Talgo 2017 FY Results

February 27th, 2018

Table of content

Key business highlights 2017

Main financial highlights

- **2,783 €m contracted backlog** as of FY2017 (3,100 €m if all awards are considered).
- **Significant cash generation cycle** started as expected, reaching **188 €m of FCF in 2017.**
- **NFD amounted 30 €m(1)** at FY2017, resulting on **0.3x NFD/Ebitda** ratio.
- **Net turnover reached 384 €m in 2017** (-34% vs 2016) reflecting the normal manufacturing cycle of the main contracts currently under execution.
- **Adjusted Ebitda amounted 88 €m**, reaching up to 23% of Adjusted Ebitda margins (20% in 2016).
- **Adjusted Net Profit reached 43 €m**, resulting on 11% Net Margin (12% in 2016).

Main operational highlights

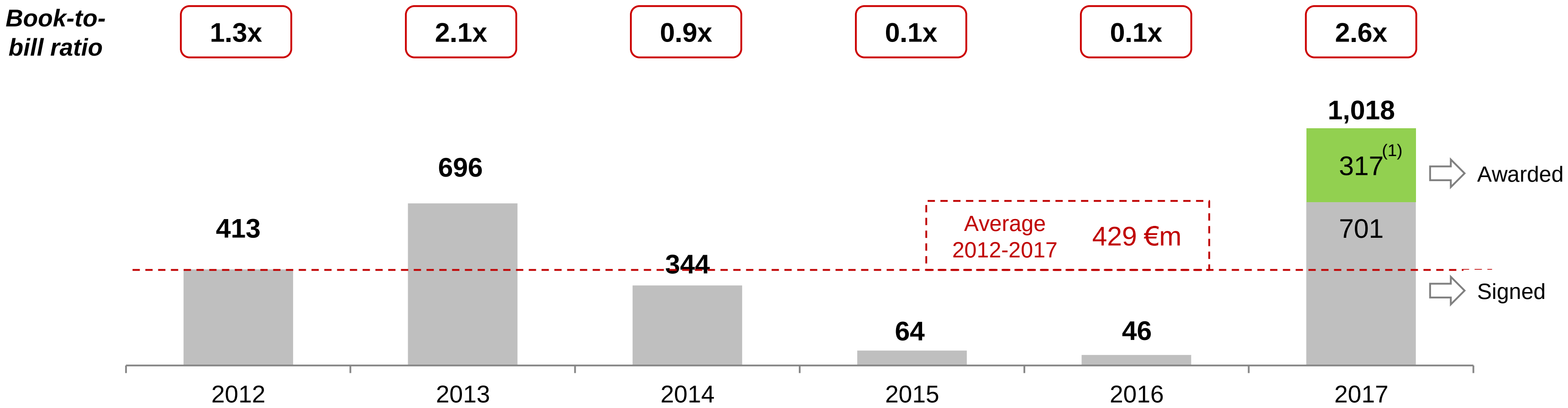
- **Order book strengthened with above 1.0 €b of contracts awarded and signed,** highest level since 2011.
- **Execution of current manufacturing backlog on time and budget**.
- **Successful maintenance activity** providing high recurrence and stability to the business.
- **Strong commercial activity** in both existing and new opportunities**.**
  - Europe as main source of opportunities in short and medium term (lead by Spain and UK).
  - Wide number of opportunities mainly in VHS/HS and commuter/regional segments.

(1) Does not include loans with public administrations related to R&D projects.

Source: Company information

Highest award level achieved in the last 7 years (2.6x)

Order intake evolution 2012 – 2017 (€m)



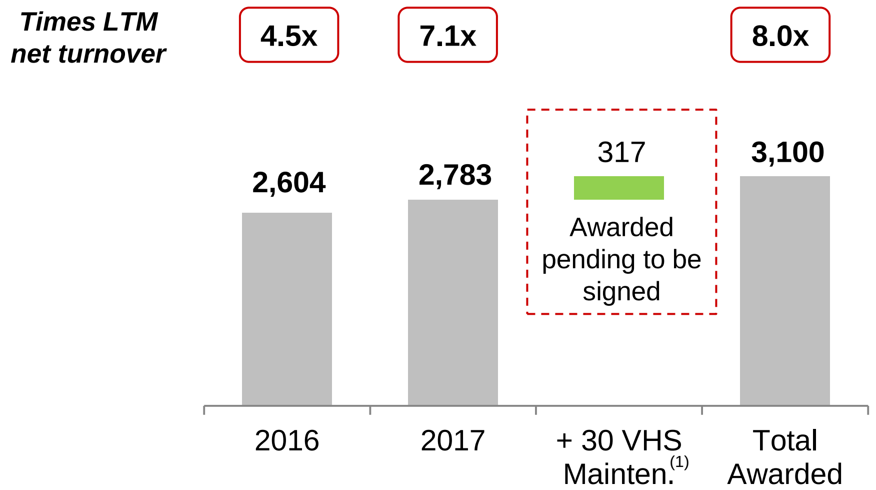
- New orders signed in 2017 amounted 701 €m, **reaching over 1 €bn of total order intake** if awards pending to be signed are considered (Spanish VHS maintenance contract).
- This represents **2.6x Book-to-bill ratio**, the highest achieved by the Company in the last 6 years.
  - **RENFE VHS project** for the manufacture (580 €m) and maintenance (317 €m[(1)]) of 30 VHS trains.
  - **Maintenance contracts signed in the year** for Spanish hauled passenger coaches and Uzbekistan 4 VHS trains already in operation **amounted 80 €m.**
  - New contracts to provide **overhaul services and maintenance equipment for worldwide operators amounted 40 €m** in the year**.**
- In addition, in February 2018 Talgo was awarded with a contract for the conversion of night Talgo coaches into 19 VHS trains, which amounts up to 151 €m (of which 6 trains - 44 €m are optional).

