vossloh

ANNUAL REPORT 2016

Transforming Vossloh.
Financial statements and combined management report of Vossloh AG for financial year 2016

Clear focus. Sharpened profile.

Combined management report

Business and market environment

Segmentation and competitive position

Vossloh is a global player in rail technology markets. Products and services for rail infrastructure are Vossloh's core business. The core business activities are separated into three divisions – Core Components, Customized Modules and Lifecycle Solutions. On January 3, 2017, the new Vossloh Tie Technologies business unit expanded the Core Components division with the acquisition of Rocla Concrete Tie (USA).

In addition, Vossloh is also active in the locomotive business. The Electrical Systems business unit, which was sold at the end of January 2017, was also located in Transportation, a non-core business division. You can find detailed descriptions of the individual divisions starting on page 14.

In its core business of rail infrastructure, the company has the following competitive positions:
- Vossloh is a leading provider of, and technological pioneer in, rail fastening systems worldwide.
- Vossloh is a leading manufacturer of switch systems worldwide.
- In Germany, Vossloh is a leading provider of rail services.
- Following the acquisition of Rocla Concrete Tie, Vossloh is a leading manufacturer of concrete railway ties in the USA.

Organization

The Vossloh Group is active around the world. Local presence and customer proximity are integral elements of our business model. The most important production facilities for Vossloh rail fastening systems are in Germany, China, Poland and the USA. Vossloh's switch systems are mainly produced in France, the USA, Sweden, Australia, Luxembourg, Poland and the UK. Rail services are mainly carried out from Germany. The locomotives business' production facilities are in Germany. Newly-acquired business unit Tie Technologies produces its ties in the USA and Mexico.

Vossloh operates globally through sales companies and branches. It has in some instances, together with competent partners, entered into local joint ventures and alliances. Key Group companies and business unit lead companies are:

- Vossloh Fastening Systems GmbH, Werdohl (Germany), and from 2017, Rocla Concrete Tie, Inc., Lakewood/ Colorado (USA) for the Core Components division.
- Vossloh Cogifer SA, Rueil-Malmaison (France) for the Customized Modules division
- Vossloh Rail Services GmbH, Hamburg (Germany), for the Lifecycle Solutions division

Vossloh Locomotives GmbH, Kiel (Germany) has this function in the Transportation division, which is not part of the core business. The Electrical Systems business unit, which was sold on January 31, 2017, was managed by Vossloh Kiepe GmbH, Düsseldorf (Germany).

Controlling system and targets

Vossloh follows a value-oriented growth strategy. Value added serves as an indicator. 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, see glossary in the Group's annual report page 123) 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 before taxes. In line with IFRS 8, value added is disclosed in published reports as the division and 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 adjusted accordingly. Cost of debt is calculated on the basis of the Group's average financing terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is not derived 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 recognized in the balance sheet. Intragroup controlling in fiscal 2016 was based on pretax WACC of 9 percent as the yield expected by investors and lenders. From financial year 2017, WACC will be reduced to 7.5 percent due to the continuing low interest rate environment.

The financial performance indicators most relevant for the Vossloh Group are value added, sales and EBIT as well as EBIT margin.

While the Company uses sales, EBIT and EBIT margin in particular as key performance indicators for its short-term perspective, the long-term management of business units is focused on value added. There are two ways of increasing value added: Increasing EBIT and optimizing capital employed. Both variables are also major drivers of ROCE. Vossloh seeks to improve the parameters it can influence to optimize this indicator. As a result, the Company additionally focuses in particular on working capital or working capital intensity (see glossary in the Group's annual report, page 123), and free cash flow. Vossloh uses the average number of employees (full-time equivalents, FTE) as its non-financial reporting indicator.

The monthly financial reporting represents a central element for the on-going analysis and control of the Group companies, divisions, business units and the Group for the management of Vossloh AG. Here, the financial statements and also the key performance indicators of all Group entities included are consolidated and analyzed as in the monthly annual projection. Deviations from plan are investigated as to their effects on the financial targets. The monthly and quarterly annual projections are supplemented by a risk report to identify potential decreases or increases to assets. The effectiveness of measures proposed to ensure targets are achieved is continuously analyzed. The figures of the operating units are intensively discussed by the management and the Executive Board. The close interaction between the Executive Board of Vossloh AG and the management of the operating units guarantees a rapid flow of information and also allows short-term responses.

Economic report

Economic environment

From a global perspective, the rail technology market as a whole has shown a steadily growing trend for years. This is the result of the rising demand for more environmentally friendly, safer and more economical mobility for people and goods worldwide. This development was driven by, among other things, the increase in international trade flows, continuing urbanization, growing environmental awareness as a result of climate change, as well as market deregulation. At the same time, competitive pressure has been rising, also as a result of new players on the market.

A number of studies regularly analyze developments in the global rail technology market. The most important of these publications are the World Rail Market Study, published by the Association of the European Rail Industry (UNIFE), and the Worldwide Market for Railway Industries, published by the consultancy firm SCI Verkehr. Both studies are updated every two years, and the most recent results were presented at the InnoTrans industry event in Berlin in September 2016.

UNIFE estimates the current global volume of the rail market to be around €159 billion per year based on the average of the period 2013 to 2015. SCI Verkehr estimates an annual volume of €169 billion. The Association of the European Rail Industry considers about 63 percent of the total volume – some €101 billion – to be accessible market share. Accessible means that this market is accessible in principle to foreign suppliers, and that the market demand is not exclusively met through domestic capacity.

Products and services for rail infrastructure are Vossloh's core business. As well as the infrastructure segment, the accessible market for products and services relevant to Vossloh comprises the high-growth sub-segment of infrastructure services. In total, this market amounted to approximately €26 billion per year for the period 2013 to 2015.

From a regional perspective, Western Europe, at around 32 percent, claims the largest share of the overall accessible market. The next-largest markets are the countries of the North American Free Trade Agreement NAFTA (USA, Canada, and Mexico) with a 26 percent share, and the Asia-Pacific region with around 16 percent. These are followed by the Community of Independent States (CIS) countries, with a share of some nine percent, and Eastern Europe with six percent. The Africa/Middle East and Latin America regions represent somewhat smaller shares, at around seven percent and four percent respectively.

In its core business, Vossloh is active globally in both switches and rail fastening systems. The Lifecycle Solutions unit is also becoming increasingly active on the international stage. Tie Technologies, the business unit acquired at the start of 2017, is active in the USA and Mexico. Overall, Vossloh's is primarily concentrated on the focus markets China, USA, Western Europe and Russia. Australia, Brazil, Canada, the Middle East, Northern Europe and the "stan" countries (such as Kyrgyzstan, Uzbekistan, Kazakhstan and Turkmenistan) are also considered attractive regional markets.

Investments in rail infrastructure are generally made around the world after lengthy decision-making processes, as a result of which the markets only reflect current economic trends to a limited degree. The development of the debt situation of the states in Vossloh's sales markets is more significant as the customers are predominantly under public-sector control. In Southern Europe in particular, since 2009 the severely impaired financial strength of public-sector budgets has had a negative influence on demand for rail technology. As of the third quarter of 2016, the debt ratio (the ratio of public debt to GDP) of the euro countries (ER-19) according to the statistics office of the European Union (Eurostat) was at 90.1 percent – as of the editorial deadline of this publication, this was the most current figure available. At the same time in the previous year, this figure was 91.5 percent. At the end of September 2016, the debt ratio of the EU as a whole (EU-28) amounted to 83.3 percent compared with 85.9 percent in the previous year.

Business acquisitions

On December 5, 2016, a contract was signed for the acquisition of all shares in Rocla International Holding, Inc., Lakewood/Colorado, USA. The transaction was completed on January 3, 2017. The company acquired represents the holding company of a group comprising several companies in the USA and Mexico with a range of operations for developing, producing and distributing concrete ties and other concrete products. The companies as a collective represent a new business unit (Vossloh Tie Technologies), which together with Vossloh Fastening Systems will form the Core Components division in the future.

The purchase of 50 percent of the shares in Alpha Rail Team GmbH & Co. KG and Alpha Rail Team Verwaltungs GmbH, both based in Berlin, was completed on December 7, 2016. The remaining 50 percent of the shares were already held by a Vossloh Group company. The company is part of the Lifecycle Solutions division and operates two mobile milling trains in several European countries.

Results of operations

In the balance sheet as of December 31, 2016, all assets and liabilities from the Electrical Systems business unit are recognized as held for sale in a separate item as this business unit is presented as discontinued operations. All income and expenses from sold companies or which are associated with the sale, are reported in the income statement under "Result from discontinued operations". The prior-year figures are presented in a comparable manner and therefore differ from the figures presented in the 2015 annual report. Further information can be found in the notes to the consolidated financial statements on page 78 as well as under "(7) Result from discontinued operations" on page 83 f in the Group's annual report.

In financial year 2016, a different course was recorded with regard to sales and earnings development. While sales over the full course of 2016 were below the level of the previous year due to the very pronounced weakness of the freight transport market in the USA, EBIT significantly increased. Sales of €931.6 million in financial year 2016 were 2.2 percent below the prior-year value of €952.9 million, thus remaining in the most recently forecast corridor of €930 million to €970 million. Compared to the previous year, effects from the translation of exchange rates had a negative impact on sales in the amount of €11.9 million. The original outlook for financial year 2016, in which sales between €1.2 billion and €1.3 billion were forecast, included sales of around €280 million for the Electrical Systems business unit.

Sales in 2016 were at the lower end of the most recently forecast corridor of €930 million to €970 million, profitability better than expected

Vossloh Group: Sales by region

	€ mill.	%	€ mill.	%
	2016		2015	
Germany	129.8	13.9	159.2	16.7
France	158.4	17.0	128.4	13.5
Other Western Europe	65.6	7.0	65.9	6.9
Northern Europe	118.6	12.7	106.7	11.2
Southern Europe	59.8	6.4	52.1	5.4
Eastern Europe	36.1	3.9	69.3	7.3
Total Europe	**568.3**	**60.9**	**581.6**	**61.0**
Americas	105.9	11.4	173.0	18.2
Asia	190.7	20.5	145.9	15.3
Africa	44.4	4.8	30.0	3.1
Australia	22.3	2.4	22.4	2.4
Total	**931.6**	**100.0**	**952.9**	**100.0**

Sales in Europe slightly below previous year, sales losses in Eastern Europe offset by increased sales in Southern and Northern Europe

In financial year 2016, sales revenue in the Vossloh Group in Europe was slightly (2.3 percent) below the level of the previous year. Significant sales losses of 47.9 percent were recorded in Eastern Europe, in particular from expected lower sales contributions from the Customized Modules division in Poland. In Western Europe, sales revenue for financial year 2016 remained at approximately the level of the previous year. The significant sales decline in Germany, in particular the Transportation division, was fully offset by considerable sales growth in France, primarily in the Customized Modules and Transportation divisions. In Northern and Southern Europe, on the other hand, higher sales contributions were once again achieved in comparison to the previous year. Sales in Northern Europe increased by 11.2 percent primarily due to increased sales in the Customized Modules division in Finland and Norway. Sales in Southern Europe increased by 14.9 percent. This was primarily attributable to higher sales in the Customized Modules division in Italy.

Sales in America significantly below previous year

In America, sales collapsed significantly. Sales in the Customized Modules division were significantly lower, mainly due to the weakness in freight transportation, meaning lower investment in class 1 railway operators in the USA. In the Core Components division, the high sales contributions of the previous year in Argentina were not repeated. However, sales in Brazil were also unable to match the previous year due to the completion of projects in the Customized Modules division. In total, the sales decrease of the Group in America amounted to €67.1 million, or 38.8 percent.

Considerable sales growth in Asia

The Asia region showed very pleasing development in financial year 2016 with considerable sales growth. Overall, sales increased by 30.7 percent in comparison to the previous year. The Core Components division was almost solely responsible for this increase due to a significant sales increase in China. In addition, the division also achieved higher sales contributions in Qatar, India and Thailand.

Sales in Africa significantly above previous year

Group sales in Africa also significantly exceeded the previous year by 48.1 percent. Sales growth was mainly attributable to the Customized Modules division in Morocco.

In Australia, where the Customized Modules division is almost exclusively active, sales were stable, remaining approximately the same as the previous year.

In financial year 2016, cost of sales amounted to €736.3 million and was thus below the figure from the previous year of €772.8 million. This is equivalent to 79.0 percent (down from 81.1 percent) of sales. General administrative and selling expenses of €162.3 million were slightly higher than the previous year's level of €161.6 million, and accounted for 17.4 percent and 17.0 percent of the Group's total sales respectively. The Group's other operating result amounted to €21.1 million and was therefore below the previous year's value of €32.6 million. In particular, this was due to the lower returns from releases of provisions in financial year 2016. In the previous year, returns from the release of provisions in the amount of €8.0 million were included, which were offset by associated expenses in other items in the income statement.

Vossloh Group: Sales and earnings

	€ mill.	%	€ mill.	%
	2016		2015	
Sales revenues	931.6	100.0	952.9	100.0
EBIT	50.0	5.4	42.3	4.4
EBT	40.6	4.4	31.2	3.3
Net income	10.1	1.1	77.8	8.2
Earnings per share (in €)	0.22		5.42	

Group EBIT significantly above previous year, EBIT margin slightly higher than initially forecast

Earnings before interest and taxes (EBIT) increased significantly by 18.0 percent despite lower sales revenues. A sustainable focus on high-margin projects and strict cost management accompanied by comprehensive efficiency improvement programs were responsible for this in particular. Among other things, earnings noticeably increased in the Core Components division. Losses in the Transportation division were also further reduced. Currency translation effects had a negative impact on the Group EBIT in the amount of €2.1 million. Profitability improvements – measured on the basis of the EBIT margin – were recorded in all divisions. The EBIT margin increased from 4.4 percent to 5.4 percent, and was above the most recently communicated corridor of 4.5 percent to 5.0 percent.

Net income clearly below the level of 2015 due to book profit in the previous year

Net interest result amounted to €(9.4) million, and thus improved in comparison to the previous year's figure of €(11.1) million. Cash inflows from the capital increase in June 2016 led to a significant debt reduction in financial year 2016. Cash inflows achieved from the sale of the Rail Vehicles business unit at the end of 2015 also contributed to lower debt at the start of financial year 2016, reducing the interest burden in the year under review. In addition, increased operational profitability had a positive effect on figures in 2016, so-called financial covenants, with the more favorable financial conditions significantly lowering interest expense in financial year 2016. There was also an increase in earnings before income taxes (EBT) as EBIT and net interest result improved in comparison to the previous year.

In the past financial year, income taxes amounted to €21.8 million (previous year: €17.2 million). This resulted in a tax ratio of 53.7 percent, which was distorted by write-downs of deferred tax assets on loss carryforwards in connection with the sale of the Electrical Systems business unit. Result from discontinued operations in the amount of €(8.7) million were significantly below the previous year's figure of €63.8 million. While the high book profit from the sale of the former Rail Vehicles business unit had a positive impact in the previous year in particular, results from discontinued operations in financial year 2016 were particularly burdened by an impairment in accordance with IFRS 5 due to the sale of the Electrical Systems business unit. Net income was therefore significantly below that of the previous year. Consolidated net income attributable to shareholders of Vossloh AG amounted to €3.3 million in financial year 2016 (previous year: €72.2 million). With an average of 14,769,086 shares in circulation, this resulted in significantly lower earnings per share compared with the previous year.

In light of the ongoing repositioning of the Vossloh Group and the growth in the core business targeted for the future, Vossloh AG's Executive Board and Supervisory Board will make a proposal to shareholders at the Annual General Meeting scheduled for May 24, 2017 to suspend the dividend for the 2016 financial year. The increase in profitability of the Vossloh Group targeted with the future growth represents the basis of the planned future dividend payments.

Vossloh Group: Value management

€ mill.	2016	2015
Average capital employed	708.4	734.8
ROCE	7.1	5.8
Value added	(13.8)	(31.1)

ROCE higher than the previous year; value added improved, but still negative

The return on capital employed increased at Group level in financial year 2016. This was a result of both the higher EBIT and the lower average capital employed. The decline in average capital employed was particularly attributable to a reduction in the average working capital as well as, to a lesser extent, to decreased net assets. Overall, ROCE was below the weighted average cost of capital (WACC) of nine percent, as a result of which no premium was generated on top of the cost of capital. Value added therefore remained negative, but was significantly improved compared with the previous year as a result of the decrease in WACC of ten percent in 2015.

Vossloh divisions: Orders received and order backlog

	Orders received		Order backlog	
€ mill.	2016	2015	2016	2015
Core Components	262.3	251.6	182.8	177.6
Customized Modules	473.7	512.0	279.5	298.1
Lifecycle Solutions	105.0	69.2	29.4	7.8
Transportation	248.7	116.1	238.7	99.3
Vossloh AG/consolidation	(11.1)	(7.0)	(0.8)	(0.1)
Group	**1,078.6**	**941.9**	**729.6**	**582.7**

Orders received by Vossloh Group in 2016 clearly above sales level

Orders received in the Vossloh Group in financial year 2016 significantly exceeded the level of the previous year by 14.5 percent. At Group level, the book-to-bill ratio was 1.16. The increase in orders received is particularly attributable to the major contract that was won in the year under review in the Transportation division, which is no longer part of the core business. However, a slight increase in orders received was also recorded in the core business. As of December 31, 2016, the order backlog exceeded the level of the previous year by 25.2 percent in total.

