Talgo 2015 FY Results

February 29, 2016




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Talgo

1.1 Key business highlights

Results reflects Talgo's strong performance…

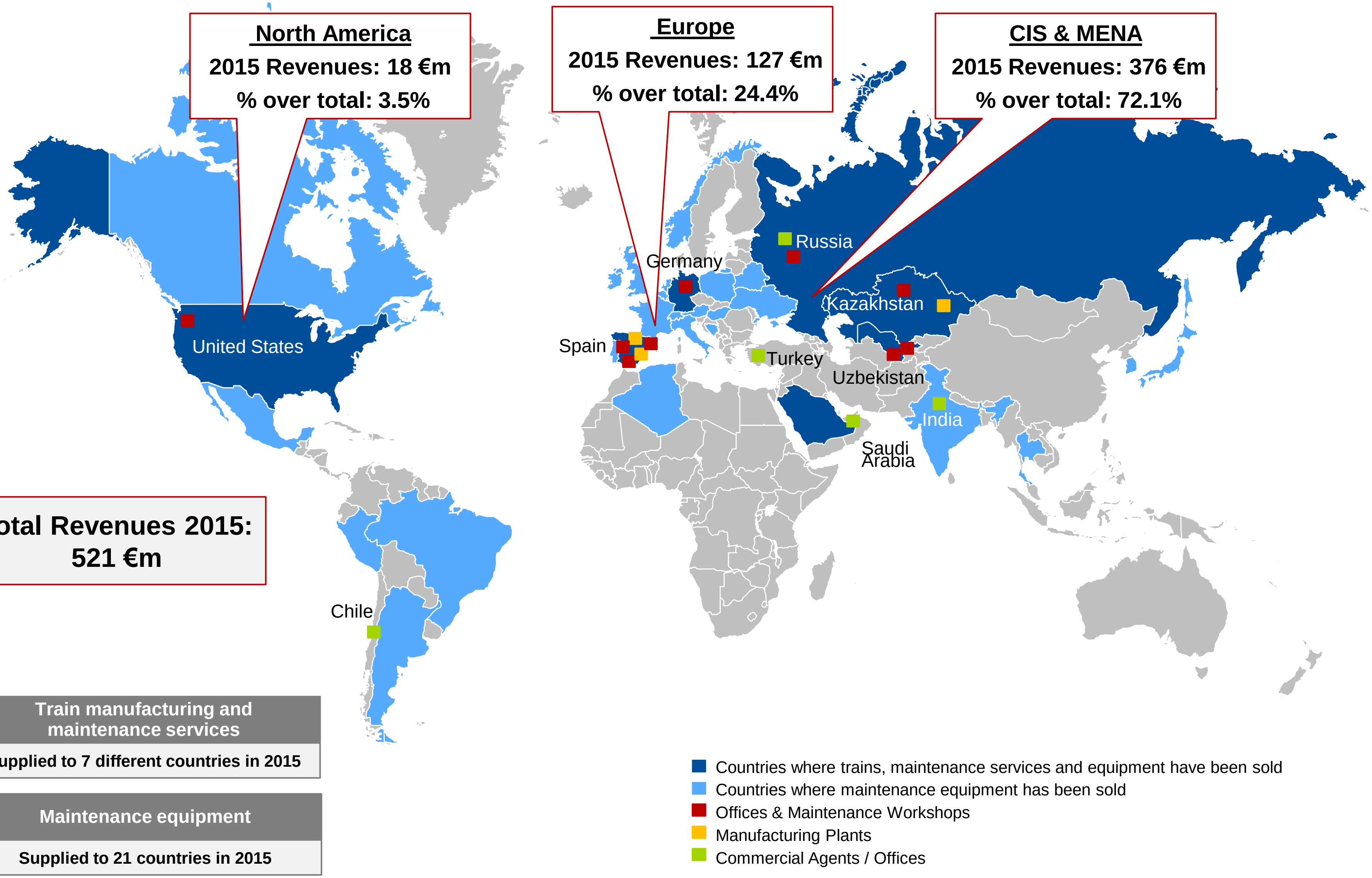
- **Net Revenues increased by 36% reaching 521 €m** (384 €m in 2014).
  - Successful results in line with the company target driven by a strong manufacturing activity and supported by the recurrent maintenance services.
- Adjusted **Ebitda increased by 34% to 121 €m**, maintaining similar level of margins (23%).
- **Net Profit increased by 55% to 60 €m** (adjusted net profit reached 72 €m), resulting on € 0.58 EPS(1).
- **NFD amounted 123 €m**(2) at the end of the year (vs. 176 €m in 1H15) which implies a 1.0x leverage ratio with comfortable repayment schedule and low financial interest rates.
- **Strong execution of current backlog** and all ongoing projects on track.
  - Good performance of manufacturing contracts, reaching correctly all milestones in Mecca-Medina project both in terms of product delivery and train testing. Positive performance of Kazakhstan project.
  - Successful execution of maintenance contracts and we continue to implement efficiency measures to further enhance maintenance margins.
  - Recent difficulties in the commodity markets are impacting some of our customers. However, we can confirm that the overall size of the contracts will not be reduced although we might adjust manufacturing pace of some orders to their specific needs if required
- **3,117 €m contracted backlog at the end of 2015**, resulting on 6.1x 2015 Net Turnover (76% maintenance).
- 2015 expected **order intake with delays but still in the spotlight**…
  - Spanish VHS tender initially expected in 2015 to be carried out throughout 2016.
  - Commodities price drop dragged growth expectations on commodity-dependent countries slowing down the execution of their infrastructure projects.
- … while **additional pipeline strengthen driven by a strong commercial activity with new potential projects** identified for the near future (total identified pipeline amounts 9-13 €b).
  - Working on several live projects both national and internationally.

