REPORT BY THE BOARD OF DIRECTORS OF TALGO, S.A. IN CONNECTION WITH THE PROPOSED RESOLUTION FOR A SHARE CAPITAL REDUCTION THROUGH THE REDEMPTION OF OWN SHARES (ITEM NINTH OF THE AGENDA).

1. Purpose of the report

This report has been drawn up by the Board of Directors of Talgo, S.A. (**“Talgo”** or the **“Company”**) in connection with the share capital reduction through the redemption of own shares submitted for the approval of the General Shareholders’ Meeting.

In accordance with articles 286 and 318 of *texto refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio* (the **"Spanish Companies Act"**) and the related provisions of *Reglamento del Registro Mercantil, aprobado por Real Decreto 1784/1996, de 19 de julio*, the aforementioned proposed resolution submitted to the General Shareholders’ Meeting requires the preparation by the Board of Directors of this report to justify it.

2. Justification of the proposed resolution

The Board of Directors considers it appropriate to reduce the Company’s share capital through the redemption of own shares, so as to assist in the shareholder’s remuneration policy of the Company by increasing the earnings per share.

The proposed share capital reduction would be carried out through the redemption of own shares. To this effect, the Board of Directors of the Company, under the authorisation for the derivative acquisition of own shares granted by the Company’s Ordinary General Shareholders’ Meeting of the Company held on 10 May 2018 under item seven of its agenda, approved on 15 November 2018 the establishment of a share buy-back programme for a maximum pecuniary amount of 100,000,000 euros (the **"Buy-back Programme"**). This Buy-back Programme was agreed in accordance with article 5 of the *Regulation (EU) no. 596/2014 of the European Parliament and of the Council dated 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council, and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC* (the **"Market Abuse Regulation"**) and the *Commission Delegated Regulation (EU) 2016/1052 dated 8 March 2016 supplementing Regulation (EU) no. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures* (the **"Commission Delegated Regulation"**), and it was communicated to the market through the corresponding regulatory announcement (no. 271608).

3. Terms and conditions of the proposed share capital reduction

It is proposed to the General Shareholders’ Meeting to reduce the Company’s share capital by a maximum nominal amount of 3,905,007.25 euros, through the redemption of a maximum of 12,973,446 shares, each with a nominal value of 0.301 euros, representing a maximum of 9.50% of the share capital taking into account the number of shares currently outstanding.

The resolution regarding the share capital reduction proposed to the General Shareholders’ Meeting is framed within the resolution of the Board of Directors dated 15 November 2018, by virtue of which the Board of Directors resolved: (i) to buy-back own shares up to a maximum amount of 100,000,000 euros during a maximum period of 18 months, all of it pursuant to the authorisation for the derivative acquisition of own shares granted by the Company's Ordinary General Shareholders' Meeting held on 10 May 2018 under item seven of its agenda; and (ii) to establish a share buy-back programme. The main terms of the Buy-back Programme that were communicated to the market through the corresponding regulatory announcement (no. 271608) are transcribed below:

"*The Buy-back Programme will be carried out in accordance with article 5 of the Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC and the Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures (the "***Commission Delegated Regulation***"), and will be executed under the following terms:*

<u>Purpose of the Buy-back Programme</u>: Subject to the prior authorisation by the General Shareholders' Meeting, and under the terms thereby approved, to reduce the share capital of the Company by means of the redemption of own shares, so as to assist in the shareholder's remuneration policy of the Company by increasing the earnings per share.

<u>Maximum investment of the Buy-back Programme</u>: The Buy-back Programme will reach up to a maximum of 22,500,000 shares, representing, approximately, 16.5% of the present share capital of Talgo and the maximum pecuniary amount allocated will be 100,000,000 Euro, all according to the maximum legal limits in force at each time. The aforementioned maximum pecuniary amount corresponds to the maximum pecuniary amount agreed by the Board of Directors in order to buy back certain own shares during a period of 18 months. Nevertheless, the Programme shall be automatically suspended until the relevant share capital decrease is carried out in the event that Talgo should become the owner, at any time during the duration of the Programme, of 9.99% of the share capital with voting rights of the Company.

<u>Price and volume conditions</u>: The shares will be purchased accordingly to the conditions set forth in article 3 of the Commission Delegated Regulation:

(i) as to the price, Talgo will not purchase any share at a price higher than the higher of: (a) the price of the last independent trade, or (b) the highest current independent purchase bid on the trading venue where the purchase is carried out.

(ii) as to the volume, Talgo will not purchase on any trading date more than 25% of the average daily volume of the shares on the trading venue on which the purchase is carried out.

