



Talgo 1H2019 Results

July 24th, 2019

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Key business highlights of 1H2019

Strong commercial momentum increasing backlog to record levels

- ✓ **New order intake for 1H2019 reached 804 €m** (4.8x Book-to-bill ratio in the year).
- ✓ **3,251 €m of backlog** as of 1H2019 (3,568 €m if all awards are considered).
- ✓ **Strong commercial activity** in both existing and new markets.

Projects on-time...

- ✓ **Manufacturing activity with significant overweight of its early engineering works of its diversified manufacturing projects** that will drive the company to a strong industrial activity in following months/years.
- ✓ **Successful and profitable maintenance activity** proving Company strong know-how in current and new projects while increasing a strong maintained fleet to 2,839 vehicles.

.. and on-budget

- ✓ **Net turnover reached 168 €m in 1H2019** (+4% vs 2H2018)
- ✓ **Adjusted Ebitda and Net Profit of amounted 30 €m and 14 €m**, reaching margins of 18% and 8%, respectively.
- ✓ **Net cash position amounted 64 €m⁽¹⁾** at 1H2019, resulting on **-1.0x NFD / LTM Ebitda** ratio.

Company strong industrial activity driven by wide range of manufacturing projects recently awarded on backlog will lead revenue growth for 2H2019 and 2020

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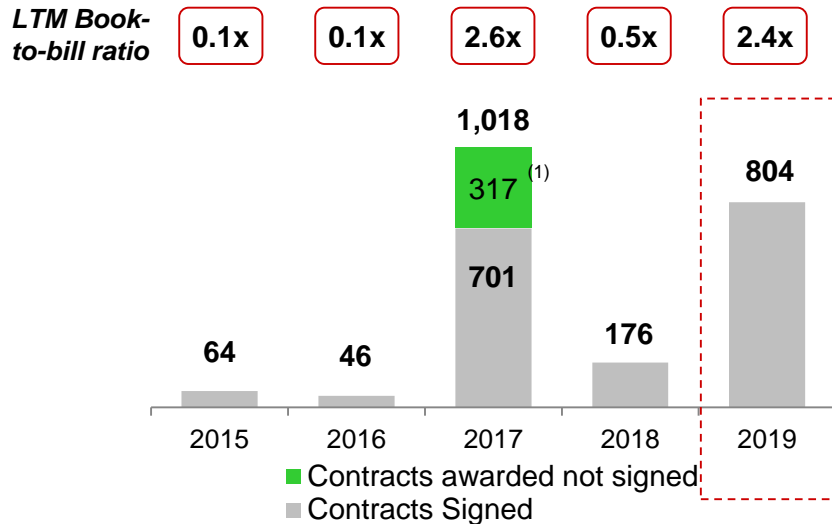
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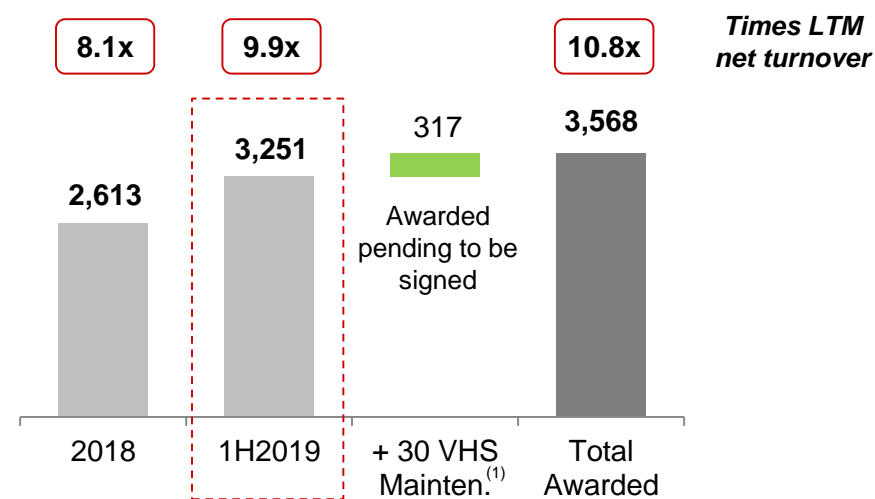


Increased manufacturing backlog with high quality projects to ensure medium term revenues visibility

Order intake evolution 2015 – 1H2019 (€m)



Backlog evolution as of June 2019 (€m)