Financial position and investing activities

As the Group's management holding company, Vossloh AG is also responsible for managing the Group's finance 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 particularly risks from interest and exchange rate fluctuations. Derivative financial instruments (see term in glossary in the Group's annual report, page 123) are used, among other things, for hedging. The group companies' funding level is largely ensured by Vossloh AG providing the necessary cash resources intragroup. Only in isolated cases where funding outside Germany is either economically preferable or required by law do subsidiaries obtain original financing locally.

Net financial debt at the end of 2016 at a very low level

The net financial debt in the Vossloh Group was significantly reduced from €218.6 million at the end of 2015 to €83.9 million was of December 31, 2016. The decrease was primarily attributable to the net cash inflow of €123.1 million from the capital increase in June 2016. The positive free cash flow of €25.2 million also contributed towards reducing net financial debt. Financial liabilities (see term in glossary in the Group's annual report, page 123) totaled €255.6 million as of December 31, 2016 and were therefore below the level of the balance sheet date of the previous year of €279.1 million. The total of cash and cash equivalents and short-term securities amounted to €171.7 million at the end of 2016 and was therefore substantially higher than in the prior year (€60.5 million). A significant portion of the high level of cash and cash equivalents was used for the acquisition of Rocla at the beginning of 2017.

Current financial liabilities of the Vossloh Group were at a very low level of €8.7 million at the end of 2016 and were therefore significantly lower than the corresponding prior-year level of €25.6 million. In 2015 Vossloh AG secured the medium-term financing of the Group with the concluding of a syndicated loan of €500 million (see page 34 under "liquidity risks" for more information).

For further information on the free credit lines of the Vossloh Group, see the notes to the consolidated financial statements, page 110 in the Group's annual report.

Vossloh Group: Development of cash flows

€ mill.	2016	2015
Cash flow from operating activities	65.8	107.8
Free cash flow	25.2	66.1

Free cash flow again positive

In comparison with the previous year, cash flow from operating activities from continuing operations and discontinued operations remained significantly below the level of the previous year. Positive special tax items in the previous year as well as a substantial increase in working capital in the now-sold Electrical Systems business unit were primarily responsible for this. Overall, free cash flow – defined as cash flow from operating activities less capital expenditures in intangible assets and property, plant and equipment as well as capital expenditures in investments in companies accounted for using the equity method less cash-effective dividends or the sale of companies accounted for using the equity method – did not reach the high level of the prior year, however it was clearly positive in the past financial year. The free cash flow reported here also includes effects from discontinued operations. Free cash flow in terms of continuing operations only was substantially higher and exceeded the level of the previous year with €56.0 million (previous year: €25.3 million).

Vossloh-Group: Capital expenditure and depreciation/amortization

€ mill.	2016		2015	
	Capital expenditure	Depreciation/ amortization	Capital expenditure	Depreciation/ amortization
Core Components	2.9	10.2	6.4	9.1
Customized Modules	15.9	14.2	11.4	16.2
Lifecycle Solutions	11.3	6.5	9.6	5.1
Transportation	7.5	4.0	6.2	4.6
Vossloh AG/Consolidation	0.2	0.7	0.6	0.7
Total	**37.8**	**35.6**	**34.2**	**35.7**

In financial year 2016, investments in property, plant and equipment and intangible assets were higher than depreciation and amortization. Both the high level of investments and the substantial increase in capital expenditures were attributable to the Customized Modules division. The largest single investment in the production location for manganese frogs in Outreau, Northern France, was made here. In the Lifecycle Solutions division, the increase was primarily attributable to an investment in a company accounted for using the equity method as well as the procurement of several wagons for rails and turnouts. Investment was also greater than in the previous year in the Transportation division. Investments were primarily made for the relocation to the new production site in Kiel-Suchsdorf, which is planned for financial year 2017. In contrast, capital expenditures in the Core Components division were below the level of the previous year.

Asset and capital structure

Vossloh Group: Asset and capital structure

		31.12.2016	31.12.2015
Total assets	€ mill.	1,367.6	1,389.9
Equity[1]	€ mill.	550.8	428.7
Equity ratio	%	40.3	30.8
Closing working capital	€ mill.	186.8	213.8
Fixed assets	€ mill.	490.8	486.7
Closing capital employed	€ mill.	677.6	700.5

[1] Group equity, including non-controlling interests

Capital structure strengthened, Equity ratio above 40 percent

In financial year 2016, the Vossloh Group saw significant improvements, especially with regard to capital structure. The equity ratio at the end of 2016 was almost ten percent higher than the previous year. This was primarily the result of the capital increase in June 2016 and – to a significantly lesser extent – positive net income in 2016. The working capital initiative implemented two years ago also showed further positive effects. At the end of 2016, working capital was 12.6 percent lower than on the reporting date of the previous year. On average for the year, working capital amounted to €227.4 million, 9.1 percent lower than the level of the previous year (€250.2 million). Significantly lower trade receivables resulting from consistent receivables management were primarily responsible for this. This resulted in an improved working capital intensity of 24.4 percent compared with the previous year (26.3 percent). Capital employed both at the end of financial year 2016 and on average for the year (€708.4 million, previous year: €734.8 million) was below the corresponding year’s due to lowing working capital in particular.

General statement on the economic situation

In financial year 2016, further progress was made on the realignment and transformation of the Vossloh Group. After Rail Vehicles, the contract for the sale of the second of the original three business units of the Transportation division, which is no longer part of the core business, was signed in 2016. The acquisition of the Tie Technologies business unit also laid the foundation for profitable growth in the core business of rail infrastructure in the future. In addition, the continuing focus on higher margin projects and ongoing measures to increase profitability continued to have an effect in the year under review. EBIT noticeably increased despite a decrease in sales in comparison to the previous year, as a result of which the EBIT margin of 5.4 percent was above the most recently communicated corridor of 4.5 percent to 5.0 percent. In 2016, free cash flow was again positive. The financial basis was also strengthened due to the increase in capital in 2016. The equity ratio increased to above 40 percent. As a result, there was a positive development for the Vossloh Group overall in 2016.

Business performance of Core Components

The Core Components division comprises the Group's range of industrially manufactured standard products needed in large volumes for rail infrastructure projects. In financial year 2016, the division included the Fastening Systems business unit. Vossloh Fastening Systems is a globally established and leading manufacturer of rail fastening systems for all types of rail applications, from heavy-load to high-speed as well as local transport. The newly acquired business unit Tie Technologies will also be presented as a further business unit within the Core Components division from financial year 2017.

Orders received above the previous year, thanks in particular to improved tendering in China

Orders received in the Core Components division amounting to €262.3 million surpassed the prior-year figure of €251.6 million by 4.3 percent. A significant number of orders were received from the focus market China, including two major contracts worth around €50 million and €30 million, as well as from Italy and Saudi Arabia. On December 31, 2016, the order backlog amounted to €182.8 million (previous year: €177.6 million).

Core Components

		2016	2015
Sales revenues	€ mill.	257.1	256.6
EBIT	€ mill.	32.0	29.2
EBIT margin	%	12.5	11.4
Average working capital	€ mill.	56.6	68.8
Average working capital intensity	%	22.0	26.8
Average capital employed	€ mill.	106.0	125.1
ROCE	%	30.2	23.3
Value added	€ mill.	22.5	16.6

Sales revenues slightly above previous year

Thanks to strong business development in the second half of 2016, sales gaps over the course of the year in comparison to the previous year, which were still at 20.2 percent after the first half of 2016, were completely closed. The year under review finally saw slightly higher revenues than the previous year. A significant sales growth was recorded in China in particular in comparison to the previous year. This was mainly due to higher shipments of rail fasteners for new high-speed line construction projects. Significant sales growth was also achieved in other Asian countries such as Qatar and India. In contrast, the high sales revenues of the previous year in Argentina could not be replicated due to the completion of a project.

Earnings and profitability significantly higher than the previous year

EBIT in the Core Components division increased by 9.8 percent in comparison to the previous year. Profitability – measured by EBIT margin, which remained in the double-digit range – also increased. This was primarily due to a greater number of higher margin projects as well as extensive cost reduction measures.

Average working capital strong reduced

In 2016, ROCE was 6.9 percent higher than the prior-year figure. Value added improved by 35.1 percent. This was mainly due to a higher EBIT in comparison to the previous year, as well as lower average capital employed. In addition, the decrease in the weighted average cost of capital before taxes (WACC) from ten percent in financial year 2015 to nine percent in the year under review also had a positive impact. The average working capital as a significant part of the average capital employed was reduced by 17.7 percent primarily due to improved receivables management. As a result, a significantly improved average working capital intensity was achieved in the Core Components division in the year under review.

Business performance of Customized Modules

All of the Group's services for the manufacture, installation and maintenance of individualized infrastructure modules are bundled in the Customized Modules division. The Switch Systems business unit, one of the largest providers of switch systems worldwide, currently belongs to the division. The product portfolio covers a very wide range of applications, extending from light-rail to high-speed applications.

In financial year 2016, orders received of €473.7 million were lower than the prior-year figure of €512.0 million. France, the USA, Sweden and Morocco recorded the highest orders received. However, orders received in the USA were significantly lower than the previous year due to current lack of demand. In contrast, orders received in Morocco were higher than the previous year due to, among other things, larger new construction projects. Order backlog fell to €279.5 million as of December 31, 2016. At the end of the previous year, order backlog amounted to €298.1 million.

Orders received remained below the high level of the previous year

Customized Modules

		2016	2015
Sales revenues	€ mill.	492.3	523.0
EBIT	€ mill.	34.4	34.4
EBIT margin	%	7.0	6.6
Average working capital	€ mill.	131.5	141.1
Average working capital intensity	%	26.7	27.0
Average capital employed	€ mill.	414.5	427.1
ROCE	%	8.3	8.1
Value added	€ mill.	(2.9)	(8.3)

The high sales level of the previous year could not be reached in the Customized Modules division. In financial year 2016, an especially pronounced weakness in the commercial freight transport market in the USA was recorded. In addition, sales in Poland fell by more than half due to the completion of projects. However, significant sales growth was achieved in France and Morocco, limiting the sales decrease in the division to 5.9 percent.

Sales below the previous year mainly due to market weakness in the USA

EBIT in the Customized Modules division remained at the prior-year level despite lower sales revenues. EBIT margin thus improved noticeably in comparison to the prior-year figure. Weakness in the USA were primarily compensated by strong earnings development in France. Alongside a clear focus on higher margin projects, the progressive implementation of streamlined process workflows also contributed to the increase in profitability.

EBIT at prior-year level, profitability increased

ROCE and value added were above their respective prior-year figures due to a lower average capital employed. In addition, the value added, which continued to be negative for 2016 as expected, also benefited from lower WACC in financial year 2016. The average working capital fell by 6.8 percent compared to the previous year mainly as a result of a reduction of receivables and inventories. The average working capital intensity improved slightly in comparison with the previous year.

ROCE slightly improved, Value added still slightly negative

Business performance of Lifecycle Solutions

Through its Rail Services business unit, the Lifecycle Solutions division concentrates on specialist services for the maintenance of tracks and switches. With its own innovative technologies, Lifecycle Solutions promotes the safety of rail lines and contributes to extending the service life of tracks. The service portfolio includes the maintenance, processing and preventative care of rails and switches, as well as welding services and rail logistics. The extensive range of services complements the product portfolio of Core Components and Customized Modules.

Orders received significantly above the previous year

In financial year 2016, orders received by the Lifecycle Solutions division of €105.0 million significantly exceeded the previous year's figure of €69.2 million. A multi-year contract for rail maintenance in Germany is particularly noteworthy here. In addition, orders received from China also recorded a pleasing increase. Among other things, an HSG train was sold in China. The remaining orders received are largely related to on-demand orders. At the end of 2016, order backlog of the Lifecycle Solutions division amounted to €29.4 million (previous year: €7.8 million).

Lifecycle Solutions

		2016	2015
Sales revenues	€ mill.	83.5	71.7
EBIT	€ mill.	7.0	5.5
EBIT margin	%	8.4	7.7
Average working capital	€ mill.	10.2	9.9
Average working capital intensity	%	12.3	13.8
Average capital employed	€ mill.	129.4	122.0
ROCE	%	5.4	4.5
Value added	€ mill.	(4.6)	(6.7)

Degree of internationalization significantly increasing

Sales revenues in Lifecycle Solutions increased 16.4 percent on the previous year's figure. Sales growth was primarily attributable to positive business development in Northern Europe, in particular in Sweden and Finland. Sales in China also increased. The degree of internationalization of the Lifecycle Solutions division, measured by sales revenues achieved outside of Germany, increased significantly once again. While 30 percent of sales revenues were generated outside of Germany in the previous year, this number was more than 40 percent in financial year 2016.

EBIT and EBIT margin above prior year

As well as higher sales, EBIT and EBIT margin of the division were also higher than the previous year. The sale of an HSG train to China had a positive effect here among other things. In addition, the acquisition of the remaining shares in Alpha Rail Team also had a positive EBIT effect.

Value added improved, but still negative

As a result of the increased EBIT, both ROCE and value added showed improvement compared to the previous year, despite a higher average capital employed. Value added, which remained negative also benefited from the lower WACC. The average working capital remained at approximately the level of the previous year despite the sales increase. As a result, the average working capital intensity improved in financial year 2016.

Business performance of Transportation

The Transportation division has not been part of the Vossloh Group's core business since the end of 2014 and the plan to sell the division is unchanged. Following the sale of the Electrical Systems business unit, the Transportation division now consists solely of Vossloh Locomotives. In the balance sheet at the end of 2016, the Electrical Systems business unit is still recorded as discontinued operations. This may result in differences between the reported figures for the Transportation division and the Locomotives business unit. Alongside the development and manufacturing of state-of-the-art diesel locomotives, the product portfolio of the business unit also includes all necessary maintenance and repair services for locomotives.

In financial year 2016, orders received in the Transportation division reached a record high of €248.7 million and were more than double the comparable figure of the prior year of €116.1 million. This was particularly due to a major order received in France for the production of 44 type DE 18 diesel-electric locomotives. The order backlog as of December 31, 2016 increased accordingly to €238.7 million (previous year: €99.3 million).

Orders received at a historically high level due to a major order received in France

Transportation

		2016	2015
Sales revenues	€ mill.	109.3	109.6
EBIT	€ mill.	(5.2)	(7.8)
EBIT margin	%	(4.7)	(7.1)
Average working capital	€ mill.	32.4	33.7
Average working capital intensity	%	29.7	30.7
Average capital employed	€ mill.	52.4	52.4
ROCE	%	(9.9)	(14.8)
Value added	€ mill.	(9.9)	(13.0)

Sales revenues in the Transportation division were at the level of the previous year. A very strong sales development due to a high number of locomotives delivered in the fourth quarter particularly contributed towards this. Although lower sales revenues were recorded in Germany in comparison with the previous year, this was compensated for by strong sales growth in France. Overall, significantly more type DE 18 locomotives were delivered in the past financial year than in the previous year.

Sales revenues at the level of the previous year due to a significant increase in the final quarter

EBIT in the Transportation division remained negative, however the loss was reduced once again in financial year 2016, resulting in an improved EBIT margin compared with the prior year. Comprehensive cost savings and efficiency enhancement programs contributed significantly to the improvement.

Loss in the Transportation division could be further reduced

As a result of the negative EBIT, ROCE and value added were negative in financial year 2016, as expected. Both ROCE and value added benefited from the improved EBIT compared with the previous year. The lower WACC compared with the previous year had a positive impact on value added. The average capital employed of the Transportation division was at approximately the level of the previous year. The average working capital was slightly below the level of the prior year despite a higher level of inventories thanks to improved receivables management and higher payments. The average working capital intensity also improved slightly.

ROCE and value added improved compared with the previous year, but remained negative as expected

Vossloh AG

As an operational 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 and 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. In addition to being in charge of human resources policy, it is responsible for personnel development and support of the Group's senior management. Its role in the control of the operational activities of the business units as an operational management holding has further strengthened in the course of the financial year, exemplified by the operational responsibility of Vossloh AG's Executive Board members for the business units of the Group.

Vossloh AG prepares its annual financial statements in accordance with the regulations of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The explanations below refer to these separate financial statements. In isolated cases, certain transactions are represented differently according to IFRS. In the financial year, changes in the HGB through the German Accounting Directive Implementation Act were implemented for the first time; prior-year figures were not adjusted.

Analysis of the separate financial statements

Vossloh AG's reported sales revenues for financial year 2016 of €5.0 million (previous year: €1.5 million) resulted from rental income and intercompany allocations to Group companies in particular, which obtain a range of services within IT and marketing through Vossloh AG. 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. Other operating income of €10.3 million (previous year: €167.4 million) primarily resulted from the gain on disposal of Vossloh España S.A.U., Valencia, Spain in the previous year, and primarily related to an earnout received. In the previous year, this figure had been directly influenced by the gain on disposal.

