vossloh

ANNUAL REPORT 2013

Globally positioned

Key Group figures		2013	2012*
Orders received	€ mill.	1,502	1,294
Order backlog	€ mill.	1,728	1,548
Income statement data			
Net sales	€ mill.	1,321.2	1,243.0
Rail Infrastructure	€ mill.	896.0	792.4
Transportation	€ mill.	425.2	451.1
EBIT	€ mill.	54.2	97.5
Net interest expense	€ mill.	(21.8)	(21.4)
EBT	€ mill.	32.4	76.1
Group net income	€ mill.	15.0	59.2
Earnings per share	€	1.25	4.94
EBIT margin	%	4.1	7.8
Pretax return on equity (ROE)[1]	%	6.6	15.7
Return on capital employed (ROCE)[2]	%	6.1	11.5
Value added[2]	€ mill.	(21.9)	13.0
Balance sheet data			
Fixed assets[3]	€ mill.	715.6	662.7
Capital expenditures	€ mill.	66.8	61.1
Amortization/depreciation	€ mill.	42.6	41.4
Closing working capital	€ mill.	102.1	166.0
Closing capital employed	€ mill.	817.7	828.7
Total equity	€ mill.	490.3	505.7
Non-controlling interests	€ mill.	19.7	15.9
Net financial debt	€ mill.	201.2	200.8
Net leverage	%	41.0	39.7
Total assets	€ mill.	1.586.3	1.500.0
Equity ratio	%	30.9	33.7
Cash flow statement data			
Gross cash flow	€ mill.	85.9	154.6
Cash flow from operating activities	€ mill.	122.6	162.6
Cash flow from investing activities	€ mill.	(77.8)	(72.9)
Cash flow from financing activities	€ mill.	(54.0)	(109.9)
Net cash (outflow)/inflow	€ mill.	(9.2)	(20.2)
Workforce data			
Annual average headcount		5.376	5.078
Rail Infrastructure		3.414	3.193
Transportation		1.916	1.838
Vossloh AG		46	47
Personnel expenses	€ mill.	288.4	271.0
Share data			
Annual closing price	€	72.50	74.47
Closing market capitalization	€ mill.	870.3	893.5

[1] Based on average equity
[2] Based on average capital employed
[3] Fixed assets = intangible and tangible assets + investment properties + shares in associated companies + other noncurrent financial instruments
* Due to revised presentation of certain balance sheet items, prior year's comparative figures have been partially adjusted; for details see page 153.

Vossloh's corporate structure

The operations of Vossloh's Rail Infrastructure and Transportation divisions are organized under the umbrella of Vossloh AG. The individual companies are coordinated centrally yet operate flexibly and independently of each other.

Rail Infrastructure division

This division bundles our rail infrastructure products and services. It has three business units:

The rail fasteners developed by Vossloh Fastening Systems ensure safe rail traffic in over 65 countries.

Vossloh Switch Systems commands a foremost international position in the market for advanced-engineered rail switches.

Vossloh Rail Services provides wide-ranging rail-related services including welding and logistics as well as rail care, preventive maintenance and reconditioning.

Transportation division

This division builds locomotives and (sub)urban trains, and manufactures electrical components for various types of local transport vehicles (LTVs) and locomotives. It has two business units:

Vossloh Transportation Systems is Europe's leading supplier of diesel locomotives along with related financing arrangements and all-in services. We also build ultramodern (sub)urban trains for a variety of operations.

Vossloh Electrical Systems develops and produces key electrical components and systems for LTVs and locomotives.

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems
Vossloh Rail Services

Indicators		2013	2012
Net sales	€ mill.	896.0	792.4
EBIT	€ mill.	94.1	81.7
EBIT margin	%	10.5	10.3
Average working capital	€ mill.	259.5	247.5
Average working capital intensity	%	29.0	31.2
Fixed assets	€ mill.	489.9	469.2
Capital expenditures[1]	€ mill.	41.9	34.4
Amortization/depreciation[1]	€ mill.	25.8	24.0
Closing capital employed	€ mill.	686.1	683.3
Average capital employed	€ mill.	738.9	706.7
ROCE	%	12.7	11.6
Value added	€ mill.	31.4	11.0

Business units:

Vossloh Transportation Systems
Vossloh Electrical Systems

Indicators		2013	2012
Net sales	€ mill.	425.2	451.1
EBIT	€ mill.	(21.2)	35.5
EBIT margin	%	(5.0)	7.9
Average working capital	€ mill.	(36.7)	(39.4)
Average working capital intensity	%	(8.6)	(8.7)
Fixed assets	€ mill.	213.2	180.6
Capital expenditures[1]	€ mill.	24.6	24.0
Amortization/depreciation[1]	€ mill.	15.9	16.5
Closing capital employed	€ mill.	122.6	136.7
Average capital employed	€ mill.	149.0	130.0
ROCE	%	(14.2)	27.3
Value added	€ mill.	(33.8)	22.5

[1]Excluding noncurrent financial instruments, scheduled amortization/depreciation plus write-offs/write ups

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Ten-year overview

Dear shareholders,

In 2013, Vossloh increased Group revenues by 6.3 percent to €1,321.2 million and, with this, was able to achieve growth in line with our targets. In addition, as planned, the share of revenues in markets outside of Europe once again increased slightly, to 37.4 percent. Contrary to our original expectations, however, EBIT declined significantly to €54.2 million, and the consolidated net profit decreased noticeably to €15.0 million.

There were two significant reasons for the downward development in 2013: For one, we were confronted with extensive non-recurring charges that were due to expenses for the final out-of-court settlement of a dispute in the Transportation division in an amount and extent that was not to be expected. For another, there were additional expenses in this division in connection with the processing of several projects, which entailed additional and unexpected losses of earnings. In contrast, the Rail Infrastructure division performed significantly better than expected, and revenues as well as the result increased significantly. The Fastening Systems business unit primarily contributed to this positive development.

The year's key figures in detail: Vossloh Group sales revenues increased by 6.3 percent to €1,321.2 million. While the revenues of the Transportation division declined by 5.7 percent to €425.2 million, sales in the Rail Infrastructure division improved by 13.1 percent to €896.0 million. EBIT dropped in the Group from €97.5 million to €54.2 million. The considerable increase of EBIT in the Rail Infrastructure division, from €81.7 million to €94.1 million was not able to compensate for the decline in EBIT in the Transportation division, from €35.5 million to €(21.2) million. The Group's EBIT margin decreased in 2013 to 4.1 percent from 7.8 percent in 2012. As a result of a higher tax ratio and increased shares of non-controlling interests on the Group result, the consolidated net income for the year declined to €15.0 million. With a return on capital employed (ROCE) of only 6.1 percent, value added turned out to be negative and amounted to €(21.9) million. Due to the significant deterioration in earnings, the Executive and Supervisory Boards intend to propose a dividend of €0.50 per share to the Annual General Meeting.

Vossloh has started into the current business year 2014 with an order backlog in excess of €1.7 billion. Of this, €1.2 billion relate to the Transportation division, whose sales prospects, as a result, extend well into 2016. Consequently, for 2014 we expect a significant increase of over 10% in consolidated revenues. Based on the high level of sales reached in 2013 it can be assumed that sales for the Rail Infrastructure division will remain stable in 2014, while the Transportation division will drive the expected growth in Group sales revenues.

With the planned increase in sales and the elimination of the extraordinary charges of 2013, we are striving for a significant increase in EBIT for the current business year. Depending on the progress of the projects in the Transportation division, the Group's EBIT margin should range between 5.0 percent and 7.0 percent. The EBIT improvement should also enable an increase in the ROCE – we believe a range of 7.5 percent to 10.5 percent is realistic.

Vossloh is well positioned for the opportunities and challenges of the coming years. In Europe, still the largest regional market for railway technology, Vossloh is in a leading position with all of its business units. We have been able to solidify this position in the past years, although the European market in this period, has offered only limited potential, due to the tight public budgets. On the basis of our leading position in the home market of Europe, Vossloh, at the same time, has invested in all important growth regions for rail technology worldwide, whether through targeted acquisitions in the switch area, with the construction of new production facilities for track fastening systems or also with aggressive sales of new products of the Transportation division. We have developed regional growth prospects which the experts see in Africa, the Near East, in the USA and in Russia as well as in South America. However, our competitive environment remains tight, so that we cannot count on a relaxation of the pricing pressure that we are experiencing in all business areas. Nevertheless, we are convinced that associated with the targeted and partially already concrete growth in the next years, Vossloh will also be able to significantly improve profitability.

Best regards

Werner Andree
CEO

Werner Andree,
CEO

Dr.-Ing. Norbert Schiedeck,
COO

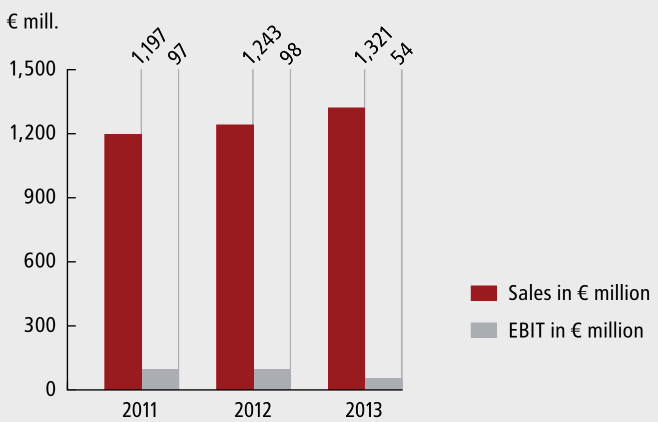
Group sales up 6.3 percent to €1,321.2 million

Strong revenue growth in Rail Infrastructure driven by high sales of rail fastening systems

Sales in Transportation down due to project delays

EBIT negatively influenced by non-recurring effects of approximately €25 million. EBIT drops to €54.2 million

Group net income sinks disproportionately due to higher shares of non-controlling interests in profits and a higher tax rate



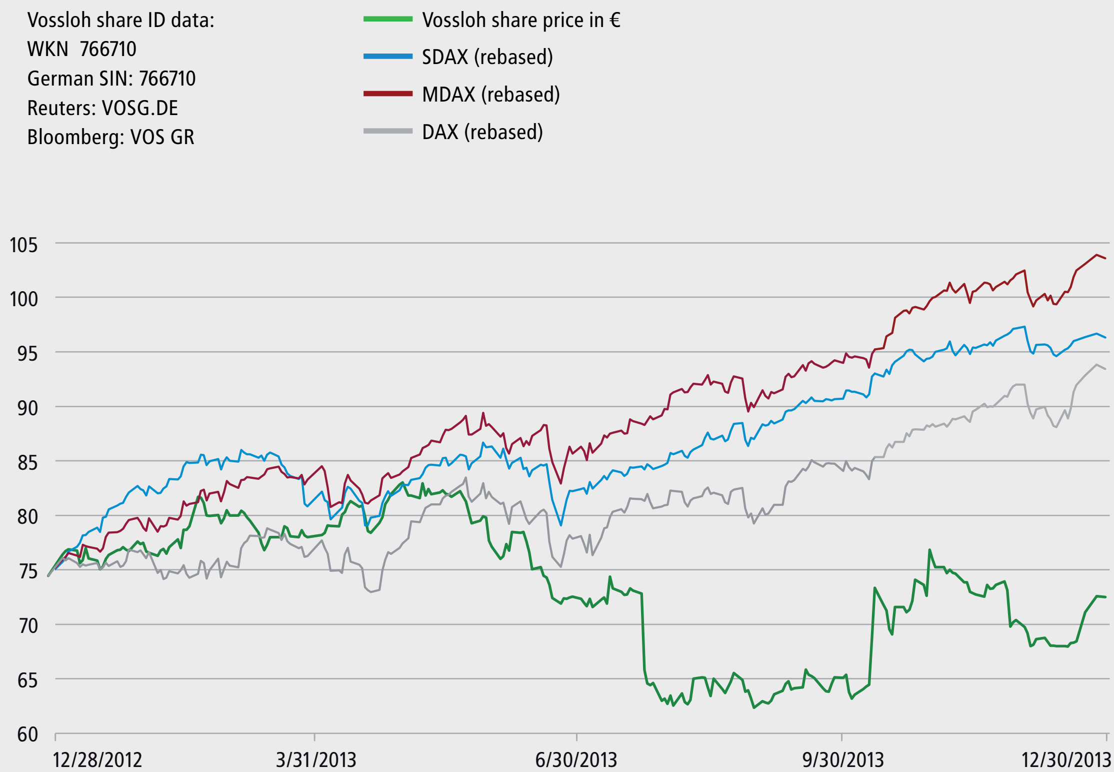
Vossloh Group: sales and EBIT trend

Stock price down slightly

€0.50 cash dividend proposed

Free float increased significantly

Vossloh share ID data:
WKN 766710
German SIN: 766710
Reuters: VOSG.DE
Bloomberg: VOS GR



Price trend of Vossloh shares 12/28/2012 – 12/31/2013

Vossloh stock

The capital markets in 2013 continued the recovery already started in the prior year and reported significant gains. In the first half of 2013, due to the weak economic data in Europe and China, the market trend was still restrained. In the second half of the year, however, the most important international indexes reached the highest levels in several years, in some cases all-time highs. The recovery was fueled by the continuing expansionary monetary policy of the international central banks. The protracted decision of the US Federal Reserve Bank to reduce its bond purchases, along with other risk factors, such as the political situation in Syria, or fear of a credit crunch in China or the budget dispute in the USA, caused uncertainty only on a temporary basis.

In Europe, the Euro STOXX 50 index, which comprises the 50 largest listed companies in the eurozone, improved in total over the course of 2013 by 18 percent. The US-American stock markets closed out 2013 with significant gains: As of the 2013 year end the S&P 500 reached the highest level since 1997 and an increase of 30 percent for the year. The NASDAQ rose by 35 percent and the Dow Jones reported an increase of almost 27 percent. In international comparison, the strongest growth was achieved by Japanese Nikkei index with almost 57 percent.

Also in Germany the price trend of the stock market was decidedly positive in the reporting period. The leading German index DAX finished the year 2013 on December 30 at an all-time high of 9,594. This represents an increase of more than 25 percent compared to the 2012 year-end close of 7,612. The lowest level of the DAX during the year was 7,418 points as reported on April 19, 2013. Once again, better than the performance of the DAX was the trend of the MDAX with a gain of 39 percent in a comparison of the year-end levels. From January through December 2013, the index gained almost without interruption. Starting with the low for the year of 12,008 on January 2, 2013, the MDAX rose to a high for the year of 16,644 points on December 30, 2013 and closed the year at 16,574. The SDAX, under which the Vossloh shares have been listed since March 2013, reported a similar trend for the year with a low on January 2, 2013 of 5,276 and a high on December 3, 2013 of 6,868 points. As of the end of the year the index gain of the SDAX amounted to 29 percent with a closing index of 6,789.

For the year as a whole the Vossloh stock once again remained significantly behind the trend of the overall market. The stock's price was €72.50 as of December 30, 2013, which was 2.7 percent below the closing price in the prior year. Vossloh stock reached its high point for the year of €84.84 on April 30, 2013. On August 1, the stock was quoted at €62.02, which was the lowest level of the year 2013. This development was chiefly due to the announcement published on July 23, 2013 of the reduction of the profit forecast for the entire year 2013. With the announcement in the beginning of October of a major order from South Africa, Vossloh gained renewed interest of investors, and the stock significantly recovered through the end of November to prices above €70. In the period from November 26 to 29, 2013, the Vossloh family sold approximately two thirds of its block of shares, representing more than 20 percent of the share capital of Vossloh AG. This led to a weakness in the share price once again that lasted until the end of the year.

Already in 2012 and up until November 26, 2013, the overwhelming majority of Vossloh stock was under fixed ownership. According to the definition of the Deutsche Börse AG, only approximately 30 percent of the share capital was available to be freely traded. Due to the small proportion of shares in free float, the trading volume further declined from 6.6 million shares in 2012 to 6.3 million shares in the trading year 2013. Averaged over the 252 trading days of 2013, this represents a daily average of 25,200 shares (2012: 26,100 shares).

At the end of 2013 the total market capitalization of Vossloh AG amounted to €870.3 million (2012: €893.5 million). The number of outstanding shares increased slightly from the prior year's level to 12,004,687 shares as 6,118 shares were granted in connection with the current employee stock participation program.

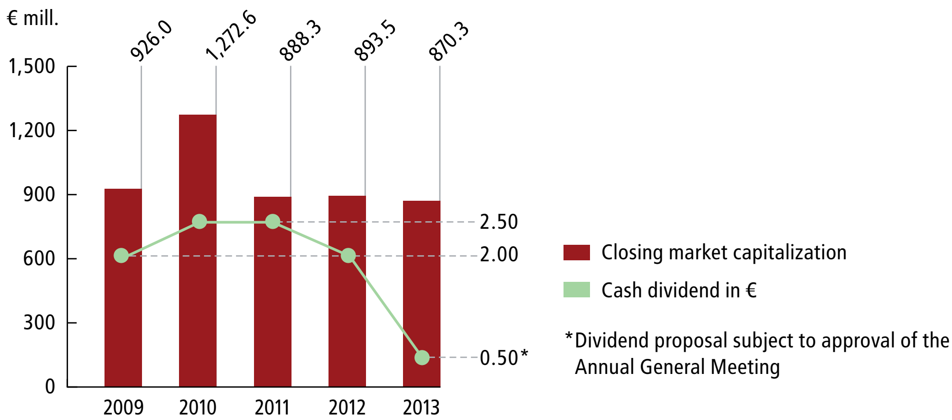
In connection with the regular review of the index composition, the Deutsche Börse had already decided as of March 5, 2013, due to the low free float in 2012, to list Vossloh in the SDAX. In the index ranking of the Deutsch Börse, which is determined based on the size of the market capitalization and the trading volume, the Vossloh stock for most of the year 2013 only achieved placements that were insufficient for the 60th position required for the MDAX. After the placement of the shares of the Vossloh family group, the stock improved at the end of December to position 58 in terms of the free float. With regards to the twelve-month average of the number of shares traded, Vossloh was in 54th place at the end of 2013. With this, the criteria for a return to the MDAX were once again formally fulfilled.

Vossloh stock indicators		2013	2012
Earnings per share	€	1.25	4.94
Cash flow per share	€	10.23	13.56
Dividend per share	€	0.50*	2.00
Total dividend payout	€ mill.	6.0	24.0
Book value per share (excl. non-controlling interests)	€	39.20	40.82
Annual average number of shares outstanding	1,000	11,999	11,993
Number of shares outstanding at year-end	1,000	12,005	11,999
Closing stock price	€	72.50	74.47
Closing market capitalization	€ mill.	870.3	893.5
Annual high/low	€	84.84/62.02	81.28/63.57
Price-earnings ratio (PER)		55.0	15.1
Price-cash flow ratio (PCFR)		7.1	5.5
Price-book ratio (PBR)		1.8	1.8
Share trading volume	1,000	6,349	6,633
Average daily turnover of shares	1,000	25.2	26.1

*Proposed dividend subject to approval at the Annual General Meeting

Dividends

In the Annual General Meeting planned for May 28, 2014, the Executive and Supervisory Boards intend to propose a dividend payment of €0.50 per share to the shareholders for fiscal 2013 (2012: €2.00). Subject to approval at the Annual General Meeting, the total distribution will amount to €6.0 million (2012: €24.0 million).



Market capitalization and dividend trend

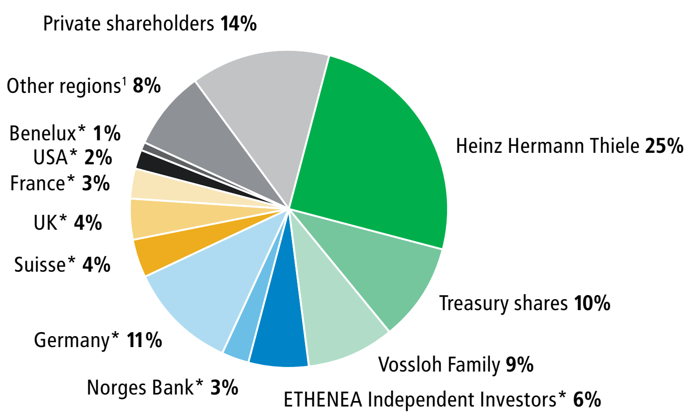
Ownership structure

Towards the end of the 2013 reporting period, a significant change in the ownership structure of Vossloh AG took place: Effective November 29, 2013, the Vossloh Family, parted with a block of shares of approximately 22 percent of the share capital of Vossloh AG through accelerated bookbuilding. Most recently, the previous family of owners held over 30 percent of the Vossloh shares.

According to the notification from October 2012, the portion of shares held directly and indirectly by Mr. Heinz Hermann Thiele amounted to 25.14 percent. After deducting this position, as well as the 1,320,603 treasury shares – representing 9.91 percent of the share capital – which Vossloh AG held as of December 31, 2013, the free float as defined by the Deutsche Börse AG amounted to 64.95 percent at the end of 2013.

In light of the change in shareholdings, Vossloh AG decided to again have a shareholder structure analysis performed as of December 31, 2013. This had been foregone in the prior year due to the very low free float at that time.

An additional shareholder of Vossloh AG having voting shares in excess of the legal reporting threshold is ETHENEA Independent Investors S.A., Luxembourg. According to its disclosure under the German Securities Trading Act ("WpHG") of December 23, 2013, the investor held 5.11 percent in Vossloh AG. In connection with the ownership structure analysis, ETHENEA reported a shareholding of 5.94 percent as of December 31, 2013. On January 16, 2014, the Norwegian central bank, Norges Bank, announced a shareholding in Vossloh AG of 3.12 percent. According to the definition of the Deutsche Börse AG, the shareholdings of both investors count as free float market capitalization, since they were acquired as a financial investment. Shares of members of the Vossloh family, which according to the WpHG notification of December 10, 2013 add up to 8.77 percent of the outstanding shares, also no longer count as shares with fixed ownership according to that notification.



*Institutional shareholdings

[1]Institutional Investors in other regions, as well as unidentified shares

Source: King Worldwide, Shareholder Structure of Vossloh AG January 2014

Compared to the ownership structure carried out at the beginning of 2012 there was an increase in both shareholdings of institutions and private investors in conjunction with the significant increase in freefloat. In 2011, 20 percent of the shares were held by institutions; in 2013 this quota amounted to 42 percent. In 2012, private investors held 8.5 percent of the shares. Their portion increased to approximately 14 percent. This does not include the shareholdings of the Vossloh family. In contrast to the Vossloh family, in the comparative period all other large external shareholder groups – which together represent almost three fourths of the outstanding shares – increased or re-established their shareholdings of the Vossloh stock. The portion of shares held by institutions in Germany increased from 7 percent to 11 percent. In Europe, institutional investors, especially from Switzerland, Great Britain and France, added to their holdings. In the other European countries and in the USA shareholdings remained approximately at the level of the beginning of 2012.

Analysts' assessment

In 2013, the Vossloh stock was regularly monitored and evaluated by 17 analyst firms in total. At the beginning of 2014, a total of eleven analyst firms recommended holding Vossloh stock, four recommended selling and two analysts rated the stock as "buy". On the basis of these analyst valuations, the average stock price target amounted to €73. The lowest price target amounted to €50, and the highest price target was assumed to be €83.

Sustainability

As a supplier in the area of rail technology, Vossloh operates in an industrial segment for which the subject of sustainability is of the highest priority. The products and services of Vossloh AG make their contribution to ensuring that resources are used sparingly, and emissions – in rail technology primarily CO_2 and noise emissions – are maintained at the lowest possible level and are further reduced through new technologies. Consequently, Vossloh AG qualifies also for investors having a focus on sustainability. Since 2008, Vossloh has been listed in several sustainability rankings and belongs to the investment universe of oekom research as well as to Kempen/SNS SRI. In addition, Vossloh AG has already participated for seven years in the Carbon Disclosure Project (CDP) and has repeatedly participated in the vigeo rating.

Capital market dialog

In the reporting period, the Vossloh Investor Relations team has continued to maintain close contact to institutional and private investors. During the year, Vossloh AG participated in several capital market conferences and conducted a number of road shows in Germany and abroad. The team was also available at all times for written and telephone inquiries. Overall, the Investor Relations employees once again held a large number of discussions with professional and private investors and interested parties during 2013. We would also be pleased to answer your questions. Please contact us per e-mail with your questions at investor.relations@ag.vossloh.com.

Globally positioned

For us as a broadly based rail technology group, the rising demand for clean, safe, and cost-effective modes of passenger and freight haulage opens up promising prospects. This observation taken from Vossloh's Annual Report 2009 was and is true. New terms of reference in politics, business and society are also impacting on the rail technology market at a breathtaking pace. Vossloh has accordingly repositioned itself, with major and minor moves around the globe.

Over the past five years, market and competition have fundamentally expanded. The much cited Renaissance of the Railways is taking place on a global scale. As early as the period 2005 to 2010, it was becoming apparent that Vossloh's traditional markets were cooling down. Added to this, competition was becoming much tougher. The European rail market, still the world's biggest, is stalling. The reasons are well known: tight public budgets are limiting expenditures by national and municipal operators on new equipment as well as on the maintenance of existing. Compounding the situation, private and state freight haulage operators are having to wrestle with small margins.

Elsewhere in the world, in contrast, the markets are buoyant. Vossloh has taken account of these trends: by repeatedly internationalizing its business and by regionalizing its marketing organization, as well as through local production facilities, M&As, joint ventures, and cooperation agreements. Likewise on the agenda were heavy expenditures on renewing and widening the portfolio of products and services as well as organizational changes. It took time for such transformations to have effect and so Vossloh addressed these challenges very early on.

Nowadays, we are present in many regions of the world and thanks to our vigorously pursued internationalization strategy are already benefiting from growth in markets previously untapped. Since 2006, non-European sales as a share of the total have quadrupled and this has compensated for recent modest demand from the key European markets.

Vossloh has positioned itself globally. The pages that follow will take a look at our operations and developments in the most important regions.

North America

Besides rail infrastructure in the vast United States railway market, it is electric traction for the local transport systems of North America where Vossloh is generating effective momentum.

With several production locations in the USA, Vossloh is complying with the applicable provisions of the Buy America(n) legislation by producing locally with European know-how.

Since 2007 and thanks to a number of M&As such as Cleveland Track Material and Vossloh Track Material, Vossloh has been among the biggest switch producers in the USA. Customers include the big Class 1 railway companies as well as industrial and mining operations. Other takeovers have enabled Vossloh Cogifer to supplement its lineup in the signal market.

Vossloh's Rail Infrastructure division will further amplify its presence on the American continent: we are currently in the process of setting up a plant for the manufacture of rail fastening systems in the USA. Mid-2014, production will commence in Waco, Texas.

The fasteners developed by Vossloh Fastening Systems for American freight transportation are benchmarks for heavy-haul lines worldwide. Also available is a permanent-way conversion system that is easy to install – an important factor in this cost-conscious market.

A key project for Vossloh's Transportation division was the revamping of the trolleybus fleet for the Olympic city of Vancouver. After San Francisco, this Canadian metropolis has the second-longest trolleybus line in North America. It runs on clean electricity from hydropower.

Since 2010, Vossloh Kiepe has been manufacturing electrical equipment for buses and rail vehicles at its Alpharetta, Georgia, location.

The first prototype of a battery-powered trolleybus for which Vossloh Kiepe is supplying the complete traction system and which can run up to five miles battery powered without an overhead line, will be delivered in the second quarter of 2014 for testing purposes. Two large cities on the US West Coast intend to use this ultramodern low-floor bus.

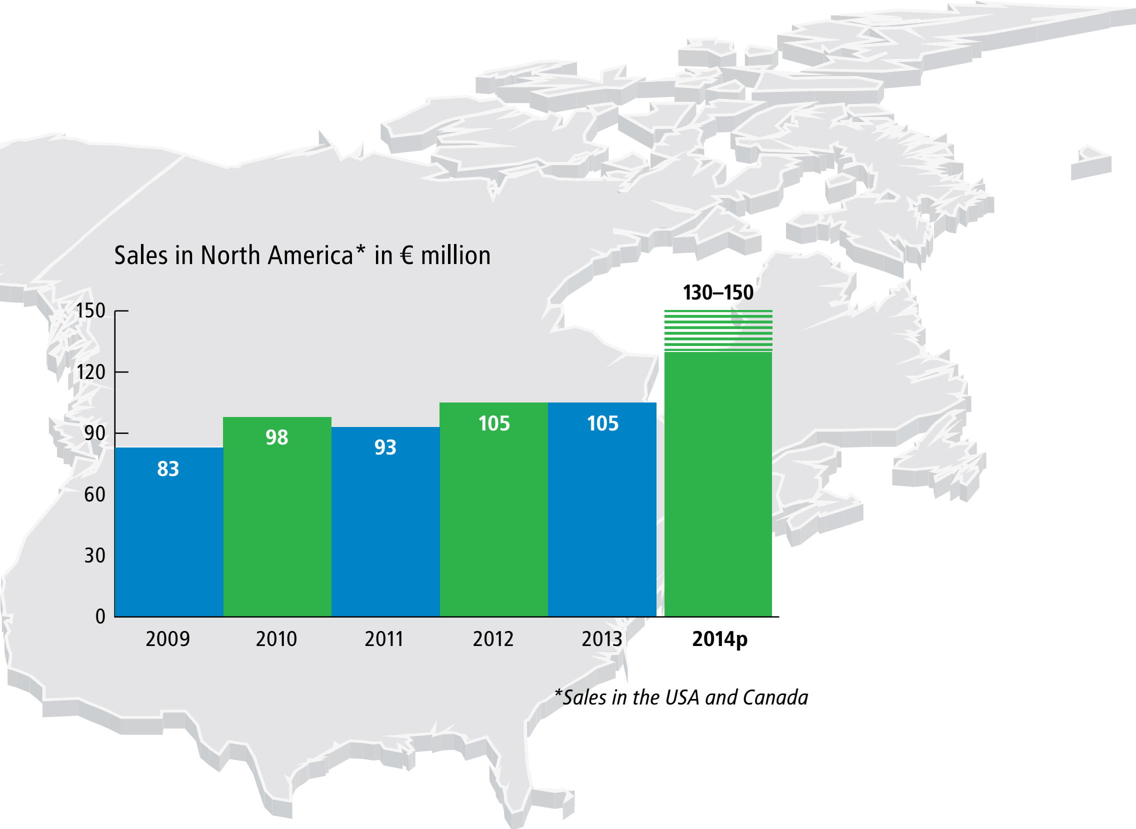
For delivery by mid-2014, the transit operator in Dayton, Ohio, ordered four dual-mode prototypes able to negotiate even longish distances without overhead wires. For this purpose, the trolleybuses will be fitted additionally with either a diesel-electric or a battery-powered driveline. Following the successful completion of the prototype phase, there is an option for another 75 such dual-mode vehicles.

Backed by expertise in lightweight construction and experience with fast diesel-electric mainline locomotives, Vossloh Rail Vehicles has acted as development partner for the US locomotive builder EMD and its F125 for passenger haulage. In 2013, Metrolink, operator of suburban services in Greater Los Angeles, ordered twenty of these locomotives.

The outlook in North America is extremely bright. In 2014, sales are set to climb to a level of €130 million to €150 million. Further local transit projects are in the pipeline and our own production facilities for rail fastening systems will generate further momentum.

2007 *Vossloh acquires Pohl (today's Vossloh Track Material) and Cleveland Track Material*

2008 *Vossloh Fastening Systems named Preferred Supplier to Class 1 railway company BNSF*



Local branches

Branches in the USA:
Alpharetta, GA;
Chicago, IL;
Cleveland, OH;
Grass Valley, CA;
Marlin, TX;
Waco, TX;
Memphis, TN;
Reading, PA;
St. Albans, WV

Canada: Vancouver

Cleveland Track Material is fitting dual-track connectors to the New York subway.

Vossloh Kiepe's plant in Alpharetta, Georgia, manufactures the electrical systems for the new light rail vehicles of METRORail in the Texas oil metropolis of Houston.

For mainline rail operators in North America, Vossloh Fastening Systems is developing fastening systems (retrofitted, too) that set benchmarks in terms of load-carrying capacity.

2010 *Vossloh's own production facility in Alpharetta, Georgia, for manufacturing electrical equipment installed in buses and rail vehicles*

2013 *Vossloh starts building a production plant in Texas for rail fasteners*

Latin America

Local transport capacity in the sprawling urban centers needs to be expanded also because of the sporting megaevents ahead. In the commodity-rich nations of Latin America, railbound freight haulage is presently being reactivated and extended.

South America is the fourth-biggest continent and has around 400 million inhabitants. Vossloh's definition of this region, since 2009 the responsibility of a Regional Director, includes countries of Central America as well as the NAFTA nation of Mexico. In this part of the world the rejuvenation of the railways is still in its infancy. Yet pressure on these cities with their populations of millions to ensure quality of life and mobility facilities is rising. In these commodity-rich emerging nations there is growing demand for transport networks to provide reliable and productive haulage – from rail freight to port transshipment.

At the start of 2013, Vossloh had acquired the Brazilian switch manufacturer Metalúrgica Barros Monteiro. The new subsidiary, nowadays named Vossloh Cogifer do Brasil, ranks among the three biggest suppliers of switches on the Brazilian market. In 2012, we set up in Argentina a joint venture for the manufacture of switches; at a later date this will also deliver a variety of rail-related services.

In its Latin America region, Vossloh is now a rail-technology supplier offering from a single source both vehicles and key rail infrastructure components.

Back in 2012, the Tramvia Santos consortium comprising Vossloh Rail Vehicles and the Brazilian manufacturer T'TRANS was awarded a contract for 22 trams worth a total €90 million. The new tramway system in Latin America's premier port will also use rail fasteners and switches from Vossloh. Santos currently has a population of over 400,000, the federal state of São Paulo over 41 million. Additional funds for urban transport have been earmarked.

Vossloh's business is progressing at a most dynamic pace. In 2014, local sales will multiply to probably reach €80 million to €100 million.

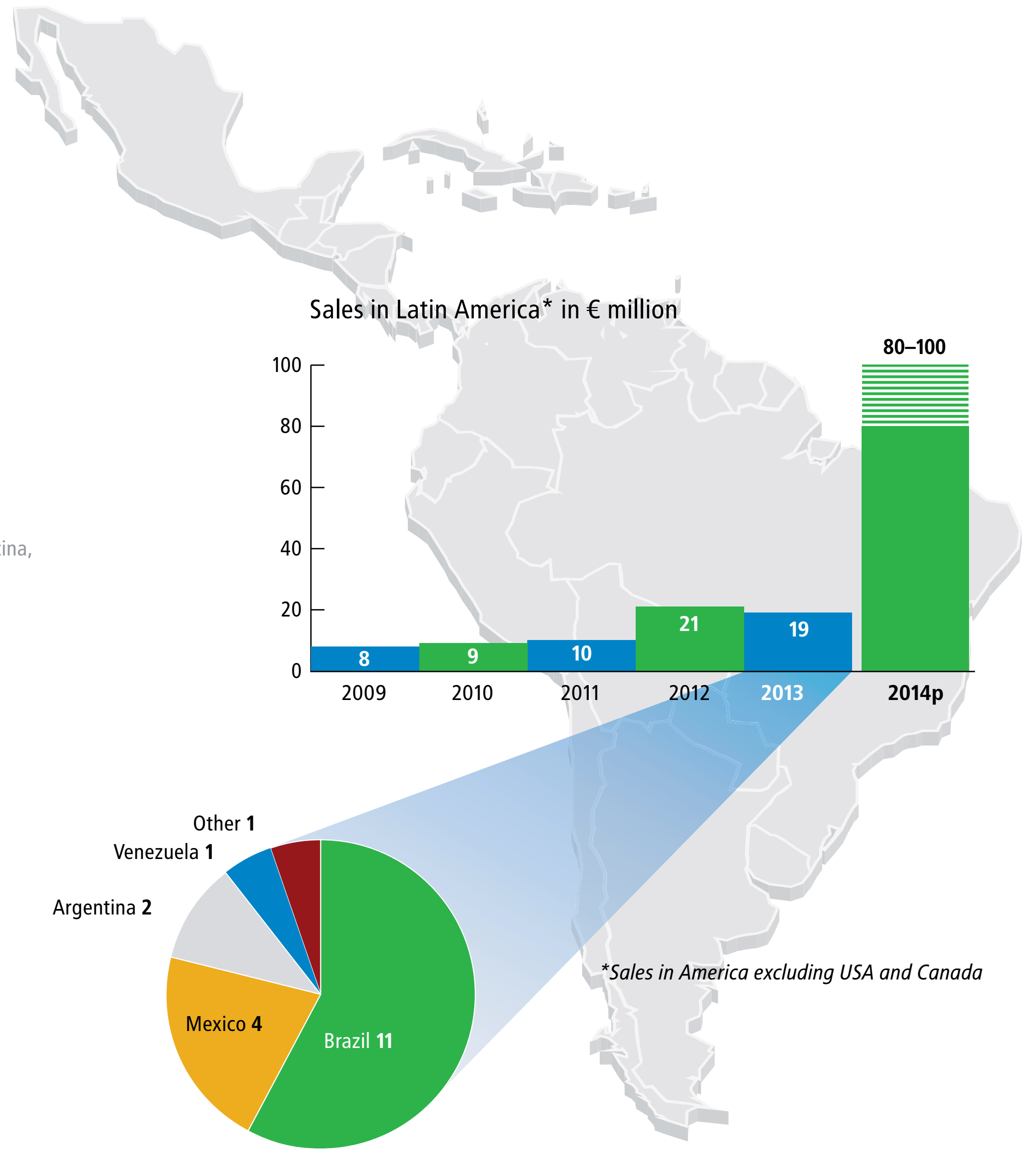
2009 *Vossloh appoints a Regional Director with offices in Buenos Aires and São Paulo*

2012 *Order for 22 Tramlinks for the São Paulo Metropolitan Urban Transport Company awarded to Vossloh in a consortium with T'TRANS*

Local organization

Regional Director with offices in
Buenos Aires, Argentina, and São Paulo, Brazil

Branches in
Brazil: Sorocaba
Argentina: La Plata



*Sales in America excluding USA and Canada

The new tramway in Santos, Latin America's premier port, will right from stage #1 of its expansion, convey some 70,000 passengers daily. In and around São Paulo, commuters are wasting on an average an extra hour daily due to the congested infrastructure.

Rail fastening orders in 2013 were booked from Metro de Panamá for extending Line 1 and from Venezuela's iron ore mining company Ferrominera Orinoco for Vossloh's heavy-haul W14HH system.

So far, Vossloh Cogifer has turned out more than 30 switches for Argentina's freight haulage operator, Belgrano Cargas. The network is being revamped along a length of 3,000 kilometers. Vossloh Fastening Systems had already shipped out its fasteners for 500 kilometers of trackage.

2012 *Formation of the consortium ADIF SE – Vossloh Cogifer Argentina SA Consorcio de Cooperación, with switch production in La Plata, 60 kilometers from downtown Buenos Aires*

2013 *Acquisition of Metalúrgica Barros Monteiro, nowadays Vossloh Cogifer do Brasil*

Africa

Thanks to the prevalence of European-style rail technology, Vossloh has traditionally commanded a strong position in the markets of North Africa. In South Africa, the Transportation division is becoming increasingly successful and hence facilitating access to the sub-Saharan markets.

For historical reasons, the railways of North Africa have had a close affinity with the French. A case in point: for its high-speed line from Tangier to Casablanca, Morocco opted for a ballasted track bed and TGV double-deck railcars. Regarding the rail fasteners and for the very first time in this overall system, Vossloh Fastening Systems prevailed. The switches and turnouts are being sourced from Vossloh Cogifer.

Vossloh has furnished its fastening systems for the 130-kilometer line between the cities of Oued Tlelat and Tlemcen, in northwestern Algeria, and the 750-kilometer heavy-haul line between the port of Nouadhibou and the iron ore mines of Zouérat in Mauritania it has supplied with switches and turnouts as well.

Vossloh has its own holding company in South Africa that represents the business units on the continent and hence now eases entry into the sub-Saharan market, too.

In fiscal 2013, Vossloh succeeded in booking a megaorder from the South African company Swifambo Rail Leasing for 70 locomotives to be deployed in passenger haulage. The contract is worth a total of around €250 million. Swifambo will supply the locomotives to the Passenger Rail Agency of South Africa (PRASA).

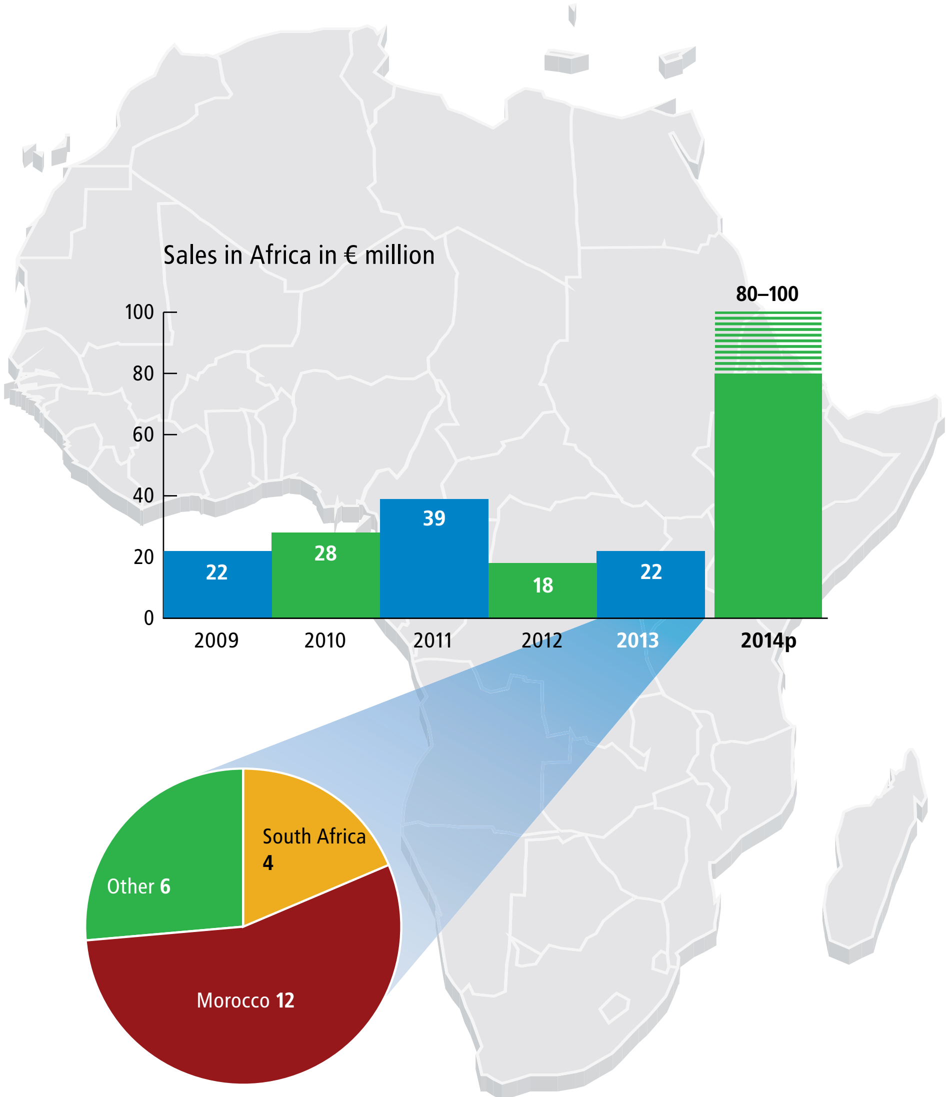
Of the 20,000 kilometers of railways in South Africa, only about 8,000 are electrified; neither can electric locomotives be used throughout on the intercity passenger services. With the arrival of Vossloh Rail Vehicles' EURODual locomotive, the trains will be able to operate in future at speeds of up to 140 km/h, either drawing electricity from the overhead wires or self-propelled using their own diesel engines. In 2012, Vossloh Kiepe had shipped out 272 ultramodern air-conditioning kits for the intercity trains operated by the PRASA subsidiary Shosholoza Meyl.

The megaorder from South Africa will add strong momentum to Vossloh sales in Africa in 2014, which are forecast at €80 million to €100 million. Sub-Saharan Africa has been altogether more stable both politically and economically of late. Over the coming years, some of the 15 member nations of the Southern African Development Community (SADC) are expected to start revamping and expanding their existing rail networks.

2010 *The execution of large orders from Libya for rail fasteners and switches worth around €115 million had to be stopped soon after commencement of civil war*

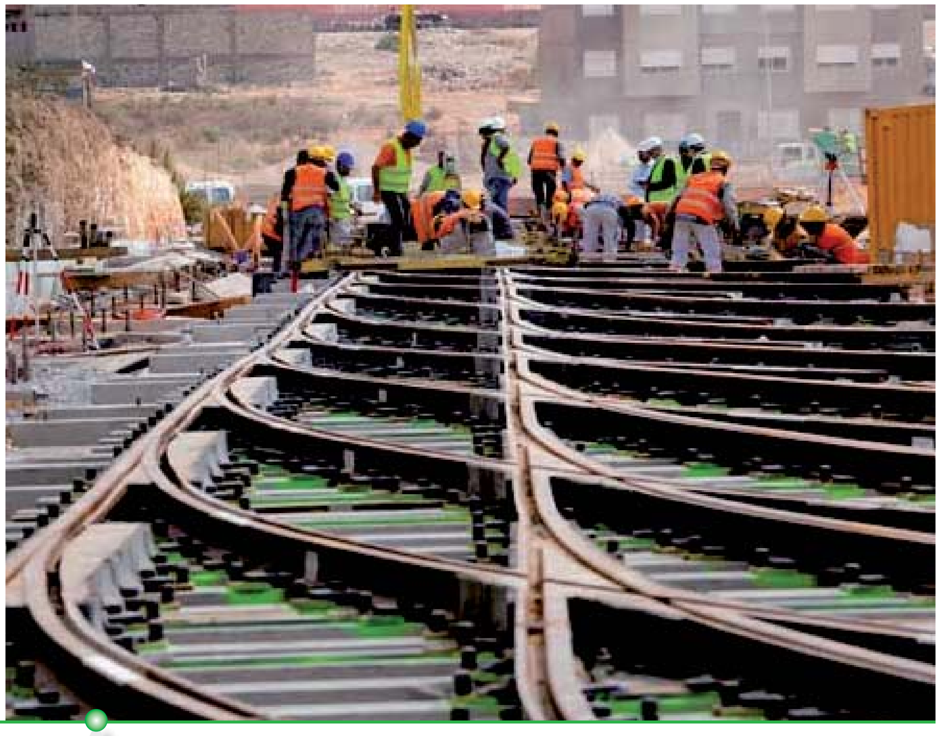
Local organization

Holding company in Midrand, South Africa, representing all the relevant business units



Vossloh Cogifer has delivered to Casablanca 61 switches for the first central tram line. Casablanca is the second Moroccan city (after the capital Rabat) to be building a large local transport network. ▶

Since 2012, Vossloh has shipped out altogether 272 ultramodern air-conditioning kits for the intercity trains of the PRASA subsidiary Shosholoza Meyl. ▼



2012 *Formation of Vossloh Southern Africa Holding Company in Midrand, South Africa*

Large contract from South Africa for air-conditioning kits

2013 *Megacontract from South Africa for EURO locomotives*

Middle East

The nations of the Middle East are applying their utmost efforts to developing their infrastructure. Besides the freight haulage lines, the emphasis is primarily on local-transport and intercity projects. The vast urban centers, the pilgrims in Saudi Arabia, and now the pending sporting events require modern mobility facilities above and beyond private transport.

