# "Clear focus. Sharpened profile."

**Speech by Oliver Schuster, member of the Executive Board of Vossloh AG,
on the occasion of the annual general meeting for financial year 2016**

Düsseldorf, May 24, 2017

– Check against delivery –

**PART II:**

Thank you Mr. Busemann, thank you Mr. Thiele.

Dear shareholders and esteemed guests,
I would also like to warmly welcome you to Düsseldorf.

I stood before you at this lectern for the first time in 2014. At that time, Vossloh was in an unusually challenging situation. The company had become more and more complex during the previous years, profitability had continually declined, and the debt had reached dizzying heights. It quickly became apparent that something had to change! My colleague on the Board, Mr. Busemann, has already made it clear that many things have happened since then. Today I certainly speak for all Vossloh employees worldwide by saying that we are proud of our joint performance in the past three years and the financial success that we have thereby achieved in the past financial year.

At this year's general meeting, I am speaking to you for what is already my fourth time as chief financial officer of Vossloh AG. I would now like to give you an overview of the development of your company in the past financial year. I can tell you in advance that 2016 was a good year for Vossloh in many ways.

In the past financial year, we have continued to implement our strategy at high speed precisely and consistently. Just like last year, we have kept our promises for 2016, and even surpassed them in some cases.

We succeeded in maintaining revenues from continuing operations within our most recently communicated forecast range despite difficult market conditions in some parts of the world. At the same time, we managed to raise the profitability of the Vossloh Group once again – and even more significantly than previously expected.

We have also continued to systematically strengthen the company's financial basis and even laid the foundation for future growth. Vossloh is now in a good financial position that also allows growth through acquisitions.

An important building block for our current position was the capital increase with subscription rights that was successfully completed in the summer of 2016. From this, we were able to achieve net issue proceeds in the amount of 123.1 million euros. With a subscription rate of 98.2%, you, dear shareholders, have made extensive use of the subscription rights offered to you. Such a high exercise rate underscores your confidence in the company strategy and Vossloh's growth trajectory. We would like to take this opportunity to thank you for your loyalty and support.

Now let us get straight to the topic and look at the key financial indicators from financial year 2016. Please note that the calculations for the 2015 key indicators were adjusted for comparison purposes due to the disposal of the Electrical Systems business unit. This results in deviations from the values shown in the 2015 annual report.

Vossloh Group revenues for 2016 were around 932 million euros, which is slightly below the previous year's level of about 953 million euros. There was especially a clear sales decline in America compared to the previous year. This decline is mainly attributable to the persistently weak freight transport market in the USA. Against this backdrop, local private railway operators are hardly investing, and all suppliers, including Vossloh, are experiencing this. Furthermore, the translation of foreign currencies had a negative impact on the Group revenues compared to 2015 in the amount of 11.9 million euros. In contrast, the Asia region in particular developed very positively in financial year 2016 with strong revenue growth, which meant that the revenues for 2016 were still within the last forecast in the end.

At the same time, our EBIT increased significantly by 18% to 50 million euros in fiscal year 2016 despite low sales revenues. This positive development is particularly attributable to the sustained focus on projects with better margins accompanied by a strict cost management as well as numerous extensive programs to increase efficiency. We are pleased to say that as a result, profitability, measured in terms of the EBIT margin, increased in financial year 2016 much more strongly than predicted. It reached a value of 5.4% in financial year 2016 compared to 4.4% in the previous year. Profitability was thereby higher than in the previous year in all divisions.

Looking at the Group result, the question arises as to why this figure has decreased even though the EBIT has shown such positive development. The background is as follows:

Prior year figure of around 78 million euros includes 63.8 million euros resulting from discontinued operations from the sale of the former Spanish locomotive business. In 2016, there were no effects of comparable magnitude. Therefore, the Group result for financial year 2016 of 10 million euros was significantly below the previous year's figure.

Regarding individual Vossloh stocks, earnings per share for 2016 were 0.22 euros compared to 5.42 euros in 2015, whereby the share allocated to continued operations increased from 0.60 euros in the previous year to 0.81 euros in 2016.

