



Talgo 2016 3Q Results

Nov 11th, 2016

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1.1 Third quarter continued to show a robust manufacturing performance while stronger cash inflows are expected for 2017

Revenues and projects performance

- **Net revenues** increased by 25% **to 444.5 €m in 9M 2016** (357.1 €m in the same period of 2015), given:
  - **Strong manufacturing performance** on Saudi and Uzbekistan projects, with units being delivered on-time as per client schedule.
  - **Russian certifications for the 3 remaining trains has been successfully obtained** and units delivered, completing the manufacturing scope of the project.
  - **Maintenance activity** remains successful with high reliability services provided.

Profitability

- **Adj. EBITDA and adj. EBIT for 9M2016 reached 89.6 €m and 79.6 €m with margins at 20% and 18%,** respectively, reflecting the positive performance of the business despite the impact of the extra charges of Russia project, already registered in 2Q16.
- The strong performance of the manufacturing and maintenance projects allow the company to **maintain margins above the company target (>20%).**

Net profit

- **9M2016 Net profit reached 44.1 €m.** (adjusted net profit reached 54 €m).

Other

- **EBITDA cash conversion** driven by Working capital requirements in Mecca-Medina manufacturing project, whose **main payment milestones** (dynamic tests and delivery process) are **expected to be met during 2017 and early months of 2018.**
- However, **3Q cash consumption rate was substantially lower** than early months of the year.
- In this regard, full year NFD is expected to be **in line with 1H2016.**

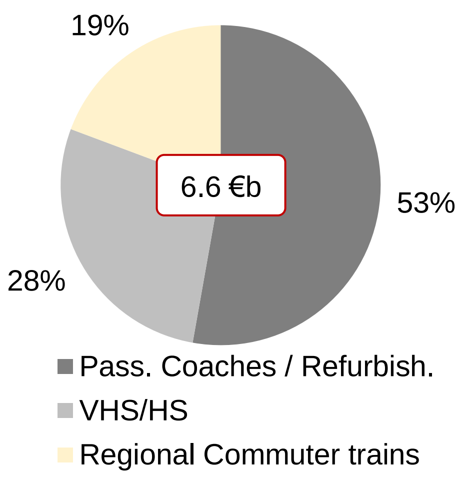
Source: Company information

1.2 Recovering markets with new opportunities identified for Talgo's pipeline in the next 18-24 months

Order intake

- **Strategic positioning of Talgo in new markets:**
  - Talgo was awarded in September 2016 with a **LACMTA project to refurbish 74 vehicles for a total amount of 73 $m.**
- **Significant tenders still ahead:**
  - **Bids submitted** for different manufacturing and maintenance projects with a total **value of over 1.5 €b.**(1)
  - **Spanish VHS tender (1.1 €b.)** was presented on July 29th and outcome is tentatively expected in 4Q2016 following the arrival of new Spanish government.
  - Additionally, Talgo is still **working on a several further opportunities worldwide** expected to be launched/awarded in 2017.

18-24 months pipeline by segment(1)



- **Passenger coaches and refurbishments lead the pipeline** in terms of aggregate volume and number of tenders for the next 18-24 months.
- In addition, **Talgo is already bidding worldwide with its EMU**, currently under development and expected to be presented in 2017.
- Regarding the VHS, accessible tenders are less numerous but larger in terms of volume, where **Talgo is positioned worldwide as leading company** in this segment**.**

(1) Most of the contracts included in the pipeline consider only manufacturing activity, since the related maintained is not yet defined or quantified in such projects. In this sense, the pipeline could be potentially higher when including maintenance.

Source: UNIFE, Company information

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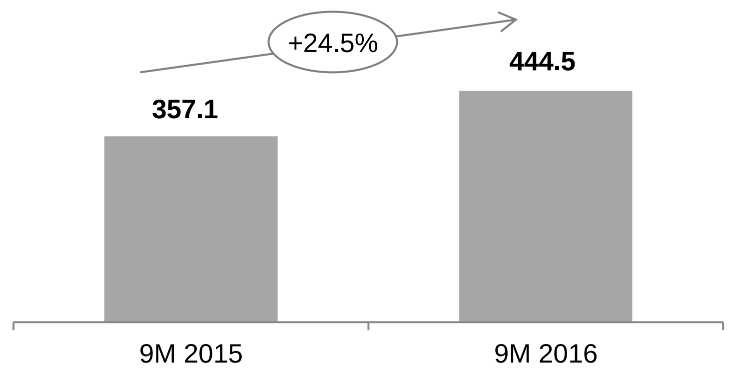
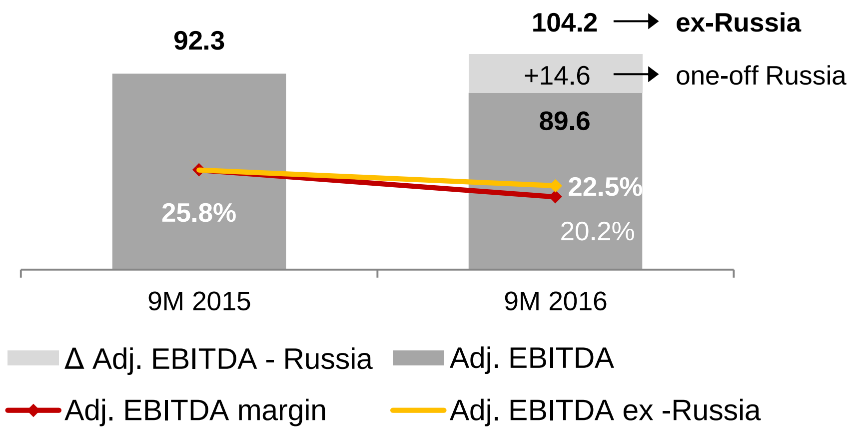
2.1 Successful projects performance driving underlying profit growth