Vossloh's Middle East sales region includes Saudi Arabia, Iran, Iraq, the United Arab Emirates, Qatar, the Sultanate of Oman, Yemen, Bahrain, Kuwait, Jordan, and Syria. Since 2011, Vossloh has established a regional presence with a Regional Director located in Abu Dhabi, UAE. At present, projects are still being handled through exports, with Middle East customers appreciating European engineering proficiency and technology.

In fiscal 2013, Vossloh clinched the contract to furnish the rail fasteners for the high-speed line from Mecca to Medina. The first of the fasteners were shipped out before year-end. The newly developed line extending 450 kilometers will ensure safe, green, and fast transport especially for pilgrims and tourists besides relieving road traffic between Jeddah with its population of millions and the sacred sites. Vossloh Fastening Systems had already fitted out the Mecca metro back in 2010.

Besides being able to tolerate vast variations in temperature, the high-speed line across the Saudi Arabian desert must have the necessary flexibility and strength to cope with the speeds and challenging subsoil.

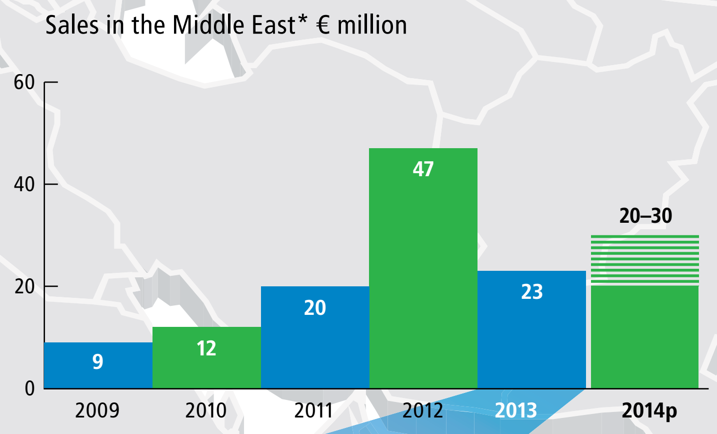
The 270-kilometer freight line between the Shah Sour gas fields and the coastal and industrial city of Ruwais in Abu Dhabi operated by Etihad Rail, is equipped with switches and rail fasteners from Vossloh. This section is just the first phase of a 1,500-kilometer railway line intended to interconnect the nations of the Cooperation Council for the Arab States of the Gulf. It will serve as an alternative to the sea passage through the Strait of Hormuz which is continuously threatened by political disputes.

In Iraq and up to 2012, Vossloh Cogifer had delivered equipment for the good 500-kilometer line between Baghdad and the port of Basra in the south of the country. Within a mere 18 months, 550 switches were built and dispatched.

From today's vantage point, Middle East sales in 2014 will stay steady at €20 million to €30 million. The outlook is bright, with plans existing for some 380-kilometers of metro network and up to 4,900 kilometers of cross-country lines.

2010 *Switch shipment for the Baghdad–Basra line*

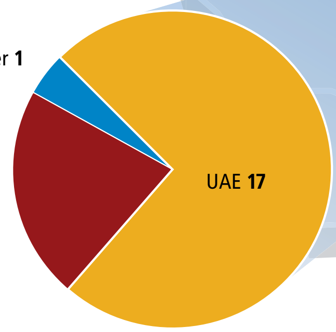
2011 *Vossloh appoints a Regional Director headquartered in Abu Dhabi*



Local organization

Regional Director headquartered in
Abu Dhabi,
United Arab Emirates

**Middle East sales region*



Twelve trolleybuses fitted with Vossloh equipment are operating at King Saud university in Riyadh.

The Dubai metro is fitted with Vossloh switches.

2012 *Rail fasteners and switches for the freight line between Shah and Ruwais*

2013 *Megacontract for rail fasteners for the high-speed line between Mecca and Medina*

Asia Pacific

For quite some time now, Vossloh has been represented by its own production plants in India, Southeast Asia and Australia, thus establishing itself in the region. Infrastructure business will continue to be driven by commodity haulage and growing urbanization in the emerging nations.

Since 2011, a Regional Director headquartered in Bangkok, has coordinated Vossloh's activities in this part of the world. In this metropolis, the Blue Line, Bangkok's first metro service which opened in 2004, is again being fitted out. For the extension of around 18 kilometers, Vossloh Fastening Systems is supplying its system 336 fastener already in use. Through its local joint venture ATO, Vossloh Cogifer is organizing delivery of all the switches for the main tracks and the depot, besides additional ones for the Green Line.

Vossloh has again been awarded a high-speed project in South Korea whose Honam line will feature the Group's rail fasteners and switches. On this line, the Korea Train Express runs from Seoul to Mokpo in the southwest of the country.

Fiscal 2013 was another period that saw countless local transport projects implemented in the Asia Pacific region. Vossloh is supplying 342 turnouts as well as rail fasteners for the Delhi metro. Although Delhi has today a population of over ten million, it was only in 2002 that a subway was built here. However, thanks to the vast efforts undertaken in connection with the Commonwealth Games, the network had grown to a length of over 181 kilometers by 2011.

Kuala Lumpur is the domicile of Vossloh Cogifer Services Malaysia. Recently this company has been handling turnout deliveries for various sections of the north-south line in this Southeast Asian nation – from the border to Thailand as far as Seremban. By 2013, the line had been thoroughly revamped, electrified and throughout fitted with switches from Vossloh Cogifer and, in some cases, with Vossloh rail fasteners as well.

Vossloh Cogifer is well established in Australia. In 2013, Metro Trains Melbourne (MTM) awarded large contracts for equipping a some 47-kilometer network extension with turnouts. The Regional Rail Link is presently Australia's biggest local transport infrastructure project. Along a total 837 kilometers, MTM operates the suburban railways in Greater Melbourne. Daily some 450,000 passengers use these services.

The Anglo-Australian BHP Billiton ranks among the three largest mining groups worldwide. Presently it is concentrating on optimizing its own freight haulage lines in terms of capacity and life-cycle costs. Vossloh Cogifer Australia is helping this major customer to modernize its turnout systems and hence significantly reduce maintenance costs for the operator.

Vossloh's sales in the Asia Pacific region will grow and range between €95 million and €110 million in 2014.

2009 *Large contracts for fitting out long-distance links in Malaysia with rail fasteners and switches*

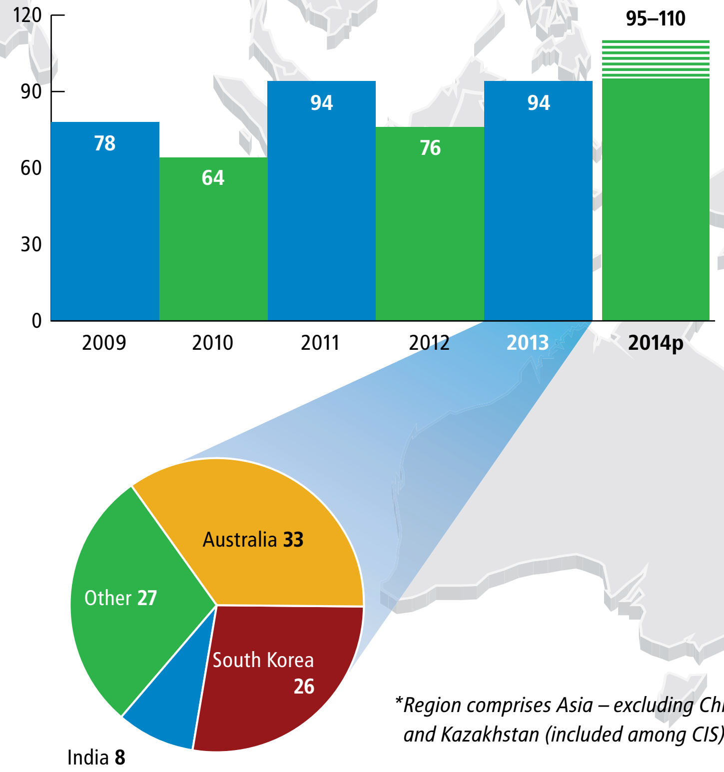
Expansion of the plant in Bhilai, India

Local organization

Regional Director headquartered in
Bangkok, Thailand

Branches in
Australia:
Castlemaine, Kwedale, Orange, Sydney
India: Bangalore, Bhilai, Hyderabad, Secunderabad
Thailand: Bangkok
Malaysia: Kuala Lumpur

Sales in Asia Pacific* in € million



*Region comprises Asia – excluding China (treated separately) and Kazakhstan (included among CIS) – as well as Australia.

Vossloh is supplying switches for two light-rail lines, the Ampang and the Kelana Jaya, in the Malaysian capital of Kuala Lumpur.

Vossloh Cogifer will again be supplying switches for expanding the east-west link of Singapore's metro in the direction of Tuas. And, for the first time, Vossloh is delivering fastening systems for the metro in this city state.

2011 *Vossloh appoints a Regional Director, headquartered in Bangkok*

2013 *High-speed projects in South Korea, rail fasteners and switches*

China

The People's Republic of China is expanding its railways at a breathtaking pace and Vossloh has been accompanying this boom since 2006: as one of the regular rail fastener suppliers, as a maintenance pioneer on high-speed lines, and as an equipment supplier for the burgeoning number of light rail vehicles and trams.

A core business is still supplying rail fasteners for China's high-speed links of which so far over 10,000 kilometers have been laid; by 2015 the figure is set to be as high as 15,000. But even this will not be the end of the line. As early as after receipt of the first megaorder, Vossloh together with its Chinese joint venturers built in Kunshan a rail fastener plant in 2007. This was followed in 2012 by a switch plant in Wuhu in the east of China. Located in Beijing are the Regional Director, the Vossloh sales office and the Rail Services business unit.

Beijing CRM-Vossloh Track Maintenance Co., Ltd., a joint venture of Vossloh Rail Services with the renowned Chinese rail technology services provider CRM, launched in 2013 on the Beijing–Shanghai line preventive rail maintenance using Vossloh's high-speed grinding (HSG) train. This makes the venture the first private enterprise providing maintenance services on China's high-speed lines.

A new focal point now emerging in the nation's transport policies is the construction of tramway networks. To begin with, 36 cities will have altogether a good 5,000 kilometers of tram lines built by 2020.

For the new tramway in Suzhou, Vossloh's Rail Infrastructure division is delivering from a single source the rail fasteners and turnouts. Suzhou is a megacity with a population of eleven million situated in the south-east of Jiangsu province close to Shanghai.

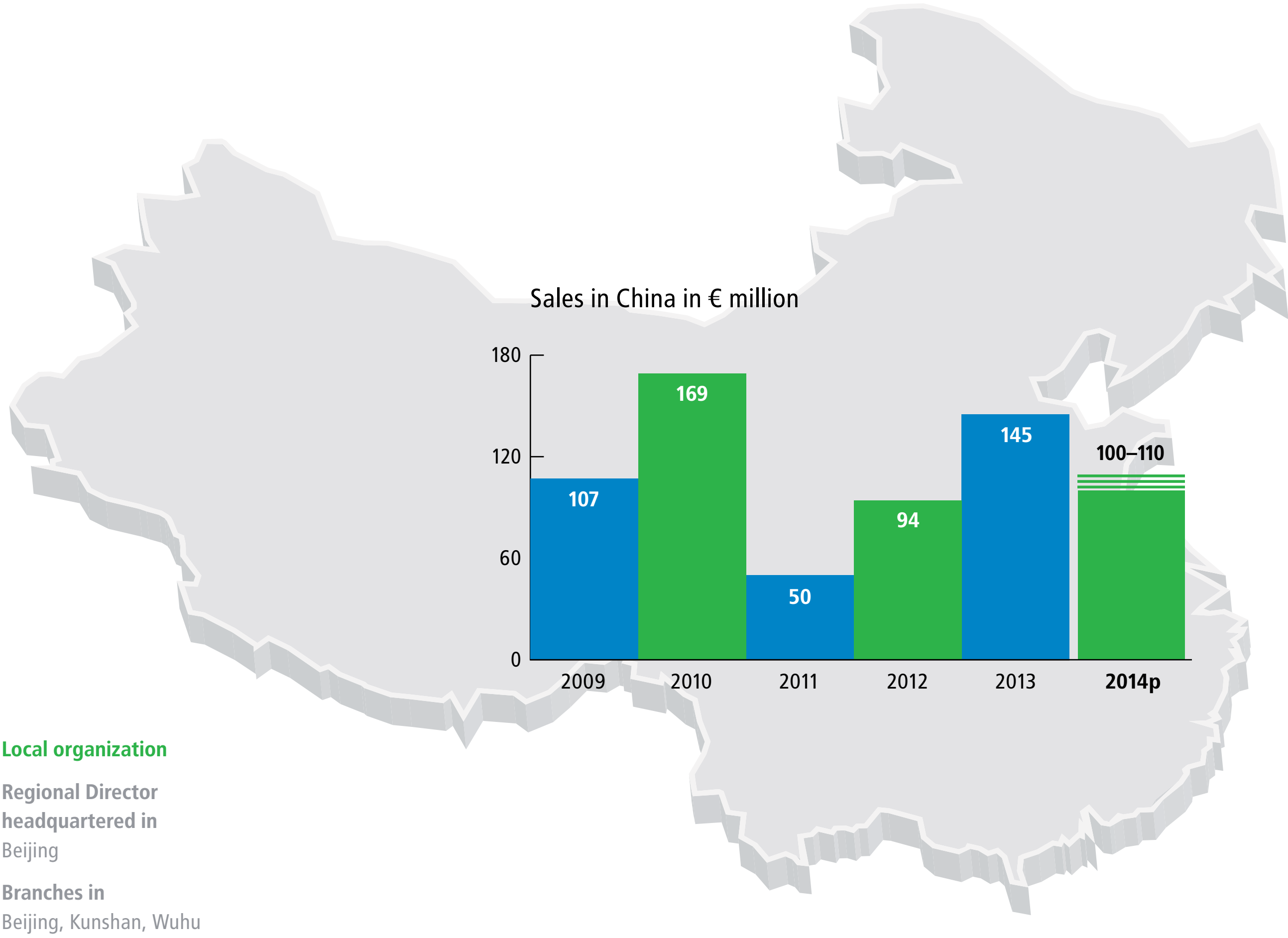
Together with its joint venturers, Huaxing and CRMG, Vossloh Cogifer operates a new turnout production plant in Wuhu from where the turnouts and crossings for the Suzhou tram project are shipped out.

After an exceptionally strong fiscal 2013, during which there were also catch-up effects due to the suspended and pent-up construction work on the high-speed lines, Vossloh sales in 2014 will return to a level of €100 million to €110 million.

2006 *First big order for high-speed rail fasteners*

2007 *Vossloh starts producing fasteners in Kunshan in a joint venture with Nanjing Iron Steel Co. Ltd. (NISCO)*

2010 *Joint venture comprising Vossloh Cogifer, Huaxing and CRMG for switch and turnout production in Wuhu*



Local organization

Regional Director headquartered in
Beijing

Branches in
Beijing, Kunshan, Wuhu

◄ *Loading the HSG-2 train for its journey by sea to China.*

◄◄ *Switches and turnouts for the tramway in Guangzhou, the Beijing metro and for exportation to the USA were also shipped out from the Wuhu plant.*

Rail fasteners for China's high-speed lines are still a mainstay of business.
▼

2011 *Delays in new railway projects throughout China following staff changes at the Ministry of Railways and a serious train accident*

2012 *The Wuhu turnout plant starts up production*

2013 *Vossloh is the first private enterprise to be entrusted with services (HSG) on China's high-speed lines*

CIS

The CIS members are railway nations by tradition and have of late increasingly opened up their markets. The revamping and extension of existing networks, the construction of new ones offer a variety of opportunities and Vossloh has already signed its first contracts. The next step is to develop business relationships with local partners.

Since 2010, Vossloh has been represented by a Regional Director located in Moscow. A joint venture for making rail fasteners in Russia is presently being negotiated. The system W30 had been approved for Russia back in 2010 and since then has been in use.

Russia is the world's largest country in terms of land size and has some 88,000 kilometers of railways plus another 30,000 kilometers industrial trackage. The present general plans of the Russian government specify ambitious targets for the period up to 2020: the construction of a high-speed line from Moscow to Kazan, to be extended later up to Yekaterinburg, the modernization of the Trans-Siberian railway from Moscow to Vladivostok, and the expansion of the Baikal-Amur mainline.

In May 2013, Vossloh Cogifer together with a Russian joint venturer won an invitation to bid in connection with the privatization of the switch plant in Novosibirsk. With a market share of over 80 percent, this is Russia's biggest switch production facility. The object of the joint venture is to further develop the Novosibirsk plant in terms of technology and for accessing regional sales markets.

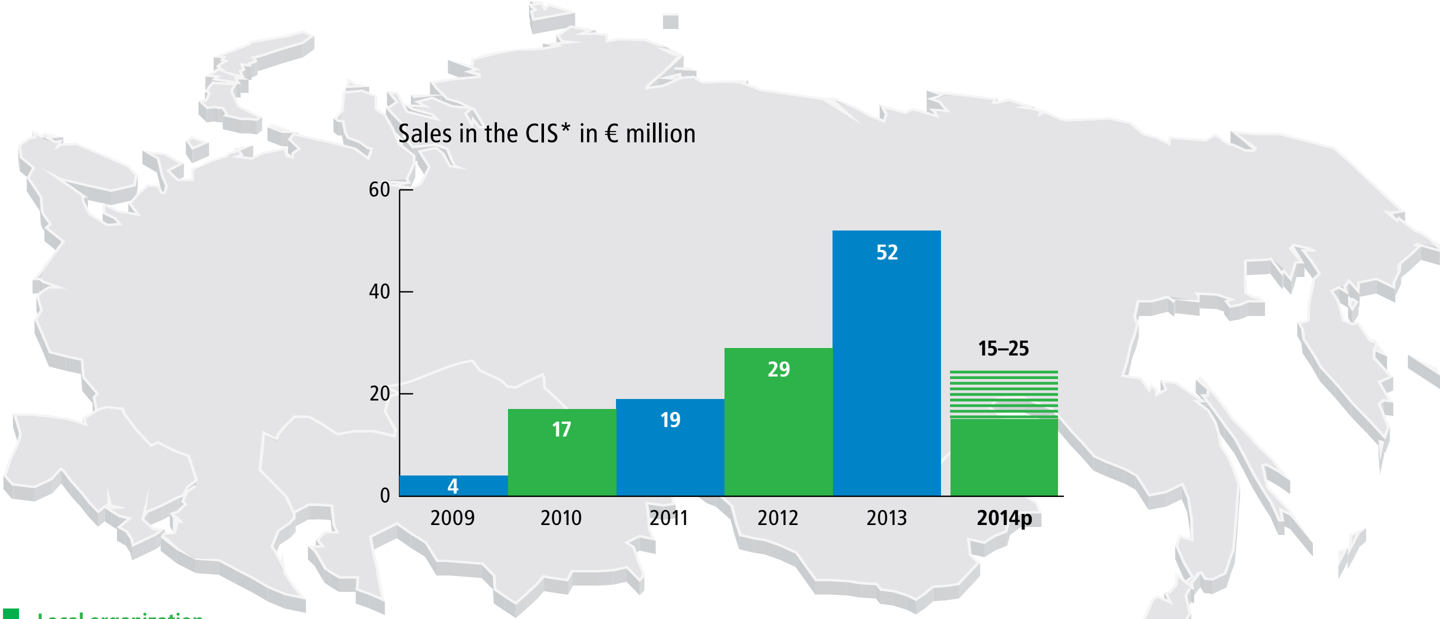
At the start of 2014, Vossloh Fastening Systems booked its first sizable order from Mongolia for fitting out the 270-kilometer line from the hard-coal mines in Tavan Tolgoi to Gashuun Sukhait. The system selected is specifically engineered for heavy-haul tracks along which the coal will be carried to the power plants in northern China. By 2030, the Mongolian railway company MTZ plans to have extended its network by around 5,500 kilometers.

In Almaty, Kazakhstan, Vossloh Fastening Systems set up in mid-June 2013 a joint venture for producing components and marketing rail fasteners: Vossloh Fastening Systems Kazakhstan TOO. The Kazakhstan partner belongs to a leading group of companies.

Vossloh's infrastructure product business is still in its infancy in the CIS and Mongolia. Once the megaorder in Kazakhstan is completed, sales in 2014 are likely to range between €15 million and €25 million.

2009 *Vossloh's sales office in Moscow opened*

2010 *Regional Director in Moscow*
W30 rail fasteners approved for Russia



Local organization

Regional Director located in
Moscow, Russia

Branches in
Kazakhstan: Almaty
Russia: Moscow

**Including Kazakhstan, Georgia, Mongolia, Ukraine, Belarus, and Azerbaijan. Joint venture in Kazakhstan accounted for at equity and hence not affecting sales.*

A joint venture with Vossloh Cogifer as one of the members, plans to develop the Novosibirsk switch plant in terms of technology and for accessing regional sales markets.

Rail fasteners have so far been shipped to Russia, Kazakhstan and Azerbaijan, to be followed in 2014 by Mongolia.

Test trackage is in operation in Ukraine, as well as in Russia on both public and industrial lines.

2013 *Formation of a joint venture for producing components and marketing rail fasteners in Kazakhstan*

Together with its joint venture partner SP-Technology, Vossloh Cogifer wins an invitation to bid in connection with the privatization of the Novosibirsk switch plant

Europe

Despite the sovereign-debt crises and struggling economies, despite a larger number of competitors operating within sluggish markets, Vossloh has generally managed to maintain stable shipments in its European home markets. With its multifaceted demand, Europe, the world's biggest rail market, is alive, demanding, and innovative. This continent is and remains the knowledge and technology base for the global rail industry.

Driven by rising customer expectations and price pressure, rail operators are becoming ever more demanding in terms of technology, quality, and price. Vossloh addresses these challenges with efficient production processes, synergies in purchasing, and by interlinking R&D and marketing capabilities.

We are continuously at the forefront of technology and thus able to offer competitive, sustainable and innovative solutions. Cooperation across divisions and business units gives birth to new products and services. Any gaps, either technological or regional, are plugged by selective M&As.

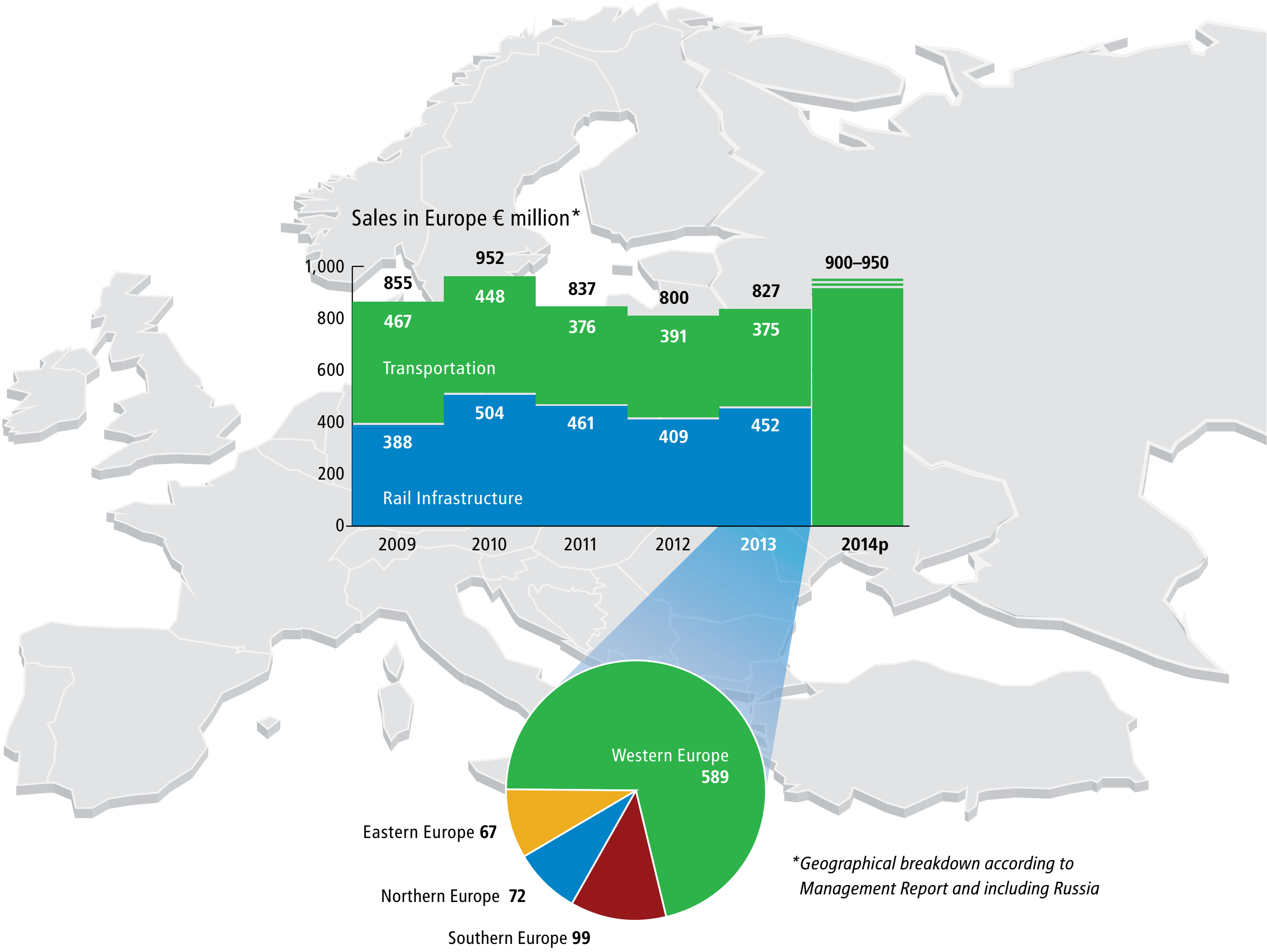
Vossloh's Rail Infrastructure division is a well-established single-source supplier of and world market leader in rail fastening and switch systems. Regular expenditures at our main European plants mean that we have ultramodern and lean production facilities in line with the latest health and safety standards. At the new Technology Centers in Werdohl and Reichshoffen, R&D engineers are busy working on tomorrow's infrastructure solutions.

Switch business has also been topped up by takeovers. Outreau Technologies, among Europe's biggest crossing frog foundries, has since 2013 belonged to Vossloh Cogifer. At the start of 2014, Vossloh Cogifer acquired a majority stake in Heyez Insaat AŞ, a Turkish manufacturer of switches and turnouts. Since 2008 we have been operating at Erzincan our own rail fastener plant for the emerging Turkish market.

As early as 2010, Vossloh had expanded its range of rail services to include complex welding and logistics solutions as well as the preventive care of rails. Since then, Vossloh's young Rail Services business unit has been broadening its international base. High-speed rail grinding is a technology developed in Germany and nowadays in demand worldwide.

Cooperation among the three Rail Infrastructure business units has sprouted a new all-in package for "quiet rails" or logistics packages for rail customers. A breakthrough has been achieved in France where the new high-speed link between Tours and Bordeaux will not only feature Vossloh Cogifer turnouts but, for the first time, our own rail fastening systems.

In its Transportation division, the Group has revamped and extended its product portfolio. To this end, the business units' capabilities have been pooled and synchronized. Among the most important developments is the Tramlink, an all-Vossloh tram already ordered by several German cities as well as from Austria. The new, modular family of center-cab locomotives (also available with Vossloh's proprietary diesel-electric driveline) is proving popular in particular with industrial customers.



In the market for electrical equipment built into rail vehicles and buses, operators are increasingly expecting us – as manufacturer or general contractor – to shoulder responsibility for all-in solutions. Vossloh has accordingly modified its organization and processes. The new Wuppertal suspension railway project is being handled by Vossloh Kiepe through a pan-European network of developers and manufacturing partners plus suppliers.

With public-sector coffers still depleted, vehicle upgrading is developing into an additional market. Vossloh Kiepe UK, which joined the Group in 2012, was awarded the contract to convert to an innovative, energy-efficient mode of propulsion 91 railcars of Porterbrook Leasing Company.

Recent years have seen a sharp regional shift in European shipments. Because of the sovereign-debt crises, the markets of Southern Europe have shrunk substantially. This we have been able to offset through surging sales in our Western European home markets and in Eastern Europe as well. Thanks to very strong growth rates expected in Germany, European sales in 2014 are likely to range between €900 million and €950 million.

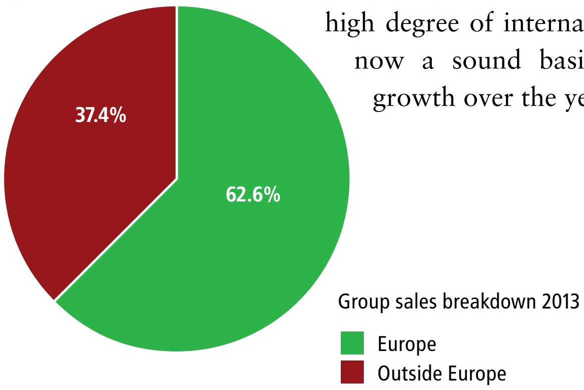
Basis for growth

Surging order influx and a record order backlog are presently the visible results of the internationalization strategy, technical innovations, and operational improvements introduced over recent years. Since 2006, non-European sales have more than quadrupled – from 9 to 37.4 percent.

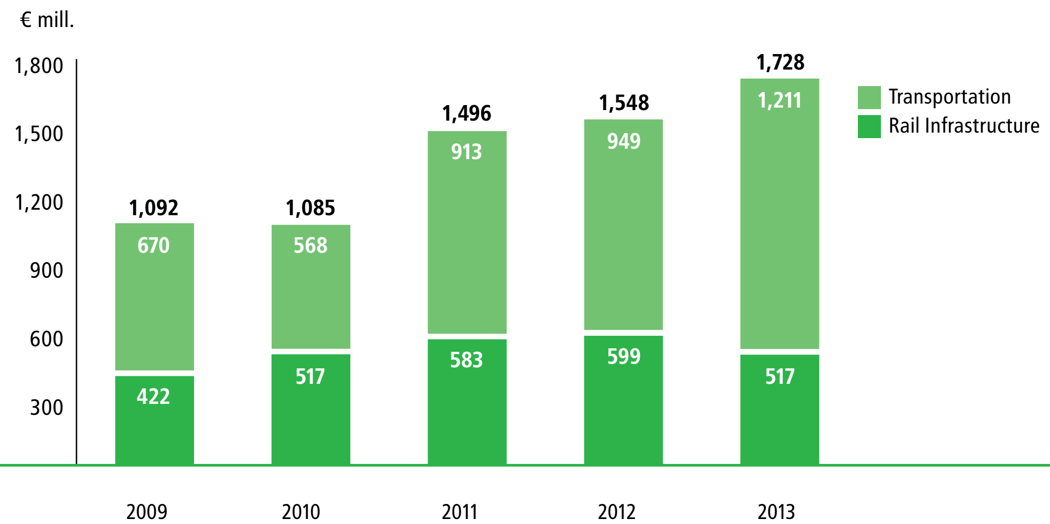
An ever expanding range of products and services for international markets places Vossloh in a position to capitalize on market potentials and respond spot-on to any changes in demand. Regional requirements can be addressed quickly and easily with products and configurations of increasingly modular design.

The prospects are promising. The global flow of goods interlinking remote production and consumption regions, the haulage of commodities, urbanization, and personal travel needs remain factors behind the growing mobility. Costs and environmental and safety considerations all speak in favor of rail-bound haulage.

Nowadays, Vossloh operations cover the globe much more effectively than a few years ago. The Group is represented on all the continents with its own regional sales offices and production plants. It has succeeded in expanding its leading position on the European market. Order backlog at a historical peak and the high degree of internationalization are now a sound basis for profitable growth over the years ahead.



Order backlog at an all-time high of €1.7 billion



Vossloh AG's Supervisory Board

Members of the Supervisory Board since May 29, 2013:

Heinz Hermann Thiele
Chairman
Businessman, former executive board chairman of Knorr-Bremse AG, Munich

Dr. Wolfgang Scholl
Vice-Chairman
Lawyer, partner of the law firm Arnecke Siebold, Frankfurt am Main

Silvia Maisch
Electrical mechanic, Works Council Chairman of Vossloh Kiepe GmbH, Monheim

Dr. Kay Mayland
Graduate Engineer, former executive board chairman of SMS Siemag AG, Ettlingen

Dr. Alexander Selent
Vice-Chairman of the executive board and CFO of Fuchs Petrolub SE, Limburgerhof

Michael Ulrich
Mechanic, Works Council Chairman of Vossloh Locomotives GmbH and Chairman of the European and Group Works Councils, Kiel

Members of the Supervisory Board until May 29, 2013:

Dr. Wilfried Kaiser
Graduate Engineer
Chairman
Former executive board member of Asea Brown Boveri AG, Munich

Peter Langenbach
Vice-Chairman
Lawyer, Wuppertal

Dr. Christoph Kirsch
Former CFO of Südzucker AG, Weinheim

Wolfgang Klein
Galvanizer, Chairman of the European and Group Works Councils, Werdohl

Dr. Kay Mayland
Graduate Engineer, former executive board chairman of SMS Siemag AG, Ettlingen (member since January 9, 2013)

Michael Ulrich
Mechanic, Works Council Chairman of Vossloh Locomotives GmbH, Kiel

Heinz Hermann Thiele,
Chairman

Report of the Supervisory Board

The Supervisory Board of Vossloh AG carefully and conscientiously carried out its supervisory and advisory duties imposed upon it by law, the articles of incorporation, the German Corporate Governance Code (the “Code”) and the Supervisory Board Rules of Procedure on a continuous basis in fiscal 2013.

Meetings and attendance

In 2013 the Supervisory Board convened at six scheduled meetings (January 31, March 20, May 28, May 29, continued on June 4, July 30 and November 25) as well as at three extraordinary meetings (April 23, September 9 and October 16) which were held as teleconferences. All of the members of the Supervisory Board took part in all of the meetings.

The Supervisory Board was regularly informed on a comprehensive and timely basis regarding business development, the profit situation, return, liquidity, share-price development and the risk situation of Vossloh AG, including all Group companies in accordance with the duties established in by law and in the Supervisory Board Rules of Procedure. The object of the joint discussions with the Executive Board was the short-term and medium-term corporate planning, the investment planning as well as the trend of profits, returns and liquidity. Deviations from the planned business performance were explained by the Executive Board in detail, and measures taken were introduced and discussed with the Supervisory Board.

The Supervisory Board discussed with the Executive Board several times and in depth fundamental questions regarding the strategic direction of the Group. The discussions were also directed to questions relating to the long-term corporate financing.

In the regular meetings, the Supervisory Board was informed continually by the Executive Board regarding the developments in the individual business segments. Major projects and specific business transactions were explained by the Executive Board and discussed in detail. Before the decision of the Supervisory Board, significant transactions measures requiring approval are examined based on the underlying information and analyses are together with the Executive Board are discussed and assessed. The Executive Board also regularly provides information on the business trend in China and on the progress of improvements to the project management in individual business areas. The focus of recurring discussions was also the assessment and development of significant risks, the overall assessment of the risk situation, as well as risk management.

In several meetings, the Supervisory Board dealt with potential acquisitions and divestments, which were intensively discussed and evaluated with the Executive Board. The discussions were further directed to the comparison of the development of the companies acquired in recent years with the plan figures which served as a basis for the acquisitions.

On an ongoing basis, the Supervisory Board was briefed in detail on the status of the investigation proceedings relating to anti-competitive agreements in the rail market, as well as the progress of the internal investigations in connection with these proceedings. The development of the legal and consulting costs were discussed on several occasions.

The regular consulting agenda items included the further development of compliance through the implementation of mandatory worldwide standards of conduct for all employees of the Vossloh Group, the establishment of organization for the monitoring of these standards, as well as the necessary training measures.

In preparation for the Annual General Meeting on May 29, 2013, the Supervisory Board, together with the Executive Board, discussed the proposed agenda items.

Due to the new election carried out in May 2013, the Supervisory Board in fiscal 2013 dispensed with a renewed external evaluation in connection with the assessment of its efficiency. In 2012, it once again used an external advisor regarding the review of its efficiency, and it performed an assessment.

Periodical briefings outside Supervisory Board meetings

The Supervisory Board was informed by the Executive Board regarding important projects in between the regular meetings. In addition, the Chairman of the Supervisory board regularly maintained contact with the Executive Committee, and here especially with the Chairman of the Executive Board, and counselled with him with regarding strategic considerations, the business performance, significant issues and risk management. The Chairman of the Supervisory Board was always promptly informed by the Chairman of the Executive Board as to unusual events that were of significant importance for the assessment of the situation and the development of the Vossloh Group. The Chairman of the Supervisory Board, in turn, ensured that all members of the Supervisory Board were promptly informed.

Personnel changes in the Supervisory Board and its committees

Through a court appointment, Dr.-Ing Kay Mayland on January 9, 2013 became a member of the Supervisory Board as successor to Dr. Jürgen Blume, who resigned from the Supervisory Board in the prior year for reasons of age. On January 31, 2013, he was elected by the Supervisory Board to the Audit Committee. Previously, Dr.-Ing. Wilfried Kaiser had been a member of the Audit Committee on an interim basis.

Upon the conclusion of the Annual General Meeting on May 29, 2013, the previous members of the Supervisory Board, Dr.-Ing. Wilfried Kaiser (Chairman of the Supervisory Board and Chairman of the Staff Committee), Peter Langenbach (Vice-Chairman and member of the Staff Committee), Dr. Christoph Kirsch (Chairman of the Audit Committee) and Wolfgang Klein (member of the Staff and Audit Committees) retired from the Supervisory Board. In the name of Vossloh AG, the Supervisory Board would like to express its gratitude for the many years of good, constructive, responsible and committed service.

At the Annual General Meeting on May 29, 2013, Dr.-Ing. Kay Mayland, Dr. Wolfgang Scholl, Dr. Alexander Selent and Heinz Hermann Thiele were elected by the shareholders to the Supervisory Board. Based on the elections carried out, the employees delegated Michael Ulrich and Silke Maisch as representatives in the Supervisory Board. In the subsequent constituent meeting, Heinz Hermann Thiele was elected as Chairman of the Supervisory Board, and Dr. Wolfgang Scholl was elected as Vice-Chairman. Heinz Hermann Thiele (Chairman), Dr. Wolfgang Scholl und Michael Ulrich became members of the Staff Committee. Elected as members of the Audit Committee were Dr. Alexander Selent (Chairman), Dr.-Ing. Kay Mayland and Michael Ulrich. Dr.-Ing Kay Mayland (Chairman), Dr. Wolfgang Scholl, Dr. Alexander Selent and Heinz Hermann Thiele became members of the Nomination Committee.

Supervisory Board Committees

In order to efficiently carry out its duties, the Supervisory Board of Vossloh AG has formed three committees. The Staff Committee and Audit Committee have three members each, and the Nomination Committee has four members. The primary duties of the Staff and Audit Committees include the preparation of issues to be dealt with in the plenary meetings of the Supervisory Board. In addition, in certain cases the decision-making authority of the Supervisory Board has been transferred to the committees; thus, for example, authority has been transferred to the Staff Committee for the conclusion, amendment or termination of employment contracts with members of the Executive Board. The appointment and dismissal themselves, as well as resolutions pertaining to the compensation system for the Executive Board, the establishment and regular review of the total compensation and the decision regarding the reduction of the compensation of members of the Executive Board pursuant to Article 87 (2) German Stock Corporation Act ("AktG") are subject to the approval of the entire Supervisory Board.

The **Staff Committee** met five times in 2013. The subject of its consultations was the preparation for personnel decisions of the Supervisory Board. In this connection, it addresses especially the resulting consequences of the growing internationalization and the related increased complexity of the Vossloh Group for the personnel resources. In addition, it deals with the succession planning.

The **Audit Committee** met six times in 2013. In connection with the meetings on April 24, July 23, and October 29, the main focus was the discussion of the quarterly reports with the Executive Board. The subject of thorough discussions was the derivation and presentation of the Group's capital costs and returns, its divisions and its business segments within the framework of the value management. At its meeting on March 19, in the presence of the Executive Board and the year-end auditor, the documentation on the separate and consolidated financial statements was discussed and examined in detail along with the combined management report for Vossloh AG and the Vossloh Group for fiscal 2012, including evidence of the recoverability of corporate participations or, as the case may be, goodwill. The year-end auditors reported extensively to the Audit Committee with respect to measures taken to ensure the regularity of the conduct of the audit. The Audit Committee concurred with the results of the audit by the year-end auditor; no objections were raised. Additional items of focus of this meeting were the statement of independence of the auditor and the extent of its additional services rendered, as well as the preparation of proposal for the selection of the auditor for the separate year-end financial statements and the consolidated financial statements for fiscal 2013. After the selection at the Annual General Meeting, the engagement for the year-end audit for fiscal 2013 was awarded in the name of the entire Supervisory Board by the Audit Committee in accordance with the recommendations of the Code. In a further meeting, it concerned itself with the fee arrangement and establishment of the audit budget, as well as the proposals regarding the main areas of focus of the annual audit as of December 31, 2013, and issues in this connection. Within the framework of the annual audit, it was discussed, together with the Executive Board, examining the internal control system in the area of the sales process and receivables management. The Audit Committee thoroughly informed itself regarding the form and development of the long-term corporate financing. The risk management was the subject of intensive consultations in the meetings on March 19, July 23, October 29 and November 25. In the meeting on January 31, as well as on November 25, Internal Audit, among others, reported to members of the Committee. The Audit Committee was informed on an ongoing basis by the Executive Board regarding the main risks identified in the Group. The necessity and adequacy of the provisions recognized was discussed. Risks arising from legal disputes, the collectability of open receivables and risks in connection with the antitrust proceedings were the subject of the discussions. The Audit Committee informed itself regarding the topics and the status of the compliance. Furthermore, the Audit Committee dealt in depth with coming or emerging new developments in financial reporting, especially the changes in the consolidation of joint ventures and the revenue recognition in connection with construction contracts.

The **Nomination Committee** met twice in 2013. The discussions regarded the proposals for the composition of the Supervisory Board in light of the election at the 2013 Annual General Meeting. The guiding principles in this connection were the requirements specified in the Stock Corporation Act, the Code and the Rules of Procedure. This issue was also repeatedly discussed within the Supervisory Board.

In the respective meeting of the entire Supervisory Board follow the Committee meeting, the Chairmen of the committees reported to the entire Supervisory Board regarding the topics discussed and the results of the discussion. The minutes of the meetings of the Audit Committee are made available to the Chairman of the Supervisory Board.

German Corporate Governance Code

No Supervisory Board member was subject to any conflicts of interests under the terms of § 5.5 of the Code. In December 2013, the Executive and Supervisory Boards most recently issued, and made available to the stockholders at all times on the Company's internet site, the declaration of conformity according to Art. 161 AktG (see page 43).

Separate and consolidated financial statements 2013

The separate financial statements of Vossloh AG according to German GAAP, the consolidated financial statements according to IFRS, and the combined management report on Vossloh AG and the Group for fiscal 2013 (including the accounting), all as prepared by the Executive Board, were examined by the statutory auditor, BDO AG Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the May 29, 2013 AGM and issued an unqualified opinion thereon.

The statutory auditor also concluded that the Executive Board had installed a proper early risk identification system as required by Art. 91(2) AktG to identify any risks that could pose a risk to the Group's continuing existence.

The separate and consolidated financial statements, the combined management report for Vossloh AG and the Vossloh Group, the disclosures required by Articles 289(4) and 315(4) German Commercial Code ("HGB"), the remaining annual report the profit appropriation proposal and the audit reports of the annual auditor were distributed to every member of the Supervisory Board on a timely basis prior to the meeting dealing with the approval of the financial statements on March 26, 2014.

In this meeting of the Supervisory Board, in the presence of the annual auditors, all issues arising in connection with these documents were discussed in detail. The auditors reported in this meeting regarding significant results of the audit and provided additional information. In this connection, the auditors also reported on the risk management system of the Vossloh Group. No evidence was found during the audit suggesting that the declaration of conformity issued in 2013 by the Executive and Supervisory Boards in connection with the Code was incorrect.

The Supervisory Board also reviewed the separate and consolidated financial statements and the combined management report of Vossloh AG and the Vossloh Group for fiscal 2013 as submitted by the Executive Board, as well as the proposed profit appropriation. According to the final result of its own review, the Supervisory Board raised no objections. The Supervisory Board approved Vossloh AG's separate and consolidated financial statements as of December 31, 2013; the separate financial statements as of December 31, 2013, were thus adopted. The Supervisory Board concurred with the combined management report, particularly the statements on Vossloh's further development and the disclosures pursuant to Arts. 289(4) and 315(4) HGB, as well as with the profit appropriation as proposed by the Executive Board, which contains the distribution of a dividend of €0.50 per no-par share.

The Supervisory Board would like to thank the Executive Board and all the employees for their dedication and – in light of the partly difficult environment – for their successful service.

Werdohl, March 26, 2014

The Supervisory Board
Heinz Hermann Thiele
Chairman

Declaration on Corporate Governance

For Vossloh, an effective and transparent organization as well as responsible and reliable management and supervision of a company are the core elements of sound and effective corporate governance. Only through such corporate governance can trust in the company be sustainably strengthened and the enterprise value continually increased.

Sound and sustainable corporate governance is also the indispensable basis for a relationship based on trust between the Company and its shareholders, its investors and lenders, employees and business partners. In this declaration, the Executive Board, also on behalf of the Advisory Board, on corporate governance in accordance with § 3.10 of the Code and Art. 289a(1) HGB.

Management and control structure

Vossloh AG is subject to the provisions of the German Stock Corporation Act, capital market legislation, codetermination law, as well as to its own bylaws. As with all German stock corporations, Vossloh has a dual management and control structure, which is reflected in the two bodies, the Executive Board and the Supervisory Board. The general meeting is responsible for fundamental decisions of the Company. All three bodies are obligated to act for the benefit of the Company and in the interest of the shareholders.

Executive Board

The Executive Board develops Vossloh's strategic orientation and consists of two members. As Chairman of the Executive Board, Werner Andree is responsible, in addition to Finance and Accounting, for the areas of Corporate Development, Investor/Public Relations, Internal Auditing, Law/Compliance, and IT. Dr.-Ing. Norbert Schiedeck is responsible for the areas of Engineering, Marketing, and HR.

