Talgo 2018 1Q Results

May 11th, 2018

Table of content

Successful backlog execution with normal manufacturing pace and seasonal margins expected to be recovered by year-end

Revenues

- **Net Revenues reached 85.2 €m in 1Q2018**, similar level of last two quarters(1) which reflects the current manufacturing stage of the main manufacturing contracts under execution.
- **Successful maintenance services** to provide business stability and long term revenue visibility.

Profitability

- **Adjusted EBITDA and adjusted EBIT reached 15.8 €m and 13.5 €m**, respectively, delivering margins slightly below previous quarters (18.5% and 15.8%, respectively), although **guidance for FY2018 (20% Adjusted EBITDA margin) will remain unchanged.**

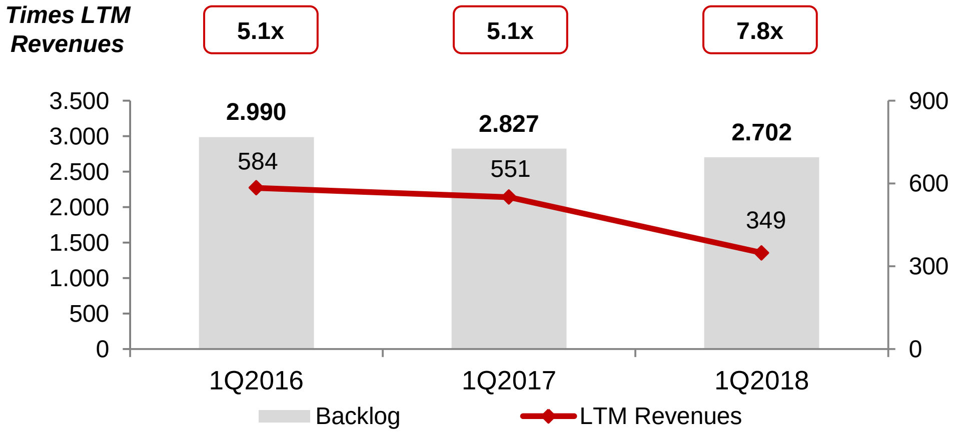
Net profit

- **Adjusted Net Profit reached 8.0 €m** in the period (9.4% ROS) which reflects higher financial costs mainly driven by higher project bonds disposed related to current manufacturing projects.

Working Capital

- **Working Capital and NFD evolved** throughout the quarter in line with company expectations.

Backlog – Revenues (€m)(2)



(2) Does not include contract awards pending to be signed.

7.8x Backlog / Sales

- **Backlog at 7.8x LTM Revenues**, showing high potential for future revenue growth.
- Considering the LTM Revenues average of the periods 1Q2016-1Q2018, the **ratio would still remain at high levels (5.5x).**
- Main manufacturing projects being successfully executed:
  - ✓ **Spain VHS**, currently in designing & engineering phase.
  - ✓ **Mecca-Medina,** expected to continue providing net cash-in during 2018.

(1) 84,3 €m and 85.0 €m in 3Q2017 and 4Q2017, respectively.

Source: Company information

Strong order book on the back of an increased commercial activity

Commercial delivery in the first stage of the year…

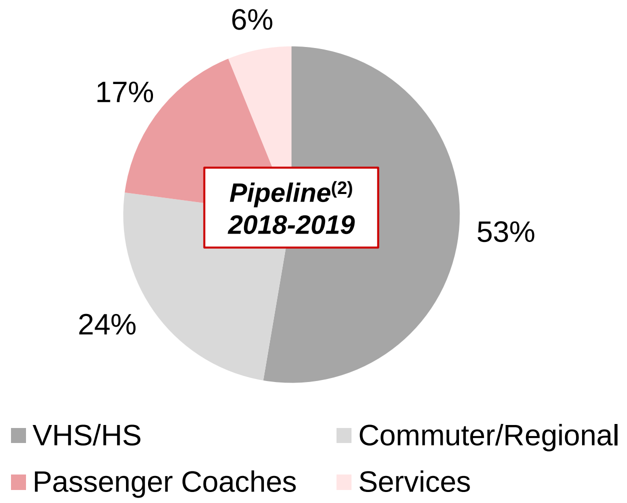
1.3x Book to Bill ratio(1)