(1) According to Annual Accounts requirements, it is calculated over average number of shares in 2015. (2) Does not include loans with public administrations related to R&D projects.

1.2 Talgo's international presence

… consolidating its international presence…

Talgo revenues in 2015 by geography (€m)



Total Revenues 2015: 521 €m

Train manufacturing and maintenance services
Supplied to 7 different countries in 2015

Maintenance equipment
Supplied to 21 countries in 2015

1.3 Backlog execution and order intake: current projects status (I)

… through positive execution and full commitment with our customer objectives

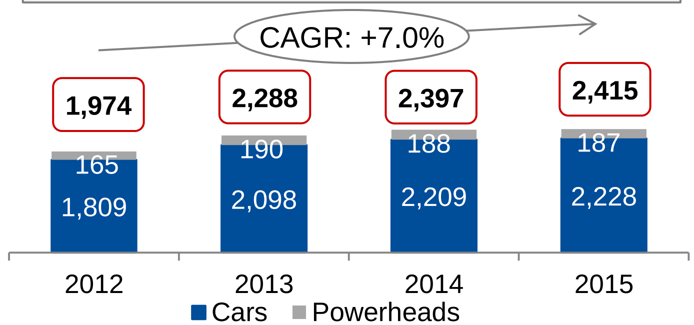
Project	Initial scope	Benefits/Solution	Status
1 SRO Saudi Arabia Mecca- Medina (Manufacturing)	1. **Manufacturing 35 VHS T350 trains + 1 VIP + 20 optional**	✓ Trains at +300km/h speed. ✓ Designed to endure extreme weather conditions (i.e. +50ºC, dust & erosion).	▪ First train sent in 2014. Dynamic testing successfully carried out during 2015. ▪ Two additional trains were sent in 2015 (both have already arrived to Arabia). Static testing to be executed during 2016. ▪ Manufacturing of additional trains under execution throughout 2016.
2 Kazakhstan (Manufacturing)	1. **Project 1: 436 passenger cars** 2. **Project 2: 603 passengers cars** 3. **Agreement for the acquisition of a 51% stake in Tulpar**	✓ Reduction of travel time between Astana and Almaty by c.45% on existing infrastructure. ✓ Designed to endure extreme weather conditions (i.e. -45ºC).	▪ Project 1: delivery to final client successfully concluded. The last 153 cars were delivered during 2015. ▪ Project 2: kits for first 76 cars already delivered to the Tulpar manufacturing plant for final assembly. ▪ Acquisition of a 51% stake in Tulpar pending execution.

1.3 Backlog execution and order intake: current projects status (II)

… through positive execution and full commitment with our customer objectives

Project	Initial scope	Benefits/Solution	Status
3 **Russia (Manufacturing)**	**1. Manufacturing of 7 trains**	✓ Reduction of travel time on existing infrastructure. ✓ Designed to endure extreme weather conditions.	▪ All 7 trains already fully manufactured: ✓ 4 trains (Moscow-Nizhny Novgorod) delivered and with successful commercial operations since June, 2015. ✓ 3 trains (Moscow-Berlin): certification & dynamic testing in progress.
4 **Maintenance activity**	**1. Maintenance service assistance to manufactured trains and others**	✓ Reliability and improved customer safety and experience. ✓ Professionals with wide expertise and knowhow. ✓ High quality of service delivery.	▪ All projects being successfully executed. ▪ Company continue implementing actions aimed to improve operational and cost efficiencies. ▪ Size of maintained fleet to grow significantly as we deliver contracted manufacturing backlog

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



(1) Include both, cars and locomotives.

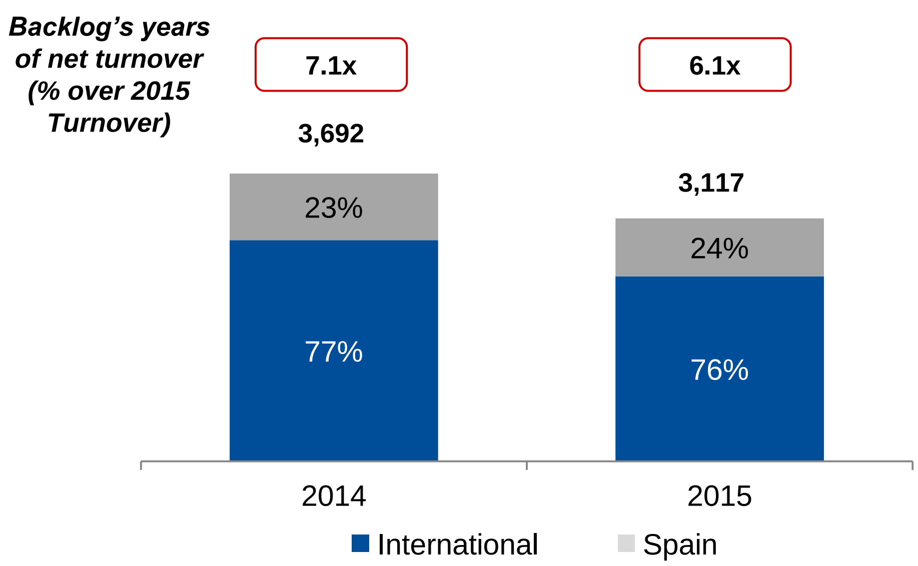
Note: Additional c. 80 cars (stable over the period 2012-2015) manufactured by third parties are maintained by Talgo in Germany. Such cars are around two times longer than Talgo cars.

