

1

About Talgo

- **1.1** Letter from the chairman
- **1.2** Scope of the Group
- **1.3** Significant events of the year
- **1.4** Main financial results



1.1 Letter from the chairman

Since 1942, Talgo has been a benchmark for innovation and a leader in the passenger transport sector

Dear shareholders

The year 2022 was very special: not only because it marks the 80th anniversary of the founding of Talgo, but also because of the circumstances in which the company carried on its work in recent months. For eight decades, Talgo has been guided by the highest standards of social and corporate responsibility, while working to become the company it is today: a global technological benchmark, recognised for its capacity for innovation, its unique, distinctive technology and reliability with a range of sustainable high-speed, long and medium distance trains that are designed and manufactured entirely in Spain. Throughout these years, the company's vision and development have been marked by ambitious but sustainable growth. This has been accompanied by social responsibility actions that have contributed to improving the environment in which the company operates.

Talgo's resilience has been tested in the past year, as it has faced a challenging environment marked by volatility in the cost of raw materials, disruptions in global supply chains and inflation. These three factors were responsible for a tighter result for the year than in the past, but also a challenge that the Group faced with determination. Already, in the second half of the year, a recovery began that will be felt in 2023.

The swift response of the management team, which devised an efficient and effective action plan, successfully brought costs under control and stabilised margins. Price volatility and supply chain and logistical problems were challenges that Talgo

had to adapt to. But at the same time, the geopolitical situation exploded with the conflict in Ukraine in March and led to the cancellation of services in Russia.

Despite all this, Talgo managed to turn the situation around and return to the path of growth, with great prospects for 2023. Talgo posted adjusted EBITDA of 52.5 million euros in 2022 and net profit of 1.4 million euros, figures that are undoubtedly lower than 2021, but which also show that even in the most adverse situations, our business model is solid, sustainable and resilient in a key industrial sector for the economy.

If 2022 was a year for overcoming economic challenges, it was also a year of progress and consolidation of the company's corporate sustainability. The approval of the 2022-2024 strategic plan for sustainability and responsibility kicked off key organisation-wide projects aimed at building sustainable and responsible management; strengthening governance and preventive business management; systematically increasing the organisation's capabilities; developing people and generating a positive employment footprint; advancing environmental sustainability and sustainable mobility; supporting the development and strengthening of society; analysing, disseminating and improving sustainable and responsible management. I invite you to learn more in the full 2022 Sustainability Report, which is now available. Find out about the depth of the changes that Talgo has undertaken, which, once again, has managed to adapt to a marketing setting in which non-economic criteria

1.1 Letter from the chairman

are increasingly key for railway operators. These include energy efficiency (hydrogen and electricity), the use of recyclable materials in manufacturing and sustainable maintenance management.

The change, furthermore, is not only at the business level. The plan is having an impact across the entire organisation, starting with the Board of Directors, which has been reduced to 10 members with the aim of placing Talgo on an equal footing with other listed companies of similar size, in line with best practices of good governance.

At the same time, Talgo believes that human capital is essential to the company's success. It has focused on diversity, promoting talent and enhancing employment stability as a means of enriching the internal culture to optimise productivity and as an essential mechanism for maximising our staff's levels of motivation and satisfaction. The launch of more than 200 job vacancies reflects the company's interest remaining one of the driving social and economic forces where it operates, but also being a place where its employees can develop their professional and personal careers, reflected in a 91% permanent hiring rate by 2022. I would also like to thank all of them for the work and professionalism they show on a daily basis. They are a crucial ingredient in attaining company's results and ensuring the prestige of its unique technology in the world.

Since 1942, Talgo has been a benchmark for innovation and a leader in the passenger transport sector. And I have no doubt that the changes undertaken in 2022, combined with our outstanding management and staff team and solid and



resilient business model, supported by our shareholder – who I have to thank for their support for Talgo, even in the most difficult times – the company's now 80-year history is only the beginning. Talgo will continue to be a global technological benchmark that is recognised for its capability for innovation, unique and distinctive technology and reliability, providing customised and benchmark solutions for sustainable mobility, efficiency, safety, innovation and responsible business.

