First Half 2015 Results (January-June)

Madrid, July 24th 2015

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1. 1H 2015 Highlights

- Successful execution of backlog with all projects at or above expected margins and on time
  - *Positive evolution of Mecca-Medina project both in terms of product delivery and train testing*
- Net Turnover € 214.0 mm: +19.8% vs. 1H14
  - *2Q15 revenues 47% above 1Q15; activity expected to further accelerate in 2H15*
  - FY 2015 revenues expected to be in line with company target adjusted by impact of Damman-Riyadh. A potential delay in sale of Wisconsin trains would push these revenues to 2016
- Adj. EBIT € 48.7 mm; +57.3% vs. 1H14 (22.8% margin vs. 17.3% in 1H14)
  - Company expects to achieve EBIT target for 2015 with higher than expected margin due to cost savings achieved in fully executed manufacturing projects
- Adj. Net Profit € 36.9 mm; +65.4% vs. 1H14
- Agreement for the acquisition of a 51% stake in Tulpar
- Net Debt of € 175 mm expected to reach guidance by YE adjusted by cash impact of Damman-Riyadh and acquisition of Tulpar
- Backlog of € 3.5 bn
- Pipeline continues to be very robust with positive ongoing commercial activity

2. Backlog Execution

Key manufacturing and maintenance projects being executed on time and budget

	Benefit / Solution	Update
Mecca-Medina *(Manufacturing)*	✓ *Trains at +300km/h speed* ✓ *Designed to endure extreme weather conditions*	▪ Manufacturing 35 HHR T350 trains + 1 VIP + 20 optional: • 2nd train expected to be delivered at the end of the summer following delivery of 1st train in Dec 2014 • Manufacturing of additional trains according to plan and on time and budget ▪ Train testing: • Dynamic testing with first train has started in July 2015 with positive results • Static testing of the second train has recently successfully concluded • Static testing for third and fourth trains to be executed during the summer
Kazakhstan *(Manufacturing)*	✓ *Reduction of travel time on existing infrastructure* ✓ *Designed to endure extreme weather conditions*	▪ 420 +16 passenger cars: final delivery expected by the end of 2015 ▪ 603 passengers cars: kits for first 12 cars already delivered to the Tulpar manufacturing plant for final assembly ▪ Agreement for the acquisition of a 51% stake in Tulpar will enable us to increase cost efficiencies while improving capacity utilisation *(see next page)*
Russia *(Manufacturing)*	✓ *Reduction of travel time on existing infrastructure* ✓ *Designed to endure extreme weather conditions*	▪ All 7 trains already fully manufactured: • 4 trains (Moscow-Nizhny Novgorod): successful commercial operations since June 1st providing high reliability service (c.100%) to a high occupation line (85%) • 3 trains (Moscow-Berlin): certification & dynamic testing in progress
Maintenance	✓ *Reliability and improved customer safety and experience* ✓ *Quality of service delivery*	▪ All projects being successfully executed ▪ Company continues to implement actions to further improve operational and cost efficiencies

3. Update on Tulpar Transaction

Agreement for the acquisition of a 51% stake in Tulpar to optimize backlog execution and enhance Talgo's position for future order intake

Transaction Highlights

Transaction

- Establishment of a manufacturing plant in Kazakhstan
- Based on current contracts, the plant will run at full capacity until 2018
- Investment of €33 mm (€ 23 mm already paid + € 10 mm at closing of transaction)
- Transaction expected to be closed in Q4 2015

Strategic Rationale

- Access to low cost manufacturing base
- Strengthen competitive positioning in the region ahead of future growth opportunities both in manufacturing and maintenance activities
- Boost factory efficiency and capacity utilisation by implementing Talgo's proven best practices

