vossloh

ANNUAL REPORT 2019

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Annual financial statements and combined management report of Vossloh AG for the 2019 fiscal year

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 into three divisions – Core Components, Customized Modules and Lifecycle Solutions. The Core Components division is made up of two business units, Vossloh Fastening Systems and Vossloh Tie Technologies. The two other divisions encompass one business unit each: Vossloh Switch Systems belongs to Customized Modules, and Vossloh Rail Services belongs to Lifecycle Solutions. In addition, Vossloh is involved in the locomotive business. Vossloh Locomotives is the last remaining business unit of the Transportation division, which is reported as discontinued operations. Vossloh AG signed a contract on August 26, 2019, for the sale of the Locomotives business unit to CRRC Zhuzhou Locomotive Co., Ltd., Zhuzhou, China (CRRC ZELC), a subsidiary of China Railway Rolling Stock Corporation Ltd. (CRRC). We expect to complete the transaction soon during the current fiscal year. You can find detailed descriptions of the individual core business areas on page 15 et seq.

The Company holds the following competitive positions in its core business of rail infrastructure:
- Vossloh is a leading global supplier and technological innovator in rail fastening systems.
- Vossloh is a global market and technology leader in the switches and crossings segment.
- In Germany, Vossloh is a leading supplier of innovative technologies and services for the entire lifecycle of rails and switches.
- In North America and Australia, 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 the business model. Vossloh's most important production sites for rail fastening systems are located in Germany, China, Poland, the USA and Russia. The Tie Technologies business unit manufactures concrete ties in the USA, Mexico and Australia. Vossloh also oversaw the construction of a new production facility in Canada in the 2019 fiscal year. Vossloh's switch systems are manufactured primarily in France, Sweden, Australia, Luxembourg, Poland, Finland, the United Kingdom and China. As part of a performance program, Vossloh decided to divest itself of its manufacturing sites in the Americas in the Customized Modules division. The majority of these were sold in 2019. The majority of rail services in the Lifecycle Solutions division are provided in Western and Northern Europe from Germany. Services are also provided in China. The production plant for the locomotive business, which does not belong to the core business and is reported as discontinued operations, is located 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 and management companies are:

- Vossloh Fastening Systems GmbH, Werdohl, Germany, and 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.

Controlling system

The most significant financial performance indicators for the Vossloh Group are value added, sales and EBIT margin*. The EBITDA margin will be provided from the 2020 fiscal year onwards. This important indicator provides transparency about the Company's self-financing power. While the Company uses revenue, EBIT margin and EBITDA margin as key performance indicators for short-term planning, the long-term management of the business units within the framework of the value-oriented growth strategy is focused on value added. Value added is the management-relevant earnings indicator for the divisions and business units within the framework of external reporting.

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, calculated as EBIT/Capital employed) and the cost of capital, which is calculated as the weighted average cost of equity and debt. 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.

Cost of equity is composed of a risk-free interest rate plus a market risk premium. The interest rate factor is adjusted accordingly on the basis of the input tax consideration. 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. A weighted average cost of capital before taxes (WACC) of 7.5 percent was used as the yield expected by investors and lenders for the purposes of intragroup controlling in the 2019 fiscal year, as it was in the previous year.

There are two ways of increasing value added: increasing EBIT and optimizing capital employed. ROCE is derived from both values. 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 (average working capital/annual revenue) and free cash flow.

Management uses nonfinancial performance indicators for the purpose of managing the company and making long-term strategic decisions. However, nonfinancial performance indicators do not play a central role in the management of the company. Instead, they provide information about the situation within the Group and are used as a basis for decisions. The Vossloh Group has no nonfinancial performance indicators of significance for the activities of the Vossloh Group. Further nonfinancial performance indicators which do not play a central role in management are provided in the nonfinancial Group statement, which begins on page 46.

To the management of Vossloh AG, the monthly financial reporting represents a central element for the ongoing analysis and control of the 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 Group Executive Board with the involvement of the relevant central departments of Vossloh AG.

*The EBIT margin indicator was adjusted in the 2019 fiscal year due to negative one-time effects on earnings from the performance program (see "2019 Performance program" on page 7).

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. The driving forces for this development include megatrends such as population growth, urbanization, the increase of international trade flows and increasing environmental awareness. Increasing environmental awareness may reinforce this trend in future if it leads to the rail network handling a greater proportion of freight transport and passengers. In addition, the industry itself is undergoing a profound transformation due to digitalization, automation and artificial intelligence, but also due to new financing models and the standardization and liberalization of rail transport. 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 is the World Rail Market Study, published by European rail industry association UNIFE. The study is updated in a two-year cycle; the most recent results were presented in September 2018 at the InnoTrans trade fair in Berlin.

According to UNIFE, the current global volume of the rail market is around €163 billion per year. The Association of the European Rail Industry considers about 63 percent of the total volume – some €103 billion – to be an accessible market. Accessible means that this market is accessible in principle to European suppliers and market demand in non-European markets is not exclusively met through domestic manufacturers.

Vossloh's core business consists of products and services for rail infrastructure. The market segments of infrastructure and infrastructure services are therefore of particular importance for Vossloh. In total, the market in these two segments amounted to approximately €27 billion per year for the period from 2015 to 2017 according to UNIFE data. From a regional perspective, roughly 34 percent of market volume is currently accounted for by Western Europe and approximately 33 percent by NAFTA countries (USA, Canada, Mexico) according to UNIFE data. These are followed by the Asia Pacific region with roughly 13 percent, Eastern Europe with 8 percent and Africa/Middle East with 5 percent. Markets in Latin America and in the Commonwealth of Independent States (CIS), at approximately 4 percent and 3 percent respectively, represent smaller portions of the accessible market volume.

Investments in rail infrastructure are generally made around the world on the basis of long-term decision-making processes. For this reason, short-term economic developments are only reflected in the sales markets for rail technology to a limited extent. More significant is the development of debt levels in Vossloh's sales markets, as the majority of the Group's clients are public-sector customers. As of the third quarter of 2019, 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 86.1 percent – as of the editorial deadline of this publication, this was the most current figure available. This time last year, this figure was 87.1 percent. At the end of September 2019, the debt ratio of the entire EU (EU-28) was 80.1 percent, compared to 81.4 percent in the previous year.

2019 Performance program

In the 2019 fiscal year, the Vossloh Group implemented the majority of a performance program aimed at sustainably improving its profitability and self-financing power. The program included a reduction in the number of employees compared to the end of 2018 and the discontinuation of unprofitable or disadvantageous activities. Activities were classed as disadvantageous if they failed to meet profitability requirements or had a negative impact on the performance of the Vossloh Group for other reasons. This approach was used even if the activity in question made a positive contribution to earnings. The program also took a close look at reducing overheads, focusing of investments and intensifying measures designed to reduce working capital. In this context, the Vossloh Group resolved to report an adjusted EBIT for the 2019 fiscal year upon commencement of the mid-year reporting. The adjustment encompasses negative one-time effects on earnings arising from the performance program. Further information can be found on pages 9 et seq.

Results of operations

Vossloh AG signed a contract selling the Locomotives business unit to CRRC ZELC on August 26, 2019. This was the last remaining business unit in the Transportation division. The transaction had not received all of the necessary approvals at the time that this annual report was prepared. The sale is expected to be completed in the near future. The Locomotives business unit is reported as a discontinued operations, as it was in the balance sheet up to December 31, 2018. The assets and liabilities of this business unit are included in the balance sheet in the line items "Assets held for sale" and "Liabilities related to assets held for sale". All expenses and income that originate from the companies to be sold or that are incurred in connection with the sale are reported in the income statement in the line item "Result from discontinued operations". Further information can be found in the notes to the consolidated financial statements under "(7) Result from discontinued operations" on page 120 et seq. in the Group's annual report. The following depiction thus encompasses the consolidated results of operations of the core business rail infrastructure.

The Vossloh Group recorded a significant increase in sales in the 2019 fiscal year. Group sales increased to €916.4 million (previous year: €865.0 million), within the expected range of €900 million to €1 billion. The improvement was particularly noticeable in the Core Components division, where sales growth was driven by the acquisition of Austrak and an uptick in business involving rail fasteners in the Chinese market. However, the performance program had a significant impact on earnings performance in the year under review. EBIT for the Vossloh Group came to €(37.6) million in the 2019 fiscal year due to one-time effects arising from these measures totaling €93.3 million. When adjusted for these one-time effects, EBIT totaled €55.7 million, slightly higher than the most recent forecast of adjusted EBIT in the bottom third of the original range of €50 million to €60 million.

Vossloh Group – Sales by region

	€ mill.	%	€ mill.	%
	2019		2018	
Germany	81.8	8.9	85.7	9.9
France	103.8	11.3	102.0	11.8
Rest of Western Europe	68.1	7.4	67.3	7.8
Northern Europe	105.2	11.5	111.6	12.9
Southern Europe	74.0	8.1	77.2	8.9
Eastern Europe	71.3	7.8	86.7	10.0
Total of Europe	**504.2**	**55.0**	**530.5**	**61.3**
Americas	187.6	20.5	159.5	18.5
Asia	149.7	16.3	132.2	15.3
Africa	15.0	1.7	19.3	2.2
Australia	59.9	6.5	23.5	2.7
Total	**916.4**	**100.0**	**865.0**	**100.0**

Sales in Europe down year on year, mainly due to lower sales in Eastern Europe

In Europe, the Vossloh Group's sales for the year under review were 5.0 percent lower than in the previous year. Eastern Europe saw the largest decrease in sales at 17.8 percent. This was largely due to Customized Modules generating fewer sales in Poland than in the previous year. In northern Europe, the Vossloh Group's sales were down 5.7 percent on the previous year. This was largely due to a downturn in sales in Sweden from the Lifecycle Solutions and Customized Modules divisions. Sales in Southern Europe were 4.1 percent lower than in the previous year. While the Customized Modules division posted a particularly significant decrease in revenues in Italy and Greece, the Fastening Systems business unit improved its sales figures in Turkey. In Western Europe, the Vossloh Group's sales remained at the level of the previous year. A downturn in sales in Germany, particularly in the Lifecycle Solutions division, and the United Kingdom, particularly in the Customized Modules division, was largely offset by improved sales figures elsewhere, specifically in the Customized Modules division in Belgium and the Lifecycle Solutions division in France.

Considerable increase in sales in the Americas, driven largely by improved sales in the Core Components division in the USA

In the Americas, Group sales went up by a significant 17.6 percent in the year under review. The Core Components division in the USA posted the greatest increase in sales. Both Vossloh Tie Technologies and Vossloh Fastening Systems improved their sales figures significantly compared to the previous year. The Group's sales performance was also positive in Canada and Mexico. The increased sales in Canada were largely due to the concrete ties business in the Core Components division and the North American switch business, which has now been mostly sold off from the Customized Modules division. Chile also reported improved sales numbers in the Customized Modules division. Sales in Brazil and Argentina were lower than in the previous year, largely due to the performance of the Customized Modules division.

Sales in Asia well above the previous year's figure, largely due to improved sales in China

In Asia, sales improved by a significant 13.2 percent year on year due to the Group's excellent performance in the second half of 2019. The Fastening Systems business unit in China recorded a particularly significant uptick in sales compared to the previous year. Sales also improved in India and Israel in the Customized Modules division. Vossloh Fastening Systems also contributed to the improved sales performance in Israel. This was somewhat offset by lower contributions from the Fastening Systems business unit, particularly in Thailand and Kazakhstan.

Sales in Australia doubled due to acquisition

In Australia, the Vossloh Group's sales more than doubled in the year under review. This significant improvement was completely due to the Australian business acquired in December 2018 being fully integrated into the Tie Technologies business unit for the entire year. There was almost no change in the sales generated from switch business in Australia, which is managed by the Customized Modules division.

In Africa, sales were a significant 22.0 percent lower than in the previous year. This was mainly due to a project-related downturn in sales in the Customized Modules division in Egypt. Sales in Senegal also failed to reach the level of the previous year, largely as a result of reduced contributions to sales from the Fastening Systems business unit.

Sales in Africa up on the previous year

The Vossloh Group's cost of sales in the year under review was €745.6 million, well above the previous year's figure of €678.7 million. Some of this increase was due to higher sales volumes. The cost of sales in the year under review was also affected by substantial one-time expenses related to the performance program totaling €16.4 million. The cost of sales accounted for 81.4 percent of sales in the year under review, which was above the previous year's level of 78.5 percent. One-time expenses related to the performance program of €38.2 million also caused general administrative and selling expenses to rise to €169.4 million, a significant increase on the previous year's figure of €144.1 million. Their share of sales revenue increased from 16.7 percent to 18.5 percent as a result. The item "Other operating result" amounted to €(22.3) million and was therefore much lower than the previous year's value of €18.4 million. The downturn was largely due to negative effects related to the performance program amounting to €38.7 million.

Vossloh Group – Sales and earnings

	€ mill.	%	€ mill.	%
	2019		2018	
Sales	916.4	100.0	865.0	100.0
EBIT/EBIT margin	(37.6)	(4.1)	54.2	6.3
Adjusted EBIT/adjusted EBIT margin	55.7	6.1	54.2	6.3
Net income	(136.8)	–	22.7	2.6
Earnings per share (in €)	(8.32)		1.14	

In 2019, both unadjusted EBIT and the unadjusted EBIT margin for the Vossloh Group were much worse than originally forecast due to the one-time negative impact on earnings related to the performance program. As a result, the unadjusted figures are not comparable with the previous year's levels. The negative one-time effects related to the performance program were only adjusted in the performance indicators EBIT and EBIT margin in the 2019 fiscal year. Adjustments were made for the effects of measures that have been initiated or for which a final decision has been made as part of the performance program. These placed a particular focus on restructuring or eliminating unprofitable or otherwise disadvantageous activities and reducing the number of employees in the Vossloh Group. So that the effects of the measures can be quantified in detail, a thorough and transparent analysis of the measures that have been adjusted for is provided below.

A summary of the expenses related to redundancies can be found in the workforce reduction component. These expenses can be broken down as follows for the 2019 fiscal year:

€ mill.	2019
Core Components	(2.4)
Customized Modules	(22.4)
Lifecycle Solutions	(2.9)
Vossloh AG	(2.5)
Group	**(30.2)**

The Vossloh Group had 357 fewer employees on the reporting date of December 31, 2019, than on December 31, 2018. The workforce was reduced by 242 employees as a result of divestments. The figure for the 2019 reporting date includes 126 employees who will remain employees of the Group until the end of their notice periods.

Expenses related to unprofitable and disadvantageous activities are divided into portfolio adjustments (manufacturing sites), restructuring/relocation of manufacturing at existing manufacturing sites and the discontinuation of disadvantageous activities. Portfolio adjustments of individual manufacturing sites relate entirely to effects arising from exiting the American switch market. Restructuring and relocation affected the Core Components and Customized Modules divisions. One-time expenses were posted by all divisions as a result of the discontinuation of disadvantageous activities.

€ mill.	2019
Portfolio adjustments (manufacturing sites)	(37.1)
Restructuring/relocation of manufacturing at existing manufacturing sites	(11.0)
Discontinuation of disadvantageous activities	(15.0)
Group	**(63.1)**

Negative one-time effects totaled €93.3 million in the 2019 fiscal year. EBIT adjusted for these one-time effects amounted to €55.7 million for the 2019 fiscal year. Adjusted EBIT was therefore within the originally forecast range of €50 million to €60 million, and slightly higher than the €50 million to €53 million range forecast in October 2019.

The net interest result in the 2019 fiscal year amounted to €(18.5) million, significantly lower than the previous year's value of €(13.4) million. This was caused by a noticeable increase in interest expenses, which was largely due to increased currency conversion losses in connection with financing activities. Interest expenses for the year under review also includes effects related to the first-time application of IFRS 16 in the amount of €1.2 million. Interest expenses related to financial liabilities were also higher than in the previous year, mainly as a result of increased borrowing. Earnings before taxes (EBT) came to €(56.1) million in the year under review (previous year: €40.8 million). The downturn was largely due to the one-time effects related to the performance program and the lower net interest result.

Net income reduced compared to previous year due to negative effects from the performance program and downturn in result from discontinued operations

Income taxes for the Vossloh Group totaled €10.3 million in the year under review, a significant decrease from the previous year's value of €16.0 million. A tax expense was incurred instead of an expected tax income despite the significant losses, mainly as a result of taking a cautious approach to accounting for deferred taxes on loss carryforwards. The result from discontinued operations came to €(70.4) million, a significant downturn compared to the previous year €(2.1) million. The result for the year under review was negatively impacted by impairments around €50 million related to the sale of the Transportation division. The annual result of the Transportation division also saw a significant downturn in 2019. This was caused by negative effects related to the execution of a major order in France. In line with these developments, net income for the year under review was distinctly negative. Net income attributable to Vossloh AG shareholders of €(139.7) million fell substantially below the previous year's figure of €18.2 million. Based on the average number of shares outstanding of 16,798,618 (previous year: 15,967,437), earnings per share went down considerably year on year.

Dividend proposal of €1.00 per share repeated for 2019

The Executive Board and Supervisory Board of Vossloh AG will again propose a dividend of €1.00 per share for the 2019 fiscal year to the shareholders at the Annual General Meeting scheduled for May 27, 2020, in light of the positive outlook and solid financial position.

Vossloh Group – Value management

€ mill.	2019	2018
Average capital employed	904.1	799.7
ROCE	(4.2)	6.8
Value added	(105.4)	(5.8)

Return on capital employed (ROCE) was also negative in line with the unadjusted negative EBIT figure. Average capital employed went up due to an increase in fixed assets. This was largely due to acquisitions at the end of 2018 being included in the average calculation for the entire year under review for the first time. The first-time application of IFRS 16 also resulted in an increase in the double-digit million range. Value added for the year under review was much worse than originally expected, with the weighted average cost of capital (WACC) unchanged at 7.5 percent. This was mainly a result of the one-time negative effects related to the performance program.

Value added distinctly negative due to the negative effects of the performance program

Vossloh divisions – Orders received and order backlog

	Orders received		Order backlog	
€ mill.	2019	2018	2019	2018
Core Components	382.0	391.3	267.6	237.3
Customized Modules	468.2	504.6	273.0	345.7
Lifecycle Solutions	103.5	90.8	10.5	12.9
Vossloh AG / consolidation	(15.5)	(7.5)	(1.9)	(0.9)
Group	**938.2**	**979.2**	**549.2**	**595.0**

Orders received were slightly down compared to the previous year's high levels. These were largely due to the Customized Modules division, where the downturn was caused by the sale of the U.S. subsidiary Cleveland Track Material during the year, in addition to other factors. The Core Components division had also recorded very high order volumes for rail fastening systems in China in the previous year (totaling approximately €85 million). The orders received figure for the Core Components division was improved as a result of the Australian concrete ties business being incorporated for the entire year. The book-to-bill ratio of the Vossloh Group, the ratio of orders received to sales, amounted to 1.02 in the year under review. The order backlog was down 7.7 percent compared to the previous year. This was largely due to the sale of the U.S. subsidiary in the Customized Modules division. The order backlog in the Core Components division, on the other hand, increased noticeably following the excellent performance in the Australian concrete ties sector.

Orders received down slightly on previous year's high level, book-to-bill ratio of 1.02

Financial position and investing activities

As the Group's management holding company, Vossloh AG is 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. Derivatives and other financial instruments are used 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.

The net financial debt of the Vossloh Group (calculated as financial liabilities minus cash and cash equivalents and short-term securities) increased slightly from €307.3 million at the end of 2018 to €321.3 million at the end of the 2019 fiscal year when excluding the effects related to the first-time application of IFRS 16. When the total of €49.1 million related to the effects of the first-time application of IFRS 16 is included, net financial debt at the end of 2019 comes to €370.4 million. Dividends, interest payments and negative free cash flow in 2019 pushed the figure up, while the proceeds of the capital increase and the sale of the U.S. activities in the Customized Modules division served to reduce net financial debt.

Slight increase in net financial debt relative to the previous year

Financial liabilities amounted to €427.1 million at the end of the 2019 fiscal year, and were thus higher than the corresponding figure for the previous year of €356.5 million. Current financial liabilities totaled €41.3 million at the end of 2019 (previous year: €32.5 million). The previous year's figure was adjusted because liabilities arising from the syndicated loan were reported in current financial liabilities in 2018. Noncurrent financial liabilities went up, largely due to the first-time application of IFRS 16 and the greater use of available credit lines. Excluding lease liabilities, €250 million of the total financial liabilities were attributed to Schuldschein loans placed in the 2017 fiscal year with terms of four years (until July 2021) totaling €135 million and terms of seven years (until July 2024) totaling €115 million. The agreed interest rate is fixed at 0.988 percent for the four-year maturities for an amount of €85 million, and variable at an amount of €50 million with a margin of 85 basis points above Euribor. For the seven-year maturities, a partial amount of €90 million has a fixed interest rate of 1.763 percent and the remaining amount of €25 million, 120 basis points above Euribor. A floor of 0.0 percent is respectively applicable to the reference value. An additional €87 million relates to drawdowns from the syndicated loan agreed in November 2017 with a current volume of €230 million and a term that runs until November 2024. At the end of the fiscal year, the interest rate was 1.80 percent. When added together, the sum total of cash and cash equivalents and short-term securities from continuing operations came to €56.7 million at the end of 2019 (previous year: €49.2 million).

The Group's contingent liabilities remained largely unchanged at €21.0 million (previous year: 21.3 million).

As of the end of the year, the Group had committed and unutilized credit facilities of €194 million at its disposal.