Sincerely,

Mr Carlos Palacio Oriol

Chairman of the Board of Directors

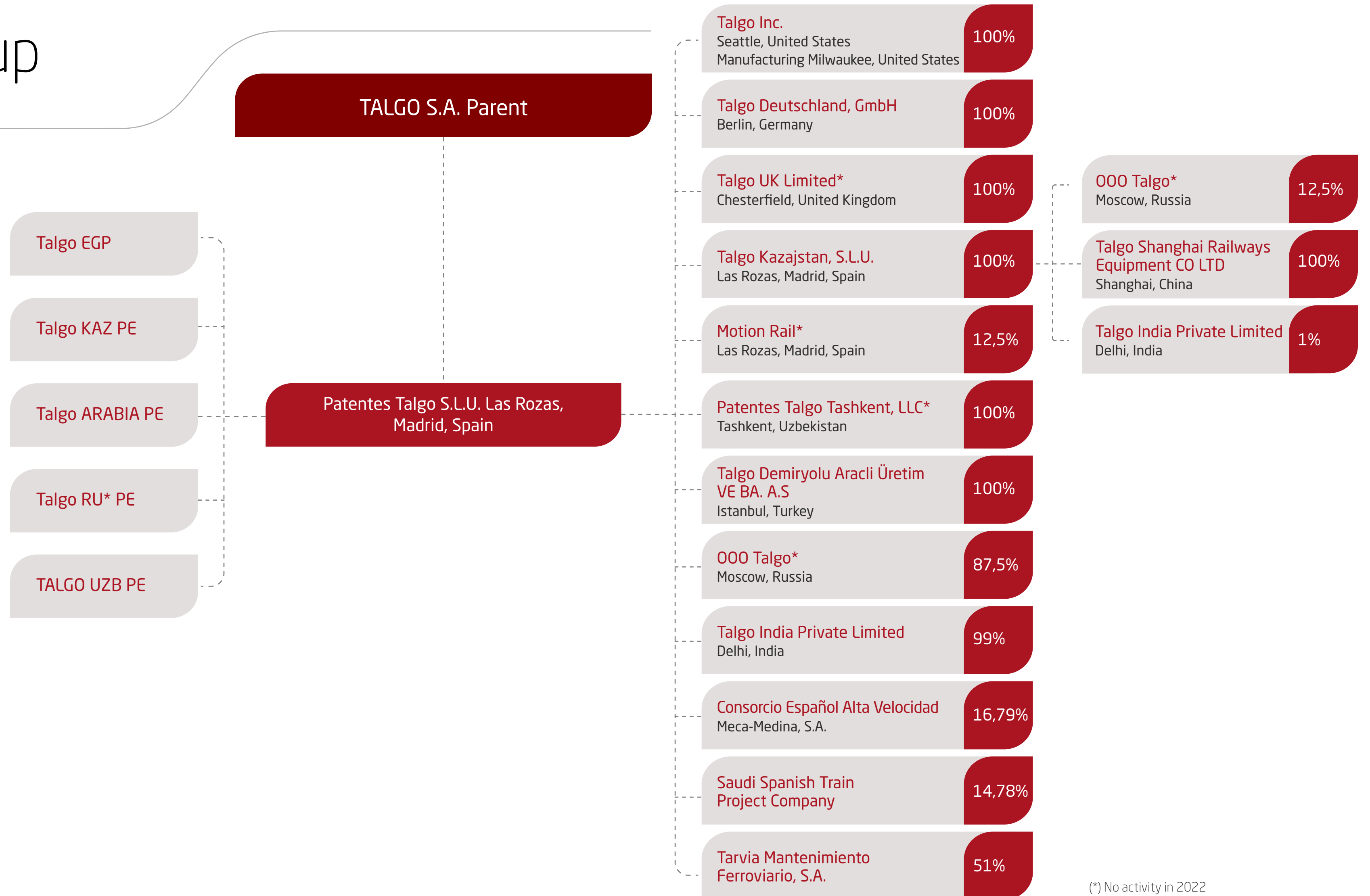
1.2 Scope of the Group

The Talgo Group is made up of a group of companies set up to provide a worldwide response to the needs of sustainable mobility in the railway sector.

