included in the fair value through equity category shall be carried at fair value, without deducting any transaction costs that might be incurred on disposal. Changes in fair value are recognised directly in equity until the financial asset is derecognised or impaired, at which time the amount so recognised is taken to the income statement.

Financial assets at fair value through profit or loss are measured at fair value and changes in fair value are recognised in profit or loss.

Investments classified in category financial asset at cost are measured at cost less any accumulated impairment losses. These adjustments are calculated as the difference between the carrying amount and the recoverable amount, the latter being the higher of fair value less costs to sell and the present value of future cash flows from the investment. Unless there is better evidence of the recoverable amount of investments in equity instruments, the equity of the investee, adjusted for any unrealised gains existing at the measurement date, net of tax, is taken into account.

Impairment

At least at year-end the Company performs an impairment test for financial assets that are not carried at fair value through profit or loss. Objective evidence of impairment is considered to exist if the recoverable amount of the financial asset is less than its carrying amount. In any case, for equity instruments at fair value with changes in equity, impairment is presumed to exist if their market price has fallen by one and a half years or 40% without the value having recovered. Impairment is recognised in the income statement.

The Group derecognises financial assets when they expire or the rights to the cash flows of the related financial asset have been transferred and substantially all the risks and rewards of ownership have been transferred, such as in firm asset sales, factoring of trade receivables in which the company does not retain any credit or interest rate risk or securitisations of financial assets in which the transferor does not retain any subordinated financing or provide any guarantees or assume any other type of risk.

In contrast, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership, such as bill discounting, are retained, factoring with recourse, sales of financial assets with repurchase agreements at a fixed price or at the sale price plus interest, and securitisations of financial assets in which the transferor retains subordinated financing or other collateral that absorbs substantially all the expected losses.

d) Stock

Raw and auxiliary materials are valued at costs (average weighted cost). Work in progress items include the cost of materials, labour and the direct and indirect manufacturing costs incurred during the execution of projects at the amounts effectively incurred.

When the net realizable value of inventories is lower than their cost, a corresponding impairment provision is recognized and recorded as an expense in the consolidated income statement.

The net realizable value is the estimated selling price that would be obtained during the ordinary course of business, less any estimated sales costs that would be incurred, as well as the estimated costs to complete production in the case of raw materials and work in progress items.

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

e) 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 or specific characteristics, are considered to be demand deposits and accrue interest at a referenced rate for a period of more than three months.

f) Share capital

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

g) Financial liabilities

Financial liabilities assumed or incurred by the Group are classified into the following valuation categories:

Financial liabilities at amortized cost:

These are the Company's debts and payables arising from the purchase of goods and services in the Company's ordinary course of business, or those arising from loans or credit facilities received by the Company that do not have a commercial origin and are not derivative instruments. These liabilities are initially measured at the fair value of the consideration received, adjusted for directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Financial liabilities at fair value through profit or loss:

Derivative financial liabilities are measured at fair value, following the same criteria as for financial assets at fair value through profit or loss described in the previous section.

Assets and liabilities are presented separately in the balance sheet and are only presented at their net amount when the company has the enforceable right to offset the recognised amounts and, in addition, intends to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously.

The Group derecognises financial liabilities when the obligations giving rise to them are extinguished.

Hedge derivatives

Derivative financial instruments are measured at fair value.

The Group uses derivative financial instruments to hedge the risks to which its activities, operations and future cash flows are exposed. These risks are mainly related to changes in interest rates and exchange rates.

For these financial instruments to be classified as accounting hedges, they are initially designated as such and the hedging relationship is documented. Also, the Group checks initially and periodically throughout its life (at least at each accounting closing) that the hedging relationship is effective, i.e. that it is expected prospectively that the changes in fair value or in the cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the results of the hedge will have varied within a range of 80 to 125% of the results of the hedged item.

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

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

h) Grants received

Grants that may be refundable are recorded as liabilities until the conditions have been met for them to be considered as non-refundable; meanwhile non-refundable grants are recorded as income directly attributable to equity on a systematic and rational basis, in a way that is correlated to the expenses relating to the grant. Non-refundable grants received from partners are recorded directly in equity and do not constitute income for the year.

For these purposes, a grant is considered to be non-refundable when: an individual agreement exists to award the grant; all of the conditions have been met for it to be granted; and there is no reasonable doubt that it will be collected.

Grants of a monetary nature are valued at the fair value of the amount granted and non-monetary grants are valued at the fair value of the goods received, with both values referring to their initial recognition.

Non-refundable grants relating to the acquisition of intangible and tangible fixed assets and financial investments are allocated as income during the financial year in proportion to the amortization of the corresponding assets or, where appropriate, when they are disposed of, impaired or derecognized from the balance sheets. Meanwhile, non-refundable grants relating to specific expenses are recognized in the income statement during the same financial year in which the corresponding expenses accrue, and those granted for offsetting operating deficits during the financial year are allocated to the financial year in which they are granted, unless they are going to be used to offset operating deficits in future years, in which case they are allocated to those years.

i) Income tax

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

The charge 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.

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. 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 regulations and tax rates that have been approved 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 recognized to the extent that it is likely that future taxable profits will be available against which the temporary differences may be offset.

At each accounting close the deferred tax assets recognised are reviewed and appropriate adjustments are made where there are doubts as to their future recoverability. In addition, at each balance sheet date deferred tax assets not previously recognized are reviewed to determine whether they should be recognized to the extent that future taxable profit will allow the deferred tax asset to be recovered.

The Parent company of the Group, Patentes Talgo, S.L.U. pays income tax on a consolidated basis; it forms part of the Tax Group 65/06 headed up by the parent company Talgo, S.A.

j) Employees benefits

Defined contribution pension plan

The Parent company operates a defined contributed pension plan for its active employees, whereby the Parent company 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 Parent company is under no obligation to make any additional payments. The contributions are recognized as employ benefits when they accrue.

The agreement regarding the rights accrued, which has been signed with the workers, establishes a sole contribution to a financial entity, which manages the pension fund plus the future contributions that the Parent company has been making. The Parent company has outsourced the pension fund since March 2000.

The expense incurred in the financial year amounted to €3,079 thousand (€2,682 thousand in 2021) and was classified within the “Personnel expenses” caption (note 18.d).

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.

Compensation for redundancies

Compensation for redundancy is paid to employees in the event that each of the companies of 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 year-end date are discounted to their current value.

Remuneration with equity instruments.

The Group recognises, on the one hand, the goods and services received as an asset or as an expense, depending on their nature, when they are obtained and, on the other hand, the corresponding increase in equity or passive depending on the means approved for its liquidation.

In the case of transactions settled with equity instruments, both the services rendered and the increase in equity are measured at the fair value of the equity instruments transferred, referring to the date of the concession agreement.

Other incentive plans

During the 2021 financial year, the Parent Company agreed to launch a Long-Term Incentive Plan, with a three-year time horizon (2021-2023), as a variable remuneration system aimed at both executive directors and members of the Company's management team (eligible group). This cash remuneration plan with share purchase commitment is linked on the one hand to the cumulative fulfilment over three years of strategic objectives linked to the consolidated Group's business plan (EBITDA, gross margin, cash flows, order book) and to the increase in the value of the share of the parent company Talgo, S.A., all linked to the permanence until the end of the aforementioned time horizon. The maximum amount derived from the aforementioned plan approved by the General Meeting of Shareholders amounts to 3.1 million euros.

During 2022 an amount of 1,061 thousand euros was reversed as the requirements defined for its accrual were not met (note 18).

k) Provisions and contingent liabilities

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.

The Group recognizes provisions relating to guarantee obligations, which are multi-annual in nature, and deliveries associated with construction contracts and other contracts relating to the Group’s activity.

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.

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 Group. Such contingent liabilities are not registered in the accounting records.

l) Foreign currency transactions and balances

The Group’s consolidated annual accounts are presented in euros, which is the reporting and functional currency of the Parent company.

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 analysed as the translation differences resulting from changes in the amortized cost of the instrument and other changes in the security's carrying value. Translation differences are recognized in the income statement and other changes in carrying value are recognized in equity.

Translation 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. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets are included within equity.

m) 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 best estimate of the variable consideration will be included in the valuation of income when its reversal is not considered highly probable.

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.

Revenues from construction contracts for rolling stock 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. 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 year-end 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 ‘Accounts receivable for sales and services provided’ caption for the amount of any completed contracts, when the costs incurred plus the profits recognized (less any losses recognized) exceed the amount partially invoiced.

The Group recognizes a liability (‘Advanced orders") for the amount of all of the contracts in progress, for which the 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 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.

n) Leases

Operating leases:

Leases in which the lessor substantially retains the risks and rewards resulting from ownership 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 lease period.

Finance leases:

When the Company acts as a lessor in finance lease operations, it discloses the cost of the assets leased on the balance sheets, in accordance with the nature of the asset governed by each contract and, simultaneously, a liability for the same amount. This amount is the lower of the fair value of the asset leased and the present value of the minimum lease payments required by the lease contract, including the cost of the purchase option, when there is no reasonable doubt that the option will be exercised. No contingent installments, costs of services or taxes payable by the lessor are included in the calculation. The total financial charges are distributed over the lease term and are recognized in the income statement over the years during which they accrue under the effective interest rate method. Contingent installments are recognized as expenses in the financial years in which they are incurred. Any assets recorded under this type of operations are depreciated in accordance with the same criteria that applies to tangible fixed assets, in accordance with their nature.

o) Related party transactions

All the accounts and transactions between the consolidated companies were eliminated during the consolidation process.

In general, transactions between the Group's 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. Subsequent valuations are recorded in accordance with the provisions of the corresponding regulations.

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.

p) Environment

The costs of business actions undertaken by the Group that have an impact on the environment, as detailed in note 21, 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 4.b. regarding the valuation of tangible fixed assets are fulfilled.

q) Segmentation

1. 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 the Parent company 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 "Rolling Stock" and "Auxiliary Machines and Others".
- The corporate general services segment has been classified as "General".

2. 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 Talgo Group distinguishes between the identifiable components of its business 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.

r) Business combinations

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.