Vossloh Group – Development of cash flows

€ mill.	2019	2018
Cash flow from operating activities	12.3	37.6
Cash flow from investing activities	(15.5)	(95.0)
Cash flow from financing activities	28.1	(14.1)
Net cash inflow/outflow	24.9	(71.5)
Free cash flow	(42.4)	(19.0)

Positive free cash flow from continuing operations

Cash flow from operating activities was significantly lower in the year under review than in the previous year. This was due to a considerable decrease in gross cash flow (calculated as the sum total of EBIT of discontinued and continuing operations, amortization/depreciation/impairment losses [less write-ups] of noncurrent assets and changes in noncurrent provisions). A further driver was the increase in working capital in the Transportation division, which is reported as discontinued operations. With investing activities largely unchanged, 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 – also fell far short of the previous year's figure. This was due to the significantly negative free cash flow from discontinued operations. Free cash flow from continuing operations was slightly positive overall. Cash flow from investing activities, on the other hand, saw a clear improvement. This was partially due to the proceeds of the sale of a subsidiary based in the USA. Another contributing factor are the outflows included in the previous year's figure for the purchase of the Australian concrete ties business. Cash flow from financing activities was significantly higher than in the previous year. While the net inflows from the capital increase had a strong positive effect, repayments from finance leases and repayments of short-term loans and interest payments were higher than in the previous year. Cash and cash equivalents did not include short-term current account liabilities in the year under review. The ensuing cash flows had a positive effect on cash flow from financing activities in the previous year.

Vossloh Group – Capital expenditure and depreciation/amortization

€ mill.	2019		2018	
	Capital expenditure	Depreciation/ amortization	Capital expenditure	Depreciation/ amortization
Core Components	30.4	20.1	17.2	16.3
Customized Modules	15.8	44.3	28.1	12.6
Lifecycle Solutions	13.3	21.1	14.9	6.1
Vossloh AG / consolidation	0.3	0.9	0.3	0.5
Total	**59.8**	**86.4**	**60.5**	**35.5**

Capital expenditure at a Group level was largely unchanged compared to the previous year. Capital expenditure in the Core Components division went up significantly, with capital expenditure in the Customized Modules going down by a similar amount. The largest individual capital expenditure items in the Core Components division were for the construction of a cutting-edge manufacturing facility for rail fasteners ("Factory of the Future") in Werdohl, upgrading a manufacturing facility for concrete ties in Australia and the establishment of a joint venture for the manufacture of rail fasteners in China. The downturn in the Customized Modules division is largely due to the significant level of capital expenditure in the previous year related to the modernization of the manufacturing facility for manganese frogs in Outreau. Capital expenditure in the Lifecycle Solutions division was down slightly from the previous year. In the year under review, capital expenditure went towards the development of an innovative rail inspection system and other projects. The capital expenditure reported here does not match the figures in the cash flow statement, which only includes cash expenditure and the capital expenditure of the Transportation division, which is reported as discontinued operations. Depreciation and amortization at a Group level include impairments/reversals of impairment losses and are significantly higher than in the previous year. This is due to the impairments that were recognized in the context of the performance program (€36.6 million). Depreciation/amortization in the cash flow statement includes effects from discontinued operations and therefore does not match the values reported here.

Capital expenditure commitments for the acquisition of intangible assets and property, plant and equipment totaled €22.2 million as of December 31, 2019 (previous year: €16.0 million), and were almost entirely related to the construction of the "Factory of the Future" and the modernization of the manufacturing facility in Outreau.

Asset and capital structure

Vossloh Group – Asset and capital structure

		12/31/2019	12/31/2018
Total assets	€ mill.	1,331.4	1,266.9
Equity	€ mill.	403.6	523.3
Equity ratio	%	30.3	41.3
Closing working capital[1]	€ mill.	180.3	216.0
Fixed assets[2]	€ mill.	659.2	646.1
Closing capital employed[3]	€ mill.	839.5	862.0

[1] Working capital = trade receivables (including contract assets) plus inventories minus trade payables (including contract liabilities) minus prepayments received minus other current provisions (adjusted for matters not attributable to the operating business)

[2] Fixed assets = intangible assets plus property, plant and equipment plus investment properties plus investments in companies accounted for using the equity method plus other noncurrent financial instruments

[3] Capital employed = working capital plus fixed assets

Equity ratio above 30 percent despite negative impact of performance program

At the end of the 2019 fiscal year, the equity of the Vossloh Group was down significantly compared to the corresponding value on the reporting date of the previous year. This was primarily due to the negative net income caused by one-time effects related to the performance program. Equity was also reduced by the dividends paid out to Vossloh AG shareholders and distributions to minority shareholders. In contrast, the net proceeds from the capital increase had a positive effect on equity. Total assets as of December 31, 2019, were higher than in the previous year, largely due to the first-time application of IFRS 16, in addition to an increase in assets held for sale. The equity ratio was above 30 percent despite being reduced by the increase in total assets and the year-on-year downturn in equity. The assets of Vossloh Locomotives will be included in the balance sheet until the transaction is completed. The completion of the transaction will significantly reduce total assets, with a corresponding positive impact on the equity ratio.

The working capital as of the December 31, 2019, reporting date was 16.5 percent lower than the corresponding figure from the previous year. This was largely due to the sale of the U.S. companies in the Customized Modules division. Average working capital totaled €227.2 million in the year under review (previous year: €218.1 million). Despite the first-time application of IFRS 16, capital employed was down slightly on the previous year's figure at the end of 2019 due to the lower level of working capital at the end of the year and the divestments completed.

General statement on the economic situation

The 2019 fiscal year was shaped by the performance program designed to sustainably improve the profitability and self-financing power of the Vossloh Group. A significant amount of the measures have now been implemented. The performance program had a significant negative impact on earnings, with the result that the original target corridors for the EBIT/EBIT margin and value added could not be achieved. The Vossloh Group has provided an EBIT adjusted for negative one-time effects in order to provide transparency about Vossloh's actual operating performance for the 2019 fiscal year. The adjusted EBIT of €55.7 million was a slight improvement on the previous year's figure and the most recent forecast, demonstrating the positive adjusted earnings performance of the Vossloh Group during the year under review. One particularly positive factor worth highlighting is that the performance program was entirely financed using the proceeds of the sale of unprofitable units. This program will result in significant and sustainable cost savings. The order situation was also satisfactory overall. The book-to-bill ratio of the Group was 1.02 in 2019. Another major order for rail fastening systems in China was awarded to the Group during the year under review, with a volume totaling approximately €40 million. The Group also signed a number of important framework agreements, including agreements in Italy and Sweden with a total sales volume of up to €100 million. The orders arising from these framework agreements will only be included in orders received when the corresponding call-offs are made. These factors provide a solid foundation for organic growth in the future. A joint venture in China will increase our vertical integration and improve access to additional segments of the Chinese market. Another important strategic milestone is the signing of the contract for the sale of the for the Transportation division, which is reported as discontinued operations. The equity ratio remains high at over 30 percent. As such, the Vossloh Group can be said to have performed satisfactorily from an operational and strategic perspective during the year under review.

Business performance of Core Components

In the Core Components division, Vossloh 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 worldwide – from heavy-haul to high-speed rail lines and urban transport. The Tie Technologies business unit is the leading manufacturer of concrete ties in North America and Australia. In addition to concrete rail ties, the business unit also manufactures switch ties, concrete low-vibration blocks for slab track and crossing panels.

Core Components

		2019	2018
Orders received	€ mill.	382.0	391.3
Order backlog	€ mill.	267.6	237.3
Sales revenues*	€ mill.	351.7	292.6
EBIT	€ mill.	34.9	34.5
EBIT margin	%	9.9	11.8
Earnings reductions arising from performance program	€ mill.	(4.4)	–
thereof personnel module	€ mill.	(2.4)	–
thereof unprofitable and disadvantageous activities module	€ mill.	(2.0)	–
Adjusted EBIT	€ mill.	39.3	–
Adjusted EBIT margin	%	11.2	–
Average working capital	€ mill.	90.9	72.7
Average working capital intensity	%	25.9	24.8
Average capital employed	€ mill.	282.4	226.2
ROCE	%	12.4	15.2
Value added	€ mill.	13.7	17.5

*Sales revenues include external sales revenues and sales with other divisions.

Orders received still at a high level

Orders received in the Core Components division during the reporting year totaled €382.0 million, a decrease of just €9.3 million relative to the previous year's high value of €391.3 million. The considerable order volumes for Vossloh Fastening Systems in China that had a significant impact in the previous year could not be reproduced in the year under review. This was largely balanced out by new orders in Australia following the acquisition of Austrak at the end of 2018 and growth in the USA. The order backlog at the end of 2019 stood at €267.6 million, which was once again significantly higher than the previous year (€237.3 million).

Significant sales growth in both business units

Sales revenues in the Core Components division went up by a significant 20.1 percent in the year under review. Both of the business units contributed to this performance. Vossloh Fastening Systems posted a €17.3 million increase in sales. The USA and Mexico contributed to this improvement, with the largest contribution coming from China. The improvement in the Tie Technologies business unit was largely due to the acquisition of the Australian company Austrak. The 2018 book-to-bill ratio of 1.34 was particularly high due to major orders in China. Orders received exceeded sales significantly once again in the 2019 fiscal year. However, the book-to-bill ratio of 1.09 was lower than the previous year's high figure.

Adjusted profitability once again in the double-digit range

EBIT for the Core Components division was slightly more than the previous year, despite the negative one-time effects of the performance program. The negative impact on earnings related to the performance program totaled €4.4 million in the Core Components division. €2.4 million of this related to the personnel module, with €2.0 million attributed to the unprofitable and disadvantageous activities module. The latter module incurred one-time expenses related to the restructuring/relocation of production at existing sites and the discontinuation of unprofitable activities. When adjusted for the effects of the performance program, EBIT totaled €39.3 million in the year under review. The adjusted EBIT margin was roughly at the previous year's level. Business in the USA and the activities of Vossloh Fastening Systems in China saw the most significant improvement compared to the previous year.

In 2019, ROCE in the Core Components division was below the previous year's figure in line with the negative effects arising from the performance program. Following the acquisition of Austrak and the first-time application of IFRS 16, average capital employed was higher in the 2019 fiscal year compared to the previous year.

Value added for the 2019 fiscal year fell substantially below the previous year's level. This was driven by the increase in average capital employed during the period under review as a consequence of the acquisition of Austrak and the first-time application of IFRS 16. Average working capital intensity was just 1.1 percent higher than in the previous year.

Vossloh Fastening Systems

Orders received down compared to strong previous year

At €220.4 million, orders received at Vossloh Fastening Systems in 2019 were well below the previous year's figure of €305.7 million. The previous year was particularly strong due to three major orders in the Chinese high-speed segment with a total volume of approximately €85 million. The order backlog at the end of 2019 stood at €177.2 million, a slight decrease of €13.9 million compared to the previous year's final figure.

Sales revenues for Vossloh Fastening Systems in 2019 amounted to €234.2 million (previous year: €216.9 million). The increase was largely due to business in China. The North American segment also performed well.

The book-to-bill ratio of Vossloh Fastening Systems stood at 0.94 (previous year: 1.41).

High positive value added once again

Despite the negative effects of the performance program, the value added of Vossloh Fastening Systems came to €21.6 million, a slight increase compared to the previous year (€21.4 million).

Vossloh Tie Technologies

Orders received significantly higher than in previous year

The Tie Technologies business unit recorded orders received of €168.1 million in the year under review, which represents an increase of €75.7 million over the previous year's figure of €92.4 million. The improvement was due to the Australian company Austrak, which was handed a major order by Rio Tinto during the year under review. Orders received were also up slightly in the USA. The order backlog amounted to €92.9 million at the end of 2019 (previous year: €50.6 million).

Sales revenues significantly higher than in previous year

The sales revenues in the Tie Technologies business unit totaled €125.7 million, exceeding the previous year's level of €78.1 million. This was primarily due to the acquisition of Austrak and increased sales in the USA.

The book-to-bill ratio went up significantly to 1.34 (previous year: 1.18).

At €(7.8) million, the value added of Vossloh Tie Technologies was lower than the previous year due to the negative effects of the performance program and the increase in average capital employed following the acquisition of Austrak (previous year: €(3.8) million).

Business performance of Customized Modules

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

Customized Modules

		2019	2018
Orders received	€ mill.	468.2	504.6
Order backlog	€ mill.	273.0	345.7
Sales revenues*	€ mill.	473.2	482.6
EBIT	€ mill.	(54.3)	26.1
EBIT margin	%	(11.5)	5.4
Earnings reductions arising from performance program	€ mill.	(78.0)	–
thereof personnel module	€ mill.	(22.4)	–
thereof unprofitable and disadvantageous activities module	€ mill.	(55.6)	–
Adjusted EBIT	€ mill.	23.7	–
Adjusted EBIT margin	%	5.0	–
Average working capital	€ mill.	123.2	136.3
Average working capital intensity	%	26.0	28.2
Average capital employed	€ mill.	436.8	432.4
ROCE	%	(12.4)	6.0
Value added	€ mill.	(87.1)	(6.4)

*Sales revenues include external sales revenues and sales with other divisions.

Orders received down slightly compared to previous year

Orders received in the Customized Modules division totaled €468.2 million in 2019 and were therefore 7.8 percent lower than the previous year's figure of €504.6 million. The downturn was largely due to lower orders received in India and Israel. It was also influenced by the sale of the largest U.S. company in the switch business as part of the performance program. This trend was partially balanced out by higher order volumes in the Netherlands, Malaysia and Singapore. The order backlog reached €273.0 million as of the reporting date (previous year: €345.7 million). This decrease was primarily driven by the sale of the U.S. company.

Sales in 2019 slightly below the previous year's level

The sales revenues of the Customized Modules division remained slightly below the previous year's level in the 2019 fiscal year at €473.2 million. Poland was unable to repeat the significant sales volumes achieved in the previous year due to projects being rescheduled from 2019 to 2020. This was only partially compensated for by business in Serbia. The book-to-bill ratio was 0.99 (previous year: 1.05).

Adjusted EBIT down year on year

The EBIT of the division came to €(54.3) million in 2019, a decrease of €80.4 million compared to the previous year. This figure was burdened by one-time effects from the performance program amounting to €78.0 million. €22.4 million of this related to the personnel module, with €55.6 million attributed to the unprofitable and disadvantageous activities module. The latter module incurred one-time expenses related to the divestment of manufacturing sites, restructuring/relocation of production at existing sites and the discontinuation of unprofitable and disadvantageous activities. The majority of the expenses were related to divestments, and were primarily due to accounting losses arising from the sales in the USA. When adjusted for these one-time effects, EBIT came to €23.7 million in the year under review, down €2.4 million from the previous year's figure. Poland provided a lower contribution to earnings than in the previous year in line with the downturn in sales. The same was true for the United Kingdom. The Outreau site in France recorded a significant improvement in EBIT compared to 2018.

ROCE was significantly negative due to EBIT being affected by the one-time effects of the performance program. Average capital employed was largely unchanged. Value added was also significantly in the negative range. Average working capital was down compared to the previous year as a result of the sales in the USA and other factors.

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. Its innovative technologies promote the safety of rail lines, contribute to extending the service life of rails and switches and improve track availability. The service portfolio includes maintenance, grinding and milling for the corrective and preventive care of rails and switches, as well as welding services and rail and switch logistics. Lifecycle Solutions' extensive range of services complements the product portfolios of Core Components and Customized Modules.

Lifecycle Solutions

		2019	2018
Orders received	€ mill.	103.5	90.8
Order backlog	€ mill.	10.5	12.9
Sales revenues*	€ mill.	106.0	100.0
EBIT	€ mill.	(6.5)	12.9
EBIT margin	%	(6.1)	12.9
Earnings reductions arising from performance program	€ mill.	(12.7)	–
thereof personnel module	€ mill.	(2.9)	–
thereof unprofitable and disadvantageous activities module	€ mill.	(9.8)	–
Adjusted EBIT	€ mill.	6.2	–
Adjusted EBIT margin	€ mill.	5.9	–
Average working capital	€ mill.	14.6	13.0
Average working capital intensity	%	13.8	13.0
Average capital employed	€ mill.	183.7	142.6
ROCE	%	(3.5)	9.0
Value added	€ mill.	(20.3)	2.2

*Sales revenues include external sales revenues and sales with other divisions.

Significant increase in orders received

Orders received in the Lifecycle Solutions division totaled €103.5 million in the 2019 fiscal year, an increase of 14.0 percent compared to the previous year. Orders received were higher in the Service segment, particularly in the milling business. The order backlog amounted to €10.5 million at the end of 2019 (previous year: €12.9 million).

Sales higher than previous year

Sales revenues in the Lifecycle Solutions division increased once again in the 2019 fiscal year to well in excess of €100 million. This was primarily driven by the milling business, which Lifecycle Solutions expanded towards the end of 2018 through an acquisition.

The Lifecycle Solutions division's degree of internationalization, measured on the basis of sales revenues earned outside of Germany, increased from 40.0 percent in the 2018 fiscal year to 45.4 percent. Sales especially in Western Europe outside Germany saw a noticeable uptick.

Adjusted EBIT down compared to the previous year after the adjustment for a one-time effect

Compared to 2018, EBIT fell by €19.4 million to €(6.5) million. This included one-time expenses related to the performance program totaling €12.7 million. €2.9 million of this related to the personnel module, with €9.8 million attributed to the unprofitable activities module. All of the one-time expenses incurred in the latter module were related to the discontinuation of disadvantageous activities. When adjusted for these effects, EBIT came to €6.2 million in 2019. The adjusted EBIT margin fell by 7.0 percentage points to 5.9 percent. This development was primarily the result of the one-time negative goodwill arising from the acquisition of the rail milling business in the previous year.

ROCE and value added were also negatively impacted by the performance program in the 2019 reporting year. Capital employed went up, largely as a result of the acquisition completed at the end of 2018 and the first-time application of IFRS 16 in 2019. The average working capital intensity was 0.8 percent higher than 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. Business unit representatives report on the events and developments in their area of responsibility on a regular basis. The Executive Board exerts a direct influence on the operational management of the business units in this context, alongside its management responsibility for different functions. A comprehensive catalog of approval requirements also ensures that the Executive Board is closely involved in significant operational decisions.

Vossloh AG prepares its annual financial statements in accordance with the regulations of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The explanations below refer to 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 significantly in the fiscal year.

Analysis of the separate financial statements

For the 2019 fiscal year, Vossloh AG reported sales revenues of €5.2 million (previous year: €4.8 million) resulting primarily from intercompany allocations with Group companies that obtain a wide range of services via Vossloh AG (mainly in the areas of IT and marketing). Operating expenses were mainly incurred in connection with the Company's management and financing functions. The business performance and economic development of Vossloh AG follow the activities of its subsidiaries and investees. The most significant performance indicators for Vossloh AG are the general administrative expenses, the net financial result and the result after tax/net income.

Administrative expenses totaled €18.7 million for 2019, a slight decrease compared to the previous year (€19.7 million), and were approximately in line with the previous year as expected. The performance program caused the significant increase in personnel expenses to €13.4 million (previous year: €10.5 million), while trade fair costs fell compared to the previous year due to the InnoTrans industry trade fair not taking place in the year under review. Consulting costs were much lower than the previous year's high figure.

Other operating expenses rose considerably year on year from €4.8 million to €7.2 million in the year under review. This was almost entirely due to exchange rate losses.

Other operating income fell to €5.0 million (previous year: €12.2 million). Releases of risk provisions from the sale of the former Electrical Systems and Rail Vehicles business units were higher in the previous year than in the 2019 fiscal year. Exchange rate gains were slightly higher than in the previous year.

The 2019 net financial result saw a significant decrease of €50.0 million relative to the previous year, and totaled €(42.9) million. A tangible improvement in this area was originally expected for 2019. The decline was largely due to a write-down on an investment due to a permanent impairment of €26.3 million. Income from profit transfer agreements went down to €18.8 million in the year under review (previous year: €25.4 million), while expenses from the assumption of losses rose considerably from €17.6 million in the previous year to €60.5 million in the year under review. Interest expenses totaling €9.1 million (previous year: €7.2 million) for the year under review stood opposite interest income of €14.2 million (previous year: €10.0 million), primarily from passing on these funds in the form of short and long-term loans to Group companies. Loss carryforwards kept income taxes low at €0.1 million (previous year: €(1.3) million).

Vossloh AG's net loss in the reporting year was €63.5 million (previous year: €3.5 million). The forecast in the annual report expected a significant improvement in the result after taxes. The delay in the sales of Vossloh Locomotives and negative one-time effects from the performance program had a particularly negative impact on the result after taxes.

The balance sheet total came to €953.9 million, a slight decrease from the previous year's figure of €968.6 million. The main reason for this was the decrease in Group financing in the form of loans and short-term receivables from affiliated companies.

Financial investments grew overall by €59.5 million to €606.7 million. This was due to an increase in investments in associated companies following a number of capital increases at three domestic subsidiaries. This was counteracted by the previously mentioned valuation allowance related to an investment and reduced loans to affiliated companies (€17.5 million decrease to €132.5 million). Current assets decreased by €73.9 million to €346.0 million, largely as a result of a decrease of €80.8 million in short-term receivables from affiliated companies. Other assets rose to €4.5 million as a result of a sales tax credit respectively the payment of a rental deposit. Cash and cash equivalents went up slightly to €7.7 million, a year on year increase of €2.4 million.

The liabilities side of the balance sheet exhibited higher liabilities to banks of €348.0 million (previous year: €331.2 million) on the reporting date. Liabilities to affiliated companies went up slightly from €20.3 million to €21.1 million. Provisions totaled €25.4 million, slightly under the previous year's value of €26.1 million. Equity was reduced from €583.6 million to €553.1 million due to the net loss and the dividend. This was slightly offset by the capital increase performed in June 2019. The equity ratio fell as a result to 58.0 percent, compared to 60.3 percent in the previous year.

Overall, the development of Vossloh AG's earnings, net assets and financial position in the 2019 fiscal year can be viewed as fairly negative due to the impact on the net financial result.

Dependency report

The Executive Board of Vossloh AG assumes the dependence of Vossloh AG in accordance with Section 17 of the German Stock Corporation Act (AktG) due to Heinz Hermann Thiele now indirectly holding 50.09 percent of capital stock following the capital increase. 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 Executive Board remuneration system was reviewed and revised in light of regulatory requirements, investor expectations, staffing changes and the Executive Board being reduced to two members from October 1, 2019. As before, the remuneration system for Vossloh AG Executive Board members consists of three components: basic remuneration, an annual bonus and a multiyear bonus. The underlying structure of the remuneration system is unchanged. However, the revisions caused variable remuneration to be more dependent on share price and altered how the individual remuneration components are weighted. Prior to the revision, the multiyear bonus included performance targets, two-thirds of which were based on financial performance indicators (in the 2019 fiscal year namely average values over the respective period for sales growth and ROCE). The remaining third was based on personal goals. Before the remuneration system was revised, variable remuneration amounted to around 65 percent (for the CEO) or around 60 percent (for other Executive Board members) of total target remuneration, with the multiyear bonus accounting for around 60 percent of variable target remuneration. Based on a transitional arrangement, the revised remuneration system mainly came into effect for Mr. Schuster on January 1, 2020, and on October 1, 2019, for Dr.-Ing. Runge. It has the following components:

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 accounts for around 40 percent of the total target remuneration for Executive Board members. 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 was provided for services performed on behalf of subsidiaries.

