"Transforming Vossloh"

**Speech by Oliver Schuster, Member of the Executive Board of Vossloh AG,
on the occasion of the Annual General Meeting for the financial year 2014**

Düsseldorf, May 20, 2015

– Please check against delivery –

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

[Chart 11: Vossloh Group – Key data for financial year 2014]

Ladies and Gentlemen,

A 10% sales growth compared to 2013 and an EBIT margin between 5% and 7%. A return on capital of around 7.5% to 10.5%, a value added of close to zero. These were the expectations for 2014 which had been presented to you in the Annual Report for 2013 for the Vossloh Group. After years of steadily declining profitability, it was thought that all was finally going to be well again in 2014. The reality has proved us wrong in the meantime. The facts are sobering: an almost flat sales performance year on year, a negative EBIT of just under €172 million, a return on capital employed of minus 21% and a negative value added of a quarter of a billion euros.

Dr. Schabert has already explained that we found the company entrusted to us, Vossloh, in an extremely difficult state when we took office. It was obvious after a very short time that there was an acute need for action.

We informed the capital market and the general public of the result of our status analysis on June 27, 2014 and announced that we would have to expect additional negative effects on earnings of up to €250 million for 2014. The term "additional" referred to the market expectation at that time of an EBIT in the range of about €70 million. Overall, there were finally charges to earnings amounting to a sum of €242 million.

I'd now like to comment on the key one-time items:

The largest single topic according to amount relates to the Switch Systems division. There, we had to take into account from today's point of view individual markets will develop significantly weaker than had been assumed in the past. In connection with the acquisition of the French Cogifer Group in 2002 as well as further company acquisitions in the following years, goodwill was capitalized in the Switch Systems business unit at the end of 2013 to the amount of €249 million. Such intangible assets must be regularly tested for impairment, which is significantly influenced by the expectations of future business development. An impairment loss amounting to €60 million had to be recognized here as an expenditure in the income statement.

Also in the Switch Systems business unit, we had to apply an impairment loss amounting to about €9 million to the carrying amount of a joint venture in China. This adjustment had become necessary because the virtually new switch plant there is significantly underutilized due to high over-capacities in the Chinese market.

Furthermore, one-time items of about €67 million relate to Vossloh Locomotives in Kiel. A significant number of them are due, among other things, to two important strategic decisions. On the one hand, it is worth mentioning here the relocation of the project business with shunting locomotives from Kiel to Valencia. On the other hand, we have decided to adjust production capacity at the site in Kiel to the market realities and to relocate the production to a new site. Capitalized development costs had to be amortized to a considerable extent based on the correspondingly reduced expectations in terms of future sales figures. In addition, expenses related to the determined site relocation – mainly provisions for rental vacancies – were recognized and a provision was created for the inevitable redundancies. It was decided in parallel to sell, rather than rent, the prototypes that had been built as part of the development of the new locomotive family for client presentations and approval purposes. The expected sales prices realizable on the market were below the recognized net book values. Appropriate adjustments of the valuations resulted in significant expenses.

In the Electrical Systems business unit, one-time items of just over €49 million were incurred in the last year. The by far largest part of this amount is attributable to updating of the calculation of ongoing customer projects. Within the percentage-of-completion method, sales and estimated interests in profits are distributed over the usual multi-year term of projects. If the assessment of the profitability of a project changes, this leads to corresponding earnings effects when it is noted. Moreover, a provision was created in this business unit for the upcoming employee redundancies.

Additional one-time items amounting to nearly €17 million related to a number of issues. It is worth mentioning here as examples: negative effects on earnings related to the bankruptcy of a customer, the increase in provisions for antitrust issues, as well as write-downs on inventories.
All in all, this situation resulted in a Group-EBIT, adjusted for one-time items, of nearly €31 million and thus an adjusted EBIT margin of 2.3% in financial year 2014.

The interest result of the Vossloh Group in the reporting year was around minus €23 million compared to minus €21 million in 2013. The value for the year 2014 includes the one-time prepayment penalty and fees amounting to €7.3 million which had to be paid in connection with the redemption of the private placement in the U.S. at the end of June 2014. The funds for the repayment of these financial liabilities were provided via a bridging loan, which enabled us to significantly reduce the interest expense in the second half of 2014. Adjusted for the aforementioned one-time costs, interest expenses were nearly €12 million in the first half of the year, but only around €7 million in the second half of the year.

The income tax expense for 2014 hovered around €11 million, which in absolute terms was roughly at the level of the previous year.