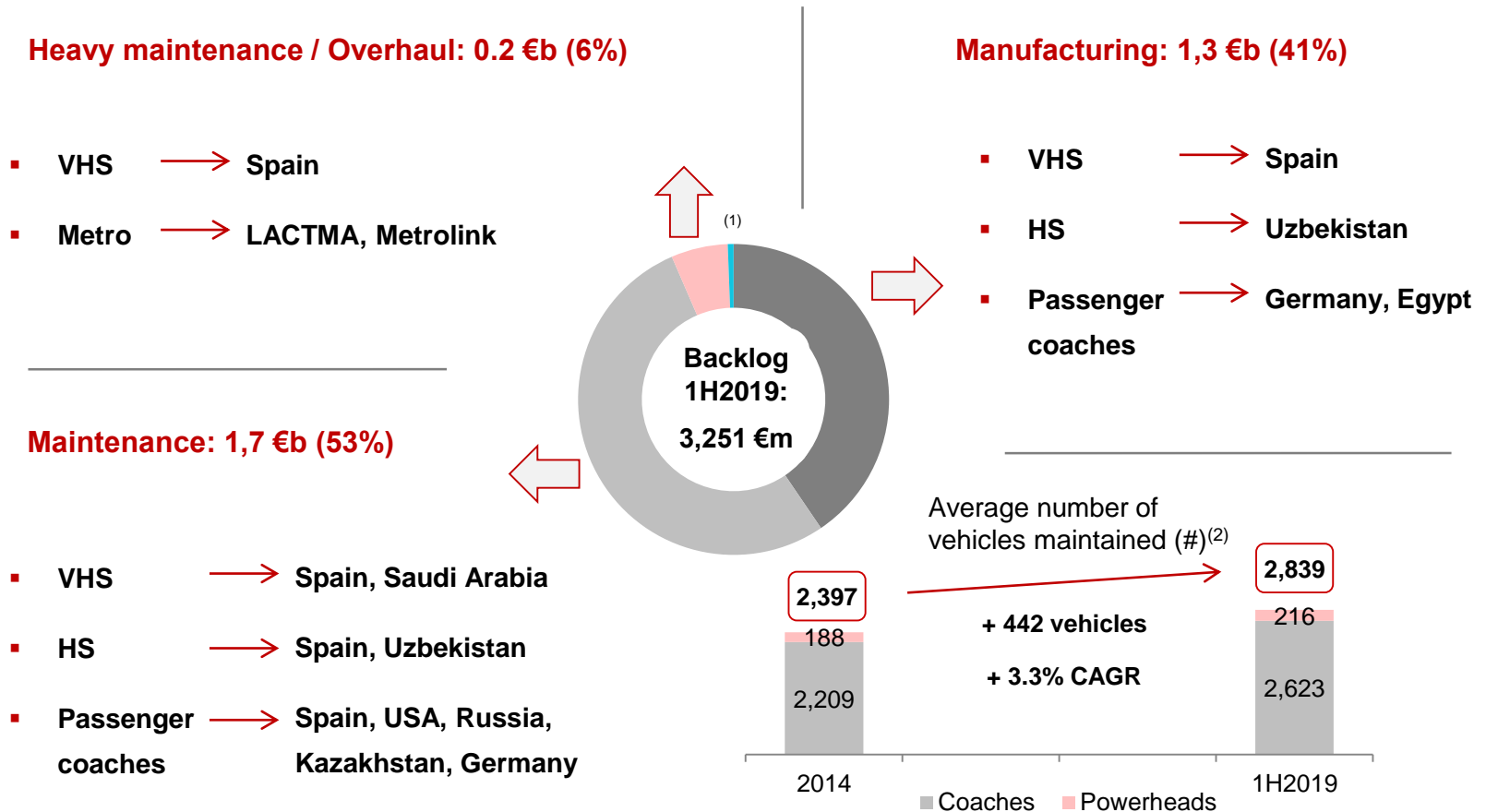


- **Strong commercial momentum with successful commercial activity resulted on new orders signed in the first half of 2019 amounting 804 €m. leading the backlog to record historical levels**
- The orders booked in the period mainly comprises the following:
 - Deutsche Bahn project awarded for the **manufacturing of 23 trains for 550 €m.**
 - ENR (Egypt) project for the **manufacturing and maintenance of 6 Talgo trains for 157 €m.**
 - UTY (Uzbekistan) project awarded for the **manufacturing of 2 HS trains and coaches for 57 €m.**
 - Metrolink (USA) project for the **overhaul of commuter coaches for 35 \$m (Talgo's scope).**
- **New orders drove backlog to record levels reaching 3.3 €b (3.6 €b with all awarded projects considered) with a stronger presence of manufacturing projects, and an increased Book to bill ratio (9.9x), providing a clear picture of the expected revenue growth in the forthcoming quarters.**



(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.
 Source: Company information

Strategy implementation on the right path to reach a diversified backlog



Latest awards enhanced manufacturing and overhaul backlog to over 1.5 €b to represent 47% of total and ensuring a strong industrial activity expected for the next years



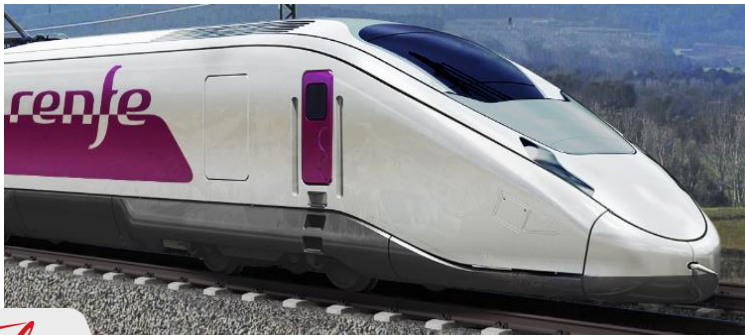
(1) Maintenance equipment backlog amounted 17 €m
 (2) Include both cars and powerheads. Note: Additional c. 80 coaches (stable over the period 2014-1H019) manufactured by third parties are maintained by Talgo in Germany. Such cars are around two times longer than Talgo standard coaches.
 Source: Company information

Manufacturing projects:

Consolidating its positioning in existing markets with proven success...

