Talgo 2016 FY Results

February 28th, 2017

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1.1 Key business highlights 2016

- **Main Financial highlights:**
  - **Net Revenues** increased by 11% reaching 579.8 €m in 2016 (520.7 €m in 2015).
  - **Adjusted EBITDA** reached 113.3 €m on ~20% margins.
  - **Adjusted Net Profit** reached 73 €m.
  - **Stable Working Capital** in 2H2016 as expected, to 265.2 €m.
  - **Net Financial Debt** down to 191 €m(1) at the end of the year giving a **NFD/EBITDA** of 1.7x. **Optimized structure with long term debt profile** offering higher flexibility to accommodate current and future projects.
- **Operational highlights:**
  - **Strong execution of current manufacturing backlog** and all ongoing projects on track.
  - **Successful execution of maintenance contracts.**
  - **Strategic tenders secured** (Spanish VHS tender and LACMTA project).
  - **2,604 €m(2) contracted backlog at the end of 2016**, resulting in 4.5x 2016 Net Turnover (84% maintenance).
  - Product **diversification** and increasing **internationalization.**
  - **Large and active pipeline.**

(1) Does not include loans with public administrations related to R&D projects. (2) Does not include the Spanish VHS award until the signing expected for 1Q2017

Source: Company information

1.2 Talgo international presence

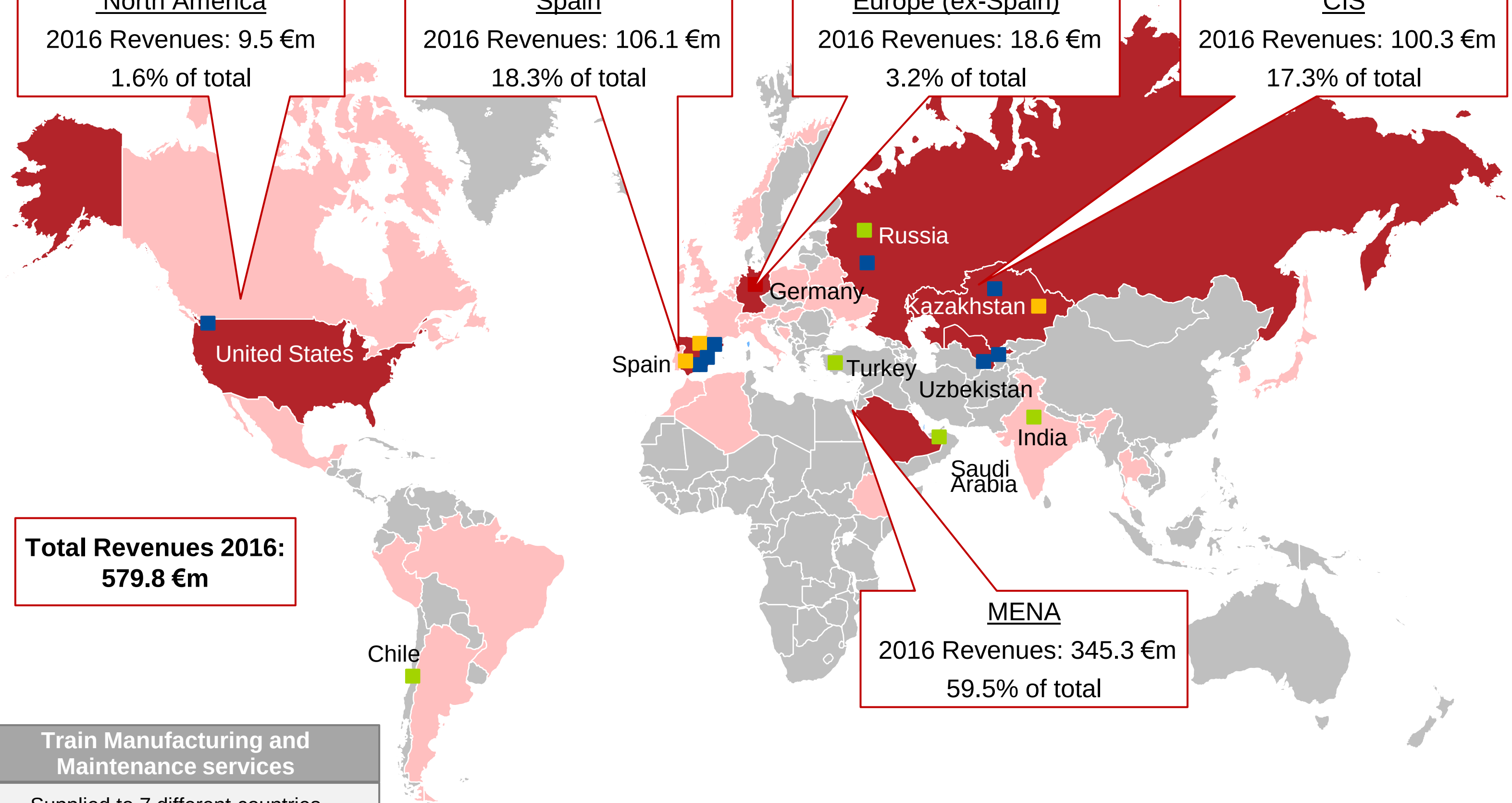
Net turnover in 2016 by geography (€m)