One of the significant milestones in the previous fiscal year, as already mentioned at the beginning, was the successful completion of the approximately 20% increase in capital with subscription rights in June 2016. With the generated net cash inflow, we have further strengthened the financial basis and the capital structure of the Vossloh Group. The equity correspondingly rose to about 551 million euros as of December 31, 2016, compared to 429 million euros in the previous year. The equity ratio, at 40.3% at the end of 2016, was thus almost ten percentage points higher than the previous year's value of 30.8%.

As a result of this capital measure and a positive free cash flow of around 25 million euros, the net financial debt was significantly reduced once again in financial year 2016.

Ladies and gentlemen, we were also able to substantially improve value added. Nevertheless, we as the executive team are not yet satisfied with this development. Vossloh Group is clearly focused on the value added in the long term. Although the average capital cost rate decreased from 10% in 2015 to 9% in the last financial year due to low interest rates, we have not yet succeeded in achieving a positive value added for the overall Group. The planned sale of the last remaining unit in the Transportation division, our locomotive business in Kiel, will bring us much closer to this goal.

Ladies and gentlemen,
you can see that the profit, finance and asset situation of the Vossloh Group has noticeably improved again in 2016. We can thus tackle the envisaged profitable growth from a good financial starting position. We have taken a significant first step in acquiring the American concrete manufacturer Rocla Concrete Tie. My colleague Mr. Busemann spoke about that.

Now I would like to give you an overview of the development in our individual divisions.

I am happy to say that in the Core Components division in 2016, the intrayear sales gap compared to the previous year, which was still 20.2% at the end of the first half of 2016, was able to be fully closed. Although the previous year's high revenues in Argentina could not be repeated due to an expired project, we were able to realize significant sales growth in China in particular. This is almost exclusively because of higher deliveries of rail fastening systems for new high-speed rail construction projects. We also did well in other Asian countries and the Middle East, such as in Qatar. In total, the revenue from Core Components for financial year 2016 totaled about 257 million euros and was therefore slightly above the previous year's level.

By focusing strictly on projects with higher margins and continually implementing extensive cost reduction measures, we were able to raise the EBIT for Core Components to 32 million euros, an increase of 9.8% compared to the previous year.

Accordingly, profitability also increased noticeably. The EBIT margin for financial year 2016 was 12.5% following the previous year's value of 11.4%.

In the Customized Modules division, the high revenue level from the previous year could not be reached again. As previously mentioned, this particularly stems from the noticeably weak market in the privately organized goods transport market in the USA with significantly declining investments by Class I railway operators. In addition, the sales volume in Poland was more than halved due to expired projects. In contrast, we achieved strong revenue growth with high-speed rail projects in France, for example, and in Morocco, revenue was significantly higher than the previous year again due in part to new, larger construction projects in the area of high-speed lines. As a result, the revenue decline in the Customized Modules division was ultimately limited to 5.9%. In total, revenues of about 492 million euros were generated in 2016.

EBIT for the Customized Modules division remained at the previous year's level with 34.4 million euros despite lower revenues. The weak development in the USA was mainly offset by strong earnings performance in France. The EBIT Margin was thus noticeably higher than the previous year at 7%.

Our business with specialized services related to railway infrastructure developed very well again. We were able to achieve satisfying sales growth with an increase of 16.4%. This is especially attributable to the continuing positive business development in Northern Europe, particularly in Sweden and Finland. Revenues also rose in China in 2016, where we were able to sell the first train for high-speed grinding.

In the reporting year, the EBIT for the Lifecycle Solutions division also rose above the previous year's value to 7 million euros. In addition to the sale of the HSG train to China, the EBIT was affected by acquiring the remaining shares in Alpha Rail Team, a company that provides mobile rail milling. In light of these positive developments, we realized an encouraging EBIT margin increase of 8.4% in fiscal year 2016.

In the Transportation division, sales for financial year 2016 were at the same level as the previous year with around 109 million euros. High revenues were achieved in the fourth quarter in particular. Strong sales growth was reported in France especially, while revenue in Germany remained below the previous year.

The demand for our diesel electric locomotives remains high, as the record order from France in the third quarter of 2016 proves. This refers to the sale of 44 type DE 18 locomotives to the French company Akiem SAS, a leading leasing company for rail vehicles in Europe. The order volume amounts to around 140 million euros and represents a good workload basis for the new Kiel location in coming years.

