Talgo 1H2017 Results

July 21, 2017

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1.1 Key business highlights 1H2017

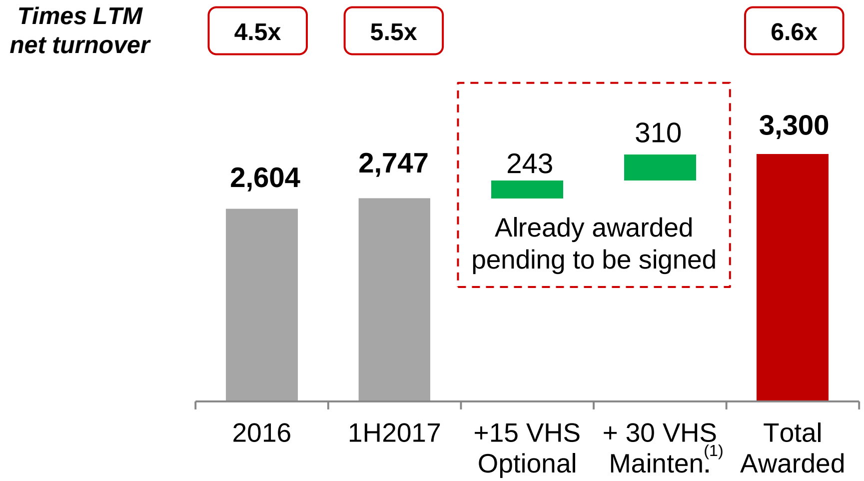
- **Main financial Highlights:**
  - **Adjusted Net income reached 32 €m**, resulting on 15% ROS (13% in 2016).
  - **Adjusted Ebitda reached 50 €m in the period**, enhancing Ebitda margins to 23%.
  - **Net turnover reached 215 €m in 1H2017** (-28% vs 1H2016) according to the current manufacturing cycle of the main contracts under execution.
  - **Significant cash generation cycle** to start in 2H2017.
  - **NFD amounted 212 €m(1) at June 2017**.
    - **2.0x leverage ratio over the adjusted LTM Ebitda**, with optimized repayment schedule through long term financing facilities with low interest rates.
    - **Strong NFD reduction expected** for FY2017.
  - **2,747 €m contracted backlog as of June 2017**, which would increase to **3,300 €m if all awarded amount were considered.**
- **Operational Highlights:**
  - **Execution of current manufacturing backlog on time and budget**: all manufacturing and maintenance contracts executed at or above margins target.
  - **Successful execution of all maintenance contracts**.
  - **Significant order intake** during the first half mainly driven by Spanish VHS contract.
  - Strong commercial activity in both existing and new opportunities, with a **large and active pipeline amounting 9.4 €b.**

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

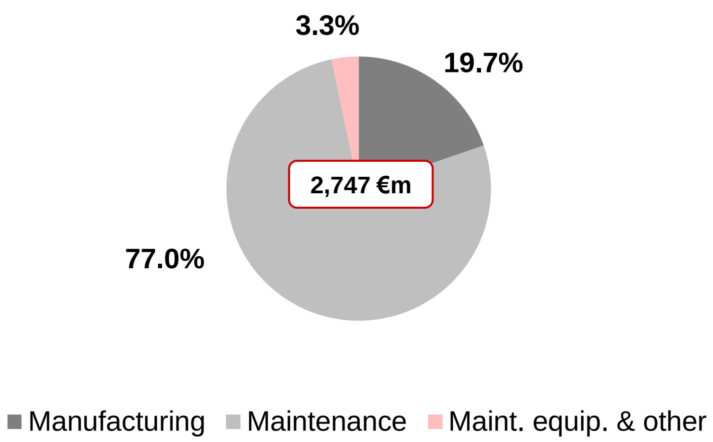
Source: Company information

1.2 Industry record backlog (6.6x)

Backlog evolution (€m)



1H2017 Backlog by business line



- **Manufacturing backlog was executed in 1H2017 according to the contracts schedule** and customer needs.
- Increasing manufacturing backlog due to recently awarded Spanish VHS contract.
- If considered the total contract awards pending to be signed, **backlog would increase to 3.3 €b.**
- While manufacturing backlog increases in the period to 541 €m, **77% of current order book correspond to maintenance services**, ensuring long-term cash generation capacity.
- Maintenance equipment remains as a **complementary business line (3.3% of backlog).**

(1) Maintenance of 30 VHS only includes Talgo's share in the JV to be established with Renfe
Source: Company information