Variable remuneration, which amounts to around 60 percent of total target remuneration for the members of the Executive Board at 100 percent target achievement, consists of an annual and a multiyear remuneration component. The performance targets are based on financial performance indicators that can be measured objectively and are considered a relevant indicator of the Vossloh Group's economic performance, in addition to the performance of the Vossloh share. All performance targets are forward-looking and are (with the exception of the share price-based remuneration component) 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. Targets for the share price-based variable remuneration component are derived directly from the relevant employment contracts.

The **annual bonus** is determined on the basis of annual performance targets. If all of these targets are 100 percent achieved, the annual bonus amounts to slightly less than half of the total variable target remuneration. The performance targets for the annual bonus are Group EBIT, Group sales and the average working capital of the Vossloh Group. The Supervisory Board can reduce the bonus for 100 percent target achievement by up to 20 percent or increase it by up to 30 percent at its discretion based on the individual performance of the Executive Board member in question.

The **multiyear bonus** amounts to slightly more than 50 percent of total variable target remuneration if all multiyear performance targets are 100 percent achieved. ROCE (return on capital employed) accounts for 48 percent (for the CEO) and around 31 percent (for the other Executive Board member) of the performance targets for the multiyear bonus. The remainder is split evenly between the absolute and the relative performance of the Vossloh share. The relative performance of the Vossloh share is measured and assessed by comparing it to the average performance of the DAX, MDAX and SDAX.

The achievement of targets for the annual bonus and the financial performance indicators for the multiyear bonus are determined annually by the Supervisory Board on the basis of the audited consolidated financial statements. The component of the multiyear bonus related to the performance of the Vossloh share is assessed on the basis of volume-weighted XETRA average share prices or the average closing prices of the relevant indexes as published by Deutsche Börse AG. Both of these are taken from the 40 days immediately before or after the assessment period. The DAX is weighted at 70 percent, and each of the other two indices at 15 percent. 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 multiyear bonus are limited to a maximum of 170 percent of the respective target bonus.

However, the Supervisory Board may use its discretion to set an extra bonus allocation for extraordinary performance in the period under review.

Review and approval of Executive Board remuneration

In the 2017 fiscal year, the Supervisory Board carried out a market standards and system analysis of the remuneration of the Executive Board members of Vossloh AG with the assistance of an independent external compensation consultant. The review confirmed that, even excluding the revision in autumn 2019, 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.

The aforementioned remuneration system for Executive Board members was approved by the Annual General Meeting on May 9, 2018, in accordance with Section 120 Para. 4 AktG. of the German Stock Corporation Act.

Executive Board remuneration in the 2019 fiscal year

The following table depicts the remuneration for the individual members of the Executive Board. The benefits granted also include accrued amounts for variable remuneration components that will not be paid out until 2020 or 2021. Payments in kind cover private company car use in the amount recognized for tax purposes. Andreas Busemann and Volker Schenk left the Executive Board on September 30, 2019. This table includes their remuneration for the period in which they were still Executive Board members. Benefits due to employment contracts coming to an end have been listed separately.

€		Fixed remun-eration	Pay-ments in kind	**Total fixed remun-eration**	Annual variable remun-eration*	Multiyear variable remuneration**			**Total variable remun-eration**	**Total pay-ments**	Service costs
Benefits granted						2017 & 2018	2018 & 2019	2019 & 2020			according to IFRS
Oliver Schuster CEO since 10/1/2019, member of the Executive Board since 3/1/2014	2018	450,000	22,611	**472,611**	165,070	(89,787)	221,457	–	**296,740**	**769,351**	207,430
	2019	475,000	21,242	**496,242**	470,133	–	(64,641)	360,286	**765,778**	**1,262,020**	324,919
	2019 min.	475,000	21,242	**496,242**	–	–	–	–	**–**	**496,242**	324,919
	2019 max.	475,000	21,242	**496,242**	476,000	–	–	616,000	**1,092,000**	**1,588,242**	324,919
Dr.-Ing. Karl Martin Runge member of the Executive Board since 10/1/2019	2018	–	–	**–**	–	–	–	–	**–**	**–**	–
	2019	87,500	3,859	**91,359**	106,533	–	–	–	**106,533**	**197,892**	–
	2019 min.	87,500	3,859	**91,359**	–	–	–	–	**–**	**91,359**	–
	2019 max.	87,500	3,859	**91,359**	119,000	–	–	–	**119,000**	**210,359**	–
Andreas Busemann[1,2] former CEO, member of the Executive Board between 4/1/2017 and 9/30/2019	2018	550,000	16,003	**566,003**	235,814	(68,475)	316,367	–	**483,706**	**1,049,709**	–
	2019	412,500	10,346	**422,846**	393,146	–	(97,385)	170,586	**466,347**	**889,193**	–
	2019 min.	412,500	10,346	**422,846**	0	–	–	0	**0**	**422,846**	–
	2019 max.	412,500	10,346	**422,846**	680,000	–	–	660,000	**1,340,000**	**1,762,846**	–
Volker Schenk[1,2] former member of the Executive Board, initially appointed: 5/1/2014, appointed until 9/30/2019	2018	450,000	12,086	**462,086**	165,070	(138,787)	221,457	–	**247,740**	**709,826**	203,200
	2019	337,500	9,357	**346,857**	275,202	–	(58,170)	127,371	**344,403**	**691,260**	–
	2019 min.	337,500	9,357	**346,857**	0	–	–	0	**0**	**346,857**	–
	2019 max.	337,500	9,357	**346,857**	357,000	–	–	462,000	**819,000**	**1,165,857**	–

[1] All figures for 2019 for Mr Busemann and Mr Schenk are based on approved agreements

[2] The employment contracts for Andreas Busemann and Volker Schenk expire on 3/31/2020 and 4/30/2020, respectively.

* The annual variable remuneration granted for 2019 includes extra bonus allocations for extraordinary performance of €120,000 for Oliver Schuster and €19,000 for Dr.-Ing. Karl Martin Runge.

** The granting of multiyear variable remuneration is dependent on the achievement of performance targets for the period in question. Target fulfillment is measured after the expiry of the multiyear 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

The table below shows the receipt of remuneration in the reporting year and the previous year. The paid amounts for the variable remuneration were allocated to the years in which they were received by the respective Executive Board member.

€		Fixed remun-eration	Payments in kind	**Total fixed remuneration**	Annual variable remuneration	Multiyear variable remuneration		**Total variable remuneration**	**Total remun-eration**
Receipt						2016 & 2017*	2017 & 2018		
Oliver Schuster CEO since 10/1/19, member of the Executive Board since 3/1/2014	2018	450,000	22,611	**472,611**	407,465	262,063	–	**669,528**	**1,142,139**
	2019	475,000	21,242	**496,242**	165,070	–	245,632	**410,702**	**906,944**
Dr.-Ing. Karl Martin Runge Member of the Executive Board since 10/1/2019	2018	–	–	**–**	–	–	–	**–**	**–**
	2019	87,500	3,859	**91,359**	–	–	–	**–**	**91,359**
Andreas Busemann[1] Former CEO, member of the Executive Board from 4/1/2017 until 9/30/2019	2018	550,000	16,003	**566,003**	436,570	–	–	**436,570**	**1,002,573**
	2019	412,500	10,346	**422,846**	235,814	–	290,902	**526,716**	**949,563**
Volker Schenk[1] former member of the Executive Board, initially appointed: 5/1/2014, appointed until 9/30/2019	2018	450,000	12,086	**462,086**	407,465	262,063	–	**669,528**	**1,131,614**
	2019	337,500	9,357	**346,857**	165,070	–	196,632	**361,701**	**708,558**

[1] The employment contracts for Andreas Busemann and Volker Schenk expire on 3/31/2020 and 4/30/2020, respectively.

*Including the multiyear special bonus for the two-year period 2016 & 2017.

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			
Oliver Schuster CEO since 10/1/2019	2018	240,329	756,371
	2019	517,265	1,273,636

Retirement benefits. CEO Oliver Schuster has 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 2019 fiscal year amounted to €517,265 (previous year: €473,272). 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.

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 earned or 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.

Benefits due to employment contracts coming to an end. The benefits in the following table have been pledged or made to the Executive Board members who left during the fiscal year due to their employment contracts coming to an end. Fixed remuneration has already been paid pro rata temporis in the 2019 fiscal year. Variable remuneration components will be paid out in the 2020 fiscal year.

€	Fixed remuneration	Payments in kind	**Total fixed remuneration**	Annual variable remuneration	Multiyear variable remuneration	**Total variable remuneration**	**Total**
Andreas Busemann[1]	275,000	6,898	**281,898**	231,049	106,862	**337,911**	**619,808**
Volker Schenk[2]	262,500	7,278	**269,778**	176,667	84,924	**261,591**	**531,368**

[1] Employment contract expires on 3/31/2020

[2] Employment contract expires on 4/30/2020

Loans to Executive Board members. No advances or loans were granted to any Executive Board members of Vossloh AG in the 2019 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 €3,683,409 (previous year: €1,172,861). These were pension payments of €1,183,658 and benefits totaling €2,499,751 to the Executive Board members who left during the fiscal year. 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 €22,809,518 (previous year: €21,256,507). This includes the aforementioned amount for Volker Schenk. Employer pension liability insurance policies totaling €10,297,220 (previous year: €10,459,305) 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 2019. 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 their activities on the committee.

For the 2019 fiscal year, Supervisory Board members received a total remuneration of €429,167 (previous year: €435,833).

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

€	2019	2018
Dr.-Ing. Volker Kefer (Chairman until 3/4/2019)	30,000	120,000
Ulrich M. Harnacke (Chairman since 4/2/2019)	117,500	110,000
Dr. Sigrid Evelyn Nikutta (Deputy Chairwoman since 5/22/2019)	46,667	–
Prof. Dr. Anne Christine d'Arcy (since 5/9/2018)	60,000	33,333
Dr. Bernhard Düttmann (until 12/31/2019)	75,000	26,667
Andreas Kretschmann	40,000	40,000
Michael Ulrich	60,000	60,000
Dr.-Ing. Wolfgang Schlosser (until 5/9/2018)	–	20,833
Ursus Zinsli (until 5/9/2018)	–	25,000
Total	**429,167**	**435,833**

Consulting agreements. No consulting agreements with Supervisory Board members existed in the 2019 fiscal year.

Loans to Supervisory Board members. In the 2019 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) HGB

The provisions of Sections 289a (1) and 315a (1) HGB (both in conjunction with the transitional provision of Art. 83 (1) of the Introductory Law to the German Commercial Code (EGHGB)) required that the following takeover-related disclosures be made as of December 31, 2019.

Composition of the subscribed capital
The subscribed capital (share capital) of the Company amounts to €49,857,682.23. It is distributed across 17,564,180 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. The Executive Board of the Company is not aware of any restrictions on voting rights or share transferability.

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 50.09 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 €18,130,067.56 through one or more issuances of new, no-par-value shares against contributions in cash and/or in kind (Authorized Capital 2017). The shareholders are entitled to subscription rights. 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.

(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 abovementioned 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, 2019, 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 the case of eight of these 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 Skandinaviska Enskilda Banken AB's (publ) 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;

- 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 30 days after becoming aware of the change. In the event of a cancellation, the bank will allow adequate time for processing;

- A guarantee facility agreement with Skandinaviska Enskilda Banken AB's (publ) 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;

- A general agreement on short-term loans without individual guarantees with Bayerische Landesbank: If there is a change of control, the bank has the right to cancel the agreement within three months if it cannot reasonably expect the continuation of the agreement in consideration of the interests of both parties. In the event of a cancellation, outstanding balances, including accrued interest, are immediately due and payable.

In one other agreement, 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.

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, 2019, there were 3,531 employees within the Vossloh Group contributing to achieving the Group's goals. This represents a decrease of 357 employees or 9.2 percent compared to the previous year (3,888 employees). This was due to a performance program implemented during the year under review that included a reduction of the number of employees and the discontinuation/sale of unprofitable activities. The figure up to December 31, 2019, includes 126 employees who will only remain employed until the end of their given notice periods. When adjusted for these employees, the Vossloh Group had 3,405 employees at the end of 2019.

Workforce-related performance indicators

€ thousand	2019	2018
Personnel expenses per employee	68.7	57.8
Revenue per employee	242.1	232.5

The average number of employees was 3,786 in the reporting year compared to 3,720 in the 2018 fiscal year. This corresponds to an increase of 1.8 percent. At the end of the 2018 fiscal year, the Australian company Austrak Pty Ltd. and the rail milling business of STRABAG Rail GmbH were integrated. As a result, their employees were not fully included in the average figures. The majority of the downsizing measures and company sales/closures were performed in the last few months of the year under review. Because of this, the employees involved are still overwhelmingly represented in the average figures.

Out of the overall average number of employees, 72.6 percent (previous year: 73.8 percent) were employed at locations in Europe. Of the remaining 27.4 percent, 50.4 percent (previous year: 52.6 percent) were primarily active in the North American region and 26.7 percent (previous year: 29.4 percent) in Asia.

Personnel expenses

€ mill.	2019	2018
Wages and salaries	210.8	167.5
Social security expenses and charges	43.5	41.8
Pensions expenses	5.8	5.6
Total	**260.1**	**214.9**

The increase in personnel expenses is mainly due to one-time expenses related to the performance program. Significant one-time personnel expenses were incurred in the module related to reducing the number of employees and the element related to unprofitable and disadvantageous activities.

Divisions

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

Division	Number Ø of employees		Personnel expenses per employee in € thousand		Revenue per employee in € thousand	
	2019	2018	2019	2018	2019	2018
Core Components	879	782	64.1	56.1	400.0	374.2
Customized Modules	2,296	2,374	67.8	55.4	206.1	203.3
Lifecycle Solutions	548	501	64.4	59.5	193.3	199.5

In addition, an average of 63 employees (previous year: 63) were employed by Vossloh AG.

In a year of restructuring, Vossloh had two overarching objectives: to reduce its workforce in a fair and socially responsible manner within the context of the performance program, and to enhance the factors that make Vossloh an attractive employer.

This includes the possibility of personal and professional development schemes. Every Vossloh employee, regardless of their gender, age, nationality, religious beliefs or sexual orientation, has the same opportunity to take on new tasks and responsibilities.

Vossloh is an attractive employer for a number of reasons, including a variety of company policies designed to ensure a healthy work-life balance, safe working conditions in all divisions and programs that help employees look after their health.

For additional information, please refer to the “Employee aspects” section of the nonfinancial declaration.

Employee representatives go well beyond their statutory obligations to shape Vossloh as a workplace.

Research and development

Vossloh ranks among the technological leaders in its fields of activity in rail infrastructure. To satisfy the specific expectations of customers in individual market regions over the long term and reinforce its own competitive position, the Company intensively invests in the enhancement and optimization of its products and services, alongside the digitalization and increased automation of its internal business and manufacturing processes. Innovation is a decisive factor in maintaining the Company's technological competitiveness. Within the framework of a structured innovation management process, Vossloh continuously drives new developments forward. And all with a focus on digitalization. At the end of 2018, the company created the Chief Digital Officer (CDO) position. This individual is responsible for information technology, digitalization and innovation throughout the Group.

A significant portion of Vossloh's research and development efforts target specific customer contracts. 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 related to this defined in IAS 38. Development costs that cannot be capitalized are included as research and development costs if they are not reported under cost of sales.

In 2019, expenses for research and development – including capitalized internally generated assets – came to a total of €12.6 million (previous year: €13.0 million). This represents a share of approximately 1.4 percent of Group sales (previous year: 1.5 percent). €4.0 million (previous year: €4.3 million) of R&D expenses were attributable to the Core Components division and almost completely to the Fastening Systems business unit. R&D expenses in the Customized Modules division came to €4.2 million (previous year: €4.0 million). €4.2 million (previous year: €4.8 million) were attributable to the Lifecycle Solutions division.

€1.9 million of the newly capitalized assets that were generated internally or as a result of third-party deliveries or service performance in the 2019 fiscal year (previous year: €2.1 million) concerned the Lifecycle Solutions division.

Vossloh Group – Research and development costs

€ mill.	2019	2018
Research and development costs	12.6	13.0
of which capitalized	1.9	2.1
Research and development expenses (income statement)	**10.7**	**10.9**
Amortization (of capitalized development costs)	2.8	0.9

Vossloh's research and development activities focus on significant challenges currently facing the rail industry. This includes maximizing the availability of rail routes and developing solutions to deal with the consequences of the resulting increased load on tracks, such as wear and noise emissions. Vossloh also conducts research with a focus on extending the service life of infrastructure and infrastructure components in order to reduce their lifecycle costs. As a system provider, Vossloh possesses comprehensive expertise regarding rail as a complex mode of transportation. Our vision of "The Smart Rail Track by Vossloh" reflects our commitment to being a trailblazer in the digitalization of rail track systems. Work is underway on a digital rail monitoring system and intelligent railway systems that will be fault-free and ensure that networks can handle more traffic on the tracks.

Using digital technologies allows the Group to harness incredible potential in the area of products and services. New apps released by Vossloh combine measurement and status data, provide a quick overview of the condition of routes and suggest suitable measures for repairing damage. Vossloh's freely configurable IoT sensor is a tiny and intelligent unit thanks to its embedded microprocessor. It can be installed at various locations (rail ties, point machine, etc.) to collect information through the measurement of vibrations. The internal microprocessor checks and compresses the data and sends it to the cloud for evaluation. Vossloh's V-MON monitoring platform combines the data collected by measurement instruments in various infrastructure components into an overall picture, which makes it possible to prepare efficient forecasts for the predictive maintenance of the rail network.

In future, Vossloh’s rail profiling sensors will also serve as diagnostic vehicles, evaluating track conditions without disrupting rail schedules. All of the data they collect will be transferred to an asset management system, such as the mapl-e or MR.Pro apps developed by Vossloh. In addition to visualizing the condition of the track, the mapl-e asset management system can also identify appropriate maintenance measures and assess their economic viability. Asset managers can then use this data to draw up maintenance plans and budgets. Vossloh’s “Digital Twin” application combines augmented reality and virtual reality to provide a tool for the maintenance of point machines. The “digital twin” provides a virtual depiction of a physical object or system, which includes comprehensive product and function data as well as a real-time visual overlay. Vossloh now even uses drones to generate digital three-dimensional models of busy routes. These 3D models can be used to optimize track layouts, switch designs and overhead lines to increase speeds and capacity on routes while reducing the need for maintenance.

Switch disruptions are one of the main reasons for routes being unavailable and unplanned maintenance. The “made by Vossloh” switch management system is becoming more and more digital. In urban regional transportation, for example, the compact electro-hydraulic Easydrive point machine can be equipped with smart sensor technology for remote monitoring. With the Easyswitch MIM-H for mainline routes, Vossloh has developed a new generation of this point machine that distinguishes itself as a modular plug-and-play solution with a high degree of reliability.

Digitalization also offers opportunities directly for the R&D activities of Vossloh: The research and development activities of every division are increasingly focused on data-processing technology. This makes it possible for multidimensional simulations such as the finite element or multi-body simulation methods to be implemented more quickly and more economically than with conventional methods. The innovative DYNADeV platform developed by Vossloh is a real-time simulation for predicting the mechanical behavior of a switch. The simulation tool replaces expensive measurements on the track and laborious laboratory tests; with the virtual process, switches can be certified much more quickly than previously.

All of Vossloh’s innovations also focus on “quiet rails”. Noise and vibrations are a particular inconvenience for people in dense urban areas and overshadow the generally outstanding environmental credentials of rail as a means of transportation. Vossloh uses developments like dampening rail fasteners, “whisper switches” and acoustic rail grinding to make the noise of a train going past quieter than a vacuum cleaner.

Vossloh has long relied on the specific expertise of external specialists for some of its development work. The Group has access to an extensive network of experts. The Company works closely with renowned universities and research institutions throughout the world under the framework of longstanding partnerships. Cooperations with technology companies and start-ups are particularly desired in the area of digitalization and big data analysis. The joint venture established with Rhomberg Sersa represents a crucial partnership that offers a wide range of monitoring and maintenance services for switches and rails. The MR.pro software provides the joint venture with a set of open system digital tools for evaluating and visualizing the condition and substance of track infrastructure.

In 2019, the R&D experts in the Core Components division continued to work on new solutions for increased noise and vibration protection. In addition to the 336V rail fastening system developed for regional transportation in China, the experts also focused on the DFF 336 NG system for metro systems on solid tracks. Both systems use *cellentic* intermediate layers. *cellentic* is a highly flexible elastomer. Components made from this material optimize the elasticity of the track. This reduces vibrations and protects the superstructure. Both systems use tension clamps, rail tie bolts and clip bolts with the new premium zinc coating Vossloh *protect*, which is particularly environmentally friendly. This coating provides long-term corrosion protection, even in extreme conditions. Vossloh’s researchers also focused on under-sleeper pads, which provide a vibration-reducing base for concrete ties.

In 2019, the R&D engineers of the Customized Modules division also continued to test the new, ultra-resilient rolled steel CogX. The heat-treated laminated steel for frogs and switch points was tested in switch systems for tram and heavy duty traffic. The material provides a higher level of resistance to wear and impact compared to existing solutions, and extends service lives by up to 30 percent. An energy-efficient completely hydraulic point machine and the new digitally controllable MIM-H point machine were put through thorough practical tests on high-speed routes. The COGISLIDE coating developed in the Customized Modules division also completed the testing phase. This makes it possible for coated switch rail chairs to be moved without lubrication. Together with COGILINK, a new generation of self-lubricating washers, corrosion-proof pins and a lubricant-free ball joint for all arm types, the entire switch system becomes maintenance-free and will operate even longer and more reliably.