Talgo

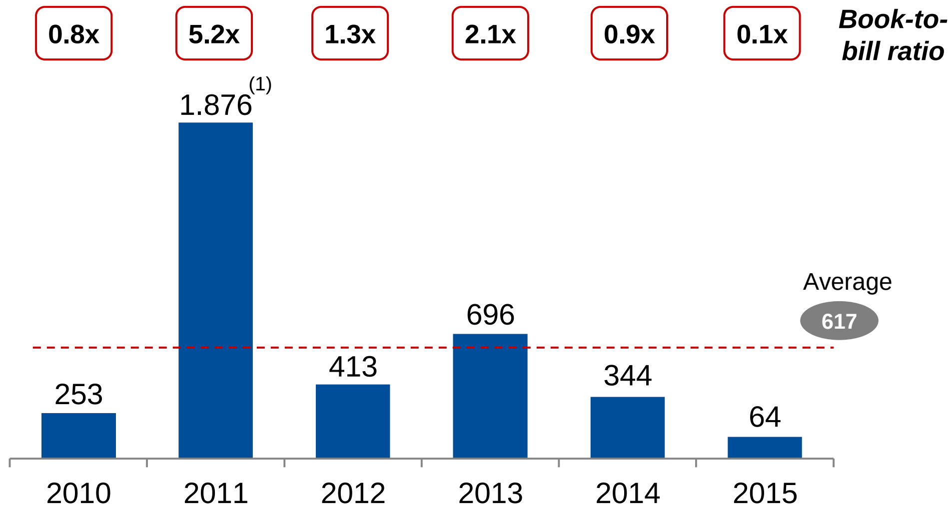
1.3 Backlog execution and order intake (III)

Strong backlog gives leeway over order intake to remain selective

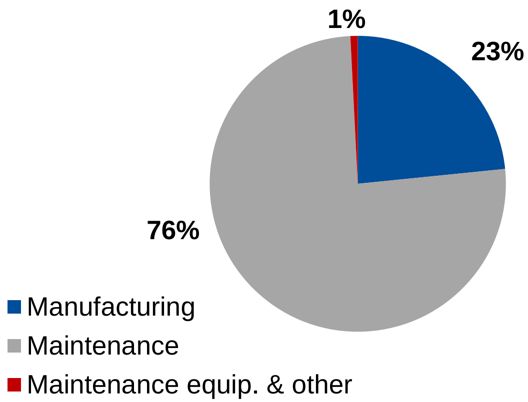
Backlog evolution (€m)



Order intake evolution (€m)



Backlog 2015 by business line



- Low order intake registered in 2015 due to the delay of identified tenders on the pipeline.
- 76.1% of current backlog is outside Spain, mainly on Saudi Arabia and Kazakhstan.
- 75.8% of current order book corresponds to maintenance services, which ensures the cash generation capacity of the Company on a long term basis.

(1) Includes the significant Mecca-Medina contract in 2011

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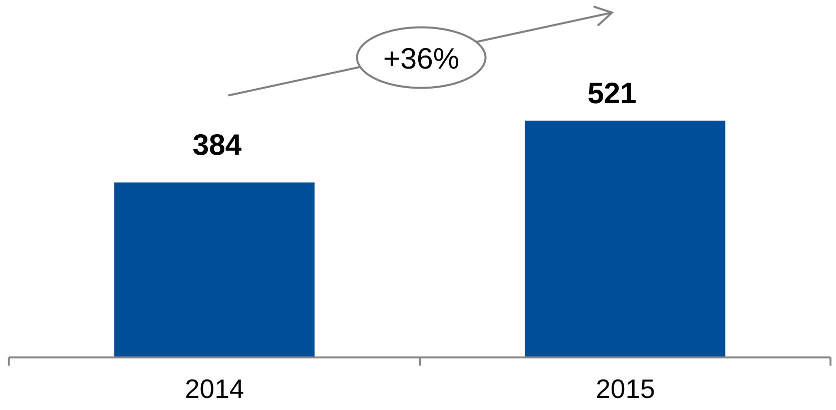
2.1 Profit & Loss (I)

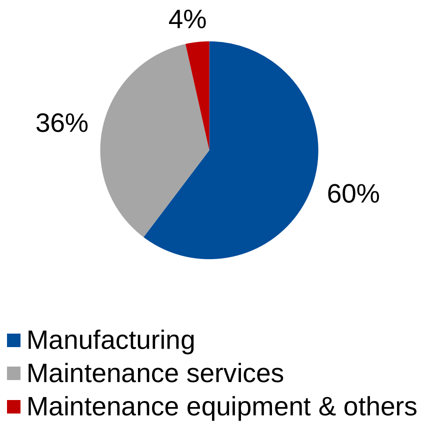
Revenues performance

- Net Turnover increased by 36% reaching 521 €m (384 €m in 2014) mainly driven by higher activity in line with the company target:
  - ✓ **Execution of contracted backlog** (mainly Mecca-Medina and Kazakhstan) with on-time deliveries according to customers requested schedules.
  - ✓ **Increasing maintenance services**, providing recurrent and stable cash generation while meeting the customer expectations. Maintenance services net turnover is expected to continue to increase as (i) trains under manufacturing are delivered and (ii) future contract awards expand fleet in operation.
  - ✓ Commercialization of **maintenance equipment** that remains as a minor but recurrent cash generator (4% over average 2013-2015 revenues).
- International markets continue increasing their weight within Talgo's activity, representing 79% of the Company revenues in 2015.