Renfe Avril VHS project

- **Scope of the contract:** manufacture of 30 VHS trains “AVRIL” and their maintenance for a period of 30 years. Total award for **Talgo’s scope amounts 897 €m** (including 317 €m of maintenance).
- **Execution performance:**
 - Currently involved in the design and starting of **integration of underframes and body shells** of coaches and locomotives.
 - Schedule of staggered **deliveries throughout 2020 and 2021.**
- **Working Capital management:** project milestones are distributed throughout the project so that is not expected to be high working-capital-intensive.



UTY Uzbekistan High Speed

- **Scope of the contract:** manufacture of two HS Talgo 250 trains plus four additional cars, materials and equipment for the existing trains currently being operated in the country, for a **total value amounting 57 €m.**
- **Execution performance:**
 - Currently on development phase, expecting to increase industrial activity by 2021.
 - Deliveries expected for year 2022.
- **Working Capital management:** project financed by FIEM (Spanish government fund) with comfortable cash flow profile.



Manufacturing projects:

... while spreading into new markets to develop its leading technology

Deutsche Bahn Talgo 230 km/h project

- **Scope of the contract:**
 - Framework agreement for the manufacturing of up to 100 Talgo 230 km/h trains for an approximate total value amounting c. 2.3 €b.
 - First order comprise the manufacturing of 23 trains for 550 €m.
- **Execution performance:**
 - Starting designing and engineering activity.
 - Delivery schedule starting from 2023.
- **Working Capital management:**
 - Accepted use of AAD (Abstract Acknowledge of Debt) for up to 60% of total contract value, aiming to optimize the project cash flow.
 - Talgo will implement the best suitable cash management profile for Talgo.



ENR Egypt Talgo 160 km/h project

- **Scope of the contract:** manufacture of six Talgo 160 km/h trains and their maintenance during a period of eight years for a total value amounting 157 €m.
- **Execution performance:**
 - Recently awarded and signed, and therefore starting first phase of designing and engineering activity.
 - Delivery schedule during the years 2021 and 2022.
- **Working Capital management:** project financed by the BERD with a comfortable cash flow profile.



Talgo

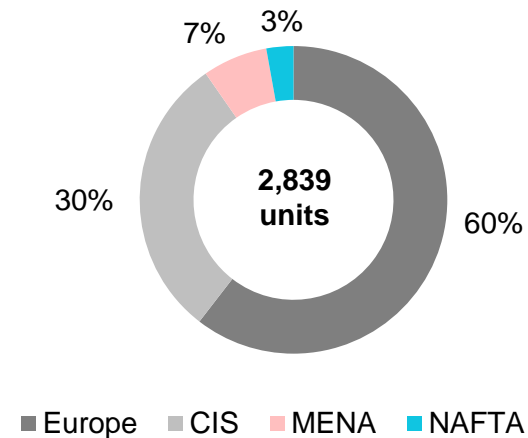
Source: Company information

Maintenance projects:

Increasing fleet continues to grow maintenance revenues

Maintenance activity (and installed base in # of units by geography)

- 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 2019, providing high reliability, quality and customer safety in contracts maintained in Spain, Arabia, Kazakhstan, Uzbekistan, Russia, USA and Germany.
- The maintained fleet is **expected to register a strong growth as the contracted manufacturing backlog is delivered**.



Mecca-Medina maintenance project – proven developments to succeed in extreme conditions



- **Talgo started the maintenance activity in Mecca-Medina corridor** on October 2018 through a commercial phase prior to start full operations.
- At the moment **12 trains are in commercial service** delivering successful results to the client in terms of availability and reliability.
- To the date, Talgo trains have covered more 600,000km since the line opened, carrying above 400,000 passengers with an average load factor of 83%.

Heavy maintenance / Overhaul projects:

Successful entry into a new growing market

Conversion of night trains into VHS compositions

- **Scope of the contract:** 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.**
- **Execution performance:**
 - Currently in engineering and designing phase.
 - Expected **delivery schedule starting on 2020.**



LACMTA overhaul (USA)

- **Scope of the contract:** overhaul of critical systems and subsystems to **74 vehicles from the Red Line total value of 72.9 \$m.**
- **Execution performance:**
 - **Project under execution on-time and on-budget.**
 - Schedule assuming execution throughout a period of 56 months

Metrolink overhaul (USA)

- **Scope of the contract:** rebuild up to 121 rail vehicles for a total consideration of 138.9 \$m, with an initial order for **50 vehicles and value for Talgo scope amounting 35 \$m.**
- **Execution performance:**
 - Recently awarded and signed, and therefore starting on first phases of engineering.
 - Schedule assuming first deliveries to start in 15 months from Notice To Proceed.