North America
2016 Revenues: 9.5 €m
1.6% of total

Spain
2016 Revenues: 106.1 €m
18.3% of total

Europe (ex-Spain)
2016 Revenues: 18.6 €m
3.2% of total

CIS
2016 Revenues: 100.3 €m
17.3% of total



MENA
2016 Revenues: 345.3 €m
59.5% of total

Total Revenues 2016: 579.8 €m

Train Manufacturing and Maintenance services
Supplied to 7 different countries

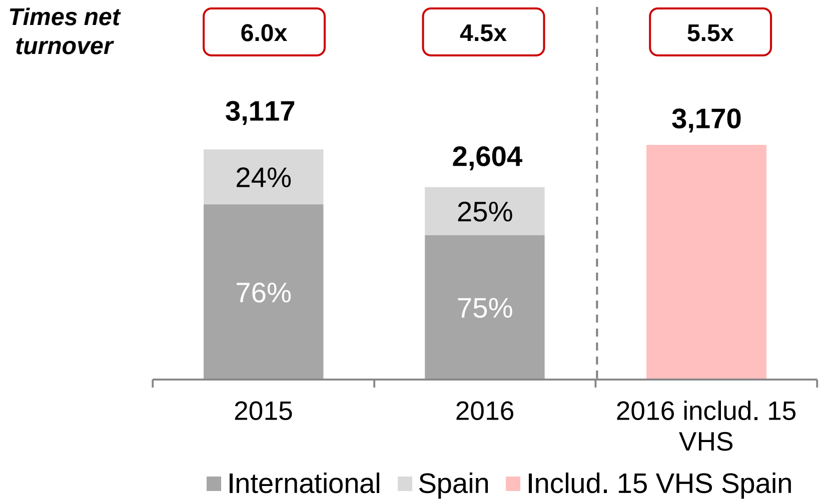
Maintenance equipment
Supplied to >20 countries

- Countries where trains, maintenance services and equipment have been sold
- Countries where maintenance equipment has been sold
- Offices & Maintenance Workshops
- Manufacturing Plants
- Commercial Agents / Offices

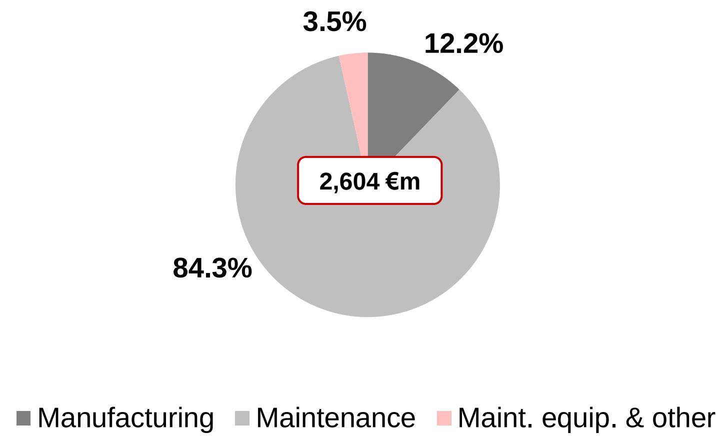
Source: Company information

1.3 Backlog execution: Summary

Backlog evolution (€m)



2016 Backlog by business line



- **Manufacturing backlog was executed in 2016 according to the contracts schedule** in most of the contracts.
- As of December 2016, **75% of the backlog remains outside Spain**, mainly in Saudi Arabia and Kazakhstan. However, the new contract obtained in Spain for the manufacture and maintenance of 15 VHS trains **will add 566 €m(1) to the backlog in 2017**, once the contract is signed.
- **84.3% of current order book corresponds to Maintenance services**, ensuring long-term cash generation capacity. Furthermore, **Maintenance backlog provides additional growth potential** when considering the gap between the life of contracted services and the larger useful life of the fleet.
- Maintenance equipment remains as a **complementary business line (3.5% of backlog) with strong competitive position within the segment** (>15% market share worldwide).

(1) 566 €m is calculated as follows: 337.5 €m for the manufacturing of 15 trains and 51% of 449 €m for the maintenance. However, since the maintenance services will be performed through a NewCo in which the client (RENFE) will be shareholder (49%), the final revenue that will correspond to Patentes Talgo S.L. will amount 229 €m

Source: Company information

1.3 Backlog execution: Mecca-Medina project

- **Manufacture of 36 VHS T-350 trains (35 + 1 VIP)**, with and an option for 20 additional trains.
- Being successfully executed **in line with Company expectations**, while **delivery is expected to meet the schedule** set with the client (March 2018).
- **No significant risks are identified neither** in the payment milestones nor in the associated timing of payments.
- A total of **23 trains are already finished**, of which 10 trains have already been sent to Arabia to continue with testing process.
- Additional shipment will be done as the KAEC(1) and Medina depots are finished.
- Manufacturing of **additional trains already started** and are expected to be finished throughout 2017.
- **Most significant payment milestones of the project are still to be reached** (i.e. dynamic testing and delivery).

1Q2017
- Speed increase to 330 km/h
- New infrastructure ready for shipping of additional trains (Medina Station)

2Q2017
- Start of dynamic testing for train certification

3Q2017

4Q2017
- New infrastructure ready for shipping of additional trains (Medina and KAEC Depots)

1H2018

Expected start of commercial operations
(according to last schedule agreed with SRO)

(1) King Abdullah Economic City

Source: Company information

1.3 Backlog execution: other projects (i)

Project	Initial scope	Status
Kazakhstan (Manufacturing)	1. **603 passengers coaches with natural tilting technology** 2. **Agreement for the acquisition of a 51% stake in Tulpar**	▪ A total of **116 kits** (4 train compositions of 29 units per train) were **delivered in 2016** to the Tulpar manufacturing plant for final assembly. ▪ The units manufactured for this project are being operated by KTZ to connect the main cities of Kazakhstan. ▪ Acquisition of a 100% stake in Tulpar being negotiated.
Uzbekistan (Manufacturing)	1. **Manufacturing of 2 HS T-250 trains**	▪ In 2010 UTY (Uzbekiston Temir Yollari) bought two T-250 trains which were delivered in 2011. ▪ In 2015, an order for **2 additional trains was placed, which will be delivered in 2017**.