The Executive Board is directed to sustainably increasing the enterprise value and works closely with the Supervisory Board. Certain measures which are described in the rules of procedures for the Executive Board require the approval of the Supervisory Board. A business distribution plan governs the responsibility of the individual Executive Board members. They work collegially together and inform each other on an ongoing basis regarding important measures and transactions in their business areas. Decisions are made by the entire Executive Board in case of significant issues and additional specifically defined matters. Conflicts of interest are immediately made known to the Supervisory Board and the other Executive Board member. Secondary employment or the assumption of external Supervisory Board mandates requires the prior approval of the Supervisory Board. Currently, no member of the Executive Board holds a supervisory board seat in a listed company outside of the Group. Further information on the members of the Executive Board of Vossloh AG can be found on page 174, and on Executive Board appointments in the subsequent events section on page 113, of the annual report.

For all of its Executive and Supervisory Board members, Vossloh AG has entered into so-called D&O insurance policies (against consequential economic loss) with an agreed deductible amounting to 10.0 percent of the loss but capped at 150.0 percent of the board member's fixed annual remuneration.

Supervisory Board

In accordance with of Art. 10 (1) of the bylaws, the composition of Vossloh AG's six-member Supervisory Board is governed by the provisions of the Stock Corporation Act and the Supervisory Board Composition Act, according to which the Supervisory Board must be composed of one-third of employee representatives and two-thirds of stockholder representatives. The owner representatives on the Supervisory Board are elected by the general meeting, the employee representatives by the workforce. The terms of office for the owners' representatives as well as the employees' representatives ended at the close of the AGM on 29 May 2013. As recommended by the Code, the stockholder representatives were individually elected by the May 29, 2013 AGM. The terms of office of the current owner and employee representatives end upon the closing of the AGM 2018 which resolves the discharge for fiscal 2017.

The Supervisory Board oversees and advises the Executive Board in its management of the business. Certain material transactions and Executive Board actions (specified in the Executive Board Rules of Procedure) are subject to prior Supervisory Board approval. The Supervisory Board periodically discusses with the Executive Board Vossloh's business trend, the corporate plan and strategy and their implementation, as well as the risk management and corporate and regulatory compliance issues. It approves the annual planning and decides on the adoption of Vossloh's separate and the approval of the consolidated financial statements with due consideration of the statutory auditor's audit reports. The Supervisory Board is also responsible for the appointment and dismissal of Executive Board members.

The Executive and Supervisory Boards have concerned themselves again in fiscal 2013 with the recommendations of the Code. The recommendations of the Code are complied with by Vossloh with the following exceptions. In connection with the current year's election to the Supervisory Board, only three of the four shareholder representatives were newly elected to the Supervisory Board. Three previous members retired. A further shareholder representative was statutorily appointed in January 2013. He was also an election candidate at the AGM. In this constellation, the Supervisory Board in office until the closing of the 2013 AGM did not consider it expedient to limit the decision-making of the newly assembled body already prior to the assumption of its activities.

The current compensation of the members of the Supervisory Board according to the bylaws consists of a fixed compensation and variable compensation component which relates to the consolidated net profit for the year.

The Executive and Supervisory Boards issued most recently in December 2012 a declaration of conformity and have made this permanently available to the shareholders on the Company's internet site (see Section 43).

The Supervisory Board includes a sufficient number of independent members who have no personal or business relationship to either the Company or its Executive Board. The Supervisory Board constitutes a quorum if at least three members participate in voting. Supervisory Board resolutions require the simple majority of votes cast unless statutory or legislative regulations provide otherwise. If a vote results in a tie, any Supervisory Board member has the right to require that the voting be immediately repeated on the same agenda item. If the second vote also results in a tie, the vote of the Supervisory Board Chairman counts twice.

The Supervisory Board performs its duties both as plenary body and through the current three committees it has established to improve its efficiency.

The three-member Staff Committee is mainly responsible for Executive Board matters. It prepares personnel decisions as well as resolutions and reviews of the plenary Supervisory Board regarding the compensation system and the total compensation of the individual Executive Board members, as well as resolutions on reductions of compensation of Executive Board members in accordance with Art. 87(2) AktG. In addition, it decides on the rules governing the legal relations between the Company and the various Executive Board members (in particular, the execution, amendment, renewal, rescission, cancellation or termination of the employment contracts with Executive Board members), the regulation of the legal relationship between the Company and former Executive Board members, the approval of contracts or agreements with Supervisory Board members, as well as on the grant of loans to Supervisory Board members. The Supervisory Board Chairman presides over the Staff Committee.

The Audit Committee is responsible for proposing to the Supervisory Board the statutory auditors for the Company and the Group for election by the general meeting, and deals in particular with aspects relating to the statutory auditor's required independence and with issuing the audit engagement letter, determining audit focus areas and establishing the audit fee arrangement. The Audit Committee monitors the risk management on an ongoing basis and deals with regulatory and corporate compliance issues, which includes overseeing the internal control system. For these purposes, the Audit Committee obtains reports on a regular basis directly from Corporate Internal Auditing and the Chief Compliance Officer. The Audit Committee prepares the examination by the Supervisory Board of the Company's and the Group's financial statements, combined management report, and audit reports. The Audit Committee and the Executive Board jointly discuss each quarterly financial report prior to publication. Dr. Alexander Selent chairs the three-member Audit Committee and, as Vice-Chairman of the

Executive Board and Chief Financial Officer (CFO) of Fuchs Petrolub AG, Dr. Selent fulfills the criteria of Art. 100(5) AktG, which require that an independent financial expert preside over an audit committee.

The four-member Nomination Committee is responsible for the Supervisory Board's long-term succession planning and preparation of candidate proposals in the event of an early retirement of individual Supervisory Board members. It proposes suitable candidates to the Supervisory Board. The Supervisory Board then resolves the proposed candidates, who are presented for appointment by the AGM. In this process, the Nominations Committee and the plenary Supervisory Board make sure that reflected in the composition of the Supervisory Board are technical expertise, specialist and international experience, knowledge and experience in the area of financial reporting, internal control procedures and the Company, as well a diversity. In connection with the search for candidates, the Nomination Committee also pays attention to the required independence, the availability with respect to time and the avoidance of conflicts of interest. Dr.-Ing. Kay Mayland chairs the Nomination Committee.

Every Supervisory Board member is obliged to act in the Company's best interests. Conflicts of interest are to be immediately reported to the Chairman of the Supervisory Board. Supervisory Board members must abstain from voting on any business that affects themselves or related parties (entities or individuals). No Supervisory Board member is also on a board of, or provides advisory services to, a competitor. The Company has not granted any loan or credit to a Supervisory Board member, nor have Supervisory Board members received any compensation or benefits for personally rendered services such as advisory or agency services. No former Executive Board members serve on Vossloh AG's Supervisory Board.

For information on Vossloh AG's Supervisory Board members, see page 176 of this annual report.

Compliance

Aside from compliance with the legal and regulatory framework, which goes without saying), Vossloh sees corporate compliance as the observance of intragroup rules and regulations and voluntary commitments.

Doing business according to sustainable, economic, ecological and social criteria is a central element of corporate culture for Vossloh. Vossloh sees the foundation for a successful future in the competence, quality and innovative strength of the Company, as well as in the longstanding trust of its business partners. An essential precondition for this success is Vossloh's integrity in its dealings with stakeholders including employees, customers, suppliers, stockholders and the general public.

Vossloh AG's Executive Board has unmistakably expressed its zero-tolerance policy regarding any infringements against law and order and has published this on its website at www.vossloh.com. Any misconduct is rigorously pursued within the context of the applicable rules and regulations.

In order to ensure a uniform exemplary action and conduct, a code of contact has existed for the entire Group since 2007. This code of contact sets minimum standards and includes suggestions for how all employees can work together in complying with them. In addition to the code of conduct, mandatory group-wide guidelines ensure that ethical and legal requirements are observed in everyday work.

The code of conduct has been published in 13 languages and distributed to all employees of the Vossloh Group worldwide. In addition, special policies exit for antitrust and anti-corruption laws. Employees who have contact outside of the Company are instructed with eLearning programs and in attendance events, and based on practical case studies are instructed as to the proper conduct at all times. Country-specific features are included in supplementary policies which, however, are always built upon the generally applicable policies of the Vossloh Group as a minimum standard.

To communicate compliance as a sustainable value and to anchor it into the Group structure is the duty of the compliance organization, as well as of the management and executives. It ensures that the compliance program is implemented worldwide.

The Vossloh Group has an appropriate compliance organization which, on the one hand, is based on internal employees referred to as local compliance officers. These individuals are available to advise their colleagues concerning matters of correct conduct. They report regularly to the Compliance Committee which is established at the level of the Vossloh AG; in this committee, difficult cases are discussed and guidance is developed. This body also further develops the compliance in the Vossloh Group. It reports by way of the Chief Compliance Officer to the Executive Board and the Supervisory Board.

On the other hand, Vossloh, together with an international law firm, has named so-called ombudspersons, who are contact persons for indications of potential compliance violations. The languages spoken in the Vossloh Group are largely covered. With this, the Vossloh employees have the possibility to turn to the ombudsperson in their native language. The ombudsperson takes the necessary measures to clarify the matter in advance to the extent that the information/the complaint can be followed up. For the employee, the possibility exists that his or her name can remain anonymous to the respective employer but an efficient and successful resolution of the issue is nevertheless made possible.

Risk and control management

Responsible business risk management belongs to the principles of good corporate governance practice. Vossloh AG's Executive Board and the management of Vossloh subsidiaries can use group-wide and specifically tailored reporting and controlling systems which ensure that such risks are identified, mapped, assessed and managed. The systems are continually checked and tested for effectiveness and, where necessary, are updated and examined by the independent auditor. The Supervisory Board and the Audit Committee, as explained above, are regularly informed and are integrated in the process of risk management.

Details of risk management within the Vossloh Group are presented in the report, which also includes the statutory report on the accounting-related internal control and risk management systems, as required by German accounting law modernization legislation (known as BilMoG).

Declaration of conformity

Again in 2013, Vossloh AG's Executive and Supervisory Boards have thoroughly dealt with the Code requirements. Vossloh's corporate governance practices are accordingly reviewed on a regular basis.

To this end, the Executive and Supervisory Boards have made the following declaration:
"Declaration made by the Executive and Supervisory Boards of Vossloh AG on the recommendations of the "Government Commission of the German Corporate Governance Code" pursuant to Art. 161 AktG

In fiscal 2013, Vossloh AG complied with and continues to comply with all recommendations of the German Corporate Governance Code Government Commission, which have been published by the Federal Ministry of Justice in the official part of the digital Federal Gazette in their respective current versions on May 15, 2012, and May 13, 2013, subject to one exception:

Section 5.4.6, (2), sentence 2, of the German Corporate Governance Code recommends that if supervisory board members are promised any performance-related compensation, it should be oriented toward the company's sustainable growth. The present remuneration of the Supervisory Board as laid down in Article 17(2) of Vossloh's current Articles of Association comprises a fixed fee plus variable remuneration based on group earnings. Therefore, the currently applicable variable fee has not met the amended Code's recommendation since its revision. In fiscal 2014 the Supervisory and Executive Boards will consult regarding a possible adjustment of the Supervisory Board compensation.

Werdohl, December 2013

Vossloh Aktiengesellschaft
The Executive and Supervisory Boards"

The current declaration of conformity was issued in December 2013 in accordance with Art. 161 AktG and is permanently available on the Company's internet site.

Stockholders and the annual general meeting

Vossloh AG's stockholders exercise their rights and exercise in the general meeting and also exercise their voting rights there. As a rule, the Supervisory Board Chairman presides over the general meeting, which resolves with binding effect on all matters assigned or subjected by the law to AGM vote, including on the appropriation of net earnings, the grant of discharge for the Executive and Supervisory Board members in the fiscal year, the election of the statutory auditor, as well as on corporate agreements, capital measures and other amendments to the bylaws. At the annual general meeting, each share of (common) stock entitles the holder to one vote. The shareholders have the possibility to exercise their voting rights themselves or to have their rights exercised through an authorized representative of their choice or a proxy voting representative of the Company. Immediately after the Annual General Meeting the voting results can be accessed online on the Company's internet site.

Investor Relations

Vossloh attaches a high priority to providing timely and efficient information to the stockholders and other capital market participants. All information published by Vossloh regarding the Company is immediately made available on the Company's internet site under www.vossloh.com in German and English. This pertains especially to the annual report, semiannual and quarterly reports, invitations to the Annual General Meeting and other information. The dates scheduled for major recurring or periodical events and publications (such as the AGM, annual and interim reports) are summarized in a financial calendar which is published with adequate prior notice on Vossloh AG's website and is continually available. The consolidated financial statements are published within 90 days after fiscal year-end while quarterly reports are publicly available within 45 days after closing date.

If facts or circumstances arise outside of the regular reporting of Vossloh AG which could have an effect on the quoted price of the Vossloh stock, these are immediately made known through ad hoc announcements. In addition, the internet site www.vossloh.com provides extensive and current information on the Vossloh Group and the Vossloh stock.

Accounting and annual audit

The Vossloh Group's accounting basis is the International Financial Reporting Standards (IFRS), while the separate financial statements of Vossloh AG are prepared according to the provisions of the German Commercial Code (HGB), as prescribed by law (German GAAP). Both the IFRS consolidated financial statements and the separate financial statements according to German GAAP were audited by BDO AG Wirtschaftsprüfungsgesellschaft (the statutory auditor elected by the Annual General Meeting 2013 as proposed by the Supervisory Board), in accordance with German auditing standards and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Public Auditors in Germany. The audit engagement letter was issued by the Supervisory Board's Audit Committee in conformity with the recommendations of the Code and after due verification beyond any doubt of the statutory auditor's independence. The Supervisory Board agreed with the statutory auditor that the former would be promptly informed of any significant findings or circumstances which are arise during the annual audit which indicate a deviation from the Executive and Supervisory Boards' statement of compliance with the German Corporate Governance Code. However, in connection with the audit there were no indications of any such matters. The condensed interim financial statements and interim management report as of June 30, 2013 were subjected to a review by the independent auditor.

Remuneration of the Executive and Supervisory Boards

For details of Executive and Supervisory Board remuneration, see the Board Compensation Report on page 80, which is an integral part of both the combined management report and this corporate governance report.

In 2010, the Supervisory Board dealt extensively with the compensation system for the Executive Board. In consultation with an independent consultant specializing in compensation issues the reasonableness of the Executive Board compensation and the variable Executive Board compensation was reviewed. The most significant result was that the total compensation of the individual Executive Board members appropriately takes into account their personal performance, the economic situation, the success and future outlook of the Company as well as being in line with industry peers and the overall Company compensation system.

Regarding a long-term pay component, solutions were developed which are to be implemented once the current employment contracts have expired.

Directors' Dealings

The provisions of Sec. 15a German Securities Trading Act ("WpHG") obligate members of Vossloh AG's Executive and Supervisory Boards, certain other employees at the executive level and related parties to disclose the purchase or sale of Vossloh AG shares or related financial instruments. The full details of all such reportable so-called "directors' dealings" are published on the Vossloh website.

Stock option programs and similar securities-based incentive systems

Since 1998 Vossloh has issued stock option programs, formulated in line with its bylaws and available to Executive Board members and other officers. Under the terms of the long-term incentive plan (LTIP), the grant of Vossloh stock options is contingent on the prior purchase of Vossloh shares from each LTIP participant's own funds (personal investment). However, since 2005 there has not been a new issue of the LTIP. No active or former Executive Board member holds any stock options.

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Vossloh AG

Rail Infrastructure division

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems
Vossloh Rail Services

Transportation division

Business units:

Vossloh Transportation Systems
Vossloh Electrical Systems

Business and market environment

Strategy, segmentation, and competitive position

Today, Vossloh is a global player in the rail technology markets. The Group's core businesses comprise rail infrastructure products and services, rail vehicles, and components for rail vehicles and buses.

Under the umbrella of Vossloh AG as the management and financial holding parent, the Group has organized its business operations into two divisions: Rail Infrastructure and Transportation.

Rail Infrastructure offers products and services related to the infrastructure. The division has three business units: Fastening Systems, Switch Systems, and Rail Services.

International leader in selected rail infrastructure product groups

- Vossloh Fastening Systems is a leading supplier of rail fastening systems. The product lineup covers rail fasteners for all types of transport, from light-rail extending over heavy-haul to high-speed.
- Vossloh Switch Systems supplies, installs and services switches as well as control and monitoring systems for rail networks. Here, too, the range reaches from light-rail to high-speed lines.
- Vossloh Rail Services supplies all types of services having to do with the rails themselves, including welding, transport, maintenance, preventive care, and reconditioning.

The Transportation division covers the operations concerned with rail vehicles and vehicle systems/components including the related services. The division has two business units: Transportation Systems and Electrical Systems.

Diesel locomotives, light rail vehicles, electrical systems and key components

- With its production locations at Valencia, Spain (Vossloh Rail Vehicles), and Kiel, Germany (Vossloh Locomotives), Vossloh Transportation Systems is Europe's leading manufacturer of diesel locomotives and additionally supplies maintenance services. At its Valencia location it also develops and builds light rail vehicles.
- Vossloh Electrical Systems develops and manufactures key electrical components and systems for local transport rail vehicles and locomotives. The business unit is among the world's foremost suppliers of electrical equipment for trams as well trolleybuses and hybrid buses. Besides furnishing complete systems, the unit supplies air conditioners for rail vehicles, individual components, subassemblies, revamping work, servicing and maintenance.

Core strategic principles

The Vossloh Group operates according to the following core strategic principles:
- Focused portfolio: Vossloh offers products and services for the global rail technology market while concentrating on those submarkets in which it aspires to market leadership.
- Value-driven growth: Vossloh intends for its business to grow in value at a rate superior to the overall rail technology market. Organic growth is nurtured by expanding into high-potential markets and developing new products.
- High profitability: Vossloh aims to add value by earning a premium on top of the cost of capital.

Organization

The Vossloh Group has a broad international base. It local presence and customer proximity are integral elements of its business model. Key European production plants are in Germany, France, Spain, Luxembourg, Sweden, Poland, and Austria. Outside of Europe, Vossloh produces switch systems mainly in Australia and in the USA. It has major rail fastener plants in China and Turkey. A further production location in the USA is currently under construction. Vossloh operates through sales companies and branches and has in some instances, together with competent partners, entered into local joint ventures and alliances. Major subsidiaries and, at the same time, business unit lead companies are: Vossloh Fastening Systems GmbH, Werdohl, Germany; Vossloh Cogifer SA, Rueil-Malmaison, France; Vossloh Rail Services GmbH, Seevetal, Germany; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España SA, Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

Control system and targets

Vossloh's growth strategy targets the addition of value, measured as value added. Positive value added is generated when a premium on top of the return claimed by investors and lenders (cost of capital) is earned. This premium is the difference between the return on capital employed (ROCE) and WACC, the weighted average cost of capital (debt and equity). Multiplying the premium by average capital employed produces the value added in a period in absolute terms. For intragroup controlling purposes, ROCE and value added are determined on a pretax basis. In line with IFRS 8, value added is disclosed in published reports as the business unit controlling parameter.

Cost of equity is composed of a risk-free rate plus a market risk premium. As a result of the pretax consideration, the interest factor is accordingly adjusted. Cost of debt is calculated on the basis of the Group's average funding terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not from the balance sheet since it is not only predicated on a benchmark for the funding structure but also because equity is here based on fair value and not the carrying amounts in the balance sheet. Intragroup controlling in fiscal 2013 was based on pretax WACC of 8.5 percent as the yield expected by investors and lenders. The components of the cost of capital are analyzed at regular intervals. The review performed as of the end of the fiscal year led to a new estimate of the market risk premium to be applied. The increase in the market risk premium accordingly leads to an increase in the return expected by investors, which since fiscal 2014 has been increased to 10.0 percent.

In addition to positive added value, Vossloh has defined additional financial targets for the Group as a whole, the most important being:

Financial benchmarks

- sustainable profitability improvement (EBIT margin),
- sustainable increase in earnings per share,
- adequate dividends for shareholders,
- conservative net borrowings in the medium term.

The monthly financial reporting represents a central element for the analysis and control of the business units and the Group for management of Vossloh AG. Here, the financial statements and also the key performance indicators of all Group entities are consolidated and analyzed as is the monthly annual projection. Variations from plan are investigated as to their effects on the financial targets and are explained in a commentary. The monthly annual projection is supplemented by a risk report to identify potential decreases or increases to assets. Business unit monthly reports are discussed at regular meetings between the Executive Board and management of the operating units.

Business report

Business environment

The outlook for the global economic development has improved since the first half of 2013. According to the international Monetary fund (IMF), the worldwide gross domestic product (GDP) increased by 3.0 percent in 2013 (2012: 3.1 percent). For the global business development of the Vossloh Group, the regions of Europe, China and the USA are of paramount importance. Around 80.0 percent of Vossloh Group revenues were generated in these regions in 2013.

According to the IMF, growth in Vossloh's most important sales market, the euro zone, was slightly negative in 2013, with (0.4) percent, compared to a growth rate of (0.7) percent in 2012. In 2013, Germany was able to generate growth of 0.5 percent. However, the GDP in Germany showed lower growth compared to 2012. In 2012, an increase in GDP in Germany of 0.9 percent was reported. The economies bordering on the euro zone of Middle and Eastern Europe were able to record a gain of 2.5 percent and thereby significantly exceeded the 2012 growth rate of 1.4 percent.

In 2013, the aspiring Asian emerging countries one again generated the strongest growth. China's economy grew in 2013, unchanged to the prior year, by 7.7 percent. Economic growth in the USA declined in 2013 to 1.9 percent from 2.8 percent in the prior year.

The markets for rail technology that are relevant for Vossloh only follow general worldwide economic trends to a limited extent. This has led to the situation that since the economic collapse in 2009, the attractiveness of the rail technology market has increased in the eyes of market participants. The capacity of established suppliers has been expanded, and new suppliers have entered the market; former primarily local suppliers are driving their internationalization forward. The attractiveness of the overall market for rail technology is supported by several worldwide megatrends which can be observed. Increasing demand for mobility, diminishing energy supplies, the advancing urbanization and especially also a growing environmental consciousness are bringing rail as a mode of transport into focus.

Thus, the European Union is striving for a considerable shift of transport to rail. According to the EU's "Transport White Paper", greenhouse gas emissions are to be reduced in the transportation sector by approximately 20.0 percent by 2030 from the level in level in 2008. In order to achieve a sustainable reduction in greenhouse gas emissions, several targets have been formulated. By 2030, 30.0 percent of road freight haulage over a distance exceeding 300 km is to be shifted to other modes of transport. Along with transport by ship, railways in particular are mentioned. In this connection, the establishment of an infrastructure for efficient and eco-friendly cargo haulage corridors is required. It is also planned by 2030 to triple the overall length of the European high-speed railway networks and to ensure the existence and upkeep of a closely-meshed rail system in all EU member states.

Furthermore, the public debt situation has a significant effect on the demand in the rail technology market. According to the Statistical Office of the European Union (Eurostat), the debt situation in the European area has continually deteriorated since the end of 2009. The debt position of the euro countries, measured in terms of the GDP, increased from 80.0 percent in 2009 to 90.6 percent in 2012. Especially strong increases have been reported for the Southern European countries of the euro area relevant for Vossloh of Spain (from 53.9 percent in 2009 to 84.2 percent in 2012), Portugal (from 83.7 percent in 2009 to 123.6 percent in 2012) and Italy (from 116.4 percent in 2009 to 127.0 percent in 2012). According to Eurostat, in the third quarter of 2013 for the first time since the fourth quarter of 2007, a slight decline in the debt ratio compared to the previous quarter (second quarter of 2013) was able to be realized. Alongside Italy, a slightly declining trend was reported in Portugal. On the other hand, Spain showed a further increase in its debt. The increase in debt especially in these Southern European countries led to a serious drop in sales of the Vossloh Group in these regions. The Vossloh Group already intensified its internationalization efforts at a very early stage in order to compensate for this foreseeable weakness in demand in Europe and especially in Southern Europe. As a result of the extensive measures taken, Vossloh was able to achieve above-average growth.

The public debt and the increased attractiveness of the rail technology market, especially since the economic crisis in 2009, have led overall to a noticeable and sustainable increase in the intensity of competition. The Vossloh Group was not able to entirely escape this trend in recent years. An appreciable decline in the EBIT margin was the result.

Studies on the global rail technology market include the World Rail Market Study published by UNIFE, the Association of the European Rail Industry, and the Worldwide Market for Railway Technology published by the consultants SCI Verkehr. Both studies were most recently updated in September 2012. An update of both studies is carried out every two years, and the new results should be available in the third quarter of 2014. According to UNIFE, the worldwide market in the period from 2009 to 2011 amounted on average to approximately €146 billion per year. According to the consulting firm of SCI Verkehr, the market volume in 2011 amounted to about €143 billion. Based on information of the Association of the European Rail Industry, €106 billion has been rated as the accessible market. Accessible means that the respective market is in principle accessible to foreign suppliers, and the market demand is not exclusively met through domestic capacity. According to UNIFE, the total rail technology market can be subdivided into four segments: Infrastructure, Rolling Stock, Control, Signaling and Safety, as well as Services. Rolling Stock has the largest share (40.0 percent) of the accessible market, followed by Services (28.0 percent), Infrastructure (21.0 percent), and lastly Control, Signaling and Safety.

The largest single accessible markets are Western Europe (30.0 percent) and Asia/Pacific (24.0 percent), followed by the 20.0-percent share of the member countries of the North American Free Trade Agreement (NAFTA) and the Commonwealth of Independent States (CIS) at 10.0 percent. Africa, the Middle East, and South America, up to now smaller, are expected to show high growth rates.

Vossloh with its Rail Infrastructure and Transportation divisions has a footing primarily in the Infrastructure and Rolling Stock segments. But whereas in its Rail Infrastructure division (excluding Vossloh Rail Services), the Group operates on a global scale and ranks among the leaders, the business Transportation division is still tailored very heavily to the European market. The most recent sales success of the division – locomotives for South Africa and the USA and trams for Brazil – will lead to a noticeable increase in non-European sales in this division in 2014.

Generally, Vossloh's significant sales markets are hardly homogeneous in their structure and development and, moreover, generally available and reliable data on them is very limited. A more detailed description of the market trends is therefore generally provided in the following business unit reports and in the Outlook section.

Mergers & Acquisitions

On January 18, 2013, the acquisition of the entire shares in Metalúrgica Barros Monteiro Ltda., Sorocaba, Brazil via two intermediate holdings was carried out. In the meantime, the two holding companies were merged with each other, and the operating business now renamed as Vossloh Cogifer do Brasil Metalúrgica MBM S.A. It operates in the area of the design and construction of switches and switch components and has been assigned to the Switch Systems business unit.

On July 23, 2013, the Group acquired the entire shares in the company Outreau Technologies SAS, Outreau, France. Outreau Technologies manufactures and sells switches and switch components and has been assigned to the Switch Systems business unit. The acquisition ensures the supply of casted main components and should further strengthen the market position of Vossloh Switch Systems.

Results of operations

Sales climbed in line with expectations, result significantly lower than planned

In fiscal 2013, as planned, Vossloh was able to realize further growth in sales and once again expand, in some cases considerably, the international presence of all business units. Group sales in 2013 increased by 6.3 percent, which was driven by a positive trend in revenue in the Rail Infrastructure division. With the amount generated, revenues were at lower end of the originally planning of 5 to 10 percent. In spite of the tight public budgets in a number of European countries, sales of Vossloh continued to improve in Europe as expected. The growth was even stronger in the non-European markets, so that the share of these regions of Group sales climbed to 37.4 percent.

Non-recurring effects – here, primarily significantly higher expenses for the out-of-court settlement of a legal dispute – and a development in the results of the Transportation division which were significantly below expectations caused a noticeable decline in the earnings before interest and income taxes (EBIT), from €97.5 million in 2012 to €54.2 million in 2013. The EBIT margin thus decreased to 4.1 percent from 7.8 percent in 2012. For 2013, Vossloh had expected an EBIT margin of 6 to 8 percent. Consequently, EBIT and the EBIT margin developed significantly worse than assumed at the beginning of the year. With the low earnings of fiscal 2013, the return on capital employed (ROCE) of 6.1 percent also dropped, and was not only lower than in 2012 (11.5 percent), but also lower than the pretax cost of capital established for the Group and lower than originally planned. The forecast at the beginning of 2013 was between 9 percent and 12 percent. Thus, Vossloh was not able in 2013 to achieve a positive value added at the Group level. With an increase of 5.9 percent, the average capital employed in the past fiscal year was lower than planned. Significantly contributing to this was the very good working capital management in the fourth quarter of 2013.

Orders received and the order backlog were considerably higher than expected. The Group obtained incoming orders in excess of €1.5 billion and at year end had an order backlog in excess of €1.7 billion.

Rail Infrastructure with clearly increased sales, Transportation division with lower sales

In 2013 Vossloh achieved Group sales of €1,321.2 million. Compared to sales in 2012 of €1,234.0 million, this represents an increase in revenues of 6.3 percent. The increase in sales resulted entirely from the significantly higher sales of the Rail Infrastructure division, whose business units all reported an improvement in sales. Especially significant and stronger than expected, revenues of Vossloh Fastening Systems increased.

Vossloh Group - sales by business unit

	€ million	%	€ million	%
	2013		2012	
Rail Infrastructure	**896.0**	**67.8**	**792.4**	**63.7**
Fastening Systems	376.4	28.5	291.4	23.4
Switch Systems	460.7	34.9	451.3	36.3
Rail Services	62.1	4.7	54.6	4.4
Consolidation	(3.2)	(0.3)	(4.9)	(0.4)
Transportation	**425.2**	**32.2**	**451.1**	**36.3**
Transportation Systems	261.9	19.8	293.7	23.6
Electrical Systems	165.7	12.5	166.8	13.4
Consolidation	(2.4)	(0.1)	(9.4)	(0.7)
Holding company and consolidation	**0.0**	**0.0**	**(0.5)**	**(0.0)**
Total	**1,321.2**	**100.0**	**1,243.0**	**100.0**

Sales of the Transportation division declined in the past year primarily due to the lower sales in the Transportation Systems business unit. Against this background, the share of Rail Infrastructure of Group sales increased noticeably to 67.8 percent (2012: 63.7 percent), and the share of sales of the Transportation division declined to 32.2 percent (2012: 36.3 percent).

Sales in Europe higher than in 2012, increase outside of Europe even larger

In spite of the growing importance of Asia, Europe remains the largest sub-market for rail technology worldwide. For Vossloh, Europe remains the home market and at the same time, with a 62.6 percent share of Group sales it represents a major sales region. In fiscal 2013, almost all of the Group's business units were able to more or less maintain their sales in Europe and were partially able to expand them. In total, revenues in Europe rose by 3.3 percent to €827.3 million (2012: €801.0 million).

Vossloh Group: sales by region

	€ million	%	€ million	%
	2013		2012	
Germany	282.3	21.4	260.1	20.9
France	154.5	11.7	138.6	11.2
Rest of Western Europe	152.5	11.5	125.4	10.1
Northern Europe	71.7	5.4	84.8	6.8
Southern Europe	98.9	7.5	121.9	9.8
Eastern Europe	67.4	5.1	70.2	5.6
Total Europe	**827.3**	**62.6**	**801.0**	**64.4**
Americas	124.1	9.4	125.5	10.1
Asia	314.3	23.8	264.2	21.3
Africa	22.4	1.7	18.3	1.5
Australia	33.1	2.5	34.0	2.7
Total	**1,321.2**	**100.0**	**1,243.0**	**100.0**

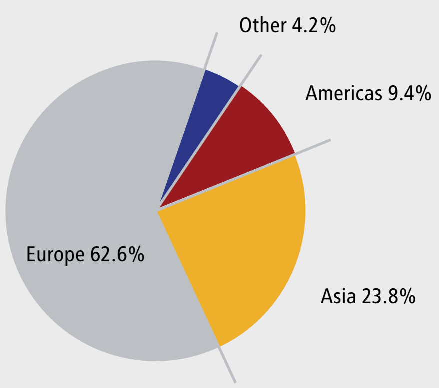
While significant declines in sales were once again reported in Southern and Northern Europe, and also in Eastern Europe the sales of 2012 were not quite able to be reached, Vossloh achieved above-average revenue increases in Germany and France. Sales in Great Britain in 2013 were also ahead of 2012. In comparison to all European countries, Great Britain in the meantime is the third largest contributor to sales for Vossloh after Germany and France. With locomotives and light-rail vehicles, the Transportation division was especially able to more strongly position itself.

Sales in Southern and Northern Europe declined once again

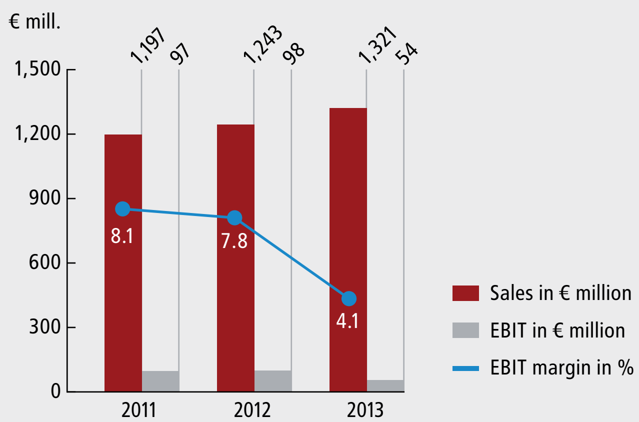
Significant for the further decline in revenues in Southern Europe were losses of sales particularly in Spain. Since 2008, with the beginning of the public debt crisis, the sales of Vossloh in Southern Europe have declined by €160 million. This was compensated for by sales increases, particularly in Western Europe.

In Northern Europe, Sweden is the largest single market of Vossloh. The Rail Infrastructure division, in particular, is operating there successfully. However, overall the demand in the region was lower in 2013. In the Eastern Europe region, sales, above all in Russia, developed positively in 2013. For several years, Vossloh Fastening Systems has been supplying fastening systems in the country. The decline of sales in the region is due to the completion of a local transport project of Vossloh Electrical Systems in Poland. In the other Eastern European countries sales overall remained at the level of 2012.

In the past years, Vossloh has strongly driven its expansion forward, and especially in Asia new sales markets have been successfully developed. In 2013 in China, Kazakhstan and South Korea, significant contributions to sales were generated in the Rail Infrastructure division. In total, revenues in the Asian area, excluding the Near Eastern countries, increased by approximately €87 million, or 55 percent, compared to 2012.



Sales by region in 2013



Sales and EBIT of the Vossloh Group, 2011–2013

A large portion of this growth is due to the fact that in 2012, as a result of a suspension of deliveries in China until summer, no deliveries were able to be made for rail fastening systems, and thus there was a catch-up effect in 2013. Furthermore, in fiscal 2013 a large infrastructure project was implemented in South Korea, and higher sales were once again generated in Kazakhstan. In addition to the mentioned countries, in Asia Vossloh supplies a number of further markets. In this connection, projects in Thailand, India, Malaysia and Vietnam were of more siginificance in 2013.

Asia including Near East together represent 23.8 percent of Group sales

Both Vossloh divisions are actively involved in various projects in the Near East. In 2012 and 2013 Vossloh Rail Vehicles delivered locomotives to the Israeli Railway Authority. Vossloh Switch Systems and Vossloh Fastening Systems generated significantly higher sales in 2013 in the United Arab Emirates as in 2012. Overall, however, revenues in this region remained behind the prior year, since a large infrastructure project was already able to be completed in Iraq in 2012. Sales in 2013 of the Vossloh Group in Asia, including the Near East, amounted to €314.3 million, representing a share of Group sales of 23.8 percent compared to 21.3 percent in 2012. By far, Asia is the most important region for Vossloh outside of the home market.

In the Americas, Vossloh has gained in importance for several years. In 2013, sales were achieved there in the amount of €124.1 million (2012: €125.5 million). The largest single market for Vossloh is the USA, followed by Brazil. In the USA, in addition to the locations of Vossloh Switch Systems and Vossloh Electrical Systems, beginning in 2014 Vossloh will start operations in its own production location of Vossloh Fastening Systems. In Brazil, Vossloh Switch Systems has had a local operating company since the beginning of 2013.

Africa is becoming an increasingly important player for rail technology not only in the north of Africa but also in other parts of the continent, in spite of continuing political uncertainty. In 2013, Vossloh generated higher sales, particularly in Morocco. With a large order for locomotives, South Africa will be contributing to Group sales to a greater extent in the coming years. In 2013, the sales volume in Africa already increased from €18.3 million to €22.4 million.

With €33.1 million, sales of Vossloh in Australia were in a stable range (2012: €34.0 million).

Gross profit and gross margin decline due to non-recurring expenses and operational charges

Vossloh Group's gross profit – sales revenues less cost of sales – amounted to €233.9 million in 2013, representing a gross margin of 17.7 percent (2012: 20.0 percent). The decline in gross profit compared to the prior year (€248.7 million) and the significantly lower margin were due in large part to the non-recurring charges which related mainly to the Transportation division. They resulted primarily from expenses in connection with a damage claim of a customer in the Transportation Systems business unit which was finally settled in October 2013. In addition, valuation allowances on receivables as well as higher start-up costs and extensive additional costs in connection with new project processes had a negative effect on gross profit of the Electrical Systems business unit.

The expenses of the two functional areas sales and administration in 2013 amounted in total to €185.6 million (2012: €172.4 million). This represented an expense ratio compared to sales of 14.0 percent (2012: 13.9 percent). Compared to the prior year, there were increases in both selling expenses to €98.9 million (2012: €88.3 million) and in administrative expenses to €86.7 million (2102: €84.1 million). While the increase in selling expenses was primarily in connection with the higher sales of the Rail Infrastructure division, the higher administrative expenses were due for the largest part to consulting projects. The "other result" of the Vossloh Group in 2013 amounting to €17.4 million was clearly lower than in 2012 (2012: €30.3 million). This resulted mainly from releases of provisions which were substantially below those in the prior year and higher exchange losses.

EBIT significantly under prior year; approx. €25 million non-recurring charges

Due to the extensive charges to earnings in the Transportation division, the Vossloh Group's earnings before interest and income taxes (EBIT) declined from €97.5 million in 2012 to €54.2 million in 2013. The EBIT margin decreased markedly from 7.8 percent in 2012 to 4.1 percent in 2013. Net interest expense in fiscal 2013 amounted to €21.8 million and was only insignificantly higher than in 2012 (€21.4 million). The earnings before income taxes of the Group for fiscal 2013 dropped by more than 50 percent compared to 2012, from €76.1 million to €32.4 million. In light of a higher tax ratio of 34.6 percent (2012: 27.3 percent) and due to a noticeably increased share of non-controlling interests in earnings after taxes, group net income in 2013 declined disproportionately from €59.2 million in 2012 to €15.0 million in the fiscal year. Included in net profit in 2012 were results of discontinued operations in the amount of €9.5 million. In 2013, the result of discontinued operations amounted to €2.9 million.

Vossloh Group: sales and performance

	€ million	%	€ million	%
	2013		2012	
Sales revenues	1,321.2	100.0	1,243.0	100.0
Gross profit	233.9	17.7	248.7	20.0
Operating result	53.0	4.0	96.9	7.8
EBITDA	96.8	7.3	138.9	11.2
EBIT	54.2	4.1	97.5	7.8
EBT	32.4	2.5	76.1	6.1
Result of discontinued operations	2.9	0.2	9.5	0.8
Group net income	15.0	1.1	59.2	4.8
Earnings per share (in €)	1.25		4.94	

The increase in the tax ratio is due primarily to the loss situation of individual companies in the Switch Systems business unit. The share of non-controlling interests in earnings before taxes of €9.1 million, which was higher than in 2012 (€5.6 million) resulted especially from the markedly increased result in 2013 of the Chinese subsidiary in the Fastening Systems business unit.

Compared to the prior year (11,993,491 shares), the average number of outstanding shares increased to 11,998,887, since 6,118 shares were issued in the fourth quarter of 2013 in connection with current employee stock participation program. Based on the average outstanding shares, earnings per share for 2013 amounted to €1.25 (2012: €4.94).

Proposed dividend for 2013 reflects decline in earnings

Due to the sharp decline in earnings, the Executive and Supervisory Boards of Vossloh AG are proposing a dividend of €0.50 per share to the shareholders for fiscal 2013. For 2012, a total of €2.00 per share was distributed to shareholders.

ROCE below cost of capital

Vossloh Group's return on capital employed (ROCE) in 2013 amounted to 6.1 percent, compared to 11.5 percent in 2012. The significant decline of ROCE is primarily due the markedly lower Group EBIT. However, in 2013, capital employed also increased. On average for the year it amounted to €895.4 million, compared to €845.5 in 2012. The cause of the higher capital employed was mainly higher tangible assets as well as, to a smaller extent, a higher average level of working capital. In fiscal 2013, the weighted return expectations for equity holders and lenders were estimated to be 8.5 percent. With a ROCE of 6.1 percent, no positive value added was thus generated in the past fiscal year. The negative value added of Vossloh Group for 2013 amounted to €(21.9) million, compared to a positive contribution of €13.0 million for fiscal 2012.

Order backlog and order intake at new record levels

With €1,728 million at the end of 2013, the Vossloh Group is showing a record level for the order backlog. The strong increase, compared to the prior year's backlog of €1,548 million, was due to the significant increase in orders received in the Transportation division. Overall, order intake in the Group amounted to €1,502 million, which is an increase of €208 million, or 16.0 percent, over the prior year (€1,294 million).

Vossloh divisions: order backlog

€ million	2013	2012
Rail Infrastructure	517	600
Transportation	1,211	949
Consolidation	0	(1)
Vossloh Group	**1,728**	**1,548**

In the course of 2013, the Rail Infrastructure division received incoming orders amounting to €814 million. The comparable amount in 2012 of €809 million was slightly exceeded; however, in 2012, in both the Switch Systems and Fastening Systems business units larger project awards in several countries were able to obtained, which in 2013 were not tendered to the same extent. In 2013, nevertheless, the Switch Systems business unit significantly exceeded the original forecast for new order volume. As expected, orders received in the Rail Services business unit increased in 2013 compared to 2012. As of the end of 2013, the order backlog of the Rail Infrastructure business unit amounted to €517 million. The noticeable decrease compared to the prior year's amount of €600 million is due to the strong increase in sales of over €100 million in the business unit.

In spite of the continued restrained demand for locomotives for freight transport caused by the economy, Vossloh in 2013 reported in the Transportation division a significant increase in orders received, from €487 million to €687 million. Vossloh Electrical Systems and Vossloh Rail Vehicles achieved appreciably higher order intake than in the prior year with a number of projects for local transport rail services. In addition, Vossloh Rail Vehicles received a large order for locomotives from South Africa. In contrast, incoming orders of Vossloh Locomotives in Kiel declined once again. As of December 31, 2013, the order backlog in the total Transportation division amounted to €1,211 million and was thus significantly higher than in 2012 (€949 million).

Financial position and investing activities

As the Group's management holding company, Vossloh AG is also responsible for managing the Group's financing and funding. In addition to the central management of cash flows, Corporate Treasury Management is responsible for ensuring the financing of all subsidiaries as well as for hedging and managing financial risks. These include not only liquidity risks but also especially risks from interest and exchange rate fluctuations. For hedging purposes, derivative hedging instruments, among others, are employed. The Group companies are primarily financed through intra-group funding by Vossloh AG. Only in isolated cases where funding outside Germany is either economically preferable or required by law do subsidiaries obtain financing locally.

Net financial debt unchanged

The net financial debt of the Vossloh Group in the amount of €201.2 million at December 31, 2013, barely changed from the balance at December 31, 2012 of €200.8 million. At the end of 2013, the Group's financial liabilities of €265.4 million were slightly below the corresponding amount of €270.7 million as of the December 31, 2012 balance sheet date. While the Group's working capital in the first quarter of 2013 increased significantly and had to be accordingly financed, the financial liabilities that were built up during the year were able to be substantially reduced again, especially in the fourth quarter in light of larger advance payments for projects in the Transportation division.

Vossloh Group – net leverage

		2013	2012
Equity[1]	€ million	490.3	505.7
Net financial debt	€ million	201.2	200.8
Net leverage	%	41.0	39.7

[1]Group equity, including non-controlling interests

First tranche of the US-PP due in 2014

Current financial liabilities of the Group of €140.9 million were significantly higher than at the end of 2012 (€85.5 million). The increase can be explained primarily by a reclassification: The first tranche of the US private placement that was carried out in 2004 was reclassified from noncurrent liabilities to current liabilities, since in 2014 US-$140.0 million of a total US-$240.0 million is to be repaid; the second tranche matures in 2016. The principle and interest payments of both tranches have been entirely hedged in euro by an interest and currency swap, since the foreign currency financing was carried out at fixed interest rates. Both installments carry a fixed euro interest rate, the first at 5.325 percent and the second at 5.455 percent. For the redemption and refinancing of the first tranche, a number of possibilities are available to the Vossloh Group. For the partial refinancing of the financial liabilities maturing in 2014, a promissory note bond for €50.0 million was already taken up in fiscal 2013.

The Vossloh Group's noncurrent financial liabilities in the total amount of €124.5 million as of December 31, 2013 (2012: €184.9 million) relate primarily to the second tranche of the US private placement as well as the promissory note bond issued in fiscal 2013 and running until 2018. The loan carries a variable interest rate tied to the six-month Euribor.

Cash and cash equivalents as well as short-term securities of the Vossloh Group totaled €64.2 million as of December 31, 2013 (2012: €69.9 million). The net leverage of the Group, defined as the net financial debt in relation to equity, amounted at the end of 2013 to 41.0 percent (2012: 39.7 percent). In addition to the directly available funds, the Vossloh Group had unused credit lines available at December 31, 2013 in the amount of €393.8 million. For a partial amount of €313.1 million the maturity was of up to one year; €61.5 million was available for over one year and €19.2 was granted for an unlimited term.

Cash flows from operating activities with reduction of working capital of over €100 million

Vossloh Group's cash flow from operating activities amounted in 2013 to €122.6 million (2012: €162.6 million). The decrease compared to the prior year was due primarily to the lower EBIT and a smaller reduction of working capital in the Group.

Vossloh Group: analysis of cash flows

€ million	2013	2012
Cash flow from operating activities	122.6	162.6
Cash flow from investing activities	(77.8)	(72.9)
Cash flow from investing activities	(54.0)	(109.9)
Net cash outflow/inflow	**(9.2)**	**(20.2)**

Cash flow from investment activities in the Vossloh Group amounted to €(77.8) million (2012: €(72.9) million). The increase in net cash outflow compared to 2012 resulted from higher investments in intangible assets and property, plant and equipment in the amount of €66.8 million (2012: €58.5 million). Free cash flow, defined as cash flow from operating activities less investments in intangible assets and property, plant and equipment amounted in 2013 to €55.8 million (2012: €104.1 million). Cash flow from financing activities in 2013 amounted to €(54.0) million (2012: €(109.9) million).