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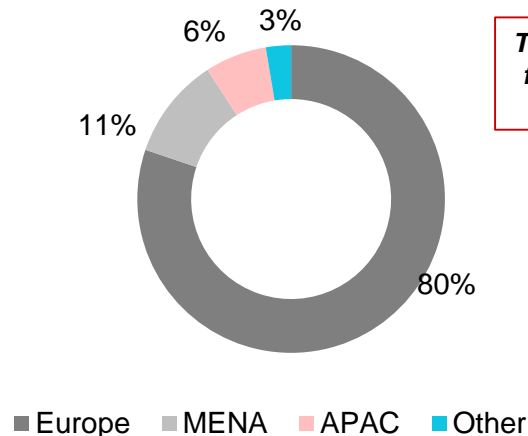
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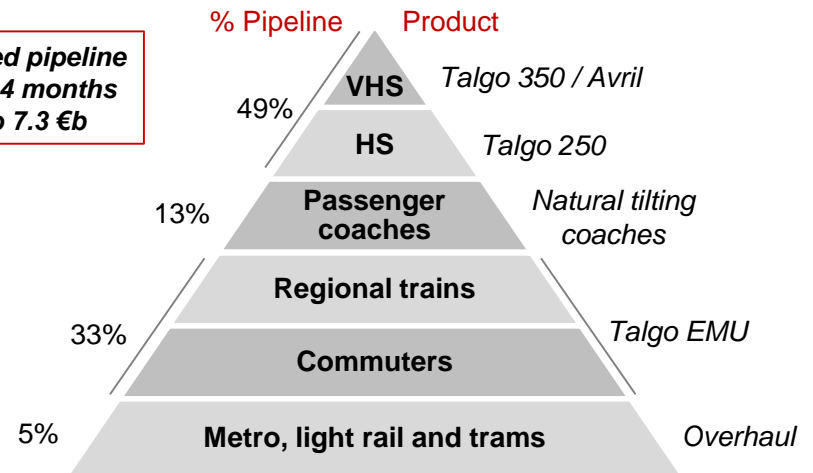
Commercial developments

Talgo pipeline by geography 2018-2019⁽¹⁾



Talgo identified pipeline for the next 24 months amounts to 7.3 €b

Talgo pipeline by segment 2018-2019⁽¹⁾



- Significant orders were booked during the first half of the year driven by a widened geographical commercial presence, which together with product diversification, has enhanced the company commercial approach.
- Nevertheless, Talgo has continued working on the identification and tendering process of additional opportunities. **In this sense, Talgo is currently working on over 20 opportunities expected to be awarded throughout the next 24 months with a total value amounting 7.3 €b.**
- **During 1H2019, the Company has submitted offers with an approximate value amounting c.3.4 €b.,** out of which c.3 €b corresponds to the UK HS2 project.
- On top of this, the company **actively monitors additional longer term opportunities in which Talgo is positioned with an expected value amounting c. 11 €b.**



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

Source: Company information

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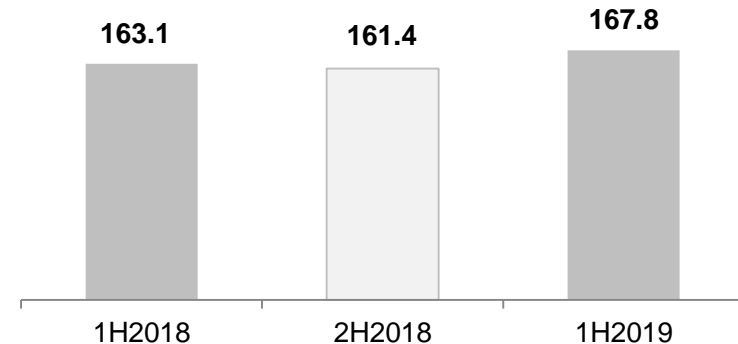
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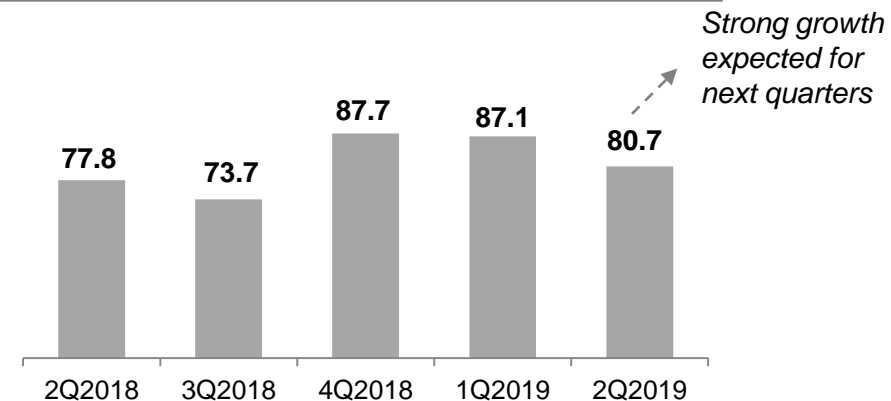
Profit & Loss – Successful performance of all projects under execution

- **Net Turnover reached 167.8 €m in 1H2019, +4% vs 2H2018**, reflecting the last low manufacturing revenue recognition phases prior to **switch into a robust revenue recognition** driven by assembly phases.
- **Manufacturing activity:**
 - ✓ All projects are being executed **on-time and on-budget in line with clients requirements and based on the company proven know-how.**
 - ✓ Revenues in 2Q2019 slightly decreased vs. previous quarters with **no impact on projects performance and without modifications at all over the expected coming trend of industrial activity and revenues growth.**
 - ✓ Foreseeable change of revenues weighting in terms of geography, with an increase of European projects to the detriment of MENA projects.
- **Maintenance Activity:**
 - ✓ Continue to provide recurrent and stable cash generation with long-term contracts.
 - ✓ Successfully meeting quality and reliability KPIs in all contracts, highlighting the **first positive feedbacks from starting Mecca-Medina maintenance activity.**

Net Turnover – Accumulated (€m)



