Talgo 1H2018 Results

July 26th, 2018

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Key business highlights of 1H2018

Main financial highlights

- **2,739 €m contracted backlog** as of 1H2018 (3,056 €m if all awards are considered).
- Main collections forecasted for 2H2018 to continue with the **current strong cash flow generation cycle** (-36 €m of FCF in 1H2018).
- **NFD amounted 66 €m(1)** at 1H2018, resulting on **0.9x NFD / LTM Ebitda** ratio.
- **Net turnover reached 163 €m in 1H2018** (-24% vs 1H2017), waiting to ramp-up again by year end 2018 from the hand of the latest awarded projects.
- **Adjusted Ebitda amounted 33 €m**, reaching 20% of Adjusted Ebitda margins (22% in 2Q2018).
- **Adjusted Net Profit reached 14 €m**, resulting on 9% Net Margin.

Main operational highlights

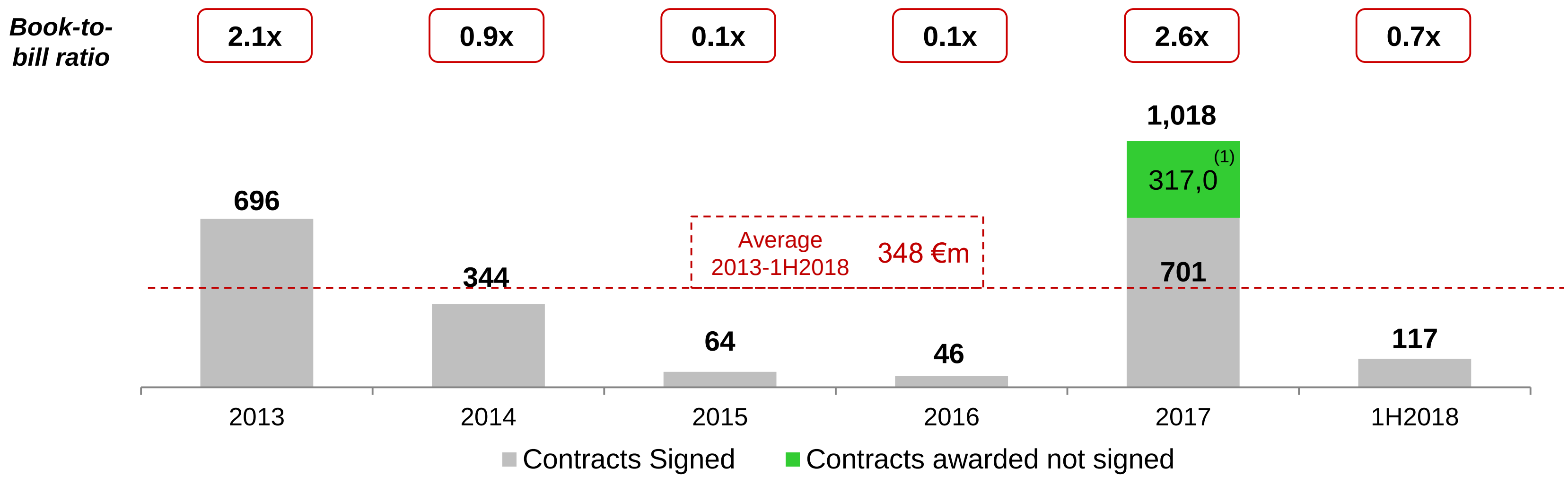
- **Order book registered** 117 €m in 1H2018 (0.7x Book-to-bill ratio) with several opportunities ahead to drive the management commitment on guidance provided (1.3x annual average in 2018-2019).
- **Execution of current manufacturing backlog on time and budget**. Successful delivery process in Mecca-Medina project with start of ramp-up operations expected in 3Q2018.
- **Successful maintenance activity** providing high recurrence and stability to the business.
- **Strong commercial activity** in both existing and new opportunities**.**

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

Source: Company information

Order intake objective (1.3x) expected to be met in 2018-2019

Order intake evolution 2013 – 1H2018 (€m)



