Driving Innovation. Developing Potential.

ANNUAL REPORT 2017

Financial statements and combined management report of Vossloh AG for financial year2017

vossloh

Combined management report

Business and market environment

Segmentation and competitive position

Vossloh is active in rail technology markets worldwide. Vossloh's core business comprises products and services for rail infrastructure. The core business activities are organized in three divisions – Core Components, Customized Modules and Lifecycle Solutions. With the acquisition of Rocla Concrete Tie, Lakewood, Colorado, USA, on January 3, 2017, the Core Components division was expanded to include Vossloh Tie Technologies as a new business unit. In addition, Vossloh is involved in the locomotive business. Due to the highly probable sale of the activities in this segment within the next twelve months, they are reported as discontinued operations in this annual report. The Transportation division, which is not part of the core business, also included the Electrical Systems business unit, which was sold at the end of January 2017. You can find detailed descriptions of the individual divisions on page 13 et seq.

The Company holds the following competitive positions in its core business of rail infrastructure:
- Vossloh is a leading global supplier and technological pioneer in rail fastening systems.
- Vossloh is a global market and technology leader in the switches segment.
- In Germany, Vossloh is a leading supplier of innovative technologies and services for the entire lifecycle of rails and switches.
- In North America, Vossloh is a leading manufacturer of concrete ties.

Organization

The Vossloh Group is active around the world. Local presence and customer proximity are integral elements of our business model. Vossloh's most important production sites for rail fastening systems are located in Germany, China, Poland, the USA and, since October 2017, Russia. Vossloh's switch systems are manufactured primarily in France, the USA, Sweden, Australia, Luxembourg, Poland, Finland and the United Kingdom. Rail services are mainly carried out from Germany. The newly acquired business unit Tie Technologies produces its rail ties in the USA and Mexico. The locomotive business, which is not part of the core business, has its production facility in Germany.

Vossloh operates globally via sales companies and branches. The Company enters into joint ventures and cooperation agreements with expert local partners on a case-by-case basis. Key Group companies leading the business units 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 and is classified as discontinued operations. The Electrical Systems business unit, which was sold on January 31, 2017, was managed by the former 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 is earned on top of the return claimed by investors and lenders (cost of capital). This premium is the difference between the return on capital employed (ROCE, see glossary in the Group's annual report, page 155) and the cost of capital, which is calculated as the weighted average cost of capital (WACC) (debt and equity). Multiplying the premium by average capital employed produces the value added over a period in absolute terms.

For internal controlling purposes, ROCE and value added are determined before taxes. Value added is disclosed as an earnings measure for the divisions and business units as part of the external reporting.

Cost of equity is composed of a risk-free interest rate plus a market risk premium. As a result of the pretax consideration, the interest rate 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 of two-thirds to one-third, which is used to determine WACC, 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 based on target market values in this case and not the carrying amounts recognized in the balance sheet. Intragroup controlling in the 2017 fiscal year was based on pretax WACC of 7.5 percent (previous year: 9.0 percent) as the yield expected by investors and lenders.

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

While sales revenues, EBIT and EBIT margin are used as key performance indicators for short-term planning, the long-term management of the 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 performance indicator. As a result, the Company additionally focuses on working capital, working capital intensity (see glossary in the Group's annual report, page 155) and free cash flow.

To the management of Vossloh AG, the monthly financial reporting represents a central element for the ongoing analysis and control of the main Group companies, divisions, business units and the Group itself. To this end, the financial statements and key performance indicators prepared by the consolidated Group companies are consolidated and analyzed in the same way as the monthly annual forecast. Deviations are investigated in relation to their effects on the financial targets. The monthly and quarterly annual projections are supplemented by a risk report to identify potential reductions and increases in assets. The effectiveness of measures aimed at ensuring targets are reached is continuously analyzed. The figures of the operating units are intensively discussed by their respective management and the Executive Board. The close, personal interaction between the Executive Board of Vossloh AG and the management of the operating units guarantees a rapid flow of information and allows for quick responses.

Economic report

Economic environment

From a global perspective, the rail technology market has shown a steadily growing trend for years. This is the result of rising demand around the world for environmentally friendly, safer and more economical mobility for people and goods. 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 the deregulation of the markets. 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. The following statements are from September 2016.

UNIFE estimates the 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 an accessible market share. Accessible means that this market is accessible in principle to European suppliers and market demand is not exclusively met through domestic manufacturers. For markets that can only be addressed by European suppliers via joint venture structures, half of the market volume is classified as accessible.

Vossloh's core business consists of products and services for rail infrastructure. In addition to the infrastructure segment, Vossloh's market for products and services also includes the high-growth segment of infrastructure services. In total, this market amounted to approximately €26 billion per year for the period 2013 to 2015 according to UNIFE data.

From a regional perspective, Western Europe claims the largest share of the overall accessible market with around 32 percent. 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 approximately 9 percent, and Eastern Europe with 6 percent. The Africa/Middle East and Latin America regions represent somewhat smaller shares, at around 7 percent and 4 percent respectively.

In its core business, Vossloh is globally active in the markets for switches and rail fastening systems. The Lifecycle Solutions division is also becoming increasingly active on the international stage. Vossloh Tie Technologies, the business unit acquired at the beginning of 2017, is particularly active in the U.S. and Mexico. Overall, Vossloh focuses primarily on the markets of China, North America, Western Europe and Russia.

In nearly all countries and markets, investments in rail infrastructure are generally made after lengthy decision-making processes. As a result, the markets only reflect short-term economic trends to a limited degree. More significant is the development of debt levels of the countries in Vossloh's sales markets, as the customers are predominantly under public-sector control. In Southern Europe in particular, the severely impaired financial strength of public-sector budgets has had a negative impact on demand for rail technology since 2009.

As of the third quarter of 2017, 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 88.1 percent – as of the editorial deadline of this publication, this was the most current figure available. This time last year, this figure was 89.7 percent. At the end of September 2017, the debt ratio of the EU as a whole (EU-28) amounted to 82.5 percent compared with 82.9 percent in the previous year.

Business acquisitions

The acquisition of all shares in Rocla International Holding, Inc., Lakewood, Colorado, USA, was completed on January 3, 2017. This was already reported in the previous year.

The acquisition of all shares in Slitec SAS, Villeurbanne, France, was completed as of September 30, 2017. The Company belongs to the Customized Modules division and is active in the area of signal engineering. The Company had merged with Siema Applications SAS, Villeurbanne, France, at the end of the fiscal year. Siema acquired the shares and also develops, produces and sells signaling products.

Results of operations

Due to the presentation of the Locomotives business unit (the last remaining business unit of the Transportation division) as discontinued operations, all assets and liabilities of this business unit are reported in the balance sheet as of December 31, 2017, as held for sale in a separate line item. In the income statement, all expenses and income that originate from the companies sold or companies to be sold and additionally such expenses which are incurred in connection with the sale or are expected to be incurred in the further course of the sale process are reported in the line item "Result from discontinued operations". The figures from the previous year are presented in a comparable manner and therefore differ from the figures presented in the 2016 annual report. In addition, the item "Result from discontinued operations" also includes the expenses and income from business transactions in January 2017 from the sold Electrical Systems business unit and related sale transactions. The balance sheet values as of December 31, 2016, also include the assets and liabilities of the companies in this former business unit that were held for sale. Further information can be found in the notes to the consolidated financial statements on page 101 as well as under "(7) Result from discontinued operations" on page 106 et seq. in the Group's annual report.

With the presentation of the Locomotives business unit described above, the consolidated earnings situation of the core business rail infrastructure is examined below. In the 2017 fiscal year, both sales revenues and operating profit increased. The increase in revenue can mainly be traced to the initial consolidation of the Tie Technologies business unit this year. Revenue rose by 11.7 percent from €822.5 million in the previous year to €918.3 million. The translation of transactions in foreign currencies resulted in a negative effect of €(10.4) million in 2017 compared with the previous year. As the original forecast for the 2017 fiscal year included the Locomotives business unit, revenue of between €1.0 billion and €1.1 billion was expected. This figure included revenue of around €130 million for Vossloh Locomotives.

Vossloh Group – Sales by region

	€ mill.	%	€ mill.	%
	2017		2016	
Germany	74.3	8.1	69.0	8.4
France	97.8	10.6	115.7	14.1
Rest of Western Europe	69.6	7.6	61.9	7.5
Northern Europe	114.5	12.5	117.9	14.3
Southern Europe	62.9	6.9	58.8	7.2
Eastern Europe	56.4	6.1	36.1	4.4
Total of Europe	**475.5**	**51.8**	**459.4**	**55.9**
Americas	158.7	17.3	105.7	12.8
Asia	215.6	23.5	190.7	23.2
Africa	46.3	5.0	44.4	5.4
Australia	22.2	2.4	22.3	2.7
Total	**918.3**	**100.0**	**822.5**	**100.0**

Revenue in Europe up on previous year, significant increase in sales in Eastern Europe

In Europe, the Vossloh Group achieved slight growth in sales of 3.5 percent in the year under review. Despite significantly lower revenue in France ((15.5) percent), the increase was largely attributable to significant additional revenue in Eastern Europe of +56.4 percent. The decline in France, especially in the Customized Modules division, was largely offset by a positive revenue development in Poland, especially in the Customized Modules division and in the Fastening Systems business unit, as well as in Russia and Slovenia. In addition, significant revenue growth was achieved in the Customized Modules division in the Netherlands, among other countries. Revenue in Southern Europe also increased by 7.0 percent. Here, the Fastening Systems business unit in Italy was the main contributor to rise in revenue. In contrast, revenue in Northern Europe was down slightly in the year under review, by 2.9 percent compared to the previous year. The Customized Modules division in particular was unable to match the previous year's revenue level in Sweden.

Due to inclusion of Vossloh Tie Technologies, revenue in the Americas well above previous year

Due to the first-time consolidation of the Tie Technologies business unit in the year under review, revenue in the Americas increased by 50.1 percent. As Vossloh Tie Technologies is mainly active in the U.S., revenue here was significantly higher than in the previous year. However, the U.S. market continues to suffer from weak demand from the major freight operators. As a result, revenue in the Customized Modules division in the U.S. continued to be at a low level and was also below the already low figure from the previous year. Vossloh Tie Technologies in particular, and to a lesser extent the Fastening Systems business unit, contributed to the increase in revenue in Mexico. In South America, revenue was well below the previous year's level. Lower sales revenues were recorded in Argentina in particular in the Fastening Systems business unit, as well as in Brazil and Chile, where the Customized Modules division was primarily responsible.

Unexpectedly strong business in China leads to higher revenue in Asia

Revenue development in the Asia region was unexpectedly strong. Revenue in the year under review was 13.1 percent higher than in the previous year. The increase in revenue was mainly due to significantly higher contributions in China from the Fastening Systems business unit and – to a much lesser extent – the Lifecycle Solutions division. In Singapore, too, the Customized Modules division generated significant additional revenue. In contrast, however, the high sales revenues of the Fastening Systems business unit in Saudi Arabia and Qatar from the previous year could not be repeated.

Revenue in Africa up slightly on the previous year

In Africa, revenue rose slightly by 4.2 percent compared to the previous year. The Customized Modules division in particular increased sales revenue in Guinea and Tunisia.

In Australia, where the Customized Modules division operates almost exclusively, revenue remained almost unchanged compared to the previous year.

The Vossloh Group's cost of sales in the year under review was €713.2 million, well above the previous year's figure of €626.0 million. This increase was primarily attributable to the consolidation of the Tie Technologies business unit. Cost of sales accounted for 77.7 percent of revenue (previous year: 76.1 percent). At €148.1 million, general administrative and selling expenses were slightly lower than in the previous year (€152.3 million) and accounted for 16.1 percent of revenue in the year under review (previous year: 18.5 percent). The item "Other operating result" amounted to €21.5 million and was therefore higher than the previous year's value of €17.4 million. This was due in particular to the reversal of impairments resulting from a positive earnings trend and improved prospects for the Chinese joint venture in the Customized Modules division.

Vossloh Group – Sales and earnings

	€ mill.	%	€ mill.	%
	2017		2016	
Sales revenues	918.3	100.0	822.5	100.0
EBIT	70.3	7.7	57.5	7.0
EBT	57.8	6.3	46.9	5.7
Net income	0.3	0.0	10.1	1.2
Earnings per share from continuing operations (in €)	1.74		1.30	

Significant increase in operating profitability, consolidated EBIT up 22.2 percent compared to previous year

In the year under review, the Vossloh Group achieved significantly higher earnings before interest and taxes (EBIT) than in the previous year. EBIT increased by 22.2 percent. The Core Components division contributed exclusively to this increase. Above all, the very positive business development in China in the Fastening Systems business unit, but also the positive development of the new Tie Technologies business unit contributed to the EBIT increase. The translation of foreign currency transactions had a negative impact on the Vossloh Group's EBIT in 2017 (€(2.0) million). The EBIT margin increased from 7.0 percent in the previous year to 7.7 percent in the year under review.

Net interest result amounted to €(12.5) million in 2017, and therefore deteriorated in comparison to the previous year's figure of €(10.6) million. This was due, among other things, to higher currency losses in connection with financing activities. Overall, earnings before taxes (EBT) also rose due to the significantly improved EBIT.

Net income lower than in previous year due to earnings impact from discontinued operations

Income taxes for the Vossloh Group amounted to €21.7 million in the year under review, roughly on a par with the previous year's figure of €21.0 million, despite significantly higher EBT. This resulted in a lower tax rate of 37.6 percent compared to the previous year (previous year: 44.8 percent). The item "Result from discontinued operations" of €(35.8) million recorded a significant decrease from the previous year's figure of €(15.8) million. In the year under review, the item "Result from discontinued operations" was burdened primarily by an impairment charge of approximately €26 million in accordance with IFRS 5 due to the recognition of the Transportation division as discontinued operations. The net loss of Transportation in 2017 also had an additional impact here. Net income was therefore below the previous year's level despite the significant increase in operating earnings. The share attributable to the shareholders of Vossloh AG was negative and amounted to €(8.0) million in the year under review (previous year: €3.3 million). With an average number of shares outstanding of 15,967,437 shares, earnings per share were negative in 2017 at €(0.50) (previous year: €0.22). By contrast, earnings per share from continuing operations were positive and clearly above the previous year's level.

Dividend proposal of €1.00 per share for 2017

In view of Vossloh AG's markedly higher EBIT and the resulting increase in operating profitability, as well as its very stable financial position, the Executive Board and Supervisory Board will be proposing a dividend of €1.00 per share for the 2017 fiscal year to shareholders at Vossloh AG's Annual General Meeting scheduled for May 9, 2018. The dividend was suspended in the previous year.

Vossloh Group – Value management

€ mill.	2017	2016
Average capital employed	788.3	655.2
ROCE	8.9	8.8
Value added	11.1	(1.5)

Value added positive again for first time in years

In the year under review, the Vossloh Group slightly increased its return on capital employed (ROCE) despite a markedly higher average capital employed. The significant increase in average capital employed is mainly due to the inclusion of Vossloh Tie Technologies. The significant increase in EBIT was therefore the sole contributor to the slight increase in ROCE. ROCE was higher than the weighted average cost of capital (WACC) of 7.5 percent, allowing the Vossloh Group to report a positive value added in the year under review for the first time in years. In addition to the significant increase in earnings, value added was also boosted by the lower WACC (previous year: 9 percent) in the year under review.

Vossloh divisions – Orders received and order backlog

	Orders received		Order backlog	
€ mill.	2017	2016	2017	2016
Core Components	285.0	262.3	151.2	182.8
Customized Modules	513.0	473.7	309.2	279.5
Lifecycle Solutions	79.6	105.0	17.9	29.4
Vossloh AG/Consolidation	(10.4)	(11.3)	(3.9)	(1.0)
Group	**867.2**	**829.7**	**474.4**	**490.7**

Orders received up 4.5 percent on the previous year

In the 2017 fiscal year, the Vossloh Group's orders received rose by 4.5 percent. The increase is attributable to the good order situation in the Customized Modules division and the inclusion of the Tie Technologies business unit. Despite the inclusion of the Tie Technologies business unit for the first time, the order backlog at the end of the 2017 fiscal year was 3.3 percent lower than on the previous year's reporting date due to a lower order backlog in the Fastening Systems business unit in China.

Financial position and investing activities

As the Group's management holding company, Vossloh AG is also responsible for managing the Group's finances and funding. In addition to the central management of cash flows, Corporate Treasury Management is responsible for ensuring the financing of all Group companies as well as for hedging and managing financial risks. These not only include liquidity risks but particularly risks from interest and exchange rate fluctuations. Derivative financial instruments (see glossary in the Group's annual report, page 155) are used, among other things, for hedging. The Group companies' funding level is largely ensured by Vossloh AG providing the necessary cash resources. Only in isolated cases where funding outside Germany is either economically preferable or required by law do individual Group companies obtain original local financing.

Net financial debt well above previous year's level at end of the year

The Vossloh Group's net financial debt has risen from its low level of €85.0 million at the end of 2016 to €207.7 million at the end of the 2017 fiscal year. The increase was mainly due to the use of cash and cash equivalents from the capital increase in the previous year for the acquisition of the Tie Technologies business unit in January 2017 reported at the end of 2016. In addition, the negative free cash flow of €(22.3) million in the year under review also had an increasing effect on net financial debt. The cash inflow from the sale of the former Electrical Systems business unit at the beginning of 2017 had a reducing effect. Financial liabilities amounted to €304.5 million at the end of the year under review and were therefore above the previous year's figure of €255.6 million. In July 2017, the Vossloh Group placed a Schuldschein loan of €250 million and successfully concluded a €150 million syndicated loan in the late fall of 2017. The ratio of net financial debt to EBITDA was agreed as a covenant. Compliance with the covenant must be proven every six months.

As a result, the consortium agreement from 2015 has been completely replaced (see the information on page 50 et seq. in the section "Liquidity risks"). The total of cash and cash equivalents and short-term securities amounted to €96.8 million at the end of 2017 and was therefore substantially lower than in the previous year (€170.5 million).

Current financial liabilities amounted to €55.7 million at the end of the year under review and were thereby significantly higher than the corresponding figure for the previous year of €8.7 million. The increase resulted from the Schuldschein loan from 2013 with a volume of €50 million, which was reclassified from noncurrent to current financial liabilities at the end of the 2017 fiscal year due to its maturity in the fourth quarter of 2018.

For further information on the free credit lines of the Vossloh Group, see the notes to the consolidated financial statements, page 134 in the Group's annual report.

Vossloh Group – Development of cash flows

€ mill.	2017	2016
Cash flow from operating activities	24.5	65.8
Free cash flow	(22.3)	25.2

Free cash flow negative, particularly due to Transportation

Cash flow from operating activities was significantly lower in the year under review than in the previous year. The main reason for this was the increase in working capital, particularly in the Transportation division, which is recognized under discontinued operations. In addition, higher income taxes were also paid in 2017 due to the overall significant increase in operating profitability. For these reasons in particular, 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 companies accounted for using the equity method and plus cash inflows from profit distributions or the sale of companies accounted for using the equity method – fell short of the previous year's figure in the year under review and was negative. Free cash flow also includes the figures of the Transportation division, which is recognized under discontinued operations. In terms of free cash flow, the impact of Transportation was clearly negative in the year under review. Excluding the discontinued operations, free cash flow was clearly positive at €23.3 million.

Vossloh Group – Capital expenditure and depreciation/amortization

€ mill.	2017		2016	
	Capital expenditure	Depreciation/ amortization	Capital expenditure	Depreciation/ amortization
Core Components	12.7	17.6	2.9	10.2
Customized Modules	18.5	7.6	15.9	14.2
Lifecycle Solutions	8.6	6.7	11.3	6.4
Vossloh AG/Consolidation	(0.3)	1.7	0.2	0.7
Total	**39.5**	**33.6**	**30.3**	**31.5**

Capital expenditure in the Vossloh Group remained at the level of depreciation and amortization in the year under review when leaving aside the previously mentioned write-up of an investment in a Chinese joint venture in the Customized Modules division. Compared to the previous year, capital expenditure rose significantly. This was mainly due to increased investment activity in the Core Components division. The Fastening Systems business unit in particular contributed to this increase. Here, capital expenditures were mainly made in connection with the opening of the production facility in Russia in the fall of 2017. In addition, Vossloh Tie Technologies' capital expenditure was included for the first time in the year under review. Capital expenditure in the Customized Modules division were also significantly higher than in the previous year. A significant portion of capital expenditure was allocated to the modernization of the production site for manganese frogs in Outreau, Northern France. In contrast, capital expenditure in the Lifecycle Solutions division was below the level of the previous year. The decline is due in particular to the acquisition of several rail and switch transport wagons in the previous year.

Asset and capital structure

Vossloh Group – Asset and capital structure

		12/31/2017	12/31/2016
Total assets	€ mill.	1,252.9	1,367.2
Equity[1]	€ mill.	532.4	550.8
Equity ratio	%	42.5	40.3
Closing working capital	€ mill.	190.0	159.2
Fixed assets	€ mill.	568.7	467.8
Closing capital employed	€ mill.	758.7	627.0

[1] Group equity, including noncontrolling interests

Equity ratio remains above 40 percent

The Vossloh Group's equity fell in comparison with the previous year. In addition to other effects, this is attributable to dividend payments to other shareholders. As a result of the significantly lower balance sheet total compared to the end of 2016, resulting from the assets and liabilities from discontinued operations of the divested Electrical Systems business unit included in the previous year, there was still a higher equity ratio as of December 31, 2017.

Working capital at the end of 2017 was 19.4 percent higher than the previous year's value. The Core Components division contributed almost exclusively to this increase. On the one hand, working capital was higher as of December 31, 2017, due to the inclusion of the Tie Technologies business unit and, on the other hand, due to the strong revenue growth in the Fastening Systems business unit. This is also why the average working capital in the 2017 fiscal year was higher than in the previous year. On an annual average, working capital rose from €194.1 million in the previous year to €211.6 million in the year under review. Despite the increase in average working capital, the average working capital intensity was slightly lower. As a result of the stronger increase in revenue, it fell from 23.6 percent in the previous year to 23.0 percent in the year under review. Capital employed at the end of the year and on an annual average was significantly higher than in the previous year. The increase was mainly due to the inclusion of Vossloh Tie Technologies.

General statement on the economic situation

The 2017 fiscal year was characterized by a very positive overall operating development in the core business. EBIT increased significantly compared with the previous year. The Tie Technologies business unit, which was acquired at the beginning of 2017, also contributed to this development, which developed as planned in terms of revenue and significantly exceeded expectations with regard to profitability achieved in the year under review. Due to advanced sales negotiations of the Kiel-based locomotive business, the last remaining business unit of the Transportation division, Vossloh AG's Executive Board decided on February 16, 2018, to recognize the Transportation division as a discontinued operation as of December 31, 2017. This represents a further step in the process of transforming the Vossloh Group into a pure provider of products and services for rail infrastructure. The financial basis for the targeted profitable growth continued to be positive. The equity ratio remained stable at over 40 percent. In addition, further milestones were reached in the restructuring of Group financing. Alongside a Schuldschein loan of €250 million, a €150 million syndicated loan was taken out in the 2017 fiscal year. As a result, a positive development can once again be stated for the Vossloh Group as a whole in 2017.