Talgo S.A. consolidates all the Group's companies, the latter's activity being centred on the holding of 100% of the shares of Patentes Talgo S.L.U. Talgo S.A. shares are listed on the Spanish stock market.

Patentes Talgo S.L.U. consolidates all the Group's operating companies in accordance with the control criteria established by accounting regulations, the scope of consolidation of which is explained in the consolidated financial statements of Patentes Talgo, S.L.U. and subsidiaries for 2022.

Activities in Russia came to a complete halt in March 2022 due to force majeure, and at year-end the company had no activities and no active employees there.



(*) No activity in 2022

1.3 Significant events of the year



- | January | February | March | April | May | August | September | October | November | December |
|---|---|---|---|---|--|--|---|--|---|
| <ul style="list-style-type: none"> • SHYNE: the emergence of Spain's largest consortium to promote renewable hydrogen. ➤ | <ul style="list-style-type: none"> • EIB and Talgo sign 35 million euro green loan to finance their innovation strategy. ➤ | <ul style="list-style-type: none"> • Talgo and the Fundación de los Ferrocarriles (Spanish Railway Foundation) renew their partnership. ➤ • Talgo approves dividend of 10 million euros through a Flexible Dividend Programme. ➤ • Indra and Talgo join forces in Europe's Rail, the largest railway innovation programme in Europe, aimed at pursuing sector digitalisation and sustainability. ➤ | <ul style="list-style-type: none"> • Talgo develops new tracks for very high speed trains and reduces their weight by 50%. ➤ | <ul style="list-style-type: none"> • Talgo launches Share Buyback Programme and increases shareholder earnings per share. ➤ • Talgo supports national talent and engineering at UPMDay22. ➤ • Talgo begins dynamic testing of Spain's first dual hydrogen train. ➤ | <ul style="list-style-type: none"> • Talgo wins new 280 million euro contract in Egypt. ➤ | <ul style="list-style-type: none"> • Talgo beats record in Galicia and reaches 360 km/h between Ourense and Santiago. ➤ • Completion of the Buyback Programme and Execution of the Capital Reduction Programme. ➤ • Deutsche Bahn chooses Talgo to design the German train of the future. ➤ • Talgo presents in Berlin its Intercity train platform and new rail solutions to decarbonise transport. ➤ | <ul style="list-style-type: none"> • Talgo launches a historic job offer: it is seeking to recruit more than 200 new technical staff for its plants throughout Spain. ➤ • Talgo and its unique technology celebrate their 80th anniversary. ➤ | <ul style="list-style-type: none"> • Talgo announces the winners of the 2022 Women in Engineering Excellence and Technological Innovation Awards. ➤ | <ul style="list-style-type: none"> • Talgo signs the Diversity Charter. ➤ • Talgo commences operation of its Intercity trains in Egypt. ➤ |

Subsequent events

- LE TRAIN signs an agreement with Talgo for the development of a fleet of high-speed trains. ➤
- Denmark confirms its confidence in Talgo's intercity trains to decarbonise the transport system. ➤
- Deutsche Bahn confirms Talgo's largest ever order: 56 new Talgo 230 trains worth some 1.4 billion euros. ➤

1.4 Main financial results

The current international environment, which is marked by volatility in the price of raw materials and disruptions in global supply chains and inflation, were the main factors affecting Talgo's business in 2022.

Overall, the Group achieved revenue of 469.1 million euros in 2022, down 15.5% compared to the previous year (555.4 million euros) due to the slower pace of execution of manufacturing projects caused by delays in the supply chain. However, the projections for 2023 are optimistic foresee quicker progress in the company's ongoing projects, resulting in an increase in revenues, along with steady improvement in margins. In addition, the Group continues to implement its cost control action plan, with the objective of improving competitiveness and flexibility in order to reduce the effect of inflation on the current order book.