Source: Company information

1.3 Backlog execution: other projects (ii)

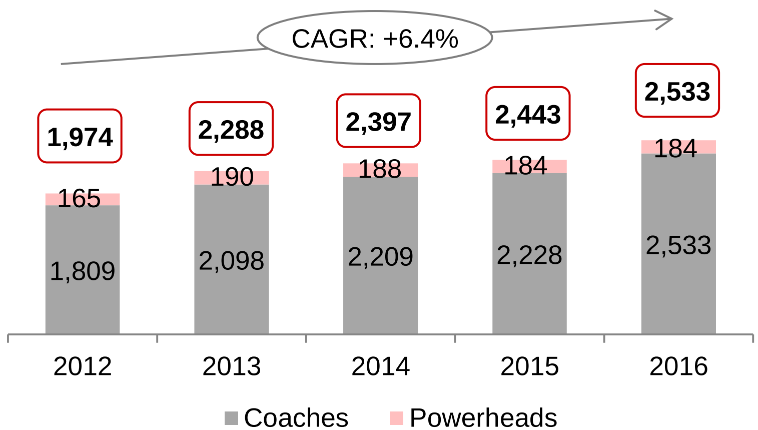
Project	Initial scope	Status
Russia (Manufacturing)	1. **Manufacture of 7 day and night trains with natural tilting technology**	▪ All 7 trains **already manufactured and delivered**: ✓ **4 trains** (Moscow-Nizhny Novgorod) delivered and with successful commercial operations since June 2015. ✓ **3 trains** (Moscow-Berlin): delivered and with successful commercial operations since December 2016.
USA - LACMTA (Overhaul)	1. **Overhaul critical systems and subsystems to 38 metro vehicles and an option for 36 additional units**	▪ The project was signed in October 2016 and **started at the beginning of 2017.** ▪ The work will be **delivered over a period of 4 years**, which includes the optional units.

Source: Company information

1.3 Backlog execution: Maintenance activity

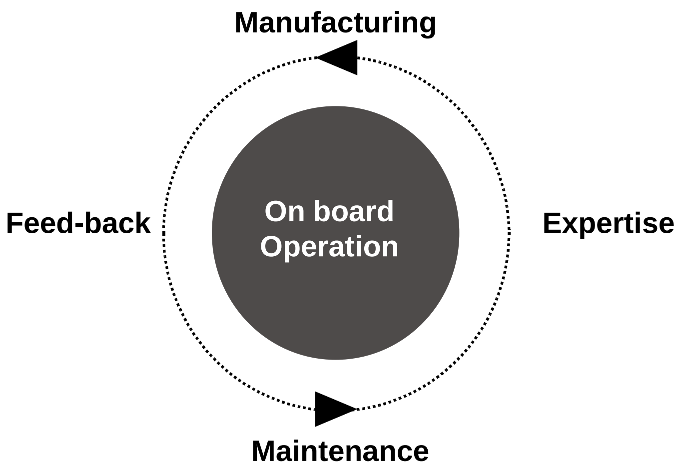
- Talgo provides maintenance services to **all its manufactured trains and to units produced by third-parties**.
- Strong expertise together with a solid maintenance portfolio provides **recurrent activity and long term business stability** to the Company.
- **All contracts have been successfully executed in 2016**, providing high quality of service, high reliability and improved customer safety and experience.
- Further initiatives to **improve operational and cost efficiencies.**
- The size of maintained fleet is expected to **continue growing** as the contracted manufacturing backlog is delivered (additional coaches in Kazakhstan and Arabia will be added to maintenance portfolio). As of December 2016, the maintained fleet reached **2,533 units**, representing +6.4% CAGR in the period 2012-2016.

Aver. number of vehicles maintained (#)[1]

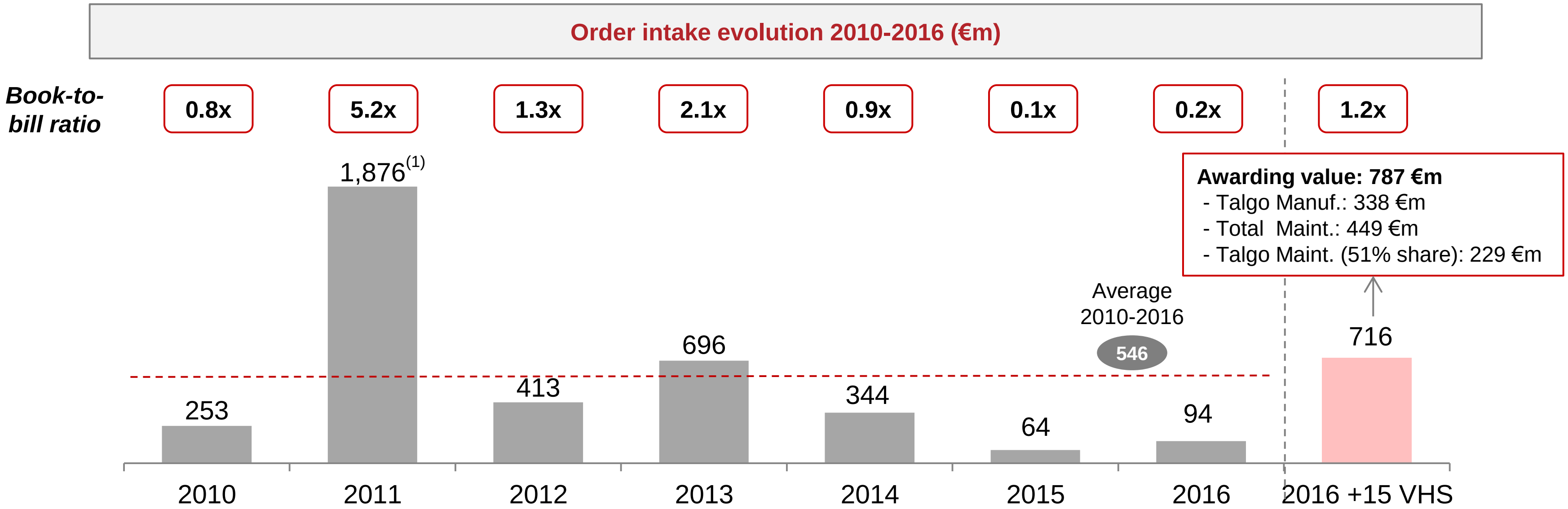


(1) Include both cars and locomotives.
Note: Additional c. 80 coaches (stable over the period 2012-2016) manufactured by third parties are maintained by Talgo in Germany. Such cars are around two times longer than Talgo coaches.