Business performance of Core Components

In the Core Components division, the Group has combined its range of industrially manufactured series products, which are required in large quantities for rail infrastructure projects. This includes the rail fastening systems developed, produced and marketed in the Fastening Systems business unit for all areas of application – from heavy-duty to high-speed rail lines and regional transportation. In the 2017 fiscal year, the activities of Vossloh Tie Technologies, the leading manufacturer of concrete ties in the USA, have been recorded here for the first time.

Orders received up on previous year due to consolidation of Vossloh Tie Technologies

At €285.0 million, orders received in the Core Components division for 2017 were up on the previous year's figure of €262.3 million due to the first-time consolidation of the Tie Technologies business unit. At €151.2 million, the order backlog at the end of 2017 was lower than in the previous year (€182.8 million) despite the first-time inclusion of Tie Technologies. The main reason for the decline was the lower volume of orders received for fastening systems in China.

Core Components

		2017	2016
Sales revenues	€ mill.	351.4	257.1
EBIT	€ mill.	51.2	32.0
EBIT margin	%	14.6	12.5
Average working capital	€ mill.	67.7	56.6
Average working capital intensity	%	19.2	22.0
Average capital employed	€ mill.	225.0	106.0
ROCE	%	22.8	30.2
Value added	€ mill.	34.3	22.5

Sales revenues significantly higher than in previous year

Sales revenues in the year under review were 36.7 percent higher than in the previous year. The first-time inclusion of Tie Technologies largely contributed to this significant increase in revenue. In addition, the Fastening Systems business unit also achieved noticeably higher revenue in 2017 than in the previous year.

Increase in earnings and profitability greater than expected

EBIT in the Core Components division increased by 59.8 percent. The EBIT margin was well above the high level of the previous year. Both Vossloh Fastening Systems and Vossloh Tie Technologies contributed to the good earnings performance. In the Fastening Systems business unit, the increase in profitability was due to higher earnings contributions from the increase in revenue and a higher-margin project mix. Earnings development in the Tie Technologies business unit exceeded expectations in 2017. Despite negative effects from the purchase price allocation and a persistently difficult market environment in the USA, a good level of profitability was achieved in the first year after the acquisition.

ROCE in the Core Components division remained below the previous year's level despite the significantly higher EBIT. This was mainly due to a disproportionately high increase in average capital employed compared with EBIT due to the acquisition of Vossloh Tie Technologies.

Significant increase in value added

By contrast, value added improved by 52.6 percent compared to the previous year. The increase was mainly due to higher EBIT. To a lesser extent, the lower WACC in 2017 also had a positive impact. Due to the inclusion of Vossloh Tie Technologies, average working capital was €11.1 million or 19.4 percent higher than in the previous year. As a result, the average working capital intensity improved in the 2017 fiscal year.

Vossloh Fastening Systems

Orders received 21.7 percent below the previous year

At €205.5 million, orders received at Vossloh Fastening Systems in 2017 were well below the previous year's figure of €262.3 million. The main reason for this was lower tendering activities in China. In the 2016, two major orders with a total volume of around €80 million were won among others, while in 2017, only one major order of around €18 million was recorded alongside smaller orders. Further major orders were also won in other regions, including for Metro Riyadh in Saudi Arabia, among others. Orders received have risen significantly compared with the previous year – particularly in India, Poland and Italy. The order backlog at the end of the year under review amounted to €114.9 million (previous year: €182.8 million).

With Vossloh Fastening Systems, sales revenues totaled €273.4 million, up 6.4 percent on the previous year's value of €257.1 million. The increase in revenue was mainly attributable to very high deliveries of rail fastening systems for new high-speed line construction projects as well as a more extensive maintenance business in China. Furthermore, it was possible to generate additional revenue growth in Italy.

Significant increase in value added

Vossloh Fastening Systems' value added improved significantly by 67.4 percent to €37.7 million (previous year: €22.5 million).

Vossloh Tie Technologies[1]

The Tie Technologies business unit achieved orders received of €80.7 million in 2017, predominately in the USA. In addition, the Mexican company also recorded significant orders received. At the end of 2017, the order backlog stood at €36.3 million.

Revenue performance as expected

Sales revenues in the Tie Technologies business unit amounted to €79.2 million. Despite the continued weak demand from Class-I railroads (see glossary in the Group's annual report, page 155), revenue development was in line with expectations, partly due to good transit business. In addition, the Mexican company achieved higher revenue than expected. Although Vossloh Tie Technologies' value added was negative at €(3.3) million, it still clearly exceeded expectations. Value added was burdened in particular by negative effects from the purchase price allocation and high goodwill. Adjusted for these effects, the value added was slightly positive.

[1] Since Vossloh Tie Technologies has only been part of the Vossloh Group since the beginning of the year under review; the statements do not include figures from the previous year.

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.

Orders received in 2017 rise to over €500 million

Orders received in the Customized Modules division totaled €513.0 million in 2017 and were therefore noticeably higher than the previous year's figure of €473.7 million. Particularly in the Polish market, the order situation for switch systems was robust in the year under review. Orders received in Italy and Germany were also higher than in the previous year. By contrast, however, the high order level of the previous year in Morocco could not be repeated. At the end of 2017, the division's order backlog stood at €309.2 million (previous year: €279.5 million).

Customized Modules

		2017	2016
Sales revenues	€ mill.	483.3	492.3
EBIT	€ mill.	30.5	34.4
EBIT margin	%	6.3	7.0
Average working capital	€ mill.	137.6	131.5
Average working capital intensity	%	28.5	26.7
Average capital employed	€ mill.	424.9	414.5
ROCE	%	7.2	8.3
Value added	€ mill.	(1.3)	(2.9)

Revenues in 2017 down 1.8 percent compared to the previous year

Sales revenues in the Customized Modules division remained slightly lower than in the previous year. As expected, sales revenues were lower in France in particular. In the previous year, high revenue from switch systems for high-speed projects were achieved here, which was not repeated in the year under review upon completion of the projects. It was also not quite possible to reach the revenue level of the previous year in Sweden. The lower revenue in the aforementioned countries was largely offset by higher revenue in Poland, the Netherlands and Singapore.

Earnings and profitability remained down on the previous year

The division's EBIT in the year under review was 11.2 percent lower than in the previous year. As a result, the EBIT margin was well below the 2016 level. The development of earnings and profitability in the year under review was burdened in particular by the continuing weakness of business with Class-I railroads in the U.S. (see glossary in the Group's annual report, page 155). By contrast, however, business development in China was increasingly positive in 2017. Due to the improved prospects in China, the impairment of the joint venture in Wuhu was reversed in the year under review.

ROCE down over the previous year due in particular to lower EBIT

In the year under review, ROCE fell short of the previous year's figure due to both lower EBIT and higher average capital employed. The improvement in value added was exclusively attributable to the lower weighted average cost of capital (WACC) than in 2016. Average working capital was 4.7 percent higher than the previous year's level, mainly due to lower prepayments received in the year under review. As a result, the slightly lower sales revenues resulted in a higher average working capital intensity for the year 2017.

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. The innovative technologies it has developed promote the safety of rail lines and contribute 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. Lifecycle Solutions' extensive range of services complements the product portfolios of Core Components and Customized Modules.

Lower orders received due to higher volume of orders in previous year

In the 2017 fiscal year, the division recorded orders received of €79.6 million. This figure amounted to €105.0 million in the previous year. The decline is mainly due to a lower order level in Germany. In the previous year, the business unit had received a major, long-term order for rail maintenance in this market. In China, on the other hand, a large number of orders were won again in 2017. Demand for HSG technology continues to be high there. Five HSG-city were sold for the Shanghai metro system alone, for example. The order backlog amounted to €17.9 million at the end of 2017 (previous year: €29.4 million).

Lifecycle Solutions

		2017	2016
Sales revenues	€ mill.	91.0	83.5
EBIT	€ mill.	6.6	7.7
EBIT margin	%	7.3	9.2
Average working capital	€ mill.	11.4	10.2
Average working capital intensity	%	12.6	12.3
Average capital employed	€ mill.	134.5	129.4
ROCE	%	4.9	5.9
Value added	€ mill.	(3.5)	(4.0)

Positive revenue development among others in HSG segment

Sales revenue in the Lifecycle Solutions division rose significantly by 9.0 percent in 2017. In the HSG segment, revenue growth was mainly generated in China by the sale of vehicles. Milling services also generated considerable additional revenues in Switzerland. The degree of internationalization, measured in terms of sales revenues generated outside Germany, continued to increase slightly. After 42.5 percent in the previous year, it stood at 43.7 percent in 2017.

Positive operating development in 2017

EBIT and EBIT margin in the Lifecycle Solutions division remained below the previous year's level. This is due in particular to a positive special effect in 2016. At the end of the 2016 fiscal year, an income of €3.5 million had been realized in the course of the complete acquisition of Alpha Rail Team. Adjusted for this positive effect, both EBIT and the EBIT margin increased. Higher earnings contributions were achieved in the HSG segment and in mobile welding in particular.

Value added up due to lower WACC

ROCE and value added in the previous year were also boosted by this special effect. In the year under review, ROCE in the division was lower due to reduced EBIT and higher average capital employed. By contrast, value added increased solely due to the lower cost of capital (WACC) but remained negative as expected. The average working capital was higher than in the previous year due to the increase in revenue and, in particular, the resulting higher receivables. The average working capital intensity hardly changed compared with the previous year.

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, particularly for capital expenditures and acquisitions, and is responsible for Corporate Accounting and Controlling, Group-wide Treasury Management, Risk and Opportunity Management and Internal Auditing as well as for Innovation and Development, EHS/Sustainability, IT, Legal Affairs and Compliance, Investor Relations and Corporate Communications among others. The Company oversees sales activities including marketing communications. In addition to HR policy, it is also responsible for personnel development and supporting the Group's senior management. Its role in controlling the business units' operational activities as an operational management holding company is reflected in the operational responsibilities of Vossloh AG's Executive Board members for the Group's divisions.

Vossloh AG prepares its separate 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 the separate financial statements. In isolated cases, certain transactions are handled differently in the consolidated financial statements according to IFRS. The relevant provisions of the German Commercial Code (HGB) have not changed in the fiscal year.

Analysis of the separate financial statements

For the 2017 fiscal year, Vossloh AG reported sales revenues of €4.3 million (previous year: €5.0 million) resulting from rental income and intercompany allocations, particularly with Group companies, which obtain a wide range of services via Vossloh AG, for instance in the areas of IT and marketing. Operating expenses were mainly incurred in connection with the Company's management and financing functions. Therefore, the result of ordinary activities is substantially influenced by general administrative expenses, other operating expenses and the net financial result. Other operating expenses of €10.6 million (previous year: €1.4 million) resulted primarily from losses in connection with the transfer of properties in Werdohl to Vossloh Werke GmbH in order to simplify operational processes relating to facility management and exchange rate losses. In the 2017 fiscal year, general administrative expenses were considerably lower at €17.4 million than in the previous year (€34.1 million). This decline was mainly due to lower consulting expenses (particularly as a result of the capital increase in the previous year) and lower trade fair costs. The trade fair costs are higher in the years in which the InnoTrans trade fair takes place in Berlin. This industry trade fair takes place every two years. Personnel expenses increased by €0.7 million in 2017 compared to the previous year and totaled €10.9 million.

The financial result effectively doubled from €18.5 million to €37.4 million in the year under review. This was mainly due to dividends from investments, which amounted to €26.9 million in 2017, compared to just €4.0 million in the previous year. While income from profit transfer agreements was slightly lower at €19.7 million than in the previous year (€20.3 million), the financial result was burdened by much higher expenses from the assumption of losses of €16.9 million (previous year: €4.6 million). A write-down on an investment of €5.6 million due to a permanent impairment represented an additional burden on the financial result in the previous year.

Interest expenses of €8.1 million (previous year: €6.7 million) were offset in the reporting year by interest income of €14.3 million (previous year: €10.8 million), primarily arising from the passing on of short-term credit or medium-term loans to Group companies. Income taxes amounted to €0.4 million in 2017 (previous year: €(1.1) million). Vossloh AG's net income in the reporting year was €11.6 million. It posted a net loss of €4.9 million in the previous year.

The balance sheet total increased from €935.1 million to €959.9 million. The main reason for this was the increase in Group financing in the form of loans and short-term receivables from affiliated companies. On balance, financial assets rose by €38.2 million to €518.5 million, mainly driven by the aforementioned increase in loans to affiliated companies (increase of €105.8 million to €110.6 million) and the decrease in shares in affiliated companies by €67.6 million to €407.7 million due to the sale of all shares in Vossloh Kiepe GmbH by Vossloh AG to Knorr-Bremse Systeme für Schienenfahrzeuge GmbH on January 31, 2017. Current assets fell only slightly by €5.9 million to €440.1 million, as the increase in current receivables from affiliated companies of €64.4 million to €395.9 million was slightly more than offset by the €67.3 million decline in cash and cash equivalents to €43.9 million. The latter was triggered, among other things, by loans to Vossloh US Holdings for the acquisition of Rocla Concrete Tie at the beginning of the 2017 fiscal year. Other assets fell by €3.2 million to €0.1 million. Here, higher sales tax refunds existed at the previous year's reporting date. The liabilities side of the balance sheet included significantly lower liabilities to affiliated companies of €17.0 million on the reporting date (previous year: €52.7 million). By contrast, liabilities to banks increased from €251.3 million to €300.0 million.

Equity increased from €591.6 million to €603.1 million due to net income. The equity ratio was slightly below the previous year's level at 62.8 percent. Overall, the development of Vossloh AG's earnings, net assets and financial position in the 2017 fiscal year can be viewed as positive.

Based on the indirect factual Annual General Meeting majority of Mr. Heinz Hermann Thiele, which has existed since the Annual General Meeting of Vossloh AG in 2015, the Executive Board of Vossloh AG continues to assume the dependence of Vossloh AG in accordance with Section 17 of the German Stock Corporation Act (AktG). In accordance with Section 312 AktG, the Company prepared a report on its relationships with affiliated companies containing the following declaration: "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. No measures were enacted that put the Company at a disadvantage at the request or in the interest of Mr. Heinz Hermann Thiele or companies affiliated with him. 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 auditor and was issued with an unqualified auditor's opinion.

Remuneration report

Principles of remuneration for Executive Board members

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 members' income. In addition, the report describes the principles and amount of Supervisory Board remuneration.

Purpose. 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 remuneration of Executive Board members are based on each member's function and individual performance, Vossloh AG's economic situation, success and future prospects in addition to customary remuneration polices in view of the Company's comparative environment, remuneration structure and their development over time.

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

Review and adjustment of remuneration in the 2017 fiscal year

In the 2017 fiscal year, the Supervisory Board conducted a **market rate and system analysis of the remuneration** of Vossloh AG's Executive Board members with the external support of Deloitte Consulting GmbH's remuneration experts, who, in the view of the Supervisory Board, are independent of the Executive Board and Company. The review confirmed that Vossloh AG's remuneration system meets the statutory requirements and that the total remuneration is appropriate and in line with market practice both in the horizontal (with comparable companies) and vertical comparison (differentiation between the members of the Executive Board from each other and from the downstream levels in the Company). Furthermore, the basis for calculating the variable remuneration and the payments in kind granted were also regarded as appropriate and customary within the market.

Based on the findings of Deloitte's analysis of Executive Board remuneration, Deloitte also issued a recommendation for the further development of the Executive Board remuneration system. The recommendation focused on a structural redistribution within the variable remuneration components by reducing the discretionary portion of the remuneration, which is at the discretion of the Supervisory Board, in favor of the annual bonus and the multi-year variable remuneration. Deloitte recommended a ratio of 40:60 for the ratio of annual bonus to multi-year remuneration components. On the basis of this recommendation, the Supervisory Board reviewed the remuneration system again and adjusted it with effect for the 2017 fiscal year.

New remuneration system for members of the Executive Board since 2017

Specifically, Vossloh AG's new remuneration system for the Executive Board members consists of three components, the basic remuneration, the annual bonus and the multi-year bonus, which break down as follows:

Basic remuneration is a fixed annual sum, based on the responsibilities of each Executive Board member and is to be paid in twelve equal monthly installments. It amounts to around 35 percent of the total target remuneration for the CEO and 40 percent of the total target remuneration for the other members of the Executive Board. In addition, Executive Board members receive noncash fringe benefits as payments in kind, which primarily relate to the private use of a company car. No separate remuneration is provided for services performed on behalf of subsidiaries.

Variable remuneration, which amounts to around 65 percent of total target remuneration for the CEO and 60 percent for the other members of the Executive Board at 100 percent target achievement, consists of an annual and a multi-year remuneration component. The performance targets for variable remuneration are determined annually by the Supervisory Board and consist primarily of financial performance indicators. In addition, one third of the multi-year bonus is based on the personal goals and tasks of the individual Executive Board members. All performance targets are forward-looking and are set by the Supervisory Board with target values at the beginning of each assessment period by means of target agreements with the members of the Executive Board.

The **one-year bonus** is determined via annual performance targets and accounts for 40 percent of the total variable remuneration. The performance targets for the annual bonus in the 2017 fiscal year related to EBIT, revenue and the average working capital intensity of the Vossloh Group.

At 60 percent, the **multi-year bonus** accounts for the majority of the variable target remuneration and is dependent on the achievement of multi-year performance targets. Two-thirds of the performance targets for the multi-year bonus are based on financial performance indicators. For the multi-year bonuses promised for the 2017 fiscal year, these were average revenue growth and average ROCE. The remaining one-third of the multi-year bonus is based on the achievement of individual performance targets and tasks set by the Supervisory Board for the Executive Board members in annual target agreements.

The achievement of targets for the annual bonus and the financial performance indicators for the multi-year bonus are determined annually by the Supervisory Board on the basis of the approved consolidated financial statements. The target bonus is granted if the target is fully realized. The bonus increases or decreases in relation to the target bonus depending on the achievement of the defined target values. The annual bonus and the portion of the multi-year bonus based on financial performance indicators are limited to a maximum of 170 percent of the respective target bonus. The portion of the multi-year bonus based on individual objectives and tasks is limited to a maximum of 100 percent of the basic amount. With regard to the individual goals and tasks of the members of the Executive Board, the Supervisory Board determines whether the targets have been achieved at its discretion.

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

Executive Board remuneration in the 2017 fiscal year

The following table depicts the remuneration for the Executive Board assigned by name and 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 2018 or 2019. Payments in kind cover private company car use in the amount recognized for tax purposes.

€		Fixed remu-neration	Payments in kind	**Total**	One-year variable remuneration	Multi-year variable remuneration[1]			**Total**	Service costs	**Total remu-neration**
Benefits granted						2015 & 2016	2016 & 2017[2]	2017 & 2018[3]			
Andreas	2016	–	–	**–**	–	–	–	–	**–**	–	**–**
Busemann	2017	412,500	15,259	**427,759**	436,570	–	–	359,378	**795,947**	–	**1,223,706**
CEO since	2017 min.	412,500	15,259	**427,759**	0	–	–	0	**0**	–	**427,759**
4/1/2017*	2017 max.	412,500	15,259	**427,759**	510,000	–	–	660,000	**1,170,000**	–	**1,597,759**
Dr. h.c.	2016	500,000	14,736	**514,736**	252,835	100,669	785,287	–	**1,138,792**	(54,401)[4]	**1,599,127**
Hans M, Schabert	2017	125,000	3,684	**128,684**	56,250	–	–	68,750	**125,000**	–	**253,684**
CEO until	2017 min.	125,000	3,684	**128,684**	–	–	–	0	**0**	–	**128,684**
3/31/2017	2017 max.	125,000	3,684	**128,684**	112,500	–	–	137,500	**250,000**	–	**378,684**
Oliver Schuster	2016	350,000	21,970	**371,970**	176,985	70,468	549,701	–	**797,154**	161,071	**1,330,195**
member of the	2017	433,333	22,974	**456,307**	407,465	–	97,362	335,419	**840,246**	213,857	**1,510,410**
Executive Board	2017 min.	433,333	22,974	**456,307**	0	–	–	0	**0**	213,857	**670,164**
since 3/1/2014	2017 max.	433,333	22,974	**456,307**	476,000	–	–	616,000	**1,092,000**	213,857	**1,762,164**
Volker Schenk	2016	350,000	11,485	**361,485**	176,985	70,468	451,701	–	**699,154**	157,473	**1,218,112**
member of the	2017	416,667	11,485	**428,152**	407,465	–	97,362	335,419	**840,246**	208,743	**1,477,141**
Executive Board	2017min.	416,667	11,485	**428,152**	0	–	–	0	**0**	208,743	**636,895**
since 5/1/2014	2017 max.	416,667	11,485	**428,152**	476,000	–	–	616,000	**1,092,000**	208,743	**1,728,895**

*All values for Mr. Busemann in 2017 were calculated pro rata temporis.

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

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

[3] In the case of analogous application of the presentation method selected in this report, the following comparative values for the maximum variable remuneration would have resulted as follows in the previous year: for Dr. h.c. Schabert €1,500,000 and €1,050,000 each for Mr. Schuster and Mr. Schenk.

[4] The negative service costs in the previous year resulted from the actuarial consideration of the termination of Executive Board duties for Dr. h.c. Schabert.

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 variable remuneration were allocated to the years in which they were received by the respective Executive Board member.

Receipt in €		Fixed remu-neration	Payments in kind	**Total**	One-year variable remuneration[2]	Multi-year variable remuneration[1]		**Total**	Service costs	**Total remu-neration**
						2014 & 2015	2015 & 2016[2]			
Andreas Busemann	2016	–	–	**–**	–	–	–	**–**	–	**–**
CEO since 4/1/2017	2017	412,500	15,259	**427,759**	–	–	–	**–**	–	**427,759**
Dr. h.c. Hans M, Schabert	2016	500,000	14,736	**514,736**	343,993	306,317	300,000	**950,310**	(54,401)[3]	**1,410,645**
CEO until 3/31/2017	2017	125,000	3,684	**128,684**	309,085	–	1,116,365	**1,425,450**	–	**1,554,134**
Oliver Schuster	2016	350,000	21,970	**371,970**	65,795	214,422	192,500	**472,717**	161,071	**1,005,758**
member of the Executive Board since 3/1/2014	2017	433,333	22,974	**456,307**	176,985	–	568,629	**745,614**	213,857	**1,415,778**
Volker Schenk	2016	350,000	11,485	**361,485**	240,795	214,422	100,000	**555,217**	157,473	**1,074,175**
member of the Executive Board since 5/1/2014	2017	416,667	11,485	**428,152**	176,985	–	470,629	**647,614**	208,743	**1,284,509**

[1] Including the multi-year special bonuses received in each year.
[2] For Dr. h.c. Schabert, the one-year variable remuneration received includes an amount of €56,250 for 2017 and an amount of €304,037 in the multi-year variable remuneration received for 2015 and 2016. This compensated for claims from the years 2016 and 2017 at the time of his departure.
[3] The negative service costs in the previous year resulted from the actuarial consideration of the termination of Executive Board duties for Dr. h.c. Schabert.

