

Annual Report 20 20

Talgo



Talgo 2020 Index

- Main results 2020
- Message from the President

1

A year of challenges

- 1.1. Main milestones
- 1.2. Financial results
- 1.3. Industrial activity and services
- 1.4. Commercial activity
- 1.5. Creation of shareholder value
- 1.6. Commitment to people
- 1.7. Commitment to the environment
- 1.8. Sustainable supply chain
- 1.9. Social development

2

How do we achieve this?

- 2.1. Profile, identity and commitments
- 2.2. Business model
- 2.3. Proprietary products and technologies
- 2.4. Innovation
- 2.5. Strategy

4

About this report

- 4.1. Methodology, scope and coverage
- 4.2. Materiality analysis
- 4.3. GRI Index

3

How do we manage it?

- 3.1. Corporate governance structure
- 3.2. Risk management
- 3.3. Ethics and compliance
- 3.4. Social accountability management

Annexes

- Consolidated Group Financial Statements
- Individual Financial Statements

→ Main results 2020

Revenue
(€M)

324.4
2018



401.7
2019



487.1
2020



21.3%
Var. 2019-2020

Quarterly revenue development
(€m)



	2018	2019	2020
Adjusted EBITDA (€m)	65.6	75.2	34.2
Adjusted EBITDA margin (%)	20.2%	18.7%	7.0%
Net profit (€m)	17.7	38.4	-17.4
Net profit margin (%)	5.5 %	9.6%	-3.6%
Free cash flow (€m)	153.0	35.3	-100.6
Investments - Capex (€m)	9.6	23.3	24.7
Net Financial Debt* (€m)	-104.4	-59.3	48.1
Net Financial Debt / EBITDA (x)	-1,6x	-0,8x	1,4x

*NFD = LT Financial Debt + ST Financial Debt - Cash and Equivalents

Human Resources	2018	2019	2020
Number of employees	2.240	2.597	2.668
Men	1.980	2.267	2.305
Women	260	330	363
Accident resulting in medical leave frequency	3.16	7.47	6.66
Severity index	0.117	0.252	0.17

Environment	2018	2019	2020
Hazardous waste generated (tonnes)	186	217	211
Fuel consumption (thousands of litres)	397	286	226
GHG Emissions - Scopes 1 and 2 (Ton. CO ₂ eq.)	2.226	2.040	1.827
Energy intensity (kWh/employee)	15.431	12.871	14.158
Water consumption (m³)			23.103

→ Message from the President

“

*Talgo is a respected and consolidated brand, as well as a global reference. **This is due, in large part, to its innovative spirit and its vision and ability to anticipate the current and future demands of the global high-speed market.***

”



Dear Shareholder,

It is an honour to present the Talgo 2020 annual report, which reflects the hard and tireless work of our company in a year marked by the unprecedented global health crisis caused by Covid-19, which has disrupted the operating conditions of businesses around the world. Talgo's capacity and the flexibility of its business model to successfully adapt its cost structure to adverse and changing situations, as well as the success of comprehensive measures to ensure employee safety and improve productivity and the efficient management of the supply and logistics chain, have ensured the proper execution of projects during the extraordinary situation produced by the pandemic. In particular, we have been able to overcome this situation thanks to the commitment and efforts of our employees, the trust of our customers and the support of you, our shareholders.

Talgo is a respected and consolidated brand, as well as a global reference. This is due, in large part, to its innovative spirit and its vision and ability to anticipate the current and future demands of the global high-speed market. From Spain to the United States, from Germany or Denmark to Russia, Kazakhstan or Saudi Arabia, our trains link cities and connect people, reducing travel times and offering comfortable and sustainable transport, thanks to cutting-edge technology that we have perfected over 79 years of constant innovation and an internationalisation strategy that has allowed us to grow globally.

Talgo is currently finalising the new very high-speed, high-capacity train, the Talgo Avril, which is undergoing dynamic testing in Spain, and is developing its modular rolling stock solution for commuter and regional services, the Talgo Vittal. But especially noteworthy is the continued expression of its conviction and commitment to the environment with the hydrogen-powered variant, the Talgo Vittal One, which will be available in 2023. This latest project is particularly relevant for the near future when the train will continue to be a more reliable and efficient means of

transport and the most realistic and immediate solution to help reduce the carbon footprint.

Talgo's mission in 2021 will be to continue to drive innovation and commercial activity in order to maintain our position as a global railway company, a benchmark for quality and a promoter of sustainable mobility, while at the same time contributing to creating a more sustainable, fairer and wealth-generating reality for all, anticipating the needs of our industry in order to take advantage of all opportunities, as we have done up to now. Only in this way will we continue to be an active player in defining the future of rail transport worldwide.

→ Summary of 2020

The 2020 financial year began successfully adding to our internationalisation objectives with the award of a new framework contract with the Danish operator DSB to link the Danish capital, Copenhagen, with the German port of Hamburg. Talgo thus continued to position itself as a benchmark in Western Europe. This contract is in addition to the one awarded in 2019 by the German operator Deutsche Bahn, under which Talgo 230 trains will link the German capital, Berlin, with the Dutch capital, Amsterdam, and will cover tourist routes in the North Sea and the Alps.

Following the outbreak of COVID-19 in March 2020, Talgo adopted contingency plans and significant cost savings across the company, with the aim of ensuring the continuity of industrial activity while maintaining its commitment to customers, preserving project operating margins and protecting its workers, in full compliance with the indications of the Ministry of Health and relevant authorities in Spain. Among other measures in line with the situation, it is worth highlighting the decision of the Chairman, the

→ Message from the President

CEO and the other members of the Board of Directors of the company to reduce their salaries by 50% for the period March-December 2020.

Talgo continued its industrial activity in 2020, thanks to the company's rapid adaptation and the success of the operational measures implemented to normalise the pace of production and protect its employees. The company closed the year with revenues of €487 million, an increase of 21.3% over the previous year's figure. Specifically, revenues grew by 20.3% in the fourth quarter compared to the third quarter of 2020, driven by increased industrial activity.

Talgo recorded an adjusted EBITDA of €34.2 million in 2020 compared to €75.2 million in the same period of the previous year. This decline in EBITDA reflected the extraordinary situation caused by the economic conditions arising from the pandemic. However, the positive movement in the margin in the second half of the year (from 0% in the second quarter to 7% in the fourth quarter), stemming from the increase in industrial activity and the partial recovery of maintenance activity, as well as the increase in cost-saving measures, confirmed the business's ability to return to normal profitability as soon as normal intercity mobility is restored.

At the end of 2020, the company had a solid and diversified order book with a value of €3,184 million, which guarantees a high level of industrial activity for the period 2020-2024 (already visible in the fourth quarter of 2020) and long-term stability. In fact, at the end of 2020, Talgo's order book was at its highest historical level in terms of diversification by number of projects, which represent 80% of the manufacturing backlog. Thus, the high quality of the order book and exhaustive cost control will allow the company to recover its operating margins throughout 2021.

With regard to projects underway, the Renfe-Avil project, currently undergoing dynamic tests in Spain, is progressing well. Talgo is manufacturing 30 trains and will be responsible for their maintenance for 30 years. Talgo is also immersed in the manufacture of its projects

for the Danish operator DSB and the German operator Deutsche Bahn, as well as projects for UTY in Kazakhstan, ENR in Egypt, Renfe hotel-train or ADIF inspection train. Regarding maintenance activity, the current manufacturing backlog with associated maintenance already awarded guarantees strong growth for the coming years, reaching an expected 3,700 vehicles by 2023.

Talgo also has a solid financial profile with an outstanding capacity to successfully deliver the projects in its backlog and finance the company's growth in the coming years. The company also has available credit lines of up to €150 million.

→ Talgo's commitment to the fight against the pandemic

Since the outbreak of COVID-19, Talgo's commitment to the fight against the pandemic has been clearly demonstrated in actions such as the

conversion by Talgo -pro bono and in record time - of several Talgo S-730 all-terrain trains for possible use by RENFE as medicalised trains. Talgo has also worked to incorporate health and safety solutions in its fleets, with the aim of minimising the risks of mass exposure for passengers and guaranteeing health conditions.

In addition, in July last year the company donated the proceeds from the 2020 edition of its flagship "Talgo Award for Professional Excellence for Women in Engineering" to the Spanish National Research Council (CSIC) platform that is coordinating efforts to develop a vaccine against COVID-19.

Examples such as these demonstrate, once again, the company's firm commitment to its environment and society, contributing to jointly overcoming challenges and creating a more sustainable and fairer reality for all.



→ Message from the President

→ 2021 objectives

The objectives for 2021 are to continue the successful execution of projects in the pipeline, the efficient use of financial resources and selective growth, thus ensuring the long-term sustainability of the business.

For 2021, Talgo expects to continue to increase its national and international presence with the incorporation of new projects. At the same time, it expects strong revenue growth, driven by intense manufacturing activity and a gradual recovery in maintenance, with execution of up to 35%-37% of the order book in the 2021-2022 period. In terms of profitability, the company expects EBITDA to be around 10%-12% for 2021, driven by a gradual recovery in profitability, subject to mobility constraints and their impact on maintenance activity.

Talgo foresees a net investment in WCR (working capital requirements) in 2021 in order to finance ongoing projects, prioritising the efficient and optimal use of available financing capacity. It also expects to make an



investment of up to €25 million in Capex for 2021, of which €14 million are allocated to R&D activities.

Regarding shareholder remuneration, Talgo will make the second redemption of a total of 3.6 million shares (representing 2.8% of the share capital) from the share buyback programme, scheduled for 2021. This reduction in capital reduces the number of shares in circulation and results in an increase in shareholder remuneration as expressed in the earnings per share ratio.

This year, in line with its commitment to sustainable and socially responsible management and ESG (Environmental, Social and Governance) criteria, Talgo will present its first Annual Report in accordance with GRI standards. This action is not only an exercise in transparency but also the result of responsible industrial activity, as well as our contribution to society, both in terms of the economic and structural benefits generated by our activity and the CSR (Corporate Social Responsibility) work carried out by the company and through the Talgo Foundation.

I would like to take this opportunity to thank our employees once again for their continued hard work, especially in 2020. In order to meet all our objectives for the coming year, we will continue to count on the coordinated work of more than 2,500 committed employees, with whom we foster stable relationships based on trust, equality, involvement and the know-how of all the Group's professionals. Today, more than ever, we remain focused on ensuring an enviable working environment, where equal opportunities, non-discrimination and respect for diversity and inclusion of all people are guaranteed.

Finally, I would also like to reiterate my personal thanks to our customers and shareholders for the trust they place in our company every day. This trust strengthens Talgo and reaffirms its integrity, vision and leadership.

Carlos de Palacio
President





1

A year of challenges

- 1.1. Main milestones
- 1.2. Financial results
- 1.3. Industrial activity and services
- 1.4. Commercial activity
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- 1.7. Commitment to the environment
- 1.8. Sustainable supply chain
- 1.9. Social development



→ 1.1. Main milestones

First quarter

- Danish State Rail Operator DSB awards Talgo a framework contract for the manufacture of Intercity Talgo 230 trainsets worth €500 million, with a first firm order for 8 trainsets, fleet parts supply and maintenance services worth €134 million.
- Talgo presents its results for 2019 with a turnover of €401.7 million, an increase of 23.8% on €324.4 million achieved the previous year.
- Agreement to pay a dividend of €53 million to its shareholders by reducing its share capital through the redemption of 9,559,382 treasury shares, representing 7% of its share capital.

Talgo unveils the manufacturing and commissioning schedule for the future hydrogen train, a green, innovative and efficient alternative to replace diesel powerheads, which will be ready in 2023. The train will be called Talgo Vittal-One.

Second quarter

- Collaboration with Renfe Operadora to adapt and medicalise trains for the transport of patients affected by the coronavirus between different autonomous communities.
- Talgo offers its innovation to position rail as the safest mode of public transport in the face of COVID-19. In doing so, it recalls that the mode of public transport best suited to the operating conditions necessary to combat the spread of COVID-19 is rail.

Third quarter

- Renfe and Talgo sign a 30-year comprehensive maintenance contract for 15 UIC fixed gauge VHS (Very High Speed) Avril trains, worth €203.6 million.
- Support to the Spanish National Research Council (CSIC) in the search for a vaccine against COVID-19. A donation of the amount equivalent to the 2020 edition of its emblematic "Talgo Award for Professional Excellence for Women in Engineering" was made to the platform, which is responsible for coordinating efforts to develop a vaccine against COVID-19.
- Russian railway operator RZD (Rossiyskie Zheleznye Dorogi) once again placed its trust in Talgo to expand the capacity of one of its most popular passenger routes, which links the country's two main cities: Moscow and St. Petersburg.
- Talgo presents its hydrogen-based rail vehicle propulsion system, a green, innovative and efficient alternative to replace diesel powerheads in Don Benito (Badajoz, Spain).



Fourth quarter

- Talgo is participating in the creation of the Basque Hydrogen Corridor (BH2C), an initiative led by Petronor and with the co-participation of more than 70 companies, involving an investment of around €1,300 million.
- Talgo, the Talgo Foundation and the Polytechnic University of Madrid (UPM) have signed a collaboration agreement to create Aula Talgo (Talgo Classroom), a pioneering project aimed at training engineers in the railway sector.
- Talgo unveils the manufacturing and commissioning schedule for the future hydrogen train, a green, innovative and efficient alternative to replace diesel powerheads, which will be ready in 2023. The train will be called Talgo Vittal-One.

Subsequent events - First quarter 2021

- In March, Talgo appointed Mr. Jose María Oriol Fabra as Vice-Chairman of the Board of Directors and Mr. Gonzalo Urquijo Fernández de Araoz as Chief Executive Officer, who will assume the duties of this position with effect from the date.
- Renfe and Talgo have signed a protocol extending the scope of the contract signed last September 2020 for the comprehensive maintenance of 15 UIC fixed gauge VHS (Very High Speed) Avril trains for a period of 30 years. The extension protocol includes the maintenance of 15 additional variable gauge Avril trains, for a total value of €221.5 million.
- Start of on-track testing of the first unit of the Talgo Avril VHS (Very High Speed) train, a decisive step in technical validation, prior to commissioning by Renfe. This is the final phase of the manufacturing process of 30 units of the Talgo Avril with a capacity of up to 581 seats.
- Launch of the “TPH2 Train Exterior Design Contest” initiative in conjunction with the University Centre of Merida (CUMe), part of the University of Extremadura, with the aim of finding talented individuals to participate in the development and application of the visual identity of the future hydrogen train.



→ 1.2. Financial results



*In 2020, the Group took actions to protect cash in order to shield Talgo's balance sheet **as a precautionary measure in the context of uncertainty generated by COVID-19.***

mitigate this impact and left the group in well-positioned to recover activity and profitability in the second half of the year. EBITDA adjusted for non-recurring items and financial costs recorded in gross margin (mainly indemnities and financial guarantees for the projects) amounted to €34.2 million (with a margin of 7.0%).

The net result at year-end 2020 was a loss of €17.4 million (compared to a profit of €38.4 million in 2019).

On the other hand, investment in WCR (Working Capital Requirements) increased to €149.5 million at the end of the year given the higher industrial activity registered in the period, in line with the execution phases of the projects in our backlog and with normal business dynamics. The main variations recorded were the consumption of advances and the normal increase in work-in-progress and trade receivables linked to these projects, although this increase was partially offset by appropriate supplier management. On the other hand, the investments recorded in

the period amounted to €24.7 million. As a result, the Free Cash Flow generated during the period was negative €101 million.

In 2020, the Group took actions to protect cash in order to shield Talgo's balance sheet as a precautionary measure in the context of uncertainty generated by COVID-19. In this regard, during the year, bank debt maturities were refinanced and new loans were issued, resulting in net positive changes of €27 million of additional gross debt.

The backlog amounted to €3,184 million at the end of the year, 5.6% less than the previous year (€3,374 million). New orders totalled €387 million, including the contract signed with the Danish public operator DSB for the manufacture of eight Talgo 230 trainsets and equipment for €134 million, within a framework agreement that provides additional potential for extensions worth up to €500 million.



→ 1.3. Industrial activity and services

Manufacturing and maintenance facilities

Talgo has two factories in Spain: one in Las Matas (Madrid), whose work focuses both on the manufacture of powerheads for high-speed (HS) trains and on the manufacture of maintenance equipment, and another in Rivabellosa (Álava), which mainly focuses on the manufacture of passenger coaches. Altogether, Talgo has 63,000 square metres of industrial surface area, giving it a production capacity of up to 400-500 units (passenger cars and powerheads) per year.

It also has a plant in Milwaukee (United States) on loan from public bodies for the execution of assembly and heavy maintenance projects.

In terms of services, the group carries out most of its maintenance activities in plants owned by each customer, in locations where the trains are operated. This makes the maintenance business flexible and requiring low levels of investment.