- Talgo was awarded in **1Q2018 with a project for the conversion of up to 156 Talgo overnight coaches** into very-high speed trains, for a total **value amounting 107 €m**. The project includes an option for additional 72 coaches, driving the project total value up to 151 €m.
- New orders would result in **1.3x Book to bill ratio**(1). Considering the total maximum scope of the project for the conversion of the Spanish overnight coaches into VHS trains, such ratio would increase to 1.8x.

8.6 €b of Pipeline(2)

… on the back of a proactive commercial activity

- Talgo is currently working on several opportunities expected to be awarded throughout the **period 2018-2019 with a total value amounting 8.6 €b.**
- **VHS and Commuter/Regional opportunities lead the pipeline** mainly driven by identified tenders in Europe, and followed by Asia and MENA.
- **UK and Spain represents 45% of the total current pipeline** with the HS2 project in UK and several commuter and high speed opportunities in Spain.



(1) Project value will be added to backlog at signing, expected for 2018. Therefore this ratio should be considered as subject to contract signing.
(2) Amounts are approximate based on available information. Maintenance consideration included subject to availability.

Source: Company information

Table of content

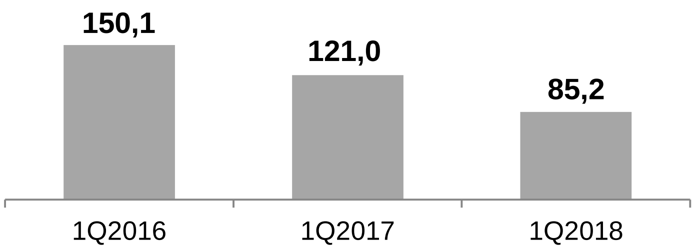
Revenues in line with pace of current manufacturing projects while margins are expected to recover throughout the year

- **Revenues reached 85.2 €m. in 1Q2018**.
- **Backlog execution** reflects a normal cycle of the main manufacturing projects with lower revenue recognition.
- Such revenues are in line with previous quarters and expected to rump up by the end of 2018.
- **Maintenance services on track**, providing a solid revenue base and stability in terms of recurrence and cash generation.

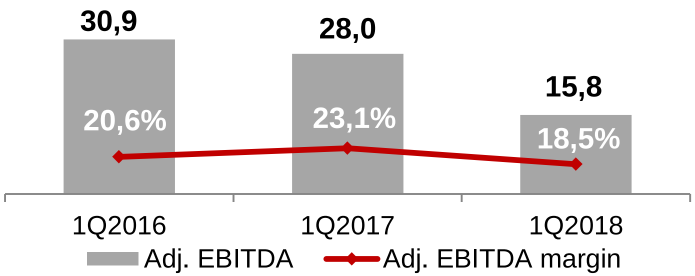
- **Adjusted EBITDA[1] of 15.8 €m in 1Q2018** with **margins of the period at 18.5%.**
- **Backlog successfully executed in the period,** although higher seasonal direct costs, together with the mix of projects and a temporary lower manufacturing workload resulted on less margins recognised.
- However, this **costs are expected to be offset** resulting on margins recovered by year-end.

- **Adjusted Net profit reached 8.0 €m in 1Q2018 resulting on ROS of 9.4%,** lower than previous year due to lower revenues recognition and higher volume of project bonds disposed temporarily.
- This higher financial expenses are expected to decrease as main projects are being delivered and their corresponding bonds are cancelled.