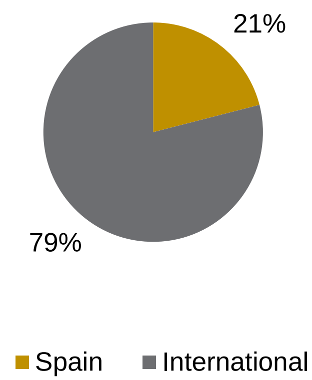
Net turnover 2015 (€m)



Net turnover by business line (avg. 2013-15)



Net turnover by geography (2015)

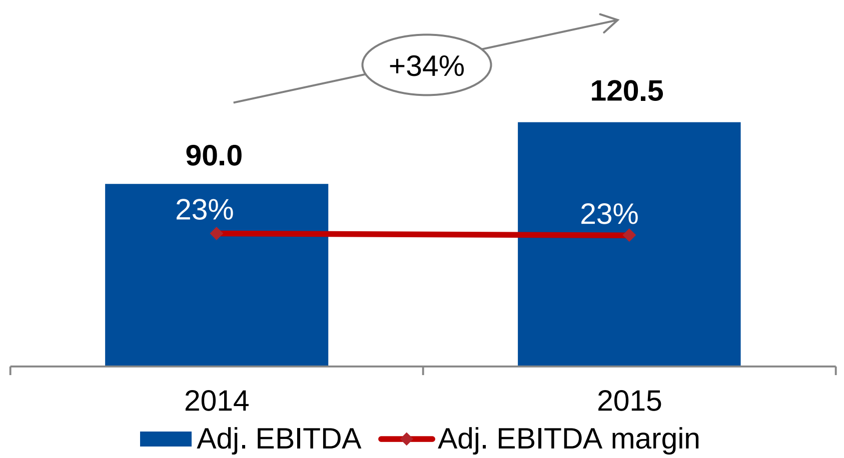


2.1 Profit & Loss (II)

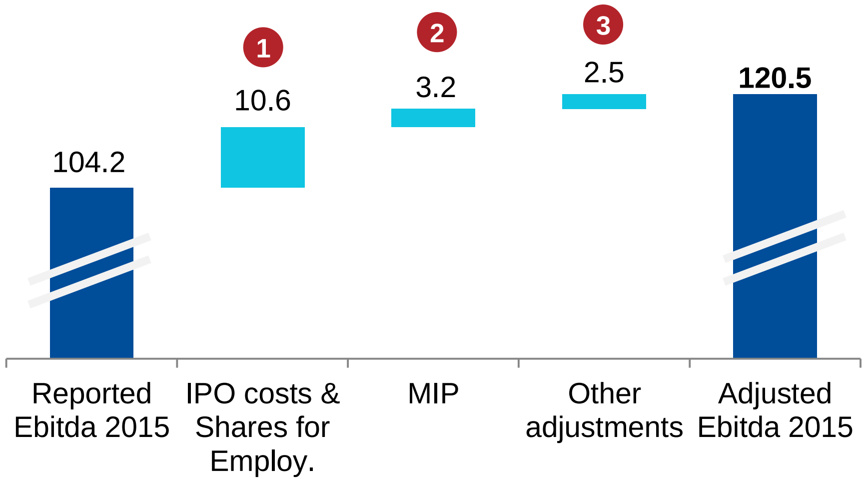
Ebitda composition

- Adj. Ebitda increased by 34% to 120.5 €m in 2015 while Ebitda margin remained at similar levels (23%) thanks to:
  - Contribution of manufacturing projects.
  - Maintaining manufacturing and maintenance project margins.
  - Efficient management of Opex(1), which decreased from 11.7% to 10.0% over Net Turnover.
  - Control of overhead expenses given the strong activity increase.
- Main adjustments made to Ebitda includes one-off items:
  1. Cost related to the disbursement of shares to employees after the IPO (5.2 €m) included under Employee welfare expenses.
  1. IPO costs (5.4 €m) included under Other operating costs.
  2. MIP (3.2 €m) liquidated at listing.
  3. Other adjustments (2.5 €m) include mainly layoff compensations and bank guarantee fees.

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



Reported to adjusted Ebitda bridge (€m)



(1) Excluding IPO expenses

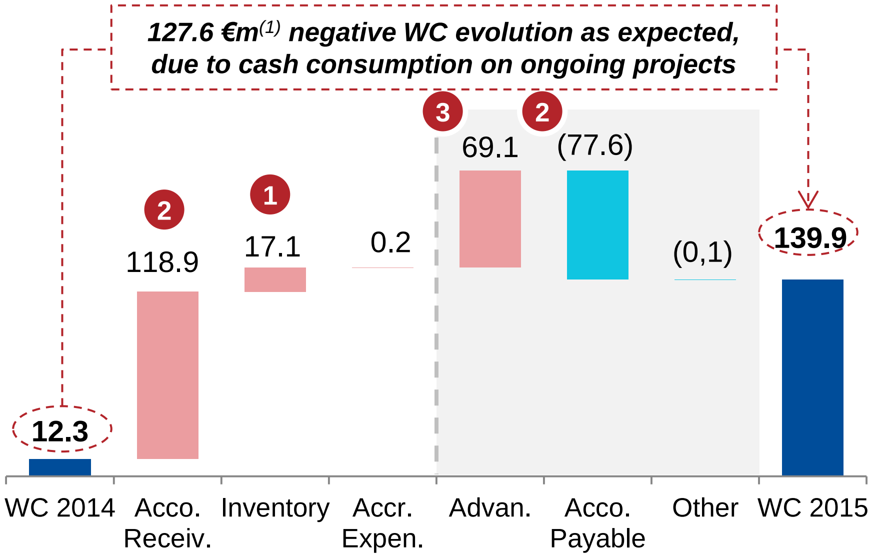
2.2 Balance sheet

Working capital performance

Working Capital evolution (€m)

€m	2014	2015
Accounts receivables	158.5	277.4
Other receivables	2.0	2.2
Assets held for sale	6.1	6.1
Inventories	71.7	88.8
Accounts payables (excl. advances)	(132.7)	(210.3)
Advances received	(89.6)	(20.5)
Other current liabilities	(3.7)	(3.8)
Working capital	**12.3**	**139.9**

Working Capital variation (€m)(1)



(1) Working Capital variation shown above (127.6 €m) differs from the company 2015 Annual Accounts (118,5 €m) due to the adjustments of non-cash items for a net value of 9.2 €m.