Entitlements in accordance with provisions from the German Commercial Code are as follows:

€		Amount deferred for the fiscal year	Present value of pension obligation
Entitlements to defined retirement benefits			
Andreas Busemann	2016	–	–
CEO since 4/1/2017	2017	–	–
Oliver Schuster	2016	94,424	266,362
member of the Executive Board	2017	249,679	516,042
Volker Schenk	2016	94,382	249,742
member of the Executive Board	2017	241,120	490,862
Dr. h.c. Hans M. Schabert	2016	(29,076)*	229,411
CEO until 3/31/2017	2017	23,178	252,589

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

Retirement benefits. The Executive Board members Oliver Schuster and Volker Schenk 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 1 percent, or in the case of a first time contract renewal 2 percent, up to a maximum of 40 percent of the pensionable annual basic remuneration. The additional provision for Executive Board members in the 2017 fiscal year amounted to €513,977 (previous year: €159,730). 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 60 percent. The CEO, Andreas Busemann, receives an annual amount of €50,000 for the establishment of a private pension, which is to be part of the fixed remuneration.

Commitments in the event of premature termination of duties

Commitments in the event of premature termination of duties. In the event of an agreed premature termination of the employment contract, the Executive Board contracts contain commitments to pay out their expected remuneration, unless the termination is based on a unilateral resignation by the Executive Board member without good cause or on a revocation of the appointment for good cause. However, the commitments are in any case limited to a maximum of two years' remuneration (severance payment cap). No payment obligations are made in the event of an early termination of Executive Board duties due to a change of control.

Consulting activities. During the 2017 fiscal year, Oliver Schuster, member of the Executive Board, spent around one working day per week advising Knorr-Bremse AG on a financial project in the period between June and October 2017. The Supervisory Board approved this temporary advisory activity from the outset. An agreement has been concluded with Knorr-Bremse AG under which Knorr-Bremse AG reimburses Vossloh AG for the portion of the Executive Board remuneration (fixed salary and variable remuneration) and expenses attributable to the time spent on consulting services. Accordingly, Knorr-Bremse AG has reimbursed Vossloh AG for a total amount of €74,554. Compared to the amounts shown in the remuneration tables, Vossloh has therefore incurred correspondingly lower expenses.

Loans to Executive Board members. No advances or loans were granted to any Executive Board members of Vossloh AG in the 2017 fiscal year.

Remuneration to former Executive Board members of Vossloh AG and their surviving dependents. Remuneration in the form of pension payments to former members of the Executive Board and management as well as their surviving dependents totaled €1,133,332 (previous year: €1,105,236). These were pension payments. Current pension payments are subject to adjustment in relation to the collective pay trend in the metal and electrical industries of North Rhine-Westphalia. Pension obligations to former members of the Executive Board and management, as well as their surviving dependents amounted to €19,310,583 (previous year: €18,802,278). Employer pension liability insurance policies totaling €10,624,485 (previous year: €10,784,849) are pledged in each beneficiary's favor. The remaining amount of these pension obligations is covered by provisions.

Remuneration of the Supervisory Board

Supervisory Board remuneration in 2017. 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 complies with German law and takes into account the responsibilities and scope of duties of Supervisory Board members.

In addition to reimbursement for their expenses, Supervisory Board members receive a fixed annual remuneration for duties performed of €40,000 (gross) to be paid after the conclusion of the fiscal year. The Supervisory Board Chairman receives three times and the vice-chairman one-and-a-half times the above fee. Membership in a committee is compensated by a premium of one quarter 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 paid 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 the 2017 fiscal year, Supervisory Board members received a total remuneration of €420,000 (previous year: €410,000).

The table below depicts the amounts paid to each Supervisory Board member:

€	2017	2016
Heinz Hermann Thiele (Chairman until 5/24/2017)	50,000	120,000
Dr.-Ing. Volker Kefer (Chairman since 5/24/2017)	80,000	–
Ulrich M. Harnacke (Deputy Chairman)	100,000	100,000
Ursus Zinsli	50,000	50,000
Dr.-Ing. Wolfgang Schlosser	40,000	40,000
Michael Ulrich	60,000	60,000
Andreas Kretschmann (since 8/30/2017)	16,667	–
Helmut Schwind (from 2/1/2017 to 7/3/2017)	20,000	–
Silvia Maisch (until 1/31/2017)	3,333	40,000
Total	**420,000**	**410,000**

Consultancy agreement. During the 2017 fiscal year, there was a consultancy agreement with Ursus Zinsli, which expired in March 2017. In the year under review, he received €16,000 from this consultancy agreement.

Loans to Supervisory Board members. In the 2017 fiscal year, no advances or loans were granted to any Supervisory Board members.

Statutory takeover-related disclosures pursuant to Section 289a (1) and Section 315a (1) of the German Commercial Code (HGB)

The provisions of Sections 289a (1) and 315a (1) HGB require that the following takeover-related disclosures be made as of December 31, 2017.

Composition of the subscribed capital
The subscribed capital (share capital) of the Company amounts to €45,325,167.47. It is distributed across 15,967,437 no-par-value ordinary shares.

Restrictions on voting rights and share transferability
All shares carry the same rights. Each share grants one vote at the Annual General Meeting. There are no restrictions on the transferability of shares.

Shareholdings in excess of 10 percent of the voting rights
On the basis of the notifications of voting rights submitted to the Company in accordance with the provisions of the German Securities Trading Act (WpHG), the Company holds an interest in the Company's capital that exceeds 10 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, Munich, Germany, pursuant to Section 34 (1) WpHG.

Shares with special rights or rights of control
There are no shares with special rights or rights of control.

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 Sections 84, 85 AktG in conjunction with Article 7 of the Articles of Incorporation. Pursuant to Section 84 (1) AktG, Executive Board members are appointed by the Supervisory Board. They are appointed 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 Section 84 (3) AktG.

According to Section 179 (1) AktG, the Articles of Incorporation may be amended by a resolution of the Annual General Meeting. Pursuant to Article 21 (2) of the Articles of Incorporation but subject to overriding statutory provisions to the contrary, the Annual General Meeting may pass its resolutions with the simple majority of votes cast. Where the law prescribes a capital 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 resolve on amendments to the Articles of Association that only affect the wording. Article 4 (4) 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's authority to issue shares is defined in Article 4 of the Articles of Incorporation.

Authorized Capital
The Executive Board is authorized, subject to the consent of the Supervisory Board, to increase the share capital until May 23, 2022, by up to a total of €22,662,582.32 through one or more issuances of new, no-par-value shares against contributions in cash and/or in kind (Authorized Capital 2017). Existing shareholders are to be granted a subscription right. The shares may also be taken over by one or more credit institutions with the obligation to offer them to the shareholders for subscription.

The Executive Board is authorized, however, subject to consent of the Supervisory Board, to exclude the subscription rights of shareholders in the following instances:

(i) To exclude fractional amounts resulting from the subscription ratio from the subscription right;

(ii) To grant the holders – or, in the case of registered securities, the creditors – of conversion and/or option rights in circulation at the time when the Authorized Capital 2017 is utilized, or of a conversion obligation from convertible bonds and/or bonds with warrants to be issued by the Company or one of its wholly-owned Group companies in the future, a subscription right for new shares to the extent to which they would be entitled after exercising their conversion and/or option rights or after fulfillment of a conversion obligation as shareholders;

(iii) In the case of capital increases against cash contributions, if the issue price of the new shares is not significantly lower than the stock exchange price of the already listed shares of the same class at the time the issue price is finally fixed and the total number of shares issued does not exceed 10 percent of the share capital neither at the time this authorization becomes effective nor at the time it is exercised. Counting toward this capital limit are: (1.) the sale of treasury shares, insofar as they are sold during the term of this authorization under exclusion of subscription rights pursuant to Section 186 (3) sentence 4 AktG; (2.) those shares issued or to be issued to service bonds with conversion and/or option rights or a conversion obligation, if the bonds are issued during the term of this authorization under exclusion of subscription rights in analogous application of Section 186 (3) sentence 4 AktG; and (3.) those shares that were issued during the term of this authorization on the basis of other capital measures under exclusion of shareholder subscription rights pursuant to or in analogous application of Section 186 (3) sentence 4 AktG. The maximum limit reduced in accordance with the above deductions shall be increased again upon the coming into effect of a new authorization to exclude shareholder subscription rights pursuant to or in analogous application of Section 186 (3) sentence 4 AktG adopted by the Annual General Meeting following the reduction, to the extent specified in the new authorization, but no more than 10 percent of the share capital in accordance with the requirements of sentence 1 of this paragraph;

(iv) In the case of capital increases against contributions in kind.

The authorizations contained in the above paragraphs (i) to (iv) to exclude subscription rights in the case of capital increases against cash and/or contributions in kind are limited to an amount not exceeding 20 percent of the share capital, either at the time this authorization becomes effective or at the time this authorization is exercised. The above-mentioned 20 percent limit must also take into account: 1) own shares that are sold during the term of this authorization under exclusion of subscription rights; 2) those shares that are issued to service bonds if the bonds were issued during the term of this authorization under exclusion of shareholder subscription rights; and 3) those shares that were issued during the term of this authorization on the basis of other capital measures under exclusion of shareholder subscription rights.

The Executive Board is authorized, subject to the consent of the Supervisory Board, to determine the further details of capital increases as well as the conditions for the share issue.

Further details of the authorization can be found in Article 4 of the Articles of Incorporation.

Purchase of treasury shares
There is currently no authorization for the Company to purchase treasury shares. As of December 31, 2017, the Company did not hold any treasury shares.

Agreements upon a change of control
There are nine material Company agreements that are subject to a change of control clause.

In two 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, a change of control occurs if 50 percent of capital stock is exceeded:

- A guarantee 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 guarantee facility agreement with HSBC Trinkaus & Burkhardt 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 two other agreements, a change of control means that a company or person directly or indirectly obtains more than 50 percent of the capital shares, or more specifically, the voting shares of the Company:

- A Schuldschein 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, by the next interest payment date (April 30/October 31 of each year) within 30 days after becoming aware of the change of control.

- A guarantee facility agreement facility agreement with SEB AG Frankfurt Branch: 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.

In the case of five other agreements, a change of control means that a person or a group of persons acting in concert directly or indirectly obtain more than 50 percent of the shares or voting rights in the Company, whereby no change of control is justified with regard to Mr. Heinz Hermann Thiele:

- Four Schuldschein loans arranged by Landesbank Hessen-Thüringen Girozentrale and BNP Paribas: In the event of a change of control, the loan agreements contain the right of the loan issuers to demand payment of the outstanding balance, including accrued interest, within 30 days after becoming aware of the change of control.

- A syndicated loan agreement with Bayerische Landesbank, BNP Paribas S. A.'s German branch, Commerzbank AG, Deutsche Bank AG's German Branch, HSBC Trinkaus & Burkhardt AG, Landesbank Baden-Württemberg, Landesbank Hessen-Thüringen Girozentrale and SEB AB Frankfurt Branch, including the sub-credit line agreements concluded 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 30 days after the announcement has been made. In the event of a cancellation, the outstanding balance, including accrued interest, are due and payable within a period of at least 15 days.

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

Workforce

As of December 31, 2017, 3,685 employees within the Vossloh Group contributed to achieving the Group's goals. This represents an increase of 17 employees as against the previous year (3,668 employees) and equates to minor growth of 0.4 percent. The addition of 187 employees due to the inclusion of the Tie Technologies business unit was offset by a reduction in the number of employees due to two companies in the Customized Modules division no longer being fully consolidated as of December 2017.

Workforce-related indicators

€ thousand	2017	2016
Personnel expenses per employee	54.6	53.5
Sales per employee	233.4	223.4

The average number of employees was 3,934 in the reporting year as against 3,682 in the 2016 fiscal year. The increase is largely due to the first-time inclusion of the Tie Technologies business unit, which was acquired at the start of 2017.

Of the total average number of employees, 70.0 percent were employed at the European sites.
Of the remaining 30.0 percent, 43.1 percent (previous year: 32.0 percent) operated in North America and 41.5 percent (previous year: 47.7 percent) in Asia.

Personnel expenses

€ mill.	2017	2016
Wages and salaries	169.6	155.6
Social security expenses and charges	39.8	36.8
Pension expenses	5.4	4.7
Total	**214.8**	**197.1**

In the reporting year, personnel expenses increased by 9.0 percent compared with the previous year.

Divisions

The average number of employees is distributed as follows across the divisions. The following sales revenues were generated on the basis of the associated personnel expenses:

Division	Number of employees		Personnel expenses per employee in € thousand		Revenue per employee in € thousand	
	2017	2016	2017	2016	2017	2016
Core Components	853	631	53.1	47.4	412.1	407.3
Customized Modules	2,546	2,537	51.4	52.1	189.8	194.0
Lifecycle Solutions	473	457	58.3	55.3	192.5	182.8

An average of 62 employees (previous year: 57 employees) were also employed at Vossloh AG.

Competitive advantage of workforce

Vossloh's employees make the difference – with their expertise, their experience, their attitude and their diversity.

Vossloh places great value on systematically supporting each employee in their professional and personal development. In annual performance review meetings, managers and employees make agreements on what action to take to productively support both the employee's development and the strategic growth of the company. Alongside professional seminars and training sessions, such action can include workshops, coaching, mentoring and project-specific deployment on a variety of topics. These are offered not only in traditional physical formats but also increasingly in digital form, where appropriate.

International development opportunities across the Group play an important role in retaining high performers within the organization. Employees are prepared for management duties with programs such as LEAD!, which each year trains a group of high-potential employees to become "One Vossloh" multipliers. The systematic, Group-wide succession planning also ensures that such talented personnel are recognized as potential successors and have the opportunity to advance to management positions throughout the Group.

Efforts to retain personnel start with an attractive vocational training program as well as opportunities for work and study in Germany in order to ensure that Vossloh always has access to new generations of qualified professionals and the best specialists in all fields.

Vossloh has also long recognized the great potential offered by female employees – regardless of the present discussion surrounding mandatory female representation. This is reflected in how many women hold management and specialist functions with responsibility within the Vossloh Group.

Workforce diversity at all levels is another aspect of our competitive advantage. We not only benefit from the experience of older employees and the contributions of "digital natives" but also especially value the influence of a variety of nationalities. Diversity is a clear success factor at Vossloh, which benefits our customers.

Attracting, developing and retaining personnel is an objective that Vossloh has been pursuing by actively endeavoring to enhance its appeal as an employer. The "We are Vossloh" brochure summarizes the arguments in favor of the company perfectly – we give our best to demonstrate this credibly and durably every day.

Occupational health and safety

Our consistent efforts in relation to health and safety proved fruitful in 2017 as accident figures declined. Globally harmonized occupational health and safety conditions are part of this. In addition, focusing on safety before every meeting in the form of the "Safety Contact," the general attentiveness of management and experience-based campaigns on areas of high risk for injuries are further elements of successful development.

Our "zero accidents" vision remains our absolute objective. We work toward this goal every day to protect the health and well-being of our employees.

Thanks to employees

We would like to express our gratitude to our employees, trainees and managers for the considerable effort and commitment that they provide each day on behalf of Vossloh to ensure our customers' satisfaction and thus also the success of our company.

Our thanks go to all of the Group's employee representatives for a highly constructive and trust-based partnership over the past fiscal year.

Research and development

Vossloh is among the technological leaders in rail infrastructure. To satisfy the specific expectations of customers in individual market regions over the long term and reinforce its own market position, the company intensively invests in the enhancement and optimization of its products and services. Innovation is key to maintaining technological competitiveness. The Vossloh Group takes a structured approach to innovation management in order to continuously drive progress and development so that it can offer new, internationally leading rail technology solutions that focus on customer benefits.

The majority of Vossloh's research and development efforts relate to specific orders. This is especially applicable to the Transportation division, which is no longer part of the Company's core business. Accordingly, these expenses are reported under cost of sales in the income statement and not under research and development (R&D). Expenses for the development of a market-ready product are capitalized if they satisfy the criteria defined in IAS 38 for the capitalization of development costs. Development costs that cannot be capitalized are recognized as research and development costs if they are not reported under cost of sales.

In 2017, expenses for research and development – before capitalized development expenses – came to a total of €12.7 million (previous year: €10.6 million). This represents a share of approximately 1.4 percent of Group sales (previous year: 1.3 percent). €4.1 million (previous year: €3.5 million) of R&D expenses were attributable to the Core Components division or exclusively to the Fastening Systems business unit. Vossloh Tie Technologies, the second business unit of the Core Components division, did not incur any R&D expenses in the reporting year. R&D expenses in the Customized Modules division came to €4.0 million (previous year: €3.9 million). €4.6 million (previous year: €3.3 million) were attributable to the Lifecycle Solutions division.

Of the €2.4 million in newly capitalized assets that were generated internally or as a result of third-party deliveries or service performance in the 2017 fiscal year (previous year: €0.4 million), €2.1 million (previous year: €0.4 million) concerned the Lifecycle Solutions division. €0.3 million (previous year: €0.0 million) of capitalized development costs were attributable to the Core Components division.

Vossloh Group – research and development expenses

€ mill.	2017	2016
Research and development expenses	12.7	10.6
thereof capitalized	2.4	0.4
Research and development costs (income statement)	**10.3**	**10.2**
Amortization (of capitalized development expenses)	0.8	0.8

The "One Vossloh" guiding concept implemented in 2014 is reflected in the research and development efforts of the Vossloh Group. As part of this, technology institutions and centers of excellence have been established in recent years, at which the Group unifies its research and development expertise. Development efforts follow a systematic approach that encompasses multiple core business divisions. Regular innovation forums offer experts in the core business divisions the opportunity to develop new ideas and solutions. Removed from the distractions of day-to-day business, this gives rise to creative and novel development approaches that are analyzed in a holistic context and developed specifically to meet a variety of customer needs and market demands. This provides a key advantage – the close collaboration of the various Vossloh divisions enables products and services to be developed for an optimized general solution. This R&D team cooperation within the Group was expanded further in the 2017 fiscal year. The key topics included improvements to route availability, extending the lifecycle while reducing lifecycle costs and reducing noise emissions from rail traffic.

Vossloh's R&D experts throughout the Group are also addressing the consequences of the increasing loads placed upon rails and the wear and tear upon rail components that this entails.

For some of its development activities, Vossloh also makes use of the specific expertise of external specialists from the Group's network of experts. The Group cooperates closely with a range of renowned universities and research institutes through long-term partnerships. Thanks to the state-of-the-art analysis and testing methods that this additionally provides access to, components can be analyzed from the outset in terms of engineering or production issues and optimized accordingly. Mathematically calculated results and findings from studies under laboratory conditions are then measured and verified under real conditions on the tracks.

The R&D activities of the Core Components division in 2017 continued to focus on new noise and vibration mitigation solutions as initiated in the previous year. This focus area addresses growing customer demands in relation to improved rail acoustics in the face of increasing rail loads and ever-higher speeds. The division's internal development expertise has been reinforced and has been expanded by way of the collaboration with relevant engineering companies, institutes and universities. With novel track analysis, calculation and testing methods, the R&D team of the Fastening Systems business unit succeeded in developing a new tension clamp with optimized frequency properties. For the new product SKL 15 HF, expanded approval and homologation procedures have been introduced. Another focus area was the increased use of novel materials for fixture components and systems. These efforts concentrated on materials that can be used to substitute wooden crossties and bridge beams. With the new development of highly-elastic polymer-based systems for regional transportation, attention has turned to other applications, specifically to accommodate local requirements in North America and China, and these have been successfully implemented in a number of initial approvals, test routes and rail transports.

The personnel and technical R&D capacities of the Customized Modules division have been combined at the new Technology Center in Reichshoffen since 2015. The primary purpose of the research and development efforts is to achieve continuous development of switch systems and components. This range of expertise was expanded once again in 2017, resulting in the availability of additional expertise for simulations, for the performance of measurements and their analysis, and for product testing. As in previous years, the largest share of development efforts related to switch components and switch monitoring products. The R&D experts concentrated on optimizing lifecycle costs and the reliability and service lives of the products. This required optimized rail/wheel contact, reduced wear and efficiency in maintenance. To improve the performance of switch systems, the production processes needed to be optimized and the risk of failure of individual switch components had to be minimized. A particular aim of the Signal Engineering division was to improve the performance of electromechanical safety products for use under extreme conditions, for example where heavy loads or increased dust production is an issue. The technicians also developed numerous new solutions for telephone communication and monitoring systems.

In the Lifecycle Solutions division, R&D activities were centered on both engineering services and on the development of new products. The core topic being addressed here is the (ongoing) development of machinery and systems for handling rails and switches. The R&D focus areas for the 2017 fiscal year included the development of a new mobile rail milling machine for urban transport applications, as well as other developments related to the HSG-2 and HSG-city railgrinders. Other key focus areas included the pre-development of measurement equipment for HSG railgrinders and high-performance milling (HPM) machines. The specialists there continue to work on the pre-development of asset management software for the processing and visualization of measurement data. The approval of HSG-city under the Ordinance on the Construction and Operation of Railways ("Eisenbahn-Bau- und Betriebsordnung," EBO) and Ordinance on the Construction and Operation of Street Railways ("Straßenbahn-Bau- und Betriebsordnung," BOStrab) was another major milestone in 2017.

Vossloh also contributes to externally-developed innovations. In several major Europe-wide projects, the Group's divisions are continuously contributing to the rail transportation of the future. For instance, the Customized Modules division has been participating in the RAILENIUM project for several years. This project focuses on reducing pollutant and noise emissions, on the use of alternative energy sources, and on greater safety and performance in rail transportation. In 2017, this division was also a contributor to various projects with the ENSAM (focusing on machining technologies), IFSTTAR (focusing on tools for simulations) and CEMOSIS (focusing on research in data processing) institutions.

Environmental protection[1]

Vossloh places great value on sustainability in general and the protection of the environment in particular. The Nonfinancial Group Statement[2] regarding sustainability issues can be found on page 34 et seq.

The Vossloh Group's environmental management primarily endeavors to achieve efficient resource consumption and minimize environmental contamination. To achieve these objectives, processes are continuously adapted to current circumstances. A structured approach is taken toward advancing innovation for sustainable solutions. The individual companies of the Vossloh Group regularly undergo environmental audits conducted by external, independent auditors. All of the major sites of Vossloh's core divisions have now been certified in accordance with environmental management standard DIN EN ISO 14001 and/or comparable standards.

Material consumption and waste volumes are systematically recorded and monitored by means of a comprehensive hazardous substance and waste management system. Vossloh uses disposal methods that are separated according to waste types as well as economically viable recycling procedures. The selected waste management companies are then audited regularly. As a company that is operationally dependent on raw materials, Vossloh is careful to use all natural resources responsibly and sparingly. This care extends to the entire process and value chain. Energy use and environmental concerns are consistently analyzed, while production processes, transportation and logistics are optimized on an ongoing basis. Wherever possible, renewable energies are used, sometimes directly in the form of the Company's own solar generation facilities, but also indirectly with the procurement of certified green power. All of the Vossloh Group's divisions have taken specific action for years to increase their energy efficiency, and this enabled the achievement of noteworthy progress in 2017 in the field of environmental protection.