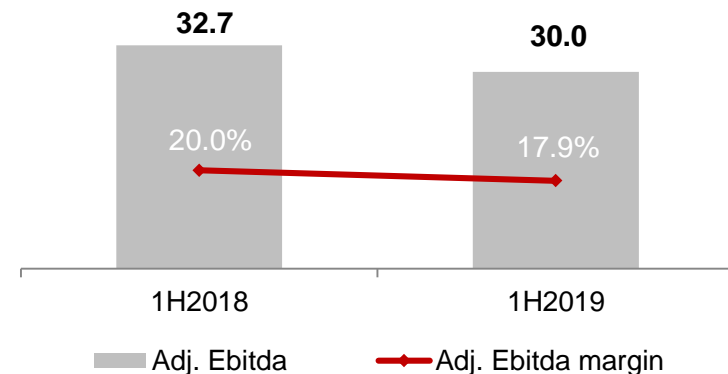
Revenues evolution (€m)



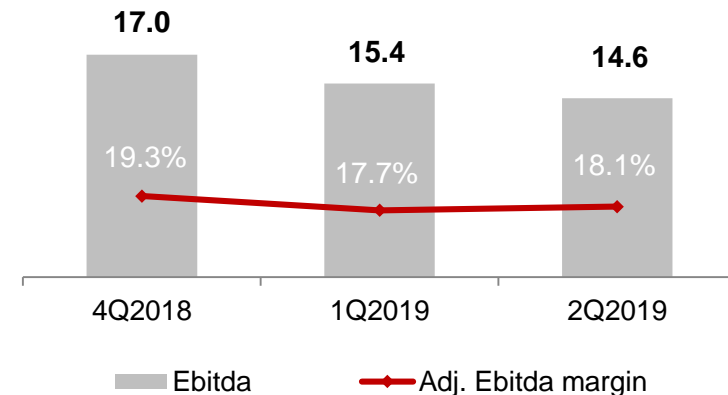
Profit & Loss – Delivering profitability ratios in line with expectations

- Adjusted Ebitda registered in 1H2019 reached **30 €m** (14.6 €m in Q2), reflecting the on-budget execution of projects on backlog and successful projects management with **strong focus on deliver the highest service and product quality with a strict costs control**.
- Adjusted Ebitda margin at c. 18%, with an **increasing weighting of procurement costs over total** driven by the starting phases of the new manufacturing projects.
- Main adjustments made to Ebitda include both:
 - ✓ one-off items, mainly layoff compensations and bank guarantee fees.
 - ✓ IFRS 16 adjustment (1 €m in the period) aiming to avoid distortion over the year's guidance.