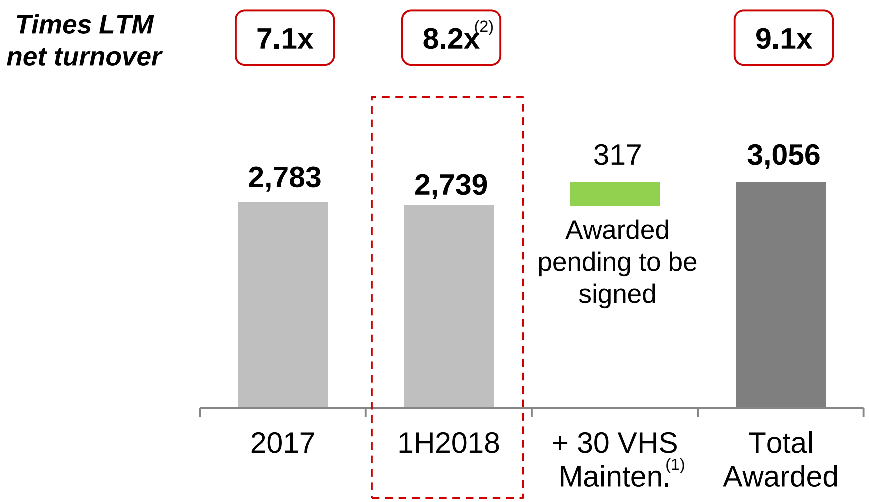
- **New orders signed in the first half of 2018 amounted 117 €m**, resulting on 0.7x Book to bill ratio.
- The order intake registered in the period is mainly represented by the project awarded in February 2018 by RENFE for the **conversion of night Talgo coaches into VHS trains.**
  - The scope of the contract comprises **156 coaches** (equivalent to 13 trains) into trains capable of travelling at 330km/h for a **total amount of 107 €m.**
  - In addition, the client could execute and **option for 72 additional coaches** (equivalent to 6 trains), increasing the **project value to 151 €m**.
  - Public tender for both the maintenance and powerheads of these trains should be expected to be launched throughout the following months.
- With this new fleet, Talgo continues to **consolidate its leadership in the VHS segment in Spain.**

(1) Note: Contract awarded not yet signed, which considers 51% share of maintenance in Spain 30 trains VHS contract to be executed through a JV with Renfe

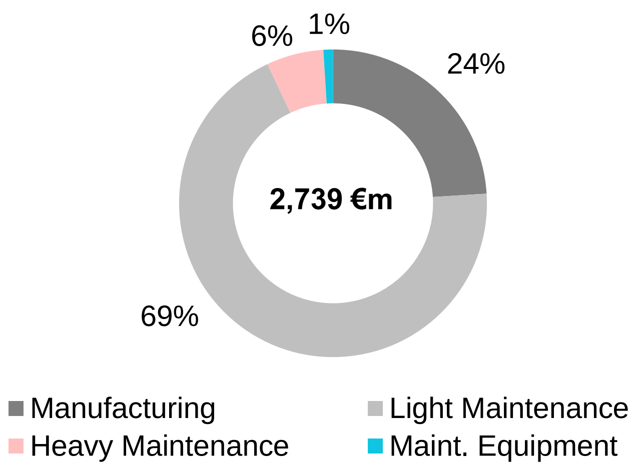
Source: Company information

Delivering high backlog ratios (9.1x) with long term visibility

Backlog evolution as of June 2018 (€m)



1H2018 Backlog by business line



- **Backlog reached 2.7 €b** (3.1 €b if all awarded contracts are considered) which represents **8.2x[2] LTM revenues**, leading ratio in the rolling stock industry.
- **24% of backlog related to manufacturing ensures the appropriate industrial activity** for the next years, while **69% of order book corresponds to maintenance services**, providing stable and recurrent revenues and cash flow generation.
- **Heavy maintenance business line (refurbishing and Overhaul)** continue increasing within the company backlog (6%) as one of the strategic focus for the company growth throughout the next years**.**

(1) Contract awarded not yet signed, which considers 51% share of maintenance in Spain 30 trains VHS contract to be executed through a JV with Renfe.
(2) In addition, it would reach 5.7x if we consider an average of the last 3 years revenues.
Source: Company information

Consolidating leadership in VHS Rolling stock in Spain

Renfe Avril VHS project

- **<u>Scope of the contract</u>**: manufacture of 30 VHS trains “AVRIL” and maintenance for a period of 30 years. Total award for **Talgo’s scope amounts 897 €m.**
- **<u>Execution performance</u>**:
  - Already started the work for the **integration of underframes and bodyshells** of coaches.
  - Schedule of staggered **deliveries throughout 2020 and 2021.**
  - Industrial activity resulting on **increasing revenues contribution expected for 4Q2018 and mainly in 2019.**

Conversion of night trains into VHS coaches

- **<u>Scope of the contract</u>**: conversion of Talgo series 7 night compositions into VHS trains. The project includes 156 coaches (13 compositions) with an option for additional 72 coaches (6 compositions). Initial award for **Talgo’s scope amounts 107 €m.**
- **<u>Execution performance</u>**:
  - Currently in engineering, designing and disassembly phase.
  - Expected **delivery schedule from 2020.**
  - Project could be potentially complemented with VHS powerheads and maintenance, through an expected public tender to be launched by Renfe in 2018/2019.