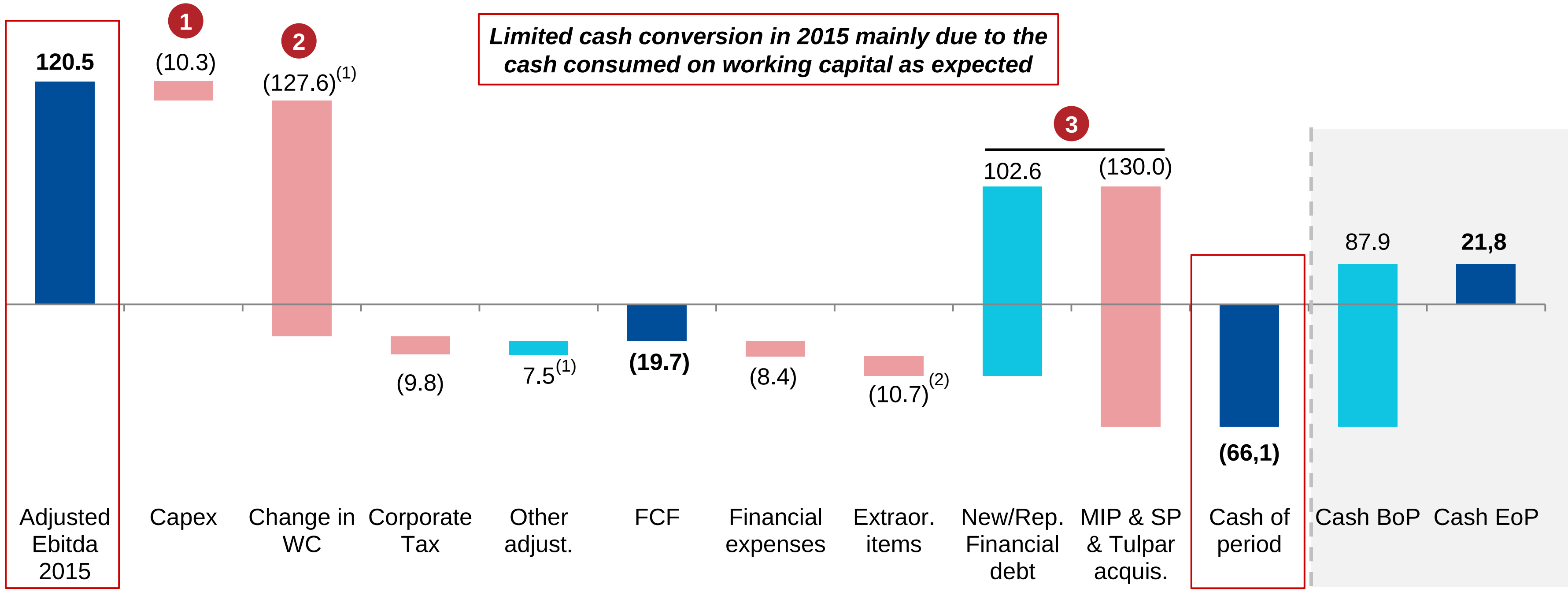
- Talgo's cash cycle vary significantly throughout the projects life depending on the stage and agreed payment schedule, resulting on strong Working Capital swings.
- Agreed contracts generally includes customer pre-payments, following 2-3 years of execution with cash-consumption until the final payment is done.
- In this sense, the Company has registered significant cash outflow in 2015:
  1. **Inventories**: increase due to stronger need of materials to carry out manufacturing processes for the Mecca-Medina and the Kazakhstan projects.
  2. **Accounts receivable and payables**: rise mainly driven by the increase of the manufacturing activity.
  3. **Advances received**: dropped driven by the manufacturing projects stage.
- Although additional increase in working capital is expected during 2016 according to a normal manufacturing cycle and given the stage of development of our current key manufacturing projects, strong cash inflows are expected for 2017, which will reduce significantly the Working Capital.
- Therefore, cash consumed for working capital will be recovered throughout the next years as payments are done.

2.3 Cash Flow

Capital consumption as expected on a year with strong manufacturing activity

1. Throughout 2015 the company has invested 10.3 €m as Capex:
   - Recurrent capex: 2.0 €m.
   - Capex in new products: 4.8 €m.
   - Capex destined to expand capacity: 3.4 €m.
2. As commented, cash cycle can vary depending on the size and agreed milestones of the projects. In this sense, “Change in working capital” is negative due to the stage of the manufacturing projects.
3. New debt issued includes mainly a loan destined to the share purchases for the Management Incentive Plan and the disbursement of shares to Talgo’s employees.