Composition of the order book

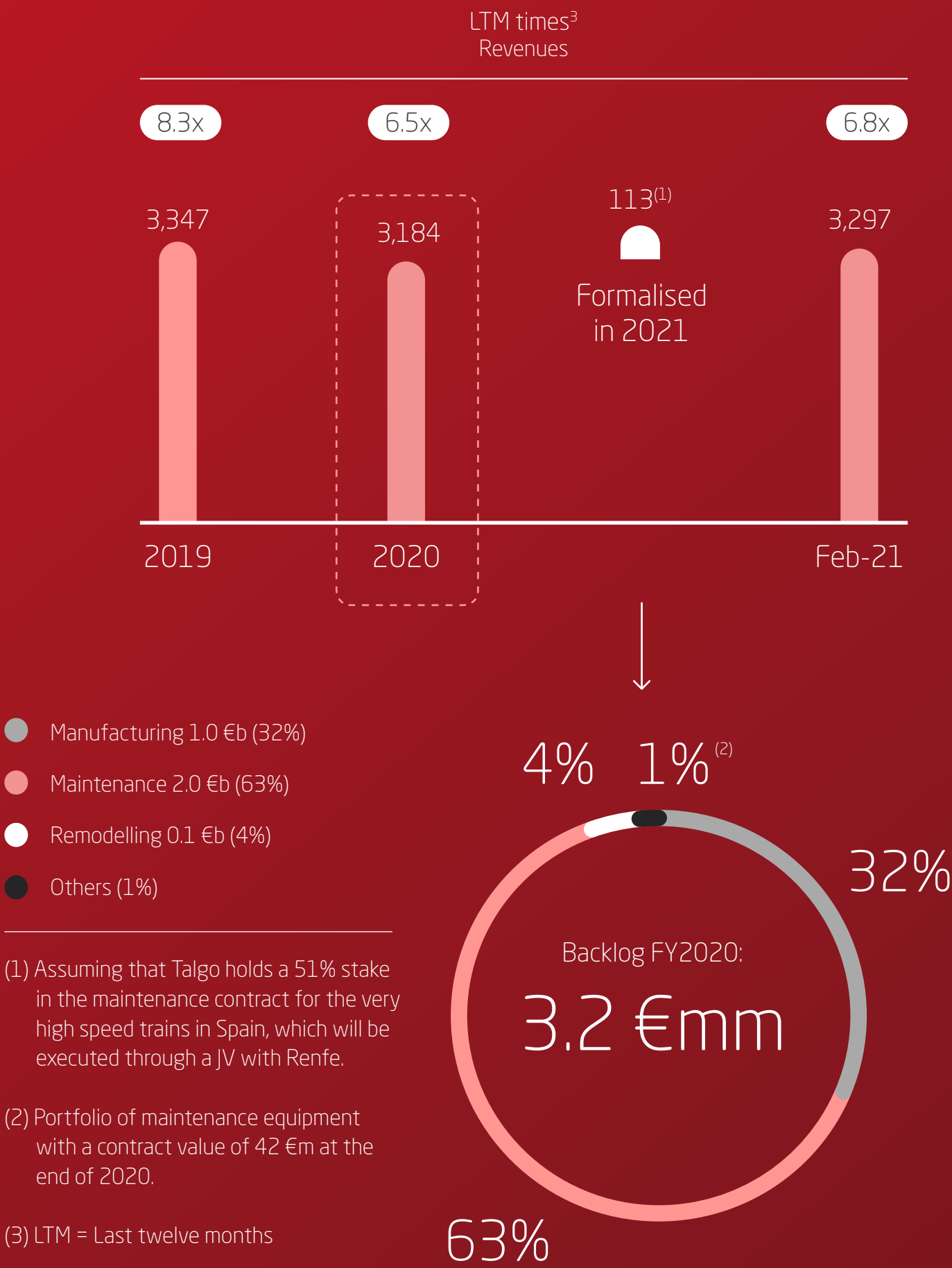
In 2020, Talgo managed to expand its order book with new projects awarded worth €387 million, including a new contract with the Danish operator DSB for the supply of 8 Talgo 230 trains as well as the 16-year supply of fleet maintenance parts. This award is part of a framework contract worth up to €500 million, won after a competitive and open international tendering process. DSB has chosen the Talgo 230 platform for conventional and high-performance lines as a new train model for its fleet in order to boost the renewal of its installed base and decarbonise its transport system.

Talgo’s commercial strategy is based on the selection of projects that guarantee the sustainability of the business and contribute to increasing the group’s position in international markets in order to achieve sustained and diversified growth. The successful implementation of Talgo’s strategy is reflected in a solid backlog with a value of €3,184 million, comprised of high quality projects that guarantee a high level of industrial activity for the period 2020-2024, driven by manufacturing and refurbishment projects with significant international scale (80% of the manufacturing backlog) and long-term stability supported by a growing maintenance backlog.

In addition, it is worth noting the solidity of the order book, with no significant changes in any project despite the adverse conditions generated by COVID-19.

The maintenance equipment activities have contributed several contracts to the order book during the year, including contracts signed for the sale of pit winches and/or machine vision and DSR measuring equipment in Switzerland, Germany and Thailand, for customers such as VBZ, RailAdventure GmbH München JURA, and A.C.E. among others.

Backlog 2020 (€m)



Main projects in the pipeline - manufacturing:

- Renfe Avril MAV (English: VHS) (Spain), for the manufacture of 30 VHS Avril trains with maintenance for a period of 30 years. The entire project, which is being executed for approximately €897 million, is in the manufacturing and assembly phase, with an award value of €580 million.
- DB Talgo 230km/h (Germany), with a framework contract for the manufacture of up to 100 Talgo 230 trains for €2.3 billion, under which a first order for 23 trains was signed for approximately €550 million. The project, currently in the design and engineering phase, is scheduled for delivery from 2023.
- DSB Talgo 230 (Denmark), with a framework contract for the manufacture of 8 trains, their maintenance and materials, for a sum of €134 million. The project is in the design and engineering phase, with delivery scheduled for 2023.
- ENR (Egypt), with the manufacture of six Talgo 230 platform trains suitable for a maximum speed of 160 km/h and their maintenance for a period of eight years for a value of €157 million. The project, currently in the development phase and the start of manufacturing and engineering, is expected to be delivered from 2022.
- UZY (Uzbekistan) The project will involve the construction of two Talgo 250 high-speed trains and four additional carriages for the trains already in operation, as well as materials and equipment worth a total of €57 million. The project is currently in the manufacturing and assembly phase and is scheduled for delivery from 2022.



Light maintenance projects

Talgo's high reliability and availability ratios, as well as the efficiency of its operations make it a leading company internationally in the maintenance business. This is down to the company's extensive experience and a policy of continuous improvement and investment in new technological developments that allow operators to maximise the use, and therefore the profitability, of their fleets.

Maintenance services have suffered a significant reduction in expected revenues during the year. This reduction in activity has varied according to the impact of COVID-19 and the mobility restriction measures implemented in different countries, reaching maximum reduction levels in the second quarter of the year of 75-80% in Spain, between 20-30% in Germany and Russia, and recording temporary complete stoppages of services in Kazakhstan, Uzbekistan, the United

States and Saudi Arabia. However, maintenance activity recovered progressively throughout the year in all markets except Saudi Arabia, where it remained at a standstill throughout the period.

As a consequence of the stoppage of activity for some months, specifically in maintenance, an ERTE (a form of Temporary Layoff Plan) of some description was implemented in different locations where the Group operates, which has been gradually reduced in line with the recovery of activity.

The redundancy plan has affected 384 employees and 180 cleaning contractors in Spain. At the end of the 2020 financial year, 116 employees and 141 cleaning contractors were subject to this plan.

In Saudi Arabia, some of its workers (mainly Saudi personnel) have found themselves in situations akin to an ERTE, understood as a temporary suspension of contracts with a reduction in salaries compensated in part by the state of each country.

In Russia, Kazakhstan, Uzbekistan, USA (maintenance personnel) and Saudi Arabia (non-Saudi personnel), salaries and service provision have been temporarily reduced in the same proportion. (personnel assigned to the maintenance activity) and Saudi Arabia (non-Saudi personnel), salaries and service provision have been temporarily reduced in the same proportion.

Maintenance activity is expected to recover progressively as the pandemic allows inter-city mobility to recover, supported by high reliability and availability ratios as a result of a strong track-record, consolidated long-term customer relationships and cash flow and revenue generation.

In addition, the current backlog of manufacturing with associated maintenance already awarded guarantees strong growth in the fleet under maintenance for the coming years, with an expectation to reach around 3,700 units by 2023.

In addition, there is further potential to exceed more than 4,000 units by 2024 from current manufacturing contracts without upfront associated maintenance.



Heavy maintenance projects

Heavy maintenance and refurbishment activity continues to consolidate as a line of business with growth potential and a way of accessing new markets where the client prioritises the updating, refurbishment and technical improvement of existing equipment over the acquisition of new equipment.

Current projects include:

- The conversion of VHS night trains (Spain) - initial project including 156 cars with an option for 72 additional cars - for an amount of €107 million. This is in the execution phase and is expected to be delivered from 2021.
- The \$73 million refurbishment of LACMTA (USA) in 74 cars. The 58-month project is currently in the execution phase.
- The \$35 million redevelopment of Metrolink (USA). The project includes up to 121 vehicles with an initial order for 50 under implementation.

Conversion of night trains to VHS (Spain)

> 156 cars

Option for 72 additional cars

LACMTA refurbishment (USA)

> 74 cars

Metrolink redevelopment (USA)

> Up to 121 cars

→ 1.4. Commercial activity

In the commercial sphere, Talgo continued its intense activity in 2020 despite the pandemic, **supported by a positive outlook for investment in rail in the medium and long term as a more environmentally friendly means of passenger transport.**

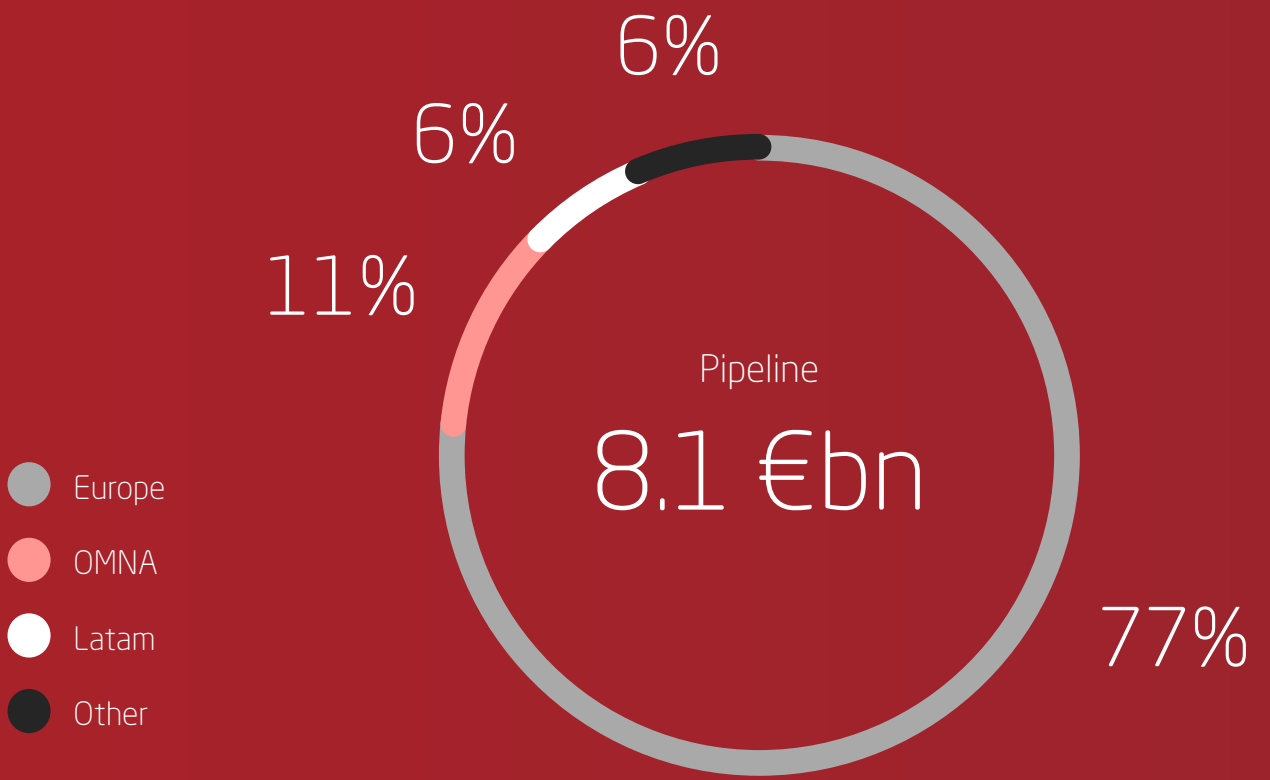
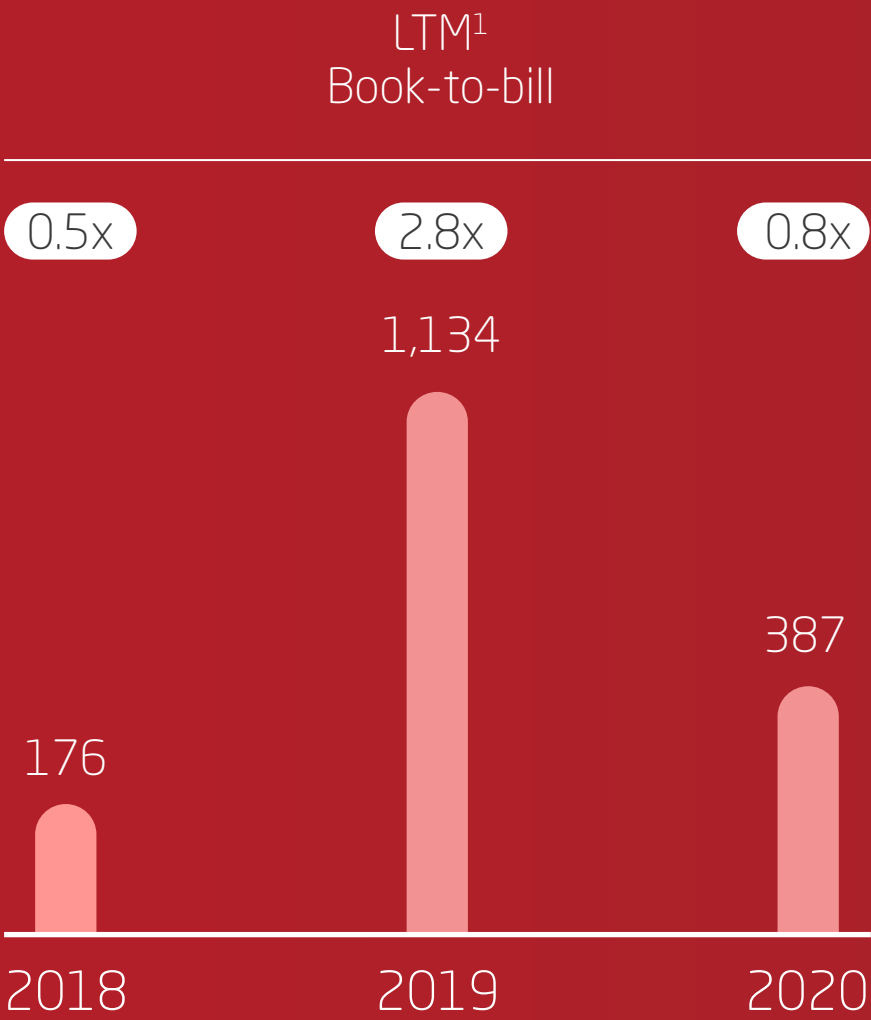
During the 2020 financial year, contracts worth €387 million were awarded. In addition, Talgo is currently working on commercial opportunities expected to be awarded in the short to medium term for a total value of approximately €8.1 million over the next 24 months, of which 12% are opportunities in Spain and 10% are extensions within already-signed framework agreements.



Of business opportunities in Europe



Of business opportunities in the high-speed segment



→ 1.5. Creation of shareholder value

The year 2020 has been marked by the effects caused by the COVID-19 pandemic, the global impact of which has been reflected in Talgo’s business and share performance during the year. The strong containment measures carried out by the authorities have had a collateral effect on the global economy and the consequent unprecedented fall in GDP at a global level, being more notable in Spain due to the greater impact on the services sector, with tourism-related activities standing out. The confinement and mobility limitation measures have had an unprecedented impact on the transport sector in general, not least in the particular case of rail transport, where the main fleets in general, and those maintained by Talgo in particular, drastically reduced their commercial operations, even coming to a complete standstill in some markets.

The European Union announced and launched a programme (NextGenerationEU) as a temporary instrument designed to boost recovery, with the largest stimulus package ever funded through the EU budget.

In this context, Talgo, through a communiqué published in the CNMV (Spanish National Securities Market Commission) at the end of March 2020, stated that

it was advisable to withdraw the business expectations and objectives established for the year in question as a result of the effects caused by COVID-19.

The Ibex 35 fell by 15.5% in the year, while the Ibex Medium Cap, made up of Spanish mid-cap companies including Talgo, fell by 9.7%.

Talgo’s share price experienced a negative trend, registering losses of 32.1% in the year. The share reached a high of €6.29 in February, prior to the outbreak of the COVID-19 contagion in Spain, and a low of €3.00 in November, closing the year at €4.14.

