Talgo's Results
1H 2020

21 July 2020

Table of content

Key business highlights of 1H2020

- **Strong measures implemented with the objective of protecting employees health**
  - 3.7% of the company workforce affected by the COVID-19
- **Social awareness committing the company in the fight against the outbreak**
- **Negative temporary impact of COVID-19 on 1H2020 results although industrial activity registered certain recovery during last weeks:**
  - **Manufacturing activity slowdown** in the period with registered production disruptions, but already recovering operations pace to reach pre-Covid levels.
  - **Maintenance projects** affected in the short/medium-term but not in the long-term
- **Resilient order book with attractive pipeline driven by worldwide increasing demand on rail mobility** as most sustainable passenger transport solution:
  - Backlog reaching 3,304 €m in 1H2020 (3,621 €m if all awards are considered)
  - New order intake for 1H2020 reached 134 €m (0.3x Book-to-bill ratio in the year)
- **Strong balance sheet** with net cash position amounting 23 €m(1) at 1H2020, resulting on -0.4x NFD/LTM Ebitda ratio
- **COVID-19 impact reflected on the P&L** performance**:**
  - Revenues reached 217 €m in 1H2020 (+29% vs 1H2019)
  - Adjusted Ebitda amounted 15 €m, with margins of 6.7% (-53% vs 1H2019)
  - Net Profit at -5.7 €m

Talgo

(1) Does not include loans with public administrations related to R&D projects.

Source: Company information

Table of content

Wide range of measures successfully implemented adapting business dynamics to medical and clients requirements and needs (i)

	Manufacturing activity	Maintenance activity	Other activities
Impact	▪ **Slowdown in manufacturing activity** during 1H2020 due to supply chain disruptions and lower productivity registered. ▪ **Factories remained lockdown** from March 30 to April 13 in line with government measures.	▪ Significant **drop or suspension of maintenance activities** during the estate of alarm in all markets. ▪ **Minimum services required** to be provided to stopped fleets.	▪ **Slow down in overhaul activity** due to similar reasons than manufacturing. ▪ **Normal pace registered in the engineering** activity.
Actions	▪ **Clients notified and reported** with expected impact in contracted projects. ▪ **Manufacturing pace adapted** to materials supply delays. ▪ Implementation of **extraordinary safety and labor measures** to enhance productivity.	▪ **Temporary suspension of employment** (ERTE) for maintenance employees in Spain and Saudi Arabia. ▪ Development of **health-care and safety on-board solutions** already incorporated to fleets.	▪ **Remote working** systems successfully implemented all through the engineering and overhead activities. ▪ **Cost-cutting measures** (capex, overhead expenses, etc.) aiming to protect cash.
Status	▪ **Recovery of normalized level of activity** during end 2Q2020. ▪ **Low risk of penalties** given the force majeure context.	▪ **Uncertain recovery process**: ○ **Spain**: activity at c. 30% ○ **Kaz**: activity at c. 25-40%. ○ **Saudi**: temporally suspended. ○ Others: mixed situations.	▪ **Overhaul activity industrial pace recovered** in ongoing projects. ▪ Overheads cost-cutting measures to be maintained in 2020.

Source: Company information

Wide range of measures successfully implemented adapting business dynamics to medical and clients requirements and needs (ii)

- ✓ **Implemented packages of measures for all employees with tests, health-care materials and remote working.**
- ✓ **Employment protection measures** temporarily transferring personnel from maintenance business affected by Temporary suspension of employment (ERTE) to manufacturing business line.
- ✓ **Management of supply chain constrains to minimize impact on manufacturing pace.**
- Actions aimed to protect margins through cost-cutting measures in all areas :
  - ✓ **Strict control of Opex**
  - ✓ **50% reduction of Board of Directors salaries for 2020**
- Actions aimed to protect cash:
  - ✓ **Management of procurement processes in order to optimize inventories**
  - ✓ **Delay of all non-essential Capex for year 2020**
  - ✓ **Increase of credit lines and refinancing of 2020 financial debt maturities**

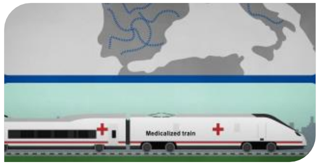
Talgo

Talgo committed in the fight against COVID

- ✓ **Developing solutions for operators to ensure passengers safety**
- ✓ **Social commitment with financial and talent resources to support organizations improving measures aimed to fight the outbreak**

“Talgo supports Spanish National Scientific Research Council (CSIC) search for COVID-19 vaccine”

“Talgo offers its innovation to set rail as the safest transport mode in face of the COVID-19 pandemic”