The Core Components division, along with the Fastening Systems and Tie Technologies business units, took even greater steps in 2017 to reduce resource consumption and limit environmental contamination. At Vossloh Fastening Systems' sites in Werdohl and Lüdenscheid, electricity consumption was reduced even further. This was due in part to the lighting systems being switched to LED light sources. Additionally, the repair of leaks enabled the operating pressure of the compressed air network to be reduced. The combined heat and power plant that entered service in 2016 has also saved valuable resources, as it produces heat and electricity from natural gas. This enables the hot water needed to clean tension clamps before the heat treatment process to be produced with minimal energy. The energy management software launched in 2015 enables real-time monitoring of electricity, gas and water requirements, as well as those of other resources. In 2017, further network-linked meters were installed and integrated into the system. At Vossloh Tie Technologies, the topic of wastewater neutralization plays an important role. To protect the environment and ensure that wastewater is as free as possible of production residues, "sedimentation chambers" are used in the factories.

The Customized Modules division also implemented numerous programs in 2017 to use energy resources more efficiently and further reduce greenhouse gas emissions. Major progress was achieved by extensively reorganizing and partly relocating business activities, which also helped to optimize space usage. Activities of particular note included initial steps toward modernizing the production facility in Outreau and integrating the signal engineering activities into the switch plant in Reichshoffen. Optimization potential identified in an energy audit performed in 2016 was also consistently leveraged at the sites in Reichshoffen and Fère-en-Tardenois. This primarily concerned the repair of leaks in the compressed air network. New performance indicators were also introduced for environmental reporting. Additionally, awareness of an environmentally friendly approach to sustainability-critical topics at the workplace is also intensified at regular training sessions in the Customized Modules division. In this context, all employees are routinely informed about specific energy saving objectives and ideas for developments. Important initiatives in this regard included the increased use of video conferencing systems and the introduction of a new travel policy.

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[1] Part of the nonfinancial statement audit for providing limited assurance – see page 46.

[2] Not part of the financial statement audit, but part of an audit to obtain limited assurance – see page 46.

With an extensive environmental and energy saving program, the Lifecycle Solutions division is continuously reducing its environmental footprint. A large number of the division's sites now only procure green power, for example. In several companies, the lighting of the plants, halls and offices is gradually being switched to smart, energy-saving lighting systems, in particular LED technology. The replacement of the compressed air system at the Nuremberg site is also having a positive impact on power use, while gas consumption at the Veddel site was reduced thanks to the optimization of the firing process. The renovation and modernization of a production space in Hamburg also represented a milestone in environmental management, with the division installing a heat reclamation facility that is used for welding. All of these measures contribute to reducing CO_2 emissions to a lower level. Important progress has also been made in the field of waste management by examining how employees are instructed, addressed and trained and by optimizing waste collection points. Thanks to the collaboration with waste management companies, the disposal rate for grinding dust from HSG trains has now been increased to 90 percent.

*Nonfinancial Group Statement**

Vossloh's 2017 annual report is its first report to include a nonfinancial statement for the Group in accordance with commercial law requirements. To prepare the Nonfinancial Group Statement, Vossloh used the German Sustainability Code (DNK) as its framework and applied the standards of the Global Reporting Initiative (GRI) within the DNK in order to select the nonfinancial performance indicators (GRI G4 "Core" option). Its reporting covers the Group's global activities; the companies considered equate to the scope of consolidation of the consolidated financial statements (see page 99 et seq. in the Group's annual report, "Consolidation").

The reporting is based on the results of a materiality analysis of the nonfinancial issues on the basis of which the Company lives up to its environmental, economic and social responsibilities. A multistage process was used to identify and prioritize the topics relating to these areas that are relevant to Vossloh both within the Company itself and in the upstream and downstream areas. An initial list of 27 potentially relevant issues was then whittled down to 13 issues of particular relevance on the basis of a global survey of experts and executives in various positions within the Company followed by a workshop. Carefully selected experienced experts from all the business units and from Vossloh AG as the management holding company, among them representatives of Sales, Investor Relations and Human Resources, contributed the perspectives of the stakeholders with which they are in ongoing dialogue. In the workshop, the participants evaluated the topics regarding their current and future impact of Vossloh's business activities on the aspects on the one hand, and, on the other, in terms of their relevance to the course of business, the results of business and the net assets, financial position and results of operations of the Vossloh Group. The nonfinancial aspects and issues identified as important in the materiality analysis were then discussed by the Executive Board and were deemed to be appropriate. The materiality matrix below elucidates the importance of the individual nonfinancial aspects and issues:

* Not part of the financial statement audit, but part of an audit to obtain limited assurance – see page 46.

The Vossloh annual report/management report contains supplementary and/or more detailed information regarding many of the nonfinancial aspects and issues considered below, and these are cross-referenced accordingly. All of the material risks related to Vossloh's business activities are also part of the Company's risk reporting. It also covers Vossloh's material nonfinancial risks (see the "Nonfinancial risks and opportunities" section on page 52).

Significance of sustainability issues to the Vossloh business model

Vossloh is active in rail technology markets worldwide. The Company's core business is rail infrastructure. The Group's core activities are organized into the divisions of Core Components, Customized Modules and Lifecycle Solutions. In addition, Vossloh is involved in the locomotive business, which is reported as discontinued operations in this annual report. Details of the Vossloh business model can be found in the "Business and market environment" chapter on page 4 et seq.

Vossloh makes an important contribution to people's mobility and to the transportation of goods. For both local and long-distance traffic, rail is one of the most sustainable, most economical and also safest means of transport. Vossloh also lives up to its corporate social responsibility in its business activities, as sustainable economic success is only possible in the international arena on the basis of responsible business conduct. This includes both the Company and its employees adhering to the applicable laws, respecting basic ethical values and acting in an exemplary fashion at all times and in all scenarios.

As a rail technology company, Vossloh operates in a field of industry in which sustainability is a top priority. With its products and services, the Group plays a part in making the transportation of people and goods as safe as possible on the one hand and environmentally friendly on the other. Resources should be used sparingly and emissions – in rail technology, first and foremost carbon and noise emissions – should be kept as low as possible or further reduced with the help of new technologies.

Accordingly, Vossloh reports on issues in the following areas in its Nonfinancial Group Statement:
- Environmental matters, in particular the material issues climate-related emissions and noise emissions
- Employee matters, in particular the material issues occupational health and safety, vocational and further training and development, labor conditions and being an attractive employer
- Corporate governance, compliance, anti-corruption and bribery matters, compliance with antitrust law and the respect for human rights, all grouped under the term corporate responsibility
- Customer and product matters, in particular the material issues product safety and customer satisfaction

Social matters are also addressed in accordance with the statutory requirements.

Sustainable actions have been an integral part of the Vossloh corporate culture for some time. The Company combines long-term economic value added with environmental and social responsibility. Sustainable solutions and innovative processes are promoted in a structured manner at Vossloh. At the heart of everything is a holistic view. In its core divisions of Core Components, Customized Modules and Lifecycle Solutions, Vossloh has begun to gradually bring the existing environment, energy, quality, occupational health and safety management systems together to create an integrated management system that will be subject to regular audits by independent external auditors. The Vossloh Fastening Systems and Vossloh Rail Services business units passed recertification audits in the course of 2017.

On November 28, 2017, the Vossloh Executive Board adopted a statement regarding the Group's sustainability orientation, which was published under the heading "Sustainability" in the "Investor Relations" section of the corporate website www.vossloh.com. This states: "With regard to our day-to-day business activities, we [...] set high standards regarding corporate governance, the health and safety of our employees, protection of the environment, as well as the fair treatment of suppliers, customers and other business partners."
At the same time, a new Sustainability area of responsibility was created within operational management; this falls within the remit of the Chief Technology Officer (CTO), who is involved in all the concepts related to the topic of sustainability. The CTO also oversees the newly founded sustainability working group comprising those within the Group who are responsible for Compliance, Environment/Health/Safety (EHS), Human Resources (HR) and Investor Relations (IR)/Controlling. This body regularly discusses sustainability issues. One of its key tasks is to further develop the various approaches to sustainability that already exist within the Company and to further clarify the Group's sustainability strategy. This includes developing quantifiable goals that Vossloh will henceforth seek to achieve in the area of sustainability (including scope and time frame).

Vossloh has been listed in a number of sustainability indices since 2008, including the Global Challenges Index and via oekom research's investment universe. In recent years, more and more of the Company's entities have been awarded certification in at least one of the international quality, environmental and social standards such as ISO 14001, ISO 50001 or OHSAS 18001 or a comparable national standard and now have corresponding management systems in place. As of the reporting date December 31, 2017, more than 95 percent of the Vossloh workforce was employed at an entity with such certification. The remaining corporate entities and the entities belonging to the Tie Technologies business unit, which has been a part of the Vossloh Group since the beginning of 2017, are currently working on paths to being awarded certification and are to be introduced to the standards gradually over the next few years. The Group is, however, still relatively new to the systematic collection of Group-wide facts and figures regarding nonfinancial performance indicators – among other things due to the fact that Vossloh had a decentralized organization until mid-2014 and implemented fundamental restructuring of all the Company's divisions up to the end of 2017. Only with its restructuring as an integrated Group ("One Vossloh") did it begin to coordinate the divisions and harmonize the rules and systems with regard to nonfinancial aspects, too. In addition, the production processes and services of Vossloh's divisions and business units have considerably different basic structures, making the uniform Group-wide recording of, for example, energy or resource consumption levels more difficult.

There is therefore currently only uniform Group-wide quantitative data for some of the material nonfinancial aspects and issues. For example, Vossloh uses the consolidation software IBM Cognos Controller to centrally log and check plausibility regarding environmental aspects such as its energy consumption levels at all the sites around the world and, with regards to employee aspects such as workplace safety, its developments in the area of human resources (including for internal planning, management and controls). Figures for the Group as a whole are also available in the area of compliance (respect for human rights, anti-corruption and bribery matters). Insofar as other quantitative data regarding nonfinancial performance indicators relates to individual entities only, this is stated as being the case accordingly.

Environmental matters

Compliance with all the applicable environmental protection criteria and the avoidance of environmental risks are top priorities within Vossloh's environmental management. Both in terms of production and the provision of services, Vossloh acts in accordance with international standards and guidelines, in particular ISO 14001 and ISO 50001. Applying these standards helps to minimize potential risks for the environment. There are no material risks that are not recorded by the Company's risk management system. Environmental officers have been appointed at the various levels and a corresponding report system has been put in place. In its materiality analysis, Vossloh identified climate-related carbon emissions and noise emissions as the most significant nonfinancial performance indicators in the area of the environment. In this respect, Vossloh has been pursuing the general objective of continuously reducing its emissions for years. Defining concrete targets for specific time frames is one of the responsibilities of the sustainability working group newly created at the end of November 2017.

With regard to the impact on climate change, only carbon emissions and carbon equivalents are relevant to Vossloh, these being generated by the energy consumption of Vossloh itself or in the upstream or downstream areas. All the Vossloh divisions have been making targeted investments to reduce energy consumption and boost energy efficiency for years. Vossloh has photovoltaic systems at a number of its production plants and uses waste heat from production. The key activities in this area in 2017 are outlined on page 36 et seq. ("Environmental protection" chapter).

The two tables below show the Vossloh Group's consumption of the key energy sources in the 2017 fiscal year:

MWh (Vossloh Group)*	2017
Gas consumption	101,154.6
Electricity consumption	69,715.5
District heating consumption	4,750.6

*Gas consumption of 1,779.4 MWh, electricity consumption of 6,696.6 MWh and district heating consumption of 15,218.0 MWh were calculated for the Transportation division in 2017, which is reported as discontinued operations.

Liters (Vossloh Group)*	2017
Heating oil consumption	340,217.0
Fuel consumption[1]	1,106,042.7

*Heating oil consumption of approximately 10,000 liters and fuel consumption of 55,774.0 liters were calculated for the Transportation division in 2017, which is reported as discontinued operations.
[1] This includes the fuel consumption of Vossloh's vehicle fleet.

To ascertain Vossloh's carbon and greenhouse gas (GHG) emissions, an initial stocktaking of the key emission sources was performed on the basis of the Greenhouse Gas Protocol in 2017 in the categories of scope 1 (direct emissions from the combustion of fossil fuel sources for heating and mobility) and scope 2 (indirect emissions from the generation of purchased electricity). This produced the following results:

t CO_2 equivalents, scope 1 (Vossloh Group)	2017
Gas consumption	18,221.4
Heating oil consumption	861.4
Fuel consumption	2,829.8
Scope 1*	**21,912.6**

*490.5 tons of scope 1 carbon equivalents were calculated for the Transportation division in 2017, which is reported as discontinued operations.

t CO_2 equivalents, scope 2 (Vossloh Group)	2017
Electricity consumption	35,356.1
District heating consumption	1,837.6
Scope 2*	**37,193.7**

*7,861.5 tons of scope 2 carbon equivalents were calculated for the Transportation division in 2017, which is reported as discontinued operations.

Vossloh does not currently have Group-wide data with which to ascertain the greenhouse gas emissions relating to the upstream and downstream areas (scope 3).

At the same time as ascertaining the carbon emission levels, Vossloh identified the potential to improve its greenhouse gas balance sheet and derived concrete measures accordingly over the course of 2017. For example, Vossloh AG amended its guidelines for employee company cars with effect from June 1, 2017, such that now only vehicles with a diesel, hybrid or electric engine and with emissions of less than 150 g CO_2/km according to the manufacturers' information are permissible. An incentive system was implemented to promote reduced-emission company cars. The lower a company car's carbon emissions are than 120 g/km, the greater the leasing budget awarded to an employee. Conversely, the leasing budget is reduced relative to how far above 120 g/km a company car's carbon emissions are. Vossloh Fastening Systems and Vossloh AG are participating in the Clean Advantage™ program, which offsets emissions of carbon dioxide and other greenhouse gases caused by company vehicles with investments in reforestation, alternative energy and biomass projects, among other things. The certificates examined for 2017 represent the offsetting of a total of 1.77 metric tons of carbon dioxide. Customized Modules amended the travel guidelines applicable to its employees. It was possible to eliminate a large number of business trips by expanding and making systematic use of the videoconferencing system, resulting in a reduction in greenhouse gas emissions of around 15 percent in 2017. Vossloh Rail Services transitioned its Hamburg-Veddel and Hanover sites entirely to green electricity back in 2016. Further VRS companies were transitioned in 2017, meaning that this division now covers 32 percent of its electricity requirements with renewable sources. There are green electricity and climate protection certificates for suppliers' electricity procurement in 2017. According to these certificates, Vossloh avoids more than 400 tons of attributable carbon emissions a year by switching to green electricity.

Noise emission

Noise development is not an issue of relevance to Vossloh regarding sustainability; the Company meets all the statutory emission regulations. However, noise control along all the different types of rail route on which Vossloh products are used or for which Vossloh provides services is an issue that is very much in the public eye and is one of the pressing challenges that the rail infrastructure currently faces. Noise hampers the urgently needed expansion of routes, causes sickness among people living near rail routes and results in high costs for the transport operators and consumers. Effective noise reduction hinges on combating noise where it originates, namely in the tracks. Reducing the noise caused by rail traffic and improving track acoustics have been a focus of Vossloh's research and development work for years.

The Company offers suitable products and services in all of its core business areas. Vibration-reducing special materials like cellentic rail pads and intermediate plates for rail fastening systems minimize the structure-borne sound caused by track vibrations when a train passes. The 336 Duo rail fastening system with a specially developed elastomer was installed on multiple metro routes in Chinese cities including Beijing. Readings showed that the Vossloh product could absorb up to 8 decibels more than the conventional local systems. Thanks to the special shape of the frogs and flexible point blades, the loud bangs usually caused by passing trains do not occur in the case of Vossloh's "whisper" switches. Use of this kind of switch system in Shanghai's metro system, for example, allowed noise emissions to be reduced by between 5 and 8 dB(A). Vossloh's services like high-speed grinding (HSG), high-performance milling (HPM) and the Flexis System stand not only for preventive rail maintenance but also for significant noise reduction, because the restoring of a "smooth," clean surface that can be achieved in this way plays a part in reducing the noise caused by passing trains. Calculations made by the Technical University of Berlin showed that high-speed grinding could ideally result in an acoustic improvement of up to 10 decibels, depending on the initial situation and the degree of surface grinding required. For example, the HSG-city grinding machine's resource-friendly surfacing grinding that removed just 0.1 mm on a stretch of the Rheinbahn railway in Düsseldorf directly resulted in noise reduction of 4 dB(A). And regular maintenance grinding performed on DB AG's high-speed railway lines by the HSG railgrinder resulted in noise reductions of up to 5 dB(A), depending on the condition of the tracks.

Employee matters

The key nonfinancial issues identified by Vossloh in its materiality analysis in relation to employee matters were occupational safety and health, vocational and further training, and being an attractive employer. The concepts developed and implemented in these areas by the HR departments at the various levels within the Group and the general objectives pursued with these concepts are explained below. Defining concrete targets for specific time frames is one of the responsibilities of the sustainability working group newly created at the end of November 2017. Potential personnel risks and the measures used to prevent them are outlined in the section "Nonfinancial risks and opportunities" in the chapter entitled "Risk and opportunity management" (see page 52).

Occupational health and safety

Workplace safety and maintaining the employees' health are at the heart of Vossloh's care obligations as an employer. With the exception of the Tie Technologies business unit acquired in early 2017, all of the Company's major production plants around the world are certified in accordance with the internationally recognized OHSAS 18001 (Occupational Health and Safety Assessment Series) standard and are subject to the prescribed audits as performed by independent external auditors. At the end of 2017, almost three-quarters of the Vossloh workforce were employed at entities certified in accordance with OHSAS 18001. The switch and system servicing segment within Vossloh Rail Services has even had SCC (Safety Certificate for Contractors) certification since 2017, which goes above and beyond the requirements of OHSAS 18001. For the managers of the operating units, achievement of the defined occupational safety performance indicators is an integral part of their yearly pay-related target agreements.

There has been a permanent Group-wide occupational safety body since 2012 in the form of the Work Safety Committee. This has initiated important steps to harmonize the occupational safety conditions across the various divisions in recent years. For example, Vossloh now has a standard occupational safety policy that is mandatory for all of its companies around the world and has an established zero-accident strategy vision.

Since 2014, workplace accidents throughout the Group have been documented every month on the basis of uniform criteria. The key performance indicators here are the globally used metrics of lost time accident frequency rate (LTAFR) and lost time accident severity rate (LTASR). Accidents resulting in lost time due to an employee's ill health are reported directly to the Executive Board in a timely manner. At the end of 2016, the Work Safety Committee and Group Works Council agreed to work together closely in order to significantly reduce the number of workplace accidents.

Workplace accidents (Vossloh Group)*	2017
Lost time accidents[1]	80.0
Lost time accident frequency rate[2]	12.3
Lost time accident severity rate[3]	1.7

*The following values can be stated for 2017 for the Transportation division reported as discontinued operations: LTA = 14, LTAFR = 16.8 and LTASR = 0.9.

[1] Accidents involving injury-related lost time of at least 1 hour

[2] Frequency of accidents involving injury-related lost time of at least 1 hour in relation to the cumulative actual work time, based on 1 million hours worked

[3] Severity of accidents involving injury-related lost time of at least 1 hour in relation to the cumulative actual work time, based on 1 million hours worked

Both accidents with and without lost time and near-accidents are systematically analyzed in order to learn from them for the future at all the Company's sites. The definition of Group-wide targets for specific time frames in the area of occupational safety in close consultation with the Work Safety Committee is likewise one of the responsibilities of the newly created sustainability working group.

Prevention is a matter of importance to Vossloh in order to stop workplace accidents from happening in the first place. This includes regular conduct-based safety inspections designed to raise safety awareness among the employees, regular safety instruction and training for all the staff, the provision of comprehensive protective equipment and awareness campaigns. For example, a hand protection campaign run in 2017 focused on the risk of injuries to hands and fingers, which were affected in almost one in two accidents in 2016. A Group-wide campaign known as "4 Sekunden für die Sicherheit" (4 Seconds for Safety) was established at the initiative of the Work Safety Committee: Every day, every new activity, every shift talk and every get-together at Vossloh – not just in the production area – begins with a brief discussion of specific safety aspects.

In December 2017, the Executive Board and a globally renowned and experienced partner put a uniform and up-to-date travel safety management system in place for employees required to travel internationally in their work for Vossloh. It encompasses both the medical and technical safety aspects of business travel and has been available since February 1, 2018.

Vossloh's occupational health management pursues the goal of offering all its employees preventive health care and promotion. This includes occupational safety measures (see above) and driver safety training as well as daily fruit, nutritional advice, company sport (including jogging groups and yoga courses), support with quitting smoking, and preventive measures like flu vaccinations, health screenings and health care tips.

Training, further training and development

Aging societies in developed countries, a shortage of skilled workers in many parts of the world, global competition for well-qualified engineers and the younger generation's changing expectations of employers – these are just some of the challenges faced by Vossloh, which is a relatively small group, in the area of human resources.

One of the Company's major advantages in terms of its attractiveness as an employer is the comprehensive array of development measures it offers its employees, with these measures being agreed upon by an employee and their manager in the annual performance review meeting as a means of individually nurturing the employee while taking operational needs into account. Implementation of these measures is closely monitored and evaluated by the HR departments. As a key management tool, the yearly performance reviews entail not only such development measures but also mutual feedback from the manager and the employee regarding working together. Many of the Vossloh Group companies have fixed quotas regarding the number of yearly performance reviews conducted, to serve as a performance indicator. For example, the Fastening Systems business unit had a quota of 98 percent in 2017. This means all the managers conducted yearly performance reviews with all the employees with the exception of those on long-term sickness leave (more than six months).

The array of professional development measures covering all areas of expertise comprises external and internal training, workshops, project involvement (within or outside of a business unit) and coaching. Vossloh also promotes employees gaining qualifications on their own initiative, such as studying alongside working. In addition, as part of its talent management, Vossloh promotes and challenges future managers and carefully selected specialists with its annual LEAD! program. This executive development program encompassing all the business units turns high-potential employees into "One Vossloh" multipliers, preparing them for further responsibilities as part of the Company's systematic succession planning.

The Vossloh Academy established a number of years ago is currently undergoing a relaunch entitled LEARN.SHARE.GROW. This Vossloh learning platform now also offers international and digital learning opportunities in a variety of teaching formats, including on strategically important topics like innovation and digitalization.

In the area of initial vocational training for young people, there is great demand at Vossloh in Germany for dual training, in other words the combination of company-based training and studies, in both the industrial/technical and clerical fields.

