Driving Innovation. Developing Potential.

ANNUAL REPORT 2017

vossloh

Key Group figures		2017	2016*
Orders received	€ mill.	867.2	829.7
Order backlog	€ mill.	474.4	490.7
Income statement data			
Sales revenues	€ mill.	918.3	822.5
Core Components	€ mill.	351.4	257.1
Customized Modules	€ mill.	483.3	492.3
Lifecycle Solutions	€ mill.	91.0	83.5
EBIT	€ mill.	70.3	57.5
EBIT margin	%	7.7	7.0
Net interest result	€ mill.	(12.5)	(10.6)
EBT	€ mill.	57.8	46.9
Net income	€ mill.	0.3	10.1
Earnings per share	€	(0.50)	0.22
Return on capital employed (ROCE)[1]	%	8.9	8.8
Value added[1]	€ mill.	11.1	(1.5)
Balance sheet data			
Fixed assets[2]	€ mill.	568.7	467.8
Capital expenditure	€ mill.	39.5	30.3
Depreciation/amortization	€ mill.	33.6	31.5
Closing working capital	€ mill.	190.0	159.2
Closing capital employed	€ mill.	758.7	627.0
Equity	€ mill.	532.4	550.8
Noncontrolling interests	€ mill.	15.0	18.0
Net financial debt	€ mill.	207.7	85.0
Total assets	€ mill.	1,252.9	1,367.2
Equity ratio	%	42.5	40.3
Cash flow statement data			
Gross cash flow	€ mill.	96.3	92.6
Cash flow from operating activities	€ mill.	24.5	65.8
Cash flow from investing activities	€ mill.	(124.2)	(43.2)
Cash flow from financing activities	€ mill.	20.7	79.3
Free cash flow	€ mill.	(22.3)	25.2
Workforce data			
Annual average headcount	No.	3,934	3,682
Core Components	No.	853	631
Customized Modules	No.	2,546	2,537
Lifecycle Solutions	No.	473	457
Vossloh AG	No.	62	57
Personnel expenses	€ mill.	214.8	197.1
Share data			
Year-end closing price	€	46.80	59.61
Closing market capitalization	€ mill.	747.3	951.8

[1] Based on average capital employed

[2] Fixed assets = intangible assets plus property, plant and equipment plus investment properties plus investments in associated companies plus other noncurrent financial instruments

*Prior-year figures adjusted due to the treatment of the Transportation division as discontinued operations

Dear Shareholders,

I have been in charge of the Vossloh Group (in other words, your company) as CEO together with my two Executive Board colleagues since April 1, 2017. I would now like to take the opportunity to look at the past fiscal year together with you and to give you a brief introductory overview of the key events and developments in the period under review.

2017 was a year of opposites. Our core business rail infrastructure developed considerably well. Sales increased significantly and profitability exceeded both our own expectations and those of the capital market. At the same time, we succeeded in generating positive value added in our core business for the first time in years. Our entry into business in the U.S. with concrete ties was remarkably successful; the integration process has been concluded and value added was well above plan in the reporting period. The process of focusing on our core business is well underway and we anticipate that we will be able to sell our locomotive business in Kiel within the next twelve months. Accordingly, the Transportation division is presented in this annual report as discontinued operations, taking into account an anticipated accounting loss. After four years of hard work, Vossloh very successfully concluded the complete refinancing of the Vossloh Group in the year under review, thus giving the Company very stable foundations in the medium term. We placed a Schuldschein loan in the amount of €250 million and concluded a new syndicated loan worth €150 million. Finally, our equity ratio reached a peak in excess of 42 percent at the end of 2017. There is nevertheless a negative aftertaste, despite all of this success, as our share price developed very unsatisfactorily both in the course of 2017 and beyond.

In addition to its wide array of products and solutions, one of Vossloh's strengths is the Company's international setup. As a result, temporary weaknesses in one region can often be partially or entirely offset by increases in revenues in other regions. This was the case once again in the last fiscal year. While demand stagnated in the U.S. in the important segment of listed major freight railroad companies throughout the 2017 fiscal year, our high-margin business in China in particular developed much more positively than expected. In some cases, our customers there even requested deliveries that were originally scheduled for 2018. As our business is – from a customer perspective – ultimately a project business, it is inevitably subject to the fluctuations in sales that are inherent to this business, regardless of the type of products delivered or services rendered in each case. As such, the prioritization of delivery volumes scheduled for the following year cannot be easily offset by additional new projects at short notice. In terms of our business with rail fastening systems in China, we are consequently not expecting the unusual upswing in the year under review to be repeated in 2018. This, together with the still unanswered question of when U.S. freight operators will finally make the maintenance investments they temporarily put on hold, means we are now forecasting profitability in the range of 6 to 7 percent in the 2018 fiscal year, based on a generally stable sales level. We concluded 2017 with an EBIT margin of 7.7 percent.

Many of you, our esteemed shareholders, have been with the Vossloh Group for many years. And since the difficult year of 2014, you have had to completely forgo dividend payments. Based on the very encouraging improvement in our core business, you, our shareholders, can once again participate in the Company's success, which is exactly what we want. The Executive Board and Supervisory Board of Vossloh AG will therefore propose a dividend of €1.00 per share for the 2017 fiscal year at the Annual General Meeting on May 9, 2018.

Left to right:
Volker Schenk
(member of the Executive Board)
Andreas Busemann
(CEO)
Oliver Schuster
(member of the Executive Board)

Looking ahead, profitable growth is our top priority. The global market for products and services relating to rail infrastructure is on the cusp of change – a change that has just begun. With its excellent and highly qualified employees, unique product portfolio, global presence and approximately 130 years of experience, Vossloh is in a prime position to be a driving force behind this development. The immensely successful acquisition of Rocla Concrete Tie in the U.S. was merely the first step. In addition, a production facility for rail fasteners was inaugurated in the focus market of Russia in October 2017. The process of focusing on our core competence, rail infrastructure, has now largely been completed and the financial parameters for further growth have been put in place.

Business related to rail infrastructure is currently undergoing fundamental changes. New technologies are offering our customers huge potential in the area of asset management throughout the entire life cycle of their rail infrastructure. In this respect, our Lifecycle Solutions division with its extensive and, in key areas, unique array of services is especially important. Our industry has traditionally very long innovation cycles. But digital technology is now rapidly making its way into this sector. Key phrases like "maximum track availability" and "preventive, condition-based maintenance" are playing an ever greater role in our discussions with customers. In order for us not only to recognize this change but also to actively drive it, we are focusing our efforts in particular on research and development. Innovation is one of the keys to sustainable economic success in our line of business. We prioritize this topic and have firmly embedded it within and made it part of our organization, with the help of appropriate structures and processes.

The latest developments in the area of digitization allow us to record, transmit and process volumes of data that were inconceivable not so long ago. This makes it possible to intelligently connect data recorded in the tracks and then provide the customer with relevant information regarding the state of the tracks – information that allows us to massively reduce maintenance costs thanks to targeted, condition-based maintenance, boost track availability and, in addition, significantly extend the life cycle of the rail infrastructure. And who better to do this than the provider of rail infrastructure components and maintenance services? Intelligent algorithms based on the data collected allow developments in the state of the infrastructure to be predicted, meaning action can be taken promptly and service outages are ultimately avoided. The benefit for the customer is therefore plain to see. Our vision of cost-effective, customized rail infrastructure management is called "The Smart Rail Track by Vossloh." We are working on this at full speed.

The digitization of our customers' applications is just one of the many innovative measures already implemented. We will begin to build the "factory of the future" at our headquarters in Werdohl in spring 2018. We will invest up to €40 million in new machinery and equipment and in buildings and infrastructure at the factory, creating or restructuring space totaling almost 11,000 square meters. This will be the start of one of the biggest construction projects in the Company's history. Our aim is not only to achieve process innovation, thereby significantly boosting the efficiency of our lead factory in the area of fastening systems manufacture, but we will also shift capacities from other sites to Werdohl and increase the level of vertical integration. The "factory of the future" will significantly boost Vossloh's ability to compete.

"Driving innovation, developing potential" – this is both the theme of the 2017 annual report and the aspiration with which we will tackle the major strategic challenges we face. We are more than prepared and have solid foundations on which to engage with the global market. We hope that you, our esteemed shareholders, will continue to place your trust in us and join us on our journey. We will do everything in our power to lead your company to a successful future.

Yours sincerely,

Andreas Busemann, CEO

Overview of the year

Q1 2017

In early January, Vossloh successfully concludes its acquisition of the U.S. rail infrastructure company Rocla Concrete Tie, having been granted all the necessary antitrust authority approvals. North America's leading manufacturer of concrete ties then becomes the new Tie Technologies business unit, strengthening the Company's core business in this important focus market.

The sale of the Electrical Systems business unit to Knorr-Bremse Systeme für Schienenfahrzeuge GmbH is also concluded once antitrust authority approval has been granted.

President of the French Republic, François Hollande, visits the Vossloh plant in Outreau in the north of France at the end of March, shortly before the end of his term in office.

Q2 2017

After three years of successfully restructuring the Vossloh Group, Dr. h.c. Hans M. Schabert relinquishes the position of CEO of Vossloh AG to Andreas Busemann, a leading rail technology expert, who is appointed to this position with effect from April 1, 2017. Prior to this, Andreas Busemann was the board member responsible for Sales and Marketing at DB Cargo AG. The contracts of the two other Vossloh AG Executive Board members, Oliver Schuster and Volker Schenk, had already been extended for further three years up to spring 2020 by the Supervisory Board.

At the Vossloh AG Annual General Meeting held in Düsseldorf, the shareholders approve all of the management's proposals. Dr.-Ing. Volker Kefer, former Deputy CEO of Deutsche Bahn AG, is elected to the Supervisory Board as the successor of Heinz Hermann Thiele, who resigned his position at the end of the Annual General Meeting for personal reasons, as announced.

In the Supervisory Board meeting following the Annual General Meeting, Dr.-Ing. Kefer is appointed Chairman of the Supervisory Board. The Annual General Meeting also passes a resolution to authorize more share capital. These new conditions significantly increase the Company's financial flexibility in terms of the further implementation of its growth strategy.

Vossloh modernizes its Compliance Management System. This essentially comprises the Code of Conduct and four guidelines – on anticorruption and conduct compliant with antitrust law, on the involvement of third parties in sales activities and on how to handle confidential information in a listed company. Vossloh adopts a zero-tolerance approach to misconduct.

At the end of May, Vossloh attends the world's largest track technology exhibition, the iaf in Münster, as an exhibitor. This important meeting for the global rail industry is only held every four years. 15,400 visitors and 200 exhibitors are recorded in 2017.

Q3 2017

Vossloh AG successfully issues a Schuldschein loan with a volume of €250 million. The tranches with maturity terms of four and seven years have partly fixed and partly variable rates of interest.

Due to the high level of demand from institutional investors, the interest rate of each tranche is fixed at the corresponding lower end of the market range. The Schuldschein loan is an additional essential step for the Group in securing and optimizing its financial foundations for targeted growth.

Tisséo, which is based in Toulouse, is the first French operator to entrust maintenance of its streetcar rails to Vossloh's high-speed grinding. A framework agreement regarding regular use of the HSG-city is concluded for an initial three-year period. There is soon a significant improvement in noise levels and travel comfort throughout the 34-kilometer network thanks to the grinding work performed.

At the largest rail fair in North America, Railway Interchange, Vossloh showcases a unique exhibit to the trade visitors: the "One Vossloh" switch. This time, it is not only the switch and the rail fastening systems that come from Vossloh production but also the concrete ties.

Vossloh's second symposium on rail and switch processing held in Hamburg for rail and network operators, local transport companies, the science sector and numerous rail industry companies is attended by around 250 people, among them experts – that's twice as many as attended the initial event two years prior, which was a big success in its own right.

Q4 2017

The grand opening of the rail fastener production facility in Engels, Russia, is met with a great deal of interest from numerous eminent guests from the fields of politics and business. The technology alliance forged between Vossloh and the leading Russian tie manufacturer BetElTrans offers customers in this

region high-quality systems for the rail superstructure, with a particular focus on modernization projects. The system components are manufactured entirely in Russia.

In October, the HSG-city is granted the approval of Germany's Federal Railway Authority (EBA) as a heavy ancillary vehicle. This results in new application opportunities, in particular in the area of rapid transit interurban railways.

The new syndicated loan worth €150 million with a minimum term of five years and two options to extend the loan term by a year in each case marks the end of the comprehensive restructuring of the Group financing. The new syndicated loan replaces the 2015 credit line with significantly improved conditions. In addition, the volume of the loan can be increased if needed by up to €150 million.

FABRIK DER ZUKUNFT

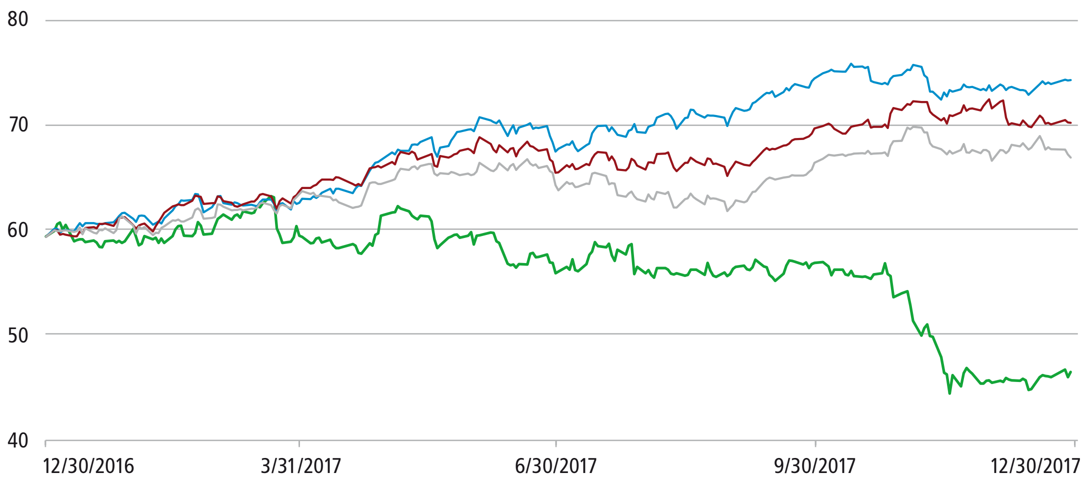
Following extensive preliminary work, the Executive Board of Vossloh AG finally gives the go-ahead in December for investments of up to €40 million in the Werdohl site. With its "factory of the future," Vossloh will have the most state-of-the-art production facility around for rail fastening systems. The conversion and construction work is to be performed while production is ongoing and is expected to be completed in 2021 at the earliest.

Vossloh stock

The trend of good stock market years continued in 2017. The capital markets succeeded in carrying the positive momentum seen in 2016 over into the new year and recorded rising share prices all the way through to the fourth quarter. In Europe, the market participants' confidence in the stability of and outlook for the economic and currency union was boosted in particular by Emmanuel Macron's win in the French presidential election. In America, investor optimism was fueled by the comprehensive tax reform passed into law in the fourth quarter. Stock markets around the world took signs of a turning point in the sustained expansionary monetary policies of the central banks outside of Europe, which had been in place since 2009, in their stride. This was further supported by the European Central Bank's decision to continue to buy bonds, which remained unchanged for the whole year. These factors caused multiple international indices to record new all-time highs and conclude 2017 with comfortable increases.

The primary German benchmark indices likewise finished the year with substantial increases. The DAX hit a mark of 12,918 points on December 30, 2017 – this equated to a year-over-year increase of 12.5 percent. The MDAX improved by 18.1 percent, closing the year on 26,201 points. The SDAX saw the largest increase in 2017, rising to 11,887 points at the end of December. This equates to an increase of 24.9 percent.

Vossloh stock price trend from January 1 to December 30, 2017



Vossloh share ID data:

WKN 766710
ISIN DE0007667107
Reuters VOSG.DE
Bloomberg VOS GR

Vossloh stock indicators		2017	2016
Earnings per share	€	(0.50)	0.22
Dividend per share	€	1.00[1]	0.00
Annual average number of shares outstanding	thousand shares	15,967	14,769
Number of shares outstanding at year-end	thousand shares	15,967	15,967
Closing share price	€	46.80	59.61
High/low	€	63.99/44.10	60.53/45.24
Closing market capitalization	€ mill.	747.3	951.8
Trading volume	thousand shares	3,434	4,434
Average daily trading volume	thousand shares	13.6	17.4

[1] Dividend proposal subject to approval of the Annual General Meeting

The development of the Vossloh stock in the first few months of 2017 was in line with market developments. The share price was unable to keep pace with market developments over the rest of the year, and a downward trend set in. This resulted in a decrease of 21.5 percent and a share price of €46.80 at the end of the year, having started the year at €59.30 on January 2, 2017. It hit a high of €63.99 on March 21 and a low of €44.10 on November 16. Among other things, this share price development is possibly attributable to a sustained lack of demand from the major Class-I railroads in the U.S. (see glossary, page 155) and the anticipated temporary decline in sales in China in 2018. The disposal of the shunting locomotives business, which was not yet complete, may also have been a factor here.

The market capitalization of Vossloh AG, relative to the 15,967,437 shares outstanding, amounted to €747.3 million as of the reporting date on December 29, 2017. It therefore fell well short of the market capitalization of €951.8 million at the end of 2016 due to the share price being significantly down year-over-year.

Dividends

The Executive Board and Supervisory Board of Vossloh AG will propose a dividend payment of €1.00 per share for the fiscal year 2017 to the shareholders at the Annual General Meeting scheduled for May 9, 2018. Based on the number of dividend-bearing shares, this equates to a dividend payout of almost €16 million.

Shareholder structure

Vossloh AG's largest shareholder is Mr. Heinz Hermann Thiele, whose shareholdings amount to 44.73 percent of the capital stock (notification from December 30, 2016). Additional known shareholders of Vossloh AG with voting rights exceeding the legal reporting threshold of 3 percent are Franklin Mutual Advisers, LLC, Wilmington, Delaware, USA (5.05 percent, December 28, 2017); LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany (3.09 percent, February 14, 2018); Iskander Makhmudov, Russian Federation (3.08 percent, February 5, 2015) and Lazard Frères Gestion SAS, Paris, France (3.01 percent, March 24, 2014). In accordance with the Deutsche Börse AG definition, the assets of these investors are not considered fixed shareholdings but rather count toward the free float market capitalization. The free float of Vossloh AG's capital stock in accordance with this definition totaled 55.27 percent at the end of December 2017, while its free float market capitalization, in accordance with the Deutsche Börse AG definition, amounted to €407 million.

Analysts' ratings

At the beginning of 2018, there were ten financial analysts regularly publishing extensive commentaries on Vossloh. Following the Vossloh Group's ad hoc disclosure dated February 16, 2018, with the first publication of the outlook for the 2018 fiscal year, multiple analysts significantly reduced the share price targets. Based on the analysts' adjusted commentaries, the lowest price target was €38 and the highest was €42.

Sustainability

Vossloh AG is appropriate for investors with a sustainability focus. Vossloh has been listed in a number of sustainability rankings since 2008, including the Global Challenges Index and via oekom research's investment universe. Vossloh is publishing a non-financial statement for the Group for the first time in this annual report (see page 60 et seq.).

Capital market dialogue

The Vossloh Investor Relations team was involved in intensive dialogue with institutional and private investors once again in 2017. In the course of the year, Vossloh AG took part in a number of capital market conferences. The Company also organized its own face-to-face meetings with investors and analysts as well as a number of conference calls.

The Investor Relations team members were also readily available to answer written or phone inquiries. You can find additional information on the Vossloh company and the Vossloh share on the website www.vossloh.com. In addition to current financial reports, presentations and press releases, you can find information on creditor relations here. We are also available to answer any questions or concerns you may have. Please send your questions to investor.relations@vossloh.com or call us at +49 (0)2392/52-609.

We envisage trains always being on time

The world of rail is facing major and unusually fast changes. These changes are being triggered by new ways of using the expensive infrastructure better and more efficiently. This is something that the operators have been waiting for, as their customers are becoming increasingly demanding. When it comes to waiting on drafty platforms or for late deliveries, the tolerance of passengers and shipping companies is waning, particularly if alternatives are available. And, increasingly, they are.

Comfort? Reliability? Cost-effectiveness? These are all perfectly achievable in the area of rail transport, just as long as the route is available and the trains can run according to schedule. Vossloh has already set high standards with its products and solutions thanks to the rail expertise it has gathered over the decades. The latest information and communication technology provides us with powerful tools that will enable us to make a major leap forward. Because we have a goal, and that is to be able to use the rail lines nonstop.

We know we need to adopt a completely different approach in order to achieve this goal. We have plenty of ideas. We work every day on becoming quicker and, above all, more open and more innovative. We have begun to work on and promote developments outside of our own sector and we are expediting dialogue and partnerships with other disciplines such as information technology, measurement technology and communication technology. We firmly believe that the Vossloh team already has enormous potential, which will be further developed on the basis of our new approach. The reward – added value for our customers and a better market position for us.

We will use the following pages to outline our vision and the strategic cornerstones of the Company's ongoing development.

24/7 uninterrupted operations

Availability is the key to punctual rail operations

For a train to be on time, it needs to be able to use the chosen route without any restrictions during the planned period. While this may sound simple, the reality of modern-day industrial societies is that the rail infrastructure is already being used to almost full capacity. Every bottleneck and especially every malfunction results in delays and therefore in unpunctuality. On top of this, there are domino effects – if an important junction is disrupted, this can result in the timetable for the whole country being out of sync. Maximum availability is therefore the key starting point.

For a long time, Vossloh has been seeing to it that rail lines are available in order to allow trains to compete with cars, trucks and airplanes. Our rail fastening systems are virtually maintenance-free. Vossloh switches can withstand trains crossing them innumerable times. In addition, our diagnostic system helps prevent potential switch damage. Well-encapsulated point machines incorporated into the rail ties can also withstand extremely adverse conditions in the bitterly cold north or in desert sand. Innovative and patented Vossloh processes like high-speed grinding for preventative rail maintenance do not disrupt the timetable at all, because the railgrinders work at high speeds and are therefore simply incorporated into the traffic flow. And in the case of unavoidable rail and switch replacements, Vossloh has shown it can complete the work in record time – ideally during track closures that were already scheduled.

Network of information and communication technology opening up new opportunities

Nothing stands in the way of nonstop operations as long as budgeting is not an issue. But are the costs acceptable? These days, cyclical maintenance and reactive measures are usually selected as an adequately efficient compromise. But this is not enough for maximum availability of a complex rail network. The solution is to only take action where it's needed – and then as quickly as possible. However, this requires the state of the tracks to be logged and analyzed quickly and more comprehensively than is currently the case – a task that can be managed with the aid of digital technology.

Digitization is nothing new in the world of rail. For example, there is data that gives an insight into how much tracks or their components are used or worn. However, it takes an array of data sets that need to be intelligently linked with one another to obtain an informative overview of the rail network. Information and communication technology itself has been a limiting factor until now. But a single sensor in the track can now produce terabytes of data in a matter of minutes! It doesn't take much to imagine the volume of data that needs to be recorded, transmitted and processed for a large rail network. These days, networks, storage capacities, computing power and, if required, artificial intelligence are available to open up new opportunities in the world of rail.

Helping to combat noise

Not least, achieving maximum availability involves combating noise, since noise restricts route expansion, causes sickness and generates high costs. Vossloh successfully tackles this problem at the source, with noise- and vibration-reducing rail fastening systems, intelligent, sound-reducing switch design and acoustic grinders resulting in increased tranquility.

Vossloh understands the tracks

As a rail system supplier, it is Vossloh's responsibility to take the latest opportunities and develop applications for the world of rail that offer the operators added value in the form of maximum route availability. Rail tracks are a complex system and Vossloh understands the physics behind them. Only with this expertise is it possible to identify the relevant data and correlations and incorporate them into products, solutions or recommendations. Be it the rails, rail fasteners, switches, or rail ties, we understand tracks and how to maintain them.

How is your rail track today?

Relevant information needs to be extrapolated from data in order to act with foresight

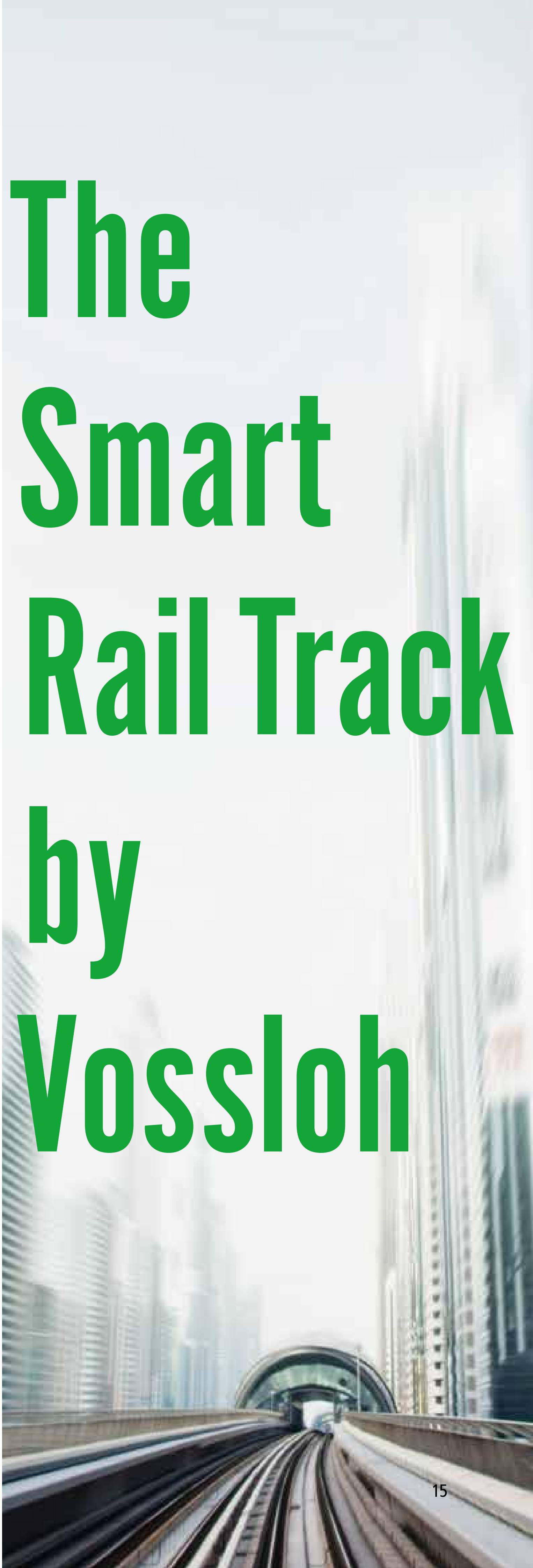
We always want to stay up to date about the state of the rail routes and how everything is going promptly. This calls for certain track components to be monitored. The collected data needs to be transmitted, linked up and intelligently analyzed in order to generate information that is relevant to the operator.