Company maintenance strategy



1.4 Order intake in 2016



- Talgo **was awarded with two key contracts** that follow the growth strategy set by the Company, which is based on the **internationalization** (i.e. USA) and **diversification** (entry in the overhaul segment), while commercializing the **most advanced technology** developed in-house for the high-speed segment (Avril).
- In this sense, Talgo was awarded 2 significant contracts:
  - **USA - Overhaul**: In September 2016 LACMTA awarded Talgo a project to overhaul critical systems and subsystems to 74 vehicles assigned to the Metro Red Line for a total value of $72.9 million.
  - **Spain VHS**: In November 2016 RENFE awarded Talgo a project for the manufacture and maintenance of 15 VHS Avril trains for a total consideration of 786 €m (566 €m for Talgo). The contract was publicly awarded in December 2016 and is expected to be signed in 1Q2017.

(1) Includes the significant Mecca-Medina contract in 2011

Source: Company information

1.5 Spain VHS Contract

- **Scope of the contract**: manufacture of 15 VHS trains, with an option for 15 additional trains. The contract also includes the maintenance for a period of 30 +10 years.
- According to the public results of the tender, Talgo offer reached the **highest technical score** and offered the **most competitive economic package** thanks to **highly attractive maintenance proposition given expected efficiencies and economies of scale to be reached in the project** (90 HS trains already in operation in Spain).
- The **first public tender in which Talgo offered its new Avril VHS train** (next generation of the T-350), which has been developed during recent years and contains the most advance technology of the industry.
  - Higher power while lowering energy consumption, being the lightest train on the market.
  - Wider coach offering higher capacity in one floor (3+2 seats).
  - Technical advances resulting in high reliability and optimized maintenance costs.

	Tender paper (minimum)	Talgo Offer	Talgo Variant Offer
First 15 trains	320 km/h	350 km/h	330 km/h
Optional 15 trains	320 km/h	350 km/h	330 km/h Var. gauge
Fleet availability %	85%	99.09%	99.09%
Number of seats	400	521	521
Price-Value (€m)	1.096 (máximum)	786	786
Price / seat (€k)	-	43.1	43.1

Source: Company information

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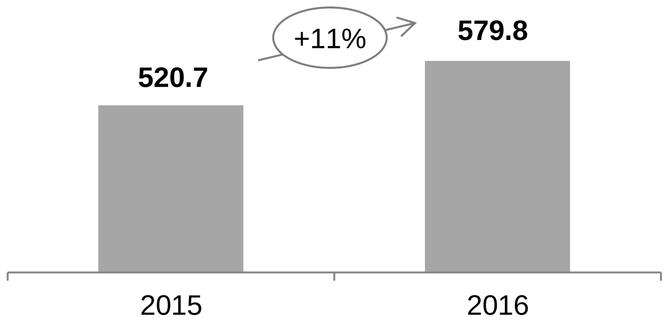
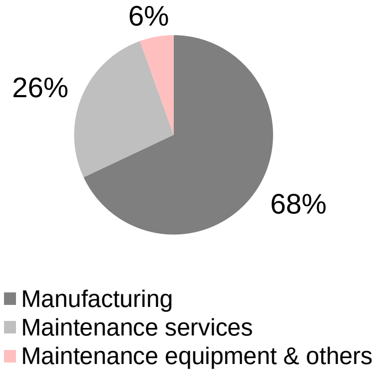
2.1 Profit & Loss: Revenues

- Net Turnover increased by **11% reaching 579.8 €m** (520.7 €m in 2015) mainly driven by:
  - **Strong manufacturing activity:**
    - ✓ 68% of total revenues in period 2014-2016.
    - ✓ **In line with budget** and client delivery schedule.
  - **Solid maintenance portfolio**, which provides:
    - ✓ Recurrent and **stable cash generation.**
    - ✓ Meeting all **quality and reliability customer expectations**.
    - ✓ **Further growth** as (i) trains under manufacturing are delivered and (ii) future contract awards expand fleet in operation.
  - Increasing **international presence** within the **maintenance equipment business.**
- **International markets continue increasing their weight within Talgo's activity**, representing 82% of the Company revenues in 2016.

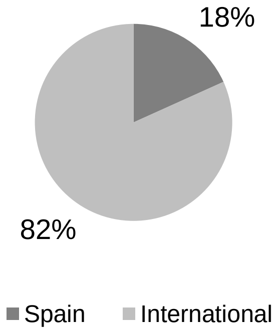
Net turnover 2016 (€m)



Net turnover by business line (average 2014-16)



Net turnover by geography (2016)