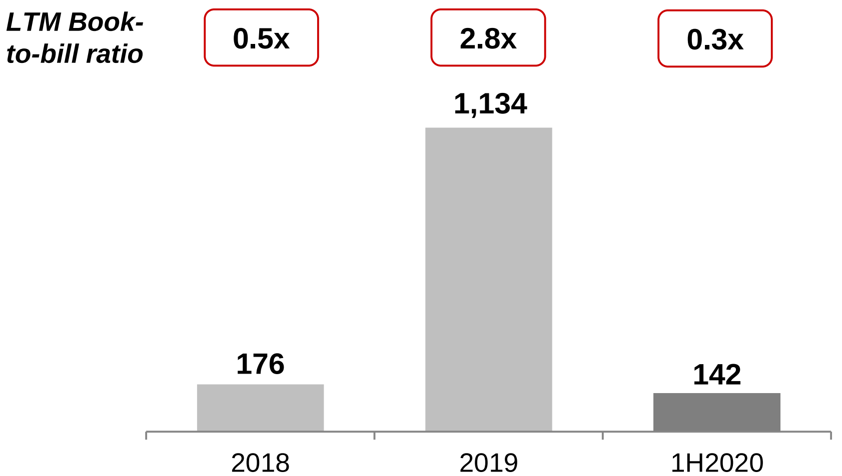


“Talgo supplied Renfe pro-bono medically equipped high-speed trains for the national transfer of Covid19 patients”

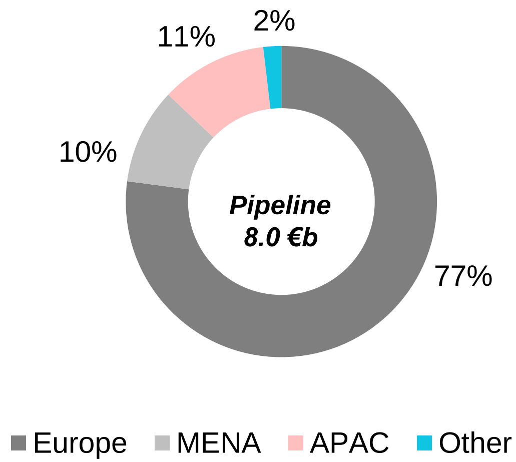
Table of content

Significant opportunities ahead throughout all segments of activity with focus on European markets

Evolution of the order intake 2018 – 1H2020 (€m)



Talgo pipeline by geography 2020-2021[1]



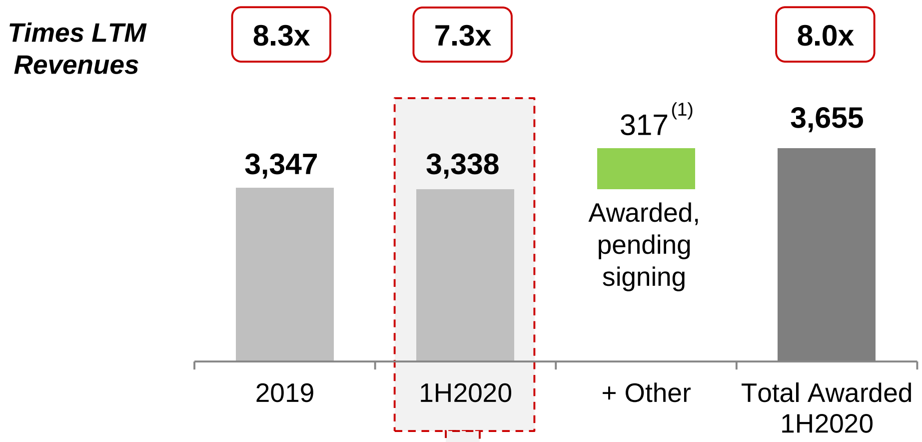
- New orders registered during 1H2020 includes mainly **the manufacturing project for the Danish state operator DSB to manufacture 8 Talgo 230 trains (134 €m)**, with which Talgo continues to consolidate its entry into the central and north European markets.
- Commercial activity remained strong during the first half of 2020:
  - Selected opportunities with expected award in the medium term with a **total value amounting 8.0 €b**, of which 10% corresponds to extensions within frameworks agreements already signed.
  - By June 2020, the Company had **submitted offers with an approximate value amounting c.5.2 €b.**
  - **No significant cancellations** on identified opportunities due to COVID-19.
  - Over 50 total opportunities being actively worked and monitored with value above 15 €b.

The successful execution of backlog will add huge further growth potential both with existing clients as well as across new markets

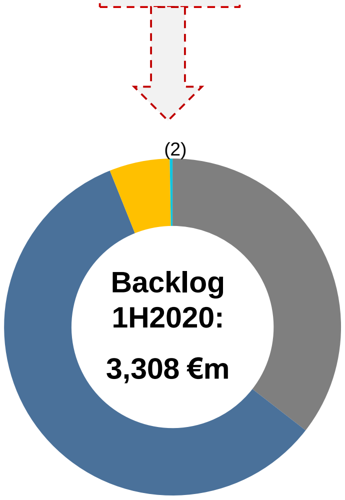
(1) Pipeline may suffer modifications in terms of both tendering schedule and scope
Source: Company information

Diversified backlog with high quality projects and proven execution track-record as best guarantee for clients and shareholders

Backlog 1H2020 (€m)



Strong backlog with increased manufacturing scope provides significant visibility over the industrial activity for the next years.