The goodwill 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, since 1 January 2010, 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 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 under any circumstances. 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.

s) Current and non-current accounts

Current assets are assets related to the normal operating cycle, which is generally considered to be a year, as well as other assets whose maturity, disposal or realisation is expected to take place in the short term from the reporting date, financial assets held for trading, with the exception of financial derivatives with a settlement period exceeding one year, and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current.

Similarly, current liabilities are those associated with the normal operating cycle, financial liabilities held for trading, except for financial derivatives with a settlement period exceeding one year and, in general, all obligations maturing or extinction in the short term. Otherwise, they are classified as non-current.

5. Financial risk management

5.1 Financial risk factors

The Group’s activities are exposed to various financial risks: market risk (including interest rates, exchange 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

Management mitigates the exchange rate risk arising from transactions in foreign currencies by entering into hedging instruments (note 11) and other instruments, as multi-currency credit facilities (note 16).

(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. The main burden of financing of the Parent company is fixed rate debt, therefore the exposure to interest rates fluctuations is low. In addition, the Group is exposed to interest rate risk associated with the amount drawn down under the non-recourse financial facility described in note 10.

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 only works with prestigious financial institutions and qualified with ratings that do not present impairment risks with an A rating for 54% in 2022 (58 % in 2021) and BBB or higher for 46% (42% in 2021).

The Group's credit risk is primarily attributable to its trade receivables balance. The amounts reflected on the consolidated balance sheets are net of any provisions for bad debt, estimated by the Group's Management based on the policy for financial assets.

The Group’s portfolio of clients mostly belongs to the public railway sector and therefore no evidence of credit risk has arisen concerning the insolvency of or late payments by, these customers.

During the financial year 2022, the Group has ceased, for reasons of force majeure, the railway material maintenance activity that it carried out in Russia as a result of the war situation, at the end of the financial year 2022 all the credits of this branch has been accrued.

c) Liquidity risk

Prudent management of liquidity risk requires 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 general market situation has led to a general increase in liquidity tensions in the economy as well as a contraction of the credit market. In this respect, the Group has continued increasing its financial capacity by enlarging available credit lines and renegotiating part of its bank debt during 2022 (note 16).

The Group's Management regularly monitors its liquidity projections on the basis of its expected cash flows. The Group maintains enough cash to meet its liquidity needs.

Fair value estimates

The fair values of financial instruments that are listed on active markets (such as securities held-for-trading and those available for sale) are based upon market prices at the year-end date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not listed on an active market is determined by applying valuation techniques. The Group uses a variety of methods and makes assumptions based on the conditions in the market at each year-end date. Quoted market prices or dealer quotes are used for long-term debt. For the remaining financial instruments, other techniques are used to assess the fair value, such as the present value of the estimated future cash flows.

The Group assumes that the book value of credits and debits for trade operations is close to their fair value. The fair value of financial liabilities, for the purpose of reporting financial information, is estimated as the present value of contracted future cash outflows at the current market interest rate available to the Group for similar financial instruments.

6. Intangible assets

The movements in the accounts included within Intangible assets in 2022 have been as follows:

						€ in thousands
	Balance at 31.12.21	**Translation differences**	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.22**
Cost						
Research and development	121 112	-	772	-	2 131	124 015
Industrial property	1 749	-	-	-	-	1 749
Software	21 089	59	2	(1 843)	2 808	22 115
Advances and construction in progress	40 602	-	17 801	-	(3 920)	54 483
Merger Goodwill	136 329	-	-	-	-	136 329
Client contracts	25 069	-	-	-	-	25 069
	345 950	**59**	**18 575**	**(1 843)**	**1 019-**	**363 760**
Amortization and impairment losses						
Research and development	(113 028)	-	(3 967)	-	-	(116 995)
Industrial property	(22)	-	-	-	-	(22)
Software	(18 580)	(59)	(1 970)	1 571	-	(19 038)
Merger Goodwill	(81 798)	-	(13 633)	-	-	(95 431)
Client contracts	(15 424)	-	(1 928)	-	-	(17 352)
Impairment losses	(1 729)	-	(1)	-	-	(1 730)
	(230 581)	**(59)**	**(21 499)**	**1 571**	**-**	**(250 568)**
Net Book Value	**115 369**	**-**	**(2 924)**	**(272)**	**1 019-**	**113 192**

The amounts included under "Research and Development" relate mainly to development expenses incurred by the Group, which include, among others, the costs of high-speed rail projects, regional trains and auxiliary equipment for maintenance.

In 2022 the main fixed assets additions within the work in progress caption relate to the costs incurred in the research and development projects known as Shift2Rail, PARFAIT (Self-configurable and Interoperable Railway Platform), AVRIL 2nd Generation and the development of a hydrogen prototype system. There are also additions of work in progress relating to process optimization projects in the IT area.

The 2022 additions include capitalized expenses incurred by the company for its assets amounted to €11,081 thousand.

Disposals during the year 2022 relate to assets that have been written off as they are no longer in a usable condition for the company.

The movements in the accounts included within Intangible assets in 2021 were as follows:

						€ in thousands
	Balance at 31.12.20	**Translation differences**	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.21**
Cost						
Research and development	116 936	-	-	-	4 176	121 112
Industrial property	1 749	-	-	-	-	1 749
Software	20 147	74	1	(1 096)	1 963	21 089
Advances and construction in progress	30 506	-	16 235	-	(6 139)	40 602
Merger Goodwill	136 329	-	-	-	-	136 329
Client contracts	25 069	-	-	-	-	25 069
	330 736	**74**	**16 236**	**(1 096)**	**-**	**345 950**
Amortization and impairment losses						
Research and development	(109 310)	-	(3 718)	-	-	(113 028)
Industrial property	(22)	-	-	-	-	(22)
Software	(16 757)	(74)	(2 649)	900	-	(18 580)
Merger Goodwill	(68 165)	-	(13 633)	-	-	(81 798)
Client contracts	(13 496)	-	(1 928)	-	-	(15 424)
Impairment losses	(1 729)	-	-	-	-	(1 729)
	(209 479)	**(74)**	**(21 928)**	**900**	**-**	**(230 581)**
Net Book Value	**121 257**	**-**	**(5 692)**	**(196)**	**-**	**115 369**

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

- Fully-amortized intangible assets in use

At 31 December 2022, the Group held intangible assets that are fully amortized and still operational, which had an initial cost of €121,286 thousand. This figure amounted to €118,967 thousand in 2021.

- 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.

- Grants and subsidies

Some of the fixed asset acquisitions €16,036 thousand at 31 December 2022 have been partially financed through grants and loans received from official entities. This figure amounted to €14,927 thousand in 2021.

- Goodwill arising from the merger

The merger Goodwill was recognized as a result of the merger conducted during 2008 between the Parent company and Patentes Talgo S.A. On a yearly basis, the Parent company endowed 5% of that goodwill amount to the unavailable Reserves (note 13.c) until 2015 year-end. For the financial years starting January 1, 2016, that amount is no longer endowed, being linearly amortized the mentioned goodwill over a period of 10 years.

- Impairment of Goodwill

Goodwill is assigned to the cash generating units (CGU) that coincide with the companies in which it has been generated.

In the years 2022 and 2021, no valuation corrections due to impairment have been either recognized or reversed for any individual intangible asset. The impairment tests performed on intangible assets at 31 December 2022 and 2021 did not show any impairment in the value of those assets.

The recoverable amount from a Cash Generating Unit is determined on the basis of the calculation of the value in use and fair value. Fair value is determined on the basis of the Group's market price.

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, provided that the growth rate does not exceed the average long-term growth rate for the business in which the Cash Generating Unit operates.

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 for 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 2022 and 2021 are detailed below:

a) Growth rate in perpetuity: The Group has assumed that cash flows grow 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 hypotheses:

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 2022 have been a discount rate of 12,7% and a growth rate in perpetuity of 0.5%.

Sensitivity analysis:

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

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

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

Aditionally, 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 12,7% and a growth rate of 0.5% (2021: 7,24% and 0,5% respectively).

- Assets under finance lease

As indicated in note 16 the Group, through its Parent company, has contracted various financial leasing operations on its intangible assets. The cost of intangible fixed assets subject to financial leasing contracts, corresponding to the right of use of various IT platforms, amounts to €1,962 thousand at the end of 2022 (€3,170 thousand at the end of 2021).

- Intangible assets located overseas

At 31 December 2022, the Group had the following investments in intangible assets that were located overseas:

	€ in thousands			
Intangible assets	**Cost**	**Accumulated amortization**	**Impairment losses**	**Net book value**
Software	2 528	(1 778)	-	750
	2 528	**(1 778)**	**-**	**750**

At 31 December 2021, the Group has the following investments in intangible assets that are located overseas:

	€ in thousands			
Intangible assets	**Cost**	**Accumulated amortization**	**Impairment losses**	**Net book value**
Software	2 047	(2 024)	-	23
	2 047	**(2 024)**	**-**	**23**

7. Tangible fixed assets

The movements in the accounts included within tangible fixed assets in 2022 have been as follows:

	€ in thousands					
	Balance at 31.12.21	Translation differences	Additions	Disposals	Transfers	Balance at 31.12.22
Cost						
Land	9 894	-	-	-	-	9 894
Buildings	48 449	57	-	(980)	679	48 205
Technical installations and machinery	35 886	197	887	(36)	1 044	37 978
Other facilities, tools and furniture	56 718	61	25	(1 040)	3 350	59 114
Advances and work in progress	6 673	6	2 706	(28)	(6 664)	2 693
Other fixed assets	10 925	5	187	(63)	572	11 626
	168 545	**326**	**3 805**	**(2 147)**	**(1 019)**	**169 510**
Amortization and impairment losses						
Buildings	(31 190)	(57)	(1 312)	980	-	(31 579)
Technical installations and machinery	(25 101)	(139)	(2 871)	36	-	(28 075)
Other facilities, tools and furniture	(46 481)	(61)	(2 921)	1 037	-	(48 426)
Other fixed assets	(8 418)	(4)	(755)	32	-	(9 145)
Impairment loss	(124)	(6)	(36)	-	-	(166)
	(111 314)	**(267)**	**(7 895)**	**2 085**	**-**	**(117 391)**
Net book value	**57 231**	**59**	**(4 090)**	**(62)**	**(1 019)**	**52 119**

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

Disposals recorded during 2022, corresponds to items were no longer in a usable condition.