Vossloh Group: Capex and depreciation/amortization (incl. impairment write-downs and reversals of write-downs) by division

€ million	2013		2012	
	Capital expenditure	Depreciation/ amortization	Capital expenditure	Depreciation/ amortization
Rail Infrastructure	41.9	25.8	34.4	24.0
Transportation	24.6	15.9	24.0	16.5
Holding companies	0.3	0.9	2.7	0.9
Vossloh Group	**66.8**	**42.6**	**61.1**	**41.4**

Capex again increases in connection with ongoing investment programs

In connection with the investment program initiated in 2009, Vossloh made greater investments in property, plant and equipment again in 2013. The capital expenditures in the Group amounted in total to €66.8 million (2012: €61.1 million). Both divisions invested more than in the prior year, whereby once again the significantly larger portion of the investments was made in the Rail Infrastructure division. Depreciation and amortization in fiscal 2013 also increased, from €41.4 million to €42.6 million.

Capex in the Rail Infrastructure division amounted in the reporting period to €41.9 million and was €7.5 million higher than the amount of €34.4 million in 2012. Both the Fastening Systems and the Rail Services business units invested significantly more than in the prior year. The fitting out of a new production facility in the USA was the focus of investment for Vossloh Fastening Systems, whose capex in total amounted to €8.1 million (2012: €4.5 million). Vossloh Rail Services incurred expenses in total of €12.3 million (2012: €9.1 million), primarily to make capacity available for the high-speed grinding and rail milling. Capex in the Switch Systems business unit of €21.5 million (2012: €20.8 million) related to a new forge in Luxembourg, a technology center in France and the modernization of the milling capacity in France as well as the expansion of the capacity in the USA.

Investment in Rail Infrastructure division flowing into modernization and targeted capacity expansion

Capex in the Transportation division of €24.6 million in 2013 was slightly higher than in the prior year (€24.0 million). Substantially higher than in 2012 were investments in the Electrical Systems business unit of €10.1 million (2012: €5.7 million), since a test field was constructed at the Düsseldorf site. Capital expenditures in the Transportation division in 2013 of €13.5 million were lower than those in 2012 of €15.8 million. Investments of Vossloh Rail Vehicles in Valencia were incurred mainly for development expenditures and amounted in total to €8.2 million (2012: €10.2 million). They went primarily into the further development of the TramLink light-rail vehicle and the EURO 3000 locomotive. Vossloh Locomotives in Kiel once again invested €5.3 million (2012: €5.6 million) in the family of platform locomotives existing since 2010 with the series G 12 and G 18 as well as DE 12 and DE 18.

Vossloh Group: breakdown of capital expenditures

€ million	2013		2012	
	Capital expenditure	%	Capital expenditure	%
Development costs	12.4	18.6	15.1	24.7
Other intangible assets	2.6	3.9	2.3	3.8
Land and buildings	4.4	6.7	8.9	14.6
Technical installations and machinery	13.0	19.3	16.0	26.2
Other plant, factory and office equipment	8.8	13.0	7.3	11.9
Advances to suppliers, construction in process	25.6	38.5	11.5	18.8
Vossloh Group	**66.8**	**100.0**	**61.1**	**100.0**

Asset and capital structure

The Group's balance sheet total of €1,586.3 million as of December 31, 2013 was significantly higher than at the prior year's balance sheet date of €1,500.0 million, due primarily to the increased noncurrent assets.

The equity ratio of the Group at December 31, 2013 declined to 30.9 percent compared to the prior year (33.7 percent). Total equity receded from €505.7 million at the end of 2012 to €490.3 million, due mainly to markedly lower Group net income and the dividend payment effected in the business year 2013.

Working Capital at year end below already low amount in the prior year

The Group's working capital as of the 2013 balance sheet date amounted to €102.1 million, compared to €166.0 million as of December 31, 2012. Decisive for this decline was the fact that in 2013 significantly higher liabilities and markedly higher advance payments stood opposite only slightly increased inventories and trade receivables. On average for the year, working capital was €217.5 million compared to €204.8 million on average in 2012. Working capital intensity on the basis of the average working capital in fiscal 2013 compared to the prior year remained unchanged at 16.5 percent.

Average capital employed increased mainly due to higher property, plant and equipment

As of December 31, 2013, capital employed of the Group amounted to €817.7 million. The decrease of €11.0 million compared to the balance sheet date in the prior year of €828.7 million is due to the decreased working capital at the 2013 balance sheet date. On average for the year, capital employed of the Group amounted to €895.4 million (2012: €845.5 million). The increase in capital employed compared to the average in 2012 resulted, aside from the increase in noncurrent assets, from the higher average working capital in the year.

Vossloh Group: assets and capital structure

		2013	2012
Total assets	€ million	1,586.3	1,500.0
Total equity*	€ million	490.3	505.7
Equity ratio	%	30.9	33.7
Closing working capital	€ million	102.1	166.0
Closing capital employed	€ million	817.7	828.7
Noncurrent assets	€ million	715.6	662.7
Return on equity (ROE)*	%	6.6	15.1

*Group equity including non-controlling interests; return in relation to equity as of the balance sheet date

Shareholder value management

Group ROCE under 2012 and lower than cost of capital

The Vossloh Group's return on capital employed (ROCE) for fiscal 2013 of 6.1 percent was below the prior year (11.5 percent) and also below the cost of capital assessed at 8.5 percent. Originally, the return expectation for 2013 had amounted to 9.0 percent to 12.0 percent. Having a significant effect for the decline in the return on capital was the substantially lower Group EBIT, which was decisively below the original expectations. Furthermore, capital employed increased as expected, since noncurrent assets and also working capital were higher than in 2012. In 2013, the Group did not generate a premium on the capital employed. The value added was negative and amounted to €(21.9) million (prior year: €13.0 million).

ROCE of Rail Infrastructure significantly improved to 12.7 percent

In the Rail Infrastructure division, ROCE improved significantly in the past fiscal year, with 12.7 percent compared with 11.6 percent in the prior year. In spite of the increased capital employed, the division generated a higher premium on capital employed than in previous years. The value added in the division almost tripled to €31.4 million (2012: €11.0 million). While Vossloh Switch Systems and Vossloh Rail Services generated negative value added, this positive development was substantially achieved by the Fastening Systems business unit.

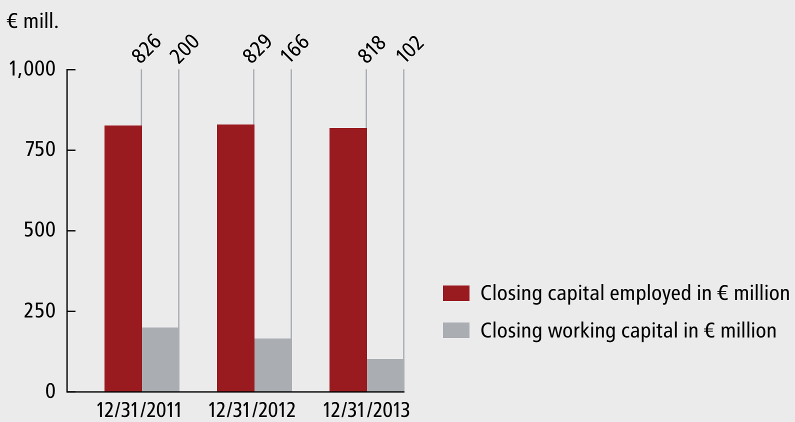
Negative ROCE in Transportation division

As a result of the substantially deteriorated earnings in the Transportation division, ROCE of the division was also negative in fiscal 2013. It amounted to (14.2) percent, compared to 27.3 percent for 2012. Value added turned around from €22.5 million for 2012 to €(33.8) million for the reporting period. Both business units of the division are showed negative value added.

Vossloh Group: value management

		2013	2012
Average capital employed	€ mill.	895.4	845.5
ROCE	%	6.1	11.5
Value added*	€ mill.	(21.9)	13.0

*To calculate value added, a weighted average cost of capital (WACC) of 10.0 percent was applied in 2012 and 8.5 percent in 2013.

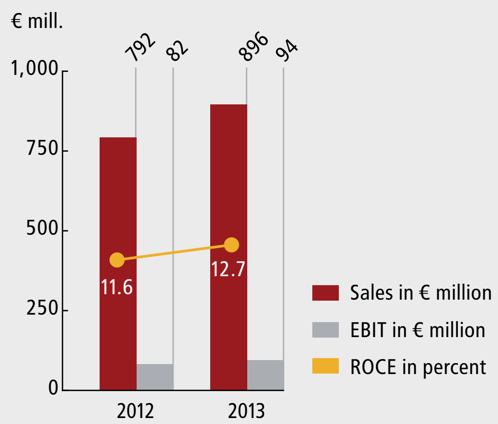


Vossloh Group: capital employed and working capital trend, 2011–2013

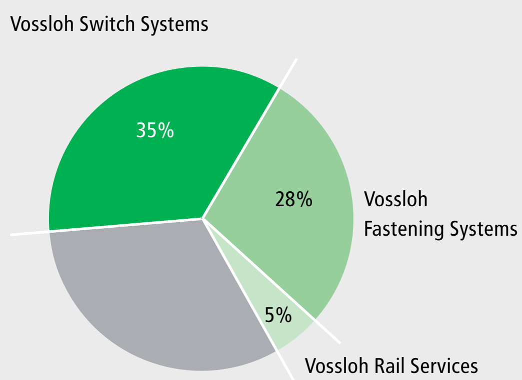
Vossloh Fastening Systems raises sales and earnings significantly and more strongly than expected

Vossloh Switch Systems increases sales and incoming orders in a competitive environment

Vossloh Rail Services showing higher sales and earnings



Sales, EBIT and ROCE of Rail Infrastructure division



Shares of business units in Group sales

Rail Infrastructure business trend

The Rail Infrastructure division's business comprises all operations in the area of rail infrastructure products and services. The division has three business units: Fastening Systems, Switch Systems, and Rail Services. Vossloh is one of the internationally leading manufacturers of fastening and switch systems worldwide. The lineup includes products for conventional rail lines, rail lines for heavy-load traffic and for short-distance traffic. With many years of experience and comprehensive expertise, Vossloh Fastening Systems and Vossloh Switch Systems are setting standards and with innovative solutions are establishing benchmarks for the future. The Rail Services business unit offers all types of services relating to rails, and in fact, throughout their entire life cycle: from the production and logistics of long welded rails, extending over the maintenance and preventive care all the way to the refurbishing and reuse of old rails. Vossloh leads the market in the application area of high-speed track grinders.

In the Rail Infrastructure division, sales in 2013, driven by all three business units, increased significantly by 13.1 percent to €896.0 million (2012: €792.4 million). The largest portion of the growth came from the Fastening Systems business unit, which increased its sales compared to the prior year by almost 30.0 percent. Sales revenues of Vossloh Switch Systems, in terms of sales the largest business unit in the Group, increased slightly, while revenues from Vossloh Rail Services again achieved growth in the double-digit percentage range, even though at a lower level than in 2012.

With a 50 percent share of sales, Europe remained the most important sales region for the Rail Infrastructure division. In spite of higher total revenues, the sales share of the region compared to total sales decreased compared to the prior year (52 percent). This was due to the fact that growth particularly in Asia was even stronger. The largest single European market in the division in 2013 was France, with a percentage sales share of approximately 12 percent which was almost entirely generated in the switch business. In second place of the European sales countries was Germany, with 11 percent of the revenues (2012: almost 14 percent). Over half of the sales in Germany come from the Rail Services business unit. The largest contributor to sales outside of Europe was Asia, with a share of sales in the division of 27 percent. The Americas market contributed 13 percent of the sales. The most important individual countries for the division in 2013 were China, France, the USA, Germany, Sweden and Kazakhstan.

Vossloh Fastening Systems provides marked increase in value added of division

Value added in the Rail Infrastructure division rose from €11.0 million in 2012 to €31.4 million in the reporting period. This was provided entirely by Vossloh Fastening Systems. The value contribution of the Switch Systems and Rail Services business units was again negative in 2013, even though it improved markedly in the Rail Services business unit compared to the prior year.

ROCE rises to 12.7 percent

ROCE, return on capital employed, improved in the Rail Infrastructure division compared to the prior year to 12.7 percent (2012: 11.6 percent). In spite of a higher capital employed, the performance indicator increased significantly due to the substantial EBIT improvement of the division. The average capital employed in the twelve months of 2013 amounted to €738.9 million and was €32.2 million higher than the comparable amount in the prior year of €706.7 million. In addition to a slightly increased working capital, the rise is due in particular to the first consolidation of newly acquired companies.

Despite high sales growth, working capital only slightly above 2012

Despite the increased level of sales in the division, the average working capital of €259.5 million in 2013 was only 4.8 percent above the comparable amount in 2012 of €247.5 million. The average working capital intensity amounted to 29.0 percent (2012: 31.2 percent). The increase is explained mainly by the sales-related higher balance of receivables.

Earnings before interest and income taxes (EBIT) in the Rail Infrastructure division increased by 15.2 percent to €94.1 million (2012: €81.7 million) especially due to the very good business development in the Fastening Systems business unit. The EBIT margin increased to 10.5 percent from 10.3 percent in 2012.

Rail Infrastructure

		2013	2012
Sales	€ mill.	896.0	792.4
EBIT	€ mill.	94.1	81.7
EBIT margin	%	10.5	10.3
Average working capital	€ mill.	259.5	247.5
Average working capital intensity	%	29.0	31.2
Noncurrent assets	€ mill.	489.9	469.2
Capital expenditures*	€ mill.	41.9	34.4
Amortization/depreciation*	€ mill.	25.8	24.0
Closing capital employed	€ mill.	686.1	683.3
Average capital employed	€ mill.	738.9	706.7
ROCE	%	12.7	11.6
Value added	€ mill.	31.4	11.0

*Excluding noncurrent financial instruments; scheduled amortization/depreciation plus impairment write-downs and reversals

Vossloh Fastening Systems

For 130 years Vossloh Fasten Systems has been a leading manufacturer of rail fastening systems which are used by railway and local transport operators worldwide. Its product range covers fastening systems for all load profiles, from heavy-haul, extending through local transportation all the way to high-speed rail links.

Vossloh Fastening Systems shows a marked increase in sales and revenues

Sales in the business unit once again increased significantly in fiscal 2013, especially outside of Europe. Revenues rose by 29.1 percent to €376.4 million (2012: €291.4 million), profiting from markedly higher sales in the Asian area. This related partly to the business in China with fastening systems for high-speed fasteners, for which substantially more call-ups took place compared to the prior year. In 2013, Vossloh Fastening Systems was also able to generate noticeable sales increases in Kazakhstan and South Korea.

Orders received by Vossloh Fastening Systems in 2013 reached €258.7 million (2012: €309.5 million). Significant contract awards for the business unit came from China, Germany, Saudi Arabia and Turkey. On December 31, 2013, the order backlog of the business unit amounted to €166.5 million and, due to the higher than planned increase in sales, especially in China, was below the backlog amount of €284.2 million at the end of 2012.

Capital expenditures of Vossloh Fastening Systems in 2013 amounted to €8.1 million. This represents an increase of €3.6 million compared to 2012 (€4.5 million). Expenditures were made primarily for the fitting out of the new production facility in the USA which will go into operation in 2014. In Europe and China, investment was made at the same level as in 2012, above all, in new tools and structural measures.

New production facilities in the USA will start up in 2014

As a result of the repeated significant increase in earnings, value added of Vossloh Fastening Systems in 2013 amounted in 2013 to €47.7 million. This represents an increase of 60.1 percent compared to amount generated in 2012 of €29.8 million.

Vossloh Switch Systems

Vossloh Switch Systems sales rise slightly despite significant competitive pressure

Vossloh Switch Systems is the second largest supplier of switches and monitoring and control systems for rail networks worldwide. The product lineup includes switches for all ranges of applications. In 2013, sales of the business unit increased by 2.1 percent to €460.7 million (2012: €451.3 million). In the Western European market Vossloh Switch Systems was able to significantly increase sales in France. In Great Britain and in the Netherlands, the business also performed better compared to the prior year. The regions Northern and Southern Europe once again trended negatively, while sales gains were registered in the Eastern European markets. Increases in revenues were also realized in South America and in the South-East Asian region. In addition to France, the largest markets of the business unit in 2013 remained in the USA, Sweden and Australia. In total, the share of sales of Vossloh Switch Systems' non-European business amounted to 42 percent (2012: 49 percent).

Orders received by Vossloh Switch Systems of €492.4 million exceeded the level of the prior year by 9.2 percent (2012: €451.0 million). Important orders were already obtained in 2012 in France, the USA and in Sweden. The business unit was also able to achieve further sales in Australia and Asia. At €343.9 million, order backlog at the end of 2013 was significantly higher than in the prior year. At December 31, 2012, the backlog of Vossloh Switch Systems had amounted to €312.3 million.

The business unit's capex of €21.5 million exceeded the prior year's amount by €0.7 million (2012: €20.8 million). The largest investment projects included a forge at the Luxembourg site, the Technology Center in Reichshoffen and technically equipping the site for the production of switches in China.

Value added of Vossloh Switch Systems declined in 2013 to €(13.4) million (2012: €(10.8) million). This was caused primarily by the lower profit margin due to the intensive competition situation in the switch business and non-recurring expenses in connection with the restructuring of the location in Italy.

Vossloh Rail Services

Growth in service segments of Vossloh Rail Services

Vossloh Rail Services is a supplier of all types of rail-related services. The business operates in the areas of the manufacturing and transport of long rails all the way to maintenance and preventive care of rails. In doing so, Vossloh Rail Services contributes to protecting the value and safety of modern rail lines. Driven by positive performance in the service segment within the business unit, the sales level in 2013, after the difficult year of 2012, once again increased by 13.7 percent. Sales increased to €62.1 million, compared to €54.6 million in 2012. With an 85 percent share of sales, Germany remained the most important market of the business unit. In addition, sales were generated in Northern Europe and China.

The first sales contributions of the business unit from China were generated in connection with a joint venture with a local partner. Since the middle of 2013 a high-speed grinding train of Vossloh Rail Services is in operation on the line between Beijing and Shanghai.

Orders received by Vossloh Rail Services of €66.1 million in 2013 were also significantly higher, by 24.8 percent, than in the prior year (2012: €52.9 million). At the end of 2013, the order backlog of the business unit amounted to €8.0 million (2012: €4.1 million).

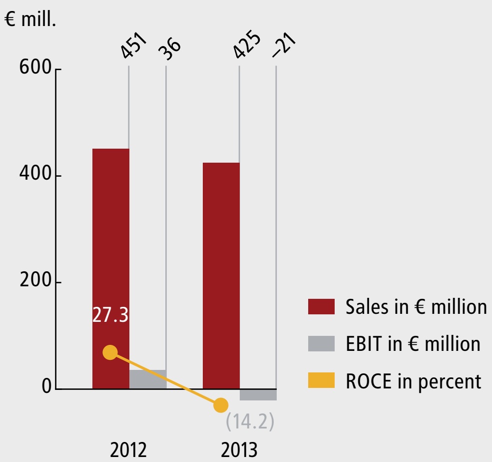
In 2013, capital expenditures were made by Vossloh Rail Services in the total amount of €12.3 million (2012: €9.1 million). The higher level of investment compared to the prior year related mainly to the development of milling capacity, the acquisition of welding trucks and the further development and optimization of grinding trains for high-speed grinding.

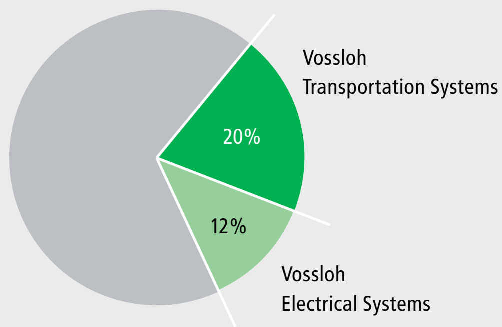
In spite of the substantially improved business performance in 2013 compared to the prior year, Vossloh Rail Services' value added of €(2.9) million was again negative in the reporting period (2012: €(8.0) million).

Delayed sales in both business units resulted in revenue loss of 5.7 percent

Overall negative EBIT and value added, burdened by extensive special charges and operational delays

Orders received and order backlog increased significantly and more strongly than expected





Sales, EBIT and ROCE
Transportation division

Shares of business units
in Group sales

Transportation business trend

The Transportation division includes the Group's vehicle and vehicle components business along with the related services. The Transportation Systems business unit with its two production locations in Valencia and Kiel is the leading manufacturer of diesel locomotives and provider of related maintenance services in Europe. In addition, at the Spanish location local transport trains are developed and assembled. Vossloh Electrical Systems, the second business unit of the division, complements the product range with technically sophisticated electrical systems for local transport vehicles.

Lower sales of both Transportation business units

In the Transportation division, sales in 2013 declined in both business units. This was caused by delays in demand and project workflows. In total, the division's sales of €425.2 million were 5.7 percent lower than in 2012 (€451.1 million).

Considered geographically, in 2013 Germany, with a share of 44 percent (2012: 34 percent) was by far the leading region for sales. It was followed by Great Britain and France, each with 10 percent (2012: 7 percent and 17 percent, respectively). Just under 9 percent of the sales were generated in Spain (2012: just under 14 percent). In total, the Transportation division generated 88 percent of the 2013 revenues in Europe (2012: 87 percent); these were primarily in Western and Southern Europe. The largest markets outside of Europe in 2013 were Israel as well as South Africa and Brazil.

In Western Europe the division reported the absolute strongest growth in 2013. On the other hand, there was a downward trend of sales in many Southern European countries, especially in Spain, due to the continuing difficult economic situation. Also in Eastern Europe, the level of sales was below that of the prior year due to a major project of the Electrical Systems business unit in Poland that was already for the most part completed in 2012.

Value added of Vossloh Transportation negative

Vossloh Transportation's return on capital employed (ROCE) was negative and amounted to (14.2) percent (2012: 27.3 percent). This was due to the significantly deteriorated and negative result, with increased capital employed at the same time. Capital employed on average for 2013 increased from a comparable amount in the prior year of €130.0 million to €149.0 in the reporting period. The increase in capital employed is due, among other factors, to the continuing high investment activities. In this connection, average working capital changed only slightly from €(39.4) million in 2012 to €(36.7) million in 2013. Value added in the Transportation division dropped due to the weak earnings position of both business units in 2013 to €(33.8) million (2012: €22.5 million).

EBIT declined from €35.5 million in 2012 to €(21.2) in the reporting period. This resulted in particular from special effects arising in the Transportation Systems business unit, as well as project delays and valuation allowances on receivables of Vossloh Electrical Systems.

Transportation

		2013	2012
Sales	€ mill.	425.2	451.1
EBIT	€ mill.	(21.2)	35.5
EBIT margin	%	(5.0)	7.9
Average working capital	€ mill.	(36.7)	(39.4)
Average working capital intensity	%	(8.6)	(8.7)
Noncurrent assets	€ mill.	213.2	180.6
Capital expenditures*	€ mill.	24.6	24.0
Amortization/depreciation*	€ mill.	15.9	16.5
Closing capital employed	€ mill.	122.6	136.7
Average capital employed	€ mill.	149.0	130.0
ROCE	%	(14.2)	27.3
Value added	€ mill.	(33.8)	22.5

*Excluding noncurrent financial instruments; scheduled amortization/depreciation plus impairment write-downs and reversals

Vossloh Transportation Systems

Sales of Transportation Systems declined in 2013 by 10.8 percent to €261.9 million (2012: €293.7 million). Revenues of Vossloh Locomotives in Kiel were slightly behind those of the prior year. Also in the case of Vossloh Rail Vehicles in Valencia sales remained behind the prior year's level. The most important markets in 2013 for the Transportation Systems business unit were Germany, France, Spain, Great Britain, and Israel.

Order backlog in Transportation Systems 37.8 percent ahead of 2012 year end

Orders received of the business unit improved significantly. In total, Vossloh Transportation Systems was able to obtain orders totaling €453.9 million in 2013, a gain of 37.8 percent; total orders received in 2012 amounted to €329.3 million. The winning of a major contract from South Africa in the third quarter of 2013 for 70 locomotives of Vossloh Rail Vehicles in the amount of €250 million contributed significantly to this development. However, incoming orders of the German company, Vossloh Locomotives, remained below expectations and order intake of the prior year. As of December 31, 2013, Vossloh Transportation Systems had an order backlog in the amount of €731.7 million, compared to €539.7 million at the end of 2012.

Capital expenditures in the Transportation Systems business unit of €13.5 million, compared to €15.8 million in 2012. They were split in a 60 to 40 relationship between production locations in Valencia und Kiel, respectively.

In 2013, value added of Vossloh Transportation Systems amounting to €(21.1) million was negative. In 2012, the value added amount was €9.6 million. The loss of value was especially caused by one-off expenses for the out-of-court settlement of a legal dispute.

Valencia Location

At its Valencia plant Vossloh Rail Vehicles develops and assembles diesel locomotives as well as light rail vehicles. The lineup also includes maintenance work. Sales of Vossloh Rail Vehicles dropped in 2013 by 13.7 percent to €150.7 million (2012: €174.6 million). The lower revenues resulted in particular from decreased sales of locomotives of the high-power class. In 2012, two large contracts in this segment for Israel Railways and Europorte had for the most part been processed. The business medium-performance-class locomotives performed better than in 2012, whereby the decline in sales of the EURO 4000 locomotives was able to be partly offset. The service and spare parts business also reported an increase in sales.

Vossloh Rail Vehicles with very high order backlog

Thanks to the major order from South Africa, the order backlog of Vossloh Rail Vehicles as of December 31, 2013, was at an extraordinarily high level. The orders received, in purely mathematical terms, extend well into the year 2016 and provide the location with a positive sales outlook for the coming years.

Capital expenditures of Vossloh Rail Vehicles amounted in 2013 to €8.2 million (2012: €10.2 million) and were primarily for the further development of the Tramlink and EURO 3000 locomotives.

Kiel location

First vehicles of new DE class delivered in fiscal year

For almost 100 years, at the Vossloh location in Kiel technologically leading and environmentally compatible diesel locomotives have been developed and manufactured, and maintenance and repair and maintenance services have been provided. In 2013, the location achieved sales in the amount of €111.3 million and, with these, generated revenues 6.6 percent lower than in 2012 (€119.2 million). At the end of 2013, the first center-cab locomotives of the type DE 12 and DE 18 were delivered to BASF. In addition, the three-axle shunting locomotive of the Type G 6 contributed to sales of the segment.

However, in 2013, orders received by Vossloh Locomotives remained below expectations. The majority of incoming orders of Vossloh Locomotives relates to locomotives of the Series G 6 and G 1206, both diesel-hydraulic shunting locomotives with three or four axles. In addition, further locomotives of the type DE 18 were ordered.

Vossloh Locomotives invested in 2013 a total of €5.3 million, which was somewhat less than in 2012 (€5.6 million). The focus of investment at the Kiel location remained, unchanged, the further development of the diesel-hydraulic and diesel electric locomotive models. Capital expenditures were also made for the optimization of the technical production.

Vossloh Electrical Systems

Vossloh Electrical Systems develops and produces electrical systems for trams, busses and locomotives. This includes integrated systems solutions in the area of drive units, on-board power supply, vehicle control systems and heating and air-conditioning technology.

Project delays keep sales below expectations

In the Electrical Systems business unit, sales in 2013 of €165.7 million remained slightly below the prior year's amount of €166.8 million. In particular, the segments busses and E-mobility performed positively. On the other hand, the equipment business for rail vehicles as well as the service and components business remained behind the prior year's results. The also significantly lower-than-expected sales volume was due to project delays.

The most important sales markets for Vossloh Electrical Systems in 2013 were the Western European countries, especially Germany, Switzerland and Great Britain. Encouraging sales growth was able to be achieved by the business unit in Turkey. As was already the case in 2012, the largest contribution to sales outside of Europe was in South Africa. Sales levels higher than in 2012 were also able to be generated in the USA.

Further significant increase in orders received and order backlog

Order intake of Vossloh Electrical Systems in fiscal 2013 amounted in total to €238.4 million and substantially exceeded the prior year's amount (2012: €166.7 million). Vossloh Electrical Systems is increasingly working in cooperation with Vossloh Rail Vehicles in Spain. The business unit, however, is also collaborating with vehicle manufacturers – depending upon the desire of customers. Thus, in 2013, the city of Hannover exercised an option on a contract already entered into in 2011 and ordered 50 additional light rail cars. In addition, Vossloh Electrical Systems was able to obtain large-volume service orders for the business unit. To be mentioned here are the modernization of railcars of the local transport operator South West Trains in Great Britain and the general inspection and strengthening of underground double railcars of the Berliner Verkehrsbetriebe. At the end of 2013, the order backlog of the business unit amounted to €504.2 million (2012: €431.5 million).

Capex of the Electrical Systems business unit increased from €5.7 million in 2012 to €10.1 million in fiscal 2013 and was focused on the test field at the Düsseldorf location.

Value added of Vossloh Electrical Systems was negative. After still amounting in 2012 to €7.1 million, it dropped to €(13.3) million in 2013 and was also below Group expectations. A valuation allowance on receivables in connection with an insolvency as well as project delays and a still disproportionately high personnel expenses ratio due to the accelerated increase in the number of employees in the business unit, led to the erosion of earnings and thereby to the negative value added.

Vossloh AG

As a management and financial holding company, Vossloh AG is the parent of the Vossloh Group and controls and oversees all major operations and activities within the Group. In addition to determining corporate strategy and controlling corporate development, Vossloh AG allocates the financial resources, such as for capital expenditures and acquisitions, is responsible for corporate accounting and controlling, group-wide treasury management, risk and opportunity management, internal auditing, as well as for IT, investor relations, and corporate communications. It oversees sales and marketing communication activities and coordinates the procurement processes of its subsidiaries. In addition to being in charge of human resources policy, it is responsible for personnel development and support of the Group's senior management.

Vossloh AG prepares its annual financial statements in accordance with German GAAP (Commercial Code provisions). The explanations below refer to these separate financial statements. In isolated cases, certain transactions are accounted for differently according to IFRS.

Analysis of the separate financial statements

As non-operating holding company, Vossloh AG's revenue for fiscal 2013 of €1.5 million (2012: €1.5 million) consists of rental income and intercompany allocations. The operating expenses are mainly incurred in connection with the Company's management and financing functions. Therefore, the result of ordinary activities (earnings before taxes = EBT) is substantially influenced by general administrative expenses, other operating income and the net financial result.

In fiscal 2013, the administrative expenses of €23.3 million were at the level of the prior year (2012: €23.3 million). Higher consulting costs were offset by lower trade fair costs and lower personnel expenses. Personnel expenses of €6.8 million were significantly below the prior year's amount of €8.2 million due to the sharply reduced variable salary components. The 2013 headcount of 46 represents the number of employees at the middle of the year (calculated as the average of the quarter-end headcounts) and remained unchanged from the prior year. Other operating income, compared to 2012, decreased by €3.4 million to €5.5 million and includes primarily income from allocations of marketing and IT expenses and allocations for the purchasing of the Transportation division.

As the finance holding of the Group and the holder of significant investments, in addition to the administrative expenses and other income/expenses, the net financial result in particular has a significant effect on Vossloh AG's result of ordinary activities. Compared to the prior year, the net financial result decreased in 2013 from €58.0 million to €14.1 million. The major components of the net financial result in 2013 are income from dividends in the total amount of €50.0 million and profit transfers and tax allocations of Vossloh-Werke GmbH and Vossloh Rail Services GmbH totaling €24.4 million (2012: €19.1 million). The net financial result was negatively affected primarily by the takeover of losses of Vossloh Locomotives GmbH and Vossloh Kiepe GmbH in the total amount of €53.0 million (2012: €5.3 million).

Opposite interest expenses of €15.9 million (2012: €15.1 million), mostly from the refinancing of the Group's capital requirements, was interest income of €7.5 million (2012: €8.3 million), primarily from the transfer of these funds in the form of short-term credit or long-term loans to Group companies. Income taxes amounted to €0.3 million (2012: €1.1 million). Vossloh AG's net loss in the reporting period amounted to €(4.8) million. In 2012, a positive net income of €41.2 was generated.

The balance sheet total increased to €840.0 million (2012: €795.8 million). On the asset side of the balance sheet, amounts due from affiliated companies, in particular, rose significantly. The equity and liabilities side of the balance sheet showed a marked increase in amounts due to affiliated companies. Furthermore, there was an increase in amounts due to banks due to a promissory note bond. Affecting the balance sheet total in the opposite direction was reduced equity due to the net loss for the year and the dividend distribution. The equity ratio amounted to 34.2 percent, compared to 39.7 percent in the prior year.

Vossloh AG's financial position depends on the funds needed by subsidiaries and the borrowings undertaken by the Company to refinance such requirements. The debt taken up in 2004 from the US capital market by way of private placement, shown under sundry liabilities, amounted to an unchanged €203.9 million.

Board compensation report

This report summarizes the principles underlying the remuneration of Vossloh AG's Executive Board members and specifies the amount and structure of the compensation of each such Executive Board member. In addition, the report describes principles and amount of the Supervisory Board compensation.

Remuneration of Executive Board members

The compensation of Executive Board members (executive officers) breaks down into a fixed annual basic salary and an annual profit share, the fixed portion being paid out in monthly installments. The profit share is payable when the annual financial statements have been adopted. As confirmed in fiscal 2010 by an outside consultant specializing in compensation issues, the overall compensation of the Executive Board members reflects each member's personal performance, as well as Vossloh's economic situation, success and future prospects, and is also in line with industry peers and in proportion to Vossloh's general pay system.

The variable compensation (profit share) is linked to group earnings.

For fiscal 2013, the compensation of Vossloh AG's executive officers totals €1,164,980 (2012: €2,086,056), including €809,236 of fixed, and €316,569 variable, remuneration. In addition, they received in 2013 noncash fringe benefits as payments in kind (PIK), basically in the form of private company car use in the amount recognized for tax purposes of €39,085. PIK income represents taxable income of each executive officer.

Vossloh AG's Executive Board members received no compensation for services performed on behalf of subsidiaries.

The executive officers have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum three-year board membership to 15.0 percent (Dr.-Ing. Norbert Schiedeck) or 35.0 percent (Werner Andree), and are stepped up by 4.0 percentage points annually (as from April 1, 2010, or January 1, 2005, respectively) to a maximum of 60.0 percent of the pensionable annual basic compensation. In fiscal 2013, a total €684,804 was provided for accrued pension obligations to Executive Board members (2012: €700,659). Pension payments to pensioned employees are adjusted annually in line with the collective pay trend of salaried employees.

The table below itemizes the remuneration of each executive officer:

€	Current remuneration				Retirement benefits	
	Fixed salary	PIK	Profit share	Total	Change in present value	Present value determined for accounting purposes
Werner Andree, CEO	481,767	17,289	193,030	692,086	543,677	4,019,699
Dr.-Ing. Norbert Schiedeck, COO	327,559	21,796	123,539	472,894	141,127	681,417
Total	**809,326**	**39,085**	**316,569**	**1,164,980**	**684,804**	**4,701,116**

Upon an active or former executive officer's death, a reduced pension is paid to his surviving dependents, spouses receiving a maximum 60.0 percent of the most recently paid pension and children obtaining an education and up to a certain age receiving a maximum 20.0 percent.

No contractual arrangements with Executive Board members exist for any change of control event.

No loans or advances were granted in 2013 to any Executive Board member.

The compensation in the form of pension payments to former executive officers and their surviving dependents totaled €664,602 (2012: €643,477).

Pension obligations to former executive officers and their surviving dependents amounted to €12,338,786 (2012: €11,899,772); Employer pension liability insurance policies totaling €11,571,995 (2012: €11,522,718) are pledged in each beneficiary's favor, the balance of the pension obligations being covered by provisions.

The option introduced in 2008 by the Supervisory Board to grant Executive Board members a discretionary bonus was not exercised.

Remuneration of the Supervisory Board members

The compensation of members of the Supervisory Board and its committees is fixed by the annual general meeting and is governed by Art. 17 of the Company's bylaws. These fees are based on the Supervisory Board member's tasks and responsibilities, as well as on the Group's business performance.

In addition to being reimbursed for their expenses, Supervisory Board members receive a fixed annual fee of €20,000 each. In addition, they are paid a variable annual fee of €1,000 for each €0.10 in excess of the Group's earnings per share over €2.00 (based on the number of shares issued).

The Supervisory Board Chairman receives 300.0 percent and the vice-chairman 150.0 percent of the above fee. Membership on committees is compensated through a premium of 25.0 percent each of the aforementioned compensation amounts. The Audit Committee Chairman receives three times the premium for Audit Committee membership. However, membership in the Nomination Committee is remunerated by paying an additional 25.0 percent of the fixed annual fee only if the Committee convened in the fiscal year. If the Supervisory Board Chairman is also committee member, no additional fee is paid to him.

In accordance with the bylaws, Supervisory Board members received for fiscal 2013 total remuneration of €236,875 (2012: €451,500), including €236,875 fixed and €0 variable, performance-related fees. The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Heinz Hermann Thiele (Chairman)[1]	40,000	0	40,000
Dr. Wolfgang Scholl (Vice-Chairman)[1]	28,333	0	28,333
Dr.-Ing. Kay Mayland[2]	30,000	0	30,000
Dr. Alexander Selent[1]	26,667	0	26,667
Michael Ulrich	26,667	0	26,667
Silvia Maisch[1]	13,333	0	13,333
Dr.-Ing. Wilfried Kaiser (Chairman)[3]	25,000	0	25,000
Peter Langenbach (Vice-Chairman)[3]	17,708	0	17,708
Dr. Christoph Kirsch[3]	16,667	0	16,667
Wolfgang Klein[3]	12,500	0	12,500
Total	**236,875**	**0**	**236,875**

[1]Member of the Supervisory Board since May 29, 2013
[2]Member of the Supervisory Board since January 9, 2013
[3]Member of the Supervisory Board until May 29, 2013

In addition to these fees, in 2013 no Supervisory Board member received any further compensation, benefits or advantages for personally rendered (in particular, consultancy or agency) services.

No loans or advances were granted in 2013 to any Supervisory Board member.

Statutory takeover-related disclosures pursuant to articles 289(4) and 315(4) HGB

The provisions of Articles 289(4) and 315(4) HGB require that the following takeover-related disclosures as of December 31, 2013, be made.

Composition of subscribed capital
The Company's subscribed capital (share capital) of €37,825,168.86 is divided into 13,325,290 no-par bearer shares of common stock, each entitled to one vote.

Restrictions on voting rights or transfer of shares
One share entitles to one vote at the general meeting, with the same rights attaching to all Vossloh AG shares. Share transfer or assignment is not subject to any restrictions.

Direct or indirect shareholdings in excess of 10.0 percent
The Executive Board is aware of one investment in the Company's capital stock that exceeds 10.0 percent of the voting rights: Heinz Hermann Thiele, Germany, informed the Company in October 2012 that he holds 25.14 of the voting rights in Vossloh AG. Thereof, 25.14 percent are to be attributed to him pursuant to Art. 22 (1) sentence 1 no.1 WpHG. The attributed voting rights in this connection are held by the following companies controlled by him, whose share of voting rights amounts to 3.0 percent or more: KB Holding GmbH (direct investment 25.14 percent), TIB Vermögens- und Beteiligungsholding GmbH (attributed investment 25.14 percent) und Stella Vermögensverwaltungs GmbH (attributed investment 25.14 percent); The legal seat of all three companies is Grünwald, Germany.

Shares with special rights / controlling rights
Shares with special rights which confer controlling rights do not exist.

Voting control of employee shareholdings
Employees who are shareholders of the Company exercise their control rights similarly to other shareholders, directly in accordance with applicable statutory requirements and the bylaws.

Appointment/dismissal of Executive Board members; bylaw amendments
Vossloh AG's Executive Board members are appointed or dismissed in accordance with the provisions of Articles 84, 85 AktG in conjunction with Art. 7 of the bylaws. Pursuant to Art. 84(1) AktG, Executive Board members are appointed by the Supervisory Board for a maximum term of five years, whereby their reappointment or the extension of their term of office is permitted. The appointment of an Executive Board member may be revoked in the cases set out in Art. 84(3) AktG.

While, according to Art. 179(1) AktG, the bylaws may be amended by vote of the general meeting, amendments that merely relate to wording may also be delegated to the Supervisory Board. In conformity with Art. 21(2) of the bylaws but subject to overriding statutory provisions to the contrary, the general meeting shall pass its resolutions with the simple majority of votes cast. Where the law prescribes a stock ownership majority in addition to a voting majority, the simple majority of the capital stock represented at the vote shall suffice unless the provisions of the law or Vossloh AG's bylaws prescribe otherwise. Art. 27 of the bylaws authorizes the Supervisory Board to amend the bylaws where only their wording is involved. Art. 4(8) of the bylaws further authorizes the Supervisory Board to update the bylaws accordingly after the capital stock has been increased by utilizing authorized or contingent capital.

Authority of Executive Board to issue and repurchase shares

Art. 4 of the bylaws specifies the Executive Board's powers to issue new stock while the authority to repurchase treasury stock, based on the AGM resolution of May 19, 2010, was used by the Executive Board between July 27 and December 2, 2011 to buy back 1,332,529 treasury shares (10.0 percent of the capital stock).

a) Authorized capital
The provisions of Art. 4(2) of the bylaws authorize the Executive Board, subject to the Supervisory Board's approval, to increase the capital stock on or before May 19, 2014, by an aggregate maximum of €7,500,000 by issuing once or several times new no-par bearer shares of common stock against cash and/or noncash contributions ("Authorized Capital") while duly granting stockholders their statutory subscription right. However, after first obtaining approval from the Supervisory Board, the Executive Board may exclude this subscription right:
(i) for fractions resulting from the subscription ratio,
(ii) in order to grant to holders of conversion rights, options and/or warrants, or of a conversion obligation from convertible and/or warrant bonds previously floated or issuable by the Company or one of its wholly-owned subsidiaries which are outstanding at the time of the utilization of the authorized capital, subscription rights for new shares in the amount they would be entitled to upon exercise of their conversion rights and/or options or upon satisfaction of a conversion obligation.
(iii) if new shares are issued against cash contributions at a price that is not significantly below the stock market price current for same-class Vossloh stock at the time at which the final issuance price is fixed, and the newly issued stock does not exceed a total of ten percent of the capital stock either at the effective date or at the date of exercise of this authority. The sale of treasury shares is taken into account for this capital limit, if during the term of this authorization this is carried out excluding the subscription right pursuant to Art. 186(3) sentence 4 AktG. Shares issued or issuable to service convertible and/or warrant bonds or satisfy conversion obligations

shall also be counted toward the 10-percent ceiling, provided that the bonds are issued ex rights during the validity period of this authority in application of the provisions of Art. 186(3) Clause 4 AktG;

(iv) for any capital increase against noncash contributions.

The Executive Board is authorized, subject to the Supervisory Board's approval, to stipulate all further details of the capital increase, as well as all stock issuance terms and conditions.

b) Conditional capital

(i) Pursuant to Art. 4(3) of the bylaws, the Company's capital stock has been conditionally increased by €6,979,134.18 by issuing 2,730,000 bearer shares of common stock. This contingent capital increase will be implemented only to the extent that, under the warrant bond issues floated by Vossloh AG and/or its (directly or indirectly) wholly owned non-German subsidiaries on or before June 28, 1999, the warrant holders exercise their right to subscribe for common stock. The new common shares participate in profits from the beginning of the fiscal year in which they arise through option exercise.

(ii) Pursuant to Art. 4(4) of the bylaws, the Company's capital stock has been conditionally increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to employees under an SOP authorized by the annual general meetings of June 25, 1998, and/or June 3, 2004, have exercised or will exercise their options. The new common stock participates in profits from the beginning of fiscal year in which it is created by option exercise, on whose profit appropriation is resolved in the succeeding fiscal year's AGM.

(iii) Pursuant to Art. 4(5) of the bylaws, the Company's capital stock has been conditionally increased by €1,468,225.77 by issuing 574,320 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to officers, executives and other management staff under a long-term incentive plan (LTIP) authorized by the annual general meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year's AGM votes. The new common stock participates in profits from the beginning of fiscal year in which it is created by option exercise, on whose profit appropriation is resolved in the succeeding fiscal year's AGM.

(iv) Pursuant to Art. 4(6) of the bylaws, the Company's capital has been conditionally increased by a total of €3,782,500 by issuing up to 1,479,585 no-par bearer shares of stock in order to grant new no-par bearer shares to the holders or creditors of such convertible bonds, warrant bonds, participating rights and/or income bonds (or any combination of such instruments) as are issued or floated by Vossloh AG or any of its (directly or indirectly) wholly-owned subsidiaries through the authority conferred by the AGM of May 19, 2010, according to Agenda Item 8. The new no-par bearer shares will be issued at a conversion or option price to be determined in accordance with the aforesaid AGM resolution. The conditional capital increase shall be implemented only to the extent that (i) conversion rights or equity warrant options are exercised, (ii) the bondholders, warrant owners or creditors subject to a conversion obligation actually meet their conversion obligations, (iii) no cash compensation is paid in lieu, or (iv) treasury shares or new shares issued by utilizing authorized capital are used. The newly issued no-par bearer shares participate in profits as from the beginning of the fiscal year in which they are created by conversion or option exercise or by satisfaction of conversion obligations. The Executive Board is authorized to specify all further details of the conditional capital increase and its implementation.

c) Repurchase of treasury stock
According to the AGM resolution of May 19, 2010, and pursuant to Art. 71(1) No. 8 AktG, the Company is authorized until May 18, 2015, to acquire treasury stock equivalent to an aggregate maximum of ten percent of Vossloh AG's capital stock. The Executive Board exercised this authority to repurchase 1,332,529 treasury shares (10.0 percent of the capital stock) between July 27 and December 2, 2011. No further authority of Vossloh AG to buy back treasury shares exists.

At December 31, 2013, the Company held 1,320,603 treasury shares. The Executive Board is authorized, subject to prior Supervisory Board approval, to use such treasury stock for any lawful purposes, including by disposing of the treasury shares ex rights in a form other than through a stock exchange or by offering them to all Vossloh stockholders, however, provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the stock exchange price then current for same-class Vossloh stock. The Executive Board is further authorized, with Supervisory Board approval, to sell treasury stock ex rights to third parties in return for noncash contributions, including in connection with business combinations or the acquisition of other enterprises or equity interests in enterprises. The treasury stock may further be used to settle obligations under convertible and/or warrant bonds issued by the Company and/or any of its wholly-owned subsidiaries. Moreover, the Executive Board is authorized to redeem and effectively withdraw treasury stock with the Supervisory Board's approval, however, without requiring another resolution of the general meeting.

Agreements in the event of a change of control

Seven significant agreements of the Company exist which could come into effect upon a change in control. Change of control in this connection in principle means that a company or person directly or indirectly obtains the majority (>50.0 percent) of the capital shares, or more specifically, the voting shares of the Company.