Manufacturing
1.2 €b (36%)

- VHS → Spain
- HS → Uzbekistan
- Passenger coaches → Germany, Denmark, Egypt

Maintenance
1.9 €b (58%)

- VHS → Spain, Saudi Arabia
- HS → Spain, Uzbekistan
- Passenger coaches → Spain, USA, Russia, Kazakhstan, Germany

Overhaul
0.2 €b (5%)

- VHS → Spain
- Commuter and metros → LACTMA, Metrolink

(1) Considering a 51% stake in the Very High Speed maintenance contract in Spain, which will be executed through a JV with Renfe.
(2) Maintenance equipment backlog with contracts value amounting 45 €m.
Source: Company information

Manufacturing projects – High Speed

Renfe Avril VHS (Spain) – 897 €m

- Project scope:
  - Manufacture of 30 VHS "AVRIL" trains .
  - Maintenance for a period of 30 years.
- Project execution:
  - In manufacture and assembly stages.
  - Delivery scheduled from 2021 onwards.
  - 2020 will be cash-consumption period for the project, with expected recovery in 2021 backed by the delivery of the first units.

UTY Talgo 250 HS (Uzbekistan) – 57 €m

- Project scope:
  - Manufacture of 2 HS Talgo 250 trains.
  - Manufacture of 4 additional coaches.
  - Supply of materials and equipment.
- Project execution:
  - Initial stages of manufacturing and assembly
  - Delivery scheduled in 2022.
  - Attractive cash profile with FIEM[1] support.

(1) Fund backed by the Spanish government.
Source: Company information

Manufacturing projects – Long distance / passenger coaches

Deutsche Bahn Talgo 230 (Germany) – 550 €m (2.3 €b)[1]

- Project scope:
  - Framework contract to manufacture of up to 100 trains.
  - The first order includes the manufacture of 23 trains.
- Project execution:
  - In the design and engineering phases.
  - Initial delivery scheduled from 2023.
  - Potential AAD[(2)] structure. Talgo will implement the most appropriate cash profile.

DSB Talgo 230 (Denmark) – 134 €m (500 €m)[1]

- Project scope:
  - Framework contract for value up to 500 €m.
  - First order to manufacture 8 trains, including maintenance equipment and materials.
- Project execution:
  - Design and engineering phases.
  - Initial delivery scheduled from 2023.
  - Optimal project in cash terms.

ENR Talgo 160 km/h (Egypt) – 157 €m

- Project scope:
  - Manufacture of 6 trains.
  - Maintenance for a period of 8 years.
- Project execution:
  - In design and engineering phases.
  - Initial delivery scheduled from 2022.
  - Optimal cash flow profile - EBRD support.

(1) Contracts comprised within framework agreement. Value of total framework agreement.
(2) Abstract Acknowledge of Debt, with access to advances for up to 60% of the total value of the contract
Source: Company information

Heavy maintenance and overhaul projects

Conversion of night trains into VHS compositions (Spain) – 107 €m

- Project scope:
  - Conversion of Talgo's series 7 "train hotel".
  - Initial project includes 156 coaches (13 compositions) with an option for an additional 72 coaches (6 compositions).
- Project execution:
  - Manufacturing and assembly phases.
  - Delivery scheduled from 2021.

LACMTA remodelling (USA) – 73 $m.

- Project scope:
  - Activities to repair and update 74 coaches from the Los Angeles Red Line Metro.
- Project execution:
  - Under execution
  - The established timetable assumes the execution of the Project over 58 months (awarded in September 2016).

Metrolink remodelling (USA) - 35 $m

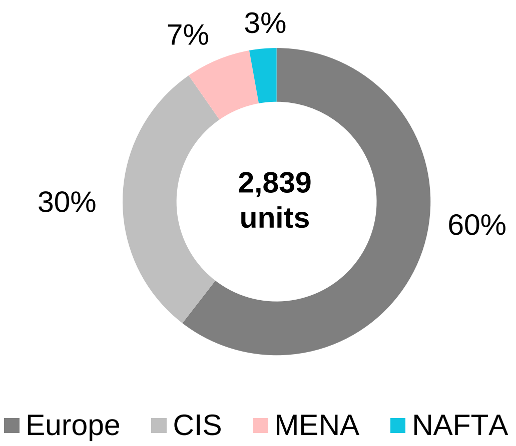
- Project scope:
  - Overhaul of up to 121 railway vehicles with an initial order for 50 vehicles.
- Project execution:
  - Under execution.
  - First deliveries 15 months after the initial work order (*Notice To Proceed*), which was issued in July 2019.