(1) Note: Contract awarded not yet signed, which considers 50% share of maintenance in Spain 30 trains VHS contract to be executed through a JV with Renfe

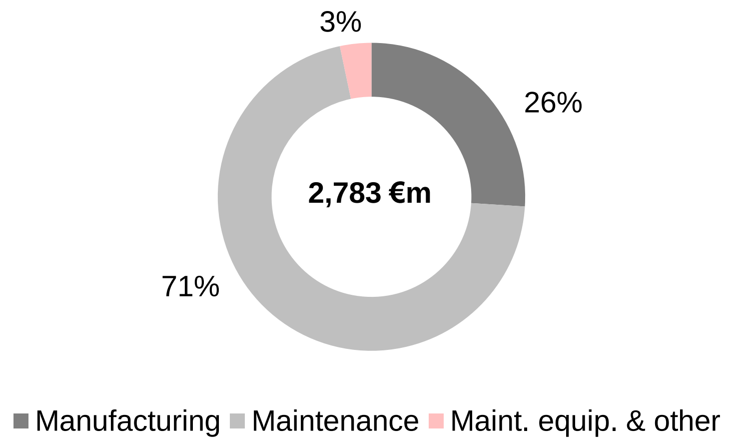
Source: Company information

Delivering highest backlog ratios in the industry (8.0x)

Backlog evolution as of December 2017 (€m)



2017 Backlog by business line



- **Backlog reaches up to 2.8 €b** (3.1 €b if all awarded contracts are considered) which represents **8.0x revenues of 2017**, leading ratio in the rolling stock industry.
- **723 €m of manufacturing backlog ensures the industrial activity** for he next years, while **71% of order book correspond to maintenance services**, which provide long-term revenues visibility and strong cash generation capacity.
- Maintenance equipment and overhaul business lines states as **complementary but also solid and recurrent revenues and cash flow contributors (3% of backlog).**

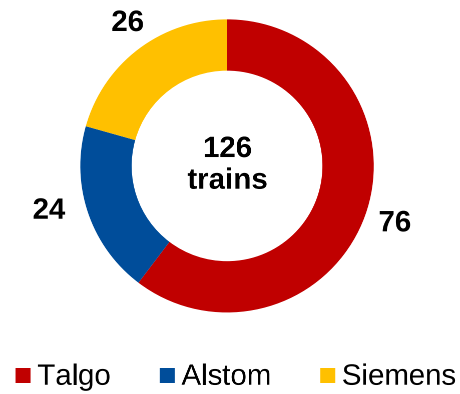
(1) Contract awarded not yet signed, which considers 50% share of maintenance in Spain 30 trains VHS contract to be executed through a JV with Renfe.

Source: Company information

Achievement of largest VHS contract in Europe

- **Scope of the contract**: manufacture of 30 VHS trains "AVRIL" and maintenance for a period of 30 years. Total award for **Talgo's scope amounts 897 €m.**
- **Execution performance**: project execution already started
  - Schedule of staggered deliveries starting from 2020.
  - Currently in engineering and designing phase, expected to strength revenues contribution from 2H2018 onwards.
- The **first public tender in which Talgo offered its new AVRIL VHS train**, developed during recent years and providing the most advance technology of the industry:
  - Lighter train in the market → lower energy consumption
  - Wide coach design (3+2) → higher capacity in one floor

Spanish VHS market by 2020[1] (# of trains)



(1) trains running at >300 km/h
Source: Company information

Successful execution of Mecca-Medina VHS project

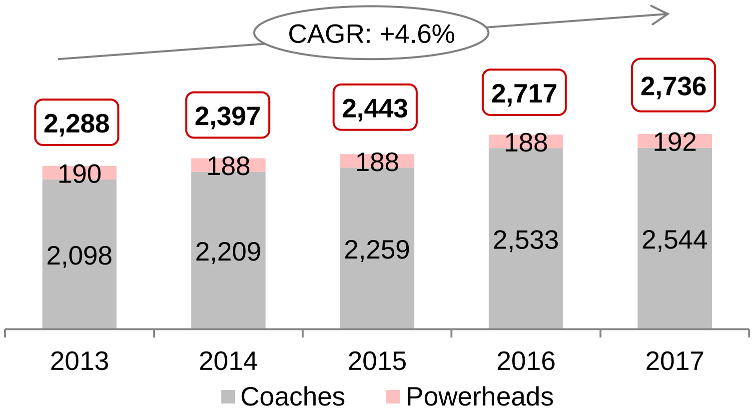
- **Scope of the contract: manufacture of 36 VHS Talgo 350 trains** (option for 20 additional trains), and their **maintenance for a 12 years period**.
- **Execution performance**: project under execution **in line with Company expectations** with initial operations starting in 2018:
  - **33 trains are already finished**, out of which 14 trains have already been sent to Arabia and additional 7 ready to be shipped in the coming weeks.
  - Manufacturing activity **expected to finished in 2018**.
  - **Successful performance of the trains in testing activities** overcoming significant static and dynamic tests to meet client expectations and payment milestones.
  - **Provisional acceptance** of trains and start of commercial operations in 2018 (final schedule pending to be agreed with SRO).
- As a result, the project continues to be successfully **executed with service excellence** provided to the client and **no significant risks identified**.
- **Significant payments received in 2017,** thus recovering working capital investment in the project. However**, noteworthy payment milestones are still expected to be reached** as shipment and tests continues as well as the provisional acceptance of the trains.