In financial year 2016, general administrative expenses of €34.1 million were considerably lower than in the previous year (€45.3 million). This decline was particularly attributable to expenses in connection with disposal projects. Personnel expenses of €10.2 million in 2016 were lower than the prior-year's figure of €11.1 million.

Compared to the previous year, the net financial result in the year under review decreased from €66.3 million to €18.5 million. The decline was primarily a result of the loss of dividends from investments, which only totaled €4.0 million in 2016, compared with €45.0 million in the previous year. While income from profit transfer agreements of €20.3 million in 2016 was lower than in the previous year (€36.8 million), the financial result was only burdened by expenses from the assumption of losses in the amount of €4.6 million; this expense amounted to €16.2 million in the previous year. An amortization on an investment in the amount of €5.6 million also occurred due to a permanent impairment.

Interest expense of €6.7 million (previous year: €12.9 million) was countered in the reporting year by interest income of €10.8 million (previous year: €13.1 million) from granting short-term credit or medium-term loans to consolidated subsidiaries. Income taxes of €(1.1) million (up from €(1.8) million) weighed on Vossloh AG's EBT. Vossloh AG's net loss in the reporting year was €(4.9) million (net income in the previous year: €182.8 million).

The balance sheet total increased from €888.2 million to €935.1 million. While financial assets decreased by €12.0 million to €480.3 million as a result of the aforementioned impairment as well as loan repayments and current receivables from affiliated companies fell by €37.8 million to €331.5 million, cash and cash equivalents increased by €96.9 million to €111.2 million, particularly due to the capital increase in June 2016 and the granting of a loan to Vossloh US Holdings for the acquisition of Rocla Concrete Tie, which had not yet been completed as of the balance sheet date. Other assets increased by €3.0 million to €3.3 million due to increased sales tax refunds. The liabilities side of the balance sheet included significantly lower payables due to subsidiaries of €52.7 million (previous year: €108.3 million). Amounts due to banks were further reduced from €268.0 million to €251.3 million.

Equity increased from €469.5 million to €591.6 million, particularly due to the capital increase. The equity ratio was therefore at 63.3 percent after the already very high 52.9 percent in the previous year.

Relationships with affiliated companies

As a result of the indirect, effect majority-shareholding of Mr. Heinz Hermann Thiele, which has been in place since the Annual General Meeting of Vossloh AG in 2015, in combination with the position as Chairman of the Supervisory Board of the company, the Executive Board of Vossloh AG continues to assume the dependence of Vossloh AG in accordance with Article 17 AktG. In accordance with Article 312 AktG, the Company prepared a report on the relationships with affiliated companies containing the following wording:
"In respect of the legal transactions listed in the report on relationships with affiliated companies, the Company, according to the circumstances known at the time when the legal transactions were made, received an appropriate consideration for each legal transaction. Measures putting the Company at a disadvantage at the request or in the interest of Mr. Heinz Hermann Thiele or companies affiliated with him were not made or omitted. This assessment is based on the facts and circumstances known by us at the time such reportable transactions were conducted." The report was audited by the statutory auditor and was issued with an unqualified auditor's opinion.

Remuneration report

The remuneration report contains the principles regarding the remuneration of Vossloh AG's Executive Board members and specifies the amount and structure of the Executive Board's income. In addition, the report describes principles and the amount of the Supervisory Board remuneration.

Principles for the remuneration of Executive Board Members

Goals. The aim of the Executive Board remuneration system is the fair remuneration of Vossloh AG's Executive Board members in accordance with their areas of activity and responsibility and in compliance with legal requirements.

Criteria for the appropriate level of remuneration for Executive Board members are based on each member's function and personal performance, Vossloh AG's economic situation, success and future prospects, and customary remuneration polices, while also taking the remuneration structure of the company and comparable corporations into account.

Classification of Executive Board member remuneration for 2016. The annual remuneration is a fixed basic salary plus variable remuneration. The variable remuneration is calculated on the basis of target remuneration defined for each Executive Board member in the case of 100 percent target attainment in terms of performance targets set by the Supervisory Board.

The details of the remuneration system are:

Basic remuneration is a fixed sum, based on the yearly salary and area of responsibility of each Executive Board member and is to be payed in twelve equal monthly installments. In addition, Executive Board members receive non-cash fringe benefits as payments in kind (PIK), which are primarily in the form of private company car use.

The performance targets of the **variable remuneration** are set and regularly reviewed by the Supervisory Board and are based either on financial performance indicators or personal targets. 45 percent of the target remuneration is calculated using annual performance targets (one-year bonus); the larger portion of 55 percent of the target remuneration is determined according to the achievement of multi-year performance targets (multi-year bonus). In the event of 100 percent target attainment, the variable remuneration equals the basic remuneration. The potential target attainment is capped at double the base value.

In addition, the Supervisory Board may use its discretion to set an extra bonus allocation for extraordinary performance and development.

The performance targets for the one-year bonus in financial year 2016 are EBIT, sales and working capital intensity of the Vossloh Group. The performance targets for the multi-year bonus are average sales growth and average ROCE. In addition, the Supervisory Board granted Executive Board members special bonuses for their extraordinary performance in 2015/2016, especially in connection with the successful realignment and transformation of the Vossloh Group. These comprised €550,000 for Dr. h.c. Hans M. Schabert, €385,000 for Mr. Oliver Schuster and €287,000 for Mr. Volker Schenk.

Remuneration for the Executive Board has been assigned by name and are in compliance with the recommendations of the German Corporate Governance Code. The benefits granted also include accrued amounts for variable remuneration components that will not be paid out until 2017 and 2018. Payments in kind (PIK) cover private company car use in the amount recognized for tax purposes. No separate remuneration was received for services performed on behalf of subsidiaries. The special bonus granted for extraordinary performance is recognized within the specified multi-year variable remuneration for each period.

Executive Board remuneration in financial year 2016

€		Fixed remuneration[1]	Fringe benefits	Total	One-year variable remuneration	Multi-year variable remuneration[2]			Total	Benefit expenses	Total remuneration
Benefits granted						2014 & 2015	2015 & 2016[3]	2016 & 2017[4]			
Dr. h.c. Hans M. Schabert	2015	500,000	14,736	**514,736**	343,993	306,317	461,658	–	**1,111,968**	212,594	**1,839,298**
Chairman of the	2016	500,000	14,736	**514,736**	252,835	–	100,669	785,287	**1,138,792**	(54,401)*	**1,599,127**
Executive Board	2016 Min.	500,000	14,736	**514,736**	0	–	–	0	**0**	(54,401)*	**460,335**
since April 1, 2014	2016 Max.	500,000	14,736	**514,736**	450,000	–	–	550,000	**1,000,000**	(54,401)*	**1,460,335**
Oliver Schuster	2015	525,000	21,970	**546,970**	65,795	214,422	305,661	–	**585,878**	144,380	**1,277,228**
Executive Board	2016	350,000	21,970	**371,970**	176,985	–	70,468	549,701	**797,154**	161,071	**1,330,195**
Member since	2016 Min.	350,000	21,970	**371,970**	0	–	–	0	**0**	161,071	**533,041**
March 1, 2014	2016 Max.	350,000	21,970	**371,970**	315,000	–	–	385,000	**700,000**	161,071	**1,233,041**
Volker Schenk	2015	350,000	11,461	**361,461**	240,795	214,422	213,161	–	**668,378**	141,191	**1,171,030**
Executive Board	2016	350,000	11,485	**361,485**	176,985	–	70,468	451,701	**699,154**	157,473	**1,218,112**
Member since	2016 Min.	350,000	11,485	**361,485**	0	–	–	0	**0**	157,473	**518,958**
May 1, 2014	2016 Max.	350,000	11,485	**361,485**	315,000	–	–	385,000	**700,000**	157,473	**1,218,958**

*The negative pension expenses resulted from the actuarial consideration of the Executive Board duties of Dr. h.c. Schabert.

[1] Of this, €175.000 (Mr. Schuster) is a guaranteed bonus for 2015.

[2] The grant of multi-year variable remuneration is dependent on the achievement of performance targets for the year in question. Target fulfillment is measured after the expiry of the contractually-defined multi-year period. The benefits were calculated on the basis of the most likely value and recognized as a provision, provided the contract was still valid.

[3] The actual benefits granted for 2015 include a multi-year specified special bonus in the amount of €300,000 for Dr. h.c. Schabert, €192,500 for Mr. Schuster and €100,000 for Mr. Schenk.

[4] The actual benefits granted for 2016 include a multi-year specified special bonus in the amount of €550,000 for Dr. h.c. Schabert, €385,000 for Mr. Schuster and €287,000 for Mr. Schenk.

The table below shows the receipt of remuneration in the reporting year and the previous year in accordance with the recommendations of the German Corporate Governance Code. The paid amounts for the one-year variable remuneration were allocated to the years in which they were received by the respective Executive Board members.

€		Fixed remuneration[1]	Fringe benefits	**Total**	One-year variable remuneration	Multi-year variable remuneration[1]			**Total**	Benefit expenses	**Total remuneration**
Receipt						2014 & 2015	2015 & 2016	2016 & 2017			
Dr. h.c. Hans M. Schabert Chairman of the Executive Board since April 1, 2014	2015	500,000	14,736	**514,736**	187,500	–	–	–	**187,500**	212,594	**914,830**
	2016	500,000	14,736	**514,736**	343,993	306,317	300,000	–	**950,310**	(54,401)	**1,410,645**
Oliver Schuster Executive Board Member since March 1, 2014	2015	525,000	21,970	**546,970**	72,917	–	–	–	**72,917**	144,380	**764,267**
	2016	350,000	21,970	**371,970**	65,795	214,422	192,500	–	**472,717**	161,071	**1,005,758**
Volker Schenk Executive Board Member since May 1, 2014	2015	350,000	11,461	**361,461**	–	–	–	–	**–**	141,191	**502,652**
	2016	350,000	11,485	**361,485**	240,795	214,422	100,000	–	**555,217**	157,473	**1,074,175**

[1] including the multi-year specified special bonuses received in each year

Entitlements in accordance with German GAAP (Commercial Code provisions) are as follows:

€		Amount accrued for the financial year	Present value of pension obligation
Entitlements to defined retirement benefits			
Dr. h.c. Hans M. Schabert Chairman of the Executive Board	2015	165,303	258,487
	2016	(29,076)*	229,411
Oliver Schuster Member of the Executive Board	2015	107,512	171,938
	2016	94,424	266,362
Volker Schenk Member of the Executive Board	2015	103,862	155,360
	2016	94,382	249,742

*The negative amount accrued for the financial year resulted from the actuarial consideration of the Executive Board duties of Dr. h.c. Schabert.

Retirement benefits. The members of the Executive Board have been granted entitlements to defined retirement benefits in the form of pension payments upon reaching the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits after a minimum three-year Executive Board membership amount to one percent, or in the case of a first time contract renewal two percent, up to a maximum of 40 percent of the pensionable annual basic remuneration. In financial year 2016, a total of €159,730 was provided for the accrued balance of Executive Board members (previous year: €376,677). Upon the death of an active or former member of the Executive Board, the pension entitlement or the most recent pension paid to the surviving spouse is reduced to a maximum 60 percent.

Commitments in the event of termination of duties

Commitments in the event of early termination of duties. In the case of early termination of services provided by mutual consent, the Executive Board employment contracts guarantee the payment of a base salary, with a set maximum limit of two years' salary compensation. No payment obligations are made in the event of an early termination of Executive Board duties due to a change of control.

Loans to Executive Board members. In 2016, no advances or loans were granted to any Executive Board members of Vossloh AG.

Remuneration to former Executive Board members of Vossloh AG and their surviving dependants. The remuneration in the form of pension payments to former executive officers and their surviving dependents totaled €1,105,236 (previous year: €1,082,407). Current retirement pensions are subject to adjustment respective to the collective pay trend of salaried employees in the metal and electrical industries of North Rhine-Westphalia. Pension obligations to former executive officers and members of management, as well as their surviving dependants amounted to €18,802,278 (previous year: €19,070,851). Employer pension liability insurance policies totaling €10,784,849 (previous year: €10,930,434) are pledged in each beneficiary's favor. The balance of these pension obligations is covered by provisions.

Supervisory Board remuneration

Supervisory Board remuneration 2016. The remuneration of members of the Supervisory Board is to be determined by the Annual General Meeting and governed by the company's articles of incorporation. The remuneration system is in compliance with German law and takes into account the responsibilities and duties of Supervisory Board members.

By resolution of the Annual General Meeting on May 28, 2014, the Supervisory Board's remuneration was changed to an entirely fixed annual fee. Through this change, the independence required for the Supervisory Board to carry out its monitoring function was further strengthened.

Supervisory Board members receive a fixed annual remuneration for duties performed of €40,000 (gross) to be payed after the conclusion of the financial year. The Supervisory Board Chairman receives 300.0 percent and the vice-chairman 150.0 percent of the above fee. Membership for each committee is compensated by a premium of 25.0 percent each of the aforementioned remuneration amounts. The Audit Committee Chairman receives three times the additional Audit Committee membership fee. If the Supervisory Board Chairman is also a committee member, no additional fee is to be payed for his activities on the committee. At the meeting of the Supervisory Board on September 24, 2015, the members of the Nomination Committee unanimously declared that they would waive the remuneration stipulated by the Articles of Incorporation for their work on the Nomination Committee.

For financial year 2016, Supervisory Board members received a total remuneration of €410,000 for financial year 2016, (previous year: €393,334).

The table below itemizes the fees allocable to each Supervisory Board member

€	2016	2015
Heinz Hermann Thiele (Chairman)	120,000	120,000
Ulrich M. Harnacke	100,000	60,000
Ursus Zinsli	50,000	61,667
Dr.-Ing. Wolfgang Schlosser	40,000	51,667
Michael Ulrich	60,000	60,000
Silvia Maisch	40,000	40,000
Total	**410,000**	**393,334**

Loans to Supervisory Board members. In financial year 2016, no advances or loans were granted to any Executive Board members.

Consulting Contracts. In financial year 2016, a consulting contract was concluded with Mr. Ursus Zinsli, from which he received €44,000.

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

The provisions of Articles 289(4) and 315(4) of the German Commercial Code (HGB) require that the following takeover-related disclosures as of December 31, 2016, be made.

Composition of subscribed capital
The Company's subscribed capital (share capital) of €45,325,167.47 is divided into 15,967,437 no-par bearer shares of common stock.

Restrictions on voting rights or share transfer
Each share entitles the bearer to one vote at the Annual General Meeting. All shares carry the same rights. 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. KB Holding GmbH, Grünwald, Germany, holds 44.73 percent of the voting rights in Vossloh AG. These voting rights are to be attributed to the TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany, Stella Vermögensverwaltung GmbH, Grünwald, Germany, and Mr. Heinz Hermann Thiele, Germany, pursuant to Article 22 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz "WpHG").

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 in the Company exercise their control rights like any other shareholder, directly in accordance with statutory requirements and the Articles of Incorporation.

Appointment/dismissal of Executive Board members; amendments to the Articles of Incorporation
Vossloh AG's Executive Board members are appointed or dismissed in accordance with the provisions of Articles 84, 85 AktG in conjunction with Article 7 of the Articles of Incorporation. Pursuant to Article 84(1) AktG, Executive Board members are appointed by the Supervisory Board for a maximum term of five years, whereby their reappointment or the renewal of their term of office is permitted. The appointment of an Executive Board member may be revoked in the cases set out in Article 84(3) AktG. According to Article 179 (1) AktG, the Articles of Incorporation may be amended by vote of the Annual General Meeting. In conformity with Article 21(2) of the Articles of Incorporation 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 Articles of Incorporation prescribe otherwise. Article 27 of the Articles of Incorporation authorizes the Supervisory Board to amend the Articles of Incorporation where only their wording is involved. Article 4(3) of the Articles of Incorporation further entitles the Supervisory Board to update the Articles of Incorporation accordingly after the capital stock has been increased by utilizing authorized or contingent capital.

Authority of the Executive Board to issue and buy back shares
The Executive Board does not currently have the power to issue new stock. No authority of Vossloh AG to buy back treasury shares currently exists. As of December 31, 2016, the Company did not hold any treasury shares.

Agreements upon a change of control
There are five significant Company agreements that are subject to a change of control.

In three of these agreements, a change of control essentially means the purchase of more than 30 percent of the voting rights by one or several trading individuals. In relation to Mr. Heinz Hermann Thiele, there will be a change of control if 50 percent of capital stock is exceeded:

- A syndicated loan contract led by Bayerische Landesbank, Commerzbank AG, Landesbank Baden-Württemberg and SEB AG including the under credit line agreements reached on this basis: If there is a change of control, each individual bank has the right to cancel the loan contract for the amount of the loan attributable to it within 20 business days after the announcement has been made. In the event of a cancellation, the outstanding balance, including accrued interest, are immediately due and payable.

- A credit facility agreement with Deutsche Bank AG: In the event of a change of control, negotiations to continue the framework loan are foreseen under amended terms and conditions, if applicable. After a change of control, the bank is not obliged to fund further utilizations.

- A credit facility agreement with HSBC AG: If there is a change of control, the bank has the right to cancel the loan without notice within six weeks after the announcement has been made. In the event of a cancellation, the bank will allow adequate time for processing.

In the two other agreements, a change of control means that a company or person directly or indirectly obtains more than 50.0 percent of the capital shares, or more specifically, the voting shares of the Company.