1.3 Successful execution of Mecca-Medina project

- **Scope of the contract: manufacture of 36 VHS Talgo 350 trains**, with and an option for 20 additional trains. The contract also includes the maintenance for a period of 12 years.
- **Execution performance**: project under execution **in line with Company expectations** and an degree of progress reaching finalization:
  - **30 trains are already finished**, out of which 11 trains have already been sent to Arabia. Additional shipment expected to be done once the Medina depot is finished.
  - Additional trains under manufacturing process and **expected to be finished throughout 2017 and 1Q2018**.
  - Ongoing static and dynamic tests. **Speed-up test to reach the maximum speed of the Project (330 km/h) was successfully completed** in 1H2017 (10% above the commercial speed established in 300 km/h).
  - **Provisional acceptance is expected for 2018** with start of commercial operations.
- As a result, the project is being **executed in time and budget with no significant risks identified**.
- **Significant payment milestones of the project are expected to be reached in 2H2017 and 2018.**

3Q2017
- Start of dynamic testing for train certification

4Q2017
- New infrastructure ready for shipping of additional trains (Medina depot)

1H2018

Expected start of commercial operations
(according to last schedule agreed with SRO)

1.4 Great achievement of VHS contract in Spain

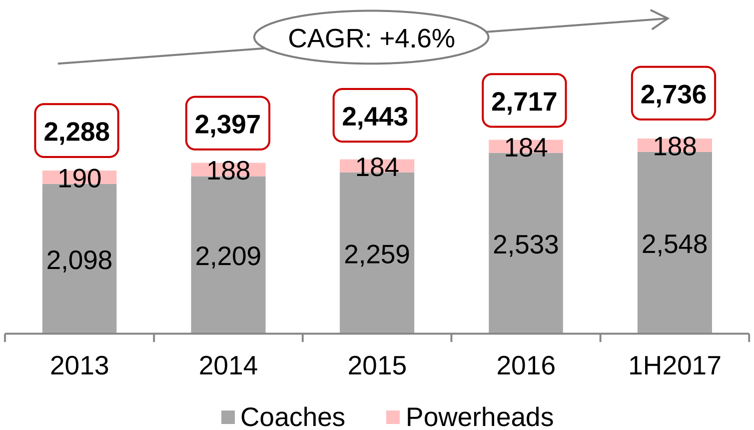
- **<u>Scope of the contract</u>**: manufacture of 30 VHS trains “AVRIL” and maintenance for a period of 30 years, for a total award amount of 1.2 €b (0.9 €b for Talgo considering 50% of maintenance).
  - **First 15 trains manufacturing contract was signed in April 2017**. These trains will have fixed gauge and will be also certified in France.
  - **Additional 15 trains awarded in June 2017** and expected to be signed in the following months. These trains will have Talgo’s variable gauge system.
- **<u>Execution performance</u>**: project execution already started with **schedule of staggered deliveries beginning on 2020**.
- The **first public tender in which Talgo offered its new AVRIL VHS train**, which has been developed during recent years and contains the most advance technology of the industry:
  - Higher power while lowering energy consumption, being the lightest train on the market.
  - Wider coach offering higher capacity in one floor (3+2 seats).
  - Technical advances resulting in high reliability and optimized maintenance costs.

Source: Company information

1.5 Increasing fleet continue to grow maintenance revenues

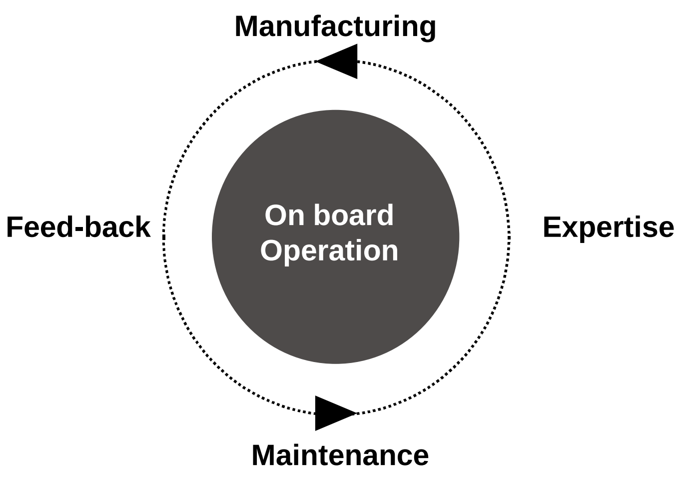
- Talgo provides maintenance services to **its manufactured trains and to units produced by third-parties**.
- A strong expertise together with a solid maintenance portfolio provides **recurrent activity and long term business stability** to the Company.
- **All contracts are being successfully executed**, providing high quality of service, high reliability and customer safety, while **improvements are continuously implemented increasing operational and cost efficiencies.**
- The size of maintained fleet is expected to **continue growing** as the contracted manufacturing backlog is delivered (additional coaches in Kazakhstan and Arabia will be added to maintenance portfolio). As of June 2017, the maintained fleet reached **2,736 units**, representing +4.6% CAGR in the period 2013-1H2017.

