Talgo 2017 3Q Results

November 15th, 2017

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1. In third quarter Talgo has successfully executed ongoing projects delivering best-in-class profitability ratios

Revenues

- **Net Revenues reached 300 €m in 9M2017** (85 €m in 3Q2017), reflecting the current manufacturing stage of the main manufacturing contracts under execution.
- Successful maintenance services provided to a fleet made up of c. 2,800 Talgo and non Talgo vehicles, providing business stability and long term revenue visibility.

Profitability

- **Adjusted EBITDA and adjusted EBIT reached 71.3 €m and 63.9 €m**, respectively, delivering strong margins as a result of continuous efficiency efforts and mix of projects being executed.

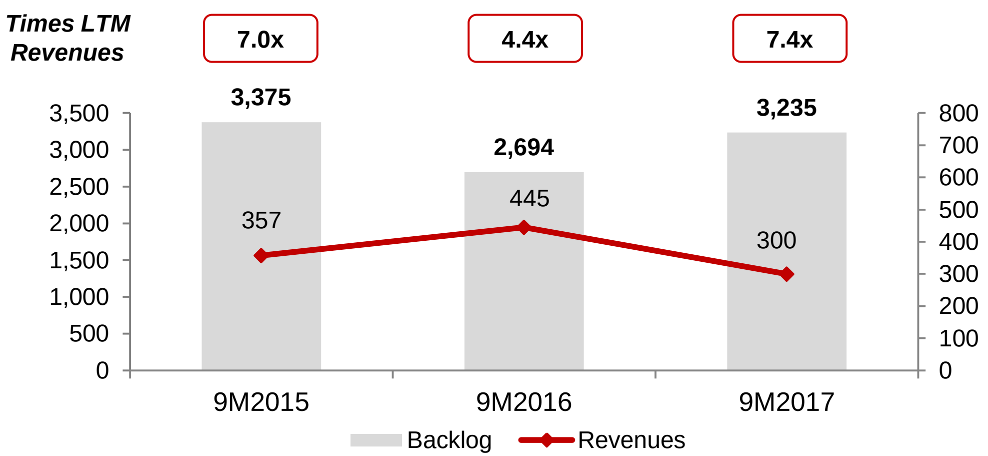
Net profit

- **Adjusted Net Profit reached 41.9 €m** in the period, registering a higher ROS (14%) when compared with the same period of 2016 (11%).

Working Capital

- **Working Capital and NFD evolved as expected** driving us to **maintain our guidance for the year end 2017**, which consider a significant reduction of the company leverage ratio.

Backlog – Revenues (€m)



7.4x Backlog / Sales

- **Backlog at 7.4x LTM Revenues**, driven by recent awards and showing potential for revenue recognition.
- Main manufacturing projects being successfully executed:
  - ✓ **Mecca-Medina** as reference icon in the sector and driver of company future cash generation.
  - ✓ **Spain VHS**, largest VHS project in Europe, starting the first phase of project (designing & engineering).

Source: Company information

2. Increased order book on the back of a strong commercial activity

Stronger order intake to recover the backlog…

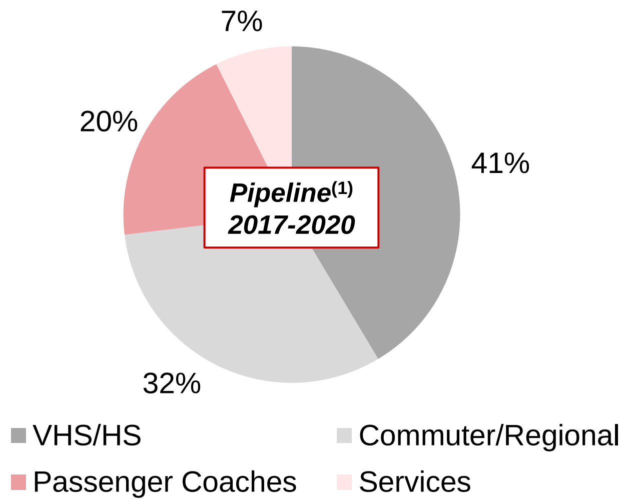
1.4x Book to Bill ratio

- Talgo **signed in 3Q2017 the Spain VHS contract extension** which included 15 additional VHS trains with variable gauge system to be operated in corridors with both UIC and Iberian gauges.
- New orders would result in **1.4x Book to bill ratio**. In addition, if contracts awarded pending to be signed are considered, such ratio would increase to 2.1x (mainly the maintenance scope of Spain VHS contract).
- Subsequently to the closing of the 9M2017, LACMTA Board decided to execute the **option to overhaul 36 additional heavy rail vehicles** for a total consideration of 18 $m.