- A bonded loan under the leadership of Landesbank Baden Württemberg: In the event of a change of control, the loan agreement contains the right of the loan issuer to demand payment of the outstanding balance, including accrued interest, within 30 days after becoming aware of the payment of the outstanding amount by the next interest payment date (April 30/October 31 of each year).

- A credit facility agreement with SEB AG: If there is a change of control, the bank is entitled to an extraordinary cancellation right. In the event of a cancellation, the outstanding balance, including accrued interest, is immediately due and payable.

Compensation agreements upon change of control
No arrangements for post-takeover indemnification or other compensation of Executive Board members or Vossloh employees upon a change of control have been made.

Workforce

As of December 31, 2016, the Vossloh Group employed a global workforce of 4,051. In total, there was no change in comparison to the previous year (4,051 employees).

Employee-related indicators

k€	2016	2015
Personnel expense per employee	55.3	53.6
Sales per employee	228.5	234.2

In financial year 2016, the average number of employees amounted to 4,076, and was therefore slightly above the previous year (4,069 employees).

A total of 75.4 percent of the employees worked at the Group's European locations (previous year: 76.1 percent). Of the remaining 24.6 percent, 32.0 percent (previous year: 32.7 percent) were employed in North America and 47.7 percent (previous year: 42.3 percent) in Asia. In addition, employees were located in Australia and South America.

Personnel expenses

€ mill.	2016	2015
Wages and salaries	179.1	173.1
Social security and employee benefits	41.1	39.9
Pension expenses	5.2	5.1
Total	**225.4**	**218.1**

In the year under review, personnel expenses increased by 3.3 percent compared with the previous year.

Age structure and service years

Age	%	Service years	%
> 50 years	32	> 20 years	23
35 to 50 years	38	10 to 20 years	22
≤ 35 years	30	≤ 10 years	55

Divisions

The average number of employees in 2016 was distributed across the following divisions. Personnel expenses for each division generated the following sales:

Division	Number of employees		Personnel expenses per employee k€		Sales per employee k€	
	2016	2015	2016	2015	2016	2015
Core Components	631	609	47.4	50.3	407.3	421.4
Customized Modules	2,537	2,589	52.1	48.8	194.0	202.0
Lifecycle Solutions	457	400	55.3	57.3	182.8	179.3
Transportation	396	415	71.4	68.4	275.7	264.2

The “One Vossloh” concept also ushered in initiatives and measures in HR management in 2016.

Occupational health and safety

“Zero accidents” – this our vision! The cross-divisional Work Safety Committee has taken important steps towards harmonizing occupational safety and security conditions in the Group and implemented measures to protect against the main causes of injury at work. Occupational safety is always at the top of the agenda. Every meeting – from management conferences to daily production meetings – starts with a safety contact who informs those involved of ways to avoid danger and is thus aimed at safeguarding the health of our employees. At the end of 2016, the Work Safety Committee and Group Works Council agreed to work together closely in order to continue to significantly reduce work accidents in 2017.

Demographic changes

Vossloh is taking various measures to meet demographic changes. The growing range of different occupations that require formal training and dual courses of study in Germany is just one measure to attract qualified professionals to Vossloh. Vossloh also acknowledges the huge potential of female staff and encourages women in all areas of the company – and not just since the introduction of a statutory quota of women in Germany. The success of our long-standing emphasis on this issue is reflected in the large number of women holding responsible management and specialist functions in the Group.

The diversity of the workforce at all levels is another building block. Both the experience of older employees and the contribution of employees of different nationalities are especially valued. Within the content of cross-divisional and international cooperation, this is a factor for success - to the advantage of our customers.

Attracting, developing and retaining employees

Vossloh strives to systematically support every employee in their professional and personal development, for example through identifying needs at the annual employee meeting between managers and employees. This includes a wide range of internal and external advanced training measures - from individual support for new managers by means of coaching, to diverse seminars in all areas of expertise, to internal CIP workshops to optimize processes within the Group. Attracting, developing and retaining employees - Vossloh is pursuing this with intensive efforts to increase employer attractiveness. “We are Vossloh” is a small brochure that makes a big statement. “What matters to Vossloh?” – here we explain what we stand for and do our best every day.

A success factor in identifying with Vossloh is the corporate culture, which acts as a social glue in the company. Orientation is hugely important, especially in times of strategic realignment and coming together under the guiding principle of “One Vossloh”. It is the task of the management staff to provide this support. This leadership is based on setting a good example as a manager as well as the Vossloh values of striving for “excellence”, “passion”, “trust and respect”, and “entrepreneurship”. These guidelines have just as much influence on high-potential programs as they do on the annual management event Leaders’ Lounge and Group-wide succession planning for systematically developing talent.

Thanks to the employees

We would like to thank every employee, apprentice and manager for their tireless commitment to Vossloh, contributing to customer satisfaction and therefore the success of the company.

We would also like to thank all the employee representatives of the Group for the extremely trusting and constructive cooperation in the past financial year.

Research and development

Vossloh is one of the leading technological providers in rail infrastructure. To continue to meet specific customer expectations in individual market regions and to further strengthen its market position, the company continuously invests in the refinement and optimization of its products and services. The aim is to develop innovative rail technology solutions and implement these to the customer's benefit.

A share of research and development is carried out in connection with specific contracts, and this applies in particular to the Transportation division, which is no longer part of the core business. These costs are accordingly recognized in the income statement under "cost of sales" rather than research and development (R&D) expenses. Costs incurred for developing a marketable product are capitalized if they meet the intangible-asset recognition criteria in IAS 38. Development costs which cannot be capitalized – insofar as they are not reported under cost of sales – are recognized as research and development costs.

In financial year 2016, research and development expenses – before capitalized development expenses and after consolidation effects – amounted to a total of €13.3 million (previous year: €13.5 million). This represents a share of Group sales of around 1.4 percent (previous year: 1.4 percent). The Core Components division accounted for €3.5 million (previous year: €4.2 million) of the R&D expenditure, €3.9 million (previous year: €3.7 million) was attributable to the Customized Modules division. The share of research and development expenses for the Lifecycle Solutions division amounted to €3.2 million (previous year: €2.3 million). R&D expenses for the Transportation division, which is no longer part of core business, amounted to €2.8 million (previous year: €3.3 million).

Vossloh Group: Research & development expenses

€ mill.	2016	2015
Total Research & development expenses	13.3	13.5
thereof capitalized	3.1	3.9
Research & development costs (income statement)	**10.2**	**9.6**
Amortization (of capitalized development expenses)	3.2	3.0

Of this, €2.8 million was attributable to the Transportation division (previous year: €3.3 million) and €0.3 million was attributable to the Lifecycle Solutions division (previous year: €0.6 million).

Remaining true to the Group's guiding principle – One Vossloh – a systematic development approach encompassing each of the core divisions is becoming more and more central to research and development work at Vossloh. Intragroup cooperation between the R&D team also intensified further in 2016. In regularly scheduled innovation forums, experts from the divisions are given the space, away from their day-to-day duties, to come up with creative and innovative development approaches, analyze them comprehensively and develop them further in a targeted manner. This creates a crucial advantage, as the close cooperation between business units in the Group enables products and services to be developed with a clear focus on an optimal overall solution. Research and development experts from across the group dealt with the consequences of increasing track loads and the resulting wear of superstructure components, as well as with the effects of high-frequency vibrations. The aim of the Group's development activities is therefore essentially focused on three overarching core issues: Extension of the life cycle, improvement of track availability and noise reduction.

Vossloh also taps into the specific expertise of external specialists for some development projects. The company is working closely with a number of reputable universities and research institutes. Thanks to the latest analysis and test procedures, components can be selectively analyzed and optimized in advance in regard to construction or production-related problems. Laboratory tests and analytical results are then measured on the track under real conditions and verified.

The reduction of noise and improved rail acoustics plays an ever larger role in terms of public acceptance of local and long-distance rail traffic. The Core Components division's R&D team dedicated themselves mainly to this requirement in 2016. The focus of the development activities was the development of new products as well as the optimization of existing products by using new types of materials for fastening components and the system as a whole. Thanks to our own test facilities – at the Suzhou plant, China, a system test stand for rail fastening systems was put into operation in 2016 – and close cooperation with external partners, additional insight was gained into standardizing components, extending product life and optimizing CO_2 emissions from products. The tests started in 2014 on rail fasteners under extreme loads of the heavy-haul lines were also continued and intensified in 2016, as were new approaches to surface coating metal parts.

The staff and technical R&D capacities of the Customized Modules division have been bundled under one roof in the new technology center in Reichshoffen since 2015. The aim of the research and development work here is the continuous development of switch systems to optimize rail contact, reduce wear and tear and therefore minimize maintenance costs and maximize service life. In 2016, Vossloh worked intensively on newly-developed switch systems and system components; in spring 2016, a new, efficient switch solution for slab tracks was approved. Technicians also developed a new switch tongue for use in heavy-haul transport in Australia. Testing will begin in 2017. As in previous years, the majority of the work on switch monitoring and locking systems was carried out in connection with specific customer requirements, for example the development of a new type of hydraulic drive system for the French national railway initiated in 2016.

In the Lifecycle Solutions division, the focus is on the further development of machines and systems for track and switch maintenance. While preliminary studies clarify feasibility and determine costs, the projects provide the constructive preparation and production of machines and systems. In financial year 2016, the prototype of the HSG metro grinder for China and the new development of the drive technology for milling machines (high performance milling) were at the center of development activities in particular. In the Lifecycle Solutions division, research and development activities were focused on the new development of a terminal block for rail transport systems, as well as various further developments related to HSG-city and HSG trains.

Research and development activities in the Transportation division in 2016 focused primarily on the integration of further train control systems and on development completion and integration of Stage IIIB motors for the four-axle diesel-electric freight train, the DE 18. The first test runs will take place in 2017. Equipped with a low-emission function, the Stage IIIB motor is able to reduce general exhaust emissions by up to 50 percent. This unique development enables us to provide our customers with vehicles which meet with requirements for exhaust emission standards. In 2016, approval activities mainly focused on the further development of existing national approvals in Germany, the Netherlands and France. In addition, progress was made in the approval process for the DE 18, equipped with the ETCS train control system EUROKVB, in Luxembourg, Germany and France.

The outstanding R&D expertise within the Vossloh Group is not just reflected in the company itself, but also in the public eye in particular. Vossloh is making continuous contributions to the rail traffic of the future in several large-scale European projects. Among other things, the Transportation and Customized Modules divisions have been participating in Eco Rail Innovation (ERI) for several years, and Customized Modules continues to be involved in the CAPACITY4RAIL, RAILENIUM and SHIFT2RAIL projects. The focus of these large-scale projects is the reduction of pollutants and noise emissions, the use of alternative energy sources and enhanced safety and efficiency of rail traffic.

Environmental protection

Vossloh actively carries out its social responsibility for the environment. For decades, the company's products and services have been relying on innovations that make an important contribution to ensuring that the movement of people and goods on rails is conducted in a way that is environmentally-friendly, cost efficient and safe. This helps Vossloh to ensure that rail transport systems are perceived as an attractive mode of transport.

Doing business according to sustainable economic, social and ecological criteria is a central element of Vossloh's corporate culture. In terms of environmental management, the primary aim in the Vossloh Group is to lower the consumption of resources, minimize the impact on the environment and reduce Product Carbon Footprint. The necessary resources are available to achieve this. Internal know-how is systematically developed. Processes and structures are flexibly adapted to current circumstances. Sustainable solutions and innovative processes are advanced in a structured manner. The integrated approach is always at the core – across the Group and across the divisions, sustainability issues are identified, prioritized and continuously refined as a matter of urgency.

Compliance with environmental protection criteria and avoiding environmental risks are the top priorities for Vossloh's environmental management. Vossloh adheres to internationally-applicable standards and guidelines both in production and when providing services. In production, the Group attaches great importance to a sparing use of all resources throughout the entire process and value-adding chain. Hazardous materials and waste management records and monitors material consumption and the volume of waste. Depending on the types of waste, this includes separated, safe disposal methods and economically appropriate recycling operations. In addition, the waste-disposal companies selected by Vossloh are regularly audited.

The individual companies in the Vossloh Group also undergo regular audits by external, independent bodies. In the core divisions, the environmental, energy, quality, occupational safety and health management systems are combined step-for-step into an integrated management system and then audited. Vossloh Fastening Systems has already successfully completed this process without complaints. In 2016, all existing management systems in this business unit, including ISO standards 9001, ISO 14001, ISO 50001 and OHSAS 18001, were successfully approved as an integrated management system. The environmental management system at Vossloh Rail Services was certified according to DIN EN ISO 14001 and the energy management system according to DIN EN ISO 50001 for the first time. In addition, the Reichshoffen and Fère-en-Tardenois locations in the Switch Systems business unit underwent energy audits pursuant to EU Directive EED 2013/27/EU. All major Vossloh core division locations are now certified in accordance with the environmental management standard DIN EN ISO 14001 or equivalent guidelines.

In terms of environmental protection and energy efficiency, substantial success was achieved in the Vossloh Group in 2016 as well. The Fastening Systems business unit implemented various measures to reduce the electricity consumption at the Werdohl and Lüdenscheid locations. Among other things, this included the commissioning of a cogeneration plant, which produces heat and electricity from natural gas. This innovation can clean tension clamps before the tempering process with hot water in a more energy efficient manner. The energy management software introduced in 2015 is now an essential component of energy management, as it can determine electricity, gas and water demands. In 2016, meters connected to the network were installed, expanding the system.

Since 2016, Vossloh Switch Systems has contributed new programs to use energy resources more efficiently and systematically continue to reduce greenhouse gas emissions. For example, Vossloh Switch Systems runs regular training sessions to raise awareness of how to deal with sustainability-related issues in the workplace in an environmentally friendly manner. On top of this, all new employees are informed of the specific targets in terms of saving energy. This measure produced noticeable results in 2016. The aim is to expand this training program to the entire Switch Systems business unit in 2017.

In the Lifecycle Solutions division, an environmental and energy saving program was started in 2016, which from now on is to be monitored on the basis of suitable performance indicators and is to be continually improved. On the one hand, the program covers avoiding and reducing waste, as well as reusing or recycling it. On the other hand, energy resources should be used more efficiently in day-to-day work and production.

Environmental aspects are not just important for Vossloh in the manufacturing of its products, but also in their involvement on the track and in providing services for rail operators. This means that the reduction of noise emissions generated by rail traffic when driving is a key issue in product development at Vossloh. In Vossloh’s Core Components and Customized Modules core divisions, the focus is on the development of innovative systems that ensure that less vibration, and therefore less noise, occur upon contact between the rail and wheel. The Lifecycle Solutions division’s efforts with rail lines and switches also contribute to an extended service life of the materials. More important than this is a systematic development approach encompassing the infrastructure expertise of each individual core divisions in order to noticeably reduce noise emissions, extend the lifecycle and a higher track availability.

The Transportation division, which is no longer part of the core business, is currently focused on developing the most environmentally-friendly locomotives possible. The aim of Vossloh Locomotives is to reduce fuel consumption while improving the performance and reliability of vehicles and producing less CO_2 – and other pollutants – at the same time. Technical assistance systems support the environmentally-friendly operation of locomotives. The modular platform locomotives from Kiel already meet the strict exhaust emission standards of the European Non-Road Mobile Machinery Directive (NRMM).

Risk and opportunity management

Organization

Risks and opportunities for the net assets, financial position and results of operations are systematically identified, analyzed, assessed, communicated, monitored, 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). The purpose of this is both to prevent or limit negative impacts from changes, and to indicate and seize any opportunities that arise.

In addition to Vossloh AG, all of 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. New acquirees are integrated into the system in good time. The new Tie Technologies business unit will be integrated into the system during the first quarter of 2017.

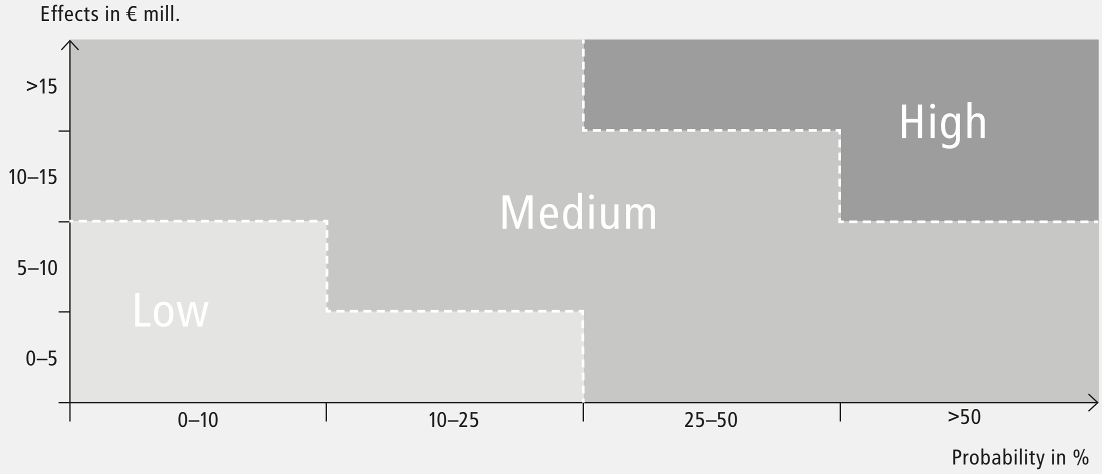
The risk and opportunity management system is an integral component of the business, planning and controlling processes. The system's setup is defined and described in group-wide policies and procedures. The organizational RMS setup is based on the structure of the operating processes and procedures of the respective unit. Risk owners, risk officers and risk controllers are appointed at all group levels. The identification of risks and opportunities is ensured by a perpetual risk inventory in which relevant risks are identified effectively, timely, and systematically.

