Talgo

ANNUAL REPORT 2019

Annual Report 2019

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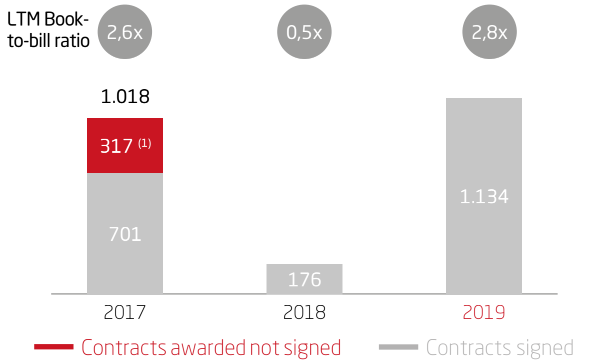
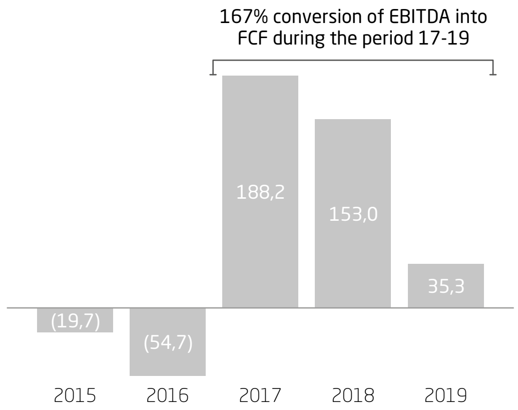
Key results for 2019

EVOLUTION OF THE ORDER INTAKE 2017 – 2019 (€m)

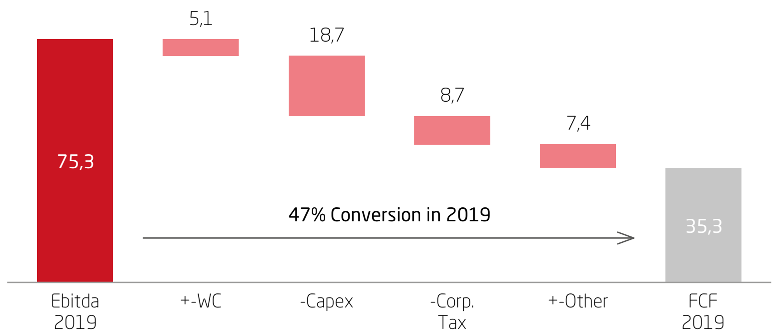


(1) Considering a 51% stake in the Very High Speed maintenance contract in Spain, which will be executed through a JV with Renfe.

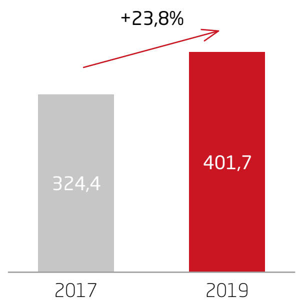
FREE CASH FLOW FOR THE PERIOD 2017-2019 (€m)



CONVERSION OF EBTIDA INTO FCF IN 2019 (€m)

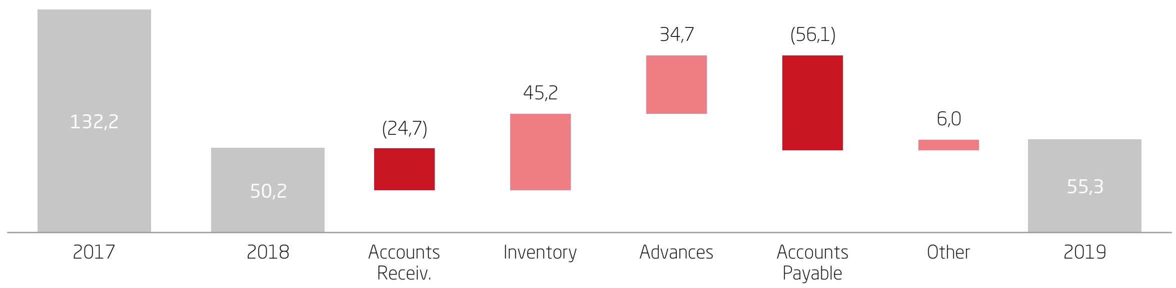


REVENUES – CUMULATIVE (€m)

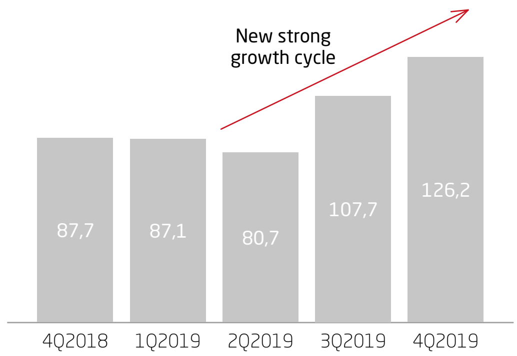


WORKING CAPITAL (€m)

The WC requirement remained stable as a result of the netting off between 1) an increase in the level of provisions and the use of advances to handle the execution of projects and 2) excellent project management.

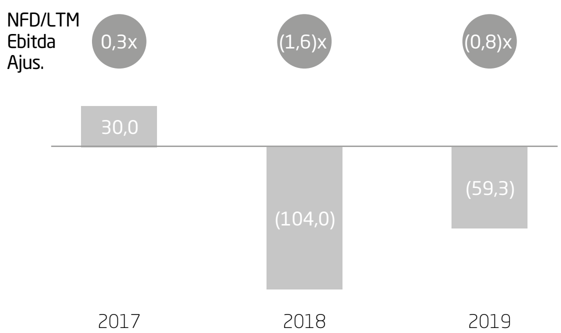


REVENUES – QUARTERLY EVOLUTION (€m)

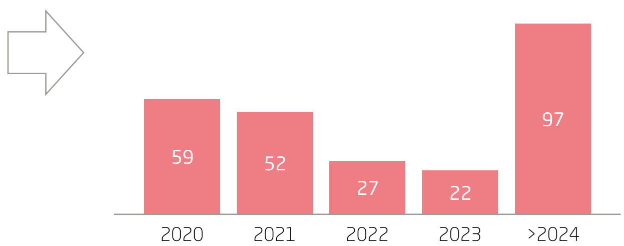


The actions carried out by Talgo have favoured the employability of more than 900 young people all over the world.

NET FINANCIAL DEBT (€m)[(1)(2)]



LONG TERM BANK DEBT – REPAYMENT CALENDAR (€m)



(1) Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities relating to R&D which are not considered financial debt due to their recurrence and zero interest.

(2) During 2019 Talgo allocated 10 €m in remunerated funds which are considered available although due to accounting requirements it is registered as "other current assets"

	2017	2018	2019
Adjusted EBITDA (€m)	87,6	65,6	72,9
Adjusted EBITDA margin (%)	23%	20%	18%
Adjusted net profit (€m)	42,8	26,6	40,1
Adjusted net profit margin (%)	11%	8%	10%
Free cash flow (€m)	188,2	153,0	35,3

Human Resources	2018	2019
Number of employees	**2.240**	**2.597**
Men	1.980	2.267
Women	260	330
Accidents with sick leave	**8**	**20**
Accident frequency index with sick leave	3.159	7.472
Severity index	0,117	0,252

The Environment	2018	2019
Hazardous waste generated (tons)	186	217
Fuel consumption (thousands of litres)	397	286
GHG emissions - Scopes 1 and 2 (tCO_2eq)	2.226	2.040
Energy intensity (kWh/employee)	15.431	12.871

Message from the Executive Chairman

Dear Shareholders,

It is an honour for me to present you with Talgo's excellent results for 2019. They represent the fruit of the tireless work of our employees, the trust of our shareholders and the continued efforts of the sales team, which together have succeeded in incorporating new high-quality projects into our portfolio.

Talgo is a globally respected and consolidated brand because our technology brings progress wherever we operate. Our trains form the backbone of countries and they connect people, reducing travel times and offering comfortable and sustainable transport, thanks to the cutting-edge technology that we have perfected over 77 years of constant innovation. Our internationalisation strategy has allowed us to grow not only in Spain, but also in markets such as the United States, Germany, Russia, Kazakhstan and Saudi Arabia, and to further develop our excellence as we embark on increasingly complex projects.

Our results for 2019

Talgo has fulfilled the objectives set out in early 2019. The company closed 2019 with net turnover of 401.7 million euros, up by 23.8% compared to the previous year, and a net profit of 40.1 million euros, up by 52.8% compared to the previous year. The increase in net turnover and net profit is the consequence of a rise in industrial activity and a reduction in financial costs, and confirms the growth path of the company. Adjusted EBITDA amounted to 73 million euros in 2019, with a margin of 18%, reflecting the excellent execution of the projects and the fulfilment of the objectives established at the beginning of last year. In addition, the company closed 2019 with a comfortable cash position of 59 million euros, mainly driven by the award of new projects and by maintenance activities. This has allowed the company to begin 2020 with a strong capacity to finance new projects in the future.

Regarding our commercial activity over the past year, it is worth noting a significant increase in new orders for contracts, which exceeded 1,100 million euros, the highest level since 2011. Good commercial results generated an increase in the order book to 3,347 million euros in 2019, a figure that rises to reach a historical record for Talgo, of 3,798 million euros, if we consider the awards to February 2020. 95% of these awards, the result of the continued commercial effort of our professionals around the world, come from international markets.

In terms of the new contracts secured by Talgo for its order book, the following contracts stand out: the signing of a framework agreement with the German railway operator Deutsche Bahn for the manufacture of up to 100 Talgo 230 trains, as well as an initial order for 23 trains; the award of a project to manufacture six latest-generation trains for the Egyptian operator ENR for 158 million euros, which includes their maintenance for 8 years; and the award for the manufacture of eight Intercity trains by the Danish operator DSB, which includes an initial firm order worth 134 million euros, as part of a framework contract worth 500 million euros.

In addition to these new projects, the company is making notable progress with the planning and execution of its projects under development, such as the 35 very high-speed Avril trains for Renfe, the two high-speed trains for Uzbekistan and the maintenance projects, which include the remodelling of Metrolink in the United States and the Meca-Medina railway in Saudi Arabia. It is also worth highlighting that in 2019, Talgo presented its Very High-Speed Avril train to compete in the HS2 Phase One bid in the United Kingdom, which will connect the British cities of London and Birmingham from 2026.

In this way, we have managed to access new markets and build an international, diversified and high-quality order book that, together with our good industrial performance, confirms the global success of Talgo's industrial development model and the high quality of our products.

This has been possible thanks, also, to the trust of our shareholders. In recognition of this, and faithful to the commitment made two years ago, Talgo continued to exercise its Share Buy-Back Program in 2019. In this sense, last March, Talgo announced that the company is going to remunerate its shareholders with a 7% reduction in capital. With this capital reduction, the number of shares in circulation will decrease, resulting in an increase in shareholder remuneration through the earnings per share ratio.

Goals for 2020

Although today I present you with the Annual Report for 2019, I address you at a time when we are all living through an unprecedented global health crisis, caused by Covid-19, which has altered the operating conditions of companies around the world. Regarding the operation of our company, in Spain, Talgo has continued to operate normally in the factories, with all of the necessary health and safety

To fulfil all our goals, we rely on the coordinated efforts of our more than 2,500 employees.

measures required by the Spanish authorities, and has collaborated with the Spanish operator Renfe to medicalise Talgo trains to transport Covid-19 patients within Spain as necessary. In terms of operations in other countries, Talgo is adapting to the needs of our clients and the sanitary and governmental requirements established in each market. Our goal has always been and continues to be to serve our clients with the excellence that characterises us, fulfilling agreed delivery schedules, and taking care of our employees.

Looking ahead to 2020, we have new goals that motivate us to continue working and improving to offer the best service in the field of the railways: a manufacturing activity and sustained revenues whose expected growth will depend on the evolution of Covid-19 in the different markets; as well as a constant commercial focus in order to remain close to our clients and potential opportunities; an unwavering commitment to shareholders, continuing with the execution of the Share Buy-Back Program, which is scheduled for completion in 2020; and a commitment to sustainable and responsible management.

To fulfil all our goals, we rely on the coordinated work of our more than 2,500 employees, with whom we foster stable relationships based on trust, commitment, involvement and the know-how of all the professionals in the group. I want to take this opportunity to thank you, once again, for all your effort.

Our responsible way of working is reflected, on the one hand, in an enviable work environment, where equal opportunities, non-discrimination and respect for the diversity of all people are guaranteed. It is also reflected in our contribution to society, both for the economic and structural benefits that our activity generates, and for the work carried out through the Talgo Foundation. Particularly noteworthy was our direct support of the COP25 Climate Summit held in Madrid in December last year.

We are continuing to work along these lines in 2020 to obtain approval for our Strategic Plan for Sustainability and Social Responsibility, which reflects our firm commitment to sustainability, and which will include the strengthening of relationships with our stakeholders to ensure a better social and environmental footprint in all of the areas in which we operate.

I firmly believe that our company will continue to face the new challenges and opportunities of the railway, a reliable and efficient means of transport, which is today the only realistic and immediate solution for contributing to reducing the carbon footprint. And we will continue working to contribute to the creation of a more sustainable, fair and wealth-generating reality for all, overcoming the challenges that we encounter and anticipating the needs of the industry to take advantage of all opportunities, just as we have done until now.

Carlos de Palacio | Executive Chairman

1. A year of progress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9-10
Euston Station

1.1. Key milestones

First quarter

- Agreement with the railway operator Deutsche Bahn for the manufacture of up to 100 Talgo 230 trains for long-distance domestic and international services, formalising an initial order of 23 trains for a total amount of 550 million euros.
- Talgo presents its results for 2018, fulfilling all market expectations, with a record cash generation figure that is better than expected.

Second quarter

- Award by the Egyptian railways (ENR) of a contract for the manufacture and maintenance for eight years of six latest-generation Talgo trains for 158 million euros.
- Award to the Talgo-SYSTRA joint venture of a contract to remodel the trains belonging to the Californian suburban train operator Metrolink for 139 million dollars (78 million dollars for the scope of Talgo's work).
- Elena Moral, Director of Project Execution at Talgo, wins the WICE 2019 Award for Female European Railway Engineer.
- The Uzbekistan railways (UTY) acquire two additional high-speed Talgo 250 trains for their high-speed fleet, together with maintenance equipment and materials amounting to 57 million euros and which are scheduled to be delivered in 2021.
- Presentation of the Avril train in the United Kingdom for the tender to supply high-speed trains to connect the British cities of London and Birmingham from 2026.
- The First Talgo Award for the Professional Excellence of Women in Engineering. Talgo chooses the CSIC researcher Elena García Armada as the Engineer of the Year in Spain. With this award, Talgo seeks to recognise and raise the profile of female engineers, and encourage more women to opt for STEM careers, whereby overcoming the gender stereotypes that currently exist.
- Talgo participates in the third COTEC Europe summit (Naples) and in the SCDI Forum 2019 (Edinburgh).

Third quarter

- Signing of the Talgo and Geminis Lathes patents for a commercial collaboration agreement with the aim of offering a complete range of lathes for the railway maintenance workshops and strengthening the existing relationship between the two.
- The Executive Chairman of Talgo, Carlos de Palacio, participates as a Judge in the 17th edition of the Spanish Exporters and Investors Club's Prize for Internationalisation.