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



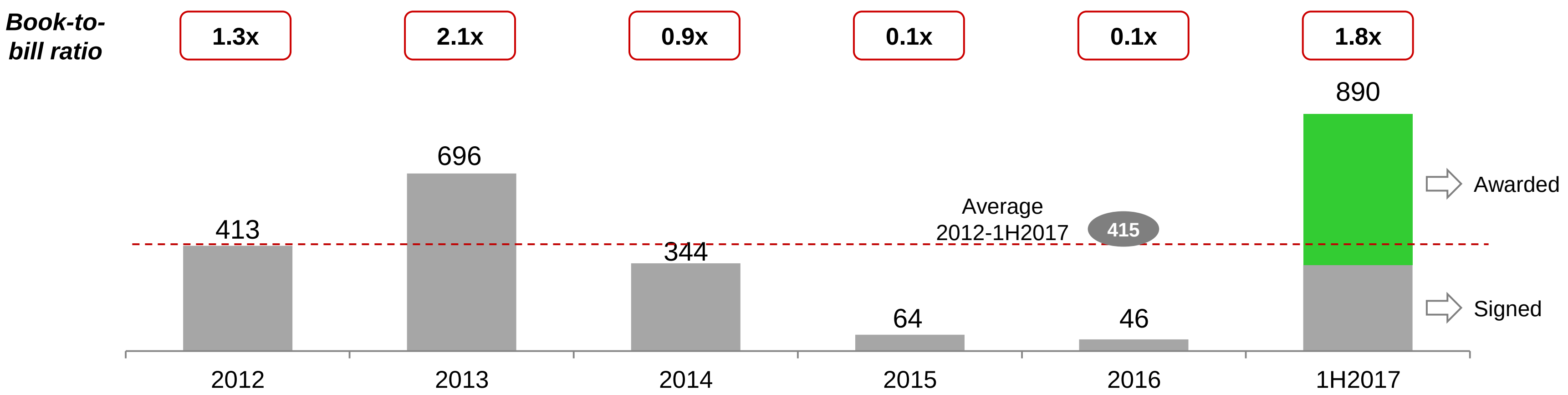
(1) Include both cars and powerheads.
Note: Additional c. 80 coaches (stable over the period 2013-1H2017) manufactured by third parties are maintained by Talgo in Germany. Such cars are around two times longer than Talgo standard coaches.

Company maintenance strategy



1.6 Strong awards during 2017

Order intake evolution 2012 – 1H2017 (€m)



- In December 2016 RENFE awarded Talgo a project for the manufacture and maintenance of 15 VHS trains for a total consideration of 537 €m(1). **Manufacturing contract amounting 338 €m was signed on April 2017**.
- In addition, during 2Q2017 RENFE executed the option ordering 15 additional units, increasing therefore the order to 30 VHS trains for a total considerations of 890 €m(1), which is expected to be signed in 2H2017.
- With all, Talgo has marketed the **most advanced technology** developed in-house for the high-speed segment (AVRIL) through the **largest contract in Europe for a while.**