Perceived risks and opportunities are analyzed and assessed by Vossloh for their possible effects 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/worst-case scenarios, a value-at-risk approach with a minimum probability of 5.0 percent is assumed.

Risks and opportunities are documented and communicated at Vossloh in standardized reports. These contain detailed information on the type of risk and opportunities and on the assessment parameters, as well as on the action for controlling 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 years. Ad-hoc reports supplement the periodic reporting and facilitate an updated evaluation of the current situation at all times.

These reports are addressed to Vossloh AG's Executive Board as well as to the management of the Group companies and business units. These individuals manage and monitor the risks and opportunities. Business unit management, controlling and the Executive Board regularly discuss the current risk situation. The close interaction ensures a rapid flow of information and also allows short-term responses. The Executive Board has thus taken suitable measures to ensure that developments that pose a risk to the Company as a going concern are identified at an early stage. The risk and opportunity management system is regularly reviewed by Internal Auditing for adequacy, efficiency and compliance with legal requirements.

The significance of the described risk categories for the Vossloh Group is summarized on the basis of their potential negative effects on the projected financial targets in combination with their probability. Depending on these two factors, the risk categories are classified as high, medium, or low. The figure below shows the underlying scales for measuring the factors:



The report below accounts for 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.

General economic and industry risks and opportunities

General economic risks and opportunities are essentially related to economic fluctuations, socio-political events, exchange and interest rate trends, as well as changes to legal and tax-related parameters. Industry risks and opportunities are tied to the competitive situation and the characteristics of the relevant markets.

General economic development had only a limited impact on the business development of the Vossloh Group. Political or regulatory policies, the status of rail sector deregulation and the public-sector debt situation have a greater impact. The ability of the public sector to spend is limited by its debts. The availability of public funds may therefore impact future business development. In recent years, austerity measures have tightened in the maintenance market, one of significance to Vossloh, as a result of continuing tight budget situation of public contractors. Given the increasing rail traffic, the impact should only be temporary.

In 2016, Vossloh was active globally in the markets for rail infrastructure and rolling stock (locomotives) and is one of the leading suppliers on selected markets. Vossloh has identified China, the USA, Western Europe and Russia as regional focus markets. The Transportation division, which has not been part of the core business since 2014, is mainly active Germany and France.

The markets in Western Europe and North America are more or less stable in terms of their political and economic environments. An idiosyncrasy of the North American market is the significantly higher degree of volatility in terms of demand, as rail and network operators are not predominantly contracted by the public sector. Activities in other markets – particularly in Asia, South America, Eastern Europe, and Africa – not only hold opportunities for Vossloh but also additional risks. This also concerns the regional focus markets of China and Russia in particular. A production site for rail fasteners is currently under construction in Russia. Risks in the other markets named above mainly result from political and social instability, the development of oil prices, exchange rate fluctuations – primarily translation risks – and legal uncertainties.

The oligopolistic nature of the supply side of the market may also harbor risks for Vossloh. The high level of market transparency may lead to adverse effects on margins. There is also the risk of products being replaced by technical innovations and that new competitors enter the market. Vossloh contains such risks by constantly refining its products and services and focusing on customer needs. In recent years, the intensity of competition increased across Vossloh business units in general.

Vossloh considers the risk situation in the focus markets of Russia and the USA to be medium. Furthermore, the general economic risk and the industry risk for the projected financial targets are classified as low.

Operating risks and opportunities

This category includes operating activities such as sourcing, production and contract performance. Vossloh attempts to limit purchase price risks with long-term procurement contracts or price escalator clauses. Exchange rate risks from procurement are normally managed by forward exchange contracts. The medium-term budget assumptions of increases in the cost of materials and components are based on such factors as supplier information and market analyses.

A moderate increase in materials input market prices is forecast for 2017. Any significant rises above these assumptions may have a negative impact on the forecast earnings situation. Opportunities arise from material and component prices which are lower than planned.

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

Along the value-adding chain, 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. Key Vossloh locations are certified in accordance with the DIN ISO 9001 quality management system. Large locations fulfill the criteria of the DIN ISO 14001 environmental management standard and all key production facilities in the Vossloh Group are certified in accordance with OHSAS 18001, the world's most important standard for an occupational safety management system.

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 in the Transportation division, which is no longer part of the core business, 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. Contract provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. On the other hand, opportunities can occur sporadically if the risk provisions made do not need to be fully utilized.

Risks can also result from necessary impairment of goodwill if operational development turns out to be significantly weaker than expected. In accordance with IFRS 3 in conjunction with IAS 36, goodwill from business combinations is not amortized on a scheduled basis. Instead, the recoverability of the goodwill is tested annually (impairment test). In the case of extraordinary events, such a test should also be carried out during the year. In connection to this, the carrying amount of a cash generating unit (CGU) to which the goodwill has been assigned is compared to its recoverable amount.

Risks arising in 2016 and still-existing operational risks have been provided for as required by IFRS. Although appropriate provisions have been recognized for identified and highly probable risks, further impacts on earnings from the execution of projects cannot be completely ruled out and could have negative effects on the projected financial targets. The absolute risk level from the execution of projects is dependent on the volume and amount of development work of each contract. Vossloh classifies the risk from the execution of projects as medium. Due to a high amount of investment needed in the Customized Modules division’s French location, the risk of work interruption is also classified as a medium risk. The other operational risk are classified as low overall, with the exception of the use of materials price risks, which is classified as medium.

Financial risks and opportunities

The Corporate Treasury monitors and manages financial risks, and continually optimizes the Group’s financing. The targets, principles, responsibilities and accountabilities are defined in policies. The overriding aim is to contain financial risks that might affect the survival and profitability of the Vossloh Group. Moreover, intragroup synergies and economies of scale are harnessed wherever considered expedient.

Vossloh uses derivative financial instruments solely to hedge against specific risks from current underlyings or forecast transactions. These economic hedging relationships are also treated as hedges in financial accounting. In this context, only marketable financial instruments approved beforehand are deployed. The trading, settlement and controlling functions have been strictly segregated. For further details on derivative financial instruments, please refer to the notes on the consolidated financial statements starting on page 104 ff in the Group’s annual report. The intragroup Treasury secures and manages the effectiveness of hedging on an ongoing basis. 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 potentially unable to provide the funds required to meet its obligations in due course and fully. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies and the necessary latitude for translating corporate strategies into practice) through a rolling cash management system. An intragroup financial netting concept through cash pooling (see term in glossary in the Group’s annual report, page 123) in individual countries and through intercompany loans facilitates the application of any surplus cash at certain subsidies to meet the liquidity requirements at other Group companies.

In 2015, a stable medium-term financing basis was created by concluding a syndicated loan of €500 million with a term lasting until April 2018. The loan has two tranches: €200 million are available in the form of an interest-only loan, €300 million in the form of a revolving credit line, i.e. a flexibly available credit line. The loan agreement requires compliance with certain financial covenants, the violation of which entitles the lending banks to terminate the agreement. The covenants are defined as the ratio of net financial debt to EBITDA, the ratio of EBITDA to the net interest result, and the equity ratio. Compliance with the covenants is checked quarterly and was always complied with in the year under review. For further details on the free credit lines, please refer to the notes on the consolidated financial statement starting on page 110 in the Group’s annual report.

There are currently no existing financing or liquidity shortfalls. Overall, Vossloh classifies liquidity risk as a low risk.

Cash flow risks

Changes in future interest rates may cause cash flow fluctuation 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. As part of active risk management, the variable interest payments of the bonded loan concluded in 2013 were replaced in 2014 by fixed cash flows with an interest rate swap. For details, see the notes to the consolidated financial statements, starting from page 110 ff in the Group's annual report. The probability of a short-term change in interest rates and its impact on cash flows are estimated to be small. This risk is therefore assessed as low.

Price risks

Price risks arise from the possibility that the value of a financial instrument is changed due to higher or lower market interest or exchange rates. Current or expected liabilities or receivables in foreign currencies are generally hedged when the contract is awarded through currency forwards. Translation risks – resulting from the translation of financial statements prepared in foreign currencies – are subject to ongoing monitoring. Due to the high level of hedging of price risks, this risk is classified as low overall.

Default risks

Default risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to Vossloh. The Group minimizes default risk by limiting its business with counterparties to those of good to excellent standing only, whenever available, mainly based on the assessment of international rating agencies. As of the end of 2016, cash investments and financial derivatives with a positive fair value were allocable at 17 percent to counterparties rated between AA+ and AA–, at 73 percent to those rated from A+ to A–, at 8 percent to counterparties rated BBB+ to BBB–, and at two percent to BB-rated or non-rated counterparties. Moreover, risks are spread by distributing the Group's cash and other financial assets among a plurality of banks. No dependence on specific banks has existed or does exist.

Vossloh's customers are often public sector. In these cases, the default risk is generally classified as very low. Nonetheless, balances outstanding are continuously monitored and partly covered by credit insurance. In exceptional cases, bad debt losses cannot be ruled out despite precautionary measures. In the export business, the risk of customer default is usually counteracted by using documentary credits.

Due to the high proportion of business with public contractors and the restriction to counterparties with good or excellent credit ratings, default risk is classified as a low risk. Overall, there were no significant effects on earnings owing to financial risks in 2016.

Legal risks and opportunities

Legal risks for Vossloh result in particular from complaints, warranty claims, claims 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 significantly exceed the recognized provisions. In contrast, opportunities may arise in some cases if risk provisions remain underutilized.

Group companies of Deutsche Bahn have filed claims for damages against the Vossloh Rail Center GmbH, Hamburg, which is part of the Group. Although damages attributable directly to the company were settled by a partial settlement with Deustche Bahn in 2016, the risk of a joint and several liability for as yet unsettled damages remains. For unresolved claims, Vossloh Rail Center GmbH, Hamburg, has an indemnification claim, which is partially secured with bank guarantees. Furthermore, 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.

Risks arising in 2016 and still-existing legal risks have been provided for as required by IFRS. A negative impact on the projected financial targets resulting from legal risks cannot be ruled out for Vossloh and is classified as a medium risk overall.

Other risks and opportunities

Other risks include primarily personnel and IT risks. The Group's economic situation may suffer as a result of substandard staffing such as shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, poor training, mistakes or theft committed by employees. Vossloh has a great number of measures to abate such risks: in particular the Company's reputation as an attractive company for which to work, a reputation that strengthens its position in the competition for highly-qualified employees. In-house training allows employees to continuously improve their skills while attractive pay structures increase the likelihood of retaining employees in the company in the long-term. The management of operational and strategic business processes largely relies on complex and powerful IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability and confidentiality. Such mechanisms and instruments also ensure efficient information processing. In addition, risks from acquisitions carried out are conceivable if synergies assumed in the business plan cannot be leveraged during the post-merger integration.

An acquisition of additional shares by Mr. Heinz Hermann Thiele under the conditions of Section 8c Sent. 2 of the German Corporation Tax Act (KStG) (acquisition of more than 50 percent of the shares in a period of a maximum of five years) could result in the elimination of loss and interest carryforwards in the Vossloh AG tax entity, and therefore in full impairment of deferred tax assets on these carryforwards.

None of these "other risks" influenced net income in 2016 to any substantial degree. From today's perspective potentially significant negative effects on the projected financial targets are unlikely. For this reason, the risk is classified as a low risk.

Overall assessment of the risk and opportunity situation

The potential impact of any or all risks described above and which Vossloh is exposed to in its results of operations, asset and capital structure or financial position, is monitored and controlled at all times. As required by IFRS, provisions have been made for all risks identified to date. The updated annual forecasts duly reflect any additional potential risks and opportunities, where reliably identifiable. Neither any specific risks nor all currently known risks in the aggregate currently threaten continued existence of the Group in terms of either assets or liquidity. In the financial year 2016, Group equity increased significantly once again after the successful capital increase and is sufficient to cover potential risks.

This risk and opportunity report refers to the situation of the Group at the time the combined management report was prepared.

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

Vossloh has installed a comprehensive monitoring system for the Group-wide systematic early identification of going-concern risks as required by Article 91 (2) AktG, with a view to identifying early on, managing and monitoring not only risks that jeopardize Vossloh as a going concern, but also other risks, including those beyond the statutory scope. In accordance with Article 317(4) HGB, the statutory group auditor assesses the existence and effectiveness of the early risk identification system. The Vossloh Group's ICS encompasses all principles, methods, processes and procedures designed to ensure not only the accounting system's effectiveness, efficiency and propriety but also compliance with applicable legal and statutory regulations.

Internal Auditing, as well as the Controlling, Accounting, Treasury, and Legal Affairs divisions, are primarily responsible for the ICS at Group level.

Process-integrated and process-independent monitoring procedures and routines are ICS components. Alongside manual process controls (such as peer reviews) IT processes are also a key element of the process-integrated measure. Furthermore, Corporate Legal Affairs ensures that process-integrated monitoring routines are implemented.

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 company/Group auditor also carries out process-independent audit procedures. Particularly the annual audit of the consolidated financial statements, as well as the focal interim audit procedures prior to the annual audit of the separate financial statements are essential process-independent monitoring procedures that center on the corporate accounting system.

Information technology
Group companies record accounting transactions using decentralized, local accounting systems. However, for the purposes of Vossloh AG's consolidated financial statements, all Vossloh companies supplement their separate financial statements, which have been created using individual accounting methods, in the reporting and consolidation system used in the group, with additional information and disclosures which thus constitute standardized reporting packages. This system, the "Cognos Controller" from IBM, is used for both the consolidation and the provision of additional management information. Version 10.1.1 is currently being used.

A multi-year 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. This new standardized software will enable centralized access to data and centrally-initiated controls. The new system is currently being used at Vossloh AG and at principle companies in the Core Components, Customized Modules and Lifecycle Solutions divisions.

Accounting-related risks
Preparing financial statements requires management to make certain assumptions and estimates. These estimates affect the carrying amounts of recognized assets and liabilities and of current amounts of contingent liabilities as of the end of the reporting period, 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.

Major safeguards for a valid and reliable accounting system
Based on the rules of the 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 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 the statement of financial position, statement of profit and loss and other comprehensive income, 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 format requirements also cover all details of the obligatory, standardized set of reporting package forms. The Manual is periodically revised and updated, most recently in February 2016. Revised and updated versions are made available on a timely basis to all those involved in the Group's accounting process through a web-based information system.

After transactions have been recorded in the local accounting system of each Group company, the monthly accounts and annual financial statements are reviewed at the level of the business unit lead company. As well as random-sampled cases, tests focus primarily on high-amount or unusual transactions. There are Corporate guidelines, for example, 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 individual companies are then consolidated in several steps at Vossloh AG level 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 adopting peer review principles and running appropriate validation routines in check files.

In addition, further data is compiled and aggregated at Group level in order to publish information in the notes and the management report (including significant events after the end of the reporting period).

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

In particular, individual discretionary decisions, faulty controls, fraud, or other factors cannot, however, be fully ruled out due to their nature, and, therefore, even the Group-wide installation of such 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 pursuant to Article 289a HGB

For the corporate governance report, which is an integral part of the combined management report, see page 22 in the Group's annual report. The annual report is also permanently available on Vossloh AG's website at www.vossloh.com.

Outlook

This combined management report contains forward looking statements based on management's estimates of future trends within the Vossloh Group. This outlook is based on statements and forecasts representing management's assessment of the information available at the time of this report's publishing. In particular, assumptions on future trends of the international rail technology market and the specific business expectations of Vossloh's divisions have been taken into account. These statements are subject to risks and offer opportunities not entirely within Vossloh's control. For additional information in this regard, please refer to the section on Risk and Opportunity Management (from page 31). If the assumptions underlying the statements and forecasts in the Outlook fail to materialize, or the risks or opportunities depicted do materialize, actual results may differ from this outlook. Vossloh does not assume any obligation to update its statements in this combined management report beyond statutory publication dates.

Macroeconomic developments and European Rail Industry Association forecast for the rail technology market

The development of the global economy is of only minor importance to Vossloh. As a rule, investments in rail infrastructure are made around the world after lengthy decision-making processes. Therefore, current economic trends are only reflected on the markets to a limited degree. The development of debt ratios in individual countries, especially in the home market of Europe, is of greater importance. For 2017, the Organisation for Economic Co-operation and Development (OECD) is forecasting a slight decline in the debt ratios of the countries in the euro zone (ER-19) and in the European Union as a whole (EU-28). It is calculated using the continuation of the trend of increasingly falling debt ratios recognized since 2015.