9.7 €b of Pipeline(1)

… on the back of a proactive commercial activity

- Talgo is significantly **strengthening its commercial activity**, currently working on several opportunities expected to be awarded throughout the **period 2017-2020 with a total value amounting 9.7 €b.**
- **VHS and Commuter/Regional opportunities lead the pipeline** mainly driven by identified tenders in Europe, Asia and MENA.
- In November 2017, **Talgo was shortlisted in the HS2 process (UK)**, which comprise the supply of up to 54 VHS trains. Tender process will open in 2018 and awards expected for 2019.
- As a result, Talgo has good expectations to continue increasing order book in the short and medium term.



(1 includes only manufacturing aiming to provide project's comparable information. Therefore, pipeline could be larger when considering maintenance scope of projects higherSource: Company information

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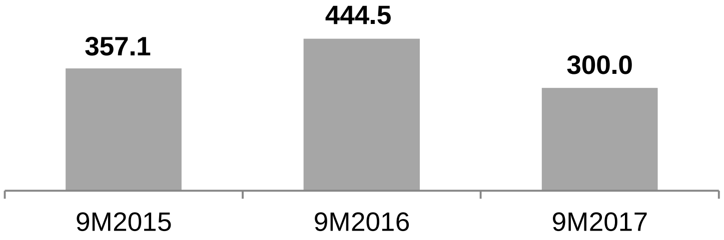
High margins driven by product mix and operational excellence

- **Revenues reached 300 €m. in 9M2017** (85 €m in 3Q2017).
- **Contracted manufacturing backlog** reflects manufacturing cycle with lower revenue recognition.
- **Maintenance services on track**, providing a solid revenue base and stability in terms of recurrence and cash generation.

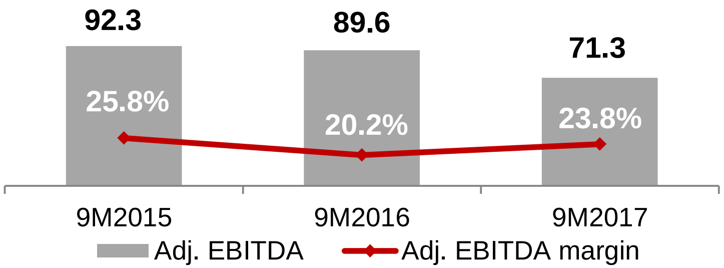
- **Adjusted EBITDA(1) of 71.3 €m in 9M2017** (20.9 €m in 3Q2016) with **margins reaching 23.8%** (20.2% in the same period of 2016).
- **Successful delivery of backlog executed** with a comprehensive costs control, together with the mix of projects enabled us to reach **margins above company target.**

- **High ROS reaching 14% in 9M2017** (11% in the same period of 2016).
- Project bonds temporary increased financial expenses in the period, which will decrease as project is delivered to client.

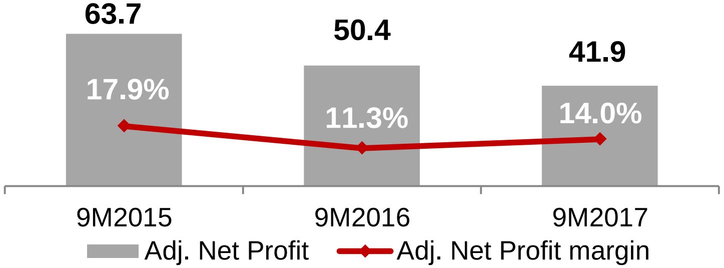
Revenues (€m)



Adj. EBITDA(1) (€m) and Adj. EBITDA margin (%)



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



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

Source: Company information

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Delivering on time execution with higher profitability ratios

	Outlook june - 2017	Performance 3Q 2017	Outlook update FY2017
Business performance	▪ Manufacturing execution: 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.	▪ Backlog execution and revenue recognition driven mainly by the current phases of main manufacturing projects. ▪ Successful maintenance services provided. ▪ Reaching over 600 €m order intake in 2017.	▪ **Revenues** expected to **reflect scheduled manufacturing pace** of ongoing projects. ▪ **Maintenance projects** to continue as **a stable and solid base** of revenues contributor. ▪ **Increasing number of offers presented** vs. previous years could increase order book in short-medium term.
Profitability	▪ Expected EBITDA margins to be above 22% by FY2017 (vs. 20% initially expected).	▪ High EBITDA margins registered as of 9M2017 (24%) above company target (22%).	▪ **Profitability target** for year end (22%) is maintained for **FY2017**.
Cash Flow and Capital Structure	▪ Improvement of Working Capital profile expected for 2017-2018. ▪ Capex of 12-15 €m. ▪ NFD/EBITDA target: 1.0-1.2x.	▪ Working Capital performance is reflecting manufacturing program. ▪ Comfortable liquidity position.	▪ **Working Capital recovery expected for 2017-2018** reflecting delivery process of current manufacturing projects. ▪ Maintain **NFD/EBITDA ratios targeted: 1.0-1.2x.**