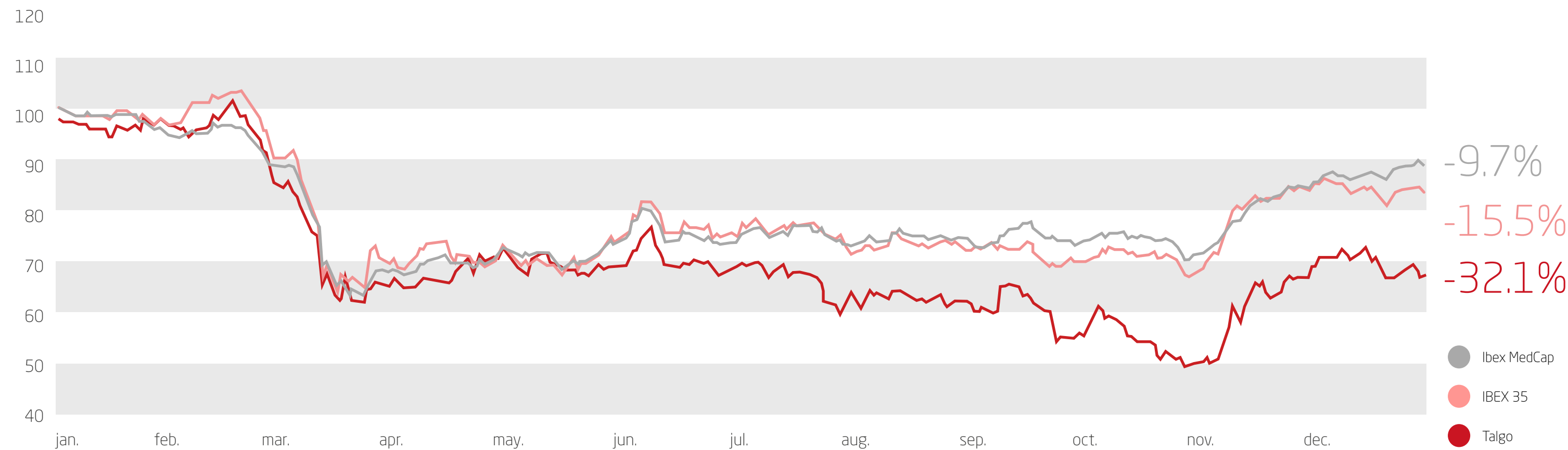
Talgo’s average daily trading volume for the year fell by 47.5% to 141,923 shares. The average volume of small and mid-cap companies was penalised relative to larger companies by economic uncertainties, with capital fleeing to larger-cap companies with a defensive profile, as well as to alternative assets.

→ Stock data table

	2019	2020
Number of shares at 31/12	136,562,598	127,003,216
Share price at 31/12 (in euros)	6.09	4.14
Year high	6.31	6.29
Year low	4.56	3.00
Weighted average quotation	5.54	4.32
Capitalisation at 31/12 (Millions of euros)	831.7	542.7
Average daily trading volume (thousands of shares)	270,074	141,923
Earnings per share (euros)* last 12 months (LTM)	0.30	n.a.
P/E on net profit over last 12 months (LTM)*	20.6x	n.a.

* Calculated on the average number of shares excluding treasury shares.

→ Share performance chart compared to relevant indices



→ Shareholding structure

Talgo’s main shareholder is Pegaso Transportation International SCA, an investment vehicle controlled by Trilantic Europe, with 38.16% of the capital. The second largest shareholder is the Spanish-based insurer Santa Lucía Compañía de Seguros, with a 4.91%* stake at year-end, with no representation on the Board of Directors.

The Board of Directors of the company holds 3.34% of the capital.

At the end of 2020, the company held 3.2% of its share capital in treasury shares, under the Share Buyback Plan approved in November 2018.



As of December 2020, floating capital was 50.37%.

* CNMV

→ Dividend policy

On 15 November 2018, the Board of Directors of the Parent Company resolved to carry out a Share Buyback programme, which aims to reduce the Company’s share capital by redeeming shares, subject to a resolution submitted to and approved by the General Shareholders’ Meeting and on the terms decided by the latter, so as to contribute to the Company’s shareholder remuneration policy by increasing earnings per share.

The rationale of the Buyback Plan lies in the acquisition of treasury shares for their subsequent redemption, thus contributing to the Company’s shareholder remuneration policy by increasing earnings per share.

During the financial year 2020, the company acquired a total of 2,414,246 shares at a cost of €13.9 million. The acquisition of the aforementioned shares was carried out in compliance with the Share Buyback Plan.

On 6 May 2020, the Board of Directors of the parent company adopted a resolution declaring the agreement to repurchase treasury shares to have expired and to have been fully executed.

Talgo thus acquired a total of 13.1 million shares for a total value of €73.5 million corresponding to 9.61% of the capital during the period November 2018 to May 2020. The purpose of this acquisition is to redeem them, in accordance with the corresponding Meeting Resolution. A first redemption of 9.6 million shares representing 7.0% of the capital was carried out in 2020, leaving the remaining 3.6 million shares to be redeemed in 2021.

→ Shareholder and investor relations

Talgo provides shareholders with a channel with information on share performance, public financial and operating information, and information aimed at better understanding the company, its business and strategy. In addition, it includes information on the communication of significant events, corporate governance and the General Shareholders’ Meeting.

Talgo maintains ongoing contact with analysts who maintain active coverage of the company and regularly issue independent reports with financial and business estimates. As of December 2020, a total of 11 analysts from banks and independent houses maintain contact and issue independent reports on a recurring basis.

→ Analysts recommendations

Entity	Opinion	Target price	Date
Renta4 Banco	Overweight	5.40	04/02/2021
Banco Sabadell	Buy	5.88	04/06/2020
BBVA	Overweight	5.90	13/10/2020
Caixabank-BPI	Neutral	4.60	16/11/2020
Fidentiis	Buy	5.35	26/10/2020
GVC Gaesco Beka	Buy	5.70	10/11/2020
JB Capital	Underweight	3.40	10/02/2021
Kepler Chevreux	Neutral	4.60	11/02/2021
ODDO	Buy	5.00	10/12/2020
Santander	Buy	6.70	04/02/2021
UBS	Buy	5.90	26/02/2021

Information and contact details can be found at the following website:

<https://www.talgo.com/es/investors>

→ 1.6. Commitment to people

Through its human resources management model, Talgo fosters staff loyalty, generating stable, long-term relationships based on trust, commitment, involvement and know-how of all the professionals who make up the group. Talgo is clearly committed to employment stability as a means of improving the productivity of its employees, which is essential for increasing employee motivation and satisfaction. Proof of this commitment is that, in 2020, the rate of permanent contracts reached 93.98% of the group's total workforce.

Commitment to equality

Talgo's commitment to equality and non-discrimination, together with the involvement of the workforce, make the Equality Plan an effective instrument for improving the working environment, optimising the skills and potential of the entire workforce and, therefore, improving quality of life and increasing productivity. The practice of equality, non-discrimination and respect for the diversity of all people is reflected in all the company's processes, from recruitment to termination.

Talgo implements measures to achieve greater gender balance and equality in different positions and departments. To this end, it analyses the initial situation of women and men and takes into account that, given equal conditions and skills, the person of the under-represented sex should have access to the position.

The company has a process that allows candidates to apply for the positions offered from any work centre. During the evaluation process, objective, transparent and inclusive criteria are used and, in order to ensure compliance with the Equality Plan, Talgo has created an Equality Committee that periodically monitors the actions implemented.



At the end of the 2020 financial year, the group had 23 employees with a degree of disability greater than 33%, of whom 9 are women and 14 are men, distributed across all professional categories. Talgo also has a Certificate of Exceptionality issued by the Ministry of Employment and Social Security, which allows the company to implement alternative measures that contribute to the development of labour insertion and reintegration activities for groups of people with disabilities.



* For full staffing data, please refer to the Consolidated Management Report 2020, in the company's Consolidated Financial Statements 2020 available on the company's website:

<https://investors.talgo.com/audited-annual-accounts>

Remuneration and social benefits

- Fixed remuneration recognises the knowledge, experience, environment, responsibility for people, degree of autonomy with respect to decisions, the variety and difficulty of problems faced by job occupants, and the impact and customer service required, ensuring equal and non-discriminatory conditions for job occupants.

Salary supplements, which are not always able to be consolidated, are those set according to circumstances relating to the employee's personal conditions, the work performed or the group's situation and results. Talgo has a compensation system that maximises the performance of its employees, ensuring both internal equity and external competitiveness.

The social benefits offered to employees, adapted to market practices in each of the countries, include, private medical insurance cover, a defined contribution Employment Pension Plan and a group life insurance policy with coverage in case of death, full permanent disability and total permanent disability, declared by administrative resolution of the corresponding body in accordance with the compensation practices of the countries in which Talgo operates.

Positive wage gap

- Talgo is committed to equality and non-discrimination. Talgo's pay gap at year-end 2020, calculated as the difference between the hourly earnings of male and female employees as a percentage of men's hourly earnings, was -13.88%, meaning that, on average, women are paid around 13.88% more than men.

Reconciliation measures

- Talgo is aware of the benefits to society of reconciling the work, personal and family life of its employees. The implementation of measures that enable work-life balance undoubtedly favours the vital and integral development of people.

Talgo makes work organisation more flexible, being aware that people are more productive when their personal and family needs are covered.

One of the measures that helps workers to find the right balance is the continuous working day. For those who, due to their activity, work a split working day, Talgo provides a canteen service and offers subsidised meals. In centres where there is no canteen service, an allowance equivalent to the amount of the subsidy is available.

Talgo respects the rest and holiday time of all employees, as well as their personal and family privacy outside working hours. Only by guaranteeing an improvement in the psychological and social well-being of employees can we contribute to a working model in which people are more productive, creative and committed to their jobs.

During the 2020 financial year, as a result of the state of alarm decreed in Spain, Talgo implemented a voluntary measure of remote working for those people who were able to do so, with the goal of minimising the impact of COVID-19. Talgo also offers employees the possibility of adapting their working hours to reconcile their personal lives, given the extraordinary situation resulting from the pandemic.



*Talgo is aware of the benefits to society of reconciling the work, personal and family life of its employees. **The implementation of measures that enable work-life balance undoubtedly favours the vital and integral development of people.***

Risk prevention and safety

- One of the fundamental pillars of Talgo's business is the integration of Occupational Risk Prevention at all levels of the organisation, expressing its firm commitment to provide the necessary resources to achieve the over-riding objective of registering zero accidents.

At Talgo, prevention is organised in the form of its own prevention service, with prevention technicians assigned to all work centres. These technicians are integrated into the day-to-day running of the operation, providing the necessary advice and support to ensure that tasks are carried out safely, as this is considered to be the best way to achieve the integration of prevention in all activities and levels of the company.

Talgo has a Prevention Plan, signed by the CEO, which covers the functions and responsibilities of all levels of the company, from the President to all levels of the organisation, from the point of view of prevention. This document also details the

functions of the existing consultation and participation bodies, such as the Health and Safety Committee and the Prevention Delegates.

Health and Safety Committees have been set up in all the work centres, and are bodies of equal membership, with equal numbers of members from the company as from the workers’ representatives. These committees meet periodically every three months and are the forum for worker representation and participation. A system of communication of preventive deficiencies, suggestions or improvements is also implemented through the intranet. These communications go directly to the head of the Prevention Service.

Throughout the 2020 financial year and due to the health crisis, the Group’s prevention service has redoubled its efforts to ensure the health and safety of workers in the face of the risk of exposure to the coronavirus. Measures adopted include: the establishment of organisational measures in the workplace; the promotion of teleworking for office staff; the refurbishment of offices and the creation of specific COVID-19 training.

The process of integrating the different activities that make up the occupational risk prevention service was consolidated in 2020, with the operation of the integrated prevention management IT platform. The development of this IT platform will continue in 2021, including the development of an accident investigation module that will help us to improve the analysis process and will contribute to our goal of reducing the accident rate in the group.

Social dialogue

- Works councils represent the employees at the work centres, and they are kept informed by management about the business development and production

situation, work organisation systems, recruitment and other issues. They also monitor different topics, such as labour and social security regulations and occupational health and safety conditions.

As of 31 December 2020, 99.92% of Talگو’s workforce has full or partial coverage by collective agreement or similar collective agreements, although this can vary depending on the country.

Talگو respects the right of all employees to organise freely, allowing union members to hold meetings, collect dues and distribute union information outside working hours and without disrupting the business of the company.

Training

- Talگو has collaboration agreements with numerous universities, training centres and institutions to ensure access to internship programmes for people with

different skills and abilities. The most relevant entities with which agreements have been maintained during 2020 were UPM (Polytechnic University of Madrid), the Carlos III University of Madrid, the Pontifical University of Comillas, the Polytechnic University of Deusto, Scottish Enterprise, the College of Railway Orphans and Ixex, among others.

Talگو maintains a Training Plan based on identified training needs. This plan seeks to ensure that the company can meet the challenges arising in the performance of the it’s work. It aims to be comprehensive, including actions aimed at developing skills, project development competencies, technical, regulatory and occupational risk prevention, as well as training in values and languages.

During 2020, nearly 71,498 hours of training were provided, with a training hours per employee ratio of 27.16 hours. Despite the pandemic situation and the confinement experienced in different countries, Talگو has continued to ensure staff training through the digitalisation of training content and by transferring face-to-face training to virtual classrooms, using new training methodologies and tools.



→ 1.7. Commitment to the environment

*Talgo is aware of global overheating and is making efforts to reduce its greenhouse gas emissions, **calculating its carbon footprint with Scope 1, 2 and 3, and setting emission reduction targets for certain sites.***

The Group's general environmental policy aims to maintain respect for the environment in the development of current and future projects, promoting continuous improvement and risk mitigation.

To assist us in this goal, the group has in place authorised waste managers who manage the hazardous and non-hazardous waste generated, accredited laboratories that carry out the control of atmospheric emissions and wastewater, as well as collaborators, technical and legal advisors who serve as a guide when it comes to looking after the environment. Talgo carries out internal and external audits of its environmental management system, complying with the requirements of the ISO 14001 standard, as well as the organisation's internal requirements.

Talgo's Environmental Management System has been certified since 2003 in accordance with the UNE-EN ISO 14001 standard, which covers the Las Matas II, Rivabellosa, Fuencarral, Malaga, Can Tunis, Santa Catalina and Moscow centres for the design, manufacturing and maintenance of railway material. In 2020, Talgo

renewed its certificates under the UNE-EN ISO 14001:2015 standard as a means of encouraging and promoting continuous improvement.

All Talgo work centres have human resources allocated and dedicated to the protection of the environment. Part of the budget of each centre is allocated to the environment in areas such as waste management, updating environmental legislation, external audits, maintenance of wastewater treatment plants, wastewater analysis, improvement of processes with an environmental impact to prevent pollution and training and awareness-raising of the agents involved.

Talgo's commitment is to minimise the impact generated on the environment, going beyond what is required by regulations. In order to achieve this, environmental factors are taken into account throughout the entire production process, from the design of the different products we offer to the end of the manufacturing, supply, assembly, commissioning, maintenance and end-of-life chain.

The company has taken out environmental liability insurance to comply with Law 26/2007, of 23 October, on Environmental Liability, under which operators of economic or professional activities are obliged to adopt and implement measures to prevent, avoid and repair environmental damage and to bear the costs thereof,

whatever the amount, when they are responsible for such damage. The coverage of this insurance is considered sufficient taking into account the diagnosis of risks and controls to mitigate them that the group has implemented. In addition to this, there is also civil liability insurance for damage to the environment.

At the end of 2020, the Group has no provisions or guarantees for environmental risks, as no risks associated with this area have materialised.

Talgo is aware of global overheating and is making efforts to reduce its greenhouse gas emissions, calculating its carbon footprint with Scope 1, 2 and 3, and setting emission reduction targets for certain sites.

During 2020, various measures have been implemented to reduce atmospheric pollution and reduce the impact on the environment, such as minimising the use of aerosol paint, as well as other materials, and substituting some products with others that have a lower percentage of Volatile Organic Compounds. Talgo has carried out, and continues to carry out, various awareness-raising campaigns in this area internally and externally. These are essential requirements for the performance of our work and contracting with third parties. The measures adopted include waste segregation, soil contamination and spill prevention procedures.



