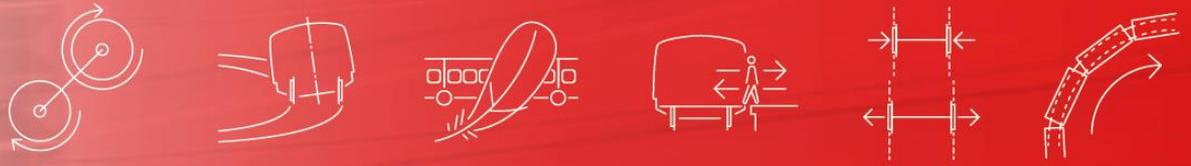


Talgo



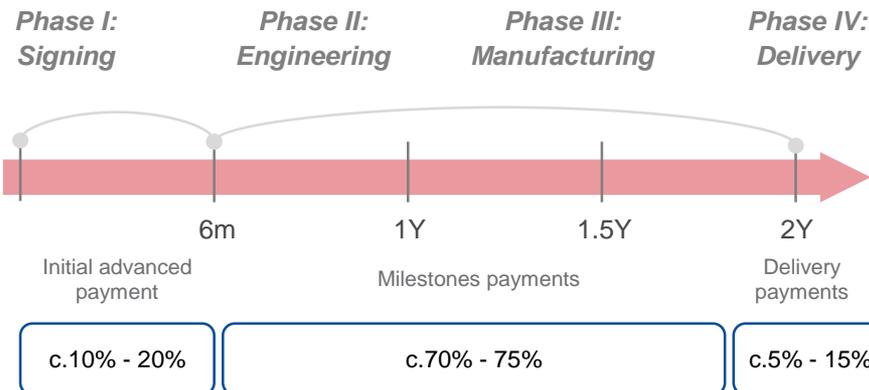
Talgo Explanatory presentation – Business dynamics

June, 2018

Overview of manufacturing service contract dynamics

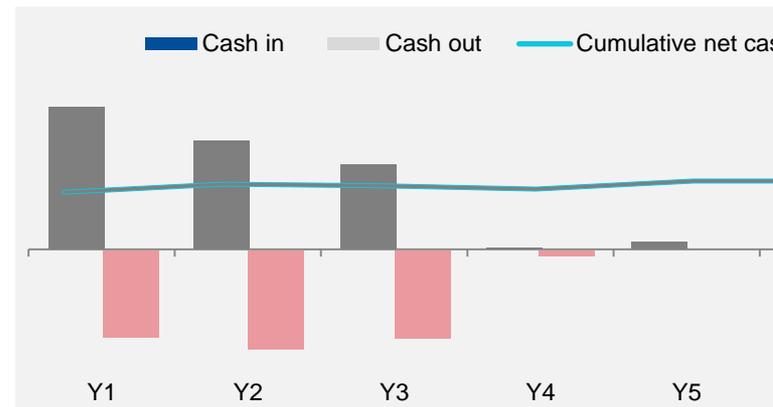
- Talgo accounting methodology for its projects is based on “**percentage of completion accounting**”, while cash-flow follow payments need and cash collections in line with certain “**milestones**” set with the client.
- In this sense, regarding the **P&L structure**:
 - Project **costs are realised as incurred while net turnover is realised as a “gross-up” of those costs** incurred each year and based on the overall project margin estimated.
 - Margins are reviewed in a monthly basis arriving to an updated estimate of the project cost base.
 - Based on this “actual cost” and “revised margin forecast”, the net turnover recognised as mark-up to cost base gets revised historically and for the next 3 months (“true-up” mechanism).
- While in the other hand, regarding the **cash flow and financing structure**:
 - Cash received by Talgo under a contract does not follow the turnover-cost evolution of the project, but according to certain “milestones” established with the client and distributed throughout the project.
 - Thus, the financing of manufacturing projects is mainly done through prepayments from customers before and during the project, as such milestones are being met.
 - A deep analysis of risks associated to the project may result on project financing for short-term periods.

Illustrative analysis based on recent manufacturing projects



Note: % represent cash inflows to Talgo as a % of total contract size

Illustrative analysis based on recent manufacturing projects



Overview of maintenance service contract dynamics

- Talgo accounting methodology for its projects is based on “**percentage of completion accounting**”, while Currently two forms of maintenance services order:
 - Fixed terms
 - Variable: €/km subject to minimum levels
- €2.7bn of maintenance backlog to be executed on average over a 14 year period
- Cash collection linked with invoicing, and paid monthly
- Talgo currently maintains 100% of its installed base due to:
 - Unique technologies and internal efficiency that translates into cost savings for customer

