



Talgo 1H2016 Results

July 29, 2016

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1.1 1H 2016 Group summary

- **Net Revenues increased by 40% YoY reaching 299 €m in 1H 2016** (214 €m in the same period of 2015).
  - Results driven by (i) a strong manufacturing activity and (ii) a successful recurrent and high reliable maintenance services.
- Adjusted **Ebitda increased by 10% to 59.0 €m**, with a slight decrease in terms of margins due to higher certification costs in Russia project.
- **Increasing cash consumption as expected (FCF amounted -82.2 €m),** in line with the main manufacturing projects stage.
- **NFD amounted 212 €m**(1) at June 2016. 1.7x leverage ratio over the adjusted LTM Ebitda, with comfortable repayment schedule and low financial interest rates.
- **Strong execution of current backlog** and all ongoing projects on track.
  - Good performance of manufacturing contracts, achieving all milestones in Mecca-Medina project in terms of both product delivery and train testing.
  - Successful execution of all maintenance contracts.
  - Weaker economy situation in some countries has impacted some of our customers, and hence, we are adapting the manufacturing pace of some orders to their specific calendar needs.
- **2,826 €m. contracted backlog by June 2016**, of which 81% corresponds to maintenance services.
- **Order intake during the first half has been poor (8 €m.) mainly due to delays** on the awards of identified opportunities.
  - Spanish VHS tender: Offers expected to be presented on July 29th and awarded for 4Q 2016.
  - Decrease on commodity prices caused a slowdown in the execution of some infrastructure projects.
- Continued **strong commercial activity** in both existing and new opportunities
  - Identified tenders with a total value of 6 €b. expected to be launched in 2016-2018.

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

Source: Company information

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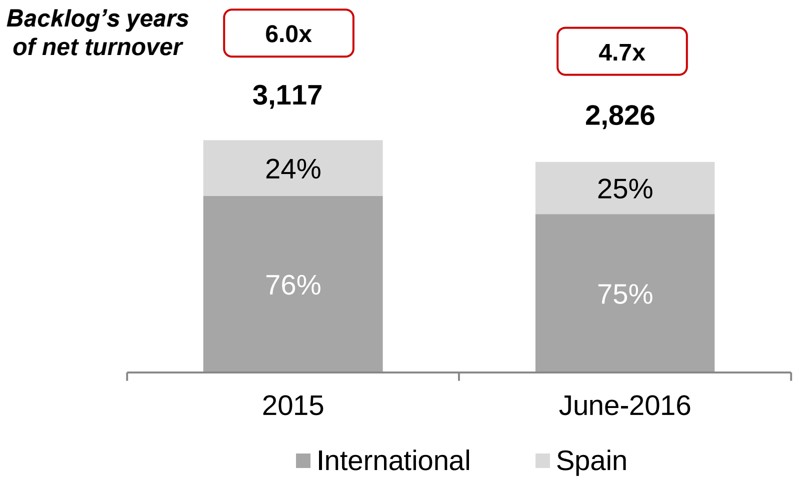
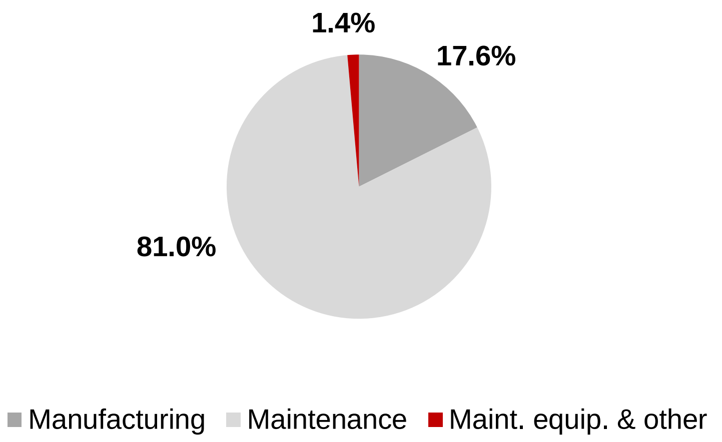
2.1 Backlog execution: Summary