The main environmental indicators monitored by the group in 2020 are as follows:

Indicator	Measurement object	Measurement
Direct GHG emissions (Scope 1) from fuel consumption (natural gas and diesel) (*).	Monitor and measure GHG emissions from fuel consumption.	1,827.95 tCO ₂ eq
Indirect GHG emissions when generating energy from electricity consumption (Scope 2)(*)	Monitor and measure GHG emissions from electricity consumption.	0 tCO ₂ eq
Indirect GHG emissions (Scope 3) (**).	Monitor and measure GHG emissions derived from the movement of workers commuting between home and workplace.	2,610.43 tCO ₂ eq
GHG emissions intensity (*).	Monitor and measure direct GHG emissions from Scopes 1 and 2 relative to the number of employees at year end.	1.33 tCO ₂ eq /employee
Electrical energy consumed (*).	Measure the continuous improvement of the Environmental Management System by monitoring the electrical energy consumed.	9,926 thousand kWh
Fuel (automotive diesel) (*).	Measure the continuous improvement of the Environmental Management System by monitoring diesel consumption.	17,115.10 litres
Fuel (diesel used for boilers) (*).	Measure the continuous improvement of the Environmental Management System by monitoring diesel consumption.	209,021 litres
Natural gas consumed on a lower calorific value (LCV) basis (*).	Measure continuous improvement of the Environmental Management System by monitoring natural gas consumption.	6,995 thousand kWh
Water consumed (*)	Measure continuous improvement of the Environmental Management System by monitoring water consumption.	23,103.00 m ³
Environmental accident rate.	Monitor the number of accidents during the year involving the emergency services.	0
Corrective and preventive actions implemented.	Determine the percentage of corrective and preventive actions implemented.	100%
Costs arising from the management of expired products.	Quantify the costs incurred in the management of expired products.	93,374.73 €
Deviations in internal and external audits closed after the deadline.	Quantify the continuous improvement of the system through this monitoring.	0%
Hazardous waste generated.	Improve the amount of hazardous waste generated in the year.	211.54 ton
Non-hazardous waste generated.	Measure the amount of non-hazardous waste generated in the year.	2,293.69 ton
Consumption of solvents and paints.	Measure the amount of volatile organic compounds consumed in a year.	42,577.46 kg
Energy intensity (*).	Measure the continuous improvement of the Environmental Management System by monitoring the energy consumed in relation to the number of employees at the end of the year.	14,158 kWh/employee

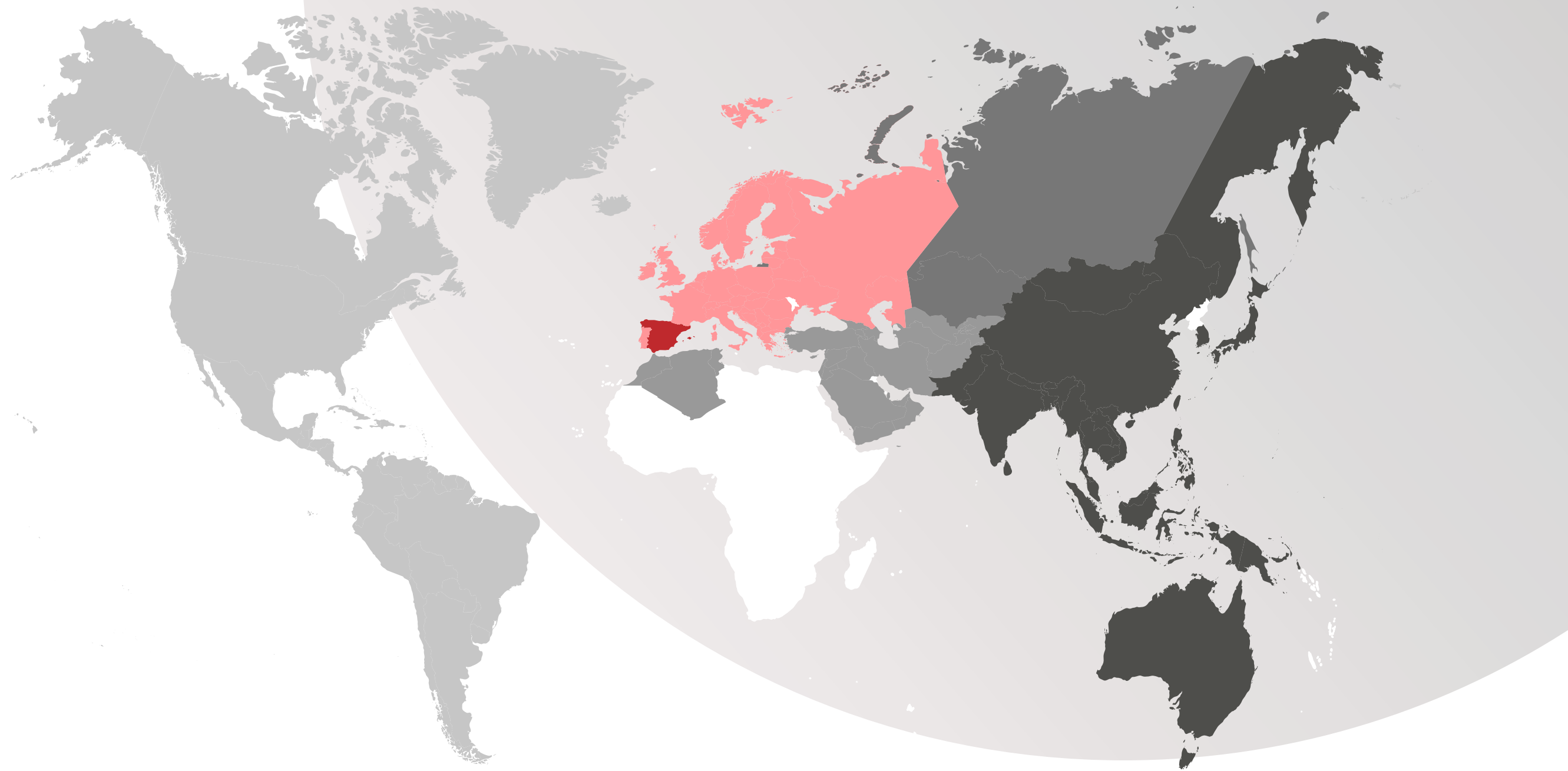
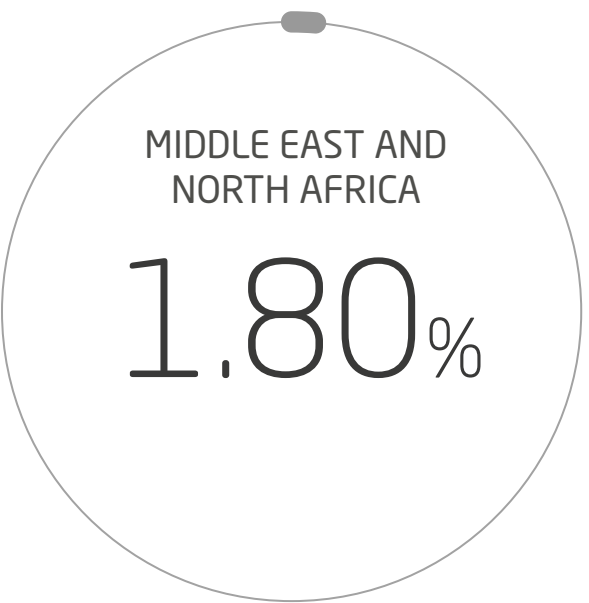
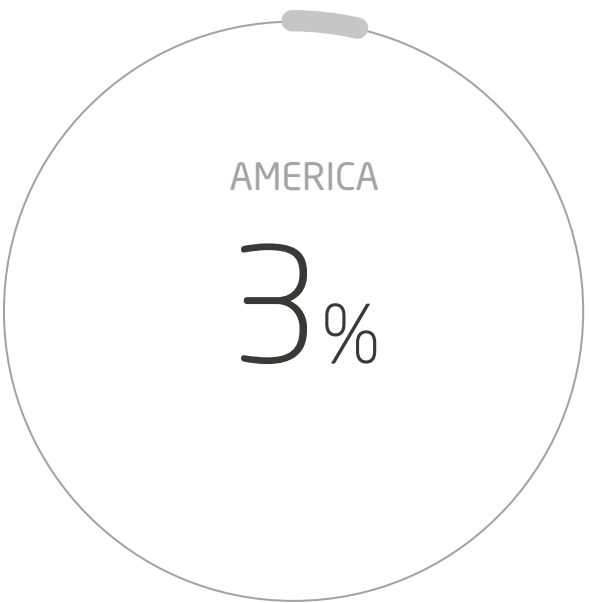
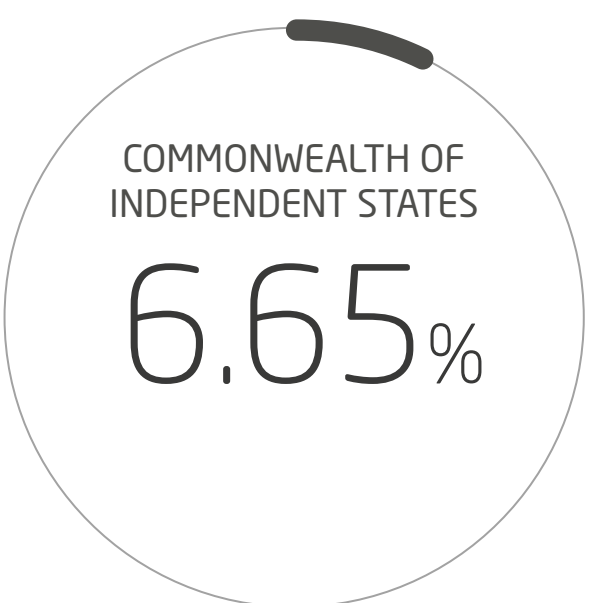
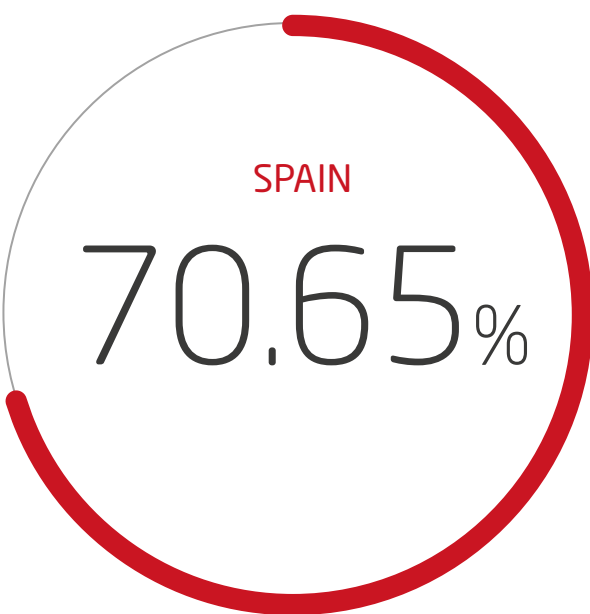
(*) Data calculated for the following Talgo Spain work sites: Las Matas I, Las Matas II, Rivabellosa and San Andrés. The rest of the information included in this table refers to all Talgo Spain work sites.

(**) Data calculated for all Talgo Spain sites. These data have been calculated on the basis of a survey on employee travel, extrapolating the results, thus obtaining the emissions associated with these trips for the entire workforce in Spain. The methodology of the GHG Protocol “Corporate Value Chain (Scope 3) Accounting and Reporting Standard” has been followed in its 2019 revision. The emission factors are taken from Spanish emissions data from the 2006 IPCC Guidelines for National Greenhouse Gas Inventories, in their latest revision.

→ 1.8. Sustainable supply chain

Talgo has a Purchasing Policy which sets out the guidelines and from which the purchasing processes and procedures of all the group’s subsidiaries are implemented. Talgo also has a Code of Ethics which sets out the rules of responsible behaviour with which all professionals and collaborators must comply.

In accordance with these regulations, the company can terminate any type of contract and purchasing obligation to those suppliers who do not comply with the regulations. By using the SAP ARIBA tool as a means of communication with suppliers, Talgo is committed to transparency and equal opportunities in its purchasing processes.



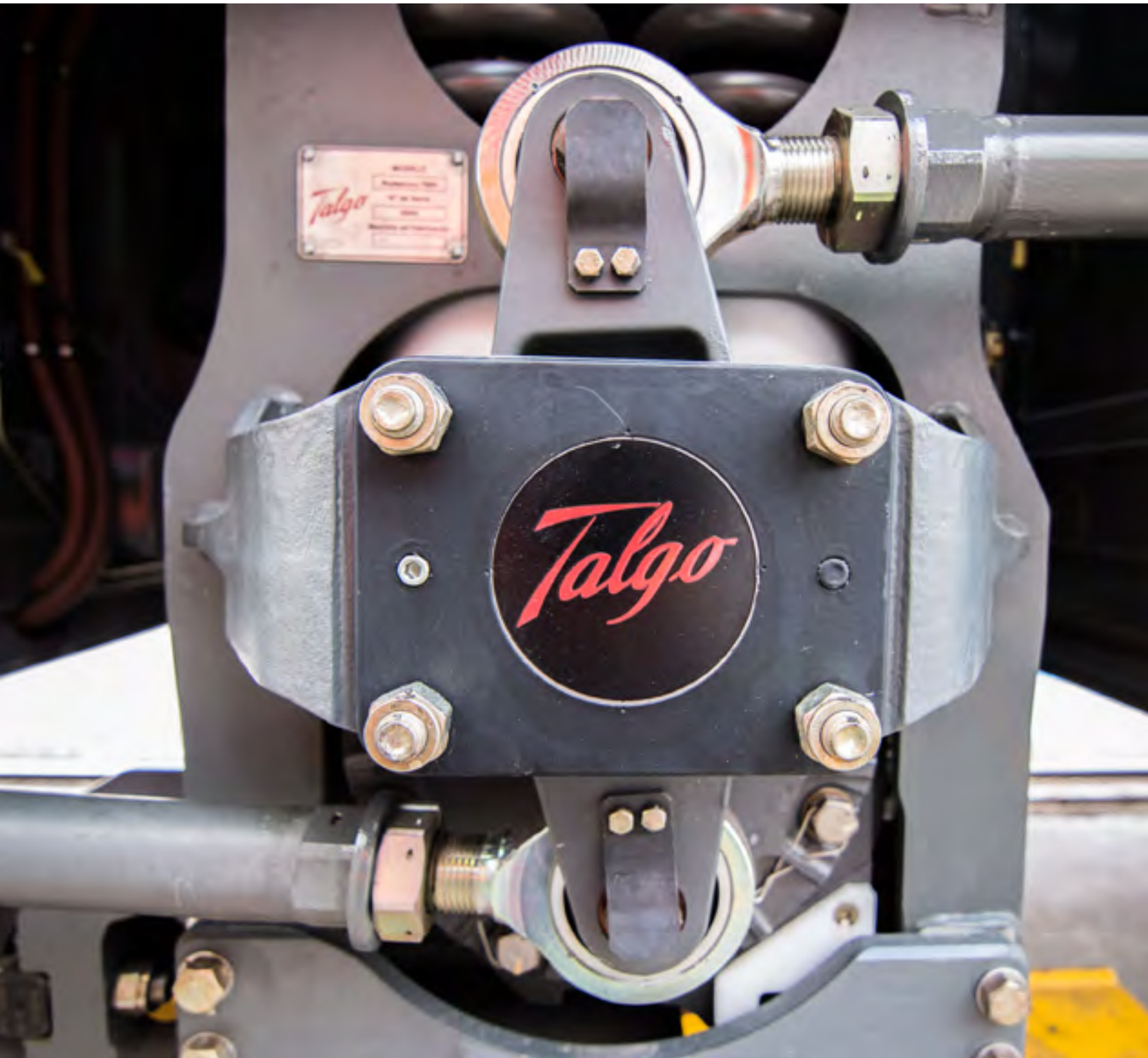
In order to achieve the 2020 purchasing volume, commercial relations were maintained across the purchasing area with 1,696 suppliers, of which 287 are considered critical suppliers for Talgo’s operations, going through specific approval and homologation processes, including documentary and physical audits in many cases.

During this period, 17 new suppliers considered to be of high criticality for the group’s activity were incorporated and were evaluated against corporate social responsibility criteria, including environmental considerations, identification of environment-related legal requirements, use of returnable packaging, waste management procedures and aspects related to the prevention of occupational risks.

As a reflection of Talgo’s concern for sustainability in its supply chain, the company is UNE 15896 certified. In Spain, 70.65% of purchases are supplied by local suppliers.

→ 1.9. Social development

Since its inception, the Talgo Foundation has experienced significant growth, not only in the number of projects carried out, but also in the commitment acquired in its projects, rising from 7 projects in 2014 to 11 in 2020. Although it is true that this growth was lower compared to the previous year due to the global situation caused by the COVID-19 pandemic, some of the projects planned for 2020 were postponed in the interests of the safety of the beneficiaries of these projects.



In 2020, two projects in particular merit special mention:

1

The creation and implementation of the Aula Talgo (Talgo Classroom) at the School of Industrial Engineering of the Polytechnic University of Madrid.

2

The awarding of the "Railway Technical" scholarships to study the Intermediate Level Railway Rolling Stock Maintenance Technician course at the Colegio de Huérfanos de Ferrovianos (Railway Orphans' College) in Madrid. The Talgo Foundation has awarded three grants which include the cost of enrolment for the second year of the course, an internship at Talgo and the possibility of joining the staff once the course is completed.

The Aula Talgo (Talgo Classroom) is a preliminary step towards the future creation of the Talgo Chair. The aim of this Classroom is to contribute to teaching, dissemination, research and technology transfer in a scientific-technical area of common interest, mainly in the field of railway engineering in important areas such as Maintenance and Industry 4.0, Railway Dynamics, Quality, Composite Materials, CSR (Corporate Social Responsibility) and SDG (Sustainable Development Goals), among others, as well as the comprehensive training of participants in the skills that today's society may demand in any aspect of the railway industry.