Labor conditions

Committed employees are the bedrock of the Company's long-term success. Vossloh therefore attaches great importance to fair labor conditions. Key issues in this regard are fair remuneration, additional company benefits (above and beyond the statutory and/or tariff-based arrangements) and a safe work environment. Observing local laws and standards (for example, regarding a minimum wage or fundamental labor law conditions) is an integral part of Vossloh's compliance obligations. The European Works Council and the Group Works Council regularly invite the Executive Board and Corporate Human Resources to their meetings in order to guarantee the flow of information, discuss scope for improvements and raise new issues.

Vossloh's HR policy is family-oriented. In 2018, the Group Works Council and Vossloh AG have made it their goal to reach a general agreement regarding the reconcilability of family and a career. It includes a catalog of ways in which this can be achieved. The Vossloh companies can use this to select measures in cooperation with the local employee committees and then implement them, taking into account the interests of the employees and the measures' business necessity. The family-friendly instruments range from flexible working hours, flextime and part-time and parental leave models to mobile working, personal sabbaticals and childcare services. In addition, the Group Works Council and Vossloh AG resolved to participate in "Audit Familie & Beruf" certification in 2018.

Vossloh's incentive system also includes issues that strengthen the Company's sustainability focus. For example, employees throughout the Group take part in a continuous improvement process (CIP) that also involves them financially in the revenue that results from their ideas for improving product, process and service quality. One such idea to be realized and rewarded was the suggestion made by an employee of Vossloh Fastening Systems to adopt a different method of packing Skl 14 tension clamps in shipping crates, which made it possible to pack an additional 100 clamps per crate. This allows energy relating to transportation to be saved. Another suggestion has made it possible to reduce the number of visits to production to remedy malfunctions – data glasses allow technicians to assist their production coworkers with repairs remotely via videoconference.

The general rules for working at Vossloh are summarized in a Code of Conduct that each and every employee is required to sign upon joining the Company. The Code of Conduct stipulates and precisely defines the values of integrity and upstanding business conduct. The principles of conduct that this prescribes are a binding yardstick and benchmark for the day-to-day activities of all the employees (see also the detailed coverage of the topic of compliance on page 43 et seq.).

Vossloh expects all of its business partners, be they companies or individuals, "to apply similar standards to the ones we have established for ourselves," as the Company's Code of Conduct stipulates. Suppliers, service providers and subcontractors who are working with Vossloh are required to provide comprehensive information on themselves by means of checklists. Increasingly, the issues of safety, health and the environment are likewise being considered in these evaluations as Vossloh itself is required to present its own customers with evidence in these areas (see the "Customer and product aspects" chapter on page 45 et seq.). For example, in early 2017, Vossloh Rail Services expanded its evaluation matrix to include the topics of occupational safety and environmental protection, and asks its suppliers to present certification in these areas. In 2017, Vossloh Fastening Systems implemented a contractor management system for services and service contracts that requires potential partners to disclose their setup in the areas of occupational safety and health prior to being contracted.

Attractive employer

Vossloh's corporate culture is founded on the four basic values of "passion," "striving for excellence," "trust and respect" and "entrepreneurship." That these values are practiced on a daily basis is an important argument for Vossloh in terms of both competing for qualified professionals and retaining skilled employees in the long term. "GET – KEEP – GROW people" is the central motto of the Human Resources (HR) Policy in force since February 2017, which also takes into account the transition from a decentralized organization to an integrated Group ("One Vossloh").

Vossloh continuously boosts its appeal as an employer with an array of measures such as:

- Systematic promotion of talented individuals and junior employees (including with the LEAD! Development program)
- Support for executives (including leadership mindsets, qualification programs)
- Group-wide succession planning to facilitate international careers within the Group
- Occupational health management (see "Occupational health and safety" on page 39 et seq.)
- Company ambassadors (including "Employees recruit new employees")
- Joint development by employee representatives and the management of topics relevant to success (e.g. collaboration between the Work Safety Committee, the Group Works Council and the European Works Council in the areas of occupational safety and development of a Group-wide "Career and family" works agreement)
- In Germany: Erstausbildung@Vossloh (various initial training opportunities in industrial/technical and clerical areas and dual training options)

Vossloh Group companies assess employee satisfaction by means of regular surveys regarding various focal issues. The surveys are conducted and evaluated using scientific methods, and the results serve as the basis for improvement measures and changes. For example, Vossloh Fastening Systems concluded a modular qualification program in 2017, which had been started in the previous year, with an employee survey on leadership quality. The annual Group-wide staff appraisals are another institutionalized means of obtaining feedback.

Vossloh's flat hierarchies generally promote open dialogue within the workforce. Since the introduction of the "One Vossloh" principle to the integrated Group, the Executive Board has also been actively pushing for cross-divisional communication. One of the goals of the "One Vossloh" principle is to establish a globally uniform image that is presented to our customers.

Social matters

In view of the fact that Vossloh had been a decentralized organization until mid-2014 and underwent fundamental restructuring up to the end of 2017, there is currently no Group-wide concept for social aspects. Also, the contributions made to the community by the individual corporate entities at the various sites are not systematically recorded, and it is therefore not currently possible to make statements for the business units or division in this regard. The risks arising from these endeavors are, however, part of the Group's risk reporting (See "Nonfinancial risks and opportunities," page 52).

Individual companies traditionally support civic society at their respective locations in a variety of ways. In Werdohl, for example, Vossloh Fastening Systems worked closely with local schools again in 2017 as part of the "Initiative Technik" (Technology Initiative). Vossloh Rail Services lent its support to a number of aid organizations in Hamburg in 2017. A large number of Vossloh employees also got involved in their local communities in their free time.

Additionally, Vossloh's research and development departments in particular collaborated with a number of universities and research institutes at varying levels and in various constellations, including in Germany, France, Sweden and the U.S.

Corporate responsibility

The nonfinancial issues and aspects of corporate governance, compliance, anti-corruption and bribery matters, compliance with antitrust law and the respect for human rights are outlined below. All of the above points have responsibility and risk minimization in common. As a global enterprise with an approximately 130-year history, Vossloh has a social responsibility toward its customers, employees, partners, investors and the public. This corporate responsibility includes the Company and its employees adhering to the laws as applicable, respecting basic ethical values and acting in an exemplary fashion at all times and in all scenarios.

Corporate Governance

As a German stock corporation, Vossloh AG has a dual management and monitoring structure as reflected in the two bodies the Executive Board and the Supervisory Board. Both bodies have an obligation toward the Company's well-being and the interests of the shareholders. As a third body, the Annual General Meeting is responsible for important fundamental decisions made by the Company.

Compliance/combating corruption and bribery/ compliance with antitrust law

Preventing violations of the law of any kind, in particular corruption and anticompetitive behavior, is a key concern of the Vossloh Executive Board for the entire Group. The Executive Board has also unequivocally summed this up in its Compliance Commitment, which states: "Compliance with the law has absolute priority over closing a deal or achieving internal targets. We would rather forgo a business opportunity than violate the law. We will not tolerate any violation of the law or of our internal guidelines and policies and will sanction any such behavior (zero tolerance policy)"(see www.vossloh.com > "Investor Relations" > "Corporate Governance" > "Compliance"). The area of compliance is overseen within the Executive Board by the Chief Financial Officer (CFO).

The Executive Board of the Vossloh Group has established a Compliance Management System. The Vossloh Group's Rules of Procedure of the Compliance Organization govern the Compliance Organization, the assignment of responsibilities to officeholders and the reporting duties of all the different company levels. The Vossloh Compliance Organization comprises the Chief Compliance Officer (supported by a Compliance Office), the Group Compliance Committee at Vossloh AG, Compliance officers and Compliance Committees within the business units and local compliance officers within the operating companies.

The Compliance Management System is designed to identify compliance violation risks and to minimize these risks in order to prevent Vossloh and its employees from incurring damage and liability risks. In a risk stocktaking update conducted in 2016 with external assistance, bribery in business dealings and violations of competition law were identified as the central compliance risks. This relates in particular to sales and all sales-promoting activities, including intermediaries. The Compliance Management System addresses these risks and minimizes them with the help of suitable processes and measures.

Since 2007, Vossloh's Compliance Management System has been based on the Vossloh Code of Conduct. The Code of Conduct stipulates and precisely defines the values of integrity and upstanding business conduct, and interprets them as clear and straightforward rules and principles. It is currently available in 15 languages and is mandatory for all Company employees. It was most recently completely revised and further developed in 2016. There are also guidelines on the prevention of corruption, conduct compliant with antitrust law and the bringing in of intermediaries as well as insider guidelines.

Compliance as part of business activities constitutes part of regular classroom training held at all the Vossloh companies. The teaching requirements and the participants are identified and selected by the Compliance Officers within the business units and the local Compliance Officers on the basis of the Vossloh compliance training concept. The Compliance Office headed by the Chief Compliance Officer keeps a record of the classroom training sessions held. In 2017, Vossloh conducted compliance trainings around the world for a total of 767 participants.

Compliance training is also given in the form of e-learning. The "Code of Conduct – Compliance Basics" module is aimed at all employees who work at a computer workstation. In addition, there are two modules for all managerial staff and employees with external contact that focus on competition law and anticorruption. These are also the target audience of the "refresher" module on anticorruption, competition law and foreign trade law introduced in December 2015. All new employees are gradually taken through the e-learning program. The Local Compliance Officers systematically record the employees' attendance and send them reminders to attend, if need be. As of December 31, 2017, the training quota was approximately 87.5 percent.

Compliance audits are performed – usually with the assistance of external audit firms – in order to verify that the Compliance Management System rules are being observed within the individual operating units. These are performed both ad hoc and without there being any specific suspicions. Five compliance audits were performed throughout the Group in 2017. Additionally, Vossloh regularly has its Compliance Management System reviewed by external experts and has them make recommendations regarding its further development and improvement. The last review was performed by KPMG Wirtschaftsprüfungsgesellschaft AG in 2017 in the form of an effectiveness assessment pursuant to the IDW PS 980 standard, regarding the subsections of antitrust law and anticorruption. KPMG confirmed that the Vossloh Group's Compliance Management System was implemented appropriately and was effective in the period under review. Insofar as findings and recommendations were stated regarding compliance work, these have been or will be implemented in the course of the ongoing development and improvement of the Vossloh Compliance Management System. Vossloh has published the audit report on the Company website under "Corporate Governance" > "Compliance" in the "Investor Relations" section.

Vossloh set up a whistleblower hotline together with an international law firm. This allows company employees and external whistleblowers to report possible misconduct to an independent external contact (ombudsperson) in their native language. The whistleblower hotline has so far been set up for 20 countries. As such, the main regions and the languages spoken within the Vossloh Group are essentially covered. The ombudspersons were contacted on one occasion in 2017. Vossloh systematically looks into every report of conduct that is potentially illegal or against the rules.

Vossloh also expects its suppliers and service providers to act in accordance with the rules and demonstrate lawful conduct. This is verified and controlled in specific cases as well as on an ad hoc basis. Binding Group-wide "Guideline on the Engagement of Intermediaries" apply to business dealings with commercial agents, agencies, distributors and consultants in the sales area. Their purpose is to prevent the risk of unfair practices on the part of contracted third parties and to minimize the risks for Vossloh and its employees.

Since early 2017, Vossloh has maintained a Group-wide register of associations as part of its Compliance Management System, in which all company and private memberships in industry associations are recorded. Vossloh AG's primary association memberships are as follows:

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- The Railway Industry in Germany (VBD) (Vossloh Executive Board member Volker Schenk has been a member of the VDB Presiding Board since 2011 and President of the VDB since January 2016)
- Association of the European Rail Industry (UNIFE)
- Deutsches Verkehrsforum (DVF)
- Institut für Bahntechnik GmbH (IfB)
- Pro-Rail Alliance
- Association of German Transport Companies (VDV)

Details of material nonfinancial risks regarding ongoing legal proceedings and legal disputes can be found in the section entitled "Nonfinancial risks and opportunities" on page 52.

Vossloh does not make donations to political parties or similar institutions.

Respect for human rights

Vossloh respects internationally recognized human rights in its business activities and these are codified as binding rules for all the employees in Section 10 of the Vossloh Code of Conduct ("Protection of human and labor rights"). The Code of Conduct can be found under the heading "Corporate Governance" > "Compliance" in the "Investor Relations" section of the corporate website www.vossloh.com. Risks that may result from the violation of human rights are recorded under "Nonfinancial risks and opportunities" on page 52.

As a global concern, Vossloh actively promotes diversity within its workforce and intercultural learning for its employees. In 2017, the Company employed men and women from almost 40 countries and with a wide range of qualification levels, education levels, vocational training paths, career experience and service years within all of its hierarchical levels. To minimize the risk of child labor, the Company does not employ anyone under the age of 14 or 15 (depending on the legal provisions in the different countries). In addition, the majority of Vossloh's production facilities is located in Europe. Employees under the age of 18 are usually trainees. The instructors responsible for them are duty-bound to observe all the relevant labor law and occupational safety rules and provisions. A whistleblower hotline is available in order for possible misconduct to be reported. No reports were made of violations of human rights in the 2017 fiscal year.

There are no Company-wide specifications in place at Vossloh regarding the aspect of human rights when drawing up contracts, and there is therefore no monitoring of this. More recent major partnership contracts such as joint venture agreements generally already include the Vossloh Code of Conduct and therefore also its human rights aspects as mandatory conduct rules. The same applies to contracts with intermediaries (e.g., commercial agents and distributors).

To date, neither Vossloh's own sites nor its suppliers have been subject to standardized checks of their compliance with the human rights clauses, and corresponding monitoring and assessment processes have not been established. The Company management has received no indications suggesting that individual sites are violating human rights. The various Vossloh companies subject their suppliers and intermediaries to intensive preliminary checks before concluding a contract with them. Here, too, the Company has so far not had cause to check compliance with human rights.

Customer and product aspects

The rail technology markets in which Vossloh operates have some particularities resulting among other things from the historical development of rail as a mode of transport. In the majority of these markets, the rail infrastructure and numerous rail transport operators are still state-owned. Vossloh's potential customers are therefore companies the investment scope of which can also be influenced by political specifications. Building and maintaining rail routes and purchasing and maintaining the rolling stock are costly, as rail transport operators are required to comply with extensive technical, logistical and legal provisions. The number of potential Vossloh customers is therefore limited. Furthermore, safety is elementary when it comes to the (mass) transportation of people and goods. rail performs well in this respect in comparison to other modes of transport. The safety of its products and services and customer satisfaction are therefore key nonfinancial performance indicators for Vossloh. The material nonfinancial risks that the Company faces because of the underlying industry conditions or the markets it develops are covered in the section entitled "Nonfinancial risks and opportunities" on page 52.

Product safety

Vossloh makes considerable contributions to the safety of rail services, meeting the most stringent of standards itself in the process. Vossloh's products and services are subject to detailed technical specifications and standards that must be observed. All the main production plants have quality management in accordance with ISO 9001 or a comparable national standard like the AAR's M1003 standard in the USA. At the reporting date December 31, 2017, more than 90 percent of the Vossloh workforce was employed at an entity with such certification. The products and services generally undergo thorough testing that often lasts for years before they are applied to the tracks. This is performed on the Company's own test benches and in its own testing laboratories, with test installations/test usage by the customers and as part of the complex approval process of certified testing organizations. For example, the Core Components division's newly developed highly elastic rail fastening systems for public transport went through the approval process in 2017, were simultaneously subjected to detailed testing and were trialed during regular operations on select routes in North America and China.

The Customized Modules division tested a point blade newly developed for heavy-haul traffic in Australia. Among other things, the Lifecycle Solutions division had the HSG-city approved in accordance with EBO and BOStrab in 2017 – a key prerequisite for the grinding machine's ongoing marketing. The stringent requirements result in lengthy development times. All of Vossloh's business units have their own Research and Development departments, which are staffed by highly specialized professionals.

To minimize the possibility of issues regarding the safety of its products and services, Vossloh is very careful in its choice of suppliers. These are chosen by the individual operating units with their specific expertise. The extensive evaluations and audits of both potential and existing suppliers are based on numerous criteria. A key aspect is a supplier's unfailing ability to meet the quality standards stipulated by Vossloh. Among other things, the keywords here are product quality, service and delivery reliability. All of Vossloh's partners are regularly assessed on the basis of fixed aspects, in particular concerning quality. Contracts are only awarded to companies on the list of approved suppliers. Additionally, Vossloh suppliers must be generally able to guarantee at all times that the goods and services they supply meet the regulatory and statutory requirements.

Customer satisfaction

Customer communication and the logging of customer satisfaction are currently still the responsibility of Vossloh's operating units, in keeping with the Company's formerly decentralized structure. There are therefore currently no concepts at the Group level with regard to these two nonfinancial issues.

The divisions steadily expanded their customer communication in recent years in order to better understand their customers' wishes and needs and meet these more accurately. Once again in 2017, specialist events on exchanging information and opinions with customers were held at a number of Vossloh sites. In line with the "One Vossloh" principle, a Group-wide dialogue on the topics of sales and customer communication was initiated in 2017, and cross-divisional customer relations management began to be set up. The solution based on customer relationship management (CRM) software was thoroughly tested from the end of 2017 and went live in February 2018 once the employees affected had been given the appropriate training. On the one hand, the aim is to centrally collate information on all of Vossloh's customers and to make this available to all the operating units in equal measure. On the other hand, this system should result in there being less work involved in meeting the ever greater reporting duties in relation to the customers, regarding certification, for example.

The operating units perform their customer satisfaction analyses according to schedules of their own choosing. No such surveys were conducted in 2017.

Audit

Vossloh Aktiengesellschaft, Werdohl, contracted the independent audit firm BDO AG Wirtschaftsprüfungsgesellschaft to audit its Nonfinancial Group Statement as well as by reference qualified parts for the period January 1 to December 31, 2017. This audit was performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) with the aim of a limited assurance engagement. The independent auditor concluded that, based on the procedures performed and the evidence received, nothing has come to their attention that causes them to believe that the Nonfinancial Group Statement was not prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with Sections 289c to 289e HGB.

Risk and opportunity management

Organization

Risks and opportunities for the Company's net assets, financial position and results of operations are regularly and systematically identified, analyzed, evaluated, communicated, monitored and managed at all levels within the Vossloh Group. For this purpose, Vossloh has implemented a Group-wide risk and opportunity management system, the purpose of which is to prevent or mitigate negative effects resulting from changes while also identifying and harnessing opportunities that arise. The risk and opportunity management system encompasses not only Vossloh AG itself but also all domestic and overseas subsidiaries in which Vossloh AG has a direct or indirect shareholding, irrespective of whether these are consolidated in the Group's financial statements. Newly acquired companies are promptly integrated into the system.

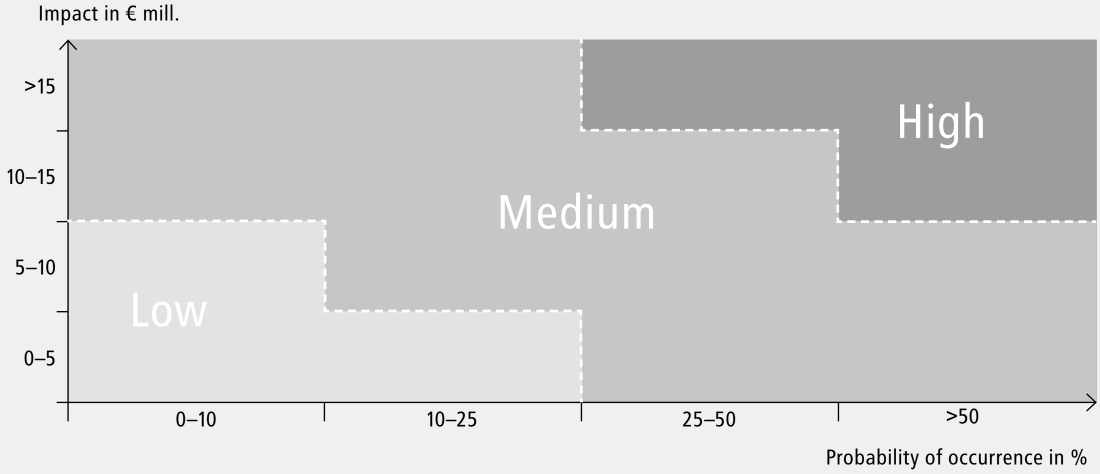
The risk and opportunity management system is a component of the business, planning and control process. The organization of structures and processes is documented in a Group-wide policy that was last updated in January 2018. The structure of the management system is based on the structure of the operating processes of each of the organizational units. There are appointed Risk Managers, Risk Officers and Risk Controllers at all levels of the company. The identification of risks and opportunities is ensured by means of an ongoing status check procedure, in which relevant risks are effectively, promptly and systematically recorded.

Risks and opportunities are evaluated at Vossloh in relation to their potential impact on earnings. This evaluation addresses not only the most likely outcome but also the worst case and best case scenarios. Additionally, an evaluation of the probability of occurrence is performed. In line with the value-at-risk method, a minimum probability of 5 percent is required for identifying the worst case and best case scenarios. Additionally, nonfinancial risks are incorporated into risk reporting.

Vossloh documents and communicates risks and opportunities in standardized reports that contain detailed information about the risks and opportunities, the parameters by which they are evaluated, and potential measures to manage these risks or harness these opportunities. The risks and opportunities report is issued regularly on a quarterly basis. It supplements the current annual outlook and also addresses predictable and adequately specific risks and opportunities for the following years. Ad hoc reports supplement the regular reports and provide the means to assess the current situation at any time.

The risk reports are intended to be read by the Executive Board of Vossloh AG as well as the management of the Group companies and business units. These are responsible for managing and monitoring risks and opportunities. The current risk situation is discussed in regular meetings between the management of the business units, Corporate Controlling and the Executive Board. The tight-knit personnel structure enables information to flow quickly and reactions to be invoked at short notice. The Executive Board has taken suitable measures to identify developments that may jeopardize the Group's standing as a going concern. Internal Audit checks the adequacy and functionality of the risk and opportunity management system once a year, as well as its compliance with statutory requirements.

The significance of individual risk categories for the Vossloh Group is evaluated where possible on the basis of the potential negative impact on the forecast financial targets and on the probability of occurrence of the given risk category. Risk categories are designated as high, medium or low depending on these two factors. The following image illustrates the underlying scales used for measuring these factors:



The following statements illustrate the risks and opportunities that were relevant at the time the consolidated financial statements were prepared and are significant to the performance and development of the Vossloh Group.

General economic risks and opportunities as well as industry-specific risks and opportunities

General economic risks and opportunities arise as a result of economic fluctuations, social and political events, changes in exchange rates and interest rates, and changes to legislation and taxation. Industry-specific risks and opportunities develop based on the competitive situation and the features of the relevant markets.

The general performance of the economy only has a limited impact on the Vossloh Group's business performance. Regulatory activities, the state of rail deregulation and government debt have a greater effect, with the latter affecting the financing capabilities of public-sector clients. For instance, reduced (or increased) availability of public funding can have a negative (or positive) impact on future business performance.
In recent years, there has been an increased trend toward cost-cutting in the infrastructural maintenance market, which is critical to Vossloh, due to the continued strain on public clients' budgets. Due to the persistent growth in rail traffic, these effects should only be temporary in nature.