Studies expect continued growth in the rail technology market

The Association of the European Rail Industry UNIFE, in its biennial World Rail Market Study, thoroughly analyzes developments within the global rail technology market and, on this basis, makes predictions for the coming years. The current study was presented in September 2016 at the InnoTrans industry event in Berlin. According to the study, yearly global volume for the entire rail technology market will grow from an average of €159 billion to an average of around €185 billion in the period 2019 to 2021 – an average increase of 2.6 percent per year. The market accessible to European providers such as Vossloh will amount to almost €122 billion according to UNIFE estimates. "Accessible" markets are those open to foreign suppliers and whose demand is not exclusively covered by domestic capacities. For comparison: Currently, a market volume of around €101 billion per year is classified as "accessible". The expected increase signifies a gain of 3.2 percent per year. The results of a study conducted by consultancy firm SCI Verkehr, which were also published at the InnoTrans industry event in 2016, confirm the assessments made by the railway industry association. The study indicates that the total market volume for the global rail technology market, currently around €169 billion, will grow by an average of 2.3 percent per year until 2020.

In regional distribution however, forecasts for market growth diverge sharply. According to estimations from UNIFE, strong, above-average growth is expected in the coming years from the accessible markets in the following regions: Asia-Pacific at 5.4 percent, Eastern Europe at 3.8 percent and Western Europe at 3.6 percent. Western Europe remains Vossloh's largest accessible rail technology market, with a yearly volume of approximately €33 billion. In this region, the market is forecast to grow to around €40 billion. The NAFTA regions follow with a market volume of almost €26 billion and growth of 2.3 percent per year, as well as Asia-Pacific with a volume of around €16 billion, which is anticipated to increase €22 billion. Almost three-fourths of the entire accessible market for rail technology is currently located within these three regions.

The Association of the European Rail Industry divides the rail technology market into the segments of infrastructure, rolling stock, control/signaling and safety, services, and turnkey projects. With its core divisions of Core Components, Customized Modules and Lifecycle Solutions, Vossloh is active in the infrastructure and infrastructure services segments as part of the services segment. UNIFE currently estimates the globally accessible infrastructure market at around €20 billion per year. Growth is forecast to be 3.1 percent per year for the period 2019 to 2021, which results in a future market volume of around €24.5 billion annually. The sub-segment infrastructure is forecast to grow by 5.9 percent between 2019 and 2021, meaning the accessible market volume is expected to grow from its current €5.6 billion per year to €7.9 billion. In total, the accessible market relevant to Vossloh amounted to approximately €26 billion per year for the period 2013 to 2015. It is forecast to experience above-average growth of 3.7 percent per year between 2019 and 2021 to €32.4 billion per year.

Long-term above-average growth is forecast for Vossloh's markets

With its Transportation division, which is no longer part of the core business, Vossloh is currently still active in the rolling stock segment, which includes an accessible market volume of around €37 billion according to current UNIFE estimates.

Vossloh Group: Outlook for 2017

The following forecast is based on the expected reporting structure of the Vossloh Group in 2017 and contains the newly-acquired Tie Technologies business unit of the Core Components division. The company's plan to sell the Locomotives business unit in the Transportation division in 2017 is unchanged. However, the criteria to justify the classification of these business activities as "to be discontinued" in accordance with IFRS 5 are currently unfulfilled. In this respect, the following statements refer to the Vossloh Group and the four divisions indicated in the Group structure as of the end of 2016, also including the Tie Technologies business unit.

In addition to industry-specific conditions, Vossloh's sales plans take into consideration, in particular, assumptions specific to the divisions. These concern such aspects as product perspectives, the expected behavior of competitors, project award probabilities, and market risks and rewards in the individual regions. Vossloh's 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 long-range financing. Vossloh accompanies its customers as a partner through the years and works with them to develop and plan solutions for individual product and service requirements. As a rule, this results in delivery and project lead times spanning months and sometimes years.

According to current information, Vossloh expects to generate sales of between €1.0 billion and €1.1 billion in 2017. Sales growth based on the previous year (€931.6 million) is attributable in particular to the first-time inclusion of the Tie Technologies business unit in the Core Components division In addition, strong sales growth is forecast for the Transportation division due to the large order backlog.

Sales between €1.0 billion and €1.1 billion projected

EBIT margin between 5.5 percent and 6.0 percent expected

From the current perspective, both absolute EBIT and the EBIT margin can continue to improve in 2017. In comparison to 2016, the Vossloh Group expects an improved EBIT margin of between 5.5 percent and 6.0 percent for 2017. In a future portfolio structure without the Transportation division, higher profitability is to be expected. Vossloh again anticipates a cautious start to 2017, typical for our business.

In financial year 2017, pretax WACC, which is relevant to intragroup controlling, is expected to decrease from nine percent to 7.5 percent. This is due to significantly lower refinancing rates and an extremely low, risk-free interest rate. In 2017, the value added is expected to noticeably improve due to the higher EBIT forecast and the reduced weighted cost of capital, which, in the current Group structure that includes the Tie Technologies business unit, is expected to remain negative, however. Vossloh also expects the average number of employees to increase significantly in 2017, which is primarily attributable to the first-time inclusion of the Tie Technologies business unit.

A slight improvement in profitability is expected in the Customized Modules division. Vossloh expects a significant improvement in the Transportation division, which should lead to a slightly positive EBIT for the first time in several years. Profitability in the Core Components division is expected to drop below the level of financial year 2016. Due to the challenging framework conditions in the USA as well as expected integration costs and negative effects from purchase price allocation, weak profitability and a negative value added is still expected for the Tie Technologies business unit for 2017. Vossloh expects an EBIT margin in the double-digit range in this business unit in the long term. A lower value added is also expected in the Fastening Systems business unit in the Core Components division. No significant change in profitability is expected for the Lifecycle Solutions division in 2017.

Risks are emerging for Vossloh from the current market situation in the USA in particular. Weak overall demand is also expected to continue for 2017. However, in comparison to 2016, Vossloh is expected to recover slightly in the second half of 2017. Sharply increasing material prices could also negatively influence the earnings situation, especially in the Core Components division. In addition, high relocation costs and order awards caused by moving to the new location in the Transportation division cannot be completely ruled out. However, the good order situation in the Kiel location at Vossloh Locomotives guarantees a high capacity localization in 2017. Regarding other risks possibly affecting the planning presented, we refer to the report on risks and opportunities (starting on page 31 ff).

Vossloh AG’s performance as an operative management holding company is primarily affected by general administrative expenses and the net financial result. In financial year 2017, general administrative expenses at Vossloh AG are forecast to be slightly lower than in 2016. In addition to incurred interest expenses, the net financial result is strongly dependent on income from dividends and from profit transfer agreements as well as the assumption of losses. Vossloh expects a noticeable improvement compared with 2016 here. In 2016, net income was negatively influenced by reduced income from investments and the impairment loss in the Electrical Systems business unit. Overall, a significant improvement is forecast for 2017.

Vossloh is focused on organic growth with an increase in profitability as well as the achievement of goals set for the coming years; specifically, the selective search for acquisition targets in order to strategically develop the three core divisions Core Components, Customized Modules, and Lifecycle Solutions further and to achieve a sustainable increase in enterprise value. The strategy in the form presented here only takes into account targeted organic growth for financial year 2017 with the Group structure described at the start of this section.

Financial Statements of Vossloh AG as of December 31, 2016

Income statement for the fiscal year from January 1, 2017 to December 31, 2017

€ mill.	2016	2015
Sales revenues	5.0	1.5
Cost of sales	(4.3)	(0.8)
Gross margin	**0.7**	**0.7**
General administrative expenses	(34.1)	(45.3)
Other operating income	10.3	167.4
Other operating expenses	(1.4)	(8.1)
Operating result	**(24.5)**	**114.7**
Income from investments	4.0	45.0
thereof from subsidiaries: €4.0 million (previous year: €45.0 million)		
Income from profit transfer agreements	20.3	36.8
thereof from subsidiaries: €20.3 million (previous year: €36.8 million), thereof €0.0 million tax allocations (previous year: €1.4 million)		
Income from other securities and loans	0.3	0.5
thereof from subsidiaries: €0.3 million (previous year: €0.5 million)		
Other interest and similar income	10.8	13.1
thereof from subsidiaries: €10.6 million (previous year: €11.9 million)		
Write-downs of financial assets and short-term securities	(5.6)	0.0
Expenses from losses absorbed	(4.6)	(16.2)
thereof from subsidiaries: €4.6 million (previous year: €16.2 million), thereof €0.0 million tax allocations (previous year: €0.9 million)		
Interest and similar expenses	(6.7)	(12.9)
thereof from subsidiaries: €0.2 million (previous year: €0.8 million)		
Net financial result	**18.5**	**66.3**
Income taxes	1.1	1.8
Result after taxes / net loss (previous year: net income)	**(4.9)**	**182.8**

Balance sheet

Assets in € mill.	12/31/2016	12/31/2015
Intellectual property and similar rights and assets, as well as licenses for such rights and assets	0.2	0.2
Intangible assets	**0.2**	**0.2**
Land, land rights and buildings including buildings on third-party land	8.1	9.0
Other plant, operating and office equipment	0.4	0.3
Tangible assets	**8.5**	**9.3**
Shares in subsidiaries	475.3	480.9
Loans to subsidiaries	4.8	11.2
Investments	0.1	0.1
Other long-term securities	0.1	0.1
Financial assets	**480.3**	**492.3**
Fixed assets	**489.0**	**501.8**
Trade receivables	0.0	0.0
Receivables from subsidiaries	331.5	369.3
Receivables from investees	–	2.2
Other assets	3.3	0.3
Receivables and other assets	**334.8**	**371.8**
Cash on hand and cash in banks	111.2	14.3
Current assets	**446.0**	**386.1**
Prepaid assets and deferred charges	**0.1**	**0.3**
	935.1	**888.2**

Equity and liabilities in € mill.	12/31/2016	12/31/2015
Capital stock	45.3	37.8
Additional paid-in capital	157.0	37.6
Reserve retained from earnings		
Other revenue reserves	270.7	270.6
Unappropriated surplus	118.6	123.5
Equity	**591.6**	**469.5**
Provisions for pensions and similar obligations	10.5	10.5
Tax provisions	1.3	3.6
Other provisions	25.6	25.0
Provisions	**37.4**	**39.1**
Due to banks	251.3	268.0
Trade payables	1.2	0.9
Due to subsidiaries	52.7	108.3
Other liabilities	0.9	2.4
thereof taxes: €0.2 million (previous year: €1.3 million)		
Liabilities	**306.1**	**379.6**
	935.1	**888.2**

Schedule of changes in fixed assets (appendix to Notes)

€ mill.	Historic cost				Accumulated amortization/ depreciation/write-downs			Net carrying amount	
	Balance 1/1/2016	Additions	Disposals	Balance 12/31/ 2016	Balance 1/1 2016	Amortization/ depreciation/ write-downs reporting year	Balance 12/31/ 2016	Balance 12/31/ 2016	Balance 12/31/ 2015
Intangible assets									
Intellectual property and similar rights and assets, as well as licenses for such rights and assets	6.5	0.1	0.0	6.6	6.3	0.1	6.4	0.2	0.2
	6.5	**0.1**	**0.0**	**6.6**	**6.3**	**0.1**	**6.4**	**0.2**	**0.2**
Tangible assets									
Land, land rights and buildings including buildings on third-party land	17.5	0.0	(0.4)	17.1	8.5	0.5	9.0	8.1	9.0
Other plant, operating and office equipment	1.3	0.2	(0.1)	1.4	1.0	0.0	1.0	0.4	0.3
	18.8	**0.2**	**(0.5)**	**18.5**	**9.5**	**0.5**	**10.0**	**8.5**	**9.3**
Financial assets									
Shares in subsidiaries	480.9	–	–	480.9	0.0	5.6	5.6	475.3	480.9
Loans to subsidiaries	11.2	–	(6.4)	4.8	–	–	–	4.8	11.2
Investments	0.1	–	–	0.1	–	–	–	0.1	0.1
Other long-term securities	0.1	–	–	0.1	–	–	–	0.1	0.1
	492.3	**0.0**	**(6.4)**	**485.9**	**0.0**	**5.6**	**5.6**	**480.3**	**492.3**
Fixed assets	**517.6**	**0.3**	**(6.9)**	**511.0**	**15.8**	**6.2**	**22.0**	**489.0**	**501.8**

Notes

General information

Vossloh Aktiengesellschaft, Vosslohstr. 4 · 58791 Werdohl, Germany, entered under registry number HR B 5292 at the Iserlohn district court, is a large capital company within the meaning of Section 267 (3) Sent. 2 HGB in conjunction with Section 264d HGB.

The annual financial statements of Vossloh AG for the financial year ended December 31, 2016, were prepared in accordance with German GAAP, i.e., the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

The income statement has been prepared using the cost-of-sales method according to Section 275 (3) HGB.

German Accounting Directive Implementation Act (BilRUG) of July 17, 2015 is to be applied for the first time in financial year 2016. Section 277 (1) HGB (revised) offers a broader definition for sales revenues than previously. Revenues from intercompany levies (e.g. marketing and IT levies), which are part of a service exchange, are to be reported as sales revenues. The expanded sales definition results in changes to the reporting of cost of services provided to generate sales revenues, general administrative expenses and the allocation of receivables from subsidiaries. No adjustments have been made for the comparable figures of the previous year of the income statement and balance sheet.

Sales revenues in financial year 2015 would have increased €2.7 million, had BilRUG been taken into account. The costs of services provided to sales generated increased by €2.7 million. General administrative expenses fall by €2.7 million. €7.4 million of receivables from subsidiaries were attributable to trade receivables in the previous year.

Accounting policies and principles

Accounting policies were unchanged from the previous year, insofar as there are no further notes.

The recognition and measurement are based on the following principles - purchased intangible assets and tangible assets are measured at cost. Depreciable assets are amortized/depreciated on a scheduled basis by applying declining-balance or straight-line depreciation. Since 2001, new additions to depreciable fixed assets are recognized reduced solely by scheduled straight-line depreciation. Non-scheduled impairment losses are recognized if the fair value is permanently less than the amortized cost. Intangible assets are amortized using useful lives of one to five years. In the case of buildings, the useful life is five to fifty years, while for factory and office equipment the useful life is one to twenty years. Financial assets are carried at cost or the lower fair value.

For all independently usable movable assets whose cost is over €150 but not more than €1,000, an annual compound item is recognized and depreciated over five years. All independently usable movable fixed assets having a cost up to €150 are charged to expense in the year of addition.

Receivables and other assets, as well as liquid funds are recognized at nominal value, or if applicable, at cost or the lower fair value. The corporate income tax credit paid out in the years 2012 to 2017 is recognized at net present value (interest rate: 4 percent p.a.).

Receivables and liabilities denominated in a foreign currency are translated and recognized at the mean spot rate at the date of initial entry or at the less favorable exchange rate at the balance sheet date. In the case of a remaining term of one year or less, the translation is principally made at the mean spot rate as of the balance sheet date, if no hedging exists. If the receivables or liabilities are hedged, the hedged rate is applied.

Deferred taxes are recognized for the differing carrying amounts for commercial and tax purposes of assets, liabilities and deferrals, which will result in future taxable charges or credits, as well as for tax loss carryforwards and interest carryforwards which are expected to be utilized in the next five years. Deferred tax assets and liabilities are netted for the balance sheet presentation. Based on differences between the commercial and tax values in the positions "pension provisions" and "other provisions" as well as deferred taxes on loss and interest carryforwards and applying a tax rate of 30 percent, a net deferred tax asset results. Vossloh does not exercise the accounting option under Section 274 (1) Sent. 2 HGB to recognize deferred tax assets.

Performance obligations on pension plans and similar obligations are measured using the projected- unit-credit method. In this connection, the mortality tables 2005 G of Prof. Dr. Klaus Heubeck are used as a basis. According to the German Regulation on the Discounting of Provisions, the discount rate published by the Deutsche Bundesbank as of December 31, 2016, for obligations with a 15-year average remaining term in the amount of 4.01 percent is applied, whereby the average market interest rate with matching maturities is first determined on the basis of the last ten financial year (previous year: seven financial years).
As additional calculation parameters, a wage and salary increase of 3.00 percent, an expected increase in pension payments of 1.80 percent and an average fluctuation rate of 6.00 percent are applied.

Assets that are protected from creditors and serve solely to fulfill the pension liabilities (so-called plan assets) are measured at fair value and are netted against these obligations.

Thereby, the provisions for pensions were reduced by €10.8 million (previous year: €10.9 million). Income and expenses from these assets are offset against the interest expense from the discounting of the respective obligation and shown in the financial result.

For further risk or obligations in the personnel area, for example, vacation claims, provisions are recognized according to principles of commercial law. Tax provisions and other provisions are recognized in the settlement amount that is required under the principles of prudent commercial judgment. Provisions with a remaining term of more than one year are principally discounted with the average market interest rate over the last seven years as determined and published by the Deutsche Bundesbank, corresponding to their term provided the provisions are not attributable to the pension obligations. In the case of pension and anniversary provisions, a flat remaining term of fifteen years is assumed in exercising the option pursuant to Section 253 (2) Sent. 2 HGB. Interest rates corresponding to the respective term are used for provisions for preretirement part-time employment.

Expected price and cost increases are considered. Liabilities are recognized at the settlement amount.