Source: Company information

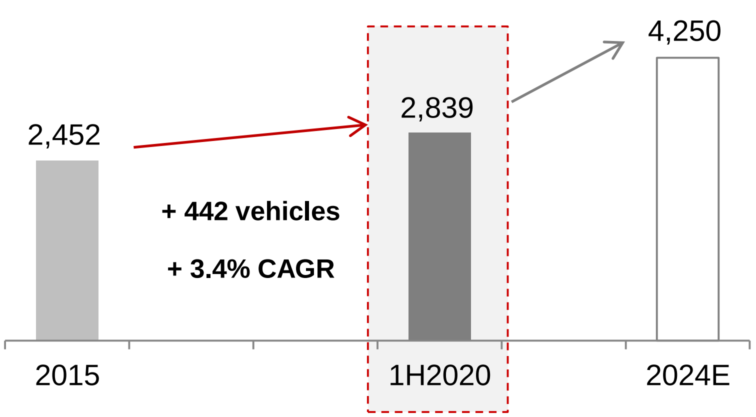
Light maintenance projects

- **COVID-19 impacted very significant in the maintenance activity during 1H2020**, with a strong drop or even full stoppage of commercial services registered in most markets with presence.
- However, the **maintenance activity stands out as a rapidly recovering business line with significant upside potential** for the coming years:
  - **High reliability and availability ratios** resulting from a strong track-record of the service provided.
  - **Consolidated relationship with clients** in a long-term basis.
  - **Recurrent cash flow** and revenue generation.
  - **Increasing installed base** as projects currently in the manufacturing phase are delivered to clients, expecting to **reach above 4,200 coaches and powerheads by 2024 with current backlog (+50% vs 1H2020).**

Fleet maintained in # of units by geographical area



Fleet maintained in # of units[(2)]



(1) Include both cars and powerheads. Note: Additional c. 80 coaches (stable over the period 2014-1H020) manufactured by third parties are maintained by Talgo in Germany. Such cars are around two times longer than Talgo standard coaches.

Source: Company information

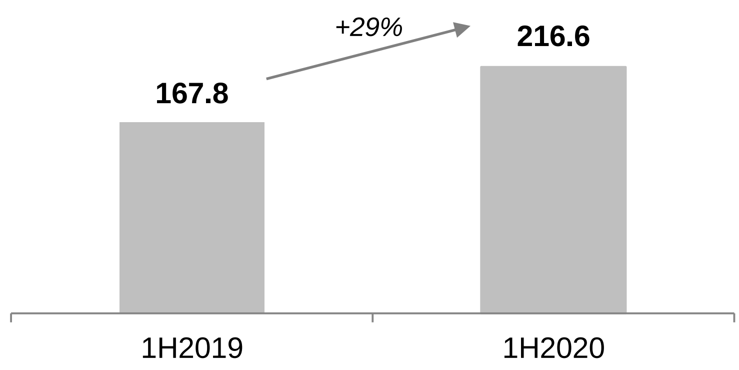
Table of content

Profit & Loss – Revenues

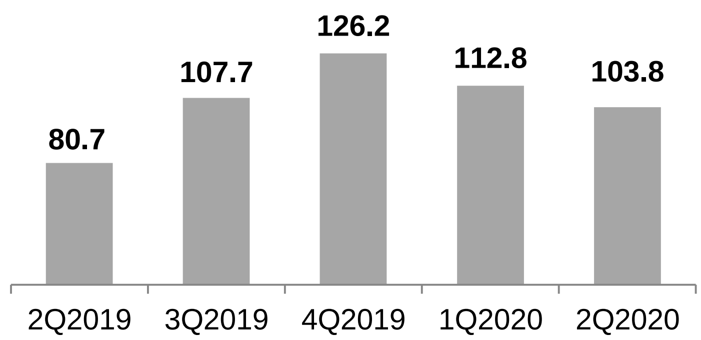
- **Revenues amounted 216.6 €m in 1H2020 (+29% vs. 1H2019)** reflecting the increased industrial activity driven by manufacturing projects, mainly Spain VHS project.
- Quarterly revenues reflected mix results by business line:
  - **Stronger manufacturing activity** with partially recovered productivity ratios resulting on higher revenue recognition on the period.
  - **Weak maintenance revenues** due to less activity on all existing fleets under maintenance, resulting on significant revenue drop in the period.