(1) Note: considering Talgo 50% share of maintenance

Source: Company information

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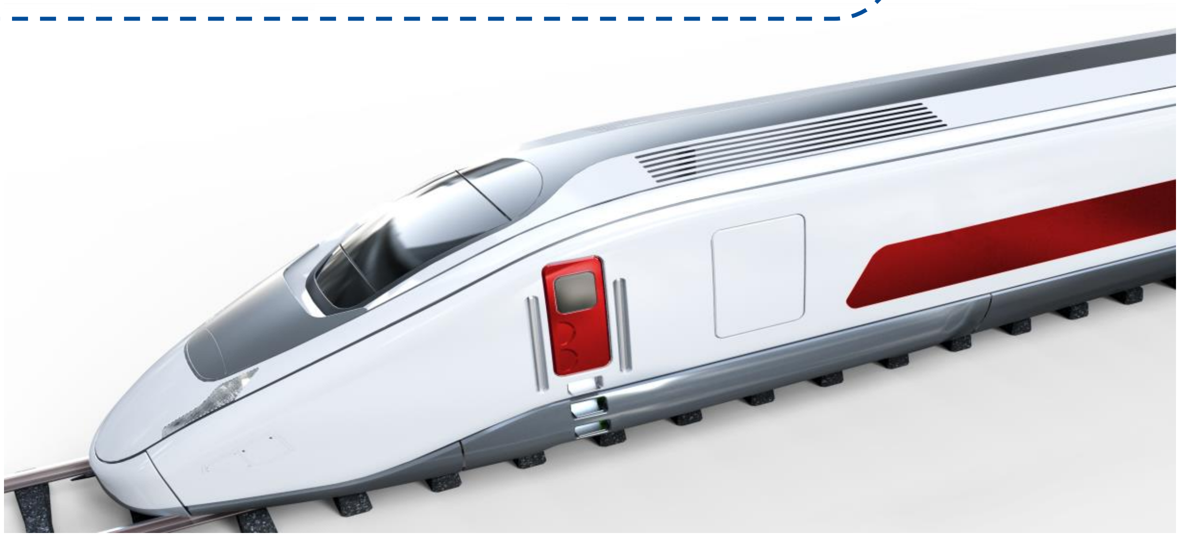
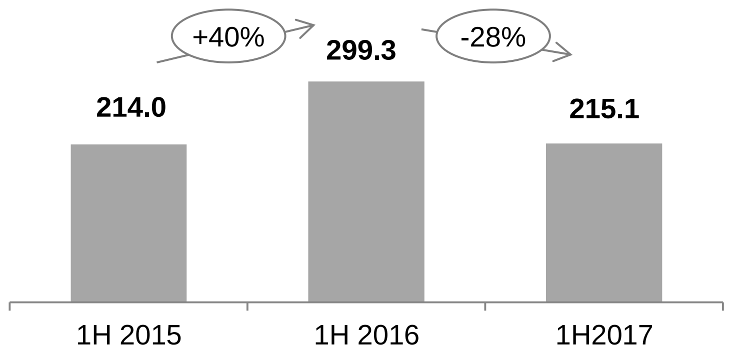
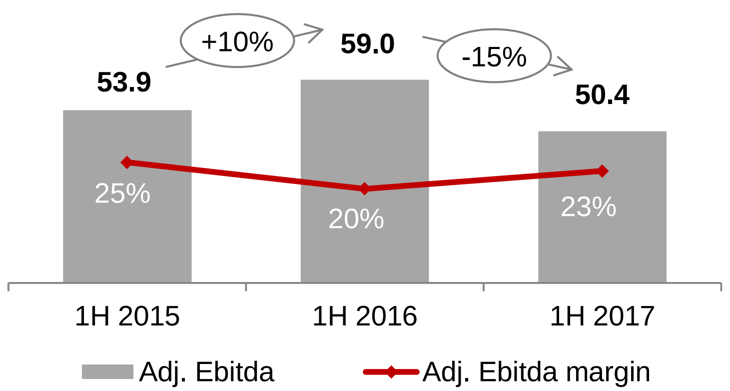


2.1 Revenues and Ebitda evolution

Net turnover (€m)



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



- **Net Turnover reached 215 €m in 1H 2017,** 28% below than same period of 2016, driven by lower manufacturing activity **in accordance with the current manufacturing stages:**
  - ✓ Contracted manufacturing backlog executed on budget and meeting schedules set with the customers.
  - ✓ Net turnover recognition reflect the manufacturing cycle of the main projects under execution.
  - ✓ High quality and reliability in maintenance services provided.
- **Adjusted Ebitda reached 50.4 €m in 1H2017** in line with manufacturing pace.
- However, **Ebitda margin increased in the same period to 23%** driven by costs efficiencies and projects mix, showing:
  - ✓ Successful performance of the projects under execution and finished.
  - ✓ Commitment with returns, enhancing Ebitda margin above the Company target (20%).
- **Adjusted ROS to 15%** (13% in 1H2016).