Ultimately, the Group earnings for the past financial year amounted to a loss of around €206 million after a profit of nearly €24 million in 2013. In comparison to the previous year, the placement of treasury shares at the beginning of 2014 that resulted in an increase in shares in circulation to about 13 million on average, and a consolidated net income attributable to shareholders of Vossloh AG of around minus €214 million result in earnings per share of minus €16.46 for the year 2014.

[Chart 12: Rail Infrastructure division, financial year 2014]

Let's now take a close look at last year’s development of sales revenues.

In the past year, our core divisions were still bundled in one division, Rail Infrastructure. In total, the annual sales of this division at around €869 million were only slightly below the prior year's amount of just over €875 million. The most important sales market for Rail Infrastructure was still Europe with a share of revenues of approximately 50%. Germany and France accounted for 23% of the sales volume, which is unchanged when compared to the previous year. Sales in Asia accounted for 23% as well and the American market contributed 16% of sales.

When looking at the individual divisions it gives a heterogeneous picture.

Vossloh Fastening Systems – now the starting point of our Core Components division – recorded a significant sales decrease in the last financial year 2014, which we had expected: sales decreased by more than 10% compared to the previous year. As expected, the high sales especially in Asia – including China, Kazakhstan and South Korea in particular – could not be repeated. This was mainly due to fewer major projects in 2014 than in the previous year. Sales development was positive, however, in Saudi Arabia and Argentina. The total sales of Vossloh Fastening Systems amounted to €331 million in 2014.

Vossloh Switch Systems – starting point of our Customized Modules division – was able to increase sales compared to the previous year. With a growth of 6.4% they rose to €473.1 million. Vossloh Switch Systems has continued to increase sales significantly, particularly in Sweden, Poland and Brazil. In the U.S. and Australia, however, declining sales were recorded. Outside Europe, North America remained the largest single market, followed by Sweden, Poland and Australia.

Vossloh Rail Services, whose activities are now bundled in the Lifecycle Solutions division, was able to increase revenues in the last year by about 22% and thus achieved sales of €69.6 million. Germany continued to be the most important market with its share of sales exceeding 80%. Furthermore, Vossloh Rail Services has also generated sales in Northern Europe, China, France and Turkey.

The reported EBIT of the Rail Infrastructure division was only slightly positive at €11.6 million due to high one-time items, particularly the mentioned reduction in goodwill at the Switch Systems business unit. When adjusted for the one-time items, an EBIT of almost €80 million was achieved, corresponding to an EBIT margin of 9.1%.

[Chart 13: Transportation division, financial year 2014]

Sales in the Transportation division in 2014 have increased significantly by 7% to €455 million compared to the previous years. With a share of revenues of 37%, Germany was the most important sales market as in the previous year. France, the United Kingdom and Spain in total contributed about 29% of the sales volume. Overall, 77% of the sales revenues of the Transportation division came from Europe. Outside Europe, South Africa and Brazil were the most important sales regions according to amount.

The revenues of Vossloh Rail Vehicles were around €223 million in financial year 2014 and thus nearly 50% above the previous year's level. A contract for the supply of tram links in the Brazilian port city of Santos and the positive development of the powerful Euro 4000 locomotives were decisive here.

The business development at Vossloh Locomotives in 2014 lagged clearly behind the previous year with sales revenues of €90 million. In addition to relatively low orders received, a change in the accounting rules contributed to the decline in revenues. For all orders received at Vossloh Locomotives from mid-2014, revenues were recognized according to the completed-contract method, thus ultimately at the time of transfer of the economic risk to the customer. In the past, however, sales revenues had been realized continuously and proportionately analogous to the level of completion of a locomotive according to the percentage-of-completion method.

At Vossloh Electrical Systems, sales amounting to nearly €144 million in the reporting year 2014 were significantly lower than the previous year's level, in particular due to further delays in order processing.

In terms of EBIT, a significant loss of €152 million was recorded in the Transportation division in 2014. When adjusted for non-recurring charges in connection with the restructuring and repositioning, the EBIT amounted to a loss of around €34 million.

[Chart 14: Vossloh Group, financial year 2014 – Equity]

Ladies and Gentlemen, let's now take a look at further financial figures of Vossloh.

The Group's equity declined noticeably year on year. At around €350 million, it was about 27% below the previous year's level. The equity ratio declined from 30.8% in to 21.9% at the end of 2014. Primarily, this development was apparently due to the poor results of operations of the Group. Furthermore, the distribution of a dividend of almost €7 million for financial year 2013 reduced the equity year on year. On the other hand, the placement of treasury shares at the end of March 2014 had a positive effect. The net revenues resulting amounted to almost €90 million and strengthened the equity base of the Vossloh Group.