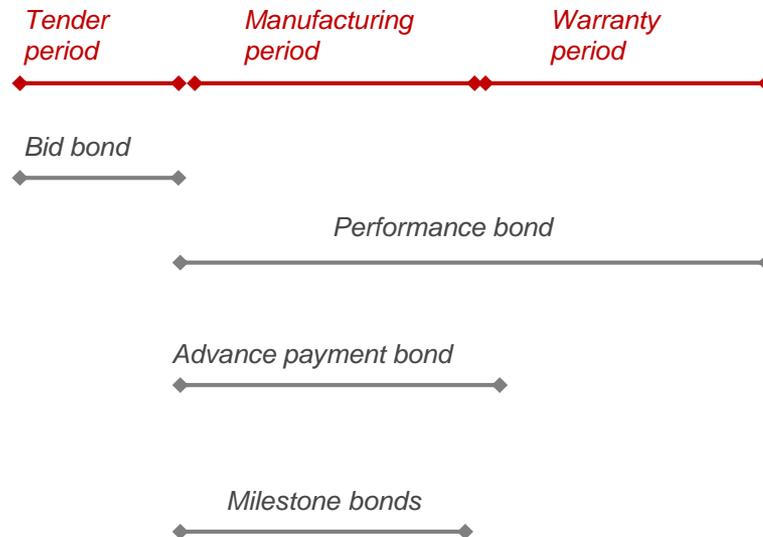
Talgo's yearly turnover generation is not linear over each quarter as it depends on several factors (e.g. the number/timing of projects executed, seasonality/size of maintained fleet, etc.)

Delivering highest backlog ratios in the industry (8.0x)

Guarantees/ Bonds

- As part of the contractual agreements, customers typically request that the train manufacturer supply bonds and certain guarantees at various levels
 - To date, there has never been an instance of a performance bond being enforced against Talgo
 - Frequently contracted with Talgo's relationship banks
- As of December 31, 2014, Talgo had €422mm guarantee bonds drawn out of its total lines of €781mm

Type of Bonds



Illustrative Description

- Bid bond: guarantees that the winning bidder will undertake the contract under the terms at which they bid
- Project bonds
 - 1 Performance bond
 - From signing of a project until end of warranty period
 - Usually c.10% of total project value, gets posted upon signing and gets released upon expiry of the warranty period of the trains (i.e. covers the whole cycle of the project, typically up to 5 years)
 - 2 Advance payment bond
 - From advanced payment until provisional acceptance
 - 3 Milestone bond
 - Not always required, from milestone achievement until provisional acceptance

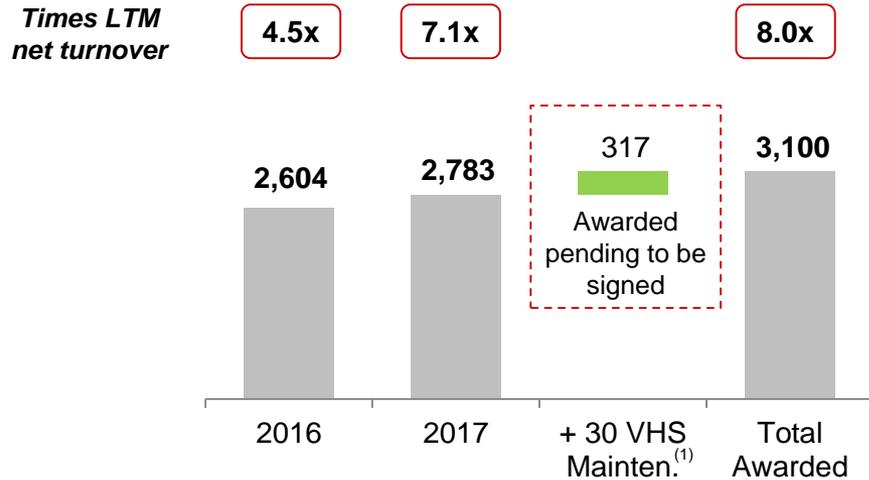


Source: Company information. Contract awarded not yet signed, which considers 50% share of maintenance in Spain 30 trains VHS contract to be executed through a JV with Renfe.

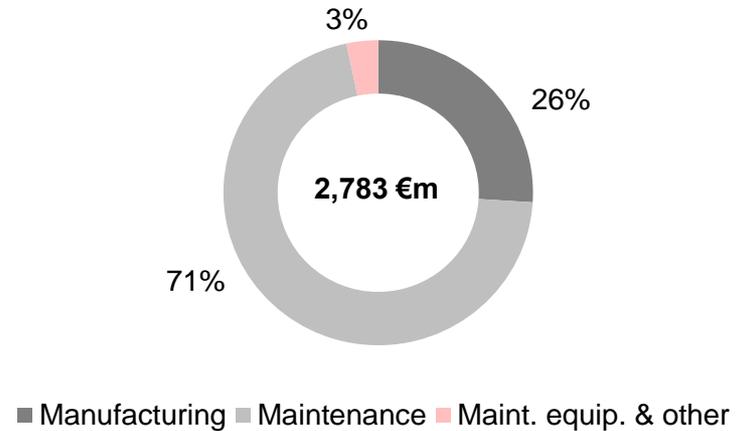
Source: Company information

Delivering highest backlog ratios in the industry (8.0x)

Backlog evolution as of December 2017 (€m)



2017 Backlog by business line



- **Backlog reaches up to 2.8 €b** (3.1 €b if all awarded contracts are considered) which represents **8.0x revenues of 2017**, leading ratio in the rolling stock industry.
- **723 €m of manufacturing backlog ensures the industrial activity** for the next years, while **71% of order book correspond to maintenance services**, which provide long-term revenues visibility and strong cash generation capacity.
- Maintenance equipment and overhaul business lines states as **complementary but also solid and recurrent revenues and cash flow contributors (3% of backlog)**.

Talgo