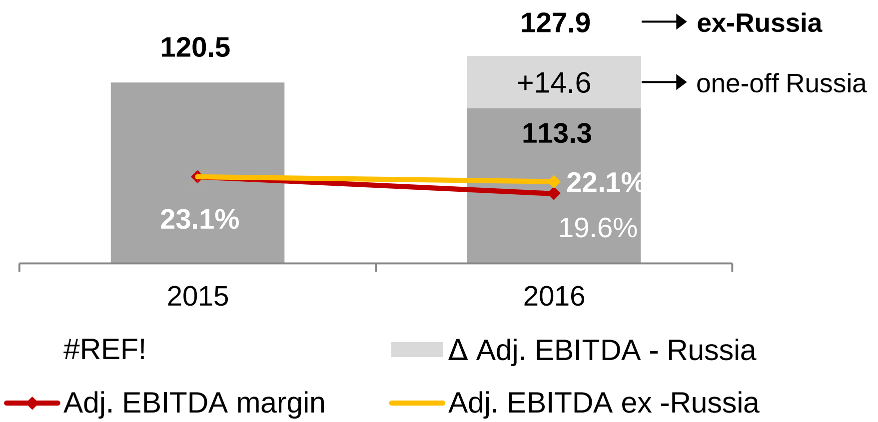


Source: Company information

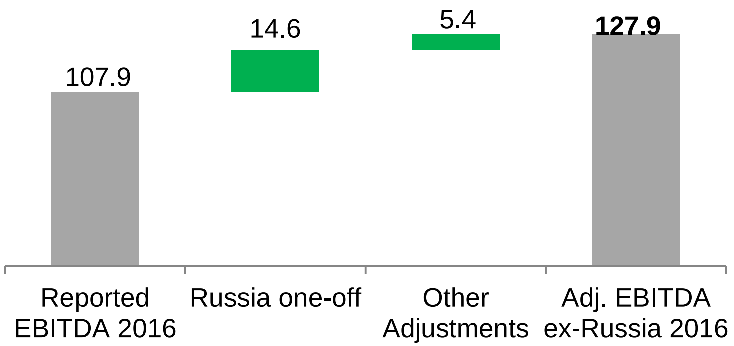
2.1 Profit & Loss: EBITDA

- Adjusted EBITDA reached 113.3 €m in 2016 with adjusted EBITDA margin at c.20%
  - ✓ Margins were impacted by one-off costs due to certification delays in Russian project. However, **certifications were then obtained and trains started their operation in December 2016.**
  - ✓ Company Adjusted EBITDA excluding net Russian additional costs (impact of 14.6 €m), would have **increased to 127.9 €m** in the period, in line with initial Company expectations, with **margins of 22.1%.**
  - ✓ **Successful delivery of balance** of projects.
  - ✓ **Efficient management of Opex** (decreased from 11.5% to 8.6% over 2016 Net Turnover).
  - ✓ **Overhead expenses** are continuously under control aiming to maintain an efficient base.
- Main adjustments made to EBITDA include one-off items, mainly layoff compensations and bank guarantee fees.

Adj. EBITDA (€m) and Adj. EBITDA margin (%)



Reported to adjusted ex-Russia EBITDA bridge (€m)



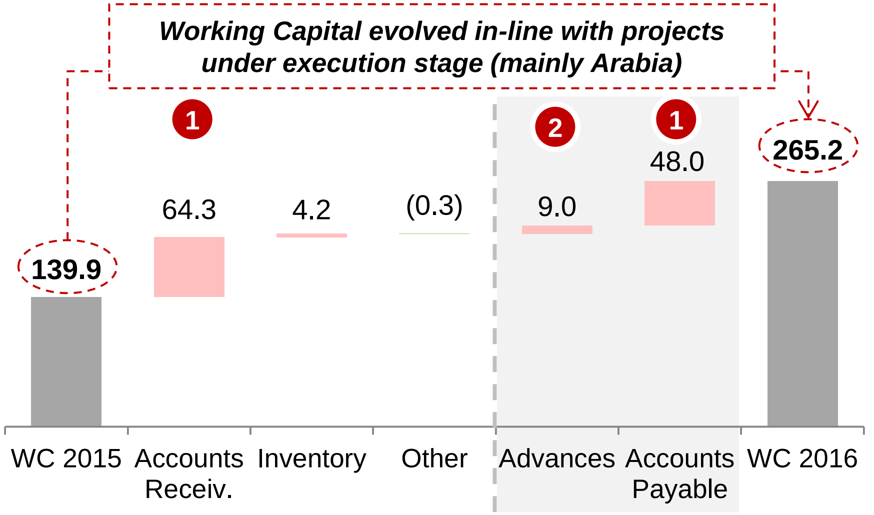
Source: Company information

2.2 Balance sheet: Working capital performance

Working Capital evolution (€m)

€m	FY2015	FY2016
Accounts receivable	277.4	341.7
Other receivables	2.2	2.9
Assets held for sale	6.1	6.1
Inventories	88.8	93.0
Acc. payables (excl. advances)	(210.3)	(162.5)
Advances received	(20.5)	(11.5)
Other current liabilities	(3.8)	(4.5)
Working capital	**139.9**	**265.2**

Working Capital variation (€m)



- Strong cash outflow was registered during 1H2016 remaining **stable throughout 2H2016**, **in-line with Company expectations and guidance provided in 1H2016**:
  1. **Accounts receivable and payables**: main drivers of working capital increase, mainly due to the increase of the manufacturing activity.