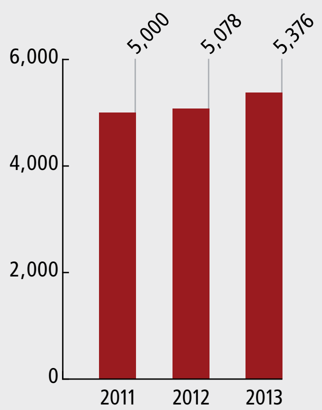
a. US private placement
The conditions of a US private placement provide that in the event of a change of control, the Company is obligated to offer the investors an early repayment of the outstanding loan amount, including accrued interest.
b. Credit facility agreement with Landesbank Baden-Württemberg
In the event of a change in control, the existing credit facility agreement with Landesbank Baden-Württemberg contains an extraordinary right of cancellation on the part of the bank.
c. Bonded loans under the leadership of Landesbank Baden Württemberg
In the event of a change in control, the existing loan agreement with loan issuers contains a right of the loan issuer to demand payment of the outstanding balance, including accrued interest as of the next payment date.
d. Credit facility agreement with Landesbank Hessen-Thüringen
In the event of a change in control, the existing credit facility agreement with Landesbank Hessen-Thüringen contains an extraordinary right of cancellation on the part of the bank (with a four-week period of notice) of the credit facility agreement and the underlying individual loan agreements. In the event of a cancellation, the outstanding balance, including accrued interest, would be immediately due and payable.
e. Credit facility agreement with UniCredit Bank AG
In the event of a change in control, the existing credit facility agreement with Landesbank Hessen-Thüringen contains a right on the part of the bank to request, with a reasonable notice period, the provision or increase in security, if the change of control leads to an increase in the risk assessment of the bank regarding its claims under the contract.
f. Credit facility agreement with Deutsche Bank AG
In the event of a change of control (here, already if another person overtakes at least 30.0 percent of the voting rights in the Company), the parties will reach a mutually satisfactory agreement regarding the continuation of this agreement, if necessary under amended conditions, prior to the occurrence of such a situation. If a timely agreement cannot be achieved, the bank is entitled to an extraordinary right of cancellation. In the event of a cancellation, the outstanding balance, including accrued interest, would be immediately due and payable.
g. Credit facility agreement with SEB AG
In the event of a change in control, the existing credit facility agreement with SEB AG contains an extraordinary right of cancellation of the credit facility agreement on the part of the bank. In the event of a cancellation, the outstanding balance, including accrued interest, would be immediately due and payable.

Compensation agreements upon change of control
No agreements for compensation have been reached with members of the Executive Board or employees of the Company in the event of a takeover offer.

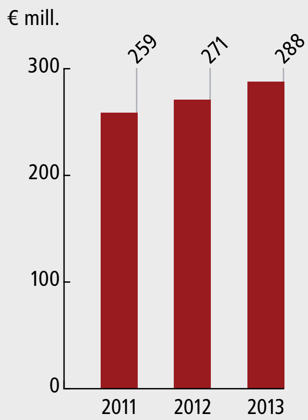
Increased number of employees due mainly to acquisitions

Per capita personnel expense and revenues almost unchanged

Group-wide occupational safety policy an area of focus



Average Group headcount



Personnel expenses in € million

Employees

At December 31, 2013, the Vossloh Group employed a workforce worldwide of 5,613 (up 591 or 11.8 percent compared with the 5,022 at year-end 2012.

Employee-related indicators

		2013	2012
Personnel expense per employee	k€	53.6	53.4
Revenues per employee	k€	245.8	244.8

The average number of employees in fiscal 2013 amounted to 5,376, compared to 5,078 in fiscal 2012.

A total of 82.6 percent of the employees work at the Group's European locations. Of the remaining 17.4 percent, 35.8 percent (2012: 41.2 percent) are employed in the North American area and 43.9 percent (2012: 48.2 percent) at production locations in Asia. In addition, employees are located in Australia and Brazil.

The age structure of the employees in the Group changed only slightly in 2013. The share of employees aged between 35 and 50 declined slightly to 39.0 percent, while the share of employees aged over 50 increased slightly to 31.0 percent. The portion of Group employees working for more than 10 years for the Company increased to 56.0 percent (2012: 54.0 percent).

Personnel expenses

€ million	2013	2012	% change
Wages and salaries	232.6	221.1	+5.2
Social security and benefits	50.0	45.6	+9.6
Expenses	5.8	4.3	+34.9
Total	**288.4**	**271.0**	**+6.4**

Due to the increase in labor costs and the growth in personnel, personnel expenses increased in 2013 by 6.4 percent, from €271.0 million to €288.4 million. Personnel expense per employee showed a slight increase, from k€53.4 to k€53.6.

Rail Infrastructure

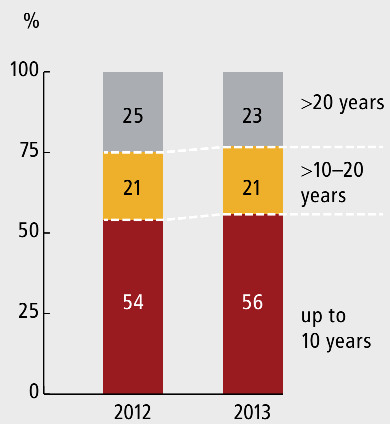
The average workforce in the Rail Infrastructure division increased in 2013 by 221 to 3,414 employees and was 6.9 percent above the prior year's 3,193 average number of employees. Personnel expense per employee increased slightly by 0.7 percent, from k€45.5 to k€45.8. Revenues per employee rose by 5.8 percent and amounted to k€262.5 (2012: k€248.2).

Transportation

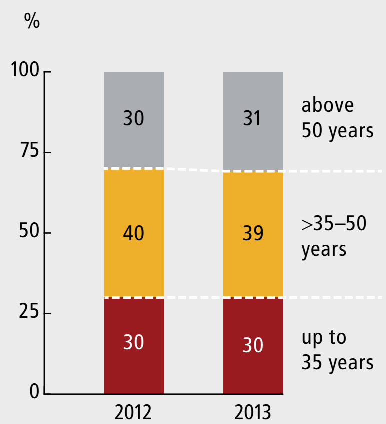
The average workforce in the Transportation division increased in 2013 only slightly – with an average number of employees of 1,916 this represents an increase of 78 employees (+4.2 percent) over the prior year's average of 1,838. In the fiscal year, personnel expense per employee amounted to k€65.3 and was 1.4 percent above the prior years amount of k€64.4. Per capita revenues declined by 9.6 percent, from k€245.4 in 2012 to k€221.9.

Employee retention and development

Committed and qualified employees are the basis our business success. Particularly in light of the demographic development and the challenges presented by the market, measures aimed at technical and personal development of our employees are tasks that are relevant for our future. For this reason, our management knows the meaning and responsibility for the demand and target-oriented qualification of each individual.



Service years in%



Agestructure in %

This is reflected in a broad range of internal and external training and development measures: There are training opportunities with diverse business or technical content, for example, language training, quality management, project management, sales optimization, personality development, communication and personnel management. For the skilled trade area, this program is expanded to include subjects such as welding technology, cargo securing/hazardous material, or the operation of forklift trucks.

The offering of the Vossloh Akademie has become further established throughout the Group. Here, subjects are offered and maintained which assist in the daily work and illustrate the future challenges of the Group. Additionally, employees can network with each other and exchange and share their valuable knowledge.

The variety a workforce is a strategic success factor for Vossloh. For example, special development opportunities can be found for females in the form of gender training and mentoring programs. The Company attaches great importance to the experience of older employees and the staffing of teams with employees of differing nationalities.

Launched in 2009, the program under the title We lead Vossloh is meanwhile a firm fixture of group-wide management and organizational development. The top 100 managers of the Group work here on both the identification of strategic cooperation projects and the implementation of the corporate culture and values.

“Make the move” is the invitation for well trained and qualified individuals to begin or advance their careers at Vossloh. Trade fairs, cooperation with schools and universities, offerings for trainee programs or entry level positions, internships or diploma program as well as attractive offers for professionally experienced individuals are only a few of the recruiting methods. Vossloh supports the Fair Company initiative.

In order for Vossloh to be able obtain adequate new recruits of skilled workers in the future, our own training activities represent an important building block. Vossloh offers training opportunities in commercial and industrial-technical vocations as well as dual courses of study at the locations Düsseldorf, Hamburg, Kiel, Moers, Seevetal, Trier und Werdohl. In 2013, 23 young individuals started a training course at the mentioned German locations. As of the end of the year, a total of 84 trainees were employed – this represents a trainee quota of approximately 6.0 percent at the above-mentioned locations.

Occupational Safety & Health

The Work Safety Committee (WSC) formed in 2012 works at the Group level on establishing a safety culture with the goal of “no accidents”. A milestone reached in 2013 was the implementation of a Group-wide occupational safety policy. An addition goal set was the certification of 80.0 percent of the companies in the Vossloh Group according to the norm OHSAS 18001by March 31, 2014; this goal has also been reached. In this connection, not only the certification is a success, but also the focus pursed with this on safer work conditions for our employees in order to ensure a sustainable reduction in work accidents. Safety and health at the workplace is of utmost importance for us and is an important building block for the corporate culture. Against this background, the offering related to workplace health management is being continually expanded through suitable measures, such as sports offerings, healthy food in the canteen, quit-smoking courses, driver safety training or corporate races.

Our thanks to the employees

We extend our thanks to our executives, employees and trainees for their special contribution and for the passion with which they are pursuing the goals of the Company.

We would like to especially thank the employee representatives of the Group for the exceptionally trusting and constructive cooperation in the past fiscal year.

Research and development

The Vossloh Group's companies are among the technology leaders in their respective markets and are constantly investing in product and service improvements. One of their prime aims is to satisfy the specific requirements of customers in the various market regions. In addition, Vossloh constantly works on pioneering new solutions. A large share of research and development is carried out in connection with specific contracts, and the associated costs are accordingly reflected in the income statement under cost of sales and not in R&D expenses.

The development costs of a marketable product are capitalized wherever the IAS 38 capitalization criteria are met; if such criteria are not met, development costs are recognized in the income statement either as cost of sales or R&D expenses, as appropriate.

Vossloh Group – Research and development expenditures

€ million	2013	2012
Total R&D expenditures	25.1	24.8
thereof capitalized	12.4	15.1
R&D expenses (P&L)	**12.7**	**9.7**
Amortization (of capitalized development expenditures)	8.0	8.1

R&D expenditures before own work capitalized amounted in 2013 to €21.5 million (2012: €24.8 million) or 1.9 percent of revenues (2012: 2.0 percent). R&D expenses recognized in the income statement in relation to revenues amounted to 1.0 percent (2012: 0.8 percent). Amortization of capitalized development expenditures amounted in 2013 to €8.0 million (2012: €8.1 million).

R&D activities remained in 2013 at a high level in order to expand the product portfolio and aligning it to the emerging trends in the marketplace. This was and continues to be also reflected in construction work. After the technology centers of Vossloh Fastening Systems in Werdohl (inaugurated in summer 2011) and of Vossloh Switch Systems in Reichshoffen (inaugurated in fall 2013), a modern new systems-testing facility is under construction at Vossloh Electrical Systems in Düsseldorf. Completion of the facility is scheduled for the middle of 2014.

The successful intra-Group cooperation of the Vossloh Group companies in the R&D area was continued. Vossloh Fastening Systems and Vossloh Switch Systems are working intensively together to adapt the rail fastening systems for further tie contours and track installation processes. In connection with these projects, in 2013 the 336 Duo, DFF MC and DFF CT systems were developed and successfully tested. These can be built in both on the rail line and in switches. Beginning in 2014, newly developed systems in connection with urban transport projects in China will come into use. Vossloh Rail Vehicles and Vossloh Electrical Systems are cooperating in connection with the TrainTram and CityLink vehicles; in the case of high-speed grinding trains, Vossloh Locomotives and Vossloh Rail Services are working together.

On certain research projects, the Vossloh companies revert to the specific know-how of outside experts. There are countless partnerships with universities and research institutes. Involved in several pan-European megaprojects such as ERI (Eco Rail Innovation, Vossloh Locomotives, Vossloh Rail Services), CleanER-D (Clean European Rail-Diesel, Vossloh Rail Vehicles), MARATHON (Make Rail The Hope for protecting Nature, Vossloh Rail Vehicles), REFRESCO (Towards a REgulatory FRamework for the usE of Structural new materials in railway passenger and freight CarbOdyshells, Vossloh Rail Vehicles), RAILENIUM (Vossloh Switch Systems), or now the new CAPACITY4RAIL (Vossloh Switch Systems) Vossloh is helping to shape the future of rail transport. In connection with all of the projects mentioned, the aim is a further reduction of pollutants and noise emissions, the efficient use of resources, the use of alternative energy resources and enhanced rail safety and performance.

In 2013, Vossloh Fastening Systems once again assigned high priority to the development of the screw/dowel combination Sdü/Ss NG. Patents for the new generation products have been applied for, and the safety accreditation of the German Railway Authority has progressed considerably. The first test installations into the track are to take place in the first half of 2014 in Germany, Austria and North America, among other locations. In connection with the trade fair InnoTrans in Berlin at the end of September, Vossloh wants to gain recognition with this new development. In addition, in 2013 the new W41 U fastening system was developed for a new tie design tendered in France. Meanwhile, it is in the process of obtaining certification of the French national railway SNCF. The challenge, on the one hand, was that several track types are to be deployed on the tie type; on the other hand, a high level of electrical insulation was required. In 2013, Vossloh Fastening Systems built up its R&D team with a patent coordinator and an employee for the area of acoustics, since the subject of noise reduction plays an ever increasing role. Here, the work was focused on the optimization of already existing elements, for example for rail web damping. Parallel to this, work was performed on strengthening the rail web damping characteristics of other elastic track fastening elements, also through construction and material-related improvements. As in recent years, a major portion of the R&D activities in 2013 related to short-term implementation of customer requirements.

On September 26, 2013, Vossloh Switch Systems had a reason to celebrate: The new technology center in Reichshoffen was inaugurated. The previously separated R&D facilities of the Switches and Signaling Equipment divisions have now been combined under one roof.

The new facility, approximately 1,500 sq. meters in size, also contains a training center and a showroom in which Vossloh Switch Systems can present the entire range on its products, also for visitors. In 2013, the engineers were able conclude the optimization of the environmentally-friendly lubricant-free track switch and begin the approval procedure. After various test installations, approval was obtained for the switch drives, which are to be deployed on the new French high-speed rail link from LeMans in Brittany to Rennes in Loiretal. Several prototypes of track switch drives and system components were tested in the track, including a switch with especially low stiffness, whose development had begun in 2012, and a new solution for slab tracks which is equipped with the newest generation of the 300 W fasteners from Vossloh Fastening Systems. Being currently developed specifically for the Chinese urban transportation market is a new switch model using the noise and vibration-damping system 336. In order to reach a higher level of reliability of the products in the track, at the end of 2013 work commenced on in-house software, with the help of which the dynamic behavior of switches can be simulated. Furthermore, a new concept is being jointly developed with a partner for support services in order to improve the performance of rails and switches. The “Sweden version” of the multi-engine high-speed Easyswitch moved forward to series production in 2013, and at the beginning of 2014 contractual deliveries started. Parallel to this, the first prototype was developed that met the specifications of the Russian and French markets. As in previous years, the largest part of further development of switch monitoring systems addressed concrete customer requirements and was performed with close customer cooperation. This was also true of signaling: here, Vossloh Switch Systems offers several series of products and systems which are exactly tailored to the various markets and customers.

In 2013, a comparatively small project produced the largest success for Vossloh Rail Services: The experts re-engineered the dust collection in the high-speed rail-grinding train developed in-house. The new solution will improve the acceptance of the HSG-Technology, and with this open still more opportunities for growth. Otherwise, the R&D efforts were concentrated, on the one hand, on the adaptation of the HSG-2 for use in China and the development of HSG-city. Regarding the autonomous high-speed grinder for inner-city tracks, with Rheinbahn AG in Düsseldorf, the first customer has already been found. On the other hand, further work was performed together with a partner on the innovative mobile rail milling machine. It enables high performance milling which, by removing more material per cycle at higher speeds, achieves a substantially better quality of the processed rails compared with traditional milling techniques. In 2013, five protective rights applications were filed and one patent application is being processed.

In 2013, Vossloh Transportation Systems continued the systematic expansion of its product portfolio which was begun in recent years. At the German Kiel location, efforts focused on the new four-axle locomotives with the models G 12 and G 18 (diesel-hydraulic) and DE 12 and DE 18 (diesel-electric). The four-axle locomotives G 12 and G 18 have been approved for operation by the Federal Railway Authority since December 2013. In addition to questions of construction, in 2013 this dealt especially with preparation of the necessary extensive documentation for the various country approvals. In addition, with Radarprotection, an additional option package was developed that can be offered to customers. The model EURO 3000 completed final tests at the Spanish location of Valencia at the beginning of 2013, and deliveries of the ordered vehicles to Israel Railways were already started during the year. The locomotive, which is designed for passenger operations, combines European design with a strong drive unit (2,250 kW) along American lines. It fulfills all new emissions standards, operates fuel-efficiently and is extremely reliable. Vossloh's proprietary assistance, analysis, control and regulating systems such as DAS or TWC which optimize the efficiency of Vossloh vehicles, were further refined. Since December 2013, the locomotives from Valencia also have a system which can precisely measures the fuel in the diesel tank and thereby calculate the remaining range. This avoids unnecessary refueling stops. The R&D division of Vossloh Rail Vehicles also undertook the first steps for the development of a new generation of bogies. They are intended, on the one hand, to be lighter – the goal is a weight savings of approximately 30.0 percent – and nevertheless fulfill the high safety requirements. On the other hand, a new active suspension system should ensure significantly higher riding comfort. The focus regarding local transport vehicles in 2013 was on the development of modular equipment components (cab, light elements, wall covering, seating, etc.) in the "Vossloh look", which will be installed in all models beginning in 2014.

At Vossloh Electrical Systems, the most important R&D keywords in 2013 were the competence center for mainline rail technology and systems-testing facility. Via the competence center, the knowhow with respect to mainline rail is more strongly integrated in the research department of Vossloh Electrical Systems. Since processes and requirements are increasingly converging, the developmental competence of the divisions Mainline Rail and Trams, which were previously separate, should be bundled step by step in order to be able to utilizes synergies. The systems-testing facility under construction will have five traction test stations, three auxiliary test stations and a 1,400 kilowatt locomotive test station and will open completely new opportunities for developmental work at Vossloh Electrical Systems. The projects in 2013 were dominated in the Tram area once again by orders from Rostock, Karlsruhe und Chemnitz. The furnishing of the ordered CityLink and Train-Tram vehicles which are built by Vossloh Rail Vehicles in Valencia is required to be tailored to the specific approval and customer requirements. After its approval, the double-layer capacitor storage system with recuperation brakes is to be used in the trains ordered by Braunschweiger Verkehrs-AG. In Karlsruhe and Chemnitz the trams will run on the tracks of DB, which requires a corresponding modification of the control system. The development goal is a solution which can be used everywhere where Vossloh's trains for local transport are to run outside of tram networks. The approval process for this should be completed in 2014 for the first time with a vehicle intended for the Verkehrsbetriebe Karlsruhe. In addition, in 2013 the engineers developed a future-oriented machine control for the traction equipment of Vossloh Electrical Systems on the basis of the indirect stator value control (ISR). This has already been used in a number of trolley busses and has also demonstrated its suitability for practical application in connection with test runs in rail vehicles. In the area of buses, the key issue for Vossloh Electrical Systems is the battery technology: Currently, our own “battery laboratory” is under development. The new traction battery with lithium-ion technology developed with a partner should demonstrate its performance, among other features, in a hybrid bus of the research project SaxHybridPlus.

Environmental protection

Passenger and freight haulage by rail is by nature one of the greenest modes of transportation. Products and services from Vossloh make an important contribution so that the eco-friendly movement of people and goods is both cost effective and safe. The Group is working in all of its divisions on making rail transport even greener and thus emphasizing it as an attractive means of conveyance. Modern buses fitted out with Vossloh hybrid technology and, especially, the (trolley) buses equipped with Vossloh systems command a leading edge in terms of ecological benefits compared with private cars.

The developers of diesel locomotives from Vossloh have for years attached great importance to making sure their vehicles consume as little fuel as possible – thus emitting minimum CO_2 and other pollutants. For years now, Vossloh Locomotives in Kiel and Vossloh Rail Vehicles in Valencia have been involved in research projects with a focus on reducing emissions. This deals with the objective, for example, that power trains achieve high levels of efficiency or through further construction development and use of new materials and material mixtures the weight of locomotives is reduced, without having to accept a decline in performance. In addition, Vossloh locomotives are equipped with a number of assistance systems which support environmentally friendly operation. New models of the EURO family from Valencia and modular-platform locomotives from Kiel already meet the strict exhaust emission standards of the European Non-Road Mobile Machinery Directive (NRMM). Also in the case of rail vehicles for local transport, Vossloh contributes to eco-friendly transportation. For example, the traction systems of Vossloh Electrical Systems are designed in such a way that in trams, city railways and regional trains the braking energy is used and fed back into the grid.

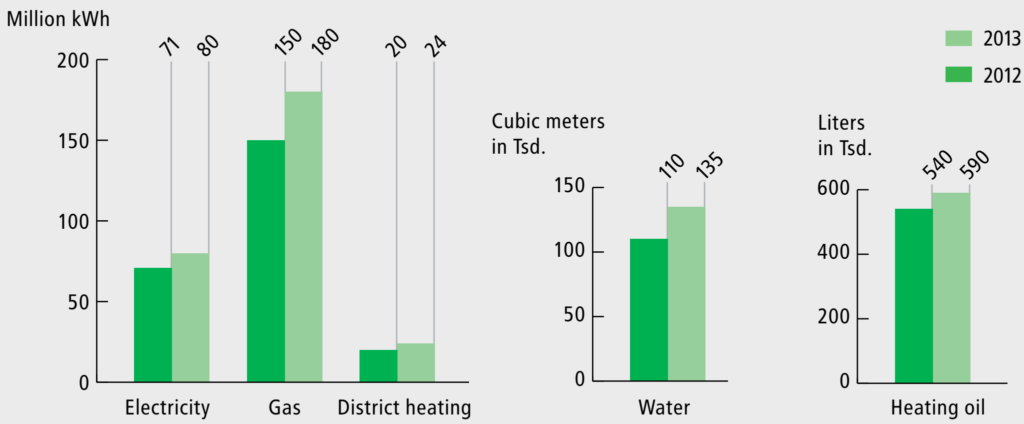
Likewise, an important point in connection with the technical outfitting and the construction of the local transport vehicles by Vossloh Electrical Systems and Vossloh Rail Vehicles, respectively, is the reduction of noise emissions that occur when driving. This concerns on the one hand a highest possible level of riding comfort for the user of the public transport system and on the other, keeping the noise generation along the rail lines as low as possible. The latter point also plays an ever more important role in the mainline rail area. For this reason, the Rail Infrastructure division is continuously intensifying the activities in this area. Vossloh Fastening Systems and Vossloh Switch Systems are focusing here on developments which ensure that less noise and vibration occur upon contact between the rail and wheel.

“Zero emissions” is a benchmark that applies to non-rail electric buses with traction technology from Vossloh Kiepe. Another advantage of these local transport vehicles: they are very quiet in operation – a fact appreciated by passengers and pedestrians alike. Even conventional buses can become more eco-friendly with Vossloh technology, with hybrid drive reducing exhaust and noise emissions significantly. Field tests on buses with an even more environment-friendly fuel-cell hydrogen drive are proving successful. Vossloh is continuously widening its competency in the area of eco-friendly electric mobility: battery technology is a key issue for the development engineers. For example, in several cities electric buses with high-duty lithium-ion batteries are in use.

Vossloh generates a significant share of its sales with products and services contributing toward environment-friendly and sustainable solutions. Vossloh has already been listed in several sustainability rankings since 2008 and belongs to the investment universe of oekom research and Kempen/SNS SRI. Vossloh AG also participates in the Carbon Disclosure Project (CDP) as well as the vigeo rating.

In production, all Vossloh companies attach great importance to a sparing and efficient use of resources. Emissions from production have generally been cut to a minimum. Regular audits by the local environmental authorities prove that all statutory and regulatory requirements are adhered to and emissions are below the permitted limits, in some instances significantly. As far as possible, residues are consistently recycled; solid waste material is systematically separated.

For a few years, energy and water consumption data has been collected in the Vossloh Group. In total, the expenses in 2013 for the purchase of energy and water amounted to €16.5 million (2012: €14.5 million). This represents a 1.2 percent share of revenues (2012: 1.1 percent).



Energy and water consumption of the Vossloh Group 2012–2013

Electricity usage amounted to approximately 80 million kilowatt hours (2012: 71 million kilowatt hours). The increase results primarily from the inclusion of newly consolidated companies in the financial year. Gas consumption in 2013 amounted to approximately 180 million kilowatt hours (2012: 150 million kilowatt hours). The rise is due substantially to the higher output quantity of the Fastening Systems business unit. Consumption volumes for district heating amounted in 2013 to approximately 24 million kWh (2012: 20 kilowatt hours). A large share of this was obtained by the Kiel location, which is also responsible for the increase in usage. In 2013 some 135,000 cubic meters of water were used in within the Vossloh Group (2012: 110,000 m^3). Especially in the cases of Vossloh Fastening Systems and Vossloh Switch Systems higher usage was reported. Heating oil consumption amounted to 590,000 liters (2012: 540,000 liters) and related almost entirely to Rail Infrastructure. The increase here was also due primarily to newly-acquired companies.

Vossloh Fastening Systems is in the process of installing a comprehensive and target-driven energy management system. In 2013, all significant foundations have been laid to be able to carry out the certification 2014 according to DIN ISO 50,001 in 2014 (designation of an energy management officer and an energy team, declaration of the management introducing the management system, stringent recording of energy consumption). Furthermore, the division will introduce additional key performance indicators in 2014 in order to be able to better gauge the development, especially relating to energy consumption. At the Werdohl plant, parallel to the restructuring of this location, Vossloh Fastening Systems is implementing a multistage concept to systematically improve energy efficiency. In the meantime, process steam is no longer being generated centrally, but instead using small units directly placed at the points of consumption. The Technology Center is heated with the waste heat from the hydraulic testing rigs and machinery, and any surplus energy is transferred to other buildings. The modernized furnace shop has a system for heat recovery. The energy from the heat treatment process is used, among others, to drive the upstream machines. The heat recovery plant installed in 2013 in the Erzincan/Turkey plant has already achieved significant energy savings. Since the legal requirements in the areas of environmental protection and occupational safety increasingly overlap, as of April 1, 2013, Vossloh Fastening Systems established the Environment, Health & Safety (EHS) department. The new department bundles all subjects relating to the environment, health and safety in the business unit.

Vossloh Switch Systems is also increasingly reducing its ecological footprint. To this end, various measures were also implemented again in 2013 in order to lower consumption of raw materials, water, and energy. Several locations revamped their heating systems for greater energy efficiency and reduced emissions. The protection of ground water generally has the highest priority in the business unit. The technology center in Reichshoffen, which was inaugurated in 2013, conforms to all current requirements (RT2012) with respect to thermal insulation and energy savings. In 2013, a photo voltaic system with 800 m^3 of solar cells was installed on the roof area of the production plant of Cogifer Kihn in Luxembourg. It produces approximately 600 MWh of electricity annually and with this covers approximately 20 of the energy consumption of the location.

At the locomotive plants in both Kiel and Valencia, Vossloh employs exclusively low-solvent paints for the finish of its vehicles. Vossloh Fastening Systems has also been using water-based paints for the surface coating of its tension clamps for years now. With the aid of a special register, in eco-friendly production materials are systematically located. At Vossloh Rail Vehicles, in 2013 work was done on a declaration of the recyclability of the EURO locomotive; the recycling quota amounts to 93.0 percent. At Vossloh Kiepe in Düsseldorf, the recording of all environmentally-relevant equipment and processes in an environment register represents an integral part of the environmental management.

The large Vossloh locations have all been certified to the DIN EN ISO 14001 environmental management system or comparable certified systems and undergo regular audits by external, independent bodies. Vossloh Rail Vehicles (Valencia) completed all preparation in 2013 in order to introduce EMAS (Eco-Management and Audit Scheme) in 2014, the joint eco-management and audit scheme of the European Union. Vossloh Kiepe has been additionally certified to the OHSAS 18001 occupational health & safety standard since 2001; in the meantime, most of the Vossloh Group companies or locations have successfully completed this certification. The goal is to have all companies or locations being able to demonstrate this certification in 2014. Vossloh Kiepe is participating in 2013/2014 in a municipal environmental and climate protection project ÖKOPROFIT, which should open further possibilities for the efficient use of resources. Since 2010, Vossloh Kiepe Austria (Vienna), Vossloh Rail Vehicles (Valencia) and Vossloh Kiepe Main Line Technology (Düsseldorf) hold the certification according to IRIS. The Vossloh Kiepe subsidiary APS also obtained the certification of according to the International Railway Industry Standard in 2013. Since the end of 2007, the Fère-en-Tardenois plant of Vossloh Cogifer has fulfilled the even stricter safety and health standard ILO OSH 2001.

Risk and opportunity management

Organization

Risks and opportunities for the net assets, financial position and results of operations are systematically identified, analyzed, assessed, reported, communicated, monitored, controlled and managed at all levels of the Vossloh Group. To this end, Vossloh has set up a group-wide risk and opportunity management system (RMS). This ensures that the impact of possible adverse changes is avoided or contained and that any opportunities arising are identified and exploited.

The risk and opportunity management system forms a part of the business, planning and controlling processes. The system‘s structure and processes are described in group-wide policies and procedures. The organization of the RMS is oriented to the operating processes and procedures of the respective units. Risk owners, risk officers and risk controllers are appointed at all Group levels. The identification of risks and rewards is ensured by a perpetual risk inventory in which relevant risks are identified effectively, systematically, and on a timely basis.

Perceived risks and opportunities are analyzed and assessed by Vossloh as to their possible impact on earnings. For this purpose, the worst-case and best-case scenarios and the most probable impact on earnings are determined. This is supplemented by an assessment of loss probability. For the best/worse-case scenarios, a value-at-risk approach with a minimum probability of 5.0 percent is assumed.

All the (direct or indirect) Vossloh subsidiaries, both in Germany and abroad, are covered by the RMS, irrespective of their inclusion in the consolidated financial statements. Newly acquired companies are integrated into the system on a timely basis.

Risks and opportunities are documented and communicated by Vossloh in standardized reports. These contain detailed information on the type of risk and opportunity and on the measurement parameters, as well as on potential measures for managing risks and exploiting opportunities. Periodic reporting on risks and opportunities is quarterly and serves as a supplement to the rolling annual projection and comprises risks and opportunities potentially arising in future periods. Ad-hoc reports additionally facilitate an updated assessment of the situation at all times.

These reports are addressed to Vossloh AG’s Executive Board as well as to each company’s and business unit’s senior management. These individuals manage and monitor the risks and opportunities. At the level of Vossloh AG, the current risk situation is regularly discussed between business unit management and the Executive Board.

The system is regularly reviewed by Corporate Internal Auditing and the statutory auditor for the adequacy, efficiency and compliance with legal requirements.

The report below presents those risks and opportunities which were of relevance at the time the consolidated financial statements were prepared and which are material to the Vossloh Group's future development. Risks whose impact has already been recognized in the balance sheet in the form of write-downs, allowances, or provisions or which have been shifted by contract, e.g. to insurers, are not covered by the following report unless deemed essential for the overall evaluation of the risk situation; this would be the case, for example, if a material residual risk were retained. Opportunities arise primarily from the operating business (e.g., by generating incremental revenue).

General economic and sector risks and opportunities

General economic risks and opportunities are essentially related to economic cycle swings, sociopolitical events, exchange and interest rate trends, as well as changes to legal and tax-related conditions. Sector risks and opportunities are tied to the competitive situation and the characteristics of the relevant markets.

In addition to the overall economic development, relevant influencing factors include public policy measures, the state of deregulation of rail traffic and the public debt situation. The latter affects the financing ability of public authorities awarding contracts. Thus, the restricted availability of financing has a negative effect on the future development of the business. For Vossloh, the debt situation, in particular of some Southern European nations, continues to be a prime cause for delayed and therefore shrinking order inflow from this region. In some cases, the risk exists that public as well as private customers will delay orders or in exceptional cases will potentially cancel orders. In spite of the tight budget situation of public contractors, savings in the maintenance market, which is important for Vossloh, are only expected to be temporary given the increasing rail traffic.

With its two divisions, Rail Infrastructure and Transportation, Vossloh ranks among the foremost suppliers in selected rail industry markets. The markets of relevance to Vossloh have oligopolistic structures, both on the demand and supply sides. Most of the customers are rail and network operators, which as a rule are still publicly owned. Vossloh counters the dependence on public-spending patterns by expanding its international presence. Exploiting market opportunities as they arise contributes to offsetting sales risks. In recent years the Group has substantially reduced its reliance on individual European markets. In 2013, non-European sales amounted to 37.0 percent (2012: just under 36.0 percent). In comparison, in 2006, the non-European sales amounted to merely just under 10.0 percent.

Rail markets in Western Europe and North America are distinguished by their considerably stable political and economic factors and hence as far as these core markets of Vossloh are concerned, there are no major risks expected. Accessing new markets elsewhere, especially in Asia, South America, Eastern Europe and Africa, exposes Vossloh not only to opportunities but also risks possibly arising from political and social instability, exchange rate fluctuations and legal uncertainties. As the share of group sales in these markets grows, both opportunities and risk exposure rise.

The oligopolistic nature of the supply side of the market also harbors risks for Vossloh. The high level of market transparency may further lead to fiercer price competition with adverse effects on margins. There is also the risk of products being replaced by new technical developments and that new competitors enter the market. Vossloh contains such risks by repeatedly refining its products and services and focusing on customer needs. Overall, increasing competitive pressure has been experienced in recent years.

Operating risks and opportunities

Operating risks and opportunities arise in operations-related activities, especially relating to sourcing, production, and contract performance. In connection with the procurement process, Vossloh attempts to counteract purchase price (input market) risks especially through long-term procurement contracts or price escalator clauses through agreements with customers. Exchange rate risks from purchasing are normally managed by forward exchange contracts. With raw materials becoming scanter, this will lead in the medium to long term to higher production costs, especially for Rail Infrastructure. The medium-term planning assumptions of increases in the cost of materials and components are based on such factors as supplier information and market analyses.

No significant variances from the 2013 materials input prices are presently expected in general. Any price rises appreciably above these forecasts may negatively influence profitability as forecast by the business units. Opportunities arise from material and component prices which are lower than planned.

Procurement chain risks may also result from loss of suppliers, poor quality or delivery delays. Vossloh attempts to minimize these risks by working with longstanding local vendors. Despite a careful selection of suppliers, ongoing monitoring and setting-up alternative sources, future procurement process risks may be contained but can never be fully ruled out.

Within the value creation process, Vossloh subsidiaries are exposed to work interruption, quality problems, as well as occupational safety and environmental risks. These risks are either avoided or reduced through a comprehensive set of guidelines and standard procedures or policies that govern project and quality management, product and occupational safety, as well as environmental protection. The principal Vossloh locations have been certified according to the DIN ISO 9001 quality management system, and the large locations fulfill the criteria of the ISO 14001 environmental management standard.

Project complexity is another source of risks and includes unexpected technical or engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors, logistic challenges, and acceptance and invoicing delays. Especially in the start-up phase of new projects with correspondingly high development expenses or in the case of first-time cooperation on a project with new partners or subcontractors, risks can arise repeatedly and lead to additional expenses or contract penalties. Currently, the Transportation division does not see itself increasingly exposed to these types of risks. Contract provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. Problems in the contact processing in 2013, especially in the Electrical Systems business unit, were noticeable. Opportunities, on the other hand, may occasionally arise when risk provisions are not fully utilized.

Furthermore, risks can result from goodwill on acquisitions carried out, if the operational development turns out to be weaker than expected. In accordance with IFRS 3, goodwill from business combinations is not amortized on a scheduled basis. Instead, the recoverability of the goodwill is tested annually (impairment test). In this connection, the carrying amount of a cash generating unit (CGU) to which the goodwill has been assigned is compared to its recoverable amount. The fair values determined for the CGU's of the Vossloh Group exceed the carrying amount of the respective units (including the assigned goodwill); as a result, no impairment losses on goodwill were recognized in fiscal 2013.

Risks arising in 2013 and still existing operational risks have been provided for as required by IFRS.

Financial risks and opportunities

Financial risks are monitored and managed, and the Group's financing is optimized, by Corporate Treasury. The goals, principles, responsibilities and accountabilities are defined in policy statements. The overriding objective is to contain financial risks that might affect the sustainability and profitability of the Vossloh Group. Moreover, intragroup synergies and economies of scale must be realized wherever considered expedient. In the management of its capital structure, Vossloh targets the benchmarks of a company with an investment-grade rating.

Vossloh uses financial derivatives solely to hedge against specific risks from current or forecast underlying transactions. These economic hedging relationships are also treated as hedges for financial accounting purposes. In this connection, only marketable financial instruments approved beforehand are deployed. The trading, settlement and controlling functions have been strictly segregated from one another. For further details on financial derivatives, please refer to the notes to the consolidated financial statements starting on pages 160 et seq.
In particular, the following financial risks are managed: liquidity risks, cash flow risks, price risks, as well as default risks.

Liquidity risks
Liquidity risks may arise if the Group is unable to provide the funds required to meet its obligations on a timely and unrestricted basis. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies and the necessary flexibility for translating corporate strategies into practice) through a continuous cash management system. An intragroup financial netting concept through cash pooling and intercompany loans ensures the best possible application of any surplus cash of individual subsidiaries to meet the liquidity requirements of individual group companies.

As of December 31, 2013, the Vossloh Group had cash and cash equivalents (including short-term securities) in a total amount of €64.2 million. In addition, bilaterally committed, unutilized credit facilities of another €393.8 million were at Vossloh's disposal, including €313.1 million with terms of up to one year, and another €61.5 million with terms over one year. An additional €19.2 million was committed with no maturity. With the goal of securing the low interest level on a long-term basis, the Group financing was newly structured in 2004. Through a US private placement, long-term debt in the amount of US-$240 million (representing approximately €204 million) was taken up with a term of ten, respectively twelve years. In connection with the US private placement, financial covenants exist.
If certain key figures are below or in excess of thresholds established as the quarterly reporting dates, the interest rate is increased, or, if applicable, the loans can be declared due for payment. These covenants relate to the interest-cover ratio, the leverage ratio and the absolute amount of the equity. In 2013, an agreement was reached with the creditors such that the thresholds to be maintained are increased for a transitional period, and the

extraordinary charges resulting from the legal dispute settled in October are not to be taken into consideration. The financial covenants of the US private placement in the respectively valid agreement were met in the reporting period and also in 2012. For the partial refinancing of the financial liabilities maturing in 2014, a promissory note loan was already taken up in fiscal 2013. There are no existing financing or liquidity shortfalls.

Cash flow risks
Changes in future interest rates may cause cash flow fluctuations where variable-rate assets and liabilities are involved. Vossloh contains this risk by means of interest rate swaps, and it regularly analyzes the impact of changes in interest rate levels on cash flows. Presently, the Vossloh Group is not exposed to any significant interest rate risks.

Price risks
Price risks arise from the possibility that the value of a financial instrument is changed by higher or lower market interest or exchange rates. As part of its active risk management, Vossloh has fully hedged future principal and interest payments on the US private placement through interest rate and cross-currency swaps on a euro basis. For details, see the notes to the consolidated financial statements, starting from page 166.

Current or expected currency and liabilities and receivables denominated in foreign currencies are generally hedged at the time of initiation through forward exchange contracts. Risks from translating currency positions in the financial statements are subject to ongoing monitoring.

Default risks
Default risks result if counterparties default on their obligations in a business transaction by late or non-performance, causing a financial loss to Vossloh. The Group minimizes the default risk by doing business with counterparties of good to excellent standing only, mainly based on the assessment of international rating agencies. As of December 31, 2013, cash investments and financial derivatives with a positive fair value were allocable at 10.0 percent to counterparties rated (according to Standard & Poor's) between AA+ and AA–, at 58.0 percent to those rated from A+ to A–, at 27.0 percent to counterparties rated BBB+ to BBB–, and at 5.0 percent to BB-rated or non-rated counterparties. Furthermore, risks are spread by distributing the Group's cash and other financial assets among a large number of banks. No dependence on specific banks has existed or currently exists.

Many of Vossloh's customers are government agencies, and the risk of their default is regarded as very low. Nonetheless, balances outstanding are monitored on an ongoing basis and partly covered by credit insurance. In exceptional cases, in spite of the precautionary measures taken, bad debt losses cannot be ruled out.

In the export business, the risk of customer default is usually counteracted by using documentary credits.

The Group result was negatively affected in 2013 by financial risks. In particular, a valuation allowance resulting from a case of customer insolvency in the Electrical Systems business unit burdened earnings.

Legal risks and opportunities

Legal risks for Vossloh comprise basically those arising from complaints, warranty claims, claim for damages or indemnification, and litigation. Identifiable risks are either covered by insurance or, if the applicable criteria are met, adequately provided for in the balance sheet. Nevertheless, losses may occur that are uninsured or underinsured, or substantially exceed recognized provisions.

The German Federal Cartel Office is continuing to investigate a Vossloh Group company which produces switches regarding alleged anti-competitive agreements. Furthermore, group companies of the Deutsche Bahn have filed claims for damages against the Vossloh subsidiary Stahlberg Roensch GmbH, Seeveta. The Company has an indemnification claim for by far the largest portion of the prosecuted claim, which is secured with bank guarantees in adequate amount. Various customers have filed claims for damages in connection with ongoing or concluded anti-trust proceedings. Wherever the enforcement of specific customer claims appears reasonably likely and the resulting loss can be reliably estimated, such potential damages are duly provided for. The Group result was significantly negatively affected in 2013 by legal risks. This resulted primarily from expenses in connection with the out-of-court settlement of a legal dispute in the Transportation Systems business unit in a double-digit million amount.

Other risks and opportunities

Other risks include primarily personnel and IT risks. The Group‘s economic situation could be negatively affected as a result of inadequate staffing such as a shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, an inadequate level of training, and mistakes or theft committed by employees. Vossloh has a whole menu of measures to meet such risks: in particular, the Company is well positioned as an attractive company for which to work, a reputation that strengthens its position in the competition for highly qualified employees. In-house courses allow employees to regularly upgrade their skills while attractive pay structures increase the likelihood of retaining employees in the Company in the long term. The control of operational and strategic business processes largely relies on complex and high-performance

IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability, confidentiality and security. At the same time, such precautionary measures ensure efficient information processing.

None of these “other risks” had a significant impact the Group’s earnings in 2013.

Overall assessment of the risk and opportunity situation

The potential impact of any or all risks described above and to which Vossloh is exposed regarding its net assets, financial position and results of operations, is continually monitored and controlled. Provisions have been recognized in accordance with IFRS for all risks identified to date. In addition, the updated annual forecasts consider any additional potential risks and opportunities, where adequately specified. From today’s vantage point, neither any specific risks nor all currently known risks in the aggregate threaten continued existence of the Group or of any individual subsidiaries in terms of either assets or liquidity. The Group’s equity declined in the reporting period. A significant effect was the dividend distribution for 2012, which was higher than the consolidated net profit in fiscal 2013. The existing Group equity is substantially in excess of the equity share which is required to be maintained to cover potential risks. This risk and opportunity report refers to the situation of the Group at the time the group management report was prepared.

Summary of key features of the accounting-related internal control and risk management systems (ICS/RMS) pursuant to Articles 289(5) and 315(2) No. 5 HGB

As explained above in the report on risks and opportunities, Vossloh has installed a comprehensive monitoring system for the group-wide systematic early identification of going-concern risks as required by Art. 91(2) AktG, with a view to identifying early on, managing and monitoring not only risks jeopardizing Vossloh's sustainability but also other risks, including those beyond the statutory scope. According to Art. 317(4) HGB, the statutory group auditor assesses the existence and effectiveness of the early risk identification system (ERIS). The Vossloh Group's ICS described below encompasses all principles, processes and measures designed to ensure not only the accounting system's effectiveness, efficiency and propriety but also compliance with applicable legal and statutory regulations.

Responsible at the Group level for the ICS are primarily Vossloh AG's corporate departments of Internal Auditing, Controlling, Accounting, Treasury, and Legal Affairs.

Process-integrated and process-independent monitoring procedures and routines are ICS components. In addition to manual process controls (such as principal of dual review), IT processes are also a key element of process-integrated measures. Furthermore, Corporate Legal Affairs ensures that in-process monitoring routines are ensured.

Process-independent audit procedures are the responsibility of Vossloh AG's Supervisory Board (specifically its Audit Committee) and Internal Auditing, as well as of staff locally assigned at the level of the business unit lead companies. The statutory (group) auditor is also involved by performing process-independent tests and audit procedures. Particularly the annual audit of the consolidated financial statements, as well as the focus areas in connection with the preliminary audit procedures of the annual audit of the separate financial statements are essential process-unrelated monitoring procedures that center on the corporate accounting system.

Information technology

For their separate financial statements, subsidiaries of Vossloh AG record accounting transactions, currently using different local accounting systems. However, for the purposes of Vossloh AG's consolidated financial statements, all Vossloh companies complement their separate financial statements with additional information and disclosures which thus constitute standardized reporting packages. The subsidiaries included in the consolidation group then enter these into the Cognos Controller system for processing into the required consolidated format and providing additional management information. A multiyear SAP project is currently being implemented within the Vossloh Group in order to roll out a standardized

SAP system at all entities involved in accounting and reporting processes. The new standardized software will enable centralized access to data and centrally initiated controls. The SAP rollout has so far been completed for Vossloh AG and principle companies of the Fastening Systems, Switch Systems, Electrical Systems and Rail Services business units.

Accounting-related risks
Preparing financial statements requires management to make a number of assumptions and estimates. These estimates affect the reported values of recognized assets and liabilities and of current balances of contingent liabilities, as well as the recognition of income and expenses in the period. The use or misuse of the necessary discretion may entail accounting-related risks for the Group.

Key activities designed to ensure the propriety and reliability of the financial reporting
Based on the rules of those International Financial Reporting Standards (IFRS) which have been endorsed by the EU, the Vossloh Group's Corporate Reporting Manual governs the group-wide uniform accounting policies and principles to be applied by all German and foreign Vossloh companies included in the consolidated financial statements, essentially by describing, in addition to general accounting principles and methods, the methods to be used for preparing balance sheet, income statement, and the notes to be in compliance with current EU law. Furthermore, the Manual provides specific guidance for the official format of consolidated financial statements, and details the determination of the consolidation group and the reporting package elements to be submitted by the subsidiaries. The formal requirements also specify all details of the mandatory, standardized and complete set of reporting package forms. The Manual is regularly revised and updated and made available on a timely basis to all those involved in the Group's accounting process. The most recent revision was made in December 2013.