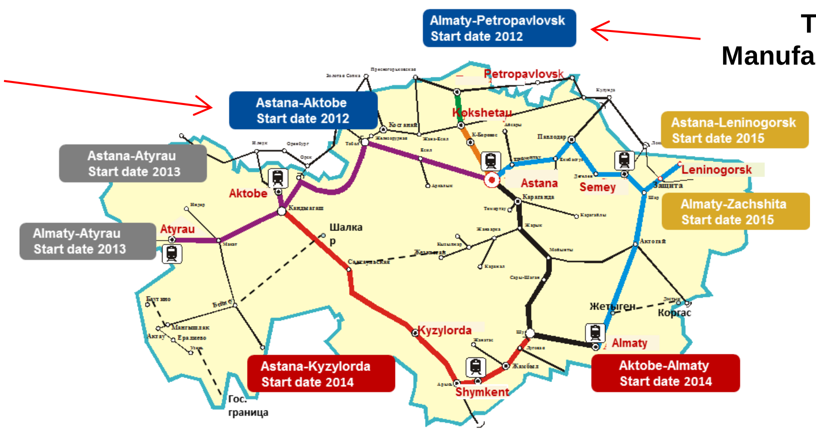
Recent Developments

- New General Manager, CFO and COO in place
- Training of employees showing positive results through improvements in efficiency

Footprint

Aktobe,
New maintenance center

Tulpar,
Manufacturing plant



Talgo

4. Commercial Activity - Damman-Riyadh

Order status

- Following the reassessment of their rolling stock needs, on July 15th 2015 Saudi Railways Organization ("SRO") communicated to Talgo its decision not to proceed with the signature of the $ 201 mn Damman-Riyadh contract which was awarded in February 2015
- SRO will delay any final decision regarding a new tender for this order until their internal analysis is finalized
- In a press release issued at the time of the announcement of its decision on the reassessment of rolling stock needs (http://www.saudirailways.org/portal/page/portal/PRTS/root/Article_05), SRO emphasized its appreciation for Talgo, considering the company as one of the global manufacturers, while praising its technologies and the role of Talgo as manufacturer of the train sets for the Mecca-Medina project
- The execution of the Damman-Riyadh order was not expected to have a material impact on Talgo's P&L until 2017 onwards
- **SRO remains as key strategic partner for Talgo through the execution of the flagship Mecca-Medina project and we expect to continue our successful relationship with future new business in the region**

4. Commercial Activity (cont´d)

Pipeline continues to be very robust with positive ongoing commercial activity

5. Profit & Loss

Adj. EBIT +57.3% vs. 1H14; adj. EBIT margin 22.8% vs. 17.3% in 1H14

Profit & Loss Account	1H15	1H14	% Change
€mm			
Total net turnover	**214.0**	**178.6**	**19.8%**
Other income	6.4	2.4	166.5%
Procurement costs	(103.7)	(82.0)	26.4%
Employee welfare expenses	(50.8)	(47.7)	6.6%
Other operating exp. and other results	(26.7)	(22.1)	20.6%
EBITDA	**39.2**	**29.3**	**34.1%**
% margin	*18.3%*	*16.4%*	
IPO costs & Shares for Employees	11.5	0.8	n.a.
Management Incentive Plan	3.2	5.0	-36.2%
Adjusted EBITDA	**53.9**	**35.1**	**53.5%**
% margin	*25.2%*	*19.7%*	
D&A (inc. depreciation provisions)	(9.0)	(8.4)	6.5%
EBIT	30.2	20.8	45.3%
% margin	*14.1%*	*11.7%*	
IPO costs & Shares for Employees	11.5	0.8	n.a.
Management Incentive Plan	3.2	5.0	(36.2%)
AVRIL Amortization	4.0	3.8	4.9%
Depreciation provisions	(0.2)	0.5	(130.1%)
Adjusted EBIT	**48.7**	**31.0**	**57.3%**
% margin	*22.8%*	*17.3%*	
Net financial expenses	(2.3)	(2.6)	(10.0%)
Profit before tax	27.9	18.2	53.2%
Tax	(4.4)	(3.2)	33.9%
Profit for the year	**23.5**	**15.0**	**57.4%**
Adjusted Profit for the year	**36.9**	**22.3**	**65.4%**

- Higher turnover in 1H 2015 vs 1H 2014 mostly driven by manufacturing revenues from execution of contracted backlog (mainly Mecca-Medina and Kazakhstan)
- Adj. EBITDA and Adj. EBIT higher than 1H 2014 due to

  (i) the stage of completion of manufacturing projects;