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

Successful execution of Mecca-Medina VHS project

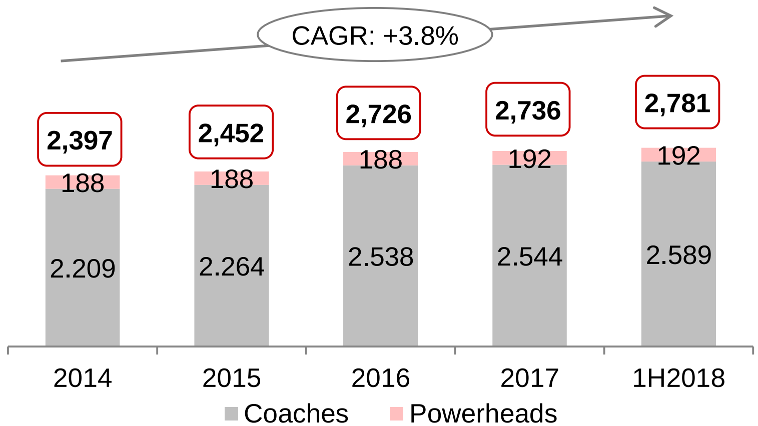
- **Scope of the contract: manufacture of 36 VHS Talgo 350 trains** (option for 20 additional trains), and their **maintenance for a 12 years period**.
- **Execution performance**: project under execution **in line with Company expectations**
  - **Almost all the fleet is already finished (36 trains) in terms of manufacturing and assembling**, out of which 19 trains have already been sent to Arabia.
  - Additional trains to be sent in the following months aiming to **deliver full fleet in 1Q2019.**
  - **Static testing already finished** with full success and currently in **a very advanced degree of progress in dynamic testing** resulting in a very good performance shown by the trains.
  - **Start of operation** (through a ramp-up operation) expected to start in **September 2018 with 8 to 12 trains** during 1 year at a limited speed of 200 km/h waiting for ERTMS signaling to be fully installed in the track.
- **Working Capital management: Significant collection milestones are still expected to be reached throughout 2H2018** as shipment and tests continues as well as the subsequent provisional acceptance of the trains.
- As a result, the project continues to be successfully **executed while no significant risks are identified**.
- Mecca-Medina Project states as a clear **reference in the railroad and construction industry worldwide** carried out through a consortium comprising 12 companies to cover scope of the project, meeting **high client requirements and expectations.**

Source: Company information

Increasing fleet continues to grow maintenance revenues

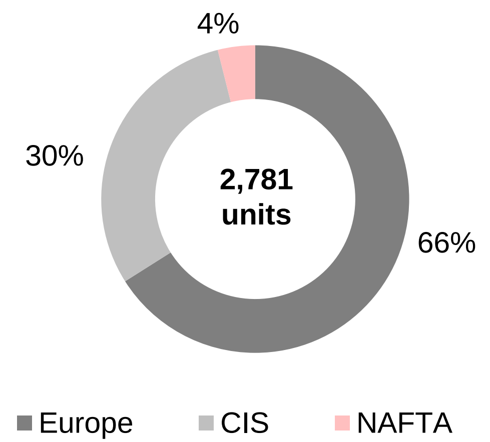
- Talgo provides maintenance services to **its manufactured trains and to units produced by third-parties**.
- A solid maintenance portfolio together with a strong expertise and an efficient feedback strategy provides the Company with an **stable and recurrent activity**.
- **Successful execution of all contracts** throughout the first half of 2018, providing high reliability, quality and customer safety in contracts maintained in Spain, Kazakhstan, Uzbekistan, Russia, USA and Germany.
- Regarding the forthcoming Mecca-Medina maintenance operations, **Talgo already started preparing the work** including all the collection of spare materials and hiring of personnel for the scope of the Company.
- The maintained fleet is expected to **continue growing as the contracted manufacturing backlog is delivered.** By 2021 **installed base 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 2014-1H018) manufactured by third parties are maintained by Talgo in Germany. Such cars are around two times longer than Talgo standard coaches.

Installed base by geography (# of units)



Source: Company information

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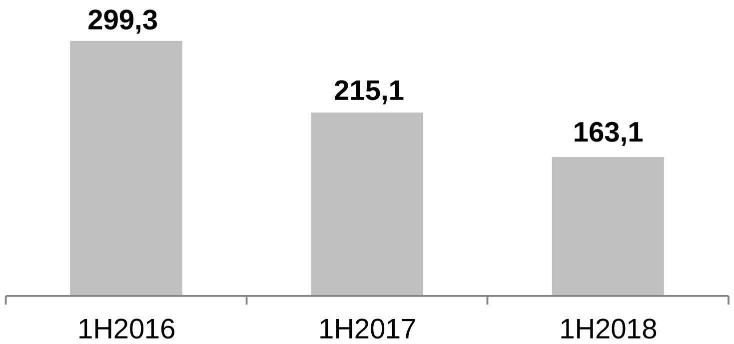
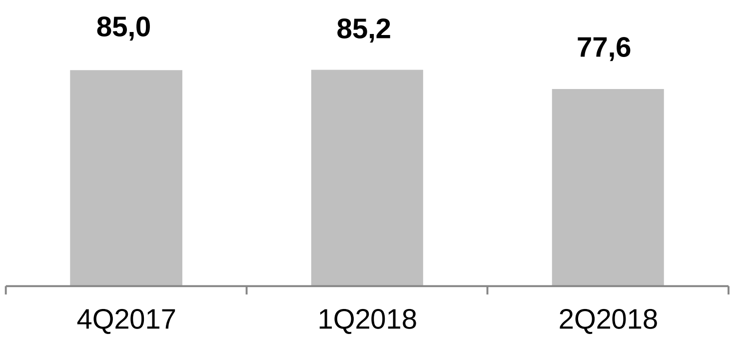
Profit & Loss – Revenues reflecting projects manufacturing cycle