After transactions have been recorded in the local accounting system of each subsidiary, the monthly accounts are reviewed at the level of the business unit lead company. Indications for items to be reviewed, in addition to random selections, are especially high-amount or unusual transactions. Corporate guidelines exist, for instance, for capital expenditures, bidding, and risk management. Vossloh companies and business units are, moreover, obligated to issue local guidelines for material areas.

The separate financial statements reported by the subsidiaries are then consolidated in several steps at the level of Vossloh AG after they have been adjusted to conform to group-wide accounting policies. The correct offset of intercompany receivables/payables, income/expenses and shareholdings as well as the proper elimination of profits from intragroup transfers are generally ensured by carrying out dual reviews and running appropriate validation routines in corresponding control files.

In addition, further data is compiled and aggregated at group level in order to prepare certain external information for the notes and the management report (including significant subsequent events).

Through the organizational, controlling and monitoring structures established within the Group, Vossloh's ICS and RMS substantially ensure (i) the complete accounting for, as well as the processing and assessment of, Vossloh-related transactions and events, and (ii) the faithful representation thereof in the consolidated financial statements.

Particularly individual discretionary or arbitrary decisions, faulty controls, fraud, or other factors can naturally not be fully ruled out and, therefore, even the group-wide application of installed systems cannot provide absolute protection.

Limitations

The statements herein refer only to Vossloh AG and subsidiaries which have been consolidated by Vossloh AG and whose financial and business policies can directly or indirectly be controlled by Vossloh AG.

Reference to the corporate governance report according to Article 289a HGB

For the corporate governance report (which is an integral part of the combined management report) see page 43 of this annual report. The annual report is also permanently available on Vossloh AG's website at www.vossloh.com.

Subsequent events

On February 17, 2014, the Supervisory Board as well as the Chairman of the Executive Board, Werner Andree, and the Executive Board member Dr.-Ing. Norbert Schiedeck agreed to the amicable retirement of the Executive Board members from the Executive Board as of the close of March 31, 2014. Mr. Andree will be available to the Company as a consultant until December 31, 2014, and will assist in the familiarization of the new Board and in an orderly transition.

As the successor, the Supervisory Board of Vossloh AG appointed Dipl.-Ing. (FH) Dr. h. c. Hans M. Schabert as Chairman of the Executive Board and also appointed Dipl.-Ing. Volker Schenk and Diplom-Betriebswirt (FH) Oliver Schuster as additional members of the Executive Board.

Dr. Schabert will take office on April 1, 2014, and will be especially responsible for the Transportation division with the locations of Kiel and Valencia.

The Electrical Systems business unit of the Transportation division as well as the Rail Infrastructure division with the business units Fastening Systems, Switch Systems and Rail Services will be the responsibility of Mr. Schenk, who will take up his duties as successor to Dr.-Ing. Schiedeck on May 1, 2014.

Effective March 1, 2014, Mr. Schuster will join the Executive Board and will take responsibility beginning April 1, 2014 for the departments of Finance, Controlling, Investor Relations and Public Relations.

With a date of February 18, 2014, Vossloh Cogifer S.A., Rueil-Malmaison/France, acquired 65.0 percent of the shares in the company Heyez İnşaat. Heyez İnşaat will operate in the area of design and production of switches and switch components and will be assigned to the Switch Systems business unit. The company will be included in Group in fiscal 2014.

Further increase in worldwide economic growth predicted

Studies point to further positive trend in the rail technology market

Sales growth in excess of 10 percent expected in Vossloh Group in 2014

Significant increase in EBIT forecast

Outlook

This management report contains forward looking statements based on predictions made by management of future trends of the Vossloh Group. The Outlook section is predicated on statements and forecasts representing management's assessment based on all the information presently available. Particularly taken into account have been assumptions on future trends of the global economy and the international rail technology market, as well as the specific business expectations of Vossloh's business units. These statements are subject to risks (and offer opportunities) not entirely within Vossloh's control. For additional information in this regard, reference is made to the Risks and Opportunities section herein. If the assumptions underlying the statements and forecasts in the Outlook fail to materialize, or the risks and/or opportunities depicted do materialize, actual results may differ from this outlook. Vossloh does not assume any obligation to update its statements in this group management report beyond statutory publication dates.

IMF's economic outlook for 2014

According to the International Monetary Fund (IMF), the growth in the global economy will increase to 3.7 percent in 2014, from 3.0 percent in 2013. In line with the worldwide economic development, increased growth rates are also expected in the markets relevant for Vossloh, namely the euro area and the USA. In contrast to the negative growth rates in 2013 ((0.4) percent), for the countries in the euro area a reversal of the trend is expected. According to the IMF's estimate, the growth rate will be in excess of 1.0 percent. A further increase in the growth rate is also assumed for Germany. After growth of +0.5 percent in 2013, an increased growth rate of 1.6 percent is anticipated for 2014. The IMF expects growth in the USA 2.8 percent, compared to 1.9 percent in 2013. According to the IMF, growth in China, which as a market for Vossloh is also of special relevance, will remain almost unchanged. After growth of 7.7 percent in 2013, a marginally decreased growth in the amount of 7.5 percent is anticipated for 2014.

Worldwide trade is expected to increase even more strongly than the global economy. Driving this development is the improved overall economic outlook. After growth of 2.7 percent in 2013, the IMF expects growth of 4.5 percent in 2014. Trading volume and the related demand for transport services are among the drivers of the rail technology market. In addition, demand will continue to be able to profit from the continuing urbanization and the growing importance of ecological approaches in solving traffic problems.

Furthermore, the public debt situation has a significant effect on the demand situation in the rail technology market. According to the Statistical Office of the European Union (Eurostat), the debt situation in the euro area has continually deteriorated since the end of 2009. The debt level in the euro area, measured in terms of gross national product, increased from 80.0 percent in 2009 to 90.6 percent in 2012. According to Eurostat, in the third quarter of 2013, a slight reduction in the debt ratio compared to the previous quarter (second quarter of 2013) was able to be realized for the first time since the fourth quarter of 2007. Whether this development can be seen as trend reversal is not yet foreseeable from a current perspective. However, it can be stated that the debt dynamics in the eurozone appear to be weakening.

Rail Industry Association forecast for the rail technology market

According to a study of the Association of the European Railway Industries (UNIFE), the market for rail technology will continue to grow in the coming years, as well. The study was published in September 2012, and an update will follow in September 2014. The study predicts an average yearly growth of 2.6 percent. The total volume of the rail technology market is expected to increase in period from 2015 to 2017 to an average of €170 billion per year. In this connection, based on estimates of UNIFE, the accessible market will amount to €124 billion. "Accessible" markets are those open to foreign suppliers and whose demand is not exclusively covered by domestic capacities. For the period 2009 to 2011, the total annual market volume had averaged €146 billion, of which €106 billion was considered accessible. A study by the SCI Verkehr consultants, also published in the second half of 2012, confirms the assessments made by the railway industry association. This study indicates that the total market volume in 2016 will approximate €168 billion, based on a 2011 market volume of €143 billion. This represents an annual growth rate of 3.3 percent.

There are partly large regional differences in expected growth rates. According to UNIFE estimates, Asia/Pacific and Western Europe as well as the CIS nations will show a growth of around 2.0 percent in the period 2015 to 2017. Demand in the NAFTA countries and Eastern Europe is expected to be in line with the overall market for rail technology. Exceptionally high growth rates are predicted by UNIFE for the regions of South America, the Middle East, and Africa.

The European rail industry association divides the rail technology market into four segments: infrastructure, rolling stock, rail control, and services. Rolling stock has the largest share of the accessible market (40 percent) followed by services (28 percent), infrastructure (21 percent), and finally rail control. With its Rail Infrastructure and Transportation divisions, Vossloh is primarily engaged in the infrastructure and rolling stock segments.

The accessible market for rolling stock in the period 2009 to 2011 averaged €42 billion. The growth forecast is an annual 2.3 percent, which for the period 2015 to 2017, will lead to an average accessible market volume of €48 billion. According to the UNIFE study, the global accessible rail infrastructure market for the period 2009 to 2011 averaged €23 billion. The compound annual growth rate is expected to reach 2.3 percent, which results in an average market volume of €26 billion for 2015 to 2017. Regionally, growth rates vary widely in both segments.

In Western Europe, the rolling stock segment is forecast to have an average growth rate of 3.0 percent. The increase will be especially pronounced in France and Great Britain. In Germany, due to the high contract awards in recent years, the experts are predicting a market decline. In the infrastructure segment, an annual decrease of 0.5 percent is expected. Also in infrastructure, a declining trend is anticipated in Germany, while additional growth is anticipated in France and Great Britain.

According to the UNIFE study, the Asia/Pacific region will show a declining market for rolling stock. The market is expected to subside by an average 2.5 percent annually. China, especially, due to the already heavy expenditures on high-speed trains, is likely to cut back its outlays. For the Infrastructure market, however, the experts are predicting a significant annual growth of 3.0 percent. Even though for China a downward trend is anticipated in the infrastructure sector, this will be more than offset by strongly increasing market volumes in India, South Korea, Taiwan, and Indonesia.

In the NAFTA countries, the rolling stock segment is forecast to show a steep rise in market volume of annually 4.5 percent, chiefly driven by surging demand in the United States. The reasons for this are the increasing environmental awareness and high gasoline prices. In this region, the Infrastructure market is also expected to grow annually, by 1.0 percent.

The market volume for rolling stock among the CIS members, according to the UNIFE study, will grow by an annual average of 4.0 percent. This trend is being primarily driven by Russia. In the Infrastructure market, the experts expect, similar to Western Europe, a slight downturn in market volume. The upswing in Russia will be outweighed by a collapse in the Ukraine market.

As to the Africa and Middle East region, over the years ahead South Africa will particularly contribute to an expansion in market volumes of rail vehicles. In Eastern Europe, the driver for the expected strong growth is Turkey; in South America, it is Brazil. In the Infrastructure segment, growth in the Africa and Middle East region will primarily be triggered by steep demand in the United Arab Emirates (UAE) and in Qatar. In Eastern Europe, Poland and Turkey are likely to report a sharp upturn in demand. In the South American infrastructure market, Brazil is the decisive player.

Vossloh's outlook for 2014

In addition to general economic and industry-related conditions, Vossloh's sales planning takes into consideration, in particular, assumptions specific to the business units. These concern such aspects as product perspectives, expected behavior of competitors, project award probabilities, and market risks and rewards in the individual regions. Vossloh customers are public and private local and long-distance transport operators who carry out capital expenditures after lengthy decision-making processes and within the framework of relatively long-range financing. As their partner, Vossloh accompanies its customers over many years. Together with them, the Group develops and designs solutions for individual product requirements. As a rule, this results in lengthy delivery and project lead times. Accordingly, order backlogs cover several months' production, with more and more contract completions even extending over years.

The following table shows a forecast of Vossloh's sales for 2014 from today's vantage point. An expected trend in the range of +/– 5 percent is considered virtually unchanged. Changes above 5 percent are classified as light growth, above 10 percent as strong and above 25 percent as very strong growth.

Sales revenues by region

€ million	2012	Forecast in Annual Report 2012	2013	Growth in %	Forecast 2014 (based on 2013)
Germany	260.1	strong growth	282.3	8.5	very strong growth
France	138.6	light growth	154.5	11.5	virtually unchanged
Other Western Europe	125.4	strong growth	152.5	21.6	light growth
Northern Europe	84.8	virtually unchanged	71.7	–15.4	strong growth
Southern Europe	121.9	strong growth	98.9	–18.9	strong decline
Eastern Europe	70.2	virtually unchanged	67.4	–4.0	virtually unchanged
Total Europe	801.0	strong growth	827.3	3.3	strong growth
Americas	125.5	strong growth	124.1	–1.1	very strong growth
Asia	264.2	slight decline	314.3	19.0	very strong decline
Africa	18.3	very strong growth	22.4	22.4	very strong growth
Australia	34.0	light growth	33.1	–2.6	strong decline
Total	1,243.0	light growth	1,321.2	6.3	strong growth

From today's viewpoint, Vossloh is expecting for 2014 to be able to achieve a sales growth rate in excess of 10 percent, thus once again clearly outpacing the overall rail technology market. The growth will be driven by the Transportation division. Both business units of the division are profiting from the high order intake of 2012 and 2013. From today's perspective, the Rail Infrastructure division will maintain the sales level of fiscal 2013. Fastening Systems will be able to only partly compensate for expected sales decline in China and Kazakhstan through additional sales in other regions. The Switch Systems business unit expects growth through the implementation of the high-speed projects in France and higher sales of the production facilities in Sweden. Growth in sales is also anticipated in the Rail Services business unit.

The sales expectations are substantiated by the high order backlog of the Vossloh Group in the amount of €1,728 million at the end of 2013. The high level of appeal being radiated by the rail technology market has led to a sustained intensity of competition for years. Continuing price pressure is anticipated in all of the Group's business units. Nevertheless, a noticeable improvement in EBIT is expected for fiscal 2014, which will be driven especially by the elimination of special charges of approximately €25 million in 2013. Depending on the scheduled processing of large projects in the Transportation division, the operating EBIT margin of the Vossloh Group will range between 5 percent and 7 percent. Again, we anticipate a reserved start into the year 2014, typical for our business. From today's point of view, the profitability in Rail Infrastructure for fiscal 2014 should be similarly high as in 2013. In the Transportation division, a positive EBIT margin is currently anticipated of up to 3.5 percent. Compared to 2013, a significant improvement of the EBIT margin is forecast in this division, however, in 2014, projects with relatively low margins will still negatively affect the quality of results. Nevertheless, even adjusted for the special effects in fiscal 2013, an increase in the profitability in the Transportation division is projected.

From the present perspective, capital employed is likely to remain almost unchanged. Once again, capital expenditures outnumbering amortization and depreciation will have an increasing effect which will be balanced by a projected decrease in the average working capital. The higher expected operation result combined with an almost unchanged capital employed, will lead to a significant increase in the return on capital employed (ROCE). This performance indicator, from the current perspective, will be in a range of 7.5 percent to 10.5 percent. Assuming pretax cost of capital (WACC) of 10.0 percent, value added for 2014 is believed to be ranging from negative to slightly positive.

Risks may emerge for Vossloh, in some cases, from the cyclic spending patterns of public and private customers in the individual markets. The necessity to consolidate public-sector budgets in certain regions might negatively impact rail technology markets more strongly than planned. In past years, the business units were mostly able to offset fluctuations in individual regions by their global presence. In recent times, the Rail Infrastructure division has acquired significant businesses and set up locations to internationalize its presence.

However, entering new markets not only offers opportunities but is also tied to incremental risks which may emerge, in particular, from political and social instability or legal uncertainties. Regarding other risks possibly affecting the planning presented, we refer to the report on risks and opportunities (starting on page 102).

The bottom line of Vossloh AG as a pure management and financial holding company is primarily affected by administrative expenses and the net financial result. The general administrative expenses of Vossloh AG in 2014 are expected to be at the level of the prior year. In addition to incurred interest expenses, the net financial result is strongly dependent on income from dividends and from profit transfers, or as the case may be, from the assumption of losses. Overall, with respect to the net financial result and thereby the result of ordinary activities, a significant improvement is assumed.

Organic growth will continue to be the focus of Vossloh's objectives in the years ahead, as will the search for targeted acquisitions which strategically complement the existing portfolio.
On the one hand, acquisitions of Vossloh should generally optimize the value creation structure of the Group, and on the other hand, develop additional growth opportunities for the Group.
Generally, acquirees should meet group requirements from the outside while adding value.
The planning as presented refers the envisaged organic growth alone.

Consolidated financial statements of Vossloh AG as of December 31, 2013

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Income statement for the year ended December 31, 2013

€ million	Note	2013	2012
Net sales revenues	(1)	1,321.2	1,243.0
Cost of sales	(2.1)	(1,087.3)	(994.3)
General administrative and selling expenses	(2.2)	(185.6)	(172.4)
Research and development expenses	(2.3)	(12.7)	(9.7)
Net other operating income	(3)	17.4	30.3
Operating result		**53.0**	**96.9**
Investment result from associated companies		0.6	0.2
Other financial income	(4)	0.8	0.5
Other financial expenses	(5)	(0.2)	(0.1)
Earnings before interest and taxes (EBIT)		**54.2**	**97.5**
Interest income		3.0	5.8
Interest expense		(24.8)	(27.2)
Earnings before income taxes (EBT)		**32.4**	**76.1**
Income taxes	(6)	(11.2)	(20.8)
Net result from discontinued operations	(7)	2.9	9.5
Total net income		**24.1**	**64.8**
thereof attributable to the shareholders of Vossloh AG / Group net income		**15.0**	**59.2**
thereof attributable to non-controlling interests	(8)	9.1	5.6
Earnings per share (EpS)			
Undiluted/fully diluted EpS* (€)	(9)	1.25	4.94
thereof attributable to continuing activities		1.00	4.15
thereof attributable to discontinued activities		0.25	0.79

*During fiscal 2013, altogether 11,998,887 no-par shares of stock (2012: 11,993,491) were outstanding on average.

Statement of comprehensive income for the year ended December 31, 2013

€ million	2013	2012
Total net income	**24.1**	**64.8**
Changes in fair value of hedging instruments (cash flow hedges)	0.0	(0.3)
Currency translation differences	(10.2)	0.7
Changes in fair value of available-for-sale securities	0.0	0.0
Income taxes	0.0	0.0
Amounts that will potentially be transferred into profit or loss in future periods	**(10.2)**	**0.4**
Actuarial gains/losses on pensions	(1.2)	(5.7)
Income taxes	0.3	1.7
Amounts that will not be transferred into profit or loss in future periods	**(0.9)**	**(4.0)**
Total income and expenses recognized directly in equity	**(11.1)**	**(3.6)**
Comprehensive income	**13.0**	**61.2**
thereof attributable to shareholders of Vossloh AG	4.7	55.8
thereof attributable to non-controlling interests	8.3	5.4

Cash flow statement for the year ended December 31, 2013

€ million	2013	2012
Cash flow from operating activities:		
Earnings before interest and taxes (EBIT)	54.2	97.5
Net result from discontinued operations	2.9	9.5
Amortization/depreciation/write-downs (less write-ups) of noncurrent assets	42.6	41.4
Change in noncurrent provisions	(13.8)	6.2
Gross cash flow	**85.9**	**154.6**
Noncash change in shares in associated companies	(0.6)	(0.3)
Other noncash income/expenses, net	4.4	5.8
Net loss/(gain) on the disposal of intangible assets and property, plant and equipment	1.5	0.0
Income taxes paid	(25.5)	(20.1)
Change in working capital	36.3	51.4
Changes in other assets/liabilities, net	20.6	(28.8)
Cash flow from operating activities	**122.6**	**162.6**
Cash flow from investing activities:		
Investments in intangible assets and property, plant and equipment	(66.8)	(58.5)
Acquisition of noncurrent financial instruments	(0.6)	(0.7)
Proceeds from the disposal of intangible assets and property, plant and equipment	1.0	1.0
Disbursements/proceeds from the purchase/sale of short-term securities	(4.7)	(1.1)
Proceeds from disposals of noncurrent financial instruments	0.4	0.7
Cash-effective changes in investments in associated companies	(0.9)	0.6
Disbursements for the acquisition of consolidated companies	(6.2)	(14.9)
Cash flow from investing activities	**(77.8)**	**(72.9)**
Cash flow from financing activities:		
Change in treasury stock	0.4	0.4
Disbursements for increases in ownership interests	(1.2)	–
Proceeds from additions to equity	–	0.0
Disbursements to shareholders and non-controlling interests	(27.6)	(33.5)
Net financing from short-term loans	(52.9)	(60.9)
Net financing from medium-/long-term loans	49.3	(1.5)
Interest received	2.8	12.8
Interest paid	(24.8)	(27.2)
Cash flow from financing activities	**(54.0)**	**(109.9)**
Net increase (decrease) in cash and cash equivalents	(9.2)	(20.2)
Change in cash and cash equivalents from the first-time consolidation of companies	–	0.1
Exchange effects	(1.2)	0.6
Opening cash and cash equivalents	**65.9**	**85.4**
Closing cash and cash equivalents	**55.5**	**65.9**

Balance sheet

Assets in € million	Note	12/31/2013	12/31/2012*	1/1/2012*
Intangible assets	(10)	441.4	439.4	415.1
Property, plant and equipment	(11)	255.6	206.3	190.3
Investment properties	(12)	4.4	4.7	6.3
Investments in associated companies (at equity)	(13)	2.1	0.5	0.9
Other noncurrent financial instruments	(14)	12.5	12.0	13.3
Sundry noncurrent assets	(15)	2.7	2.2	0.6
Deferred tax assets	(16)	26.8	27.9	28.2
Total noncurrent assets		**745.5**	**693.0**	**654.7**
Inventories	(17)	371.1	365.2	351.5
Trade receivables	(18)	251.4	234.7	239.6
Receivables from construction contracts	(18)	89.8	85.3	113.4
Income tax assets	(19)	6.8	7.1	8.0
Sundry current assets	(20)	57.5	44.8	40.5
Short-term securities	(21)	8.7	4.0	2.8
Cash and cash equivalents	(22)	55.5	65.9	85.4
Current assets		**840.8**	**807.0**	**841.2**
Total assets		**1,586.3**	**1,500.0**	**1,495.9**

Equity and liabilities in € million	Note	12/31/2013	12/31/2012*	1/1/2012*
Capital stock	(23.1)	37.8	37.8	37.8
Additional paid-in capital	(23.2)	42.6	42.7	42.7
Treasury stock	(23.3)	(102.0)	(102.5)	(102.9)
Retained earnings	(23.4)	446.8	432.7	423.3
Group profit carried forward		37.1	19.9	5.8
Group net income		15.0	59.2	56.2
Accumulated other comprehensive income	(23.5)	(6.7)	0.0	3.2
Equity excluding non-controlling interests		**470.6**	**489.8**	**466.1**
Non-controlling interests	(23.6)	19.7	15.9	14.0
Total equity		**490.3**	**505.7**	**480.1**
Pension provisions	(24)	22.6	22.4	16.5
Other noncurrent provisions	(25)	47.5	57.8	56.2
Noncurrent financial liabilities	(26.1)	124.5	184.9	189.8
Noncurrent trade payables	(26.2)	0.0	10.4	8.2
Noncurrent income tax liabilities	(26.3)	0.0	0.0	0.7
Other noncurrent liabilities	(26.4)	22.7	26.1	25.1
Deferred tax liabilities	(16)	14.5	29.4	30.7
Total noncurrent liabilities		**231.8**	**331.0**	**327.2**
Other current provisions	(25)	110.5	102.0	116.6
Current financial liabilities	(26.1)	140.9	85.8	137.2
Current trade payables	(26.2)	178.6	157.7	180.6
Current liabilities on construction contracts	(26.2)	276.9	219.6	180.2
Current income tax liabilities	(26.3)	6.4	7.7	7.0
Other current liabilities	(26.4)	150.9	90.5	67.0
Total current liabilities		**864.2**	**663.3**	**688.6**
Total equity and liabilities		**1,586.3**	**1,500.0**	**1,495.9**

*Due to the changed presentation of certain balance-sheet items, prior-year's figures have been partially adjusted; see page 153.

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital	Treasury stock	Retained earnings	Group profit carried forward	Group net income	Accumulated othercomprehensive income	Equity excluding non- controlling interests	Non-controlling interests	Total
Balance at 12/31/2011	**37.8**	**42.7**	**(102.9)**	**423.3**	**5.8**	**56.2**	**3.2**	**466.1**	**14.0**	**480.1**
Carryforward to new account					56.2	(56.2)		0.0		0.0
Transfer to retained earnings				9.2	(8.8)		(0.4)	0.0		0.0
Increase in equity shares				0.2	(3.3)		0.6	(2.5)		(2.5)
Comprehensive income						59.2	(3.4)	55.8	5.4	61.2
Dividends paid					(30.0)			(30.0)	(3.5)	(33.5)
Treasury shares acquired/sold			0.4					0.4		0.4
Balance at 12/31/2012	**37.8**	**42.7**	**(102.5)**	**432.7**	**19.9**	**59.2**	**0.0**	**489.8**	**15.9**	**505.7**
Carryforward to new account					59.2	(59.2)		0.0		0.0
Transfer to retained earnings				14.4	(18.0)		3.6	0.0		0.0
Increase in equity shares				(0.3)				(0.3)	(0.9)	(1.2)
Comprehensive income						15.0	(10.3)	4.7	8.3	13.0
Dividends paid					(24.0)			(24.0)	(3.6)	(27.6)
Treasury shares acquired/sold		(0.1)	0.5					0.4		0.4
Balance at 12/31/2013	**37.8**	**42.6**	**(102.0)**	**446.8**	**37.1**	**15.0**	**(6.7)**	**470.6**	**19.7**	**490.3**

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2013

Segment information by division/business unit

€ million		Fastening Systems	Switch Systems	Rail Services	Consolidation	Rail Infrastructure
Value added	2013	47.7	(13.4)	(2.9)	–	**31.4**
	2012*	29.8	(10.7)	(8.0)	(0.1)	**11.0**
External sales revenues	2013	371.7	460.3	61.4	0.1	**893.5**
	2012	281.1	450.8	54.5	0.1	**786.5**
Intersegment sales revenues	2013	4.7	0.4	0.7	(3.3)	**2.5**
	2012	10.3	0.5	0.1	(5.0)	**5.9**
Interest income	2013	0.1	0.5	0.0	0.0	**0.6**
	2012	0.2	0.7	0.0	(0.2)	**0.7**
Interest expense	2013	(3.5)	(3.1)	(2.2)	(0.8)	**(9.6)**
	2012	(4.1)	(3.4)	(2.6)	(0.2)	**(10.3)**
Amortization/depreciation	2013	6.6	14.0	4.5	0.0	**25.1**
	2012	6.9	11.7	5.4	0.0	**24.0**
Income from investments in associated companies	2013	0.7	0.0	(0.1)	0.0	**0.6**
	2012	0.3	0.0	(0.1)	0.0	**0.2**
Income taxes	2013	16.5	10.5	1.2	(0.6)	**27.6**
	2012	11.6	10.6	0.1	(0.4)	**21.9**
Net result from discontinued operations	2013	–	–	–	2.9	**2.9**
	2012	0.0	0.0	0.0	9.5	**9.5**
Other major noncash segment expenses	2013	2.4	12.8	0.2	0.0	**15.4**
	2012	14.1	31.0	9.3	0.1	**54.5**
Impairment write-downs	2013	–	0.7	–	–	**0.7**
	2012	–	0.0	–	–	**0.0**
Reversals of write-downs	2013	0.0	0.0	–	–	**0.0**
	2012	–	–	–	–	**–**
Total assets	2013	200.2	463.7	140.8	190.7	**995.4**
	2012	207.4	435.9	127.5	177.2	**948.0**
Liabilities	2013	118.6	198.8	106.4	55.5	**479.3**
	2012*	131.7	146.2	95.3	30.0	**403.2**
Capital expenditures for noncurrent assets	2013	8.1	21.5	12.3	0.0	**41.9**
	2012	4.5	20.8	9.1	0.0	**34.4**
Investments in associated companies	2013	1.5	–	0.6	–	**2.1**
	2012	0.5	–	0.0	–	**0.5**
Average headcount (monthly figures)	2013	566	2,531	317	0	**3,414**
	2012	544	2,308	341	0	**3,193**

* Due to the changed presentation of certain balance-sheet items, prior-year's figures have been partially adjusted; see page 153.

	Transportation Systems	Electrical Systems	Consolidation	Transportation	Holding companies	Consolidation	Group
	(21.1)	(13.3)	0.6	**(33.8)**	28.7	(48.2)	**(21.9)**
	9.6	7.1	5.8	**22.5**	27.3	(47.8)	**13.0**
	261.9	161.7	0.1	**423.7**	0.3	0.0	**1,317.5**
	293.3	155.9	0.0	**449.2**	0.3	0.0	**1,236.0**
	0.0	4.0	(2.5)	**1.5**	1.2	(1.5)	**3.7**
	0.4	10.9	(9.4)	**1.9**	1.2	(2.0)	**7.0**
	2.0	0.1	0.0	**2.1**	7.9	(7.6)	**3.0**
	4.7	0.4	0.0	**5.1**	8.6	(8.6)	**5.8**
	(5.2)	(2.4)	0.0	**(7.6)**	(16.1)	8.5	**(24.8)**
	(7.3)	(3.0)	0.0	**(10.3)**	(16.3)	9.7	**(27.2)**
	11.9	4.0	0.0	**15.9**	0.8	0.0	**41.8**
	12.5	4.0	0.0	**16.5**	0.8	0.0	**41.3**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.6**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.2**
	(5.8)	(3.8)	0.4	**(9.2)**	(7.1)	(0.1)	**11.2**
	1.9	3.0	1.8	**6.7**	(7.8)	0.0	**20.8**
	–	–	–	**–**	–	–	**2.9**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**9.5**
	26.5	8.3	(1.3)	**33.5**	2.0	0.0	**50.9**
	24.0	17.8	0.1	**41.9**	11.2	(0.1)	**107.5**
	–	–	–	**–**	0.1	–	**0.8**
	–	–	–	**–**	0.1	–	**0.1**
	–	–	–	**–**	0.0	–	**0.0**
	–	0.1	–	**0.1**	0.0	–	**0.1**
	542.1	354.8	(8.5)	**888.4**	919.3	(1,216.8)	**1,586.3**
	517.4	261.4	(4.3)	**774.5**	873.4	(1,095.9)	**1,500.0**
	269.9	229.2	(12.1)	**487.0**	555.6	(621.1)	**900.8**
	221.6	141.4	(6.8)	**356.2**	495.2	(507.0)	**747.6**
	13.5	10.1	1.0	**24.6**	0.3	0.0	**66.8**
	15.8	5.7	2.5	**24.0**	2.7	0.0	**61.1**
	–	–	–	**–**	–	–	**2.1**
	–	–	–	**–**	–	–	**0.5**
	1,111	805	–	**1,916**	46	–	**5,376**
	1,091	747	–	**1,838**	47	–	**5,078**

General principles

Vossloh AG is a listed company based in Werdohl, Germany, and is registered under number HRB 5292 at the Commercial Register of the Iserlohn Local Court. The Vossloh Group's key activities include the manufacture and marketing of rail infrastructure products, locomotives, electrical systems for local transport vehicles (LTVs), as well as the provision of rail-related services.

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the supplementary regulations of Art. 315a(1) German Commercial Code ("HGB"). All mandatorily applicable standards as of the balance sheet date have been considered.

On February 28, 2014, Vossloh AG's Executive Board released the consolidated financial statements for transmittal to the Supervisory Board's Audit Committee; they will be submitted to the plenary Supervisory Board at the meeting of March 26, 2014.

New accounting rules

The following standards and interpretations were issued by the IASB during 2013 but were not yet mandatorily applicable for the fiscal year or were not yet adopted into European law. In the case of standards and interpretations that have not yet been adopted by the EU, the first-time application according to the IASB is indicated.

IASB Standard	Issued	First-time adoption	Endorsed by the EU	Expected effects on the consolidated financial statements of Vossloh AG
Revised Standards				
IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets	May 2013	2014	December 2013	None
IAS 39 Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting	June 2013	2014	December 2013	None
IFRS 9: Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39	November 2013	2013	No	Based on the previous hedging practice of Vossloh, no significant effects are expected
Amendments to IAS 19: Defined Benefit Plans: Employee Contributions	November 2013	2015	No	A final analysis of potential effects has not yet been performed
Annual Improvements IFRSs 2010–2012 Cycle	December 2013	In some cases 2014; generally 2015	No	A final analysis of potential effects has not yet been performed
Annual Improvements IFRSs 2011–2013 Cycle	December 2013	2015	No	None
Revised Interpretations				
IFRIC 21: Levies	May 2013	2014	No	None

First-time application of Standards

In fiscal 2013, the standards and interpretations listed in the following table were applied for the first time. In the case of IAS 36 (endorsed by the EU in December 2013) an early adoption was made on a voluntary basis.

Standard	Issued	Endorsed by the EU
New or amended Standards		
IAS 1: Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	June 2011	June 2012
IFRS 1: First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	December 2010	December 2012
IAS 12: Income Taxes – Deferred Tax: Recovery of Underlying Assets	December 2010	December 2012
IFRS 13: Fair Value Measurement	May 2011	December 2012
IAS 19: Employee Benefits	June 2011	June 2012
IFRS 7: Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	December 2011	December 2012
IFRS 1: First-time Adoption of International Financial Reporting Standards – Government Loans	March 2012	March 2013
Annual Improvements to the International Financial Reporting Standards, 2009-2011 cycle	May 2012	March 2013
IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets	May 2013	December 2013
New or amended Interpretations		
IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine	October 2011	December 2012

The amendment to IAS 19 relates, for one, to the elimination of the so-called corridor method, under which actuarial gains and losses and certain other effects are only recognized in profit or loss when they exceed a specified range relating to the defined benefit obligation (DBO) or, as the case may be, relating to the market value of the plan assets (corridor). According to the IAS 19 amendment, such so-called remeasurements, which include the actuarial gains and losses, are required to be recognized directly in other comprehensive income and are not reclassified to profit or loss in later periods. The Vossloh Group already discontinued the use of the corridor method in fiscal 2012 through a voluntary change to the complete recognition of actuarial gains and losses in other comprehensive income as permitted by the previous version of IAS 19. For another, the concept of expected return on plan assets was eliminated. In the amended IAS 19, the discount rate on the excess of the DBO over the fair value of plan assets is to be applied. The use of a different rate of return on plan assets and the discounting of the obligation is thereby eliminated. This effect was not material in the Vossloh Group.

The amendment to IAS 1 only had an effect on the presentation in the comprehensive income statement, according to which it must be distinguished between those amounts which are required to be reclassified through profit or loss in future periods and those which will not be reclassified through profit or loss in future periods.

The remaining standards and interpretations applied for the first time did not have any significant effects.

The financial statements of all companies included in Vossloh's consolidated financial statements are prepared as of December 31 (Vossloh AG's closing date) in accordance with group-wide uniform accounting and valuation methods; they are audited or reviewed by independent statutory accountants. The Group currency is the euro. The consolidated financial statements are prepared in euro, and the presentation is made for the most part in € million. The income statement is presented in cost-of-sales format.

Preparing the consolidated financial statements requires management to make certain assumptions and estimates. These estimates affect the reported values of recognized assets and liabilities and of current amounts of contingent liabilities as of the balance sheet date, as well as the recognition of income and expenses in the period. Accordingly, the actual values subsequently determined may differ from those estimates and hence from the amounts disclosed in the consolidated financial statements. The estimates and underlying assumptions are subject to ongoing review. Adjustments are accounted for in the period of change.

Estimates are particularly required for the capitalization and impairment testing of goodwill (see Note 10), the recognition of deferred taxes (see Note 16), the determination of the discount rate for pension provisions (see Note 24), as well as for the recognition and measurement of other provisions (see Note 25).

The recognition and measurement principles and policies followed in Vossloh AG's consolidated financial statements are detailed in the respective notes.

Consolidation

Vossloh's consolidated financial statements comprise the financial statements of Vossloh AG and principally all its subsidiaries. Generally all subsidiaries where Vossloh AG can exercise control through its directly or indirectly held voting majority are fully consolidated.

The financial statements of subsidiaries are included in the consolidated financial statements from the date control is obtained until the control relationship expires. In connection with the acquisition method, the equity of the subsidiary is offset against the investment in the company. In this connection, the acquisition cost of the newly acquired shares is offset against the Group's interest in the revalued equity of subsidiaries. All of the acquiree's identifiable assets and liabilities (including contingent liabilities) are recognized at fair value as of the acquisition date. Any remaining excess of cost over the revalued net assets is capitalized as goodwill according to IFRS 3 and tested for impairment once annually, while any resulting negative goodwill is directly released to income after fair values have been reassessed.

All intragroup receivables and payables and all income and expenses as well as all profits or losses realized among consolidated group companies are eliminated in connection with the intragroup receivable/payable elimination and expense/income elimination. Where write-downs have been recognized in the separate financial statements of consolidated subsidiaries on shares in consolidated subsidiaries or intragroup receivables, such write-downs are reversed in consolidation.

Joint ventures are consolidated proportionately according to IAS 31, i.e., the assets, liabilities, income and expenses of joint ventures are included at the percentage of interest held. Capital is consolidated proportionately, analogous to the acquisition method. Where material, enterprises in which Vossloh owns an equity interest of between 20 and 50 percent and where Vossloh can exercise a significant influence on their business and financial policies (so-called associated companies) are carried at equity.

All remaining investments are carried at cost, taking into consideration potential impairment, and are presented under other noncurrent financial instruments.

In fiscal 2013, the following changes occurred to the consolidation group:

With a date of January 18, 2013, Vossloh Cogifer SA, Rueil-Malmaison, France, acquired all shares in the companies Suarandri Ltda. and Monteiro Ltda. At the time of the acquisition, these two companies, in turn, were shareholders in Metalúrgica Barros Monteiro Ltda., Sorocaba, Brazil (MBM). The purchase price amounted to €2.8 million. In the meantime, Monteiro Ltda. was merged into Suarandri Ltda. and MBM was renamed to Vossloh Cogifer do Brasil Metalúrgica MBM SA. This company operates in the area of design and production of switches and switch components and is assigned to the Switch Systems business unit.

The purchase price for the shares compares with the following assets and liabilities acquired:

€ million	Pre-acquisition carrying amount	Adjustments	Fair value upon initial consolidation
Intangible assets and property, plant and equipment	1.5	1.2	2.7
Inventories	0.7	–	0.7
Trade receivables	1.0	–	1.0
Other assets	0.5	–	0.5
Financial liabilities	2.2	–	2.2
Trade payables	0.5	–	0.5
Provisions	0.3	–	0.3
Other liabilities	0.8	0.4	1.2
Net assets acquired	(0.1)	**0.8**	**0.7**
Purchase price			2.8
Remaining goodwill			**2.1**

The company contributed € 5.4 million to Group sales and €(2.3) million to the Group result.

On July 23, 2013, Vossloh Cogifer SA, Rueil-Malmaison, France, acquired the entire shares in the company Outreau Technologies SAS, Outreau, France. The purchase price amounted to €5.2 million. The company has been included in the scope of consolidated companies since control was obtained.

The purchase price for the shares compares with the following assets and liabilities acquired:

€ million	Pre-acquisition carrying amount	Adjustments	Fair value upon initial consolidation
Intangible assets and property, plant and equipment	4.4	2.7	7.1
Trade receivables	4.9	0.0	4.9
Inventories	2.1	–	2.1
Other assets	1.8	1.7	3.5
Cash and cash equivalents	1.8	–	1.8
Financial liabilities	3.6	–	3.6
Trade payables	2.5	–	2.5
Liabilities to employees	0.0	1.7	1.7
Other liabilities	4.3	3.3	7.6
Net assets acquired	**4.6**	**(0.6)**	**4.0**
Purchase price			5.2
Remaining goodwill			**1.2**

Since the company has been included in the consolidation it has contributed € 9.2 million to Group sales and €0.0 million to the Group result. Had the acquisition occurred at the beginning of the fiscal year, it would have contributed € 23.8 million to Group sales and €(0.3) million to the Group result.

With a date of February 18, 2014, Vossloh Cogifer SA, Rueil-Malmaison, France, acquired 65 percent of the shares in the company Heyez İnşaat Boru Makina Mühendislik Otomotiv İth. İhr. San. Ve Tic A.Ş, Ankara, Turkey (Heyez Insaat). The purchase price amounted to €2.0 million. Heyez Insaat at the moment is solely an inactive company; however, after an economic re-establishment it will operate in the area of design and production of switches and switch components and will be assigned to the Switch Systems business unit. The company will be included in the Group in 2014.

Consequently, 68 subsidiaries (including 24 in Germany) were fully consolidated as of December 31, 2013.

Changes in fully-consolidated subsidiaries

	2013
Fully consolidated as of 1/1	65
Newly consolidated	4
Intragroup mergers	(1)
Fully consolidated as of 12/31	**68**

Two companies based outside, and one inside, Germany were included proportionately in the consolidated financial statements. One German and three foreign companies were carried at equity.

Due to their minor significance to the Group's net assets, financial position and results of operations, 26 subsidiaries (2012: 26) were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights or otherwise controlled them at the balance sheet date.

Currency translation

Non-euro financial statements of subsidiaries are translated into euro as the group currency according to the concept of functional currency. Since these subsidiaries are foreign operations (as defined by the IFRS), their functional currency corresponds to their local currency. For balance sheet items, the mean exchange rate as of December 31 is used while for income statement translation, the annual average rate is applied.

Currency translation differences, from the translation of assets and liabilities compared to the prior year's translation or those between income statement and balance sheet, are recognized without profit or loss effect in equity and shown in a separate item within accumulated other comprehensive income (OCI).

In the separate financial statements, foreign-currency transactions are translated at the historical rate (upon initial recognition). Gains or losses arising up to the balance sheet date from the remeasurement of financial instruments as well as cash and equivalents are recognized in the income statement.

The exchange rates of non-euro zone countries where the Vossloh Group transacts major business through consolidated subsidiaries are listed below:

Exchange rates

Country	Currency	€	2013	2012	2013	2012
			Current rate at Dec. 31		Average rate	
Australia	AUD	1 €	1.54	1.27	1.38	1.24
Brazil	BRL	1 €	3.25	–	2.87	–
China	CNY	1 €	8.33	8.21	8.23	8.12
Denmark	DKK	1 €	7.46	7.46	7.46	7.44
Great Britain	GBP	1 €	0.83	0.82	0.85	0.81
India	INR	1 €	85.22	72.22	77.77	68.89
Kazakhstan	KZT	1 €	212.98	–	202.14	–
Malaysia	MYR	1 €	4.52	4.03	4.18	3.97
Poland	PLN	1 €	4.15	4.09	4.20	4.19
Sweden	SEK	1 €	8.83	8.58	8.65	8.71
Switzerland	CHF	1 €	1.23	1.21	1.23	1.21
Serbia	RSD	1 €	114.86	112.10	113.07	113.02
Thailand	THB	1 €	45.22	40.35	40.83	40.16
Turkey	TRY	1 €	2.95	2.36	2.53	2.32
USA	USD	1 €	1.38	1.32	1.33	1.29

Notes to the consolidated income statement

(1) Net sales

Breakdown of sales

€ million	2013	2012
Sales of products	937.9	818.6
Revenues from construction contracts and from the rendering of services	383.3	424.4
Total	1,321.2	1,243.0

Sales are recognized net of sales deductions and price allowances (such as cash and other discounts, bonuses, rebates, purchases or returns credited). In line with IAS 18, sales are generally recognized once goods have been delivered or services rendered, provided that (i) the price has been fixed or can be determined, (ii) title and risk have passed to the purchaser, and (iii) realization of the underlying receivable is reasonably probable. Where milestone or partial invoices have been agreed upon in advance, sales are recognized after the customer has finally and formally accepted the milestone or partial delivery.

Revenue from specific manufacturing or construction contracts with customers ("PoC contracts") is recognized according to the percentage of completion (PoC) as required by IAS 11. By adopting the cost-to-cost method, i.e., relating costs incurred to estimated total contract costs, the percentage of completion is determined as of the balance sheet date and applied to the contracts. The resulting revenue is recognized at production cost, plus a profit at the percentage of completion provided that contract results can be reliably determined.

Sales revenues on services are recognized in an analogous manner according to the work performed under the contract, provided the conditions for application of the PoC method are fulfilled.

The segment reports starting on pages 128 and 157 include breakdowns of net sales by division, business unit, and region.

(2) Functional expenses

According to the cost-of-sales format of income statement presentation, expenses are allocated to functional categories. The following expense types and their amounts are included in cost of sales, selling, general administrative and research and development expenses:

Nature of expenses

€ million	2013	2012
Cost of raw materials and supplies	621.5	604.6
Cost of services purchased	96.8	80.2
Cost of materials	**718.3**	**684.8**
Wages and salaries	232.6	221.1
Social security and employee benefits	50.0	45.6
Pension expense	5.8	4.3
Personnel expenses	**288.4**	**271.0**
Amortization/depreciation	**42.6**	**41.4**
Expenses on operating leases	**10.9**	**8.7**

Based on the quarterly numbers, the workforce structure in 2013 was on average the following:

Workforce structure

	2013	2012
Executive/management boards	80	70
Other officers/executives	196	133
Non-tariff employees	1,269	1,233
Tariff employees	3,828	3,565
Apprentices	91	83
Interns/degree candidates	21	14
	5,485	**5,098**

The above data includes 131 employees of companies consolidated pro rata (2012: 127).

(2.1) Cost of sales

Cost of sales covers the cost of goods and services sold in the period. Besides such direct costs as materials, labor and energy, cost of sales also comprises indirect costs including amortization and depreciation, as well as any write-downs of inventories in the period.

(2.2) Selling and general administrative expenses

Breakdown of selling and general administrative expenses

€ million	2013	2012
Selling expenses	98.9	88.3
General administrative expenses	86.7	84.1
	185.6	**172.4**

In addition to personnel expenses, selling expenses mainly consist of outbound freight and commissions and include most of the allowances for bad trade receivables and sundry assets. The expense recognized in the reporting period for allowances amounted to €1.2 million (2012: €0.9 million).

General administrative expenses cover the personnel and other expenses of administration, including related amortization and depreciation.

(2.3) Research and development expense

In accordance with IAS 38, all research costs are directly expensed as research and development expenses. The costs incurred for developing a marketable product are capitalized if they meet the intangible-asset recognition criteria. Non-capitalizable development costs are also expensed under this item. R&D expenses before capitalized development expenses in 2013 came to €25.1 million (2012: €24.8 million).

(3) Other operating income and expenses

Breakdown of other operating income and expenses

€ million	2013	2012
Income from the release of provisions	11.7	21.6
Currency exchange gains	4.9	4.4
Income from governmental grants	2.0	2.4
Rental income	1.8	1.9
Insurance reimbursements	1.0	0.3
Release of allowances and reversal of write-downs	0.9	2.2
Sundry income	6.1	6.6
Other operating income	**28.4**	**39.4**
Currency exchange losses	(8.3)	(5.1)
Losses on the disposal of intangible assets and property, plant and equipment	(1.8)	(0.1)
Expenses for buildings	(0.5)	(0.7)
Sundry expenses	(0.4)	(3.2)
Other operating expenses	**(11.0)**	**(9.1)**
Net other operating income and expenses	**17.4**	**30.3**

Income from public grants/subsidies mainly refers to R&D-related subsidies or government grants. Payments received on account of such grants are recognized as deferred income and amortized to other operating income. Investment/capex-related grants or incentives are offset against cost of the tangible assets concerned. Conditions yet to be met and where the failure to meet such conditions would entail the repayment of grants do not exist, nor do any contingent liabilities in this regard.

