Talgo 2018 3Q Results

November 15th, 2018

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Manufacturing capacity transferred from Mecca-Medina project to Spanish VHS with maintenance services providing business strength and sustainability

Revenues

- **Net Revenues reached 236.8 €m in 9M2018 (73.7 €m in 3Q)**, reflecting a lower manufacturing activity prior to load again capacity with most recent awarded projects.
- **Maintenance services business line** continue acting as a recurrent and solid cash generator, supported by **overhaul and maintenance equipment** increasing activity.

Profitability

- **Successful projects management and execution reflected in delivery of expected margins, with 9 Months Adjusted EBITDA and Adjusted EBIT amounting 48.6 €m and 40.2 €m**, respectively (margins at 20.5% and 17.0%, respectively).

Net profit

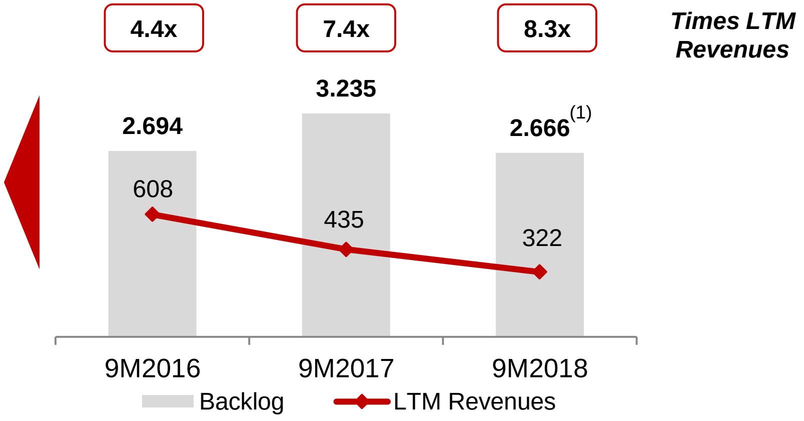
- **Adjusted Net Profit reached 21.1 €m** in the period (8.9% ROS), reflecting higher financial costs due to a higher volume of project bonds issued on the back of an efficient long term debt structure.

Capital Structure

- **NFD reached 3.4 €m by September 2018, with cash and cash equivalents reaching 256 €m**, supporting the announced Buy-Back Programme while ensuring the company optimal financial position.

- LTM Revenues decrease due to normal manufacturing pace is offset by the strong business visibility provided by **future revenue growth potential** (backlog of 8.3x LTM Revenues).
- Main manufacturing projects are being successfully executed:
  - ✓ **Spain VHS**, going towards stronger manufacturing activity, mainly from 2019 onwards.
  - ✓ **Mecca-Medina,** within commissioning and delivering phases while starting to deliver maintenance revenues with in-budget results.

Backlog performance (€m)



(1) **Does not include value of projects awarded not signed, which would amount additional 317 €m**
Source: Company information

Strong commercial activity carried out is reflected in the offers submitted expected to be awarded in the short and medium term

Order intake awaiting results from offers submitted

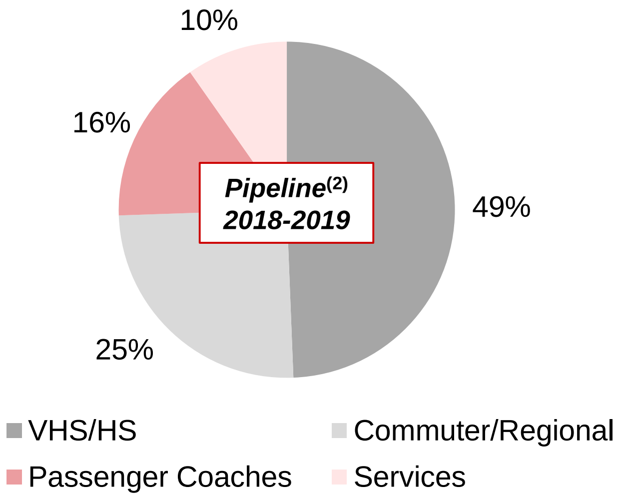
0.5x Book-to-bill ratio

- **New orders amounted 116 €m in 9M2018**, resulting in 0.5x Book-to-bill ratio. Considering the total maximum scope of the project (including the option), such ratio would increase to 0.6x.
- In addition to this, Talgo has **submitted offers in additional tenders with a total value amounting >1.3 €b**, expected to be awarded in the short and medium term, which drives Talgo's management to maintain the 1.3x Book-to-bill average ratio for 2018-2019 period.