- **Net Turnover reached 163.1 €m in 1H2018 (77.6 €m in Q2),** reflecting the stage of manufacturing activity **in accordance with the manufacturing cycle** of the main projects under execution.
- **Manufacturing activity**:
  - ✓ Projects execution **on time and budget.**
  - ✓ **Change of revenues weighting in terms of geography** with the current projects executed.
  - ✓ **Manufacturing activity is at floor in terms of industrial activity and revenues recognition**, expected to ramp-up again in line with manufacturing schedule of latest awards.
- **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 in all contracts.

Net Turnover – Acummulated (€m)



Net Turnover – QoQ (€m)

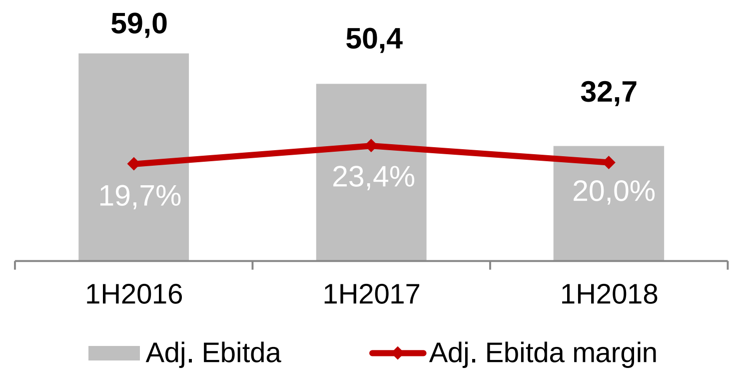


Source: Company information

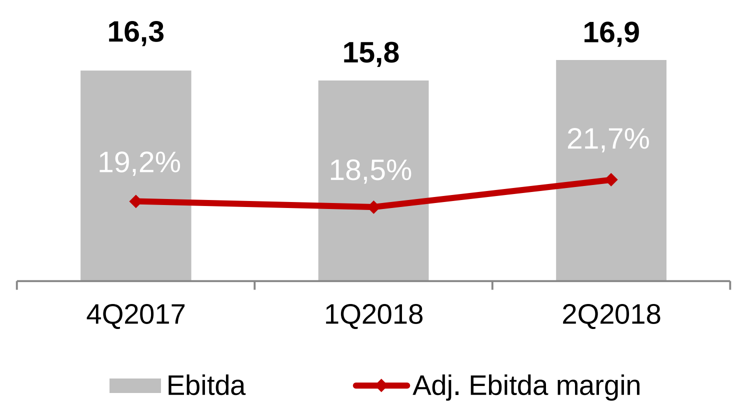
Profit & Loss – Recovering Ebitda margins as expected

- **Adjusted Ebitda registered in 1H2018 amounted 32.7 €m** (16.9 €m in Q2), in line with manufacturing pace of projects executed.
- **Ebitda margin reached 20%** reflecting:
  - ✓ **Margin recovering from 1Q2018,** as expected due to seasonality of costs incurred in maintenance contracts.
  - ✓ **Successful performance of the projects** under execution.
  - ✓ **Procurement costs significantly decreased** in the period (32% over revenues vs. 43% in same 1H2017) due to less components consumed in overall projects executed (less manufacturing).
  - ✓ On the other hand, **Personnel expenses increased** (34% over revenues vs. 24% in same 1H2017) due to the stage of the projects.
- Main adjustments made to Ebitda include one-off items, mainly layoff compensations and bank guarantee fees.