Fourth quarter

- Award by Adif for the manufacture of an auscultation train from the Avril platform, also including systems and spare parts, as well as maintenance services for a period of five years to inspect the high-speed railway network, amounting to 39 million euros.
- Talgo reaches an agreement with the Kazakhstan railways (KTZ) to adapt the supply contracts and existing services to the needs of the client, whereby replacing the manufacturing scope pending to date with a longer maintenance contract for the entire fleet for a period of nine years.
- Support for the Madrid Climate Summit COP25 as a silver sponsor, which was used to remind people of the need to continue building a sustainable and efficient transport ecosystem, with trains as the backbone.
- Signing of the #CEOForDiversity alliance led by the Adecco Foundation and the CEOE Foundation to promote the vision of diversity, equity and inclusion as fundamental values.
- Talgo is awarded the Prize for collaboration with the Cataluña Railway Museum for continued collaboration in the preservation of its historical legacy.

Subsequent events – First quarter 2020

- Award by the Danish state operator DSB of a framework contract for the supply of Talgo 230 trains worth up to 500 million euros, formalising an initial order for eight trains worth 134 million euros.

1.2. Financial results

IN CASH	ORDER BOOK	NET TURNOVER	NET RESULT
320 €m	3.347 €m	402 €m	38 €m
(NFD of -59 million euros)		(+24% vs. 2018)	(+117% vs. 2018)

The good management of working capital is reflected in the stable Working Capital requirements during the year, where the consumption of advances and the normal increase in stock, mainly linked to the greater industrial activity coming from the manufacturing phase of the Renfe high-speed project in Spain, were offset by the good management of suppliers and significant collections from clients for projects in the final phase of testing and delivery. The figures were also marked by the satisfactory testing and delivery process of the Meca-Medina project and by the first phases of Renfe España's very high-speed project.

With all of this, the generation of Free Cash Flow amounted to 35 million euros during the period, resulting in an EBITDA to Free Cash Flow conversion ratio of 47% for the year. Moreover, the Free Cash Flow accumulated during the period 2017-2019 amounted to 377 million euros, as a result of the expected strong cash generation cycle and based on a proven quality of execution and commitment to client expectations.

In 2019, the cash generated by operations was used to cover commitments relating to long-term loans and financial guarantees, and to finance the Share Buy-Back Program, the purpose of which is the redemption of own shares to materialise the shareholder remuneration policy. Even so, the company closed the year with a comfortable net cash position of 59 million euros.

In terms of the order book, it amounted to record levels at the end of 2019, reaching 3,347 million euros (and increasing to 3,664 million euros when we include projects awarded pending signing). In turn, the robust portfolio of maintenance projects continued to provide a

Talgo's results were satisfactory in 2019 both in operational and financial terms. The most significant milestones include important commercial successes, the excellent execution of projects, the efficient management of cash and the on-going commitment to shareholders.

stable revenue base and to generate recurring cash. In this way, the increased manufacturing activity and the recurrence of light and heavy maintenance and remodelling projects marked the positive evolution of the company's revenues during the period (more detailed information regarding the projects is provided in section 1.3). As a result, net turnover amounted to 401.7 million euros, 24% more than in the previous year.

The operating profit before amortisation adjusted for extraordinary items or the adjusted EBITDA amounted to 73 million euros in 2019, up by 11.2% compared to the previous year, corresponding to a margin of 18%, in line with the expectations forecast by the company for year. The achievement of the objectives of operational profitability therefore reflects the correct execution of the projects and the high quality of the order book.

The operating margins recorded confirm the exhaustive control of costs to maintain the efficiency and commitment to fulfil the strategic aims of the management team, based on the selection of high-quality projects, understood as projects involving limited risk, attractive profitability and a suitable cash profile.

In terms of the net profit for the year, it totalled 40.1 million euros, driven by greater industrial activity and lower financial costs, and a lower effective tax rate.

Financial situation

During 2019, Talgo allocated 51 million euros to repaying senior debt and 59 million to acquiring its own shares within the framework of the Share Buy-Back Program approved in November 2018 as the shareholder remuneration policy for the period and whose aim is the acquisition and redemption of shares.

With all of this, the final cash position amounted to 325 million euros at the end of the year, of which 63 million euros corresponded to advances, resulting in a negative Net Financial Debt position of 59 million euros (-0.8x NFD over EBITDA) with a long-term debt repayment profile, which gives the company a solid financial position with the capacity to finance current and future projects.

During the first half of 2019, loan contracts were signed amounting to 18 million euros, referenced to a fixed market interest rate. In addition, Talgo has available lines of credit amounting to 75 million euros (100 million euros in 2018), which were 100% available at year end.

Debt maturities (Miles de euros)

31 December 2019	2020	2021	2022	2023	Subsequent years	Totals
Debt with credit institutions	58.609	52.150	27.146	22.146	97.263	**257.314**

31 December 2018	2019	2020	2021	2022	Subsequent years	Totals
Debt with credit institutions	12.290	131.476	36.150	11.146	86.787	**277.849**


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1.3. Industrial activity and services

Manufacturing and maintenance centres

Talgo has two factories in Spain: one in Las Matas (Madrid), whose work focuses on the manufacture of motor heads for high speed trains, as well as the manufacture of maintenance equipment; and one in Rivabellosa (Álava), which focuses primarily on the manufacture of passenger coaches. Altogether, Talgo has 63,000 square metres of industrial space, affording it the capacity to manufacture 400-500 units (passenger coaches) per year.

In addition, Talgo has an assembly plant in Milwaukee (USA) assigned by the public bodies for the execution of assembly and heavy maintenance projects.

In terms of services, the group carries out the bulk of its maintenance activities at the plants owned by each client, which are located in the towns where the trains operate. In this way, the maintenance business is configured in a flexible way with minimal investment required.

Composition of the order book

The satisfactory performance of the commercial activity in 2019 increased the order book to reach 3,374 million euros at the end of 2019, 29% more than at the same time a year earlier (2,613 million euros). If we also take into account the contracts awarded pending signing at the end of the year, mainly the maintenance contract for Talgo's Very High-Speed Avril trains in Spain, which are currently in the manufacturing phase, the order book increases to 3,691 million euros, the highest level ever recorded by the company.

In addition, it is worth noting the increase in the number of manufacturing projects in the portfolio, which increased to account for 36% of the total. They were mainly represented by the Very High-Speed (VHS) projects in Spain and the Talgo 230 trains for Deutsche Bahn, which guarantees the industrial activity for the next few years and, consequently, provides visibility over revenues.

The increase in the order book was driven by the award of four new manufacturing projects and one heavy maintenance project signed during the year, which have resulted in a diversified portfolio with the largest ever number of projects underway to date.

In this way, Talgo confirms the satisfactory implementation of a commercial strategy based on both geographic and product diversification, and on the selection of high added value opportunities.

Projects awarded by country

The potential of the railway sector together with the company's strong commercial activity, resulted in the award of new projects worth more than 1,100 million euros, of which 94% correspond to international markets. They provide long-term visibility and their correct execution generates an enormous potential both with new clients, as well as in the peripheral markets where Talgo will demonstrate the competitive

Maintenance: 2,0 €mm (58%)

VHS: Spain, Saudi Arabia

HS: Spain, Uzbekistan

Passenger coaches: Spain, USA, Russia, Kazakhtan, Germany

Manufacturing: 1,2 €mm (36%)

VHS: Spain

HS: Uzbekistan

Passenger coaches: Germany, Egypt
+ Denmark – Awarded in February 2020

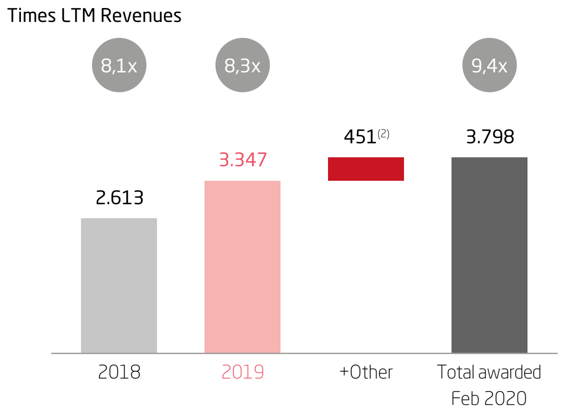
Heavy maintenance/Remodelling: 0,2 €mm (6%) (1)

VHS: Spain

Metro: LACTMA, Metrolink

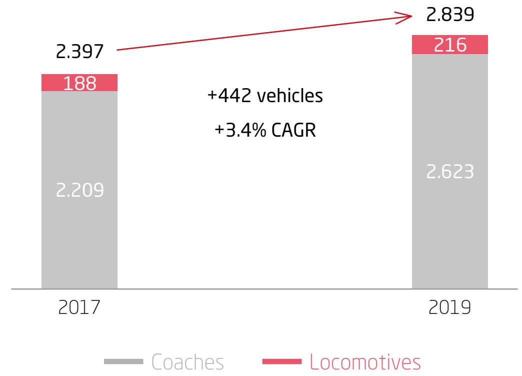
(1) Equipos de mantenimiento por 17 €m

Backlog 2019 (€m)



(2) Includes the MAV maintenance project in Spain pending signature and the contract awarded in February 2020 by the DSB (Denmark).

Average maintained fleet (#) (3)



(3) Includes both coaches and locomotives. Note: c. 80 additional coaches (stable during the period 2013-2017) manufactured by third parties are maintained by Talgo in Germany. These coaches are around twice as long as those manufactured by Talgo.

advantages of its products. The main projects awarded in 2019 include the following:

- Deutsche Bahn (Germany), with a framework contract for the manufacture of up to 100 Talgo 230 trains for 2,300 million euros, including an initial order for 23 trains for an approximate value of 550 million euros. The project, which is currently in the design and engineering phase, is expected to be delivered from 2023.
- ENR (Egypt), with the manufacture of six trains from the Talgo 230 platform suitable for a maximum speed of 160 km/h and their maintenance for a period of eight years for a value of 157 million euros. The project, which is currently in the design and engineering phase, is expected to be delivered during 2021 and 2022.
- UTY (Uzbekistan), with the manufacture of two high-speed Talgo 250 trains and four additional coaches for the trains already in operation, as well as materials and equipment for a combined value of 57 million euros. The project is currently in the development phase and is expected to be delivered in 2022.
- ADIF (Spain), the supply of an auscultation Talgo Avril train, along with additional components and maintenance services, for a period of five years, amounting to approximately 39 million euros.

Moreover, in 2020, during the month of February, Talgo signed a framework contract with the Danish state railway company, DSB, for the manufacture of Talgo 230 compositions for up to 500 million euros, formalising an initial order for eight compositions, spare parts and maintenance for an approximate value of 134 million euros.

Light maintenance projects

Light maintenance projects account for 58% of the order book and play an important role for the company due to the long-term visibility and recurring income that they generate. They also help to maintain a close relationship with the client, and they contribute to the identification of potential product improvements.

During 2019, all of the contracts were executed satisfactorily, providing reliability and availability ratios commensurate with the excellence in service that characterises Talgo not only in Spain, but also in Saudi Arabia, Kazakhstan, Uzbekistan, Russia and the USA. Also, in Germany, maintenance services were rendered for trains owned by third parties.

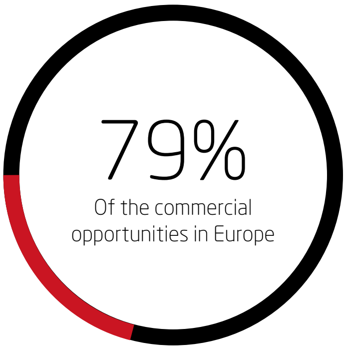
Heavy maintenance projects

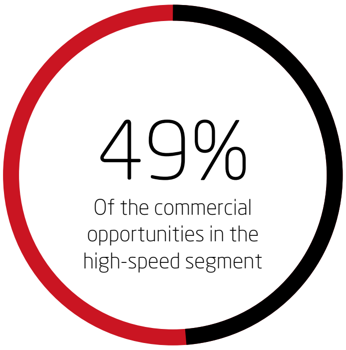
Heavy maintenance and remodelling activity continued to consolidate its position as a line of business with potential for growth and a route for accessing new markets where the client prioritises the updating, remodelling and technical improvements of existing material over the acquisition of new material.

With the recent acquisitions, Talgo is continuing to increase the weight of this line of business, which accounted for 6% of the order book at the end of 2019, with projects such as Metrolink, the blue and red lines of the Los Angeles metro (LACMTA) and Talgo's Series 7 trains, which are currently in the process of being converted into very high-speed trains.

In 2019, Talgo was awarded a project by the Southern California Regional Rail Authority (SCRRA) for the remodelling of up to 121 railway vehicles (50 in an initial phase and 71 subject to options) amounting to 139 million dollars, to be executed by the joint venture SYSTRA-Talgo Inc.

1.4. Commercial activity



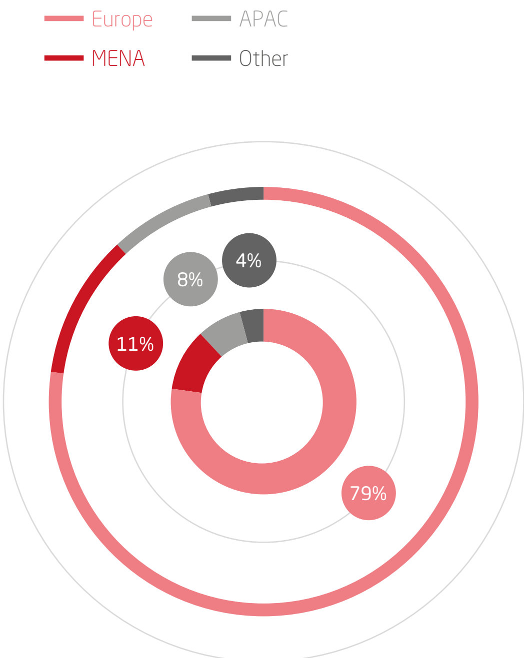


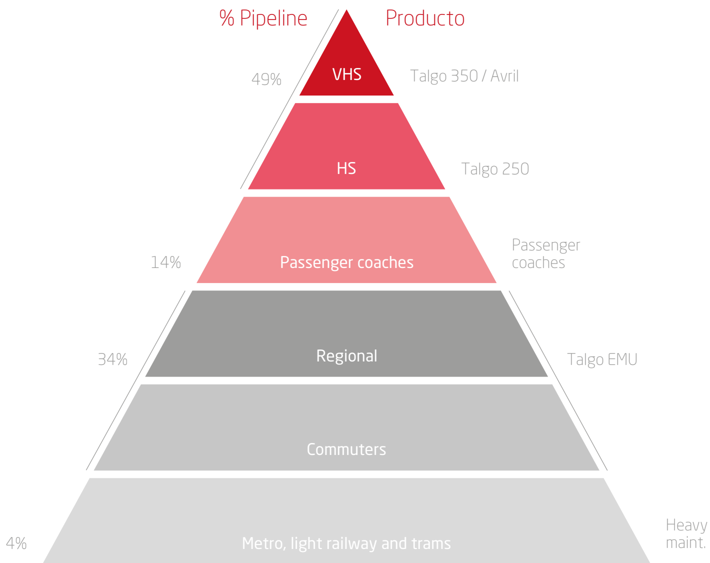
5,2 €mm

Million euros in bids submitted at the end of 2019

During 2019, Talgo continued working to identify, monitor and make viable new opportunities both domestically and internationally. In this way, the company has identified additional potential opportunities worth 8,400 million euros. Of these opportunities, Europe is the main geographic area accounting for 79% of the total volume, whilst High-Speed is the main segment, with 49% of the total. On the other hand, the Regional and Commuter segments represent 34% of the total volume of the pipeline for the year.