Backlog evolution (€m)



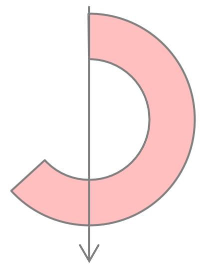
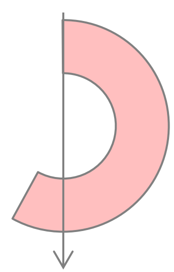
Backlog June-2016 by business line



- **Backlog executed throughout 1H 2016 according to the schedule** of manufacturing and maintenance projects.
- **75.3% of current backlog is outside Spain**, mainly on Saudi Arabia, Kazakhstan.
- **81.0% of current order book corresponds to maintenance services**, ensuring long-term cash generation capacity. Furthermore, **maintenance backlog preserve additional growth potential when the real life cycle of the fleet** is considered.
- Maintenance equipment remains as a **minor business line (1.4% of backlog) but with strong competitive position** (>15% of market share worldwide).

Source: Company information

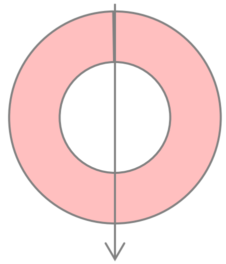
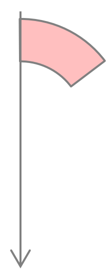
2.1 Backlog execution: projects (i)

Project	Initial scope	Degree of progress[(1)]	Status
SRO Saudí Arabia Mecca- Medina (Manufacturing)	**1. Manufacturing of:** **35 VHS T-350 trains** **+ 1 VIP** **+ 20 optional trains**	 **63%**	▪ Project being successfully executed in line with Company schedule/budget and client expectations. ▪ First train sent in 2014. Static and dynamic testing ongoing in Spain and in Arabia. ▪ 9 additional trains have been sent already (out of which 8 have already arrived to Arabia). ▪ Manufacturing of additional trains under execution throughout 2H2016.
Kazakhstan (Manufacturing)	**1. Project 1: 436 passenger cars** **2. Project 2: 603 passengers cars** **3. Agreement for the acquisition of a 51% stake in Tulpar**	 **56%**	▪ Project 1: delivery to final client successfully concluded in 2015. ▪ Project 2: 52 kits delivered throughout 1H2016 (128 in total) to the Tulpar manufacturing plant for final assembly. ▪ Acquisition of a 51% stake in Tulpar pending of execution.

(1) According to cost incurred in the project and "degree of progress" accounting method.

Source: Company information

2.1 Backlog execution: projects (ii)

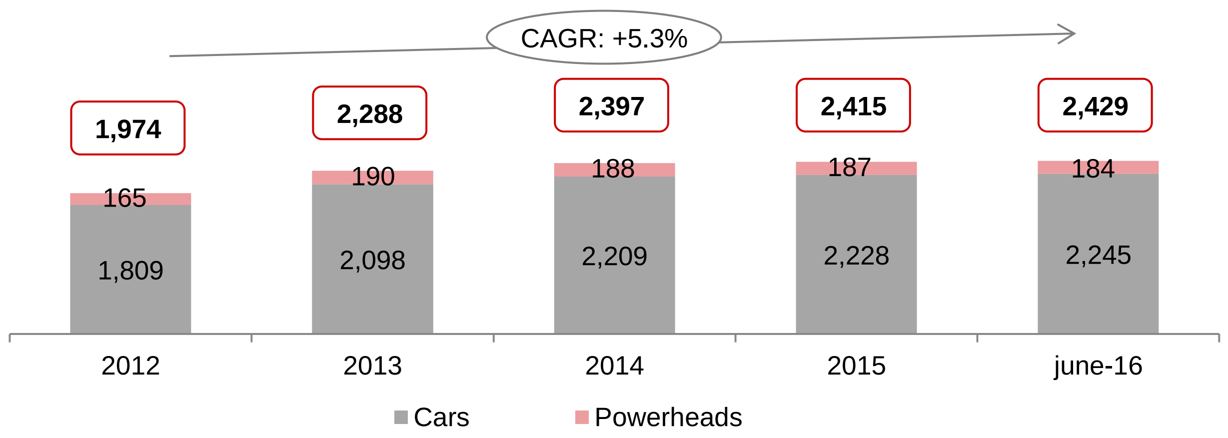
Project	Initial scope	Degree of progress	Status
Russia (Manufacturing)	**1. Manufacturing of 7 day and night trains with natural tilting technology**	 **100%**	▪ All 7 trains already manufactured: ✓ 4 trains (Moscow-Nizhny Novgorod) delivered and with successful commercial operations since June 2015. ✓ 3 trains (Moscow-Berlin): final certifications in progress. Germany and Poland certifications received in 1H 2016, and currently pending for Russian final certification.
Uzbekistan (Manufacturing)	**1. Manufacturing of 2 HS T-250 trains**	 **9%**	▪ 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 is aimed to be delivered in 2017.