Our vision has a name: The Smart Rail Track by Vossloh

We envisage making rail tracks available as much as possible. This entails precisely recording the status of the tracks. The quality of the tracks depends on the track geometry as well as the condition of the rail profile and rail ties. Electrical elements such as the point machines and rail crossings likewise have to be in good working order at all times in order to guarantee track availability. The tracks are worn down over time by use, the weather and other environmental factors. The key measured values, loads and environmental factors can be recorded and evaluated using suitable sensor technology. These include, but are not limited to, the track gauge, rail profile, axle loads, train speeds and air and track temperatures. The data can be recorded using sensors on the tracks, with sensors in the vehicles or by mobile measuring equipment.

An understanding of the data not only provides a detailed impression of the current state of the tracks – it also makes it possible to forecast damage on each rail line section. This leads to significantly improved maintenance of the rail infrastructure in terms of quality and costs. Routine maintenance expenses are reduced, and the lifespan of the track components is lengthened. This prevents investments in spare parts being made for premature replacements. The tracks are only serviced when necessary, resulting in their maximum availability for operations. This is what we mean by "The Smart Rail Track by Vossloh."

The Smart Rail Track by Vossloh



To give an example, the state-of-the-art maintenance procedures that Vossloh uses are highly effective, are easy to schedule and can for the most part be performed without interrupting the timetable. But they currently still follow the scattergun approach: Some sections are perhaps worked on too often and others too little. In contrast, the smart railgrinder of the future will retrieve all the relevant infrastructure, track condition and operational data before setting off. Consequently, each section of the route is processed differently with its own specific grinding level and profile.

We set off well prepared

As a provider of track systems and services, Vossloh is already well prepared. Innovative materials and decades of construction experience have resulted in durable, low-maintenance products, while unique rail services significantly extend track lifespan. Our experts know what they need to measure when and where. It also has direct access to the appropriate measurement technology tools: its own rail infrastructure products and the rolling stock used for track maintenance, which can be used for expanded measurement trips in the future. We, along with the entire industry, need to make broader and "rail-friendly" use of sensors, communication technology and analysis tools.

So this is our new arena. The Vossloh portfolio has already changed in line with customer expectations. The tailored combination of systems and services has become more important – negotiations revolve around not only the purchase price but increasingly also considerations of the life cycle costs. An array of customers already uses Vossloh as a value-adding partner. They no longer purchase individual products or services but rather a certain outcome, such as guaranteed switch replacement including the associated logistics in a matter of hours or an optimally serviced route section with clearly defined availability.

Four strategic areas of action for growth

Vossloh uses all the opportunities available to it to systematically develop from its status quo. The strategic realignment established the right parameters: the coming together of the divisions under the central idea of "One Vossloh" and a focus on tracks. With the right starting position established, Vossloh defined four strategic areas of action for growth.

Promoting innovation and open-minded thinking

Research and development and idea management are decentralized and can be found in each of the business units' development departments. With innovation management coordinated right across the Group, we began to drive the development of innovative products, processes and business models, keeping a holistic view of the track in mind at all times. It will also be a question of examining new and neighboring technological areas. We know that digitization is shaking up the rules of play. It makes industries more interdisciplinary within a very short space of time and therefore open to new players and much quicker. Above all, it can revolutionize entire industry sectors. Although rail infrastructure is a very long-term, highly investment-intensive and essentially very analog sector, we are making openness to all things new a top priority. Here, Vossloh benefits from the practiced central idea of an integrated Group and cooperation between the divisions. Openness is also about involving customers in the development process and about Vossloh's own innovation workshop, which is independent of the Group's locations and hierarchies. And this isn't the only area in which we are creating a space by establishing processes and platforms on the basis of "One Vossloh" innovation management.

Increasing our expertise through acquisitions and partnerships

We have gone beyond the usual way of thinking in terms of product segments. For our holistic approach, we also think in terms of expertise and skill segments. Anything that Vossloh is unable to do by itself or achieve through its own innovation must either be bought in or realized together with partners. In the future, the familiar rail infrastructure products and services will be combined with modern measurement technology and with communication technology in order to transmit track condition information in real time and with analysis tools that can interpret large volumes of data. And the conventional product groups can of course also be further developed by means of acquisitions or partnerships. For example, the acquisition of the U.S. rail tie manufacturer Rocla Concrete Tie, which now operates as Vossloh Tie Technologies, has also had a positive impact on sales of rail fasteners and switches in the North American market. Vossloh has forged a technology alliance with a leading Russian tie manufacturer. Our joint venture in Russia manufactures rail fasteners being used to modernize the country's rail infrastructure. The system components are all produced on-site with the assistance of local companies.

It's people that make the difference

Rail infrastructure is an integral part of Vossloh's DNA. The Vossloh divisions stand for industry expertise acquired over decades. Our rail fastening systems are in place in more than 70 countries and on more than 100,000 kilometers of mainline routes. Vossloh is also considered a global technology leader in the field of switch manufacture. We have been providing services designed to maintain the value of rail tracks for many decades. Our vision of "The Smart Rail Track by Vossloh" is now setting new targets for our organization. It's time we fully utilized and developed our existing potential. People are already working cooperatively and in a well-connected way under the "One Vossloh" umbrella. We are bringing the divisions even closer together in order to also ensure human resource development on the basis of rotation and mutual learning.

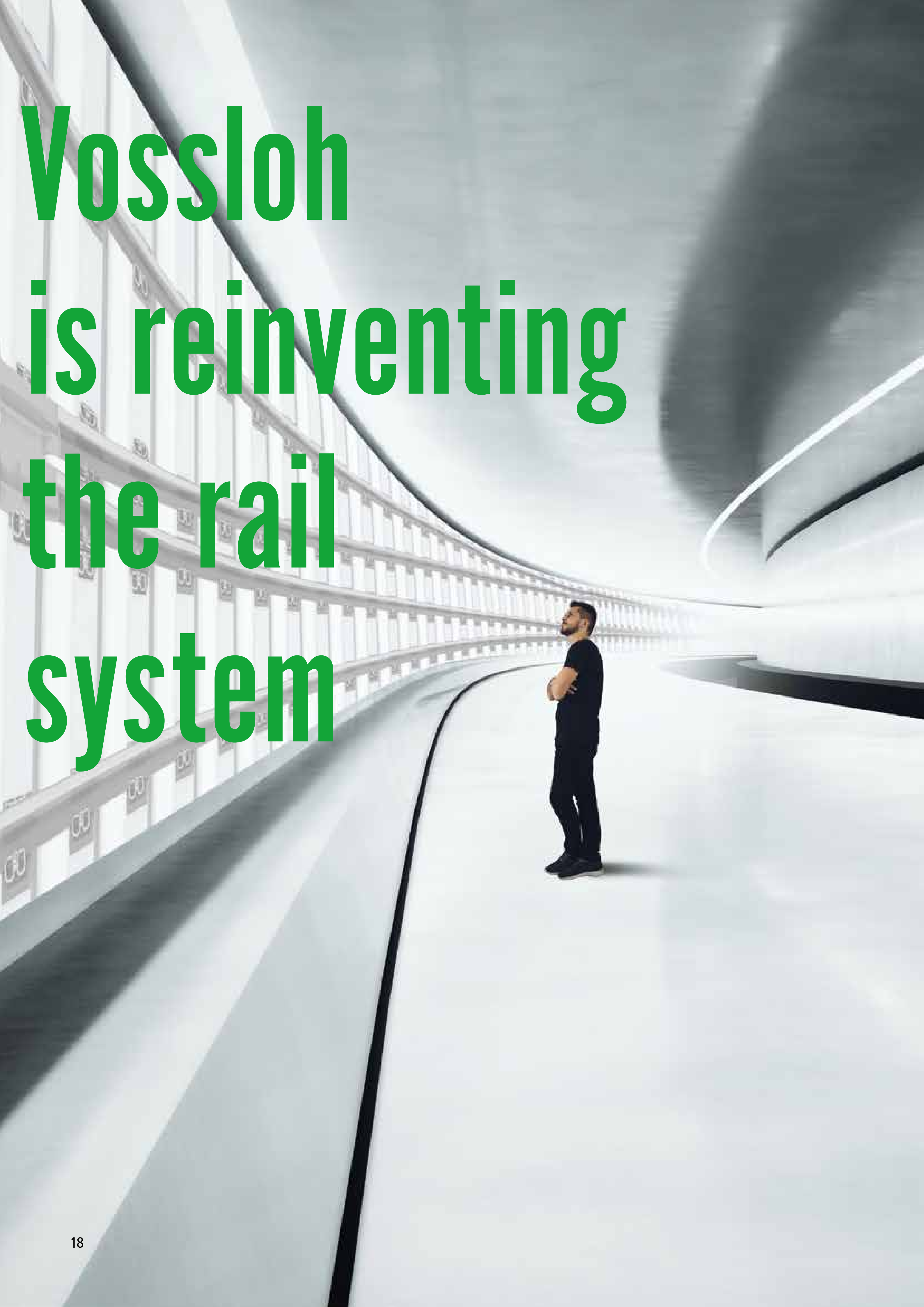
We have already found ways of getting in on the start-up scene. The next step will be to make our industrial environment receptive to this young and digital culture with a view to creating attractive jobs for the next generation.

Added value for the customers based on top perfomance

State-of-the-art production lines that are spread out correctly within a regional network and equipped with the right skills and greater internal value added will enable us not only to serve technologically sophisticated markets but also to safeguard the cost position that makes us able to withstand strong competition. We are investing in a number of sites to this end. For example, the "factory of the future" at the Company's headquarters in Werdohl will give Vossloh the world's most modern and most efficient rail fastener production line. Additionally, production will be especially sustainable. Vertical integration will be increased. Lead times will be reduced, because additional components will be sourced from Vossloh's own manufacturing, among other reasons. With the "factory of the future," Vossloh customers will benefit from an entirely new and excellent service level thanks to digitized processes such as e-commerce and augmented reality.

Industrial top performance comprises all of the Group's divisions and functions. For example, an internal team of experts is currently working on a next-generation integrated management system, which will combine the management systems for quality, the environment, energy and occupational safety, define all the processes and serve as the foundation for the appropriate certification. Streamlined workflows that are actually practiced are also needed as part of digitization. For example, an online order placement system for the customers will not work if the underlying automatic processes are not perfectly structured.

Vossloh is reinventing the rail system



Entire market with a future

The entire rail technology market remains attractive to Vossloh as a global player. Increasing global urbanization is a major driving force here. In China alone, there are already some 150 cities with over a million inhabitants. Mobility in metropolitan areas is barely conceivable without a rail-based infrastructure that offers good transport services coupled with limited land usage. Plans and projects for a "new Silk Road" do not just captivate the imagination of logistics experts who hope for increased and quicker – rail-based – connections between the vast economic areas of Asia and Europe. Resource-rich countries in South America are considering creating a connection from the Atlantic to the Pacific known as the Central Bi-Oceanic railway. With an almost 4,000-kilometer-long rail route stretching from Brazil through Bolivia's tropical lowlands and over the Andes to Peru, goods could be transported to Europe and Asia more quickly. And a general advantage for the global rail sector is that it would result in climate-friendly mobility.

Considerable financial leeway

Vossloh fundamentally restructured its Group finances in recent years in order to achieve maximum flexibility for growth. In the year under review, a Schuldschein loan worth €250 million was issued and a syndicated loan of €150 million was concluded. This allowed the syndicated loan from 2015 to be serviced in full. In addition to the attractive conditions, Vossloh optimized the maturity structure and achieved substantially greater flexibility in terms of how the funds could be used. Furthermore, the volume of the new syndicated loan can be increased by up to an additional €150 million. Together with the new authorized capital from 2017, Vossloh afforded itself significant financial leeway for its targeted profitable growth.

New opportunities, new business models

Whether they are a rail company, a network operator or a transport company: all of them want trains to run punctually and smoothly, maintenance costs not to skyrocket and residents to be able to get a good night's sleep. Vossloh is already increasingly focusing on integrated solutions for infrastructure customers that are implemented using the best components and technologies, with maximum interface expertise, reliably, economically, ecologically and quietly – all set up on rail tracks with maximum availability. However, with market globalization and the emergence of new competitors, components are becoming increasingly interchangeable, and this will apply equally to complex products in the near future. Vossloh therefore pooled its own areas of expertise early on and can already offer the network operators added value thanks to combined systems and services.

We firmly believe that the availability of highly efficient information and communication technology will trigger a quantum leap, in particular within business models. Vossloh customers abandoned thinking in terms of product segments some time ago. Instead, they expect Vossloh to increasingly also assume responsibility for availability with its products and solutions.

Driving innovation, developing potential

Vossloh began to reinvent the rail system some time ago. Drawing on our rail expertise, which we have gathered over time, many innovative ideas and carefully selected partners, we will bring together the best of the analog and digital worlds to offer our customers 100 percent route availability. To this end, we are expediting openness, driving forward our ability to innovate and our strength of innovation, teaming up with expert partners and developing the potential within the Company by means of networked cooperation.

Dr.-Ing. Volker Kefer, Chairman of the Supervisory Board

Report of the Supervisory Board

Dear Shareholders,

Once again in the 2017 fiscal year, the Supervisory Board discharged the duties incumbent upon it pursuant to the law and the Articles of Incorporation with due care, continually monitored the work of the Executive Board and advised the Executive Board on the Company's management. The Executive Board met its information obligations and regularly informed the Supervisory Board of all the issues relevant to Vossloh AG and the Group with regard to strategy, planning, business development, the risk situation and developments, and compliance on a comprehensive and timely basis, in written and in verbal form. This also included information about deviations in the actual development from the previously reported targets and deviations in business performance from the plans.

The Supervisory Board discussed the Executive Board's reports in detail. In addition, it discussed and verified the plausibility of the economic situation depicted in these reports as well as the development prospects of the Group, the individual divisions/business units and the key subsidiaries in Germany and abroad together with the Executive Board. The Supervisory Board was involved in all decisions of significance to the Group and was therefore assured at all times of the legality, appropriateness and regularity of the work of the Executive Board. At all times, the Supervisory Board members had sufficient opportunity to critically examine and comment on the reports and draft resolutions presented by the Executive Board. Insofar as the approval of management decisions or measures was required pursuant to statutory regulations, the Articles of Incorporation or the Rules of Procedure, the members of the Supervisory Board examined the draft resolutions and granted the necessary approval.

The Supervisory Board was also informed of significant events by the Executive Board between meetings. In addition, there was a regular exchange of information between the Chairman of the Supervisory Board and the CEO. In this way, the Supervisory Board was always informed of the intended business policies, the business plans including financial, investment and staff planning, profitability, the business situation and the overall situation of the Company and the Group.

Focus of the meetings

In the year under review, the Supervisory Board convened for four ordinary meetings on March 22, May 23, September 28 and November 29. Extraordinary meetings were held on May 24, July 3 and July 25, 2017. All the Supervisory Board meetings were attended by all of the members of the Supervisory Board.

Supervisory Board of Vossloh AG

Heinz Hermann Thiele *(until May 24, 2017), Chairman, businessman, former Chairman of the Executive Board of Knorr-Bremse AG, Munich*

Dr.-Ing. Volker Kefer *(from May 24, 2017), Chairman, former Deputy CEO of Deutsche Bahn AG, Erlangen*

Ulrich M. Harnacke, *Deputy Chairman, auditor and tax adviser, Mönchengladbach*

Andreas Kretschmann *(from August 30, 2017), social security employee, Chairman of the Works Council of Vossloh Fastening Systems GmbH, Neuenrade*

Silvia Maisch *(until January 31, 2017), electrical mechanic, Chairwoman of the Works Council of Vossloh Kiepe GmbH, Monheim*

Dr.-Ing. Wolfgang Schlosser, *consultant and former Managing Director of Knorr-Bremse Systeme für Schienenfahrzeuge GmbH, Puchheim*

Helmut Schwind *(from February 1, 2017, to July 3, 2017), welder, member of the Works Council of Vossloh Laeis GmbH, Trier*

Michael Ulrich, *machinist, Chairman of the Works Council of Vossloh Locomotives GmbH and Chairman of the European Works Council and of the Group Works Council, Kiel*

Ursus Zinsli, *Vice President of the Administrative Board of Furrer + Frey AG and former Managing Director of Scheuchzer SA, Saint-Sulpice, Canton of Vaud, Switzerland*

In all the meetings, the Supervisory Board and Executive Board dealt extensively with the Company's continued focus on rail infrastructure, among other things. In addition, the Executive Board reported on the business situation in all the meetings and provided detailed information regarding the development of sales and earnings in the individual business units, on business development opportunities and risks and on key managing measures. The Supervisory Board was also continually updated on the status of the regulatory and civil proceedings relating to earlier anticompetitive agreements, on compliance issues and on the ongoing development and external auditing of the Vossloh Group's Compliance Management System. The Supervisory Board also focused on the following issues in the individual meetings:

The meeting on March 22, 2017, considered in particular the separate and consolidated financial statements for 2016 as well as the agenda and the draft proposals for the Annual General Meeting on May 24, 2017. The Supervisory Board also dealt extensively with Mr. Thiele's succession on the Supervisory Board and the proposal of a by-election for the Supervisory Board, as well as matters relating to mergers and acquisitions, including the integration of Rocla into the Vossloh Group.

The meeting on May 23, 2017, focused on the Executive Board's proposed strategy for the upcoming refinancing and securing liquidity in the future. Following an in-depth discussion, the Supervisory Board granted its approval for the conclusion of a Schuldschein loan, thus giving Vossloh added financial stability and flexibility for its targeted profitable growth. The Supervisory Board also considered the Executive Board's remuneration and resolved to have it reviewed by an external remuneration consultant. Additionally, the Supervisory Board set target quotas in accordance with the law on the equal participation of women and men, amended the Rules of Procedure for the Audit Committee and prepared the Annual General Meeting.

At the extraordinary meeting on May 24, 2017, the Supervisory Board appointed Dr.-Ing. Volker Kefer as the Chairman of the Supervisory Board. The extraordinary meeting on July 3, 2017, considered the conclusion of the Schuldschein loan and approval of Mr. Schuster's temporary consultancy activities for Knorr-Bremse AG. At its extraordinary meeting on July 25, 2017, the Supervisory Board dealt extensively with the acquisition of the French company Slitec, which it approved after careful examination, and with the judicial appointment of a Supervisory Board member after Mr. Schwind stepped down from office.

At the meeting on September 28, 2017, which was held at the new Vossloh Locomotives site in Kiel, the Supervisory Board carefully considered the situation and development of Vossloh Locomotives and, in particular, the Akiem major contract. Other matters considered at this meeting were a syndicated loan for further refinancing, compliance issues and the adoption of the "Requirements and Objectives for the Composition of the Vossloh Aktiengesellschaft Supervisory Board." The day before the meeting in Kiel, the Supervisory Board attended a daylong workshop that looked in detail at Vossloh's growth strategy, discussing and consulting with the Executive Board in particular regarding the opportunities and plans for organic growth, the M&A strategy and potential acquisition targets.

At the final meeting of the year on November 29, 2017, the Supervisory Board looked in detail at business development in 2017 and the plans for 2018 to 2020. The Supervisory Board approved the budget for 2018 following an in-depth examination and discussion with the Executive Board. The Supervisory Board additionally discussed in detail the findings of the review of the Executive Board's remuneration conducted with external assistance and, in accordance with the recommendations of the remuneration consultant, resolved to modify the remuneration system for the Executive Board (for more information, see the remuneration report on page 44 et seq. of the annual report). Other items on the agenda included the innovation strategy, the planned disposal of Vossloh Locomotives, changes to the allocation of duties within the Executive Board and adoption of the 2017 Declaration of Conformity with the German Corporate Governance Code.

Supervisory Board committees

The Supervisory Board of Vossloh AG formed three committees in order to execute its duties efficiently: the Personnel Committee, the Audit Committee and the Nomination Committee. These committees focus on the issues assigned to them and prepare decisions for plenary meetings where necessary. Insofar as is permissible by law, the Supervisory Board has also transferred its decision-making authority to the committees in certain cases. The committee chairs report on relevant issues and the results of discussions in the plenary Supervisory Board meeting following each committee meeting. The minutes of the meetings of the Audit Committee are made available to the Chairman of the Supervisory Board.

The Audit Committee convened on six occasions in the 2017 fiscal year. All the Audit Committee meetings were attended by all of the committee members. The Executive Board is usually present in full at these meetings. Most of the meetings are also attended by representatives of the auditor and the heads of Accounting, Controlling and Legal Affairs & Compliance.

Among other things, the Audit Committee focuses its activities in particular on auditing the Company's accounts, the separate and consolidated financial statements prepared by the Executive Board, the combined management report, the dependent company report (Section 312 AktG) and the proposal for the appropriation of net earnings. Following an extensive discussion in the presence of the auditor based on the auditor's reports on the audit of the separate financial statements of Vossloh AG and the

Vossloh Group and of the combined management report, the Audit Committee decided to recommend the approval of the consolidated financial statements, the financial statements of Vossloh AG and the combined management report for the 2016 fiscal year to the Supervisory Board during its meeting on March 22, 2017. At its meetings on April 26, July 25 and October 24, 2017, the Audit Committee discussed the half-year report and the quarterly statements with the Executive Board before their publication.

The Audit Committee is also responsible for the Company's relationship with the auditor. The committee submitted a proposal to the Supervisory Board on March 22, 2017, to appoint an auditor, and subsequently awarded auditing responsibility to the auditor elected by the Annual General Meeting and determined the focal points of the audit and the auditor's remuneration. The committee also monitored the auditor's independence. The auditor may only be contracted to perform nonaudit services subject to the prior mandatory approval of the Audit Committee.

In all of its meetings, the Audit Committee also dealt with the key risks and legal and compliance issues. The Audit Committee discussed the main risks identified within the Group in detail with the Executive Board, as well as the necessity and adequacy of the risk provisioning, in particular also for risks due to legal disputes relating to earlier anticompetitive agreements. The Audit Committee also considered compliance issues continuously and in depth, and received comprehensive information about related issues, how they were being handled and the ongoing monitoring and improvement of Vossloh's Compliance Management System. In addition, the Audit Committee dealt extensively with the Company's internal control system. The meeting on November 29, 2017, included a report to the Audit Committee from the Internal Audit department.

The Nomination Committee convened once in the course of the 2017 fiscal year. The meeting held on March 22, 2017, focused on Mr. Thiele's succession on the Supervisory Board and the related preparation of a proposal for the election of a Supervisory Board member for the Annual General Meeting on May 24, 2017. The Personnel Committee did not convene in 2017. Relevant topics were discussed and resolved during plenary sessions.

Personnel changes on the Supervisory Board and Executive Board

There were changes on the Supervisory Board in the year under review. Chairman of the Supervisory Board, Mr. Heinz Hermann Thiele stepped down from the position of chair and Supervisory Board member with effect from the end of the Annual General Meeting on May 24, 2017. The Supervisory Board thanks Mr. Thiele wholeheartedly for his many highly successful years of service on the Company's Supervisory Board, his business foresight and his sustained support in restructuring the Vossloh Group and, above all, for his excellent and trustworthy work. In his time as Chairman of the Company's Supervisory Board, Mr. Thiele played a significant part in restructuring and realigning the Vossloh Group and preparing it for the upcoming growth phase. Acting on a proposal from the Supervisory Board, the Annual General Meeting appointed Dr.-Ing. Volker Kefer as a member of the Supervisory Board on May 24, 2017.

Additionally, as reported last year, Ms. Silvia Maisch stepped down from the Supervisory Board with effect from the end of January 31, 2017, upon conclusion of the contract for the sale of Vossloh Electrical Systems. Ms. Maisch was succeeded on the Supervisory Board by Mr. Helmut Schwind, member of the Works Council of Vossloh Laeis GmbH, Trier, with effect from February 1, 2017, as the personal substitute member elected by the employees. However, he stepped down from this position as of July 3, 2017, upon accepting a managerial position at Vossloh Laeis. At the request of the Group Works Council, Iserlohn Local Court appointed Mr. Andreas Kretschmann, Deputy Chairman of the Group Works Council, as a Supervisory Board member with effect from August 30, 2017. The Supervisory Board thanks Ms. Maisch, who had been on the Supervisory Board since 2013, and Mr. Schwind for their Supervisory Board activities and efforts.