Of the total volume of opportunities identified, at the end of 2019, Talgo had submitted bids worth 5,200 million euros, including the bid submitted for the HS2 project in the United Kingdom worth approximately 3,000 million euros.





Talgo is working on a pipeline worth 8,4€mm over the next 24 months

The good commercial results obtained in 2019 resulted in the highest level of new contracts registered since 2011, thanks to the successful commercial strategy based on the selection of opportunities that meet the requirements established by the company. They seek to enhance profitability, protect cash flow and maintain the utmost contractual certainty.

1.5. Creating value for the shareholder

2019 was a positive year in general terms for the main international stock markets, with the North American stock markets registering historical maximums and the European ones recording significant growth. However, the growth of the world economy slowed down throughout the year, resulting in repeated downward revisions to GDP forecasts with closing expectations of less than 3% by governmental and international organisations. The Federal Reserve cut interest rates on several occasions to 1.75% and the ECB kept rates at 0%, while reactivating the purchase of debt in the secondary market. On the one hand, that narrowed the room for manoeuvre in terms of future monetary policy to encourage spending and investment, and on the other hand, it continued to provide liquidity with expectations of reduced rates for the duration of 2020.

For its part, Spain stood out from the European country average in 2019, by registering expected growth of more than 2%; lower unemployment rates and the highest number of people enrolled for Social Security purposes for more than a decade; stable internal consumption; and, lastly, the solid performance of tourism, one of the country's main economic engines.

Talgo's share price performed positively during the course of the year, reaching its minimum in August at 4.56 euros and its maximum in November at 6.31 euros. It closed the year at 6.09 euros, up by 13.6%. This evolution was backed by the company's commercial success, as it recorded an order book volume close to all-time highs.

The average daily trading volume of Talgo's shares increased by 20% during the year to 270,074 shares, proof of the better performance of the Ibex-35 (-3.1%) and of Spanish companies with a similar market capitalisation (-17.4% of the Ibex Medium Cap).

The evolution of Talgo's share price during 2019 was positive. It closed the year at 6.09 euros per share, which represented an appreciation of 13.6% during the period.

Notable shareholder movements

In March 2019, MCH completed an accelerated placement of its entire stake (9.0%), whereby exiting the company's share capital, whilst Jose María Muñoz Domínguez, Partner and Director General of MCH, left his position as the CEO of that company. In accordance with the communications issued by the fund itself, the exit was the result of the fund's temporary limitations over its investments, after being significant shareholders for 13 years.

On the other hand, Talgo completed the acquisition of own shares representing 7.6% of its share capital during 2019. Those acquisitions correspond to the mandate from the Board of Directors to execute the Share Buy-Back Program.

Graph to show the evolution of Talgo's share price compared to relevant indices

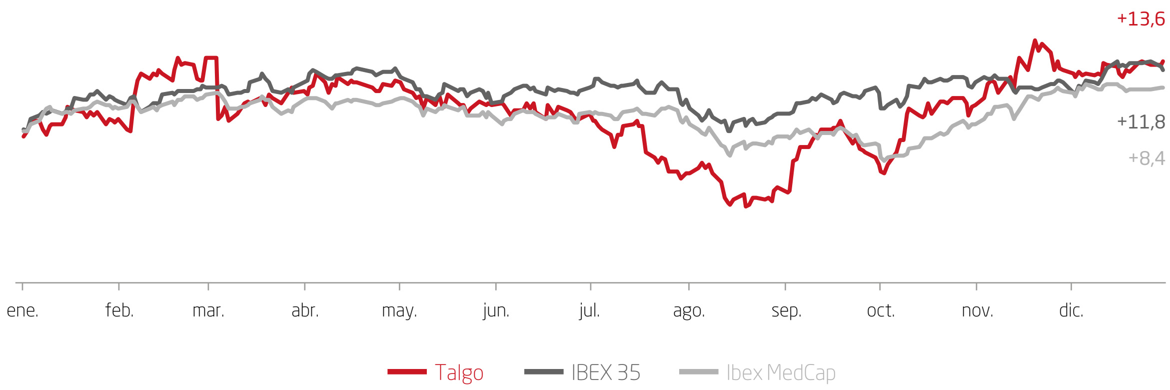


Table of stock market data

	2018	2019
Number of shares as at 31/12	136.562.598	136.562.598
Share price as at 31/12 (euros)	5,36	6,09
Maximum share price during the year	5,73	6,31
Minimum share price during the year	4,07	4,56
Weighted average share price	4,86	5,54
Market capitalisation as at 31/12 (millions of euros)	732,0	831,7
Average daily trading volume	225.242	270.074
Earnings per share (euros) last 12 months (LTM)	0,13	0,30
PER over net profit last 12 months (LTM)*	20,6x	21,6x

* Calculated over the average number of shares excluding treasury stock.

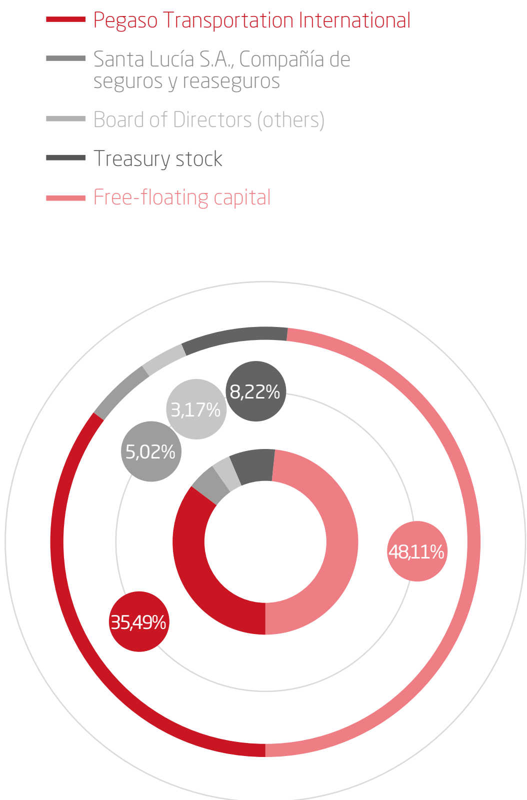
Shareholder structure

Talgo's main shareholder is Pegaso Transportation International SCA, the investment vehicle controlled by Trilantic Europe, with 35.49% of the share capital. The second largest shareholder is the insurance company headquartered in Spain, Santa Lucía Compañía de Seguros, with a 5.01% stake and no representation on the Board of Directors.

For its part, the founding family maintain a stake of approximately 10.4%. The relationship between the founding family and Pegaso Transportation International SCA is established through a Shareholders' Agreement, which regulates those aspects relating to the company's management bodies and the transfer and sale of shares. The validity of that agreement shall be maintained for as long as Pegaso Transportation International SCA holds a significant stake in the company (of more than 3%).

At the end of 2019, the company held 8.2% of the share capital in treasury stock, under the scope of the Share Buy-Back Program approved in November 2018.

Shareholder structure at December 2019



As at December 2019, the free-floating capital amounted to 48%, of which 20% corresponded to international institutional investors.

Dividend policy

In November 2018, Talgo's Board of Directors agreed to implement an own-share Buy-Back Program up to a maximum amount of 100 million euros or 22.5 million shares, representing 16% of the share capital, all under the scope of the resolution approved by Talgo's Ordinary General Shareholders' Meeting, held on 10 May of the same year.

The Buy-Back Program pursues the purpose of reducing Talgo's share capital through the redemption of own shares acquired. In this way, an increase in earnings by share is generated and, therefore, the intrinsic value of the stake held by each shareholder rises.

At the end of 2019, the Company had acquired 11.2 million shares, representing 8.2% of the share capital. It is estimated that, during the first half of 2020, once 9.5% of the share capital has been achieved, the first redemption will be performed

Relationship with shareholders and investors

Talgo places at the disposal of the shareholders an information channel with information relating to the performance of the shares, public financial-operating information, and information aimed at enabling a better understanding of the company, its business and strategy. In addition, information about the communication of relevant events is included, as well as about corporate governance and the General Shareholders' Meeting.

Information and contact details can be found on the website https://www.talgo.com/es/investors.

Talgo maintains on-going contact with Research analysts who actively cover the company and who periodically issue independent reports with financial estimates and forecasts about the business. As of December 2019, a total of 12 Research analysis from banks and independent houses were in contact with the company and issuing independent reports on a recurring basis.

The company's investor website contains the identity of those analysts who analyse the company on the most active and recurring basis, as well as the recommendations (73% recommended to buy at year end) and estimates (consensus) about the expected performance of the company over a period of one or two years.

1.6. Our dedicated team

Through its human resources management model, Talgo fosters staff loyalty, generating stable and long-term relationships based on trust, commitment, involvement and the know-how of all of the professionals who make up the company. Talgo is clearly committed to job stability as a means for improving the productivity of its professionals, and regards it as an essential mechanism for increasing their motivation and satisfaction. Proof of this commitment is that, during 2019, the hiring rates for permanent positions reached 93.77% with respect to the group's total workforce.

Commitment to equality

Talgo has an Equality Plan, an effective instrument that guarantees equal opportunities and non-discrimination in the workforce, for the benefit of the work environment, the optimisation of capabilities and the potential of all employees, as well as to improve quality of life and productivity. The practice of equality, non-discrimination and respect for the diversity of all people is reflected in all of the company's people processes, throughout the journey of each individual.

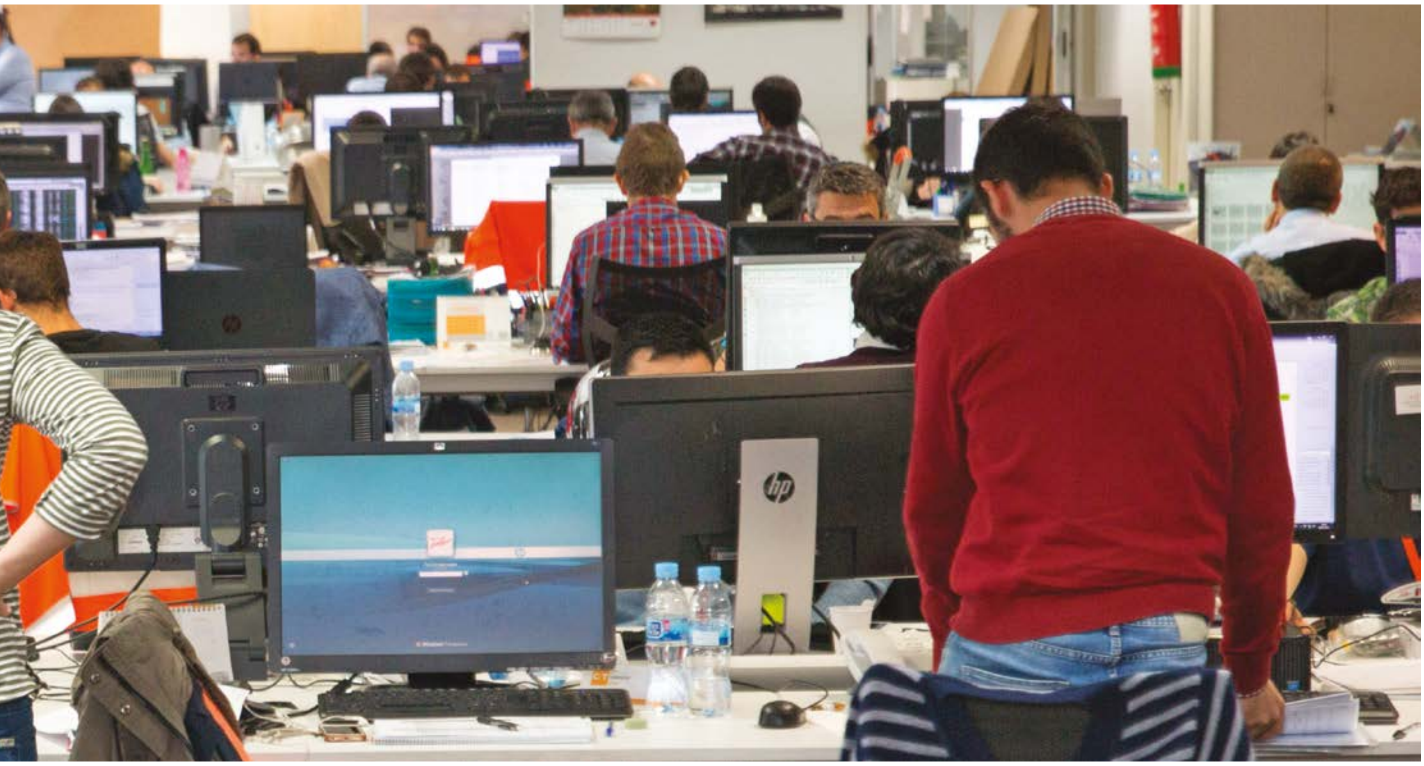
Talgo implements measures that allow for a greater gender balance and equality in the different positions and departments. To achieve this, it analyses the starting situations of women and men and takes into account that, in the face of equal conditions and competencies, the person from the least represented sex is selected.

The company has a process that allows for the presentation of candidacies for the positions offered from any place of work. 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 Commission that periodically monitors the actions implemented.

Professional classification	Female	Male	Total
Senior Management	3	11	14
Management	4	37	41
Middle management	34	241	275
Technicians, administrative staff and others	289	1.978	2.267
Total	**330**	**2.267**	**2.597**

*For complete data about the workforce, refer to pages 20 to 26 of the Consolidated Directors' Report 2019.

Furthermore, since 2019, Talgo has operated a Female Talent Development Program that aims to educate, train and accompany professional women from Talgo's field of engineering as they take on positions of greater responsibility within the company. Another initiative relating to gender equality was also launched during the year: the Talgo Award for the Professional Excellence of Women in Engineering, which celebrated its First Edition in 2019. It aims to give visibility to female engineers with exceptional professional backgrounds in Spain. This award also aims to inspire women of future generations to train in technical careers.



At the end of 2019, Talgo employed 18 people with a disability greater than 33%, who are represented in each one of the professional categories; five of them are women and 13 are men. Talgo was also awarded 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 job placement and reintegration activities for groups of people with disabilities.

Compensation and social benefits

Fixed remuneration recognises the knowledge, experience, environment, responsibility for people, degree of autonomy with respect to decisions, variety and difficulty of the problems faced by the people performing each role, as well as the impact and customer service required, ensuring conditions of equality and non-discrimination for all of the people who carry them out.

Salary supplements gratify the satisfactory resolution of commissioned works that require special attention and dedication, due to their difficulty and complexity. Likewise, Talgo operates a non-consolidated variable remuneration system for objectives, based on the achievement of strategic, centre-based, departmental and individual results.

In terms of the social benefits offered to employees, they include private health insurance, a defined contribution pension plan and group life insurance covering death, absolute permanent disability and total permanent disability declared by administrative resolution of the corresponding agency.

The gender pay gap at the end of 2019, calculated as the difference between the hourly earnings of male and female wage earners amounted to -13.11%, meaning that, on average, women earn around 13.11% more than men.

Work-life balance

Talgo is flexible with the organisation of work, aware that employees are more productive when their personal and family needs are met.

One of the key measures for achieving this objective is the continuous workday in the manufacturing and maintenance activities. On the other hand, for the staff who work split shifts, a dining room service is provided, and a subsidy is offered so that they can buy food. In those centres where no dining room service exists, financial aid equivalent to the amount of the aforementioned subsidy is offered.

Talgo respects the rest and vacation time of all of its employees, as well as their personal and family privacy when they are not at work. In this sense, improvements in the psychological and social well-being of workers are guaranteed, thereby contributing to a work model in which people are able to feel more productive, creative and committed to their tasks.