Source: Company information

2.1 Backlog execution: projects (iii)

Project	Initial scope	Status
Maintenance activity	**1. Maintenance service assistance to manufactured trains and others**	▪ All contracts being successfully executed. ▪ Company continues to implement actions aimed to improve operational and cost efficiencies. ▪ Size of maintained fleet to grow significantly as we deliver contracted manufacturing backlog.

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



(1) Include both cars and locomotives.

Note: Additional c. 80 cars (stable over the period 2012-2015) manufactured by third parties are maintained by Talgo in Germany. Such cars are around two times longer than Talgo cars.

Source: Company information

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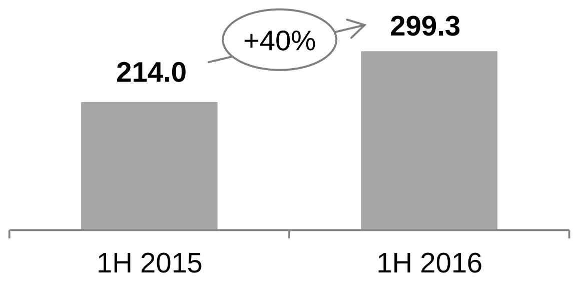
3.1 Profit & Loss: Revenues and Ebitda

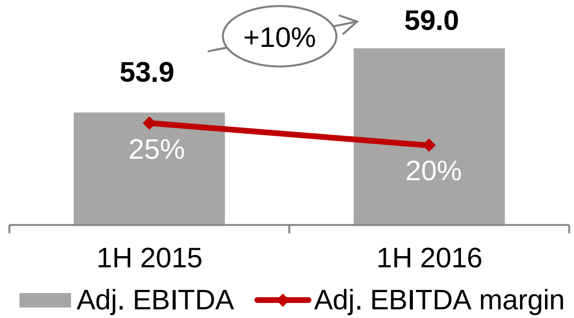
Net turnover 2015 (€m)



Ebitda composition

• **Procurement costs**	**(179.1)**
• **Employee expenses**	**(47.2)**
• **Other income / OPEX**	**(15.9)**
• **Adjust. To Ebitda**	**2.0**

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



- **Net Turnover reached 299 €m in 1H 2016 increasing by 40% YoY** (214 €m in the same period of 2015) driven by higher manufacturing activity in line with the company target:
  - ✓ Contracted manufacturing backlog executed according to schedule and budget. Changes in production schedule to accommodate client requirements.
  - ✓ High quality and reliability in maintenance services provided, contributing stable cash generation.
- **Adjusted Ebitda increased by 10% YoY to 59.0 €m in 1H2016**, although Ebitda margin slightly decreased due to higher than expected certification costs (one-off costs) related to Russia project.
  - ✓ Certifications in Germany and Poland obtained in 2Q and Russia expected for next weeks.
  - ✓ Successful performance of the rest of projects.
  - ✓ Efficient management of Opex (decreased from 13% to 7% over Net Turnover).
  - ✓ Continuous control of overhead expenses
- Ebitda margin in line with the **Company target (20%)**