Source: Company information

Increasing fleet continue to grow maintenance revenues

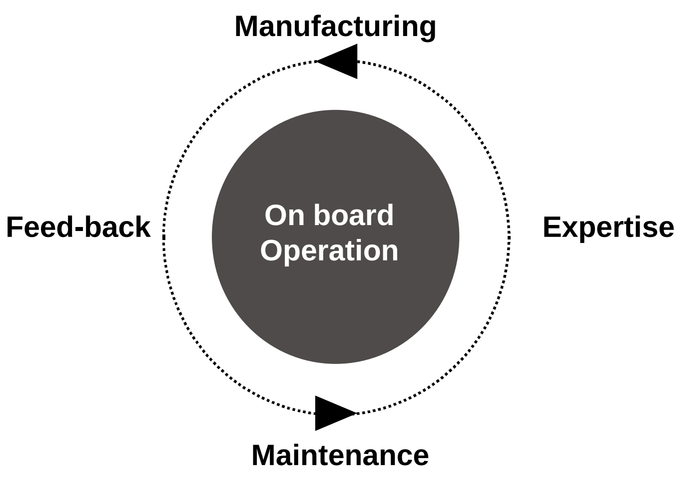
- Talgo provides maintenance services to **its manufactured trains and to units produced by third-parties**.
- A solid maintenance portfolio together with a strong expertise and an efficient feedback strategy provides the Company with an **stable and recurrent activity**.
- **Successful execution of all contracts** throughout the year, providing high reliability, quality and customer safety, while improvements are continuously implemented increasing operational and cost efficiencies.
- The maintained fleet is expected to **continue growing** as the contracted manufacturing backlog is delivered.
  - As of December 2017, maintained fleet reached 2,736 units (+4.6% CAGR in the period 2013-2017).
  - **By 2021 maintained fleet is expected to reach close 4,000 units with current manufacturing backlog.**

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



(1) Include both cars and powerheads.
Note: Additional c. 80 coaches (stable over the period 2013-2017) manufactured by third parties are maintained by Talgo in Germany. Such cars are around two times longer than Talgo standard coaches.

Company maintenance strategy



Source: Company information

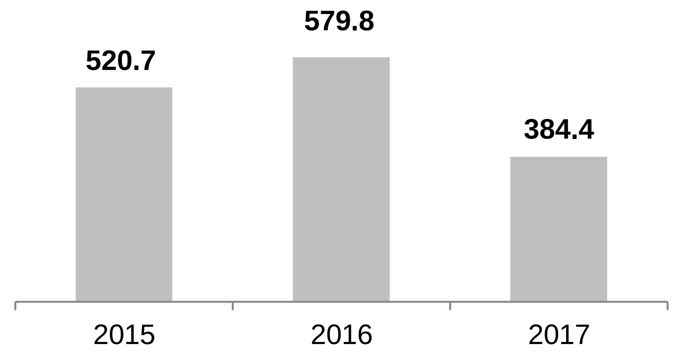
Table of content

Talgo

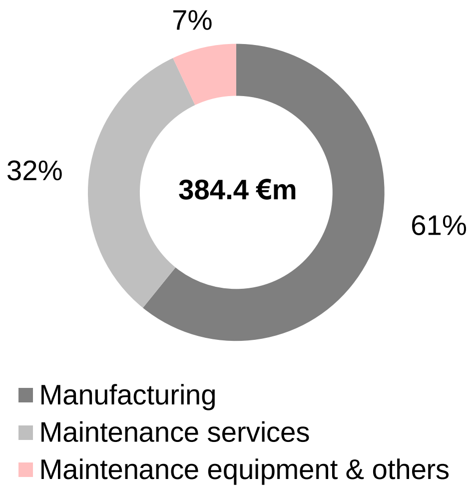
Profit & Loss – Revenues in line with projects execution schedule

- **Net Turnover reached 384 €m in 2017,** 34% below 2016 driven by lower manufacturing activity **in accordance with manufacturing schedules of executed projects:**
- Net turnover recognition reflects the **manufacturing cycle** of the main projects under execution.
- **Manufacturing activity**:
  - ✓ Projects execution on budget and meeting schedules set with the customers.
  - ✓ Manufacturing activity represented 61% of total turnover in the period 2015-2017, partially supported by Mecca-Medina project.
  - ✓ 2018 to change projects weighting on turnover from Mecca-Medina to Spanish VHS.
- **Maintenance Activity**:
  - ✓ Recurrent and stable cash generation with **long-term contracts**.
  - ✓ Current manufacturing projects under execution are expected to **significantly increase the maintained fleet** in the following years.
  - ✓ Successfully meeting **quality and reliability** KPIs.