The Lifecycle Solutions division finalized the development of the compact MPM (multi-purpose milling) machine in 2019. Tailored to the needs of regional transportation and operable in tunnels, it is also suitable for flexible hot-spot processing for main-line rail routes. Vossloh engineers also began the process of developing two different grinding machines for self-driving railgrinders on Chinese regional transport networks. Initial designs for the next generation of high-speed railgrinders (HSG 3) were also prepared. In order to ensure that conditions are assessed on a regular basis, Vossloh's engineers worked on integrated measuring equipment for mobile high speed railgrinders in the 2019 fiscal year.

In addition to the digitalization of its products and services, Vossloh is continuously investing in increasing the automation level of its internal business processes through the use of modern IT business solutions and infrastructures and the digitalization of its manufacturing processes. Vossloh is investing in the digitally managed and highly automated manufacture of tension clamps as part of the construction of the "Factory of the Future" at the Werdohl site. We use cutting-edge communication and collaboration solutions to enable experts working on international development projects to work together and exchange information quickly. This means that every expert and their expertise are just a click of the mouse away.

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. Vossloh has established a Group-wide risk and opportunity management system for this purpose. This system serves 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. The majority of the risks and opportunities that apply to the business of the Group also apply to the business development of Vossloh AG. Acquired companies are integrated into the system as soon as possible.

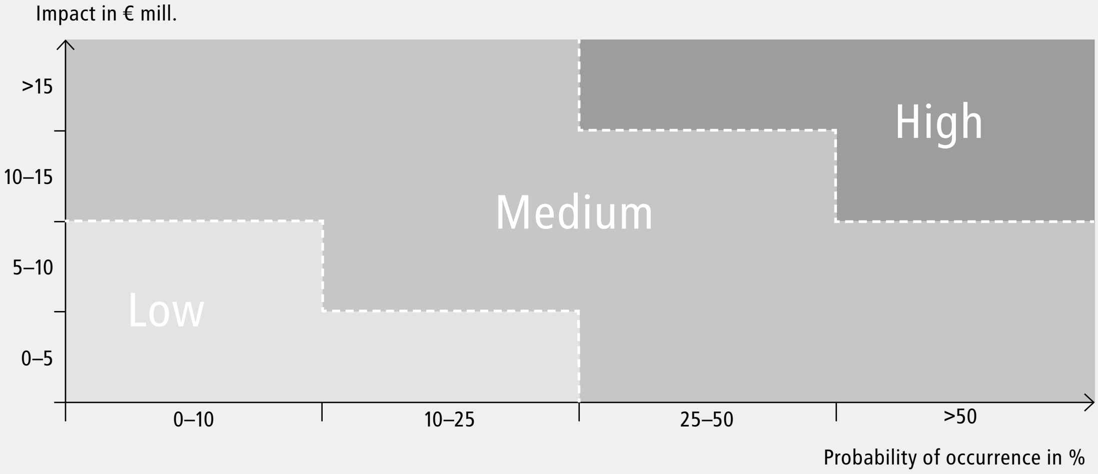
The risk and opportunity management system is a component of the business, planning and control process. The organization of structures and processes is documented in a Group-wide policy that was last updated in January 2018. The policy will be revised for the 2020 fiscal year to reflect the new assurance standard IDW EPS 340. 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. A permanent inventory identifies risks and opportunities on an ongoing basis and ensures that relevant risks are recorded effectively, promptly and systematically.

Vossloh evaluates risks and opportunities in regard to their potential impact on the results of operations. The possible impact is primarily identified on the basis of EBIT, the financial performance indicator. Interest and income tax risks and risks from discontinued operations are assessed in light of the impact of the risk on net income. This evaluation determines not only the most likely outcome but also the worst case and best case scenarios. In line with the value-at-risk method, a minimum probability of 5 percent is required for these. Additionally, an evaluation of the probability of occurrence is carried out. Nonfinancial risks and opportunities, which are evaluated in regard to their impact on nonfinancial aspects such as environmental or employment concerns, are also incorporated into risk reporting.

Vossloh documents and communicates risks and opportunities in standardized reports. They contain detailed information on 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 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 round out 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 management of the business units, Controlling and the Vossloh Executive Board discuss the current risk situation on a regular basis. The tight-knit personnel structure enables information to flow quickly and reactions to be invoked at short notice. The Executive Board has adopted suitable measures in order to promptly identify developments that may jeopardize the Group's standing as a going concern. Internal Audit checks whether the risk and opportunity management system is adequate and functional and whether it is in compliance with statutory requirements on an annual basis.

The significance that individual risk categories hold 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. The risk situation is assessed following the implementation of risk mitigation measures (net effect). Risks are categorized as high, moderate or low based on their possible negative impact and probability of occurrence.

This can be seen in the following figure:



The following statements illustrate the risks and opportunities that were relevant as of the reporting date and are significant to the 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 as well as global megatrends such as urbanization and digitalization. Climate change fits into both categories.

Many of Vossloh's clients are in the public sector. As a result, the general economic situation only has a limited impact on the performance of the Group. Regulatory activities, the state of rail deregulation in different countries and government budgets have a greater influence. The latter has a major impact on the ability of public clients to make investments. Reduced (or increased) availability of public funding can have a negative (or positive) impact on the future business performance of Vossloh. In the infrastructure maintenance market, which is highly critical to the Group, there has been an increased trend toward cost-cutting in recent years due to the continuing strain on public clients' budgets. In light of the persistent growth in rail traffic, these effects should only be temporary in nature. The debate surrounding climate change may result in long-term opportunities for the Vossloh Group. Rail is particularly sustainable compared to other methods of transport. As a result, investment in rail infrastructure may well increase in the future.

In the 2019 fiscal year, Vossloh operated worldwide in the markets for rail infrastructure (core business) and rail vehicles (locomotives). In selected markets, the Group is one of the leading providers in its core business. Vossloh generates more than 85 percent of its sales in Europe, America and Asia. The Transportation division, which since the end of 2014 no longer belongs to Vossloh's core business, is mainly operational in Europe, with a focus on Germany, France and Italy.

The political and economic factors that have an impact on European rail infrastructure markets are largely stable. North American markets are significantly more volatile in terms of demand, as most of the rail and network operators there are private companies. Vossloh decided to sell or close all of the companies of the Customized Modules division in the USA and South America as part of the performance program that it launched in 2019. This decision was made due to the poor performance of the Customized Modules division in America. A significant part of the negative one-time effects incurred in the year under review was due to this decision. Vossloh's performance in Asia is currently characterized by projects related to the rapid growth of the Chinese high-speed network. Activities in these and other markets – particularly in the rest of Asia, Australia and Africa – present opportunities for Vossloh as well as additional risks. 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 grown noticeably and sustainably in recent years. Vossloh counters these risks by continuously enhancing its products and services and consistently focusing its activities on the needs of its customers. In this context, digitalization and the new business models resulting from it are playing an increasingly important role.

As in the previous year, Vossloh believes that the general economic risk and industry-specific risk for the forecast financial targets are low.

Operating risks and opportunities

Operating risks and opportunities can originate from various operational activities, particularly in procurement, production and order performance. In the procurement process, Vossloh seeks to limit price risks by means of long-term contractual agreements or sliding scale pricing clauses. However, sliding scale pricing clauses are frequently only possible to implement with a delay, and occasionally not possible at all. Vossloh primarily limits exchange rate risks in relation to procurement through 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.

As in the 2019 fiscal year, Vossloh does not anticipate any significant change in material prices in 2020. If the prices of the materials that are used do not follow the expected trend, risks or opportunities for forecast income may arise from prices being higher or lower, particularly in the Core Components division.

Risks can also emerge in the course of the procurement process as a result of the loss of suppliers, quality problems or delays in the supply process. Vossloh attempts to minimize these risks by prioritizing cooperation 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, the operating units are generally exposed to the risk of operational shutdowns, quality problems and health, safety and environmental risks. These risks can accumulate if significant investment at a site has an impact on production processes or if individual sites are in a restructuring process. A number of manufacturing sites in the Customized Modules division are currently going through restructuring. Vossloh avoids or reduces the ensuing risks by means of extensive policies and directives on product and quality management, safe manufacturing practices, occupational health and safety and on environmental protection. The Vossloh Group is certified in accordance with a wide range of international quality, environmental and social standards, such as ISO 9001, ISO 14001, ISO 50001, OHSAS 18001 and ISO 45001. If newly acquired units do not hold equivalent certifications, they are brought into compliance with these standards as quickly as possible.

In the context of order processing, risks for Vossloh may arise from the complexity of projects. This can be due to unexpected technical difficulties, unforeseeable developments at project sites, problems with partners or subcontractors and logistical challenges, as well as delays in approvals, acceptance and billing. Particularly in the Transportation division, which is no longer part of the core business and is reported as discontinued operations, increased risks can occur during the start-up phase and implementation of major projects with correspondingly high development costs or in cases of first-time collaboration with new partners or subcontractors, leading to significant additional expenditure or contractual penalties. These risks can be limited, but not fully eliminated, by formulating contracts appropriately and ensuring that project and quality management are thorough. Significant improvements were made in terms of the completion of projects in 2019, particularly in the Customized Modules division. Despite this fact, Vossloh still incurred some contractual penalties, largely as a result of the announcement of the restructuring of the

French sites as part of the performance program. On the other hand, there may be isolated indirect opportunities if the recognized risk provisions do not need to be fully utilized.

Risks may also arise after acquisitions where it becomes necessary to impair goodwill if the medium-term operational performance of the units in question is significantly weaker than expected or if the general interest level increases substantially. 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. Vossloh also carries out impairment testing during the year if exceptional events occur. This testing involves a comparison of the relevant carrying amount of a group of cash-generating units (CGU) in relation to the goodwill of acquired companies against the value in use.

Divestment projects may also result in risks or opportunities if the existing carrying amounts are not fully covered by a buyer's attainable purchase price or expected attainable purchase price, or if the purchase price exceeds the existing carrying amounts. Losses in the mid double-digit million euro range were incurred in 2019 as a result of the sale of the American activities in the Customized Modules division.

Vossloh has recognized risk provisions for existing operational risks, in accordance with IFRS requirements. Despite the risk provisions for known risks with a mostly probability of occurrence, the risk of net profit reductions arising from the restructuring of individual sites within the context of the performance program and the completion of projects cannot be fully eliminated and may have negative effects on the achievement of 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.

In light of the fact that the performance program has not been completed, Vossloh believes that the risk arising from the value chain and the completion of projects is medium. The sale of the remaining American companies may result in further negative or positive effects if the actual sale price deviates significantly from expectations. These effects are considered medium, as are any possible impairments of goodwill. The other operating risks are all still deemed to be low.

Financial risks and opportunities

Corporate Treasury monitors and limits financial risk within the Vossloh Group and optimizes Group financing on an ongoing basis. Targets, principles, duties and expertise are consistent with corresponding policies. The prime objective is to preserve the Company's status as a going concern by ensuring 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. These only make use of previously approved, market-standard financial instruments. The trade, performance and controlling functions are organizationally separated. Group Treasury continuously ensures and monitors the effectiveness of risk hedging. It manages the following specific financial risks: liquidity risks, interest rate risks (cash flow risks), price risks and credit risks.

Liquidity risks
Liquidity risks can arise if Vossloh is unable to settle liabilities in a timely and complete fashion. For this reason, the Group conducts ongoing liquidity management that incorporates reserves for potential special needs and the scope required to implement the Company's strategy. Revenue sharing measures within the Group with the help of cash pooling systems in individual countries and intercompany loans facilitate the use of the excess liquidity of individual Group companies in order to cover the financing requirements of others.

Financing and the provision of liquidity typically take place centrally through Vossloh AG as the Group holding company. In July 2017, Schuldschein loans were granted amounting to €135 million (maturity: July 2021) and €115 million (maturity: July 2024). A syndicated loan concluded with eight banks for €150 million with a term until November 2024 has been in effect since November 2017. In April 2019, the volume of the loan was increased by €80 million to €230 million. If necessary, it can be increased by up to a further €70 million during the term of the loan. The funds are available to the Company in the form of a revolving line of credit that can be flexibly accessed. Interest is applied to drawdowns based on an indicator stipulated in the credit agreement (net financial debt relative to EBITDA) as well as the extent of the drawdowns on the line of credit. A limit is set for this indicator (covenant). If exceeded, the lending banks are permitted to terminate the agreement ahead of time. Compliance with the covenant must be proven every six months. The review scheduled for June 30, 2019 was skipped on the basis of an amendment to the contract. Evidence of compliance with the covenant was in place on the reporting date. As of the end of the year, the Group had unutilized credit facilities of €194 million at its disposal.

There are presently no financing or liquidity shortages. Vossloh still considers 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 and caps. The Company regularly performs analyses to determine how changes to interest rates affect cash flows. For the purposes of active risk management, the variable-rate interest cash flows from a long-term loan concluded in 2018 were replaced with an interest rate swap for fixed cash flows. The probability of the interest rate changing at short notice and the positive and negative impact of this on cash flows is deemed to be low. The risk is therefore also still 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. At Vossloh, 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 still deemed to be low overall.

Credit risks

Credit risks arise whenever a contract partner does not comply with its 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 ensuring that contract partners mostly have good or excellent credit ratings. These ratings – where available – are mainly based on the statements of international rating agencies. As of the end of 2019, of the financial investments and derivative financial instruments with positive market values, 32 percent were with contract partners with a rating of AA+ to AA–, 52 percent were with contract partners with a rating of A+ to A–, 13 percent were with contract partners with a rating of BBB+ to BBB–, while 3 percent were with contract partners with a rating of BB or no available rating. The Group also distributes its financial assets across a number of credit institutions, thus broadly diversifying its risk exposure. 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 by Group companies. Some are also 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 the export business, orders are usually concluded with letters of credit to limit the credit risk. All contract partners must have good or excellent credit ratings. As a result, credit risk is still deemed to be low.

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 indirect 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 remains a 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 sold the Rail Vehicles business unit in 2015, followed by the Electrical Systems business unit at the beginning of 2017. Vossloh signed an agreement to sell the final business unit in the Transportation division, Vossloh Locomotives, on August 26, 2019. The transaction is expected to be completed in the near future. Cleveland Track Material and the operational business of Vossloh Track Material were sold off from the Customized Modules division as part of the 2019 performance program. The purchasers of these business units and corporate entities were granted certain guarantee rights and rights of recourse 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. Opportunities may arise indirectly if the recognized risk provisions do not need to be fully utilized.

For the existing legal risks, 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 still deemed to be medium.

Nonfinancial risks and opportunities[1]

According to the HGB, 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 meet the criteria described. Vossloh therefore still deems the risk situation in connection with nonfinancial risks to be low.

[1] Part of the nonfinancial Group statement audit for providing limited assurance provided by Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft – see page 65.

Other risks and opportunities

Other risks consist primarily of personnel and information technology risks.

Inadequate human resources, such as due to a lack of managers and specialist personnel, can negatively influence the economic situation of the Group. 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 specialist personnel. A range of training activities are used to improve the expertise of employees, while attractive pay structures increase the likelihood of retaining personnel within the Company in the long term.

The performance program implemented in 2019 includes reducing the number of people employed by the Vossloh Group. Around a third of the one-time expenses incurred in 2019 are related to downsizing costs. The forecast downsizing costs that meet IFRS requirements are included in the 2019 annual report. Deviations from forecasts may result in positive or negative effects on key financial figures.

Complex and powerful information technology has a decisive effect on the management of operational and strategic business processes. Having high-performance information technology at your disposal is becoming increasingly important as the digitalization trend continues. Through the use of technical and organization precautions, Vossloh minimizes risks related to the reliability, availability and confidentiality of the data stored in its information systems. They also ensure that data is processed efficiently. A data protection policy was also adopted in May 2018 for all Vossloh companies.

Vossloh was readmitted to the SDAX index of the Deutsche Börse on January 8, 2020, after being removed in June 2019. The main criteria for inclusion in the index are the available market capitalization and the volumes traded on the Frankfurt Stock Exchange. The potential exclusion from the index may result in the share becoming less attractive and may possibly cause trading volumes to fall. The financing opportunities for larger acquisitions – for example by means of capital increases – would possibly be worse if the Company were to be excluded from the SDAX again.

With the exception of personnel-related provisions within the context of the performance program, other risks had no significant impact on net income in 2019. Deviations from forecasts may result in negative or positive effects in the HR division. For this reason, the risk is classified as medium overall.

Assessment 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. On this basis and at the time this annual report was prepared, Vossloh does not anticipate any significant deviations from its targets for the 2020 fiscal year. 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 opportunity situation within the Vossloh Group is therefore considered satisfactory overall.

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.

The 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 financial statements are considered 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 Group 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 (current version in use: 10.4.0) is used to both consolidate and provide additional management information.

With a small number of exceptions, the accounting of Group companies is carried out with a standardized system from the manufacturer SAP. This IT system enables central access and centrally initiated controls in regard to the accounting process. The system is currently used within Vossloh AG and the overwhelming majority of companies in the Core Components, Customized Modules and Lifecycle Solutions divisions. The system will be rolled out to the Australian company in the Tie Technologies business unit in the 2020 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; the most recent update was made in December 2019. New or revised editions are made available as quickly as possible 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 annual 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 guidelines and policies are in place, for instance for monthly reporting, 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. They include not only the financial statements of the individual Group companies as adapted to the unified Group accounting standards but also more extensive necessary information for the notes to the consolidated financial statements. The plausibility checks are performed both by Controlling and by Accounting. The financial statements are then consolidated. The correct offsetting of internal Group receivables/liabilities, income/expenses, ownership interrelationships and interim profits from deliveries or services within the Group are 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 and Section 315d HGB

The Declaration on Corporate Governance is reproduced starting on page 31 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 Vossloh AG website (www.vossloh.com > Investor Relations > News and publications > Financial Publications).

Outlook

This outlook contains forward-looking statements that are based on the expectations of Vossloh management in relation to the future development of the Group. These expectations are 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 technology market and the specific business expectations of the core 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 (starting on page 34). If the assumptions underlying the outlook prove to be inaccurate or the described risks or opportunities occur, the actual results and developments may differ from these forecasts. The Vossloh Group accepts no liability for updating the statements made in this outlook beyond statutory publication requirements.

Macroeconomic developments and outlook for the rail technology market

The short- and medium-term fluctuations of the global economy are generally of secondary 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 rail markets to a limited degree. Of greater importance for Vossloh is the increasing demand for improved sustainability and the increasing stature of rail as a means of transport. This trend is expected to result in an increased level of investment in rail infrastructure.

Changes in the debt levels of individual countries are also relevant, especially those of the Company's home market of Europe. The Organisation for Economic Co-operation and Development (OECD) anticipates that the European trend towards reduced government debt apparent since 2015 will continue. It expects debt ratios to fall further in 2020 in the eurozone and the European Union.

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 technology market, and makes justified predictions for the coming years on this basis. The most recent study was presented in September 2018 at InnoTrans, the trade fair for transport technology, in Berlin. It predicted that annual global volumes for the overall rail technology market would grow from an average of €163 billion between 2015 and 2017 to an average of around €192 billion between 2021 and 2023 – an average increase of 2.7 percent per year. The market accessible to European providers such as Vossloh in the future is estimated by UNIFE to be worth approximately €120 billion per year. Accessible markets refers to the markets that are available to European suppliers and non-European markets where 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, we previously deemed a market volume of around €103 billion per year to be "accessible." The expected increase to €120 billion represents growth of 2.6 percent per year.

The UNIFE study found that the forecast growth of the market varies significantly from region to region. UNIFE anticipates that the accessible markets in Latin America (5.3 percent), Africa/Middle East (3.8 percent) and the NAFTA region (3.1 percent) will see above-average growth in the coming years. The largest rail technology market accessible to Vossloh has been and continues to be Western Europe, with an annual volume of just over €37 billion in the 2015–2017 period. Market growth of 2.3 percent per year to around €43 billion is anticipated between 2021 and 2023. This is followed by the NAFTA region with a current annual market volume of €26 billion and future annual market volume of €32 billion and the Asia-Pacific region with a volume of just under €17 billion, expected to rise to €20 billion. At present, these three regions host more than three quarters of the total accessible rail technology market.

The Association of the European Rail Industry breaks the rail technology market down into the segments of infrastructure, rolling stock, rail control, services and turnkey projects. With its core divisions of Core Components, Customized Modules and Lifecycle Solutions, Vossloh operates in the infrastructure segment and the infrastructural services subsegment of the services segment. The volume of the globally accessible infrastructure market has been quantified by UNIFE at roughly €21 billion per year in the period between 2015 and 2017. An annual growth rate of 2.8 percent is currently forecast for the 2021–2023 period. This will provide an annual market volume of approximately €25 billion. The growth forecast for the infrastructural services subsegment until the 2021–2023 period is also 2.8 percent, meaning that an increase in the accessible market volume is expected from the current €6.1 billion per year to €7.1 billion. In total, the accessible market that is relevant to Vossloh between 2015 and 2017 came to around €27 billion per year. This is expected to increase to €32 billion by the 2021–2023 period.

Outlook for 2020

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. Vossloh's sales revenue planning is primarily based on business unit-specific assumptions. 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, long-distance and freight 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. The Company 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, and sometimes even several years.

Outlook for management-related performance indicators

		2019	2020 forecast
Sales	€ mill.	916.4	900 to 1.000
EBITDA margin (2019 adjusted)	%	11.5	12 to 13
EBIT margin (2019 adjusted)	%	6.1	7 to 8
Value added	€ mill.	(105.4)	0 to 15

Sales at previous year's level despite disposals

Based on current knowledge, Vossloh assumes that it will once again be able to generate sales between €900 million and €1 billion in 2020. The downturn in sales revenues as a result of leaving the American turnout market towards the end of 2019 will be more than compensated for by anticipated positive developments in other regions. Vossloh anticipates sales revenue to be substantially higher in both business units of the Core Components division than in 2019. The expected growth in the sales revenues of the Fastening Systems business unit in China is partially due to increased deliveries of rail fastening systems in the high-speed segment. A new joint venture that was established in China in 2019 is expected to provide sales revenues in the low double-digit million-euro range. Vossloh expects the Tie Technologies business unit to provide greatly improved sales revenues, particularly in Australia. The Vossloh Group also expects sales to be slightly higher in 2020 compared to 2019 for the Lifecycle Solutions division. The increase in sales is currently mainly due to higher service revenues in the milling segment. Due to divestments as part of the 2019 performance program, the Customized Modules division is expected to generate far lower sales in the year under review. The U.S. companies in question provided around €65 million in sales in 2019. We expect the lower sales figures for the Americas in the Customized Modules division to be partially balanced out by higher sales in other regions.