In the 2017 fiscal year, Vossloh operated worldwide in the markets for rail infrastructure (core business) and rail vehicles (locomotives), and is among the leading providers in selected markets. Vossloh has defined China, North America, Western Europe and Russia as key regional markets for its core divisions, Core Components, Customized Modules and Lifecycle Solutions. The Transportation division, which since the end of 2014 no longer belongs to Vossloh's core business, is mainly operational in Germany, France and Italy.

The markets in Western Europe and North America are defined by the general stability of their political and economic factors. A particular feature of the North American market is the significantly greater volatility of demand, as most of the rail and network operators there are not public clients. The reduced maintenance activities caused by lower freight volumes and the resultant persistent decline in demand among North American railroad operators has reduced the Vossloh Group's 2017 net profit considerably. Activities in other markets – in particular in Asia, South America, Eastern Europe and Africa – present not only opportunities for Vossloh but also additional risks. In Russia, a production facility for rail fasteners was opened in 2017.
In the other named markets, risks may arise in particular as a result of political and social instability, as a result of oil price changes or exchange rate volatility – mainly translation risks – and as a result of legal uncertainty.

In isolated cases, there are also risks that products may be substituted by new technical developments and that new competitors may enter the market. The intensity of competition in the field of rail infrastructure has noticeably grown in recent years. Vossloh counters these risks by continuously enhancing its products and services and consistently focusing its activities on the needs of the customers.

Vossloh deems the risk situation in its focus markets of Russia and North America to be of a medium nature. Beyond the above, the general economic risk and industry-specific risk is deemed to be low for the forecast financial targets.

Operating risks and opportunities

Operating risks and opportunities originate in operational activities, in particular in procurement, production and order performance. Vossloh seeks to limit price risks in procurement processes by means of long-term contractual agreements or sliding scale pricing clauses. However, the imposition of sliding scale pricing clauses is frequently not possible. Exchange rate risks in relation to procurement are largely limited by the use of foreign currency forwards. The price changes assumed in medium-term planning for materials and components are largely based on information from suppliers and market analyses.

A moderate increase in material usage prices is expected in 2018. If the price increase should far exceed this assumption, this could have a negative impact on the income forecast, especially in the Fastening Systems business unit where sliding case pricing clauses can only rarely be agreed. Conversely, there are opportunities to be gained if lower material and component prices can be achieved than those assumed in the planning.

There are also potential risks related to the procurement process resulting from the loss of suppliers, quality problems or delays in the supply process. Vossloh attempts to minimize these risks by cooperating with trusted partners of many years. Even though suppliers are carefully selected and regularly contacted and alternative procurement sources are established, future risks relating to the procurement process can be limited, but never entirely eliminated.

Within the value chain, Group companies are exposed to the risk of operational shutdowns, quality problems and health, safety and environmental risks. Vossloh avoids or reduces these risks by means of extensive policies and directives on product and quality management, on product safety, on occupational health and safety and on environmental protection. More than 85 percent of the Group companies are certified in accordance with international environmental and social standards such as ISO 14001, ISO 50001 and OHSAS 18001 and have appropriate management systems in place. Where newly acquired units do not possess such certification – as is currently the case with the Tie Technologies business unit – these standards are introduced as quickly as possible.

In relation to order performance, there are risks arising from the complexity of projects, including unexpected technical difficulties, unpredictable developments at project locations, problems with partner companies or subcontractors, logistical challenges as well as delays in approvals, acceptance and billing. Especially in the start-up phase of new projects in the Transportation division (which is no longer part of Vossloh’s core business), there may be increased risks of higher development costs or in relation to cooperation with new partner companies or subcontractors for the first time, and additional expenditure may be necessary or contractual penalties may be incurred. By formulating contracts appropriately and ensuring that project and quality management are thorough, these risks can be limited but not fully eliminated. On the other hand, there may be isolated opportunities if the recognized risk provisions do not need to be fully utilized.

Risks may also arise where it becomes necessary to impair goodwill if operational performance is much weaker than expected. The goodwill of acquired companies is not amortized in accordance with IFRS 3 in conjunction with IAS 36. Instead, this goodwill undergoes impairment testing each year as of the balance sheet date. Such impairment testing must also be performed during the year if exceptional events occur. This testing involves a comparison of the relevant carrying amount of a cash-generating unit (CGU) in relation to the goodwill of acquired companies against the value in use.

For the operational risks that arose in 2017 and still apply, risk provisions have been recognized in accordance with the IFRS requirements. Even though appropriate risk provisions may be recognized for known risks with a very high probability of occurrence, it is not possible to fully eliminate the risk of net profit reductions arising from product development and the completion of projects, or of negative effects on forecast financial targets. The absolute risk value arising from the completion of projects is dependent on the volume and value of development services connected to the relevant order and on the quality of the products. Vossloh deems the risk arising from the completion of projects to be of a medium nature. The risk of operational interruptions due to high capital expenditure requirements at a French site in the Customized Modules division is also deemed to be medium. With the exception of the material utilization pricing risks, which are deemed to be medium, the other operating risks are all deemed to be low.

Financial risks and opportunities

Group Treasury monitors and manages financial risks and continuously optimizes the Group's finances. Targets, principles, duties and expertise are consistent with established policies. The prime objective is to preserve the Company's status as a going concern by maintaining solvency and liquidity at all times. Synergies and economies of scale are also harnessed within the Group where it seems appropriate to do so.

Vossloh only uses derivative financial instruments to hedge specific risks from existing or expected future underlying transactions. These economic hedges are also reported as hedge relationships in the balance sheet and only make use of previously approved, market-standard financial instruments. The trade, performance and controlling functions are separate. Detailed information on existing derivative financial instruments is provided in the notes in the Group's annual report on page 128 et seq. Group Treasury continuously ensures and monitors the effectiveness of risk hedging. The financial risks specifically managed are liquidity risks, interest rate risks (cash flow risks), price risks and credit risks.

Liquidity risks
Liquidity risks can arise if the Group is not capable of procuring the liquidity it needs to settle liabilities in a timely and complete fashion. The securing of liquidity, including establishing reserves for potential special needs and taking into account the scope required to implement the Company's strategy, is an element of the ongoing liquidity management at Vossloh. Revenue sharing measures within the Group in the form of cash pooling systems (see glossary in the Group's annual report, page 155) in individual countries and also in the form of intercompany loans facilitates the use of the excess liquidity of individual Group companies in order to cover the financing requirements of others.

In July 2017, Schuldschein loans with terms of four years, amounting to €135 million, and seven years, amounting to €115 million, were issued. At the end of November 2017, a new syndicated loan of €150 million was concluded with eight banks, entirely replacing the previous syndicated loan from 2015 that was due to expire in April 2018. The new financing agreement has a term of five years until November 2022 and contains two options to extend the credit period by one year each. Additionally, the volume of the loan can be increased if needed by an additional €150 million. The funds are available to the Company in the form of a revolving line of credit that can be flexibly accessed. In the future, interest will be applied to draw-downs based on the amount of the agreed covenant (net financial debt relative to EBITDA) as well as the extent of the draw-down on the line of credit. If the agreed maximum value of this covenant is exceeded, this will allow the lending banks to terminate the agreement ahead of time. Compliance with the covenant has to be proven every six months and was affirmed as of the reporting date. Detailed information on the available lines of credit is provided in the notes on page 134 in the Group's annual report.

There are presently no financing or liquidity shortages. Vossloh deems the liquidity risk as a whole to be low.

Interest rate risks

Changes to the future interest rate may cause cash flow volatility where asset and debt positions are subject to variable interest rates. Vossloh hedges this risk as appropriate with the use of interest rate swaps. Analyses are regularly performed to determine how changes to interest rates affect cash flows. For the purposes of active risk management, the variable-rate interest cash flows from the Schuldschein loan concluded in 2013 were replaced in 2014 with an interest rate swap for fixed cash flows. The probability of the interest rate changing at short notice and the impact of this on cash flows is deemed to be low. The risk is therefore also deemed to be low.

Price risks

Price risks result from the value of a financial instrument changing due to increases or decreases in market interest rates or exchange rates. Existing and expected future liabilities and debts denominated in foreign currencies are usually hedged with foreign currency forwards as of the time the order is issued. Translation risks – arising from the translation of financial statements denominated in foreign currencies – are continuously monitored. Due to the high level of hedging of price risks, this risk is deemed to be low overall.

Credit risks

Credit risks from business relationships with financial institutions arise whenever a contract partner does not comply with their obligations in relation to a transaction (or only does so in a delayed fashion), thus causing Vossloh to incur financial losses. The Group minimizes credit risks by extensively ensuring that contract partners mostly have good or excellent credit ratings. These ratings – where available – are mainly based on the assessments of international rating agencies. As of the end of 2017, of the financial investments and derivative financial instruments with positive market values, 23 percent were with contract partners with a rating of AA+ to AA–, 60 percent were with contract partners with a rating of A+ to A–, 12 percent were with contract partners with a rating of BBB+ to BBB–, while 5 percent were with contract partners with a rating of BB or no available rating. A broad diversification of risks is also achieved by distributing the financial assets of the Group over a large number of banks. There were and are no dependencies on individual banks.

Vossloh's customers are often public sector clients. In these cases, the credit risk is usually deemed to be very low. However, outstanding amounts owed are continuously monitored. Some are insured by means of credit insurance policies. Despite the precautionary measures taken, it is impossible to entirely eliminate the risk of financial losses from nonpayment of receivables in exceptional cases. In the export business, transactions are usually concluded with letters of credit to limit the credit risk.

As a result of the high share of business with public clients and the restriction to contract partners with good or excellent credit ratings, the credit risk is deemed to be low. Overall, there were no major effects on net profit/loss in 2017 resulting from financial risks.

Legal risks and opportunities

Legal risks arise for Vossloh in particular on the basis of complaints, warranty claims, compensation claims and litigation. Identifiable risks are covered where possible and economically feasible by insurance and – if the relevant requirements are met – reflected in the balance sheet and income statement through provisions. However, it is impossible to eliminate the possibility that losses may arise that are not (adequately) insured or exceed the established provisions. On the other hand, there may be isolated opportunities if risk provisions are not utilized entirely.

Group companies of Deutsche Bahn AG have asserted compensation claims against the Group company Vossloh Rail Center GmbH, Hamburg. Even though the damages directly attributable to the Company were settled in 2016 by a partial settlement with Deutsche Bahn AG, there is still the risk of joint and several liability for as-yet unsettled damages. For any outstanding entitlements, Vossloh Rail Center GmbH, Hamburg, has a right of recourse that is partially secured with bank guarantees. Various customers have also asserted compensation claims in relation to ongoing or concluded competition law procedures concerning rail switches. Provisions for compensation claims are recognized where the affirmation of individual customer claims is deemed to be very likely and a reliable estimate of potential compensation amounts seems possible.

Since the end of 2014, the Transportation division no longer belongs to the core business of the Vossloh Group. Vossloh Rail Vehicles was sold in 2015. At the start of 2017, the sale of the Electrical Systems business unit was completed. The purchasers of the sold business units were granted certain guarantee rights and rights of resource in the purchase agreements. Risk provisions have been recognized for any claims asserted on the basis of these rights, where utilization of the guarantees and rights of recourse is deemed to be very likely.

For the legal risks that still apply, risk provisions have been recognized in accordance with IFRS. It is impossible to exclude the possibility of the forecast financial targets for Vossloh being reduced due to legal risks, and these risks are deemed to be of a medium nature.

Nonfinancial risks and opportunities[1]

According to the Nonfinancial Group Statement[2], it is necessary to report on the nonfinancial risks that are associated with the Company's own business activities, business relationships, products and services, where these risks have had or are very likely to have severe negative repercussions on the reportable aspects relating to the environment, employment, social welfare, human rights, anti-corruption and anti-bribery activities. The nonfinancial risks are reflected in the Vossloh Group's risk reporting. There are presently no risks that satisfy the aforementioned criteria. Vossloh therefore deems the risk situation in connection with nonfinancial risks to be low.

Other risks and opportunities

Other risks consist primarily of personnel and information technology risks.
The Group's economic position can be negatively affected by inadequate staffing, for instance as a result of a shortage of management or specialist personnel. Personnel risks may also relate to high turnover figures of highly specialized personnel and inadequate training, as well as errors made or theft committed by employees. Vossloh applies a variety of measures to counteract these risks, including in particular the positioning of the Company as an attractive employer to enable it to successfully compete for highly qualified personnel. Training activities serve to provide employees with additional qualifications, while attractive pay structures increase the likelihood of retaining personnel within the Company in the long term.

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[1] Part of the nonfinancial statement audit for providing limited assurance – see page 46.

[2] Not part of the financial statement audit, but part of an audit to obtain limited assurance – see page 46.

Complex and powerful information technology has a decisive effect on the management of operational and strategic business processes. Technical and organizational precautions minimize risks related to the reliability, availability and confidentiality of the data stored in the information systems. They also ensure that data is processed efficiently. Risks from acquisitions are also conceivable if synergistic benefits assumed in the business plan are not achieved.

Vossloh has been listed in the SDAX index of Deutsche Boerse since March 2013. The main criteria for inclusion in the index are the available market capitalization and the volumes traded on the Frankfurt Stock Exchange. Inclusion in the SDAX index is presently jeopardized by the declining trading prices and the lower trading volumes over time compared to other SDAX companies. The potential exclusion from the index may result in the share becoming less attractive and may possibly cause trading volumes to fall further. The financing opportunities for larger acquisitions – for example by means of capital increases – would be generally worse if excluded from the SDAX.

Other risks had no significant impact on the net income in 2017. Potential significant negative effects on the forecast financial targets seem unlikely at present, which is why this risk is deemed to be low.

Summary of the risk and opportunities situation

All of the described risks and opportunities that the Vossloh Group is exposed to are continuously monitored and managed in terms of their effects on the net assets, financial position and results of operations of the Group. For risks that are currently known, risk provisions have been recognized in accordance with IFRS. Other current risks and opportunities are – if adequately specified – accounted for in the current annual outlooks. Based on current information, there is no risk to the Vossloh Group as a going concern in terms of substance or liquidity based on individual risks or all of the currently known risks collectively. The available Group equity is adequate to cover potential risks.

The risk and opportunities report relates to the situation of the Group as of the time the combined management report was prepared.

Description of the essential features of the internal control and risk management systems in relation to the financial reporting process / consolidated financial reporting process (Section 289 (4) and Section 315 (4) HGB)

To ensure that risks are systematically identified early throughout the Group, an early-warning monitoring system for risks that may jeopardize the Vossloh Group as a going concern has been established in accordance with Section 91 (2) of the German Stock Corporation Act (AktG). It serves to quickly identify, manage and monitor risks that jeopardize the Group as a going concern as well as other risks beyond the original, legally stipulated scope. The Group auditor assesses the functional capacity of the early-warning risk control system in accordance with Section 317 (4) HGB. The internal control system encompasses all principles, processes and activities of the Vossloh Group that aim to ensure the effectiveness, cost-efficiency and legitimacy of the accounting system, and to ensure compliance with relevant legal requirements.

Internal Audit is largely responsible for the internal control system at Group level, as are the Controlling, Accounting, Treasury and Legal departments. An internal monitoring system encompasses monitoring activities that are both integrated into and independent from processes. Alongside manual process controls (such as peer reviews), IT processes are also a key element of the process-integrated activities. The Legal division also ensures that monitoring is integrated into processes.

The Supervisory Board, in particular the Audit Committee, Vossloh AG's Internal Audit division and the locally appointed employees at the level of the management companies of the business units, are tasked with performing process-independent audits. The (Group) auditor also performs process-independent auditing activities. The audit of the consolidated financial statements and subject-specific audits in connection with the pre-audit of the separate financial statements are particularly essential process-independent monitoring activities in relation to the (Group) accounting process.

Information technology

Accounting transactions are recorded locally in the local accounting systems of the Group companies. For the preparation of the consolidated financial statements of Vossloh AG, the subsidiaries add additional information to the individual financial statements, which are prepared on the basis of standardized accounting methods, to form standardized reporting packages. These packages are then incorporated into the Group reporting and consolidation system used by all of the companies included in the consolidated financial statements. This system, Cognos Controller from IBM, is used to both perform consolidation and provide additional management information.

There is also an ongoing SAP project within the Vossloh Group that is intended to run for several years. Its aim is to unify all of the companies involved in the accounting process through a standardized system offered by SAP. This standardized IT system enables centralized access and centrally initiated controls. To date, the system is used within Vossloh AG and in key companies in the Core Components, Customized Modules and Lifecycle Solutions divisions. The operating companies of the Tie Technologies business unit acquired at the start of 2017 will be integrated into the system over the course of the 2018 fiscal year.

(Group) accounting risks

The preparation of the financial statements requires a range of assumptions and estimates. Such estimates affect the values recognized for reported assets and liabilities, as well as for contingent liabilities as of the balance sheet date. They also affect how income and expenses in the reporting period are reported. The misuse of necessary discretionary scope can lead to (Group) accounting risks.

Key activities to ensure that (Group) accounting is performed in a legally compliant and reliable manner

The Vossloh Group's "Group Accounting Manual" governs the standardized accounting, measurement and valuation principles applicable to the companies included in Vossloh's consolidated financial statements on the basis of the accounting rules laid out in the International Financial Reporting Standards as adopted by the European Union. These contain not only general accounting principles and methods but also provisions on specific balance sheet items, the income statement and the statement of comprehensive income, as well as information to be published in the notes in accordance with legislation applicable in the EU. The manual also governs specific formal requirements imposed upon the consolidated financial statements. It establishes not only how the group of consolidated companies is defined but also lays out the components of the reporting packages to be prepared by the Group companies in detail. The formal requirements include the binding application of a standardized and complete set of forms. The "Group Accounting Manual" undergoes regular revision and updates, most recently in December 2017. New or revised editions are promptly made available via the Group intranet to all those involved in the Group accounting process.

In addition to the localized registration of accounting transactions within the Group companies, the monthly and separate financial statements are also reviewed by the managing company of the relevant business unit. Checks are triggered by random selection or in particular by major or unusual transactions. Group-wide policies are in place, for instance for investments, submissions of offers, compliance and risk management. The companies and business units of the Vossloh Group are also required to govern local key divisions by means of policies.

Thereafter, Vossloh AG conducts general plausibility checks on the reporting packages provided by the individual companies. These include not only the financial statements of the individual Group companies as adapted to the unified Group accounting standards but also more extensive information for the notes to the consolidated financial statements. The plausibility checks are performed both by Controlling and by Accounting. The consolidation of the individual financial statements is then performed. The correct offsetting of internal Group receivables/liabilities, income/expenses, ownership interrelationships and interim profits from deliveries within the Group is regularly checked in accordance with the peer review rule as well as with the application of suitable validation rules in appropriate control files.

Further data is also prepared and aggregated at Group level to provide the information contained in the notes and management report (including major events after the reporting period).

Based on the organizational, control and monitoring structures established within the Vossloh Group, the internal control and risk management system contributes to the comprehensive registration, processing and validation of Company transactions and their correct representation in the Group's accounting system.

Poor discretionary judgments, the circumvention of controls, criminal activities and other circumstances cannot be fully eliminated by their very nature, meaning that even with the Group-wide application of the utilized systems, this cannot constitute an absolute guarantee that the consolidated financial statements are free of errors.

Qualifying statements
The statements made relate solely to Vossloh AG and to the companies that are included in the consolidated financial statements of Vossloh AG whose financial and business policies can be directly or indirectly influenced by Vossloh AG.

Reference to the Declaration on Corporate Governance pursuant to Section 289f HGB

The Declaration on Corporate Governance is reproduced on page 24 et seq. of the Group's annual report and is a constituent component of the combined management report. The annual report is available at all times from the website of Vossloh AG (www.vossloh.com).

Outlook

This combined management report contains forward-looking statements that are based on forecasts of the management in relation to the future development of the Vossloh Group. This outlook is based on assessments made by the management on the basis of all information available at the time the report was prepared. Assumptions regarding the future development of the international rail engineering market and the specific business expectations of the divisions of the Vossloh Group have been taken into particular account. The statements made are subject to opportunities and risks that Vossloh cannot entirely control or manage. For more information on this, please refer to the statements made regarding the Group's risk and opportunity management (see page 47 et seq.). If the assumptions underlying the outlook prove to be inaccurate or the described risks or opportunities occur, the actual events and developments may differ from these forecasts. The Vossloh Group accepts no liability for updating the statements made in this combined management report beyond statutory publication requirements.

Macroeconomic developments and outlook for the rail engineering market in relation to the European rail industry association

The development of the global economy is only of minor importance to Vossloh. Investments in rail infrastructure are generally made around the world on the basis of long-term decision-making processes. The current economic trends are therefore only reflected in the markets to a limited degree. Changes in the debt ratios of individual countries are more relevant, especially those of the Company's home market of Europe. The Organization for Economic Cooperation and Development (OECD) expects the debt ratios of the 19 eurozone countries and all of the European Union's member states (EU-28) to fall further in 2018. The trend towards a decline in debt ratios that has been apparent since 2015 is expected to continue.

Studies point to continuous growth in the rail engineering market

With its World Rail Market Study, the Association of the European Rail Industry UNIFE publishes an extensive biannual analysis of developments in the global rail engineering market and makes justified predictions for the coming years on this basis. The most recent study was presented in September 2016 at the InnoTrans industry conference in Berlin. It predicted that annual global volumes for the overall rail engineering market would grow from an average of €159 billion between 2013 and 2015 to an average of around €185 billion between 2019 and 2021 – an average increase of 2.6 percent per year. The market accessible to European providers such as Vossloh in the future is estimated by UNIFE to be worth €122 billion. "Accessible markets" refers to the markets that are available to European suppliers and in which demand is not exclusively met by domestic capacity. For markets that can only be addressed by European suppliers via joint venture structures, half of the market volume is classified as accessible. For comparison, a market volume of around €101 billion per year is currently deemed to be "accessible." The expected increase represents growth of 3.2 percent per year. The results of a study conducted by consultancy SCI Verkehr, also published for InnoTrans 2016, back the assessments of the rail industry association. It estimates that the total volume of the global rail engineering market will grow from the current €169 billion by an annual average of 2.3 percent until 2020.

However, if broken down according to region, the forecast market growth varies greatly. According to UNIFE's assessment, the accessible markets in the Asia-Pacific (5.4 percent), Eastern Europe (3.8 percent) and Western Europe (3.6 percent) will see above-average growth in the coming years. The largest rail engineering market accessible to Vossloh has been and continues to be Western Europe, with an annual volume of just over €33 billion in the 2013–2015 period. Market growth of around €40 billion is expected between 2019 and 2021. This is followed by the NAFTA region with a market volume of almost €26 billion and 2.3 percent growth per year and Asia-Pacific with a volume of just under €16 billion, expected to rise to €22 billion. At present, these three regions host almost three quarters of the total accessible rail engineering market.