Net turnover (€m)



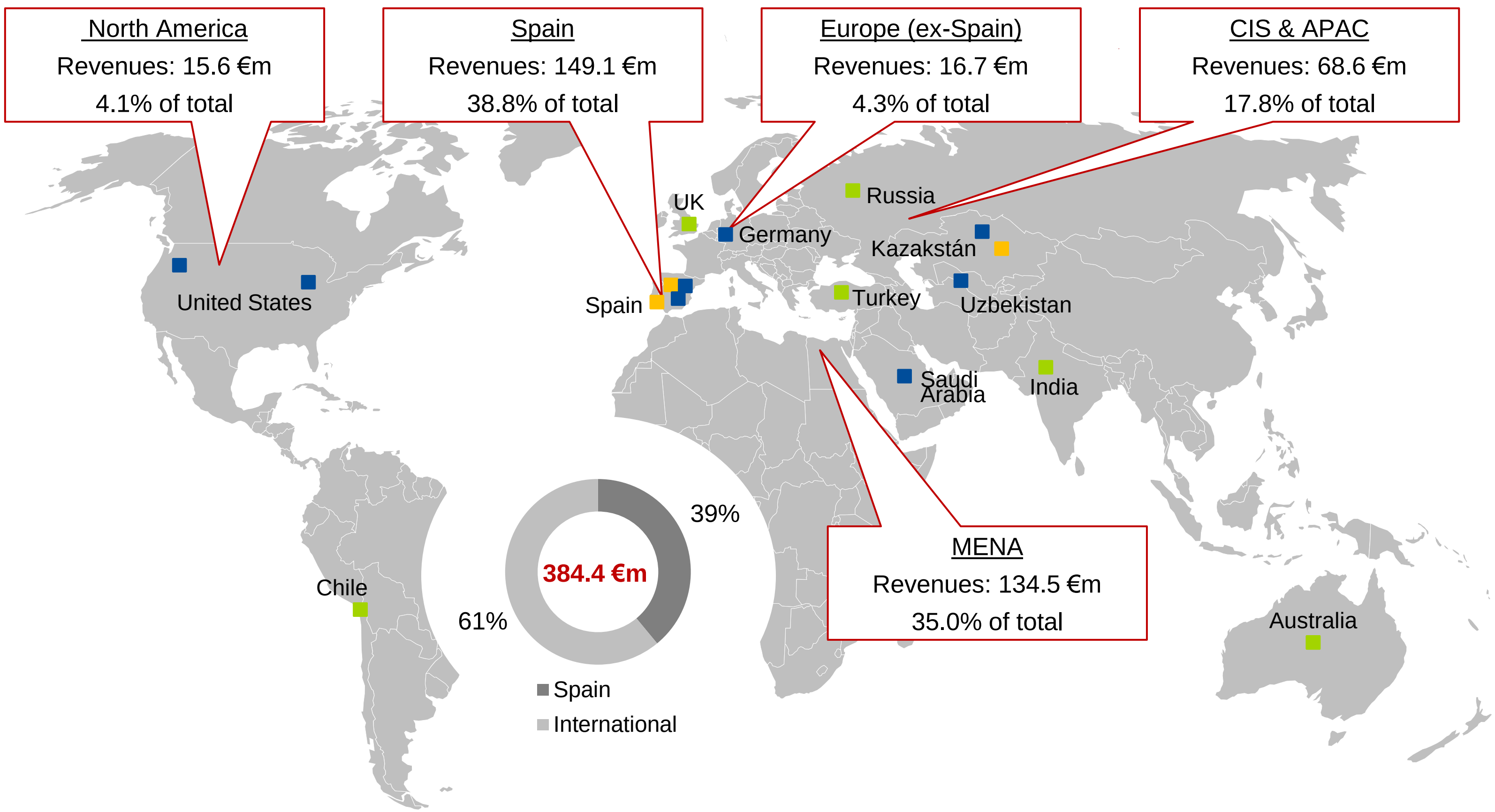
Net turnover by business line (average 2015-17)



Source: Company information

Talgo international presence

Net turnover in 2017 by geography (€m)



International markets represented 61% of Company revenues in 2017, still supported by manufacturing activity (Mecca-Medina mainly) contract in MENA.

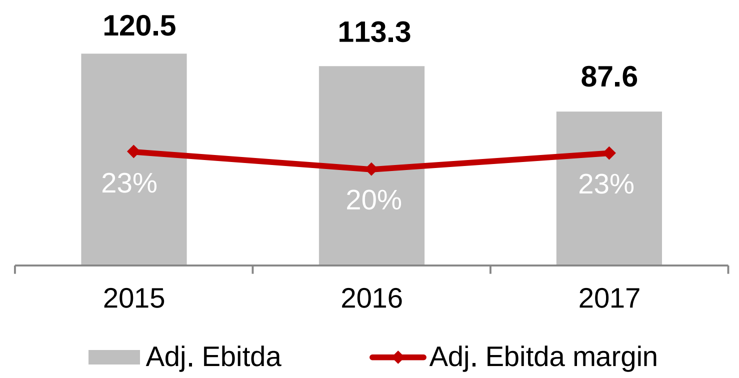
- Countries where trains, services and equipment have been sold
- Countries where maintenance equipment has been sold
- Offices & Maintenance Workshops
- Manufacturing Plants
- Commercial Agents / Offices

Source: Company information

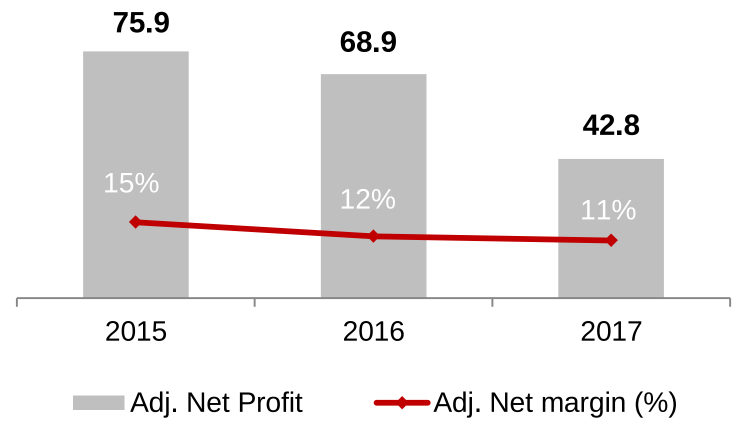
Profit & Loss – Delivering best-in-class Ebitda margins