The caption “Land and buildings” includes the Group’s two properties located in Rivabellosa and Las Matas (Madrid).

The movements in the accounts included within tangible fixed assets in 2021 were as follows:

						€ in thousands
	Balance at 31.12.20	Translation differences	Additions	Disposals	Transfers	Balance at 31.12.21
Cost						
Land	9 894	-	-	-	-	9 894
Buildings	48 318	71	-	-	60	48 449
Technical installations and machinery	32 484	245	334	(2 937)	5 760	35 886
Other facilities, tools and furniture	57 001	75	86	(2 717)	2 273	56 718
Advances and work in progress	7 213	8	8 324	(201)	(8 671)	6 673
Other fixed assets	10 696	7	170	(526)	578	10 925
	165 606	**406**	**8 914**	**(6 381)**	**-**	**168 545**
Amortization and impairment losses						
Buildings	(29 768)	(71)	(1 351)	-	-	(31 190)
Technical installations and machinery	(25 242)	(168)	(2 627)	2 936	-	(25 101)
Other facilities, tools and furniture	(45 920)	(75)	(3 198)	2 712	-	(46 481)
Other fixed assets	(8 135)	(5)	(768)	490	-	(8 418)
Impairment loss	-	(4)	(120)	-	-	(124)
	(109 065)	**(323)**	**(8 064)**	**6 138**	**-**	**(111 314)**
Net book value	**56 541**	**83**	**850**	**(243)**	**-**	**57 231**

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

Disposals recognised in 2021 amounting to Euros 4,864 thousand related to the delivery of facilities located at the Las Matas I and San Andrés Condal bases to one of the Parent Company's customers, by virtue of the conservation and maintenance contract signed between the parties. The result of the derecognition of these assets amounts to Euros 33 thousand, recognised under "Impairment and gains/losses on disposal of fixed assets" in the consolidated income statement. The remaining amount relates mainly to items derecognised as they are no longer in usable condition.

The caption “Land and buildings” included the Group’s two properties located in Rivabellosa and Las Matas (Madrid).

a) Updates

Net accumulated updates as at 31 December 2022 and 2021, made in accordance with RDL 7/1996, dated 7 June, amounted to €181 thousand corresponding to constructions and the remaining fixed assets subject to this revaluation having been fully depreciated at the end of the 2021 financial year. No depreciation expense was recorded in 2022 in this respect, the amount of this expense in 2021 was 3 thousand euros.

b) Fully-depreciated tangible assets in use

At 31 December 2022, tangible fixed assets with an initial cost of €71,314 thousand (2021: €66,694 thousand) had been fully depreciated and were still operational, of which €15,391 thousand (2021: €15,525 thousand) related to Buildings.

c) Purchase commitments

At 31 December 2022, the Group's purchase commitments for fixed assets amounted to €3,725 thousand (2021: €6,069 thousand).

d) 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.

e) Impairment losses

At the end of 2022, the Company has made a provision for the net carrying amount of its property, plant and equipment located in Russia through its permanent establishment

In 2021, in the subsidiary Talgo Inc a custom-made equipment was impaired in the amounted to €120 thousand, as it was no longer in a usable condition.

f) Assets under operating leases

At the end of 2022 and 2021, the Group had committed to making the following minimum lease installments, 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 € in thousands**	
Minimum installments	**2022**	**2021**
Less than 1 year	3 576	3 038
Between one and five years	8 302	6 542
	11 878	**9 580**

The consolidated income statement includes operating lease expenses for the rental of Transport vehicles amounting to €800 thousand (2021: €699 thousand), buildings amounting to €2,199 thousand (2021: 2,768 thousand) and other leases amounting to €1,034 thousand (2021: €848 thousand).

g) Fixed assets located overseas

At 31 December 2022, the Group had fixed asset investments located overseas whose net book values are detailed below:

				€ in thousands
Fixed assets	**Cost**	**Accumulated depreciation**	**Impairment losses**	**Net book value**
Land and buildings	15 684	(14 858)	-	826
Technical installations and machinery	13 271	(8 940)	-	4 331
Other facilities, tools and furniture	3 043	(2 718)	-	325
Advances and fixed assets in progress	130	-	(130)	-
Other tangible fixed assets	153	(150)	-	3
	32 280	**(26 665)**	**(130)**	**5 486**

At 31 December 2021, the Group had fixed asset investments located overseas whose net book values are detailed below:

				€ in thousands
Fixed assets	**Cost**	**Accumulated depreciation**	**Impairment losses**	**Net book value**
Land and buildings	16 607	(15 373)	-	1 234
Technical installations and machinery	12 362	(8 140)	-	4 222
Other facilities, tools and furniture	3 995	(3 547)	-	448
Advances and fixed assets in progress	124	-	(124)	-
Other tangible fixed assets	160	(117)	-	43
	33 248	**(27 177)**	**(124)**	**5 947**

8. Long-term financial investments

a) Investments under the equity method

At the end of 2022 and 2021 the Group recognizes under this heading the investment in the Consorcio Español Alta Velocidad Meca-Medina amounting to €10 thousand and the investment in Motion Rail, S.A. amounting to €19 thousand (note 1).

The most significant financial information relating the aforementioned companies is presented below:

(Expressed in thousands of euros)

Consorcio Español Alta Velocidad Meca-Medina, S.A

	2022	**2021**
Current assets	376 866	238 450
Non-current assets	94	94
Total Assets	376 960	238 544
Current liabilities	376 900	238 483
Non-current liabilities	-	-
Total liabilities	376 900	238 483
Equity	60	60
Operating income	(20 607)	7 981
Operating expenses	20 981	(7 773)
Financial result	(192)	(164)
Net Result	-	-

The auditor of this company is KPMG Auditors, S.L. For 2022 and 2021, the figures are in the process of being audited.

Motion Rail, S.A.

	2022	**2021**
Current assets	33	33
Non-current assets	-	-
Total Assets	33	33
Current liabilities	1	1
Non-current liabilities	-	-
Total liabilities	1	1
Equity	32	32
Operating income	-	-
Operating expenses	-	(1)
Financial result	-	-
Net Result	-	(1)

b) Long-term loans to group companies and associates

The “Long-term loans to Group companies and associates” caption includes the following detail:

	€ in thousands	
	2022	**2021**
Talgo, S.A.	36 907	39 707
	36 907	**39 707**

The amount registered under this heading, corresponds to a loan granted by the company Patentes Talgo, S.L.U. to its Parent, Talgo, S.A. During 2022, €2,800 thousand has been cancelled as compensation for the amount pending payment for the distribution of other shareholder contributions (note 13.i)

c) Long-term financial investments

The detail, by maturity and investment category, of the Group's long-term investments at 2022 year-end is as follows:

						€ in thousands
	2024	**2025**	**2026**	**2027**	**Subsequent years**	**Total**
Other financial investments						
Third party receivables (*)	-	-	-	-	648	648
Deposits and guarantees (*)	-	-	-	-	298	298
	-	**-**	**-**	**-**	**946**	**946**

(*) Financial assets at amortized cost

The breakdown by maturity at 31 December 2021 is as follows:

						€ in thousands
	2023	**2024**	**2025**	**2026**	**Subsequent years**	**Total**
Other financial investments						
Third party receivables (*)	51	-	-	-	648	699
Deposits and guarantees (*)	-	-	-	-	435	435
Derivatives (**)	168	-	-	-	-	168
	219	**-**	**-**	**-**	**1 083**	**1 302**

(*) Financial assets at amortized cost..
(**)Financial assets at fair value with changes in equity.

At year- end 2022, "Loans to third parties" includes a balance receivable from loans granted to Group management amounting to €606 thousand (note 18.d.1), together with accrued interest amounts to €42 thousand. At year-end 2021, in addition to the aforementioned receivable, there was a balance receivable from financial institutions relating to the monetisation of loans related to the CDTI amounting to Euros 51 thousand.

9. Stock

The composition of the heading "Stock" is as follows:

	€ in thousands	
	2022	**2021**
Raw materials	169 329	115 854
Work in progress	13 727	22 944
Advances	17 721	16 588
Provision for depreciation of raw materials	(11 259)	(22 167)
	189 518	**133 219**

At 31 December 2022, purchase commitments for raw materials and other services amounted to €362,396 thousand; the corresponding amount in 2021 was €376,879 thousand.

The movement in the provision for obsolescence in the year 2022 has been as follows:

						€ in thousands
	Balance at 31.12.21	**Translation differences**	**Provision**	**Reversal**	**Application**	**Balance at 31.12.22**
Provision for depreciation of raw materials	(22 167)	(1 128)	(4 641)	565	16 112	(11 259)
	(22 167)	**(1 128)**	**(4 641)**	**565**	**16 112**	**(11 259)**

The provisions recorded in 2022 relate mainly to the impairment of inventories of the permanent establishment in Russia following the cessation of its activity due to the international sanctions imposed on the customer.

The application of the provision for impairment relates mainly to the sale during the first half of 2022 of two trains held in inventory by the subsidiary Talgo Inc.
The aforementioned sale resulted in a net gain for the Group of 3,096 thousand euros.

The movement in the provision for obsolescence in the year 2021 was as follows:

					€ in thousands
	Balance at 31.12.20	**Translation differences**	**Provision**	**Reversals**	**Balance at 31.12.21**
Provision for depreciation of raw materials	(20 144)	(1 394)	(892)	263	(22 167)
	(20 144)	**(1 394)**	**(892)**	**263**	**(22 167)**

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

10. Trade and other receivables

The breakdown of the balances in this caption at 31 December 2022 and 2021 is shown below:

		€ in thousands
	2022	**2021**
Trade and other receivables		
Accounts receivable for sales and services provided	95 176	52 190
Construction completed not yet invoiced	303 983	295 834
Receivables from group companies and associates	1 606	75
Sundry debtors	840	666
Staff	756	681
Other receivables from Public Administrations (note 19)	15 586	13 037
Provision for bad debt	(1 873)	(1 281)
	416 177	**361 202**

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

During 2021, the parent company entered contracts with credit institutions that implement a financial facility offered and provided by a client, in the context of an ongoing manufacturing project. Through these contracts, the client allows the Company to anticipate partial collections of the contract for up to 60% of the total value of the contract. During the financial year, partial provisions have been made for these advances taking into account the degree of progress of the project. Concretely, during the 2022 fiscal year, 84 million euros have been advanced under this instrument, corresponding to 60% of the award value of six trains.