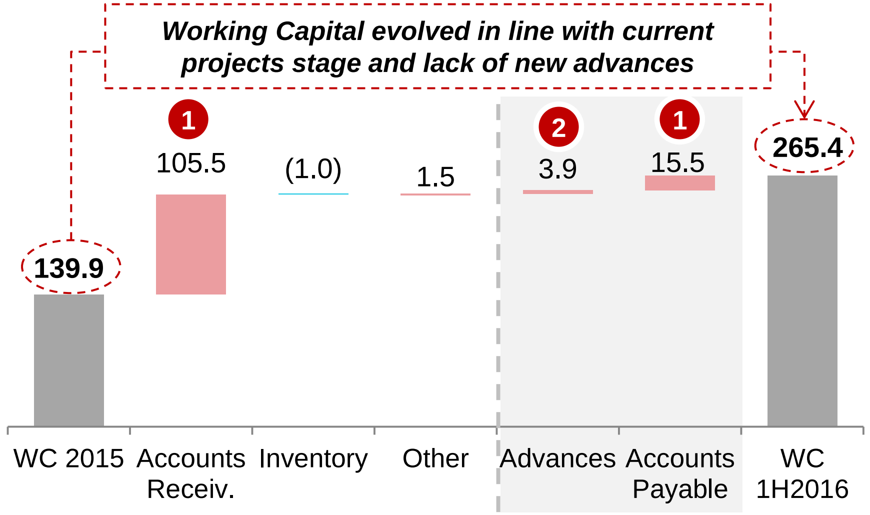
Source: Company information

3.2 Working capital performance

Working Capital evolution (€m)

€m	FY2015	1H2016
Accounts receivables	277.4	382.9
Other receivables	2.2	3.7
Assets held for sale	6.1	6.1
Inventories	88.8	87.8
Acc. payables (excl. advances)	(210.3)	(194.8)
Advances received	(20.5)	(16.6)
Other current liabilities	(3.8)	(3.8)
Working capital	**139.9**	**265.4**

Working Capital variation (€m)



- In line with Company expectations, **significant cash outflow has been registered in 1H2016**:
  1. **Accounts receivable and payables**: main drivers of WC increased, mainly due to the increase of the manufacturing activity, prior to start with dynamic testing and meeting delivery milestones.
  2. **Advances received**: dropped driven by the manufacturing projects stage.
- Working capital is expected to remain high during 2H2016 because of a normal manufacturing cycle and given the status of our current key manufacturing projects (mainly Mecca-Medina project).
- **Strong cash inflows are expected for 2017 and 1Q 2018**, which will reduce significantly the Working Capital while reducing the financial credit exposure.