Source: Company information

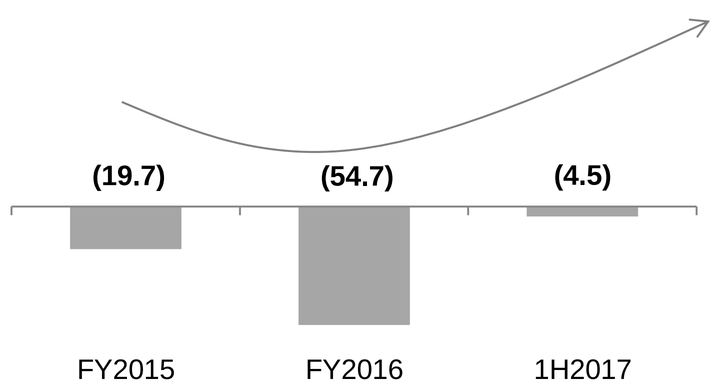
2.2 Significant cash generation cycle starts

- **Net cash inflows expected for 2H2017 and 2018** driven by the expected delivery process in our current key manufacturing projects (mainly Mecca-Medina project), **reducing significantly the Working Capital** and the **net financial debt** of the Company.
- During 1H2017, **Working Capital increased in line with Company expectations**:
  - ✓ **Accounts receivable and payables**: main drivers of working capital increase, mainly due to manufacturing projects stage.
  - ✓ **Inventory higher consumption** reflects the late stages of the main manufacturing projects.
  - ✓ **Advances received**: reflects the prepayments related to recent awards.

Working Capital performance (€m)

(€m)	FY2016	1H2017
Accounts receivable	341.7	385.9
Other receivables	2.9	2.9
Assets held for sale	6.1	0
Inventories	93.0	78.4
Acc. payables (excl. advances)	(162.5)	(124.3)
Advances received	(11.5)	(42.5)
Other current liabilities	(4.5)	(4.7)
Working capital	**265.2**	**295.8**

Free Cash Flow evolution (€m)



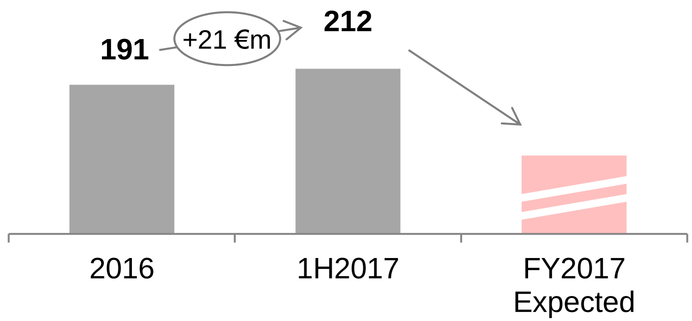
Source: Company information

2.3 Comfortable financing structure

Net Financial Debt (€m)[1]

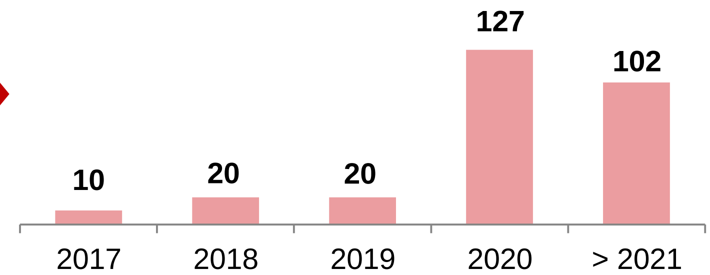
NFD / LTM Adj. Ebitda

2016	1H2017	FY2017 Expected
1.7x	2.0x	1.0-1.2x



Long term bank loans – Repayment schedule (€m)

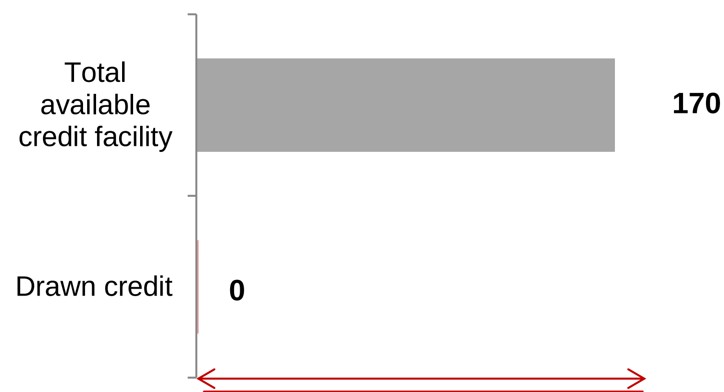
Optimized bank financing profile with long term maturity



- During 1H2017 Talgo continued to take advantage of **favorable debt markets** to issue long term debt with **bullet maturities and attractive interest rates** in order to finance both ongoing and forthcoming projects. No additional debt is expected to be issued.
- **Gross bank debt amounted 279 €m:**

€m	1H2017
Banco Santander	80
European Investment Bank	32
Long term debt with bullet maturities	166
Accrued debt interests	1
Total banking debt	**279**

Committed credit lines at June 2017 (€m)



Full availability of credit lines (100% undrawn)

(1) Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities related with R&D (22.7 €m in June 2017) which are not considered financial debt due to their recurrence.