Ebitda Cash Conversion (€m)

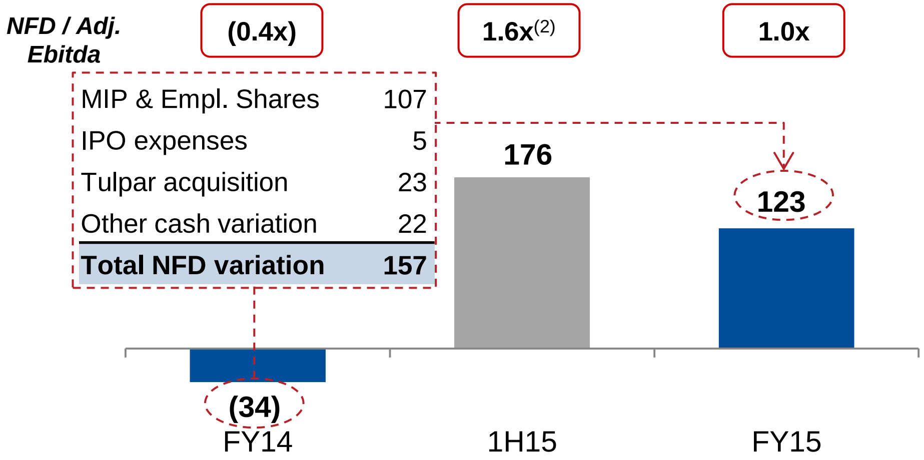


(1) Working Capital variation shown above (127.6 €m) differs from the company 2015 Annual Accounts (118,5 €m) due to the adjustments of non-cash items for a net value of 9.2 €m. Such adjustments are included in the line “Other adjustments”. (2) IPO costs are included in this line.

2.4 Capital Structure

Comfortable financing position: FY2015 Net debt lower than anticipated in 3Q15

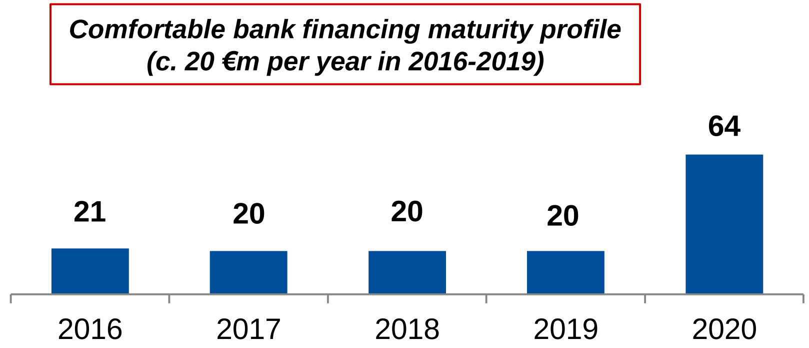
Net Financial Debt (€m)(1)



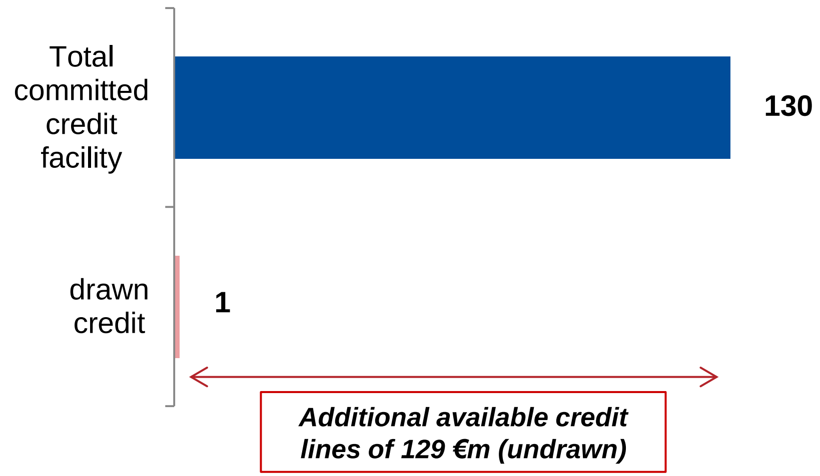
MIP & Empl. Shares	107
IPO expenses	5
Tulpar acquisition	23
Other cash variation	22
Total NFD variation	**157**

- **Gross bank debt amounted 145 €m by December 2015**, comprised by (i) 99.5 €m loan with Banco Santander, (ii) 42.0 €m loan with the European Investment Bank, (iii) c. 1.3 €m of credit lines, (iv) 1.3 €m of guarantee fees and (v) 0.6 €m of leasing expenses.
- Additional other non-current liabilities are not considered financial debt as they comprise mainly refundable advances with Spanish Public Administration entities regarding R&D activities.(1)

Bank loans – Repayment schedule (€m)



Committed credit lines at December 2015 (€m)



(1) Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities related with R&D (24.8 €m. in 2015) (2) 1H15 leverage ratio calculated over LTM Ebitda.