- **Adjusted Ebitda reached 86.1 €m in 2017** (23% below 2016), in line with manufacturing pace.
- However, **Ebitda margin increased in the period to 23%** reflecting:
  - ✓ **Successful performance of the projects** under execution and finished.
  - ✓ **Personnel expenses** increase due to projects requirements and commercial activity strengthening.
- **Delivery of high returns**, enhancing Ebitda margin above the Company year end target (22%).
- Main adjustments made to Ebitda include one-off items, mainly layoff compensations and bank guarantee fees.
- **Adjusted Net Profit reached 42.8 €m.**
  - ✓ Higher financial expenses mainly due to higher gross debt with low interest rates.

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



Adjusted Profit (€m) and Adjusted net margin (%)

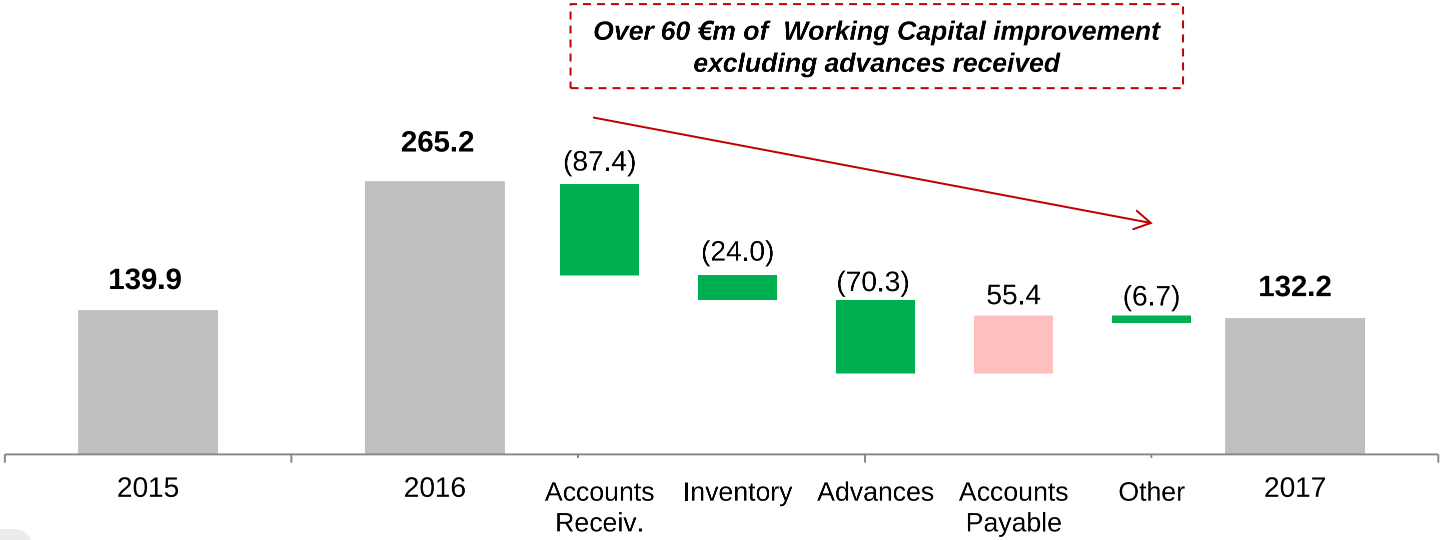


Source: Company information

Working capital back to normalized levels

- **Working Capital decreased in 2017 in line with Company expectations**:
  - ✓ **Accounts receivable and payables**: YoY variation reflect stage of manufacturing projects under execution (receivables decrease mainly due to collections from Mecca-Medina project).
  - ✓ **The lower level of inventory** reflects the late stages of the main manufacturing projects.
  - ✓ **Advances received**: reflects the prepayments related to recent awards (mainly Spain VHS).
- As a result, after reaching historical highest levels in 2016, Working Capital pulled back in 2017 to **normal levels in accordance to the company business model and profile of targeted projects.**
- Working Capital could reflect **additional contraction in 2018** despite expected consumption of advances.

Working Capital performance (€m)