<u>Duration of the Programme</u>: The Buy-back Programme will be in force from 19 November 2018 until 19 May 2020.

Notwithstanding the above, Talgo will be entitled to put an end to the Buy-back Programme if, prior to the last effective date (that is, 19 May 2020), the Company should have acquired, within the frame of the Programme, any number of shares for an acquisition price accounting for the aforementioned maximum pecuniary amount or the maximum amount of shares, or when circumstances render it advisable. In any case, the Programme shall be automatically suspended until the relevant share capital decrease is carried out in the event that Talgo should become the *owner, at any time during the duration of the Programme, of 9.99% of the share capital with voting rights of the Company.*"

The definitive amount of the share capital reduction would be determined by the Board of Directors, with express powers of substitution in the Chairman of the Board of Directors and in the Chief Executive Officer of the Company, on the basis of the definitive number of shares acquired within the maximum number of 12,973,446 shares, during the period provided for the execution of the resolution by the Board of Directors.

The acquisition of the shares to be redeemed has been and will be carried out in accordance with: (i) articles 146 and 509 of the Spanish Companies Act; (ii) articles 338 to 342 of the same Act, where applicable; (iii) article 12.2 of *Real Decreto 1066/2007, de 27 de julio, sobre el régimen de las ofertas públicas de adquisición de valores* and article 5 of the Market Abuse Regulation, according to which it is not necessary to launch a takeover bid for the Company's shares acquired in execution of the Buy-back Programme; and (iv) articles 2, 3 and 4 of the Commission Delegated Regulation.

The acquisition of shares under the Buy-back Programme is carried out in accordance with the terms and conditions set forth in the authorisation for the derivative acquisition of own shares granted by the Company's Ordinary General Shareholders' Meeting held on 10 May 2018 under item seven of its agenda and subject to the price and volume conditions established in article 3 of the Commission Delegated Regulation. In this regard, in the acquisition of shares under the Buy-back Programme, the Company: (i) shall not purchase any share at a price higher than the higher of: (a) the price of the last independent trade, or (b) the highest current independent purchase bid on the trading venue where the purchase is carried out; and (ii) it will not buy on any trading date more than 25% of the average daily volume of the Company's shares on the trading venue on which the purchase is carried out.

In the event that the share capital reduction resolution referred to in this report is approved, the article of the Bylaws relating to share capital shall be amended in order to reflect the new amount of share capital and the new number of outstanding shares.

The proposed share capital reduction would not entail a refund of contributions to shareholders given that, at the time of execution of the reduction, the Company would be the owner of the shares to be redeemed.

On the other hand, the share capital reduction would be charged against freely available reserves. A reserve would be provisioned for an amount equal to the nominal value of the redeemed shares, which would only be available pursuant to the same requirements demanded for the share capital reduction. Consequently, in accordance with the terms of article 335 c) of the Spanish Companies Act, there would be no right of opposition for the creditors included in article 334 of the Spanish Companies Act.

In accordance with the provisions of article 342 of the Spanish Companies Act, the own shares acquired by the Company must be redeemed no later than the month following the termination of the Buy-back Programme (19 May 2020). Therefore, the share capital reduction would be executed, at the latest, within the month following the date of termination of the Buy-back Programme.

However, in accordance with the Buy-back Programme, it may be early terminated if the Company had acquired shares under such programme for a price that reached the maximum pecuniary amount or the maximum number of shares, or if there was another circumstance that renders it appropriate. In the event of early termination, the share capital reduction would be carried out within the month following the Buy-back Programme's early termination date.

Therefore, the Board of Directors, with express powers of substitution in the Chairman of the Board of Directors and in the Chief Executive Officer of the Company, would execute the share capital reduction when the first of the following circumstances occurs: (i) the Company became the holder of 12,973,446 shares, representing 9.50% of the share capital with voting rights of the Company; or (ii) the termination (ordinary or early) of the Buy-back Programme. For clarifying purposes only, the Board of Directors shall execute the share capital reduction, at the latest, within the month following the initial termination date of the Buy-back Programme (19 May 2020), regardless of the fact that the Board of Directors extended the period initially foreseen for the Buy-back Programme.

The share capital reduction resolution proposed in this report to the General Shareholders' Meeting empowers the Board of Directors, with express powers of substitution in the Chairman of the Board of Directors and in the Chief Executive Officer of the Company so that any of them, indistinctly and by means of their sole signature, may carry out all the necessary or advisable actions for the execution of the aforementioned resolution.

This report was prepared and approved by the Board of Directors in writing and without holding a meeting on 11 April 2019.