Measures successfully implemented to adapt manufacturing production to challenging operational disruptions

Revenues – Cumulative (€m)



Revenues – Quarterly evolution (€m)



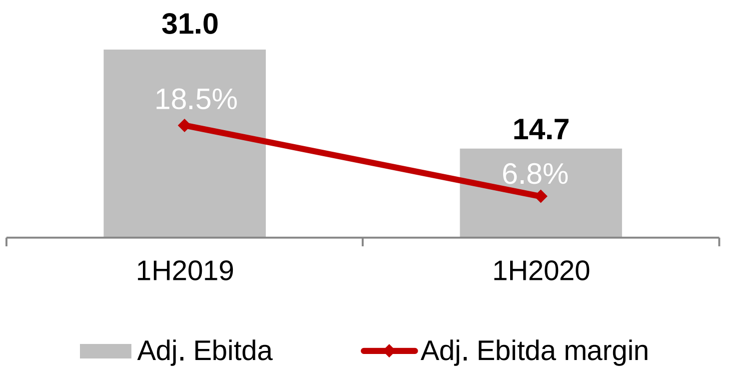
Source: Company information

Profit & Loss – Ebitda

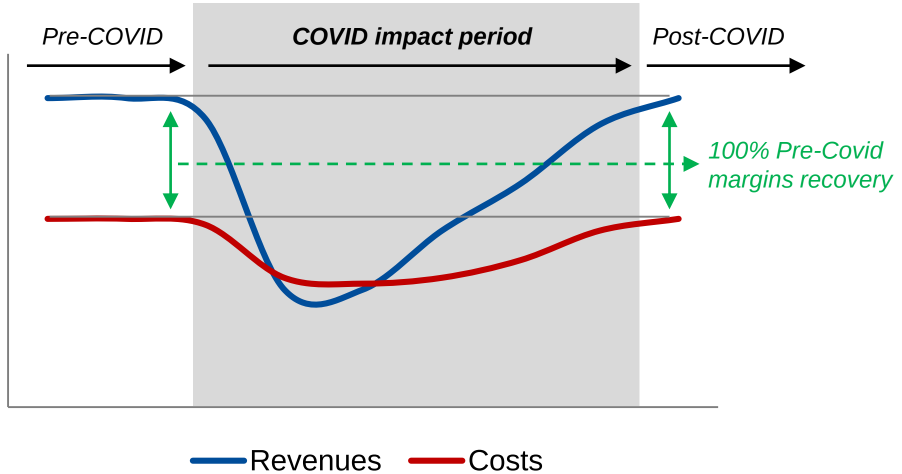
- **Operating profitability decreased in the period mainly due to COVID impact on industrial activity**:
  - Manufacturing projects lower productivity and supply chain disruption in the period negatively impacted project margins.
  - Maintenance costs did not decrease proportionally to revenues despite significant cost-cut measures implemented.
- As a result, **Adjusted Ebitda margin decreased to 6.8% in the period reaching 14.7 €m**.

High quality backlog and comprehensive control of costs will enhance profitability recovery post-Covid

Adj. Ebitda (€m) and margin (%)



Maintenance projects – margins evolution with COVID(1)



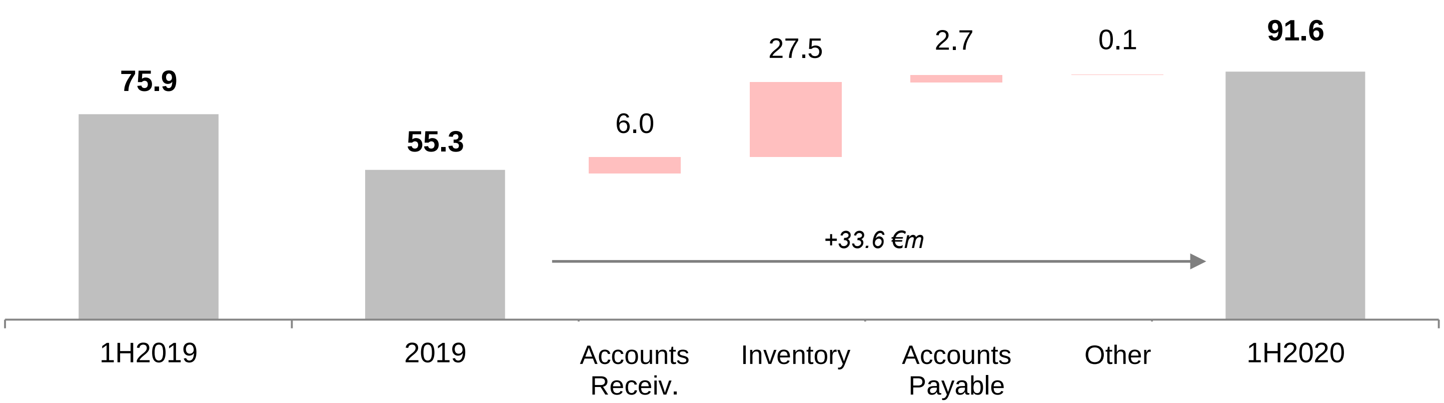
(1) Main adjustments made to EBITDA include non-recurring expenses, mainly indemnities and commissions relating to financial guarantees.
(2) The graph is a simulation that does not attempt to reflect or represent real data of specific projects performance.
Source: Company information