(4) Other financial income

Breakdown of other financial income

€ million	2013	2012
Income from investments	0.2	0.1
Income from associated companies	0.3	0.0
Write-up of financial instruments	0.0	0.1
Income from securities	0.3	0.3
Other financial income	**0.8**	**0.5**

(5) Other financial expenses

Breakdown of other financial expenses

€ million	2013	2012
Write-down of financial instruments	(0.2)	(0.1)
Other financial expenses	**(0.2)**	**(0.1)**

(6) Income taxes

Breakdown of income taxes

€ million	2013	2012
Current income taxes	24.5	21.0
Deferred income taxes	(13.3)	(0.2)
Income taxes	**11.2**	**20.8**

An income tax rate of 30 percent is applied to the taxable income of both the Vossloh Group's German subsidiaries and group-wide. This tax rate reflects the statutory corporate income tax rate of 15 percent, the 5.5 percent solidarity surtax thereon, and the municipal trade tax rate by applying factors fixed by local municipalities.

The Vossloh Group's actual income tax expense of €11.2 million (2012: €20.8 million) was €1.5million above (2012: €2.0 million below) the calculated (expected) income tax expense which would have resulted from applying a group-wide uniform rate of 30 percent to EBT.

The reconciliation of the expected income tax expense to the actual income tax shown in the consolidated income statement is presented below:

Reconciliation of the expected to the actually recognized income tax expense

		2013	2012
Earnings before taxes (EBT)	€ million	32.4	76.1
Income tax rate including trade taxes	%	30.0	30.0
Expected income tax by applying a uniform rate	€ million	9.7	22.8
Effect of lower foreign income tax rates	€ million	(2.3)	(1.3)
Non-taxable income	€ million	(1.8)	(3.8)
Nondeductible expenses	€ million	5.6	5.4
Taxes for prior periods	€ million	(0.6)	(1.2)
Tax effect of write-ups/write-downs of deferred tax assets	€ million	0.2	(1.4)
Double-taxation effects	€ million	1.1	0.4
Other differences	€ million	(0.7)	(0.1)
Recognized income tax expense	€ million	11.2	20.8
Effective income tax rate	%	34.6	27.3

Deferred taxes from items directly credited to other comprehensive income (OCI) totaled €0.3 million (2012: credit of €1.7 million). Deferred taxes arose mainly from actuarial gains/losses arising in 2013 on pension obligations and the changes in the measurement of hedging instruments on cash flow hedges which are recognized directly in equity.

The dividend distribution made by Vossloh AG neither increased nor decreased the corporate income tax expense.

(7) Net result from discontinued operations

The net result from discontinued operations comprises income of €2.9 million (2012: €9.7 million) from the release of provisions which had been recognized in connection with the divestment of the Infrastructure Services business unit and (ii) expenses of €0.0 million (2012: €0.2 million) for deferred taxes.

(8) Non-controlling interests

The Group's total net income includes non-controlling interests in profit of €9.4 million (2012: €5.7 million) and in losses of €0.3 million (2012: €0.1 million).

(9) Ergebnis je Aktie

		2013	2012
Weighted average number of common shares	shares	13,325,290	13,325,290
Weighted number of acquired treasury shares	shares	(1,326,403)	(1,331,799)
Weighted average of shares outstanding	shares	11,998,887	11,993,491
Dilutive effect of options of employees and senior executives	shares	0	0
Weighted average of shares outstanding (diluted)	shares	11,998,887	11,993,491
Consolidated net income	€ million	15.0	59.2
Undiluted earnings per share	€	**1.25**	**4.94**
thereof attributable to continuing activities	€	1.00	4.15
thereof attributable to discontinued activities	€	0.25	0.79

Notes to the consolidated statement of cash flows

The consolidated statement of cash flows shows the changes in cash and cash equivalents within the Vossloh Group. Cash pertains to cash on hand and in bank. Cash equivalents comprise any financial instruments maturing within three months and readily convertible into cash.

The cash flow statement is prepared in conformity with IAS 7 and breaks down changes in cash and cash equivalents into the cash flows from, and outflows for, operating, investing and financing activities. The cash flow from operating activities is presented according to the indirect method.

The inflow of cash and cash equivalents from the acquisition of consolidated subsidiaries and other units amounting to €1.8 million (2012: €5.9 million) is netted against cash outflows for purchase price payments of €8.0 million (2012: €20.8 million).

Notes to the consolidated balance sheet

In accordance with IAS 1, the balance sheet is broken down into noncurrent and current assets and liabilities. Assets and liabilities maturing or due within one year are deemed current. Irrespective of their maturity, trade receivables/payables are always considered current even if due after one year but within one normal business cycle. In accordance with IAS 12, deferred tax assets and liabilities are presented as noncurrent.

(10) Intangible assets

Breakdown of intangible assets

€ million	2013	2012
Goodwill	376.5	377.0
Capitalized development costs	52.6	48.0
Concessions, licenses, property rights	12.2	14.2
Advance payments	0.1	0.2
	441.4	**439.4**

Except for goodwill, all intangible assets are finite-lived and therefore carried at amortized cost. Goodwill is carried in the respective functional currency of the Group company whose acquisition gave rise to the goodwill.

Pursuant to IFRS 3 in conjunction with IAS 36, goodwill from acquisitions (business combinations) is not amortized but is tested annually for impairment as of December 31. For this purpose, the net book value of a cash-generating unit (CGU) to which goodwill from a business combination has been allocated is compared to the fair market value derived from the CGU's expected discounted cash flows, applying a CGU-specific pretax discount rate. In the prior year, the impairment test was based on a uniform discount rate of 8.5 percent. In determining the respective discount rate (based on the regional distribution of sales of the respective CGU), weighted specific country risks, inflation effects and tax rates are considered. The planning is based on empirical data and expected future market trends and encompasses a detailed planning period of three years. For this period, the medium-term assumes an average growth rate for all CGU's in the mid-single-digit percentage range. As in the prior year, for periods beyond this planning horizon, the cash flows are projected forward by assuming a CGU-specific annual growth rate to determine the market value. Since the CGUs' market values (including assigned goodwill) exceed their book values, no goodwill impairment write-down was required. In connection with the sensitivity analysis performed, there would not arise a need for a write down even if the discount rate in each CGU was marked up 0.5 percent. By assuming a flat-rate reduction of the expected cash flows by 7.5 percent, the carrying amount of Vossloh Electrical Systems would be €6.7 million over the market value. The market value would have equaled the carrying amount if the flat-rate reduction of the cash flows had amounted to 3.5 percent.

Breakdown of goodwill by CGU and parameters for the impairment test

€ million	Discount rate (in percent)	Growth rate (in percent)	2013	2012
Vossloh Switch Systems	10.9	1.2	249.1	249.3
Vossloh Rail Vehicles	14.4	1.4	50.0	50.0
Vossloh Locomotives	13.7	1.4	2.4	2.4
Vossloh Rail Services	9.5	1.1	50.9	50.9
Vossloh Electrical Systems	10.4	1.0	33.9	34.2
Vossloh Fastening Systems	11.4	1.8	1.2	1.2
			387.5	**388.0**

In the goodwill of the CGU Vossloh Switch Systems, for purposes of the impairment test €11.0 million (2012: €11.0 million) of calculated non-controlling interests are included.

The expected sales growth of the CGUs is based on the planned (and to a large extent documented in the order backlog) projects. Especially in the Electrical Systems business unit, significant increases in sales are expected due to project delays. Also in the Transportation Systems business unit – especially on the basis of the large order included in the backlog for locomotives to be delivered to South Africa – significant increases in sales are expected.

Development costs are capitalized at cost wherever (i) the latter can clearly be assigned, (ii) the developed product's technical feasibility and future marketability are ensured, and (iii) the development work is reasonably certain to produce future cash inflows.

Production cost includes all costs directly or indirectly assignable to the development process, as well as—for qualifying assets as defined by IAS 23—the borrowing costs allocable to the production period. Capitalized development costs are amortized on a straight-line basis over useful lives of one to ten years.

Concessions, licenses and property rights are for the most part amortized on a straight-line basis over a period of one to twenty years.

The amortization of intangible assets in the amount of €12.7 million is included in the income statement in the respective functional expenses (see explanations to "Costs of the functional areas")

No write-downs were made in either the reporting period or the prior year.

Analysis of changes in intangible assets

€ million	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Goodwill		Development costs		Concessions, industrial property and similar rights and assets, and licenses to such rights		Advance payments		Intangible assets	
Net carrying amount at December 31	**376.5**	**377.0**	**52.6**	**48.0**	**12.2**	**14.2**	**0.1**	**0.2**	**441.4**	**439.4**
Cost:										
Balance at January 1	**377.4**	**359.8**	**80.4**	**70.5**	**41.7**	**50.1**	**0.2**	**0.1**	**499.7**	**480.5**
Changes due to business acquisitions/ First-time consolidation	3.3	22.9	–	–	0.0	3.0	–	–	3.3	25.9
Changes resulting from deconsolidation	–	(4.7)	–	–	–	–	–	–	–	(4.7)
Additions/ongoing investments	–	–	12.4	15.1	2.5	2.5	0.1	0.2	15.0	17.8
Disposals	(1.2)	–	–	(6.4)	(0.2)	(12.6)	0.0	–	(1.4)	(19.0)
Transfers	0.0	–	0.3	1.2	0.5	(1.1)	(0.2)	(0.1)	0.6	0.0
Exchange effects	(2.6)	(0.6)	0.0	0.0	(0.2)	(0.2)	0.0	–	(2.8)	(0.8)
Balance at December 31	**376.9**	**377.4**	**93.1**	**80.4**	**44.3**	**41.7**	**0.1**	**0.2**	**514.4**	**499.7**
Accumulated amortization and write-downs:										
Balance at January 1	**0.4**	**0.4**	**32.4**	**30.2**	**27.5**	**34.8**	**0.0**	**0.0**	**60.3**	**65.4**
Changes from business combinations	–	–	–	–	–	–	–	–	–	–
Changes resulting from deconsolidation	–	–	–	–	–	–	–	–	–	–
Amortization of the period	–	–	8.0	8.1	4.7	5.8	–	–	12.7	13.9
Disposals	–	–	0.0	(6.4)	(0.2)	(12.6)	–	–	(0.2)	(19.0)
Transfers	–	–	0.0	0.5	0.0	(0.5)	–	0.0	0.0	0.0
Exchange effects	–	–	0.1	–	0.1	0.0	–	–	0.2	0.0
Balance at December 31	**0.4**	**0.4**	**40.5**	**32.4**	**32.1**	**27.5**	**0.0**	**0.0**	**73.0**	**60.3**

(11) Property, plant and equipment

Breakdown of property, plant and equipment

€ million	2013	2012
Land, leasehold rights and buildings, including buildings on non-owned land	66.1	65.0
Technical equipment and machinery	113.7	92.7
Other plant, factory and office equipment	27.5	22.8
Advance payments and construction in process	48.3	25.8
	255.6	**206.3**

Property, plant and equipment is capitalized at cost and depreciated on a straight-line basis over the expected useful lives.

Depreciation is primarily based on the following useful lives:

Useful lives of property, plant and equipment

	2013
Buildings	5 to 50 years
Technical equipment and machinery	2 to 30 years
Other plant, factory and office equipment	2 to 30 years

Where the carrying amount of property, plant and equipment is determined to be impaired, appropriate write-downs are made. In 2013, impairment write-downs of €0.5 million (2012: €0.0 million) were recognized. Depreciation expense of €28.9 million is included within the functional expenses in the income statement (2012: €27.1 million).

Changes in property, plant and equipment

€ million	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Land, leasehold rights and buildings, including buildings on non-owned land		Technical equipment and machinery		Other plant, factory and office equipment		Advance payments and construction in process		Property, plant and equipment	
Net carrying amount December 31	**66.1**	**65.0**	**113.7**	**92.7**	**27.5**	**22.8**	**48.3**	**25.8**	**255.6**	**206.3**
Cost										
Balance at January 1	**115.5**	**102.3**	**238.0**	**218.4**	**69.6**	**63.6**	**25.8**	**21.8**	**448.9**	**406.1**
Changes due to business combinations /first-time consolidation	0.0	1.6	8.6	4.8	0.3	0.0	0.0	0.0	8.9	6.4
Changes resulting from deconsolidation	–	(0.8)	–	(2.4)	–	0.0	–	(2.3)	–	(5.5)
Additions/ongoing investment	4.4	8.9	13.0	16.0	8.8	7.3	25.6	11.5	51.8	43.7
Disposal	(0.2)	(0.1)	(4.3)	(1.1)	(3.1)	(1.9)	(0.4)	(0.2)	(8.0)	(3.3)
Transfers	2.4	3.6	20.8	1.8	3.0	0.5	(2.5)	(5.0)	23.7	0.9
Exchange effects	(1.5)	0.0	(4.6)	0.5	(0.6)	0.1	(0.2)	0.0	(6.9)	0.6
Balance at December 31	**120.6**	**115.5**	**271.5**	**238.0**	**78.0**	**69.6**	**48.3**	**25.8**	**518.4**	**448.9**
Accumulated depreciation and write-downs										
Balance at January 1	**50.5**	**46.1**	**145.3**	**127.7**	**46.8**	**42.0**	**–**	**–**	**242.6**	**215.8**
Changes from business combinations	–	0.2	–	4.0	–	0.0	–	–	–	4.2
Changes resulting from deconsolidation	–	(0.1)	–	(2.0)	–	0.0	–	–	–	(2.1)
Depreciation of the period	4.3	4.2	18.1	16.2	7.0	6.7	–	–	29.4	27.1
Disposals	(0.2)	(0.1)	(3.5)	(0.9)	(2.9)	(1.8)	–	–	(6.6)	(2.8)
Transfers	0.3	0.2	(0.3)	0.0	0.0	(0.2)	–	–	0.0	0.0
Exchange effects	(0.4)	0.0	(1.8)	0.3	(0.4)	0.1	–	–	(2.6)	0.4
Balance at December 31	**54.5**	**50.5**	**157.8**	**145.3**	**50.5**	**46.8**	**–**	**–**	**262.8**	**242.6**

(12) Investment properties

Changes in investment properties

€ million	2013	2012
Net carrying amount	**4.4**	**4.7**
Cost		
Balance at January 1	7.8	10.5
Additions	–	–
Disposals	–	(1.8)
Transfers	–	(0.9)
Exchange effects	(0.1)	0.0
Balance at December 31	**7.7**	**7.8**
Accumulated depreciation and write-downs		
Balance at January 1	3.1	4.2
Depreciation of the period	0.2	0.3
Disposals	–	(1.4)
Transfers	–	(0.1)
Exchange effects	0.0	0.1
Balance December 31	**3.3**	**3.1**

Investment properties include land and buildings not used for operations and partly leased to non-group lessees. According to IAS 40, buildings owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years. Rental income in the period amounted to €1.1 million (2012: €1.1 million). Expenses (including depreciation, maintenance and repairs and incidentals) incurred in 2013 for properties leased out totaled €0.5 million (2012: €0.7 million), those for non-leased properties amounting to k€2 (2012: k€22). As in the prior year, expenses for leased properties include no amounts for write-downs. The fair values of investment properties totaled €4.7 million at December 31, 2013, (2012: €4.8 million) and are mostly based on current market prices of comparable real estate.

(13) Investments in associated companies (at-equity)

Information regarding investments in associated companies (at-equity)

€ million	2013	2012
Balance at January 1	**0.5**	**0.9**
Acquisition of shares	1.1	–
Proportional profit	0.7	0.2
Dividends distributed	(0.2)	(0.6)
Balance as of December 31	**2.1**	**0.5**
Total assets	3.3	3.0
Total liabilities	2.7	2.6
Sales revenues	10.5	10.0
Net result	1.4	0.2

The investments in associated companies are carried based on the equity method. In this connection, the investment carrying amounts of associated companies are adjusted for proportional profits or losses, dividends distributed or any other changes in equity.
This pertains to shares in one German and three foreign companies, upon which significant influence is exercised.

(14) Other noncurrent financial instruments

Breakdown of other noncurrent financial instruments

€ million	2013	2012
Shares in unconsolidated subsidiaries	4.4	4.1
Other investments	0.9	0.9
Loans	5.9	6.2
Securities	1.0	0.6
Derivative financial instruments in a hedging relationship	0.0	–
Other noncurrent financial assets	0.3	0.2
	12.5	**12.0**

The shares in unconsolidated subsidiaries as well as the other investments are principally recognized at current market value.

Noncurrent loans not quoted in an active market as well as the other noncurrent financial assets are capitalized as non-derivative receivables at fair value (which as a rule equals the nominal amount of the receivable or the loan amount). Non- and low-interest-bearing long-term loans and receivables are discounted. For their remeasurement at amortized cost, the effective interest rate method is used.

Noncurrent securities with fixed or quantifiable payments and fixed maturities are carried at amortized cost using the effective interest rate method if they are quoted in an active market and classified as held to maturity.

Other noncurrent securities are classified as available for sale and hence stated at fair value. Any fair value changes upon remeasurement are recognized in OCI within equity only; however, upon disposal of such securities, the respective amount included in accumulated OCI is recycled to the income statement.

The other financial instruments are valued according to their IAS 39 classification. For the reconciliation of the balance sheet line to the IAS 39 valuation categories, see pages 159 et seq., *Additional disclosures on financial instruments*.

(15) Sundry noncurrent assets

This item mostly includes noncurrent prepaid expenses and deferred charges.

(16) Deferred taxes

In accordance with IAS 12, deferred taxes are recognized for temporary differences between tax bases and IFRS carrying amounts, for tax loss carryforwards, as well as for consolidation transactions recognized in the income statement. Deferred taxes are determined at the rates already enacted at December 31 that will apply at the expected time of realization.

Deferred taxes due to valuation differences were allocable to the following balance sheet items:

Deferred taxes

€ million	2013		2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and property, plant and equipment	1.2	38.3	0.9	36.1
Inventories	4.1	7.6	3.5	6.3
Receivables	1.0	6.3	1.0	5.6
Other assets	0.5	1.3	0.2	1.6
Pension provisions	6.6	0.0	5.8	0.0
Other provisions	30.8	1.8	32.1	1.9
Liabilities	2.1	0.5	3.2	0.3
Other credit items	0.9	1.0	0.5	0.7
Loss carryforwards	21.9	–	3.8	–
Total	**69.1**	**56.8**	**51.0**	**52.5**
Netting	(42.3)	(42.3)	(23.1)	(23.1)
Balance sheet presentation	**26.8**	**14.5**	**27.9**	**29.4**

As of December 31, 2013, loss carryforwards of €69.3 million (2012: €12.0 million) existed in Germany for corporation income tax purposes and of €60.8 million for municipal trade tax purposes (2012: €5.4 million). No deferred taxes were recognized for corporation income tax losses of €11.3 million (2012: €8.2 million) and trade tax losses of €11.3 million (2012: €5.4 million). According to existing German law, the carryforward of tax losses is not subject to any limitation or expiration. In order to determine the recognizable deferred tax assets on loss carryforwards, the period of detailed planning, which normally covers three years, was extended by two years. In addition, non-German companies reported tax loss carryforwards of an additional €11.5 million (2012: €12.1 million) of which €7.5 million (2012: €8.9 million) were considered for deferred taxes.

Allowances were recorded in 2013 against deferred tax assets in the amount of €1.0 million (2012: €0.9 million).

(17) Inventories

Breakdown of inventories

€ million	2013	2012
Raw materials and supplies	182.1	174.2
Work in process	104.2	117.5
Merchandise	14.4	15.6
Finished products	21.5	28.3
Advance payments	48.9	29.6
Total	**371.1**	**365.2**

Inventories are stated at the lower of cost or net realizable value (NRV). In addition to direct costs, production cost also includes all fixed and variable manufacturing overheads systematically allocable to the production process, as well as special direct manufacturing costs. Borrowing costs are capitalized as part of cost wherever qualifying assets according to IAS 23 exist. To the extent that a group valuation is made, inventories are valued at the moving average price. Risks from obsolescence or slow-moving items are taken into consideration, resulting in allowances at the balance sheet date of €47.3 million (2012: €40.5 million). The book value of inventories stated at NRV totaled €33.1 million (2012: €25.3 million).

As the reasons for previous write-downs no longer existed, inventories were written up in 2013 by €0.6 million (2012: €0.6 million).

(18) Trade receivables and Receivables from construction contracts

Given their short remaining term, trade receivables other than those from construction contracts are carried at their nominal value; specific risks are appropriately considered.

The balance and changes in the allowances for trade receivables are presented below:

Changes in the allowances for trade receivables

€ million	2013	2012
Balance at January 1	**9.1**	**11.3**
Additions from acquisitions of companies	–	0.8
Additions	5.0	4.0
Releases	(1.4)	(3.3)
Usage	(0.8)	(3.7)
Currency effects	(0.2)	0.0
Balance at December 31	**11.7**	**9.1**

In accounting for receivables from construction contracts, the contract costs incurred, including a profit share (less any losses) according to the percentage of completion, are presented as receivables from construction contracts. Amounts due from customers are shown under assets if the total contract progress at the balance sheet date is in excess of customer prepayments received.

PoC receivables and payables

€ million	2013			2012		
	Shown under assets	Shown under liabilities	Total	Shown under assets	Shown under liabilities	Total
Contract costs	202.6	622.6	825.2	203.8	735.1	938.9
Proportional profit	44.3	105.6	149.9	53.6	129.3	182.9
Proportional losses	(2.5)	(9.3)	(11.8)	(1.2)	(7.9)	(9.1)
Cumulative performance on construction contracts	244.4	718.9	963.3	256.2	856.5	1,112.7
Partial billings and advances received	(154.6)	(995.8)	(1,150.4)	(170.9)	(1,076.1)	(1,247.0)
Receivables from construction contracts per balance sheet	**89.8**		**89.8**	**85.3**		**85.3**
Liabilities on construction contracts per balance sheet		**276.9**	**276.9**		**219.6**	**219.6**

(19) Income tax assets

Income tax assets include €5.5 million of income taxes refundable to companies of the Rail Infrastructure division (2012: €5.0 million), plus another €0.7 million to Transportation companies (2012: €0.7 million), and €0.6 million to companies at the Group level (2012 €1.3 million).

(20) Sundry current assets

Breakdown of sundry current assets

€ million	2013	2012
Receivables from reimbursements	19.7	6.5
Other tax receivables (excluding income taxes)	11.3	13.9
Loans and other financial receivables	7.0	4.2
Receivables from affiliated companies	6.5	4.7
Prepaid expenses and deferred charges	2.3	2.6
Derivative financial instruments	2.1	1.5
Receivables from unconsolidated subsidiaries and other investees	1.9	1.1
Receivables from employees	1.5	1.1
Creditors with debit accounts	0.8	1.6
Security and similar deposits	0.8	1.2
Interest receivable	0.2	0.0
Miscellaneous current assets	3.4	6.4
Sundry current assets	**57.5**	**44.8**

The receivables shown under sundry current assets are recognized at acquisition cost or, where appropriate, at amortized cost. Specific risks are taken into account by appropriate allowances. The balances and changes in allowances are presented below:

Changes in the allowances

€ million	2013	2012
Balance at January 1	**1.4**	**1.7**
Additions	0.2	0.3
Releases	(0.1)	(0.0)
Usage	0.0	(0.6)
Currency effects	0.0	0.0
Balance at December 31	**1.5**	**1.4**

The derivative financial instruments from the hedging of foreign currency transactions are stated at fair value.

For the reconciliation of financial instruments shown as sundry current assets to the IAS 39 valuation categories, see pages 159 et seq., Additional disclosures on financial instruments. The other tax receivables and miscellaneous current assets are measured at cost.

(21) Short-term securities

Under this item, funds invested in short-term fixed-income securities in the amount of €6.2 million (2012: €3.6 million) are shown, which are classified as held to maturity and hence carried at cost. The remaining securities of €2.5 million are available for sale and therefore stated at fair value. For the reconciliation of short-term securities to the IAS 39 valuation categories, see pages 159 et seq., *Additional disclosures of financial instruments*.

(22) Cash and cash equivalents

Cash represents cash on hand and in bank while cash equivalents comprise any financial instruments maturing within three months and readily convertible into cash. Cash and cash equivalents are carried at their nominal value.

(23) Equity

For the statement of changes in equity, see page 127.

(23.1) Capital stock

Vossloh AG's capital stock in 2013 amounted to an unchanged €37,825,168.86 (2012: €37,825,168.86) , divided into 13,325,290 (2012: 13,325,290) no-par bearer shares of common stock only. One no-par share is equivalent to a notional €2.84 interest in the capital stock.

The AGM of May 20, 2009, authorized new capital of €7,500,000; the authorization expires May 19, 2014.

(23.2) Additional paid-in capital

This capital reserve includes the stock premium from shares issued by Vossloh AG.

Employee bonus program 2013

The employee bonus program 2013 (on terms unchanged from 2012) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares at no cost or eight shares at a discount of 50 percent of the issue price of €68.00 per share (2012: €74.19), determined as the market price as of the share transfer date. Under this program, Vossloh employees were granted in 2013 altogether 3,530 free shares (2012: 3,392) at an expense to the Company of k€296.7 (2012: k€257.0).

(23.3) Treasury stock

The treasury stock was repurchased in prior years pursuant to previous AGM authorizations according to Art. 71(1) No. 8 AktG.

At December 31, 2013, a total of 1,320,603 treasury shares were held by Vossloh AG (2012: 1,326,721), equivalent to a stake of 9.91 percent (2012: 9.96) in the capital stock. In 2013, 6,118 no-par shares were used in connection with the employee bonus program.

The calculated share of the capital stock amounts to €3,748,663.74 (2012: €3,782,516.89). The remainder of the acquisition cost is offset against the retained income reserve.

The treasury stock does not entitle Vossloh AG to any rights (to dividends or otherwise) or interests.

Change in treasury stock

€	2013	2012
Balance at January 1	102,508,840.26	102,957,566.34
Employee bonus program	(472,706.08)	(448,726.08)
Balance and December 31	102,036,134.18	102,508,840.26

(23.4) Retained earnings

The retained earnings contain prior years' earnings of the companies included in the consolidated financial statements which have not been distributed from the Group point of view.

(23.5) Accumulated other comprehensive income

Breakdown of accumulated OCI

€ million	2013	2012
Currency translation differences	(3.4)	6.1
Remeasurement of financial derivatives at fair value	(2.9)	(2.9)
Actuarial gains and losses on employee benefits	(1.8)	(5.7)
Remeasurement of available-for-sale financial instruments at fair value	0.0	0.0
Deferred taxes effect on OCI changes	1.4	2.5
Balance December 31	**(6.7)**	**0.0**

Accumulated OCI contains the changes in equity with profit or loss effect from the translation of financial statements of foreign subsidiaries, from the measurement of derivatives in connection with hedging transactions (cash flow hedges), and of available-for-sale financial instruments as well as remeasurements from liabilities relating to employee benefits recognized during the fiscal year.

(23.6) Non-controlling interests

€12.5 million (2012: €5.8 million) of non-controlling interests relate to shares held by non-controlling owners in the Fastening Systems business unit, another €6.5 million (2012: €7.2 million) to non-controlling interest in the Switch Systems business unit, plus €0.7 million (2012: €0.8 million) in Vossloh Transportation Systems business unit.

Analysis of changes in pension provisions

€ million	Present value of benefit obligation	Fair value of plan assets	Effect of asset ceiling	Total
Balance at January 1, 2012	**29.8**	**(14.2)**	**0.9**	**16.5**
Service cost	0.6			0.6
Net interest expense / (income)	1.4	(0.6)		0.8
Remeasurements				
Return on plan assets excluding the portion included in net interest expense/(income)		(0.3)		(0.3)
Gains/losses on changes in demographic assumptions	0.0			0.0
Gains/losses on changes in financial assumptions	6.0			6.0
Experience-related assumptions	0.8			0.8
Changes in the effect of the asset ceiling			(0.9)	(0.9)
Contributions				
from beneficiaries	0.1	(0.1)		0.0
from employer		(0.1)		(0.1)
Benefits paid	(1.4)	0.4		(1.0)
Other/exchange effects	0.0	0.0		0.0
Balance December 31, 2012	**37.3**	**(14.9)**	**0.0**	**22.4**
Service cost	0.9			0.9
Net interest expense / (income)	1.2	(0.5)		0.7
Remeasurements				
Return on plan assets excluding the portion included in net interest expense/(income)		0.0		0.0
Gains/losses on changes in demographic assumptions	0.3			0.3
Gains/losses on changes in financial assumptions	(0.2)			(0.2)
Experience-related assumptions	0.3			0.3
Contributions				
from beneficiaries	0.1	(0.1)		0.0
from employer		(0.1)		(0.1)
Benefits paid	(1.6)	0.6		(1.0)
Transfer of obligations	(0.7)			(0.7)
Other/exchange effects	(0.1)	0.0		(0.1)
Balance December 31, 2013	**37.5**	**(15.0)**	**0.0**	**22.5**

Vossloh AG and some subsidiaries have entered into pension obligations to employees. These defined benefit obligations (DBO) vary according to the economic situation and are as a rule based on service years, pensionable pay, and position within Vossloh. As these are defined benefit plans, the pension payment obligations must be met by the subsidiaries concerned.
In addition, defined contribution plans exist at certain subsidiaries. These companies are under no obligation to make any pension-related payments other than their contractual contributions to an outside fund, which totaled €11.0 million (2012: €11.3 million).

In accordance with IAS 19, the projected unit credit method has been used to determine pension obligations, taking into account current market interest rates and anticipating future pay and pension increases, as well as fluctuation rates.

The plan assets which are offset against the present value of the pension benefits pertain primarily to reinsurance policies, which cover the major portion of the claims from the pension commitments. The reinsurance contracts are pledged to the individual beneficiary concerned; the offsetting with the present value of the obligation is carried out at fair value.

The pension provisions recognized are based on actuarial reports of independent actuaries. In this connection, the mortality tables 2005G from Dr. Klaus Heubeck have been utilized.

Assumptions for the calculation of the pension obligations

%	2013	2012
Discount rate	3.5	3.5
Expected increase in pension payments	2.0	2.0
Expected increase in wages and salaries	3.0	3.0
Estimated fluctuation rate	6.0	6.0

The recognized pension provision is derived as follows:

Analysis of the recognized pension provision

€ million	2013	2012
Present value of pension commitments covered by plan assets	17.6	17.3
Fair value of plan assets	(15.0)	(14.9)
Provision for pension benefits covered by plan assets	**2.6**	**2.4**
Present value of pension commitments not covered by plan assets	19.9	20.0
Provision for pension benefits not covered by plan assets	**19.9**	**20.0**
Recognized pension provision	**22.5**	**22.4**

The current service cost represents a portion of the personnel expense which is included in the functional costs. The interest expense forms part of the interest result.

The actual return on plan assets amounted to 3.8 percent in the reporting period.

The discount rate is seen as a significant parameter for which a sensitivity analysis was performed due to possible changes. A decrease or increase in the discount rate by 25 basis points each would have increased the DBO and therefore the provision by €1.1 million, respectively decreased the provision by €1.4 million.

In the current fiscal year, the Group expects an increase to the plan assets of €4.1 million. The average duration of the defined benefit pension plans is 15 years.

(25) Other provisions

Breakdown of other provisions

€ million	2013	2012*
Personnel-related provisions	13.3	12.2
Warranty obligations and follow-up costs	19.2	25.6
Litigation risks and impending losses	11.9	8.8
Sundry provisions	3.1	11.2
Other noncurrent provisions	**47.5**	**57.8**
Personnel-related provisions	0.7	0.7
Warranty obligations and follow-up costs	54.8	53.5
Litigation risks and impending losses	37.4	28.5
Sundry provisions	17.6	19.3
Other current provisions	**110.5**	**102.0**
	158.0	**159.8**

*Due to the change in presentation of certain balance sheet items, prior year's figures have been partially adjusted; see below on this page.

Provisions are disclosed as current if due within one year; all others are noncurrent. The other provisions consider all obligations which are identifiable at the balance sheet date, based on past events, and are uncertain in terms of amount or timing. Accruals are recognized at amounts most likely to be utilized. If the effect of discounting is material, noncurrent provisions are recognized at the present value of the uncertain obligations.

The maximum risk inherent to recorded provisions is €22.2 million above the amount recognized in the balance sheet (2012: €36.1 million). Additional risks of €1.6 million (2012: €8.5 million) exist as below-the-line items but are not provided for since their probability is below 50 percent.

Certain current liabilities for profit sharing, as well as vacation pay were still included in the prior year under personnel-related provisions but are now presented under other liabilities. The treatment is similar regarding obligations for deliveries and services for which invoices are outstanding. These were shown in 2012 under other provisions and as of the 2013 balance sheet date are included in trade payables. The prior year's figures have been reclassified for the presentation in the table below.

€ million	12/31/2012	1/1/2012
Personnel-related provisions		
current	26.4	25.7
Obligations from deliveries and services received		
noncurrent	2.3	3.8
current	27.9	20.6

As a result of this, working capital compared to the previous treatment as of 12/31/2012 increased by €26.4 million and as of 1/1/2012 by €25.7 million. The remaining personnel-related provisions comprise anniversary payments and partial retirement obligations.

The warranty accruals include both provisions for specific warranty expenses and the general warranty risks empirically derived from past sales. The accrued litigation risks and impending losses account for obligations under lawsuits and for loss risks from contracts in progress. As of the balance sheet date, €0.5 million was accrued for impending losses on purchase obligations (2012: €0.1 million).

Changes in provisions

€ million	Beginning balance 1/1/2013	Reclassifications	Beginning balance after reclassifications	Addition from first-time consolidation	Utilization	Release	Addition	Interest effect	Exchange differences	Ending balance 12/31/2013
Personnel-related provisions	39.3	(26.4)	12.9	0.2	(2.8)	(0.3)	4.1	0.0	(0.1)	14.0
Obligations from deliveries and services received	30.2	(30.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Warranty obligations and follow-up costs	79.1	–	79.1	0.4	(24.4)	(9.6)	27.2	1.5	(0.2)	74.0
Litigation risks and impending losses	37.3	–	37.3	0.1	(1.7)	(1.1)	14.8	0.0	(0.1)	49.3
Sundry provisions	30.5	–	30.5	0.7	(10.3)	(3.0)	3.1	0.0	(0.3)	20.7
Other provisions	**216.4**	**(56.6)**	**159.8**	**1.4**	**(39.2)**	**(14.0)**	**49.2**	**1.5**	**(0.7)**	**158.0**

The release of sundry provisions relates in the amount of €2.3 million to discontinued operations.

(26) Liabilities

Liabilities according to remaining terms

€ million	2013	2012	2013	2012	2013	2012	2013	2012
Remaining term	≤ 1 year		1–5 years		> 5 years		Total	
Financial liabilities	140.9	85.8	123.1	183.4	1.4	1.5	265.4	270.7
Trade payables	178.6	157.7	0.0	10.4	0.0	0.0	178.6	168.1
Liabilities on construction contracts	276.9	219.6	0.0	0.0	0.0	0.0	276.9	219.6
Income tax liabilities	6.4	7.7	0.0	0.0	0.0	0.0	6.4	7.7
Other liabilities	150.9	90.5	20.1	26.1	2.6	0.0	173.6	116.6
	753.7	**561.3**	**143.2**	**219.9**	**4.0**	**1.5**	**900.9**	**782.7**

(26.1) Financial liabilities

Breakdown of financial liabilities

€ million	2013	2012
US private placement	72.6	181.8
Other long-term liabilities to banks	51.9	3.1
Noncurrent financial liabilities	**124.5**	**184.9**
US private placement	101.6	–
Other short-term liabilities to banks	38.6	85.3
Interest payable	0.4	0.4
Current liability on accepted bills of exchange	0.3	0.0
Current finance leasing	0.0	0.1
Current financial liabilities	**140.9**	**85.8**
Financial liabilities	**265.4**	**270.7**

Financial debts are principally carried at amortized cost. The US private placement is treated as the underlying in a fair value hedge against currency risks inherent in the settlement amount. For the reconciliation of the financial debts to the IAS 39 valuation categories, see pages 159 et seq., *Additional disclosures on financial instruments*.

Under a US private placement agreement, debt of a total $240.0 million was raised in 2004 from the capital market, comprising one loan each of $140.0 million and $100.0 million; both are repayable upon maturity, and they have remaining terms of less than one year and 2.5 years, respectively. Since payment of principal and interest has entirely been hedged by euro-denominated swaps, Vossloh has ensured that both loans carry interest at fixed euro rates of 5.325 and 5.455 percent, respectively. The €174.2 million debt disclosed as of December 31, 2013, corresponds to the dollar debt carried at amortized cost and translated at the current closing rate. Including the currency hedge within other liabilities, the hedged repayment sum totals €203.9 million.

With respect to the US private placement, financial covenants exist. If certain key performance figures are in excess of or below specified thresholds as of the quarterly closing dates, the interest rate increases, or as the case may be, the loans can be declared due and payable. These covenants relate to the interest cover ratio, the debt equity ratio and the absolute amount of equity. In 2013, an agreement was reached with the lenders which increases the thresholds for a transitional period, respectively disregards the charges for the legal dispute settled in October. The covenants of the US private placement were met in both the reporting period and in the prior year according to the respectively valid agreement. Furthermore, covenants exist for two US Group companies in connection with bank credit lines, which as of the balance sheet date were not utilized.

The liabilities under capital leases are recognized at the present value of the lease payments and owed under leases for capital goods within Vossloh Rail Services. The net book values of the capitalized tangible assets totaled €0.1 million (2012: €0.3 million).

The minimum lease payments have the following terms:

Finance leases

€ million	2013			2012		
	Nominal amount	Discount	Present value	Nominal amount	Discount	Present value
Due up to 1 year	0.0	0.0	0.0	0.1	0.0	0.1
Due in 1 to 5 years	–	–	–	0.1	0.1	0.0
Due in over 5 years	–	–	–	–	–	–
	0.0	**0.0**	**0.0**	**0.2**	**0.1**	**0.1**

(26.2) Trade payables and liabilities on construction contracts

In the prior year, liabilities relating to outstanding invoices for already-received deliveries or services were shown under other provisions. Since 2013, they are included in trade payables. The prior year's amount as of December 21, 2012 of €30.2 million and the amount of €24.4 million as of the beginning of the prior year have been reclassified.

PoC liabilities result from construction contracts where the advance payments made by customers and partial invoices are in excess of the cumulative performance from the processing of the respective contracts. For the detailed breakdown of these liabilities into gross receivables and prepayments received/partial invoices, see Note (18) to trade receivables.

(26.3) Income tax liabilities

These pertain to the actual income taxes due to the tax authorities as of balance sheet date which are shown by the various Group companies.

(26.4) Other liabilities

Breakdown of other liabilities

€ million	2013	2012*
Derivative financial instruments on fair value hedges	12.3	21.9
Derivative financial instruments on cash flow hedges	2.1	2.1
Advance payments received	3.2	0.1
Noncurrent deferred income	2.0	2.0
Personnel-related liabilities	0.2	0.0
Sundry	2.9	–
Other noncurrent liabilities	**22.7**	**26.1**
Advance payments received	43.3	32.2
VAT payable	17.8	5.5
Social security and health insurance contributions	7.2	5.4
Other non-income taxes	5.7	4.5
Liabilities to employees	5.2	6.6
Other liabilities to affiliated companies	1.8	1.7
Commissions	0.2	0.2
Debtors with credit balances	1.2	0.2
Derivative financial instruments on fair value hedges	17.6	0.8
Derivative financial instruments on cash flow hedges	0.8	0.5
Personnel-related liabilities	27.7	26.3
Sundry	22.4	6.6
Other current liabilities	**150.9**	**90.5**
	173.6	**116.6**

* Due to the change in presentation of certain balance sheet items, prior year's figures have been partially adjusted; see page 153.

In 2013, certain very short-term personnel-related obligations, which in the prior years were presented under provisions, have been included under other liabilities. This pertains mainly to obligations for profit sharing, as well as vacation claims of employees. In total, €26.3 million was reclassified at the prior year's balance sheet date and €25.7 million at the beginning of the prior year.

Upon initial recognition, financial instruments are stated at their historical fair value (as of the trading date) including direct transaction costs (if any) and thereafter carried at amortized cost unless their measurement at fair value is required. The recognition of gains/losses from the remeasurement at fair value depends on whether the IAS 39 hedge accounting criteria are met. Gains/losses from the restatement at fair value of derivatives in fair value hedges are recognized in the income statement, as are the changes in value of the hedged underlying transactions. In contrast, the corresponding remeasurement gains/losses from derivatives in cash flow hedges are recognized without profit-or-loss effect in equity (OCI) after considering deferred taxes.

The financial derivatives shown as fair value hedges at €12.3 million (2012: €21.9 million) under noncurrent liabilities, respectively €17.3 million under current liabilities, reflect the fair values of the cross-currency swaps hedging the repayment under the US private placement agreement. For the reconciliation of *other liabilities* to the IAS 39 valuation categories, see pages 159 et seq., *Additional disclosures on financial instruments*.

The prepayments received, shown at €46.5 million (2012: €32.3 million) as other liabilities, do not include advance payments received on construction contracts. In accordance with IAS 19, the current liabilities to employees are recognized at the undiscounted amount owed.

Shown under other current liabilities are claims of a foreign pension fund in the amount of €8.8 million, which were recognized in connection with the increase in the shareholding of Vossloh Cogifer UK Ltd. The Company is entitled to a reimbursement from the seller of the shares, which is shown under other current assets.

Notes to the segment report

The Vossloh Group's operating segments are defined by its internal organizational and reporting structures which are based on the products and services offered by Vossloh's business units. In accordance with IFRS 8, segment reporting encompasses not only the identifiable two operating divisions (Rail Infrastructure and Transportation) but also separately presents their business units.

The Rail Infrastructure division covers the Group's related products and services and comprises the Fastening Systems, Switch Systems and Rail Services business units.

The Fastening Systems business unit is a foremost supplier of rail fastening systems. The product lineup includes fasteners for every application: from light-rail, extending through heavy-haul, to high-speed lines.

The Switch Systems business unit, one of the world's leading rail switch manufacturers, equips rail networks with switches (turnouts, crossings, etc.), as well as with the related control and monitoring systems which it also installs and maintains. Here, also, the lineup extends from light-rail to high-speed applications.

Vossloh Rail Services engages in activities such as rail trading, long-rail (un)loading at construction sites, welding new rails, reconditioning old rails, on-site welding, rail replacement, rail grinding/milling, rail inspection, and construction site supervision, in addition to organizing and monitoring just-in-time rail shipments to construction sites and ensuring on-site availability of the approved (un)loading systems.

The Transportation division includes the rail vehicle and vehicle system/component operations plus the related services. The division comprises two business units: Transportation Systems and Electrical Systems.

Vossloh Transportation Systems with its two production locations in Valencia, Spain, and Kiel, Germany, is Europe's leading manufacturer of diesel locomotives for which it also provides maintenance services. In addition, the Valencia location develops and builds vehicles for local transport rail services. The business unit's customers comprise state and private rail operators as well as leasing companies.

The Electrical Systems business unit develops and produces key electrical components and systems for public transport vehicles and locomotives. The business unit counts as one of the leading suppliers of electrical equipment both for trolleybuses and hybrid buses. In addition to the complete equipping of vehicles, the unit's businesses also cover air-conditioning systems for rail vehicles, components and subassemblies, revamping, servicing and maintenance and repair work.

In the consolidation, all intra-segment and intersegment transactions are eliminated.
This pertains primarily to the offsetting of intragroup income/expenses, the elimination of intragroup income and dividends and the elimination of receivables/payables. The accounting methods applied by all segments are identical and conform to IFRS as adopted by the EU. Intersegment business is transacted on an arm's length basis.

Segment financial information is presented for each division and business unit on pages 128 et seq.

The major noncash segment expenses include additions to provisions.

In the analysis of its results of operations in the management report, the Vossloh Group reports the pretax value added (VA) as a key performance indicator. In this connection, in fiscal 2013 a weighted-average cost of capital (WACC) in the amount of 8.5 percent was used.

A reconciliation of the segment result "value added" of the entire Group to the earnings before interest and taxes (EBIT) presented in the consolidated income statement is shown below:

Reconciliation of value added to EBIT

€ million	2013	2012*
Value added	(21.9)	13.0
Cost of capital applied to the capital required for business operations (WACC 8.5 percent)	76.1	84.5
EBIT	**54.2**	**97.5**

* Due to the change in presentation of certain balance sheet items, prior year's figures have been partially adjusted; see page 153.

Segment information by region is provided for noncurrent assets and (external) sales. The sales presented by region are based on the customer location.

Segment information by region

€ million	2013	2012	2013	2012
	Net external sales revenues		Noncurrent assets	
Germany	282.3	260.1	248.2	209.4
France	154.5	138.6	216.7	208.3
Other Western Europe	152.5	125.4	46.3	39.2
Northern Europe	71.7	84.8	10.7	11.1
Southern Europe	98.5	121.2	83.0	85.1
Eastern Europe	65.4	66.1	5.7	6.0
Total Europe	**824.9**	**796.2**	**610.6**	**559.1**
Americas	123.1	124.8	51.8	47.7
Asia	314.0	262.7	32.2	33.9
Africa	22.4	18.3	0.0	0.0
Australia	33.1	34.0	9.5	11.9
Total	**1,317.5**	**1,236.0**	**704.1**	**652.6**

Additional disclosures on financial instruments

Vossloh's consolidated balance sheet includes both derivative and non-derivative financial instruments. Non-derivative financial instruments comprise as assets primarily receivables, cash and cash equivalents and the other financial assets. On the liability side, they include the financial liabilities.

In the case of derivative financial instruments, whose value is derived from a basis value, these pertain particularly to swaps and forward currency transactions.

Non-derivative financial instruments

Financial instruments are recognized and measured according to measurement category under IAS 39.

Non-derivative financial instruments are recognized in the consolidated balance sheet when Vossloh becomes a contractual party to the financial instrument. Financial assets are derecognized according to IAS 39 when the contractual right to payments from a financial asset lapses or expires or when the financial asset is assigned and transferred along with substantially all the risks and rewards of its ownership. Financial liabilities are derecognized when the contractual obligation is settled, discharged or canceled, or expires.

Financial assets and liabilities are categorized as loans and receivables, held for trading, held to maturity or available for sale. The Vossloh Group does not exercise the so-called fair value option.

Financial instruments categorized as loans and receivables or held to maturity are carried at amortized cost subsequent to initial recognition, while those held for trading are remeasured and carried at fair value, with the resulting gains/losses recognized in net income.

Available-for-sale financial assets are likewise remeasured and carried at fair value but the resulting gains/losses are recognized in OCI if their fair value is reliably determinable. This category mainly includes securities other than loans, receivables or financial instruments held to maturity. In the amount of €1.0 million (2012: €1.0 million), available-for-sale financial instruments are carried at cost.

Derivative financial instruments

The Vossloh Group uses various financial derivatives, primarily to hedge (i) forex or currency risks from firm foreign-currency contractual obligations, (ii) future currency receivables/payables, (iii) price risks from sales or sourcing transactions, and (iv) interest rate risks arising from long-term financing.