The Association of the European Rail Industry breaks the rail engineering market down 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 operates in the infrastructure and infrastructural services segments as a subsegment of the services segment. The volume of the globally accessible infrastructure market has been quantified by UNIFE at just over €20 billion per year in the period between 2013 and 2015. The forecast growth up to the 2019–2021 period is 3.1 percent annually, resulting in an annual future market volume of around €24.5 billion. The growth forecast for the infrastructural services subsegment until the 2019–2021 period is 5.9 percent, meaning that an increase in the accessible market volume is expected from the current €5.6 billion per year to €7.9 billion. In total, the accessible market that is relevant to Vossloh between 2013 and 2015 came to around €26 billion per year. We expect to see above-average annual growth of 3.7 percent to €32.4 billion by the 2019–2021 period.

Above-average growth forecast for Vossloh's markets in the long term

Outlook for the Vossloh Group for the year 2018

The forecast for the Vossloh Group is based on the expected development of the three core divisions of Core Components, Customized Modules and Lifecycle Solutions, as well as that of Vossloh AG. In addition to general industry-specific conditions, Vossloh's revenue planning also incorporates division-specific assumptions in particular. These relate for example to product perspectives, the anticipated behavior of competitors, project probabilities as well as market opportunities and risks in individual regions. Vossloh's customers are publicly and privately-owned regional and long-distance transport operators whose investments are based on long-term decision-making processes within the context of longer-term funding sources. Vossloh supports its customers as a partner over the long term. Vossloh works with them to plan and develop solutions to satisfy individual product and service needs. This usually involves delivery and project lead times of several months, sometimes several years.

Based on current knowledge, Vossloh assumes that it will be able to generate sales between €875 million and €950 million in 2018. Despite slightly higher revenue forecasts in the Tie Technologies business unit, revenue in the Core Components division is shaped by temporarily reduced expectations of business performance of the Fastening Systems business unit in China. The expansion of the rail network in China is expected to continue at the same robust pace. By 2025, the high-speed networks are expected to be expanded from the current 23,000 km to 38,000 km. Vossloh is assuming a consistently stable market position in this segment, prompting expectations of significant revenue and net profit contributions in the future. However, the nature of the project business means that it is not possible to fully eliminate the possibility of cyclical performance. Unexpectedly high demand based on existing orders led to high revenues in 2017 that were not expected to be generated until 2018. The tendering activities relevant to Vossloh were also below average in the reporting year. There is also the risk that a project from the order backlog will not be delivered until after 2018, despite the original delivery plan. These factors result in performance expectations that are temporarily lower on the whole. Due to the continued stability of the market position, revenues are expected to normalize on the whole as of 2019. The decline in the forecast revenue in the Core Components division in 2018 is offset by an increase in the expected revenue for the Customized Modules and Lifecycle Solutions divisions.

Revenue expected to remain consistent with the previous year

Based on current knowledge, the 2018 EBIT and the EBIT margin values for the Vossloh Group will not reach the very high levels of the 2017 fiscal year, in part due to the temporary decline expected in China. Therefore, the Vossloh Group forecasts an EBIT margin of between 6.0 and 7.0 percent for 2018. Vossloh also expects 2018 to get off to a slow start, as is typical for the business. In 2019, a normalization of business activities in the Fastening Systems business unit in China and a tangible revival in demand for Class-I railroads (see glossary in the Group's annual report, page 155) in the U.S. are expected – thus driving a corresponding improvement in profitability.

EBIT margin of between 6.0 and 7.0 percent expected

In the 2018 fiscal year, the relevant indicator for internal management – the weighted average cost of capital before taxes (WACC) – will remain unchanged at 7.5 percent. The reduced EBIT forecast also means that the value added is expected to fall significantly in 2018. Despite the reduced EBIT forecast, Vossloh once again aims to achieve positive value added in the current fiscal year. Vossloh also expects the average number of employees to rise slightly in 2018.

The profitability of the Customized Modules division is expected to rise significantly, while the profitability of the Core Components division is expected to fall well below the high level of the 2017 fiscal year. This change is attributable to the temporary decline in business performance in the Fastening Systems business unit in China, which is currently considered probable.

Vossloh is expecting an improvement in value added in the Tie Technologies business unit. The Lifecycle Solutions division is likewise expected to see a tangible improvement in profitability in 2018. Risks to Vossloh's business performance are most notably derived from the present situation in the U.S. market. Demand on the whole is expected to remain weak in 2018, although, compared to 2017, business performance is now expected to revive slightly over the course of the year. Higher-than-expected increases in material prices could also have an adverse impact on income, especially in the Core Components division. Please refer to the statements made in the risk report (see page 47 et seq.) regarding other risks that may affect the stated planning.

Vossloh AG prepares its separate financial statements in accordance with the regulations of the German Commercial Code and the German Stock Corporation Act. The statements below refer to the separate financial statements. The net profit of Vossloh AG as an operational management holding company is largely dictated by administration costs and the net financial result. The administrative expenses of Vossloh AG in the 2018 fiscal year will be slightly higher than in 2017. The net financial result is dependent not only on interest expense but also heavily on the income from dividends and profit sharing agreements, as well as expenses from the assumption of losses and the amortization and other write-downs of financial investments. Vossloh is expecting a tangible improvement in this area compared to 2017. In 2017, the net profit for the year was adversely affected by the expenses incurred as a result of the assumption of losses in connection with the Transportation division, as well as losses arising from the transfer of an item of real estate within the Group. On the whole, profit after tax is expected to improve significantly in 2018.

For the coming years, objectives will focus on achieving organic growth while improving profitability and also on seeking out potential acquisitions in order to strategically evolve the three core divisions of Core Components, Customized Modules and Lifecycle Solutions and sustainably increase the Company's value. The planning presented for the 2018 fiscal year only reflects the targeted organic growth in the Group structure described at the start of this section.

Financial statements of Vossloh AG as of December 31, 2017

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

€ mill.	2017	2016
Sales revenues	4.3	5.0
Cost of sales	(3.4)	(4.3)
Gross profit	**0.9**	**0.7**
General administrative expenses	(17.4)	(34.1)
Other operating income	1.7	10.3
Other operating expenses	(10.6)	(1.4)
Operating result	**(25.4)**	**(24.5)**
Income from investments	26.9	4.0
thereof from affiliated companies: €26.9 million (previous year: €4.0 million).		
Income from profit transfer agreements	19.7	20.3
thereof from affiliated companies: €19.7 million (previous year: €20.3 million)		
Income from other securities and loans	1.5	0.3
thereof from affiliated companies: €1.5 million (previous year: €0.3 million)		
Other interests and similar income	14.3	10.8
thereof from affiliated companies: €13.0 million (previous year: €10.6 million)		
Write-downs of financial assets and securities classified as current assets	–	(5.6)
Expenses from losses absorbed	(16.9)	(4.6)
thereof to affiliated companies: €16.9 million (previous year: €4.6 million)		
Interests and similar expenses	(8.1)	(6.7)
thereof to affiliated companies: €0.1 million (previous year: €0.2 million)		
Net financial result	**37.4**	**18.5**
Income taxes	(0.4)	1.1
Result after taxes / net income (previous year: net loss)	**11.6**	**(4.9)**

Balance sheet

Assets in € mill.	12/31/2017	12/31/2016
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	0.8	0.2
Intangible assets	**0.8**	**0.2**
Land, leasehold rights and buildings including buildings on nonowned land	0.1	8.1
Other equipment, factory and office equipment	0.3	0.4
Property, plant and equipment	**0.4**	**8.5**
Shares in affiliated companies	407.7	475.3
Loans to affiliated companies	110.6	4.8
Investments	0.1	0.1
Long-term securities	0.1	0.1
Financial assets	**518.5**	**480.3**
Fixed assets	**519.7**	**489.0**
Trade receivables	0.2	0.0
Receivables from affiliated companies	395.9	331.5
Other assets	0.1	3.3
Receivables and other assets	**396.2**	**334.8**
Cash on hand and in the bank, central bank balances and checks	43.9	111.2
Current assets	**440.1**	**446.0**
Prepaid expenses	**0.1**	**0.1**
	959.9	**935.1**

Equity and liabilities in € mill.	12/31/2017	12/31/2016
Capital stock	45.3	45.3
Additional paid-in capital	157.0	157.0
Retained earnings		
Other revenue reserves	270.7	270.7
Unappropriated surplus	130.1	118.6
Equity	**603.1**	**591.6**
Provisions for pensions and similar obligations	11.5	10.5
Tax provisions	1.3	1.3
Other provisions	22.7	25.6
Provisions	**35.5**	**37.4**
Debts due to banks	300.0	251.3
Trade payables	1.6	1.2
Liabilities to affiliated companies	17.0	52.7
Other liabilities	2.7	0.9
thereof taxes: €0.7 million (previous year: €0.2 million)		
Liabilities	**321.3**	**306.1**
	959.9	**935.1**

Schedule of changes in fixed assets (appendix to the notes)

€ mill.	Historic cost				Accumulated amortization/depreciation/ write-downs			Carrying amount	
	Balance as of 1/1/2017	Additions	Disposals	Balance as of 12/31/2017	Balance as of 1/1/2017	Depreciation/ amortization	Balance as of 12/31/2017	Balance as of 12/31/2017	Balance as of 12/31/2016
Intangible assets									
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	6.6	0.8	(0.1)	7.3	6.4	0.1	6.5	0.8	0.2
	6.6	**0.8**	**(0.1)**	**7.3**	**6.4**	**0.1**	**6.5**	**0.8**	**0.2**
Property, plant and equipment									
Land, leasehold rights and buildings including buildings on nonowned land	17.1	0.0	(17.0)	0.1	9.0	(9.0)	0.0	0.1	8.1
Other equipment, factory and office equipment	1.4	0.1	(0.4)	1.1	1.0	(0.2)	0.8	0.3	0.4
	18.5	**0.1**	**(17.4)**	**1.2**	**10.0**	**(9.2)**	**0.8**	**0.4**	**8.5**
Financial assets									
Shares in affiliated companies	480.9	–	(73.2)	407.7	5.6	(5.6)	0.0	407.7	475.3
Loans to affiliated companies	4.8	108.8	(3.0)	110.6	–	–	–	110.6	4.8
Investments	0.1	–	–	0.1	–	–	–	0.1	0.1
Long-term securities	0.1	–	–	0.1	–	–	–	0.1	0.1
	485.9	**108.8**	**(76.2)**	**518.5**	**5.6**	**(5.6)**	**0.0**	**518.5**	**480.3**
Total	**511.0**	**109.7**	**(93.7)**	**527.0**	**22.0**	**(14.7)**	**7.3**	**519.7**	**489.0**

Notes

General information

Vossloh Aktiengesellschaft, Vosslohstraße 4, 58791 Werdohl, Germany, entered under registry number HR B 5292 at the Iserlohn district court, is a large stock corporation within the meaning of Section 267 (3) Sent. 2 of the German Commercial Code (HGB) in conjunction with Section 264d HGB.

The annual financial statements of Vossloh AG for the 2017 fiscal year were prepared in accordance with 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.

Recognition and measurement 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 property, plant and equipment are measured at cost. Depreciable assets are amortized/depreciated by applying declining-balance or straight-line depreciation. Since 2001, new additions to depreciable fixed assets have solely been recognized as reduced by straight-line depreciation. Impairment losses are recognized if the fair value is permanently less than the amortized cost. Intangible assets are amortized over 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 the lower of cost or fair value. In order to determine the fair value of the investments, a valuation method based on IDW RS HFA 10 “Application of the principles of IDW S 1 in the valuation of shareholdings and other company shares for the purpose of a commercial annual financial statement” in connection with IDW S1 of 2008 “Principles for carrying out company valuations” of the Institut für Wirtschaftsprüfer in Deutschland e.V, Düsseldorf, is applied according to the version valid as of the reporting date, provided that no current market prices are available. Future free cash flows, derived from the respective current planning with a time horizon of three years, are calculated and discounted with the weighted average cost of capital. The risk-free base rate is 1.38 percent. The market premium is 6.75 percent. Taking into account country-specific risk factors and growth factors, the present value thus determined is compared with the net carrying amount. If there is a permanent impairment, the asset is written down to the 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 with a cost of up to €150 are immediately recognized as expense in the year of addition.

Receivables and other assets, as well as cash and cash equivalents are recognized at nominal value, or if applicable, at cost or the lower fair value.

Receivables and liabilities denominated in a foreign currency are translated and recognized at the average 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 average 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, accruals and deferrals, which will result in future taxable charges or credits, as well as for 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 31.98 percent, a net deferred tax asset results. Vossloh AG 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. The mortality tables 2005 G of Prof. Dr. Klaus Heubeck are used as a basis for this. According to the German Regulation on the Discounting of Provisions, the discount rate published by the Deutsche Bundesbank as of December 31, 2017, for obligations with a 15-year average remaining term in the amount of 3.68 percent is applied as actuarial interest, whereby the average market interest rate with matching maturities is determined on the basis of the last ten fiscal years, as in the previous year. 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 (plan assets) are measured at fair value and are netted against these obligations.

Thereby, the provisions for pensions were reduced by €10.6 million (previous year: €10.8 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 15 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 pre-retirement 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 62.

The decrease in property, plant and equipment was primarily due to the sale of land, buildings and office and factory equipment to Vossloh-Werke GmbH, Werdohl, with economic transfer of ownership at the end of December 2017. The carrying amount of the outgoing assets amounts to €7,633 thousand. The accounting loss of €6,445 thousand recorded here essentially results from the exercising of legally permissible discretionary scope when determining the purchase price.

The decrease in shares in affiliated companies stems from the sale of the shares in Vossloh Kiepe GmbH, Düsseldorf, as of January 31, 2017.

Prepaid expenses in the amount of €138 thousand (previous year: €132 thousand) includes a discount in the amount of €42 thousand (previous year: €92 thousand).

List of shareholdings

€ mill.		Footnote	Shareholding in %	at	Consolidation[1]	Equity[2]	Result after taxes[2]
(1)	**Vossloh Aktiengesellschaft, Werdohl**				(k)		
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(k)	2.5	(0.9)
(3)	Vossloh US Holdings, Inc., Wilmington, Delaware, USA		100.00	(2)	(k)	80.0	15.9
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(k)	6.1	1.8
	Core Components division						
	Fastening Systems business unit						
(5)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(k)	10.4	6.1
(6)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(5)	(k)	11.1	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)	2.2	0.2
(9)	Vossloh Sistemi S.r.l., Cesena, Italy		100.00	(5)	(k)	10.9	1.6
(10)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(5)	(k)	7.3	2.1
(11)	Vossloh Rail Technologies Ltd Sti., Erzincan, Turkey		99.5/0.50	(5/6)	(k)	1.0	0.5
(12)	FÉDER-7 Rugógyártó Kft., Sárkeresztes, Hungary		96.67/3.33	(5/6)	(n)	0.4	0.0
(13)	Vossloh Fastening Systems America Corp., Chicago, Illinois, USA		100.00	(3)	(k)	3.2	(5.7)
(14)	Vossloh Fastening Systems (China) Co. Ltd., Kunshan, China		68.00	(5)	(k)	46.7	27.3
(15)	Vossloh-Werke International GmbH, Werdohl		100.00	(5)	(k)	10.6	0.1
(16)	Beijing China-Railway Vossloh Technology Co. Ltd., Beijing, China		49.00	(5)	(n)	2.2	0.8
(17)	Vossloh Fastening Systems Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(86)	(n)	0.0	0.0
(18)	TOO Vossloh Fastening Systems (Kazakhstan), Qapschaghai, Kazakhstan		50.00	(15)	(e)	0.9	0.4
(19)	Suzhou Vossloh Track Systems Co. Ltd., Suzhou, China		100.00	(15)	(k)	1.7	0.4
(20)	AO Vossloh Fastening Systems RUS (formerly OAO Vossloh Fastening Systems RUS), Engels, Russia		74.99	(5)	(n)	5.5	(0.4)
(21)	Vossloh Fastening Systems Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(n)	1.0	0.1
(22)	Vossloh Cogifer Turnouts India Private Limited, Hyderabad, India	5	100.00	(32)	(k)	2.5	0.4
(23)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia		99.00/1.00	(85/2)	(n)	0.7	0.4
(24)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl		100.00	(5)	(n)	(1.7)	(0.1)
	Tie Technologies business unit						
(25)	Rocla International Holdings, Inc., Wilmington, Delaware, USA	4	100.00	(3)	(k)	2.7	22.1
(26)	Rocla Concrete Tie, Inc., Lakewood, Colorado, USA	4	100.00	(25)	(k)	70.4	6.7
(27)	RCTI de Mexico, S. de R.L. de C.V., Mexico City, Mexico	4	99.998/0.002	(26)/(28)	(k)	17.8	2.8
(28)	RCTI Texas LLC, Dallas, Texas, USA	4	100.00	(26)	(k)	0.0	0.0
(29)	RocBra Participacoes e Empreendimentos Ltda., São Paulo, Brazil		100.00	(25)	(n)	4.3	0.0
(30)	Cavan Rocbra Industria E Comercio De Pre Moldados De Concreto Ltda., São Paulo, Brazil		20.00	(29)	(n)	26.1	0.6
	Customized Modules division						
	Switch Systems business unit						
(31)	Vossloh France SAS, Rueil-Malmaison, France		100.00	(1)	(k)	161.5	16.2
(32)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(31)	(k)	135.2	25.0
(33)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(32)	(k)	1.3	0.3
(34)	Vossloh Cogifer Finland Oy, Teijo, Finland		80.00	(35)	(k)	11.8	1.8
(35)	Vossloh Nordic Switch Systems AB, Ystad, Sweden		100.00	(32)	(k)	12.8	7.0
(36)	Vossloh Cogifer Kihn SA, Rumelange, Luxembourg		89.21	(32)	(k)	13.2	(2.1)
(37)	Vossloh Laeis GmbH, Trier		100.00	(36)	(k)	(2.7)	(2.7)
(38)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(32)	(e)	2.1	0.1
(39)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(32)	(e)	28.1	(0.7)
(40)	Montajes Ferroviarios S.L., Amurrio, Spain		100.00	(39)	(n)	0.4	0.0
(41)	Burbiola SA, Amurrio, Spain		50.00	(39)	(n)	1.3	0.1
(42)	Vossloh Cogifer UK Limited, Scunthorpe, United Kingdom		100.00	(32)	(k)	5.4	2.1
(43)	Vossloh Cogifer Italia S.r.l., Milan, Italy		100.00	(32)	(k)	0.5	0.0
(44)	Vossloh Cogifer Polska Sp.z o.o., Bydgoszcz, Poland		96.83	(32)	(k)	10.2	2.7
(45)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(32)	(e)	1.8	0.6
(46)	Vossloh Cogifer Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(32)	(k)	0.6	0.3

€ mill.		Footnote	Shareholding in %	at	Consoli-dation[1]	Equity[2]	Result after taxes[2]
(47)	Siema Applications SAS, Villeurbanne, France		100.00	(32)	(k)	4.5	1.3
(48)	VOSSLOH MIN SKRETNICE DOO ZA Proizvodnjui Montazu Skretnica i Opreme Nis, Niš, Serbia		100.00	(32)	(k)	4.1	1.4
(49)	Vossloh Beekay Castings Ltd., New Delhi, India	5	58.48	(32)	(e)	6.6	0.2
(50)	Vossloh Cogifer Signalling India Private Limited, Bangalore, India	4; 5	100.00	(32)	(k)	0.6	0.0
(51)	Vossloh Track Material, Inc., Wilmington, Delaware, USA		100.00	(3)	(k)	12.0	(2.2)
(52)	Cleveland Track Material, Inc., Cleveland, Ohio, USA		100.00	(3)	(k)	12.2	(7.9)
(53)	Vossloh Cogifer Australia Pty. Ltd., Castlemaine, Australia		100.00	(4)	(k)	13.2	0.9
(54)	Vossloh Cogifer Kloos BV, Nieuw-Lekkerland, Netherlands		100.00	(32)	(k)	0.6	(0.5)
(55)	Wuhu China Railway Cogifer Track Co. Ltd., Wuhu, China		50.00	(32)	(e)	16.2	(0.1)
(56)	Vossloh Signaling USA, Inc., Wilmington, Delaware, USA		100.00	(3)	(k)	4.6	(2.7)
(57)	Vossloh Cogifer Argentina S.A., Buenos Aires, Argentina		90.00/10.00	(32/33)	(n)	0.0	(0.3)
(58)	ADIF S.E. – Vossloh Cogifer Argentina SA Consorcio de Cooperacion, Buenos Aires, Argentina		51.00	(57)	(n)	1.4	0.2
(59)	Vossloh Cogifer Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(86)	(n)	0.0	0.0
(60)	Vossloh Cogifer do Brasil Administracao de Bens e Participacoes Ltda., Sorocaba, Brazil		100.00	(32)	(k)	0.0	0.0
(61)	Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil		100.00	(60)	(k)	0.7	(1.6)
(62)	Outreau Technologies SAS, Outreau, France		100.00	(32)	(k)	8.7	(0.3)
	Lifecycle Solutions division						
	Rail Services business unit						
(63)	Vossloh Rail Services GmbH, Hamburg	3	100.00	(1)	(k)	22.7	0.0
(64)	Vossloh Rail Center GmbH, Hamburg	3	100.00	(63)	(k)	20.3	(0.7)
(65)	GTS Gesellschaft für Gleistechnik Süd mbH, Leipzig	3	100.00	(64)	(k)	0.0	0.0
(66)	Alpha Rail Team GmbH & Co. KG, Berlin		100.00	(64)	(k)	13.9	1.3
(67)	Alpha Rail Team Verwaltungs GmbH, Berlin		100.00	(64)	(k)	0.0	0.0
(68)	Vossloh Logistics GmbH, Hanover	3	100.00	(63)	(k)	5.7	(0.4)
(69)	Vossloh Ray Hizmetleri Ltd. Sti., Ankara, Turkey		100.00	(72)	(k)	0.2	(0.3)
(70)	Vossloh High Speed Grinding GmbH, Hamburg	3	100.00	(63)	(k)	0.3	2.1
(71)	Vossloh Mobile Rail Services GmbH, Leipzig	3	100.00	(64)	(k)	1.1	0.0
(72)	Vossloh Rail Services International GmbH, Hamburg	3	100.00	(63)	(k)	(0.6)	(0.1)
(73)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(72)	(e)	(1.6)	(0.3)
(74)	Vossloh Rail Services Scandinavia AB, Örebro, Sweden		100.00	(72)	(k)	1.4	0.5
(75)	Vossloh Rail Services North America Corporation, Chicago, Illinois, USA		100.00	(3)	(n)	(0.1)	(0.1)
(76)	Beijing CRM-Vossloh Track Maintenance Technology Co. Ltd., Beijing, China		47.00	(72)	(e)	14.4	0.5
(77)	Vossloh Rail Services Kunshan Co. Ltd., Kunshan, China		100.00	(72)	(k)	1.3	0.4
(78)	Vossloh Rail Services Finland Oy, Kouvola, Finland		80.00	(72)	(k)	7.0	0.3
	Transportation division						
	Locomotives business unit						
(79)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(k)	28.5	0.7
(80)	Locomotion Service GmbH, Kiel	3	100.00	(79)	(k)	0.2	0.0
(81)	Vossloh Locomotives France SAS, Paris, France		100.00	(79)	(k)	0.3	0.0
(82)	Vossloh Locomotives Scandinavia AB, Örebro, Sweden		100.00	(79)	(k)	0.0	0.0
(83)	Imateq SAS, Saint Pierre des Corps, France		55.00	(81)	(e)	0.4	(0.1)
(84)	Imateq Italia S.R.L., Tortona, Italy		100.00	(79)	(k)	0.2	(0.8)
	Other companies						
(85)	Vossloh Track Systems GmbH, Werdohl		100.00	(1)	(n)	(0.1)	0.0
(86)	Vossloh Southern Africa Holdings Proprietary Ltd., Johannesburg, South Africa		100.00	(85)	(n)	0.1	0.0
(87)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl		100.00	(1)	(n)	0.0	0.0
(88)	Vossloh Dritte Beteiligungsgesellschaft mbH, Düsseldorf		100.00	(87)	(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 of the HGB
[4] Included in the consolidation for the first time in the reporting year
[5] Differing fiscal year April 1 to March 31

Receivables and other assets

Receivables and other assets are due in full within one year. In the previous year, corporation tax credits in the amount of €73 thousand were due in more than one year. Receivables from affiliated companies and other investees relate to €19 thousand (previous year: €1,021 thousand) in trade receivables and other receivables.