As reported last year, there was a change on the Executive Board. Chairman of the Executive Board of Vossloh AG, Dr. h.c. Hans M. Schabert, left the Company with effect from the end of his term in office on March 31, 2017, for family reasons. Mr. Andreas Busemann took over from Dr. h.c. Schabert as Chairman of the Executive Board of Vossloh AG with effect from April 1, 2017.

Corporate Governance and Declaration of Conformity

The Supervisory Board attaches great importance to ensuring there is good corporate governance. At its meeting on November 29, 2017, the Supervisory Board considered the recommendations of the German Corporate Governance Code and, together with the Executive Board, issued a Declaration of Conformity in accordance with Section 161 AktG. This was made permanently accessible on the Company website (see also page 27 of the annual report). Vossloh complies with all the recommendations of the German Corporate Governance Code as amended on February 7, 2017. Details of corporate governance within the Company can be found in the Declaration on Corporate Governance (see pages 24 to 28 of the annual report).

Separate and consolidated financial statements for 2017

The separate financial statements of Vossloh AG in accordance with German accounting standards, the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU and the combined management report for Vossloh AG and the Group for the 2017 fiscal year, including the accounting, were examined by the auditor KPMG AG Wirtschaftsprüfungsgesellschaft based in Berlin (Düsseldorf office), duly appointed by the Annual General Meeting on May 24, 2017, and were each issued with an unqualified audit opinion. In its audit opinion, the auditor concluded that the Executive Board had taken the necessary steps to put in place an appropriate risk identification system as required by Section 91 (2) AktG and that the system was suitable for identifying going concern risks early on.

The auditor also examined the dependent company report prepared by the Executive Board (Section 312 AktG) and issued the following audit opinion: "After due and proper examination and assessment, we hereby confirm, first of all, that the information contained in the report is correct and second, that payment made by the Company for the transactions stated in the report was not inappropriately high."

The financial statements including the Nonfinancial Group Statement (Section 315b HGB) and the auditor's reports were distributed to the members of the Supervisory Board promptly prior to the meeting held on March 21, 2018, to approve the financial statements. During the meeting, the auditors reported on the key findings of their audit and provided additional information. The Supervisory Board comprehensively discussed all the issues that arose in relation to these documents following the Audit Committee's preparations and in the presence of the auditors. The auditors also reported on the Vossloh Group's risk management system. The auditors additionally heard, read and acknowledged other information including the Declaration of Conformity in accordance with Section 161 AktG, the Declaration on Corporate Governance and the Nonfinancial Group Statement and found nothing that suggested this information was incorrect or constituted a material misrepresentation. The Supervisory Board also contracted an audit firm to perform a voluntary audit of the content of its Nonfinancial Group Statement (Section 315b HGB).

The Supervisory Board likewise reviewed the separate financial statements submitted by the Executive Board, the consolidated financial statements and the combined management report for Vossloh AG and the Vossloh Group for the 2017 fiscal year, the dependent company report including the Executive Board's closing statement, the Nonfinancial Group Statement (Section 315b HGB) and the proposal for the appropriation of net earnings. According to the final result of its own review, the Supervisory Board raised no objections. The Supervisory Board approved the separate financial statements and consolidated financial statements on December 31, 2017. The separate financial statements on December 31, 2017 were thus adopted. The Supervisory Board concurred with the combined management report, in particular the statements on the Company's continued development and the disclosures pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code (HGB), and with the dependent company report. The Supervisory Board approved the Executive Board's proposal for the appropriation of the 2017 net earnings, which recommended the payment of a dividend in the amount of €1.00 per dividend-bearing share.

The Supervisory Board would like to thank the Executive Board and all the employees of the Vossloh Group for their dedication and successful service.

Werdohl, March 21, 2018

The Supervisory Board
Dr.-Ing. Volker Kefer
Chairman

Declaration on Corporate Governance

The following Declaration on Corporate Governance in accordance with Section 289f (1) HGB also includes the corporate governance report pursuant to number 3.10 of the German Corporate Governance Code.

Management and control structure

Vossloh AG is subject to the provisions of Germany's Stock Corporation Act (AktG), capital market legislation and codetermination laws as well as its own Articles of Incorporation. As with all German stock corporations, Vossloh AG has a dual management and monitoring structure as reflected in the two bodies Executive Board and Supervisory Board. The Annual General Meeting is responsible for important fundamental decisions made by the Company. All three bodies are obligated to act in the best interests of the Company and its shareholders.

Executive Board

The members of the Executive Board are responsible for jointly running the Company. As its Chairman, Mr. Andreas Busemann is responsible not only for coordinating the work of the Executive Board members but also for HR, M&A and Company Development and Innovation & Development. He also handles the focus markets of North America and Russia. The Chief Financial Officer, Mr. Oliver Schuster, is responsible for Accounting, Controlling, Treasury, Taxes, Internal Audit, Legal Affairs, Compliance, IT, Media Relations, Marketing Communication and Investor Relations. Mr. Volker Schenk is responsible for Sales, Association Activities and EHS/Sustainability, and also oversees the focus markets of Western Europe and China. The members of the Executive Board are also involved in the operations of the individual divisions. Mr. Busemann is responsible for the Core Components and Transportation divisions, Mr. Schuster for the Lifecycle Solutions division and Mr. Schenk for the Customized Modules division.

The work of the Executive Board is regulated by the Executive Board's Rules of Procedure. The members of the Executive Board work cooperatively and inform one another on an ongoing basis about important measures and events within their respective divisions. The entire Executive Board makes decisions regarding all significant issues. Potential conflicts of interest are immediately made known to the Supervisory Board and the other Executive Board members. Secondary employment or the assumption of external Supervisory Board positions require the prior approval of the Supervisory Board. More information on the members of the Executive Board of Vossloh AG can be found on page 144 of this annual report.

The Supervisory Board is responsible for the appointment and dismissal of the Executive Board members. In this regard, the Supervisory Board observes specific target figures stipulated by the law regarding the equal participation of women and men in executive positions in the private sector and in public service and also the age limit stipulated for members of the Supervisory Board in the Rules of Procedure. Mainly because of the size of Vossloh AG's Executive Board, a more extensive diversity concept stipulating requirements regarding career paths and education is not in place for the Executive Board. Executive Board members are selected on the basis of a systematic search, which focuses in particular on expertise and personality, and numerous other features.

Vossloh AG has concluded D&O insurance policies against economic loss for all of its Executive Board and Supervisory Board members, with a deductible amounting to 10 percent of the loss up to one-and-a-half times the fixed annual remuneration of the board member in question.

Supervisory Board

The Supervisory Board, which comprises six members in accordance with Article 10 (1) sentence 1 of the Articles of Incorporation, is composed subject to the provisions of Germany's One-Third Participation Act (DrittelbG) and the Stock Corporation Act (AktG). Two thirds of its members are shareholder representatives and one third is made up of employee representatives. In accordance with the recommendations of the German Corporate Governance Code, the shareholder representatives were elected individually. The terms in office of all the current Supervisory Board members end on conclusion of the Annual General Meeting in 2018, at which a resolution will be passed to formally approve the actions of the Supervisory Board members in the 2017 fiscal year. More information on the members of the Supervisory Board of Vossloh AG can be found on page 145 of this annual report.

The Supervisory Board oversees and advises the Executive Board on its management of business and discusses business development, planning, the strategy and its implementation, risk management and compliance issues with the Executive Board at regular intervals. It approves the annual plan and decides on the adoption of the separate financial statements of Vossloh AG and approval of the consolidated financial statements. Certain material transactions and measures regulated by the Executive Board's Rules of Procedure are subject to the approval of the Supervisory Board. The work methods of the Supervisory Board are regulated by the Rules of Procedure.

The Supervisory Board most recently stipulated concrete targets for its composition at its meeting on September 28, 2017, and developed a competency profile for the body as a whole. The "Requirements and Objectives for the Composition of the Vossloh Aktiengesellschaft Supervisory Board" are published on the

Company's website and also include the diversity concept. With regard to diversity, the Supervisory Board is setting its sights on a composition within the parameters of the Company-specific situation that takes into account a varied career and international experience and, in particular, the appropriate involvement of both women and men. Based on legislation regarding the equal involvement of women and men in executive positions in the private sector and in public service, the Supervisory Board set itself a target of at least 16.67 percent (one member) for the target period up to June 30, 2022. This target had been achieved up until January 31, 2017. Women have not been represented on the Supervisory Board since the departure of Ms. Silvia Maisch upon conclusion of the contract for the sale of Vossloh Electrical Systems. Ms. Maisch was replaced by Mr. Schwind, the personal substitute member elected by the employees in 2013. In turn, Mr. Helmut Schwind was succeeded by Mr. Andreas Kretschmann by judicial appointment, at the request of the Group Works Council. The next scheduled Supervisory Board elections will take place in 2018.

The Supervisory Board's other requirements and objectives regarding its composition relate in particular to the full board's expertise, the independence of its members, potential conflicts of interest, availability, an age limit and the duration of board tenures. The Supervisory Board meets these requirements and objectives with its current composition. Specifically, the Supervisory Board members have the necessary professional and personal qualifications. Regarding independence, the Supervisory Board determined that, taking into account the Vossloh owner structure, at least half of the Supervisory Board should comprise independent members within the meaning of number 5.4.2 of the German Corporate Governance Code. The Supervisory Board concludes that as of December 31, 2017, all the Supervisory Board members were deemed independent within the meaning of number 5.4.2 of the Code. The election proposals put to the Annual General Meeting by the Supervisory Board are to accommodate the "Requirements and Objectives for the Composition of the Vossloh Aktiengesellschaft Supervisory Board" as adopted by the Supervisory Board.

The Supervisory Board performs its duties both as a plenary body and through its three current committees, which it established to improve the efficiency of its activities. The Personnel Committee comprises three members and is primarily responsible for Executive Board matters. It prepares personnel decisions, resolutions and reviews by the full Supervisory Board regarding the remuneration system and the total remuneration of the individual Executive Board members. The Chairman of the Supervisory Board is also Chairman of the Personnel Committee.

The Audit Committee is first and foremost responsible for monitoring the accounting and its process, the effectiveness of the internal control system, the risk management system, the internal audit system, the financial statement audits and compliance. The Audit Committee prepares the Supervisory Board's auditing of the separate and consolidated financial statements, the combined management report and the audit reports of Vossloh AG and the Group. The quarterly statements and half-year report are discussed jointly by the Audit Committee and the Executive Board prior to publication. The Audit Committee also obtains regular reports directly from the Internal Audit department and the Chief Compliance Officer. The Audit Committee, which comprises three members, is chaired by Mr. Ulrich M. Harnacke. Mr. Harnacke is a tax adviser and auditor and the former managing director of Deloitte & Touche GmbH. As an independent financial expert, he meets the requirements stipulated in Section 100 (5) AktG.

The four-person Nomination Committee is responsible for long-term succession planning for the Supervisory Board and for preparing candidate proposals for the Supervisory Board. The Supervisory Board then selects the election proposals that will be presented to the Annual General Meeting for an appointment decision. The Chairman of the Nomination Committee is Dr.-Ing. Volker Kefer.

Every Supervisory Board member is obligated to act in the Company's best interests. Potential conflicts of interest must be reported to the Chairman of the Supervisory Board immediately. Supervisory Board members must abstain from voting on any business that affects themselves or related parties or companies. No Supervisory Board member may be on the governing body of or provide consultancy services to a key competitor. Mr. Ursus Zinsli received remuneration in the amount of €16,000 in the 2017 fiscal year for consultancy services relating to the further development and optimization of the production facilities and, in particular, of a site within a business unit. The Supervisory Board had agreed to the conclusion of this consultancy contract, which expired in March 2017, in advance. No other members of the Supervisory Board received remuneration or benefits for personally rendered services in addition to their emoluments for their Supervisory Board activities. There are no former members of the Executive Board on the Supervisory Board of Vossloh AG.

Compliance

Vossloh considers compliance to be conducted in line with all the applicable laws and internal guidelines. As a global enterprise with an approximately 130-year history, Vossloh has a social responsibility toward its customers, partners, employees, investors and the public. This social responsibility involves Vossloh and all its employees adhering to the applicable laws, respecting basic ethical values and acting in an exemplary fashion at all times and in all situations in the course of their work.

The Executive Board of Vossloh AG has unequivocally summed up these principles in its Compliance Commitment, which states: "Compliance with the law has absolute priority over closing a deal or achieving internal targets. We would rather forgo a business opportunity than violate the law. We will not tolerate any violation of the law or of our internal guidelines and policies and will sanction any such behavior (zero tolerance policy)." The Compliance Commitment is also published on the Company's website.

The Executive Board of Vossloh AG has put a Compliance Management System in place for the Vossloh Group. The Vossloh 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. Anticorruption and the strict observance of antitrust regulations play a particularly important role.

Since 2007, the Vossloh Compliance Management System has been based on the Vossloh Code of Conduct, which stipulates and precisely defines the values of integrity and upstanding business conduct and is mandatory for the entire Group and all employees. The Code of Conduct was comprehensively revised and enhanced in 2016. With this and the compliance guidelines, which apply equally throughout the Group and were likewise revised in 2016, all the employees have a canon of rules that serves as a yardstick for their daily work and helps them make good and lawful decisions. The compliance rules are available in the Group's main languages and have been distributed to all Vossloh Group employees around the world. Based on a Compliance Training Concept, all the employees receive regular training on compliance issues that is tailored to the target group in question. Vossloh has also established a Compliance eLearning program for all employees with a computer workstation.

To implement and monitor compliance, the Executive Board established the Compliance Organization, stipulating its structure, the responsibilities and tasks of the individual compliance positions, and their reporting channels in the "Compliance Rules of Procedure". The Vossloh Compliance Organization comprises the Chief Compliance Officer (supported by a Compliance Office), the Group Compliance Committee at Vossloh AG, Compliance Officers and Compliance Committees within the business units and Local Compliance Officers within the operating companies. The Chief Compliance Officer regularly reports to the Executive Board and Supervisory Board.

Vossloh set up a whistleblower hotline in partnership with an international law firm in order to uncover potential compliance violations. The whistleblower hotline allows company employees and external whistleblowers to report possible misconduct to an independent external contact (ombudsperson). The whistleblower hotline is currently available in 20 countries. As such, the main regions and languages spoken within the Vossloh Group are covered. The Chief Compliance Officer follows up all reports and implements appropriate measures where necessary.

The Chief Compliance Officer and the Group Compliance Committee continually review the effectiveness throughout the Group of the Compliance Management System. In the 2017 fiscal year, the Vossloh Group's Compliance Management System was subjected to a comprehensive audit in accordance with Assurance Standard 980 of the Institute of Public Auditors in Germany (IDW AsS 980) by KPMG AG Wirtschaftsprüfungsgesellschaft referring to the sections antitrust and anti-corruption. The audit was performed as an efficiency review and was concluded in February 2018. KPMG confirmed that the Vossloh Group's Compliance Management System is implemented appropriately and was effective in the period under review. Insofar as findings and recommendations were stated regarding compliance procedures, they have been or will be implemented in the course of the ongoing development and improvement of the Compliance Management System. Vossloh has published the audit report on the Company website under "Corporate Governance" > "Compliance" in the "Investor Relations" section. The Group Compliance Committee additionally performs regular general audits, usually with the assistance of external auditors, in order to check the effectiveness of the Compliance Management System within the Group companies and to identify new or changed risks and any scope for improvement.

Risk and control management

The principles of good corporate governance include responsible business risk management. The Vossloh AG Executive Board and the management teams of Vossloh Group companies have Group-wide and company-specific reporting and control systems at their disposal that ensure that such risks are recorded, assessed and managed. The systems are continually checked for their effectiveness, adapted to changing parameters if applicable and examined by the auditor as part of the statutory auditing requirements. As described above, the Supervisory Board and Audit Committee are regularly briefed on and involved in the risk management process. Details of risk management within the Vossloh Group can be found in the risk report (see page 73 et seq.). This also includes the report on the accounting-related internal control and risk management system.

Declaration of Conformity

Once again in 2017, the Executive Board and Supervisory Board of Vossloh AG dealt extensively with the recommendations of the German Corporate Governance Code. Vossloh's corporate governance practices are regularly reviewed accordingly.

The Executive Board and Supervisory Board issued the following declaration in November 2017:

Declaration of Conformity with the German Corporate Governance Code by the Executive Board and the Supervisory Board of Vossloh Aktiengesellschaft

Vossloh Aktiengesellschaft complies with all the recommendations of the German Corporate Governance Code ("the Code") published by the Federal Ministry of Justice in the Official Section of the Federal Gazette as per February 7, 2017, and will continue to do so in the future. Since issuing its previous Declaration of Conformity in November 2016, Vossloh Aktiengesellschaft has complied with the recommendations of the Code as per May 5, 2015.

Werdohl, November 2017
Vossloh Aktiengesellschaft
The Executive Board/The Supervisory Board

Shareholders and Annual General Meeting

The shareholders of Vossloh AG exercise their rights at the Annual General Meeting, including their voting rights. The Chairman of the Supervisory Board usually presides over the Annual General Meeting. The Annual General Meeting makes binding decisions in all of the matters assigned to it by law, in particular regarding the appropriation of net earnings, formal approval of the actions of the Executive Board and Supervisory Board and the election of the auditor, as well as intercompany agreements, corporate action and other amendments to the Articles of Incorporation. Each Vossloh share entitles the holder to one vote at the Annual General Meeting. The shareholders may exercise their voting rights themselves at the Annual General Meeting or have them exercised by an authorized representative of their choosing or by a Company-nominated proxy acting on their instructions. The voting results can be found on the Company website immediately after the Annual General Meeting.

Investor Relations

Vossloh ensures that its shareholders and other capital market participants all receive the same information in a timely and efficient manner. All the information published by Vossloh regarding the Company is immediately made accessible on the Company website www.vossloh.com in English and German. This applies in particular to the annual report, the half-year report, the interim quarterly statements and the invitation to the Annual General Meeting. The scheduled dates of major recurring events and publications, specifically the Annual General Meeting, annual reports and interim reports and statements, are listed in a financial calendar that is published promptly on the Vossloh AG website. The consolidated financial statements are published within 90 days of the end of the fiscal year, and quarterly reports are made public at the latest within 45 days of the end of the reporting period. If circumstances arise at Vossloh outside of the regular reporting that directly affect Vossloh and have the potential to significantly influence the stock market price of the Vossloh share, these are made known as soon as possible by means of ad hoc disclosures (Section 17 Market Abuse Regulation). In addition, the website www.vossloh.com provides extensive and up-to-date information on the Vossloh Group and the Vossloh share.

Accounting and auditing

Vossloh Group accounting is based on the International Financial Reporting Standards (IFRS) as applicable in the EU. The Vossloh AG separate financial statements, on the other hand, are prepared in accordance with the German Commercial Code (HGB) as stipulated by law. Both the consolidated financial statements in accordance with IFRS and the separate financial statements pursuant to German accounting regulations were audited by KPMG AG Wirtschaftsprüfungsgesellschaft in accordance with the German regulations and taking into account the generally accepted German auditing principles promulgated by the Institute of Public Auditors in Germany (IDW), this audit firm having been elected by the 2017 Annual General Meeting at the Supervisory Board's proposal. The audit work was contracted by the Supervisory Board's Audit Committee in accordance with the recommendations of the German Corporate Governance Code following verification beyond doubt of the auditor's independence. An agreement was reached with the auditor that the auditor would notify the Supervisory Board without delay of any findings or events of significance to the Supervisory Board's duties that came to light in the course of its audit and would notify the Supervisory Board of any facts identified that would make its Declaration of Conformity with the German Corporate Governance Code incorrect. However, no indications of any such facts were identified in the course of the audit. The condensed interim consolidated financial statements and the interim Group management report as of June 30, 2017, were subjected to an auditor's review.

Involvement of women and men in executive positions

The Supervisory Board and Executive Board set the targets outlined below for Vossloh AG in accordance with legislation on the equal involvement of women and men in executive positions in the private sector and in public service (for information on the targets for the Supervisory Board, see the "Supervisory Board" section above).

On May 23, 2017, the Supervisory Board set a target of 0 percent for the Executive Board of Vossloh AG, which currently comprises three male members, for the next target period up to June 30, 2022. Mr. Andreas Busemann succeeded Dr. h.c. Hans M. Schabert as Chairman of the Executive Board with effect from April 1, 2017. There are currently no plans for further Executive Board changes or expansions.

On May 19, 2017, the Executive Board set targets of 25 percent for both the first and second management levels below the Executive Board, to be achieved by June 30, 2022. Both of these targets had been achieved as of December 31, 2017. At times, the previous targets of 28.6 percent for the first management level and 30 percent for the second were not achieved because of organizational changes and due to male employees being appointed internally to newly created positions.

Executive Board and Supervisory Board remuneration

The Supervisory Board approves and regularly reviews the Executive Board's remuneration system. The remuneration structure is geared toward sustainable corporate development. A multiyear assessment basis has been agreed for the majority of the variable remuneration. The total remuneration of the individual Executive Board members is determined by the Supervisory Board. This takes into account the individual members' duties, their personal performance, the economic situation, the Company's success and future prospects and how customary the remuneration is when compared horizontally and vertically, as well as the development of these individual criteria. Since 2014, Supervisory Board remuneration has been purely fixed remuneration; this is regulated in the Articles of Incorporation of Vossloh AG. More information on Executive Board and Supervisory Board remuneration can be found in the remuneration report on page 44 et seq., which is part of both the combined management report and this Declaration on Corporate Governance.

Combined management report

Business and market environment

Segmentation and competitive position

Vossloh is active in rail technology markets worldwide. Vossloh's core business comprises products and services for rail infrastructure. The core business activities are organized in three divisions – Core Components, Customized Modules and Lifecycle Solutions. With the acquisition of Rocla Concrete Tie, Lakewood, Colorado, USA, on January 3, 2017, the Core Components division was expanded to include Vossloh Tie Technologies as a new business unit. In addition, Vossloh is involved in the locomotive business. Due to the highly probable sale of the activities in this segment within the next twelve months, they are reported as discontinued operations in this annual report. The Transportation division, which is not part of the core business, also included the Electrical Systems business unit, which was sold at the end of January 2017. You can find detailed descriptions of the individual divisions on page 39 et seq.

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

Organization

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

Vossloh operates globally via sales companies and branches. The Company enters into joint ventures and cooperation agreements with expert local partners on a case-by-case basis. Key Group companies leading the business units are:

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

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

Controlling system and targets

Vossloh follows a value-oriented growth strategy. Value added serves as an indicator. Positive value added is generated when a premium is earned on top of the return claimed by investors and lenders (cost of capital). This premium is the difference between the return on capital employed (ROCE, see glossary, page 155) and the cost of capital, which is calculated as the weighted average cost of capital (WACC) (debt and equity). Multiplying the premium by average capital employed produces the value added over a period in absolute terms.

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

Cost of equity is composed of a risk-free interest rate plus a market risk premium. As a result of the pretax consideration, the interest rate factor is adjusted accordingly. Cost of debt is calculated on the basis of the Group's average financing terms. The ratio of equity to interest-bearing debt of two-thirds to one-third, which is used to determine WACC, is not derived from the balance sheet since it is not only predicated on a benchmark for the funding structure but also because equity is based on target market values in this case and not the carrying amounts recognized in the balance sheet. Intragroup controlling in the 2017 fiscal year was based on pretax WACC of 7.5 percent (previous year: 9.0 percent) as the yield expected by investors and lenders.

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

While sales revenues, EBIT and EBIT margin are used as key performance indicators for short-term planning, the long-term management of the business units is focused on value added. There are two ways of increasing value added: increasing EBIT and optimizing capital employed. Both variables are also major drivers of ROCE. Vossloh seeks to improve the parameters it can influence to optimize this performance indicator. As a result, the Company additionally focuses on working capital, working capital intensity (see glossary, page 155) and free cash flow.

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

Economic report

Economic environment

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

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

UNIFE estimates the global volume of the rail market to be around €159 billion per year based on the average of the period 2013 to 2015. SCI Verkehr estimates an annual volume of €169 billion. The Association of the European Rail Industry considers about 63 percent of the total volume – some €101 billion – to be an accessible market share. Accessible means that this market is accessible in principle to European suppliers and market demand is not exclusively met through domestic manufacturers. For markets that can only be addressed by European suppliers via joint venture structures, half of the market volume is classified as accessible.

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

From a regional perspective, Western Europe claims the largest share of the overall accessible market with around 32 percent. The next-largest markets are the countries of the North American Free Trade Agreement (NAFTA – USA, Canada and Mexico) with a 26 percent share, and the Asia-Pacific region with around 16 percent. These are followed by the Community of Independent States (CIS) countries, with a share of approximately 9 percent, and Eastern Europe with 6 percent. The Africa/Middle East and Latin America regions represent somewhat smaller shares, at around 7 percent and 4 percent respectively.

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

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

As of the third quarter of 2017, the debt ratio (the ratio of public debt to GDP) of the euro countries (ER-19) according to the statistics office of the European Union (Eurostat) was at 88.1 percent – as of the editorial deadline of this publication, this was the most current figure available. This time last year, this figure was 89.7 percent. At the end of September 2017, the debt ratio of the EU as a whole (EU-28) amounted to 82.5 percent compared with 82.9 percent in the previous year.