Source: Company information

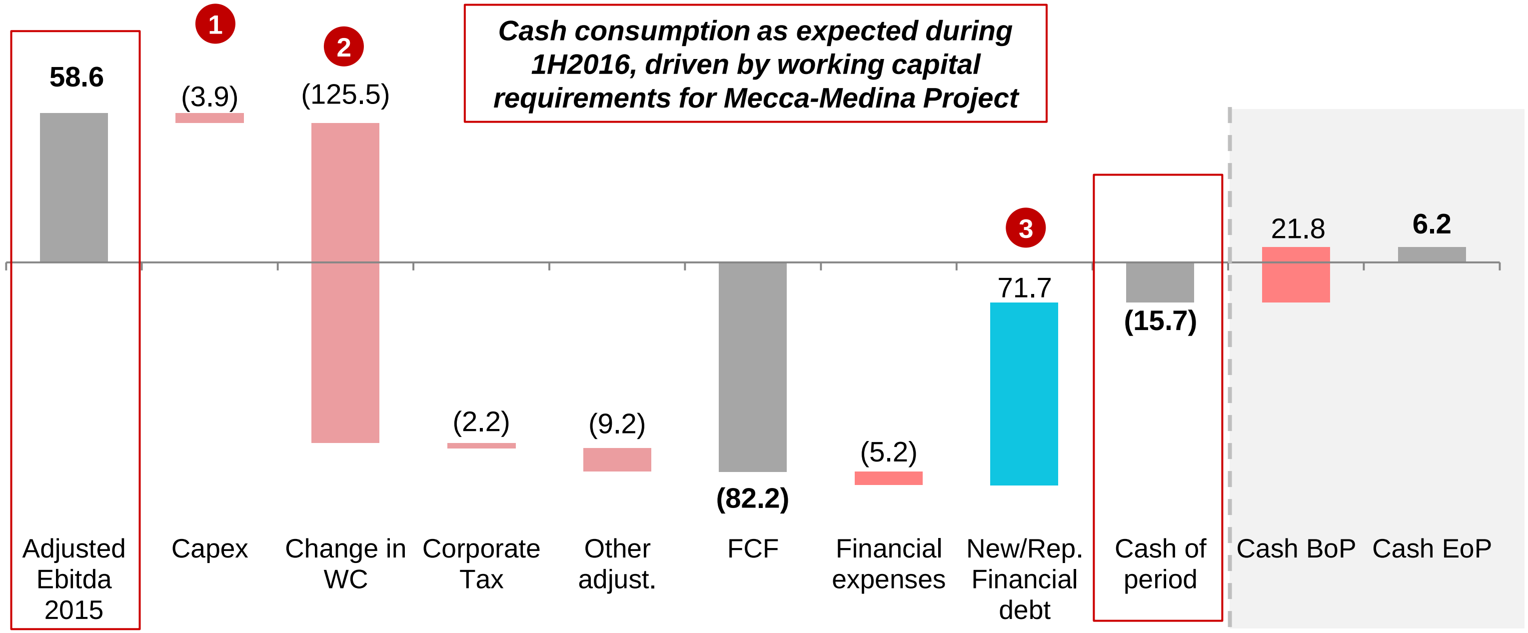
3.3 Cash Flow

1 Throughout 1H2016 the company has invested **3.9 €m as Capex**:
- Recurrent capex: 0.8 €m.
- Capex in new products: 2.7 €m.
- Capex destined to expand capacity: 0.3 €m.

2 Working Capital states as the major impact over the Ebitda for the period 1H2016 cash conversion, as **current manufacturing stage requires strong cash consumption.**

3 Talgo is **taking advantage of the large credit facilities available** to finance the ongoing projects aiming to deliver the product on time and therefore meeting clients expectations. As of june-2016, Talgo has drawn 84 €m. of credit lines.

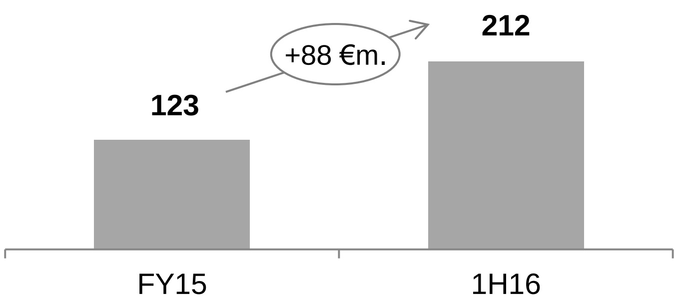
Ebitda Cash Conversion (€m)



3.3 Capital structure

Net Financial Debt (€m)[1]

NFD / Adj. Ebitda: **1.0x** (FY15) | **1.7x**[2] (1H16)