The Collective Agreement or trade union agreements in each country govern the working conditions of Talgo's employees. The organisation of the working day is carried out using monthly charts and annual calendars in each workplace. In terms of vacations, they are established in a similar way; set out on an annual calendar based on the number of hours in the working day or the number of hours worked each day so that each employee knows how much holiday they can enjoy.

As for the maintenance centres, four vacation shifts are established, with the expansion of the number of shifts being agreed in some departments by the work council of the affected centre.

When employees achieve a healthy balance between work, personal and family life, it is beneficial for society as a whole. It is for that reason that Talgo implements measures that favour such a balance, whereby ensuring the vital and integral development of its people.

Risk prevention and safety

The integration of Occupational Risk Prevention is a fundamental pillar for Talgo at all levels of the organisation, which manifests itself in the firm commitment to provide all the necessary resources to achieve the priority objective of not registering a single accident. Talgo has assigned prevention technicians in all its work centres, who are integrated into the day to day activity, to advise and provide the necessary support for carrying out the various tasks safely.

The group has a Prevention Plan, signed by the CEO, which includes the roles and responsibilities, from a preventive point of view, at all levels of the company, from the Executive Chairman through every levels of the organisation. The document also details the functions of the existing consultation and participation bodies, such as the Health and Safety Committee and the Prevention Representatives.

As for the Health and Safety Committees, one is constituted for every centre. They are bodies of equal composition, in other words, they comprise the same number of members from the company as of workers' representatives. These Committees hold periodic meetings, every three months, and provide a forum for worker representation and participation. A communication system for weaknesses, suggestions and improvements is also implemented through the intranet, from a preventive point of view. These communications are received directly by the Head of the Prevention Service.

Talgo España's rate of absenteeism, considering illness and accident, amounted to 2.35% in 2019. As one of the measures aimed at facilitating the enjoyment of a work-life balance and promoting co-responsibility between parents, 119 employees enjoyed paternity leave during the year.

Social dialogue

The Company Committees represent the employees in the work centres, who are informed by Management about the evolution of the business and the manufacturing situation, the work organisation systems, recruitment and other matters. They also carry out surveillance work on different topics, such as employment law and social security standards or occupational health conditions, amongst others.

The percentage of Talgo's workforce with partial or total coverage by a collective agreement or similar collective agreement, depending on the country, was 99.92% as of 31 December 2019.

Talgo respects the right of its staff to unionise freely, and as such, accepts that employees affiliated to a union may hold meetings, collect dues and distribute union information outside of working hours and without disturbing the activity of the company.

Training

The company maintains collaboration agreements with numerous universities, training centres and institutions that ensure access to internship programs for people with diverse abilities and skills, whilst also becoming a source of attraction for talent. The most high-profile entities with which agreements were maintained during 2019 include the Polytechnic University of Madrid, the Carlos III University of Madrid, the Pontifical University of Comillas, the Polytechnic University of Cataluña, the Berlin Chamber of Crafts, Aenor and Icex.

HOURS

86.635

Of training in 2019

HOURS OF TRAINING

35,91

Per employee on average

Talgo has a Comprehensive Training Plan, which is drawn up on an annual basis and which includes actions aimed at developing skills, competencies for the performance of projects, and technical, regulatory and occupational risk prevention knowledge, not to mention training in values and languages. During 2019, 86,635 hours of training were provided, with each employee receiving 35.91 hours of training on average. Of the total number of hours taught, the training dedicated to occupational risk prevention sessions, compliance training, the code of ethics, languages and project management and skills stand out. The other hours were devoted to the acquisition of knowledge and technical skills.

Hours of training in 2019 by category

Category	Nº hours of training	% training by category
Management	1.288,75	1,49%
Middle management	7.928,15	9,15%
Technicians	77.418,90	89,36%
Total	**86.635,80**	**100,00%**

Hours of training in 2019 by gender

Gender	Nº hours of training	% training by gender
Men	79.005,22	91,19%
Women	7.630,58	8,81%
Total	**86.635,80**	**100,00%**

Hours of training in 2019 by training type

Training type	Nº hours of training	% training by training type
Compliance	1.414,50	1,63%
Skills	2.285,00	2,64%
Languages	6.956,50	8,03%
Environment	337,00	0,39%
Occupational Risk Prevention	13.099,51	15,12%
Projects	906,00	1,05%
Technical	51.563,56	59,52%
Other	10.073,76	11,63%
Total	**86.635,83**	**100,00%**

1.7. Environmental improvements

Talgo strives to reduce greenhouse gas emissions, calculating the carbon footprint and setting emission reduction targets for certain centres.

The objective of Talgo's environmental policy is to maintain respect for the environment in the development of its current and future projects, promoting continuous improvement and risk mitigation.

To this end, the company employs managers who carry out waste management and engages laboratories that control atmospheric emissions and wastewater, as well as advisers who serve as guides when it comes to protecting the environment. Talgo conducts internal and external audits of its environmental management system, complying with the requirements of ISO 14001 and the internal organisational requirements.

Part of the budget of all of the centres is allocated to minimising the impact on the environment, taking into account the entire production process in concepts such as waste management, updates to environmental legislation, the performance of external audits, the maintenance of treatment plants, the analysis of residual waters, improvements to processes with an environmental impact for the prevention of contamination and the training and sensitisation of the agents involved.

Talgo has environmental liability insurance to ensure compliance with Law 26/2007, through which professionals are obliged to adopt and execute measures to prevent, avoid and repair environmental damage, as well as to bear its costs. At year-end 2019, no risks have materialised.

During 2019, the main initiatives carried out by the company in the environmental field were:

- Measures to reduce air pollution and decrease the impact on the environment, such as minimising aerosol paint, amongst others, and replacing products with those that have a lower percentage of Volatile Organic Compounds.
- Actions to optimise the group's energy consumption, including the gradual replacement of lighting fixtures and changes to lighting systems in the various factories. In the centre where the measure has already been implemented, the actions have contributed to 17% less energy being consumed in 2019 compared to 2018. During 2020, this project is expected to be rolled out to the other facilities.
- Performance of the tasks set by the Eco-design working group to obtain an EPD (Environmental Product Declaration), resulting from the analysis of a train's life cycle, and with the aim of optimising the energy consumption, recyclability and recoverability of the products offered by the company.
- Environmental awareness campaigns internally and externally, to extend this commitment to all those interested in working with Talgo, making them essential requirements for performing work and contracting with third parties

Indicator	Measurement target	2018	2019
Direct GHG emissions (scope 1) resulting from the consumption of fuels (natural gas and diesel) (*).	Monitor and measure GHG emissions from fuel consumption.	2.226,26 Ton CO2eq	2.040,64 Ton CO2eq
Indirect GHG emissions when generating energy resulting from electricity consumption (scope 2) (*).	Monitor and measure GHG emissions from electricity consumption.	0 Ton CO2eq	0 Ton CO2eq
Indirect GHG emissions (scope 3) (**).	Monitor and measure the GHG emissions resulting from workers travelling from home to work.	-	14,62 tCO2eq
Intensity of the GHG emissions (*).	Monitor and measure direct GHG emissions from scope 1 and 2 relative to the number of employees at year end.	1,79 tCO2eq/ employee	1,43 tCO2eq/ employee
Electrical energy consumed (*).	Measure the continuous improvement of the Environmental Management System by controlling the electrical energy consumed.	9.116 thousand kWh	9.059 thousand kWh
Fuel (diesel used for vehicles) (*).	Measure the continuous improvement of the Environmental Management System by controlling the diesel consumption.	10.209 litres	4.168 litres
Fuel (diesel used for testing) (*).	Measure the continuous improvement of the Environmental Management System by controlling the diesel consumption.	187.048 litres	38.625 litres
Fuel (diesel used for boilers) (*).	Measure the continuous improvement of the Environmental Management System by controlling the diesel consumption.	199.759 litres	243.087 litres

Indicator	Measurement target	2018	2019
Natural Gas consumed based on lower calorific value (PCI) (*).	Measure the continuous improvement of the Environmental Management System by controlling the natural gas consumption.	5.696 thousand kWh	6.092 thousand kWh
Environmental accident index.	Control the number of accidents occurring during the year that require the intervention of the emergency services.	0	0
Corrective and preventive actions implemented.	Determine the percentage of corrective and preventive actions implemented.	100%	100%
Costs resulting from the management of expired products.	Quantify the expense incurred due to the management of expired products.	63.943 €	44.965 €
Deviations in internal and external audits closed after the deadline.	Quantify the continuous improvement of the system through this control.	0	0
Hazardous waste generated.	Improve the amount of hazardous waste generated during the year.	186 ton	217 ton
Non-hazardous waste generated.	Measure the amount of non-hazardous waste generated during the year.	1.688,77 ton	1.834,21 ton
Consumption of solvents and paints.	Measure the amount of volatile organic compounds consumed during the year.	9.748,80 kg	11.724,18 kg
Energy intensity (*).	Measure the continuous improvement of the Environmental Management System by controlling the energy consumed relative to the number of employees at year end.	15.431 kWh/employee	12.871 kWh/employee

(*) Data calculated for the following centres of Talgo España: Las Matas I, Las Matas II, Rivabellosa and San Andrés. The other information included in this table refers to all of Talgo España's centres.

(**)Data calculated for all of Talgo España's centres. These data have been calculated based on a survey of employees' journeys, and extrapolating the results, whereby obtaining the emissions associated with these journeys for the entire workforce in Spain. The 2019 version of the GHG Protocol "Corporate Value Chain (Scope 3) Accounting and Reporting Standard" methodology has been followed. The emission factors come from the emissions data for Spain of the IPCC Guidelines for national inventories of greenhouse gases from the greenhouse effect of 2006, in its latest version.

1.8. Sustainable supply chain

Talgo has a Procurement Policy in which the purchasing guidelines, processes and procedures of all the subsidiaries appear, and a Code of Ethics that contains the rules of conduct for all professionals and suppliers.

In accordance with this policy, the company may terminate any type of contract and purchase obligation with those suppliers that do not comply with the regulations. With the use of the SAP ARIBA tool as a communication thread with suppliers, Talgo is committed to transparency and equal opportunities in its purchasing processes.

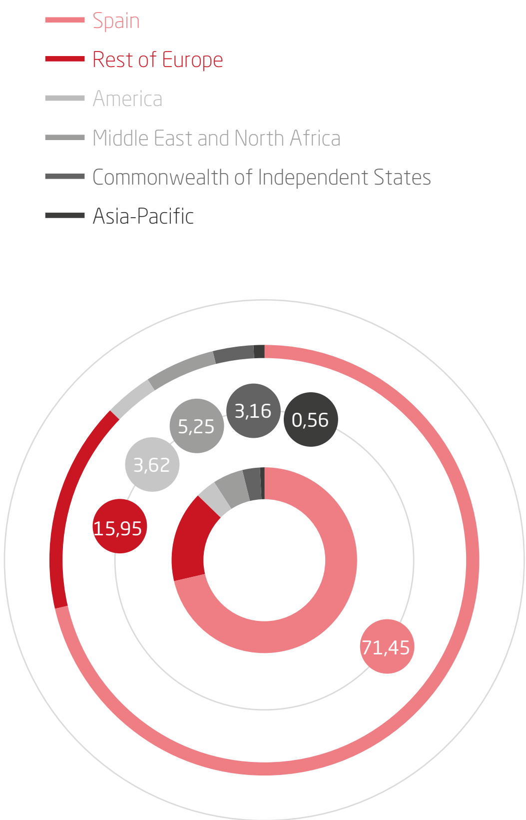
At the end of the financial year 2019, commercial relationships were maintained through the purchasing area with 1,608 suppliers, of which 552 are considered critical suppliers for Talgo's activity. That is why they are subjected to specific approval and homologation processes, including documentary and physical audits.

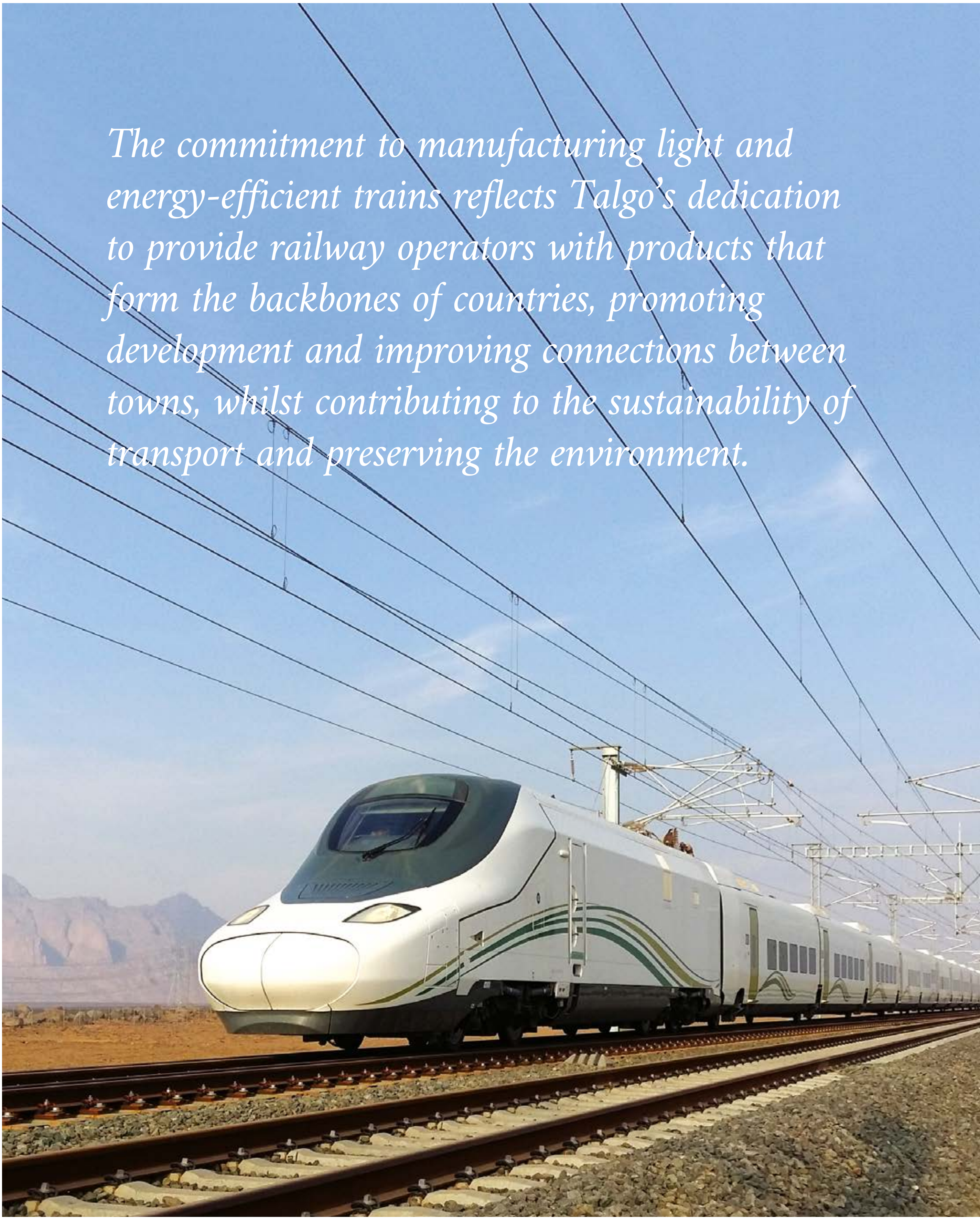
During the period, 18 new suppliers considered as highly critical for the group's activity were engaged, after being evaluated according to the corporate social responsibility criteria. These principles include environmental considerations, occupational risk prevention, respect for human rights, ethics, and good governance.