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

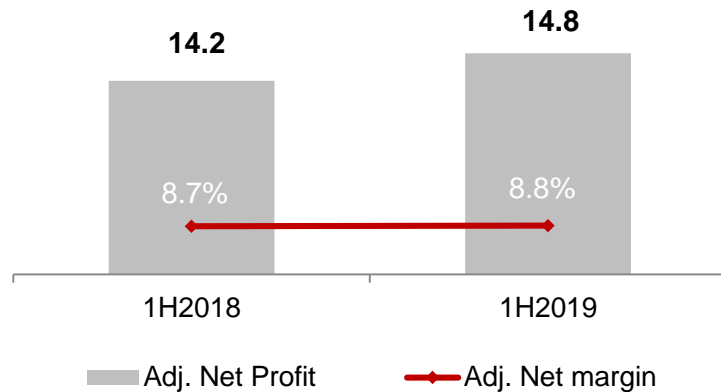


Adj. Ebitda (€m) and margin (%) – QoQ

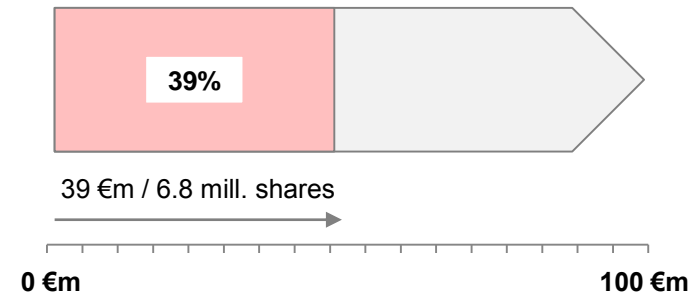


Profit & Loss – Net profit and Shareholder remuneration

Adj. Net profit (€m) and margin (%) – Accumulated



Share Buy Back Programme status as of June 2019

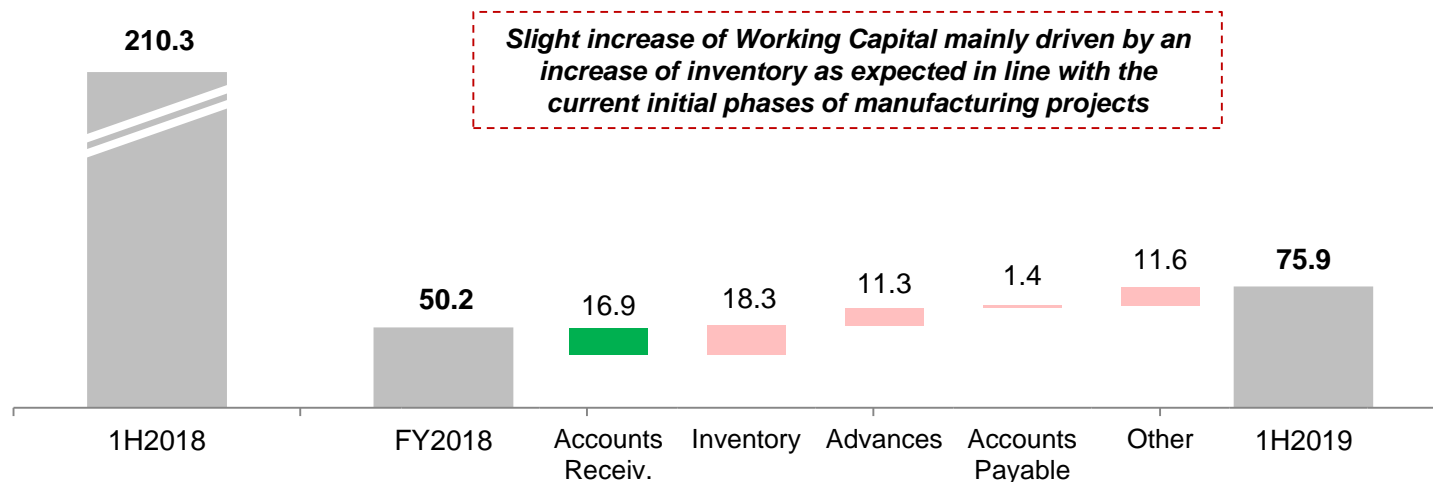


- **Adjusted Net Profit registered in 1H2019 amounted 14.8 €m** with a slight increase on the back of a sustained financial expenses.
- While delivering an attractive business net return to shareholders (8.8%), Talgo is under execution of a Share Buy-back program as shareholders remuneration policy:
 - ✓ **100 €m in shares to be acquired**, out of which 39% has been already acquired by June 2019, representing 6.8 million shares or 5% of company's Capital.
 - ✓ **Once 100% of the Programme is executed and shares cancelled, existing shareholders will increase their share on the company by c. +20%.**
 - ✓ First redemption of shares expected when reaching c. 9.5% of Talgo's Capital.

Working Capital performance in line with starting manufacturing cycle of orders booked in last years

- Working Capital slightly increased in 1H2019 to a sustainable level:
 - ✓ **Accounts receivable:** Talgo continued to meet milestones related to the commissioning and delivery process in main manufacturing projects executed in last years.
 - ✓ **Inventory** registered certain increase in the period reflecting the initial stage of new manufacturing projects, mainly driven by Spain VHS project.
 - ✓ **Advances received** in last periods due to the orders registered began to decrease as projects are executed.
- Working Capital increased in 1H2019 according to the **normal performance of the business. However, it must be highlighted the strong decrease registered in the last 12 months mainly driven by a successful delivery process of Mecca-Medina project.**

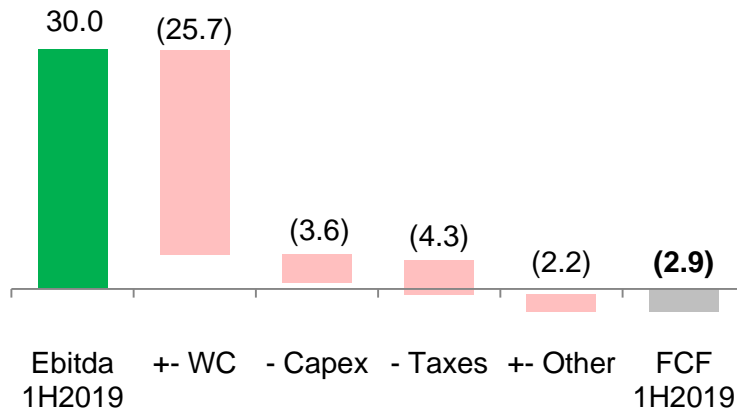
Working Capital performance (€m)



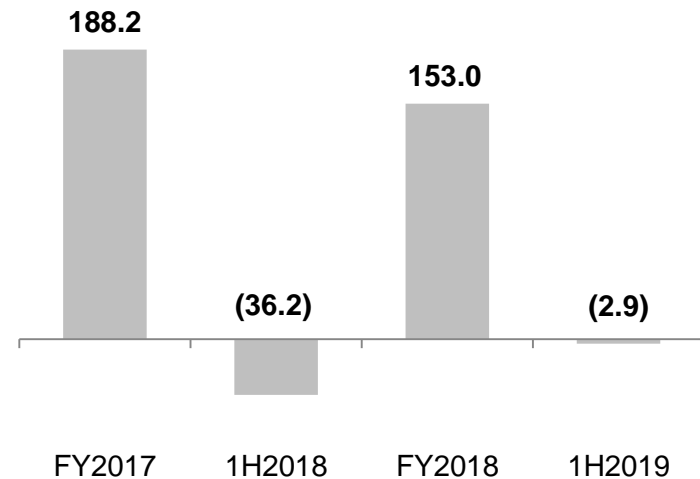
Ebitda conversion to cash temporarily offset by new projects working capital requirements

- During 1H2019 the company started to execute latest awarded manufacturing contracts, which began to **require limited working capital investments in the period**, mainly through the uses of advanced payments received at signing and inventory acquisitions to undertake the projects.
- **During 2H2019 FCF may revert to positive** driven by cash collections from the delivery process in our current key manufacturing projects (mainly Mecca-Medina project),
- Such cash contribution might offset, as expected the cash invested in the share buy-back program (39 €m invested by June 2019) to maintain the net cash position of the company by year end.