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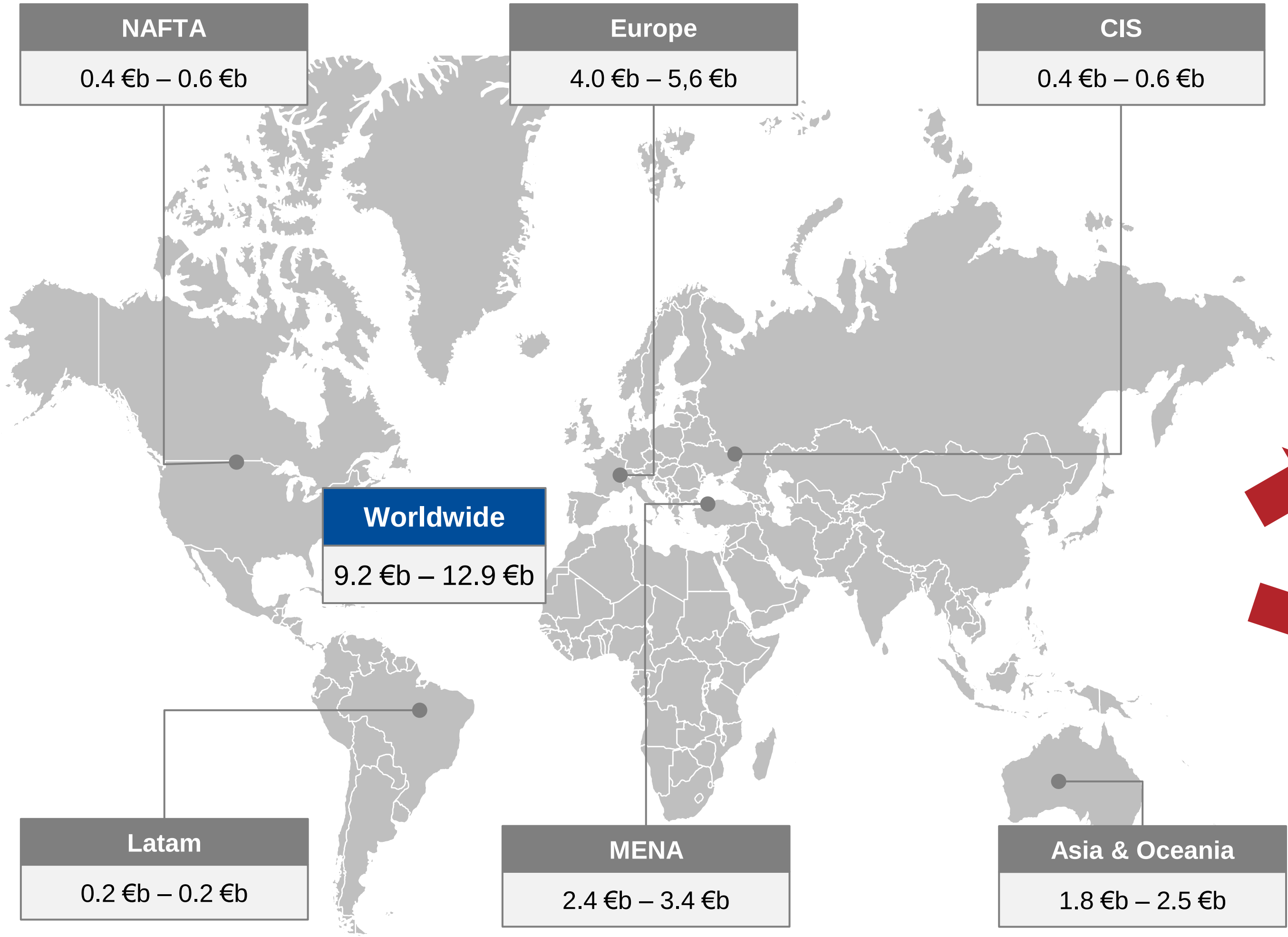
3.1 Identified Pipeline

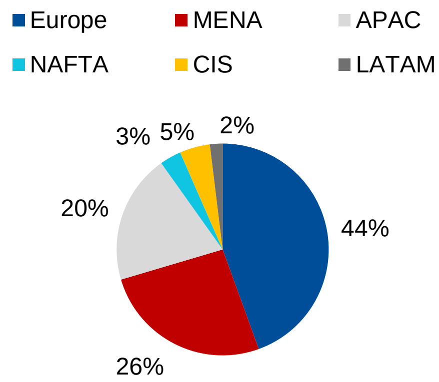
Sizeable pipeline to drive Talgo's future growth

Identified manufacturing pipeline for the next 4 years (€b)



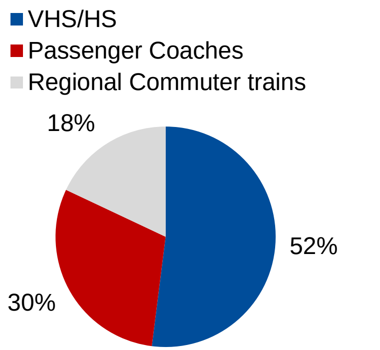
Talgo has identified an ample number of future opportunities expected to be awarded in the next 4 years, in which is already working to get well positioned (for a total value amounting 9.2- 12.9 €b).

Talgo pipeline by geography



78% of the pipeline are areas where Talgo already sold vehicles

Talgo pipeline by segment



Talgo is leader on VHS (49%), with unique technology on passenger coaches (29%), while currently developing our new EMU (22%)

3.2 Outlook for 2016

Talgo will continue executing Backlog and maintaining high commercial activity

	Key themes in 2016	Expectations for 2016
Business performance: Manufacturing / Maintenance activity	▪ Expected backlog execution during 2016, mainly focused on Arabia and Kazakhstan. ▪ Net Turnover to be in line with estimations according to the "percentage of completion" of the projects. ▪ Identified manufacturing pipeline over the next 12-24 month, aiming to reach higher order intake volume. ▪ Manufacturing rhythm adaptation according to clients needs, if required.	▪ We reiterate our estimates of backlog execution 30-35% for 2015-2016. ▪ Foreseeable revenues coming from maintenance activity. ▪ Strong manufacturing activity for Mecca-Medina project. ▪ Sizeable pipeline expected to be awarded in 2016-2017.
Profitability	▪ Current project margins expected to be in line with 2015 figures.	▪ Ebitda margins in 2016 expected to continue to be above 20%.
Cash Flow	▪ Giving the manufacturing cycle, working capital is expected to increase as current projects are executed and advances are consumed. ▪ CF generation would increase with new order intake. ▪ EMU development capex to continue in 2016.	▪ Cash consumption due to ongoing projects stage. ▪ New orders would provide relevant additional cash inflows. ▪ Extraordinary capex: c. 9 €m.
Capital Structure	▪ High availability of credit lines ensuring the manufacturing activity and investments requirements.	▪ Maintain Net Debt / Ebitda below current ratio: 1.0x. ▪ 129 €m of undrawn credit facility.
Dividend / Pay-out	▪ Target dividend pay-out ratio of c.20-30%.	▪ First dividend payment expected on 2H16.