Source: Company information

2.5 Scrip Dividend – 87% chose to receive shares

- Talgo Started in 1H2017 a **shareholders remuneration** through two different schemes:
  - **Scrip dividend Programme**: remuneration system implemented with the aim of allowing shareholders to decide whether they wish to receive all or a portion of their remuneration in cash or in paid-up shares of Talgo.
  - **Buy Back Programme**: acquisition of shares in the market followed by a share capital reduction through the redemption of the previously acquired shares.
- **Talgo disbursed a total amount of 11.3 €m to implement both programmes.**

Scrip Dividend Programme

- Under the item Five on the agenda approved in the General Shareholders' Meeting held on May 2017, the Company has implemented a **Scrip dividend Programme amounting 10 €m.**
- Shareholders holding **86.7% of the company shares chose to receive shares**, while the remaining **13.3% chose to receive cash payment**.
- As a result, the company paid in cash **1.3 €m to those shareholders that requested cash payment**, and **1,582,092 new shares issued through a capital increase charged against reserves** were given to remaining shareholders.

Buy-back Programme

- On February 23rd the Board of Directors resolved to implement a Buy-back Programme of the Company's own shares(1).
- Under this Programme and in accordance with the established terms, through the period April 6th – June 19th the company **acquired 1,852,394 own shares for a total consideration of 10 €m.**
- Under the item Six on the agenda approved in the General Shareholders' Meeting held on May 2017, the Company is currently implementing a **reduction of the share capital through the redemption of the acquired shares, which is expected to finalize in 3Q2017.**

(1) in accordance with the authorisation granted by the General Shareholders' Meeting held on 28 March 2015

Source: Company information

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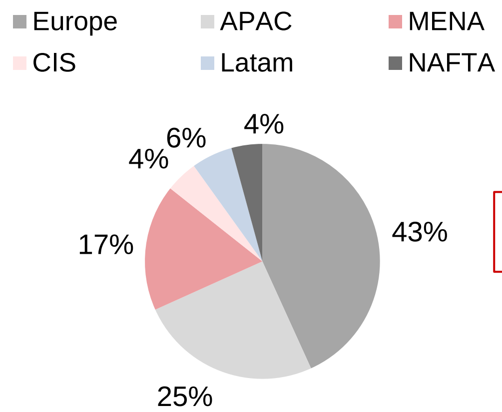
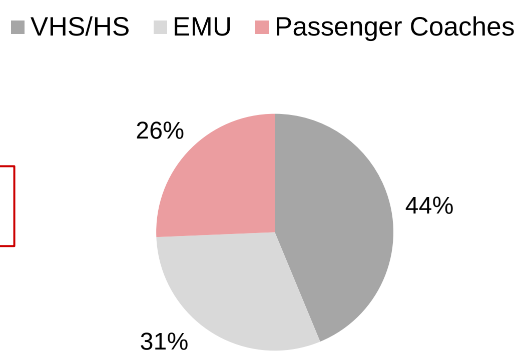
3.1 Commercial developments

Talgo pipeline by geography 2017-2020(1)

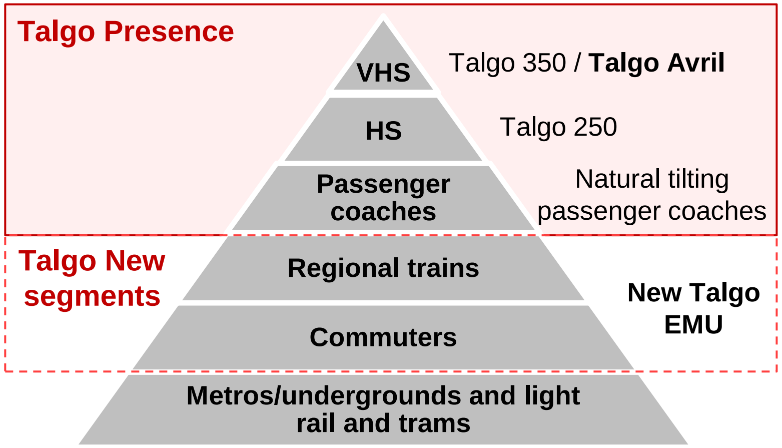


Talgo identified pipeline amounts to 9.4 €b

Talgo pipeline by segment 2017-2020(1)