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

The Group recognizes the necessary provision for all of the accounts receivable whose future recoverable cash flows are considered unlikely, based on facts.

The movement in the provision for impairment losses on the customers' receivables balances in 2022 was as follows:

	€ in thousands					
	Balance at 31.12.21	**Additions**	**Disposals**	**Application**	**Translation differences**	**Balance at 31.12.22**
Provision for bad debt	(1 281)	(1 020)	23	407	(2)	(1 873)
	(1 281)	**(1 020)**	**23**	**407**	**(2)**	**(1 873)**

The movement in the provision for impairment losses on the customers' receivables balances in 2021 was as follows:

	€ in thousands					
	Balance at 31.12.20	**Additions**	**Disposals**	**Application**	**Translation differences**	**Balance at 31.12.21**
Provision for bad debt	(4 824)	(377)	429	3 493	(2)	(1 281)
	(4 824)	**(377)**	**429**	**3 493**	**(2)**	**(1 281)**

During 2021, the Company had applied the provision for bad debts recorded in previous years in the amount of €3,493 thousand following the settlement agreement signed with one of its customers.

Usually, amounts charged to the impairment provision account are written off when there is no expectation of ultimately recovering the cash flow associated with them.

The fair values of the receivables items do not differ from those recorded in these consolidated annual accounts.

The breakdown of "Receivables from Group and associates companies" caption in the short term is as follows:

	€ in thousands	
	2022	**2021**
Consorcio Español Alta Velocidad Meca-Medina, S.A.	1 589	57
Talgo, S.A.	17	18
	1 606	**75**

The breakdown of the accounts receivable balances denominated in foreign currencies at 31 December 2022 and 2021 are as follows:

	€ in thousands	
	2022	**2021**
American dollars	14 222	11 514
Saudi riyal	17 892	13 810
Rubles	-	547
Tenge	2 762	2 752
Canadian dollars	-	375
Swiss francs	497	1 011
	35 373	**30 009**

11. Short-term financial investments

The movements in the accounts included within the Short-term financial investments caption during 2022 and 2021 have been as follows:

	€ in thousands				
	Balance at 31.12.21	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.22**
Group companies debtors (*)	1 468	-	-	-	1 468
Derivatives (***)	1 218	664	-	-	1 882
Other financial assets (*)	115	3	(86)	51	83
	2 801	**667**	**(86)**	**51**	**3 433**

	€ in thousands				
	Balance at 31.12.20	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.21**
Group companies debtors (*)	1 547	713	(792)	-	1 468
Money Market Funds investments (**)	10 044	-	(10 044)	-	-
Derivatives (***)	-	1 218	-	-	1 218
Other financial assets (*)	84	41	(61)	51	115
	11 675	**1 972**	**(10 897)**	**51**	**2 801**

(*) Financial assets at amortized cost.
(**) Financial assets at fair value through profit or loss.
(***) Financial assets at fair value with changes in equity.

The amount recorded under the caption Group companies debtors, corresponds to the pending collection balances the company Patentes Talgo, S.L.U. recognized with its parent company, Talgo, S.A. as head of the Tax Group, relating to the income tax of the year 2022 and 2021, as well as the short-term trench of the loan that the Company has granted to its parent company, Talgo, S.A. (note 8).

At year-end 2022, the Parent Company has contracted derivative financial instruments with its financial institutions to hedge the risks to which some of its operations, activities and cash flows are exposed.

The Parent Company has complied with the requirements detailed in note 4.g on valuation standards in order to classify the financial instruments detailed below as hedges. Specifically, they have been formally designated as such, and the hedge has been verified to be effective.

The derivative financial hedging instruments outstanding at year-end are as follows:

					€ in thousands	
	Ranking	Type	Contracted ammount	Maturity	Fair Value	
					Current	Non-current
Foreign exchange transaction	Foreign exchange rate hedge	Purchase USD	17 924	2023	1 779	-
Foreign exchange transaction	Foreign exchange rate hedge	Purchase CHF	490	2023	42	-
Interest rate transaction	Interest rate hedging	Interest rate	3 750(*)	2023	61	-

(*).- Notional amount at which the derivative contract has been entered into.

12. Cash and cash equivalents

	€ in thousands	
	2022	**2021**
Cash	191 653	250 864
Other equivalent liquid assets	30 000	-
	221 653	**250 864**

This caption of the balance sheet is entirely freely available.

The balance included under other cash equivalents at the end of 2022 corresponds to a deposit held by the parent company amounting to 30 million euros, which can be repaid early at maturity without incurring any additional cost and bears interest at a fixed market rate.

13. Share capital

a) Subscribed capital

At 31 December 2022 and 2021, the Parent company’s share capital amounted to €51,914 thousand and comprised 1,366,630 Class A shares and 455,521 Class B shares, all of which have a nominal value of €28.49. The shares that make up each class differ because they are subject to different systems of transfer.

At 31 December 2022 and 2021, 100% of the share capital of the group's Parent company, Patentes Talgo S.L.U., belonged to Talgo, S.A. (note 1).

b) Limitations on the distribution of dividends

The reserves designated in the other sections of this note as freely distributable, along with the results for the financial year are, nevertheless, subject to the limitation that they may not be distributed as dividends if such a distribution reduces the balance of the aforementioned reserves to an amount that is less than the total sum of the balances pending amortization for research and development expenses.

c) Other reserves

At closing 2022, within this caption free disposal reserves are included, although €40,989 thousand correspond to goodwill reserves prior to 2016, which will only be available to the extent that the amount of the goodwill recorded in the balance sheet is lower than the latter (note 6).

d) Legal reserve

The legal reserve has been recognized in accordance with article 274 of the Capital Company Act, which requires that a figure equal 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. At year-end 2022 and 2021 it was totally provided.

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.

e) Result for the year

The proposed distribution of the Parent company's result for 2022, which will be presented to its Sole Shareholder, is as follows:

	€ in thousands
	2022
To voluntary reserves	98
	98

f) Contribution by the companies to the consolidated result

The contribution made by each one of the companies to the consolidated result is as follows:

	€ in thousands	
	2022	**2021**
Patentes Talgo, S.L.U.	(2 142)	16 584
Talgo Deutschland, GmbH	136	647
Talgo, Inc.	(6 748)	466
Patentes Talgo Tashkent, LLC	(18)	36
OOO Talgo (Rusia)	(2)	1
Tarvia Mantenimiento Ferroviario S.A.	1	(25)
Talgo India Private Limited	(100)	68
Talgo Shanghai Railways Equipment CO, Ltd.	7	11
	(8 866)	**17 788**

g) Reserves of the consolidated companies

The contribution to reserves at consolidated companies by each of the companies is as follows:

	€ in thousands	
	2022	**2021**
Talgo Deutschland, GmbH	15 153	14 534
Talgo, Inc.	14 608	14 142
Tarvia Mantenimiento Ferroviario, S.A.	(28)	(3)
Patentes Talgo Tashkent, LLC	191	155
Talgo India Private Limited	250	182
Talgo Shanghai Railways Equipment CO, Ltd.	(116)	(127)
	30 058	**28 883**

h) Translation differences

The translation differences recognized in 2022 and 2021 correspond entirely to the translation of the functional currency of the financial statements of the Group’s subsidiaries that have functional currency other than euro.

i) Dividend

On 23 March 2022, the Parent Company approved the distribution of unrestricted reserves corresponding to "Other contributions from shareholders" to its parent company, Talgo S.A., in the amount of €12,000 thousand, fully paid at the end of 2022. At the end of the 2022 financial year, the amount of €9,200 thousand has been disbursed, the remaining amount having been compensated with part of the outstanding credit of the company Talgo, S.A (note 8.b).

j) External partners

The movement in the external partners item is as follows:

	€ in thousands
Balance at 31 December 2020	**-**
First consolidation	3 918
Result for the financial year 2021	(24)
Balance ar 31 December 2021	**3 894**
Result for the financial year 2022	1
Balance at 31 December 2022	**3 895**

14. Capital grants

The movements in this heading in 2022 and 2021, which form part of equity and the results allocated to the profit and loss account thereof, are as follows:

	€ in thousands				
	Balance at 31.12.21	**Additions**	**Charged to income**	**Transfers**	**Balance at 31.12.22**
Capital grants	2 408	386	(586)	-	2 208
	2 408	**386**	**(586)**	**-**	**2 208**

	€ in thousands				
	Balance at 31.12.20	**Additions**	**Charged to income**	**Transfers**	**Balance at 31.12.21**
Capital grants	1 717	1 022	(331)	-	2 408
	1 717	**1 022**	**(331)**	**-**	**2 408**

The additions for 2022 corresponded mainly to the grant awarded by the RODEMAV project registered in 2021 under the heading of debts convertible into grants (note 16), since the conditions required for them to be considered non-reimbursable.

The transfer to results of the mentioned grants is done proportionally to the depreciation of the corresponding assets, where appropriate, when the corresponding assets are disposed of.

The Group's management considers that is has complied with the obligations associated with these grants.

15. Long-term and short-term provisions

The movement in the provisions caption, over both the long-term and short-term during 2022 is as follows:

	Balance at 31.12.21	Translation differences	Provisions	Applications	Balance at 31.12.22
					€ in thousands
Guarantees and others provisions	43 040	171	4 656	(5 852)	42 015
	43 040	**171**	**4 656**	**(5 852)**	**42 015**

At the 2022 year-end, the Group has recognized the necessary provisions to meet its service guarantees, which normally cover a period of between 2-3 years after the trains' commissioning, 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. In addition, a provision has been recorded under non-current liabilities for tax contingencies amounting to €1.4 million (note 19).