Business acquisitions

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

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

Results of operations

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

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

Vossloh Group – Sales by region

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

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

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

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

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

Unexpectedly strong business in China leads to higher revenue in Asia

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

Revenue in Africa up slightly on the previous year

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

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

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

Vossloh Group – Sales and earnings

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

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

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

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

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

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

Dividend proposal of €1.00 per share for 2017

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

Vossloh Group – Value management

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

Value added positive again for first time in years

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

Vossloh divisions – Orders received and order backlog

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

Orders received up 4.5 percent on the previous year

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

Financial position and investing activities

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

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

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

As a result, the consortium agreement from 2015 has been completely replaced (see the information on page 76 et seq. in the section "Liquidity risks"). The total of cash and cash equivalents and short-term securities amounted to €96.8 million at the end of 2017 and was therefore substantially lower than in the previous year (€170.5 million).

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

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

Vossloh Group – Development of cash flows

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

Free cash flow negative, particularly due to Transportation

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

Vossloh Group – Capital expenditure and depreciation/amortization

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

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

Asset and capital structure

Vossloh Group – Asset and capital structure

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

[1] Group equity, including noncontrolling interests

Equity ratio remains above 40 percent

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

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

General statement on the economic situation

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

Business performance of Core Components

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

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

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

Core Components

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

Sales revenues significantly higher than in previous year

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

Increase in earnings and profitability greater than expected

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

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

Significant increase in value added

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

Vossloh Fastening Systems

Orders received 21.7 percent below the previous year

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

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

Significant increase in value added

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

Vossloh Tie Technologies[1]

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

Revenue performance as expected

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

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

Business performance of Customized Modules

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

Orders received in 2017 rise to over €500 million

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

Customized Modules

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

Revenues in 2017 down 1.8 percent compared to the previous year

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

Earnings and profitability remained down on the previous year

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

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

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

Business performance of Lifecycle Solutions

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

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

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

Lifecycle Solutions

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

Positive revenue development among others in HSG segment

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

Positive operating development in 2017

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

Value added up due to lower WACC

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

Vossloh AG

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

Vossloh AG prepares its separate financial statements in accordance with the regulations of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The explanations below refer to the separate financial statements. In isolated cases, certain transactions are handled differently in the consolidated financial statements according to IFRS. The relevant provisions of the German Commercial Code (HGB) have not changed in the fiscal year.

Analysis of the separate financial statements

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

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

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

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

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

Based on the indirect factual Annual General Meeting majority of Mr. Heinz Hermann Thiele, which has existed since the Annual General Meeting of Vossloh AG in 2015, the Executive Board of Vossloh AG continues to assume the dependence of Vossloh AG in accordance with Section 17 of the German Stock Corporation Act (AktG). In accordance with Section 312 AktG, the Company prepared a report on its relationships with affiliated companies containing the following declaration: "In respect of the legal transactions listed in the report on relationships with affiliated companies, the Company, according to the circumstances known at the time when the legal transactions were made, received an appropriate consideration for each legal transaction. No measures were enacted that put the Company at a disadvantage at the request or in the interest of Mr. Heinz Hermann Thiele or companies affiliated with him. This assessment is based on the facts and circumstances known by us at the time such reportable transactions were conducted." The report was audited by the auditor and was issued with an unqualified auditor's opinion.

Remuneration report

Principles of remuneration for Executive Board members

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

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

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

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

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

Review and adjustment of remuneration in the 2017 fiscal year

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

New remuneration system for members of the Executive Board since 2017

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

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

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

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

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

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

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

Executive Board remuneration in the 2017 fiscal year

The following table depicts the remuneration for the Executive Board assigned by name and in compliance with the recommendations of the German Corporate Governance Code. The benefits granted also include accrued amounts for variable remuneration components that will not be paid out until 2018 or 2019. Payments in kind cover private company car use in the amount recognized for tax purposes.

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

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

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

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

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

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

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

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

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

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

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

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

Retirement benefits. The Executive Board members Oliver Schuster and Volker Schenk have been granted entitlements to defined retirement benefits in the form of pension payments upon reaching the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits after a minimum three-year Executive Board membership amount to 1 percent, or in the case of a first time contract renewal 2 percent, up to a maximum of 40 percent of the pensionable annual basic remuneration. The additional provision for Executive Board members in the 2017 fiscal year amounted to €513,977 (previous year: €159,730). Upon the death of an active or former member of the Executive Board, the pension entitlement or the most recent pension paid to the surviving spouse is reduced to 60 percent. The CEO, Andreas Busemann, receives an annual amount of €50,000 for the establishment of a private pension, which is to be part of the fixed remuneration.

Commitments in the event of premature termination of duties

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

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

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

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

Remuneration of the Supervisory Board

Supervisory Board remuneration in 2017. The remuneration of members of the Supervisory Board is to be determined by the Annual General Meeting and governed by the Company's Articles of Incorporation. The remuneration system complies with German law and takes into account the responsibilities and scope of duties of Supervisory Board members.

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

For the 2017 fiscal year, Supervisory Board members received a total remuneration of €420,000 (previous year: €410,000).

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

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

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

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

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

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

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

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

Shareholdings in excess of 10 percent of the voting rights
On the basis of the notifications of voting rights submitted to the Company in accordance with the provisions of the German Securities Trading Act (WpHG), the Company holds an interest in the Company's capital that exceeds 10 percent of the voting rights. KB Holding GmbH, Grünwald, Germany, holds 44.73 percent of the voting rights in Vossloh AG. These voting rights are to be attributed to the TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany, Stella Vermögensverwaltung GmbH, Grünwald, Germany, and Mr. Heinz Hermann Thiele, Munich, Germany, pursuant to Section 34 (1) WpHG.

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

Voting control of employee shareholdings
Employees who are shareholders in the Company exercise their control rights like any other shareholder, directly in accordance with statutory requirements and the Articles of Incorporation.

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

According to Section 179 (1) AktG, the Articles of Incorporation may be amended by a resolution of the Annual General Meeting. Pursuant to Article 21 (2) of the Articles of Incorporation but subject to overriding statutory provisions to the contrary, the Annual General Meeting may pass its resolutions with the simple majority of votes cast. Where the law prescribes a capital majority in addition to a voting majority, the simple majority of the capital stock represented at the vote shall suffice unless the provisions of the law or Vossloh AG's Articles of Incorporation prescribe otherwise. Article 27 of the Articles of Incorporation authorizes the Supervisory Board to resolve on amendments to the Articles of Association that only affect the wording. Article 4 (4) of the Articles of Incorporation further entitles the Supervisory Board to update the Articles of Incorporation accordingly after the capital stock has been increased by utilizing authorized or contingent capital.

Authority of the Executive Board to issue and buy back shares

The Executive Board's authority to issue shares is defined in Article 4 of the Articles of Incorporation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In two other agreements, a change of control means that a company or person directly or indirectly obtains more than 50 percent of the capital shares, or more specifically, the voting shares of the Company:

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

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

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

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

- A syndicated loan agreement with Bayerische Landesbank, BNP Paribas S. A.'s German branch, Commerzbank AG, Deutsche Bank AG's German Branch, HSBC Trinkaus & Burkhardt AG, Landesbank Baden-Württemberg, Landesbank Hessen-Thüringen Girozentrale and SEB AB Frankfurt Branch, including the sub-credit line agreements concluded on this basis: If there is a change of control, each individual bank has the right to cancel the loan contract for the amount of the loan attributable to it within 30 days after the announcement has been made. In the event of a cancellation, the outstanding balance, including accrued interest, are due and payable within a period of at least 15 days.

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

Workforce

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

Workforce-related indicators

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

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

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

Personnel expenses

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

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

Divisions

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

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

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

Competitive advantage of workforce

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

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

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

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

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

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

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

Occupational health and safety

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

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

Thanks to employees

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

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

Research and development

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

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

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

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

Vossloh Group – research and development expenses

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

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

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

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

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

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

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

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

Environmental protection[1]

Vossloh places great value on sustainability in general and the protection of the environment in particular. The Nonfinancial Group Statement[2] regarding sustainability issues can be found on page 60 et seq.

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

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

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

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

[1]Part of the nonfinancial statement audit for providing limited assurance – see page 72.

[2] Not part of the financial statement audit, but part of an audit to obtain limited assurance – see page 72.

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

*Nonfinancial Group Statement**

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

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

* Not part of the financial statement audit, but part of an audit to obtain limited assurance – see page 72.

The Vossloh annual report/management report contains supplementary and/or more detailed information regarding many of the nonfinancial aspects and issues considered below, and these are cross-referenced accordingly. All of the material risks related to Vossloh's business activities are also part of the Company's risk reporting. It also covers Vossloh's material nonfinancial risks (see the "Nonfinancial risks and opportunities" section on page 78).

Significance of sustainability issues to the Vossloh business model

Vossloh is active in rail technology markets worldwide. The Company's core business is rail infrastructure. The Group's core activities are organized into the divisions of Core Components, Customized Modules and Lifecycle Solutions. In addition, Vossloh is involved in the locomotive business, which is reported as discontinued operations in this annual report. Details of the Vossloh business model can be found in the "Business and market environment" chapter on page 30 et seq.

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

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

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

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

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

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

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

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

Environmental matters

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

With regard to the impact on climate change, only carbon emissions and carbon equivalents are relevant to Vossloh, these being generated by the energy consumption of Vossloh itself or in the upstream or downstream areas. All the Vossloh divisions have been making targeted investments to reduce energy consumption and boost energy efficiency for years. Vossloh has photovoltaic systems at a number of its production plants and uses waste heat from production. The key activities in this area in 2017 are outlined on page 58 et seq. ("Environmental protection" chapter).

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

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

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

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

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

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

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

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

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

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

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

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

Noise emission

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

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

Employee matters

The key nonfinancial issues identified by Vossloh in its materiality analysis in relation to employee matters were occupational safety and health, vocational and further training, and being an attractive employer. The concepts developed and implemented in these areas by the HR departments at the various levels within the Group and the general objectives pursued with these concepts are explained below. Defining concrete targets for specific time frames is one of the responsibilities of the sustainability working group newly created at the end of November 2017. Potential personnel risks and the measures used to prevent them are outlined in the section "Nonfinancial risks and opportunities" in the chapter entitled "Risk and opportunity management" (see page 78).

Occupational health and safety

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

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

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

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

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

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

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

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

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

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

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

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

Training, further training and development

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

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

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

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

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

Labor conditions

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

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

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

The general rules for working at Vossloh are summarized in a Code of Conduct that each and every employee is required to sign upon joining the Company. The Code of Conduct stipulates and precisely defines the values of integrity and upstanding business conduct. The principles of conduct that this prescribes are a binding yardstick and benchmark for the day-to-day activities of all the employees (see also the detailed coverage of the topic of compliance on page 69 et seq.).

Vossloh expects all of its business partners, be they companies or individuals, "to apply similar standards to the ones we have established for ourselves," as the Company's Code of Conduct stipulates. Suppliers, service providers and subcontractors who are working with Vossloh are required to provide comprehensive information on themselves by means of checklists. Increasingly, the issues of safety, health and the environment are likewise being considered in these evaluations as Vossloh itself is required to present its own customers with evidence in these areas (see the "Customer and product aspects" chapter on page 71 et seq.). For example, in early 2017, Vossloh Rail Services expanded its evaluation matrix to include the topics of occupational safety and environmental protection, and asks its suppliers to present certification in these areas. In 2017, Vossloh Fastening Systems implemented a contractor management system for services and service contracts that requires potential partners to disclose their setup in the areas of occupational safety and health prior to being contracted.

Attractive employer

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

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

- Systematic promotion of talented individuals and junior employees (including with the LEAD! Development program)
- Support for executives (including leadership mindsets, qualification programs)
- Group-wide succession planning to facilitate international careers within the Group
- Occupational health management (see "Occupational health and safety" on page 65 et seq.)
- Company ambassadors (including "Employees recruit new employees")
- Joint development by employee representatives and the management of topics relevant to success (e.g. collaboration between the Work Safety Committee, the Group Works Council and the European Works Council in the areas of occupational safety and development of a Group-wide "Career and family" works agreement)
- In Germany: Erstausbildung@Vossloh (various initial training opportunities in industrial/technical and clerical areas and dual training options)

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

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

Social matters

In view of the fact that Vossloh had been a decentralized organization until mid-2014 and underwent fundamental restructuring up to the end of 2017, there is currently no Group-wide concept for social aspects. Also, the contributions made to the community by the individual corporate entities at the various sites are not systematically recorded, and it is therefore not currently possible to make statements for the business units or division in this regard. The risks arising from these endeavors are, however, part of the Group's risk reporting (See "Nonfinancial risks and opportunities," page 78).

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

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

Corporate responsibility

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

Corporate Governance

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

Compliance/combating corruption and bribery/ compliance with antitrust law

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

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

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

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

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

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

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

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

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

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

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

Details of material nonfinancial risks regarding ongoing legal proceedings and legal disputes can be found in the section entitled "Nonfinancial risks and opportunities" on page 78.

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

Respect for human rights

Vossloh respects internationally recognized human rights in its business activities and these are codified as binding rules for all the employees in Section 10 of the Vossloh Code of Conduct ("Protection of human and labor rights"). The Code of Conduct can be found under the heading "Corporate Governance" > "Compliance" in the "Investor Relations" section of the corporate website www.vossloh.com. Risks that may result from the violation of human rights are recorded under "Nonfinancial risks and opportunities" on page 78.

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

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

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

Customer and product aspects

The rail technology markets in which Vossloh operates have some particularities resulting among other things from the historical development of rail as a mode of transport. In the majority of these markets, the rail infrastructure and numerous rail transport operators are still state-owned. Vossloh's potential customers are therefore companies the investment scope of which can also be influenced by political specifications. Building and maintaining rail routes and purchasing and maintaining the rolling stock are costly, as rail transport operators are required to comply with extensive technical, logistical and legal provisions. The number of potential Vossloh customers is therefore limited. Furthermore, safety is elementary when it comes to the (mass) transportation of people and goods. rail performs well in this respect in comparison to other modes of transport. The safety of its products and services and customer satisfaction are therefore key nonfinancial performance indicators for Vossloh. The material nonfinancial risks that the Company faces because of the underlying industry conditions or the markets it develops are covered in the section entitled "Nonfinancial risks and opportunities" on page 78.

Product safety

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

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

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

Customer satisfaction

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

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

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

Audit

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

Risk and opportunity management

Organization

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

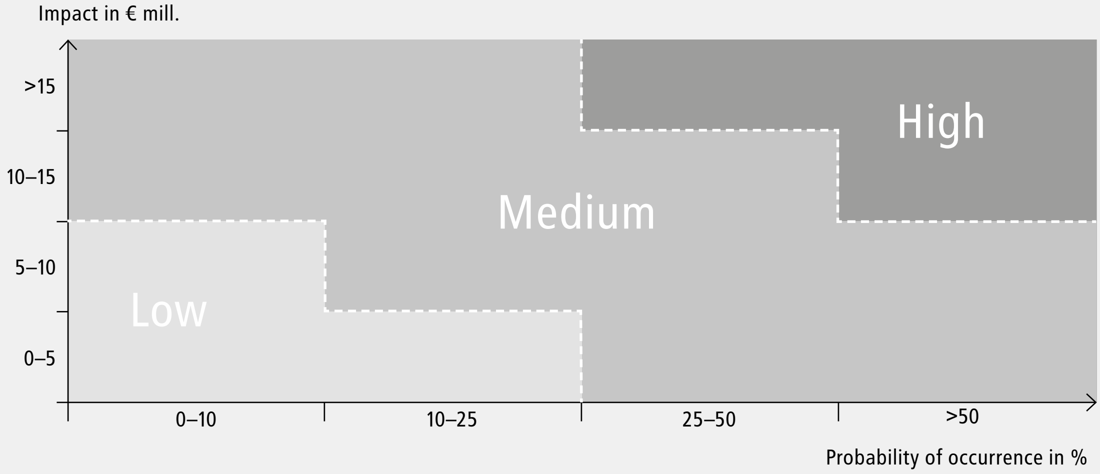
The risk and opportunity management system is a component of the business, planning and control process. The organization of structures and processes is documented in a Group-wide policy that was last updated in January 2018. The structure of the management system is based on the structure of the operating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

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

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

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

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



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

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

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

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

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

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

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

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

Operating risks and opportunities

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

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

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

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

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

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

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

Financial risks and opportunities

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

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

Liquidity risks

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

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

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

Interest rate risks

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

Price risks

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

Credit risks

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

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

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

Legal risks and opportunities

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

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

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

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

Nonfinancial risks and opportunities[1]

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

Other risks and opportunities

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

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[1] Part of the nonfinancial statement audit for providing limited assurance – see page 72.
[2] Not part of the financial statement audit, but part of an audit to obtain limited assurance – see page 72.

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

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

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

Summary of the risk and opportunities situation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Qualifying statements

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

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

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

Outlook

This combined management report contains forward-looking statements that are based on forecasts of the management in relation to the future development of the Vossloh Group. This outlook is based on assessments made by the management on the basis of all information available at the time the report was prepared. Assumptions regarding the future development of the international rail engineering market and the specific business expectations of the divisions of the Vossloh Group have been taken into particular account. The statements made are subject to opportunities and risks that Vossloh cannot entirely control or manage. For more information on this, please refer to the statements made regarding the Group's risk and opportunity management (see page 73 et seq.). If the assumptions underlying the outlook prove to be inaccurate or the described risks or opportunities occur, the actual events and developments may differ from these forecasts. The Vossloh Group accepts no liability for updating the statements made in this combined management report beyond statutory publication requirements.

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

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

Studies point to continuous growth in the rail engineering market

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

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

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

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

Outlook for the Vossloh Group for the year 2018

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

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

Revenue expected to remain consistent with the previous year

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

EBIT margin of between 6.0 and 7.0 percent expected

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

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

Vossloh is expecting an improvement in value added in the Tie Technologies business unit. The Lifecycle Solutions division is likewise expected to see a tangible improvement in profitability in 2018. Risks to Vossloh's business performance are most notably derived from the present situation in the U.S. market. Demand on the whole is expected to remain weak in 2018, although, compared to 2017, business performance is now expected to revive slightly over the course of the year. Higher-than-expected increases in material prices could also have an adverse impact on income, especially in the Core Components division. Please refer to the statements made in the risk report (see page 73 et seq.) regarding other risks that may affect the stated planning.

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

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

Consolidated financial statements of Vossloh AG as of December 31, 2017

Income statement

€ mill.	Note	2017	2016*
Sales revenues	(1)	918.3	822.5
Cost of sales	(2.1)	(713.2)	(626.0)
General administrative and selling expenses	(2.2)	(148.1)	(152.3)
Research and development costs	(2.3)	(10.3)	(10.2)
Other operating result	(3)	21.5	17.4
Operating result		**68.2**	**51.4**
Income from investments in companies accounted for using the equity method		0.2	2.3
Other financial income	(4.1)	2.2	4.3
Other financial expenses	(4.2)	(0.3)	(0.5)
Earnings before interest and income taxes (EBIT)		**70.3**	**57.5**
Interest income		3.5	1.9
Interest expenses	(5)	(16.0)	(12.5)
Earnings before income taxes (EBT)		**57.8**	**46.9**
Income taxes	(6)	(21.7)	(21.0)
Result from continuing operations		**36.1**	**25.9**
Result from discontinued operations	(7)	(35.8)	(15.8)
Net income		**0.3**	**10.1**
thereof attributable to shareholders of Vossloh AG		**(8.0)**	**3.3**
thereof attributable to noncontrolling interests	(8)	8.3	6.8
Earnings per share			
Basic/diluted earnings per share (€)	(9)	(0.50)	0.22
thereof attributable to continuing operations		1.74	1.30
thereof attributable to discontinued operations		(2.24)	(1.08)

*Previous year's figures presented in a comparable manner, see page 106

Statement of comprehensive income

€ mill.	Note	2017	2016*
Net income		**0.3**	**10.1**
Changes in fair value of hedging instruments (cash flow hedges)		0.6	3.3
Currency translation differences		(5.6)	(3.0)
Changes in the fair value of securities available for sale		0.0	0.0
Income taxes		(0.2)	(1.0)
Amounts that will be transferred to profit or loss in future periods		**(5.2)**	**(0.7)**
Remeasurement of defined benefit plans		0.5	(3.7)
Income taxes		(0.2)	1.2
Amounts that will not be transferred to profit or loss in future periods		**0.3**	**(2.5)**
Income and expenses recognized directly in equity		**(4.9)**	**(3.2)**
Total comprehensive income		**(4.6)**	**6.9**
thereof attributable to shareholders of Vossloh AG		(12.0)	0.7
thereof attributable to noncontrolling interests		7.4	6.2

*Previous year's figures presented in a comparable manner, see page 106

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

€ mill.	2017	2016*
Cash flow from operating activities		
Earnings before interest and income taxes (EBIT)	70.3	57.5
EBIT from discontinued operations	(35.6)	(7.5)
Amortization/depreciation/impairment losses (less write-ups) of noncurrent assets	63.2	46.7
Change in noncurrent provisions	(1.6)	(4.1)
Gross cash flow	**96.3**	**92.6**
Noncash change in investments in companies accounted for using the equity method	(0.3)	(2.3)
Other noncash income/expenses, net	4.1	(9.4)
Net loss/(gain) from the disposal of noncurrent assets	(1.2)	0.3
Income taxes paid	(29.1)	(21.3)
Change in working capital	(42.7)	4.0
Changes in other assets/liabilities, net	(2.6)	1.9
Cash flow from operating activities	**24.5**	**65.8**
Cash flow from investing activities		
Investments in intangible assets and property, plant and equipment	(41.0)	(38.1)
Investments in companies accounted for using the equity method	(6.3)	(3.2)
Cash-effective dividends from companies accounted for using the equity method	0.5	0.7
Free cash flow	**(22.3)**	**25.2**
Investments in noncurrent financial instruments	(0.6)	0.0
Proceeds from the disposal of intangible assets and property, plant and equipment	1.8	5.2
Disbursements/proceeds from the purchase/sale of short-term securities	0.0	(0.1)
Proceeds from disposals of noncurrent financial instruments	0.1	1.2
Proceeds from the disposal of consolidated companies	42.4	0.0
Payments for the acquisition of consolidated companies	(121.1)	(8.9)
Cash flow from investing activities	**(124.2)**	**(43.2)**
Cash flow from financing activities		
Net proceeds from additions to equity	0.0	123.1
Disbursements to shareholders and noncontrolling interests	(6.8)	(5.2)
Net financing from short-term loans	(11.9)	(19.6)
Net financing from medium-term and long-term loans	51.8	(6.6)
Interest received	3.8	1.4
Interest paid	(16.2)	(13.8)
Cash flow from financing activities	**20.7**	**79.3**
Net cash inflow/outflow	(79.0)	101.9
Change in cash and cash equivalents from the first-time consolidation of companies	0.0	0.1
Exchange rate effects	(1.5)	(2.2)
Opening cash and cash equivalents	**178.6**	**78.8**
Closing cash and cash equivalents	**98.1**	**178.6**

For more information on the cash flow statement, see page 108 et seq.