Commercial activity focused on selected high-quality project

8.2 €b of Pipeline

- Talgo is currently working on several opportunities expected to be awarded throughout the **period 2018-2019 with a total value amounting 8.2 €b.**
- **VHS leads the pipeline** in terms of value followed by **Commuter/Regional identified opportunities** tenders mainly in Europe and MENA.
- **UK and Spain represents 46% of the total current pipeline** with the HS2 project in UK and commuter and high speed expected opportunities in Spain.



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

Source: Company information

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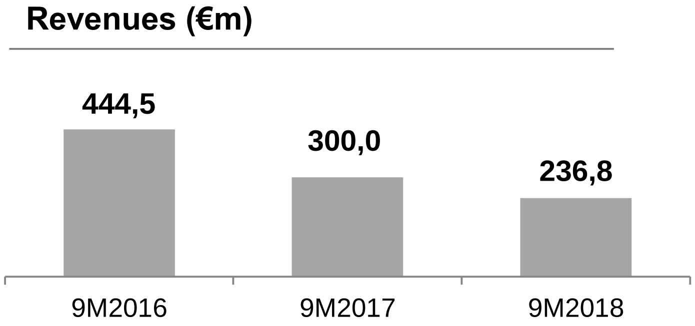
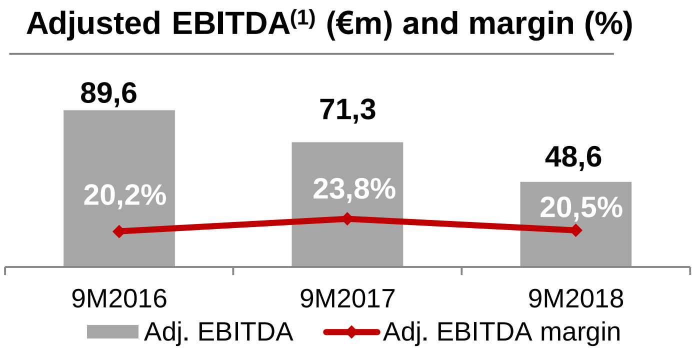
Successful projects execution in the period resulted on a solid Ebitda margin

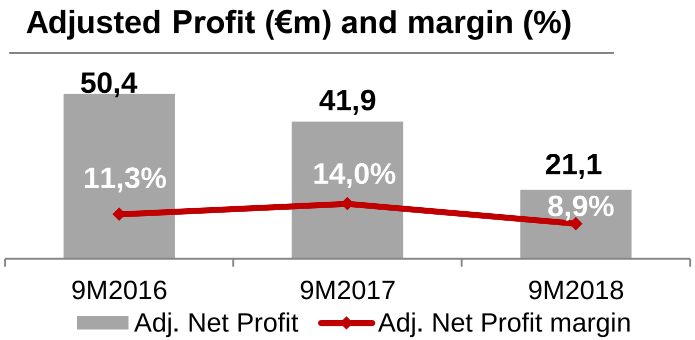
- **Revenues recognition reached 236.8 €m. in 9M2018 (73.7 €m in 3Q2018)**, lower than previous quarter but in accordance with the current manufacturing workload given the phases of the projects executed in the period.
- **On the other hand, maintenance services remained on track**, providing a solid and recurrent base in terms of revenue contribution and cash generation.



- **Adjusted EBITDA(1) amounted 48.6 €m in 9M2018 (15.9 €m in 3Q2018)** with **margins above 20%.**
- Margins registered in the period reflects both **the quality and successful execution of the projects in the Backlog**.



- **Adjusted Net profit reached 21.1 €m in 9M2018 (6.5 €m in the period)** was lower in the period due to level of revenues recognised while higher volume of project bonds temporarily issued.
- This higher financial expenses are expected to decrease as main projects are being delivered and their corresponding bonds are cancelled.