16. Debts and accounts payable

a) Long-term debt

The composition of this caption at 31 December 2022 and 2021 is as follows:

	2022	2021
		€ in thousands
Debt with credit institutions	**217 339**	**215 624**
Creditors for financial leasing	**142**	**320**
Derivatives	**-**	**26**
Other financial liabilities	**29 225**	**25 905**
Debt due to reimbursable advances	15 349	18 473
Other debts	2 814	213
Debt convertible into grants	11 062	7 219
	246 706	**241 875**

Debt with credit institutions

The details of the loans included in the heading Debts with credit institutions correspond in full to the loans contracted by the Parent company. The detail thereof is as follows:

Entidad	Moneda	Tipo interés	Fecha de concesión	No corriente	Corriente	Total	Intereses
Entity A	EUR	Fixed	27/05/2021	30 000	-	30 000	28
Entity B	EUR	Fixed	20/12/2017	17 143	4 286	21 429	211
Entity C	EUR	Fixed	22/12/2020	20 000	-	20 000	95
Entity D	EUR	Fixed	23/12/2020	20 000	-	20 000	5
Entity E	EUR	Fixed	23/06/2020	-	15 000	15 000	47
Entity F	EUR	Fixed	23/06/2020	-	10 000	10 000	31
Entity G	EUR	Fixed	22/12/2020	15 000	-	15 000	5
Entity H	EUR	Variable	11/01/2019	1 250	2 500	3 750	19
Entity I	EUR	Fixed	14/01/2019	1 875	1 500	3 375	10
Entity J	EUR	Fixed	14/01/2019	4 071	2 000	6 071	72
Entity K	EUR	Variable	01/12/2020	-	15 000	15 000	46
Entity L	EUR	Fixed	18/06/2021	31 000	-	31 000	23
Entity M	EUR	Variable	18/06/2021	20 000	5 000	25 000	11
Entity N	EUR	Variable	22/07/2022	15 000	-	15 000	81
Entity O	EUR	Variable	29/09/2022	7 000	-	7 000	15
Entity P	EUR	Fixed	31/03/2022	15 000	-	15 000	139
Entity Q	EUR	Variable	15/07/2022	20 000	-	20 000	19
Bank guarantees and credit facilities interests	EUR	-	-	-	-	-	1 551
				217 339	**55 286**	**272 625**	**2 408**

Some of the contracts included in the table above contain a number of associated obligations and covenants known as Guarantee Ratio and Commitment Ratio, that the Group has not breached since the inception of the contract together with the other obligations and commercial restrictions set forth therein. Additionally, no non-compliance is foreseen for the following year.

At 31 December 2022 the Group has credit facilities amounting to €135,000 thousand (€125,512 thousand in 2021), the amount drawn down being €8,816 thousand recorded under Bank borrowings as part of current liabilities (note 16b) (€15,133 thousand in 2021).

The maturity dates of the 'Debt with credit institutions', at 31 December 2022 balances are shown below:

	€ in thousands					
	2024	**2025**	**2026**	**2027**	**Subsequent years**	**Totals**
Debt with credit institutions	52 059	34 565	79 543	39 743	11 429	**217 339**

The maturity dates of the 'Debt with credit institutions' balances at 31 December 2021 were the following:

	€ in thousands					
	2023	**2024**	**2025**	**2026**	**Subsequent years**	**Totals**
Debt with credit institutions	55 285	52 059	31 708	72 286	4 286	**215 624**

Finance lease creditors

This caption includes the contracts entered into by the Group with different technology suppliers for the right to use IT platforms related to the human resources and supplier management areas, among others.

The contractual maturities of the lease commitments at 2022 year-end are as summarized below:

	€ in thousands					
	2024	**2025**	**2026**	**2027**	**Subsequent years**	**Total**
Finance lease creditors	142	-	-	-	-	**142**

The contractual maturities of the lease commitments at 2021 year-end were as summarized below:

	€ in thousands					
	2023	**2024**	**2025**	**2026**	**Subsequent years**	**Total**
Finance lease creditors	266	54	-	-	-	**320**

Debts due to reimbursable advances

The "Debts due to reimbursable advances" caption includes, mainly, debts that the Parent company holds with the Center for Industrial Technological Development (CDTI) for various technological development projects, as well as with the Ministry for Science and Innovation. The short-term part of this concept is recognized within the "Other financial liabilities" caption within current liabilities on the enclosed balance sheets at 31 December 2022 and amounts to €3,042 thousand (€3,091 thousand in 2021) (note 16.b).

The maturities of the debts due to reimbursable advances at 2022 year-end are as follows:

	€ in thousands					
	2024	**2025**	**2026**	**2027**	**Subsequent years**	**Total**
Debts due to reimbursable advances	2 041	2 769	1 949	1 831	6 759	**15 349**

The maturities of the debts due to reimbursable advances at 2021 year-end were as follows:

	€ in thousands					
	2023	2024	2025	2026	Subsequent years	Total
Debts due to reimbursable advances	2 633	2 286	2 816	1 995	8 743	**18 473**

Debts convertible into grants

The "Debts convertible into grants" caption includes funds received from European Commission for the "Shift2Rail", "RAIL4EARTH y IAM4RAIL research projects, as well as funds received from the Center for Industrial Technological Development (CDTI) for the PARFAIT, VITTAL ONE and LETS GO projects.

b) Short-term debt

The breakdown of this caption at 31 December 2022 and 2021 is as follows:

	€ in thousands	
	2022	**2021**
Debt with credit institutions (note 16.a)	66 510	35 933
Finance lease creditors	168	438
Debt due to reimbursable advances (note 16.a)	3 042	3 091
Other debts	6 488	178
	76 208	**39 640**

c) Suppliers and trade payables

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

	€ in thousands	
	2022	**2021**
Average suppliers payment period (days)	78	83
Paid operations ratio (days)	81	90
Pending to be paid operations ratio (days)	75	66
Total payments	311 576	421 571
Total pending payments	242 523	176 551

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 by the Spanish companies comprising the Group, accrued in the financial year.

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 liabilities of the consolidated 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.

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

The detail of the monetary volume and number of invoices paid within the established legal term is as follows:

	2022
Monetary volume (thousands of euros)	81 428
Percentage of total payments made	26%
Number of invoices	7 990
Percentage of total invoices	15%

The breakdown of the accounts payable balances denominated in foreign currencies at 31 December 2022 and 2021 is as follows:

	€ in thousands	
	2022	**2021**
Swiss francs	3 728	916
Dollars	4 999	3 739
Kazakhstan Tenge	439	265
Sterling Pounds	12	1
Rubles	128	33
Riyal Saudi	9 128	1 775
	18 434	**6 729**

17. Debts with Group companies and associates

The detail of debts to Group companies and associates at the end of 2022 and 2021 is as follows:

	€ in thousands	
	2022	**2021**
Consorcio Español Alta Velocidad Meca-Medina, S.A.	5 403	3 035
	5 403	**3 035**

Transactions between the Group and its related entities mainly refer to sales and the provision of services. The prices charged between related parties for the physical flows and provision of services is determined by applying the cost-plus method.

18. Income and expenses

a) Net turnover

Net turnover from the Group's ordinary activities is distributed geographically as follows:

	€ in thousands	
	2022	**2021**
Spain	246 816	302 480
Rest of Europe	40 478	62 932
USA	11 007	17 802
Middle East and North Africa	123 781	97 971
Commonwealth of Independent States	46 630	73 199
APAC	421	1 044
	469 133	**555 428**

Similarly, net turnover is distributed by type of activity as follows:

	€ in thousands	
	2022	**2021**
Rolling stock	436 506	515 399
Auxiliary machines and others	32 627	40 029
	469 133	**555 428**

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 Parent company's turnover relating to the permanent establishment in Kazakhstan amounted to €37,205 thousand in 2022 and €32,268 thousand in 2021.

The Parent company's turnover relating to the permanent establishment in Uzbekistan amounted to €6,891 thousand in 2022 and €4,579 thousand in 2021.

The Parent company's turnover relating to the permanent establishment in Russia amounted to €713 thousand in 2022 (the activity has been ceased since March 2022) and €5,108 thousand in 2021. Revenues associated with this activity were not significant for the Group, it represented less than 1% of the Group's revenues.

The Parent company's turnover relating to the permanent establishment in Saudi Arabia amounted to €86,043 thousand in 2022 and €53,287 thousand in 2021.

The Parent company's turnover relating to the permanent establishment in Egypt amounted to €19 thousand in 2022.

(Expressed in thousands of euros)

b) Segments

The Group's Segment information for 2022 is as follows:

	Rolling stock	Auxiliary machines and others	General	Total
Net turnover				
External customers	436 506	32 627	-	469 133
Inter-segments	-	-	-	-
Procurement costs	**202 557**	**19 299**	**-**	**221 856**
Personnel expenses	**120 852**	**13 261**	**16 593**	**150 706**
Amortization and depreciation charge	**22 148**	**2 017**	**5 192**	**29 357**
Losses, impairment and variation in provisions				
Current	997	-	-	997
Non-current	(762)	(392)	-	(1 154)
Operating result	**56 249**	**(1 903)**	**(40 594)**	**13 752**
Financial income	282	20	-	302
Financial expenses	10 274	701	248	11 223
Result before tax	**46 397**	**(2 584)**	**(40 842)**	**2 971**
Segment assets	**972 048**	**55 299**	**53 887**	**1 081 234**
Segment liabilities	**711 560**	**47 612**	**18 660**	**777 832**
Net cash flows of:				
Operating activities	**(24 629)**	**(1 680)**	**-**	**(26 309)**
Investing activities	**(18 688)**	**(1 496)**	**(2 196)**	**(22 380)**
Financing activities	**31 893**	**1 934**	**(15 176)**	**18 651**

The Group's Segment information for 2021 was as follows:

	Rolling stock	Auxiliary machines and others	General	Total
Net turnover				
External customers	515 399	40 029	-	555 428
Inter-segments	-	-	-	-
Procurement costs	**286 656**	**28 082**	**-**	**314 738**
Personnel expenses	**115 936**	**9 061**	**17 514**	**142 511**
Amortization and depreciation charge	**24 334**	**1 764**	**3 774**	**29 872**
Losses, impairment and variation in provisions				
Current	52	-	-	52
Non-current	1 990	1 127	-	3 117
Operating result	**68 817**	**(1 907)**	**(37 411)**	**29 499**
Financial income	11	1	-	12
Financial expenses	6 916	379	248	7 543
Result before tax	**64 314**	**(2 285)**	**(37 659)**	**24 370**
Segment assets	**898 765**	**52 108**	**55 838**	**1 006 711**
Segment liabilities	**621 695**	**36 172**	**26 002**	**683 869**
Net cash flows of:				
Operating activities	**32 061**	**1 761**	**-**	**33 822**
Investing activities	**(16 545)**	**(89)**	**5 455**	**(11 179)**
Financing activities	**3 378**	**125**	**(390)**	**3 113**

c) Procurement costs

	€ in thousands	
	2022	**2021**
Domestic purchases	163 272	167 695
Intra-Community purchases	26 861	46 320
Imports	19 446	19 977
Variation in stock (note 9)	(53 475)	7 052
Consumption of raw materials and other consumables	**156 104**	**241 044**
Other expenses	61 676	73 065
Other external expenses	**61 676**	**73 065**
Impairment of raw materials and other procurements (note 9)	4 076	629
Impairment of raw materials and other procurements	**4 076**	**629**

d) Personnel expenses

	€ in thousands	
	2022	**2021**
Wages, salaries and similar	110 529	105 336
Contributions and provisions for pensions (note 4.j)	3 079	2 682
Other welfare charges	37 098	34 493
	150 706	**142 511**

The 'Wages, salaries and similar' caption includes compensation costs, which amounted to €1,208 thousand in 2022 and €1,605 thousand in 2021, as well as the reversal of the amount accrued in 2021 corresponding to the Long-Term Incentive Plan signed in that year,which amounts to €1,061 thousand as the requirements for its accrual have not been met (note 4.j).

d.1) Compensation for the Senior Management and Directors

The role of Director of the Parent company was not remunerated during 2022 and 2021.

The remuneration paid to senior management, which is understood comprise those members that sit on the steering committee, amounted to €1,052 thousand for both fixed and variable remuneration (€1,971 thousand for both fixed and variable remuneration in 2021). Meanwhile, the remuneration paid to the directors for fixed and variable short-term remuneration amounted to €1,450 thousand at 31 December 2022 (€2,401 thousand for both fixed and variable remuneration at December 31, 2021).

During 2021 the Long-Term Incentive Plan (2021-2023) was approved as a variable share remuneration system, the collection of which is conditional upon the fulfilment of certain strategic and share value objectives of the Parent company and the permanence of the beneficiary during the consolidation period (3 years) (note 4.j.). The maximum amounts of this remuneration, which is accrued over three years and only received if the plan's objectives are met, amount to €3,100 thousand. The directors, taking into account the evolution of the objectives linked to the business plan during the 2022 financial year as well as the prospects envisaged for 2022, have decided to reverse the provision for this item. Additionally, the CEO has signed a commitment of remuneration in 889,878 shares of Talgo, S.A. as a retention incentive, payable according to certain future events. During the 2022 financial year, an accrual of 800 thousand euros has been recognized in the profit and loss account based on this commitment.

The Parent company has taken out life insurance for all of its employees, including management personnel. The cost of this insurance for management personnel amounted to €56 thousand in 2022 (€44 thousand in 2021). The amount corresponding to the pension plan of this same collective amounted to €81 thousand in 2022 (€80 thousand in 2021). In addition, the Company has taken out civil liability insurance policies for some members of its Senior Management and its Directors, whose premiums, are already paid during 2022 and 2021, amount to €71 thousand and €53 thousand. Its coverage is considered sufficient.

(Expressed in thousands of euros)

During 2015, loans were granted to members of the management team for the purchase of shares in the ultimate parent company, whose outstanding balance is €648 thousand (note 8). The aforementioned loans accrue interest at a rate that is linked to Euribor plus a market spread.

d.2) 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 made the notifications, in accordance with section 3 of the aforementioned Article, which indicate that neither they nor the persons linked to them, as defined by Art. 231 of the aforementioned legal text find themselves in any situations involving conflicts of interest, directly or indirectly, as provided for in the aforementioned legal text, which is why these annual accounts do not include any disclosure in this regard.

d.3) Staff

The distribution of the Group's headcount at year-end 2022 and 2021 by job category and gender was as follows:

	2022		**2021**	
	Men	**Women**	**Men**	**Women**
Board members and Senior Management	5	2	8	4
Management	47	8	44	6
Middle management	345	68	342	65
Technicians, administration staff and others	2 085	315	1 945	297
	2 481	**393**	**2 339**	**372**

The distribution of the Groups' average headcount by job category and gender during the years 2022 and 2021 was as follows:

	2022		**2021**	
	Men	**Women**	**Men**	**Women**
Board members and Senior Management	5	2	9	4
Management	47	8	42	4
Middle management	341	70	332	58
Technicians, administration staff and others	1 958	303	1 920	301
	2 350	**383**	**2 303**	**367**

As at year-end 2022, the Group employed 27 people with a disability of 33% or more (26 in 2021); of which 7 were women (9 in 2021) and 20 were men (17 in 2021), this group is represented in all categories of the staff.

e) The breakdown of the Group's financial result is as follows:

	€ in thousands	
	2022	**2021**
Financial income:		
From Trade securities and Other financial instruments		
- From third parties	302	12
	302	**12**
Financial expenses:		
- From debts with third parties	(11 223)	(7 543)
	(11 223)	**(7 543)**
Change in fair value of financial instruments (note 11)	-	10
	-	**10**
Translation differences	140	2 392
	140	**2 392**
Financial result	**(10 781)**	**(5 129)**

19. Income Tax and the fiscal situation

Since 2006, the Parent company has formed part of the Tax Consolidation Group 65/06, whose parent company is Talgo, S.A.

The reconciliation between the profit before tax and the taxable income at 31 December 2022 is as follows:

			€ in thousands
	Increases	**Decreases**	
Result before tax			**2 971**
Permanent differences:			
Profit from subsidiaries	2 746	-	2 746
Other permanent differences	7 810	(63 674)	(55 864)
Timing differences:			
- arising during the year	12 626	(3 379)	9 247
- arising in the previous years	13 506	(20 515)	(7 009)
Taxable income for the year (Tax Result)			**(47 909)**

The decrease in the permanent differences was mainly due to the tax-exempt income recorded by the Permanent Establishments in Kazakhstan, Uzbekistan, Russia, Egypt and

Saudi Arabia, whose pre-tax result is included in the pre-tax result of the Group and subsequently, the taxable base is adjusted as a permanent difference.

The reconciliation between the profit before tax and the Income tax expense at 31 December 2022 is as follows:

	€ in thousands
Profit before tax	2 971
Permanent differences	(53 118)
Tax rate 25% (*)	-
Income tax expense – subsidiaries and foreign permanent establishments	12 324
Income tax adjustment previous financial year	6
Deduction	-
Deferred taxes movements (*)	(494)
Total Income tax expense	**11 836**

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

During the 2022 financial year, the Parent company's Directors, following a conservative criterion, have decided not to capitalize additional tax loss carryforwards to those recorded at the end of the 2021 financial year or the deductions generated, although it is expected that they may be used in the near future.

Similarly, in the subsidiary Talgo Inc., a total of €3,985 thousand of tax loss carryforwards, which had been capitalised on the assets side of the balance sheet of this company, were reversed on the basis of a conservative criterion. However, the Group does not waive the right to use them in the future when the subsidiary makes a profit.

Deferred tax assets

The increments of temporary differences correspond to expenses mainly provisions, whose tax expense will be deducted in subsequent periods.

Deductions have not been used during 2022 and 2021.

The movement in the deferred tax asset balance during 2022 is as follows:

	€ in thousands					
	Balance at 31.12.2021	Translation differences	Additions	Disposals	Other Movements	Balance at 31.12.2022
Temporary differences						
Guarantees	3 607	-	3 326	(3 606)	(5)	3 322
Goodwill	1 124	-	845	-	-	1 969
Other concepts	3 785		2 251	(1 523)	(6)	4 507
Tax Credits						
Tax loss carryforwards	16 594	324	-	(3 985)	-	12 933
Deductions	2 653	-	-	-	-	2 653
	27 763	**324**	**6 422**	**(9 114)**	**(11)**	**25 384**

The movement in the deferred tax asset balance during 2021 was as follows:

	€ in thousands					
	Balance at 31.12.2020	Translation differences	Additions	Disposals	Other Movements	Balance at 31.12.2021
Temporary differences						
Guarantees	4 384	-	3 606	(4 319)	(64)	3 607
Goodwill	280	-	844	-	-	1 124
Other concepts	3 495	-	1 605	(1 344)	29	3 785
Tax Credits						
Tax loss carryforwards	16 461	352	-	(219)	-	16 594
Deductions	2 653	-	-	-	-	2 653
	27 273	**352**	**6 055**	**(5 882)**	**(35)**	**27 763**

The Other charges caption includes mainly deferred taxes associated with the freedom of amortization and provisions for major repairs.

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

As of December 31, 2022, the Parent company has an amount of €140,677 thousand of tax loss carryforwards and an amount of €13,606 of deductions pending application. Of these, an amount of €48,460 thousand and €2,653 thousand respectively are activated on the balance sheet at 31 December 2022.

As of December 31, 2022 the expiration of the tax loss carryforwards and the deductions pending application is as follows:

Year	**€ in thousands**	**Last year**
Tax loss carryforwards		
2018	22 078	Indefinite
2019	34 091	Indefinite
2020	17 728	Indefinite
2021	21 594	Indefinite
2022	45 186	Indefinite
Total Tax loss carryforwards	**140 677**	**Indefinite**
Deductions		
2017	511	2035
2018	1 098	2036
2019	6 203	2037
2020	2 310	2038
2021	1 706	2039
2022	1 778	2040
Total Deductions	**13 606**	

As of December 31, 2022, the tax loss carryforwards pending to offset in the United States, corresponding to the subsidiary Talgo Inc. are of €40,808 thousand (€32,684 thousand in 2021). Of these, an amount of €3,906 thousand has been capitalized in the balance sheet at December 31, 2022. During the financial year 2022 and according to a conservative criterion, a total amount of €18,975 thousand of tax loss carryforwards have been reversed, which were recognised in the balance sheet at the end of the financial year 2021.