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



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

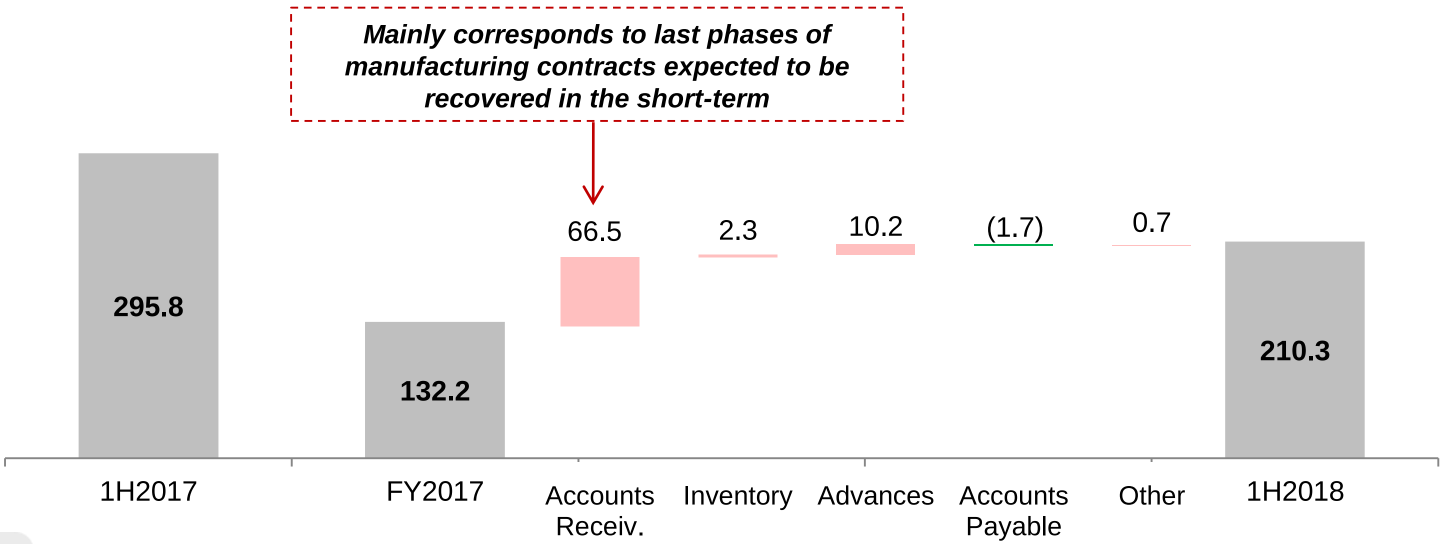


Source: Company information

Working Capital temporary increase pending to forthcoming strong cash collections

- Working Capital increased in 1H2018 reflecting the **contracts ongoing execution while strong collections expected for 2018 are still ahead**:
  - ✓ **Accounts receivable and payables**: YoY variation reflect stage of manufacturing projects under execution.
  - ✓ **The level of inventory** reflects the late stages of the main manufacturing projects.
  - ✓ **Advances received**: reflects the prepayments related to recent awards (mainly Spain VHS).
- Working Capital could reflect **additional contraction in 2018** despite expected consumption of advances.

Working Capital performance (€m)

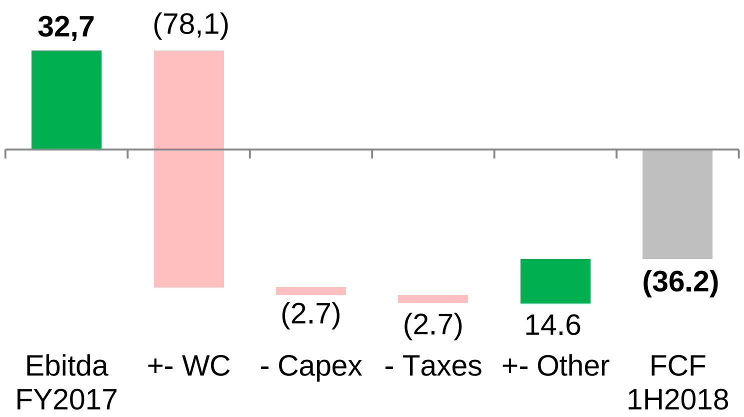


Source: Company information

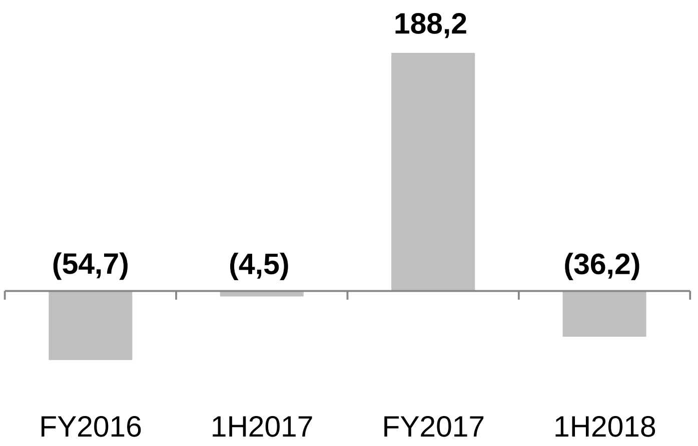
Net cash invested in 1H2018 expected to be widely recovered 2H2018

- During 1H2018 the company continued executing manufacturing contracts while significant collections were not registered, in line with established schedule and therefore as expected
  - ✓ **Tulpar-Talgo acquisition**: In 2016 Talgo advanced 23 €m as payment on account for the acquisition of 51% of Tulpar Talgo, LLP., subject to certain conditions precedent. Given that the aforementioned suspension conditions have not been met, **during the first half of 2018 the aforementioned import has been reimbursed to Talgo** (registered in “Others” in the graph below).
  - ✓ Lower capex registered in 1H2018 (2.7 €m), while second half of the year could increase to guidance level.
- **Strong cash inflows are expected to be registered in 2H2018** 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)