- Considered pipeline comprises those commercial opportunities in which Talgo is **actively working and are expected to be awarded during the period 2017-2020**.
- Tenders identified as attainable for Talgo in the:
  - ✓ **HS/VHS tenders** states as the segment with higher growth potential in the next years.
  - ✓ **Regional commuter trains**: increasing number of opportunities worldwide.
  - ✓ **Passenger coaches** opportunities to take into advantage the Talgo natural tilting system for countries under development.



(1) maintenance have not been considered in the identified pipeline, which could increase significantly its amount.

Source: Company information

3.2 Summary and Outlook

	Outlook given in Feb-2017	Performance 1H2017	Expectations for FY2017
Business performance: Manufacturing / Maintenance activity	▪ Manufacturing execution will continue in current projects. ▪ Maintenance activity to continue providing stability and recurrent revenues. ▪ Further internationalization. ▪ Proactive commercial activity.	▪ Backlog execution in line with current manufacturing cycle of main projects under execution. ▪ Successful maintenance services provided. ▪ Substantially increased Backlog driven by VHS Spain contract.	▪ Manufacturing execution: updated industrial activity driven by manufacturing pace and customer needs. ▪ Maintenance activity expected to continue providing stability and recurrent revenues. ▪ Further internationalization and proactive commercial activity.
Profitability	▪ Profitability ratios expected to achieve the Company objectives (>20%).	▪ 23% Ebitda margin delivered in 1H2017, above company target.	▪ An efficient business model and operational excellence to drive margins above 22% by FY2017.
Cash Flow and Capital Structure	▪ Improvement of Working Capital expected for 2017-2018. ▪ Growth capex expected of 19-20 €m. ▪ NFD to be reduced in 2017. NFD/EBITDA target: 1.0-1.2x.	▪ Working capital remained high as expected. ▪ Capex in new products (AVRIL and EMU): 2.2 €m. ▪ Leverage ratio at 2.0x pending to reflect forthcoming payments. ▪ Comfortable long term banking debt profile.	▪ Strong improvement of Working Capital profile expected for 2017-2018. ▪ Capex expected of 12-15 €m. ▪ NFD to be reduced in FY2017 as manufacturing milestones are met in ongoing projects. NFD/Ebitda target: 1.0-1.2x.
Dividend / Pay-out	▪ Commitment to remunerate shareholders in 1H2017. ▪ Start of a share buy back program(1).	▪ Dividend programme implemented (Buy-back and Scrip Dividend)	▪ Talgo remunerating commitment with shareholders expected to continue in following years.

(1) In line with the Relevant Fact published by the Company on Thursday 23rd in CNMV

Source: Company information

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Appendix 1. Cuenta de Pérdidas y Ganancias

Cuenta de Resultados (€m.)	1S 2017	1S 2016	1S 2015	Var. %
Importe neto cifra de negocios	**215.1**	**299.3**	**214.0**	***(28.1%)***
Otros ingresos	3.9	2.8	6.4	*39.9%*
Coste de aprovisionamientos	(92.0)	(177.8)	(103.7)	*(48.2%)*
Gastos de personal	(51.6)	(47.2)	(50.8)	*9.4%*
Otros gastos de explotacióm	(27.1)	(20.0)	(26.7)	*35.1%*
EBITDA	**48.2**	**57.1**	**39.2**	*(15.5%)*
% margen	*22.4%*	*19.1%*	*18.3%*	
Otros ajustes	2.1	2.0	11.5	*7.8%*
Plan de Compensación en Acciones	-	-	3.2	*n.a.*
EBITDA ajustado	**50.4**	**59.0**	**53.9**	***(14.7%)***
% margen	*23.4%*	*19.7%*	*22.0%*	
Depreciación (inc. depr. provisiones)	(10.2)	(9.8)	(9.0)	*3.6%*
EBIT	**38.1**	**47.2**	**30.2**	***(19.4%)***
% margen	*17.7%*	*15.8%*	*13.5%*	
Otros ajustes	2.1	2.0	11.5	*7.8%*
Plan de Compensación en Acciones	-	-	3.2	*n.a.*
Amortización AVRIL	5.6	4.0	4.0	*41.8%*
EBIT ajustado	**45.9**	**53.2**	**48.9**	***(13.8%)***
% margen	*21.3%*	*17.8%*	*22.9%*	
Costes financieros netos	(4.6)	(3.3)	(2.3)	*41.8%*
Beneficio antes de impuestos	**33.4**	**44.0**	**27.9**	**(24.0%)**
Impuesto	(7.4)	(9.4)	(4.4)	(0.2)
Beneficio del ejercicio	**26.1**	**34.6**	**23.5**	***(24.7%)***
Beneficio ajustado	**31.9**	**39.1**	**37.0**	***(18.4%)***