In 2020, the Foundation signed a total of nine agreements and collaboration agreements with different organisations and institutions. The agreement signed with the "Cinco Palabras" Foundation to fight against child poverty deserves special mention. It aims to achieve the social and cultural integration of disadvantaged groups in underdeveloped countries, supporting the struggle to end poverty.

The Foundation collaborated in the 5th Edition of the Fundación Talgo-CSIC Welding Award and in the Premio de Historia Órdenes Españolas awarded by the Fundación Lux Hispaniarum del Real Consejo de las Órdenes de Caballería de Santiago, Calatrava, Alcántara y Montesa.

Talgo also participates in UNIFE's "Life Cycle Assessment" working group, a platform for exchanging and defining common positions on environmental sustainability issues. Through this, the Foundation receives early information and outreach actions on EU policy changes.

Since its foundation, Talgo's social action principles have supported the use of trains as a sustainable and efficient method of transport. Our commitment to manufacturing light and energy-efficient trains allows us to meet another of our commitments: to supply railway operators with products that provide the backbone infrastructure of their territory. This promotes development and improves connections between towns and cities, while contributing to the sustainability of transport and preserving the environment.



2

How do we achieve this?

- 2.1. Profile, identity and commitments
- 2.2. Business model
- 2.3. Proprietary products and technologies
- 2.4. Innovation
- 2.5. Strategy



→ 2.1 Profile, identity and commitments

Talgo, a company created in 1942, has three lines of business: design and manufacture of high-speed and very high-speed trains, long distance trains, regional trains, passenger cars and powerheads; manufacture of maintenance equipment; and provision of maintenance services to railway operators all over the world.

Its proprietary technology and innovative character allow it to achieve the highest levels of quality, availability, reliability, safety and respect for the environment in its products, always remaining at the forefront of railway technology.

In Spain, Talgo has its headquarters in Las Matas (Madrid), two factories (Las Matas II and Rivabellosa) and eight maintenance workshops (Las Matas I, Fuencarral, San Andrés, Can Tunis, Málaga, Santa Catalina, Valladolid and La Sagra). The two factories carry out manufacturing work on trains, powerheads and carriages, as well as bogies and rolling stock. We also manufacture our own maintenance equipment such as pit lathes, equipment for measuring wheel parameters, gauges and dragging trolleys. Finally, we maintain this equipment. The maintenance workshops carry out comprehensive maintenance on all Talgo trains, day, night and high-speed trains in commercial service.

In addition to the above, Talgo has maintenance bases in other countries such as Germany, the United States, Russia, Kazakhstan, Uzbekistan and Saudi Arabia.

Corporate data

→ Title: Talgo, S.A.

→ Address: Paseo del tren Talgo, 2 28290 Las Matas – Madrid (Spain)

→ Telephone: (+34) 91 631 38 00

→ Website: <https://www.talgo.com/>

→ Social capital: €38,227,968.02

→ Number of shares: 12,003,216

→ Activity: Manufacture of railway vehicles, components and equipment, as well as repair and modifications services.

→ Markets: Talgo is present in 9 countries: Spain, Germany, Denmark, Saudi Arabia, Egypt, USA, Kazakhstan, Russia and Uzbekistan; and is listed on the Madrid, Barcelona, Valencia and Bilbao stock exchanges.



MISSION

To be the leading company in the high-speed railway sector at national and international level, recognised for its capacity for innovation, its technology, efficiency, quality, reliability and the added value of its products and services.



VISION

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



VALUES



Technological innovation

We foster an open working environment that promotes personal initiative and creativity. Technological development and the contribution of originality and added value to our products and services are the essential features of our business personality.



Integrity

We combine our economic, social and environmental objectives, reconciling the goals pursued by the company with those of society and the family. We fulfil our commitments to society by conducting our business activities with the utmost honesty. Our employees behave with integrity and fairness in a way that promotes mutual trust and personal esteem.



Professional development

We are constantly concerned with the development and improvement of our professionals, work well done and permanent improvement.



Identification and commitment

We are proud to belong to Talgo as a company of worldwide prestige. We share in its contributions and achievements to which we all contribute with our dedication and personal commitment.



Customer service

We strive to provide customers with high quality, innovative products and services that meet their needs and expectations. We establish long-lasting cooperative relationships with our customers to support their business success. We take on the customer's objectives as our own, meeting their needs immediately and efficiently.



Health and safety of the workforce

We look after the well-being and health of our employees by integrating safety, prevention and occupational health into the overall management of the company. Our commitment is focused on ensuring that all workers carry out their activities in safe conditions and in healthy working environments.

→ 2.2. Business model

The group's business model aims to deliver long-term value to existing stakeholders. A solid financial model steadily increases group turnover and maintains attractive returns for shareholders, whilst a sustainable model maximises efficiency and social commitment and also reduces the environmental impact of our activities. Over the last three years, the group has strengthened its strategic position by investing heavily in the development of new products to meet the needs of the market, with more efficient trains of higher capacity such as AVRIL and EMU (Electric Multiple Unit). The company has also increased the production capacity of its manufacturing centres in Spain in order to meet the growth in its order book.

→ Industrial flexibility

Talgo is characterised by a low capital-intensive business model (low investment in fixed assets, high flexibility and outsourcing) and focuses its resources on the design, engineering, and selective manufacturing of high value-added components, like those related to product safety and longevity, and on the assembly, testing and delivery of the final product.

→ Efficient, lightweight structure: outsourcing

Talgo manufactures only those components that are essential to its business model and that are related to Talgo's specifications and particularities, which are the welding of critical steel and aluminium structure and rolling elements. These processes, which are essential for Talgo, are carried out at the company's facilities by its own highly qualified personnel.

Diversified sourcing and optimised production costs enable Talgo to achieve high levels of competitiveness and to increase productivity. This greater productivity and return on capital employed (ROCE) are made possible by only two factories of our own. The company outsources approximately 70% of the supply chain to specialists in each industrial area, achieving greater flexibility to adapt to market conditions and project requirements.

→ Continuous learning

Talgo is committed to a model of continuous learning, in which each project is unique and exclusive. To this end, through its maintenance activity, Talgo is continuously developing pioneering processes for the management of engineering and the services it offers. The optimisation of maintenance and repair processes and methods, as well as the management of facilities, excellent after-sales service and experience in the renewal of equipment have placed Talgo at the forefront in this business area, giving it a clear competitive advantage.

Through this strategy, the company's engineers receive all the necessary feedback to improve the technology and the design of components, so that they can incorporate these advances continuously into all trains, both in the maintenance and manufacturing phases.

→ Commercial selectivity

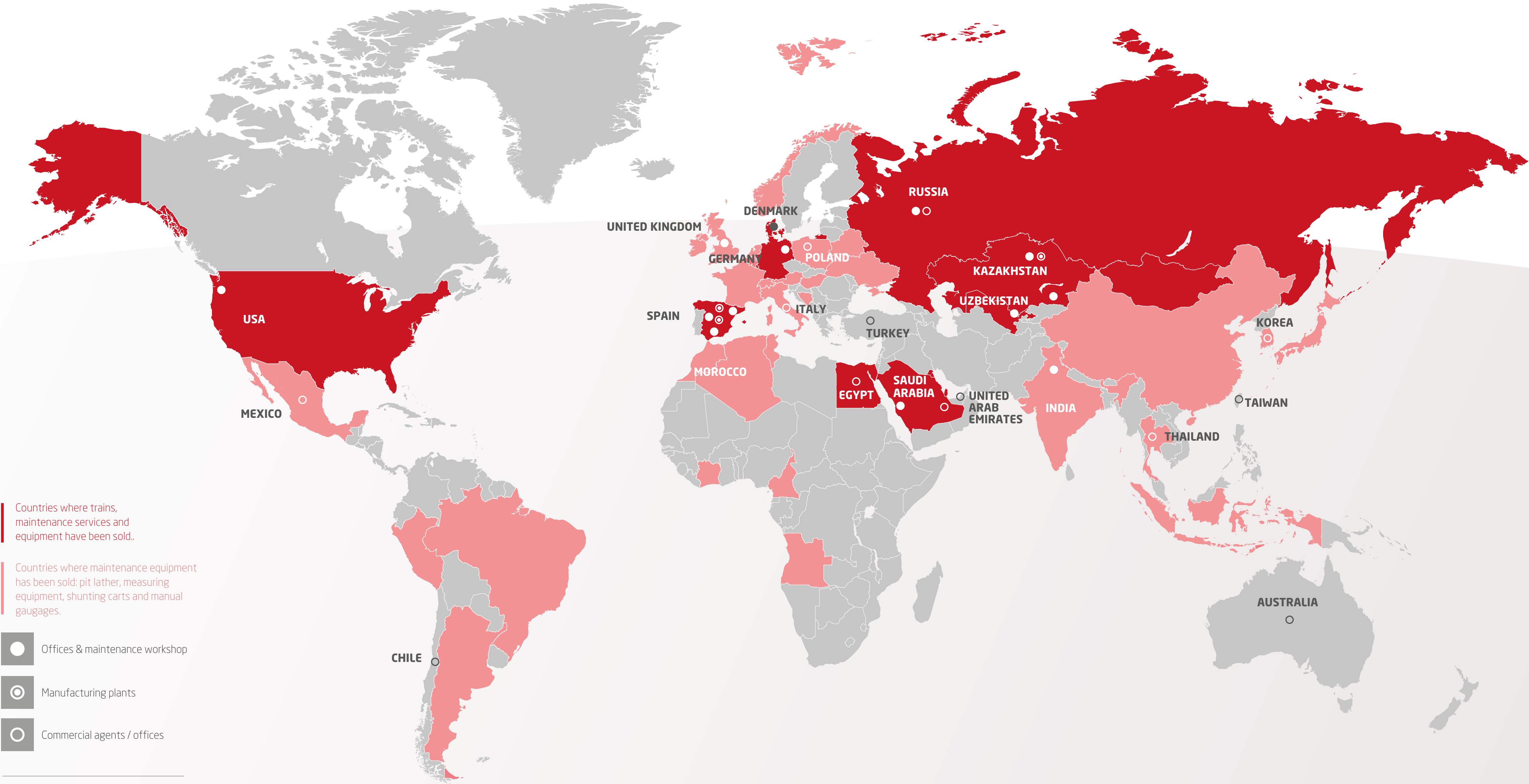
Talgo's commercial strategy is based on selecting potential projects in which to become involved, through an exhaustive evaluation based on three criteria:

attractive margin, contractual scope that provides the necessary guarantees and security and a reasonable cash flow in line with the project's risk profile, which together provide conservative project financing limits. By doing this, Talgo not only ensures the profitability of its business, but also provides added value by only taking on those projects where its strengths give the company a differential advantage over other competitors. This also delivers an attractive return on capacity and resources employed.

→ Commitment to a motivated and committed workforce

The nurturing of talent and promotion of training enable Talgo to improve productivity and add value both to the employees and the company. This gives Talgo a significant competitive advantage in the market. To achieve this, the company seeks to attract and retain the best professionals in all its positions, and continually strives to ensure that the workforce is motivated, responsible and committed to Talgo's values.





→ 2.3. Proprietary products and technologies

Talgo currently has a broad portfolio of products that can be adapted to customers' needs and that are linked to the medium- and long-distance segments with high speed and very high-speed trains, latest generation passenger coaches and regional and commuter trains to continue boosting its growth in the sector.

→ Very high speed (from 250 km/h)

Operating trains at over 250 km/h requires a set of technologies and competencies possessed by few manufacturers worldwide. Innovation aimed at maximising capacity and minimising operating costs ahead of competitors, and two continuous decades of uninterrupted operation are the key qualities of its two products for operators with the world's most advanced high-speed networks. Talgo also has the possibility of providing variable gauge wheelset systems in this segment.

→ High speed (up to 250 km/h)

Designed to reach 250 kilometres per hour in commercial service, the trains in the Talgo 250 range have proven to be the most reliable and cost-effective option for those operators looking for solutions designed for accelerated rotation both on networks that have been partially adapted to high speed and on conventional lines

that have not been adapted. They can also be fitted with variable-gauge wheel set systems and can even operate on non-electrified lines, making them among the most versatile solutions on the market.

→ Intercity

Talgo is one of the leading manufacturers of complete train sets for long-distance services on mainly conventional infrastructure. Within this segment, Talgo has developed the Talgo 230, a platform developed for the DB and BSD project in Germany and Denmark, which provides the capacity to incorporate a different number of cars, as well as powerheads or cab cars. The wide range of fully accessible trailer cars has been certified to operate serving various destinations in North America, Europe and scores of Asian countries and allows for very low operating and maintenance costs. It is also fully adaptable with the group's proprietary technological solutions, such as the passive tilting system and Talgo bogies.

→ Regional and commuter

Talgo's response to one of the fastest growing segments in the international market is a completely new product line, aimed at high-frequency local and regional services around major cities. The excellent power-to-weight ratio



of the regional and commuter platform, called Vittal, improves acceleration and braking coefficients, while its unbeatable accessibility helps to cut the time spent on loading and unloading operations at each station.

→ Powerheads

Talgo's product portfolio includes solutions specifically designed to provide traction for all types of rolling stock, and it also has all the necessary capabilities to manufacture all engine components. The Travca powerhead is not only a completely in-house development, but it is also the most interoperable locomotive on the market: among its characteristics it features variable gauge wheelsets, and is also adapted to multi-system signalling as well as multi-voltage electrification and can even be enabled for last-mile operations with diesel traction.



→ Differential proprietary technology

From their initial conception eight decades ago to the present day, and from their birth on the drawing board to the paint booth, the thousands of vehicles that have left Talgo's factories follow a basic premise: to use proprietary and differential technology. Talgo's objective is to offer operators a product that allows them to cover more needs, and in a more cost-efficient way than other manufacturers Talgo is therefore based on a technological paradigm that revolves around six fundamental principles.

Guided independently rotating wheels

Talgo is the only manufacturer to use a system in which the two wheels on each axle, left and right, can rotate at different speeds. This not only improves passenger comfort inside the train, but also makes our trains those that put the least wear and tear on the infrastructure.

Passive tilting system

When renewing infrastructure is too expensive an option, there is only one solution for railway companies that want to increase commercial speed: making

trains go faster on existing tracks. Talgo's tilting technology makes it possible to increase curving speeds by 25% without additional investment.

Wide, lightweight car bodies

This is one of the basic premises of our design: to make the lightest trains on the market. The use of aluminium alloys and the reduced length of each car not only allows us to maintain a constant effort to offer operators the lowest energy consumption, but also to maximise capacity with wider vehicles.

100% low floor

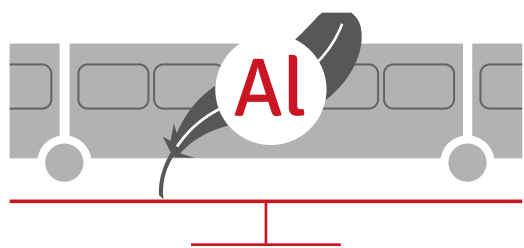
Our main task is to make it easier for railway companies to move as many people as possible, with the best travel experience and in the shortest possible time. Our 100% low-floor trains reduce loading and unloading times by 20% and give maximum autonomy to people with reduced mobility.

Variable gauge wheelset

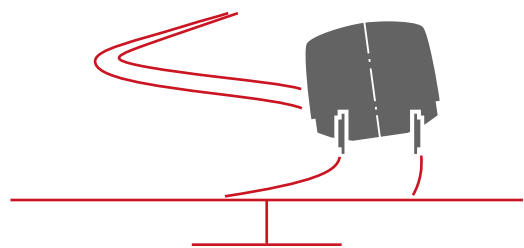
The variable gauge wheelset is one of Talgo's most distinguishing characteristics. The automatic variable gauge wheelset technology, used in thousands of operations since its launch several decades ago, makes our trains the only solution capable of adapting to any railway network, transparently crossing all borders.

Completely articulated trains

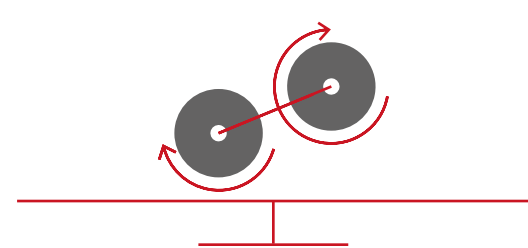
One of the key factors for operators is rolling stock maintenance costs, and one of the best ways to reduce them is to opt for Talgo's completely articulated trains. Their dynamic behaviour not only improves reliability and makes it possible to space out interventions on the train, but also increases safety.