EBIT for the Transportation division was admittedly negative again, but the losses were reduced once more in the last financial year. The extensive cost-saving and efficiency enhancement programs also played a significant role in this success. EBIT Margin thereby improved considerably compared to the previous year.

Dear shareholders, we of course are committed to ensuring that you benefit appropriately from the success of your company and presenting a reasonable dividend proposal to you. At the same time, we as the Executive Board see sustainably increasing the value of your company as crucial for the future. Due to the still incomplete transformation of the Vossloh Group and in view of the envisaged necessary future growth in our core business of rail infrastructure, we ask for your understanding and your approval to suspend dividend distribution for financial year 2016 once again.

We strongly believe that the reinvestment of funds in your company ultimately creates the greatest value for you as our shareholders.

This concludes my remarks on the development of fiscal year 2016. At this point, I would now like to give you a short overview of the development in the first quarter of 2017.

Vossloh had a very good start in the first quarter of the new year. In the first three months of 2017, revenues for the Vossloh Group totaled 224 million euros. In the previous year, the Group revenues – excluding the disposed Electrical Systems business unit – were about 190 million euros. This corresponds to a considerable increase of 18.2%. The revenue increase was primarily achieved by acquiring the Tie Technologies business unit. In addition, we can see a visible revenue increase compared to the previous year in the Lifecycle Solutions and Transportation divisions, as well as in the Fastening Systems business unit. In contrast, revenues for Customized Modules were below the level of the previous year.

We also succeeded in significantly increasing profitability in the first quarter of 2017. Vossloh Group's EBIT improved from 2.0 million euros in the previous year to 7.1 million euros. Subsequently, EBIT margin in the Vossloh Group rose from 1.0 percent in the first quarter of 2016 to 3.1 percent in the current reporting quarter. The improvement from the previous year primarily stems from a project mix with higher margins in the Core Components division, or more specifically, in the Fastening Systems business unit. In addition, the integration of the new Tie Technologies business unit is going according to plan and the business development met our expectations. Customized Modules division showed a slightly improved EBIT compared to the previous year, while the EBIT for Lifecycle Solutions remained almost the same. In the Transportation division, which is intended for sale and includes only the activities of Vossloh Locomotives, the EBIT was still negative, but we were able to further reduce the losses compared to the previous year.

Ladies and gentlemen,

let me now mention one of the agenda topics that is also up for decision today before I hand you over to Mr. Thiele.

In point 7 of the agenda, we are asking you to agree to create new authorized capital in the amount of 22.7 million euros. In the invitation to this year's general meeting, we explained in detail why new authorized capital should be created. I would like to quickly summarize the key facts once again.

Authorized capital in the amount of 7.5 million euros was last created at the general meeting on May 27, 2014. This framework was fully used for the capital increase that the Executive Board approved in 2016 as part of the Group's strategic focus. It was completed last summer.

Through this proposed authorized capital, we as the Executive Board, with a view to the strategic development of your company, will continue to have the opportunity to flexibly expand Vossloh AG's equity base as required in the short term within a reasonable framework. We want to be in the position to seize new opportunities – for example, for further acquisitions – as quickly as possible. By permitting the creation of authorized capital, you are authorizing us to issue new shares at a time that is economically best for the company without having to go through the elaborate and time-consuming process of passing a resolution at an extraordinary general meeting.

As shareholders of Vossloh AG, you are fundamentally entitled to a subscription right when authorized capital is used – and thereby in the increase of the share capital against cash contributions and/or contributions in kind. This policy ensures that you have the opportunity to keep your percentage share of Vossloh AG's share capital in the event of a capital increase. However, in certain cases and situations, it may be advisable and advantageous for the company to eliminate the statutory subscription right of the shareholders with prior approval from the Supervisory Board. The opportunity for what is called the exclusion of the right of subscription provides this to a limited and usual extent.

Ladies and gentleman, I promise you that we will act responsibly and do our utmost to purposefully use the authorized financial instruments to increase the value of Vossloh AG at all times and in your interest.

This important issue concludes my remarks. If you have any questions or suggestions, my colleagues and I would be happy to discuss them during the general debate.

Thank you for your attention, and I will now give the floor back to Mr. Thiele.