[Chart 15: Vossloh Group, financial year 2014 – Net financial debt]

The Vossloh Group reported a net financial debt of €272.0 million on December 31, 2014. This amount is comparable to a net debt of around €235 million in 2013. Although a net financial debt of €201 million was reported in the Annual Report for 2013 on December 31, 2013, two adjustments were required for actual comparative purposes. Firstly, the change in the inclusion of joint ventures from proportionate consolidation to equity accounting naturally also affected the "Equity" balance sheet item. Secondly, derivatives that had been concluded for currency hedge purposes in connection with the aforementioned private placement in the U.S. were reported under the balance sheet item "Other liabilities" and thus outside the net financial debt in 2013. As part of the repayment of the U.S. private placement, the relevant derivatives were also offset and an additional amount of just over €30 million had to be refinanced within the new bridging loan. This amount at the end of financial year 2014 was part of the net financial debt accordingly.

The driving force behind the increase in the net financial debt year on year is generally the negative free cash flow of around €97 million. This effect was offset to a considerable extent, however, by net revenues from the aforementioned placement of treasury shares amounting to nearly €90 million. Ultimately, the net interest income of around minus €23 million and the distribution of dividends of nearly €7 million for

financial year 2013 mainly contributed to the increase in net financial debt compared to the previous year.
I would like to point out here that we were able to establish large portions of the financing of the Vossloh Group on a different basis in April of this year. Together with a consortium of 11 banks, we refinanced both our ongoing bridging loan as well as all existing cash line facilities of Vossloh AG with a term of 3 years. The agreed credit limit is €500 million and it gives us a stable basis at good interest rates for the continuation of our efforts to restructure and reposition the company.

[Chart 16: Vossloh Group, financial year 2014 – Investment]

Ladies and Gentlemen, in a technologically sophisticated and international market such as rail technology, continuous product improvements and innovations, and also local customer proximity are essential prerequisites for sustainable success. You can see from our investment program that Vossloh takes these challenges very seriously. We scrutinized our original investment program especially critically in view of our tense economic situation in the past year and, as I'm sure you can imagine, "we thought twice about every penny we spent". As a result, the Group's investment volume in the past financial year remained significantly below that of the previous year. Vossloh still invested a total of around €55 million in intangible assets and property, plant and equipment in 2014 and thus funded an investment volume still well above amortization and depreciation. Depreciation, amortization and impairment of the year under review, adjusted for one-time items from the impairment of goodwill in the Switch System business unit and the capitalized development expenditure at Vossloh Locomotives, was around €44 million.

As in previous years, the core business accounted for the lion's share of investment: €35 million were invested in total. The main focus was on projects with which Vossloh will strengthen and expand its market position. An example of such a project was the construction of the new production facility for rail fasteners in the U.S already mentioned by Dr. Schabert. Construction of the plant had already started in the third quarter of 2013. It was finally commissioned in October 2014. Thanks to the production in the U.S., we now meet the conditions of the "Buy American Act". This regulation requires the U.S. Government to prioritize manufacturers who produce in the U.S. Another major investment related to the further development and optimization of the first milling train developed in-house by Vossloh Rail Services. They are currently working together with a partner to develop a mobile milling machine that will enable the removal of more material at higher speeds with less residual ripple. The investments made by Vossloh Switch Systems in 2014 related, among other things, to a new forge at the Luxembourg site.

Investments of €20 million in the Transportation division were significantly below those of the previous year. Since 2009, Vossloh had invested heavily in new vehicles, such as in the development of the Tramlink tram and the locomotive models Euro 3000 and EuroLight at the Valencia site. Both projects have been completed in the meantime. Vossloh Locomotives in Kiel continued to invest in the past financial year in the development of the new diesel-electric locomotive family.

[Chart 17: Vossloh Group, financial year 2014 – Free cash flow]

Ladies and Gentlemen, I'm now going to explain the cash flow statement. Gross cash flow, thus earnings before interest and taxes, adjusted in particular for amortization and the change in non-current provisions, decreased by nearly €91 million compared to the previous year to a loss of around €9 million in the past financial year. If you compare this decrease with the deterioration of EBIT by €224 million over the same period, it is clear that a significant proportion of the one-time items in financial year 2014 had not led to corresponding disbursements. While the cash flow from operating activities still had a positive effect of around €46 million from the reduction in net working capital in the previous year, a comparable effect was not possible in 2014. The net working capital had been unusually low at the end of financial year 2013 with around €95 million at comparable figures. A further reduction in 2014 was simply not possible. However, we almost succeeded in maintaining this low level by consistently focusing on this topic. The net working capital amounted to approximately €104 million at the end of financial year 2014.