EBITDA margin of between 12 and 13 percent expected

The 2020 fiscal year marks the first time that the Vossloh Group will include the EBITDA margin (earnings before interest, taxes, depreciation and amortization in relation to revenue) in its reports as an important financial indicator of its ability to self-finance. A forecast for this indicator will also be published. The Vossloh Group forecasts an EBITDA margin of between 12 and 13 percent for 2020. The EBIT margin is expected to be between 7 and 8 percent. The expected improvement in profitability is primarily due to savings achieved from the implementation of the performance program initiated in the 2019 fiscal year, in addition to the improved profitability of the operational business of the Core Components and Lifecycle Solutions divisions. All things considered, the Vossloh Group expects all divisions to achieve higher EBIT margins in 2020 than the adjusted EBIT margins for 2019. Significant positive or negative one-time effects related to the performance program caused the EBIT margin to be adjusted in the 2019 fiscal year are currently not expected in the 2020 financial year. As a result, the forecast is based on unadjusted figures.

Positive value added in 2020 is predicted

Due to persistently low interest rates, the weighted average cost of capital before taxes (WACC) – which is the relevant indicator for internal management – will be reduced from 7.5 to 7.0 percent in 2020. Average capital employed will probably be down year-on-year in the 2020 fiscal year. Following the three-digit million negative contribution in 2019, a return to positive value added is expected in the 2020 fiscal year.

Further significant delays in finalizing the sale of Vossloh Locomotives constitute a risk to Vossloh's business performance. Profit reductions arising from legal risks and projects, including those arising from the implementation of the performance program, could also have a negative impact on earnings. Please refer to the statements made in the risk report (starting on 34) for additional information about risks that may affect the stated planning.

Vossloh AG prepares its annual 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 result 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 2020 fiscal year will be slightly lower than in the previous year. The net financial result is dependent not only on interest expenses but also heavily on the income from dividends and profit-sharing agreements, as well as expenses from the assumption of losses and impairment losses recognized on financial investments. Vossloh is expecting a tangible improvement in this area compared to 2019. The assumption of losses for the Transportation division had a significant negative impact on the net financial result in 2019. On the whole, result after tax is expected to improve significantly in 2020.

Over the coming years, Vossloh's objectives will focus on achieving organic growth while improving profitability, in addition to seeking out specific cooperative partners and acquisitions in order to strategically evolve the core business and sustainably increase the Company's value. The planning presented for the 2020 fiscal year only reflects the targeted organic growth and changes in the scope of consolidation that are currently considered likely.

*Nonfinancial Group statement**

Vossloh's nonfinancial Group statement for 2019 corresponds to the applicable commercial law requirements. To prepare this declaration, 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 ("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 113 et seq. in the Group's annual report, "Consolidation").

Vossloh's first nonfinancial Group statement reported on the 2017 fiscal year. It was based on the results of a multistage materiality analysis to identify and prioritize the topics relating to sustainability issues that are relevant to Vossloh both within the Company itself and in the upstream and downstream areas. The analysis also comprised a global survey of experts and managers in various positions within the Company. This resulted in 13 nonfinancial aspects of particular relevance. The choice of topics made for 2017 remained unchanged by way of resolution of the Executive Board of Vossloh AG for the 2018 nonfinancial statement. The Executive Board regularly deals with nonfinancial matters used by Vossloh to meet its environmental, economic, and social responsibility. In its meeting on December 9, 2019, the Executive Board confirmed the issues identified up to that point for the 2019 nonfinancial statement and, having identified the subject of water consumption as being another nonfinancial matter bearing particular relevance for the Company, resolved to include this in the reporting as well. The following materiality matrix depicts the significance of these now 14 nonfinancial aspects of particular relevance:

* Not part of the financial statement audit, but part of an audit to obtain limited assurance from the audit firm Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft. The independent auditor's report on the audit to obtain limited assurance for the nonfinancial Group statement can be found on page 65.

The Vossloh annual report/management report contains supplementary and/or more detailed information regarding a number 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 part of the Company's risk reporting. It also covers Vossloh's significant nonfinancial risks (see "Nonfinancial risks and opportunities" on page 39).

Significance of sustainability issues to the Vossloh business model

Vossloh is active in rail technology markets worldwide. Within this context, the Company is focused on rail infrastructure. The Group's core activities are organized into the three divisions Core Components, Customized Modules and Lifecycle Solutions. In addition, Vossloh remained active in the locomotive business in 2019, which is still reported as discontinued operations in this annual report. A contract agreeing the sale of this business unit to a subsidiary of the China Railway Rolling Stock Corporation (CRRC) was signed by Vossloh AG on August 26, 2019. The transaction had not yet been completed at the time that work on the annual report had ended, but it is expected in the near future. The business model of Vossloh is described in detail in the chapter "Business and market environment" on page 4 et seq.

Vossloh makes an important contribution to people's mobility and the transport of goods with its products and services for rail infrastructure. For both local and long-distance traffic, rail is one of the most sustainable and also safest means of transport. The digital revolution in the railway industry will play an important role in enabling railways of all kinds to make even greater use of these advantages in the future and to make even greater contributions to the sustainable solution of many transport problems worldwide. This is where Vossloh has focused its attention, with its vision of "The Smart Rail Track by Vossloh," which aims to achieve track availability with the maximum degree of planning security by ensuring seamless operations coupled with lower life cycle costs for the infrastructure.

The subject of sustainability generally holds a position of high importance in the rail technology industry. 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. Vossloh uses its comprehensive experience and expertise to further improve the environmental and sustainability balance of rail as a means of transport. The Group supplies long-lasting components for infrastructure and constantly develops these components further by using innovative materials and designs. In particular, Vossloh also researches and develops solutions for reducing vibration and noise in rail traffic. The Company's products and maintenance services also aim to facilitate maximum track availability.

In its economic activities, Vossloh also fulfills its social responsibility. Sustainable economic success amid global competition is only possible through responsible corporate 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.

Accordingly, Vossloh reports on aspects and matters in the following areas in its 2019 nonfinancial Group statement:

- Environmental issues, in particular climate-related emissions and noise emissions as well as water consumption
- Employee issues, in particular occupational health and safety, vocational and further training and development, labor conditions and being an attractive employer
- Corporate governance, compliance, combating corruption and bribery, compliance with antitrust law and respect for human rights, all grouped under the term corporate responsibility
- Customer and product issues, in particular product safety and customer satisfaction

Social aspects 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, the Company brings the existing environment, energy, quality and 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 Executive Board has acknowledged the guiding principle of sustainable development in a statement on the Group’s sustainable orientation. The statement has been published on the website www.vossloh.com under “Sustainability” > “Sustainability Management at Vossloh” in the “Investor Relations” section. Within the operational management of the Group, the topic of sustainability is located in its own area. Following a reorganization of duties in the reduced-size Executive Board of Vossloh AG, responsibility for this area now falls to the Chief Operating Officer (COO), who is involved in all the concepts related to the topic of sustainability. The COO also oversees the sustainability working group comprising those within the Group who are responsible for Compliance, Environment/Health/Safety (EHS), Human Resources (HR), Investor Relations, Finance, and Accounting. All of the Company’s business units are also represented here. This body regularly discusses sustainability issues; in 2019, two meetings and one workshop to further develop the focus on sustainability in the Vossloh Group took place.

The working group is responsible for further developing the approaches to sustainability already existing within the Company and for further clarifying the Group’s sustainability strategy. This includes developing quantifiable goals that Vossloh will seek to achieve in the area of sustainability. Additional impetus was given to these processes in 2019 as a result of the changes in the Executive Board. The most important key performance indicators as regards energy and water consumption, carbon emissions, waste generation and occupational safety must now also be reported regularly in the newly introduced operations review meetings. The business units are also called upon to specify or develop the objectives they are targeting for the various sustainability topics in the future. The next step in the working group here will be to define Group-wide targets.

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, energy efficiency and social standards such as ISO 9001, ISO 14001, ISO 50001, OHSAS 18001 or its successor standard ISO 45001, or a comparable national standard and have corresponding management systems in place. This development was also continued in 2019. For example, Vossloh Services France SAS is now certified in accordance with ISO 9001, ISO 14001, and ISO 45001. At the reporting date December 31, 2019, more than 98 percent of the Vossloh workforce was employed at an unit with such certification.

For all Vossloh Group locations worldwide, energy and water consumption and data on employee matters such as workplace safety and developments in the area of Human Resources are centrally collected and validated using Cognos Controller consolidation software. In the first quarter of 2019, the "HR Business Information" project established a broader basis for collecting data relating to human resources on the one hand; on the other, the information collected is now comparable throughout the Group. Selected indicators for the area of compliance are also available for the entire Group. There is no standardized Group-wide quantitative data available for further nonfinancial matters. The sustainability working group will prepare recommendations on the definition and incorporation of additional issues into a standardized Group-wide quantitative reporting system in consideration of cost and utility perspectives. Insofar as other quantitative data regarding nonfinancial performance indicators in this statement relates to individual units only, this is stated as being the case accordingly.

UN Global Compact and implementing its ten principles

In its meeting on December 9, 2019, the Executive Board of Vossloh AG resolved that the Group will join the United Nations (UN) Global Compact and, in future, participate in the annual COP (Communication on Progress) reporting. The declaration of accession ("Signatory" option) was signed by Chief Executive Officer (CEO) Oliver Schuster on December 18, 2019. Since January 23, 2020, Vossloh has been a member of the UN Global Compact. By supporting the principles of the UN Global Compact, Vossloh is once again outlining its contribution to achieving the global Sustainable Development Goals (SDGs) by 2030. From the total of 17 SDGs, the Executive Board, at the suggestion of the Sustainability Working Group, has defined six goals on which the Group's commitment will focus:

- SDG 5: Achieve gender equality and empower all women and girls
- SDG 6: Ensure availability and sustainable management of water and sanitation for all
- SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- SDG 12: Ensure sustainable consumption and production patterns
- SDG 13: Take urgent action to combat climate change and its impacts

The following table provides an overview of voluntary commitments, mission statements and management systems that help Vossloh integrate the principles of the UN Global Compact into its business processes:

Principle	Vossloh's statements, guidelines and management systems	Section of the nonfinancial statement
Human rights		
1. Companies should ensure that international human rights are supported and protected. 2. Companies should ensure that they are not complicit in human rights abuses.	- Vossloh Code of Conduct - Group-wide occupational safety policy - Group-wide travel security management - Occupational health management for Vossloh companies - Group-wide privacy policy as per GDPR	- Labor conditions - Occupational health and safety - Respect for human rights - Compliance/combating corruption/compliance with antitrust law
Labor standards		
3. Companies should respect the freedom of association and the effective recognition of the right to collective bargaining. 4. Companies should work to eliminate all forms of forced labor. 5. Companies should advocate the abolition of child labor. 6. Companies should advocate the elimination of discrimination in employment and at work.	- Vossloh Code of Conduct - Corporate Compliance Commitment - Group-wide Compliance Management System - "All on Track" initiative in the Customized Modules division	- Labor conditions compliance/combating corruption/compliance with antitrust law - Respect for human rights
Environmental protection		
7. Companies should follow the precautionary principle when dealing with environmental problems. 8. Companies should take initiatives to promote greater environmental awareness. 9. Companies should accelerate the development and dissemination of environmentally friendly technologies.	- Group-wide environmental management system - Waste and hazardous materials management at Vossloh companies - Quality management at Vossloh companies	- Environmental matters - Product safety
Preventing corruption		
10. Companies should work to avoid all forms of corruption, including extortion and bribery.	- Vossloh Code of Conduct - Corporate Compliance Commitment - Group-wide Compliance Management System - Group-wide embargo and export control policy - Group-wide policy on the use of intermediaries	- Labor conditions - Compliance/combating corruption/compliance with antitrust law

Environmental matters

The primary focus of environmental management within the Vossloh Group is generally geared towards making efficient use of resources and minimizing environmental impact. To achieve this, processes and structures within the Company are continuously optimized. This applies to the manufacture of rail infrastructure products and the provision of services for rail tracks, as well as for transport and logistics. Environmental officers have been appointed in the various Group companies and a corresponding report system has been put in place. At the reporting date December 31, 2019, more than 70 percent of the Vossloh workforce was employed at an unit with ISO 14001 certification.

Vossloh companies deal with natural resources in a responsible and sparing manner along the entire process and value creation chain. A comprehensive hazardous substance and waste management system records and monitors material consumption and disposal quantities. In many of its plants, the Company uses safe disposal methods that are separated according to waste types. The selected waste management companies are then audited regularly. Closed material life cycles and reprocessing plants reduce the consumption of valuable new raw materials such as fresh water to a minimum. Economically viable recycling programs and processes ensure that the amount of waste ultimately sent to landfill sites is steadily on the decline. Recycling is becoming increasingly important in a greater number of production areas. For example, in 2019 Vossloh Tie Technologies invested in a mobile recycling plant in North America so that the material from replaced concrete ties can be used in the process to manufacture new products.

In its materiality analysis, Vossloh identified climate-relevant carbon emissions and noise emissions as a relevant nonfinancial performance indicator relating to the environment and, additionally in 2019, water consumption by the Executive Board. In all three areas, 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. In 2018, it prepared initial considerations on this subject that were further worked out in 2019.

CO_2 emissions

With regard to the impact on climate change, carbon emissions and carbon equivalents are relevant to Vossloh. These are 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, such as by switching to LED technology for its lighting. Waste heat from production is used at a number of production plants. Wherever possible, renewable energy sources such as dedicated photovoltaic and solar thermal systems are used. The "Factory of the Future" at Vossloh Fastening Systems in Werdohl and the new "OT 2020" foundry at Customized Modules in Outreau represent two flagship projects in the Group that are currently being built, particularly when it comes to energy-efficient production.

The following tables present the consumption of significant energy sources within the Vossloh Group for the year under review and the comparative figures from 2018:

MWh (Vossloh Group)*	2019	2018
Gas consumption	105,957.6	109,592.9
Electricity consumption	68,678.0	65,157.0
District heating consumption	4,376.2	4,937.7

* The following consumption figures for 2019 were calculated for the Transportation division reported as discontinued operations: Gas consumption: 1,989.8 MWh (2018: 2,155.0 MWh), electricity consumption: 3,813.3 MWh (2018: 3,515.3 MWh), district heating consumption: 3,234.4 MWh (2018: 3,135.2 MWh).

Liters (Vossloh Group)*	2019	2018
Heating oil consumption	292,695.1	295,528.0
Fuel consumption[1]	1,073,495.8	1,028,613.3

* The following consumption figures for 2019 were calculated for the Transportation division reported as discontinued operations: Heating oil consumption 10,846.6 liters (2018: 12,179.2 liters), fuel consumption 62,024.0 liters (2018: 59,971.6 liters).

[1] This includes the fuel consumption of Vossloh's vehicle fleet.

Gas consumption with the Vossloh Group fell by 3.3 percent in a year-on-year comparison. The decline was primarily attributable to the Fastening Systems business unit. Heating oil consumption in the reporting year was also a total of 1.0 percent lower than in the previous year, mainly due to lower consumption in the Customized Modules division. The consumption of district heating fell by 11.4 percent overall, particularly as a result of reduced production activities in Poland in the Customized Modules division. This is contrasted by higher levels of electricity consumption (+5.4 percent) and fuel consumption (+4.4 percent) compared with the previous year in the Tie Technologies business unit brought on largely by the acquisition of the Australian company Austrak.

The amount of Vossloh's carbon and greenhouse gas (GHG) emissions was determined, as in previous years, on the basis of the Greenhouse Gas Protocol 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). The results were as follows:

t CO_2 equivalents, scope 1 (Vossloh Group)	2019	2018
Gas consumption	19,482.4	20,162.7
Heating oil consumption	743.6	749.6
Fuel consumption	2,725.9	2,623.6
Scope 1*	**22,952.0**	**23,535.8**

*554.0 metric tons of scope 1 carbon equivalents were calculated for the Transportation division in 2019, which is reported as discontinued operations (2018: 584.4 t).

t CO_2 equivalents, scope 2 (Vossloh Group)	2019	2018
Electricity consumption	28,697.5	28,826.9
District heating consumption	1,684.7	1,920.0
Scope 2*	**30,382.2**	**30,747.0**

*3,037.3 metric tons of scope 2 carbon equivalents were calculated for the Transportation division in 2019, which is reported as discontinued operations (2018: 2,964.8 t).

Despite the rise in consumption values, CO_2 equivalents for the electricity energy source remained virtually unchanged in a year-on-year comparison. CO_2 equivalents relating to district heating fell in with how consumption levels developed.

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

Vossloh consistently makes use of the available options for further reducing its carbon emissions, which included an array of smaller changes. For example, only vehicles with a diesel, hybrid or electric engine and with emissions of less than 150 grams of CO_2 per kilometer according to the manufacturers' information are permissible as company cars. Employees at Vossloh Switch Systems are only permitted to have company cars with emissions of less than 110 grams per kilometer since 2019. Vossloh Fastening Systems and Vossloh AG are participating in the Clean Advantage™ program, which offsets emissions of greenhouse gases caused by company vehicles with investments in reforestation, alternative energy and biomass projects, among other things. Wherever feasible, employees at Vossloh companies travel by rail for business trips. The number of such trips totaled 2,074 in 2019, while the average distance traveled was 358 kilometers.

Motion detectors were installed at the Werdohl fastening systems plant in 2019 to ensure that the lights are switched off when no-one is there. The water neutralization plant used to run using an energy-guzzling rotary piston blower from the 1970s. 16,366 kWh of electricity per year can now be saved by connecting the ventilation to the compressed air network. Solar energy has been used for some time now to operate the entrance gates at the plant in Waco, Texas. A survey of employees of Vossloh Fastening Systems and Vossloh AG was conducted in spring 2019 in order to further raise awareness of sustainability issues and to demonstrate how important it is to reduce carbon emissions. Employees in the Customized Modules divisions were required to substantially reduce the amount of travel in 2019, instead being encourage to make further use of the telephone and video conferencing system for meetings introduced in 2017. The permanent reduction in express and air freight contributed just as much to the reduction in the number of journeys – and thus in carbon emissions – as the reorganization of deliveries for the Reichshoffen and Fère-en-Tardenois plants. The Lifecycle Solutions division converted the last of its welding plants in Nuremberg to green electricity as of January 1, 2020. Since 2019, battery-operated LED lights have been used instead of power generators to provide lighting for the rail-bound loading and unloading cars. 2019 also saw the division beginning to reduce fuel consumption through a package of measures. The Lifecycle Solutions division has set store, among other things, by a modern fleet of vehicles and incentives for driving in a fuel-efficient way, as well as by using video conferencing to reduce the need to make business trips and travel by air. Initial results will be available in 2020.

Noise emissions

Noise development is not an issue of relevance to Vossloh regarding sustainability; the Company meets the statutory emission regulations. The products and services of Vossloh, however, serve the purposes of creating and maintaining rail infrastructure. For rail routes of all types, noise protection is a key subject of public perception, and currently counts among the most pressing challenges of rail transport. Noise hampers the urgently needed expansion of routes, can cause sickness among people living near rail routes and results in high costs for the transport operators and consumers. An essential factor in effective noise reduction is combating it at the source, by optimizing the wheel-rail contact on the track. 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 core business areas that can reduce rail noise on a sustainable basis.

For instance, special materials such as *cellentic* intermediate layers and plates for Vossloh's highly elastic rail fastening systems dampen vibrations due to rail and wheel irregularities and minimize structure-borne noise caused by rail vibrations during train crossings. *cellentic* components can be installed for virtually every track type. The DFF 336 Crossover rail fastening system, which contains a high proportion of plastic, was designed with vibration dampening in mind from the very beginning and was developed particularly for the renovation of existing routes. Vossloh's special switch designs also help reduce noise on railway lines: If the train passes over what is called a whisper switch, the noise made by the train's wheels moving on the track is optimized. Vossloh's crossings with movable frog points are made from a cast manganese steel developed in-house. The more ripples, slip waves and skid spots rails have, the louder the rolling noise is when a train crosses. Vossloh offers different processing technologies (grinding, milling) that vary according to the severity of the rail defects and that can be used to restore the rail surface to a smooth and thus "quiet" condition. The rail and switch processing machinery can achieve noise reduction of up to 10 dB(A) by precisely removing material. The machines themselves also operate quietly. The new Multi Purpose Milling (MPM) compact milling machine, for example, generates noise measuring less than 78 dB(A) during operation, so that residents are not disturbed even during a night shift. For comparison, In a quiet residential street, the noise level is roughly 40 dB(A); a car going 50 kilometers reaches a volume of 70 dB(A).

Water consumption

For the first time, Vossloh has included the issue of water consumption in this nonfinancial statement, which the Executive Board deemed a major issue on December 9, 2019. The company uses water in its production facilities primarily for the surface treatment of its products, as a coolant in various production processes, and to produce concrete ties. Drinking and sanitary water is also required at all locations. Vossloh units obtain the water from the respective local public water supply systems. The company intends to use this basic resource as efficiently as possible. As such, used water is reprocessed in our own plants and returned to the operating process, particularly in production areas that require a substantial amount of water. Where technically possible, the production units work with closed water circuits. At all of its sites Vossloh disposes of wastewater via the respective public sewage systems. Process water that is heavily contaminated during production is first treated in our own wastewater treatment plants in such a way that it (at least) meets the discharge standards of the public systems.

The following table illustrates the Vossloh Group's water consumption for the 2019 fiscal year as determined by the water meters:

m^3 (Vossloh Group)*	2019
Water consumption	145,145.6

*2,180.1 m^3 of water consumption was calculated for the Transportation division in 2019, which is reported as discontinued operations.