As a reflection of Talgo's concern for the sustainability of its supply chain, the company has an UNE 15896 certificate.

In Spain, the percentage of purchases from local suppliers accounts for 71.45% of the total.

Suppliers by origin according to purchase volume




The commitment to manufacturing light and energy-efficient trains reflects Talgo's dedication to provide railway operators with products that form the backbones of countries, promoting development and improving connections between towns, whilst contributing to the sustainability of transport and preserving the environment.

1.9. Social development

Since its launch, the Talgo Foundation has experienced significant growth. In 2019, it had 23 active projects in the fields of research, external and internal training, sociocultural integration, the fight against discrimination and Human Rights, amongst others.

This year, the performance of the following two projects stands out:

- The celebration of the "First Edition of the Talgo Award for the Professional Excellence of Women in Engineering".
- A series of meetings and conferences taught by Carlos Moya (National Sociology Award 2010) about historical issues and current domestic and international politics.

In 2019, Talgo sponsored the COP25 Climate Summit, which was held in Madrid between 2 and 13 December. It represented an opportunity to close ambitious and realistic agreements to decisively tackle the situation without compromising economic development in the face of the climate emergency.

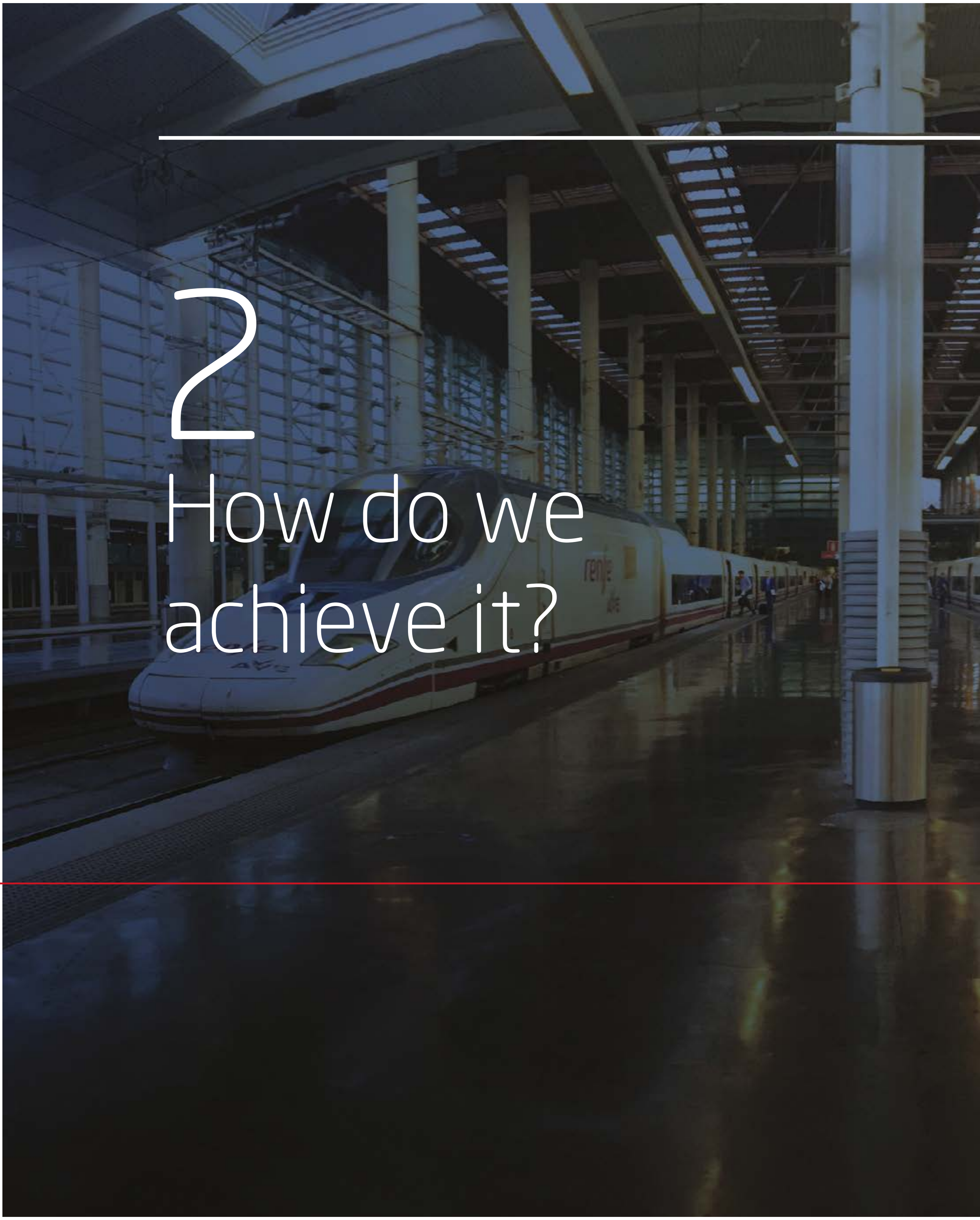
Likewise, the Talgo Foundation awarded "Opportunity and Talent" scholarships together with the Once Foundation to university students with disabilities. The program includes five modalities of transnational mobility, for master's students and postgraduates, doctorates, researchers, and study and sports scholarships. It also awarded a scholarship to study a master's in one of Talgo's engineering branches, with the aim subsequently hiring the student, provided that they complete the master's degree and meet the established requirements. These scholarships are a means of attracting talent and represent an integration opportunity for people with disabilities, both in the social and work environment.

In terms of the different social projects, the agreement signed with the Albéniz Foundation also stands out. It awarded a scholarship to continue training for a year at the Reina Sofía School of Music in Madrid, with the aim of supporting academic and artistic training and the integration of musical culture.

The Foundation also collaborated in the XVIII Talgo Prize for Technological Innovation, the IV Talgo Foundation - CSIC Prize for Welding in Vocational Training and the Spanish Orders Prize, awarded by the Lux Hispaniarum Foundation of the Royal Council of the Spanish Military Orders from Santiago, Calatrava, Alcántara and Montesa.

Talgo also belongs to the UNIFE "Life Cycle Assessment" working group, which aims to exchange and define common positions on sustainability issues. In addition, it collaborates with the following associations: MAFEX, the Royal Academy of Engineering, the Railway Innovation, the Australian Railway, the Spanish Network of the Global Compact, the Rail Group, the Cotec Foundation, Knowledge and Creativity, the Association of Renowned Brands and the Association for Innovation.

In terms of Talgo's social action principles, the use of trains as a sustainable and efficient method of transport has been defended since its foundation.



2
How do we achieve it?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AVE
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2.1. Profile, identity and commitments

Mission

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

Vision

To be a supplier of products and services capable of implementing comprehensive, efficient and innovative solutions in different business segments, with a presence in the main international markets.

Values

Technological innovation

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

Customer service

We strive to provide our clients with innovative, high-quality products and services that meet their needs and expectations. We seek to establish long-lasting, cooperative relationships with our clients to help their businesses succeed. We view our clients' objectives as our own, and we look after their needs immediately and efficiently.

Identity and commitment

We are proud to belong to a world-class company such as Talgo. We share in its contributions and achievements, to which we all lend our dedication and personal commitment.

Professional development

We continually encourage our employees' professional development and dedication to perfection, ensuring ongoing improvement and a job well done.

Integrity

We envision our economic, social and environmental objectives as a whole, reconciling the company's goals with the needs of society and the family. We operate in accordance with our commitment to society by executing our business activities with complete integrity. Our employees adhere to high standards of ethics and loyal conduct that promote mutual trust and personal esteem.

Staff health and safety

We take care of the health and well-being of our employees by making safety, prevention and occupational health an integral part of the overall management of the company. Our commitment is focused on ensuring that all of our employees carry out their duties in safe conditions and a healthy work environment.


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2.2. Business model

Talgo's business is focused on the high and very-high-speed and long-distance segments, where the number of opportunities in accessible markets varies over time and is limited. However, the weighting of technical aspects in the assessment of tenders is greater and, therefore, Talgo, is able to stand out technologically and obtain attractive returns. As a result, Talgo has developed an asset-light business model based on limited investment in fixed assets, along with a high degree of flexibility and reliance on outsourcing to increase productivity and adapt to market needs and the changing character of its manufacturing order book.

Industrial flexibility

Talgo is characterised by its low capital-intensive business model (low investment in fixed assets and high degree of flexibility and outsourcing) and focuses its resources on the phases of design, engineering, and selective manufacturing of components with high added-value, such as those relating to product safety and longevity, and the assembly, testing process and delivery of the end product.

Efficient, streamlined structure: outsourcing

Talgo manufactures only those components that are essential to its business model and that are most suited to Talgo's capabilities and specialisations, which are focused on the welding of critical steel and aluminium structures and rolling elements. These processes, which are fundamental to Talgo, are carried out at the company's facilities by its highly qualified in-house personnel.

Talgo has a diversified supply base and optimises its production costs, giving it greater competitiveness. With only two factories of its own, it is able to increase productivity and the return on capital employed (ROCE). In this way, the company outsources approximately 70% of its supply chain to specialists in each industrial area, thus achieving increased flexibility to adapt to market conditions and project requirements.

Continuous learning

Talgo is committed to a continuous mode of learning, in which each project is unique and exclusive. To this end, through its maintenance operations, Talgo is continually developing pioneering processes for managing its engineering operations and the services it delivers. The optimisation of processes and methods for maintenance and repair, as well as facility management, careful after-sales services and experience in equipment renewal have placed Talgo at the forefront of this business sector, giving it a clear competitive advantage.

Through this strategy, the company's engineers receive all the required data (feedback) to improve upon component technology and design, so that they can continuously incorporate these advances into every train, in both the maintenance and manufacturing phases.

Maintenance strategy

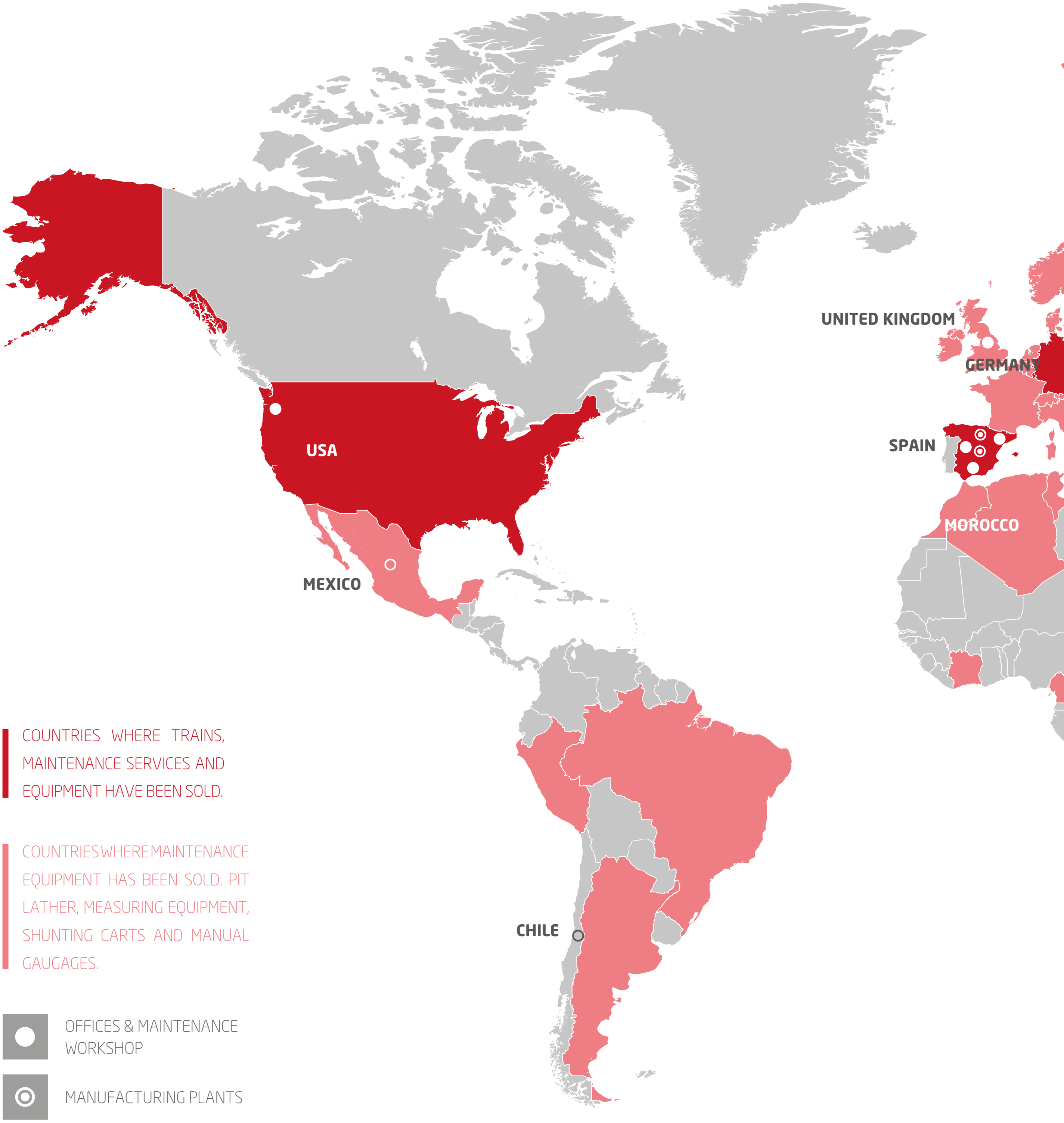
Commercial selectivity

Talgo's business strategy is based on the careful selection of the potential projects in which it gets involved, through an exhaustive analysis based on three pillars: attractive margins, a contractual scope that provides the necessary guarantees and a reasonable cash flow in line with the project's risk profile, establishing conservative project financing limits, where appropriate. In this way, it not only makes its own efforts profitable, but also provides added value by taking on projects where Talgo's strengths give it a distinct advantage over other competitors and ensures an attractive return on the capacity and resources employed.

Investment in a committed and motivated workforce

Talgo is committed to cultivating talent and promoting training as a means of improving productivity, adding value to both individual employees and the company, thus generating a competitive advantage in the marketplace. To this end, the company works to attract and retain the best professionals for all of the job opportunities that the company offers and requires, and therefore continually strives for a motivated, responsible workforce that is committed to Talgo's values.