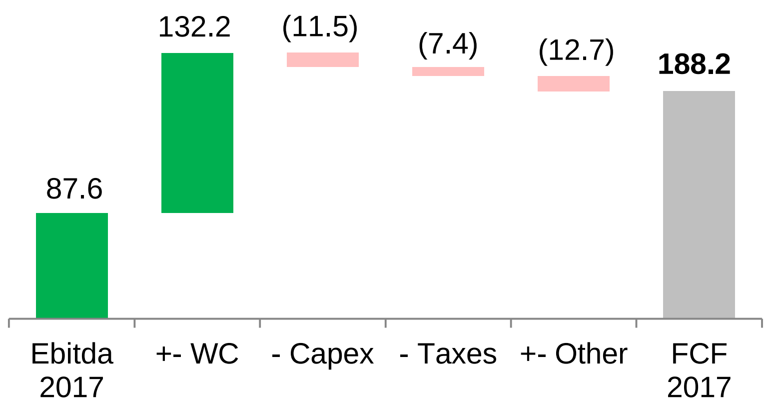


Source: Company information

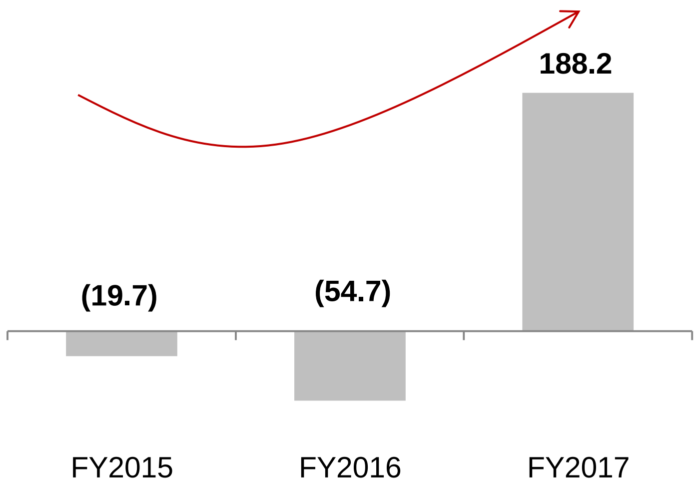
Significant cash generation cycle started

- **Strong cash flow generation registered in 2017 (188 €m of FCF)**, as a result of a successful projects management and delivery, thus beating expectations in terms of Cash Flow generation.
  - ✓ WC recovery to enhance cash generation in the period.
  - ✓ 11.5 €m of Capex, out of which 4.3 €m corresponds to R&D activities.
- **Nonetheless, additional net cash inflows are expected to continue in 2018** driven by the delivery process in our current key manufacturing projects (mainly Mecca-Medina project), **reducing significantly the Working Capital** and subsequently the **Net financial Debt** of the Company.

Ebitda Cash Conversion (€m)



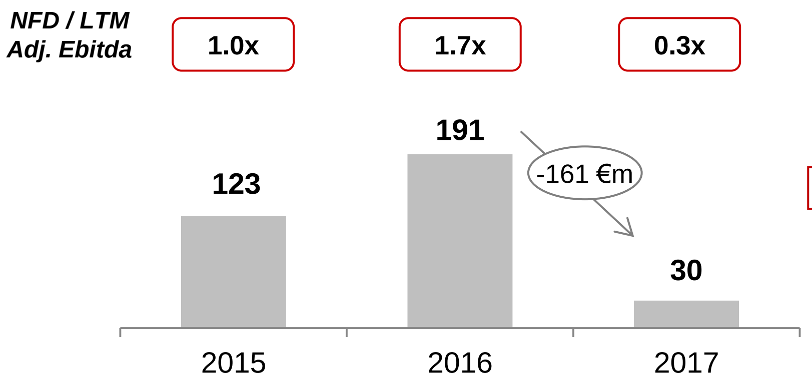
Free Cash Flow (€m)



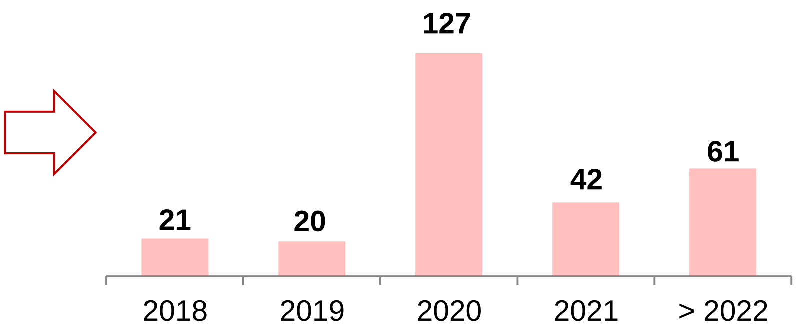
Source: Company information

Comfortable financing structure with long term view

Net Financial Debt (€m)(1)



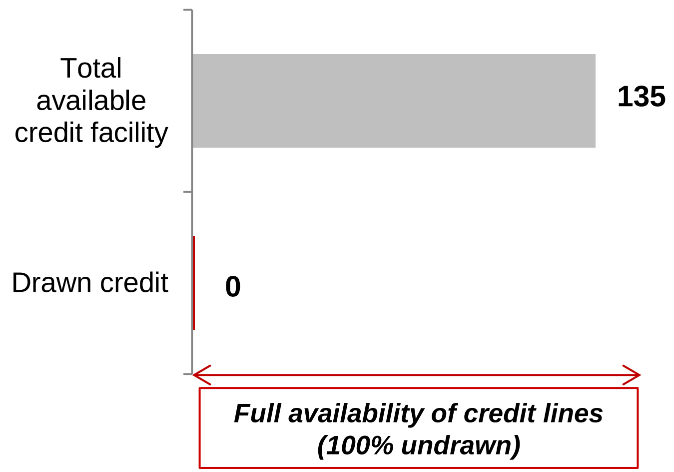
Long term bank loans – Repayment schedule (€m)



- **Strong financing capacity** will allow the Company to finance current and forthcoming projects.
- Only 41 €m of debt maturity in 2018/2019, while **strong FCF is expected** to be generated in the same period, providing a comfortable debt profile.
- **Gross bank debt amounted 271 €m:**

€m	FY2017
Long term debt with bullet maturities	166
Long term debt with annual repayments	80
European Investment Bank	24
Accrued debt interests	1
Total banking debt	**271**

Committed credit lines at December 2017 (€m)



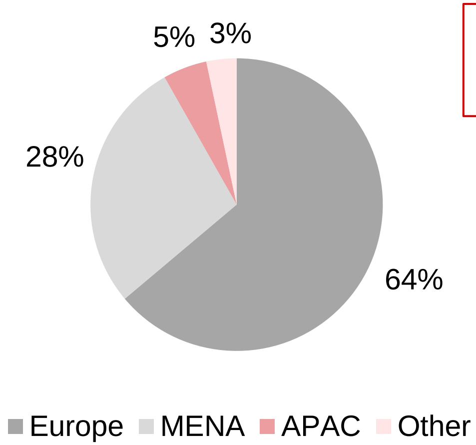
(1) Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities related with R&D which are not considered financial debt due to their recurrence.