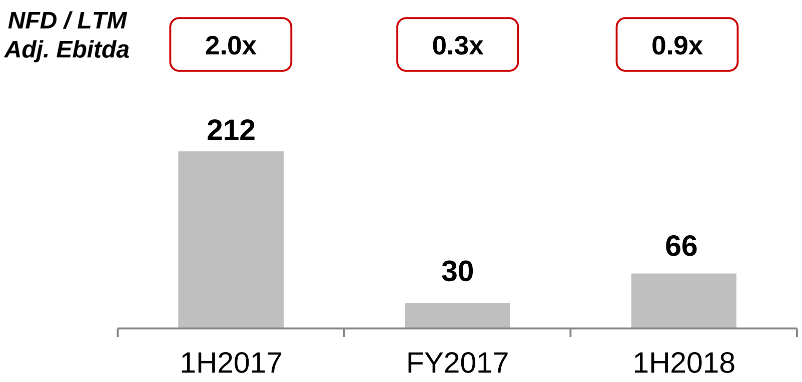
Free Cash Flow (€m)



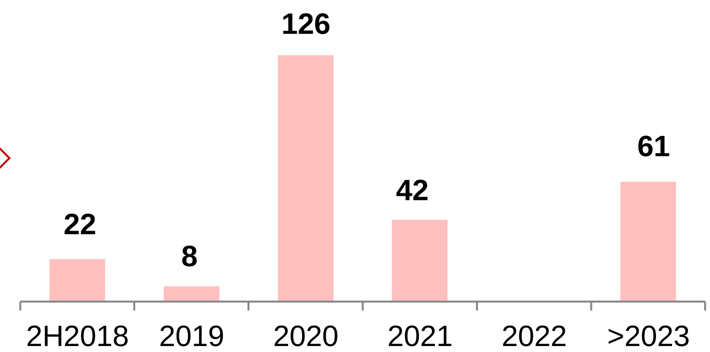
Source: Company information

Comfortable financing structure with long term view

Net Financial Debt (€m)(1)



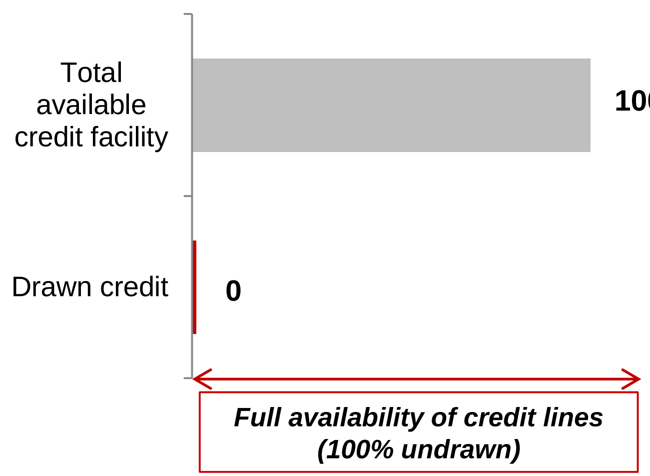
Long term bank loans – Repayment schedule (€m)



- **Strong financing capacity** will allow the Company to finance current and forthcoming projects.
- Only 30 €m of debt maturity in 2H2018/2019, while **strong FCF is expected** to be generated in the same period.
- **Gross bank debt amounted 259 €m:**

€m	1H2018
Long term debt with bullet maturities	166
Long term debt with annual repayments	70
European Investment Bank	22
Accrued debt interests	1
Total banking debt	**259**

Committed credit lines at June 2018 (€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

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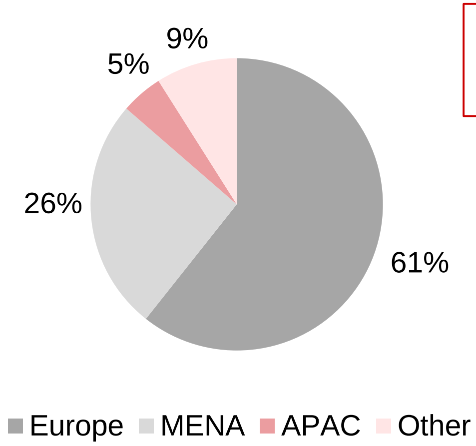
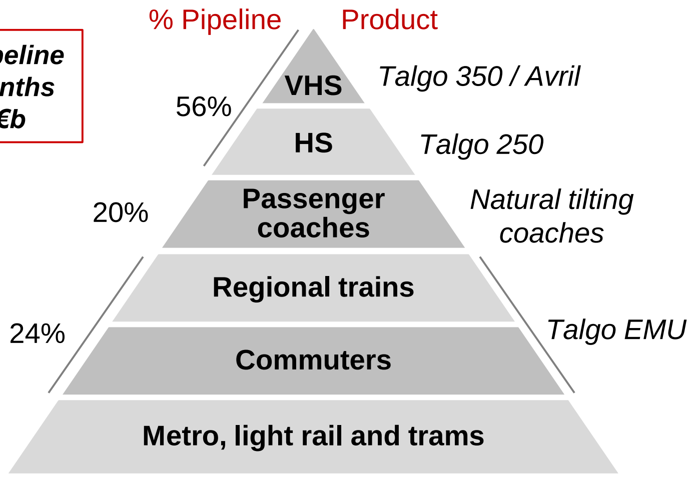
Commercial developments