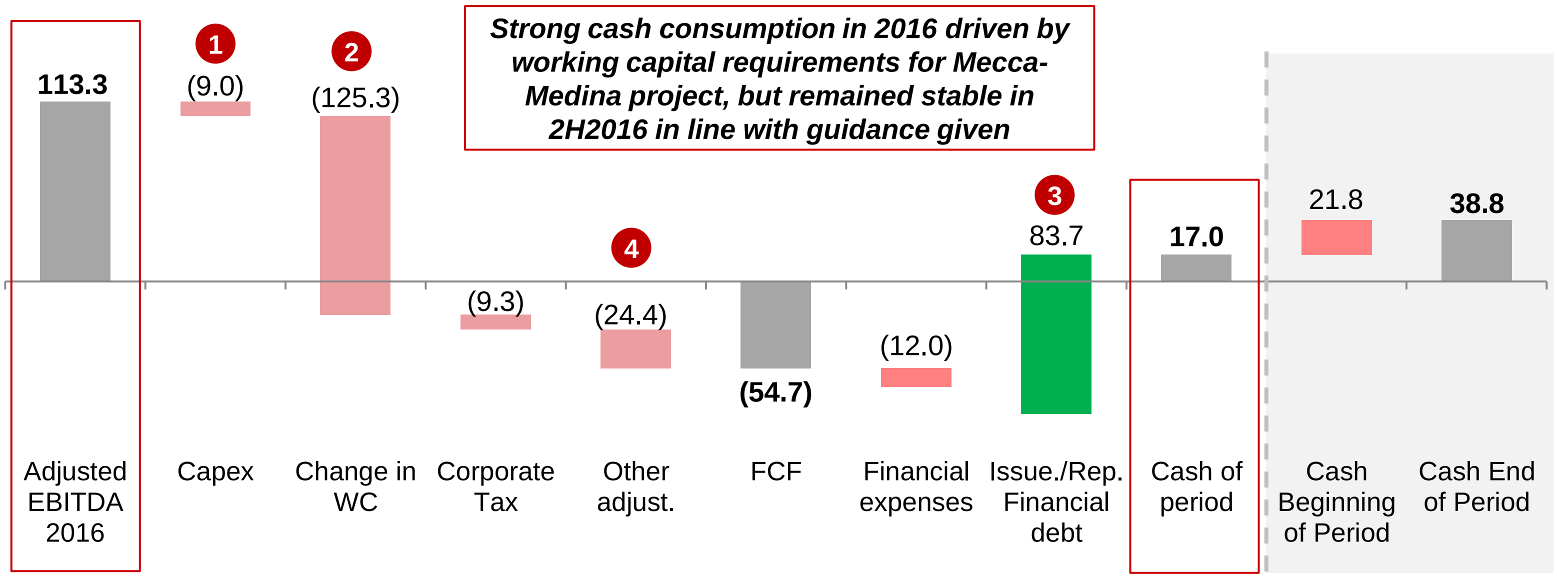
     Receivables decreased over 40 €m in 2H2016, reflecting payments received from clients, in-line with Company expectations.
  2. **Advances received**: decrease driven by the manufacturing project stages.
- Working capital increases in 2015 and 2016 **expected to reverse in 2017**, driven by the expected delivery process in our current key manufacturing projects (mainly Mecca-Medina project).
- Therefore, **net cash inflows expected for 2017 and 1Q 2018** will reduce significantly the working capital and the financial net debt.

Source: Company information

2.3 Cash Flow

1. Throughout 2016 the Company has invested **9.0 €m as Capex,** of which:
   - **R&D activities**: 6.2 €m, mainly comprising the Avril and EMU developments (2.1 €m and 3.5 €m, respectively).
   - **Capex destined for IT improvements**: 0.9 €m.
   - **Maintenance capex** and other: 1.9 €m.
2. Ongoing **manufacturing projects require higher working capital investment**, implying a strong cash consumption in the period and reducing the EBITDA cash conversion. Such investments are expected to be recovered in 2017 and 2018 as products are delivered according to the different project schedules.
3. Talgo **has large credit facilities available and during 2016 closed long term debt with very favorable terms**, to finance both existing projects and potential future projects.
4. Adjustments to non-cash variations, mainly tax-related items.

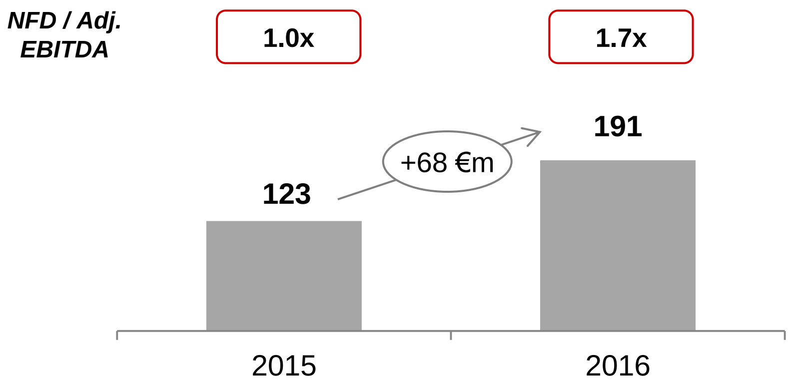
2016 EBITDA Cash Conversion (€m)



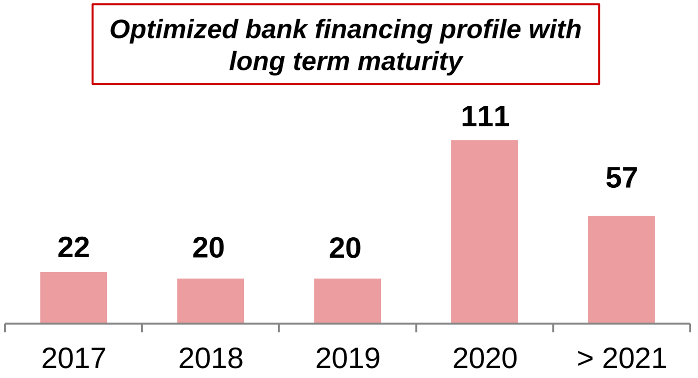
Source: Company information

2.4 Capital structure

Net Financial Debt (€m)[1]



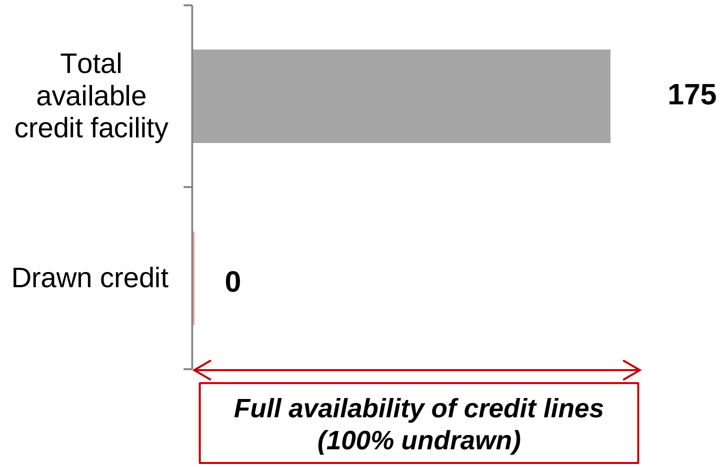
Long term bank loans – Repayment schedule (€m)