Balance sheet – Working Capital performance

- **Working Capital increased in 1H2020 mainly due to the increase of materials supply** for the projects under execution.
- Working capital profile of main projects under execution:
  - Spanish VHS project: **2020 will be cash-consumption period** for the project, with expected recovery in 2021 backed by the delivery of the first units.
  - Germany DB project: **Potential AAD[(1)] structure with access to advances for up to 60% of the total value** of the contract Talgo will implement the most appropriate cash profile.

Spanish VHS project, already in assembly phase with stronger cash needs is expected to drive Working Capital swings in 2020 and 2021

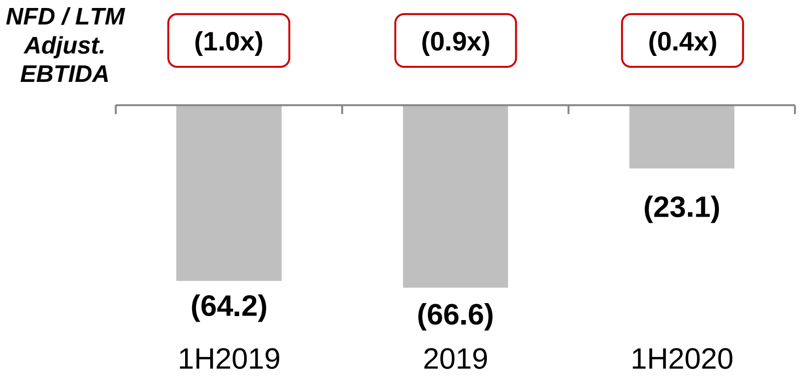
Working Capital (€m)



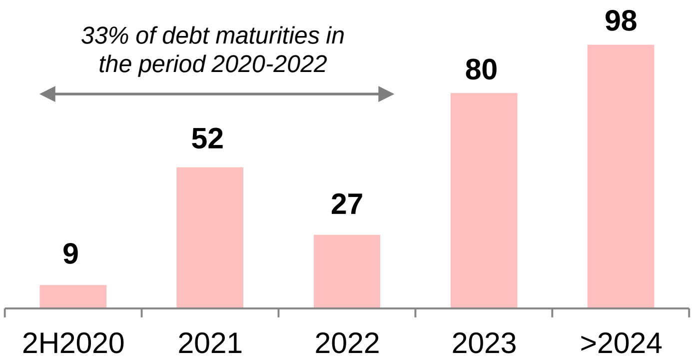
(1) **Abstract Acknowledge of Debt, with access to advances for up to 60% of the total value of the contract**
Source: Company information

Balance Sheet – Net Financial Debt

Net Financial Debt (€m)[(1)(2)]



Long term bank debt – repayment calendar (€m)



- **Talgo gross cash position as of June 2020 reached 291 €m,** with advances amounting 61 €m.
- Gross financial debt amounted 266 €m of which only 33% matures within the next three years.
- Additional 145 €m of credit lines fully available.

Sound financial profile with c.350 €m exceeding financing capacity for the next two years…

… and additional upsides within the projects WC structure

Financial Debt by type (€m)

€m	1H2020
Long-term debt with bullet repayments	144
Long-term debt with annual repayments	92
European Investment Bank	30
Accrued interest	-
Gross financial debt	**266**

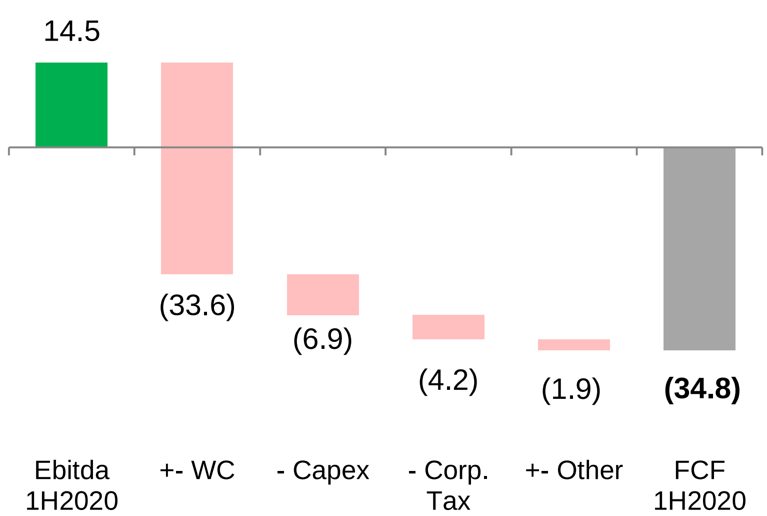
Source: Company information

1) Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities relating to R&D which are not considered financial debt due to their recurrence and zero interest.
2) Talgo has 10 €m allocated in remunerated funds which are considered available although due to accounting requirements it is registered as “other current assets”