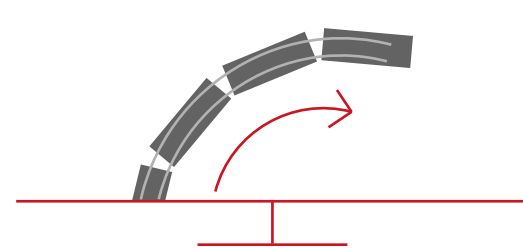
Lightweight aluminium construction



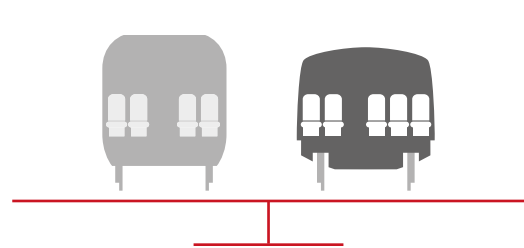
Natural tilting



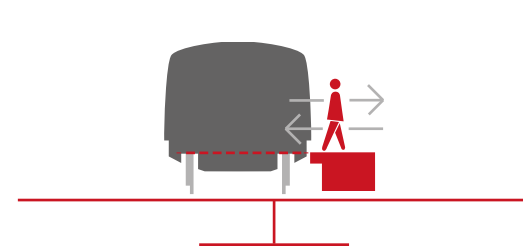
Mono-axle articulations and wheelsets



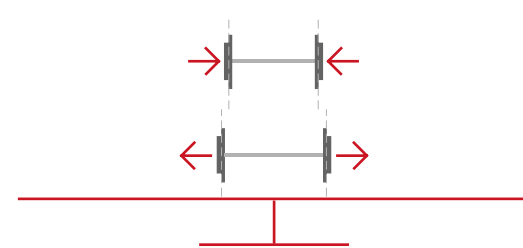
Shorter cars to better suit the headroom profiles



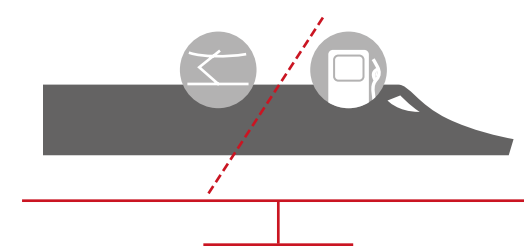
Wide-bodied cars offering increased capacity on a single floor



Platform level access



Automatic variable gauge system and independent guided



Hybrid traction technology

→ 2.4. Innovation

*Talgo's ceaseless research and development of new products has earned the group international recognition, **allowing it to compete with other railway equipment manufacturers in different tenders worldwide.***

Talgo is committed to ensuring that innovation remains the fundamental pillar on which the present and, above all, the future are based. From a corporate point of view, the focus is not solely on the product, but also on launching and improving initiatives that involve the entire innovation ecosystem around Talgo. Collective, creative potential is harnessed to foster an even more powerfully innovative culture. In this way, innovation helps to weave a system that allows us to anticipate future challenges, promotes technological monitoring and forecasting activities, and generates an even more optimal environment for both evolutionary and disruptive thinking.

With this goal in mind, we work with our own model based on our 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 approach is the development of the "Corporate Venturing" area, whose main task is the systematic search for companies and technologies that, in an agile manner, can improve the product portfolio. A specialised team from innovation management, supported by advisors with extensive experience in this field, works continuously

to link the previously mentioned innovation strategy with the railway market through this mechanism.

Talgo has continued its policy of investing in research and development activities aimed at improving 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 players in the railway industry. Some of the main collaborations of this type are part of the Shift2Rail programme, which in turn forms part of the European Commission's "Horizon 2020" initiative, where Talgo plays a very important role in some of the key projects on traction, lightening of primary structures through the use of composite materials, active rolling systems, energy efficiency and improvement of noise and vibrations.

In line with its policy of innovation and diversification of its product portfolio, in 2020 the group continued with the development and optimisation and improvement tests for the 2nd generation of the AVRIL high-speed train platform. At the same time, a number of cross-cutting projects are being carried out in a wide range of areas.



→ 2.5. Strategy

→ Market environment

Growth prospects for the rail sector remain positive globally. Although the COVID-19 crisis has impacted the rail transport industry and the 2020 financial year saw a sharp drop in transport volumes, rail continues to be seen as a reliable and efficient mode of transport, resulting in high long-term growth expectations.

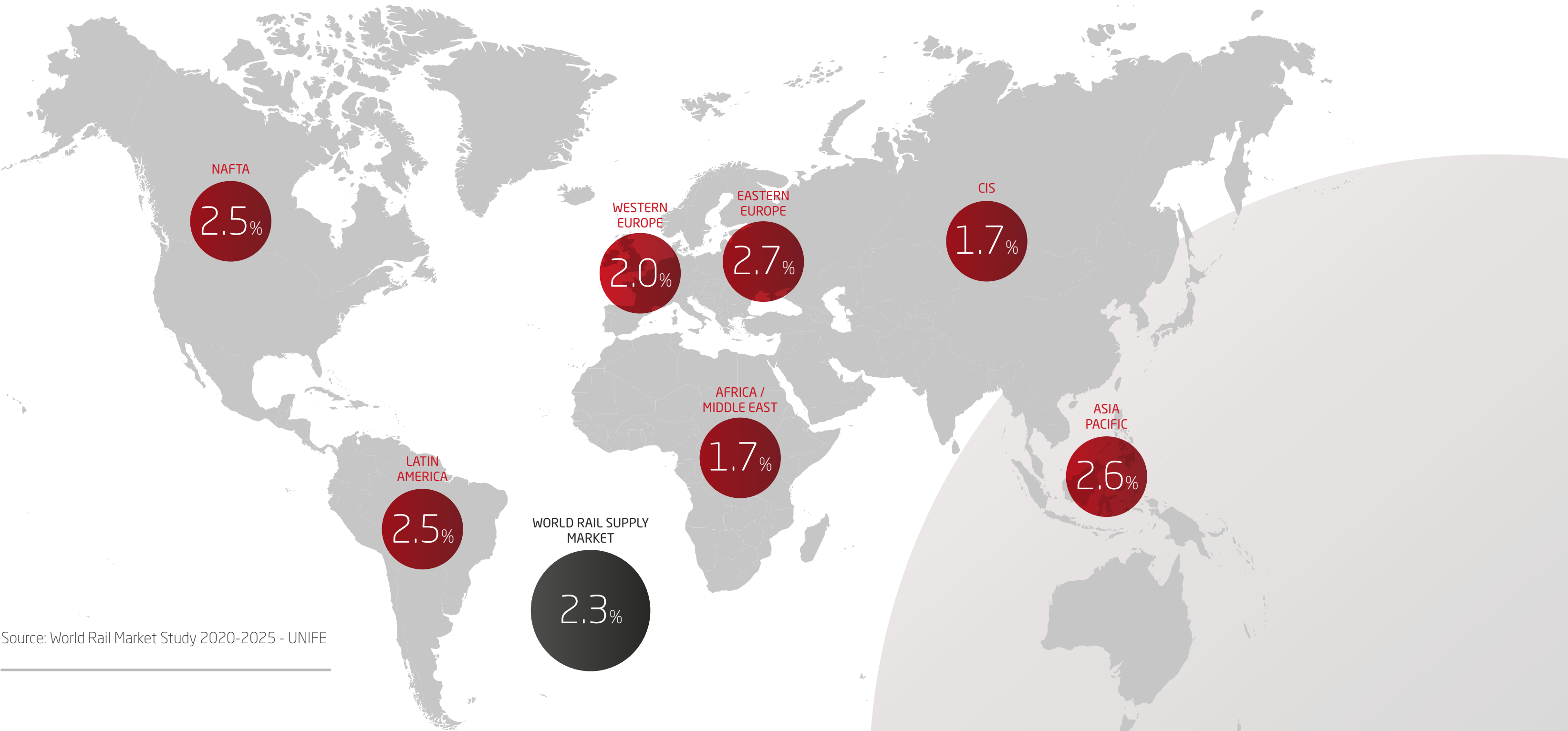
The pandemic has led to a reduction in the rail market, as well as medium-term readjustments resulting in project postponements and cancellations. This has led to a downward adjustment of €7.3 billion per year compared to the pre-COVID-19 scenario. However, according to the World Rail Market Study 2020-2025 commissioned by UNIFE, experts foresee a V-shaped recovery, which would mean that the current market volume of 177 billion euros would grow by 2.3% until 2025 after the recession in 2020, reaching almost a total volume of 204 billion euros per year between 2023 and 2025. This growth will be driven especially by turnkey management and the rail vehicle and infrastructure industry.

On the other hand, there are several trends that have continued to promote the rail industry's positive development since 2017. These include the rise of environmental awareness, reflected in political programmes such as the European Green Deal and the projects associated with the European Year of the Railway. The industry is also in the throes of a process of digitalisation and automation, with developments such as artificial intelligence-based predictive maintenance, cybersecurity, standardisation of processes and the liberalisation of rail traffic. These trends are raising levels of general interest in the sector by offering public transport that is increasingly attractive for its users thanks to high-capacity trains, ease of access, and travel time that is both productive and comfortable.

While all regional markets are expected to grow in the future, higher growth rates are expected in the relatively small markets of Latin America and Eastern Europe, with growth rates of 4.1% and 2.7% respectively. Major projects such as the liberalisation of rail space for passenger transport in Europe and new mass transit projects will be mainly responsible for this growth. From a product segment perspective, the largest contribution to absolute growth will come

from rail vehicles, services and infrastructure, which together account for approximately 90% of the market volume. The expected growth rates of these three segments range from 1.8% to 2.7%. Rail control is also expected to grow at a rate of 2.7%, while turnkey management may reach an annual growth rate of 6% thanks to large projects such as Go Expansion in Canada and the high-speed train linking Los Angeles and Las Vegas.

Future development of the total rail supply market by year



→ Strategic objectives

Talgo’s strategy in 2020 has been affected by the extraordinary context of COVID-19. In order to reduce its impact and respond to the needs of the company and its customers, Talgo has implemented comprehensive measures to ensure the safety of its employees and improve productivity. It has also actively contributed to the fight through the search for solutions aimed at the health and safety of its passengers. Furthermore, during the year, the supply and logistics chain was managed efficiently and projects were given ample flexibility to adapt to the context caused by the coronavirus and to continue to meet customer expectations. On the financial front, the company implemented cross-cutting cost-saving measures throughout 2020, consolidating its ability to finance projects.



Results 2020		Perspectives 2021
Business performance	→ During the 2020 financial year, contracts worth €387 million were awarded, including the manufacture of 8 Talgo 230 trains for the Danish state-owned operator DSB and the maintenance of 15 VHS trains for Renfe. → Talgo’s strategy is reflected in a strong backlog with a 2020 value of €3.2 billion, consisting of high-quality projects.	→ Revenue growth driven by strong manufacturing activity and progressive recovery in maintenance: 35-37% order book in the period 2021-2022. → Commitment to sustained and selective growth: >1.2x average Book-to-Bill ratio in the period 2020-2021.
Profitability	→ EBITDA margin of 7% in 2020. Partial recovery of profitability in the second half of 2020 despite the significant impact of COVID-19.	→ Progressive recovery of profitability, subject to mobility restrictions and its impact on the maintenance business: adjusted EBITDA of 10-12% by 2021.
Cash flow and structure of capital	→ The higher industrial activity during the year, together with lower maintenance activity, generated a negative Free Cash Flow of €101 million. → Manufacturing projects progressed well in the most industrially active and WCR (working capital requirements)-intensive phases, in line with expectations. → Capex for the period amounted to €24.7 million, lower than estimated at the beginning of the year, due to measures implemented to protect cash and delay non-core investments.	→ Continuation in 2021 of the cycle with net investment in WCR (Working Capital Requirements) to finance ongoing projects, prioritising the efficient and optimal use of the available financing capacity. → Capex: €25 million by 2021, of which €14 million assigned for R&D activities.
Shareholder remuneration	→ In May 2020, the share buy-back programme was terminated.	→ Second redemption of shares from the buy-back programme scheduled for 2021.



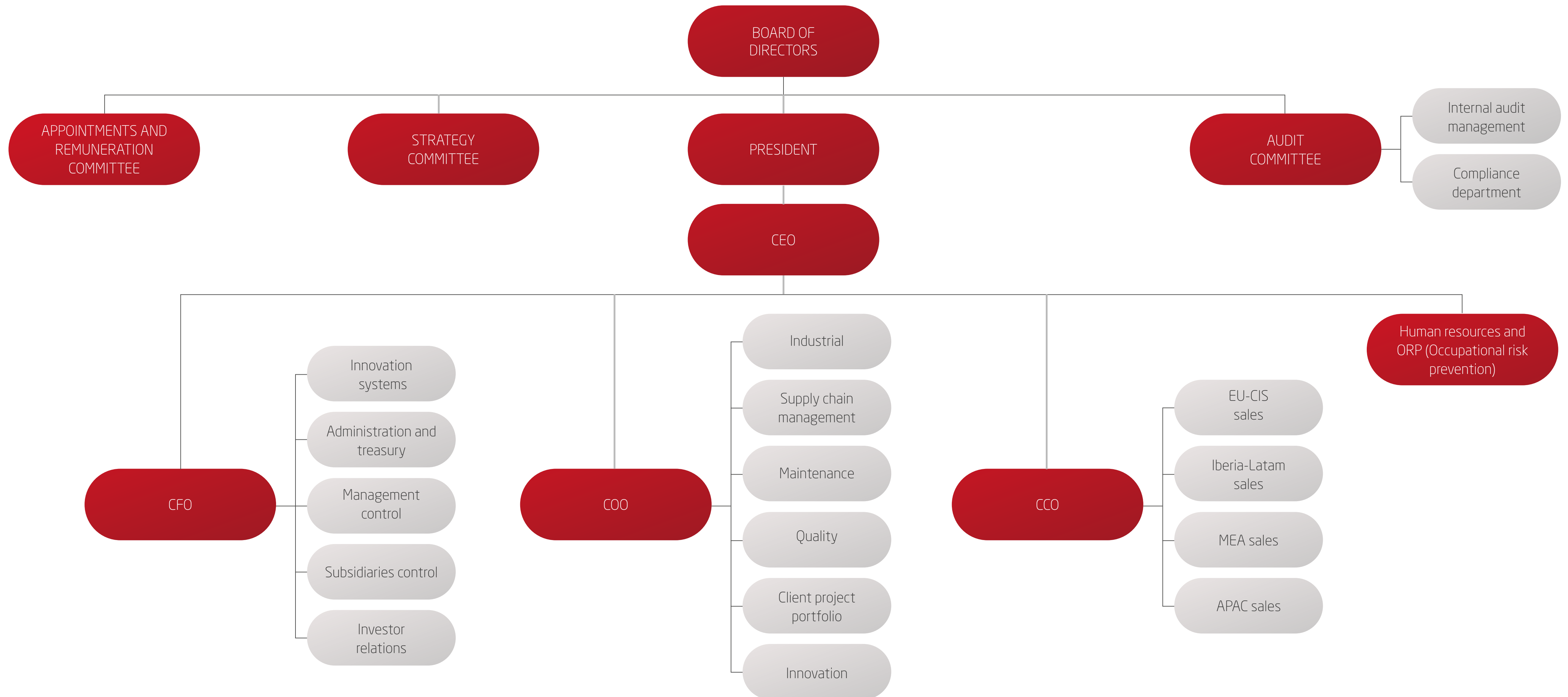
3

How do we manage it?

- 3.1. Corporate governance structure
- 3.2. Risk management
- 3.3. Ethics and compliance
- 3.4. Social accountability management



→ 3.1. Corporate governance structure



→ General Meeting of Shareholders

Talgo's General Shareholders' Meeting is the body at which all shareholders convene to deliberate and decide on matters within their competence or to be informed of such other matters as the Board of Directors deems appropriate. The Regulations establish that the General Shareholders' Meeting may be attended by all shareholders holding at least one share, individually or in a group with other shareholders, with one vote for each share.

The last Ordinary General Meeting held on 10 June 2020 was attended by 207 shareholders owning 86,384,983 shares, representing 63.257 % of the share capital, so that the quorum exceeded 50% of the subscribed share capital with voting rights required by article 194 of the Spanish Ley de Sociedades de Capital (Corporations Act), to which article 18 of the Articles of Association refers for the valid constitution of the Meeting on first call.



- The following are the main points concerning the resolutions passed at the last General Meeting:
- Approval of the individual and consolidated annual accounts of the Company for the financial year 2019.
 - Approval of the individual management reports of the company and consolidated with its subsidiaries for the 2019 financial year.
 - Approval of the statement of non-financial information for the financial year 2019.
 - Approval of the corporate management and the performance of the Board of Directors during the financial year 2019.

- Approval of the proposed distribution of income for the financial year 2019.
- The consultative vote on the Annual Report on Directors' Remuneration for the financial year 2019.
- Approval, if applicable, of the remuneration of the members of the Board of Directors for the financial year 2020.
- The reduction of the share capital by a nominal amount of 1,071,798.09 euros, through the redemption of 3,560,791 treasury shares with a par value of 0.301 euros each. Delegation of powers to the Board of Directors, with the express power of substitution, to establish the other conditions of the reduction in all matters not provided for by the General Meeting, including, among other matters, the power to redraft article 5 of the Company's Articles of Association relating to share capital and to request the delisting and cancellation from the accounting records of the shares to be redeemed.

- The re-election of Mr Juan José Nárdiz Amurrio as director, with the qualification of external independent director.
- The re-election of Deloitte as Statutory Auditor of the Company and its consolidated group for a term of one (1) year, i.e., for the financial year 2020.
- The delegation of powers to formalise and execute all resolutions adopted by the General Meeting of Shareholders, to convert them into a public instrument and to interpret, rectify, supplement, develop and register them.