*Previous year's figures presented in a comparable manner, see page 106

Balance sheet

Assets in € mill.	Note	12/31/2017	12/31/2016*
Intangible assets	(10)	280.4	247.4
Property, plant and equipment	(11)	212.5	174.8
Investment properties	(12)	2.8	3.6
Investments in companies accounted for using the equity method	(13)	64.2	34.7
Other noncurrent financial instruments	(14)	8.9	7.4
Other noncurrent assets	(15)	3.5	3.1
Deferred tax assets	(16)	23.7	26.9
Noncurrent assets		**596.0**	**497.9**
Inventories	(17)	154.3	148.1
Trade receivables	(18)	210.3	170.9
Receivables from construction contracts	(18)	6.6	6.9
Income tax assets	(19)	7.8	3.8
Other current assets	(20)	43.2	32.9
Short-term securities	(21)	0.5	0.5
Cash and cash equivalents	(22)	96.3	170.0
Current assets		**519.0**	**533.1**
Assets held for sale	(7)	137.9	336.2
Assets		**1,252.9**	**1,367.2**

Equity and liabilities in € mill.	Note	12/31/2017	12/31/2016*
Capital stock	(23.1)	45.3	45.3
Additional paid-in capital	(23.2)	146.5	146.5
Retained earnings and net income	(23.3)	321.7	333.2
Accumulated other comprehensive income	(23.4)	3.9	7.8
Equity excluding noncontrolling interests		**517.4**	**532.8**
Noncontrolling interests	(23.5)	15.0	18.0
Equity		**532.4**	**550.8**
Pension provisions	(24)	22.4	22.6
Other noncurrent provisions	(25)	23.9	24.1
Noncurrent financial liabilities	(26.1)	248.8	246.9
Other noncurrent liabilities	(26.4)	4.6	4.0
Deferred tax liabilities	(16)	12.8	1.0
Noncurrent liabilities		**312.5**	**298.6**
Other current provisions	(25)	44.4	53.1
Current financial liabilities	(26.1)	55.7	8.7
Current trade payables	(26.2)	141.9	115.4
Current liabilities from construction contracts	(26.2)	0.0	0.5
Current income tax liabilities	(26.3)	6.3	11.0
Other current liabilities	(26.4)	72.7	81.4
Current liabilities		**321.0**	**270.1**
Liabilities held for sale	(7)	87.0	247.7
Equity and liabilities		**1,252.9**	**1,367.2**

*Previous year's figures presented in a comparable manner, see page 106

Statement of changes in equity

€ mill.	Capital stock	Additional paid-in capital	Retained earnings and net income	Accumulated other comprehensive income: Currency translation	Financial instruments available for sale	Hedging transactions	Remeasurement of defined benefit plans	Equity excluding noncontrolling interests	Non-controlling interests	Total
As of: 12/31/2015	**37.8**	**30.9**	**332.7**	**13.7**	**0.0**	**(3.0)**	**(0.4)**	**411.7**	**17.0**	**428.7**
Capital increase	7.5	115.6						123.1		123.1
Transfer to retained earnings			(0.4)				0.4	0.0		0.0
Change in the scope of consolidation			(2.4)	(0.3)		0.0		(2.7)	0.0	(2.7)
Net income			3.3					3.3	6.8	10.1
Income and expenses recognized directly in equity				(2.4)	0.0	2.3	(2.5)	(2.6)	(0.6)	(3.2)
Dividend payments									(5.2)	(5.2)
As of: 12/31/2016	**45.3**	**146.5**	**333.2**	**11.0**	**0.0**	**(0.7)**	**(2.5)**	**532.8**	**18.0**	**550.8**
Transfer to retained earnings			(2.5)				2.5	0.0		0.0
Change in the scope of consolidation			(1.0)	(2.1)		(0.3)		(3.4)	(3.6)	(7.0)
Net income			(8.0)					(8.0)	8.3	0.3
Income and expenses recognized directly in equity				(4.7)		0.4	0.3	(4.0)	(0.9)	(4.9)
Dividend payments									(6.8)	(6.8)
As of: 12/31/2017	**45.3**	**146.5**	**321.7**	**4.2**	**0.0**	**(0.6)**	**0.3**	**517.4**	**15.0**	**532.4**

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2017

Segment information by division and business unit[1]

€ mill.		Fastening Systems	Tie Technologies	Consolidation	Core Components	Customized Modules (Switch Systems)	Lifecycle Solutions (Rail Services)
Value added	2017	37.7	(3.3)	(0.1)	**34.3**	**(1.3)**	**(3.5)**
	2016	22.5	0.0	0.0	**22.5**	**(2.9)**	**(4.0)**
Information from income statement/flow figures							
External sales revenues	2017	264.0	78.5	0.0	**342.5**	**480.6**	**87.3**
	2016	251.5	0.0	0.0	**251.5**	**489.2**	**77.7**
Intersegment sales revenues	2017	9.4	0.7	(1.2)	**8.9**	**2.7**	**3.7**
	2016	5.6	0.0	0.0	**5.6**	**3.1**	**5.8**
Depreciation/amortization	2017	7.7	8.5	0.0	**16.2**	**14.5**	**6.7**
	2016	8.4	0.0	0.0	**8.4**	**13.7**	**5.9**
Investments in noncurrent assets	2017	9.4	3.3	0.0	**12.7**	**18.5**	**8.6**
	2016	2.9	0.0	0.0	**2.9**	**15.9**	**11.3**
Income from investments in companies accounted for using the equity method	2017	(0.3)	0.0	0.0	**(0.3)**	**0.2**	**0.3**
	2016	0.1	0.0	0.0	**0.1**	**0.8**	**1.4**
Result from discontinued operations	2017	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
	2016	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
Other major noncash segment expenses	2017	6.6	0.0	0.0	**6.6**	**8.0**	**7.0**
	2016	4.0	0.0	0.0	**4.0**	**8.3**	**1.7**
Impairment losses	2017	1.3	–	–	**1.3**	**0.3**	**0.0**
	2016	1.8	0.0	0.0	**1.8**	**0.5**	**0.6**
Write-ups	2017	0.0	0.0	0.0	**0.0**	**7.2**	**0.0**
	2016	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
Information from the balance sheet							
Total assets	2017	211.7	131.3	(0.5)	**342.5**	**575.1**	**174.3**
	2016	184.8	0.0	0.0	**184.8**	**565.7**	**177.5**
Liabilities	2017	119.7	40.3	(0.5)	**159.5**	**280.7**	**161.4**
	2016	105.9	0.0	0.0	**105.9**	**261.0**	**166.1**
Investments in companies accounted for using the equity method	2017	4.8	0.0	0.0	**4.8**	**49.2**	**10.2**
	2016	1.9	0.0	0.0	**1.9**	**25.0**	**7.8**
Annual average headcount (monthly values)	2017	644	209	0	**853**	**2,546**	**473**
	2016	631	0	0	**631**	**2,537**	**457**

[1] For more segment information, see page 126 et seq. Previous year's figures for the Transportation division and the Group presented in a comparable manner, see page 106

Discontinued operations / Locomotives	Discontinued operations / Electrical Systems	Consolidation	Transportation	Holding companies	Consolidation	Group
(17.1)	–	16.7	**(0.4)**	17.4	(35.4)	**11.1**
(8.7)	(3.5)	12.7	**0.5**	(15.6)	(2.0)	**(1.5)**
97.2	11.7	(108.9)	**0.0**	0.3	0.0	**910.7**
109.1	197.7	(306.8)	**0.0**	0.3	0.0	**818.7**
0.0	0.5	(0.5)	**0.0**	1.1	(8.8)	**7.6**
0.0	4.7	(4.6)	**0.1**	1.2	(12.0)	**3.8**
4.1	0.3	(4.4)	**0.0**	0.7	0.0	**38.1**
4.0	4.5	(8.5)	**0.0**	0.7	0.0	**28.7**
7.4	0.3	(7.7)	**0.0**	0.9	(1.2)	**39.5**
7.5	3.5	(10.7)	**0.3**	0.2	(0.3)	**30.3**
0.0	0.0	0.0	**0.0**	0.0	0.0	**0.2**
0.0	0.0	0.0	**0.0**	0.0	0.0	**2.3**
(37.2)	(1.5)	–	**(38.7)**	–	2.9	**(35.8)**
(4.8)	(2.4)	–	**(7.2)**	–	(8.6)	**(15.8)**
4.0	0.0	(4.0)	**0.0**	19.0	0.0	**40.6**
8.3	7.6	(15.9)	**0.0**	5.4	0.1	**19.5**
–	–	–	**–**	–	–	**1.6**
0.0	0.0	0.0	**0.0**	23.2	(23.2)	**2.9**
0.0	0.0	0.0	**0.0**	0.0	(1.1)	**6.1**
0.0	0.5	(0.5)	**0.0**	0.0	0.0	**0.0**
180.8	–	(26.0)	**154.8**	1,266.4	(1,260.2)	**1,252.9**
111.7	276.7	(7.0)	**381.4**	1,090.2	(1,032.4)	**1,367.2**
150.3	–	(90.4)	**59.9**	569.6	(597.6)	**633.5**
81.1	197.3	(247.8)	**30.6**	434.8	(429.7)	**568.7**
0.2	0.0	(0.2)	**0.0**	0.0	0.0	**64.2**
0.3	0.0	(0.3)	**0.0**	0.0	0.0	**34.7**
407	75	(482)	**0**	62	0	**3,934**
396	726	(1,122)	**0**	57	0	**3,682**

General principles

Vossloh AG is a listed company based in Werdohl, Germany. The Company is registered under HRB 5292 in the commercial register of the Iserlohn Local Court. The development, manufacturing and sale of products as well as the provision of services of all varieties in the field of transport technology, particularly in rail infrastructure and railbound traffic, are the Vossloh Group's primary activities.

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

On March 7, 2018, Vossloh AG's Executive Board released the consolidated financial statements for transmittal to the Supervisory Board's Audit Committee.

New accounting rules

The following standards and interpretations were issued by the IASB or endorsed by the EU during 2017 but were not yet mandatorily applicable for the 2017 fiscal year according to the EU's adoption regulations or were not yet adopted into European law. In the case of standards and interpretations that have not yet been adopted by the EU, the first-time application in accordance with the IASB is indicated. Early adoption of these standards is not planned. Unless otherwise stated, the impact on the consolidated financial statements is currently being reviewed.

Standard	Issued	First-time application	Endorsed by the EU	Key content and impact on the consolidated financial statements of Vossloh AG
New or amended standards				
IFRS 9: Financial Instruments	July 2014	2018	November 2016	See separate explanations.
IFRS 15: Revenue from Contracts with Customers Clarifications to IFRS 15: Revenue from Contracts	May 2014 May 2014	2018 2018	September 2016 ./.	See separate explanations.
IFRS 16 Leases	January 2016	2019		See separate explanations.
Amendments to IAS 7: Disclosure Initiative	January 2016	2017	./.	Additional disclosure obligations may apply in individual cases. In order to meet the requirements of new disclosure obligations, the Group intends to present a reconciliation between the opening and closing balance for liabilities, which represent changes in connection with financing activities.
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	January 2016	2017	./.	none
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 2016	2018	./.	none
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016	2018	./.	none
Annual Improvements to IFRS Standards 2014–2016 Cycle	December 2016	2018	./.	none
Amendments to IAS 40: Transfers of Investment Property	December 2016	2018	./.	none
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	December 2016	2018	./.	none
IFRS 17: Insurance Contracts	May 17	2021	./.	No impact is expected due to the scope of the standard.
IFRIC 23: Uncertainty Over Income Tax Treatments	June 17	2019	./.	This interpretation governs how to handle uncertainties relating to actual or deferred taxes. An impact on the consolidated financial statements may be considered to be extended disclosure requirements.
Amendments to IFRS 9: Prepayment features with Negative Compensation	October 17	2019	./.	The amendment to the standard concerns certain repayment agreements in the case of financial liabilities. An impact on the consolidated financial statements is currently not expected.
Amendments to IAS 28: Long-term Incentives in Associates and Joint Ventures	October 17	2019	./.	The amendment to the standard concerns the scope of IFRS 9 for certain long-term investments in associated companies or joint ventures. An impact on the consolidated financial statements is currently not expected.
Annual improvements to IFRS Standards 2015–2017 Cycle	October 17	2019	./.	The changes relate to individual aspects of accounting in connection with successive company acquisitions, tax effects in connection with dividends and the capitalization of borrowing costs for qualifying assets. A material impact on the consolidated financial statements is currently not expected.

Anticipated effects of the first-time application of IFRS 9, IFRS 15 and IFRS 16

In 2018, IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers are to be applied for the first time in addition to other new or amended standards. In the following fiscal year, IFRS 16: Leases will be applied for the first time. These three standards will affect the consolidated financial statements to varying degrees.

IFRS 9: Financial Instruments

IFRS 9 Financial Instruments regulates the recognition and measurement of financial assets, financial liabilities and certain contracts for the acquisition or disposal of nonfinancial items. IFRS 9 was adopted into European law on November 22, 2016, and published in the Official Journal of the European Union on November 29, 2016. The standard replaces the previous standard IFRS 39 Financial Instruments: Recognition and Measurement.

The estimated impact on equity as of January 1, 2018, is summarized as follows:

€ mill.	Estimated impact of the application of IFRS 9
Retained earnings	(1.6)
Noncontrolling interests	0.1

The previous categorization model for financial assets (held-to-maturity, loans and receivables, available-for-sale) contained in IAS 39 is replaced by the following categories in IFRS 9:

- Financial assets at amortized cost
- Financial assets at fair value with the recognition of changes in value through profit or loss (FVTPL)
- Financial assets at fair value with the recognition of changes in value in other comprehensive income (FVOCI)

Assets previously assigned to the "loans and receivables" category will in future be assigned to the "at amortized cost" category. Financial assets in the amount of €2.8 million previously assigned to the category "held to maturity," and financial assets of €1.0 million, which have previously been classified as "available for sale," are reclassified in accordance with IFRS 9.

There are no significant changes in the categorization of financial liabilities. Only the recognition and measurement of changes in the fair values due to changes in the credit risk of the liability are to be recognized in other comprehensive income pursuant to IFRS 9, whereas previously they were recognized in profit or loss.

IFRS 9 introduces the concept of "expected credit losses" as an impairment model, whereas up to now only incurred losses have been taken into account in the income statement. The new impairment model anticipates losses earlier and uses both past and future information to determine expected credit losses.

The new impairment model applies to financial assets classified as "at amortized cost" and "FVOCI" and to contractual assets in accordance with IFRS 15. Financial investments held as financial assets are excluded from this.

IFRS 9 uses a multi-phase system:
- Twelve-month credit losses: These are expected credit losses due to possible loss events within twelve months of the reporting date.
- Lifetime credit losses: These are expected credit losses over the entire expected lifetime of a financial instrument.

Basically, the measurement is based on the concept of twelve-month credit losses. However, if the credit risk significantly increases after the initial recognition, the financial asset is to be measured according to the concept of lifetime credit loss. The concept of lifetime credit losses is by default applied to trade receivables and contractual assets without a material financing component.

The following table shows the change in the impairment loss per balance sheet item at the time of the transition as of January 1, 2018, compared to December 31, 2017:

€ mill.	Change
Trade receivables	(1.6)
Assets held for sale	0,1
Total	(1.5)

Estimated expected credit losses are determined for trade receivables using historical and forward-looking information. For this purpose, gross receivables are structured according to customer groups (state infrastructure operators, private infrastructure operators, other customers), regions and overdue bands, and the actual losses for this structure are determined over a period of three and a half years. As a result, historical probabilities of default can be calculated. These historical probabilities of default are modified using forward-looking information (GDP of selected major regions) to reflect changes in the framework since the creation of historical information. These modified probabilities of default are applied to the gross value of each risk class to determine the impairment.

For cash and cash equivalents, the rating and the associated average probability of default of the credit institution are used.

When hedge accounting is used, the methodology of IAS 39 is maintained by exercising an option.
In the transition to IFRS 9, comparative information for previous periods will not be adjusted for changes in classification and measurement (including impairment). Differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 are recognized directly in retained earnings as of January 1, 2018.

IFRS 15: Revenue from Contracts with Customers

The standard comprehensively regulates the accounting for sales revenues in terms of the amount and time of their recognition. In this respect, IFRS 15 replaces the provisions relevant to Vossloh in IAS 11 and IAS 18. The standard was adopted into European law on November 22, 2016, and published in the Official Journal of the European Union on November 29, 2016.

Due to contracts with performance obligations that have not yet been finally fulfilled, retained earnings were reduced by €(5.7) million as of January 1, 2018.

Under IFRS 15, sales revenue is recognized when a customer gains control of the goods and services. For the vast majority of transactions, this occurs at a specific time. However, with a smaller number of business transactions, this occurs over a longer or shorter period of time. To this end, the contracts with customers are identified and the performance obligations included are analyzed. In the case of multi-component contracts (for example, contracts for combined goods and services), these obligations should be separated and the purchase price for the sum of the service obligations provided for in the contract should be divided between them. Revenue is then realized when the control of the products or services to be provided is transferred.

When delivering standardized bulk goods such as tension clamps or concrete sleepers, revenue is realized when they are inspected and handed over to the customers. As an indication of the transfer of control, the transfer of risk is normally used depending on the delivery conditions (incoterms) stipulated in the contract.

For services such as rail logistics, rail maintenance, and similar services, the total charge for all services is split based on their separate selling prices. Such prices are set, where applicable, on the basis of the list prices at which the Group offers the services in separate transactions.

For customer-specific orders, such as specialized rail vehicles as well as selected projects for switch and signal technology, which are manufactured very specifically according to customer requirements, accounting previously was carried out in accordance with IAS 11 Construction Contracts, which provides for a period-related revenue recognition in accordance with the "percentage of completion" method.

IFRS 15 has significantly limited the options for applying period-related revenue recognition. As a result, Vossloh realizes revenue on a period-by-period basis if Vossloh is contractually entitled to a pro rata remuneration measured in terms of performance at all times, even if the contract is terminated by the customer, and the agreed performance obligations (i.e. the products) have no alternative use for Vossloh when a cancellation occurs. At Vossloh, these conditions were not met in several cases, one of which being in the Locomotives business unit.

The above-mentioned equity effect consists exclusively of the conversion of the said contracts from satisfying the performance obligations over time to a point in time.

With regard to the transitional rules, the option of using the modified retrospective method is exercised, according to which the cumulative adjustment amounts are recognized in equity as of January 1, 2018. Additionally, IFRS 15 is not applied to the comparative period. Overall, we do not expect any significant changes here.

Through the presentation of Vossloh Locomotives as a "discontinued operation," the otherwise apparent effect of switching from period-based revenue recognition to satisfying the performance obligation at a point in time is not discernible within the business unit reported as a discontinued operation. Within the assets and liabilities held for sale, previous receivables from construction contracts in the amount of €0.1 million, liabilities from construction contracts in the amount of €0.1 million and deferred tax liabilities in the amount of €1.7 million are to be replaced by €26.6 million for work in progress and €32.1 for advance payments received at the conversion date. Receivables from construction contracts in the amount of €3.1 million and deferred tax liabilities in the amount of €0.8 million are to be replaced by €4.9 million for work in progress, €4.4 million for advance payments received and provisions of €0.3 million at the conversion date in case of further contracts in other business units that are to be recognized differently. The total balance of this conversion is the above-mentioned effect on retained earnings.

IFRS 16: Leases

While the presentation of leases changed only insignificantly from the perspective of the lessor, there are fundamental changes in the accounting of leases from the perspective of the lessee. The main point is the elimination of the distinction between the "finance leases" and "operating leases" categories: In accordance with IFRS 16, all leases are recognized on the balance sheet by capitalizing the temporary right of use granted by the lessor to the lessee and amortizing it over the term of the contract. At the same time, the present value of the minimum lease payments is recognized as a liability and subsequently increased through compounding and reduced by the regular lease payments.

The conversion to IFRS 16 will take place in the Vossloh Group by applying the relevant transitional provisions as follows:

- The previous assessment of existing contracts with regard to their classification as leases in accordance with IAS 17 or IFRIC 4 will be maintained.

- The first-time application of the new accounting method will be limited retrospectively. In this respect, the cumulative changes in the existing leases at the time of first-time application of IFRS 16 (January 1, 2019) are reported and recognized in the values carried forward to the 2019 fiscal year. The comparative figures for the 2018 fiscal year remain unchanged.

- Contracts previously categorized as operating leases will be recognized for the first time on January 1, 2019. In this case, the liability to be recognized is calculated in the amount of the present value of the remaining lease installments. The marginal financing rate of Vossloh AG is used as a discount rate on the basis of the Group financing principle. The right of use is recognized either at the same amount as the present value of the lease liability or at the amount that would have resulted from the full retrospective treatment of the individual lease as of January 1, 2019. If, in such a case, there is a difference between assets and liabilities, the amount is recognized directly in retained earnings. The choice between these two methods must be made on a lease-by-lease basis; a decision will be taken on this in the course of the 2018 fiscal year.

Short-term leases (term, including extension option, of up to one year maximum) and low-value assets are excluded from the generally required accounting treatment in accordance with the exemptions set out in IFRS 16. In such cases, the contractual lease payments continue to be recognized as operating expenses at the time of payment. Low-value assets include, in particular, leased office equipment and other equipment. By capitalizing the rights of use for all other leases and the recognition of the corresponding lease liabilities, Vossloh expects the balance sheet total to be increased to a range of €50 million to €55 million through the application of IFRS 16.

At the same time, the presentation of the profit and loss components of a lease changes in the income statement. While leasing rates were recognized as operating expenses in accordance with IAS 17 when classifying them as operating leases, the new rules result in an expense recognition in two areas: on the one hand in the operating expenses through the amortization of the capitalized rights of use, on the other hand in the interest expense due to the compounding of the lease liability initially recognized as a present value. This tends to improve the operating result compared to the current regulation. However, the accounting treatment significantly increases both capital employed and net financial liabilities. Thus, the impact on ROCE and the value added cannot be determined. Due to the provisions of the syndicated loan concluded in November 2017, the conversion of the lease accounting has no effect on compliance with the financial ratios since the corresponding key figures are determined according to the previous accounting method.

First-time application of standards and interpretations

In the 2017 fiscal year, the changes to standards and interpretations listed in the following table were applied for the first time:

Standard	Issued	Endorsed by the EU
Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	January 16	November 17
Amendment to IAS 7: Disclosure Initiative	January 16	November 17

The amendment to IAS 12 had no material impact on the consolidated financial statements of Vossloh, while the amendment to IAS 7 introduced a reconciliation table for the change in financial liabilities in the notes to the cash flow statement, which presents the different causes for such a change (incorporation of new or repayments of existing debts, changes in the scope of consolidation, exchange rate effects, effects of changes in market value or other effects).

Since the "Annual Improvements to IFRS Standards 2014–2016 Cycle" have not yet been adopted by the EU, first-time application could not yet be made. The amendments to the standards concerned would not have had any significant impact on the consolidated financial statements.

Principles for preparing the consolidated financial statements

The financial statements of all companies included in the consolidated financial statements are prepared as of Vossloh AG's closing date (December 31) in accordance with uniform accounting and measurement methods; mostly they are audited or reviewed by independent statutory accountants. The Group currency is the euro.

The consolidated financial statements are prepared in euros, the functional currency of the Company, and the statements are generally presented in € million. The income statement is structured according to the cost-of-sales method.

Preparing the consolidated financial statements requires management to make certain discretionary decisions, assumptions and estimates. These estimates are to be made under conditions of uncertainty. They affect the carrying amounts of recognized assets and liabilities and of contingent liabilities as of the balance sheet date, as well as the recognition of income and expenses in the reporting period.

Due to uncertainty, the actual values subsequently determined may differ from those estimates and hence from the amounts presented in the consolidated financial statements. The estimates and underlying assumptions are subject to ongoing review. Adjustments are made in the period of the change or in future periods, for example in the case of changed useful lives of property, plant and equipment.

Estimation uncertainty with a significant impact on the consolidated financial statements is required, particularly when accounting for goodwill (see Note 10), with regard to the recognition of deferred taxes (see Note 16) as well as the recognition and measurement of other provisions (see Note 25).

Discretionary decisions with a significant impact on the consolidated financial statements apply specifically to the decision on control in the case of joint ventures, for the distinction between full consolidation accounting and using the equity method. There is a similar situation with accounting methods for consortia (see "Consolidation"). In addition, such discretionary decisions are required for the classification of leases in property, plant and equipment (see Note 11).

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

Consolidation

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date control is obtained until the control relationship expires. The acquisition method (purchase method) of accounting is used for capital consolidation of the subsidiaries. In this connection, the cost of the acquired shares is offset against the Group's interest in the equity of the subsidiaries. To determine the equity of subsidiaries acquired, all identifiable assets and liabilities, including contingent liabilities of the subsidiary acquired, are recognized with their respective fair value at the acquisition date. Remaining debit differences are recognized as goodwill in accordance with IFRS 3 and are tested for impairment annually. Negative goodwill is directly recognized in profit after the fair values of assets and liabilities have been reassessed. Shares belonging to other investors with a corresponding stake in the identifiable net assets of the respective company acquired are measured at the acquisition date. Changes to the Group's share in subsidiaries, which do not lead to an acquisition or loss of control over this subsidiary, are treated as equity transactions.

Receivables and payables and income and expenses between consolidated Group companies are eliminated in the course of the preparation process. Where write-downs have been recognized in the separate financial statements of consolidated subsidiaries on shares in consolidated subsidiaries or intragroup receivables, such write-downs are reversed. Intragroup profits and losses from intercompany transactions are eliminated.

In accordance with IFRS 11, joint ventures are generally accounted for using the equity method insofar as the Group company holding the interest has typical shareholder rights applicable to the net assets of the joint venture. Insofar as the rights of the Group company holding the interest apply to individual assets or liabilities, or the companies participating in the joint venture have entered into specific agreements regarding the division of the goods produced or services rendered by the joint venture, such a joint venture would be deemed jointly operated and the assets and liabilities, or the expense and income, would be accounted for using proportionate consolidation. Where material, other companies in which Vossloh owns an equity interest of between 20 and 50 percent and where Vossloh can exercise a significant influence on their business and financial policies (associated companies) are accounted for using the equity method.

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

In the 2017 fiscal year, the following changes occurred in the scope of consolidation:

Finalized at the beginning of December 2016, the contract for the purchase of the shares in Rocla International Holdings Inc., Lakewood, Colorado, USA, was executed on January 3, 2017. In total, four consolidated companies including two investments stepped into the scope of consolidation. Rocla develops, manufactures and distributes concrete ties in North America. Together, the acquired companies form the new Tie Technologies business unit.

This acquisition significantly strengthens Vossloh's presence in the U.S. rail market and pursues the strategically important goal of Group growth. The purchase price for the shares was USD 121.9 million (€117.3 million) and was paid in full with cash. The future prospects of success were decisive for the paid goodwill; this intangible asset and the adjustment to the fair values of the other acquired assets and assumed liabilities are not effective for tax purposes.

The purchase price was compensated for by the following assets and liabilities:

€ mill.	Carrying amounts immediately before merger	Adjustments	Fair values as of initial consolidation
Intangible assets	5.2	6.1	11.3
Property, plant and equipment	41.5	18.7	60.2
Inventories	11.0	1.8	12.8
Trade receivables	6.6	–	6.6
Other assets	11.1	–	11.1
Liabilities	22.5	9.6	32.1
Acquired net equity	**52.9**	**17.0**	**69.9**
Purchase price			117.3
Remaining goodwill			**47.4**

The contribution of the acquired business unit to sales and/or value added can be found in the segment information section. Given the date of acquisition, the amounts are identical to those that would have arisen if the acquisition had taken place at the beginning of the current fiscal year. Transaction costs amounted to €2.0 million and were presented as general administrative expenses in the income statement in the previous year. At the time of addition, cash and cash equivalents amounted to €0.0 million.