Source: Company information

Table of content

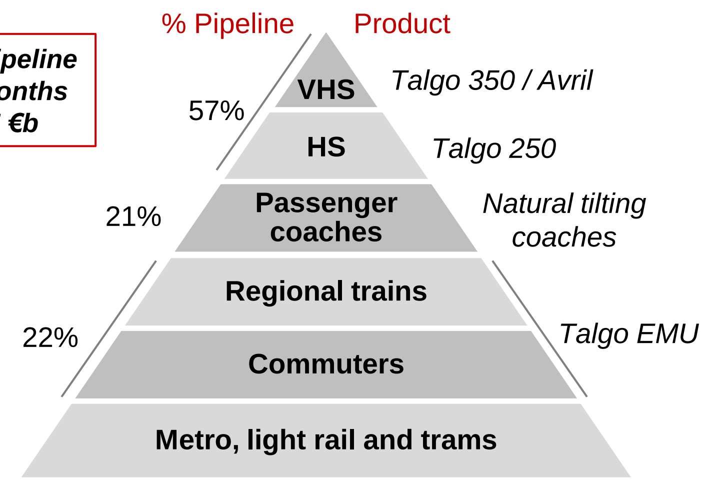
Commercial developments

Talgo pipeline by segment 2018-2019(1)



Talgo identified pipeline for the next 24 months amounts to 8.5 €b

Talgo pipeline by segment 2018-2019(1)



- **Talgo strengthen its commercial activity in 2017** increasing by over 30% the number of professionals, aiming to reach a higher number of opportunities and enhance the commuter/regional and maintenance businesses. In this sense, the Company is expected to substantially **increase the number of offers submitted in the following years**.
- Talgo is currently working on opportunities expected to be awarded throughout the next 24 months with a total value amounting **8.5 €b**, among which:
  - ✓ **VHS/HS lead the pipeline** mainly driven by identified tenders in Europe and MENA, highlighting the UK HS2 process (supply of up to 54 VHS trains) in which Talgo was recently shortlisted.
  - ✓ **Europe as the geographical are with higher number of opportunities** targeted in the short-medium term.
- As a result, Talgo has **good expectations to continue increasing order book** in the short and medium term.

(1) Amounts are approximate based on available information. Maintenance consideration included subject to availability.

Source: Company information

Summary and Outlook

	Outlook 3Q2017	FY2017	Expectations FY2018
Business performance	▪ Manufacturing: Revenues to reflect scheduled pace of ongoing projects. ▪ Maintenance: to continue as a stable and solid base of revenues contributor. ▪ Order book: Increasing number of offers submitted could increase order book in short-medium term.	✓ ✓ ✓	▪ **Manufacturing: Revenues to reflect scheduled pace of ongoing projects.** ▪ **Maintenance: to continue as a stable and solid base of revenues contributor.** ▪ **Order book: Company target >1.3 Book to Bill (2 years average starting from 2018) to ensure company growth.**
Profitability	▪ Profitability target FY2017 at 22% (Ebitda margin)	✓	▪ **Profitability: Adjusted Ebitda margin at 20% for FY2018.**
Cash Flow and Capital Structure	▪ Improvement of Working Capital profile expected for 2017-2018. ▪ Capex of 12-15 €m. ▪ NFD/EBITDA target: 1.0-1.2x.	✓ ✓ ✓	▪ **Working Capital recovery to continue in 2018.** ▪ **Capex of c. 20 €m.** ▪ **Company deleverage by FY2018 – Net cash position.**
Shareholders remuneration	▪ Remunerating commitment with shareholders.	✓	▪ **Management commitment with shareholders: to propose Board shareholders remuneration up to 50% Pay-out.**

Source: Company information

Table of content

Appendix 1. Profit & Loss

Profit & Loss Account (€m)	2017	2016	2015	% Change 16-17
Total net turnover	**384.4**	**579.8**	**520.7**	***(33.7%)***
Other income	3.2	2.9	6.6	*11.1%*
Procurement costs	(146.7)	(327.7)	(264.7)	*(55.3%)*
Employee welfare expenses	(104.1)	(96.9)	(98.7)	*7.4%*
Other operating expenses	(53.3)	(50.0)	(59.8)	*6.4%*
EBITDA	**83.6**	**107.9**	**104.2**	*(22.5%)*
% margin	*21.7%*	*18.6%*	*20.0%*	
Other adjustments	4.0	5.4	2.5	*(25.1%)*
IPO costs & Shares for Employees	-	-	10.6	*n.a.*
Management Incentive Plan	-	-	3.2	*n.a.*
Adjusted EBITDA	**87.6**	**113.3**	**120.5**	***(22.7%)***
% margin	*22.8%*	*19.5%*	*23.1%*	
D&A (inc. depreciation provisions)	(24.2)	(20.3)	(24.1)	*19.4%*
EBIT	**59.4**	**87.6**	**80.0**	***(32.3%)***
% Ebit margin	*15.4%*	*15.1%*	*15.4%*	
IPO costs & Shares for Employees	-	-	10.6	*n.a.*
Other adjustments	4.0	5.4	2.5	*(25.1%)*
Management Incentive Plan	-	-	3.2	*n.a.*
AVRIL Amortization	11.3	9.3	8.0	*20.8%*
Adjusted EBIT	**74.7**	**102.4**	**104.3**	***(27.1%)***
% margin	*19.4%*	*17.7%*	*20.0%*	
Net financial expenses	(9.4)	(6.9)	(5.0)	*35.8%*
Profit before tax	**50.0**	**80.7**	**75.1**	**(38.1%)**
Tax	(15.7)	(18.9)	(15.5)	*(16.9%)*
Profit for the year	**34.3**	**61.9**	**59.6**	***(44.5%)***
Adjusted Profit for the year	**42.8**	**68.9**	**75.9**	***(37.9%)***