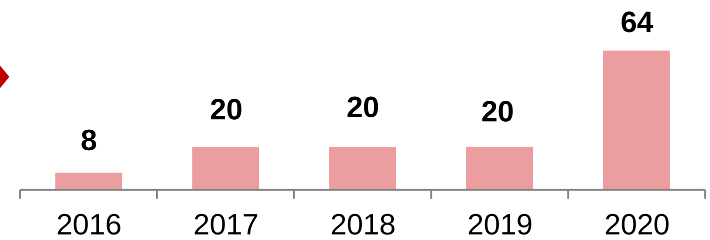


(2) LTM Adjusted Ebitda

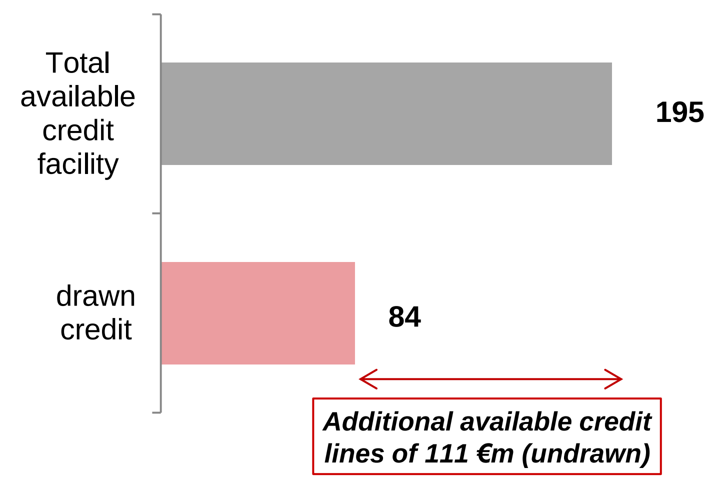
- **Gross bank debt amounted 218 €m by June 2016**, comprised of (i) 89.5 €m loan with Banco Santander, (ii) 42.0 €m loan with the European Investment Bank, (iii) 84.5 €m of credit lines, (iv) 1.5 €m of accrued debt interests and (v) 0.2 €m of leasing expenses.
- Additional other non-current liabilities are not considered financial debt as they comprise mainly refundable advances with Spanish Public Administration entities regarding R&D activities.[1]

Bank long term loans – Repayment schedule (€m)

Comfortable bank financing maturity profile



Committed credit lines at June 2016 (€m)



(1) Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities related with R&D (24.0 €m. in june-2016)
(2) 1H16 leverage ratio calculated over LTM Ebitda.

Source: Company information

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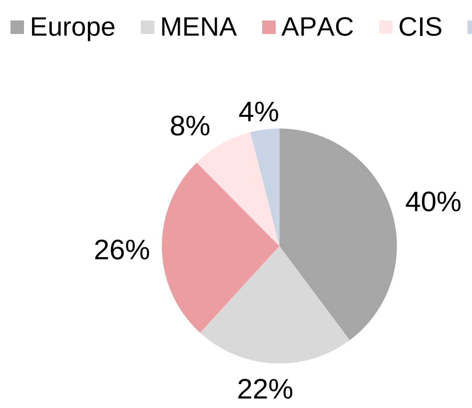
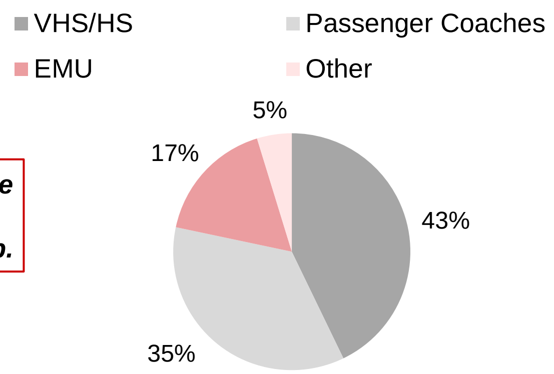
4.1 Commercial developments

Talgo pipeline by geography 2016-2018[(1)]

