# "Driving Innovation. Developing Potential."

**Speech by Oliver Schuster, member of the Executive Board of Vossloh AG**
**on the occasion of the Annual General Meeting for the 2017 fiscal year**

Düsseldorf, May 9, 2018

– The spoken word takes precedence –

**Part II:**

Thank you, Mr. Busemann.

Dear shareholders, guests, employees and press representatives,

I also welcome you to this year’s Annual General Meeting for Vossloh AG.

In his speech, my esteemed colleague Andreas Busemann gave you not only a qualitative overview of the significant business developments of the past year, but also addressed some financial figures. Building on this, I would now like to explain the financial data for the 2017 fiscal year in detail. Please note that the key figures for 2016 are shown in a comparable way due to the presentation of the Locomotives business unit as so called discontinued operations. For this reason, there are corresponding deviations from the values reported in the 2016 annual report.

Since the dramatic year of 2014, Vossloh has done a lot, and above all, many things have developed well. Except for the sale of our shunting locomotives business, we have largely implemented our medium-term strategy, which we presented in December 2014. The very positive business development in our core business proves that the chosen path is the right one. Our technology and innovative strength set global standards, and I’m not just talking about our patented high-speed grinding. Vossloh is diversified and therefore stable in the field of rail infrastructure, both regionally and in terms of our complementary product and service offerings. Our customers can be found in over 90 countries around the world, and we hold a leading global market position in our two largest business units.

However, we can neither ignore nor change the fact that both the construction of new and the renewal or maintenance of existing rail infrastructure for our customers almost always have the characteristics of a project - particularly with high-volume orders. This naturally leads to fluctuations in our business over time, regardless of whether we supply standard products, develop customer-specific products or provide services. Our job is to handle these fluctuations in a way that ensures the most consistent and ideally continuously improving business development. In addition to efficiency increases, cost flexibility and a well thought-out location strategy, it is also important to create a stable basis for growth and the associated investments, be it in machines, buildings, innovations, entire companies or suitable partnerships. Interesting opportunities require swift action in many cases.

We as Vossloh are prepared and have further strengthened the financial basis of our company in the past fiscal year by fundamentally restructuring the medium- and long-term debt financing. After we reduced the scope of the then €500 million syndicated loan by €100 million ahead of schedule in March 2017, we issued a Schuldschein loan for €250 million in July, thereby pulling the drawings under the syndicated loan to virtually zero. This transaction allowed us to both optimize our maturity structure and diversify our creditor structure as well as to further improve our financing conditions once again. In December 2017, we finally replaced the existing syndicated loan with a new agreement with a minimum term of five years and a volume of €150 million. The new negotiated terms also give us more entrepreneurial freedom. For example, the agreement contains two options for one-year extensions each and the opportunity to increase the lending volume by a further €150 million if necessary.

Together with the authorized capital in the amount of 50 percent of Vossloh AG's share capital that was approved by you, dear shareholders, in May 2017, we have the necessary financial scope to further develop our, your, company organically and also strengthen it through strategically meaningful acquisitions and partnerships, which you can already see in the example of Vossloh Tie Technologies. In summary, I would like to say that from a financial point of view, the 2017 fiscal year was a very successful year for Vossloh.

Dear attendees,

My colleague Andreas Busemann has already discussed this in part in his speech: 2017 was a really delightful year for Vossloh's core business. If we adjust the sales forecast announced in early 2017 from €1.0 billion to €1.1 billion and then the anticipated EBIT margin of 5.5 to 6.0 percent for the respective contribution by the Transportation division, we have reliably met the sales expectations in the core business and they are well above the targeted level in terms of profitability. Group revenues rose in 2017 by nearly 12 percent, from around €823 million in 2016 to €918 million in the year under review. This positive performance is mainly attributable to significantly higher revenues as a result of the first-time consolidation of the Tie Technologies business unit. Vossloh Fastening Systems and Lifecycle Solutions division also had higher sales contributions, while revenues in the Customized Modules division were marginally lower than in the previous year.

With regard to profitability, we were again able to noticeably increase the EBIT margin of the core business after the improvement already achieved in 2016. In 2017, it was 7.7 percent after 7.0 percent in the previous year. At €70.3 million, the Group EBIT was around 22 percent higher than the comparable value of the previous year. This positive performance resulted primarily from the very good business development in the Core Components division, and particularly from Vossloh Fastening System's business in China. In addition, the new business unit Tie Technologies has already generated a significantly positive EBIT contribution.