Talgo posted adjusted EBITDA of 52.5 million euros in 2022, down 20.7% from the 66.2 million euros of the previous year, due to economic factors such as inflation (higher than budgeted costs) and delays caused by the supply chain (longer working hours), which mainly affected manufacturing projects and led to a reduction in expected margins for the year. The mitigation action plan implemented is already

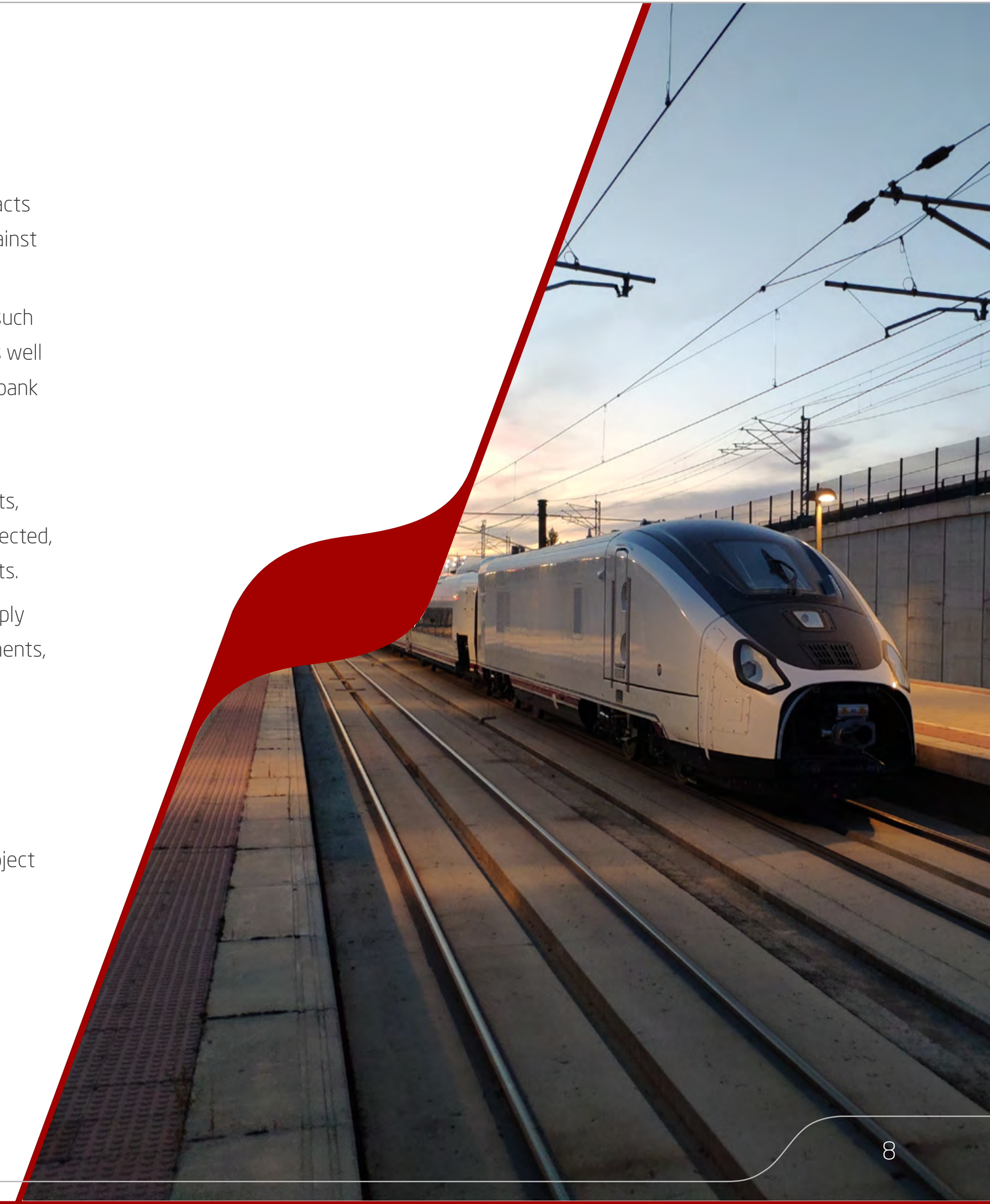
Rising commodity costs, disruptions in global supply chains and inflation were factors affecting 2022 results.

visible, with margins stabilised and recovering. In addition, maintenance contracts include indexation clauses to adjust prices annually and protect the Group against similar scenarios going forward.