Ebitda Cash Conversion (€m)

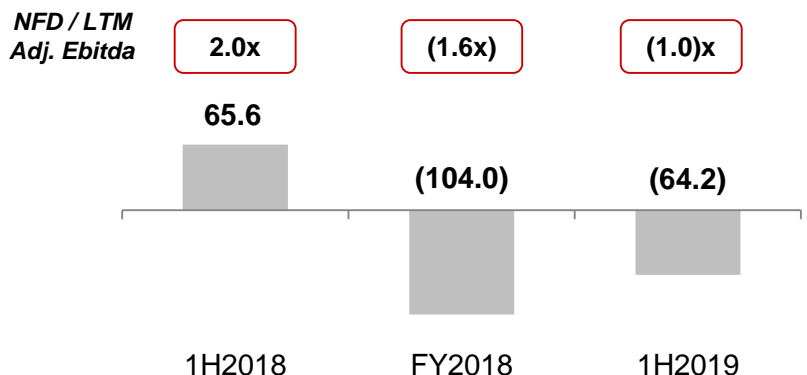


Free Cash Flow (€m)

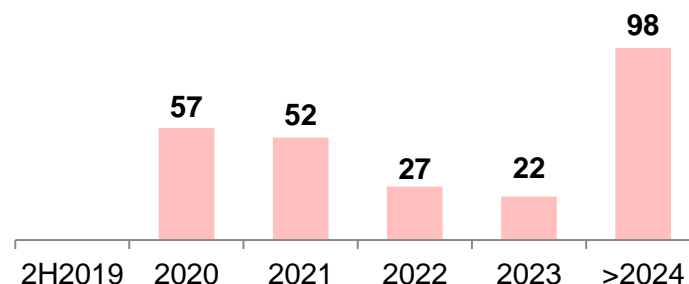


Sound financial profile with long term view

Net Financial Debt (€m)⁽¹⁾⁽²⁾



Long term bank loans – Repayment schedule (€m)

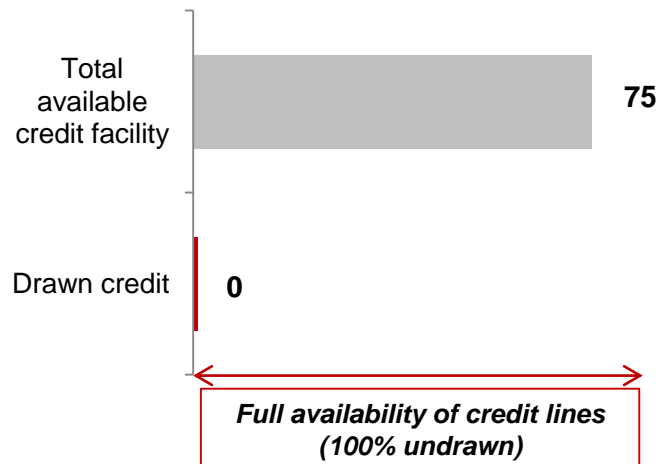


- **Strong financing capacity** with over 320 €m in cash.
- **Gross bank debt amounted 257 €m** with low interest rates and long-term maturities:

€m	1H2019
Long term debt with bullet maturities	134
Long term debt with annual repayments	93
European Investment Bank	30
Accrued debt interests	-
Total banking debt	257

- In addition to the gross bank debt, 6.5 €b of leasings (IFRS16) were registered in the period.

Committed credit lines at June 2019 (€m)



1) Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities related to R&D which are not considered financial debt due to their recurrence and zero interest.
 2) During 1H2019 Talgo allocated 10 €m in remunerated funds which are considered available although due to accounting requirements it is registered as "other current assets"

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Strong revenue growth expected for FY2019 with Ebitda margins at 18%

	Outlook at 1Q2019	Outlook update for FY2019
Business performance	<ul style="list-style-type: none">Strong double digit revenue increases expected for the year, reflecting manufacturing ramp-up of ongoing projects.Maintenance: acting as a stable and solid base of revenues contributor.Order book: Company target >1.3 Book to Bill is maintained (2 years average 2018-2019).	<ul style="list-style-type: none">Strong double digit growth driven by progress manufacturing projects is still expected for FY2019.Maintenance successful performance expected for the year in all projects.Commercial activity maintained with the focus on growth and diversification. Target at >1.3 Book-to-bill (2 years average) is maintained.
Profitability	<ul style="list-style-type: none">Profitability: Adjusted EBITDA margin at c. 18% for FY2019.	<ul style="list-style-type: none">Profitability: Adjusted EBITDA margin target is maintained at 18% for FY2019.
Cash Flow and Capital Structure	<ul style="list-style-type: none">Neutral Cash flow performance expected for 2019.Slight increase of net cash position in 2019.Capex of c. 20 €m.	<ul style="list-style-type: none">Guidance related to cash flow performance is maintained for FY2019: No significant changes with a slight increase in net cash position.Capex of c. 20 €m.
Shareholders Remuneration	<ul style="list-style-type: none">Continue share buy-back programme execution throughout 2019 (c. 15% executed as of February 2019).	<ul style="list-style-type: none">Company commitment to continue its Share buy-back programme execution in 2019.