Projects such as the "Factory of the Future" by Vossloh Fastening Systems in Werdohl or the modern foundry "OT 2020" by Vossloh Switch Systems in Outreau also focus on reducing water consumption. The modernization measures implemented in Outreau in 2019 already had a pleasing result in this respect: Only 2.69 cubic meters of water (primarily rainwater collected on the premises) were needed in 2019 for producing a switch component. In 2018, this would have needed over 200 m^3.

Employee matters

The key nonfinancial issues identified by Vossloh in its materiality analysis in relation to employee aspects 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 objectives pursued with these concepts are explained below. There are currently no significant risks in regard to employee aspects (see also: "Nonfinancial risks and opportunities" in the chapter "Risk and Opportunity Management" on page 39).

Occupational health and safety

Workplace safety and maintaining the employees' health are at the heart of Vossloh's care obligations as an employer. Nearly all major production plants worldwide are certified under the internationally-recognized standard OHSAS 18001 (Occupational Health and Safety Assessment Series) or the successor standard ISO 45001, and undergo the prescribed audits by independent external auditors. As of the end of 2019, over 76 percent of Vossloh employees were employed at units certified in accordance with OHSAS 18001 or ISO 45001. 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 top managers of the operating units, achievement of the defined occupational safety performance indicators is an integral part of their 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, a standard occupational safety policy has been developed that is mandatory for all companies around the world. In this policy, the zero-accident strategy vision is defined.

Since 2014, workplace accidents throughout the Group have been documented at Vossloh every month on the basis of uniform criteria, over and above what is required by law. 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. The Work Safety Committee and the Group Works Council cooperate closely in order to further reduce workplace accidents and further develop the culture of safety.

Workplace accidents (Vossloh Group)*	2019	2018
Lost time accidents[1]	112	98
Lost time accident frequency rate[2]	16.0	13.8
Lost time accident severity rate[3]	2.9	2.1

*The following values can be stated for 2019 for the division reported as discontinued operations: LTA = 20 (2018: 10), LTAFR = 21.6 (2018: 12.4) and LTASR = 2.0 (2018: 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 analyzed at Vossloh in order to learn from them for the future and reduce the number of accidents at all the Company's sites. The definition of concrete targets for specific time frames in the area of occupational safety is likewise one of the responsibilities of the sustainability working group. It prepared initial proposals, which are still to be coordinated with the Work Safety Committee.

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, online training sessions on safety-relevant subjects, the provision of comprehensive protective equipment, safety markings at the various workstations, and awareness campaigns. Memorable videos are frequently employed as well. The "Four seconds for safety" campaign is regularly discussed at the start of a working day or a get-together within the Vossloh Group, with brief reference being made to a specific safety aspect, and not just in the production area. The Vossloh Lifecycle Solutions division has taken this a step further. In 2019, all industrial employees were required for the first time to report to the responsible safety officer any situation or action in their everyday work that they felt was unsafe and that could, in the worst case, lead to an accident. The collected reports have not yet been fully evaluated.

Since February 1, 2018, a Group-wide standardized time-based travel security management system has been available for all employees who travel internationally as part of their activities for Vossloh. It encompasses both medical and security-related aspects of business travel, and also offers precautions about potential emergencies. The global travel security guidelines are available to employees through the intranet. Group employees are assisted when preparing for travel both through the automated dispatch of travel-related emails by a competent external service provider, as well as by the Group's Assistance Centers and Travel Security Manager. This cooperation gives travelers access to 11,000 international medical, security and logistics experts at over 1,000 locations in 90 countries, 24/7, 365 days a year. The help provided by the service provider, which itself acts in accordance with GRI guidelines, is completed by an assistance app as well as information about the Assistance Centers in check card format. With its ambitious program to launch its travel security management system, both in terms of its timeline and content, Vossloh has entered for the 2019 "Duty of Care Award".

Vossloh's occupational health management pursues the goal of offering all its employees preventive healthcare. This includes the occupational safety measures already mentioned, workplace ergonomics 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 colorectal cancer check-ups, flu vaccinations, health screenings and healthcare tips). In 2019, Vossloh Fastening Systems introduced voluntary health insurance for all employees at its plant in Russia, through which employees can receive free medical assistance at selected facilities. Anti-fatigue mats were purchased for employees at the plant in the U.S. who stand on concrete floors all day.

Training, further training and development

Aging societies in developed countries, a shortage of skilled workers in many parts of the world, ever-changing working worlds due to digitalization, 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 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 the manager in the annual performance review meeting as a means of individually training the employee while taking the operational needs into account. Proper 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. The implementation rate for the yearly reviews is firmly established as a key indicator at many companies of the Vossloh Group and remained at 95 percent in 2019.

The range 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 supports employees gaining qualifications on their own initiative, such as by studying alongside working. In addition, as part of its talent management, Vossloh encourages 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 Learning Platform (VLP) is a digital environment for continuous learning ("LEARN"), sharing ("SHARE"), and growth ("GROW"). It is our mission to create an inspiring and motivating culture of learning at Vossloh that every employee can contribute to and benefit from. The VLP is an example that learning takes place every day and in numerous ways. The offering encompasses learning options such as "on-site," "tailor-made," or "digital learning" – and is growing continuously. All business units carried out training programs to develop the leadership and management skills of their managers.

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

The Vossloh Rail Services division has held a stake in the established training provider BahnWege-Seminare near Trier since 2019 via the Rhomberg-Sersa-Vossloh GmbH joint venture. The company's wide-ranging program of training courses in all aspects of rail infrastructure maintenance can now also be used to a greater extent by Vossloh employees.

Labor conditions

Committed employees are the basis of the Company's long-term success. Vossloh therefore attaches great importance to fair labor conditions. Key issues in this regard are equal opportunity, fair remuneration, additional company benefits (above and beyond the statutory and/or tariff-based arrangements), and a safe work environment. Adherence to local laws and standards (for example, 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, address new issues together and tackle these in projects. In 2019, the Works Council and Corporate HR conducted a joint workshop to improve management quality at Vossloh.

One of these subjects is the life-phase-oriented HR policy. An important milestone was reached here with the successful "Work and Family" audit in spring 2019. An interdisciplinary working group comprising senior executives, employees, and works council members is turning the defined goals for the next three years into measures that will further improve the work–life balance of employees at all Vossloh companies in Germany. The instruments range from flexible working hours, flextime, part-time and parental leave models to mobile working, personal sabbaticals, childcare and care support services as well as the conversion of bonus payments into free time for the family. Arrangements are in place at Vossloh's companies in France to ensure the (un)availability of employees for work during their leisure time. The Customized Modules division is also involved in the French "All on track" initiative.

Vossloh's incentive system also includes aspects that further strengthen the Company's sustainability focus. For example, at Vossloh Fastening Systems, employees throughout the Group take part in the INSPIRO idea management program as well as a continuous improvement process (CIP) that also involves them financially in the savings that result from their ideas for improving product, process and service quality. A portion of the proposals concerned the subject areas of environmental protection (emphasis: energy conservation) as well as occupational health and safety. In 2019, for example, two employees put forward a technical solution that now ensures that nobody can reach into a press while the flywheel is running. Another employee suggested reducing the use of plastic trash cans and bags in the offices: Instead of having ten trash cans in two rooms that have to be emptied daily, there is now only one centrally located trash can. Sustainability management is now regularly on the agenda of departmental meetings at Vossloh Fastening Systems. Managers and employees work together to develop proposals on ways to conserve resources.

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 in the Group's annual report of the topic of "Compliance" on page 32).

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 new to 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 63).

One goal of the performance program adopted by the Executive Board in April 2019 to boost Vossloh's profitability and self-financing power was to reduce the global workforce by around five percent compared with the level at the end of 2018. In addition to carving out units that either are chronically in the red or have below-par profitability, a process to reduce the number of employees has been initiated that Vossloh has designed to be as socially compatible as possible in accordance with a process predefined by Human Resources. Letting employees go is always the last resort here. A wide range of different measures are explored – in close coordination with the local works council – before the individual in question is made redundant. Attempts first focus on finding ways to reduce the workforce of the unit concerned by looking ahead, for example by not renewing fixed-term employment contracts, not finding replacements for positions vacated either voluntarily or due to retirement, reorganizing tasks or concluding partial retirement contracts. The next step will involve intensive negotiations with the works council on the plans to restructure the unit with the aim of being able to reconcile interests and develop a social plan. Vossloh attaches great importance to integrating supporting elements into the social plan. In 2019, both Vossloh AG and Vossloh Laeis GmbH negotiated the creation of a transfer company that will give employees much longer than stipulated by the notice period to find the right new job. At the same time, an internal review is carried out to determine whether employees can find a new position at other Vossloh companies.

Attractive employer

Vossloh's corporate culture is founded on the four basic values of "passion", "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. At the same time, Vossloh offers a transnational, project-based and digital culture, with the objective of creating attractive workplaces for young talent and maintaining the Company's competitiveness.

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

- Equal opportunity
- Systematic support of talented individuals and junior employees
- Development of a Vossloh management culture
- Group-wide succession planning to facilitate international careers within the Group
- Occupational health management (see "Occupational health and safety" on page 54)
- Employees as ambassadors for the Company (through the "Employees Recruiting Employees" program and other initiatives)
- Joint development by employee representatives and the management of topics relevant to success (e.g., collaboration between Work Safety Committee, the Group Works Council, the European Works Council and in the area "Career and family")
- In Germany: attractive initial training opportunities in industrial/technical and commercial areas and dual training options
- Harmonized HR processes and tools

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. Given that the topic of employee leadership plays a key role in employee satisfaction, Corporate Human Resources and the Group Works Council were commissioned by the Executive Board in 2019 to jointly develop proposals. At Vossloh Fastening Systems, the measures derived from last year's employee survey on management quality were implemented in 2019. In the Lifecycle Solutions division, a survey was carried out among employees at Vossloh High Speed Grinding GmbH at the end of 2018. The results led to more meetings being held between management and production staff in 2019 to improve internal communication. Furthermore, a "culture team" was formed with employees from various departments and functions and that prepared a catalog of measures to be implemented in 2020. And around 50 employees were put forward to attend a management workshop in January 2020.

Based on the results of the Group-wide IT employee survey conducted at the end of 2018, work on developing the "IT Roadmap 2025" was started in 2019. The aim is to align the IT organization to an even greater degree with the needs of the users. The plan is to gradually introduce standardized Group-wide platforms here, in line with the principle of "input data once, use it many times." Standardization, harmonization and integration are intended to increase the range of the opportunities for global cooperation within the Group – and thus the speed at which customer inquiries are answered. The employees concerned receive intensive training to enable them to quickly familiarize themselves with the new software.

Vossloh's flat hierarchies generally promote open dialog within the workforce. The annual performance review is firmly institutionalized throughout the Group as an opportunity for feedback to flow between employees and managers; in addition, regular discussions between employees and managers are encouraged. In order to encourage people look at the bigger picture, upstream and downstream process steps are presented and explained in a transparent way. On the other hand, employees are systematically given insights into other or new areas. Since the introduction of the "One Vossloh" principle to the integrated Group, the Executive Board has also been actively pushing for stronger cross-divisional communication.

Social matters/CSR

Vossloh maintains an ongoing dialog with its internal and external stakeholders. In doing so, it is important for the Company to address the individual groups directly and take their interests into account. The following table provides an overview of the issues involved in the stakeholder dialog along with the dialog formats Vossloh uses:

Stakeholder	Topics	Dialog formats
Customers	- (new) Vossloh products and services - Product and service quality - Customized solutions for the respective task - Quick response to inquiries, as well as order handling and logistics	- Regular customer talks - Customer surveys - Publications (printed and digital) - Participation in trade fairs - Events for/with customers - Integration of customers into the system by means of EDI (Electronic Data Interchange)
Capital market participants	- Development of the Company's value - Current business development - Strategic alignment of the Company - Corporate governance as per the relevant rules - Commitment to sustainability	- Financial reporting - Annual General Meeting - Investor conferences - Conference calls - Roadshows - Capital markets days - Website
Employees	- Employment contract regulations - Internal communication - Dialog with the executive level - Opportunity for further training - Promotion of junior employees	- Regular performance reviews - Employee magazine "in motion" - Employee surveys - Exchange forums and project teams reaching across national borders, hierarchies, and divisions. - Vossloh learning platform - LEAD! development program
Suppliers	- New/alternative materials - Framework conditions for supplier agreements - Communication of scope of supply specifications	- Regular supplier meetings - Participation in trade fairs
Media/trade press	- External portrayal of the Company - Reports on industry-specific topics - Information about interesting projects	- Press releases - Website - Social media presence - Publications in journals - Participation in trade fairs
Science	- Dialog between scientific institutions and the industry - Reports on research work	- Collaboration to solve specific tasks - Expert involvement in research projects - Publications in journals - Promotion of science (awards, supporting work for dissertations, etc.)
Associations	- Active participation in industry-wide dialog - Involvement in the work of associations - Information about the underlying conditions and regulations in markets	- Involvement in the designing of events, conferences, etc., of associations - Involvement in association bodies - Participation in trade fairs - Involvement in standardization committees - Involvement in market studies

In line with the decentralized Group structure, social matters are the responsibility of the operating units, which means there is no Group-wide concept. In addition, the contributions made to the community by the individual corporate entities at the various sites are not systematically recorded. For this reason, it is not currently possible to make statements for the business units or divisions in this regard. The risks arising from these endeavors are, however, part of the Group's risk reporting (see "Nonfinancial risks and opportunities", page 39).

Individual companies traditionally support civic society at their respective locations in a variety of ways. For example, the Lifecycle Solutions division uses funds that can be donated to charitable organizations to promote increased participation in social, athletic, cultural or environmental areas by its employees. Vossloh entities in the Switch Systems business unit donated chairs to a school in 2019, planted trees and actively contributed to the success of children's school holiday programs. The Tie Technologies business unit makes donations for social purposes. At Austrak Pty. Ltd., employees have a paid absence day that they can use to work for a charity organization of their choice. A large number of Vossloh employees also volunteered 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, China, Australia and the U.S. Among other things, Vossloh also awards prizes for particularly outstanding academic performance – such as the year's top graduate of the Financial Management course at the University of Applied Sciences Europe in Iserlohn.

Corporate responsibility

The nonfinancial aspects of corporate governance, combating corruption and bribery, compliance with antitrust law and the upholding of human rights are outlined below. All of the above points have responsibility and risk minimization in common. As a global enterprise with a more than 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 do 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 Executive Officer (CEO).

The Executive Board of the Vossloh Group has established a Compliance Management System (CMS). 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 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 the 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 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 2019, Vossloh conducted compliance training around the world for a total of 1,063 participants (2018: 1,324 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 anti-corruption. These are also the target audience of the "refresher" module on anticorruption, competition law and foreign trade law. 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, 2019, the training rate stood at 95.9 percent (2018: 91.1 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 adhered to within the individual operating units. These are performed both ad hoc and without there being any specific suspicions. In 2019, three Group-wide compliance audits (2018: four) were carried out. Additionally, Vossloh regularly has its Compliance Management System reviewed by external experts and has them make recommendations regarding its further development and improvement. The most recent review took place in 2017; the audit report has been published on www.vossloh.com under "Corporate Governance" > "Compliance" in the "Investor Relations" section. Insofar as findings and recommendations were stated regarding compliance work, they have been and will be implemented in the course of the ongoing development and improvement of the Compliance Management System. Vossloh also performed a stocktaking and survey of 215 managers and other employees of the Vossloh Group in 2018 that confirmed the effectiveness of the established Compliance Management System as well as high levels of awareness and acceptance of compliance within the Vossloh Group.

Vossloh set up a whistleblower hotline together with an international law firm. This allows company employees and external whistle-blowers to report possible misconduct to an independent external contact (ombudsperson) in their native language. The whistleblower hotline has so far been set up for 24 countries. As such, the main regions and the languages spoken within the Vossloh Group are essentially covered. The ombudspersons were contacted on six occasions in 2019 (2018: six occasions). Vossloh systematically looks into every report of conduct that is potentially illegal or against the rules.

Vossloh has also taken special precautions to ensure compliance with foreign trade regulations, notably export control and embargo legislation. Beyond the obvious need to comply with applicable legal provisions, Vossloh shares the security objectives pursued by foreign trade legislation, especially the strengthening of international peace efforts and the non-proliferation of weapons of mass destruction. An export control policy for the entire Group and that is based on applicable law creates a binding framework for the entire Vossloh Group and all its employees to ensure compliance with the respective legal requirements. The framework requirements of this policy are supplemented by more extensive regulations in the form of work and organizational instructions, process descriptions, etc. The policy states that each operational unit must appoint an Export Officer and a Trade Compliance Officer (TCO). In cooperation with the respective HR departments, they develop training concepts and ensure that all employees working in areas relevant to foreign trade receive the appropriate training. Vossloh's central Compliance e-learning tool also includes a module on foreign trade law.

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 "Guidelines on the Involvement 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:

- The Railway Industry in Germany (VBD) (Vossloh Executive Board member Volker Schenk, who was in this position until September 30, 2019, was a member of the VDB Presiding Board since 2011 and President of the VDB from January 2016 to November 2019.)
- Union des Industries Ferroviaires Européennes (UNIFE), Association of the European Rail Industry
- Deutsches Verkehrsforum (DVF)
- Institut für Bahntechnik GmbH (IfB)
- Allianz pro Schiene e. V.
- Verband Deutscher Verkehrsunternehmen e. V. (VDV), Association of German Transport Companies

Details of material nonfinancial risks regarding ongoing legal proceedings and legal disputes can be found in the section entitled "Risk and Opportunity Management" on page 34.

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

The protection of personal data is a matter of importance to Vossloh. Vossloh revised its data protection management system in 2018 to comply with the European General Data Protection Regulation (GDPR) and adjusted the organization in accordance with the new legal requirements. The new data protection policy came into effect in May 2018. It is binding for all Vossloh companies and all staff worldwide, even outside the European Union. Compliance with the Vossloh Data Protection Policy is monitored by appointed data protection officers and data protection coordinators as well as a data protection committee at the Vossloh AG level that meets regularly.

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 "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 39.

As a globally acting Group, Vossloh actively promotes diversity within its workforce. In 2019, the Company employed men and women from over 45 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.

Vossloh is fundamentally committed to promoting equal opportunities in the workplace, such as in the selection of employees for high-potential programs or recruitment for open positions, as well as part of its HR policy focusing on life phases. In July 2019, Customized Modules launched the "All on track" initiative, with more women in the workforce and networks for greater diversity being created at all Vossloh sites in France. One objective is to ensure that an equal number of male and female candidates are shortlisted for vacancies. The initiative was given a boost by the fact that, in France, companies with more than 50 employees are obliged to publish annual figures relating to professional equality between men and women.

To minimize the risk of child labor, Vossloh, as a rule, 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 are located in Europe. Employees under the age of 18 are usually apprentices. 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 human rights violations were reported in the 2019 fiscal year (2018: also no reports).

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 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 matters

The rail technology markets in which Vossloh operates have some particularities resulting among other things from the historical development of rail as a means 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 compared to other modes of transport. The safety of its products and services and customer satisfaction are therefore relevant 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 39.

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 met. 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, 2019, around 97 percent of the Vossloh workforce was employed at a unit with such a 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. In this manner, 2019 saw the Core Components division test innovative EPS composite tie in regular operation on selected routes in Germany, Sweden, Finland, Romania, and the U.S. The Customized Modules division tested various products made from its newly developed, extremely hard rolled steel in a tram and heavy-goods network. The Lifecycle Solutions division continued with the HavenZuG project – together with some renowned partners. The focus of this project is on investigating how the permanent monitoring and analysis of the condition of port railway tracks can be incorporated into daily shunting operations. 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 (see the "Research & Development" chapter from page 31).

Through the use of tailored instructions, briefings, consulting, training and seminars both before and after delivery, Vossloh ensures that customers' employees can handle the Company's products appropriately. Specialists from Sales and Engineering are available to handle customer questions.

To minimize the possibility of issues jeopardizing 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. The keywords here include 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. Vossloh suppliers must be generally able to guarantee at all times that their goods and services meet the applicable regulatory and statutory requirements.

Customer satisfaction

Customer communication has historically been the responsibility of Vossloh's operating units, in keeping with the Company's formerly decentralized structure. The divisions have steadily expanded their customer communication in recent years in order to better understand their customers' wishes and needs and meet these more accurately. In line with the "One Vossloh" principle, the establishment of a cross-divisional customer relations management was initiated at the end of 2017 following a Group-wide dialog on the topics of sales and customer communication. The objective is for all information about all Vossloh customers to be collected centrally in a secure environment and made equally available to all operating units in order to leverage synergies for the purposes of sales. In addition, the system should result in there being less work involved in preparing documents for calls for tender and meeting the ever greater reporting duties in relation to customers, such as in regard to certification. The solution based on customer relationship management (CRM) software went live in February 2018 once all of the more than 300 employees affected had been given the appropriate training. It encompasses more than 10,000 Vossloh customers in 115 countries and all rail infrastructure projects worldwide that the Group supplies. In 2019, an interface to the email program was created and the working environment was made more user-friendly. The focus of 2020 will include efforts to further improve user-friendliness, optimize offer processing, introduce a marketing module and create a connection to Sharepoint, the Group's information center.

As in the past, the logging of customer satisfaction continues to be the responsibility of the operating units. Corresponding surveys are carried out in various ways at individually selected intervals, as well as on a project-oriented basis or as part of customer visits in some cases. In 2019, the Lifecycle Solutions division and Vossloh AG made initial plans to organize queries using the planned CRM marketing module.

*Limited Assurance Report of the Independent Auditor regarding the nonfinancial Group statement**

To the Supervisory Board of Vossloh AG, Werdohl, Germany

We have audited the nonfinancial Group statement of Vossloh AG, Werdohl, for the fiscal year from January 1 to December 31, 2019, which is included in the combined management report of Vossloh AG for the fiscal year from January 1 to December 31, 2019, pursuant to Sections 315b, 315c in conjunction with Sections 289c to 289e HGB (hereinafter referred to as the "nonfinancial Group statement") to obtain limited assurance.