At December 31, 2022, the expiration of the tax loss carryforwards is detailed below:

Year	**€ in thousands**	**Final year**
2004	6 930	2024
2005	8 719	2025
2006	7 417	2026
2012	3 991	2032
2020	8 238	Indefinite
2022	5 513	Indefinite
	40 808	

As a result of changes in U.S. tax legislation in the year 2020, tax loss carryforwards generated from that year onwards will expire indefinitely.

At December 31, 2021, the Group has analyzed the recoverability of these deferred tax assets, in the context of the tax group to which it belongs, by using projections of results based on the business plans prepared by Management for the coming years, making the corresponding adjustments to the previous projections to convert them into the taxable tax base for each period and considering the limitations on the deductibility of financial expenses and offsetting of tax bases and deductions established in current tax legislation.

Deferred tax liabilities

The movement in the deferred tax liability balance during 2022 is as follows:

	€ in thousands				
	Balance at 31.12.2021	**Additions**	**Disposals**	**Other Movements**	**Balance at 31.12.2022**
Free amortization	192	-	(50)	-	142
Other concepts	1 090	322	(178)	-	1 234
	1 282	**322**	**(228)**	**-**	**1 376**

The movement in the deferred tax liability balance during 2021 was as follows:

	€ in thousands				
	Balance at 31.12.2020	**Additions**	**Disposals**	**Other Movements**	**Balance at 31.12.2021**
Free amortization	253	-	(61)	-	192
Other concepts	493	687	(92)	2	1 090
	746	**687**	**(153)**	**2**	**1 282**

The Parent company and its ultimate parent Talgo, S.A. received on July 10, 2017 notification of the tax authorities of partial verification of the income tax of the years from 2012 to 2015 and the income tax of the years 2013 to 2015.

As a result of the aforementioned procedure, in October 2019 assessments were signed in disagreement by both companies (for Personal Income tax) and by the parent company, as head of the tax group (for Income tax), which were confirmed by settlement agreements notified in November 2019.

In December 2019 the company Talgo, S.A., as head of the tax group, filed economic-administrative claims against the aforementioned settlement agreements. In addition, a request has been made (in January 2020) for the automatic suspension of the execution of the debt through the provision of a bank guarantee amounting to €21.2 million. The suspension was granted.

During the 2020 fiscal year, both companies presented their arguments before the Central Economic Administrative Court (TEAC), and the conclusions of the settlements notified by this court during the 2022 fiscal year were confirmed. On May 4, 2022, a contentious-administrative appeal was filed against this resolution before the National Court of Appeals, and the conclusions were filed on November 23, 2022. Subsequently, on February 6, 2023, the Audiencia Nacional (National Court) transferred the brief of conclusions of the State

Attorney together with the Diligence declaring the proceedings concluded and pending the appointment for voting and court judgement.

The Personal Income tax settlements do not give rise to any debt, while the Corporate Income tax settlement gives rise to a debt of €21.2 million, of which €17.9 million is the tax payable and €3.3 million is interest on arrears.

The €21.2 million debt arising from the settlement relates to adjustments to the taxable income of Patentes Talgo, S.L.U. and adjustments to the taxable income of Talgo, S.A. The contribution to this debt is €13.9 and €7.3 million, respectively.

As the tax settlement eliminates the tax loss carryforwards generated in 2015 by the tax group, which was partially used by the fiscal group in 2016 and 2017, if the settlement is confirmed by the courts there will be an effect on the tax payable in 2016 and 2017 of €3 million. In addition, the tax loss carryforwards for 2015 from Parent company (Talgo, S.A.), amounting to €33.1 million and corresponding to a tax liability of €8.3 million, would be eliminated.

The Parent company's directors and its tax advisers consider that they have correctly filed the regularized taxes and have therefore filed the aforementioned claims. As a result of the scarce and disparate doctrine in relation to the issues discussed, as it is indicated in note 2.c), a provision of €1.4 million has been recognised in the 2019 financial statements under the heading of long-term provisions (note 15). Of the aforementioned amounts, €0.2 million relates to interest on arrears recorded as financial expenses, €1.2 million as an increase in income tax expense.

Also, the parent company Talgo, S.A. recorded, in 2019 financial year, a provision in its financial statements of €10.1 million and has written off €8.3 million of deferred tax assets in relation to the adjustments related to the taxable income of this company. At year-end 2022, the provision described above continues to be recorded in the Group's balance sheet.

Additionally, the tax Group has open to verification the last 4 financial years for the rest of taxes that are not being subject to verification but applicable. In the rest of the countries where the Group operates, all the taxes that are applicable to the different companies are open to verification in the financial years that indicate their respective tax legislations. The Group's directors consider that the aforementioned taxes have been properly settled and, accordingly, even if discrepancies arise in the interpretation of current legislation in relation to the tax treatment of the transactions, the resulting liabilities, if any, would not materially affect these consolidated financial statements.

(Expressed in thousands of euros)

The breakdown of the "Other loans with Public Administrations"

The detail of the balance receivables with the Public Administration, at 2022 and 2021 year-end, is as follows:

	€ in thousand	
	2022	**2021**
Public Administration tax receivables for VAT	3 832	6 007
Tax receivables for grants	9 710	6 348
Tax receivables for Other Taxes	1 246	496
Public Administrations withholding tax and prepayments	901	186
	15 689	**13 037**

The heading of "Tax receivables for grants" mainly includes at 2022 year-end, the amount receivable with the Centre for Industrial Technological Development for the *PARFAIT, VITTAL ONE and LETS GO* projects, as well as the amount receivable for the HORIZON2020 Programme of the European Commission, for the projects integrated in the Shift2Rail and for the RAIL4EARTH and IAM4RAIL projects, the latter two being part of the Europe's Rail programme. The liability side associated with this project is registered in the long term under the heading "Other financial liabilities" (note 16).

The detail of the balances payable with the Public Administration, at 2022 and 2021 year-end, is as follows:

	€ in thousand	
	2022	**2021**
Public Administration tax payable for VAT	3 067	4 565
Public Administration tax withholdings and pre-payments	2 851	2 919
Social security payables	3 856	4 652
	9 774	**12 136**

20. Other information

a) Foreign currency transactions

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

	€ in thousand	
	2022	**2021**
Purchases	60 220	25 181
Sales	81 791	62 929

b) Transactions with related parties

	€ in thousand	
	2022	2021
Other operating income	**15**	**15**
Talgo, S.A.	15	15
Revenues	**15**	**15**

	€ in thousand	
	2022	2021
Render of services	**-**	**926**
Consorcio Español Alta Velocidad Meca-Medina, S.A.	-	926
Expenses	**-**	**926**

The Group carries out all of its transactions with related parties at market values.

In addition, the transfer prices are adequately supported, and thus the Directors of the Parent company consider that no significant risks arise because of this that may result in significant liabilities in the future.

c) Fees for audit and other services provided by group auditor or other related companies.

During 2022 and 2021, the fees regarding the services provided for the audit of annual accounts and non-audit services by the Group's auditor Deloitte, S.L. or by any other company related to the auditor by means of common ownership, control or management are as follows, in thousands of euros:

Description	2022	2021
Audit fees	292	259
Total audit services	**292**	**259**
Other assurance services	3	27
Tax consultancy services		11
Total non-audit services	**3**	**38**
Total professional services	**295**	**297**

21. The environment

The breakdown of the expenses incurred during 2022 and 2021 to protect and improve the environment is as follows:

	€ in thousands	
	2022	**2021**
Periodic (waste management, periodic analysis and other):		
Drinking water and waste water analysis purifier expenses	23	22
Management of hazardous and inert waste	121	121
Material purchases and other	14	22
Safety Advisor	4	4
Dumping tax and legionellosis control	2	2
Atmospheric emission controls	1	31
Legislation updates	5	2
Total periodic expenses	**170**	**204**

	€ in thousands	
	2022	**2021**
Non-periodic:		
Soil Survey	2	-
Diesel tank inspection	3	-
Implementation of the "Transport to work" plan	4	-
Water cleaning	2	3
Noise Study	1	1
ISO 14001 Certification	4	8
Total non-periodic expenses	**16**	**12**

The Group made no environmental protection and improvement investments in 2022. although it is closing the project to install photovoltaic panels on the Parent Company's properties in the financial year 2023.

During the year 2021, the investments for the protection and improvement of the environment were as follows:

	€ in thousands
	2021
Investments :	
Luminaire replacement in factory	8
Total investments	**8**

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

22. Guarantees and other contingencies

At 31 December 2022, the Group had a volume of bank guarantees and surety bonds amounting to €1,081 million (€953 million in 2021), of which, €892 million corresponded to manufacturing projects (€743 million in 2021), either as performance bonds or advances received. The remaining sum comprised bank guarantees provided to public entities for the awarding of grants, for bidding in tender competitions and for other items.

At 31 December 2022, the amount available from the bank guarantee and surety bonds lines amounted to €780 million (€773 million in 2021).

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 Parent Company had an arbitration in progress, with crossed claims between the parties, at the end of the year the final arbitration award has been issued without having reached its finality at the date, the Parent Company has recorded an amount of 22,146 thousand euros under the heading "Trade and other payables" and respectively 13,380 thousand euros under the heading "Short-term deferrals" of the balance sheet as of December 31, 2022. It is not estimated that the resolution of the same will give rise to additional liabilities to those recorded in these financial statements.

In connection with the contract for the remodeling of 74 cars for the customer Los Angeles Metro (LACMTA), on May 6, 2022, the aforementioned customer notified our subsidiary Talgo Inc. of the termination of the contract alleging breaches by the company in terms of scope and deadline. Subsequently, on September 15, 2022, LACMTA filed a lawsuit against the American subsidiary. Talgo notified the customer of its disagreement with the breaches contained in the termination notice and the reasons for the same, and on October 21, 2022 filed a legal counterclaim for damages suffered due to the unilateral termination of the contract by the customer. At the date of preparation of these consolidated financial statements, the outcome of these lawsuits is unknown, although the directors consider, taking into account the opinion of their legal advisors, that no additional liabilities will arise in addition to those already recognized in the consolidated financial statements.