PROYECCIÓN INTERNACIONAL



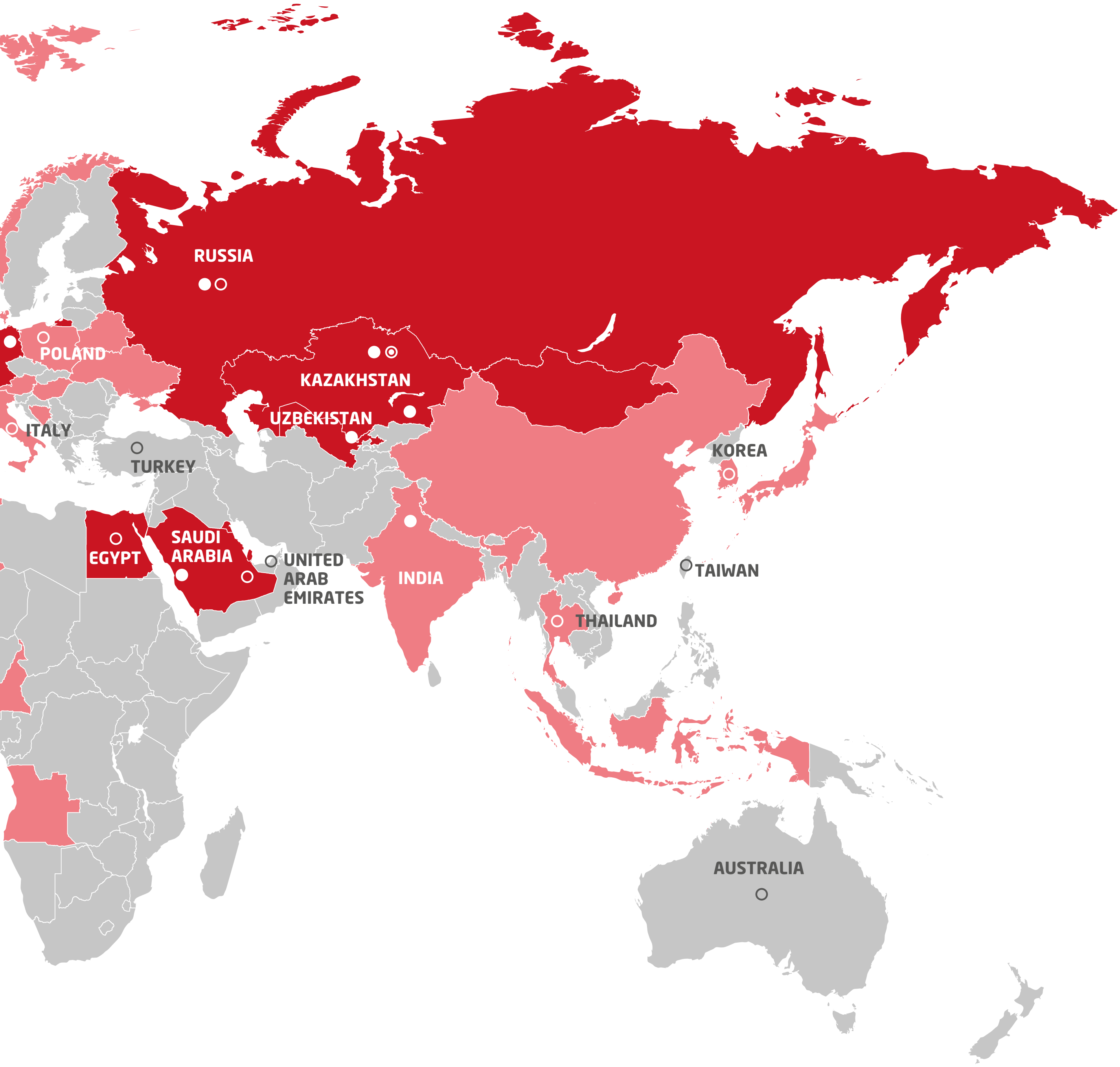
COUNTRIES WHERE TRAINS, MAINTENANCE SERVICES AND EQUIPMENT HAVE BEEN SOLD.

COUNTRIES WHERE MAINTENANCE EQUIPMENT HAS BEEN SOLD: PIT LATHER, MEASURING EQUIPMENT, SHUNTING CARTS AND MANUAL GAUGAGES.

OFFICES & MAINTENANCE WORKSHOP

MANUFACTURING PLANTS

COMMERCIAL AGENTS / OFFICES


RUSSIA
POLAND
KAZAKHSTAN
UZBEKISTAN
ITALY
TURKEY
KOREA
EGYPT
SAUDI ARABIA
UNITED ARAB EMIRATES
INDIA
TAIWAN
THAILAND
AUSTRALIA

2.3. Products and proprietary technologies

Talgo has a broad portfolio of products that can be adapted and tailored to its clients' needs. It focuses on the medium- and long-distance segments with high- and very-high-speed trains, the latest-generation passenger coaches and regional and suburban trains to continue to boost its growth in the sector. Since its foundation in 1942 to date, Talgo has continually serviced practically all of the rolling stock that it has manufactured, with more than 2,800 locomotives and coaches under maintenance.

Very-high speed (faster than 250 km/h)

Talgo is a world-renowned player in the very-high-speed (VHS) segment. Trains designed to travel at speeds in excess of 300 kilometres per hour require a set of technologies and skills that only a few manufacturers around the globe can provide. Innovation aimed at maximising capacity and minimising operating costs ahead of competitors and nearly two decades of proven reliability in servicing are the main qualities of Talgo's products for the operators of the world's most advanced high-speed networks.

High-speed (up to 250 km/h)

Like in the Very-High Speed segment, Talgo is developing trains capable of travelling at a commercial speed of 250 km/h. The Talgo 250 is designed to reach 250 km/h in commercial service, proving to be the most reliable and cost-effective option for those operators looking for equipment designed for an accelerated rotation on both high-speed networks and conventional lines with different track gauges. They can be equipped with hybrid systems to operate on non-electrified lines, making them the most versatile solution on the market.

Inter-city

Talgo is the market leader in Spain and a prominent international player in the manufacture of complete train sets for long-distance services on conventional infrastructure. Its wide range of fully accessible towed coaches has been certified to operate in various destinations on the American continent, in Europe, in member countries of the Commonwealth of Independent States and in Asia. Due to its characteristics, it permits minimal operational and maintenance costs thanks to, amongst other things, the material's lower weight, and it is also wholly adaptable, with proprietary technological solutions such as natural tilting and the use of Talgo wheelsets to replace the standard bogies commonly used in the market.

Regional and Suburban

Talgo's response to one of the fastest-growing segments in the international market is an entirely new product line for high-frequency local and regional services in urban environments. The excellent power-to-weight ratio of its Vittal electric unit improves acceleration and braking coefficients. At the same time, its unbeatable accessibility helps cut the time spent on loading and unloading operations at each station.

Other services

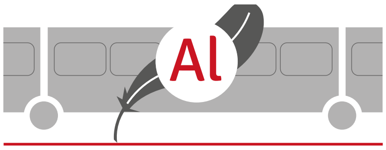
In addition to carrying out comprehensive maintenance on almost all of the products it manufactures throughout their commercial life, Talgo performs maintenance on rolling stock designed by other manufacturers. Working at client maintenance centres, Talgo offers the most highly qualified professionals, specialised in comprehensive maintenance.

Talgo currently performs maintenance on more than 2,800 vehicles worldwide with an average annual mileage of 950 million kilometres.

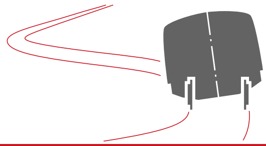
Standout proprietary technology

Talgo is a leading engineering company whose rolling stock is technologically distinctive and provides significant operational advantages for railway operators. Talgo's technologies provide efficiencies in energy consumption and maintenance costs for trains and infrastructure, whilst at the same time, improving accessibility and reducing journey times.

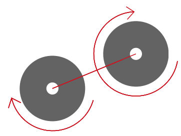
From the passenger's point of view, Talgo's technology provides a greater travel comfort, platform level access to the train and an increased number of entry points.



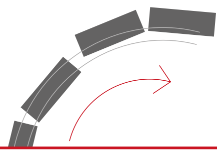
LIGHTWEIGHT ALUMINIUM CONSTRUCTION



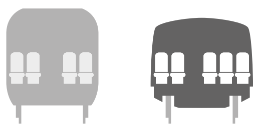
NATURAL TILTING



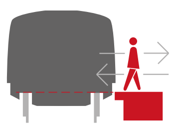
MONO-AXLE ARTICULATIONS AND WHEELSETS



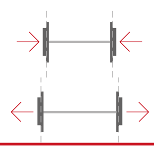
SHORTER CARS TO BETTER SUIT THE HEADROOM PROFILES



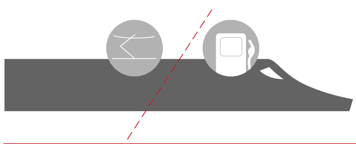
WIDE-BODIED CARS OFFERING INCREASED CAPACITY ON A SINGLE FLOOR



PLATFORM LEVEL ACCESS



AUTOMATIC VARIABLE GAUGE SYSTEM AND INDEPENDENT GUIDED WHEELSETS



HYBRID TRACTION TECHNOLOGY

2.4. Innovation

Innovation is a fundamental pillar on which the company's present and future is based, focusing not only on our products but also on initiatives involving the entire innovation ecosystem that encompasses Talgo.

Talgo has gained international recognition through the constant research and development of new products, competing with other railway equipment manufacturers worldwide.

Innovation helps the company weave a system that enables it to meet future challenges, keeps us on the cutting edge technologically, with an ever-watchful eye towards new possibilities, and creates an optimal environment for both evolutionary and disruptive thinking.

With this in mind, we work with a model based on the Corporate Strategy of Innovation, which promotes a focus on continuous improvement, encouraging new initiatives at a global level year after year. An example of this would be the new area of innovation acceleration, whose objective is the execution of very agile innovation projects that allow, through small developments or direct testing of new technologies, the company to obtain results very close to the market in very short times. To this end, amongst other measures, Talgo launched its Corporate Venturing program in 2019, whereby creating a stable framework for detecting talent, attractive products and fostering collaboration with a range of firms on this type of project.

Talgo also continues to work on continuously improving its products and maintenance services. Talgo collaborates with a number of partners at the European level, including prestigious universities and technology centres, as well as some of the main railway industries, such as those involved in the Shift2Rail programme. That, in turn, is part of the European Commission's Horizon 2020 initiative, where Talgo is playing a significant role in some of the key projects underway, including lightening the primary structure, active rolling systems, energy efficiency and noise and vibration improvement.

In 2019, Talgo defined a Strategic Innovation Plan for 2019-2024, which provides a framework at the corporate level for technological developments and initiatives to enhance the innovation culture over the next five years.

Talgo invested approximately 10.8 million euros in R&D during 2019, of which 9.3 million euros corresponded to new products.

2.5. Strategy

Market environment

The railway sector is enjoying full growth, showing a clear upward trend, with significant investments by public and private institutions worldwide, due to a growing awareness that it is the most efficient and environmentally friendly means of passenger transport.

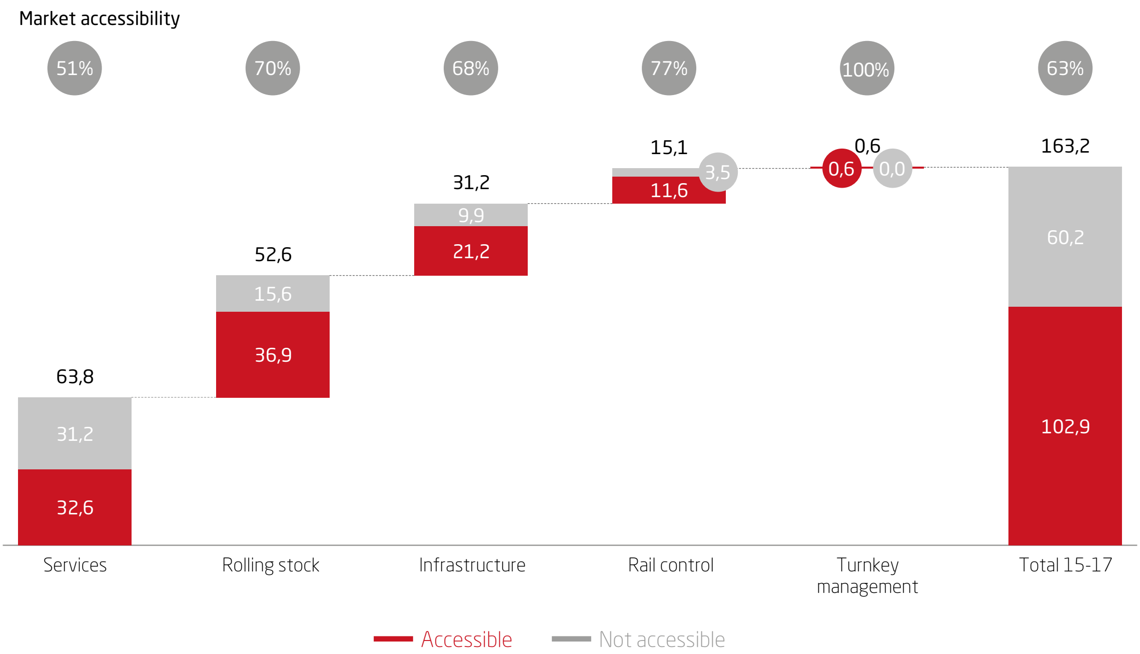
Despite some variations in the different regions of the world, the railway is a reliable and efficient means of transport, which has made constant progress in recent years and is expected to continue to do so in the future.

Urbanisation, population growth, globalisation and the challenges posed by the climate change crisis are some of the trends that have contributed to expanding the contours of the market and have positively impacted demand for railway solutions. The industry will also undergo a profound transformation due to changes in digitalisation, automation, artificial intelligence, electronic mobility, cyber-security, innovative financing models, standardisation and the liberalisation of rail traffic.

The railway supply market has grown by 1.2% over the last two years and is now worth 163.2 billion euros. In line with the market's overall growth, the volume of infrastructure in operation has increased by 10,600 kilometres in the high-speed sector.

This growth in the rail supply industry will enable a prolonged sustainable improvement in mobility in both developed and developing countries. Furthermore, rail will undergo consolidation as the backbone of an intermodal transport system where urbanisation goes hand in hand with sustainable development objectives.

