"Driving transformation. Shaping the future."

Speech by <u>Oliver Schuster</u>, Member of the Executive Board of Vossloh AG, on the occasion of the Annual General Meeting for financial year 2015

Düsseldorf, May 25, 2016

<u>– Please check against delivery –</u>

PART II:

<u>Slide 22: (Vossloh Group, financial year 2015)</u>

Thank you very much Dr. Schabert and Mr. Thiele.

Dear shareholders, dear guests,
I would also like to welcome you to this year's Annual General Meeting of Vossloh AG.

After 2014, which for us as a then new Executive Board and particularly for you as our shareholders was characterized by a series of unpleasant surprises, the last financial year was in line with our expectations. We had presented our strategy to the public in December 2014 and for the first time published a quantified sales forecast for 2015 and a forecast for the EBIT margin for 2015 and 2017. At that time, we had expected sales growth of between 3 and 4 percent and an EBIT margin of between 3 and 4 percent for financial year 2015. Then, this represented doubled profitability after the EBIT margin had constantly and seemingly unstoppably declined for many years prior to that. We had therefore set ourselves extremely ambitious goals. Not least because we are in an industry which is to a great extent characterized by multi-year projects, long innovation cycles and oligopolistic, public customer structures. I am therefore proud that we have not only reached our goals but in some areas also exceeded them together with our teams in almost all regions of the world.

Allow me now to provide you with an overview of the net assets, financial position and results of operations of Vossloh using a few key figures. I would ask you to consider that some of the financial data for 2014 has been calculated on a comparable basis in relation to the sale of our Spanish locomotives business in the year under review and that this data therefore differs from the values reported in the 2014 financial report.

Vossloh Group sales increased significantly by 9 percent to over €1.2 billion compared with 2014. Growth in the USA, Germany and Northern Europe was particularly strong, whilst business volumes in Asia and in China in particular declined as expected. As already mentioned EBIT also recorded a pleasing development in financial year 2015. A noticeably increased EBIT of around €45 million was achieved by the Group in 2015, thanks to growing sales and supported by the implementation of our efficiency program. We also benefited from positive effects from the translation of non-euro income contributions on the closing date of December 31, 2015, so-called translation effects, in the amount of just under €3 million. The EBIT recorded for financial year 2014 was €(183) million. On a comparable basis, i.e. without special effects of the time, the Group EBIT would have been around €19 million in 2014. In the 2015 financial year, the EBIT margin of the Vossloh Group increased to 3.8 percent, following a comparable figure of 1.7 percent in the previous year.

We were also able to make significant progress in net income in the year under review. In 2015, it reached almost €78 million. Including the special effects of the time, in 2014 net income was at €(206) million. This marked improvement primarily resulted from the discussed increase in EBIT, however it was also strengthened by significantly lower interest expenses as well as the substantial capital gain from the sale of the Spanish locomotives business. This strategically important milestone on the path to the focusing of Vossloh also had a noticeable positive effect on our financial position.

Scaled down to the individual share, this net income results in a net gain of €5.42, following a loss of €16.46 in 2014.

Following a decrease in equity ratio to 21.8 percent at the end of 2014, the high net income in financial year 2015 brought about an improvement to a solid 31.2 percent. Overall, the equity of the Vossloh Group at the end of December 2015 amounted to around €429 million, following €350 million in the previous year.

The development of the free cash flow also highlights what Vossloh achieved in financial year 2015. Following a negative figure of almost €99 million in the previous year, free cash flow in the year under review was markedly positive again at around €66 million. Alongside the significantly improved operational performance of our company, this success is also a result of the further optimization of the net working capital. The ratio of working capital to sales noticeably improved year on year from 23.5 percent to 21.7 percent. Decreased investments in comparison with financial year 2014, primarily in intangible assets and property, plant and equipment, contributed to an increased free cash flow.

Combined with the cash inflow from the sale of the Rail Vehicles business unit, this led to a significant reduction in net financial debt from €283 million in 2014 to around €200 million on December 31, 2015.

In summary, we can therefore say that we have significantly improved our net assets, financial position and results of operations in financial year 2015. The expected cash inflows from the upcoming capital increase will give us additional financial stability and flexibility in order to support the targeted profitable growth of your company.

Let us now take a brief look together at the key financial data of our reporting segments.

Slide 23: (Core Components division, financial year 2015)

Sales revenues of the Core Components division decreased noticeably compared to the previous year to around €257 million. This development was to a large extent expected, as the business in China in particular had contributed extraordinarily high sales in financial year 2014, which we expected could not be repeated at such levels. Furthermore, decreased revenues for example in Turkey, Russia and Thailand also contributed towards the decline. At the same time, we were able to achieve positive sales development in Argentina, Italy and the Czech Republic. Following the high-revenue project for the Buenos Aires to Rosario line in 2014, Core Components achieved a further sales increase in financial year 2015 in Argentina. This success was also related to a further large-scale project for the construction of the line from Belgrano to Cargas. In Italy, we are currently observing significantly improved business development, following many years of declining sales. Aided by additional EU subsidies, a kind of boom is currently occurring, which is having a positive impact on our business.

Despite the significant decline in sales level compared with the previous year at Core Components, we were able to achieve a solid EBIT margin of over 11 percent in the year under review. The comparable value had been around 14 percent in 2014. Effects from the decreased business volume could be partially compensated for through positive earnings contributions from our efficiency enhancement program.