Management's Responsibility

The legal representatives of the Company are responsible for the preparation of the nonfinancial Group statement in accordance with Sections 315b, 315c in conjunction with Sections 289c to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the assured information and the use of assumptions and estimates for individual sustainability disclosures which are reasonable under the given circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the information in a way that is free of – intended or unintended – material misstatements.

Independence and quality assurance on the part of the auditing firm

We are independent from the entity in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioner's Responsibility

Our responsibility is to express a conclusion based on our work performed within a limited assurance engagement on the abovementioned information.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by the IAASB. This Standard requires that we plan and perform the audit to obtain limited assurance whether any matters have come to our attention that cause us to believe that the nonfinancial Group statement of the Company for the period from January 1 to December 31, 2019, has not been prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with Sections 289c to 289e HGB. We do not, however, issue a separate conclusion for each sustainability disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

* Our engagement applied to the German version of the nonfinancial Group statement for the period from January 1 to December 31, 2019. This text is a translation of the Independent Assurance Report issued in the German language, whereas the German text is authoritative.

Within the scope of our engagement, we performed amongst others the following procedures:

- Comparison of the description of the business model with the relevant legal requirements.

- Interviewing employees at Group level in order to gain an understanding of the process for determining material sustainability topics and the respective boundaries of Vossloh AG.

- Risk assessment, including a media analysis, to identify relevant information on Vossloh AG's sustainability performance in the reporting period.

- Evaluation of the design and implementation of the systems and processes for determining, processing and monitoring of disclosures relating to environmental, employee and social matters, respect for human rights and combating corruption and bribery, including the consolidation of the data.

- Inquiries of personnel at Group level who are responsible for determining disclosures on concepts, duediligence processes, results and risks, for conducting internal controls and consolidation of the disclosures.

- Evaluation of selected internal and external documentation.

- An analytical review of the data and trend explanations submitted by all sites for consolidation at Group level.

- Comparison of disclosures in the nonfinancial Group statement with the respective disclosures in the consolidated financial statements and Group management report.

- Assessment of the overall presentation of the disclosures in the nonfinancial Group statement.

Conclusion

Based on the audit procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the nonfinancial Group statement of Vossloh AG for the period from January 1 to December 31, 2019, is not prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with Sections 289c to 289e HGB.

Restriction of Use

This auditor's report is addressed to and solely for the attention of the Supervisory Board of Vossloh AG, Werdohl, and may only be used for publication pursuant to Section 315b (4) HGB and inclusion in the Company's annual report. The auditor's report is not intended for third parties to make (investment and/or asset) decisions based on it.

General Engagement Terms / Liability / Exclusion of liability to third parties

Our assignment for the Supervisory Board of Vossloh AG, Werdohl, and the aforementioned actions performed in fulfillment thereof are governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017. Pursuant to our assignment, we are only responsible to Vossloh AG's Supervisory Board for the audit and for our conclusion. We point out that we assume no responsibility, duty of care or liability to any third parties; in particular, third parties are not included in the scope of protection of this contract. This does not exclude § 334 of the German Civil Code (BGB), according to which objections from your contract can also be held against third parties.

Düsseldorf, Germany, February 28, 2020

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Niclas Rauscher	Manuel Selchow
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial statements of Vossloh AG as of December 31, 2019

Income statement for the period from January 1, 2019, to December 31, 2019

€ mill.	2019	2018
Sales revenues	5.2	4.8
Cost of sales	(4.8)	(4.4)
Gross profit	**0.4**	**0.4**
General administrative expenses	(18.7)	(19.7)
Other operating income	5.0	12.2
Other operating expenses	(7.2)	(4.8)
Operating result	**(20.5)**	**(11.9)**
Income from investments	15.0	15.0
thereof from affiliated companies: €15.0 million (previous year: €15.0 million)		
Income from profit transfer agreements	18.8	25.4
thereof from affiliated companies: €18.8 million (previous year: €25.4 million)		
Income from other securities and loans	5.0	4.8
thereof from affiliated companies: €5.0 million (previous year: €4.8 million)		
Other interest and similar income	14.2	10.0
thereof from affiliated companies: €14.1 million (previous year: €10.0 million)		
Write-downs of financial assets and securities classified as current assets	(26.3)	(23.3)
Expenses from losses absorbed	(60.5)	(17.6)
thereof to affiliated companies: €60.5 million (previous year: €17.6 million)		
Interest and similar expenses	(9.1)	(7.2)
thereof to affiliated companies: €0.1 million (previous year: €0.1 million)		
Net financial result	**(42.9)**	**7.1**
Income taxes	(0.1)	1.3
Result after taxes / net loss for the year	**(63.5)**	**(3.5)**

Balance sheet

Assets in € mill.	12/31/2019	12/31/2018
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	0.5	0.8
Intangible assets	**0.5**	**0.8**
Other equipment, factory and office equipment	0.2	0.3
Property, plant and equipment	**0.2**	**0.3**
Shares in affiliated companies	474.0	397.0
Loans to affiliated companies	132.5	150.0
Investments	0.1	0.1
Long-term securities	0.1	0.1
Financial assets	**606.7**	**547.2**
Fixed assets	**607.4**	**548.3**
Receivables from affiliated companies	333.8	414.6
Other assets	4.5	0.0
Receivables and other assets	**338.3**	**414.6**
Cash on hand and in the bank, central bank balances and checks	7.7	5.3
Current assets	**346.0**	**419.9**
Prepaid expenses	**0.5**	**0.4**
	953.9	**968.6**

Equity and liabilities in € mill.	12/31/2019	12/31/2018
Capital stock	49.9	45.3
Additional paid-in capital	201.4	157.0
Retained earnings		
Other revenue reserves	220.7	270.7
Unappropriated surplus	81.1	110.6
Equity	**553.1**	**583.6**
Provisions for pensions and similar obligations	15.0	13.7
Other provisions	10.4	12.4
Provisions	**25.4**	**26.1**
Due to banks	348.0	331.2
Trade payables	0.7	1.8
Liabilities to affiliated companies	21.1	20.3
Other liabilities	5.6	5.6
thereof taxes: €0.3 million (previous year: €1.1 million)		
thereof relating to social security and similar obligations: €0.0 million (previous year: €0.0 million)		
Liabilities	**375.4**	**358.9**
	953.9	**968.6**

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

€ mill.	Historic cost				Accumulated amortization/ depreciation/write-downs			Carrying amounts	
	As of 1/1/2019	Additions	Disposals	As of 31/12/ 2019	As of 1/1/ 2019	Depreciation in the fiscal year	As of 31/12/ 2019	As of 31/12/ 2019	As of 31/12/ 2018
Intangible assets									
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	7.6	0.0	0.0	7.6	6.8	0.3	7.1	0.5	0.8
	7.6	**0.0**	**0.0**	**7.6**	**6.8**	**0.3**	**7.1**	**0.5**	**0.8**
Property, plant and equipment									
Land, leasehold rights and buildings including buildings on nonowned land	0.1	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.0
Other equipment, factory and office equipment	1.1	0.0	(0.1)	1.0	0.8	0.0	0.8	0.2	0.3
	1.2	**0.0**	**(0.1)**	**1.1**	**0.9**	**0.0**	**0.9**	**0.2**	**0.3**
Financial assets									
Shares in affiliated companies	420.3	103.5	(0.2)	523.6	23.3	26.3	49.6	474.0	397.0
Loans to affiliated companies	150.0	0.0	(17.5)	132.5	–	–	–	132.5	150.0
Investments	0.1	–	–	0.1	–	–	–	0.1	0.1
Long-term securities	0.1	–	–	0.1	–	–	–	0.1	0.1
	570.5	**103.5**	**(17.7)**	**656.3**	**23.3**	**26.3**	**49.6**	**606.7**	**547.2**
Total	**579.3**	**103.5**	**(17.8)**	**665.0**	**31.0**	**26.6**	**57.6**	**607.4**	**548.3**

Notes

General information

Vossloh Aktiengesellschaft, Vosslohstraße 4, 58791 Werdohl, Germany, entered under registry number HRB 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 2019 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.

For all independently usable movable assets whose cost is over €250 but not more than €1,000, an annual compound item is recognized and depreciated over five years. All independently usable movable assets with a cost of up to €250 are immediately recognized as expense in the year of addition.

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 S 1 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 0.338 percent. The market premium is 7.00 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.

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

Deferred taxes are recognized for the differing carrying amounts for commercial and tax purposes of assets, liabilities, 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 31.87 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 2018 G (RT2018G) 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, 2019, for obligations with a 15-year average remaining term in the amount of 2.71 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 (covered funds) are measured at fair value and are netted against these obligations.

Thereby, the provisions for pensions were reduced by €10.3 million (previous year: €10.5 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. Expected price and cost increases are considered. 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 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.

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 72.

The additions of shares in affiliated companies resulted primarily from capital increases for Vossloh International GmbH (€53.4 million), Vossloh Fastening Systems GmbH (€20.0 million) and Vossloh Locomotives GmbH (€30.0 million).

The carrying amount of the investment in Vossloh Locomotives GmbH was written down in the amount of €26.3 million (previous year: €23.3 million).

The carrying amount of the investment in Vossloh Fastening Systems GmbH came to €270.1 million, €6.9 million higher than its fair value of €263.2 million. Profitability is expected to increase as a result of the investment measures at the Werdohl production site. The Executive Board therefore does not believe that the impairment will be permanent in nature. As a result, there is no need to recognize an impairment loss in accordance with Section 253(3) Sent. 6 of the German Commercial Code.

List of shareholdings

€ mill.		Foot-note	Shareholding in %	at	Consoli-dation[1]	Equity[2]	Result after taxes[2]
(1)	**Vossloh Aktiengesellschaft, Werdohl**				(k)		
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(k)	54.1	(1.1)
(3)	Vossloh US Holdings, Inc., Wilmington, Delaware, USA		100.00	(2)	(k)	67.1	3.1
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(k)	21.0	0.9
	Core Components division						
	Fastening Systems business unit						
(5)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(1)	(k)	32.3	(5.1)
(6)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania	6	100.00	(5)	(n)	0.1	0.0
(7)	Vossloh Drazni Technika s.r.o., Prague, Czech Republic		100.00	(5)	(n)	1.1	0.6
(8)	Vossloh Sistemi S.r.l., Cesena, Italy		100.00	(5)	(k)	15.1	2.0
(9)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(5)	(k)	6.0	0.5
(10)	Vossloh Rail Technologies Ltd. Sti., Ankara, Turkey		100.00	(5)	(k)	1.3	(0.2)
(11)	FÉDER-7 Rugógyártó Kft., Sárkeresztes, Hungary		100.00	(5)	(n)	0.4	0.0
(12)	Vossloh Fastening Systems America Corp., Chicago, Illinois, USA		100.00	(3)	(k)	2.5	0.6
(13)	Vossloh Fastening Systems (China) Co. Ltd., Kunshan, China		68.00	(5)	(k)	33.2	13.5
(14)	Vossloh-Werke International GmbH, Werdohl		100.00	(5)	(k)	12.2	1.2
(15)	Beijing China-Railway Vossloh Technology Co. Ltd., Beijing, China		49.00	(5)	(n)	3.0	1.4
(16)	Vossloh Fastening Systems Southern Africa Proprietary Limited, Cape Town, South Africa	6	100.00	(88)	(n)	0.0	0.0
(17)	TOO Vossloh Fastening Systems (Kazakhstan), Kapshagay, Kazakhstan		50.00	(14)	(e)	0.0	0.0
(18)	Suzhou Vossloh Track Systems Co. Ltd., Suzhou, China		100.00	(14)	(k)	2.2	0.0
(19)	AO Vossloh Fastening Systems RUS, Engels, Russia		50.00	(5)	(e)	0.0	0.0
(20)	Vossloh Fastening Systems Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(n)	1.0	0.0
(21)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia		99.00/1.00	(2)/(1)	(k)	2.6	0.7
(22)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl		100.00	(5)	(n)	1.8	(0.1)
(23)	Vossloh Fastening Systems India Private Limited, New Delhi, India		99.99/0.01	(5)/(14)	(n)	0.1	0.1
(24)	Vossloh (Anyang) Track Material Co. Ltd., Anyang, China	4	51.00	(14)	(e)	6.3	0.8
(25)	Kunshan Vossloh Railway Materials Trading Co. Ltd., Kunshan, China	4	100.00	(14)	(k)	0.2	0.1
	Tie Technologies business unit					0.0	0.0
(26)	Rocla International Holdings, Inc., Wilmington, Delaware, USA		100.00	(3)	(k)	5.6	(0.1)
(27)	Rocla Concrete Tie, Inc., Lakewood, Colorado, USA		100.00	(26)	(k)	75.4	0.3
(28)	RCTI de Mexico, S. de R. L. de C. V., Mexico City, Mexico		99.998/0.002	(27)/(3)	(k)	22.5	0.8
(29)	RocBra Participacoes e Empreendimentos Ltda., São Paulo, Brazil	6	100.00	(26)	(n)	4.9	0.0
(30)	Cavan Rocbra Industria E Comercio De Pre Moldados De Concreto S/A, São Paulo, Brazil	6	20.00	(29)	(n)	25.4	9.2
(31)	Austrak Pty. Ltd., Brisbane, Australia		100.00	(4)	(k)	30.7	2.4
(32)	Vossloh Tie Technologies Canada ULC, Vancouver, Canada	4	100.00	(27)	(k)	0.3	(2.9)
	Customized Modules division						
	Switch Systems business unit						
(33)	Vossloh France SAS, Rueil-Malmaison, France		100.00	(1)	(k)	153.5	8.2
(34)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(33)	(k)	127.8	(1.6)
(35)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(34)	(k)	2.1	1.1
(36)	Vossloh Cogifer Finland Oy, Teijo, Finland		100.00	(37)	(k)	8.4	1.1
(37)	Vossloh Nordic Switch Systems AB, Ystad, Sweden		100.00	(34)	(k)	11.3	4.5
(38)	Vossloh Cogifer KIHN SA, Rumelange, Luxembourg		89.21	(34)	(k)	12.5	(5.1)
(39)	Vossloh Laeis GmbH, Trier		100.00	(38)	(k)	(11.0)	(6.5)
(40)	Futrifer-Indústrias Ferroviárias, SA, Lisbon, Portugal		61.00	(34)	(e)	2.2	0.3
(41)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(34)	(e)	28.6	1.5
(42)	Montajes Ferroviarios, S. L., Amurrio, Spain		100.00	(41)	(n)	0.2	(0.1)
(43)	Burbiola SA, Amurrio, Spain		50.00	(41)	(n)	1.5	0.1
(44)	Vossloh Cogifer UK Limited, Scunthorpe, United Kingdom		100.00	(34)	(k)	3.5	1.2
(45)	Vossloh Cogifer Italia S.r.l., Milan, Italy		100.00	(34)	(k)	1.3	1.3
(46)	Vossloh Cogifer Polska Sp.z o.o., Bydgoszcz, Poland		96.95	(34)	(k)	11.8	1.8
(47)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(34)	(e)	2.6	0.8
(48)	Vossloh Cogifer Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(34)	(k)	(1.0)	(0.7)
(49)	Siema Applications SAS, Villeurbanne, France		100.00	(34)	(k)	5.6	1.7

€ mill.		Foot-note	Shareholding in %	at	Consoli-dation[1]	Equity[2]	Result after taxes[2]
(50)	VOSSLOH MIN SKRETNICE DOO ZA Proizvodnjui Montazu Skretnica i Opreme Nis, Niš, Serbia		100.00	(34)	(k)	5.4	1.6
(51)	Vossloh Beekay Castings Ltd., New Delhi, India	5	58.48	(34)	(e)	6.3	(0.6)
(52)	Vossloh Cogifer Turnouts India Private Limited, Hyderabad, India	5	100.00	(34)	(k)	3.1	0.1
(53)	Vossloh Cogifer Signalling India Private Limited, Bangalore, India	5	100.00	(34)	(k)	1.0	0.2
(54)	Vossloh Track Material, Inc., Wilmington, Delaware, USA		100.00	(3)	(k)	5.5	(5.3)
(55)	Vossloh Cogifer Australia Pty. Ltd., Castlemaine, Australia		100.00	(4)	(k)	13.2	1.0
(56)	Vossloh Cogifer Kloos BV, Nieuw-Lekkerland, the Netherlands		100.00	(34)	(k)	(0.6)	(1.1)
(57)	Wuhu China Railway Cogifer Track Co. Ltd., Wuhu, China		50.00	(34)	(e)	18.6	1.9
(58)	Vossloh Signaling USA, Inc., Wilmington, Delaware, USA		100.00	(3)	(k)	1.7	(1.1)
(59)	Vossloh Cogifer Argentina S. A., Buenos Aires, Argentina		90.00/10.00	(34)/(35)	(n)	(3.8)	(3.2)
(60)	Vossloh Cogifer Southern Africa Proprietary Ltd. Cape Town, South Africa		100.00	(88)	(n)	0.0	0.0
(61)	Vossloh Cogifer do Brasil Administracao de Bens e Participacoes Ltda., Sorocaba, Brazil		99.99/0.01	(34)/(35)	(k)	(1.1)	(0.7)
(62)	Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil		100.00	(61)	(k)	(0.9)	(0.8)
(63)	Outreau Technologies SAS, Outreau, France		100.00	(34)	(k)	9.2	(1.4)
	Lifecycle Solutions division						
	Rail Services business unit						
(64)	Vossloh Rail Services GmbH, Hamburg	3	100.00	(1)	(k)	23.1	0.3
(65)	Vossloh Rail Center GmbH, Hamburg	3	100.00	(64)	(k)	19.3	(0.3)
(66)	Vossloh Rail Inspection GmbH, Leipzig (formerly: GTS Gesellschaft für Gleistechnik Süd mbH)	3	100.00	(65)	(k)	0.0	0.0
(67)	Alpha Rail Team GmbH & Co. KG, Berlin	3	100.00	(65)	(k)	17.2	(1.8)
(68)	Alpha Rail Team Verwaltungs GmbH, Berlin		100.00	(65)	(k)	0.0	0.0
(69)	Vossloh Logistics GmbH, Hanover	3	100.00	(64)	(k)	6.9	0.8
(70)	VOSSLOH Turkey Demiryolu Sistemleri Ltd. Sti., Istanbul, Turkey		100.00	(73)	(k)	0.3	0.3
(71)	Vossloh Rail Maintenance GmbH, Hamburg (formerly: Vossloh High Speed Grinding GmbH)	3	100.00	(64)	(k)	(1.8)	0.1
(72)	Vossloh Mobile Rail Services GmbH, Leipzig	3	100.00	(65)	(k)	1.2	0.1
(73)	Vossloh Rail Services International GmbH, Hamburg	3	100.00	(64)	(k)	0.5	0.9
(74)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(73)	(e)	(1.8)	0.0
(75)	Vossloh Rail Services Scandinavia AB, Örebro, Sweden		100.00	(73)	(k)	3.8	1.6
(76)	Vossloh Rail Services North America Corporation, Denver, Colorado, USA		100.00	(3)	(n)	0.7	(0.1)
(77)	Beijing CRM-Vossloh Track Maintenance Technology Co., Ltd., Beijing, China		47.00	(73)	(e)	17.1	1.8
(78)	Vossloh Rail Services Kunshan Co., Ltd., Kunshan, China		100.00	(73)	(k)	2.1	0.2
(79)	Vossloh Rail Services Finland Oy, Kouvola, Finland		100.00	(73)	(k)	6.2	0.1
(80)	Rhomberg Sersa Vossloh GmbH, Föhren		50.00	(64)	(e)	0.9	0.0
(81)	Vossloh Services France SAS, Rueil-Malmaison, France	4	49.9/50.1	(34)/(73)	(k)	0.3	0.3
	Transportation division						
	Locomotives business unit						
(82)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(k)	53.8	(0.2)
(83)	Locomotion Service GmbH, Kiel	3	100.00	(82)	(k)	0.2	0.0
(84)	Vossloh Locomotives France SAS, Paris, France		100.00	(82)	(k)	0.1	0.0
(85)	Vossloh Locomotives Scandinavia AB, Örebro, Sweden		100.00	(82)	(k)	0.0	0.0
(86)	Imateq SAS, Saint Pierre des Corps, France		55.00	(84)	(e)	(0.1)	(0.2)
(87)	Imateq Italia S.R.L., Tortona, Italy		100.00	(82)	(k)	0.2	0.2
	Other companies						
(88)	Vossloh Southern Africa Holdings Proprietary Ltd., Johannesburg, South Africa	6	100.00	(2)	(n)	0.5	0.0

[1] Fully consolidated companies are noted (k), those accounted for using the equity method (e) and unconsolidated companies (n). Exclusion from the scope of consolidation is based on immateriality with respect to net assets, financial position and results of operations.
[2] Foreign currency amounts in the case of equity are translated at the average exchange rate as of the balance sheet date and post-tax profits or losses are translated at the annual average rate.
[3] Company claims exemption from preparing and publishing separate financial statements pursuant to Section 264 (3) or 264b HGB.
[4] Included in the consolidation for the first time in the reporting year.
[5] Differing fiscal year April 1 to March 31
[6] Information on equity and the result after taxes is based on financial statements from previous years.

Receivables and other assets

Receivables and other assets are due in full within one year, both in the current and in the previous year. All receivables are due from affiliated and associated companies.

Equity

Capital stock

Vossloh AG's capital stock of €49,857,682.23 (previous year: €45,325,167.47) is divided into 17,564,180 (previous year: 15,967,437) no-par-value shares. Only shares of common stock are issued. One no-par-value share represents a notional interest of €2.84 in the capital stock.

The capital stock was increased in the reporting year and concluded on June 19. This involved issuing 1,596,743 new shares at a placement price of €30.70 per share by way of an accelerated placement procedure. Vossloh received gross proceeds of around €49.0 million, with €0.7 million of transaction costs being recognized as an expense. The capital increase was carried out in addition to the performance program already approved in April 2019 in order to use the net proceeds generated from this with the aim of improving the Company's financial flexibility for future growth and reducing consolidated net financial liabilities.