  (ii) improvement in manufacturing project margins; and

  (iii) control of overhead expenses

  - Personnel costs without one offs grow just by 1.4%
  - Other operating expenses without IPO costs are lower in 1H 2015 by 2.5%
- Adj. EBITDA and Adj. EBIT margins significantly above 1H 2014 thanks to positive contribution of manufacturing projects with higher than expected margin due to cost savings achieved in fully executed projects
- Adjustments include one off items:
  - Cost related to the disbursement of shares to employees after the IPO (€ 5.2 mm) included under Employee welfare expenses
  - MIP (€ 3.2 mm) liquidated at listing
  - IPO costs (€ 5.2 mm) included under Other operating costs
  - AVRIL Amortization (€ 4 mm)
- Following auditor's request, Talgo has booked the impact of the Management Incentive Plan "MIP" (linked to the listing and already liquidated) directly against shareholders equity, with no effect on P&L (except for the amount already provisioned prior to the IPO), which implies a significant positive impact on reported Net Income
  - No impact on tax shield from MIP, which is fully accountable

6. Cash Flow

Cash flow generation in H1 2015 driven by (i) funding of working capital needs of manufacturing projects, (ii) extraordinary one off payments linked to IPO, and (iii) execution of investment program

Cash flow statement	1H15	1H14	% Change
€ million			
Net Profit	23.5	15.0	57.4%
Corporate income tax	4.4	3.2	33.9%
Depreciation & Amortization	9.0	8.4	6.7%
Financial income/Financial expenses	2.6	2.7	(3.6%)
Other result adjust. (MIP & purchase emp. shares)	7.3	6.6	9.9%
Change in working capital	(113.7)	(48.3)	135.5%
Operating cashflows after changes in WC	**(66.9)**	**(12.3)**	**444.5%**
Net interest expenses	(2.1)	(2.9)	(27.5%)
Provision and pension payments	0.0	0.0	
Income tax paid	(2.3)	(3.6)	(35.3%)
Other collection and payments	0.0	0.0	
Net cash flows from operating activities	**(71.3)**	**(18.8)**	**280.0%**
Investments	**(28.9)**	**(12.9)**	**124.9%**
Changes in financial assets and liablities	137.0	8.9	1431.5%
Cash impact of MIP execution & purchase emp. shares	(107.4)	0.0	
Purchase of treasury shares and Dividend payments	0.0	0.0	
Net cash flows from financing activities	**29.6**	**8.9**	**230.6%**
Net increase/(decrease) in cash & cash equivalents	(70.7)	(22.7)	211.5%
Cash and cash equivalents BoP	87.9	96.0	(8.4%)
Cash and cash equivalents EoP	17.2	73.3	(76.5%)

- "Other result adjustments" mostly include P&L impact re MIP and purchase of employee shares
- As expected and according to guidance, "Change in working capital" is negative due to the stage of the manufacturing projects *(see next page)*
- "Investments" of € 28.9 mm including:
  - Tulpar acquisition: € 23 mm
  - Capex: € 5.9 mn:
    - Recurrent: € 1.2 mn
    - New products: € 2.9 mm
    - Capacity expansion: € 1.8 mm
- Increase in financial liabilities including new financing lines at attractive terms
- "Cash impact of MIP execution" reflects the share purchases for both the Management Incentive Plan (plus taxes) and the disbursement of shares to Talgo's employees

7. Working Capital Detail

Increase in working capital needs linked to growth in manufacturing activity

Change in working capital	1H15
€ mm	
Inventory	(14.8)
Accounts receivable	(55.7)
Trade and Other payables (inc. Advances received)	(44.7)
Other assets and liabilities	1.5
Change in working capital	**(113.7)**

- Increase in "Inventories" linked to higher manufacturing activity
- Growth in "Accounts Receivable" mainly driven by:
  i. the generation of a tax credit, and
  ii. increase in manufacturing activity for the Mecca-Medina and the Kazakhstan projects
- "Trade and other payables" decreased as "Advances received" were consumed given manufacturing activity

- *Talgo's working capital can vary significantly depending on the size and stage of each contract and agreed payment milestones. The manufacturing business is the main driver of working capital swings*
- *Order intake and cash generation needs to be analysed in about three year rolling basis given the size of contracts, the associated impact of prepayments and the phasing of each project*
- *All the EBITDA coming from the projects executed since January 2015 will be converted into cash during the life of the projects*