Slide 24: (Customized Modules division, financial year 2015)

Sales in the Customized Modules division were almost 11 percent above the level of the previous year in financial year 2015 at €523 million. Positive revenue development in Northern Europe, primarily in Sweden, contributed to this substantial sales growth. In Finland, the division has further expanded its market position through the joint venture established with a subsidiary of the Finnish national railway in 2015 and has more than doubled revenues. In Italy, Brazil, Morocco and in the USA (primarily as a result of exchange rates), the Customized Modules division was able to further significantly increase sales. Morocco remains an extremely important market for Customized Modules in financial year 2016. Around €25 million in orders received was achieved here in the first quarter alone, including an order for a project from Tangier to Marrakesh. The EBIT of Customized Modules improved by around 31 percent compared with the level of the previous year to €34 million. In addition to higher earnings contributions driven by higher sales, efficiency improvements also contributed to the increased profitability. The EBIT margin improved noticeably to 6.6 percent.

Slide 25: (Lifecycle Solutions division, financial year 2015)

At Lifecycle Solutions, the division for which I have personal operational responsibility, the targeted internationalization is increasingly taking shape.

With 20 percent of revenues being generated outside of Germany in the previous year, this figure rose to almost 30 percent in 2015 with increasing business in Northern Europe and China. In the slipstream, so to speak, of the already discussed joint venture in Finland, we were able to gain access for the first time to this extremely interesting market with Lifecycle Solutions.

Overall, sales in this division were at around €72 million in 2015, with EBIT at €5.5 million. Although the new service range of Lifecycle Solutions is still in the corporate start-up phase, we were able to achieve an attractive EBIT margin of 7.7 percent.

Slide 26: (Transportation division, financial year 2015)

The most significant sales growth in the Group was achieved in the Transportation division in 2015. Here we are faced with two different situations. Vossloh Kiepe, our Electrical Systems business unit, is back on stable foundation. The processing of high-volume orders from the continued huge order backlog is back to proceeding as planned and has resulted in significant growth in the total sales of the Transportation division by around 54 percent to €357 million. A great deal was also achieved in Vossloh Locomotives in 2015. Dr. Schabert has already reported to you about the preparations for the move to the new location. I should add that the center-cab locomotives from Kiel continue to be in high demand among our customers. In the last quarter of financial year 2015, high orders received to the value of around €70 million were taken.

An order from CFL Cargo should be highlighted here. The company is a member of the CFL freight group and has signed a long-term rent contract for eleven type DE 18 locomotives. The diesel-electric rail vehicles are to be delivered by mid-2017 and will be used in main-line and shunting traffic in Luxembourg, France and Germany. With these successes it is no surprise that there has been a huge improvement in the EBIT of this division. And, ladies and gentlemen, after a long dry spell for Transportation, a positive result is achievable once again: In the fourth quarter of 2015 a positive EBIT was achieved for the first time since the end of 2012.

Ladies and Gentlemen,
a significant growth in sales, a pleasing improved result, an improved capital structure. These noteworthy developments show that Vossloh is once again moving in the right direction. However, we are still on the path towards full economic recovery and still face many challenges. We as the Vossloh AG boards are obligated to present you with a responsible and appropriate dividend proposal. I ask for your understanding and approval of the fact that the distribution of a dividend for 2015 is not appropriate in the current ongoing transformation of the Vossloh Group. In fact, we believe that it is necessary to further strengthen the company. Looking to the future, I can, however, assure you that we are investing everything into making Vossloh into a dividend value once more. I am convinced that we will achieve this.

That is about it as regards the company’s performance in financial year 2015.

Slide 27: (Vossloh Group – Key data for Q1/2016)

Today, on May 25, 2015, we have almost five months of financial year 2016 behind us. I can therefore, very briefly, give you some information about current developments.

In the first quarter of the current financial year, the profitability of the Vossloh Group has noticeably improved compared with the same period of the previous year, despite the start to 2016 being retrained as expected and as is typical of the season.

Overall, at €240 million net income remained 7.6 percent below the corresponding figure of the previous year. Revenues in the Core Components division in particular were weaker in the first three months. However, a significant increase in sales is expected for this division for the coming months. In contrast, sales in the Lifecycle Solutions division rose. The Customized Modules and Transportation divisions were at approximately the level of the previous year in terms of revenue.

The EBIT of the Vossloh Group improved to €2.3 million in the first quarter of 2016. On a comparable basis, i.e. without Rail Vehicles, EBIT continued to be negative in the first quarter of 2015 at €2.2 million. An improvement in comparison with the previous year is mainly attributable to a significant reduction in losses in the Transportation division. The Lifecycle Solutions division recorded an improved EBIT compared with the previous year and EBIT in the Core Components division was slightly above the level of the previous year in the first three months of 2016, despite the decline in sales. In contrast, the EBIT of the Customized Modules division remained below the level of the previous year in the first three months of 2016.

Important and crucial looking forward is the fact that all three core divisions recorded good orders received, which were significantly above the sales revenues, in the first quarter of the current financial year. The ratio of sales to orders received was between 1.3 and 1.6 in the core business and thereby indicates increasing future sales revenues. Orders received in the Transportation division were also significantly above the figures of the previous year in the first three months of the current year. A further exercise of an option of the Karlsruhe Albtal-Verkehrs-Gesellschaft (AVG), among other things, is key to this. Ladies and gentlemen, because I do not just look at the figures at Vossloh, but also feel an obligation to the operational development, I am very pleased with the confidence our customers place in Vossloh.

This brings me to the end of my report, ladies and gentlemen. I will of course be available for any questions and comments you may have during the general debate together with my colleagues.

Thank you for your attention and I will now hand you back to Dr. Schabert.