- During 2016 Talgo took advantage of the **favorable debt markets** to issue long term debt with **bullet maturities and attractive interest rates** in order to finance both ongoing and forthcoming projects.
- **Gross bank debt amounted 229 €m[1]:**

€m	FY2016
Banco Santander	90.0
European Investment Bank	34.0
BBVA	25.0
La Caixa	25.0
Banca March	55.0
Accrued debt interests	0.8
Total banking debt	**229.8**

Committed credit lines at December 2016 (€m)



(1) Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities related with R&D (24.0 €m in December 2016) which are not considered financial debt as they comprise mainly refundable advances

Source: Company information

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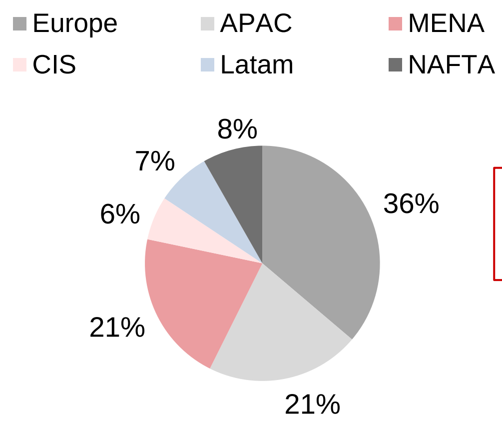
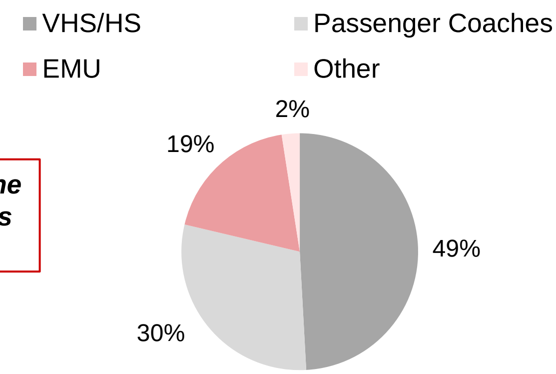
3.1 Commercial developments

Talgo pipeline by geography 2017-2019(1)

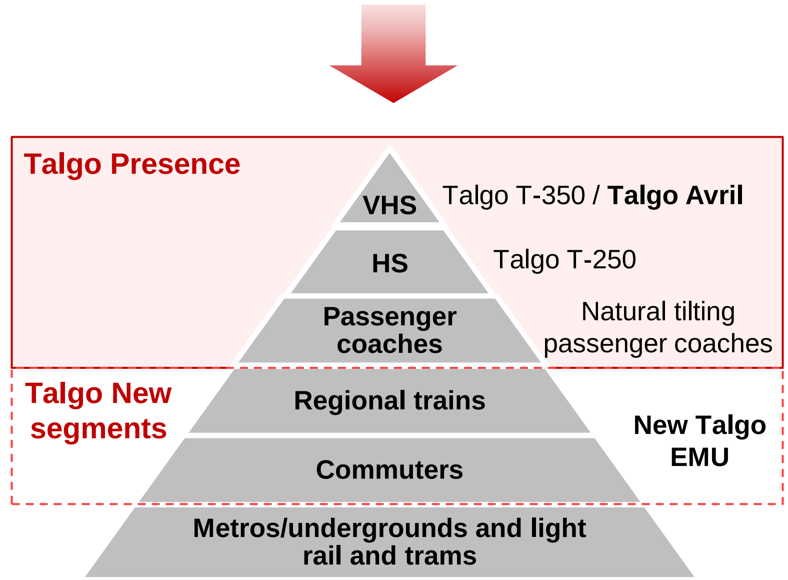


Talgo pipeline by segment 2017-2019(1)



Talgo identified pipeline for the next 24 months amounts to 6.7 €b

- The pipeline shown in the graph above comprises those commercial opportunities in which Talgo is **actively working and expected to be awarded during the period 2017-2019**.
- Tenders identified as attainable for Talgo in the:
  - ✓ **HS/VHS tenders** states as the segment with higher growth potential in the next years (UK, USA, Turkey as main opportunities).
  - ✓ **Passenger coaches** opportunities to take into advantage the Talgo natural tilting system for countries under development.
  - ✓ **Regional commuter trains**: Represents a new market for Talgo with high number of opportunities worldwide.



(1) Maintenance have not been considered in the identified pipeline, which could increase significantly its amount.