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4. Management Remarks

Management remarks

Unique technologies position Talgo as player of reference in the market in terms of quality, product reliability and efficiency with high social and environment concern.

Efficient management reflected on a healthy balance sheet (1.0x NFD/Ebitda) and controlled cost structure

Defensive business mix supported by a significant maintenance backlog with a strong commercial activity identifying organic growth opportunities…

… while maintaining a selective approach prioritizing both, limited contractual risks and visibility over the projects performance and profitability…

… which, together with an effective R&D team Talgo aims to continue growing in terms of both international presence and product mix (Commuter trains).

Talgo is highly confident on the future performance of the Company with unique positioning, sizeable pipeline of opportunities and vocation to grow as a reference in the industry

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Appendix

P&L and Cash Flow

P&L

Profit & Loss Account	2015	2014	% Change
€ million			
Total net turnover	**520.7**	**384.3**	**35.5%**
Other income	9.2	15.9	-41.8%
Procurement costs	(264.7)	(180.8)	46.4%
Employee welfare expenses	(98.7)	(104.6)	-5.6%
Other operating expenses	(62.4)	(47.7)	30.8%
EBITDA	**104.2**	**67.1**	**55.1%**
% margin	*20.0%*	*17.5%*	
Other adjustments	2.5	1.9	31.0%
IPO costs & Shares for Employees	10.6	0.0	n.a.
Management Incentive Plan	3.2	18.4	-82.5%
Adjusted EBITDA	**120.5**	**90.1**	**33.8%**
% margin	23.1%	23.4%	
D&A (inc. depreciation provisions)	(24.1)	(18.9)	27.5%
EBIT	**80.0**	**50.9**	**57.3%**
% margin	*15.4%*	*13.2%*	
Other adjustments	2.5	1.9	31.0%
IPO costs & Shares for Employees	10.6	0.0	n.a.
Management Incentive Plan	3.2	18.4	-82.5%
AVRIL Amortization	8.0	7.6	4.7%
Adjusted EBIT	**104.3**	**78.8**	**32.4%**
% margin	*20.0%*	*20.5%*	
Net financial expenses	(5.0)	(5.4)	-8.4%
Profit before tax	**75.1**	**45.5**	**65.1%**
Tax	(15.5)	(7.0)	121.9%
Profit for the year	**59.6**	**38.5**	**54.8%**
Adjusted Profit for the year	75.2	56.7	32.7%

Cash Flow

Cash flow statement	2015	2014	*% Change*
€ million			
Net income	59.6	38.5	54.8%
Corporate income tax	15.5	7.0	121.9%
Depreciation & Amortization	19.3	16.8	14.7%
Financial income/Financial expenses	6.3	5.5	13.6%
Other result adjustments	12.5	13.9	(10.3%)
Changes in working capital	(118.5)	(62.0)	91.2%
Operating cashflows after changes in wc	**(5.4)**	**19.7**	**(127.3%)**
Net interest expenses	(5.3)	(3.9)	35.1%
Provision and pension payments	0.0	0.0	n.a.
Income tax paid	(9.8)	(15.3)	(36.1%)
Other collection and payments	0.0	0.0	n.a.
Net cash flows from operating activities	**(20.4)**	**0.6**	**n.a.**
Investments	**(10.3)**	**(23.9)**	**(57.0%)**
Changes in financial assets and liablities	94.6	15.3	519.9%
Purchase of non-controlling interests	(23.0)	0.0	n.a.
Purchase of treasury shares and Div. payments	(107.0)	0.0	n.a.
Net cash flows from financing activities	**(35.4)**	**15.3**	**(332.2%)**
Net increase/decrease in cash & cash eq.	**(66.1)**	**(8.1)**	718.4%
Cash and cash equivalents BoP	87.9	96.0	(8.4%)
Cash and cash equivalents EoP	21.8	87.9	(75.2%)

Appendix

Balance Sheet

Assets

Balance Sheet	Dec. 2015	Dec 2014
€ million		
FIXED ASSETS	**275.7**	**267.1**
Tangible assets	68.7	70.9
Intangible assets	59.4	66.2
Goodwill	112.4	112.4
Other long term assets	35.1	17.6
CURRENT ASSETS	**396.3**	**326.2**
Inventories	88.8	71.7
Non- current assets held for sale	6.1	6.1
Accounts receivable	277.4	158.5
Other current assets	0.2	0.2
Cash & cash equivalents	21.8	87.9
Periodification adjustments	2.0	1.8
TOTAL ASSETS	**671.9**	**593.3**

Liabilities

Balance Sheet	Dec. 2015	Dec 2014
SHAREHOLDERS EQUITY	**231.0**	**249.6**
Capital Stock	41.2	41.2
Share premium	68.5	68.5
Other reserves	3.9	2.6
Retained earnings	83.7	106.9
Other equity instruments	33.7	30.5
NON-CURRENT LIABILITIES:	**183.2**	**105.4**
Debt with credit institutions	123.5	42.6
Provisions	25.6	22.9
Other financial liabilities	24.5	31.2
Other long-term debts	9.7	8.7
CURRENT LIABILITIES:	**257.7**	**238.3**
Accounts payable	230.7	222.2
Debt with credit institutions	21.3	10.9
Other financial liabilities	2.2	1.4
Provisions for other liabilities and other	3.5	3.7
SHAREHOLDERS EQUITY + LIABILITIES	**671.9**	**593.3**