Growth in the railway market's total annual volume



Source: Unife World Rail Market Study 2018-2023

Strategic objectives

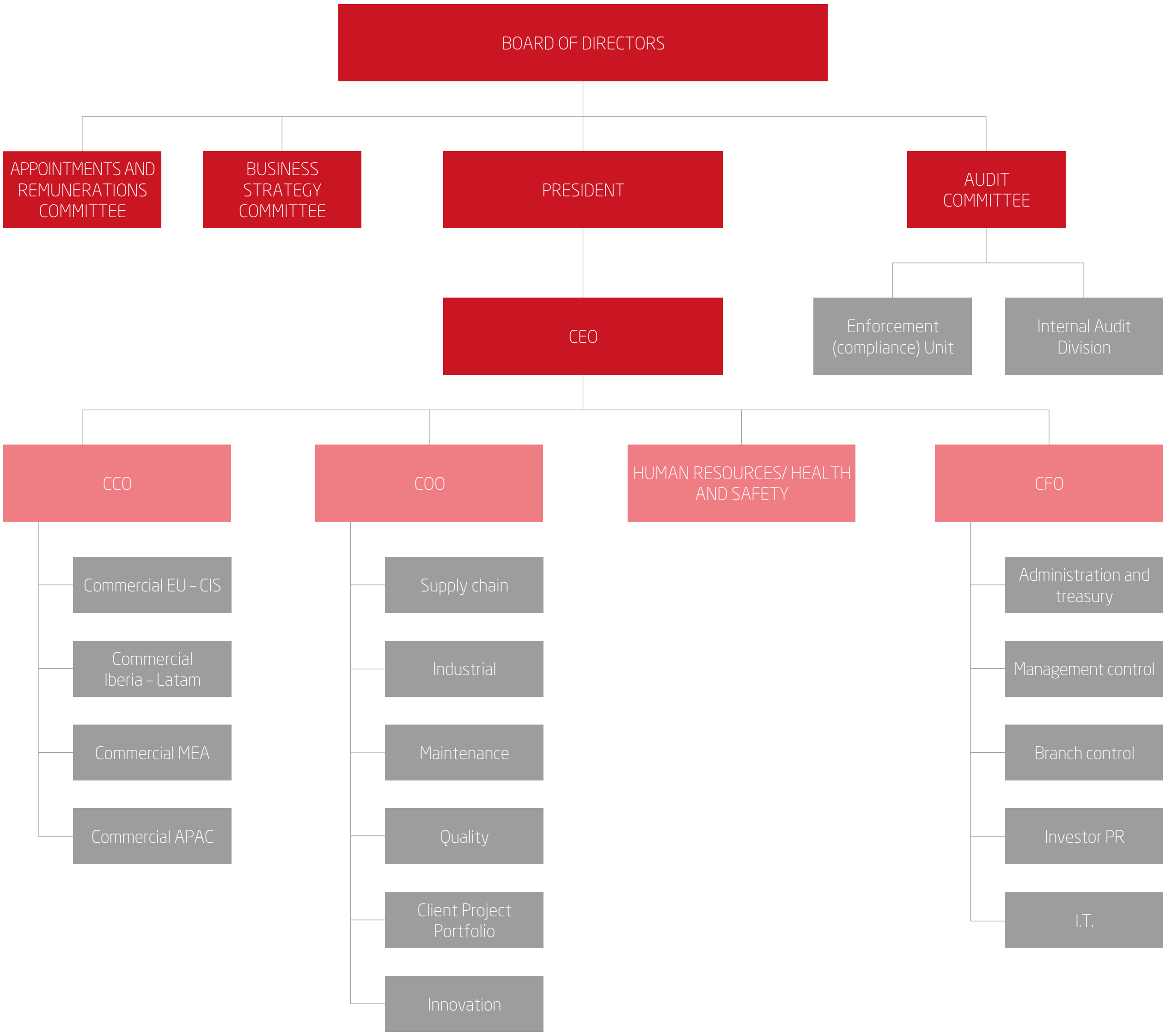
The successful implementation of Talgo's strategy in recent years has enabled it to achieve attractive margins in its various business lines, as well as to continue to research and develop new markets and progressively increase its business volume in the international area, increasing its relative weight with respect to the domestic market. The key to this strategy has been focusing the business on competitive, value-added products and services adapted to the needs of its clients.

	Results – 2019	Outlook – 2020
Business performance	• Revenues increased by 4% in 2019. Good performance of all projects. In maintenance, the excellent performance of the trains in the first year of the Saudi Arabia project stands out. • Order intake worth €1.31 billion in 2018-2019.	Revenues from the order book are expected to grow significantly in 2020-2021. Constant and selective business activity.
Profitability	EBITDA margin of 18% in 2019 reflecting excellent Project execution.	Adjusted EBITDA of approx. 16.5% for 2020.
Cash Flow and Capital Structure	Stable WC in the period, with positive FCF generation. However, the final net cash flow was lower due to the decision to finance the beginning of the project in Germany with equity and the transfer of expected collections in Saudi Arabia to the first quarter, collected at the end of 2019. Capex of 18 million euros in the period.	Significant increase in manufacturing activity. Implementation of the most efficient structure, optimising the use of cash flow. There is high potential for the optimisation of cash flows due to the favourable financing structures available in some projects. Increased Capex: approx. 40 million euros by 2020, where 11 million euros corresponds to an increase in capacity and 9 million euros to new I.T. developments with future returns in terms of cost efficiency.
Shareholder Remuneration	Successful execution of the programme, 63% finalised by the end of 2019.	Strong commitment to shareholders. Continuity in the execution of the Share Buy-back Program, with expected completion in 2020. First redemption scheduled for the first quarter of 2020.

3. What is our management philosophy?

3.1. Corporate governance structure

Organisation chart



General Shareholders' Meeting

Talgo's General Shareholders' Meeting is the forum at which all the summoned shareholders meet to deliberate and decide upon matters within their competence and to be informed about other issues deemed appropriate by the Board of Directors. The Regulations state that all shareholders holding a minimum of one share, individually or in a group with other shareholders, may attend the General Meeting at the rate of one vote per share.

The last Ordinary General Meeting, held on 21 May 2019, was attended by 277 shareholders, holding a total of 83,088,463 shares, corresponding to 60.843% of the share capital, with the result that the quorum of attendance exceeded the required 50% of the subscribed share capital with voting rights pursuant to Article 194 of the Capital Companies Act, to which Article 18 of the Articles of Association refers for the valid constitution of the Meeting on the first call.

The most significant resolutions passed at the last General Meeting wer:

- A reduction in the share capital by a maximum nominal amount of 3,905,007.25 euros, through the redemption of a maximum of 12,973,446 treasury shares, each with a nominal value of 0.301 euros, representing a maximum of 9.50% of Talgo's current share capital.
- The approval of the Long-Term Incentive Plan for the Group's executive directors and managers as prepared by the consulting firm Mercer. The plan is based on the fulfilment of strategic objectives and a certain level of appreciation in the share value, which will be settled in shares or cash when the established deadline is met.
- The reappointment and ratification of up to ten directors in their various capacities, following favourable reports by the Remuneration and Appointments Committee, for the statutory period of four years.

Board of Directors

The Board of Directors is Talgo's highest governing and representative body, configured as a supervisory and control body. It is made up of a minimum of ten and a maximum of fifteen members, who are appointed and ratified by the General Shareholders' Meeting, in accordance with the Articles of Association and the Regulations governing the Board of Directors. At the end of 2019, the Board of Directors was made up of 13 members.

The composition of the Board of Directors reflects Talgo's commitment to all of the Good Governance recommendations. We highlight the important presence of six independent directors and two external directors with extensive experience in the sector. In addition, there are two executive directors and three proprietary directors.

D. Carlos de Palacio - Executive Chairman

Executive Chairman of Talgo since his appointment in 2002. From 1998 to 2002, he was a board member representing his family branch and an institutional representative at the European level. He has professional experience in the area of Community law at the European Commission.

D. Jose María Oriol Fabra - Managing Director, Member of the Strategy Committee

Managing Director of Talgo since 2002, he has 32 years of experience in the railway industry. He joined Talgo in 1987 and since then has been involved in the Group in various capacities, including as Head of Purchasing, Finance Director and General Manager of various Talgo subsidiaries. Previously, he worked as a credit analyst at Citibank.

D. Francisco Javier Bañón Treviño - Member of the Appointments and Remuneration Committee (Proprietary)

One of the three founding partners of Trilantic Europe, he 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 Managing Director of DB Capital Partners and Bankers Trust Private Equity Group.

D. 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 a member of the Board of Merlin Properties and Openbank, S.A. In addition, Mr. Novela holds important positions at, amongst others, the Confederación de Empresarios de Madrid (CEIM), Reyal Urbis, S.A. and Dixi Media Digital, S.A.

D. 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 Management Committee and the Financial Operations and Standards Committee; he also used to be a member of its Audit Committee. In addition, he has served as a Board Member of other public and private companies, including Banco Árabe Español, Compañía Sevillana de Electricidad, ACS/Dragados, Eolia, Carboex and Talgo (from 2012 to 2013).

D. Ignacio Mataix Entero – Member of the Audit Committee (Independent)

General Director of Defence, Transport and Air Traffic at Indra. Previously, he was General Director of 'Industria de Turbo Propulsores' (ITP), and he was also President and a member of the Board of Directors of companies in the Group. Previously, Mr. Mataix Entero was Group General Director of Corporate Development at Sener Grupo de Ingeniería (SGI), where during that period, and subsequently, he was a director at Sener Grupo de Ingeniería and Sener Ingeniería de Sistemas.

D. Segundo Vallejo Abad (External)

He has 42 years of experience in high-level positions in the railway sector. He was Talgo's General Industrial Manager from 2003 to 2018, covering technical management, manufacturing management, maintenance management, project management, as well as client relations with Renfe and the trade unions.

D. Juan José Nárdiz Amurrio – Member of the Strategy Committee (Independent)

President of Martinrea Honsel, having previously served as Vice President of Operations at the same company. He has held high-level positions in companies such as the European Die Casting Association and Tafime S.A.. In the latter, he served in various roles including Engineer, Sales Manager, Expansion Manager and Managing Director.

D. Charles Pope – Member of the Appointments and Remuneration Committee (Independent)

President 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 the UAL Corporation until it was acquired by its employees in July 1994.

D. Ramón Hermosilla (External)

Founder and one of the managing 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 (now Albiñana & Suárez de Lezo). Additionally, he was President of the law firm Ramón Hermosilla & Gutiérrez de la Roza, S.L.P. until December 2014.

D. Albertus Meerstadt – Chairman of the Appointments and Remuneration Committee (Independent)

Managing partner of the agency CMR. Previously, he was Vice Chairman of the Supervisory Board of Lucas Bols and a member of the Supervisory Board of ABN AMRO. He was CEO of the Executive Board of NV Nederlandse Spoorwegen (Netherlands Railways), a leading train and station operator in the Netherlands. He joined the company in 2001 as Commercial Director.

D. Miguel Abelló Gamazo (Proprietary)

Graduate in Law from the Complutense University of Madrid, he holds a Master's degree in legal consultancy from the Instituto de Empresa and a postgraduate degree in International Business from the University of Berkeley, California. He began his career at Winston & Strawn LLP, later moving to the Torreal family holding company where he has been Vice President since 2018 and President since February 2020.

D. Javier Olascoaga (Proprietary)

Partner of Trilantic Europe, he previously worked for Goldman Sachs in London and was a member of Lehman Brothers Merchant Banking Europe from 2004 to 2007. He was a founding partner at Rasa Land Investors, a private equity fund focused on tourism investments in Mexico, where he worked from 2007 to 2013. He is currently a member of the Board of Directors at Pacha and Vertex Bioenergy.

The Regulations governing the Board of Directors regulate the duties and obligations of the directors, especially concerning potential situations of conflict of interest, which must be reported whenever they clash with the company's interest.

Talgo's Board of Directors currently has three committees. Their respective functions include:

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

Remuneration policy

Talgo has an attractive and competitive remuneration policy for its directors. The Appointments and Remuneration Committee designs it under criteria of transparency, clarity and simplicity that allow for easy comprehension. The Remuneration Policy consists of the fixed remuneration for independent directors. Executive directors do not receive any remuneration in their capacity as directors and the remuneration received within the scope of their activities as executives consists of fixed remuneration, salary supplements and variable remuneration based on financial and non-financial objectives, as well as personal objectives.

For further information, please refer to Talgo S.A.'s Annual Report on Directors' Remuneration for 2019.

3.2. Risk management

Talgo is exposed to various risks inherent in the countries in which it operates, which may prevent it from achieving its objectives. For this reason, a risk management model, approved and monitored by the Audit Committee, has been implemented and applied to all subsidiaries and permanent establishments in every country of operation. It is responsible for identifying, assessing and prioritising the main potential risks.

The Group actively manages these risks and considers that the controls designed and implemented are effective in mitigating their impact, should they materialise.

Talgo's risk management model aims to ensure that it achieves its main objectives. Below are the main risks that may affect the successful execution of its operations, classified by type, together with their corresponding control measures:

Type of risk	Main risks	Control measures
Business environment and regulatory risks	Country Risk. Regulatory and socio-political changes. Entry of new competitors. Catastrophic risks.	A policy of internationalisation and selective growth. Strategy and business development committees. Coordination to ensure adequate compliance with the existing local legislation and planning for any new regulations. Insurance coverage.
Financial risks	Liquidity risk. Foreign exchange risk. Cash flow interest rate risk.	Access to various sources of funding. Interest rate and currency coverage.
Financial data, fraud and compliance risks	Integrity and security of financial data and operations. Data, corruption and Misappropriation security risks. Tax risk. Compliance with internal legal regulations and contracts with public entities.	Internal Control System over Financial Reporting (SCIIF). Compliance Model implemented in the Group. External tax and financial advice by top level entities.
Industrial risks	Client and employee safety. Risks associated with the adaptation to rapid response to technological change. Project control risks. Training risks and talent retention. Dependence on suppliers. Environmental risks.	Policies, procedures, specific control plans and 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.

For further information on risks, please refer to sections E and F of the Annual Corporate Governance Report 2019 and the Risks section of the Statement of Non-Financial Information, both published on the website at https://www.talgo.com/es/investors

3.3. Ethics and regulatory compliance

In Spain, Talgo has an Ethics Committee in each work centre, which ensures compliance with the standards of behaviour and guarantees the right to personal dignity, the free development of one's personality and the protection of one's physical and moral integrity.

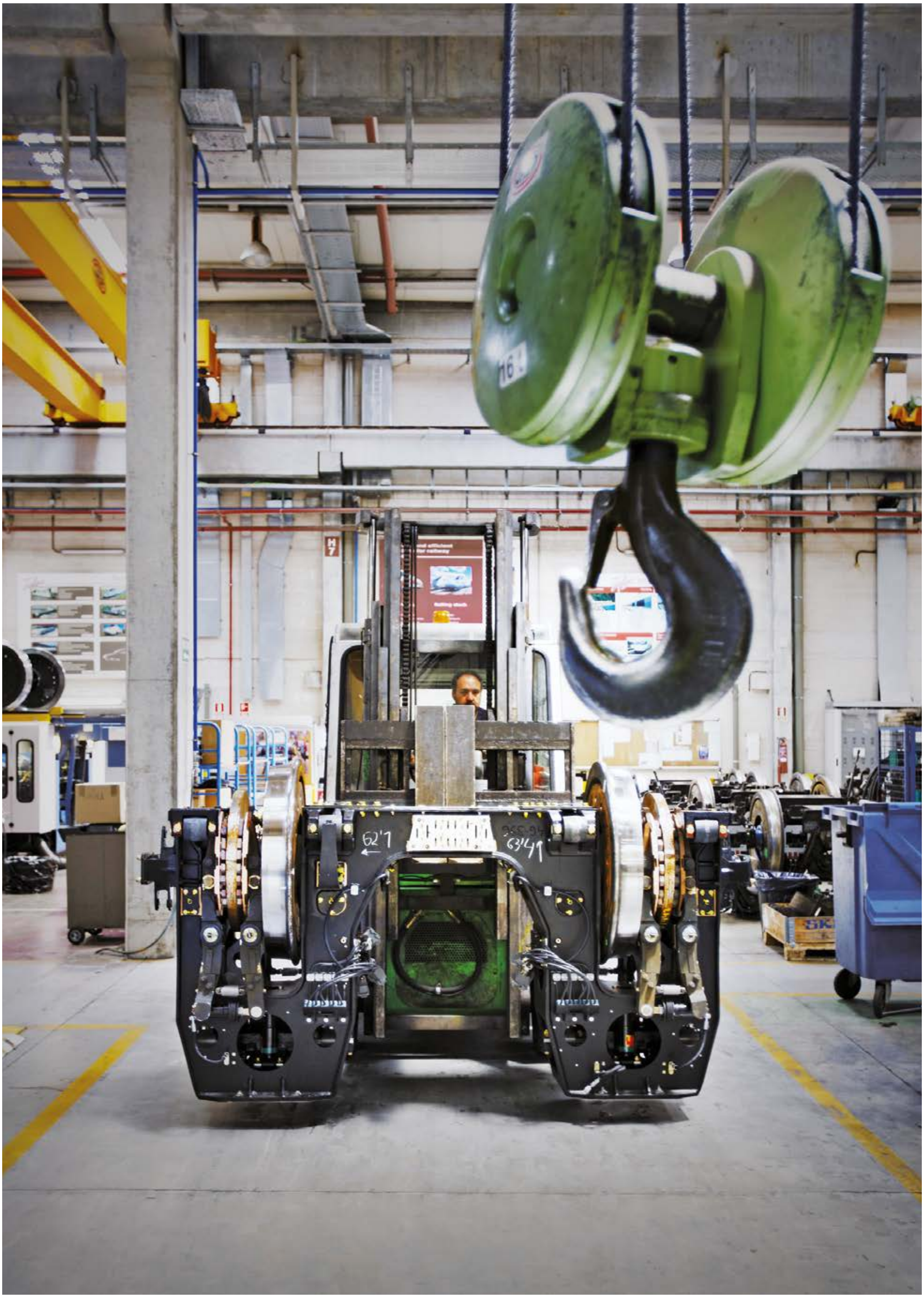
Talgo's Code of Ethics establishes the standards of responsible behaviour that all its employees must accept and adhere to. It is a vital element of the internal control policy and forms part of the crime prevention policy imposed by the new criminal legislation. It includes a commitment to ethical values and best practices, and it aims to ensure the adoption of measures to prevent any instances of harassment, as well as establishing a procedure to investigate and effectively deal with any such occurrences.