Equity

Capital stock

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

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

Authorized capital

At the Annual General Meeting on May 24, 2017, new authorized capital of €22,662,582.32 was approved. No shares were subscribed. This authorization is limited to May 23, 2022.

Conditional capital

The Company has no conditional capital.

Additional paid-in capital

This additional paid-in capital includes the premiums from issuing Vossloh AG stock.

Other revenue reserves recognized under retained earnings totaled €270,671,697.46 (previous year: €270,671,697.46).

Provisions

In the 2017 fiscal year, the amount required to settle pension obligations came to €22,093 thousand (previous year: €21,314 thousand); the fair value of plan assets offset against this settlement amounted to €10,624 thousand (previous year: €10,785 thousand).

Pension provisions would have been €2,565 thousand higher if the market interest rate with matching maturities had been based on the past seven fiscal years rather than the past ten fiscal 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 (irrevocably creditable capital bonus). This value, moreover, equals the asset value for tax purposes. Amortized cost totaled €7,599 thousand.

The amount undistributable in accordance with Section 268 (8) HGB was €3,026 thousand and resulted entirely from the difference between the fair value and the amortized cost of the covered funds.

In the income statement, expenses of €1,718 thousand (previous year: €525 thousand) were netted against income of €375 thousand (previous year: €388 thousand) in the net financial result.

The other provisions of €22,698 thousand (previous year: €25,569 thousand) include €3,849 thousand for personnel (previous year: €3,896) and €18,850 thousand for other administrative purposes (previous year: €21,673 thousand). €17,255 thousand (previous year: €20,515 thousand) 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

Liabilities due to credit institutions recognized on the balance sheet amount to €300,000 thousand (previous year: €250,000 thousand), of which €50,000 thousand falls due within one year, €135,000 thousand after one but within five years and €115,000 thousand after five years. As in the previous year, all other liabilities have maturities of less than one year. Liabilities to affiliated companies and investees solely comprise other liabilities.

The contingent liabilities under guarantees of €210,512 thousand (previous year: €645,612 thousand) were incurred in the amount of €201,524 thousand for obligations of subsidiaries (previous year: €631,248 thousand).

The maximum liability guarantees total €231,436 thousand (previous year: €702,394 thousand). In 33 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.

Furthermore, there are other financial obligations of €372 thousand (previous year: €351 thousand) exclusively to third parties. Of these other financial obligations, €162 thousand (previous year: €200 thousand) is due within one year and €210 thousand (previous year: €151 thousand) in the period 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 guarantee 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.

In 2015, Vossloh AG secured the medium-term financing of the Group by concluding a syndicated loan of €500 million. The loan has two tranches: €200 million is available in the form of a bullet loan and €300 million in the form of a revolving credit line. In March 2017, Vossloh canceled and called back €100 million of the bullet loan ahead of schedule.

In July 2017, Schuldschein loans with terms of four years amounting to €135 million and seven years amounting to €115 million were issued by Vossloh AG. This means that the first step has been taken in the context of medium and long-term Group refinancing. The loans were used to fully repay the bullet loan in the amount of €100 million outstanding and to partially reduce the revolving credit line. Under the revolving credit line, Vossloh AG still had around €150 million available.

At the end of November 2017, Vossloh AG concluded a new €150 million syndicated loan with eight banks, thus definitively replacing the syndicated loan, which has existed since 2015 and is due to expire in April 2018. The financing agreement has a term of five years until November 2022 and contains two options to extend the credit period by one year each. These options can be exercised at the end of the first and second years of the term. Additionally, the volume of the loan can be increased if needed by an additional €150 million. The funds are available to the Company in the form of a revolving line of credit that can be flexibly accessed. In the future, interest will be based on the amount of the agreed covenant (net financial debt relative to EBITDA).

Notes to the income statement

Sales revenues in 2017 primarily related to rental income and service charges of €4,260 thousand (previous year: €5,028 thousand), including €3,974 thousand to affiliated companies (previous year: €4,737).

Sales revenues were generated entirely in Germany with the following exceptions: Sales revenues in France amounting to €298 thousand and in China of €86 thousand.

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

Vossloh AG's personnel expenses are reported under general administrative expenses and, in the year under review, they amounted to €10,866 thousand (previous year: €10,154 thousand). €9,643 thousand of this (previous year: €8,720 thousand) is allocable to wages and salaries, another €1,223 thousand (previous year: €1,434 thousand) to social security, pension expense and related employee benefits. Pension expenses amounted to €502 thousand (previous year: €798 thousand). The €1,344 thousand interest portion (previous year: €137 thousand) for the change in pension provisions was recognized as "Interest and similar expenses."

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

Other operating income totaled €1,744 thousand (previous year: €10,258 thousand) and primarily resulted from price gains. The previous year's amount resulted primarily from the release of provisions.

Nonperiod income, which is part of other operating income, totaled €258 thousand (previous year: €4,868 thousand) and primarily resulted from the release of provisions.

Other operating expenses mainly include expenses incurred from the disposal of property, plant and equipment of €6,445 thousand (previous year: €0 thousand) and price losses of €4,109 thousand (previous year: €1,443 thousand).

The net financial result of €37,375 thousand (previous year: €18,551 thousand) increased by €25,000 thousand as a result of the dividends paid by Vossloh France SAS, Rueil-Malmaison, France. Last year, write-downs of shares in affiliated companies of €5,642 thousand were recorded.

Net interest expense includes income from the discounting of other provisions of €2 thousand (previous year: €5 thousand).

Other disclosures

Vossloh AG employed an average of 62 employees (previous year: 55).

The 2017 employee bonus program, which has the same terms as the 2016 bonus program, offered employees of German Vossloh companies the option of acquiring either two Vossloh AG shares at no cost or eight shares at a discount of 50 percent of the issue price of €50.38 per share (previous year: €55.61), determined on the basis of the market price as of the share transfer date.

Under this program, employees of the Vossloh Group were granted a total of 148 shares in the reporting year (previous year: 108), at an expense to the Group of €8 thousand (previous year: €6 thousand).

Remuneration of Executive Board members (excluding pension expenses) for the 2017 fiscal year totaled €4,042 thousand (previous year: €3,883 thousand), including €1,388 thousand (previous year: €1,200 thousand) of fixed and €2,601 thousand (previous year: €2,635 thousand) of variable compensation plus €53 thousand (previous year: €48 thousand) for payments in kind. Former Executive Board members received a total of €1,133 thousand in the reporting year (previous year: €1,105 thousand). Pension obligations to former Executive Board and management members and their surviving dependents amounted to €19,311 thousand. Employer pension liability insurance policies totaling €10,624 thousand are pledged in each beneficiary's favor.

Total Supervisory Board fees for the reporting year came to €420 thousand, including fixed and variable components of €420 thousand and €0 thousand, respectively.

For further details required under the terms of Section 285 Sent. 1 No. 9 HGB, please refer to the remuneration report, which is 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 that are contained or eliminated by contracting derivative financial instruments. Vossloh AG's Treasury Management controls and manages exchange and interest rate risks across the Group.

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

Vossloh AG enters into foreign currency forwards with banks to cover currency risks from the operations of subsidiaries and to hedge currency loans extended to subsidiaries.

All hedged underlying transactions are accounted for at the hedged rate. Since the 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 nominal volumes and fair values of these hedges are listed below:

Derivative financial instruments

€ mill.	2017		2016	
	Fair value	Nominal volume	Fair value	Nominal volume
Currency hedging transactions				
Interest rate swap	(0.3)	50.0	(0.5)	50.0
Foreign currency forwards	3.3	195.8	(1.7)	153.9
	3.0	**245.8**	**(2.2)**	**203.9**

The method of determining fair values to measure derivatives depends on the type of instrument. Foreign currency forwards of €184 million relate to the hedging of recognized receivables carried and the hedging of recognized liabilities of €7 million. The fair values of interest rate hedges are based on bank valuations.

The fair values of foreign currency forwards are calculated on the basis of the average spot rate applicable on the balance sheet date, taking into account forward premiums and discounts for the respective remaining term of the contract compared to the contracted forward rate and were determined on the basis of the hedging rate at the reporting date.

Valuation units to hedge the foreign exchange risk and the interest rate risk

Derivative financial instruments are concluded to hedge cash flow risks and, where the criteria are met, are combined with the underlying into valuation units. The resulting cash flows therefore balance each other out. The foreign currency forwards primarily have terms of up to one year, but a maximum of around 3.5 years.

If the formation of a valuation unit is not possible, negative fair values are recognized as provisions for impending losses from underlying transactions under other provisions, while positive fair values are not recognized. In 2017, all derivative financial instruments were combined as hedging instruments with the related underlying transactions to form micro-hedges whose future effectiveness is assessed and made fully effective 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 foreign currency forwards, thus also closing the currency positions of subsidiaries for their account. As of December 31, 2017, foreign currency positions in the Australian dollar (AUD), Chinese yuan (CNY), pound sterling (GBP), Polish zloty (PLN), 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 at arm's length basis.

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

In November 2017, the Executive and Supervisory Boards issued, and made permanently available to the stockholders on the Group's website, the declaration of conformity pursuant to Section 161 AktG at https://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 relevant in the 2017 fiscal year under the terms of Section 21 WpHG, with the most recent voting-interest notifications of the main shareholder, Mr. Heinz Hermann Thiele, Germany, from 2015 also being 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) Sent. 1 No. 1 WpHG, voting rights held by KB Holding GmbH, Grünwald, Germany, are attributable to TIB Vermögens- und Beteiligungsholding GmbH.

Pursuant to Section 22 (1) Sent. 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) Sent. 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 Aktiengesellschaft.
2. Within the next twelve months, the notifying parties intend to purchase or otherwise acquire further voting interests in Vossloh Aktiengesellschaft.
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. 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 Aktiengesellschaft.
2. Within the next twelve months, the notifying parties intend to purchase or otherwise acquire further voting interests in Vossloh Aktiengesellschaft.
3. The notifying parties do not seek to exert any influence on the staffing of the Company's executive, management or supervisory boards.
4. 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, meaning 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 change	Date of notification	Affected threshold	New voting interest		thereof attributable	
				in %	absolute	in %	absolute
Franklin Mutual Advisers, LLC, USA	3/30/2017	3/28/2017	Below 5%	4.98	795,401	4.98	795,401
Franklin Mutual Advisers, LLC, USA	12/28/2017	12/22/2017	Above 5%	5.05	806,773	5.05	806,773
LBBW Asset Management Investmentgesellschaft mbH, Germany	2/14/2018	2/8/2018	Above 3%	0.05	7,546	3.04	486,043

Auditor fees

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

Auditor fees

€ mill.	2017	2016
Statutory audits	0,4	0,2
Other certification/verification services	0,1	0,5
Tax advisory services	–	–
Other services	0,0	0,0
	0,5	**0,7**

The fees for statutory audit services mainly include those paid for the statutory annual audits of the annual and consolidated financial statements of Vossloh AG, Werdohl, and the review of the interim financial statements, where such fees are borne directly by Vossloh AG. In the previous year, the fees for the review of the interim financial statements were still included in the other attestation services. In addition, the other attestation services in the 2017 fiscal year include fees for the audit of the compliance management system according to IDW PS 980.

Andreas Busemann, born 1966, Frankfurt am Main
Chairman of the Executive Board (since April 1, 2017)
First appointment: April 1, 2017, appointed until: March 31, 2020

Executive Board of Vossloh AG

Dr. h.c. Hans M. Schabert, born 1961, Nuremberg
Chairman of the Executive Board (until March 31, 2017)
First appointment: April 1, 2014, appointed until: March 31, 2017

Volker Schenk, born 1964, Düsseldorf
First appointment: May 1, 2014, appointed until: April 30, 2017
Second appointment: until April 30, 2020
External mandates:
– Institut für Bahntechnik GmbH: Member of the Supervisory Board (since 2011)
Group mandates:
– Vossloh Cogifer SA: Chairman of the Administrative Board
– Vossloh France International SAS: President (until November 30, 2017)
– Vossloh Australia Pty. Ltd.: Member of the Administrative Board
– Vossloh Fastening Systems Australia Pty. Ltd.: Member of the Administrative Board
– Vossloh Track Systems GmbH: Managing Director
– Vossloh International GmbH: 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
– Beijing CRM-Vossloh Track Maintenance Co. Ltd.: Chairman of the Supervisory 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, 2017
Second appointment: until February 29, 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 (until 5/24/2017), Munich, businessman,
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 Ges.m.b.H., Mödling, Austria

Dr.-Ing. Wolfgang Kefer[2,4], Chairman (since May 24, 2017), Erlangen,
former Deputy Chairman of the Executive Board of Deutsche Bahn AG

Ulrich M. Harnacke[2,3,4], Deputy Chairman, Mönchengladbach,
Tax Accountant and Auditor
– Member of the Supervisory Board of Elexis AG, Wenden (until March 2017)
– Member of the Shareholders' Committee of Thüga Holding GmbH & Co. KGaA, Munich
– Member of the Supervisory Board and Chairman of the Audit Committee of Brenntag AG (since June 8, 2017)

Andreas Kretschmann[1], Neuenrade, Social security specialist (since August 30, 2017)

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

Dr.-Ing. Wolfgang Schlosser[4], Puchheim, Consultant and former Managing Director
of Knorr-Bremse Systeme für Schienenfahrzeuge GmbH, Munich

Helmut Schwind[1], Trier, Welder (from February 1 until March 7, 2017)

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

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

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

There were no significant events after the balance sheet date.

Events after the reporting period

The financial statements for the 2017 fiscal year report a net profit of €11,588,000.94 and, after including the profit carrryforward of €118,581,615.30, net profit retained of €130,169,616.24.

The Executive Board and Supervisory Board will propose to the Annual General Meeting that a dividend of €1.00 per share be paid out on the dividend-bearing capital stock of €45,325,167.47 and that the remaining amount of €114,202,179.24 be carried forward. The total dividend amount is €15,967,437.00.

Proposed profit appropriation

Proposed profit appropriation

€	
Profit carried forward as of January 1, 2017	118,581,615.30
Net profit 2017	11,588,000.94
Unappropriated surplus as of December 31, 2017	**130,169,616.24**
Proposed profit appropriation	
Appropriation	(15,967,437.00)
Carryforward to new account	**114,202,179.24**

Werdohl, Germany, March 7, 2018

Vossloh AG
The Executive Board

Andreas Busemann, Volker Schenk, Oliver Schuster

Responsibility statement

We confirm that, to the best of our knowledge and in accordance with applicable accounting principles, the annual financial statements present a true and fair view of the Company’s net assets, financial position and results of operations, and the combined management report gives a true and fair view of the Company’s performance and the overall position of the Company, as well as the significant risks and opportunities associated with the Company’s expected development.

Werdohl, Germany, March 7, 2018

Vossloh AG
The Executive Board

Andreas Busemann, Volker Schenk, Oliver Schuster

Independent Auditor's Report

To Vossloh Aktiengesellschaft, Werdohl

Report on the Audit of the Financial Statements and of the Combined Management Report

Opinions

We have audited the annual financial statements of Vossloh Aktiengesellschaft, Werdohl, which comprise the balance sheet as of December 31, 2017, and the income statement for the financial year from January 1 to December 31, 2017, and notes to the financial statements, including the recognition and accounting policies presented therein. In addition, we have audited the management report for the Company and the Group (combined management report) of Vossloh Aktiengesellschaft, Werdohl, for the financial year from January 1 to December 31, 2017. In accordance with the German legal requirements we have not audited the content of the nonfinancial statement and the corporate governance statement which are included in section „Nonfinancial statement" and section „Reference to the corporate governance statement pursuant to Section 289f HGB" of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, in compliance with German Legally Required Accounting Principles, and

– the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the non

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as „EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the „Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the combined management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment testing of shares in affiliated companies

Please refer to pages 63 and 65 of the notes to the financial statements for further information on the accounting policies applied. The movements in financial assets are presented in the appendix to the notes.

THE FINANCIAL STATEMENT RISK

In the financial statements of Vossloh AG as of December 31, 2017, the balance sheet item „Financial assets" consists mainly of shares in affiliated companies of EUR 407.7 million (PY: EUR 475.3 million). These shares make up 42.5% (PY: 50.8%) of the total assets of EUR 959.9 million (PY: EUR 935.1 million). The shares in affiliated companies therefore have a material effect on the financial position of the Company.

The executive board tested the financial assets in the financial statements for impairment based on a simplified calculation of earnings value. The cash flows used in the valuation model are based on the budgeted cash flow figures for the three years subsequent to the balance sheet date for each shareholding. These were updated using estimations of long-term growth rates. The fair value is determined by discounting the budgeted cash flow figures using the weighted average cost of capital. The earnings value of these shares, derived by subtracting the net liabilities from this calculation, is compared with the carrying amount of the shareholdings as of the balance sheet date, having regard to the percentage of shares held. If the earnings value of the shareholding is lower, a review is undertaken, under qualitative and quantitative criteria, as to whether or not the impairment is expected to be permanent. In case of a permanent impairment in value, an impairment is recognized to the lower fair value of the shareholding.

In the context of the sale of the shares in Vossloh Kiepe GmbH, Düsseldorf, to Knorr-Bremse Systeme für Schienenfahrzeuge GmbH, Munich, with effect from end of January 31, 2017, the Company wrote down the shares in Vossloh Kiepe GmbH in the amount of EUR 5.6 million in financial year 2016 due to the low sale price in the sale of the Electrical Systems business unit. The remaining carrying amount of the shareholding of EUR 67.6 million was disposed of as of January 31, 2017. Owing to the planned sale of the shares in Vossloh Locomotives GmbH, Kiel, there is the risk that the measurement for the shares in Vossloh Locomotives GmbH is too high as of December 31, 2017.

Assumptions made for measurement of the shares in affiliated companies depend largely on the estimates and assessment of the executive board and are therefore subject to significant estimation uncertainties. This related in particular to the appropriate estimation of future cash flows and growth rates, appropriate determination of the risk equivalent weighted average cost of capital and the appropriate assessment of the permanence of the impairment. This results in a risk for the financial statements that the measurement of the shares in affiliated companies is inaccurate.

OUR AUDIT APPROACH

Our audit included a review of whether the valuation model meets the requirements under German commercial law. We also reviewed whether the weighted average cost of capital applied was correct in its method and appropriate in its amount. For this reason we made our own estimates of the underlying parameters for the weighted average cost of capital (such as risk-free rate, market risk premium, beta factor) and compared these with the parameters used. We involved valuation experts in the audit team to assist with this.

For the audit of the measurement of the shares in Vossloh Locomotives GmbH, we evaluated the content of the tender offers of potential acquirers.

In addition we assessed whether the budgeted cash flow figures on which the measurements were based, are themselves based on appropriate and justifiable assumptions and are in line with the corporate planning for 2018 approved by the supervisory board as well as the corporate planning for 2019 and 2020 acknowledged by the supervisory board. For this reason we sought clarification from the Company on these assumptions. We used industry and macroeconomic studies to review the long-term earnings forecasts in relation to the appropriateness of the budgeted figures and assumptions included. We assessed the planning quality using a budget/actual comparison for revenue and profit.

Finally we assessed whether the formulas used in the Company's valuation files were correctly constructed in terms of actuarial calculations and whether the values were properly calculated and correctly recorded in the accounts.

OUR OBSERVATIONS

The valuation model used by Vossloh AG is appropriate and consistent with the requirements of German commercial law. The assumptions of the executive board underlying the measurement are balanced.

Measurement of provision resulting from the sale of the Electrical Systems and Rail Vehicles business units

Please refer to pages 64 and 68 of the notes to the financial statements for further information on the sale.

THE FINANCIAL STATEMENT RISK

Risks arise from the contract for the transfer of shares in Vossloh Espana S.A.U., Valencia, Spain, to Stadler Rail AG, Bussnang, Switzerland, completed with effect from end of December 31, 2015. The risks relate to the guarantees and representations, for which a provision has been recognized.

Risks arise from the contract for the transfer of shares in Vossloh Kiepe GmbH, Düsseldorf (Electrical Systems business unit) to Knorr-Bremse Systeme für Schienenfahrzeuge GmbH, Munich, completed with effect from end of January 31, 2017. The risks relate to the guarantees and representations, for which a provision has been recognized.

In particular in relation to the measurement of the provisions, the Company has a high margin of discretion. There is the risk of an inaccurate measurement of provisions for guarantees and representations in the contracts for the transfer of shares.

OUR AUDIT APPROACH

We assessed the provision for guarantees and representations solely using substantive audit procedures.

Our audit procedures with respect to the measurement of the provisions for the guarantees and representations in the contracts for the transfer of shares included in particular, besides the assessment of the content of the contract for the sale of shares, an extensive analysis of the individual bases for potential claims as well as a critical assessment of the Company's assumptions in relation to orders from the entity being disposed of that are associated with representations, in particular the risk profile. In this case we interviewed the executive board of Vossloh AG and assessed the plausibility by inspecting the correspondence with the project customers.

OUR OBSERVATIONS

The underlying assumptions of the executive board for the measurement of the provisions for guarantees and representations are plausible.

Other Information

Management is responsible for the other information. The other information comprises the non-financial statement and the corporate governance statement. Our opinions on the annual financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the annual financial statements, with the combined management report or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Combined Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position, and, in all material respects, is consistent with the annual financial statements and our audit findings, complies with German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

– Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

– Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

– Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

– Evaluate the consistency of the combined management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

– Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 24, 2017. We were engaged by the supervisory board on September 28, 2017. We have been the auditor of Vossloh AG without interruption since the financial year 2015.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Michael Jessen.

Düsseldorf, 7 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Rodemer	Jessen
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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