In addition, the contract for the acquisition of all shares in Slitec SAS, Villeurbanne, France, was completed on September 30, 2017. The company belongs to the Switch Systems division and is active in the area of signal engineering. The company was merged with Siema Applications SAS, Villeurbanne, France, at the end of the fiscal year. With the acquisition the position in the French market for signal engineering has been improved.

The purchase price for the shares was €4.2 million and was paid in full with cash. This was compensated for by the following assets and liabilities:

€ mill.	Carrying amounts immediately before merger	Adjustments	Fair values as of initial consolidation
Noncurrent assets	0.0	0.0	0.0
Inventories	1.6	(0.1)	1.5
Trade receivables	2.2		2.2
Other assets	1.0		1.0
Liabilities	0.3	0.0	0.3
Acquired net equity	**4.5**	**(0.1)**	**4.4**
Purchase price			4.2
Difference			**(0.2)**

Before taking into account the negative goodwill, the fair values of the acquired assets and liabilities were reassessed. Since the date of acquisition, the Company has contributed €0.6 million to sales revenues and €0.0 million to net income. The transaction costs amounted to €0.1 million and are reported in other operating income. At the time of addition, cash and cash equivalents amounted to €0.4 million.

Two companies of the Switch Systems business unit were changed from full consolidation to consolidation using the equity method as of November 30, 2017, as the conditions for full consolidation due to a change in the respective shareholder agreements no longer existed. Transitional consolidations were made directly in equity by derecognizing the proportional net assets reported in the consolidated assets (taking into account noncontrolling interests) and recognizing an identical value in the line-item investments in companies accounted for using the equity method in the balance sheet.

On January 31, 2017, the contract concluded in December 2016 for the sale of the shares in the companies of the former Electrical Systems business unit by Vossloh AG to Knorr-Breme Systeme für Schienenfahrzeuge GmbH was completed. In doing so, seven consolidated companies were deconsolidated. The assets and liabilities had already been reported as "discontinued operations" as of December 31, 2016. The income and expenses of the companies in this business unit were reported under "Result from discontinued operations" in the previous year and for the month of January in the year under review. To this extent, the figures from the previous year are essentially presented in a comparable manner. Further information can be found in the notes under "(7) Result from discontinued operations."

The following table shows the assets (without cash and cash equivalents) and liabilities of the companies from the former business unit Electrical Systems as of January 31, 2017:

€ mill.	1/31/2017
Intangible assets (excl. goodwill)	4.9
Goodwill	34.1
Property, plant and equipment	29.7
Other noncurrent assets	3.3
Noncurrent assets	**72.0**
Inventories	99.0
Trade receivables	25.2
Receivables from construction contracts	25.3
Other current assets	6.9
Current assets	**156.4**
Assets	**272.8**
Provisions	32.5
Trade payables	14.1
Liabilities from construction contracts	92.8
Other liabilities	54.9
Liabilities	**194.3**

As of the end of the fiscal year, 58 companies were fully included in the consolidated financial statements, 17 of which were domiciled in Germany.

Development of fully consolidated companies

€ mill.	2017	2016
Companies fully consolidated as of January 1	62	63
Disposals	(7)	0
First-time consolidation	6	3
Reclassification of companies accounted for using the equity method	(2)	2
Intragroup mergers	(1)	(6)
Companies fully consolidated as of December 31	**58**	**62**

Nine companies (previous year: seven) based outside of Germany were accounted for using the equity method.

Due to their minor significance for the net assets, financial position and results of operations, 15 companies in which Vossloh AG directly or indirectly held the majority of voting rights or otherwise controlled them as of the balance sheet date were not included in the consolidated financial statements.

Currency translation

Noneuro financial statements of subsidiaries are translated into euros as the Group currency according to the concept of functional currency. Since these subsidiaries are economically independent entities, their functional currency corresponds to their local currency. For balance sheet items, the average exchange rate as of the reporting date is used, while for the translation of items in the income statement, the annual average rate is applied.

Compared with the translation of the previous year, currency translation differences in assets and liabilities, and between income statement and balance sheet, are recognized directly in equity and presented in the line item "Accumulated other comprehensive income."

In the separate financial statements, foreign currency transactions are translated at the rate upon initial recognition. Gains or losses arising up to the end of the reporting period from the remeasurement of financial instruments or cash and cash equivalents are recognized in profit or loss.

The exchange rates of countries outside of the eurozone in which the Vossloh Group transacts major business through consolidated subsidiaries are listed below:

Exchange rates

Country	Currency	€	2017	2016	2017	2016
			Current rate at Dec. 31		Average rate	
Australia	AUD	€1	1.54	1.46	1.47	1.48
Brazil	BRL	€1	3.98	3.43	3.61	3.86
China	CNY	€1	7.82	7.32	7.62	7.35
United Kingdom	GBP	€1	0.89	0.86	0.88	0.82
India	INR	€1	76.71	71.59	73.54	74.35
Kazakhstan	KZT	€1	399.69	352.36	368.84	378.67
Malaysia	MYR	€1	4.86	4.73	4.85	4.58
Mexico	MXN	€1	23.55	21.84	21.33	20.44
Poland	PLN	€1	4.18	4.41	4.26	4.31
Sweden	SEK	€1	9.82	9.55	9.64	9.44
Switzerland	CHF	€1	1.17	1.07	1.11	1.09
Serbia	RSD	€1	118.50	123.50	121.36	123.09
Thailand	THB	€1	39.15	37.73	38.30	38.32
Turkey	TRY	€1	4.55	3.71	4.12	3.31
USA	USD	€1	1.20	1.05	1.13	1.10

Notes to the income statement

Breakdown of sales revenues

€ mill.	2017	2016*
Sales of products	847.6	760.5
Revenues from construction contracts and from the rendering of services	70.7	62.0
Total	**918.3**	**822.5**

*Previous year's figures presented in a comparable manner, see page 106

(1) Sales revenues

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

Sales from specific manufacturing or construction contracts with customers are recognized according to the percentage-of-completion method (PoC) as required by IAS 11. This process establishes the percentage of completion of the contracts based on the ratio of costs already incurred to the estimated total contract costs (cost-to-cost method). The PoC sales recognized using this method correspond to the cost of sales plus a percentage of profit equivalent to the percentage of completion reached as of the balance sheet date. The proportional profit from the PoC method is recognized only where the results of the construction contracts can be determined reliably. If this condition is not met, sales are recognized in accordance with the PoC method without including the proportional profit. Where a loss from a PoC contract is imminent, this is recognized in full.

Sales revenues on services rendered are recognized in an analogous manner according to the work performed under the contract, provided the conditions for application of the PoC method are fulfilled. €56.1 million (previous year: €56.5 million) was realized for revenue from services in the fiscal year. The noticeable decline in sales from specific manufacturing as well as the provision of services compared with the previous year's report results from the changed presentation of income and expenses within the Locomotives business unit, which has been classified as held for sale (see Note (7) on page 106 et seq.).

The segment reports on pages 90 et seq. and 126 et seq. include breakdowns of external sales revenues by division, business unit and region.

(2) Functional expenses

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

Nature of expenses

€ mill.	2017	2016*
Cost of raw materials and supplies	392.4	334.0
Cost of services purchased	64.6	55.2
Cost of materials	**457.0**	**389.2**
Wages and salaries	169.6	155.6
Social security expenses and employee benefits	39.8	36.8
Pension expenses	5.4	4.7
Personnel expenses	**214.8**	**197.1**
Scheduled depreciation/amortization	**33.6**	**31.5**
Expenses on operating leases	**3.0**	**3.0**

*Previous year's figures presented in a comparable manner, see page 106

Based on the quarterly numbers, the average annual workforce structure was as follows:

Workforce structure

	2017	2016
Executive/management boards	26	28
Other managers/executives	130	127
Nontariff employees	907	846
Tariff employees	2,781	2,647
Apprentices/trainees	63	70
Interns/degree candidates	23	22
	3,930	**3,740**

In the Locomotives business unit, which has been presented as discontinued operations, 444 people on average were employed over the year (previous year: 416). The number of employees in accordance with Section 314 (1) No. 4 HGB was 4,947 (previous year: 4,753).

(2.1) Cost of sales

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

(2.2) General administrative and selling expenses

Breakdown of general administrative and selling expenses

€ mill.	2017	2016*
Selling expenses	58.4	59.7
General administrative expenses	89.7	92.6
General administrative and selling expenses	**148.1**	**152.3**

*Previous year's figures presented in a comparable manner, see page 106

In addition to personnel expenses, selling expenses primarily include outbound freight and commissions. This item also includes most of the allowances for devaluations on trade receivables.
The expense from allowances for trade receivables and other assets recognized in the reporting period and presented as general administrative and selling expenses came to €1.5 million (previous year: €1.5 million).

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

(2.3) Research and development costs

All research costs are directly expensed as research and development expenses in the income statement. The costs incurred for developing a marketable product are capitalized if they meet the intangible-asset recognition criteria in IAS 38. Noncapitalizable development costs are also expensed under this item. R&D expenses before capitalized development expenses came to €11.3 million in the past fiscal year (previous year: €10.4 million). Of these costs for development projects, €1.0 million (previous year: €0.2 million) were recognized in the balance sheet.

(3) Other operating result

Breakdown of other operating result

€ mill.	2017	2016*
Income from the release of provisions	5.7	7.8
Currency exchange gains	3.2	7.5
Income from government grants	1.5	1.5
Rental income	1.2	1.2
Insurance reimbursements	1.0	0.2
Release of allowances and reversal of write-downs	7.6	1.6
Income from the disposal of intangible assets and property, plant and equipment	1.1	0.4
Income from the disposal of financial instruments	0.0	0.1
Other income	6.9	9.5
Other operating income	**28.2**	**29.8**
Currency exchange losses	(3.8)	(7.6)
Losses on the disposal of intangible assets and property, plant and equipment	(0.2)	(0.8)
Expenses for buildings	(0.4)	(0.5)
Impairment of property, plant and equipment	(1.3)	(2.4)
Other expenses	(1.0)	(1.1)
Other operating expenses	**(6.7)**	**(12.4)**
Other operating result	**21.5**	**17.4**

*Previous year's figures presented in a comparable manner, see page 106

Income from government grants is mainly related to R&D projects. Payments received on account of such grants are recognized as deferred income and amortized to other operating income. Investment/capex-related grants or incentives are offset against the cost of the property, plant and equipment concerned. Conditions yet to be met and where the failure to meet such conditions would entail the repayment of grants do not exist, nor do any contingent liabilities in this regard. Impairment losses on property, plant and equipment in the year under review relate to technical equipment and machinery in the Fastening Systems business unit, as in the previous year.

As of the end of the reporting period, no grants were recognized as a cost reduction in property, plant and equipment, as in the previous year.

(4.1) Other financial income

Breakdown of other financial income

€ mill.	2017	2016*
Income from investments	0.3	0.3
Income from shares in affiliated companies	1.7	0.3
Income from the measurement of financial instruments at fair value	0.0	3.5
Income from securities	0.2	0.2
Other financial income	**2.2**	**4.3**

*Previous year's figures presented in a comparable manner, see page 106

(4.2) Other financial expenses

Breakdown of other financial expenses

€ mill.	2017	2016*
Write-down of financial instruments	(0.3)	(0.5)
Other financial expenses	**(0.3)**	**(0.5)**

*Previous year's figures presented in a comparable manner, see page 106

(5) Interest expenses

Breakdown of interest expense

€ mill.	2017	2016*
Interest from bank liabilities	(7.6)	(5.9)
Guarantee commissions	(0.8)	(0.6)
Other interest expenses	(7.6)	(6.0)
Interest expenses	**(16.0)**	**(12.5)**

*Previous year's figures presented in a comparable manner, see page 106

(6) Income taxes

Breakdown of income taxes

€ mill.	2017	2016*
Current income taxes	21.3	22.1
Deferred taxes	0.4	(1.1)
Income taxes	**21.7**	**21.0**

*Previous year's figures presented in a comparable manner, see page 106

Of the current income taxes, €(1.7) million (previous year: €(2.6) million) related to previous years. In the case of deferred taxes, this applied to €0.3 million (previous year: €3.0 million).

In Germany, income taxes reflect the statutory corporate income tax rate of 15 percent, the 5.5 percent solidarity surtax thereon and the municipal trade tax rate by applying factors fixed by local municipalities. We expect an average tax rate of 31.98 percent for Vossloh AG as the parent company.

The Vossloh Group's actual tax expense of €21.7 million (previous year: €21.0 million) was €3.2 million (previous year: €6.9 million) above the anticipated tax expense that would have resulted from applying group-wide Vossloh AG's tax rate to EBT.

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

Reconciliation to the recognized income tax expense

		2017	2016*
Earnings before income taxes	€ mill.	57.8	46.9
Income tax rate including trade taxes	%	31.98	30.0
Expected income tax by applying a uniform tax rate	€ mill.	18.5	14.1
Effect of divergent foreign income tax rates	€ mill.	(3.5)	(1.8)
Nontaxable income	€ mill.	(1.1)	(1.6)
Nondeductible expenses	€ mill.	3.0	5.3
Taxes for prior periods	€ mill.	(1.4)	0.4
Tax effect of write-ups/write-downs of deferred tax assets	€ mill.	3.9	3.9
Double-taxation effects	€ mill.	0.7	0.5
Effects from the remeasurement of deferred taxes	€ mill.	1.1	0.1
Effects from the measurement of investments in companies accounted for using the equity method	€ mill.	0.1	(0.1)
Other differences	€ mill.	0.4	0.2
Recognized income tax expense	€ mill.	21.7	21.0
Effective income tax rate	%	37.6	44.8

*Previous year's figures presented in a comparable manner, see page 106

Deferred taxes decreasing other comprehensive income amounted to €0.4 million (increase in previous year: €0.2 million). Those deferred taxes arose from the remeasurement of defined benefit plans in the amount of €(0.2) million (previous year: €1.2 million) and from changes in the measurement of hedging instruments on cash flow hedges amounting to €(0.2) million (previous year: €(1.0) million).

(7) Result from discontinued operations/assets and liabilities held for sale

In the year under review, the result from discontinued operations pertained to the former Electrical Systems business unit, which has been deconsolidated since January 31, 2017, and previously recognized as "discontinued operations" in accordance with IFRS 5. Similarly, the Locomotive business unit has been recognized as "discontinued operations" since December 31, 2017, in accordance with IFRS 5. The result reported in the income statement comprises all income and expenses resulting from current business of these two business units – in the case of Vossloh Electrical Systems for the month of January 2017 – and the associated tax expense in addition to all expenses incurred as a result of the measurement of assets and liabilities at fair value less expected costs to sell. The figures from the previous year are presented in a comparable manner and therefore differ from the figures presented in the 2016 annual report.

The asset and liabilities of the Locomotive business unit (in previous year, including the Electrical Systems business unit) held for sale are each presented in a separate line item in the balance sheet. The following table shows the material items:

Assets and liabilities held for sale

€ mill.	12/31/2017	12/31/2016*
Intangible assets (excl. goodwill)	–	7.9
Goodwill	–	36.6
Property, plant and equipment	–	40.2
Other noncurrent assets	1.0	5.4
Noncurrent assets	**1.0**	**90.1**
Inventories	103.5	166.7
Trade receivables	21.9	34.7
Receivables from construction contracts	8.2	30.2
Other current assets	1.5	5.9
Cash and cash equivalents	1.8	8.6
Current assets	**136.9**	**246.1**
Assets	**137.9**	**336.2**
Provisions	14.3	54.3
Trade payables	28.0	30.9
Liabilities from construction contracts	0.3	107.5
Other liabilities	44.4	55.0
Liabilities	**87.0**	**247.7**

*Previous year's figures presented in a comparable manner, see page 106

Composition of the result from discontinued operations

€ mill.	2017	2016*
Income	109.1	307.8
Expenses	(123.0)	(320.3)
Result from operating activities, before taxes	**(13.9)**	**(12.5)**
Income taxes	0.7	(4.9)
Result from operating activities, after taxes	**(13.2)**	**(17.4)**
Impairment loss on goodwill	(2.4)	(7.7)
Impairment loss on other noncurrent assets	(23.6)	0.0
Gain from the disposal of the discontinued Rail Vehicles business unit	–	9.3
Income tax on the gains from the disposal of discontinued operations	–	–
Gain from the disposal of the discontinued Electrical Systems business unit	3.2	–
Income tax on the gains from the disposal of discontinued operations	–	–
Result from discontinued operations	**(35.8)**	**(15.8)**
thereof attributable to shareholders of Vossloh AG	(35.8)	(15.8)
thereof attributable to noncontrolling interests	–	–

*Previous year's figures presented in a comparable manner, see page 106

In the statement of comprehensive income, €0.1 million (previous year: €3.6 million) of changes in the market value of hedging instruments (cash flow hedges) and related income taxes of €0.0 million (previous year: €(1.1) million) are assigned to discontinued operations. In addition, €(0.8) million (previous year: €0.3 million) relates to currency translation differences from discontinued operations. Apart from this, €0.1 million (previous year: €(0.1) million) resulted from the revaluation of defined benefit plans and related income taxes of € 0.0 million (previous year: €0.1 million) from discontinued operations.

(8) Noncontrolling interests

The share of the Group's total net income attributable to noncontrolling interests includes shares in profit of €8.9 million (previous year: €7.0 million) and shares in losses of €0.6 million (previous year: €0.2 million).

(9) Earnings per share

		2017	2016*
Weighted average of shares outstanding	Number	15,967,437	14,769,086
Net income attributable to Vossloh AG shareholders	**€ mill.**	**(8.0)**	**3.3**
Basic/diluted earnings per share	**€**	**(0.50)**	**0.22**
thereof attributable to continuing operations	€	1.74	1.30
thereof attributable to discontinued operations	€	(2.24)	(1.08)

*Previous year's figures presented in a comparable manner, see page 106

Notes to the consolidated cash flow statement

The cash flow statement shows the changes in cash and cash equivalents within the Vossloh Group. Cash pertains to cash on hand and in the bank. Cash equivalents comprise any financial instruments with a maximum term of three months that can be readily converted into cash.

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

The cash outflow for the acquisition of consolidated subsidiaries included inflowing cash and cash equivalents of €0.4 million (previous year: €3.5 million) netted against cash outflows for consideration transferred of €121.5 million (previous year: €12.4 million). Proceeds from the sale of consolidated subsidiaries comprised the balance of the cash purchase price of €72.5 million and cash outflows of €30.1 million.

The figures in the cash flow statement shown on page 87 relate to the entire Group including effects of discontinued operations. The table below divides the subtotals of the cash flow statement and opening and closing cash and cash equivalents into continuing and discontinued operations.

€ mill.	2017		2016	
Cash flow items	Thereof from continuing operations	Thereof from discontinued operations	Thereof from continuing operations	Thereof from discontinued operations
Gross cash flow	106.3	(10.0)	90.5	2.1
Cash flow from operating activities	62.4	(37.9)	95.1	(29.3)
Free cash flow	23.3	(45.6)	65.5	(40.3)
Cash flow from investing activities	(116.6)	(7.6)	(32.2)	(11.0)
Cash flow from financing activities	(62.0)	82.7	49.8	29.5
Opening cash and cash equivalents	170.0	8.6	59.0	19.8
Closing cash and cash equivalents	96.3	1.8	170.0	8.6

€ mill.	12/31/2016	Payments for the period	Noncash changes: Business acquisitions	Noncash changes: New lease agreements	Noncash changes: Changes in fair value	Noncash changes: Exchange rate effects	Noncash changes: Other	12/31/2017
Noncurrent and medium-term credit liabilities	246.9	51.8	0.0	0.0	0.0	0.0	(49.9)	248.8
Current credit liabilities	8.7	(5.5)	1.3	0.0	0.0	1.3	49.9	55.7
Derivatives in hedging relationships	3.3	(6.4)	0.0	0.0	0.0	0.0	0.0	(3.1)
Liabilities from leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**258.9**	**39.9**	**1.3**	**0.0**	**0.0**	**1.3**	**0.0**	**301.4**

Payments for the period of €51.8 million for noncurrent and medium-term credit liabilities include the proceeds from the issue of the Schuldschein loan in the amount of €250 million in July 2017.

Notes to the balance sheet

The balance sheet is broken down into noncurrent and current assets and liabilities. Assets and liabilities maturing or due within one year are deemed current. Irrespective of their maturity, trade receivables/payables are always considered current even if due after one year but within one normal business cycle. Deferred taxes are recognized as noncurrent assets or liabilities.

(10) Intangible assets

Breakdown of intangible assets

€ mill.	2017	2016*
Goodwill	251.2	226.7
Development costs	6.3	5.8
Concessions, licenses, property rights	22.8	14.7
Advance payments	0.1	0.2
	280.4	**247.4**

*Previous year's figures presented in a comparable manner, see page 106

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

Pursuant to IFRS 3 in conjunction with IAS 36, goodwill from acquisitions is not amortized but is tested annually for impairment as of the balance sheet date or upon the occurrence of triggering events (impairment test). In this connection, the higher amount from value in use or fair value less costs to sell is compared to the respective carrying amount of a cash-generating unit (CGU). For the CGUs in question, the value in use is always the higher value. As in the previous year, there are four different CGUs in the Vossloh Group to which goodwill is allocated. The value in use is calculated based on the medium-term budget for the respective units and is derived from the expected discounted cash flows. In this respect, key assumptions are anticipated orders resulting from sales planning, expected sales revenues and the full earnings and balance sheet budget based on this.

When measuring the value in use by discounting anticipated cash flows, a pre-tax discount rate specific to the CGU is applied. When determining the respective discount rate, weighted specific country risks, inflation effects and tax rates were considered, whereby the weightings of the country risks as well as the inflation effects were derived from the regional distribution of sales from both the past fiscal year and over the budget periods, while the tax rates were determined on the basis of the relative earnings contributions of the companies within the CGUs.

The planning is based on empirical data and expected future market trends and encompasses a detailed planning period of three years. The expected sales growth of the CGUs is based on the planned projects, which are to some extent already included in the order backlog. Average annual sales growth in the CGUs, which is anticipated for this period in line with the medium-term budget, is reported in the table below. The growth rate of the perpetual annuity was set at 50 percent of the CGU-specific inflation rate resulting from the discount factor calculation described above.

For periods beyond this planning horizon, the cash flows are projected forward by assuming a CGU-specific annual growth rate to determine the value in use. A financing of inventories, trade receivables and payables, and property, plant and equipment associated with this growth was also included in the cash flow. As the CGUs' values in use (including assigned goodwill) exceed their carrying amounts, no goodwill impairment loss had to be recognized. Within the scope of the generally conducted sensitivity analyses, various scenarios were examined: an increase in the discount rates by 50 basis points, a separate derivation of the WACC just for the terminal value and a general reduction in cash flows by 7.5 percent. There was also no need for impairment in these scenarios.

Goodwill breakdown by reporting segment

€ mill.	2017				2016
	Discount rate (in %)	Growth rate of the perpetual annuity (in %)	Average revenue growth in the planning period p.a. (in %)	Carrying amount	Carrying amount
Vossloh Switch Systems	11.6	1.3	5.3	155.1	179.6
Vossloh Rail Services	8.9	0.9	9.0	56.8	56.8
Vossloh Tie Technologies	13.1	1.2	20.8	41.0	0.0
Vossloh Fastening Systems	12.4	1.4	3.4	1.2	1.2
				254.1	**237.6**

In the goodwill of the CGU Vossloh Switch Systems, for purposes of the impairment test €2.9 million (previous year: €10.8 million) of calculated noncontrolling interests are included.

Development costs are capitalized at cost of sales wherever such costs can clearly be assigned, the developed product's technical feasibility and future marketability are ensured, and the development work is reasonably certain to produce future cash inflows.

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

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

The amortization of intangible assets in the amount of €2.7 million (previous year: €1.1 million) is included in the income statement under cost of sales, €1.5 million (previous year: €1.4 million) under general administrative and selling expenses and €0.8 million (previous year: €0.7 million) under research and development costs.

No impairment losses have been recognized in either the reporting period or the prior year.