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Appendix 1. Profit & Loss

Profit & Loss Account (€m)	1H19	1H18	% Change
Total net turnover	167.8	163.1	2.9%
Other income	2.6	0.3	659.1%
Procurement costs	(55.9)	(52.2)	7.1%
Employee welfare expenses	(59.9)	(54.7)	9.5%
Other operating expenses	(26.7)	(27.4)	(2.3%)
EBITDA	27.8	29.2	(4.6%)
<i>% Ebitda margin</i>	16.6%	17.9%	
IFRS 16 adjustment	(1.0)	-	n.a.
Other adjustments	3.2	3.5	(9.3%)
Adjusted EBITDA	30.0	32.7	(8.0%)
<i>% Adj. Ebitda margin</i>	17.9%	20.0%	
D&A (inc. depreciation provisions)	(7.1)	(10.5)	(32.6%)
EBIT	20.8	18.7	11.1%
<i>% Ebit margin</i>	12.4%	11.5%	
Other adjustments	3.2	3.5	(9.3%)
AVRIL/ViTtal Amortization	1.1	5.6	(80.2%)
Adjusted EBIT	25.1	27.8	(10.0%)
<i>% Adj. Ebit margin</i>	14.9%	17.1%	
Net financial expenses	(4.1)	(4.8)	(15.0%)
Profit before tax	16.7	13.9	20.1%
Tax	(2.7)	(3.9)	(30.4%)
Profit for the period	14.0	10.0	39.8%
Adjusted Profit for the period	14.8	14.2	4.1%

Appendix 2. Balance Sheet

Balance Sheet (€m)	June 2019	June 2018	Dec 2018
FIXED ASSETS	250.3	242.6	241.9
Tangible + intangible assets	103.1	104.4	99.3
Goodwill	112.4	112.4	112.4
Other long term assets	34.8	25.7	30.2
CURRENT ASSETS	603.2	589.3	662.3
Inventories	102.9	71.4	84.6
Non- current assets held for sale	0.0	0.0	0.0
Accounts receivable	172.9	320.8	189.8
Other current assets	15.2	3.6	4.2
Cash & cash equivalents	312.3	193.5	383.7
TOTAL ASSETS	853.5	831.9	904.2

Balance Sheet (€m)	June 2019	June 2018	Dec 2018
SHAREHOLDERS EQUITY	307.6	324.0	328.1
Capital Stock	41.1	41.1	41.1
Share premium	6.8	6.8	6.8
Consolidated reserves	2.9	2.5	2.9
Retained earnings	295.4	273.7	281.4
Other equity instruments	(38.6)	(0.1)	(4.0)
NON-CURRENT LIABILITIES:	291.3	298.3	331.0
Debt with credit institutions	222.8	237.4	265.6
Provisions	35.2	28.6	37.1
Other financial liabilities	24.3	23.2	19.4
Other long-term debts	9.0	9.1	8.8
CURRENT LIABILITIES:	254.6	209.7	245.2
Accounts payable	210.8	180.3	223.5
Debt with credit institutions	34.3	21.7	12.3
Other financial liabilities	5.2	2.5	4.5
Provisions for other liabilities and other	4.3	5.1	4.9
TOTAL S. EQUITY + LIABILITIES	853.5	831.9	904.2

Appendix 2. Balance Sheet (2)

Financial debt (€m)	June 2019	June 2018	Dec 2018
Long term financial liabilities	222.8	237.4	265.6
Short term financial liabilities	34.3	21.7	12.3
Financial leasings	1.1	-	1.5
Cash & cash equivalents	(322.3)	(193.5)	(383.7)
Net financial debt	(64.2)	65.6	(104.4)
Adjusted EBITDA LTM	62.9	69.9	65.6
Net financial debt / Adj EBITDA (LTM)	(1.0)x	0.9x	(1.6)x

Balance Sheet - Working Capital (€m)	June 2019	June 2018	Dec 2018
Inventories	102.9	71.4	84.6
Non current assets hed for sale	0.0	-	-
Account trade receivables	172.9	320.8	189.8
Other current assets	15.2	3.6	4.2
Trade and other payables	(124.1)	(108.7)	(125.5)
Advances received	(86.6)	(71.6)	(97.9)
Provisions for other liabilities and other	(4.3)	(5.1)	(4.9)
Working Capital	75.9	210.3	50.2

Appendix 3. Cash Flow Statement

Cash flow statement (€m)	1H19	1H18	% Change	2018
Net income	14.0	10.0	39.8%	17.7
Corporate income tax	2.7	3.9	(30.4%)	6.0
Depreciation & Amortization	7.2	11.1	(34.8%)	22.8
Financial income/Financial expenses	4.0	4.6	(12.9%)	8.7
Other result adjustments	(4.0)	(1.4)	198.4%	4.0
Changes in working capital	(26.3)	(54.9)	(52.2%)	103.2
Operating cashflows after changes in WC	(2.4)	(26.7)	(91.1%)	162.4
Net interest expenses	(4.5)	(4.2)	7.0%	(7.8)
Provision and pension payments	0.0	0.0	n.a.	0.0
Income tax paid	(4.3)	(2.7)	63.3%	(2.8)
Other collection and payments	0.0	0.0	n.a.	0.0
Net cash flows from operating activities	(11.2)	(33.5)	(66.6%)	151.7
Capex	(3.6)	(2.7)	30.5%	(9.6)
Changes in financial assets and liabilities	(20.4)	(13.4)	51.8%	1.6
Dividends payments	(34.8)	0.0	n.a.	(3.3)
Net cash flows from financing activities	(55.1)	(13.4)	311.1%	(1.6)
Net variation in cash & cash eq.	(69.9)	(49.7)	40.7%	140.5
Cash and cash equivalents BoP	383.7	243.2		243.2
Cash and cash equivalents EoP	313.8	193.5	62.2%	383.7

Talgo