(1) **Adjustments to EBITDA includes one-off items, mainly layoff compensations and bank guarantee fees**

Source: Company information

Company strong commitment with shareholders remuneration showed through a record Buy-back Programme

- Talgo **successfully projects performance registered in the last periods** have provided strong cash generation, as it was expected. As a result, Talgo has considered to remunerate shareholders with a remuneration plan aimed to benefit investors through the **increase of their shareholding over the business net profit**, while **keeping a sustainable balance sheet with a healthy financial position.**
- In this regard, and based on the Approval for the Board of Directors to acquire own shares (General Shareholders meeting of may 10th, 2018) Talgo Board of Directors has approved a proposal for the **investment of up to 100 €m in the acquisition of its own shares** with the purpose of confirming the company **commitment with shareholders** over the medium and long term.
- To this end, Talgo launches a **Buy-back Programme** with the objective of acquiring **a maximum of 22.5 million shares or c.16% of the Company Equity.** However, the Programme would be suspended until the corresponding capital reduction is executed in the event that Talgo reaches 9.99% of the share capital.
- The Buy-back Programme is **expected to start in November 26th, 2018** and will carried out through an **estimated period of up to 18 months.**
- Finally, it is considered that subject to authorisation by the General Shareholders' Meeting, **Talgo's Share Capital related to acquired shares will be reduced by means of the redemption of own shares**.

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Summary and Outlook

	Outlook at July-2018	Outlook update FY2018
Business performance	▪ Manufacturing: Revenues expected to reflect manufacturing schedule of ongoing projects. ▪ Maintenance: to continue as a stable and recurrent base of revenues contributor. ▪ Order book: Company target of >1.3x Book to Bill (2 years average starting from 2018) aimed to ensure company future growth.	▪ **Revenues** expected to **reflect scheduled manufacturing pace** of ongoing projects. ▪ **Stability and recurrence** on maintenance projects. ▪ Growth efforts to enhance overhaul activity and maintenance equipment sales ▪ **Strong selective commercial activity** to increase order book in short-medium term. Company target >1.3 Book-to-bill (2 years average)
Profitability	▪ Profitability: Expected Adjusted EBITDA margin of 20% for FY2018.	▪ Profitability: **EBITDA target is maintained at 20% for FY2018.**
Cash Flow and Capital Structure	▪ Working Capital recovery expected to continue throughout 2H2018. ▪ Capex of c. 10-20 €m. ▪ Company deleverage by FY2018 reaching positive Net Cash position.	▪ **Working Capital drop by FY2018** driven by delivery process of current manufacturing projects. ▪ **Leverage guidance: Net cash position by FY2018**, driven mainly by Mecca-Medina collections.
Shareholders Remuneration	▪ To propose the Board a dividend of 20-30% pay-out	▪ Approved a **Framework for acquisition of 100 €m in own shares** (Buy-back)

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1. Third Quarter 2018 in review (Jose María de Oriol, CEO)
2. Financial Highlights (Eduardo Fernández-Gorostiaga, CFO)
3. Outlook 2018 update (Jose María de Oriol, CEO)

APPENDIX

Appendix 1. Profit & Loss

Profit & Loss Account (€m)	9M18	9M17	9M16	% Change 9M18-9M17
Total net turnover	**236.8**	**300.0**	**444.5**	***(21.1%)***
Other income	2.6	2.3	4.4	*14.9%*
Procurement costs	(67.0)	(117.4)	(257.1)	*(42.9%)*
Employee welfare expenses	(82.1)	(78.0)	(73.5)	*5.3%*
Other operating expenses	(46.8)	(39.3)	(33.4)	*19.1%*
EBITDA	**43.4**	**67.6**	**84.9**	*(35.8%)*
% Ebitda margin	*18.3%*	*22.5%*	*19.1%*	
Other adjustments	5.2	3.7	4.7	*42.2%*
Adjusted EBITDA	**48.6**	**71.3**	**89.6**	***(31.8%)***
% Adj. Ebitda margin	*20.5%*	*23.8%*	*20.2%*	
D&A (inc. depreciation provisions)	(16.9)	(15.9)	(18.6)	*6.3%*
EBIT	**26.5**	**51.8**	**66.4**	***(48.7%)***
% Ebit margin	*11.2%*	*17.2%*	*14.9%*	
Other adjustments	5.2	3.7	4.7	*42.2%*
AVRIL Amortization	8.5	8.5	8.5	*0.0%*
Adjusted EBIT	**40.2**	**63.9**	**79.6**	***(37.1%)***
% Adj. Ebit margin	*17.0%*	*21.3%*	*17.9%*	
Net financial expenses	(7.2)	(6.5)	(5.4)	*9.9%*
Profit before tax	**19.4**	**45.2**	**61.0**	**(57.2%)**
Tax	(4.6)	(9.7)	(16.9)	*(52.4%)*
Profit for the period	**14.8**	**35.5**	**44.1**	***(58.5%)***
Adjusted Profit for the period	**21.1**	**41.9**	**50.4**	***(49.6%)***

Source: Company information