(1) Include personnel welfare expenses and social expenses.
Source: Company information

Appendix 2. Balance de situación

Balance	June 2017	Dec 2016	June 2016
ACTIVO NO CORRIENTE	**282.2**	**280.3**	**272.6**
Inmovilizado material e inmaterial	117.2	117.4	122.7
Fondo de comercio	112.4	112.4	112.4
Otros activos a largo plazo	52.6	50.4	37.5
ACTIVO CORRIENTE	**535.1**	**482.6**	**486.8**
Existencias	78.4	93.0	87.8
Activos no corrientes mantenidos para la	0.0	6.1	6.1
Clientes y cuentas a cobrar	385.9	341.7	382.9
Otros activos corrientes	2.9	2.9	3.7
Efectivo y equivalentes al efectivo	67.9	38.8	6.2
TOTAL ACTIVO	**817.3**	**762.8**	**759.4**

Balance	June 2017	Dec 2016	June 2016
PATRIMONIO NETO	**306.5**	**293.8**	**265.4**
Capital social	41.7	41.2	41.2
Prima de emisión	7.9	68.5	68.5
Otras reservas	2.8	4.9	3.7
Ganacias acumuladas	264.1	179.2	152.0
Otros instrumentos de patrimonio	-10.0	0.0	0.0
PASIVOS NO CORRIENTES	**314.0**	**265.1**	**172.2**
Deudas con entidades de crédito	257.0	207.4	113.5
Provisiones a largo plazo	27.9	28.1	26.4
Otras deudas financieras	19.8	19.8	23.2
Otros pasivos no corrientes	9.4	9.7	9.1
PASIVOS CORRIENTES:	**196.8**	**203.9**	**321.8**
Proveedores y otras cuentas a pagar	166.7	174.0	211.4
Deudas con entidades de crédito	22.4	22.4	104.1
Otras deudas financieras	3.0	3.0	2.6
Provisiones para otros pasivos y otros	4.7	4.5	3.8
TOTAL PASIVO + PATRIMONIO NET(	**817.3**	**762.8**	**759.4**

Source: Company information

Appendix 3. Flujo de caja

Flujo de caja	1S17	1S16	1S15	% Var.
€ millones				
Resultado después de impuestos	26.1	34.6	23.5	*(24.7%)*
Impuesto de sociedades	7.4	9.4	4.4	*(21.1%)*
Amortización/depreciación	10.5	9.4	9.0	*11.8%*
Ingresos financieros/Gastos financieros	4.2	3.6	2.6	*19.4%*
Otros ajustes al resultado	(2.4)	0.7	7.3	*(435.7%)*
Variación del fondo de maniobra	(41.8)	(135.6)	(113.7)	*(69.2%)*
FC después de variaciones de circulante	**3.9**	**(78.0)**		***(105.0%)***
Intereses cobrados/pagados, neto	(3.9)	(3.1)	(2.1)	*24.3%*
Provisiones y pensiones	0.0	0.0	0.0	*n.a.*
Impuestos pagados	(4.2)	(2.2)	(2.3)	*89.3%*
Otros cobros y pagos	0.0	0.0	0.0	*n.a.*
Efectivo neto actividades de explotación	**(4.2)**	**(83.3)**	**(4.4)**	***(95.0%)***
Inversiones	**(4.2)**	**(3.9)**		***6.2%***
(Cancel. de préstamos) / nueva deuda	48.7	71.7	137.0	*(32.1%)*
Adquisición de participaciones	(10.0)	0.0	(23.0)	*n.a.*
Adquisición de autocartera / Pago divid.	(1.3)	0.0	(107.4)	*n.a.*
FC actividades de financiación	**37.4**	**71.7**	**6.6**	***(47.8%)***
Incr / (dism.) neto de efectivo & equiv.	**29.1**	**(15.6)**	**2.2**	***n.a.***

Source: Company information

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