→ Board of Directors

The Board of Directors is the highest administrative and representative body of Talgo, and it functions as a supervisory and control body. It is made up of a minimum of ten and a maximum of 15 members, who are appointed and ratified by the General Shareholders’ Meeting as regulated by the Articles of Association and the Regulations of the Board of Directors. The most significant change took place in March 2021, with the appointment of Gonzalo Urquijo Fernández de Araoz as the new CEO, replacing José María Oriol, who became non-executive vice-chairman. In April 2021, the Board of Directors consisted of 15 members.

The composition of the Board of Directors reflects Talgo’s commitment to all Good Governance recommendations. There are seven independent directors and two external directors with extensive experience in the sector. In addition, there are two executive directors and three proprietary directors.

Mr. Carlos de Palacio

-
Executive Chairman

Executive Chairman of Talgo since his appointment in 2002. From 1998 to 2002 he was a director representing his family branch and as an institutional representative at European level. He gained professional experience in the area of EU law at the European Commission.

Mr. Gonzalo Urquijo Fernández de Araoz

-
CEO

He began his professional career in the banking sector, at Citibank and Credit Agricole, later developing his professional activity in the steel sector. He was Chief Financial Officer of Aeralia and subsidiaries, General Manager of the Arcelor Group, as well as Chairman of ArcelorMittal España and member of the general management of ArcelorMittal. He was Executive Chairman of Abengoa and member of the Board of Directors of several companies, including Gestamp, Fertiberia and Atlantica Yield. He is also Chairman of the Hesperia Foundation and a member of the Board of the Princess of Asturias Foundation.

Mr. Jose María Oriol Fabra

-
Non-Executive Vice President

CEO of Talgo since 2002 and has 32 years’ experience in the railway industry. He joined Talgo in 1987 and since then has held various positions in the group, including purchasing manager, financial director and general manager of different Talgo subsidiaries. Previously, he worked as a credit analyst at Citibank.

Mr. Emilio Novela Berlín

-
Chairman of the Audit Committee (Independent)

He represents Banco Santander on the Board of the Spanish Private Banking Association and is also chairman of Itevelesa and a member of the Board of Merlin Properties and Openbank, S.A. In addition, Mr. Novela holds important positions, among others, at the Confederation of Entrepreneurs of Madrid (CEIM), Regal Urbis, S.A. and Dixi Media Digital, S.A.

Mr. Francisco Javier Bañón Treviño

-
Member of the Appointments and Remuneration Committee (Proprietary)

One of the three founding partners of Trilantic Europe and is currently a director of Pacha and Vertex Bioenergy. Prior to joining Lehman Brothers Merchant Banking in 2004 as Co-Head of Merchant Banking in Europe, Mr. Bañón was CEO of DB Capital Partners and Bankers Trust Private Equity Group.

Mr. Antonio Oporto del Olmo

-
Member of the Strategy Committee (Independent)

Member of the Board of Directors of the European Bank for Reconstruction and Development (EBRD) in London, chairing the Budget and Administration Committee and the Financial Operations and Standards Committee, and was also a member of its Audit Committee. He has been a director of other public and private companies, including Banco Árabe Español, Compañía Sevillana de Electricidad, ACS/Dragados, Eolia, Carboex and Talgo (from 2012 to 2013).

Mr. Segundo Vallejo Abad

-
External

Has 42 years of experience in positions of responsibility in the railway sector. He was Industrial General Manager of Talgo from 2003 to 2018, covering technical management, manufacturing management, maintenance management, project management, as well as relations with Renfe customers and trade unions.

Mr. Charles Pope

-
Appointments and Remuneration Committee Member (Independent)

Chairman of PFI Group, LLC and Chairman of the Board of Directors of R.R. Donnelley & Sons, Inc. Previously, he was Chairman of the Board of Waste Management, Inc. and Chairman of the Board of MotivePower Industries, Inc. Prior to joining MotivePower, Mr. Pope was President, Chief Operating Officer and a member of the Board of United Airlines and UAL Corporation until it was acquired by its employees in July 1994.

Mr. Ignacio Mataix Entero

-
Member of the Audit Committee (Independent)

CEO of Defence, Transport and Air Traffic at Indra. Previously, he was CEO of Industria de Turbo Propulsores (ITP), as well as being Chairman and member of the Board of the group's companies. Previously, Mr. Mataix Entero was General Manager of Corporate Development at Sener Grupo de Ingeniería (SGI), where during that period and thereafter he was Director of Sener Grupo de Ingeniería and Sener Ingeniería de Sistemas.

Mr. Juan José Nárdiz Amurrio

-
Member of the Strategy Committee (Independent)

President of Martinrea Honsel, having previously been Vice-President Director of Operations at the same company. He has held presidential posts in companies such as European Die Casting Association and Tafime S.A., holding the positions of Engineer, Sales Manager, Expansion Director and CEO in the latter.

Mr. Ramón Hermosilla

-
External

He has been one of the managing and founding partners of the law firm Ramón Hermosilla Abogados since 2015. He began his professional career as a lawyer at the law firm Melchor de las Heras (currently Albiñana & Suárez de Lezo). Additionally, he was president of the law firm Ramón Hermosilla & Gutiérrez de la Roza, S.L.P. until December 2014.

Ms. Marisa Poncela
-
(Independent)

From May 2019 to the present, Ms. Poncela has been the International Director of RENFE Operadora. She holds a degree in Economics and has been a member of the State Corps of Commercial Technicians and Economists since 1989 and of the Corps of Commercial Graduates since 1984. She is an expert in defining internationalisation and innovation strategies for companies, in project and company financing and has extensive knowledge of the functioning of international multilateral organisations.

Nueva Compañía de Inversiones, S.A.
-
(Propietary)

Represented by Mr. Miguel Abelló Gamazo.

Ms. María José Zueco Peña
-
Secretaty non-Director

Mr. Albertus Meerstadt
-
Chairman of Appointments and Remuneration Committee (Independent)

Managing Partner of the CMR agency. Previously, Mr. Meerstadt was Vice President of the Supervisory Board of Lucas Bols and Supervisory Board member of ABN AMRO. He was CEO of the Executive Board of the NV Nederlandse Spoorwegen (Netherlands Railways). Before joining the Netherlands Railways, he worked in the marketing and advertising sector in companies like Young & Rubicam and Marketing and Consult Brand Strategies, although he started his career at McKinsey & Company. Mr. Meerstadt has a Certification of the International Director's Programme and a MBA from INSEAD European Business School and a MSc Degree in Architectural Engineering from Delft University of Technology.

Pegaso Transportation International, S.C.A.
-
(Propietary)

Represented by Mr. Javier Olascoaga.

Mr. Mario Álvarez García
-
Deputy Secretary non-Director

The Board of Directors Regulations regulate the duties and obligations of directors, especially with regard to situations of conflict of interest, which must be disclosed at any time they may occur in respect to the interests of the company.

Talgo's Board of Directors currently has the following three Committees and their respective functions:

- Audit Committee, an internal informational and consultative body that oversees the proper functioning of the information systems and internal control, comprising Mr. Emilio Novela Berlín as Chairman, Mr. Ignacio Mataix Entero and Pegaso Transportation Internacional as members.
- Appointments and Remuneration Committee, an internal body with powers of evaluation and control of corporate governance, with Mr. Albertus Meerstadt as Chairman, and Mr. John Charles Pope and Mr. Javier Bañón Treviño as members.
- Strategy Committee, an internal body with powers to provide technical support to the Board of Directors, in relation to the organisation and strategic coordination of Talgo, with Mr Antonio Oporto del Olmo as Chairman, and Mr José María Oriol Fabra, Pegaso Transportation Internacional and Juan José Nárdiz Amurrio as members.

→ Board remuneration policy

Talgo has an attractive and competitive Remuneration Policy for its directors. It is designed by the Appointments and Remuneration Committee under criteria of transparency, clarity and simplicity that are easily understood. The Remuneration Policy consists of a fixed remuneration in the case of independent directors. Executive directors do not receive any remuneration in their capacity as directors, and the remuneration received for their role as executives is made up of a fixed remuneration, salary supplements and a variable remuneration that is determined according to financial and non-financial objectives, as well as personal objectives.

For further information, please refer to

<https://investors.talgo.com/informe-anual-sobre-remuneraciones-de-los-consejer>

→ 3.2. Risk management

Talgo has implemented a risk management model, approved and monitored by the Audit Committee, which applies to all subsidiaries and permanent establishments in all countries where it operates. The model ensures that the main risks are identified, assessed and prioritised. It also establishes the basic mechanisms and principles to achieve a level of risk that allows sustainable business growth, protecting the group’s reputation and promoting good corporate governance practices and delivering a quality product and service in all those territories where Talgo trains and auxiliary machinery operate.

The group actively manages these risks and believes that the controls designed and implemented in this regard are effective in mitigating their impact, should they materialise.

The main objective of financial risk management is to ensure the availability of funds to meet commitments with third parties. This management is based on identifying risks and analysing their tolerance and coverage in order to mitigate them. Talgo’s risk management model aims to ensure the achievement of the Group’s main objectives. The main risks that may affect the achievement of these objectives and the corresponding control measures are as follows:

Type of Risk	Main risks	Control measures
Environmental and regulatory risk.	→ Country risk. → Regulatory and socio-political changes. → Entry of new competitors. → Catastrophic risks. → Pandemic risk.	→ Internationalisation and selective growth policy. Strategy and business development committees. → Health and Safety Committees. → Coordination to ensure proper compliance with existing local legislation and anticipation of regulatory developments. → Insurance coverage.
Financial risks.	→ Liquidity risk. → Exchange rate risk. → Cash flow interest rate risk.	→ Access to various sources of funding. → Interest rate and currency hedges.
Financial information, fraud and compliance risk.	→ Integrity and security of financial information and operations. → Information security risk, corruption and misappropriation. → Fiscal risk. → Compliance with internal legal and contractual regulations with the public administration.	→ Internal Control over Financial Reporting System (ICFR). → Compliance model implemented in the group. → Cybersecurity. → External tax and financial advice from first class entities. → Cybersecurity Committee.
Industrial risks.	→ Safety of customers and employees. → Risks of adaptation and rapid response to technological change. → Project control risks. → Training and talent retention risks. → Dependence on suppliers. → Environmental risks.	→ Specific policies, procedures, plans and control systems for each area. → Project monitoring and control (Project and Programme Committees). → Training and retention programmes for key personnel. → Supplier diversification. → Environmental management systems. Insurance coverage.

→ 3.3. Ethics and regulatory compliance

Talgo has a Code of Ethics that establishes the standards of responsible behaviour with which all professionals and collaborators of the group must comply. This is a key element of the internal control policy and forms part of the crime prevention policy imposed by the new criminal legislation.

The Code of Ethics sets out the ethical values, commitments and good practices that are required to be applied. It serves as a framework for the development of the Human Rights Policy, the Diversity and Equality Policy and the Harassment Protocol, which aims to guarantee the adoption of measures to avoid any situation of harassment and to establish an action procedure to investigate and sanction possible situations of harassment in the workplace.

In Spain, Talgo has an Ethics Committee in each of its work centres that ensures compliance with the rules of conduct. This Committee guarantees the right to personal dignity, the free development of personality and the protection of physical and moral integrity, without any discrimination based on gender, marital status, family status, birth, ethnic origin, age, religious beliefs, sexual orientation, opinion, disability, union membership or any other condition, social or personal circumstance.

The aim of the anti-fraud and anti-corruption policy is to project a strong message of opposition to corruption and fraud in all its manifestations, and the will to eradicate all fraudulent or criminal activities. This policy constitutes a commitment to permanent vigilance and sanctioning of fraudulent acts and conduct or conduct conducive to corruption in all its manifestations, to maintaining effective communication and awareness-raising mechanisms for all employees and to developing a corporate culture of ethics and honesty.

The group also has a Whistle-blower Channel, managed by a company that is totally independent of the group, which is freely accessible internally through the corporate intranet and externally through the corporate website. Through this Channel, anybody may report breaches of the Code of Ethics. The Compliance Unit, comprised of two members of the management team and an external advisor, keeps informed of all the latest developments in the field and ensures that their knowledge is regularly updated by attending various conferences on related regulations, updates and other matters.

During the 2020 financial year, Talgo continued to form part of the “CEO for Diversity” alliance, which seeks to promote innovation in diversity, equity and inclusion strategies in Spanish companies, an initiative of the Adecco and CEOE

*In Spain, Talgo has an Ethics Committee in each of its work centres **that ensures compliance with the rules of conduct.***



Foundations. The mission of this alliance is to unite companies around a common and innovative vision of equality, diversity, diversity and inclusion (D&I) and to accelerate the development of strategies that contribute to business excellence, the competitiveness of talent in Spain and the reduction of inequality and exclusion in Spanish society. The aim is to collaboratively build common missions that are aligned with the interests of our society.

Talgo also announced, for the second year, the Talgo Award for Women's Excellence in Engineering, which, due to the pandemic situation, cannot be held. However, Talgo is donating the full amount of the prize to CSIC for research into a vaccine against COVID-19.

→ 3.4. Social accountability management

Since it was first constituted, Talgo has fulfilled its mission to become a national and international leader, both in the promotion and defence of knowledge, training and studies, as well as in research in innovation, railway technological development, safety and social and labour integration.

Talgo has promoted the design of policies and the integration of social responsibility in its organisation, aligning and organising the various related actions carried out within a global framework. Its values are aligned with Innovation, Commitment, Independence, Transparency, Objectivity, Integrity and Respect.

Following the external audit carried out in 2019 to determine the degree of implementation of the ISO 26000 principles in the organisation's policy, Talgo underwent a new assessment in the first quarter of 2021, ascertaining the current state of implementation of ISO 26000 after two years.

In turn, Talgo already has management tools and specific actions in place that respond directly to the seven social responsibility principles of ISO 26000, related to accountability, transparency, ethical behaviour, respect for the interests of stakeholders, respect for the principle of legality, respect for international standards of behaviour, and respect for human rights.

Our public commitment to this is further evident in the company's membership of the General Assembly of the Red Española del Pacto Mundial (Spanish Global



Compact Network) since 12 September 2018, and in Talgo's incorporation as a member of the Executive Committee of the Spanish Global Compact Network.

Talgo's various projects are focused on meeting the Sustainable Development Goals (SDGs) of the United Nations Global Compact, specifically Goal 1 - end poverty, Goal 4 - quality education, Goal 5 - gender equality, Goal 11 - sustainable cities and communities, and Goal 17 - partnerships to achieve the goals.



4

About this report

- 4.1. Methodology, scope and coverage
- 4.2. Materiality analysis
- 4.3. GRI Index



→ 4.1. Methodology, scope and coverage

This report follows the principles of transparency, relevance, comparability, periodicity, clarity and reliability that Talgo has kept in mind throughout the information gathering and presentation process, which are necessary to guarantee the quality of the data reported.

The measurement and data calculation techniques and estimates applied are explained in the tables or in the relevant chapters of the report for ease of understanding, where such clarification has been deemed necessary.

The Talgo 2020 Annual Report provides comprehensive information on the economic, financial, social, environmental and governance activities of the company and its subsidiary companies for the year ended 31 December 2020.

For a correct interpretation of the economic and financial data presented in this report, readers should note that the figures for 2019 have been adjusted to

be comparable with those for 2020. Non-financial information is shown with reference to the recommendations of the GRI and IIRC Standards.

To complete the information on the group’s activities throughout the year, you can consult the legal documents available on the corporate website: Annual Accounts, Annual Corporate Governance Report and Annual Report on Directors’ Remuneration, as well as all the presentations published on different aspects of the group or in the other sections aimed at the different stakeholders.

The report has been prepared with the collaboration and supervision of all the heads of the different departments and areas. The Investor Relations Department is ultimately responsible for its preparation and coordination.



Talgo, S.A.



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(+34) 91 631 38 00



<https://www.talgo.com/>



Manufacture of railway vehicles, components and equipment, as well as repair and modifications services.



Talgo is present in 9 countries: Spain, Germany, Denmark, Saudi Arabia, Egypt, USA, Kazakhstan, Russia and Uzbekistan; and is listed on the Madrid, Barcelona, Valencia and Bilbao stock exchanges.