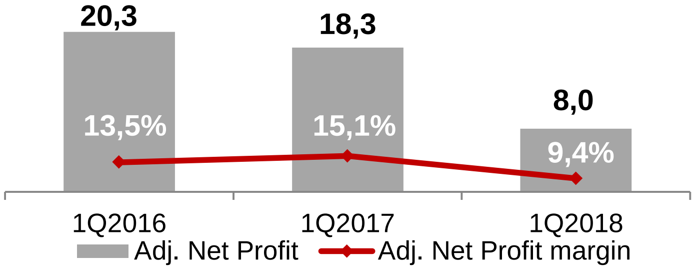
Revenues (€m)



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

Table of content

Summary and Outlook

	Outlook at feb-2018	Performance 1Q 2018	Outlook update FY2018
Business performance	▪ Manufacturing: Revenues to reflect scheduled pace of ongoing projects. ▪ Maintenance: to continue as a stable and solid base of revenues contributor. ▪ Order book: Company target >1.3 Book to Bill (2 years average starting from 2018) to ensure company growth.	▪ Backlog execution and revenue recognition reflecting the current normal manufacturing cycle of ongoing projects. ▪ Maintenance services on track with high reliability ratios required. ▪ >100 €m of new orders in 1Q2018 still pending to be signed	▪ **Revenues** expected to **reflect scheduled manufacturing pace** of ongoing projects. ▪ **Stability and recurrence** on maintenance projects. ▪ **Strong commercial activity** to increase order book in short-medium term. Company target >1.3 Book to Bill (2 years average)
Profitability	▪ Profitability: Adjusted EBITDA margin at 20% for FY2018.	▪ Slightly lower EBITDA margins registered in the period (18.5%).	▪ Profitability: **EBITDA target is maintained at 20% for FY2018.**
Cash Flow and Capital Structure	▪ Working Capital recovery to continue in 2018. ▪ Capex of c. 20 €m. ▪ Company deleverage by FY2018 – Net cash position.	▪ Working Capital evolved as expected in the period. ▪ High cash available to support potential opportunities that require strong balance sheet.	▪ **Working Capital in FY2018** reflecting delivery process of current manufacturing projects. ▪ Maintain **leverage guidance:** Net cash position.

Table of content

Appendix 1. Profit & Loss - QoQ

Profit & Loss Account (€m)	1Q18	1Q17	1Q16	% Change 1Q18-1Q17
Total net turnover	**85,2**	**121,0**	**150,1**	***(29,6%)***
Other income	0,5	1,2	1,8	*(59,4%)*
Procurement costs	(31,4)	(56,1)	(84,7)	*(44,0%)*
Employee welfare expenses	(27,8)	(25,3)	(23,4)	*9,9%*
Other operating expenses	(13,0)	(13,6)	(13,7)	*(4,8%)*
EBITDA	**13,5**	**27,1**	**30,1**	*(50,2%)*
% Ebitda margin	*15,8%*	*22,4%*	*20,1%*	
Other adjustments	2,3	0,8	0,8	*174,6%*
Adjusted EBITDA	**15,8**	**28,0**	**30,9**	***(43,5%)***
% Adj. Ebitda margin	*18,5%*	*23,1%*	*20,6%*	
D&A (inc. depreciation provisions)	(5,2)	(5,0)	(5,2)	*2,6%*
EBIT	**8,3**	**22,1**	**25,0**	***(62,3%)***
% Ebit margin	*9,8%*	*18,3%*	*16,6%*	
Other adjustments	2,3	0,8	0,8	*174,6%*
AVRIL Amortization	2,8	2,8	2,0	-
Adjusted EBIT	**13,5**	**25,8**	**27,8**	***(47,7%)***
% Adj. Ebit margin	*15,8%*	*21,3%*	*18,5%*	
Net financial expenses	(2,4)	(2,2)	(1,8)	*11,2%*
Profit before tax	**5,9**	**19,9**	**23,2**	**(70,3%)**
Tax	(1,8)	(4,3)	(4,9)	*(59,0%)*
Profit for the period	**4,2**	**15,6**	**18,3**	***(73,4%)***
Adjusted Profit for the period	**8,0**	**18,3**	**20,3**	***(56,2%)***

Source: Company information

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