Finally, the cash flow from operating activities in the reporting year 2014 was around minus €42 million. If you deduct investment in intangible and property, plant and equipment amounting to around €55 million, below the line this corresponds to a freely available cash flow of minus €97 million.

Ladies and gentlemen, the weak operating performance as well as the extensive and absolutely necessary adjustments of the year 2014 have left deep scars in the income statement and balance sheet of our company. Vossloh is in the midst of a comprehensive, multi-year transformation process. Vossloh AG reported a significant net loss at the end of the financial year 2014. The distribution of a dividend will certainly not be adequate in this situation and I would ask for your understanding in this respect.

You can assume that Vossloh generally remains a dividend value. With the planned, gradual improvements, we will also return to the situation where we will be able to distribute appropriate dividends to our shareholders.

[Chart 18: Vossloh Group – Order backlog]

Let's now take a look at our order situation and thus to the future. Despite the great challenges that we currently face, our customers have shown complete confidence in us in the past financial year as well. Vossloh products and services are in demand and are valued as never before, our customers support the path we are taking for the sustainable strengthening of the company. Orders received in 2014 reached a value of around €1.37 billion and was thus a good 3% above the sales revenues. The ratio of orders received to sales revenues, the book-to-bill ratio, ranged between 0.96 and 1.33 for each individual business unit.

Thus our order book was well filled at more than €1.75 billion at the end of fiscal 2014 and it is now up to us to translate this customer interest in our products and solutions into profitable business.

Ladies and Gentlemen, that's about it as regards the company's performance in financial year 2014. I'd now like to give you – very briefly and in our new Group and reporting structure – some information on the first quarter of financial year 2015.

[Chart 19: Vossloh Group – Key data for Q1/2015]

We increased sales revenues in the Group as a whole by almost 9% compared to the first quarter of 2014 to €320 million. We grew sales in the Customized Modules division by over 19%, and in the Transportation division by 11%. The Lifecycle Solutions segment was at the previous year's level in terms of revenue, while Core Components indicated a decrease of nearly 7% as expected. Europe continued to be the main sales market with a share of sales of over 57%, and we were able to achieve significant revenue increases particularly in the United Kingdom as well as in Northern and Eastern Europe. Outside Europe, the increasing processing of large contracts for locomotives in South Africa as well as for trams in Brazil has noticeably boosted sales in the Rail Vehicles business unit. Furthermore, the supply of electrical components for trolleybuses in Seattle and San Francisco was increasing and leading to corresponding revenue increases in the Electrical Systems business unit.

The EBIT in the first quarter of 2015 was at €1 million after €6.5 million in the previous financial year. In addition to effects from a different product and project mix in both quarters, the regional distribution of sales revenues played an important role here. Furthermore, the aforementioned change in the revenue recognition from percentage-of-completion to completed-contract in Kiel tends to result in a deferral of dividends to later periods. It should also be noted that the first quarter of 2014 was the last reporting period before updating the calculation of all ongoing projects at Vossloh Electrical Systems.

Orders received of around €267 million in the first quarter was significantly lower than the high previous year's amount of almost €457 million. This was due to relatively weak orders received in the Transportation segment, which is to be seen to a large extent in light of typical fluctuations in the project business. While the influx of new orders in the Customized Modules division was roughly at the level of the previous year, a decrease in new orders was recorded at Core Components. Shortly after the end of the first quarter of 2015, however, we won a large contract for high-speed fastening systems from China valued at around €70 million.

In summary, it can be said that the first quarter of 2015 was mainly in line with our expectations and, on this basis, we continue to adhere to our earnings forecast for financial year 2015.

I hereby conclude my report on the key financial data of the Group and formally have to talk briefly about the acquisition-related issues pursuant to Articles 289(4) and 315(4) of the German Commercial Code (HGB).

For the past financial year, information on the company's capital stock and the treasury shares as well as authorized and conditional capital was to be included in particular in the report on acquisition-related issues.

Bylaw amendments at Vossloh generally require the simple voting and capital stock majority unless the law requires a larger majority. A special majority is required according to Article 23 of the Articles of Incorporation for the conclusion of a control agreement or profit-and-loss transfer agreement, as well as for other structural measures with the company as a dependent or transferor company.

Finally, there were nine loan agreements of the Company which could come into effect upon a change in control.

For more information, please refer to the Executive Board's report on the acquisition-related issues on pages 87 to 91 of the Annual Report.

Thank you for your attention and I will now hand you over to Mr. Thiele.