Net profit amounted to 1.4 million euros in 2022, impacted by one-off items such as the closure of Russia and the reversal of tax losses at the US subsidiary, as well as higher financial expenses due to the impact on the cost of debt of central bank rate hikes.

Operating cash requirements at year-end 2022 amounted to 217.3 million euros due to temporary natural figures in the cash requirements of the projects, although these requirements decreased in the second half of the year, as expected, reflecting the volatility of cash flow during the execution period of the projects.

The current manufacturing cycle, together with the delays caused by the supply chains in the period, resulted in higher investments in operating cash requirements, thus offsetting the adjusted EBITDA generated in the period. The volume of operating cash requirements at year-end 2022 mainly reflects the degree of progress of projects and outstanding receivables, the risk profile of which is considered low (low technical and collection risk). In 2022, the rescheduling of projects led to a lower degree of progress resulting in delays in collection milestones and consequently higher inventory levels. The very high-speed project



1.4 Main financial results

in Spain, whose fleet is now fully completed and pending certification, was the main driver of working capital in the year, pending test approvals that will trigger deliveries and consequent cash inflows.

Capex amounted to 21 million euros in the period, in line with what was planned at the beginning of the year, of which 74% corresponds to R&D activities and 12% to capacity additions.

With regard to financial debt, 2022 was a turning point in the funding market, driven by a tough monetary policy implemented by central banks with the primary objective of mitigating inflation. Talgo, for its part, issued excess debt during 2021 and early 2022 in anticipation of this scenario. As a result, leverage at year-end stood at 1.9 times adjusted EBITDA (97.4 million euros of net debt). It is still noteworthy that, of the Group's total long-term financial debt, 64% is at a fixed rate, with an average cost of 1.7% and an average maturity of 2.5 years. However, the recent rate hikes will impact the financial outcome of future new debt issuance and the structure of project financing.

At the same time, Talgo's high financing capacity at year-end should be noted, with more than 400 million euros of liquidity (cash, credit lines and project-based financing lines) that allow the company to reliably finance current and future projects.

2022 Action Plan

The need to address the adverse environment and operational challenges led the company to design and implement an action plan to control costs and help stabilise margins on manufacturing projects.

The main operational challenges were countering inflation and commodity price volatility, as well as supply chain disruptions. Thus, Talgo's industrial capacity had to be adapted to this situation in order to optimise its operation, in addition to dealing with other extraordinary challenges that occurred during the year. These included cancellation of services in Russia in March 2022 (representing less than 1% of revenue) and the termination of the contract by the customer LACMTA in the US, which is currently in the process of litigation.

The results of the 2022 action plan were visible in Q2 and will allow for a return to growth by 2023.

Accordingly, various actions were undertaken, such as:

- Update of the wage base agreed with the unions for 2021-22 (9.2% over two years).
- >70% of the order book covered by indexation clauses.
- Customer/supplier back to back policy to reduce price volatility.
- Customer pass-through with indexation clauses.
- Hedging strategies.
- Increasing the universe of suppliers to enhance flexibility.
- Supplier relocation strategy to promote agility and secure supply.
- Strengthening requirements and guarantees to ensure performance.
- Re-planning in existing manufacturing projects.
- Standardisation of products and manufacturing processes to optimise production lines and development.
- Alternative structures to reduce the volatility of working capital.

Main 2022 results

Revenue (€m)



Quarterly revenue performance

Revenue (€m)



	2020	2021	2022
Adjusted EBITDA (€m)	34.2	66.2	52.5
Adjusted EBITDA margin (%)	7.0%	11.9%	11.2%
Net profit (€m)	(17.4)	27.5	1.4
Net profit margin (%)	(-3.6%)	5.0%	0.3%
Free cash flow (€m)	(100.6)	16.4	(32.2)
Investments - Capex (€M)	24.7	25.1	21
Net financial debt* (€m)	48.1	35.9	97.4
Net financial debt/EBITDA (x)	1.4x	0.5x	1.9x

* NFD = Non-current financial debt + Current financial debt - Cash and cash equivalents