- Net turnover **reached 444.5 €m. in 9M 2016** (24.5% higher than 9M 2015) mainly driven by:
  - ✓ **Stronger execution of contracted backlog** (Mecca-Medina, Uzbekistan and Kazakhstan)
  - ✓ **Recurrent maintenance services**, which increase as new orders are delivered.
  - ✓ Commercialization of **maintenance equipment.**
- **Adjusted EBITDA(1) reached 89.6 €m** in 9M 2016 with **adjusted EBITDA margin at c.20%:**
  - ✓ Margins were impacted by one-off costs of Russian project. However, trains **certifications were recently obtained and final acceptance reached.**
  - ✓ Company adjusted EBITDA excluding net Russian additional costs impact (14.6 €m.), would have increased to **104.2 €m.**, in line with initial company expectations, with **margins of 22.5%.**

Net turnover (€m)



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



(1) Adjustments made to EBITDA , which amounted 4.7 €m. as of September 2016, include mainly bank guarantee fees, aimed to normalized operational figures.

Source: Company information

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3.1 Results in line with Company expectations

	Outlook given in 1H2016	Performance 3Q2016	Outlook update
Business performance: Manufacturing / Maintenance activity	▪ Backlog execution 30-35% for 2015-2016 ▪ Net turnover according to the "percentage of completion" of projects. ▪ Manufacturing rhythm adapted according to clients needs, if required. ▪ Pipeline with large upcoming tenders in 2H2016.	▪ Strong backlog execution mainly driven by Mecca-Medina project. ▪ Successful maintenance services provided. ▪ Order intake starting to be reactivated.	▪ Backlog execution slightly below BoY expectations but reaching revenues significantly above previous years. ▪ Maintenance activity expected to continue providing recurrent revenues. ▪ Strategic projects awarded in 3Q2016 (LACMTA) ▪ Additional identified tenders still on the pipeline.
Profitability	▪ EBITDA margins in 2016 expected to remain above 20%.	▪ 20% EBITDA margin reached in 9M2016 despite impact of Russia one-off extra costs already registered in 1H2016.	▪ Profitability ratios expected to achieve the Company objectives set for FY2016.
Cash Flow and Capital Structure	▪ Working capital to remain high but stable through 2016. ▪ Estimated growth capex: c. 9 €m. ▪ NFD/EBITDA of 1.3x-1.5x in FY2016.	▪ Working capital remains high as expected, in line with ongoing projects stage. ▪ Growth capex: 4.8 €m. ▪ Comfortable liquidity position with 84 €m of available credit lines.	▪ Working capital increase, as expected, for FY2016. ▪ NFD in line with 1H2016 although leverage ratio is expected to reach c.1.8x driven by lower EBITDA mainly impacted by one-off Russian costs.

Source: Company information

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Appendix 1. Profit & Loss

Profit & Loss Account (€m)	9M16	9M15	% Change	3Q16
Total net turnover	**444.5**	**357.1**	***24.5%***	**145.2**
Other income	4.4	6.8	*(36.2%)*	0.3
Procurement costs	(257.1)	(168.7)	*52.4%*	(79.0)
Employee welfare expenses	(73.5)	(73.8)	*(0.5%)*	(26.3)
Other operating expenses	(33.4)	(43.8)	*(23.7%)*	(13.4)
EBITDA	**84.9**	**77.6**	*9.5%*	**26.8**
% Ebitda margin	*19.1%*	*21.7%*		*18.5%*
Other adjustments	4.7	11.5	*(59.1%)*	2.7
Long-term stock compensation plan	-	3.2	*(100.0%)*	-
Adjusted EBITDA	**89.6**	**92.3**	***(2.8%)***	**29.5**
% Adj. Ebitda margin	*20.2%*	*25.8%*		*20.3%*
D&A (inc. depreciation provisions)	(18.6)	(14.1)	*32.0%*	(8.8)
EBIT	**66.4**	**63.5**	***4.5%***	**18.1**
% Ebit margin	*14.9%*	*17.8%*		*12.4%*
Other adjustments	4.7	11.5	*(59.1%)*	2.7
Long-term stock compensation plan	-	3.2	*(100.0%)*	-
AVRIL Amortization	8.5	6.0	*42.6%*	6.5
Adjusted EBIT	**79.6**	**84.2**	**(5.5%)**	**27.3**
% Adj. Ebit margin	*17.9%*	*23.6%*		*18.8%*
Net financial expenses	(5.4)	(3.7)	*44.7%*	(2.1)
Profit before tax	**61.0**	**59.8**	**2.0%**	**16.0**
Tax	(16.9)	(9.1)		(7.5)
Profit for the period	**44.1**	**50.7**	***(13.0%)***	**8.5**
Adjusted Profit for the period	**54.0**	**65.5**	**(17.6%)**	**15.4**

Source: Company information

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