Source: Company information

Appendix 2. Balance Sheet

Balance Sheet (€m)	Dec 2017	Dec 2016	Dec 2015
FIXED ASSETS	**273.2**	**280.3**	**275.7**
Tangible + intangible assets	112.8	117.4	128.1
Goodwill	112.4	112.4	112.4
Other long term assets	48.0	50.4	35.1
CURRENT ASSETS	**569.4**	**482.6**	**396.3**
Inventories	69.1	93.0	88.8
Non- current assets held for sale	0.0	6.1	6.1
Accounts receivable	254.2	341.7	277.4
Other current assets	2.9	2.9	2.2
Cash & cash equivalents	243.2	38.8	21.8
TOTAL ASSETS	**842.6**	**762.8**	**671.9**

Balance Sheet (€m)	Dec 2017	Dec 2016	Dec 2015
SHAREHOLDERS EQUITY	**313.5**	**293.8**	**231.0**
Capital Stock	41.0	41.2	41.2
Share premium	6.8	68.5	68.5
Consolidated reserves	1.7	4.9	3.9
Retained earnings	264.1	179.2	83.7
Other equity instruments	0.0	0.0	33.7
NON-CURRENT LIABILITIES:	**309.7**	**265.1**	**183.2**
Debt with credit institutions	249.3	207.4	123.5
Provisions	28.0	28.1	25.6
Other financial liabilities	23.0	19.8	24.5
Other long-term debts	9.4	9.7	9.7
CURRENT LIABILITIES:	**219.4**	**203.9**	**257.7**
Accounts payable	188.9	174.0	231.0
Debt with credit institutions	21.4	22.4	20.7
Other financial liabilities	4.0	3.0	2.5
Provisions for other liabilities and other	5.1	4.5	3.5
TOTAL S. EQUITY + LIABILITIES	**842.6**	**762.8**	**671.9**

Source: Company information

Appendix 2. Balance Sheet (2)

Working Capital (€m)	Dec 2017	Dec 2016	Dec 2015
Inventories	69.1	93.0	88.8
Non current assets hed for sale	0.0	6.1	6.1
Account trade receivables	254.2	341.7	277.4
Other current assets	2.9	2.9	2.2
Trade and other payables	(107.1)	(162.5)	(210.5)
Advances received	(81.8)	(11.5)	(20.5)
Provisions for other liabilities and other	(5.1)	(4.5)	(3.5)
Working Capital	**132.2**	**265.2**	**139.9**

Financial debt (€m)	Dec 2017	Dec 2016	Dec 2015
- Long term financial liabilities	249.3	207.4	123.5
- short term financial liabilities	23.9	22.4	20.7
Cash & cash equivalents	(243.2)	(38.8)	(21.8)
Net financial debt	**30.0**	**191.0**	**122.4**
Adjusted EBITDA LTM	87.6	113.3	120.5
Net financial debt / Adj EBITDA (LTM)	0.34	1.69	1.02

Source: Company information

Appendix 3. Cash Flow Statement

Cash flow statement (€m)	2017	2016	2015	% Change
€ million				
Net income	34.3	61.9	59.6	*(44.5%)*
Corporate income tax	15.7	18.9	15.5	*(16.9%)*
Depreciation & Amortization	22.1	19.7	19.3	*12.2%*
Financial income/Financial expenses	9.4	7.5	6.3	*25.2%*
Other result adjustments	(4.5)	(3.5)	12.5	*27.7%*
Changes in working capital	125.0	(146.8)	(118.5)	*n.a.*
Operating cashflows after changes in WC	**202.0**	**(42.4)**	**(5.4)**	***n.a.***
Net interest expenses	(9.7)	(6.1)	(5.3)	*59.3%*
Provision and pension payments	0.0	0.0	0.0	*n.a.*
Income tax paid	(7.4)	(9.3)	(9.8)	*(20.4%)*
Other collection and payments	0.0	0.0	0.0	*n.a.*
Net cash flows from operating activities	**184.9**	**(57.8)**	**(20.4)**	***n.a.***
Investments	**(11.5)**	**(9.0)**	**(10.3)**	***27.7%***
Changes in financial assets and liablities	42.4	83.8	94.6	*(49.4%)*
Purchase of non-controlling interests	0.0	0.0	(23.0)	*n.a.*
Dividends payments	(11.3)	0.0	(107.0)	*n.a.*
Net cash flows from financing activities	**31.1**	**83.8**	**(35.4)**	***(62.9%)***
Net variation in cash & cash eq.	**204.4**	**17.0**	**(66.1)**	***1102.7%***
Cash and cash equivalents BoP	38.8	21.8	87.9	
Cash and cash equivalents EoP	243.2	38.8	21.8	

Source: Company information

Talgo