Changes in intangible assets

€ mill.	2017	2016*	2017	2016*	2017	2016*	2017	2016*	2017	2016*
	Goodwill		Development costs		Concessions, licenses and property rights		Advance payments		Intangible assets	
Net carrying amount as of December 31	**251.2**	**226.7**	**6.3**	**5.8**	**22.8**	**14.7**	**0.1**	**0.2**	**280.4**	**247.4**
Cost										
Balance as of January 1	**286.9**	**280.9**	**10.9**	**10.7**	**44.0**	**41.3**	**0.2**	**0.4**	**342.0**	**333.3**
Changes from first-time consolidation	41.0	5.8	0.0	0.0	11.2	0.7	0.0	0.0	52.2	6.5
Changes from the transitional consolidation and deconsolidation	(12.4)	0.0	(2.7)	0.0	(0.4)	0.0	0.0	0.0	(15.5)	0.0
Additions/ongoing investments	0.0	0.0	1.4	0.3	1.7	1.7	0.0	0.0	3.1	2.0
Disposals	0.0	0.0	0.0	(0.3)	(0.2)	0.0	0.0	0.0	(0.2)	(0.3)
Transfers	0.0	0.0	0.0	0.2	0.1	0.0	(0.1)	(0.2)	0.0	0.0
Currency translation differences	(4.1)	0.2	(0.2)	0.0	(1.4)	0.3	0.0	0.0	(5.7)	0.5
Balance as of December 31	**311.4**	**286.9**	**9.4**	**10.9**	**55.0**	**44.0**	**0.1**	**0.2**	**375.9**	**342.0**
Accumulated amortization and impairment losses										
Balance as of January 1	**60.2**	**60.2**	**5.1**	**4.2**	**29.3**	**26.8**	**0.0**	**0.0**	**94.6**	**91.2**
Changes from first-time consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes from the transitional consolidation and deconsolidation	0.0	0.0	(2.7)	0.0	(0.4)	0.0	0.0	0.0	(3.1)	0.0
Amortization of the fiscal year	0.0	0.0	0.8	0.8	4.2	2.4	0.0	0.0	5.0	3.2
Disposals	0.0	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0	(0.2)	0.0
Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency translation differences	0.0	0.0	(0.1)	0.1	(0.7)	0.1	0.0	0.0	(0.8)	0.2
Balance as of December 31	**60.2**	**60.2**	**3.1**	**5.1**	**32.2**	**29.3**	**0.0**	**0.0**	**95.5**	**94.6**

*Previous year's figures presented in a comparable manner, see page 106

(11) Property, plant and equipment

Breakdown of property, plant and equipment

€ mill.	2017	2016*
Land, leasehold rights and buildings including buildings on nonowned land	73.2	50.6
Technical equipment and machinery	94.6	89.5
Other equipment, factory and office equipment	16.3	13.7
Advance payments and construction in process	28.4	21.0
	212.5	**174.8**

*Previous year's figures presented in a comparable manner, see page 106

Property, plant and equipment is capitalized at cost and depreciated on a straight-line basis over the expected useful lives. In addition to the purchase price, acquisition costs include incidental costs. Acquisition costs are reduced by purchase price reductions.

Changes in property, plant and equipment

€ mill.	2017	2016*	2017	2016*	2017	2016*	2017	2016*	2017	2016*
	Land, leasehold rights and buildings including buildings on nonowned land		Technical equipment and machinery		Other equipment, factory and office equipment		Advance payments and construction in process		Property, plant and equipment	
Net carrying amount as of December 31	**73.2**	**50.6**	**94.6**	**89.5**	**16.3**	**13.7**	**28.4**	**21.0**	**212.5**	**174.8**
Cost										
Balance as of January 1	**93.8**	**89.5**	**275.9**	**255.6**	**41.3**	**37.6**	**21.0**	**12.8**	**432.0**	**395.5**
Changes from first-time consolidation	25.0	0.6	20.4	19.4	5.0	0.8	1.0	0.3	51.4	21.1
Changes from the transitional consolidation and deconsolidation	(1.8)	0.0	(5.3)	0.0	(1.8)	0.0	0.0	0.0	(8.9)	0.0
Additions/ongoing investments	5.4	5.4	6.1	5.5	3.8	3.3	15.0	11.1	30.3	25.3
Disposals	(1.0)	(1.4)	(7.7)	(5.9)	(1.3)	(0.7)	(0.5)	(0.1)	(10.5)	(8.1)
Transfers	1.7	0.3	5.7	2.3	0.6	0.5	(8.0)	(3.1)	0.0	0.0
Currency translation differences	(2.0)	(0.6)	(6.5)	(1.0)	(1.4)	(0.2)	(0.1	0.0	(10.0)	(1.8)
Balance as of December 31	**121.1**	**93.8**	**288.6**	**275.9**	**46.2**	**41.3**	**28.4**	**21.0**	**484.3**	**432.0**
Accumulated depreciation and impairment losses										
Balance as of January 1	**43.2**	**39.3**	**186.4**	**155.3**	**27.6**	**24.3**	**0.0**	**0.0**	**257.2**	**218.9**
Changes from first-time consolidation	0.0	0.2	0.0	15.1	0.0	0.2	0.0	0.0	0.0	15.5
Changes from the transitional consolidation and deconsolidation	(0.8)	0.0	(3.9)	0.0	(1.2)	(0.1)	0.0	0.0	(5.9)	(0.1)
Depreciation and impairment losses in the fiscal year	7.1	4.2	21.0	19.2	5.6	4.2	0.0	0.0	33.7	27.6
Disposals	(0.9)	(0.3)	(5.0)	(2.3)	(1.2)	(0.8)	0.0	0.0	(7.1)	(3.4)
Transfers	0.1	0.0	(0.2)	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Currency translation differences	(0.8)	(0.2)	(4.3)	(0.9)	(1.0)	(0.2)	0.0	0.0	(6.1)	(1.3)
Balance as of December 31	**47.9**	**43.2**	**194.0**	**186.4**	**29.9**	**27.6**	**0.0**	**0.0**	**271.8**	**257.2**

*Previous year's figures presented in a comparable manner, see page 106

Depreciation is primarily based on the following useful lives:

Useful lives of property, plant and equipment

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

Where the carrying amount of property, plant and equipment is determined to be impaired, appropriate write-downs are made. In the reporting year, impairment losses of €1.3 million (previous year: €2.4 million) were recognized. Depreciation of property, plant and equipment is included in the income statement in the amount of €28.5 million (previous year: €22.5 million) under cost of sales, €4.2 million (€2.4 million) under general administrative and selling expenses and €0.2 million (previous year: €0.2 million) under research and development costs. Impairment losses relate to technical equipment and machinery in the Fastening Systems business unit in which the previous carrying amount had to be adjusted due to current business forecasts. The recoverable amount of impaired assets is €3.4 million.

(12) Investment property

Development of investment property

€ mill.	2017	2016*
Net carrying amounts	**2.8**	**3.6**
Cost		
Balance as of January 1	7.9	8.6
Additions	0.0	0.0
Disposals	(1.9)	(0.5)
Transfers	0.0	0.0
Currency translation differences	(0.3)	(0.2)
Balance as of December 31	**5.7**	**7.9**
Accumulated amortization and impairment losses		
Balance as of January 1	4.3	4.1
Amortization of the fiscal year	0.2	0.3
Disposals	(1.5)	0.0
Transfers	0.0	0.0
Currency translation differences	(0.1)	(0.1)
Balance as of December 31	**2.9**	**4.3**

*Previous year's figures presented in a comparable manner, see page 106

Investment properties include land and buildings not used for operations and fully or partly leased to nongroup lessees. According to IAS 40, buildings owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 20 years.

In the year under review, a property with a carrying amount of €0.4 million was sold. The resulting gain on disposal was insignificant. Rental income in the reporting year amounted to €1.1 million (previous year: €1.0 million). Expenses (including depreciation, maintenance and repairs and incidentals) incurred for properties leased out totaled €0.4 million (previous year: €0.5 million), those for nonleased properties amounted to €0 thousand (previous year: €2 thousand). As in the prior year, expenses for leased properties include no amounts for write-downs. The fair value of buildings owned for investment purposes, including existing buildings, totals €5.9 million (previous year: €7.5 million). The fair values are primarily based on the current market prices of comparable properties. An assessment performed by an accredited expert did not take place.

(13) Investments in companies accounted for using the equity method

Information on investments in companies accounted for using the equity method

€ mill.	2017	2016*
Result from continuing operations	0.4	0.7
Income and expenses recognized directly in equity	(0.9)	(0.3)
Total comprehensive income	**(0.5)**	**0.4**

*Previous year's figures presented in a comparable manner, see page 106

Significant financial information on Wuhu China Railway Cogifer Track Co. Ltd., Wuhu, China, which is accounted for using the equity method

€ mill.	2017	2016
Noncurrent assets	18.9	22.1
Current assets	15.5	11.7
thereof cash and cash equivalents	0.8	0.4
Noncurrent liabilities	–	–
thereof noncurrent financial liabilities	–	–
Current liabilities	18.2	16.4
thereof current financial liabilities	8.3	9.3
Sales revenues	13.3	9.8
Result from continuing operations	(0.1)	(1.0)
Depreciation/amortization	1.9	2.0
Interest income	0.0	0.0
Interest expenses	0.6	0.6
Tax expense	0.0	0.0
Other comprehensive income	(1.1)	(0.6)
Total comprehensive income	**(1.2)**	**(1.6)**

The investments in these companies are accounted for using the equity method. In this connection, the carrying amounts of associated companies are adjusted for proportional profits or losses, dividends distributed or any other changes in equity. This pertains to shares in nine foreign companies (previous year: seven) upon which significant influence is exercised. In the case of two foreign companies, the division of controls between Vossloh and the other shareholders has changed to such an extent that the companies are no longer fully consolidated but included using the equity method as part of a transitional consolidation.

(14) Other noncurrent financial instruments

Breakdown of other noncurrent financial instruments

€ mill.	2017	2016*
Shares in unconsolidated affiliated companies	3.1	4.3
Other investments	3.2	0.4
Loans	2.5	2.5
Securities	0.1	0.1
Derivative financial instruments in hedging relationships	0.0	0.0
Other noncurrent financial assets	0.0	0.1
	8.9	**7.4**

*Previous year's figures presented in a comparable manner, see page 106

The shares in unconsolidated affiliated companies as well as the other investments are recognized at amortized cost as market values are not available or cannot readily be determined. There is currently no plan to sell shares.

Loans not quoted in an active market as well as the other noncurrent financial assets are initially measured as nonderivative receivables at fair value (which generally equals the nominal amount of the receivable or the loan amount). Non- and low-interest-bearing long-term loans and receivables are discounted. For their subsequent measurement at amortized cost, the effective interest rate method is used.

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

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

The other financial instruments are measured according to their IAS 39 classification. For the reconciliation of the balance sheet line with the IAS 39 valuation categories, see page 128 et seq., "Additional information on financial instruments."

(15) Other noncurrent assets

Prepaid expenses are primarily recognized under other noncurrent assets.

(16) Deferred taxes

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

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

Deferred taxes

€ mill.	2017		2016*	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and property, plant and equipment	2.2	19.2	2.7	15.5
Inventories	4.3	0.0	4.1	(1.9)
Receivables	1.3	4.4	1.7	1.3
Other assets	0.0	0.0	0.0	0.0
Pension provisions	6.9	0.0	7.3	0.0
Other provisions	3.0	0.0	3.2	(0.5)
Liabilities	0.8	0.7	1.2	0.5
Other liabilities	4.0	2.1	3.6	2.9
Loss carryforwards	14.8	–	19.9	–
Total	**37.3**	**26.4**	**43.7**	**17.8**
Netting	(13.6)	(13.6)	(16.8)	(16.8)
Deferred taxes according to the balance sheet	**23.7**	**12.8**	**26.9**	**1.0**

*Previous year's figures presented in a comparable manner, see page 106

Taking into account the new deferred taxes resulting from the acquisition of Vossloh Tie Technologies, the changes in deferred tax assets and liabilities were recognized in the year under review to a substantially equal degree in the income statement and in the statement of comprehensive income.

As of December 31, 2017, tax loss carryforwards of €235.5 million (previous year: €202.5 million) existed in Germany for corporate income tax purposes and of €230.3 million for municipal trade tax purposes (previous year: €198.2 million). No deferred taxes were recognized for corporate income tax losses of €216.1 million (previous year: €182.3 million) and trade tax losses of €210.7 million (previous year: €176.8 million). In order to determine the recognizable deferred tax assets on loss carryforwards, the period of detailed planning, which normally covers three years, has been extended by two years as in previous periods and specifically taken into account in anticipated taxable income.

In addition, non-German companies reported tax loss carryforwards of €41.7 million (previous year: €31.6 million), of which €26.2 million (previous year: €25.6 million) was considered. Allowances were recorded in the year under review against deferred tax assets in the amount of €5.7 million (previous year: €6.3 million). At the same time, deferred tax assets that had previously been impaired of €1.7 million (previous year: €0.0 million) were released. According to current German law and the law of most other countries, the carryforward of tax losses is not subject to any limitation or expiration. Loss carryforwards amounting to €36.3 million (previous year: €9.3 million) expire after more than five years.

(17) Inventories

Breakdown of inventories

€ mill.	2017	2016*
Raw materials and supplies	87.7	93.6
Work in process	35.2	35.8
Merchandise	10.7	5.9
Finished products	19.8	11.7
Advance payments	0.9	1.1
Total	**154.3**	**148.1**

*Previous year's figures presented in a comparable manner, see page 106

Inventories are stated at the lower of cost or net realizable value. Cost of sales comprises all production costs including directly attributable direct costs as well as all fixed and variable manufacturing overheads systematically allocable to the production process and special direct manufacturing costs. Borrowing costs are capitalized as part of cost wherever qualifying assets according to IAS 23 exist. To the extent that a Group valuation is made, inventories are valued at the moving average price. Inventory risks from obsolescence or slow-moving items are appropriately allowed for. Allowances on inventories amounted to €32.6 million as of the balance sheet date (previous year: €34.5 million), which primarily resulted from excessive inventories. €(0.6) million of this was recognized in profit or loss in the year under review (previous year: €1.0 million). The carrying amount of inventories stated at net realizable value totaled €48.4 million (previous year: €14.6 million).

As the reasons for previous write-downs no longer existed, inventories were written up in 2017 by €0.9 million (previous year: €0.2 million).

(18) Trade receivables and receivables from construction contracts

Given their short remaining term, trade receivables other than those from construction contracts are carried at their nominal value. Specific risks are taken into account by appropriate allowances. If there are indications of probable impairment, an appropriate valuation allowance is recognized. Derecognition only occurs if the recovery of the respective receivable is virtually impossible for legal or practical reasons.

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

Changes in the allowances for trade receivables

€ mill.	2017	2016*
Balance as of January 1	**14.7**	**14.4**
Additions	2.4	1.9
Releases	(1.6)	(1.3)
Utilization	(1.7)	(0.2)
Currency translation differences	(0.4)	(0.1)
Balance as of December 31	**13.4**	**14.7**

*Previous year's figures presented in a comparable manner, see page 106

Receivables from construction contracts are calculated based on the percentage-of-completion method. In applying this method, any contract costs incurred, including a percentage of profit equivalent to the percentage of completion less any losses, are capitalized as total progress under construction contracts. Where total progress under construction contracts exceeds the total of all advance payments received from customers, the construction contracts are presented under assets as "Receivables from construction contracts." Where the situation is reversed, after advance payments are credited toward total progress, they are recognized on the balance sheet under liabilities as "Liabilities from construction contracts."

Receivables and liabilities from construction contracts

€ mill.	2017		2016*	
	Receivables from construction contracts	Liabilities from construction contracts	Receivables from construction contracts	Liabilities from construction contracts
Contract costs	13.7	0.0	18.6	10.0
Proportional profit	3.1	0.0	0.8	0.0
Proportional losses	(0.4)	0.0	(1.0)	(0.2)
Total progress under construction contracts	16.4	0.0	18.4	9.8
Advance payments received	(5.1)	0.0	0.0	0.0
Partial billings	(4.7)	0.0	(11.5)	(10.3)
Balance sheet presentation	**6.6**	**0.0**	**6.9**	**0.5**

*Previous year's figures presented in a comparable manner, see page 106

(19) Income tax assets

These include €0.3 million of income taxes (previous year: €0.2 million) refundable to companies of the Fastening Systems business unit, €7.1 million (previous year: €1.9 million) to Vossloh Switch Systems, €0.3 million (previous year: €0.1 million) to the companies of the Rail Services business unit, €0.0 million to the Tie Technologies business unit and €0.1 million (previous year: €1.6 million) to companies at Group level.

(20) Other current assets

Breakdown of other current assets

€ mill.	2017	2016*
Loans and other financial receivables	10.5	6.2
Receivables from reimbursements	6.9	6.4
Other tax receivables (excluding income taxes)	6.1	8.5
Receivables from investees	4.5	2.5
Derivative financial instruments	3.4	0.5
Security and similar deposits	2.6	0.9
Receivables from affiliated companies	1.8	1.0
Receivables from employees	0.3	0.3
Creditors with debit accounts	0.2	0.3
Interest receivables	0.0	0.0
Current financial assets	**36.3**	**26.6**
Prepaid expenses	2.9	2.4
Other current assets	4.0	3.9
Current nonfinancial assets	**6.9**	**6.3**
Other current assets	**43.2**	**32.9**

*Previous year's figures presented in a comparable manner, see page 106

The receivables shown under other current assets are recognized at cost or, where appropriate, at amortized cost. Specific risks are taken into account by appropriate allowances. The receivables from reimbursements are not reimbursements made by shareholders. Other financial receivables primarily result from retained amounts in connection with factoring contracts in the Switch Systems business unit.

The balances and changes in allowances are presented below:

Changes in the allowances

€ mill.	2017	2016*
Balance as of January 1	**0.1**	**0.1**
Additions	0.5	0.0
Releases	0.0	0.0
Utilizations	0.0	0.0
Currency translation differences	0.0	0.0
Balance as of December 31	**0.6**	**0.1**

*Previous year's figures presented in a comparable manner, see page 106

For the reconciliation of financial instruments shown as other current assets to the IAS 39 valuation categories, see page 128 et seq., "Additional information on financial instruments." Other tax receivables and miscellaneous current assets are measured at cost.

(21) Short-term securities

This line item presents funds invested in short-term fixed-income securities in the amount of €0.1 million (previous year: €0.1 million), which are classified as held to maturity and hence carried at amortized cost. The remaining securities of €0.4 million (previous year: €0.4 million) are available for sale and therefore stated at fair value. Changes in the value of these assets are recognized directly in equity.

For the reconciliation of short-term securities to the IAS 39 valuation categories, see page 128 et seq., "Additional information of financial instruments."

(22) Cash and cash equivalents

Cash comprises cash on hand and in the bank. Cash equivalents comprise any financial instruments with an initial term of up to three months and readily convertible into cash. Cash and cash equivalents are carried at their nominal value.

(23) Equity/capital management

For the statement of changes in equity, see page 89. The most important objectives of financial management are the sustainable increase of enterprise value through positive value added, the safeguarding of liquidity and an adequate equity ratio for the Vossloh Group. The optimization of the capital structure contributes as much to this as does efficient management of cash inflows and outflows from financing activities and effective risk management.

(23.1) Capital stock

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

(23.2) Additional paid-in capital

The additional paid-in capital includes the stock premium from shares issued by Vossloh AG. There are also differences recorded in additional paid-in capital that arose based on the purchase and sale prices for treasury shares.

Employee bonus program 2017

The employee bonus program 2017 (on terms unchanged from the previous year) offered employees of German Vossloh companies the option of acquiring either two Vossloh AG shares at no cost or eight shares at a discount of 50 percent of the issue price of €50.38 per share (previous year: €55.61), determined as the market price as of the share transfer date. Under this program, employees of the Vossloh Group, including employees of business unit held for sale, were granted a total of 2,338 shares at no cost from both implementation options in the reporting year (previous year: 3,350). The expense to the Group for granting shares was €133.5 thousand (previous year: €177.3 thousand). The shares issued are each subject to a five-year holding period. The shares issued are acquired via the capital market; there are no other obligations from the program.

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

(23.3) Retained earnings

Cumulative other comprehensive income in reserves after taxes

€ mill.	Reserve from currency translation	Reserve from hedging transactions (cash flow hedges)	Reserve from the remeasurement of defined benefit plans	Other comprehensive income not including noncontrolling interests	Non-controlling interests	Other comprehensive income
	2017					
Reclassification of actuarial gains and losses from defined benefit plans to retained earnings			2.5	**2.5**		**2.5**
Foreign subsidiaries – currency translation differences	(4.7)			**(4.7)**	(0.9)	**(5.6)**
Cash flow hedges		0.4		**0.4**		**0.4**
Reclassification of actuarial gains and losses from defined benefit plans			0.3	**0.3**		**0.3**
Deconsolidation and transitional consolidation	(2.1)	(0.3)		**(2.4)**	(3.6)	**(6.0)**
Total	**(6.8)**	**0.1**	**2.8**	**(3.9)**	**(4.5)**	**(8.4)**
€ mill.	2016					
Reclassification of actuarial gains and losses from defined benefit plans to retained earnings			0.4	**0.4**		**0.4**
Foreign subsidiaries – currency translation differences	(2.4)			**(2.4)**	(0.6)	**(3.0)**
Cash flow hedges		2.3		**2.3**		**2.3**
Reclassification of actuarial gains and losses from defined benefit plans			(2.5)	**(2.5)**	0.0	**(2.5)**
Deconsolidation	(0.3)			**(0.3)**		**(0.3)**
Total	**(2.7)**	**2.3**	**(2.1)**	**(2.5)**	**(0.6)**	**(3.1)**

Accumulated other comprehensive income contains the changes in equity without profit or loss effect from the translation of financial statements of foreign subsidiaries, from the measurement of derivatives in connection with hedging transactions (cash flow hedges), and of available-for-sale financial instruments as well as actuarial gains and losses relating to employee benefits recognized during the reporting year. In the reporting year, an expense of €2.5 million was reclassified from the reserves for hedging transactions to retained earnings.

(23.4) Other comprehensive income

€14.9 million (previous year: €13.7 million) of noncontrolling interests relate to minority shareholders of the Fastening Systems business unit; another €1.6 million (previous year: €5.9 million) relates to the Switch Systems business unit.

(23.5) Noncontrolling interests

(24) Pension provisions

Changes in pension provisions

€ mill.	Present value of benefit obligations	Fair value of plan assets	Total
Balance as of 1/1/2016	**30.4**	**(10.9)**	**19.5**
Service cost	0.6	0.0	0.6
Net interest expense/(income)	0.8	(0.3)	0.5
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		(0.1)	(0.1)
Gains/losses on changes in demographic assumptions	2.6	0.0	2.6
Experience-related assumptions	0.6	0.0	0.6
Benefits paid	(1.5)	0.5	(1.0)
Other/currency translation differences	0.0	(0.1)	(0.1)
Balance as of 12/31/2016	**33.5**	**(10.9)**	**22.6**
Service cost	0.7		0.7
Net interest expense/(income)	0.5	(0.1)	0.4
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		(0.2)	(0.2)
Gains/losses on changes in demographic assumptions	(0.2)		(0.2)
Experience-related assumptions	0.0		0.0
Benefits paid	(1.5)	0.6	(0.9)
Other/currency translation differences	0.0	0.0	0.0
Balance as of 12/31/2017	**33.0**	**(10.6)**	**22.4**

Vossloh AG and some subsidiaries have entered into pension obligations to former or current employees. Pension payments are subject to the relevant conditions and are made until the death of the beneficiary. These defined benefit obligations vary according to the economic situation and are as a rule based on service years, pensionable pay and position within Vossloh. The future pension payment obligations must be met by the subsidiaries in question (defined benefit plan).

In accordance with IAS 19, the projected unit credit method has been used to determine pension obligations, taking into account current market interest rates and anticipating future pay and pension increases, as well as fluctuation rates. Accounting risks of the defined benefit plans particularly arise from the development of the current market interest rates, as the current low interest rate leads to comparably high present values of liabilities.

At the same time, there is also the risk that the market values of the plan assets do not increase at the same rate. Both effects could lead to a decrease in equity as a result of actuarial losses.

The plan assets, which are offset against the present value of the pension benefits, pertain primarily to pension liability insurance policies, which cover the major portion of the personal claims from the pension commitments. Each of these insurance contracts has been pledged to the individual beneficiary concerned, with the present value of the obligations being offset at fair value.

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

The recognized pension provision is derived as follows:

Analysis of the recognized pension provision

€ mill.	2017	2016
Present value of pension commitments covered by plan assets	15.8	16.0
Fair value of plan assets	(10.6)	(10.9)
Provision for pension benefits covered by plan assets	**5.2**	**5.1**
Present value of pension commitments not covered by plan assets	17.2	17.5
Provision for pension benefits not covered by plan assets	**17.2**	**17.5**
Recognized pension provision	**22.4**	**22.6**

The current service cost represents a portion of the personnel expense that is included in the functional costs. Interest expense is shown in other interest expense. The actual return on plan assets amounted to 3.5 percent in the reporting period (previous year: 3.6 percent).

A discount rate of 1.75 percent was used in the year under review, as in the previous year. These parameters are seen as significant for a sensitivity analysis to be performed due to possible changes. A decrease or increase in the discount rate by 25 basis points would have increased or decreased the defined benefit obligation (DBO) and therefore increased the provision by €1.2 million (previous year: €1.3 million) or decreased the provision by €1.2 million (previous year: €1.2 million). The average duration of the defined benefit pension plans is 14.3 years.

In addition, voluntary or statutory defined contribution plans are in place at a number of Group companies. These companies are under no obligation to make any pensions-related payments other than their contractual contributions to an outside fund, which totaled €7.3 million in the reporting year (previous year: €6.2 million).

(25) Other provisions

Breakdown of other provisions

€ mill.	2017	2016*
Personnel-related provisions	9.8	9.2
Warranty obligations and follow-up costs	4.0	4.4
Litigation risks and impending losses	0.0	0.0
Other provisions	10.1	10.5
Other noncurrent provisions	**23.9**	**24.1**
Personnel-related provisions	0.2	0.4
Warranty obligations and follow-up costs	12.7	13.7
Litigation risks and impending losses	5.9	7.3
Other provisions	25.6	31.7
Other current provisions	**44.4**	**53.1**
	68.3	**77.2**

*Previous year's figures presented in a comparable manner, see page 106

All provisions reported as current provisions have maturities of one year or less. All provisions reported as noncurrent provisions have remaining terms exceeding one year. The utilization dates are subject to significant uncertainty, especially with regard to risks from warranty obligations and litigation risks.
The other provisions consider all obligations that are identifiable at the balance sheet date, based on past events, and are uncertain in terms of amount or timing. Provisions are recognized at amounts most likely to be utilized. If the effect of discounting is material, noncurrent provisions are recognized at the present value of the uncertain obligations.