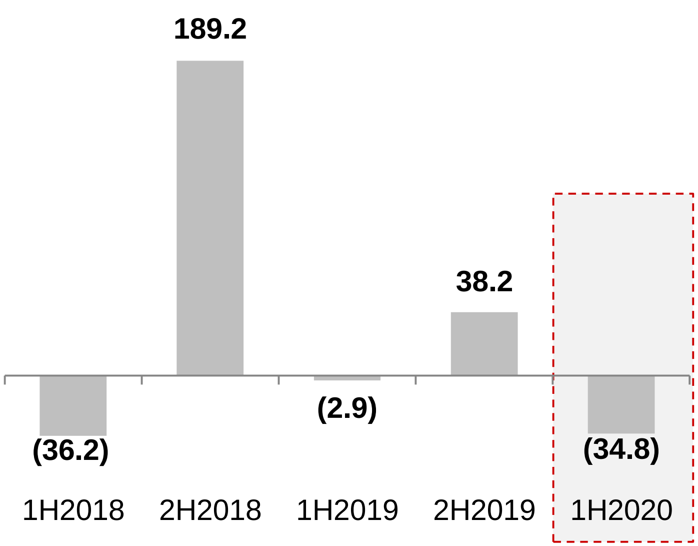
Cash Flow – Free Cash Flow

- **Moderate cash consumption was registered during 1H2020**, driven by an expected higher working capital required for manufacturing projects, resulting on **negative FCF in the period amounting -34.8 €m.**
- Free Cash Flow of the period was the result of mix on business lines with impact of COVID:
  - Manufacturing activity required less cash due to a lower degree of progress in the year on main projects.
  - Maintenance services generated significantly less cash flow due to the drop of activity on most markets.
- **Capex for the period amounted to 6.9 €m**, significantly lower than expected at BoY (c. 40 €m for 2020) due to measures implemented aimed to protect cash and delays non-essential capital investments.

Conversion of EBTIDA into FCF in 1H2020 (€m)



Free Cash Flow for the period 2017-1H2020 (€m)



Source: Company information

Table of content

Outlook – Strong confidence with recovery capacity

- **Talgo withdrew business guidance given for the year 2020 in march due to COVID-19**
- **Given the significant level of uncertainty over the business performance during 2H2020 mainly related to the maintenance activity, the company will not provide new guidance for the year at this stage**
- **However, Talgo's solid backlog and strong balance sheet ensures business adequate performance for the coming periods:**
  - ✓ **Resilient backlog with high quality projects to provide remarkable revenue visibility over the period 2020-2023**
  - ✓ **Secured projects in backlog with no risk of cancellation**
  - ✓ **Sound financial profile with underlying cash availability**
  - ✓ **Margins are expected to start recovery by 2021**
  - ✓ **Positive market trends to enhance business growth in a long-term basis**

Resilient business model to ensure sustainable future performance and growth

Source: Company information

Table of content

Appendix 1. Profit & Loss

Profit & Loss Account (€m)	1H20	1H19	% Change
Total net turnover	**216.6**	**167.8**	***29.1%***
Other income	4.5	2.6	*74.0%*
Procurement costs	(124.3)	(55.9)	*122.6%*
Employee welfare expenses	(59.0)	(59.9)	*(1.4%)*
Other operating expenses	(25.9)	(26.7)	*(3.2%)*
EBITDA	**11.8**	**27.8**	*(57.5%)*
% Ebitda margin	*5.5%*	*16.6%*	
Other adjustments	2.9	3.2	*(9.7%)*
Adjusted EBITDA	**14.7**	**31.0**	***(52.6%)***
% Adj. Ebitda margin	*6.8%*	*18.5%*	
D&A (inc. depreciation provisions)	(10.0)	(7.1)	*41.4%*
EBIT	**1.8**	**20.8**	***(91.2%)***
% Ebit margin	*0.8%*	*12.4%*	
Other adjustments	2.9	3.2	*(9.7%)*
ViTtal Amortization	0.6	1.1	*(50.0%)*
Adjusted EBIT	**5.2**	**25.1**	***(79.1%)***
% Adj. Ebit margin	*2.4%*	*14.9%*	
Net financial expenses	(3.9)	(4.1)	*(4.5%)*
Profit before tax	**(2.1)**	**16.7**	**(112.3%)**
Tax	(3.7)	(2.7)	*34.0%*
Profit for the period	**(5.7)**	**14.0**	***(140.8%)***
Adjusted Profit for the period	**(5.3)**	**14.8**	***(135.7%)***