Source: Company information

3.2 Summary and Outlook

	Outlook given in 3Q2016	Performance FY2016	Expectations for 2017
Business performance: **Manufacturing / Maintenance activity**	▪ Backlog execution slightly below BoY expectations but reaching high revenues. ▪ Maintenance activity expected to continue providing recurrent cash. ▪ Additional identified tenders still on the pipeline.	▪ Strong backlog execution resulted in higher revenue (+11% YoY). ▪ Successful maintenance services provided. ▪ Substantially increased Backlog with strategic contracts awarded.	▪ Manufacturing execution will continue in ongoing projects. ▪ Maintenance activity expected to continue providing stability and recurrent revenues. ▪ Further internationalization. ▪ Proactive commercial activity.
Profitability	▪ Profitability ratios expected to achieve the Company objectives (>20%).	▪ 20% EBITDA margin reached despite impact of Russia one-off extra costs.	▪ Increase efficiency of Manufacturing process reaching margins over 20%
Cash Flow and Capital Structure	▪ WC increase for FY2016. ▪ NFD in line with 1H2016 with leverage ratio to reach c.1.8x. ▪ EMU development capex to continue in 2H2016.	▪ Working capital remained high as expected, but stable in 2H2016. ▪ Capex in new products (Avril and EMU): 6.2 €m. ▪ Leverage ratio below guidance (1.7x) with comfortable long term banking debt profile.	▪ Improvement of Working Capital profile expected for 2017-2018. ▪ Growth capex expected of 19-20 €m (13 €m for EMU project). ▪ NFD to be reduced in 2017 as manufacturing milestones are met in ongoing projects. NFD/EBITDA target: 1.0-1.2x.
Dividend / Pay-out	▪ Dividend payment reiterated in 1H2016 target pay-out of c.20-30%.	▪ Attractive and optimized shareholder return planned from 2016 profit.	▪ Commitment to remunerate shareholders in 1H2017. ▪ Start of a share buy back program(1).

(1) In line with the Relevant Fact published by the Copmany on Thursday 23rd in CNMV

Source: Company information

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Appendix 1. Profit & Loss

Profit & Loss Account	2016	2015	% Change
Total net turnover	**579.8**	**520.7**	***11.3%***
Other income	2.9	6.6	*(56.2%)*
Procurement costs	(327.7)	(264.7)	*23.8%*
Employee welfare expenses	(96.9)	(98.7)	*(1.8%)*
Other operating expenses	(50.0)	(59.8)	*(16.3%)*
EBITDA	**107.9**	**104.2**	*3.6%*
% margin	*18.6%*	*20.0%*	
Other adjustments	5.4	2.5	*112.5%*
IPO costs & Shares for Employees	-	10.6	*n.a.*
Management Incentive Plan	-	3.2	*(100.0%)*
Adjusted EBITDA	**113.3**	**120.5**	***(6.0%)***
% margin	*19.5%*	*23.1%*	
D&A (inc. depreciation provisions)	(20.3)	(24.1)	*(15.9%)*
EBIT	**87.6**	**80.0**	***9.5%***
% margin	*15.1%*	*15.4%*	
Other adjustments	5.4	2.5	*112.5%*
IPO costs & Shares for Employees	-	10.6	*n.a.*
Management Incentive Plan	-	3.2	*(100.0%)*
AVRIL Amortization	9.3	8.0	*17.4%*
Adjusted EBIT	**102.4**	**104.3**	***(1.9%)***
% margin	*17.7%*	*20.0%*	
Net financial expenses	(6.9)	(5.0)	*39.2%*
Profit before tax	**80.7**	**75.1**	**7.5%**
Tax	(18.9)	(15.5)	0.2
Profit for the year	**61.9**	**59.6**	***3.8%***
Adjusted Profit for the year	**72.9**	**77.1**	***(5.4%)***

Source: Company information

Appendix 2. Balance Sheet

Balance Sheet	Dec. 2016	Dec 2015
FIXED ASSETS	**280.3**	**275.7**
Tangible + intangible assets	117.4	128.1
Goodwill	112.4	112.4
Other long term assets	50.4	35.1
CURRENT ASSETS	**482.6**	**396.3**
Inventories	93.0	88.8
Non- current assets held for sale	6.1	6.1
Accounts receivable	341.7	277.4
Other current assets	2.9	2.2
Cash & cash equivalents	38.8	21.8
TOTAL ASSETS	**762.8**	**671.9**

Balance Sheet	Dec. 2016	Dec 2015
SHAREHOLDERS EQUITY	**293.8**	**231.0**
Capital Stock	41.2	41.2
Share premium	68.5	68.5
Consolidated reserves	4.9	3.9
Retained earnings	179.2	83.7
Other equity instruments	0.0	33.7
NON-CURRENT LIABILITIES:	**265.1**	**183.2**
Debt with credit institutions	207.4	123.5
Provisions	28.1	25.6
Other financial liabilities	19.8	24.5
Other long-term debts	9.7	9.7
CURRENT LIABILITIES:	**203.9**	**257.7**
Accounts payable	174.0	231.0
Debt with credit institutions	22.4	20.7
Other financial liabilities	3.0	2.5
Prov. for other liabilities and other	4.5	3.5
TOTAL S. EQUITY + LIABILITIES	**762.8**	**671.9**

Source: Company information

Appendix 3. Cash Flow Statement

Cash flow statement	2016	2015	% Change
€ million			
Net income	61.9	59.6	*3.8%*
Corporate income tax	18.9	15.5	*21.8%*
Depreciation & Amortization	19.7	19.3	*2.3%*
Financial income/Financial expenses	7.5	6.3	*19.2%*
Other result adjustments	2.6	12.5	*(79.0%)*
Changes in working capital	(162.7)	(118.5)	*37.4%*
Operating cashflows after changes in WC	**(52.2)**	**(5.4)**	***868.2%***
Net interest expenses	2.4	(5.3)	*(145.7%)*
Provision and pension payments	0.0	0.0	*n.a.*
Income tax paid	(8.2)	(9.8)	*(15.9%)*
Other collection and payments	0.0	0.0	*n.a.*
Net cash flows from operating activities	**(58.0)**	**(20.4)**	***184.0%***
Investments	**(9.0)**	**(10.3)**	***(12.0%)***
Changes in financial assets and liablities	83.9	94.6	*(11.3%)*
Purchase of non-controlling interests	0.0	(23.0)	*n.a.*
Dividends payments	0.0	(107.0)	*n.a.*
Net cash flows from financing activities	**83.9**	**(35.4)**	***(336.8%)***
Net variation in cash & cash eq.	**16.9**	**(66.1)**	***(125.5%)***
Cash and cash equivalents BoP	21.8	87.9	*(75.2%)*
Cash and cash equivalents EoP	38.7	21.8	*77.4%*

Source: Company information

Talgo