Authorized capital

At the Annual General Meeting on May 24, 2017, new authorized capital of €22,662,582.32 was approved. After utilizing part of this in connection with the capital increase carried out in the reporting year, the Company has authorized capital of €18,130,067.56 as of December 31, 2019. This authorization is limited to May 23, 2022.

Conditional capital

The Company has no conditional capital.

Additional paid-in capital

Th additional paid-in capital of €201,443,508.42 (previous year: €156,956,013.08) includes the premiums from issuing Vossloh AG stock. This means that, within the scope of the capital increase, €44,487,495.34 was included in the additional paid-in capital.

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

Provisions

In the 2019 fiscal year, the amount required to settle pension obligations came to €25,325 thousand (prior year: €24,137 thousand). The fair value of the covered funds offset against this settlement amounted to €10,297 thousand (previous year: €10,459 thousand).

Pension provisions would have been €2,575 thousand (previous year: €2,909 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 covered funds 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 €5,990 thousand.

The amount undistributable in accordance with Section 268 (8) HGB was €4,307 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 €2,320 thousand (previous year: €2,482 thousand) were netted against income of €376 thousand (previous year: €371 thousand) in the net financial result.

The other provisions of €10,351 thousand (previous year: €12,393 thousand) include €5,053 thousand for personnel (previous year: €3,202 thousand) and €4,180 thousand (previous year: €6,801 thousand) for selling the shares of subsidiaries and associated consultancy expenses.

Liabilities and contingent liabilities

Liabilities to banks recognized on the balance sheet amount to €347,999 thousand (previous year: €331,219 thousand), thereof €10,600 thousand (previous year: €81,219 thousand) falls due within one year and €337,399 thousand (previous year: €135,000 thousand) after one but within five years. As in the previous year, all other liabilities have maturities of up to one year.

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. The agreed interest rate is fixed at 0.988 percent for the four-year maturities for an amount of €85 million, and variable at an amount of €50 million with a margin of 85 basis points above Euribor. For the seven-year maturities, a partial amount of €90 million has a fixed interest rate of 1.763 percent and the remaining amount of €25 million, 120 basis points above Euribor. A floor of 0.0 percent is respectively applicable to the reference value.

At the end of November 2017, Vossloh AG concluded a new €150 million syndicated loan with eight banks, fully replacing the syndicated loan which had been in place since 2015 and was scheduled to expire in April 2018. After exercising the two options to extend in November 2018 and November 2019, the financing agreement now has a term until November 2024. In April 2019, the volume of the loan was increased by €80 million to €230 million. If necessary, it can be increased by up to a further €70 million during the term of the loan. The funds are available to the Company in the form of a revolving line of credit that can be flexibly accessed. Compliance with a covenant in the form of the ratio of net financial debt to EBITDA was agreed here. If the agreed threshold of this key figure is breached, this will allow the lending banks to terminate the agreement ahead of time. At the same time, the amount of the key figure in question determines the interest (basis points above Euribor). This was currently 1.8 percent. As of the balance sheet date, the credit line had been utilized in the amount of €87.4 million by way of cash loans and €14.9 million by way of guarantees and utilizing credit lines granted to subsidiaries (previous year: €56.2 million) Compliance with the covenant is checked every six months. The review scheduled for the first half of the year was skipped on the basis of an amendment to the contract. Evidence of compliance with the covenant was in place at the end of the year.

There continues to be a general agreement with Bayerische Landesbank on individual short-term loans that have not been guaranteed. As of December 31, 2019, €10.6 million had been utilized under this agreement (previous year: €25.0 million).

Liabilities to affiliated companies and investees solely comprise other liabilities, both in the reporting year and in the previous year.

The contingent liabilities under guarantees of €280,884 thousand (previous year: €261,052 thousand) were incurred in the amount of €271,896 thousand for liabilities due to affiliated and associated companies (previous year: €252,064 thousand). The risk of a claim is considered unlikely for all of the listed contingent liabilities.

The maximum liability guarantees total €331,115 thousand (previous year: €299,185 thousand). In 36 cases, the guarantees do not have a stipulated ceiling.

Since the affiliated and associated companies are believed to be able to settle the liabilities covered by such guarantees, no liabilities were recognized.

Furthermore, there are other financial obligations of €177 thousand (previous year: €456 thousand) exclusively to third parties. Of these other financial obligations, €98 thousand (previous year: €204 thousand) is due within one year and €79 thousand (previous year: €252 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.

Notes to the income statement

Sales revenues in 2019 primarily related to service charges of €5,262 thousand (previous year: €4,794 thousand), thereof €5,256 thousand to affiliated companies (previous year: €4,811 thousand).

Sales revenues were generated entirely in Germany with the following exceptions: Sales revenues in France of €1,622 thousand (previous year: €1,514 thousand), in the USA of €251 thousand (previous year: €193 thousand) and in China of €173 thousand (previous year: €124 thousand).

The functional expenses break down into cost of sales and general administrative expenses. Cost of sales primarily include 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 €13,398 thousand (previous year: €10,508 thousand). €12,280 thousand of this (previous year: €8,706 thousand) is allocable to wages and salaries, another €1,119 thousand (previous year: €1,802 thousand) to social security, pension expense and related employee benefits. Pension expenses amounted to €342 thousand (previous year: €1,039 thousand).

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

Other operating income totaled €4,962 thousand (previous year: €12,158 thousand), resulting from income relating to other periods from the release of provisions amounting to €3,174 thousand (previous year: €11,393 thousand) along with income from price gains of €1,787 thousand (previous year: €720 thousand).

Other operating expenses mainly included expenses incurred from price losses of €7,146 thousand (prior year: €4,782 thousand).

The net financial result of €(42,910) thousand (previous year: €7,044 thousand) includes €15,000 thousand (previous year: €15,000 thousand) as a result of the dividends paid by Vossloh France SAS, Rueil-Malmaison, France, as well as expenses from the assumption of losses for Vossloh Rail Services GmbH and Vossloh Locomotives GmbH totaling €60,530 thousand (previous year: €17,597 thousand). The €1,944 thousand interest portion (previous year: €2,111 thousand) for the change in pension provisions was recognized as "Interest and similar expenses."

Other disclosures

Vossloh AG employed an average of 63 salaried employees (previous year: 62), thereof 54 in full-time and 9 in part-time employment.

The employee bonus program was suspended in the reporting year due to the performance program. The employee bonus program 2018 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 €40.10 determined as the market price as of the share transfer date.

In the previous year, Vossloh AG employees were granted a total of 148 free of charge under this program. The expense to the Group for granting shares was €7 thousand.

Remuneration of Executive Board members (excluding pension expenses) for the 2019 fiscal year totaled €1,460 thousand (previous year: €2,529 thousand), including €563 thousand (previous year: €1,450 thousand) of fixed and €872 thousand (previous year: €1,028 thousand) of variable compensation plus €25 thousand (previous year: €51 thousand) for payments in kind.

Former Executive Board members received a total of €3,683 thousand in the reporting year (previous year: €1,173 thousand). Pension obligations to former Executive Board and management members and their surviving dependents amounted to €22,810 thousand. Employer pension liability insurance policies totaling €10,297 thousand are pledged in each beneficiary's favor.

Total Supervisory Board fees for the reporting year came to €429 thousand and were exclusively fixed components.

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.

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.

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 initially measured and remeasured at the mean spot rate valid at the time of issue. The difference between the spot exchange rate on the day of issue and the hedged forward rate, multiplied by the nominal volume of the receivable, is accounted for under other liabilities. This corresponds in total to a pro rata write-up or write-down of the euro-denominated carrying amount of the foreign currency receivable from the spot rate when issued until the hedged forward rate. Since the net hedge presentation method is used, compensating changes in value of the underlying and hedging transactions arising from the hedged risk are not recognized.

The nominal volumes and fair values of these hedges are listed below:

Derivative financial instruments

€ mill.	2019		2018	
	Fair value	Nominal volume	Fair value	Nominal volume
Currency hedging transactions				
Interest rate swap	–	–	–	–
Foreign currency forwards	(9.8)	180.3	(8.0)	221.3
	(9.8)	**180.3**	**(8.0)**	**221.3**

The method of determining fair values to measure derivatives depends on the type of instrument. Foreign currency forwards of €179.6 million relate to the hedging of recognized receivables carried and the hedging of recognized liabilities of €0.7 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 mean 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 1.5 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 income from fair values exceeding cost are not recognized. In 2019, 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, 2019, foreign currency positions in the Australian dollar (AUD), US dollar (USD) and British pound (GBP) were hedged.

Related party transactions

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

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

In November 2019, the Executive and Supervisory Boards issued the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG), and made it permanently available to the stockholders on Vossloh’s website at https://www.vossloh.com/de/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 2019 fiscal year under the terms of Section 33 WpHG.

The following voting-interest notifications of the main shareholder, Mr. Heinz Hermann Thiele, Germany, were served to Vossloh AG.

Notifying party	Date of notification	Date of change	Affected threshold	New voting interest		thereof attributable	
				in %	Absolute	in %	Absolute
KB Holding GmbH, Germany	6/25/2019	6/24/2019	Above 50%	50.09	8,797,090	–	–
TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany	6/25/2019	6/24/2019	Above 50%	50.09	8,797,090	50.09	8,797,090
Stella Vermögensverwaltung GmbH, Germany	6/25/2019	6/24/2019	Above 50%	50.09	8,797,090	50.09	8,797,090
Mr. Heinz Hermann Thiele, Germany	6/25/2019	6/24/2019	Above 50%	50.09	8,797,090	50.09	8,797,090

Pursuant to Section 34 (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 34 (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 34 (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.

By letter dated June 24, 2019, TIP Vermögens- und Beteiligungsholding GmbH informed us in connection with the voting-interest change of June 24, 2019, pursuant to Section 43 (1) WpHG as follows:

"I. Acquisition purposes

1. With their stakes, the notifying party aims at a long-term strategic investment in Vossloh Aktiengesellschaft.

2. Within the next twelve months, the notifying party does not intend to purchase or otherwise acquire further voting interests in Vossloh Aktiengesellschaft.

3. The notifying party seeks to exert influence on the staffing of the Company's executive, management or supervisory boards.

4. The notifying party does not currently 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."

Aside from the voting-interest notifications of the main shareholder Mr. Heinz Hermann Thiele, the following voting-interest notifications were submitted to us.

Notifying party	Date of notification	Date of change	Affected threshold	New voting interest		thereof attributable	
				in %	Absolute	in %	Absolute
Franklin Mutual Funds, USA	6/26/2019	6/19/2019	Below 3%	2.85	500,980	–	–
LBBW Asset Management Investmentgesellschaft mbH, Germany	7/29/2019	7/22/2019	Below 3%	2.97	520,798	0.01	2,489
Lazard Frères Gestion SAS, France	9/20/2019	9/17/2019	Below 3%	2.99	526,379	2.99	526,379
Lazard Small Caps Euro, France	9/20/2019	9/17/2019	Below 3%	2.99	526,379	–	–

Auditor fees

The services rendered by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, in the 2019 fiscal year consisted exclusively of services relating to the audit of the financial statements. The total fee calculated for the auditors for the fiscal year is not disclosed with reference to the Group clause.

Executive Board of Vossloh AG

Oliver Schuster, born 1964, Kierspe
Chairman of the Executive Board (since 10/1/2019)
First appointment: 3/1/2014, appointed until: 2/28/2025
External mandates:
- Wohnungsgesellschaft Werdohl GmbH: Member of the Supervisory Board
Group mandates:
- Vossloh Cogifer SA: Member of the Supervisory Board
- Vossloh France SAS: President

Andreas Busemann, born 1966, Frankfurt am Main,
Chairman of the Executive Board (until 9/30/2019)
First appointment: 4/1/2017, appointed until: 9/30/2019

Dr.-Ing. Karl Martin Runge, born 1964, Kassel
First appointment: 10/1/2019, appointed until: 9/30/2022
Group mandates:
- Vossloh Cogifer SA: Chairman of the Supervisory Board (since 12/5/2019)
- Vossloh International GmbH: Managing Director (since 10/21/2019)
- Vossloh Fastening Systems (China) Co. Ltd.: Chairman of the Administrative Board (since 12/2/2019)

Volker Schenk, born 1964, Düsseldorf
First appointment: 5/1/2014, appointed until: 9/30/2019
External mandates:
- Institut für Bahntechnik GmbH: Member of the Supervisory Board
Group mandates until 9/27/2019:
- Vossloh Cogifer SA: Chairman of the Supervisory Board
- Vossloh Australia Pty. Ltd.: Member of the Administrative Board
- Vossloh Fastening Systems Australia Pty. Ltd.: Member of the Administrative Board
- 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 Technology Co., Ltd.: Chairman of the Supervisory Board
- Suzhou Vossloh Track Systems Co., Ltd.: Chairman of the Administrative Board

Aufsichtsrat der Vossloh AG

Prof. Dr. Rüdiger Grube[2,4], Chairman, Hamburg, independent management consultant and former CEO of Deutsche Bahn AG (member of the Supervisory Board since February 5, 2020)
- Chairman of the Supervisory Board of Hamburger Hafen- und Logistik AG, Hamburg
- Non-executive member of the Administrative Board of RIB Software SE, Stuttgart
- Member of the Supervisory Board of Herrenknecht AG, Lahr-Schwanau
- Non-executive member of the Administrative Board of Deufol SE, Hofheim (Wallau)
- Chairman of the Supervisory Boards of Bombardier Transportation Germany GmbH, Berlin, and of Bombardier Transportation (Bahntechnologie) Holding Germany GmbH, Berlin

Ulrich M. Harnacke[2,3,4], former Chairman, Mönchengladbach, Auditor and Tax Advisor (member of the Supervisory Board since May 20, 2015)
- Member of the Shareholders' Committee of Thüga Holding GmbH & Co., KGaA, Munich, Germany
- Member of the Supervisory Board and Chairman of the Audit Committee of Brenntag AG, Essen, Germany
- Member of the Advisory Board of Zentis GmbH & Co. KG, Aachen, Germany

Dr.-Ing. Volker Kefer[2,4], former Chairman, Erlangen, former Deputy CEO of Deutsche Bahn AG (member of the Supervisory Board from May 24, 2017 until March 4, 2019)

Dr. Sigrid Evelyn Nikutta[2,4], Deputy Chairwoman, Berlin, member of the Board of Management of Deutsche Bahn AG and CEO of DB Cargo AG (member of the Supervisory Board since May 22, 2019)
- Chairman of the Supervisory Board of BT Berliner Transport GmbH, Berlin (until December 31, 2019)
- Chairman of the Supervisory Board of Institut für Bahntechnik GmbH, Berlin (November 22, 2019)

Prof. Dr. Anne Christine d'Arcy[3,4], Vienna (Austria), University Professor for Corporate Governance und Management Control (member of the Supervisory Board since May 9, 2018)

Dr. Bernhard Düttmann[3,4], Meerbusch, independent management consultant and interim Member of the Executive Board of CECONOMY AG (member of the Supervisory Board from May 9, 2018 until December 31, 2019)
- Member of the Supervisory Board of alstria office REIT-AG, Hamburg
- Member of the Supervisory Board of CECONOMY AG, Düsseldorf (mandate suspended due to appointment to the Executive Board)

Andreas Kretschmann[1], Neuenrade, social security employee (member of the Supervisory Board since August 30, 2017)

Michael Ulrich[1,2,3], Kiel, Machinist (member of the Supervisory Board since April 20, 2007)

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

Events after the reporting period

There were no significant events after the balance sheet date.

The financial statements for the 2019 fiscal year report a net loss of €63,513,786.27 and, after including the profit carryforward of €94,684,926.77 and withdrawals from retained earnings of €50,000,000.00, net profit retained of €81,171,140.50.

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 €49,857,682.23 and that the remaining amount of €63,606,960.50 be carried forward. The total dividend amount is €17,564,180.00.

Proposed profit appropriation

Proposed profit appropriation

€	
Profit carried forward as of January 1, 2019	94,684,926.77
Net loss 2019	(63,513,786.27)
Withdrawal from other revenue reserves	50,000,000.00
Unappropriated surplus as of December 31, 2019	**81,171,140.50**
Proposed profit appropriation	
Appropriation	(17,564,180.00)
Carryforward to new account	**63,606,960.50**

Werdohl, Germany, February 28, 2020

Vossloh AG
The Executive Board

Oliver Schuster, Dr.-Ing. Karl Martin Runge

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, February 28, 2020

Vossloh AG
The Executive Board

Oliver Schuster, Dr.-Ing. Karl Martin Runge

Independent auditor`s report

To Vossloh Aktiengesellschaft, Werdohl/Germany

Report on the audit of the annual financial statements and of the combined management report

Audit Opinions

We have audited the annual financial statements of Vossloh Aktiengesellschaft, Werdohl/Germany, which comprise the balance sheet as at 31 December 2019, the statement of profit and loss for the financial year from 1 January to 31 December 2019, and the notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the combined management report of Vossloh Aktiengesellschaft, Werdohl/Germany, for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement pursuant to Section 289f and Section 315d German Commercial Code (HGB), which make part of the combined management report, and the consolidated non-financial statement in accordance with Section 315b HGB.

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 at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 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 audit opinion on the combined management report does not cover the contents of the corporate governance statement referred to above and of the consolidated non-financial statement.

Pursuant to Section 322 (3) sentence 1 (HGB), 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 Audit 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 (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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following, we present the issue of recoverability of the shares in affiliated companies, which we have identified in the course of our audit to be a key audit matter.

Our presentation of this key audit matter has been structured as follows:

a. description (including reference to corresponding information in the annual financial statements)

b. auditor’s response

Recoverability of the shares in affiliated companies

a. The annual financial statements of Vossloh Aktiengesellschaft as of 31 December 2019 disclose shares in affiliated companies of mEUR 474.0. These thus count for a share of 49.7 % of the balance sheet total. The shares in affiliated companies thus materially affect the net assets of the Company.

   Long-term financial assets are measured at acquisition cost or, in case of a presumably permanent impairment in value, at lower fair value. The executive board checks the recoverability of the shares’ book values recognised within the annual financial statements on the basis of a simplified capitalised earnings method. The cash flows used within the valuation model are thereby based on internal cash flow planning on part of the executive directors of the companies agreed upon with the executive board of Vossloh Aktiengesellschaft and cover the three years following the balance sheet date. They are updated with assumed long-term growth rates. The fair value is determined by discounting the plan cash flows by means of the weighted capital costs. The earnings value that arises from this computation after deduction of the net debt is compared with the book value of the shares as of balance sheet date under consideration of the stake. In case the earnings value is lower than the book value, it is checked by means of qualitative and quantitative criteria if the impairment is presumably of permanent nature. A write-down to the lower fair value of the shares is made in case of a permanent impairment in value.

   In the financial year 2019, the Company made write-downs of mEUR 26.3 on the shares in Vossloh Locomotives GmbH, Kiel/Germany. With contract dated 26 August 2019, the shares in this company were sold. The book value as of 31 December 2019 corresponds to the expected sales proceeds. However, the realisation of the transaction is subject to its prior approval on part of the responsible European and Chinese authorities.

   The assumptions taken when measuring the shares in affiliated companies are highly dependent on the estimates and assessments made on part of the executive board and are thus subject to significant estimation uncertainties. This in particular applies for the adequate assessment of the future cash flows and growth rates, the adequate determination of risk-equivalent weighted capital cost rates as well as for the assessment of the permanence of the impairment. Already slight changes of the applied discounting rate may significantly affect the amount of the determined earnings value. Against this background, this fact was classified as key audit matter within the scope of our audit.

   The Company’s disclosures on the shares in affiliated companies are included in the chapters “Accounting and valuation methods” as well as “Notes to the balance sheet” of the notes to the financial statements.

b. In auditing the fair value of the shares in affiliated companies and under involvement of our valuation experts, we have, amongst others, understood the systematic approach of the assessment made by the executive board, assessed whether the valuation model adequately presents the conceptional requirements of the relevant valuation standards, and furthermore evaluated the determination of the weighted capital costs. We have furthermore assessed, whether the cash flow plans underlying the assessments are based on adequate and justifiable assumptions and whether they are in line with the group planning approved by the supervisory board for the year 2020 and approvingly acknowledged by it for the years 2021 and 2022. Our assessment of the outcome of the evaluation was based, amongst others, on a comparison with general and industry-specific market expectations and we convinced ourselves of the material assumptions of the planning by means of interviews of the executive board. We have furthermore checked the parameter, including the weighted capital costs, used when determining the applied discounting rate and reproduced the computation scheme.

   In auditing the measurement of the shares in Vossloh Locomotives GmbH, Kiel/Germany, we have inspected the sales contract and assessed, whether the book value corresponds to the expected sales proceeds.

Other Information

The executive board is responsible for the other information. The other information comprises

- the statement on corporate governance included in the annual report in accordance with Section 289f HGB and Section 315d HGB, which makes part of the combined management report,

- the consolidated non-financial statement in accordance with Section 315b HGB, which is included in the combined management report, and

- the executive board´s confirmation relating to the annual financial statements and to the combined management report pursuant to Section 264 (2) sentence 3 and Section 289 (1) sentence 5 HGB respectively.

Our audit 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 audit 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 the Executive Board and the Supervisory Board for the Annual Financial Statements and the Combined Management Report

The executive board 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, the executive board is responsible for such internal control as it, in accordance with German Legally Required Accounting Principles, has 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, the executive board is responsible for assessing the Company's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive board 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, the executive board is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a combined 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 combined 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 combined 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 the knowledge obtained in the audit, complies with the 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 audit 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 judgement 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 audit 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 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 audit opinion on the effectiveness of these systems of the Company.

- evaluate the appropriateness of accounting policies used by the executive board and the reasonableness of estimates made by the executive board and related disclosures.

- conclude on the appropriateness of the executive board'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 a 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 audit 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 represent 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 the 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 the executive board in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive board 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 audit 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 the 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 group auditor by the general meeting on 22 May 2019. We were engaged by the supervisory board on 1 October 2019. We have been the auditor of Vossloh Aktiengesellschaft, Werdohl/Germany since the financial year 2019.

We declare that the audit 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 René Kadlubowski.

Düsseldorf/Germany, 28 February 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: André Bedenbecker	Signed: René Kadlubowski
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

vossloh.com

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