Talgo pipeline by segment 2018-2019(1)



Talgo identified pipeline for the next 24 months amounts to 9.1 €b

Talgo pipeline by segment 2018-2019(1)



- **Talgo has submitted offers during 2018 with an approximate value amounting 1.4 €b**
- Talgo is also working on opportunities expected to be awarded throughout the period 2018-2019 with a **total value amounting 9.1 €b**, among which:
  - ✓ **VHS/HS lead the pipeline** mainly driven by identified tenders in Europe and MENA.
  - ✓ **Europe as the geographical are with higher number of opportunities** targeted in the short-medium term.
  - ✓ Top **5 potential opportunities representing c. 60%** of total pipeline (projects related mainly to high speed and passenger coaches).
- 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

Outlook FY2018 – Guidance maintained in all areas

	Outlook FY2017	Performance 1H2018	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: Company target >1.3 Book to Bill (2 years average from 2018) to ensure company growth.	▪ Manufacturing and maintenance activity in **line with company and client expectations.** ▪ Order intake reached 107 €m in 1H2018 (0.7x BtB) which could **increase in 2H2018 on the back of submitted offers.**	▪ **Revenues** expected to **reflect scheduled manufacturing pace** of ongoing projects. ▪ **Stability and recurrence** on maintenance projects. ▪ **Strong commercial activity** to increase order book in short-medium term. Company target >1.3 Book to Bill (2 years average).
Profitability	▪ Profitability: Adjusted EBITDA margin at 20% for FY2018.	▪ Adjusted EBITDA reached 20% in 1H2018, in line with expectations.	▪ **Profitability: Adjusted Ebitda margin at 20% for FY2018.**
Cash Flow and Capital Structure	▪ Working Capital recovery to continue in 2018. ▪ Capex of c. 20 €m. ▪ Company deleverage by FY2018 – Net cash position.	▪ **WC temporary increased in 1H2018** to 210 €m. ▪ As a result **NFD increased to 66 €m**, expected to reverse in 2H2018. ▪ Low capex required in 1H (2.7 €m) expected to increase in 2H2018.	▪ **Working Capital recovery to continue in 2018.** ▪ **Capex of c. 10-20 €m.** ▪ **Company deleverage by FY2018 – Net cash position.**
Shareholders remuneration	▪ Remunerating commitment with shareholders.	▪ Pending to decide remuneration schedule and structure for 2018	▪ **Commitment with shareholders: to propose to the Board a dividend of 20-30% pay-out (over net income).**

Source: Company information

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Appendix 1. Profit & Loss

Profit & Loss Account (€m)	1H18	1H17	1H16	% Change
Total net turnover	**163.1**	**215.1**	**299.3**	***(24.2%)***
Other income	0.3	3.9	2.8	*(91.3%)*
Procurement costs	(52.2)	(92.0)	(177.8)	*(43.3%)*
Personnel costs[1]	(54.7)	(51.6)	(47.2)	*5.9%*
Other operating expenses	(27.4)	(27.1)	(20.0)	*1.2%*
EBITDA	**29.2**	**48.2**	**57.1**	*(39.5%)*
% Ebitda margin	*17.9%*	*22.4%*	*19.1%*	
Other adjustments	3.5	2.1	2.0	*63.7%*
Adjusted EBITDA	**32.7**	**50.4**	**59.0**	***(35.1%)***
% Adj. Ebitda margin	*20.0%*	*23.4%*	*19.7%*	
D&A (inc. depreciation provisions)	(10.5)	(10.2)	(9.8)	*3.2%*
EBIT	**18.7**	**38.1**	**47.2**	***(50.9%)***
% Ebit margin	*11.5%*	*17.7%*	*15.8%*	
Other adjustments	3.5	2.1	2.0	*63.7%*
AVRIL Amortization	5.6	5.6	4.0	-
Adjusted EBIT	**27.8**	**45.9**	**53.2**	***(39.3%)***
% Adj. Ebit margin	*17.1%*	*21.3%*	*17.8%*	
Net financial expenses	(4.8)	(4.6)	(3.3)	*3.1%*
Profit before tax	**13.9**	**33.4**	**44.0**	**(58.4%)**
Tax	(3.9)	(7.4)	(9.4)	*(47.0%)*
Profit for the period	**10.0**	**26.1**	**34.6**	***(61.6%)***
Adjusted Profit for the period	**14.2**	**30.3**	**37.6**	***(53.0%)***