Derivative financial transactions are utilized solely for hedging purposes; if the conditions are met, they are combined with the underlying transaction to form a valuation unit. To the extent that the hedging relationship of the respective valuation unit is effective, the compensating changes in value of the underlying and hedging transaction are not recognized. The result from exchange contracts entered into to hedge currencies is first recognized upon maturity. To the extent that a hedge is ineffective, the total remaining loss is immediately recognized in profit or loss. A total remaining gain, however, is not considered.

Notes to the balance sheet

Classification and movements of fixed assets are detailed in the schedule of changes in fixed assets on page 46.

The decline in tangible assets was primarily due to the sale of land with a residual value of €0.4 million. Shares in subsidiaries decreased as a result of write-down on the investment in Vossloh Kiepe GmbH, Düsseldorf in the amount of €5.6 million. The amortization occurred in the context of the sale of the Electrical Systems business unit, which was concluded at the beginning of 2017.

Changes in loans to subsidiaries were primarily due to the repayment of the loan to Vossloh Kiepe UK Limited, Birmingham, United Kingdom, in the amount of €5.5 million as well as repayments of €1.0 million by Vossloh Rail Technologies Ltd Sti., Erzincan, Turkey.

Prepaid expenses in the amount of k€132 (previous year: k€278) includes a loan discount in the amount of k€92 (previous year: k€142).

List of shareholdings

		Foot-note	Shareholding in %	at	Consoli-dation[1]	Equity[2]	Post-tax profit or loss[2]
(1)	**Vossloh AG, Werdohl**					601.7	(2.6)
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(k)	3.4	(18.5)
(3)	Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	(k)	44.2	(2.1)
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(k)	6.1	(0.2)
	Core Components division / Fastening Systems business unit						
(5)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(k)	4.3	0.1
(6)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(5)	(k)	10.8	(0.2)
(7)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania		100.00	(5)	(n)	0.1	0.0
(8)	Vossloh Drázni Technika s.r.o., Prague, Czech Republic		100.00	(5)	(n)	2.0	0.2
(9)	Vossloh Sistemi S.r.l., Sarsina, Italy		100.00	(5)	(k)	9.4	1.5
(10)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	5	51.00	(5)	(n)	1.5	(0.2)
(11)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl		100.00	(5)	(n)	1.6	0.0
(12)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(5)	(k)	5.9	1.8
(13)	Vossloh Rail Technologies Ltd Sti., Erzincan, Turkey		99.5/0.50	(5/6)	(k)	0.6	(3.7)
(14)	FÉDER-7 Rugógyártó Kft., Sárkeresztes, Hungary		96.67/3.33	(5/6)	(n)	0.4	0.0
(15)	Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(3)	(k)	4.1	(3.0)
(16)	Vossloh Fastening Systems (China) Co. Ltd., Kunshan, China		68.00	(5)	(k)	42.8	21.0
(17)	Vossloh-Werke International GmbH, Werdohl		100.00	(5)	(k)	10.5	0.0
(18)	Beijing China-Railway Vossloh Technology Co., Ltd., Beijing, China		49.00	(5)	(n)	2.4	0.8
(19)	Vossloh Fastening Systems Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(94)	(n)	0.0	0.0
(20)	TOO Vossloh Fastening Systems (Kazakhstan), Qapschaghai, Kazakhstan		50.00	(17)	(e)	0.7	0.4
(21)	Suzhou Vossloh Track Systems Co., Ltd., Suzhou, China	4	100.00	(17)	(k)	1.5	1.4
(22)	OAO Vossloh Fastening Systems Rus, Engels, Russia		50.10	(5)	(n)	3.3	0.2
(23)	Vossloh Fastening Systems Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(n)	0.9	0.0
(24)	Vossloh Cogifer Turnouts India Private Limited, Hyderabad, India	4, 5	100.00	(26)	(k)	2.3	0.8
	Customized Modules division / Switch Systems business unit						
(25)	Vossloh France SAS, Rueil-Malmaison, France		100.00	(1)	(k)	170.3	13.1
(26)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(25)	(k)	124.8	35.6
(27)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(26)	(k)	1.6	0.5
(28)	Vossloh Cogifer Finland OY, Teijo, Finland		70.00	(29)	(k)	10.3	0.9
(29)	Vossloh Nordic Switch Systems AB, Ystad, Sweden		100.00	(26)	(k)	14.8	5.9
(30)	Vossloh Cogifer Kihn SA, Rumelange, Luxembourg		89.21	(26)	(k)	15.8	2.0
(31)	Vossloh Laeis GmbH, Trier		100.00	(30)	(k)	(0.2)	(1.1)
(32)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(26)	(k)	2.1	0.1
(33)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(26)	(e)	29.7	1.2
(34)	Montajes Ferroviarios S.L., Amurrio, Spain		100.00	(33)	(n)	0.5	0.1
(35)	Burbiola SA, Amurrio, Spain		50.00	(33)	(n)	1.2	0.0
(36)	Vossloh Cogifer UK Limited, Scunthorpe, United Kingdom		100.00	(26)	(k)	5.2	1.0
(37)	Vossloh Cogifer Italia S.r.l., Milan, Italy		100.00	(26)	(k)	0.5	0.5
(38)	Vossloh Cogifer Polska Sp.z o.o., Bydgoszcz, Poland		96.77	(26)	(k)	9.4	1.5
(39)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(26)	(e)	1.3	0.1
(40)	Vossloh Cogifer Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(26)	(k)	0.3	(0.2)
(41)	Siema Applications SAS, Villeurbanne, France		100.00	(26)	(k)	4.5	1.4
(42)	VOSSLOH MIN SKRETNICE DOO ZA Proizvodnjui Montazu Skretnica i Opreme Nis, Niš, Serbia		100.00	(26)	(k)	3.7	0.7
(43)	Vossloh Beekay Castings Ltd., New Dehli, India	5	58.48	(26)	(k)	6.9	(0.2)
(44)	Vossloh Cogifer Signalling India Private Limited, Bangalore, India	5	100.00	(26)	(n)	0.1	(0.1)
(45)	Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(k)	16.0	(1.3)
(46)	Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	(k)	15.8	(2.5)
(47)	Vossloh Cogifer Australia Pty. Ltd., Castlemaine, Australia		100.00	(4)	(k)	14.8	1.1
(48)	Vossloh Cogifer Kloos BV, Nieuw-Lekkerland, Netherlands		100.00	(26)	(k)	2.6	0.1
(49)	Vossloh France International SAS, Rueil-Malmaison, France		100.00	(25)	(n)	0.0	0.0
(50)	Wuhu China Railway Cogifer Track Co. Ltd., Wuhu, China		50.00	(26)	(e)	17.4	(1.0)
(51)	Vossloh Signaling USA Inc., Cleveland, USA		100.00	(3)	(k)	4.8	(3.0)
(52)	Vossloh Cogifer Argentina S.A., Buenos Aires, Argentina		90.00/10.00	(26/27)	(n)	0.2	(0.3)
(53)	ADIF S.E. – Vossloh Cogifer Argentina SA Consorcio de Cooperacion, Buenos Aires, Argentina		51.00	(52)	(n)	2.2	(0.2)
(54)	Vossloh Cogifer Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(94)	(n)	0.0	0.0
(55)	Vossloh Cogifer do Brasil Administracao de Bens e Participacoes Ltda., Sorocaba, Brazil		100.00	(26)	(k)	0.0	0.0
(56)	Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil		100.00	(55)	(k)	1.0	(0.3)
(57)	Outreau Technologies SAS, Outreau, France		100.00	(26)	(k)	(3.2)	(4.0)
(58)	PROMARK SPRL, Brussels, Belgium		100.00	(41)	(n)	0.0	0.0

		Foot-note	Shareholding in %	at	Consoli-dation[1]	Equity[2]	Post-tax profit or loss[2]
	Lifecycle Solutions division / Rail Services business unit						
(59)	Vossloh Rail Services GmbH, Hamburg	3	100.00	(1)	(k)	22.7	0.0
(60)	Vossloh Rail Center GmbH, Hamburg (previously: Stahlberg Roensch GmbH, Hamburg)	3	100.00	(59)	(k)	20.0	2.3
(61)	GTS Gesellschaft für Gleistechnik Süd mbH, Leipzig	3	100.00	(60)	(k)	0.0	0.0
(62)	Alpha Rail Team GmbH & Co. KG, Berlin	4	100.00	(60)	(k)	12.6	(0.1)
(63)	Alpha Rail Team Verwaltungs GmbH, Berlin	4	100.00	(60)	(n)	0.0	0.0
(64)	LOG Logistikgesellschaft Gleisbau mbH, Hannover	3	100.00	(59)	(k)	6.2	(0.1)
(65)	Vossloh Ray Hizmetleri Limited Sirketi, Ankara, Turkey		100.00	(68)	(k)	0.6	(0.6)
(66)	Vossloh High Speed Grinding GmbH, Hamburg	3	100.00	(59)	(k)	(1.8)	(1.8)
(67)	Vossloh Mobile Rail Services GmbH, Leipzig	3	100.00	(60)	(k)	1.1	(0.1)
(68)	Vossloh Rail Services International GmbH, Hamburg	3	100.00	(59)	(k)	(0.5)	(0.1)
(69)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(68)	(e)	(1.3)	(0.3)
(70)	Vossloh Rail Services Scandinavia AB, Helsingborg, Sweden		100.00	(68)	(k)	1.0	0.8
(71)	Vossloh Rail Services North America Corporation, Chicago, USA		100.00	(3)	(n)	0.3	0.0
(72)	Beijing CRM-Vossloh Track Maintenance Technology Co.,Ltd., Beijing, China		47.00	(68)	(e)	8.0	0.8
(73)	Vossloh Rail Services Kunshan Co., Ltd., Kunshan, China		100.00	(68)	(k)	1.0	0.1
(74)	Vossloh Rail Services Finland Oy, Kouvola, Finland		70.00	(68)	(k)	7.6	0.4
	Transportation division						
	Locomotives business unit						
(75)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(k)	27.8	(1.5)
(76)	Locomotion Service GmbH, Kiel	3	100.00	(75)	(k)	0.2	0.0
(77)	Vossloh Locomotives France SAS, Paris, France		100.00	(75)	(k)	0.4	0.1
(78)	Vossloh Locomotives Scandinavia AB, Örebro, Sweden		100.00	(75)	(k)	0.0	0.0
(79)	Imateq SAS, Saint Pierre des Corps, France		55.00	(77)	(e)	0.5	0.0
(80)	Imateq Italia S.R.L., Tortona, Italy	4	100.00	(75)	(k)	0.0	0.0
	Electrical Systems business unit						
(81)	Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(k)	60.8	(0.8)
(82)	Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(81)	(k)	5.7	3.2
(83)	Vossloh Kiepe Ges.mbH, Vienna, Austria		100.00	(82)	(k)	26.0	(0.7)
(84)	Vossloh Kiepe Corporation, Vancouver, Canada		100.00	(82)	(n)	0.7	0.2
(85)	Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy		100.00	(82)	(n)	0.2	0.0
(86)	APS electronic AG, Niederbuchsiten, Switzerland		100.00	(82)	(k)	1.2	0.1
(87)	Vossloh Kiepe, Inc., Alpharetta, USA		100.00	(3)	(k)	4.3	1.1
(88)	Vossloh Kiepe Limited, Birmingham, United Kingdom		100.00	(82)	(k)	0.5	(0.2)
(89)	Vossloh Kiepe UK Limited, Birmingham, United Kingdom		100.00	(88)	(k)	(10.3)	(6.4)
(90)	Vossloh Kiepe Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(94)	(n)	0.0	0.0
(91)	Heiterblick Projektgesellschaft mbH, Leipzig		49.00	(82)	(n)	0.0	0.0
(92)	Vossloh Kiepe d.o.o., Niš, Serbia		100.00	(82)	(n)	0.0	0.0
	Other companies						
(93)	Vossloh Track Systems GmbH, Werdohl		100.00	(1)	(n)	0.2	(0.2)
(94)	Vossloh Southern Africa Holdings Proprietary Ltd., Johannesburg, South Africa		100.00	(93)	(n)	0.1	(0.1)
(95)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia		99.00/1.00	(93/2)	(n)	0.0	0.0
(96)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl		100.00	(1)	(n)	0.0	0.0
(97)	Vossloh Dritte Beteiligungsgesellschaft mbH, Düsseldorf		100.00	(96)	(n)	0.0	0.0

[1] Fully consolidated companies are noted (k), those accounted for using the equity method (e) and unconsolidated companies (n). The exclusion from the scope of consolidation is based on immateriality with respect to net assets, financial position and results of operations

[2] Foreign currency amounts in the case of equity are translated at the average exchange rate as of the balance sheet date and post-tax profits or losses are translated at the annual average rate.

[3] Company claims exemption from preparing and publishing separate financial statements pursuant to Section 264(3) or 264b HGB

[4] Included in the consolidation for the first time

[5] Differing financial year April 1 to March 31

Receivables and other assets

As in the previous year, receivables and other assets are due within one year, with one exception: The corporation tax credit in the amount of k€73 (previous year: k€93) is due in more than one year. Receivables from subsidiaries and other investees relate to k€1,021 (previous year: k€7,378) in trade receivables, otherwise other receivables.

Equity

Capital stock

Vossloh AG's capital stock in the amount of €45,325,167.47 (previous year: €37,825,168.86) is divided into 15,967,437 (previous year: 13,325,290) no-par shares.

Only shares of common stock are issued. One no-par share represents a notional interest of around €2.84 in the capital stock.

On May 24, 2016, a capital increase was agreed by the Executive Board and Supervisory Board of the company using the share capital, with the new shares introduced into stock market trading from June 17, 2016. A total of 2,642,147 new shares were issued and the capital stock was increased by €7,499,998.61. The share premium amounted to €119,401,054.14.

Authorized capital

Following the application of the share capital of May 28, 2014, in the context of the capital increase in financial year 2016 the company has no share capital as of December 31, 2016.

Conditional capital

The company has no conditional capital.

Additional paid-in capital

This equity reserve includes the premiums from issuing Vossloh AG stock.

The reserves retained from earnings totaled €270,671,697.46 (previous year: €270,671,697.46).

Provisions

In financial year 2016, the amount required to settle pension obligations came to k€21,314 (previous year: k€21,340); the fair value of plan assets offset against this settlement amounted to k€10,785 (previous year: k€10,930).

Pension provisions would have been k€2,132 higher if the market interest rate with matching maturities had been based on the past seven financial years rather than the past ten financial years. The same amount is undistributable in accordance with Section 253 (6) Sent. 2 HGB.

The fair value of plan assets corresponds to the budgeted unearned premium reserve from the employer's pension liability insurance contract, plus the credit balance from premiums refundable (so-called irrevocably creditable capital bonus). This value, moreover, equals the asset value for tax purposes. Amortized cost totaled k€7,599.

The amount undistributable in accordance with Section 268 (8) HGB was k€3,186 and resulted entirely from the difference between the fair value and the amortized cost of the covered funds.

In the income statement, expenses of k€525 (previous year: k€2,370) were netted against income of k€388 (previous year: k€407) in the net financial result.

The other provisions of k€25,569 (previous year: k€25,017) include k€3,896 for personnel (previous year: k€4,358) and k€21,673 for sundry administrative purposes (previous year: k€20,659). k€20,515 of the provisions for other administrative areas are attributable to provisions for selling the shares of subsidiaries and associated consultancy expenses.

Liabilities and contingent liabilities

k€250,000 of the liabilities recognized in the balance sheet falls due after one but within five years (previous year: k€250,000). As in the previous year, all other liabilities have maturities of less than one year. The amounts due to subsidiaries and due to investees comprise solely other liabilities.

The contingent liabilities under guarantees of k€645,612 (previous year: k€873,895) were incurred in the amount of k€631,248 for obligations of subsidiaries (previous year: k€689,815).

The limited-amount guaranties in favor of subsidiaries total k€702,394 (previous year: k€930,158). In 40 cases, the guarantees do not have a stipulated ceiling.

Since the subsidiaries are believed to be able to settle the liabilities covered by such guarantees, no liabilities were recognized.

Other financial obligations (exclusively to third parties) in the amount of k€351 also exist (previous year: k€336), of which k€200 (previous year: k€213) are due within one year and k€151 (previous year: k€123) are due between one and five years.

No evidence exists that would suggest that a guarantee might be enforced, a conclusion we have arrived at primarily given the many years in which not a single guaranty has been called upon. The circumstances prevailing at the balance sheet date and the situation up to financial statement preparation do not indicate any such enforcement, either.

Notes to the income statement

Net sales in 2016 primarily comprised rental income of k€5,028 (previous year: k€1,506), including k€4,737 (previous year: k€1,210) charged to subsidiaries, generated solely in Germany. For changes to the definition of sales revenues, see page 47.

Sales revenues were generated in Germany, with the following exceptions: Sales revenues in France in the amount of k€1,048 and in China of k€102.

The functional expenses break down into cost of sales and general administrative expenses. Costs primarily include impairments, maintenance costs as well as internal and external expenses for the provision of management services.