Hedges of recognized assets and liabilities are treated as fair value hedges, i.e., both the underlying and the currency forward are stated at fair value, any fair value changes (gains/losses) due to exchange rate volatility are recognized in the income statement. In a completely effective hedge (in the case of a micro hedge this is generally the case), the gains (or losses) on the derivative's fair value remeasurement equal the losses (or gains) on the underlying's.

When accounting for cash flow hedges of pending or uncompleted transactions (so-called executory contracts), changes in the derivative's fair value are recognized in equity (OCI) without profit-or-loss effect. Upon completion or recognition of the underlying transactions, the associated gains/losses previously accumulated in OCI are either recycled to the income statement or offset against the cost of purchased assets.

The table below shows the fair value of derivatives used for hedging currency and interest rate risks, as well as the hedged nominal volumes:

Derivative financial instruments			Fair value	Nominal volume	Fair value	Nominal volume
€ million			2013	2013	2012	2012
Cross-Currency-Swaps (US-PP)	Maturity	≤ 1 year	(17.3)	118.9	–	–
		>1–5 years	(13.2)	85.0	(23.8)	203.9
		> 5 years	–	–	–	–
			(30.5)	**203.9**	**(23.8)**	**203.9**
Forward exchange contracts	Maturity	≤ 1 year	0.8	104.8	0.6	109.7
		>1–5 years	(1.0)	69.7	(0.5)	18.2
		> 5 years	–	–	–	–
			(0.2)	**174.5**	**0.1**	**127.9**
Total			**(30.7)**	**378.4**	**(23.7)**	**331.8**

DCF methods are used to determine fair values of currency hedging and currency forward transactions. The discount is based on current market rates which match maturity of the financial instruments maturity.

The tables below detail financial instrument carrying amounts, the breakdown into IAS 39 measurement categories, financial instrument fair values, as well as fair value hierarchy levels of financial instruments according to IFRS 7, and include—although not covered by any IAS 39 valuation category—derivatives in hedging relationships and payables under capital leases.

Carrying amounts, measurement categories and fair values as of December 31, 2013

€ million	Carrying amount at 12/31/2013	Measurement according to IAS 39			Fair value at 12/31/2013
		Amortized cost	Fair value through OCI	Fair value through income statement	
Trade receivables	**251.4**				
Loans and receivables	251.4	251.4			251.4
Securities	**8.7**				
Held to maturity	6.2	6.2			6.2
Held for trading	0.0			0.0	0.0
Available for sale	2.5		2.5		2.5
Other financial instruments and other assets	**72.7**				
Loans and receivables	32.8	32.8			32.8
Held to maturity	0.5		0.5		0.5
Held for trading	0.0			0.0	0.0
Available for sale	1.4	1.0	0.4	0.0	1.4
Derivatives in hedging relationships (not a category according to IAS 39.9)	2.1	0.0	0.0	2.1	2.1
IAS 39 not applicable	35.9				–
Total financial assets	**332.8**	**291.4**	**3.4**	**2.1**	**296.9**
Financial liabilities	**265.4**				
Loans and receivables	265.4	265.4			265.4
Financing leasing	0.0				–
Trade payables	**178.6**				
Loans and receivables	178.6	178.6			178.6
Other liabilities	**173.6**				
Loans and receivables	91.2	91.2			91.2
Derivatives in hedging relationships (not a category according to IAS 39.9)	32.8		2.9	29.9	32.8
IAS 39 not applicable	49.6				–
Total financial liabilities	**617.6**	**535.2**	**2.9**	**29.9**	**568.0**

Cash and cash equivalents are not listed in the above table, since these financial instruments do not fall within the measurement categories of IAS 39.

Summary of measurement category of IAS 39

€ million	Carrying amount at 12/31/2013	Measurement according to IAS 39			Fair value at 12/31/2013
		Amortized cost	Fair value through OCI	Fair value through income statement	
Financial assets					
Loans and receivables	284.2	284.2			284.2
Held to maturity	6.7	6.2			6.2
Held for trading	0.0			0.0	0.0
Available for sale	3.9	1.0	2.9		3.9
Total financial assets	**294.8**	**291.4**	**2.9**	**0.0**	**294.3**
Financial liabilities					
Loans and receivables	535.2	535.2			535.2
Total financial liabilities	**535.2**	**535.2**	**–**	**–**	**535.2**

Carrying amounts, measurement categories and fair values as of December 31, 2012

€ million	Carrying amount at 12/31/2012	Measurement according to IAS 39			Fair value at 12/31/2012
		Amortized cost	Fair value through OCI	Fair value through income statement	
Trade receivables	**234.7**				
Loans and receivables	234.7	234.7			234.7
Securities	**4.0**				
Held to maturity	3.6	3.6			3.6
Held for trading	0.0			0.0	0.0
Available for sale	0.4		0.4		0.4
Other financial instruments and other assets	**59.0**				
Loans and receivables	26.9	26.9			26.9
Held to maturity	0.0				0.0
Held for trading	0.0			0.0	0.0
Available for sale	1.4	1.0	0.4	0.0	1.4
Derivatives in hedging relationships (not a category according to IAS 39.9)	1.5	0.0	0.1	1.4	1.5
IAS 39 not applicable	29.2				–
Total financial assets	**297.7**	**266.2**	**0.9**	**1.4**	**268.5**
Financial liabilities	**270.7**				
Loans and receivables	270.6	270.6			270.6
Financing leasing	0.1				–
Trade payables	**168.1**				
Loans and receivables	168.1	168.1			168.1
Other liabilities	**116.6**				
Loans and receivables	72.9	72.9			72.9
Derivatives in hedging relationships (not a category according to IAS 39.9)	25.3		2.7	22.6	25.3
IAS 39 not applicable	18.4				–
Total financial liabilities	**555.4**	**511.6**	**2.7**	**22.6**	**536.9**

Cash and cash equivalents are not listed in the above table, since these financial instruments do not fall within the measurement categories of IAS 39.

Summary of measurement category of IAS 39

€ million	Carrying amount at 12/31/2012	Measurement according to IAS 39			Fair value at 12/31/2012
		Amortized cost	Fair value through OCI	Fair value through income statement	
Financial assets					
Loans and receivables	261.6	261.6			261.6
Held to maturity	3.6	3.6			3.6
Held for trading	0.0			0.0	0.0
Available for sale	1.8	1.0	0.8		1.8
Total financial assets	**267.0**	**266.2**	**0.8**	**0.0**	**267.0**
Financial liabilities					
Loans and receivables	511.6	511.6			511.6
Total financial liabilities	**511.6**	**511.6**	**–**	**–**	**511.6**

Due to the mostly short remaining terms, the fair value of trade receivables and from construction contracts, cash and cash equivalents, other receivables and assets corresponds as of December 31 to their carrying amount.

Trade payables and payables on construction contracts as well as other liabilities also usually have short terms, which is why their carrying amounts essentially correspond to their fair values. Current market rates have been applied to discount the future cash outflows for principal and interest and thus determine the fair value of noncurrent financial debts.

The financial assets carried at fair value mainly pertain to derivatives in hedging relationships. The table below shows the assignment of the financial assets and payables carried at fair value to the IFRS 7 fair value hierarchy levels.

Assignment of levels of the fair value hierarchy

€ million	Level 1: Input of quoted prices	Level 2: Input of observable market data	Level 3: No input of observable market data
Financial assets at fair value			
Held for trading	0.0		
Available for sale		2.9	
Derivatives in hedging relationships		2.1	
Total	**0.0**	**5.0**	
Financial liability measured at fair value			
Derivatives in hedging relationships		32.8	
Total		**32.8**	

The basis for the levels of the hierarchy for the determination of fair value is the factors applied. In Level 1, inputs are in the form of (unadjusted) quoted prices in active markets for identical assets or liabilities. Level 2 covers direct inputs other than Level 1 quoted prices for identical or similar assets or liabilities or indirect inputs derived from observable market data. Level 3 is based on unobservable inputs for a financial asset or liability that are used to measure fair value wherever no observable market data is available.

The net gains/losses and net interest income/expense recognized in the income statement result from the following financial instrument measurement categories:

Net gains/(losses) on financial instruments by measurement category

€ million	Loans and receivables	Held to maturity	Held for trading	Available for sale	2013	2012
Net gains/(losses) from:						
Interest	(15.5)	0.5	(0.1)	0.1	(15.0)	(14.2)
Remeasurement						
from allowances	(3.8)	0.2	(0.2)	0.2	(3.6)	0.7
from exchange differences	(2.8)	–	–	–	(2.8)	0.0
at fair value	–	–	0.0	–	0.0	0.0
Disposal	0.0	–	–	0.0	0.0	0.0
Total	**(22.1)**	**0.7**	**(0.3)**	**0.3**	**(21.4)**	**(13.5)**

Interest is shown within net interest expense, allowances for (primarily trade) receivables are recognized within the functional (mainly selling) expenses while the net gains or losses on disposal and currency translation are disclosed within net other operating income (or expense, as applicable). Gains from the remeasurement to fair value of securities held for trading and the write-down of financial instruments available for sale are included in the above table and recognized within the other financial results. Remeasurements to fair value for available-for-sale financial assets were recognized in 2013 in the amount of €0.0 million (2012: €0.0 million) in OCI.

In fiscal 2013, a €8.8 million gain (2012: €3.3 million) on the decline of euro equivalent of the dollar-denominated debt. This was compensated by expenses on the increase of the fair value of the hedging derivative in the same amount.

When the dollar interest payments fell due in 2013, unrealized net gains of €0.2 million (2012: €0.2 million), previously accumulated in OCI and corresponding to the hedging cross-currency swap's fair value change, were recycled from equity to interest expense.

Financial risk management

The Vossloh Group's business operations are exposed to financial risks such as liquidity, currency, interest rate, default and other credit risks. Vossloh's Treasury Management controls and contains group-wide all liquidity, currency and interest rate risks while default and other credit risks are monitored by the general risk management system.

Liquidity risks

Vossloh manages its liquidity risks (i.e., that the Group is not able at all times to meet its payment obligations) through a rolling cash budget and a central cash management system. As of the end of the reporting period, cash, cash equivalents and readily salable securities of €64.2 million were at the Group's disposal, besides additional, unutilized credit facilities of €393.8 million to satisfy any future cash requirements. The table below shows the contractually agreed undiscounted payments of principal and interest for financial liabilities:

Maturities of interest and principal payments as of 12/31/2013

€ million	within 1 year		1 to 5 years		more than 5 years	
	Principal	Interest	Principal	Interest	Principal	Interest
Non-derivative financial liabilities	(140.9)	(8.7)	(123.1)	(10.9)	(1.4)	0.0
Derivative financial liabilities	(18.3)		(14.5)		0.0	
Derivative financial assets	2.1					

Currency risks

Currency risks arise from (i) recognized non-euro assets and liabilities whose euro equivalent may be adversely affected by unfavorable exchange rates, and (ii) pending or uncompleted currency transactions whose future cash flows may show a negative trend depending on how forex rates develop. Significant operations-related currency risks Vossloh is exposed to originate from trade receivables and payables denominated in a non-euro currency, as well as from pending or uncompleted trade and purchasing transactions. Vossloh has issued binding instructions to centrally hedge against currency risks group-wide through Treasury Management by using currency forwards at matching maturities and amounts as micro hedges of the associated underlying transactions. The fixed exchange rates for the hedged underlying transactions counter any unfavorable rate effects on cost estimates and assets.

Currency risks material to the Group might originate from the financial debts of $240.0 million raised by US private placement (USPP), as well as from future interest payments in US dollars. At the time of borrowing, these risks were fully hedged by contracting cross-currency swaps of matching maturities and amounts.

These derivatives are accounted for as fair value hedge (principal repayment) and cash flow hedge (future interest payments), respectively.

Since the currency risks have almost fully been hedged, exchange rate swings impact mainly on the recognized hedging instruments' fair values. Material fair value changes are only expected from the hedged USPP-related debt. The analysis below shows the effects of US dollar parity changes, assuming an otherwise unchanged what-if scenario:

Sensitivity analysis of US-$ rate fluctuations

€ million	€ rate in US-$	Fair value of recognized hedge in € million		Currency-related change in financial liability on USPP in € million[2]
		Cash flow-hedge[1]	Fair value hedge	
assumed 10 percent higher rate	1.51	(2.2)	(45.4)	45.4
actual US-$ current rate at 12/31/2013	1.38	(1.1)	(29.6)	29.6
assumed 10 percent lower rate	1.24	0.3	(10.2)	10.2

[1]Before deferred taxes
[2]Change vs. the hedged principal repayment of €203.9 million

Interest rate risks

Interest rate risks mainly result from floating-rate short-term loans raised for Group financing purposes, as well as from short-term funds invested at variable rates.

The risk of an unfavorable market rate trend and thus higher interest payments for floating-rate notes is contained by contracting interest rate swaps and caps.

In connection with hedge accounting, such interest rate hedging transactions are accounted for as cash flow hedges. Both the hedged amounts and the fair value of the financial instruments are not material compared to the currency hedging.

The fair value of derivatives used for hedging against currency and interest rate risks, as well as the hedged nominal volumes are detailed in the notes to financial instruments on page 161.

Credit risks

Credit risks are defined as the risk that counterparties fail to meet their financial obligations. The credit risk attaching to the cash and cash equivalents invested by Vossloh with banks and the short-term securities held by subsidiaries, as well as to hedging instruments contracted with banks, is minimized by selecting counterparties of prime standing only. As part of business operations, trade and other receivables are exposed to a certain default risk.

These credit risks are monitored by the risk management system and minimized by taking out credit insurance. Specific collection risks are taken into account through adequate allowances.

The balance of gross receivables (receivables before allowances or write-down) breaks down as follows in terms of operational credit risks:

Balance of gross current receivables

€ million	Receivables neither past due nor impaired	Receivables past due but not impaired	Impaired receivables	Gross balance of receivables
Trade receivables				
2013	175.7	76.5	10.9	263.1
2012	259.2	62.7	7.2	329.1
Other				
2013	53.0	0.9	1.4	55.3
2012	44.5	0.5	1.4	46.4

The analysis below breaks down the receivables past due but not impaired:

Receivables not impaired but past due

€ million	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	more than 12 months	Total
Trade receivables						
2013	31.8	20.2	11.3	8.5	4.7	**76.5**
2012	34.0	16.2	4.5	2.7	5.3	**62.7**
Other						
2013	0.8	0.0	0.0	0.1	0.0	**0.9**
2012	0.0	0.0	0.5	0.0	0.0	**0.5**

No specific default risk arises from past due receivables since, given Vossloh's customer structure, many debtors are government or other public-sector agencies.

The maximum loss on default from all financial assets corresponds to their carrying amount (see the analysis on page 162).

Other disclosures

Contingent liabilities

As of December 31, 2013, total contingent liabilities were down by €2.4 million to €10.3 million. The Group has incurred contingent liabilities under guarantees of €7.0 million (including €5.3 million in favor of unconsolidated subsidiaries), and for the collateralization of third-party debts of €3.3 million (including €1.3 million allocable to unconsolidated subsidiaries). The risk of an enforcement of any of these contingent liabilities is not considered likely.

Other financial obligations

Commitments for the acquisition of tangible/intangible assets totaled €29.5 million (2012: €38.3 million).

The minimum undiscounted future payments under operating and similar leases and under rental agreements respectively amounted to €87.4 million (2012: €68.2 million). Commitments under operating leases fall due as follows:

Financial commitments under operating leases

€ million	2013	2012
Due up to 1 year	10.8	8.2
Due in 1 to 5 years	18.8	12.2
Due in more than 5 years	0.5	0.0
	30.1	**20.4**

Financial commitments under rental agreements

Mio.€	2013	2012
Due up to 1 year	13.3	10.9
Due in 1 to 5 years	34.0	26.1
Due in more than 5 years	10.0	10.7
	57.3	**47.7**

The obligations under operating leases have been incurred primarily for factory, business and office equipment. The following payments were recognized in expense:

Lease payments recognized in expense

€ million	2013	2012
Expense of minimum lease payments	10.9	8.7
Expense of contingent rental payments	0.0	0.0
Income from subleases	9.3	8.0

Future minimum payments of €22.4 million are expected under non-cancelable subleases (2012: €20.0 million).

Joint ventures

Vossloh's consolidated balance sheet and income statement include the following proportional assets and liabilities as well as income and expense items from the proportional consolidation of joint ventures:

Share of the Group in the assets, liabilities, expenses and income of joint ventures

€ million	2013	2012
Current assets	21.5	20.9
Noncurrent assets	20.0	20.8
Current liabilities	13.0	11.1
Noncurrent liabilities	0.3	0.0
Income	18.7	19.8
Expenses	18.8	19.0

Related parties

Vossloh AG as the ultimate controlling parent is at the helm of the Vossloh Group. The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated subsidiaries, joint ventures and associated companies. The related entities (unconsolidated companies, joint ventures, associated companies) are all itemized in the list of shareholdings on page 172 et seq.

Individuals among the Vossloh Group's related parties are the members of the Executive and Supervisory Boards, certain other senior management staff, as well as members of the Vossloh Family Pool ("Familiengemeinschaft Vossloh GbR"), a civil-law association.

The Chairman of the Supervisory Committee indirectly controls the Knorr-Bremse Group. This company is accordingly to be treated as a related party. Resulting from transactions with the Knorr-Bremse Group in 2013 were material purchases in the amount of 11.2 million (2012: 10.3 million), sales in the amount of €1.2 million (2012: €1.1 million) as well as open receivables and advance payments as of December 31, 2013 in the amount of €0.9 million (2013: €0.3 million) and trade payables of €0.6 million (2012: €2.0 million).

The table below breaks down the period's transactions with related parties (entities/individuals), conducted almost exclusively with unconsolidated subsidiaries and reflected in segment reporting as intragroup transfers (internal sales) and in the consolidated balance sheet as intercompany receivables/payables due from or to unconsolidated subsidiaries (within other current assets or liabilities, as applicable). The volume of transactions with related individuals was negligible.

€ million	2013	2012
Sale or purchase of goods		
Sales revenues from the sale of finished goods or WIP	5.4	7.3
Cost of materials from the purchase of finished goods or WIP	12.0	1.1
Trade receivables	3.8	0.9
Trade payables	2.5	0.5
Advance payments received	0.0	–
Sale or purchase of other assets		
Receivables from the sale of other assets	0.0	0.0
Payables for the purchase of other assets	0.9	1.2
Services provided/purchased		
Income from services provided	1.6	2.3
Expenses for services rendered	5.7	4.8
Leasing arrangements		
Income from operating leases	0.1	–
Expenses on operating leases	0.0	0.5
Licenses		
License income	0.0	–
License expenses	2.0	1.5
Financing		
Interest income from loans granted	0.1	0.1
Interest expense from financing loans taken up	0.0	0.0
Receivables on loans issued	4.6	5.3
Issuance of guarantees/collateral		
Guarantees furnished	5.5	7.4
Other collateral granted	1.3	1.3

Supervisory Board members will receive short-term benefits of k€236.9 for the reporting period (2012: k€451.5). For an itemized breakdown by member of this total, and further details of the remuneration system, see the Board Compensation Report (an integral part of the Vossloh Group's combined management report).

Executive Board remuneration

€ million	2013	2012
Current remuneration	1.2	2.1
Post-retirement benefits	0.2	0.5

Former Executive Board members received in 2013 a total k€664.6 (2012: k€643.5). Pension obligations to former Executive and Management Board members and their surviving dependents amount to €12.3 million (2012: €11.9 million). These obligations are fully recognized and for the most part covered by plan assets.

Statutory auditor's fees

The following fees for services rendered by the statutory group auditor, BDO AG Wirtschaftsprüfungsgesellschaft, as well as by firms of BDO AG's international network were recognized as expense in 2013:

Statutory auditor's fees

€ million	2013	2012
Year-end audit fees	1.2	1.2
Other attestation services	0.9	0.9
Tax services	0.8	0.8
Other services	0.1	0.0
	3.0	**2.9**

In fiscal 2013, the group auditor's fees include, unchanged from the prior year, €0.4 million for statutory audits, €0.9 million for other attestation services (2012: €0.9 million) plus €0.7 million (2012: €0.7 million) for tax services and €0.1 million (2012: €0.0 million) for other services.

The fees for statutory audits mainly include those paid for the mandatory group audit and the statutory audits by BDO AG of Vossloh AG's and its German subsidiaries' financial statements. The fees include €0.1 million (2012: €0.0 million) for other attestations services plus €0.0 million (2012: €0.0 million) for tax consultancy provided by non-German BDO firms but invoiced through BDO AG. The fees for other attestation services mainly account for consultancy and auditing work in connection with the implementation of group-wide accounting policies, for due diligence work and the quarterly report reviews. The tax consultancy fees cover substantially advisory services rendered for the formulation of tax returns, the review of tax assessment notices, as well as for national and international tax matters. The other services relate mainly to support services in connection with the introduction of a human resources reporting.

German Corporate Governance Code

In December 2013 the Executive and Supervisory Boards issued, and made permanently available to the stockholders on the Group's website, the declaration of conformity pursuant to Art. 161 AktG.

Group companies and investees

Pursuant to Art. 313(4) HGB, details of the Group's shareholdings are listed below:

List of shareholdings

		Footnote	Shareholding in %	in	Consolidation[1]	Equity[2]	Result after taxes[2]
(1)	**Vossloh Aktiengesellschaft, Werdohl**				(k)		
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(k)		
(3)	Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	(k)		
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(k)		
(5)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(k)		
	Rail Infrastructure division						
(6)	Vossloh France SAS, Paris, France		100.00	(1)	(k)		
	Fastening Systems business unit						
(7)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(k)		
(8)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(7)	(k)		
(9)	Vossloh Werdohl GmbH, Werdohl	3	100.00	(7)	(k)		
(10)	Vossloh Tehnica Feroviara SRL, Bucharest, Rumania	4	100.00	(7)	(n)	0.1	0.0
(11)	Vossloh Drázni Technika s.r.o., Prague, Czech Republic	4	100.00	(7)	(n)	1.4	0.0
(12)	Vossloh Sistemi S.r.l., Sarsina, Italy		100.00	(7)	(k)		
(13)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4.6	51.00	(7)	(n)	0.1	0.1
(14)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	(e)	0.6	1.4
(15)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	(n)	0.0	0.0
(16)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl	4	100.00	(7)	(n)	1.5	0.1
(17)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	(k)		
(18)	Vossloh Rail Technologies Ltd Sti.,Erzincan, Turkey		99.5/0.50	(7/8)	(k)		
(19)	FÉDER-7 Rugógyártó Kft., Sárkeresztes, Hungary	4	96.67/3.33	(7/8)	(n)	0.4	0.0
(20)	Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(7)	(k)		
(21)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	(k)		
(22)	Vossloh-Werke International GmbH, Werdohl		100.00	(7)	(k)		
(23)	Beijing China Railway Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	(n)	1.6	0.5
(24)	Vossloh Fastening Systems Southern Africa Proprietary Limited, Cape Town, South Africa	4	100.00	(105)	(n)	0.0	0.0
(25)	ZAO Vossloh Fastening Systems Rus, Moscow, Russia	4	50.10	(7)	(n)	0.0	0.0
(26)	Vossloh Fastening Systems Kazakhstan Proiswodstwennaja kompanija, Qapschaghai, Kazakhstan		50.00	(22)	(e)	0.3	(0.1)
	Switch Systems business unit						
(27)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	(k)		
(28)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(27)	(k)		
(29)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(30)	(k)		
(30)	Vossloh Nordic Switch Systems AB, Ystad, Sweden		100.00	(27)	(k)		
(31)	Vossloh Cogifer Kihn SA (formerly: KIHN SA), Rumelange, Luxembourg		89.21	(27)	(k)		
(32)	DDL SA, Rodange, Luxembourg		100.00	(31)	(k)		
(33)	Vossloh Laeis GmbH, Trier		100.00	(31)	(k)		
(34)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(27)	(k)		
(35)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(27)	(q)		
(36)	Montajes Ferroviarios SL, Amurrio, Spain	4	100.00	(35)	(n)	0.4	0.0
(37)	Burbiola SA, Amurrio, Spain		50.00	(35)	(n)	1.2	(0.1)
(38)	Vossloh Cogifer UK Limited (formerly: VTS Track Technology Ltd.), Scunthorpe, Great Britain		100.00	(27)	(k)		
(39)	Vossloh Cogifer Italia S.r.l., Pomezia, Italy		100.00	(27)	(k)		
(40)	Vossloh Cogifer Polska Sp.z o.o., Bydgoszcz, Poland		92.90	(27)	(k)		
(41)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(27)	(k)		
(42)	Cogifer Services (Malaysia) Sdn Bhd, Kuala Lumpur, Malaysia		100.00	(27)	(k)		
(43)	Cogifer Americas, Inc., Cincinnati, USA	4	100.00	(27)	(n)	0.0	0.0
(44)	Siema Applications SAS, Villeurbanne, France		100.00	(27)	(k)		
(45)	VOSSLOH MIN SKRETNICE DOO ZA Proizvodnjui Montazu Skretnica i Opreme Niš (Grad), Niš, Serbia		100.00	(27)	(k)		
(46)	Vossloh Cogifer Turnouts India Private Limited (formerly: J.S. Industries Pvt.Ltd.), Secunderabad, India	4.6	100.00	(27)	(n)	0.7	(0.1)
(47)	Vossloh Beekay Castings Ltd. Bhilai, India	6	60.00	(27)	(k)		
(48)	Vossloh Cogifer Signalling India Private Limited (formerly: Dakshin Transtek Pvt. Ltd.), Bangalore, India	4.6	100.00	(27)	(n)	(0.2)	(0.1)
(49)	Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(k)		
(50)	Cleveland Track Material, Inc., Cleveland, USA		100.00	(3)	(k)		
(51)	Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(k)		
(52)	Vossloh Sportek A/S, Arhus, Denmark		100.00	(30)	(k)		
(53)	Vossloh Cogifer Kloos BV, Nieuw-Lekkerland, Netherlands		100.00	(27)	(k)		
(54)	Global Rail Systems, Inc., Marlin, USA		100.00	(58)	(k)		
(55)	Vossloh France International SAS, Rueil-Malmaison, France	4	100.00	(6)	(n)	0.0	0.0
(56)	Wuhu China Railway Cogifer Track Co., Wuhu, China		50.00	(27)	(q)		
(57)	'J' Rail Components & Manufacturing, Inc., Grass Valley, USA		100.00	(58)	(k)		
(58)	Vossloh Signaling USA Inc., Cleveland, USA		100.00	(3)	(k)		
(59)	Vossloh Cogifer Argentina, Buenos Aires, Argentina	4	90.00/10.00	(27/28)	(n)	0.1	(0.1)
(60)	ADIF SE - Vossloh Cogifer Argentina SA Consortio de Cooperation, Buenos Aires, Argentina	4	51.00	(59)	(n)	0.0	0.0

		Footnote	Shareholding in %	in	Consoli-dation[1]	Equity[2]	Result after taxes[2]
(61)	Vossloh Cogifer - SP Technologies BV, Amsterdam, Netherlands	4	10.00	(27)	(n)	10.3	(0.1)
(62)	Vossloh Cogifer Southern Africa Proprietary Limited, Cape Town, South Africa	4	100.00	(105)	(n)	0.0	0.0
(63)	Vossloh Cogifer do Brazil Administracao de Bens e Participacoes Ltda. (formerly: Suarandri e Souza Administradora Bens e Participacao Ltda.), Sorocaba, Brazil	5	100.00	(27)	(k)		
(64)	Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil	5	100.00	(63)	(k)		
(65)	Outreau Technologies SAS, Outreau, France	5	100.00	(27)	(k)		
	Rail Services business unit						
(66)	Vossloh Rail Services GmbH, Seevetal	3	100.00	(1)	(k)		
(67)	Stahlberg Roensch GmbH, Seevetal	3	100.00	(66)	(k)		
(68)	Vossloh Rail Center Nürnberg GmbH, Nürnberg	3	100.00	(67)	(k)		
(69)	Vossloh Rail Center Bützow GmbH, Bützow	3	100.00	(67)	(k)		
(70)	Vossloh Rail Center Leipzig GmbH, Seevetal	3	100.00	(67)	(k)		
(71)	GTS Gesellschaft für Gleistechnik Süd mbH, Seevetal	3	100.00	(67)	(k)		
(72)	Vossloh Rail Center Hamburg GmbH, Hamburg	3	100.00	(67)	(k)		
(73)	Alpha Rail Team GmbH & Co. KG, Berlin		50.00	(67)	(q)		
(74)	Alpha Rail Team Verwaltungs GmbH, Berlin		50.00	(67)	(n)	0.0	0.0
(75)	LOG Logistikgesellschaft Gleisbau mbH, Hannover	3	100.00	(66)	(k)		
(76)	Vossloh Ray Hizmetleri Limited Sirketi, Istanbul, Turkey		100.00	(79)	(k)		
(77)	Vossloh High Speed Grinding GmbH, Seevetal	3	100.00	(66)	(k)		
(78)	Vossloh Mobile Rail Services GmbH, Seevetal	3	100.00	(67)	(k)		
(79)	Vossloh Rail Services International GmbH, Seevetal	3	100.00	(66)	(k)		
(80)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(79)	(e)	0.3	0.1
(81)	Vossloh Rail Services Scandinavia AB, Helsingborg, Sweden		100.00	(79)	(k)		
(82)	Vossloh Rail Services North America Corporation, Dover, USA	4	100.00	(3)	(n)	0.1	(0.1)
(83)	Beijing CRM-Vossloh Track Maintenance Technology Co.,Ltd., Beijing, China		49.00	(79)	(e)	1.1	(0.1)
	Transportation division						
	Rail Vehicles business unit						
(84)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(k)		
(85)	Locomotion Service GmbH, Kiel	3	100.00	(84)	(k)		
(86)	Vossloh Espana SA, Valencia, Spain		100.00	(1)	(k)		
(87)	Erion Mantenimiento Ferroviario S.A., Madrid, Spain		51.00	(86)	(k)		
(88)	Vossloh Locomotives France SAS, Antony, France		100.00	(84)	(k)		
(89)	Erion France SA, Arc-lès-Gray, France		100.00	(87)	(k)		
	Electrical Systems business unit						
(90)	Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(k)		
(91)	Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(90)	(k)		
(92)	Vossloh Kiepe Ges.m.b.H., Vienna, Austria		100.00	(91)	(k)		
(93)	Vossloh Kiepe Corporation, Vancouver, Canada	4	100.00	(91)	(n)	0.5	0.3
(94)	Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy	4	100.00	(91)	(n)	0.2	0.0
(95)	Vossloh Kiepe Sp.z o.o., Krakow, Poland	4	99.00/1.00	(91/90)	(n)	0.0	0.0
(96)	Vossloh Kiepe Main Line Technology GmbH, Düsseldorf	3	100.00	(91)	(k)		
(97)	APS electronic AG, Niederbuchsiten, Switzerland		100.00	(91)	(k)		
(98)	Vossloh Kiepe Inc., Alpharetta, USA	4	100.00	(3)	(n)	(1.0)	(0.2)
(99)	Vossloh Kiepe Limited, Birmingham, Great Britain		100.00	(91)	(k)		
(100)	Vossloh Kiepe UK Limited, Birmingham, Great Britain		100.00	(99)	(k)		
(101)	Vossloh Kiepe Southern Africa Proprietary Limited, Cape Town, South Africa	4	100.00	(105)	(n)	0.0	0.0
(102)	Heiterblick Projektgesellschaft mbH, Leipzig		49.00	(91)	(n)	0.0	0.0
	Other companies						
(103)	Vossloh-Schwabe Australia Pty. Ltd., Sydney, Australia	4	100.00	(4)	(n)	0.9	0.0
(104)	Vossloh Track Systems GmbH, Werdohl	4	100.00	(1)	(n)	0.0	0.0
(105)	Vossloh Southern Africa Holdings Proprietary Ltd., Johannesburg, South Africa	4	100.00	(104)	(n)	0.1	0.0
(106)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia	4	99.00/1.00	(104/5)	(n)	0.0	0.0
(107)	Vossloh Middle East Business Rail - L.L.C., Abu Dhabi, United Arab Emirates		49.00	(104)	(n)	0.0	0.0
(108)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl	4	100.00	(1)	(n)	0.0	0.0
(109)	Vossloh Dritte Beteiligungs-Aktiengesellschaft, Werdohl	4	100.00	(108)	(n)	0.0	0.0

[1] Fully consolidated companies are noted (k), those included at equity (e), ventures consolidated proportionally (q), and unconsolidated companies (n).

[2] The mean current rate or the annual average rate has been used to translate foreign-currency equity and net income/(loss), respectively.

[3] Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB

[4] Not included in the consolidation group for lack of materiality to net assets, financial position, and results of operations

[5] Newly consolidated in 2013

[6] Fiscal year from April 1 to March 31

Vossloh AG's Executive Board

Werner Andree, born 1951, Neuenrade
Chairman of the Executive Board
(since August 9, 2007, Executive Board member since Sep. 1, 2001)
Responsible for the departments Finance, Corporate Development, Investor Relations/Public Relations, Internal Audit, Legal, Compliance and IT

- Vossloh Cogifer SA: member of Administrative Board
- Vossloh France SAS: President
- Vossloh Australia Pty. Ltd.: member of Administrative Board
- Vossloh Schwabe Australia Pty. Ltd.: member of Administrative Board
- Vossloh España S.A.: member of Administrative Board
- Vossloh Dritte Beteiligungs-Aktiengesellschaft, Werdohl: Chairman of the Supervisory Board

Dr.-Ing. Norbert Schiedeck, born 1965, Arnsberg
(Executive Board member since Apr. 1, 2007)
Responsible for the departments Technology, Operations and Personnel

- Vossloh Cogifer SA: member of Administrative Board
- Amurrio Ferrocarril y Equipos S.A.: member of Administrative Board
- Vossloh España S.A.: member of Administrative Board
- Wohnungsgesellschaft Werdohl GmbH: member of Supervisory Board
- Vossloh Dritte Beteiligungs-Aktiengesellschaft, Werdohl: Member of the Supervisory Board

Heinz Hermann Thiele [2,4], Chairman (since May 29, 2013), Munich, Businessman,
former Chairman of the Executive Board of Knorr-Bremse AG
– Knorr-Bremse AG: Chairman of the Supervisory Board
– Knorr-Bremse GmbH Austria: Chairman of the Supervisory Board

Dr.-Ing. Wilfried Kaiser, Chairman (until Mai 29, 2013), Munich, degreed engineer,
former member of the Executive Board of Asea Brown Boveri AG
– EvoBus GmbH: Supervisory Board member
– schenck.de AG: Chairman of the Supervisory Board
– Hugo Kern und Liebers GmbH & Co. KG: member of Administration Board[5]

Dr. Wolfgang Scholl[2,4], Vice-Chairman (since May 29, 2013), Frankfurt am Main,
Attorney, Partner of the law firm Arnecke Siebold

Peter Langenbach, Vice-Chairman (until May 29, 2013), Wuppertal, attorney

Dr. Christoph Kirsch (until May 29, 2013), Weinheim, former CFO of Südzucker AG
– GELITA AG: member of Supervisory Board

Wolfgang Klein (until May 29, 2013), Werdohl, galvanizer, Chairman of the European and
Group Works Council

Dr.-Ing. Kay Mayland[3,4], Ettlingen, degreed engineer (since January 9, 2013)
Former Chairman of the Executive Board of SMS Siemag AG
– SMS Siemag AG: member of Supervisory Board
– Elexis AG: member of Supervisory Board
– Demag Cranes & Components GmbH: member of Supervisory Board
(through April 30, 2013)

Silvia Maisch[1] (since May 29, 2013), Monheim, electrical mechanic

Dr. Alexander Selent[3,4] (since May 29, 2013), Limburgerhof, Vice-Chairman
of the Executive Board and Chief Financial Officer of Fuchs Petrolub SE

Michael Ulrich[1,2,3], Kiel, machinist

[1]Employee representative
[2]Member of the Personnel Committee
[3]Member of the Audit Committee
[4]Member of the Nomination Committee
[5]Optional body

According to German GAAP, Vossloh AG's separate financial statements 2013 show a net loss of €(4,814,523.91) and, after including the profit carryforward of €37,119,641.49, net profit retained of €32,305,117.58.

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €0.50 for each no-par share of the eligible common stock of €34,076,503.15 and to carry forward the balance of €26.302.774,08. When determining the capital stock eligible for dividend, a total of 1,320,603 treasury shares was deducted. The total distribution amounts to €6,002,343.50

Werdohl, February 28, 2014

Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

Management Representation

"We represent that, to the best of our knowledge and in accordance with applicable accounting principles, the consolidated financial statements present a true and fair view of the Vossloh Group's net assets, financial position and results of operations, and the management report gives a true and fair view of the Group's performance and the overall position of the Group, as well as the significant risks and opportunities associated with the Group's expected development."

Werdohl, February 28, 2014

Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

Independent auditor's report and opinion on the consolidated financial statements

We have audited the consolidated financial statements (consisting of balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes) and the combined management report on the Company and the Group, all as prepared by Vossloh AG, Werdohl, for the fiscal year ended December 31, 2013.
The preparation of the consolidated financial statements and combined management report in accordance with the IFRS as adopted by the EU, and with the additionally applicable financial-accounting provisions of Art. 315a(1) HGB and the supplementary provisions of the Company's articles of incorporation, is the responsibility of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and combined management report.

We have conducted our annual group audit in accordance with Art. 317 HGB and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the German Institute of Public Auditors in Germany. Those standards require that we plan and perform the audit to obtain reasonable assurance that any misstatement or fraud which has a material impact on the view of the net assets, financial position and results of operations as presented by the consolidated financial statements in accordance with accounting principles generally accepted in Germany and by the combined management report is identified. When planning the audit procedures, knowledge and understanding of the Group's business, its economic and legal environment as well as expectations as to possible misstatements are taken into account. An audit includes examining, largely on a test basis, the accounting-related internal control system's effectiveness and the evidence supporting the amounts and disclosures in the consolidated financial statements and combined management report. An audit also includes assessing the accounting information of operational units included in the consolidated financial statements, the definition of the consolidation group, the accounting and consolidation principles used, and significant estimates made, by the Company's legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements are in conformity with the IFRS as adopted by the EU, and with the additionally applicable financial-accounting provisions of Art. 315a(1) HGB and the supplementary provisions of the Company's articles of incorporation, and, with due regard to these standards, regulations and provisions, present a true and fair view of the Group's net assets, financial position and results of operations. The combined management report is in conformity with the consolidated financial statements and presents fairly, in all material respects, the Group's position and the risks and opportunities of the future development.

Essen, February 28, 2014

BDO AG
Wirtschaftsprüfungsgesellschaft

Fritz	ppa. Barhold
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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Glossar

Bilateral credit facility	Credit (line) agreement between two parties
Capital employed	Working capital + fixed assets
Capital lease	Type of lease (a.k.a. finance lease) which requires the lessee to capitalize the leased asset
Cash pooling	Concentration of cash funds for intercompany account balancing
EBIT	Earnings before interest and income taxes
EBIT margin	EBT ÷ net sales
EBT	Earnings before income taxes
Equity method	Accounting method for the investment in associated companies, whereby the investor recognizes the proportional share of the associate's net income and dividends
Equity ratio	Equity ÷ total assets
Financial derivative	Contract whose fair value is derived from an underlying (e.g. stock or currency)
Financial debts	Private placement loans + bank debts + notes payable + payables under capital leases
Guaranty facility	Credit line for guaranties and guaranty bonds
IAS/IFRS	International Accounting Standards/International Financial Reporting Standards
Interest rate cap	Option contract for an interest rate ceiling to hedge against rising rates
Interest rate swap	Contract for swapping variable and fixed interest payments based on underlying principal
Investment grade	Rating between AAA and BBB– (S&P's), any credit standing below being "speculative grade"
Long-term incentive plan (LTIP)	Incentive-based stock option plan for officers/executives

Net financial debt	Financial debts – cash & cash equivalents – short-term securities
Net leverage	Net financial debt ÷ equity
Operating lease	Type of lease which requires the lessor to capitalize the leased asset
Payroll intensity	Personnel expenses ÷ value created
Personnel expenses per capita	Personnel expenses ÷ annual average headcount
Pretax return on equity (ROE)	EBT ÷ equity
Private placement	Private deal between issuer and investors
Return on capital employed (ROCE)	EBIT ÷ capital employed
Statement at equity	Method similar to consolidation for including investees at the prorated equity
Stock option program	Program for granting options to officers and employees to subscribe for their employer company's stock
Treasury	Finance management
Value added	(ROCE – WACC) × average capital employed
Value created	EBIT + personnel expenses + non-income taxes
Working capital	Trade receivables (incl. PoC receivables) + inventories – trade payables (incl. PoC payables) – prepayments received – other current accruals
Working capital intensity	Averange working capital ÷ net sales

Financial calendar 2014/2015

Dates 2014

Annual general meeting	May 28, 2014
Payment of cash dividends	May 29, 2014
Publication of interim reports	
as of March 31	April 30,2014
as of June 30	July 24, 2014
as of September 30	October 30, 2014

For further dates, go to www.vossloh.com

Dates 2015

Publication of 2014 financial data	March 2015
Press conference	March 2015
Investors and analysts conference	March 2015
Annual general meeting	May 2015

Investor Relations

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Information on Vossloh stock

ISIN	DE0007667107
Traded at:	Xetra, Düsseldorf, Frankfurt, Berlin-Bremen, Hannover, Hamburg, Stuttgart, Munich
Index	SDAX
Shares outstanding as of December 31, 2013	12,004,687
Average shares outstanding in 2013	11,998,887
Share price (12/31/2013)	€72.50
2013 high/low	€84.84 / €62.02
Reuters code	VOSG.DE
Bloomberg code	VOS GR
Proposed dividend	€ 0.50

Ten-year overview of the Vossloh Group

		2013	2012*	2011	2010	2009	2008	2007	2006	2005	2004
Income statement data											
Net sales	€ mill.	1,321.2	1,243.0	1,197.2	1,351.3	1,173.7	1,212.7	1,232.1	1,015.2	996.4	917.8
EBIT	€ mill.	54.2	97.5	97.2	152.1	137.9	137.7	121.5	82.7	90.8	105.6
Net interest expense	€ mill.	(21.8)	(21.4)	(12.3)	(11.7)	(9.4)	(9.3)	(12.3)	(14.1)	(19.6)	(16.0)
EBT	€ mill.	32.4	76.1	84.9	140.4	128.5	128.4	109.2	68.6	71.2	89.6
Group net income	€ mill.	15.0	59.2	56.2	97.5	87.9	139.4	71.4	20.3	45.1	57.2
Earnings per share	€	1.25	4.94	4.32	7.32	6.57	9.48	4.83	1.38	3.07	3.91
EBT margin	%	2.5	6.1	7.1	10.4	10.9	10.6	8.9	6.8	7.1	9.8
Pretax return on equity	%	6.6	15.7	17.6	24.2	26.1	26.1	25.2	18.5	19.7	27.1
Return on capital employed (ROCE)[1]	%	6.1	11.5	12.0	17.2	20.5	18.8	14.9	12.9	12.0	15.3
Value added	€ mill.	(21.9)	13.0	16.1	54.8	63.7					
Balance sheet data											
Noncurrent assets	€ mill.	715.6	662.7	625.6	590.7	458.2	431.4	503.4	423.4	453.3	387.0
Capital expenditures[2]	€ mill.	66.8	61.1	65.6	57.9	41.9	37.6	52.6	23.9	34.5	39.4
Amortization/depreciation[2]	€ mill.	42.6	41.4	38.2	39.5	24.6	22.8	29.2	25.9	23.9	25.2
Closing working capital[3]	€ mill.	102.1	166.0	200.3	258.0	245.1	300.7	312.8	216.7	303.3	303.2
Closing capital employed	€ mill.	817.7	828.7	825.9	848.6	703.2	732.1	816.2	640.1	756.6	690.2
Total equity	€ mill.	490.3	505.7	480.1	580.0	492.6	492.7	434.0	371.1	361.0	331.1
thereof: non-controlling interests	€ mill.	19.7	15.9	14.0	27.9	20.4	16.9	12.1	9.3	6.1	5.8
Net financial debt[4]	€ mill.	201.2	200.8	238.8	136.6	70.2	–35.0	124.9	62.3	220.5	171.1
Total assets	€ mill.	1.586.3	1.500.0	1.495.9	1.405.8	1.338.4	1.339.4	1.326.8	1.198.5	1.091.2	1.016.7
Equity ratio	%	30.9	33.7	32.3	41.3	36.8	36.8	32.7	31.0	33.1	32.6
Cash flow statement data											
Cash flow from operating activities	€ mill.	122.6	162.6	138.5	139.1	44.9	133.8	80.2	186.9	54.6	32.9
Cash flow from investing activities	€ mill.	(77.8)	(72.9)	(90.6)	(151.1)	(52.3)	116.8	(123.6)	(15.4)	(65.5)	(27.5)
Cash flow from financing activities	€ mill.	(54.0)	(109.9)	(47.3)	(71.8)	(84.1)	(77.0)	(25.7)	(81.5)	(78.9)	110.5
Net cash inflow/(outflow)	€ mill.	(9.2)	(20.2)	0.6	(83.8)	(91.5)	173.6	(69.1)	90.0	(89.8)	115.9
Workforce											
Annual average headcount		5,376	5,078	5,000	4,984	4,717	4,631	5,493	4,765	4,732	4,513
thereof: Germany		1,771	1,756	1,747	1,667	1,312	1,243	1,183	1,168	1,494	1,547
abroad		3,605	3,322	3,253	3,317	3,405	3,388	4,310	3,597	3,238	2,966
thereof: Rail Technology		5,330	5,031	4,954	4,936	4,666	4,585	5,455	4,734	4,701	4,481
Vossloh AG		46	47	46	48	51	46	38	31	31	32
Personnel expenses	€ mill.	288.4	271.0	259.0	249.5	229.6	223.2	268.9	223.9	223.9	217.5
Personnel expenses per capita	T€	53.6	53.4	51.8	50.1	48.7	48.2	49.0	47.0	47.0	48.2

Vossloh AG – Ten-year overview

		2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Capital stock	€ mill.	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.7	37.7	37.4
Dividends per share	€	0.50[5]	2.00	2.50	2.50	2.00	2.00+1.00	1.70	1.30	1.30	1.30
Stock price at December 31	€	72.50	74.47	74.07	95.50	69.52	79.49	80.10	57.14	41.10	36.35
Market capitalization at December 31	€ mill.	870.3	893.5	888.3	1,272.6	926.0	1,104.0	1,185.1	842.0	605.6	530.9

[1] As from 2009, based on average capital employed

[2] Excluding noncurrent financial instruments, scheduled amortization/depreciation plus write-offs/write ups

[3] As from 2009, the other current provisions, being non-interest, are also deducted.

[4] With a negative sign: net financial assets

[5] Subject to the approval of the Annual General Meeting

* Due to revised presentation of certain balance sheet items, prior year's comparative figures have been partially adjusted; for details, see page 153.

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