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 2022 year-end.

23. Subsequent events

No subsequent events have taken place that could have a significant effect on these annual accounts.

24. 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 Parent company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

PATENTES TALGO, S.L.U. AND SUBSIDIARIES

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(Expressed in thousands of euros)

Organizational structure

The main responsibilities of the Parent 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 Group.

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

Strategy

The Group's strategy in recent years has led to stable margins in the key Rolling Stock segment, researching and developing new markets in order to grow steadily through international markets and with an increasingly diversified offer of solutions focused on specific customer needs, ranging from the manufacture and maintenance of rolling stock for the high-speed, long-distance and local/regional segments, to the remodelling and renewal of third-party rolling stock and the marketing of maintenance equipment.

Business model

The Group's business model is based on the flexibility of its manufacturing activity to adapt to market circumstances in the global economic context that also allows it to be excellent in efficiency and productivity.

An efficient, light and flexible structure provides the capacity to maintain discipline in the selection of projects that support the Talgo objective in the generation of long-term value to the various existing stakeholders, and contribute to the sustained growth of the Group, with a growing business, stable margins and the focus on sustainability and care for the environment and good corporate governance practices.

Business development

The Group has continued to execute the train construction contracts in its portfolio during financial year 2022.

On the other hand, once the technical development of 30 AVRIL type high-speed trains for RENFE has been completed (15 of them with UIC gauge and a maximum speed of 330 km/h and another 15 trains with sliding tracks). During the 2022 financial year, the manufacture of the trains has been completed at the Rivabellosa (Álava) and Las Matas II (Madrid) factories and track tests have been carried out in Spain on the units for their homologation, which is expected to be completed in 2023, so that the trains will begin to be put into operation during that same year. Likewise, dynamic tests are scheduled for 2023 in France for their homologation in that country.

During the 2022 financial year, the Group also continued to manufacture the 6 trains for the Egyptian National Railways (ENR), whose contract also includes the maintenance of the trains for a period of 8 years. The first train of the series was received on 23 December 2022 and the Cairo-Alexandria line was inaugurated the following day, a very important milestone for Talgo in its internationalisation strategy.

Similarly, once the technical development of the product had been completed, the AVRIL type Auscultador train was manufactured during 2022 for the Spanish railway infrastructure manager ADIF, which is scheduled to be tested during 2023.

During 2022, the Group also continued the technical development work and first manufacturing phases of the following contracts: i) supply of 23 trains under the framework contract with the German railways (Deutsche Bahn) for the manufacture of up to 100 self-propelled trains for a maximum speed of 230 km/h, ii) the contract with the Danish operator DSB for the supply of 8 Talgo 230 type trains (of the same series as those of Deutsche Bahn) as well as the 16-year supply of fleet parts for their maintenance as part of a framework contract of up to €500 million.

As for the main supply contracts signed during 2022, apart from numerous addenda for changes in scope for the manufacturing in progress, the following should be highlighted: i) Sale by the subsidiary Talgo Inc. of 21 Series 8 cars to the company Sky British to be put into operation in Nigeria; ii) Sale of 7 night train compositions for the Egyptian state railroad company ENR (Egyptian National Railways). For this contract to be completed, the financing of the same must first be closed, for which both Talgo and ENR have been working together and it is expected to be closed during the first months of 2023.

With regard to the train maintenance activity, during 2022 the Group continued to execute multi-year train maintenance contracts in the different countries where the Group is established, such as Spain (RENFE and ADIF), Kazakhstan (KTZ), Uzbekistan (UTY), Saudi Arabia (SRO), Germany (DB and other private operators) and the USA (ODOT).

As mentioned above, with the start of train operations in Egypt, maintenance activities have begun in that country. For this purpose, during the months prior to the beginning of the operation, the necessary material and human resources have been prepared, creating a team in that country with local workers and personnel temporarily expatriated from Spain.

In parallel, during the year 2022 and in coordination with RENFE through the investee Group Tarvia, S.A., the maintenance of the towed Talgo material has been carried out and the preparation of all the infrastructure and resources necessary for the maintenance, through the aforementioned company, of the 30 AVRIL type high speed trains for RENFE has continued.

Regarding the main train maintenance contracts signed during 2022, apart from different contracts for small improvements in the trains currently under maintenance, it is worth mentioning the signing of a maintenance contract in Germany for bunk cars, sleeping cars and electric locomotives that run as night trains between Stockholm and Hamburg and an additional protocol to the AVRIL train maintenance contract for RENFE in order to incorporate the maintenance of the modifications incorporated in the trains.

It should be noted that effective March 5, 2022 and due to force majeure circumstances, our company ceased its activity and business in Russia of technical maintenance and repair of passenger trains for our customer FPK (a subsidiary of RZD).

In relation to the activity of remodeling railway material, work has continued on the transformation of 13 RENFE Hotel train compositions to compositions capable of running at 330 km/h and with the contract for the remodeling of 50 passenger cars for the Southern California Regional Rail Authority through the subsidiary Talgo Inc.

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

During the year, the maintenance equipment activities have contributed to the order book with several contracts, including contracts signed for the sale of pit winches and/or artificial vision measuring equipment in Portugal, Switzerland or Spain for customers such as Carris, Metro de Lisboa, Swiss Southeast Railway (SOB), Transportes Metropolitanos de Barcelona (TMB) or RENFE.

In line with the Group's policy of innovation and diversification of its product portfolio, during 2022 and among other projects, it has continued with the development and optimization and improvement tests for the 2nd generation of the AVRIL high-speed train platform, the 230 km/h Intercities train platform and the hydrogen train. In parallel, different transversal projects are being carried out, among others, in very diverse areas such as interoperability, digitalization and Industry 4. 0, signaling, safety, passenger experience and accessibility, energy efficiency and sustainability, lightening of materials, and mechatronic solutions, self-configuration, versatile installations for automated track diagnostics, neural networks for the application of intelligence to large volumes of data and parameters, improvements in comfort, noise and vibration, standardization, additive manufacturing, element joints, new less polluting fuels for the traction chain, as indicated above, hydrogen, and optimization of wheel wear.

Significant events after the end of the reporting period

The subsequent events that may have a significant influence on these consolidated annual accounts are detailed in note 23.

Innovation, research and development activities

Continual commitment to research and development of new products has earned Talgo international recognition, allowing it to compete with other railway equipment manufacturers in different tenders worldwide. Today Talgo trains are seen traveling across Spain, Russia, Kazakhstan, Uzbekistan, Saudi Arabia or the USA among other countries.

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

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

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

The aim of Talgo's Strategic Intelligence work is to systematically capture, analyse, disseminate and exploit information (technological, competitive, legislative, etc.) on the company's environment in order to define opportunities for Talgo that are reflected in a list of proposals for annual innovation projects, to warn of changes that could pose a threat to the company and to help detect opportunities for success.

Talgo has continued its policy of investing in research and development activities aimed at the continuous improvement of its products and maintenance services. Among others, it has collaborated with various partners at European level, including prestigious universities and technology centres, as well as some of the main entities in the railway industry. Some of the main collaborations of this type are part of the two major European initiatives dedicated to railway innovation, promoted by the European Commission: Shift2Rail, in which Talgo plays a very important role in key traction projects, lightening of structures through the use of composite materials, active systems for rolling, energy efficiency and improvement of noise and vibrations; and Europe's Rail, successor to the previous one, of which Talgo, together with Indra, is a founding member since December 2021. In Europe's Rail, Talgo will continue its lines of work, with a strong focus on developing technologies to improve the efficiency, attractiveness and operating and maintenance costs of its trains.

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

Also noteworthy is Talgo's intense and ongoing commitment to sustainability, manufacturing lighter and increasingly efficient trains, responding to the commitment to provide railway operators with products that provide the backbone of the territory, promoting development and improving connections between towns and cities while contributing to the sustainability of transport and preserving the environment. A clear example of this is the project underway to develop traction based on hydrogen cells, which will improve the environmental performance of trains currently using diesel traction on non-electrified lines.

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

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

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

During the performance of ours activities, priority is given to improving the efficiency of our management systems in a sustainable, safe manner and quality in order to obtain the maximum satisfaction of its clients, employees and suppliers. Materials that favour the recyclability and recoverability of products are promoted, and measures that develop Ecodesign and the Circular Economy are established.

To that end, the Group is committed to delivering products and services in perfect conditions and not causing any environmental impact; meeting the applicable regulations and standards; establishing actions to eradicate the source of the identified problems as well as preventing them to occur again and promoting both a continuous training and the professional capacities of the personnel.

This commitment is promoted and encouraged at all the levels of the organization and across all of the countries in which the Company has a presence. This is evidenced by the process of implementing the Management Systems that the Group has carried out in its subsidiaries abroad, adjusting the existing processes to the new requirements and always ensuring they are applied on a standardized basis.

Additionally, the implementation and certification of the Parent company, according to the requirements of the IRIS quality standard, specific to the railway sector, is a powerful tool for the improvement of all processes based on a deep reflection that allows to clearly identify the points of improvement of the organization, which allows a greater efficiency and competitiveness that results in the internationalization of the company.

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

The breakdown of the expenses incurred by the Group to protect and improve the environment is disclosed in note 21. The costs relating to the prevention of risks form part of the costs of the projects.

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

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, of 60 days, being the average payment period of 78 days during the year 2022.

In addition, pursuant to the ICAC (Accounting and Audit Institute) Resolution of 29 January 2016, the Group discloses the information to provide in the annual accounts.

Own shares and participations

The Group did not hold any of its own shares or participations at 31 December 2022.

Use of financial instruments

The Group does not trade with financial instruments which could eventually affect to the right valuation of the assets or liabilities recorded in the balance sheets with the exceptions indicated in notes 11 and 16 to the accompanying annual accounts.

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Non-financial information

As indicated in note 1, the Parent company is the head of a group of subsidiaries which, in turn, belongs to a higher consolidated group of which, Talgo, S.A., is a parent company. The of non-financial information of Patentes Talgo, S.L.U. is integrated in the consolidated non-financial information of Talgo, S.A. and subsidiaries which is filed, attached to the annual accounts and consolidated director's report in the Mercantile Registry of Madrid.