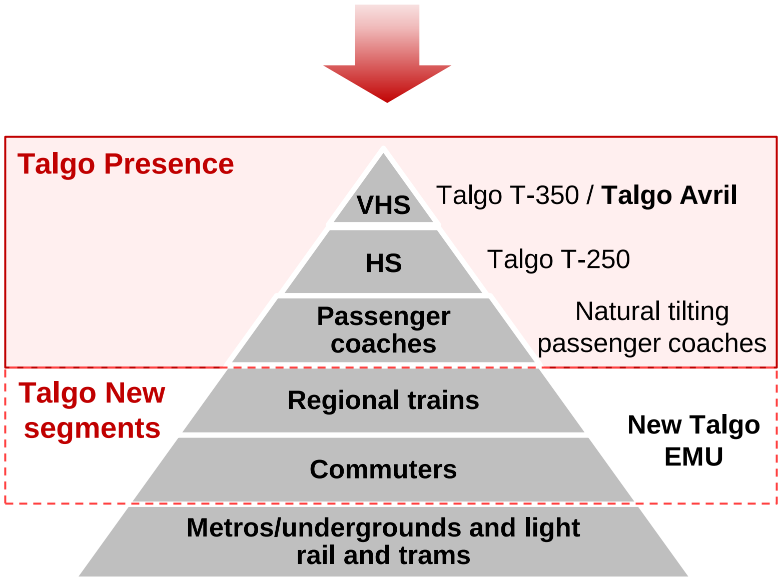


Talgo identified pipeline for the next 24-30 months amounts 6.0 €b.

Talgo pipeline by segment 2016-2018[(1)]



- The pipeline shown in the graph above comprise those opportunities expected to be awarded in 2016-2018 in which Talgo holds a better positioning.
- Tenders identified as attainable for Talgo in the next 12-18 months:
  - ✓ **Passenger coaches** and refurbishments lead the pipeline in terms of aggregate volume and number of tenders.
  - ✓ **HS/VHS tenders** expected to be called but could timing could depend on macro and political reasons.
  - ✓ **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

4.2 Outlook and guidance update for FY2016

	Initial guidance for 2016	1H2016 Results	Update for 2H2016
Business performance: Manufacturing / Maintenance activity	▪ Backlog execution 30-35% for 2015-2016. ▪ Stable revenues coming from maintenance activity. ▪ Sizeable pipeline expected to be awarded in 2016-2017.	▪ Net Turnover in line with estimates according to the "percentage of completion" of the ongoing projects. ▪ Manufacturing pace adapted to clients needs. ▪ Low order intake due to lack of awards within Talgo's addressable market.	▪ Mecca-Medina manufacturing project to drive the increase in revenues in FY2016. ▪ Maintenance business to continue as stable long-term business delivering best-in-class service. ▪ Identified opportunities likely to "arrive" in 2H2016.
Profitability	▪ Ebitda margins in 2016 expected to be >20%.	▪ Ebitda margins slightly dropped in 1H16 affected by one-off non-recurrent costs in Russia project.	▪ We reiterate our margins guidance for signed projects.
Cash Flow	▪ Cash consumption in 2016 due to ongoing projects stage. ▪ Working Capital increase. ▪ Extraordinary capex: c. 9 €m.	▪ WC increased as expected. ▪ Cash consumption due to ongoing projects stage. ▪ Extraordinary Capex incurred amounted 2,7 €m. (EMU)	▪ Cash flow generation would increase with new orders. ▪ WC to remain high in 2016. ▪ EMU development capex to continue in 2H2016.
Capital Structure	▪ Maintain Net Debt / Ebitda below current ratio: 1.0x.	▪ Net debt increased due to credit line disposals for Mecca-Medina project (reaching 1.7x ratio) as expected.	▪ High availability of credit lines will ensure the manufacturing activity ▪ DFN/Ebitda 1.3x-1.5x in 2016.
Dividend / Pay-out	▪ First dividend payment expected on 2H2016.	▪ No dividend payments were planned for 1H2016	▪ We reiterate a dividend payment for 2H2016 with target pay-out of c.20-30%.