The long-term management of our Group focuses on value added. A positive value added indicates that the return expectations of both debt and equity investors, including yours, were exceeded. I am therefore particularly pleased that we were able to generate a positive value added in the Vossloh Group for the first time since the start of the realignment of your company in 2014. As you see, we achieved a value added of €11.1 million. In 2016, this figure was still €(1.5) million.

Net income at €0.3 million was well below the previous year's level of €10.1 million in the 2017 fiscal year despite the described increase in operating earnings. With slightly higher net interest expenses year-over-year and almost unchanged income tax expenses, this is due to the result from discontinued operations. After around negative €16 million in the previous year, the income statement for 2017 shows a negative amount of just under €36 million. The figure in 2016 includes, above all, negative effects connected with the sale of the former Electrical Systems business unit, a positive effect following the sale of our locomotive business in Spain and, in the comparable presentation for the 2016 fiscal year, a negative earnings contribution from Vossloh Locomotives.

By contrast, in the 2017 reporting year, the reported value almost entirely relates to the Locomotives business unit. In addition to the negative current result from this business unit, an impairment of €26 million was reported there in the year under review. This had become necessary because we are due to advanced sales discussions very likely to expect the sale of this business unit to be concluded in 2018 and, therefore, during the preparation of the financial statements the Executive

Board has decided to disclose this last business unit of the Transportation division as discontinued operations.

As I mentioned earlier, the core business's earnings power in 2017 is largely attributable to our rail fastening system business in China. We handle a large part of our business there via a Group company with a significant share of external shareholders. As a result, a portion of earnings generated there – in addition to the profit shares from other companies, where we own less than 100 percent of the company shares – as what is called "non-controlling interests", is the part of the total net income that is not attributable to shareholders of Vossloh AG. In simple terms, this means: the better our rail fastening system business in China is, the higher the share of earnings attributed to the minority shareholders there. The net income attributable to Vossloh AG shareholders totaled negative €8.0 million in the 2017 fiscal year, following a positive €3.3 million in the previous year. Based on the individual share, this leads to a negative result of 50 cents compared to 22 cents in the previous year. Much more relevant when looking forward, however, is the fact that earnings per share from continuing operations are clearly positive at €1.74 and improved by a remarkable 34 percent from €1.30 in the previous year.

Ladies and gentlemen,

Let us now take a look at Vossloh Group's key liquidity indicators. In the 2017 fiscal year, the free cash flow at €(22.3) million was below the previous year's level of €25.2 million. However, it should be noted that due to mandatory applicable accounting rules the free cash flow for the year under review included negative contributions from Vossloh Locomotives amounting to approximately €46 million, largely attributable to a sharp increase in the working capital for Vossloh Locomotives. The free cash flow from continuing operations, meaning the free cash flow attributable to the core business of the Vossloh Group, was positive and amounted to €23.3 million.

Let me know briefly discuss some key balance sheet figures.

Vossloh Group's equity decreased slightly to €532.4 million in the 2017 fiscal year. The equity ratio though increased further from 40.3 percent in 2016 to 42.5 percent in 2017. The background to this is that following the completion of the sale of the Electrical Systems business unit at the end of January 2017, there was a disproportionate reduction in the balance sheet in relation to the decline in equity. Another important indicator for Vossloh is the net financial debt. This increased significantly from €85 million at the end of 2016 to around €208 million at the end of 2017, which was primarily attributable to the acquisition of Rocla Concrete Tie in the USA for the equivalent of €117 million: our new Tie Technologies business unit.

Ladies and gentlemen,

Let us now take a closer look at the individual divisions of Vossloh's core business.

***(Core Components)***

In the Core Components division, sales revenues in 2017 were around €351 million. This corresponds to an increase of 36.7 percent compared to the previous year's value of €257 million. The increase can be primarily attributed to the first inclusion of Vossloh Tie Technologies. In the past fiscal year, the new business unit contributed a total of approximately €79 million to the revenue from the Core Components division. Thanks to good business with transit customers, overall revenues developed as expected despite weak demand from Class-I railroads. In the Fastening Systems business unit, revenues increased significantly from around €257 million in the previous year to around €273 million. The increase in sales is largely attributable to the very high deliveries of rail fastening systems for new-built high-speed projects in China. Some of our customers even requested deliveries that were originally scheduled for 2018. Substantial sales growth was also achieved in Italy, for example.