Talgo

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Appendix 1. Profit & Loss - Accumulated

Profit & Loss Account (€m)	9M17	9M16	9M15	% Change
Total net turnover	**300.0**	**444.5**	**357.1**	***(32.5%)***
Other income	2.3	4.4	6.8	*(47.5%)*
Procurement costs	(117.4)	(257.1)	(168.7)	*(54.3%)*
Employee welfare expenses	(78.0)	(73.5)	(73.8)	*6.1%*
Other operating expenses	(39.3)	(33.4)	(43.8)	*17.7%*
EBITDA	**67.6**	**84.9**	**77.6**	*(20.4%)*
% Ebitda margin	*22.5%*	*19.1%*	*21.7%*	
Other adjustments	3.7	4.7	11.5	*(22.1%)*
Long-term stock compensation plan	-	-	3.2	*n.a.*
Adjusted EBITDA	**71.3**	**89.6**	**92.3**	***(20.5%)***
% Adj. Ebitda margin	*23.8%*	*20.2%*	*25.8%*	
D&A (inc. depreciation provisions)	(15.9)	(18.6)	(14.1)	*(14.5%)*
EBIT	**51.8**	**66.4**	**63.5**	***(22.0%)***
% Ebit margin	*17.2%*	*14.9%*	*13.5%*	
Other adjustments	3.7	4.7	11.5	*(22.1%)*
Long-term stock compensation plan	-	-	3.2	*n.a.*
AVRIL Amortization	8.5	8.5	6.0	*(0.5%)*
Adjusted EBIT	**63.9**	**79.6**	**84.2**	***(19.7%)***
% Adj. Ebit margin	*21.3%*	*17.9%*	*23.6%*	
Net financial expenses	(6.5)	(5.4)	(3.7)	*21.8%*
Profit before tax	**45.2**	**61.0**	**59.8**	**(25.9%)**
Tax	(9.7)	(16.9)	(9.1)	*(42.9%)*
Profit for the period	**35.5**	**44.1**	**50.7**	***(19.4%)***
Adjusted Profit for the period	**41.9**	**50.4**	**63.7**	***(17.0%)***

Source: Company information

Appendix 2. Profit & Loss - QoQ

Profit & Loss Account (€m)	3Q17	2Q17	1Q17	% Change
Total net turnover	**85.0**	**94.1**	**121.0**	***(9.7%)***
Other income	(1.6)	2.7	1.2	*(159.5%)*
Procurement costs	(25.4)	(35.9)	(56.1)	*(29.4%)*
Employee welfare expenses	(26.3)	(26.3)	(25.3)	*0.0%*
Other operating expenses	(12.3)	(13.4)	(13.6)	*(8.5%)*
EBITDA	**19.4**	**21.1**	**27.1**	*(8.3%)*
% Ebitda margin	*22.8%*	*22.5%*	*22.4%*	
Other adjustments	1.5	1.3	0.8	*18.4%*
Long-term stock compensation plan	-	-	-	*n.a.*
Adjusted EBITDA	**20.9**	**22.4**	**28.0**	***(6.8%)***
% Adj. Ebitda margin	*24.6%*	*23.8%*	*23.1%*	
D&A (inc. depreciation provisions)	(5.7)	(5.1)	(5.0)	*10.9%*
EBIT	**13.7**	**16.0**	**22.1**	***(14.5%)***
% Ebit margin	*16.1%*	*17.0%*	*13.5%*	
Other adjustments	1.5	1.3	0.8	*18.4%*
Long-term stock compensation plan	-	-	-	*n.a.*
AVRIL Amortization	2.8	2.8	2.8	*(0.1%)*
Adjusted EBIT	**18.0**	**20.1**	**25.8**	***(10.3%)***
% Adj. Ebit margin	*21.2%*	*21.4%*	*21.3%*	
Net financial expenses	(1.9)	(2.5)	(2.2)	*(22.8%)*
Profit before tax	**11.8**	**13.5**	**19.9**	**(13.0%)**
Tax	(2.3)	(3.1)	(4.3)	*(25.8%)*
Profit for the period	**9.5**	**10.4**	**15.6**	***(9.2%)***
Adjusted Profit for the period	**11.6**	**12.6**	**17.8**	***(7.6%)***

Source: Company information

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