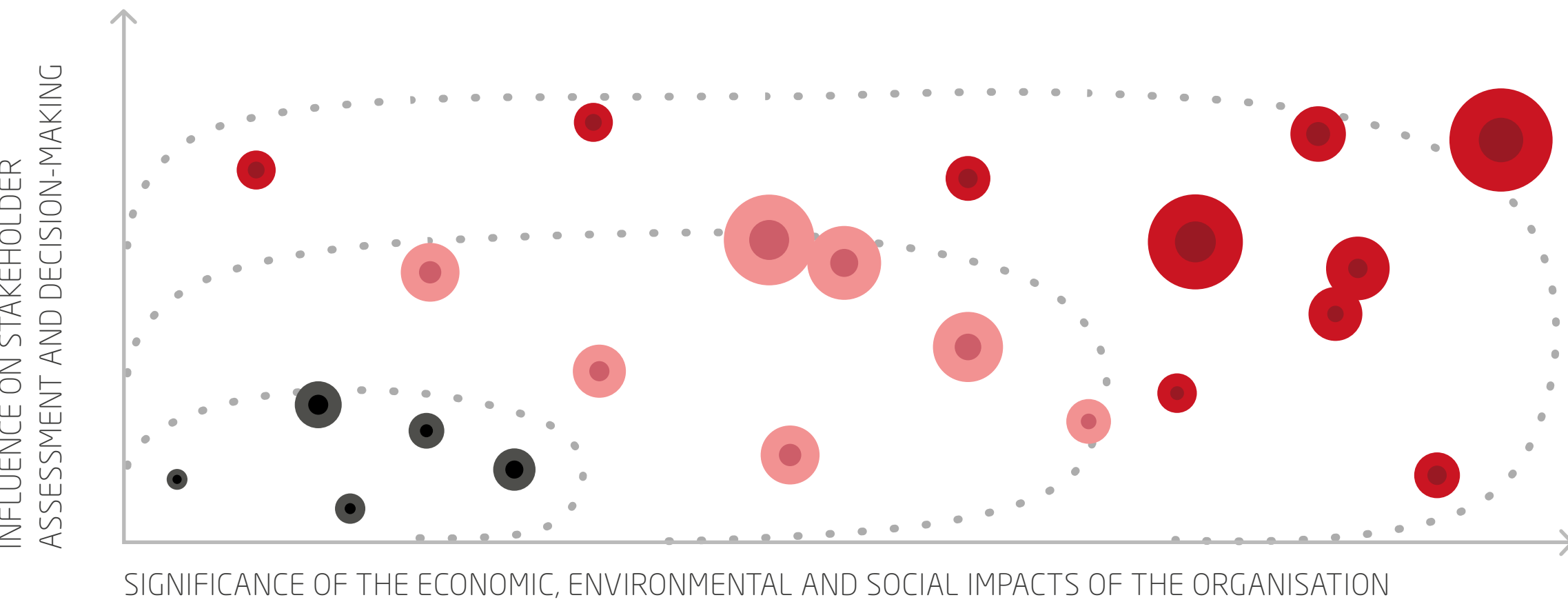
→ 4.2. Materiality analysis

During 2020, it was updated the materiality analysis that determines the most relevant issues from the perspective both of the company's internal priorities and the external priorities of its stakeholders. This process was based on the definition of Talgo's stakeholders and the company's interaction with them, as shown in the table below.



Stakeholder group	Description	What Talgo needs from them	What interests do they have regarding Talgo
Board of Directors and Management Committee	Members of the Committees with the capacity to influence the company's strategy.	Information on business strategy and its involvement in the creation of Shared Value and Corporate Social Responsibility.	Profitability, generation of good quality and sustainable employment and respect for and conservation of the environment.
Employees and Works Councils	Persons working in the Group, regardless of their employment or business relationship with the Group.	Involvement in business development.	Generation of good quality and sustainable employment.
Clients	Natural or legal persons purchasing products marketed by the Group.	Information on demand and demand trends. Marketing agreements.	Responding to market trends.
Suppliers and Providers	Individuals or legal entities that provide goods or services to the Group.	Financing, matching inputs to market trends (traceability).	Feasibility and cost-effectiveness. Continuous supply.
Consumers	Mostly public administrations and private clients who demand our products or services.	Information on their technology needs.	Quality, price, technology, other.
Media	Understood as the instruments used in society to inform and communicate messages.	Market trend information.	Information.
Academia and Research	Individuals or institutions prominent in the sciences, who collectively carry out certain activities in connection with the activities of the Group.	Adaptation of training and internship programmes to the needs of the sector. Participation in research lines of strategic interest.	Internships and permanent employment. Participation in research projects.
Non-Governmental Organisations	Non-profit institutions that carry out activities of social, environmental, labour, etc. interest that can be related to Group's operations.	Information on trends. Support and accompaniment in strategic lines of work.	SDG-compliance, partnership building.
Public Administrations	Institutions and organisations of a public nature with which the Group must interact in the exercise of its business activity.	Designing appropriate policies for business development in terms of innovation, competitiveness, as well as fiscal and labour.	Regulatory compliance and sectoral development, generation of wealth and sustainable
Partnerships	Private, non-profit organisations to defend common interests in a given field and territory.	Information on trends. Support and accompaniment in strategic lines of work.	SDG-compliance, partnership building.
Local communities and society at large	A group of people who relate to each other and who share the same culture in a specific space or time, and who relate to the companies or professionals in the group.	Information on needs and expectations.	Sustainable local development, employment generation and respect for the environment.

Leading representatives of each stakeholder group were selected to participate in personal surveys in which they were asked to rate the relevance of fourteen previously identified material aspects. The relevance values for each of the material aspects were calculated as averages weighted by the number of responses from each group and distributed along two axes: for external stakeholders, and for internal stakeholders. Based on prioritisation and weighting, a materiality matrix was generated to identify in a simple and visual way those aspects considered most relevant for Talgo, as shown in the relevance hierarchy table.



- High relevance
- Average relevance
- Moderate relevance

Relevance hierarchy

Prioritisation	Material appearance	Axis
High relevance	→ 9. We guarantee the safety of our products → 6. We work to improve occupational health and safety → 2. We reduce our consumption of energy, water and materials → 4. We are committed to responsible labour relations → 1. We advocate good governance → 10. We guarantee the quality of our products	→ Product → People → Environment and sustainability → People → Ethics → Product
Average relevance	→ 3. We reduce our emissions and waste generation → 8. We promote equality and diversity → 5. We encourage professional and personal development → 11. We innovate for maximum efficiency	→ Environment and sustainability → People → People → Product
Moderate relevance	→ 14. We spearhead social development projects → 7. We work to strengthen pride in belonging → 12. We invest in assets → 13. We promote job creation and knowledge transfer	→ Communities → People → Communities → Communities

→ 4.3. GRI Index

→ GRI 101: Fundamentals 2016 → GRI 102: General contents 2016

Content	Page	Response / Comments
102-1 Name of the organisation	26	
102-2 Activities, brands, products and services	26, 29, 30	
102-3 Location of the headquarters	26	
102-4 Location of operations	28	
102-5 Ownership and legal form	17, 26	
102-6 Markets served	27, 28	
102-7 Scale of the organisation	3	
102-8 Information on employees and other workers	18	
102-9 Supply chain	23	
102-10 Significant changes to the organisation and to the supply chain	8, 23	
102-11 Precautionary principle or approach	21	
102-12 External initiatives	42	
102-13 Membership of associations	42	
102-14 Statement from senior executive decision-maker	4	
102-16 Values, principles, standards and norms of behaviour	26, 41	
102-18 Governance structure	35	
102-40 List of stakeholder groups	45	
102-41 Collective bargaining agreements		
102-42 Identifying and selecting stakeholders	45	
102-43 Approach to stakeholder engagement	45	
102-44 Key topics and concerns raised	46	
102-45 Entities included in the consolidated financial statements		See FY2020 Annual Financial Statements.
102-46 Defining report content and topic boundaries	46	
102-47 List of material topics	46	
102-48 Restatements of information	44	
102-49 Changes in reporting	44	
102-50 Reporting period	44	
102-51 Date of most recent report	44	
102-52 Reporting cycle	44	
102-53 Contact point for questions regarding the report	44	
102-54 Claims of reporting in accordance with the GRI Standards		This report has been developed in accordance with the option, Essentials of the GRI Standards.
102-55 GRI content index	47	
102-56 External assurance		This report has not been externally verified.

Material content		Page	Response / Comments
GRI 200 ECONOMIC DIMENSION			
Indirect economic impacts			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	10	
	103-2 The management approach and its components	10	
	103-3 Evaluation of the management approach	10	
GRI 203: Indirect economic impacts 2016	203-1 Infrastructure investments and services supported	10	
Procurement practices			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	23	
	103-2 The management approach and its components	23	
	103-3 Evaluation of the management approach	23	
GRI 204: Procurement practices 2016	204-1Proportion of expenditure with local suppliers	23	
Anti-corruption			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	41	
	103-2 The management approach and its components	41	
	103-3 Evaluation of the management approach	41	
GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	41	
	205-3 Confirmed incidents of corruption and actions taken	41	
ENVIRONMENTAL PERFORMANCE			
Materials			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	21	
	103-2 The management approach and its components	21	
	103-3 Evaluation of the management approach	21	
GRI 301: Materials 2016	301-1 Materials used by weight or volume	22	
Energy			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	21	
	103-2 The management approach and its components	21	
	103-3 Evaluation of the management approach	21	
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	22	
Emissions			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	21	
	103-2 Management approach and its components	21	
	103-3 Evaluation of the management approach	21	
GRI 305: Emissions 2016	305-5 Reduction of GHG emissions	22	
Waste			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	21	
	103-2 The management approach and its components	21	
	103-3 Evaluation of the management approach	21	
GRI 306: Waste 2020	306-3 Significant spills	22	
GRI 400 SOCIAL DIMENSION			
Health and safety at work			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	21	
	103-2 The management approach and its components	21	
	103-3 Evaluation of the management approach	21	
GRI 403: Occupational Health and Safety 2018	403-4 Worker participation, consultation and communication on occupational health and safety	21	
Training and education			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	20	
	103-2 The management approach and its components	20	
	103-3 Evaluation of the management approach	20	
GRI 404: Training and education 2016	404-1 Average hours of training per year per worker	20	
Diversity and equal opportunities			
GRI 103: Management approach2016	103-1 Explanation of the material topic and its boundary	18	
	103-2 The management approach and its components	18	
	103-3 Evaluation of the management approach	18	
GRI 405: Diversity and Equal Opportunities 2016	405-1 Diversity in governing bodies and employees	18, 37	



Annexes

Consolidated Group Financial Statements

Individual Financial Statements



→ Group's consolidated financial statements

→ Consolidated Balance

(in €k)	31.12.2020	31.12.2019
ASSETS		
Non-current assets		
Tangible fixed assets	62,136	61,044
Intangible assets	53,095	44,946
Goodwill	112,439	112,439
Investments accounted for using the equity method	29	29
Deferred tax assets	28,192	28,990
Other financial assets	1,079	2,513
	256,970	249,961
Current assets		
Stock	145,336	129,784
Customers and other accounts receivable	260,233	165,107
Other financial assets	10,128	10,128
Asset accruals	1,899	2,367
Cash and cash equivalents	228,304	325,550
	645,900	632,936
TOTAL ASSETS	902,870	882,897

*To view the annual accounts:

<https://investors.talgo.com/audited-annual-accounts>

(in €k)	31.12.2020	31.12.2019
EQUITY		
Capital and reserves attributable to the owners of the parent company		
Share capital	38,228	41,105
Share premium	871	6,784
Treasury Stock	(23,051)	(62,562)
Other reserves	1,479	3,177
Retained earnings	240,142	303,222
Total equity	257,669	291,726
LIABILITIES		
Non-current liabilities		
Borrowings	265,004	219,469
Derivative financial instruments	48	68
Deferred tax liabilities	8,420	7,646
Provisions for other liabilities and charges	53,475	44,180
Government grants	2,211	1,925
	329,158	273,288
Current liabilities		
Suppliers and other payables	265,143	244,716
Current tax liabilities	252	116
Borrowings	48,000	65,829
Provisions for other liabilities and charges	2,648	7,172
	316,043	317,883
Total liabilities	645,201	591,171
TOTAL EQUITY AND LIABILITIES	902,870	882,897

→ Consolidated Income Statement

(in €k)	31.12.2020	31.12.2019
Net turnover	487,100	401,695
Other income	1,882	3,136
Stock variation for work-in-progress and finished goods	(245)	3,241
Work performed and capitalized by the Group	13,195	11,168
Procurement costs	(309,686)	(167,220)
Personnel costs	(123,710)	(127,205)
Other operating expenses	(55,286)	(58,560)
Amortization and depreciation charge	(16,742)	(15,815)
Loss on disposal of fixed assets	(19)	(26)
Other results	295	430
Operating profit	(3,216)	50,844
Financial income	308	460
Financial expenses	(9,395)	(8,368)
Net financial cost	(9,087)	(7,908)
Results from entities accounted for by the equity method	-	(8)
Profit before tax	(12,303)	42,928
Income tax charge	(5,143)	(4,462)
Profit for the year from continuing operations	(17,446)	38,466
Profit for the year	(17,446)	38,466
Attributable to:		
Owners of the parent		
Basic earnings/(loss) per share attributable to the owners of the Company		
Continuing operations	(0,14)	0,30
Total	(0,14)	0,30
Diluted earnings/(loss) per share attributable to the owners of the Company		
Continuing operations	(0,14)	0,30
Total	(0,14)	0,30
	31.12.2020	31.12.2019
Profit for the year	(17,446)	38,466
Cash flow hedges:		
Direct assignment to equity:		
Cash flow hedge	20	(68)
Tax effect of the equity assignment	(5)	17
Foreign currency translation differences	(1,713)	377
Transfer to results:		
Cash flow hedge	-	-
Tax effect of the cash flow hedge	-	-
Total Other comprehensive income	(1,698)	326
Total comprehensive income for the year	(19,144)	38,792
Attributable to:		
Owners of the parent	(19,144)	38,792
Non-controlling interests	-	-
Total comprehensive income for the year	(19,144)	38,792

→ Consolidated cashflow statement

(In €k)	2020	2019
Cash flows from operating activities	(76,409)	62,163
Cash used in operations	(9,150)	(15,791)
Interest paid	(6,076)	(7,079)
Interest received	43	17
Tax paid	(3,117)	(8,729)
Net cash flow generated from operating activities	(85,559)	46,372
Cash flows from investing activities		
Purchases of property, plant and equipment	(8,839)	(4,220)
Purchases of intangible assets	(15,860)	(14,491)
Sale of tangible fixed assets	-	5,350
Collection from disinvestments in group companies	-	32
Other assets	-	(10,000)
Net cash used in investing activities	(24,699)	(23,329)
Cash flows from financing activities		
Disbursements for loan repayments	(68,639)	(51,330)
Proceeds from borrowings	95,886	29,021
Share-based payments granted	(14,235)	(58,917)
Net cash used / (generated) in financing activities	13,012	(81,226)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	(97,246)	(58,183)
Cash, cash equivalents and bank overdrafts at the beginning of year	325,550	383,733
Cash, cash equivalents and bank overdrafts at the end of year	228,304	325,550

→ Individual financial statements

→ Individual Balance

ASSETS (in €k)	2020	2019
NON-CURRENT ASSETS	151,440	152,435
Long-term financial investments in group companies and associates	150,317	151,317
Investments in group companies	150,317	151,317
Deferred tax assets	1,123	1,118
CURRENT ASSETS	3,474	12,447
Trade debtors and other accounts receivable	278	3,006
Receivables from Public Administrations	278	3,006
Cash and cash equivalents	3,196	9,441
TOTAL ASSETS	154,914	164,882

LIABILITIES AND SHAREHOLDER'S EQUITY (in €k)	2020	2019
EQUITY	70,906	42,131
Equity	70,906	42,131
Share capital	38,228	41,105
Share premium	871	6,784
Legal reserve	8,237	8,237
Treasury stock	(23,051)	(62,562)
Other reserves	2,862	(4,518)
Result for the financial year	43,759	53,085
NON-CURRENT LIABILITIES	82,739	85,166
Long-term provisions	10,124	10,124
Long-term debts	72,615	75,042
Debts with financial institutions	32,425	-
Debts with group companies and associates	40,190	75,042
CURRENT LIABILITIES	1,269	37,585
Short-term debts	1,177	37,461
Debts with financial institutions	91	32,902
Debts with group companies and associates	1,086	4,559
Short-term creditors and other accounts payable	92	124
Other creditors	92	124
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	154,914	164,882

→ Individual Income Statement

CONTINUING OPERATIONS (in €k)	2020	2019
Net turnover	45,000	55,000
Other operating expenses	(749)	(1,028)
External services	(285)	(260)
Other current operating expenses	(464)	(768)
OPERATING RESULT	44,251	53,972
Financial expenses	(492)	(1,525)
FINANCIAL RESULT	(492)	(1,525)
PROFIT BEFORE TAX	43,759	52,447
Income tax	-	638
EARNINGS FROM CONTINUING OPERATIONS	43,759	53,085
RESULT FOR THE YEAR	43,759	53,085

→ Individual cashflow statement

(in €k)	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES	46,379	61,721
Result for the financial year before taxes	43,759	52,447
Adjustments to the result	492	1,525
Financial expenses	492	1,525
Changes in working capital	(69)	(14)
Creditors and other accounts payable	(69)	(14)
Other cash flows from operating activities	2,197	7,763
Interest payments	(531)	(742)
Dividends	-	10,000
Income tax received/paid	2,728	(1,495)
CASH FLOW FROM INVESTING ACTIVITIES	-	-
CASH FLOW FROM FINANCING ACTIVITIES	(52,624)	(55,662)
Collections and payments on equity instruments	(14,235)	(58,917)
Equity instruments acquisition	(14,235)	(58,917)
Collections and payments on financial liability instruments	(38,389)	3,255
Payment of debt with credit institutions and other debts	(32,500)	(13,000)
Collection of debt with financial institutions and other debts	32,418	
Debt with group companies and associates	(38,307)	16,255
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	(6,245)	6,059
Cash and cash equivalents at the beginning of the year	9,441	3,382
Cash and cash equivalents at the end of the year	3,196	9,441



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