8. Net Financial Debt

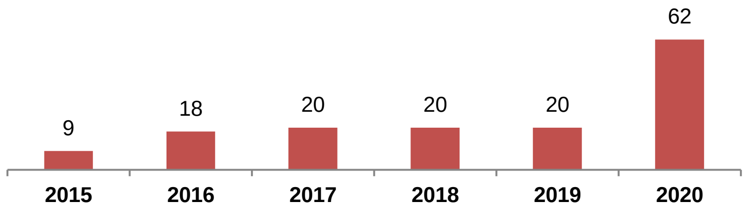
Sound balance sheet with comfortable financing position and ample available liquidity

Financial debt	June 2015	Dec 2014
€ million		
Long term financial liabilities	131.5	42.6
Short term financial liabilities	60.5	10.9
Cash & cash equivalents	(17.2)	(87.9)
Net financial debt	174.8	(34.4)
Adjusted LTM EBITDA	108.8	
Net financial debt / Adjusted LTM EBITDA	*1.6x*	

- Bank financing (€ 192 mn):
  - €100 mm bank loan with Banco Santander;
  - € 50 mm with the European Investment Bank, and
  - c. € 41mn of credit lines

- *Talgo has currently available credit lines of €130 mm, of which undrawn ca. €90mm*
- *Comfortable bank financing maturity profile (c. €10mm in 2015, and ca. 20 per year in 2016-2019)*
- *See outlook for net debt position in next page*

Maturity Profile - Bank Loans, mm €



Notes:

Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities related with R&D, which are expected to remain constant

9. Outlook

Following positive performance of Talgo during H1 2015, the company confirms provided guidance:

	The Future Ahead
Net Turnover	▪ Expected cumulative backlog completion of c. 30-35% during 2015 and 2016 • 2015 expected to be in line with company target adjusted by Damman-Riyadh. A potential delay in the sale of Wisconsin trains would push these revenues to 2016 • Identified manufacturing contract pipeline of €9.9-€13.4bn over the next 4 years
EBITDA & EBIT	▪ Company expects to achieve EBIT target for 2015 with higher than expected margin due to cost savings achieved in fully executed manufacturing projects ▪ Adj. EBIT margin for 2016 expected to be in line with historical 2013-14 average
Capex	▪ Recurring capex in line with historical absolute levels ▪ c. €20-35 mm of extraordinary capex over 2015-2016 for (i) finalisation of capacity expansion and (ii) new product development
Net Debt	▪ Net financial debt at year end will be in line with guidance previously provided (in line with 2014 level adjusted for MIP and IPO fees) plus the purchase price of Tulpar acquisition (€23mm paid in June 2015 and €10mm to be paid in 4Q15) and Dammam-Riyadh (net cash 2015 €12mn)
Net Profit	▪ Company will close 2015 with significant higher reported net income than expected as a result of booking the MIP impact directly against reserves. No impact on tax shield from MIP, which is fully accountable
Dividends	▪ Target dividend pay-out ratio of c.20-30% ▪ First dividend starting in 2016

10. Closing Remarks

We remain confident on the bright future of the company

- **Unique set of technologies that sets us apart from competitors in an attractive market with many opportunities for which Talgo is uniquely positioned, …**
- **…. we continue to deliver best-in-class margins while executing a €3.5bn backlog that includes landmark contracts such as Mecca-Medina, where our relationship with the customer continues to strengthen day-by-day, and …**
- **… we continue to grow our stable maintenance business while working to achieve further growth in both new markets and products, such as Commuter Regional Trains, where we have high expectations for the future ahead**

Appendix

- Balance Sheet
- Profit & Loss Account 2Q15 vs. 1Q15
- Profit & Loss Account 2Q15 vs. 2Q14

Appendix I - Balance Sheet

Balance Sheet	June 2015	Dec 2014
€ million		
FIXED ASSETS	**281.5**	**267.1**
Tangible assets	70.1	70.9
Intangible assets	63.9	66.2
Goodwill	112.4	112.4
Other long term assets	35.0	17.6
CURRENT ASSETS	**349.6**	**326.2**
Inventories	87.8	71.7
Non- current assets held for sale	6.1	6.1
Accounts receivable	236.7	158.5
Other current assets	0.1	0.2
Cash & cash equivalents	17.2	87.9
Periodification adjustments	1.7	1.8
TOTAL ASSETS	**631.1**	**593.3**