Source: Company information

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Annex 1

P&L

Profit & Loss Account (€m)	1H16	1H15	% Change
Total net turnover	**299.3**	**214.0**	***39.9%***
Other income	4.1	6.4	*(35.8%)*
Procurement costs	(179.1)	(103.7)	*72.8%*
Employee welfare expenses	(47.2)	(50.8)	*(7.1%)*
Other operating expenses	(20.0)	(26.7)	*(24.9%)*
EBITDA	**57.1**	**39.2**	*45.4%*
% Ebitda margin	*19.1%*	*18.3%*	
Other adjustments	2.0	11.5	*(82.8%)*
Long-term stock compensation plan	-	3.2	*(100.0%)*
Adjusted EBITDA	**59.0**	**53.9**	***9.5%***
% Adj. Ebitda margin	*19.7%*	*25.2%*	
D&A (inc. depreciation provisions)	(9.8)	(9.0)	*9.1%*
EBIT	**47.2**	**30.2**	***56.3%***
% Ebit margin	*15.8%*	*14.1%*	
Other adjustments	2.0	11.5	*(82.8%)*
Long-term stock compensation plan	-	3.2	*(100.0%)*
AVRIL Amortization	2.0	4.0	*(50.0%)*
Adjusted EBIT	**51.2**	**48.9**	**4.8%**
% Adj. Ebit margin	*17.1%*	*22.8%*	
Net financial expenses	(3.3)	(2.3)	*39.2%*
Profit before tax	**44.0**	**27.9**	**57.7%**
Tax	(9.4)	(4.4)	
Profit for the period	**34.6**	**23.5**	***47.1%***
Adjusted Profit for the period	**37.6**	**37.0**	**1.7%**

Cash Flow

Cash flow statement	1H16	1H15	*% Change*
€ million			
Net income	34.6	23.5	47.1%
Corporate income tax	9.4	4.4	115.2%
Depreciation & Amortization	9.4	9.0	4.1%
Financial income/Financial expenses	3.6	2.6	35.5%
Other result adjustments	0.7	7.3	(90.0%)
Changes in working capital	(135.6)	(113.7)	19.3%
Operating cashflows after changes in WC	**(78.0)**	**(66.9)**	**16.6%**
Net interest expenses	(3.1)	(2.1)	47.4%
Provision and pension payments	0.0	0.0	n.a.
Income tax paid	(2.2)	(2.3)	(3.5%)
Other collection and payments	0.0	0.0	n.a.
Net cash flows from operating activities	**(83.3)**	**(71.3)**	**16.8%**
Investments	**(3.9)**	**(5.9)**	**(33.5%)**
Changes in financial assets and liablities	71.7	137.0	(47.7%)
Purchase of non-controlling interests	0.0	(23.0)	n.a.
Dividends payments	0.0	(107.4)	n.a.
Net cash flows from financing activities	**71.7**	**6.6**	**990.1%**
Net variation in cash & cash eq.	**(15.6)**	**(70.7)**	**(77.9%)**
Cash and cash equivalents BoP	21.8	96.0	(77.3%)
Cash and cash equivalents EoP	6.2	73.3	(91.5%)

Annex 2

Assets

Balance Sheet	June 2016	Dec 2015
FIXED ASSETS	**272.7**	**275.7**
Tangible + intangible assets	122.7	128.1
Goodwill	112.4	112.4
Other long term assets	37.5	35.1
CURRENT ASSETS	**486.8**	**396.3**
Inventories	87.7	88.8
Non- current assets held for sale	6.1	6.1
Accounts receivable	382.9	277.4
Other current assets	3.7	2.2
Cash & cash equivalents	6.2	21.8
TOTAL ASSETS	**759.4**	**671.9**

Equity & Liabilities

Balance Sheet	June 2016	Dec 2015
SHAREHOLDERS EQUITY	**265.4**	**231.0**
Capital Stock	41.2	41.2
Share premium	68.5	68.5
Consolidated reserves	3.7	3.9
Retained earnings	152.0	83.7
Other equity instruments	0.0	33.7
NON-CURRENT LIABILITIES:	**172.2**	**183.2**
Debt with credit institutions	113.5	123.5
Provisions	26.4	25.6
Other financial liabilities	23.2	24.5
Other long-term debts	9.1	9.7
CURRENT LIABILITIES:	**321.8**	**257.7**
Accounts payable	211.4	231.0
Debt with credit institutions	104.1	20.7
Other financial liabilities	2.6	2.5
Provisions for other liabilities and other	3.8	3.5
TOTAL SHERHOLDERS EQUITY + LIABILITIES	**759.4**	**671.9**


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Thank you