The anti-fraud and anti-corruption policy aims to impart a resounding message to all groups opposing corruption and fraud in all its manifestations, as well as the will of the Group to eradicate all fraudulent and criminal activities. This policy constitutes a commitment to the permanent monitoring and sanctioning of fraudulent acts and conducts, as well as of the actions that encourage corruption in all its manifestations. The company will also maintain effective communication and awareness mechanisms for all employees and will develop a business culture that is characterised by ethics and honesty.

Talgo also has an externally managed, freely accessible whistleblowing or ethics channel, through which anyone can report breaches of the company's code of ethics. The Compliance Unit, consisting of two members of management and an external advisor, investigates these complaints and applies the disciplinary regime established in each case. The company, as the parent company of the other companies, has approved a code of conduct for the management and control of privileged information, the transparent communication of relevant information, the execution of treasury stock transactions and the detection and treatment of conflicts of interest. It also imposes certain obligations, limitations and prohibitions on the affected persons, insiders and treasury stock managers.

In 2019, Talgo designed its Diversity Plan I in Spain, with the aim of committing to equality and non-discrimination, promoting and developing a culture of diversity both within the organisation and with its customers and suppliers.

In addition, in 2019, Talgo's CEO joined the "CEO for Diversity" alliance together with the Adecco Foundation and the CEOE. This initiative brings together 60 Presidents and CEOs of the country's leading companies and aims to promote innovation through strategies of diversity, equity and inclusion in Spanish companies.



3.4. Managing social responsibility

Since its inception, Talgo has demonstrated sound economic management, strict ethics in the provision of its services and in its relationships with all its stakeholders, active participation in the communities where it operates, and a sensitivity to global social and environmental concerns.

Throughout 2019, and as a result of its new corporate approach, Talgo has redefined its strategy to consolidate itself as a sustainable, ethical and responsible company. To this end, it has established a new workstream to focus on the design of an advanced model of social responsibility that will be published soon in the Strategic Plan for Sustainability and Social Responsibility for the period 2020-2022.

The design of this Strategic Plan focuses on adhering to the highest standards of social responsibility in the sector, as well as the guidelines of the principal prescribers and leaders in this field (Global Reporting Initiative (GRI), AccountAbility, SASB, ROBECO Sam and the United Nations). Talgo's commitment to creating a model for generating shared value is clear and concrete. Proof of this are the resources that Talgo has made available for the deployment of its ethical, social, environmental and good governance strategies in tactical, operational and value assessment tools.

Talgo currently already incorporates of all the fundamental issues that underpin social responsibility into its management, in accordance with ISO 26000, such as ethical and responsible governance, respect for human rights, care for workplace practices, the protection of the environment, the establishment of equitable operating practices, attention to consumer issues and active participation in and development of the communities where it operates.

In this sense, Talgo has already implemented management tools and specific measures that directly address the seven principles of social responsibility according to the ISO 26000, including accountability, transparency, ethical behaviour, respect for the interests of stakeholders, respect for the principle of legality, respect for international standards of conduct, and respect for human rights.

Further evidence of Talgo's public commitment comes in the form of its membership, since 12 September 2018, of the General Assembly of the Spanish Global Compact Network, and Talgo's inclusion as a member of the Spanish Global Compact Network's Executive Committee.

Sustainable Development Goals

The ultimate aim of Talgo's worldwide measures regarding social responsibility is to contribute to the Sustainable Development Goals (SDG) of the United Nations' Agenda 2030, amongst others. Therefore, Talgo's Strategic Plan for Sustainability and Social Responsibility will include comprehensive measures to identify relevant issues through materiality analysis, contributing to the SDG according to the five steps proposed by the SDG Compass, to maximise the company's contribution to sustainable development.

This new positioning and enhanced care with social responsibility at Talgo serves to define a new strategic and tactical approach where sustainability, ethics and responsibility become the main driver of value. The overarching goal of this management is the creation of a genuine culture of social responsibility that effectively guides, along with other criteria, the decisions and actions of each and every one of Talgo's organisational units and processes, including the organisations that form part of its value chain.

To this end, all senior management and the company's management team received training in 2019 to understand and incorporate the pillars and key concepts of social responsibility into their daily efforts. In addition, specific online training courses and projects were created to raise awareness of this culture of social responsibility among all of the people who work at Talgo, including the suppliers and contractors with whom Talgo has relationships.

4. About this report

4.1. Scope and coverage

This report follows the principles of transparency, relevance, comparability, timeliness, clarity and reliability, which Talgo has kept in mind throughout the entire process of gathering and presenting the information, since they are necessary to guarantee the quality of the information reported.

The techniques for measuring and calculating data, as well as the estimates applied, are explained in the tables or in the corresponding chapters of the report to facilitate their understanding, in the event that such clarification has been considered necessary.

Talgo's Annual Report 2019 provides a complete set of information about the economic, financial, social, environmental and governance activities of the company and its investee companies during the year ended 31 December 2019.

For a correct interpretation of the economic and financial data contained in this report, readers should take into account that the 2018 figures have been adjusted to be comparable with those corresponding to 2019, with a reduction in the stake in the company Motion Rail, S.A.U. to reach 46.25% in 2019, as well as the constitution of the company Talgo UK.

Regarding the non-financial information, it is shown taking as a reference the recommendations of the Standards issued by the GRI and the IIRC.

For a complete set of information about the group's activities during the year, you can consult the legal documents available on the corporate website, including: the Annual Accounts, the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as well as all the published presentations regarding different aspects of the group or in the other sections for the different interest groups.

The report has been prepared in collaboration with and under the supervision of all those responsible for the different departments and areas. The ultimate team responsible for its preparation and coordination is the Investor Relations Department.

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Talgo, S.A.

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28290 Las Matas – Madrid (España)

Telephone
(+34) 91 631 38 00

Website
https://www.talgo.com/

Activity
Manufacture of automotive components

Markets
Talgo is present in 6 countries: Spain, Saudi Arabia, USA, Kazakhstan, Russia and Uzbekistan; and it is listed on the Madrid stock exchange.

4.2. Analysis of materiality

Talgo has compiled a list of considerations that may have an economic, environmental and social impact on the group's activity or on its stakeholders. Material considerations are those that are determined most relevant and that must be included in the report. For this, a materiality analysis has been carried out in terms of Corporate Social Responsibility, guided by the indications established by the Global Reporting Initiative (GRI) standard and taking into account the context of the railway sector, the most important competitors and the perception of the most relevant areas for Talgo in this regard.

These are the 15 material considerations included in five categories that were taken into account in 2019:

Business model and Innovation	Innovation.
	Product quality and safety.
	Client satisfaction.
	Supply chain management.
Corporate governance	Normative compliance.
	Risk management.
	Prevention of fraud and corruption.
	Business ethics.
Human capital	Employee health and safety.
	Employee development and talent management.
Environment	Environmental footprint in operations.
	Environmental footprint of products and solutions.
	Waste management.
Social value	Relationships with the community.
	Economic and social development.

Annexes

THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance

(in €k)	Note	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Tangible fixed assets	6	61.044	61.558
Intangible assets	7	44.946	37.714
Goodwill	8	112.439	112.439
Investments accounted for using the equity method	2.3 y 10	29	10
Deferred tax assets	18	28.990	28.532
Other financial assets	10	2.513	2.153
		249.961	242.406
Current assets			
Stock	12	129.784	84.608
Customers and other accounts receivable	11	165.107	189.299
Other financial assets	10	10.128	73
Asset accruals		2.367	4.108
Cash and cash equivalents	13	325.550	383.733
		632.936	661.821
TOTAL ASSETS		882.897	904.227

(in €k)	Note	31.12.2019	31.12.2018
EQUITY			
Capital and reserves attributable to the owners of the Parent Company			
Share capital	14	41.105	41.105
Share premium	14	6.784	6.784
Treasury stock	14	(62.562)	(4.046)
Other reserves	15	3.177	2.851
Retained earnings	15	303.222	281.421
Total equity		291.726	328.115
LIABILITIES			
Non-current liabilities			
Borrowings	17	219.469	284.998
Derivative financial instruments		68	
Deferred tax liabilities	18	7.646	6.889
Provisions for other liabilities and charges	19	44.180	37.126
Government grants		1.925	1.951
		273.288	330.964
Current liabilities			
Suppliers and other payables	16	244.716	223.343
Current tax liabilities		166	124
Borrowings	17	65.829	16.772
Provisions for other liabilities and charges	19	7.172	4.909
		317.883	245.148
Total liabilities		591.171	576.112
TOTAL EQUITY AND LIABILITIES		882.897	904.227

Consolidated Income Statement

(in €k)	Note	31.12.2019	31.12.2018
Net Turnover	5	401.695	324.449
Other income		3.136	2.130
Stock variation for work-in-progress and finished goods		3.241	1.529
Work performed and capitalised by the entity		11.168	5.447
Procurement costs	22	(167.220)	(87.786)
Personnel expenses	20	(127.205)	(111.011)
Other operating expenses	22	(58.560)	(79.227)
Amortisation expenses	6,7	(15.815)	(22.849)
Result from the disposal of fixed assets		(26)	(246)
Other results	23	430	402
Operating profit		**50.844**	**32.838**
Financial income	24	460	143
Financial expenses	24	(8.368)	(9.239)
Net financial expenses	**24**	**(7.908)**	**(9.096)**
Results of entities measuring using the equity method		**(8)**	**-**
Profit before tax		**42.928**	**23.742**
Tax on profits	25	(4.462)	(6.034)
Profit for the year from continuing operations		**38.466**	**17.708**
Profit for the year		**38.466**	**17.708**
Attributable to:			
Shareholders of the parent	26	38.466	17.708
Basic earnings per share attributable to the owners of the Company			
Continuing operations	26	0,30	0,13
Total		**0,30**	**0,13**
Diluted earnings per share attributable to the owners of the Company			
Continuing operations	26	0,30	0,13
Total		**0,30**	**0,13**

Consolidated cashflow statement

(in €k)	Note	2019	2018
Cash flows from operating activities	27	62.163	162.316
Cash used in operations		(15.791)	(10.681)
Interest paid		(7.079)	(7.857)
Interest received		17	14
Tax paid		(8.729)	(2.838)
Net cash generated from operating activities		46.372	151.635
Cash flows from investing activities			
Purchases of property, plant and equipment	6	(4.220)	(2.740)
Purchases of intangible assets	7	(14.491)	(6.834)
Sale of property, plant and equipment	6	5.350	–
Collection for divestment of group companies		32	–
Other assets	10	(10.000)	–
Net cash used in investing activities		(23.329)	(9.574)
Cash flows from financing activities			
Disbursements for loan repayment	17	(51.330)	(38.340)
Proceeds from borrowings	17	29.021	40.076
Purchase of treasury stock		(58.917)	(3.259)
Net cash used in financing activities		(81.226)	(1.523)
Net (decrease) / increase in cash, cash equivalents and bank overdrafts		(58.183)	140.538
Cash, cash equivalents and bank overdrafts at the beginning of the year	13	383.733	243.195
Cash, cash equivalents and bank overdrafts at the end of the year	13	325.550	383.733

INDIVIDUAL FINANCIAL STATEMENTS

Individual Balance Sheet

ASSETS (in €k)	Nota	2019	2018
NON-CURRENT ASSETS		152.435	159.051
Long-term financial investments in group companies and associates	5	151.317	150.317
Investments in group companies		151.317	150.317
Deferred tax assets	6	1.118	8.734
CURRENT ASSETS		12.447	14.907
Short-term financial investments in group companies and associates	5	-	10.000
Other financial assets		-	10.000
Trade debtors and other accounts receivable	7	3.006	1.525
Public Treasury debt		3.006	1.525
Cash and cash equivalents	8	9.441	3.382
TOTAL ASSETS		164.882	173.958

EQUITY AND LIABILITIES (in €k)	Nota	2019	2018
EQUITY		42.131	64.318
Own funds	9	42.131	64.318
Share capital		41.105	41.105
Share premium		6.784	6.784
Legal reserve		8.237	8.237
Treasury stock		(62.562)	(4.046)
Other reserves		(4.518)	(4)
Results from prior years		–	(1.372)
Result for the year		53.085	13.614
NON-CURRENT LIABILITIES		85.166	100.401
Long-term provisions	13	10.124	-
Long-term debt	10	75.042	100.401
Long-term debt with financial institutions		–	38.675
Long-term debt with group companies and associates		75.042	61.726
CURRENT LIABILITIES		37.585	9.239
Short-term debt	11	37.461	9.161
Short-term debt with financial institutions		32.902	7.554
Short-term debt with group companies and associates		4.559	1.607
Trade creditors and other payables		124	78
Other accounts payable		124	78
TOTAL EQUITY AND LIABILITIES		164.882	173.958

Individual Income Statement

CONTINUING OPERATIONS (in €k)	Nota	2019	2018
Net Turnover	5 y 12	55.000	15.000
Other operating expenses		(1.028)	(943)
External services	12	(260)	(222)
Other current management expenses	12	(768)	(721)
OPERATING RESULT		53.972	14.057
Financial expenses	12	(1.525)	(906)
FINANCIAL RESULT	12	(1.525)	(906)
RESULT BEFORE TAX		52.447	13.151
Tax on profits	13	638	463
RESULT FOR THE YEAR FROM CONTINUING OPERATIONS		53.085	13.614
RESULT FOR THE YEAR		53.085	13.614

Individual cashflow statement

(in €k)	Nota	2019	2018
CASHFLOWS FROM OPERATING ACTIVITIES		61.721	22.851
Profit for the year before tax		52.447	13.151
Adjustments to the result		1.525	936
Financial expenses		1.525	936
Changes in working capital		(14)	(112)
Creditors and other accounts payable		(14)	(112)
Other cashflows from operating activities		7.763	8.876
Interest payments		(742)	(936)
Dividends		10.000	5.000
Payment/collection of corporation tax		(1.495)	4.812
CASHFLOWS FROM INVESTMENT ACTIVITIES		-	-
CASHFLOWS FROM FINANCING ACTIVITIES		(55.662)	(19.840)
Collections and payments for equity instruments		(58.917)	(3.259)
Purchase of equity instruments		(58.917)	(3.259)
Collections and payments for financial liability instruments		3.255	(16.581)
Payments of debts with financial institutions and other debts		(13.000)	(6.500)
Debt with group companies and associates		16.255	(10.081)
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS		6.059	3.011
Cash and cash equivalents at the beginning of the year		3.382	371
Cash and cash equivalents at the end of the year		9.441	3.382

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