Balance Sheet	June 2015	Dec 2014
SHAREHOLDERS EQUITY	**195,4**	**249,6**
Capital Stock	41,2	41,2
Share premium	68,5	68,5
Consolidated reserves	4,4	2,6
Retained earnings	47,6	106,9
Other equity instruments	33,7	30,5
NON-CURRENT LIABILITIES:	**192,3**	**105,4**
Debt with credit institutions	131,5	42,6
Provisions	23,7	22,9
Other financial liabilities	29,0	31,2
Other long-term debts	8,1	8,7
CURRENT LIABILITIES:	**243,3**	**238,3**
Accounts payable	177,2	222,2
Debt with credit institutions	60,5	10,2
Other financial liabilities	2,2	2,1
Provisions for other liabilities and other	3,4	3,7
TOTAL SHERHOLDERS EQUITY + LIABILITIES	**631,1**	**593,3**

Appendix II - P&L: 2Q15 vs 1Q15

Profit & Loss Account	2Q15	1Q15	% Change
€mm			
Total net turnover	**127.5**	**86.5**	**47.3%**
Other income	5,6	0,8	584.7%
Procurement costs	(69.4)	(34.3)	102.6%
Employee welfare expenses	(26.6)	(24.2)	10.2%
Other operating expenses and other results	(13.9)	(12.8)	8.9%
EBITDA	23.1	16.1	43.2%
% margin	*18.1%*	*18.6%*	
IPO costs & shares for employees	10.1	1.3	n.a.
Management incentive plan	1.6	1,6	-0.1%
Adjusted EBITDA	**34.8**	**19.1**	**82.8%**
% margin	*27.3%*	*22,0%*	
D&A (inc. depreciation provisions)	(4.5)	(4.5)	1.4%
EBIT	18.6	11.7	59.2%
% margin	*14.6%*	*13.5%*	
IPO costs & shares for employees	10.1	1.3	n.a.
Management incentive plan	1.6	1.6	-0,1%
AVRIL Amortization	2.0	2.0	0,0%
Depreciation provisions	(0.2)	0.0	n.a.
Adjusted EBIT	32.2	16.6	93.9%
% margin	*25.2%*	*19.2%*	
Net financial expenses	(1.9)	(0.5)	316.6%
Profit before tax	16.7	11.2	48.8%
Tax	(1.7)	(2.7)	-38.5%
Profit for the year	**15.0**	**8.5**	**76.4%**
Adjusted Profit	**24.8**	**12.1**	**121.0%**

Appendix III - P&L: 2Q15 vs 2Q14

Profit & Loss Account	2Q15	2Q14	% Change
€mm			
Total net turnover	**127.5**	**99.4**	**28.3%**
Other income	5.6	1.2	366.3%
Procurement costs	(69.4)	(46.7)	48.5%
Employee welfare expenses	(26.6)	(24.4)	9.2%
Other operating expenses and other results	(13.9)	(12.8)	8.5%
EBITDA	**23.1**	**16.6**	**38.9%**
% margin	*18.1%*	*16.7%*	
IPO & Shares for employees	10.1	0.4	n.a.
Management incentive plan	1.6	2.5	-36.5%
Adjusted EBITDA	**34.8**	**19.6**	**77.7%**
% margin	*27.3%*	*19.7%*	
D&A (inc. depreciation provisions)	(4.5)	(4.2)	7.5%
EBIT	18.6	12.4	49.5%
% margin	*14.6%*	*12.5%*	
IPO & Shares for employees	10.1	0.4	n.a.
Management incentive plan	1.6	2.5	-36.5%
AVRIL Amortization	2.0	1.9	4.9%
Depreciation provisions	(0.2)	0.5	-137.6%
Adjusted EBIT	**32.1**	**17.8**	**80.3%**
% margin	*25.2%*	*17.9%*	
Net financial expenses	(1.9)	(0.9)	86.4%
Profit before tax	16.7	11.5	44.8%
Tax	(1.7)	(1.7)	-0.6%
Profit for the year	**15.0**	**9.9**	**52.5%**
Adjusted Profit	**24.8**	**13.7**	**81.0%**

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