It is very positive that at the same time, particularly due to a higher-margin project mix for Vossloh Fastening Systems the EBIT of the Core Components division was improved by an impressive 59.8 percent to around €51 million. However, as already mentioned, the Tie Technologies business unit also contributed to the positive EBIT development: Adjusted for the negative effects from the purchase price allocation, a positive value added was already achieved here in the 2017 fiscal year. The EBIT margin in the Core Components division in 2017 was therefore significantly higher than in the 2016 fiscal year.

***(Customized Modules)***

For our second division, Customized Modules, we anticipated a moderate development in 2017. In the year as a whole, sales of around €483 million were slightly below the previous year's figure of around €492 million, mainly due to lower revenues in France. In the previous year, we attained significant contributions from several high-speed projects, including the construction of switches on the route between Nîmes and Montpellier. In the 2017 fiscal year, this could not be repeated after the completion of the projects. Also business development in North America was weak again.

The Customized Modules division's EBIT was below the level of the 2016 fiscal year, partly due to continuing weak demand in the USA. In contrast, our joint venture in China, more specifically in Wuhu, continued to perform well. Against this backdrop, we were able to reverse the impairment for the investment. We had adjusted this value in the course of the extensive revaluation of assets in 2014. Ultimately, the Customized Modules division's EBIT in the past fiscal year was €30.5 million, corresponding to an EBIT margin of 6.3 percent.

***(Lifecycle Solutions)***

In the year under review, the Lifecycle Solutions division once again achieved a considerable increase in revenue of 9.0 percent to €91 million presently. We generated significant sales increases in the "preventative high-speed grinding" segment, with a focus on China and the milling business.

The EBIT and EBIT margin for Lifecycle Solutions of €6.6 million and 7.3 percent respectively in the 2017 fiscal year remained below the previous year's levels. It should be noted, however, that in the previous year, a positive one-time effect of €3.5 million was included in connection with the complete acquisition of the Alpha Rail Team. Adjusted for this effect, both the EBIT and the EBIT margin increased significantly.

Dear shareholders,

Many of you have been following the development of the Vossloh Group for a long time. Due to the special situation in 2014 and the ensuing necessary, comprehensive realignment of the Vossloh Group, the distribution of a dividend has not been possible in the past three years. But I personally promised you right here that Vossloh would return to an appropriate participation of the shareholders in the company's success as soon as possible. And now I can finally keep this promise.

The further strengthening of Vossloh's financial position and outstanding performance of our core business, as well as the conviction that this is not a flash in the pan but rather a sustainable development, have encouraged us to make this decision. The Executive Board and Supervisory Board are therefore proposing a dividend of €1.00 per share today for the 2017 fiscal year. With your approval of this dividend proposal, the total dividend payout for 2017 will amount to approximately €16 million.

Those are my comments on the course of the 2017 fiscal year. Finally, I will now give you some brief information on the course of the first quarter of 2018.

As expected, the first three months of 2018 in the Vossloh Group were marked by a weak start to the year that is typical for the season, as also seen in recent years. In the course of focusing on rail infrastructure, this effect is even more pronounced than in the past. It is certainly easy to understand that the construction activity of our customers in the first quarter of each year is already significantly below average due to weather conditions alone. Overall the Group sales in the first quarter were with around €178 million 9.1 percent below the quarter in the previous year. As expected, lower revenues than in the previous year were achieved in the Fastening Systems business unit in the first three months after major new construction projects were finalized. In addition, lower sales were also achieved in Vossloh Tie Technologies - due in large part to exchange rate effects - and in the Lifecycle Solutions division. In contrast, revenues for Customized Modules increased slightly compared to the same quarter of the previous year.

Accordingly, the EBIT and EBIT margin also declined in the first three months. The EBIT amounted to €1.6 million after €9.6 million in the previous year, and the EBIT margin in the first quarter of 2018 was 0.9 percent. Each core division was affected by the decline, but especially the Core Components division. The reason for this, in addition to the one-time positive effect from investment income from a non-consolidated company in 2017, was the noticeable lower sales in the particularly high-margin China business of the Fastening Systems business unit: Demand from Chinese customers in the first quarter of the previous year was unusually high. At the same time, in the course of the 2017 fiscal year, customers have requested deliveries – as already mentioned - that were supposed to have been delivered beginning of 2018. However, the expansion of the Chinese high-speed rail network, and this is important to understand in this context, will continue with unabated intensity, and our market position in China remains strong. What we see in the first quarter and what will burden us throughout 2018 as well is a purely project-related demand fluctuation. Our April order for a new high-speed line in China with a volume of around €30 million is an important indicator for this.

Concluding with these words, I would like to thank you, ladies and gentlemen, dear shareholders, for your attention.