Source: Company information

Appendix 2. Balance Sheet

Balance Sheet	June 2018	Dec 2017	June 2017
FIXED ASSETS	**242.6**	**273.2**	**282.2**
Tangible + intangible assets	104.4	112.8	117.2
Goodwill	112.4	112.4	112.4
Other long term assets	25.7	48.0	52.6
CURRENT ASSETS	**589.3**	**569.4**	**535.1**
Inventories	71.4	69.1	78.4
Non- current assets held for sale	0.0	0.0	0.0
Accounts receivable	320.8	254.2	385.9
Other current assets	3.6	2.9	2.9
Cash & cash equivalents	193.5	243.2	67.9
TOTAL ASSETS	**831.9**	**842.6**	**817.3**

Balance Sheet	June 2018	Dec 2017	June 2017
SHAREHOLDERS EQUITY	**323.9**	**313.5**	**306.5**
Capital Stock	41.0	41.0	41.7
Share premium	6.8	6.8	7.9
Consolidated reserves	2.5	1.7	2.8
Retained earnings	273.7	264.1	264.1
Other equity instruments	0.0	0.0	-10.0
NON-CURRENT LIABILITIES:	**298.3**	**309.7**	**314.0**
Debt with credit institutions	237.4	249.3	257.0
Provisions	28.6	28.0	27.9
Other financial liabilities	23.2	23.0	19.8
Other long-term debts	9.1	9.4	9.4
CURRENT LIABILITIES:	**209.7**	**219.4**	**196.8**
Accounts payable	180.3	188.9	166.7
Debt with credit institutions	21.7	21.4	22.4
Other financial liabilities	2.5	4.0	3.0
Provisions for other liabilities and other	5.1	5.1	4.7
TOTAL S. EQUITY + LIABILITIES	**831.9**	**842.6**	**817.3**

Source: Company information

Appendix 2. Balance Sheet (2)

Financial debt	June 2018	Dec 2017	June 2017
- Long term financial liabilities	237.4	249.3	257.0
- short term financial liabilities	21.7	23.9	22.4
Cash & cash equivalents	(193.5)	(243.2)	(67.9)
Net financial debt	**65.6**	**30.0**	**211.5**
Adjusted EBITDA LTM	69.9	87.6	103.6
Net financial debt / Adj EBITDA (LTM)	0.9	0.3	2.0

Balance Sheet - Working Capital	June 2018	Dec 2017	June 2017
Inventories	71.4	69.1	78.4
Non current assets hed for sale	0.0	0.0	0.0
Account trade receivables	320.8	254.2	385.9
Other current assets	3.6	2.9	2.9
Trade and other payables	(108.7)	(107.1)	(124.3)
Advances received	(71.6)	(81.8)	(42.5)
Provisions for other liabilities and other	(5.1)	(5.1)	(4.7)
Working Capital	**210.3**	**132.2**	**295.8**

Source: Company information

Appendix 3. Cash Flow Statement

Cash flow statement	1H18	1H17	1H16	% Change
€ million				
Net income	10.0	26.1	34.6	*(61.6%)*
Corporate income tax	3.9	7.4	9.4	*(47.0%)*
Depreciation & Amortization	11.1	10.5	9.4	*5.6%*
Financial income/Financial expenses	4.6	4.2	3.6	*8.9%*
Other result adjustments	(1.5)	(2.4)	0.7	*(40.0%)*
Changes in working capital	(54.8)	(41.8)	(135.6)	*31.1%*
Operating cashflows after changes in WC	**(26.7)**	**3.9**	**(78.0)**	***(778.2%)***
Net interest expenses	(4.2)	(3.9)	(3.1)	*8.9%*
Provision and pension payments	0.0	0.0	0.0	*n.a.*
Income tax paid	(2.7)	(4.2)	(2.2)	*(37.1%)*
Other collection and payments	0.0	0.0	0.0	*n.a.*
Net cash flows from operating activities	**(33.5)**	**(4.2)**	**(83.3)**	***707.3%***
Capex	**(2.7)**	(4.2)	(3.9)	***(35.1%)***
Changes in financial assets and liablities	(13.4)	48.7	71.7	*(127.5%)*
Purchase of non-controlling interests	0.0	(10.0)	0.0	*n.a.*
Dividends payments	0.0	(1.3)	0.0	*n.a.*
Net cash flows from financing activities	**(13.4)**	**37.4**	**71.7**	***(135.9%)***
Net variation in cash & cash eq.	**(49.7)**	**29.1**	**(15.6)**	***(270.9%)***

Source: Company information

Talgo