Vossloh AG's personnel expenses are shown within general administrative expenses and in the reporting year were k€10,154 (previous year: k€11,110), of which k€8,720 (previous year: k€9,650) is allocable to wages and salaries, another k€1,434 (previous year: k€1,460) to social security, pension expense and related employee benefits. Pension expenses amounted to k€798 (previous year: k€832). The k€137 interest portion (previous year: k€1,963) in addition to pension provisions was recognized as interest and similar expenses. The item also includes the effect from the change in interest rate, which results from the first application of Section 253 (2) Sentence 1 HGB (revised).

In addition, administrative expenses cover expenses for legal and management consultancy.

Other operating income totaled k€10,258 (previous year: k€167,439) and primarily resulted from the release of provisions. The previous year was particularly influenced by the gain on disposal from the sale of Vossloh España S.A.U., Valencia, Spain, as well as income from the reversal of a specific valuation allowance on Verwaltungsgesellschaft mbH, Werdohl, which was merged. In 2016, service charges were reported under sales, see page 47.

Non-period income totaled k€4,868 (previous year: k€516) and primarily resulted from the release of provisions.

Other operating expenses particularly include share price declines in the amount of k€1,443 (previous year: k€569). In the previous year, other operating expenses primarily included a loss on the merger of Vossloh Verwaltungsgesellschaft mbH, Werdohl of k€7,523.

The net financial result includes write-downs of shares in subsidiaries of k€5,642 (previous year: k€0). Income from investments decreased by €41 million, as there were no dividends paid in the financial year by Vossloh France SAS, Rueil-Malmaison, France and Stadler Rail Valencia S.A.U. (formerly Vossloh Espana SA), which was sold at the end of 2015.

Net interest expense includes income from the discounting of other provisions of k€5 (previous year: k€8).

Other disclosures

Vossloh AG employed an average number of salaried employees of 55 (previous year: 55).

The employee bonus program 2016 (on terms unchanged versus 2015) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares free or eight shares at a discount of 50 percent of the issue price of €55.61 per share (previous year: €62.09), determined at market as of the share transfer date.

Under this program, employees of the Vossloh Group were granted a total of 108 shares in the reporting year (previous year: 122), at an expense to the Group of k€6 (previous year: k€8).

Remuneration of Executive Board members (excluding pension expenses) for 2016 totaled k€3,883 (previous year: k€3,789), including k€1,200 (previous year: k€1,375) of fixed and k€2,635 (previous year: k€2,366) of variable compensation plus k€48 (previous year: k€48) payments in kind. Former Executive Board members received a total of k€1,105 in the reporting year. Pension obligations to former executive officers and their surviving dependents amounted to k€18,802. This amount is partially covered by employer pension liability insurance policies totaling k€10,785 pledged in each beneficiary's favor.

Total Supervisory Board fees for the reporting year came to k€410, including fixed and variable components of k€410 and k€0, respectively.

For details of board member remuneration required under the terms of Sec. 285 Sentence 1 No. 9 HGB, see the Remuneration report (an integral part of the combined management report).

Derivative financial instruments and valuation units

Vossloh AG's business operations are exposed to exchange and interest rate risks which are contained or eliminated by contracting financial derivatives. The Company's Treasury Management controls and manages all exchange and interest rate risks group-wide.

In order to fully hedge the risks originating from financial liabilities of €50.0 million raised by the promissory-note loan, an interest rate swap of matching maturities and amounts was entered into.

Vossloh AG enters into currency forwards with banks to cover currency risks from the operations of subsidiaries and hedge currency loans extended to subsidiaries. All hedged underlying transactions are accounted for at the hedged rate.

Since the so-called net hedge presentation method is used, neither any expected loss or gain, nor any decrease or increase in the hedging instrument's value, are recognized.

The notional volumes and market values of these hedges are listed below:

Derivative financial instruments

€ mill.	2016		2015	
	Market value	Nominal volume	Market value	Nominal volume
Currency hedging transactions				
Interest rate swap	(0.5)	50.0	(0.5)	50.0
Currency forwards	(1.7)	153.9	(2.4)	177.0
	(2.2)	**203.9**	**(2.9)**	**227.0**

The method of determining market to measure (mark to market) derivatives depends on the type of instrument. Currency forwards of €69.0 million relate to the hedging of future cash flows in the amount of €79,1 million, the hedging of receivables carried at amortized cost and the hedging of liabilities carried at amortized cost of €5.8 million.

Interest rate hedges are based on bank valuations.

The market values of currency futures are calculated by determining the current value at the hedged rate, i.e., on the basis of the forex spot rate quoted at the closing date, with due regard to the forward markup or markdown for the remaining contract term in relation to the contracted forward rate.

Currency risk and interest rate hedge accounting

Derivative financial instruments are concluded to hedge cash flow risks and, where the criteria are met, are combined with the underlying into one valuation unit. The currency futures have terms of up to two years. The resulting cash flows will therefore balance each other out by the end of 2017 and the end of 2018 for the interest rate swap.

If the criteria are not met, negative market values are recognized as liabilities for impending losses from underlying transactions, while positive market values are not recognized. In 2016, all derivative financial instruments were combined as hedging instruments with the related underlying transactions to form micro-hedges whose future effectiveness is assessed in terms of matching maturities and volumes, i.e., on the basis of a critical term match.

Due to the match of the designated value-critical parameters of the underlying and hedging transactions, Vossloh AG's foreign exchange hedging is entirely effective.

Underlying transactions include firmly contracted purchase orders or shipments at fixed dates, as well as currency loans. The contracted cash flow is hedged by buying or selling currency forwards, thus also closing the currency positions of subsidiaries for their account. As of December 31, 2016, positions in Australian dollar (AUD), Swiss francs (CHF), Czech crown (CZK), British pound (GBP), Swedish krona (SEK), US dollar (USD) and South African rand (ZAR) were hedged.

Transactions with related parties

To the extent that related party transactions were carried out, the contracts were concluded on an arm's length basis.

Declaration of conformity pursuant to Section 161 AktG (German Stock Corporation Act)

In November 2016 the Executive and Supervisory Boards issued, and made permanently available to the stockholders on the Group's website, the declaration of conformity pursuant to Article 161 AktG at http://www.vossloh.com/en/investor-relations/corporate-governance/declaration-of-conformity/.

Notifications pursuant to the German Securities Trading Act

The German Securities Trading Act ("WpHG") obligates investors whose voting interests in listed corporations cross certain thresholds to notify the issuer accordingly. Vossloh AG received the following voting-interest notifications in 2015 under the terms of Section 21 WpHG, whereby the most recent voting-interest notifications of the main shareholder, Mr. Heinz Hermann Thiele, Germany, from 2015 are also included for reasons of completeness:

Notifying party	Date of notification	Date of change	Affected threshold	New voting interest		thereof attributable	
				in %	absolute	in %	absolute
KB Holding GmbH, Grünwald, Germany	9/21/2015	9/17/2015	Above 30%	35.80	4,770,461	–	–
TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany	9/21/2015	9/17/2015	Above 30%	35.80	4,770,461	35.80	4,770,461
Stella Vermögensverwaltungs GmbH, Grünwald, Germany	9/21/2015	9/17/2015	Above 30%	35.80	4,770,461	35.80	4,770,461
Mr. Heinz Hermann Thiele, Germany	9/21/2015	9/17/2015	Above 30%	35.80	4,770,461	35.80	4,770,461

Pursuant to Section 22 (1) Sentence 1 No. 1 WpHG, voting rights held by KB Holding GmbH are attributable to TIB Vermögens- und Beteiligungsholding GmbH.

Pursuant to Section 22 (1) Sentence 1 No. 1 WpHG, voting rights held by KB Holding GmbH and TIB Vermögens- und Beteiligungsholding GmbH are attributable to Stella Vermögensverwaltungs GmbH.

Pursuant to Section 22 (1) Sentence 1 No. 1 WpHG, voting rights held by KB Holding GmbH, TIB Vermögens- und Beteiligungsholding GmbH and Stella Vermögensverwaltungs GmbH as companies controlled by Mr. Heinz Hermann Thiele are attributable to Mr. Thiele.

In the context of the voting-interest notifications of July 11 and 12, 2012, pursuant to Section 27a (1) WpHG, Mr. Heinz Hermann Thiele and KB Holding GmbH informed us as follows:

"I. Acquisition purposes:

1. With their stakes, the notifying parties aim at a long-term strategic investment in Vossloh AG.
2. Within the next 12 months, the notifying parties intend to purchase or otherwise acquire further voting interests in Vossloh AG.
3. For the time being, the notifying parties do not seek to exert any influence on the staffing of the Company's executive, management or supervisory boards.
4. At present, the notifying parties do not aspire to any significant change in the issuer's capital structure, particularly regarding leverage (debt-equity ratio) and dividend policy.

II. The acquisition of the voting interests was exclusively funded through internal resources."

By letter dated November 21, 2012, KB Holding GmbH and Stella Vermögensverwaltungs GmbH informed us in connection with the voting-interest change of November 19, 2012, pursuant to Section 27a (1) WpHG as follows:

"I. Acquisition purposes:

1. With their stakes, the notifying parties aim at a long-term strategic investment in Vossloh AG.
2. Within the 12 months ahead, the notifying parties intend to purchase or otherwise acquire further voting interests in Vossloh AG.
3. The notifying parties seek to exert influence on the staffing of the issuer's executive, management and/or supervisory boards.
4. At present, the notifying parties do not aspire to any significant change in the issuer's capital structure, particularly regarding leverage (debt-equity ratio) and dividend policy.

II. The acquisition of the voting interests was exclusively funded through internal resources."

By letter dated July 17, 2013, TIP Vermögens- und Beteiligungsholding GmbH informed us in connection with the voting-interest change of November 19, 2012, pursuant to Section 27a (1) WpHG as follows:

"I. Acquisition purposes

1. With reference to the acquisition purposes to be disclosed under Section 27a (1) Sent. 3 WpHG, reference is made to the notification pursuant to Sec. 27a WpHG of KB Holding GmbH and Stella Vermögensverwaltungs GmbH from November 21, 2012. The notifying parties have no other or additional purposes.
2. The acquisition of the voting interests was exclusively funded through internal resources. The notifying parties themselves, however, have not directly acquired any voting rights, so that no funds have been expended by them to acquire voting rights."

A notification dated October 1, 2015, was made as per Section 15a WpHG that KB Holding GmbH had acquired 665,000 shares.

Notifying party	Date of notification	Date of change	Affected threshold	New voting interest in %	New voting interest absolute	thereof attributable in %	thereof attributable absolute
Franklin Templeton Investment Funds, Luxembourg	5/6/2016	11/26/2015	Above 3 %	3.36	448,206	3.36	448,206
Franklin Templeton Investment Funds, Luxembourg	6/20/2016	6/17/2016	Below 3 %	2.81	448,206	2.81	448,206

Auditor fees

The following fees for services rendered by the statutory auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, were recognized as expense:

Auditor fees

€ mill.	2016	2015
Statutory year-end audits	0.2	0.1
Other certification/verification services	0.5	0.2
Tax advisory services	–	–
Other services	0.0	0.1
	0.7	**0.4**

The fees for statutory audit services mainly include those paid for the statutory annual audits of Vossloh AG's separate and consolidated financial statements where such fees are borne directly by Vossloh AG. The fees for other attestation services relate primarily to due diligence work and quarterly report reviews.

Vossloh AG's
Executive Board

Dr. h.c. Hans M. Schabert, born 1961, Nuremberg,
Chairman of the Executive Board
First appointment: April 1, 2014, appointed until: March 31, 2017
Group mandates:
– Vossloh Werke GmbH: Head of Executive Management (until May 31, 2016)
– Vossloh Fastening Systems GmbH: Member of the Executive Management (until May 31, 2016)
– Vossloh-Werke International GmbH: Member of the Executive Management (until May 31, 2016)

Volker Schenk, born 1964, Düsseldorf
First appointment: May 1, 2014, appointment until: April 30, 2020
External mandates:
– Institut für Bahntechnik GmbH: Deputy Chairman of the Supervisory Board
Group mandates:
– Vossloh Cogifer SA: Chairman of the Administrative Board
– Vossloh France International SAS: President
– Vossloh Australia Pty. Ltd.: Member of Administrative Board
– Vossloh Fastening Systems Australia Pty. Ltd.: Member of Administrative Board
– Vossloh Track Systems GmbH, Werdohl: Managing Director
– Vossloh International GmbH, Werdohl: Managing Director
– Vossloh Southern Africa Holdings Pty. Ltd.: Managing Director
– Wuhu China Railway Cogifer Track Co. Ltd.: Member of the Administrative Board
– Vossloh Fastening Systems (China) Co. Ltd.: Chairman of the Administrative Board
– Beijing China-Railway Vossloh Technology Co. Ltd.: Member of the Administrative Board
– Suzhou Vossloh Track Systems Co. Ltd.: Chairman of the Administrative Board

Oliver Schuster, born 1964, Kierspe
First appointment: March 1, 2014, appointed until: February 28, 2020
External mandates:
– Wohnungsgesellschaft Werdohl GmbH: Member of the Supervisory Board
Group mandates:
– Vossloh Cogifer SA: Member of the Administrative Board
– Vossloh France SAS: President

Supervisory Board of Vossloh AG

Heinz Hermann Thiele[2,4] Chairman, Munich, entrepreneur,
former Chairman of the Executive Board of Knorr-Bremse AG
– Honorary chairman of the Supervisory Board of Knorr-Bremse AG
– Chairman of the Supervisory Board of Knorr-Bremse GmbH Österreich

Ulrich M. Harnacke[2,3,4], Vice Chairman, Mönchengladbach,
Tax Accountant and Auditor
– Member of the Supervisory Board of Elexis AG
– Member of the Shareholders' Committee of Thüga Holding GmbH & Co. KGaA

Silvia Maisch[1], Monheim, electrical mechanic (until January 31, 2017)

Dr.-Ing. Wolfgang Schlosser[4], Puchheim, consultant and former member
of the Executive Management of Knorr-Bremse Systeme für Schienenfahrzeuge GmbH

Helmut Schwind[1], Trier, Welder (since February 1, 2017)

Michael Ulrich[1,2,3], Kiel, Machinist

Ursus Zinsli[3,4], Saint-Sulpice (Canton of Vaud, Switzerland), former Managing Director
of Scheuchzer SA (Switzerland)
– Vice-President of the Administrative Board of FURRER + FREY AG, Bern (Switzerland)
– Member of the Administrative Board of Scheuchzer SA, Bussigny (Switzerland) (until April 30, 2016)

[1] Employee representative
[2] Member of the Staff Committee
[3] Member of the Audit Committee
[4] Member of the Nomination Committee

Events after the balance sheet date

On December 5, 2016, a contract for the acquisition of all shares in Rocla International Holding, Inc., Lakewood/Colorado, USA was signed by a US subsidiary. The transaction was completed on January 3, 2017. The company acquired represents the holding company of a group of companies consisting of several companies in the USA and Mexico with a range of operations for developing, producing and distributing concrete ties.

The companies as a collective represent a new business unit (Vossloh Tie Technologies), which, together Vossloh Fastening Systems, will form the Core Components division. As Vossloh AG only holds shares in the acquired companies indirectly and in January 2017 provided the direct holding company with funds in the low triple-digit million range, so that the holding company can meet its purchase agreement obligations. The new business unit achieved sales in the high double-digit million range in financial year 2016. A comparable level is expected for financial year 2017.

On December 21, 2016, the company concluded a sale contract for the Electrical Systems division with Knorr-Bremse Systeme für Schienenfahrzeuge, Munich. The transfer of shares to the companies of the Electrical Systems division took place on February 1, 2017 at 00:00, following approval from antitrust authorities. The purchase price in the high double-digit million range was paid by the buyer on January 31, 2017. All significant risks from the sale were anticipated in financial year 2016.

The financial statements for financial year 2016 report a net loss €4,884,780.30. after including the profit carrryforward of €123,466,395.60, net profit retained of €118,581,615.30.

The Executive Board will propose to the Annual General Meeting that the unappropriated surplus be carried forward.

Proposed profit appropriation

Proposed profit allocation

€	
Profit carried forward as of January 1, 2016	123,466,395.60
Net loss 2016	(4,884,780.30)
Unappropriated surplus as of December 31, 2016 = carryforward to new account	**118,581,615.30**

Werdohl, February 24, 2017

Vossloh AG
The Executive Board

Dr. h.c. Hans M. Schabert, Volker Schenk, Oliver Schuster

Responsibility statement

We represent that, to the best of our knowledge and in accordance with applicable accounting principles, the separate financial statements present a true and fair view of Vossloh AG's net assets, financial position, and results of operations, as well as that the combined management report describes fairly, in all material respects, the Company's business trend and performance, its position, and the significant risks and rewards of the Company's future development.

Werdohl, February 24, 2017

Vossloh AG
The Executive Board

Dr. h.c. Hans M. Schabert, Volker Schenk, Oliver Schuster

Independent auditor's report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements and the bookkeeping system of Vossloh AG, Werdohl, together with the report on the situation of the Company and the Group (combined management report) for the financial year from January 1 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code [HGB] and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the annual 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The combined management report is consistent with the financial statements, complies with legal requirements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 28, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Rodemer	Jessen
Wirtschaftsprüfer	Wirtschaftsprüfer
[GermanPublicAuditor]	[GermanPublicAuditor]

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