Source: Company information

Appendix 2. Balance Sheet

Balance Sheet (€m)	June 2020	June 2019	Dec 2019
FIXED ASSETS	**248.0**	**250.3**	**249.9**
Tangible + intangible assets	105.2	103.1	106.0
Goodwill	112.4	112.4	112.4
Other long term assets	30.4	34.8	31.5
CURRENT ASSETS	**617.7**	**603.2**	**632.9**
Inventories	157.3	102.9	129.8
Non- current assets held for sale	0.0	0.0	0.0
Accounts receivable	167.1	172.9	165.1
Other current assets	12.2	15.2	12.5
Cash & cash equivalents	281.1	312.3	325.6
TOTAL ASSETS	**865.7**	**853.5**	**882.9**

Balance Sheet (€m)	June 2020	June 2019	Dec 2019
SHAREHOLDERS EQUITY	**272.1**	**307.6**	**291.7**
Capital Stock	38.2	41.1	41.1
Share premium	0.9	6.8	6.8
Consolidated reserves	3.3	2.9	3.2
Retained earnings	252.8	295.4	303.2
Other equity instruments	(23.1)	(38.6)	(62.6)
NON-CURRENT LIABILITIES:	**293.0**	**291.3**	**273.3**
Debt with credit institutions	217.6	222.8	198.7
Provisions	43.6	35.2	44.2
Other financial liabilities	22.1	24.3	20.8
Other long-term debts	9.8	9.0	9.6
CURRENT LIABILITIES:	**300.5**	**254.6**	**317.9**
Accounts payable	238.1	210.8	244.9
Debt with credit institutions	49.0	34.3	58.6
Other financial liabilities	6.7	5.2	7.2
Provisions for other liabilities and other	6.7	4.3	7.2
TOTAL S. EQUITY + LIABILITIES	**865.7**	**853.5**	**882.9**

Source: Company information

Appendix 2. Balance Sheet (2)

Financial debt (€m)	June 2020	June 2019	Dec 2019
Long term financial liabilities	217.6	222.8	198.7
Short term financial liabilities	49.0	34.3	58.6
Financial leasings	1.5	1.1	1.7
Cash & cash equivalents	(291.1)	(322.3)	(325.6)
Net financial debt	**(23.1)**	**(64.2)**	**(66.6)**
Adjusted EBITDA LTM	56.6	62.9	72.9
Net financial debt / Adj EBITDA (LTM)	**(0.4)x**	**(1.0)x**	**(0.9)x**

Balance Sheet - Working Capital (€m)	June 2020	June 2019	Dec 2019
Inventories	157.3	102.9	129.8
Non current assets hed for sale	0.0	0.0	0.0
Account trade receivables	167.1	172.9	165.1
Other current assets	12.2	15.2	12.5
Trade and other payables	(174.9)	(124.1)	(181.6)
Advances received	(63.3)	(86.6)	(63.3)
Provisions for other liabilities and other	(6.7)	(4.3)	(7.2)
Working Capital	**91.6**	**75.9**	**55.3**

Source: Company information

Appendix 3. Cash Flow Statement

Cash flow statement (€m)	1H20	1H19	% Change	2019
Net income	(5.7)	14.0	*(140.8%)*	38.4
Corporate income tax	3.7	2.7	*34.0%*	4.5
Depreciation & Amortization	8.1	7.2	*11.8%*	15.8
Financial income/Financial expenses	3.1	4.0	*(24.0%)*	8.3
Other result adjustments	0.1	(4.6)	*(102.0%)*	(6.5)
Changes in working capital	(32.9)	(16.3)	*102.2%*	1.7
Operating cashflows after changes in WC	**(23.8)**	**7.1**	***(433.7%)***	**62.1**
Net interest expenses	(3.1)	(4.5)	*(32.0%)*	(7.1)
Provision and pension payments	0.0	0.0	*n.a.*	0.0
Income tax paid	(4.7)	(4.4)	*6.6%*	(8.7)
Other collection and payments	0.0	0.0	*n.a.*	0.0
Net cash flows from operating activities	**(31.5)**	**(1.8)**	***1645.8%***	**46.3**
Capex	**(7.3)**	**(13.6)**	***(46.2%)***	**(23.3)**
Changes in financial assets and liablities	8.6	(20.4)	*(142.3%)*	(22.3)
Dividends payments	(14.2)	(35.8)	*n.a.*	(58.9)
Net cash flows from financing activities	**(5.6)**	**(56.1)**	***(90.0%)***	**(81.2)**
Net variation in cash & cash eq.	**(44.4)**	**(71.5)**	***(37.8%)***	**(58.2)**
Cash and cash equivalents BoP	325.5	383.7		383.7
Cash and cash equivalents EoP	281.1	312.2		325.5

Source: Company information

Talgo