The maximum risk inherent to recorded provisions is €27.6 million above the amount recognized in the balance sheet (previous year: €35.3 million). Additional risks of €4.5 million (previous year: €10.7 million) exist as below-the-line items but are not provided for since their probability is below 50 percent.

In addition to vacation provisions and obligations from partial retirement contracts, the personnel-related provisions also include provisions for possible nonrecurring payments required under the law in France planned for nonrecurring payments ("Indemnités de fin de carrière") for employees who leave the Company (both in the case of retirement as well as in other situations). In accordance with IAS 19, such provisions are required to be treated as employee benefits and, because of the way they have been structured, classified as a "defined benefit plan." As these are not lifelong pension payments, the resulting provisions are included in the line item other provisions. Assets have partially been set up in an external benefit fund ("plan assets") in order to finance the expected payments. The provisions recognized on the balance sheet therefore is the balance of the fair value of the plan assets and the present value of the obligation:

Reconciliation of the recognized "Indemnités de fin de carrière" provision

€ mill.	2017	2016
Present value of pension commitments covered by plan assets	6.5	6.0
Fair value of plan assets	(1.1)	(1.1)
Provision for commitments covered by plan assets	**5.4**	**4.9**
Present value of financial commitments not covered by plan assets	1.6	1.5
Provision for commitments not covered by plan assets	**1.6**	**1.5**
Recognized provision	**7.0**	**6.4**

The following table shows how the present value of the obligation, measured using a discount rate of 1.55 percent (previous year: 1.31 percent), and the plan assets established for financing purposes developed during the 2017 fiscal year and the previous year:

Changes in provisions for "Indemnités de fin de carrière"

€ mill.	Present value of benefit obligations	Fair value of plan assets	Total
Balance as of 1/1/2016	**6.9**	**(1.2)**	**5.7**
Service cost	0.4		0.4
Net interest expense/(income)	0.2	(0.1)	0.1
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		0.1	0.1
Gains/losses on changes in financial assumptions	0.1		0.1
Experience-related assumptions	0.1		0.1
Benefits paid	(0.2)	0.1	(0.1)
Balance as of 12/31/2016	**7.5**	**(1.1)**	**6.4**
Service cost	0.4		0.4
Net interest expense/(income)	0.1	0.0	0.1
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		(0.1)	(0.1)
Gains/losses on changes in financial assumptions	0.3		0.3
Experience-related assumptions	(0.1)		(0.1)
Benefits paid	(0.1)	0.1	0.0
Balance as of 12/31/2017	**8.1**	**(1.1)**	**7.0**

The warranty obligations include both provisions for specific warranty cases and the general warranty costs empirically derived from past sales. The accrued litigation risks and impending losses account for obligations under lawsuits and for loss risks from contracts in progress. As of the balance sheet date, €2.9 million was accrued for impending losses on purchase obligations (previous year: €4.2 million). The other provisions include provisions for risks from company disposals and possible claims for damages. Claims for reimbursement in connection with the latter risks are accounted for under other assets.

Changes in other provisions

€ mill.	Opening balance as of 1/1/2017*	Addition from first-time consolidation	Disposal from deconsolidation	Utilization	Release	Addition	Interest effects	Currency translation differences	Closing balance as of 12/31/2017
Personnel-related provisions	9.6	0.1	(0.1)	(0.4)	(0.1)	0.9	0.0	0.0	10.0
Warranty obligations and follow-up costs	18.1	0.0	(0.1)	(3.0)	(3.3)	5.1	0.0	(0.1)	16.7
Litigation risks and impending losses	7.3	0.0	(0.1)	(3.9)	(1.8)	4.5	0.0	(0.1)	5.9
Other provisions	42.2	0.0	(0.1)	(11.1)	(0.5)	5.4	0.1	(0.3)	35.7
Other provisions	**77.2**	**0.1**	**(0.4)**	**(18.4)**	**(5.7)**	**15.9**	**0.1**	**(0.5)**	**68.3**

*Previous year's figures presented in a comparable manner, see page 106

Liabilities according to remaining terms

€ mill.	2017	2016*	2017	2016*	2017	2016*	2017	2016*
Remaining term	up to 1 year		1–5 years		> 5 years		Total	
Financial liabilities	55.7	8.7	134.3	246.9	114.5	0.0	304.5	255.6
Trade payables	141.9	115.4	0.0	0.0	0.0	0.0	141.9	115.4
Liabilities from construction contracts	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.5
Income tax liabilities	6.3	11.0	0.0	0.0	0.0	0.0	6.3	11.0
Other liabilities	72.7	81.4	4.6	4.0	0.0	0.0	77.3	85.4
Total	**276.6**	**217.0**	**138.9**	**250.9**	**114.5**	**0.0**	**530.0**	**467.9**

*Previous year's figures presented in a comparable manner, see page 106

(26.1) Financial liabilities

Breakdown of financial liabilities

€ mill.	2017	2016*
Other noncurrent liabilities to banks	248.8	246.9
Noncurrent finance leases	0.0	0.0
Noncurrent financial liabilities	**248.8**	**246.9**
Current liabilities to bank	54.1	8.1
Interest payable	1.6	0.6
Current finance leases	0.0	0.0
Current financial liabilities	**55.7**	**8.7**
Financial liabilities	**304.5**	**255.6**

*Previous year's figures presented in a comparable manner, see page 106

Financial debts are principally carried at amortized cost.

In 2015, a syndicated loan of €500 million with a term of three years was concluded between Vossloh AG and eleven credit institutions. The loan had two tranches: €200 million was available in the form of a bullet loan and €300 million in the form of a revolving credit line. The interest rate was dependent on the amount of specific indicators (covenants). At the same time, a breach of the thresholds defined in these covenants led to an early right of cancellation on the part of the lending banks. The covenants were defined as the ratio of net financial debt to EBITDA, the ratio of EBITDA to the net interest result, and the equity ratio. Compliance with the covenants was reviewed every quarter; they were complied with in the reporting year as well as in the entire previous year from the beginning of the reviews. In March 2017, Vossloh canceled and called back €100 million of the bullet loan ahead of schedule.

In July 2017, Schuldschein loans with terms of four years amounting to €135 million and seven years amounting to €115 million were issued by Vossloh AG. 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. The loans were used to fully repay the bullet loan in the amount of €100 million outstanding and to partially reduce the revolving credit line. Under the revolving credit line, Vossloh AG still had around €150 million available.

At the end of November 2017, Vossloh AG concluded a new €150 million syndicated loan with eight banks, thus definitively replacing the syndicated loan, which has existed since 2015 and was scheduled to expire in April 2018. The financing agreement has a term of five years until November 2022 and contains two options to extend the credit period by one year each. These options can be exercised at the end of the first and second years of the term. In addition, the volume of the loan can be increased if needed by up to €150 million. 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 also 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 this ratio determines the interest (basis points above Euribor). This would currently be 1.0 percent. As of the balance sheet date, however, the credit line had not been utilized. Compliance with the covenant is reviewed every six months.

For the reconciliation of the financial liabilities to the IAS 39 valuation categories, see page 128 et seq., "Additional information on financial instruments."

At a U.S. Group company, there are certain restrictions on individual transactions related to a bank line that were met at all times.

(26.2) Trade payables and liabilities from construction contracts

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

(26.3) Income tax liabilities

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

(26.4) Other liabilities

Breakdown of other liabilities

€ mill.	2017	2016*
Freestanding derivatives	0.0	0.4
Derivatives from cash flow hedges	0.0	0.5
Noncurrent liabilities from financial instruments	**0.0**	**0.9**
Personnel-related liabilities	1.6	0.4
Advance payments received	0.0	0.0
Noncurrent deferred income	0.0	0.3
Other	3.0	2.4
Noncurrent nonfinancial liabilities	**4.6**	**3.1**
Other noncurrent liabilities	**4.6**	**4.0**
VAT payables	5.5	2.4
Other nonincome taxes	5.3	3.2
Social security and health insurance contributions	4.0	4.0
Liabilities to investees	2.7	2.8
Liabilities to employees	1.9	2.1
Other liabilities to affiliated companies	1.1	1.1
Derivatives from cash flow hedges	0.3	0.5
Commissions	0.3	0.1
Liabilities due to insurance companies	0.2	0.0
Freestanding derivatives	0.1	2.1
Debtors with credit balances	0.1	0.1
Current liabilities from financial instruments	**21.5**	**18.4**
Personnel-related liabilities	28.5	30.9
Advance payments received	13.0	17.2
Deferred income	0.6	0.2
Other	9.1	14.7
Current nonfinancial liabilities	**51.2**	**63.0**
Other current liabilities	**72.7**	**81.4**

*Previous year’s figures presented in a comparable manner, see page 106

Upon initial recognition, financial instruments are stated at their fair value as of the trading date including direct transaction costs, if any, and thereafter carried at amortized cost unless their measurement at fair value is required. The recognition of gains/losses from the measurement at fair value depends on whether the IAS 39 hedge accounting criteria are met. Gains/losses from the restatement at fair value of derivatives are recognized in the income statement, as are the changes in value of the associated underlying transactions. In contrast, the corresponding gains/losses from measuring derivatives in cash flow hedges at fair value are recognized directly in equity after considering deferred taxes.

For the reconciliation of other liabilities to the IAS 39 valuation categories, see page 128 et seq., “Additional information on financial instruments.”

The prepayments received, shown at €13.0 million (previous year: €17.2 million) as other liabilities, include advance payments for projects not recognized as construction contracts according to IAS 11. In accordance with IAS 19, the current liabilities to employees are recognized at the undiscounted amount owed.

Notes to the segment report

The primary format for segment reporting is defined by Vossloh's internal organizational and reporting structures, which are based on the products and services offered by the Vossloh Group's business units. In accordance with IFRS 8, segment reporting to the Executive Board and Supervisory Board encompasses not only the divisions but also separately presents their business units.

The segment structure in two of the three core divisions has not changed compared with the previous year. In addition to the Fastening Systems business unit, the Tie Technologies business unit acquired at the beginning of 2017 is part of the Core Components division; so far, the division has consisted only of Vossloh Fastening Systems. Vossloh Switch Systems and Vossloh Rail Services continue to be the only business units of the Customized Modules and Lifecycle Solutions divisions, respectively. As of the balance sheet date, the Transportation division consisted solely of the Locomotives business unit, which was reported as a "discontinued operation" after the sale of the former Electrical Systems business unit was completed on January 31, 2017.

The Core Components division currently comprises the Fastening Systems and Tie Technologies business units. Vossloh Fastening Systems is a leading manufacturer of rail fastening systems. The product lineup includes track fasteners for every application – from light-rail to heavy-haul and high-speed lines. Vossloh Tie Technologies, another business unit within this division, is North America's leading manufacturer of concrete ties. In addition to concrete ties, switch ties, concrete elements for slab tracks and level crossing systems are manufactured at several plants in the U.S. and at a production site in Mexico.

The Customized Modules division and the Switch Systems business unit comprised in this division are among leading switch manufacturers worldwide. The business unit equips rail networks with switches as well as with the related control and monitoring systems, which it also installs and maintains. Here, also, the lineup extends from light-rail to high-speed applications.

The Lifecycle Solutions division and Rail Services business unit engage in activities such as rail trading, long-rail (un)loading at construction sites, welding new rails, reconditioning old rails, on-site welding, rail replacement, rail grinding/milling, rail inspection and construction site supervision. It also organizes and monitors just-in-time rail shipments to construction sites and ensures on-site availability of the approved (un)loading systems.

The Transportation division includes the rail vehicle and vehicle system/component operations plus the related services. The division comprises the Locomotives business unit available for sale. In the previous year, the Electrical Systems business unit, which has since been sold, was also part of it.

For nearly 100 years, the diesel locomotives developed and produced in the Locomotives business unit have set new benchmarks in terms of technological standards, economy, flexibility and eco-friendliness. This business unit also offers extensive services – particularly those relating to locomotive servicing and maintenance.

Vossloh Electrical Systems develops and produces key electrical components and systems for public transportation rail vehicles and locomotives. The business unit is one of the world's leading suppliers of electrical equipment both for trolleybuses and hybrid buses. In addition to furnishing electrical systems, the unit supplies air conditioners for rail vehicles, individual components, subassemblies, revamping work, servicing and maintenance. The contract for the sale of this business unit was signed in December 2016 and concluded at the end of January 2017.

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

Segment information is presented for each division and business unit on page 90 et seq.

The major noncash segment expenses include additions to provisions.

In the analysis of its results of operations in the combined management report, the Vossloh Group reports the pretax value added as a key performance indicator. In this connection, a weighted average cost of capital (WACC) of 7.5 percent was used in the 2017 fiscal year, while the value used in the preceding year was 9.0 percent.

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

Reconciliation of value added to EBIT

€ mill.	2017	2016*
Value added	11.1	(1.5)
Cost of capital employed (WACC: current year: 7.5 percent, previous year: 9.0 percent)	59.2	59.0
EBIT	**70.3**	**57.5**

*Previous year's figures presented in a comparable manner, see page 106

Segment information by region is provided for noncurrent assets and external sales revenues in accordance with IFRS 8.33. The external sales revenues presented by region are based on the customer location. As sales with unconsolidated subsidiaries are not taken into account in this overview of external sales revenues, the figures are not compatible with the overview of sales by region on page 34 of the combined management report.

Segment information by region

€ mill.	2017	2016*	2017	2016*
	External sales revenues		Noncurrent assets[1]	
Germany	74.3	69.0	136.0	140.8
France	97.8	115.7	134.0	140.9
Rest of Western Europe	69.6	61.9	29.6	30.1
Northern Europe	114.5	117.9	18.0	19.2
Southern Europe	62.9	58.8	1.3	2.0
Eastern Europe	50.3	32.9	7.2	5.2
Total Europe	**469.4**	**456.2**	**326.1**	**338.2**
USA	126.3	71.2	137.3	61.0
Rest of the Americas	32.1	34.4	15.6	3.5
China	139.7	95.2	11.2	14.0
Rest of Asia	75.9	95.4	1.2	3.8
Africa	46.3	44.0	0.0	0.0
Australia	21.0	22.3	7.8	8.4
Total	**910.7**	**818.7**	**499.2**	**428.9**

*Previous year's figures presented in a comparable manner, see page 106
[1] Excluding financial instruments and deferred tax assets.

Additional information on financial instruments

Vossloh's consolidated balance sheet includes both derivative and nonderivative financial instruments. Nonderivative financial instruments primarily comprise receivables, cash and cash equivalents and other financial assets in assets. On the liabilities side, they include financial liabilities.

In the case of derivative financial instruments, the value of which is derived from a basis value, these pertain particularly to foreign currency forwards.

Nonderivative financial instruments

Financial instruments are recognized and measured according to the measurement categories of IAS 39.

Nonderivative financial instruments are recognized in the consolidated balance sheet when Vossloh becomes a contractual party to the financial instrument. Financial assets are derecognized according to IAS 39 when the contractual right to payments from a financial asset expires or when the financial asset is transferred along with all material risks and opportunities. Financial liabilities are derecognized when the contractual obligation is settled, canceled or expires.

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

Financial instruments categorized as loans and receivables or held to maturity are carried at amortized cost, while those held for trading are carried at fair value and recognized in profit and loss.

Available-for-sale financial assets are also carried at fair value if their fair value is reliably determinable. The resulting gains/losses are recognized directly in equity after allowing for deferred taxes. This category mainly includes securities other than loans, receivables or financial instruments held to maturity.

Derivative financial instruments

The Vossloh Group uses various derivative financial instruments, primarily to hedge for currency risks from firm foreign-currency contractual obligations, future currency receivables/payables, price risks from sales or sourcing transactions and interest rate risks arising from long-term financing.

Hedges of assets and liabilities reported in the balance sheet are recognized as freestanding derivatives. The offsetting changes in value of the underlying and hedging transactions, which relate to the hedged risk, are recognized in the balance sheet. Any fair value changes (gains/losses) due to exchange rate volatility are recognized in the income statement. In a completely effective hedge (in the case of a micro hedge this is generally the case), the gains (or losses) on the derivative's fair value remeasurement equal the losses (or gains) on the underlying's.

When accounting for cash flow hedges of pending or uncompleted transactions (executory contracts), changes in the derivative's fair value are recognized directly in equity after allowing for deferred taxes. Upon completion or recognition of the underlying transactions, the associated gains/losses previously recognized in profit and loss are either recycled to the income statement or offset against the cost of purchased assets. The cash flow hedges existing on December 31, 2017, had a maximum term of one year.

The nominal volume of the hedged foreign currencies is divided as follows:

€ mill.	Currency	2017	2016
United States	USD	185.7	146.3
United Kingdom	GBP	1.7	9.0
Australia	AUD	1.5	2.8
Brazil	BRL	–	1.2
Poland	PLN	1.2	–
Sweden	SEK	–	0.1
China	CNY	2.7	–
United Arab Emirates	AED	0.4	0.9
South Africa	ZAR	0.3	0.3
Czech Republic	CZK	–	0.3
Switzerland	CHF	–	1.0
		193.5	**161.9**

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

Derivative financial instruments			Fair value	Nominal value	Fair value	Nominal value
€ mill.			2017	2017	2016	2016
Interest rate swap	Maturity	up to 1 year	(0.3)	50.0	–	–
		up to 5 years	–	–	(0.5)	50.0
		over 5 years	–	–	–	–
			(0.3)	**50.0**	**(0.5)**	**50.0**
Currency forwards	Maturity	up to 1 year	2.9	149.3	(2.6)	161.9
		up to 5 years	0.5	44.2	0.0	0.0
		over 5 years	–	–	–	–
			3.4	**193.5**	**(2.6)**	**161.9**
Total			**3.1**	**243.5**	**(3.1)**	**211.9**

Discounted cash flow methods are used to determine fair values of interest hedging instruments and foreign currency forwards. The discount is based on current market rates, which match the maturity of the financial instruments.

The carrying amounts of financial instruments, the assignment based on measurement category and the required disclosures on fair value according to IFRS 13 and their measurement sources according to IFRS 7 are presented in the following tables. The derivatives in hedging relationships as well as payables under capital leases are included, although they do not belong to any measurement category of IAS 39.

Carrying amount, measurement categories and fair values as of December 31, 2017

€ mill.	Carrying amounts acc. to balance sheet 12/31/2017	Measurement pursuant to IAS 39			Fair value as of 12/31/2017
		(Amortized) Cost	Fair value through OCI	Fair value through profit or loss	
Trade receivables	**210.3**				
Loans and receivables	210.3	210.3			210.3
Securities	**0.5**				
Held to maturity	0.1	0.1			0.1
Held for trading	0.0			0.0	0.0
Available for sale	0.4		0.4		0.4
Other financial instruments and other assets	**36.0**				
Loans and receivables	29.3	29.3			29.3
Held to maturity	2.7		2.7		2.7
Held for trading	0.0			0.0	0.0
Available for sale	0.6	0.6	0.0	0.0	0.6
Derivatives in hedging relationships (not a category according to IAS 39.9)	3.4	0.0	0.0	3.4	3.4
Cash and cash equivalents	**96.3**				
Loans and receivables	96.3	96.3			96.3
Total financial assets	**343.1**	**336.6**	**3.1**	**3.4**	**343.1**
Financial liabilities	**304.5**	**304.5**			**304.5**
Trade payables	**141.9**	**141.9**			**141.9**
Other liabilities	**55.5**				
Derivatives in hedging relationships (not a category according to IAS 39.9)	0.3		0.2	0.1	0.3
Other liabilities	55.2	55.2			55.2
Total financial liabilities	**501.9**	**501.6**	**0.2**	**0.1**	**501.9**

Summary of measurement categories of IAS 39

€ mill.	Carrying amounts acc. to balance sheet 12/31/2017	Measurement pursuant to IAS 39			Fair value as of 12/31/2017
		(Amortized) Cost	Fair value through OCI	Fair value through profit or loss	
Financial assets					
Loans and receivables	335.9	335.9			335.9
Held to maturity	2.8	0.1	2.7		2.8
Held for trading	0.0			0.0	0.0
Available for sale	1.0	0.6	0.4		1.0
Total financial assets	**339.7**	**336.6**	**3.1**	**0.0**	**339.7**
Financial liabilities					
Measurement at amortized cost	501.6	501.6	–	–	501.6
Total financial liabilities	**501.6**	**501.6**	**–**	**–**	**501.6**

Carrying amount, measurement categories and fair values as of December 31, 2016*

€ mill.	Carrying amounts acc. to balance sheet 12/31/2016	Measurement pursuant to IAS 39			Fair value as of 12/31/2016
		(Amortized) Cost	Fair value through OCI	Fair value through profit or loss	
Trade receivables	**170.9**				
Loans and receivables	170.9	170.9			170.9
Securities	**0.5**				
Held to maturity	0.1	0.1			0.1
Held for trading	0.0			0.0	0.0
Available for sale	0.4		0.4		0.4
Other financial instruments and other assets	**21.4**				
Loans and receivables	20.4	20.4			20.4
Held to maturity	0.0		0.0		0.0
Held for trading	0.0			0.0	0.0
Available for sale	0.5	0.5	0.0	0.0	0.5
Derivatives in hedging relationships (not a category according to IAS 39.9)	0.5	0.0	0.3	0.2	0.5
Cash and cash equivalents	**170.0**				
Loans and receivables	170.0	170.0			170.0
Total financial assets	**362.8**	**361.9**	**0.7**	**0.2**	**362.8**
Financial liabilities	**255.6**	**255.6**			**255.6**
Trade payables	**115.4**	**115.4**			**115.4**
Other liabilities	**47.3**				
Derivatives in hedging relationships (not a category according to IAS 39.9)	3.6		1.1	2.5	3.6
Other liabilities	43.7	43.7			43.7
Total financial liabilities	**418.3**	**414.7**	**1.1**	**2.5**	**418.3**

Cash and cash equivalents are not included in the table above as these financial instruments do not fall under the valuation categories of IAS 39.

Summary of measurement categories of IAS 39

€ mill.	Carrying amounts acc. to balance sheet 12/31/2016	Measurement pursuant to IAS 39			Fair value as of 12/31/2016
		(Amortized) Cost	Fair value through OCI	Fair value through profit or loss	
Financial assets					
Loans and receivables	361.3	361.3			361.3
Held to maturity	0.1	0.1			0.1
Held for trading	0.0				0.0
Available for sale	0.9	0.5	0.4	0.0	0.9
Total financial assets	**362.3**	**361.9**	**0.4**	**0.0**	**362.3**
Financial liabilities					
Measurement at amortized cost	414.7	414.7			414.7
Total financial liabilities	**414.7**	**414.7**			**414.7**

*Previous year’s figures presented in a comparable manner, see page 106

There were no transfers between the valuation categories.

Trade receivables as well as receivables from construction contracts, cash and cash equivalents and other receivables and assets primarily have short maturities. Their carrying amounts as of the reporting date therefore approximately correspond to the fair value.

Trade payables and liabilities from construction contracts as well as other liabilities also usually have short remaining terms. Their carrying amounts therefore approximately correspond to the fair value. The fair value of noncurrent financial liabilities was calculated by discounting the payments of principal and interest to be expected from these liabilities in the future based on current market interest rates.

The financial assets carried at fair value mainly pertain to derivatives in hedging relationships.

The table below shows the assignment of the financial assets and liabilities carried at fair value to the fair value hierarchy levels in accordance with IFRS 7 and IFRS 13. There were no reclassifications between the various levels of the fair value hierarchy either during the reporting year or the previous year.

Assignment of levels of the fair value hierarchy

	Determined based on market prices (Level 1)		Derived from fair value (Level 2)		Measurement not based on fair value (Level 3)	
€ mill.	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Financial assets measured at fair value						
Held to maturity	0.0	0.0		0.0		
Available for sale			0.4	0.4		
Derivatives in hedging relationships			3.4	0.5		
Total	**0.0**	**0.0**	**3.8**	**0.9**	**0.0**	**0.0**
Financial liabilities measured at fair value						
Derivatives in hedging relationships			0.3	3.6		
Total	**0.0**	**0.0**	**0.3**	**3.6**	**0.0**	**0.0**

The basis for the levels of the hierarchy for the measurement of fair value is the inputs applied.
In Level 1, inputs are in the form of unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 covers inputs for identical or similar assets/liabilities derived from observable market data. Level 3 is for when no observable market data are available, so a measurement model must be used for fair value.

The potential offsetting of financial instruments based on legally enforceable global netting agreements is shown in the following table:

Offsetting possibilities for derivative financial assets and liabilities

€ mill.	2017	2016
Financial assets		
Recognized gross amounts of the financial assets	3.4	0.5
Financial instruments that qualify for offsetting	0.0	0.0
Net balance sheet figures of financial assets	**3.4**	**0.5**
Offsettable on the basis of framework agreements	(0.1)	(0.5)
Total net value of financial assets	**3.3**	**0.0**
Financial liabilities		
Recognized gross amounts of the financial liabilities	(0.3)	(3.5)
Financial instruments that qualify for offsetting	0.0	0.0
Net balance sheet figures of financial liabilities	**(0.3)**	**(3.5)**
Offsettable on the basis of framework agreements	0.1	0.5
Total net value of financial liabilities	**(0.2)**	**(3.0)**

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

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

€ mill.	Loans and receivables	Financial liabilities	Held to maturity	Held for trading	Available for sale	2017	2016*
Net gains/(losses) from:							
Interest	0.3	(7.4)	(0.1)	0.0	0.0	(7.2)	(5.6)
Remeasurement		–					
from allowances	(0.7)	–	0.1	(0.3)	0.3	(0.6)	(0.4)
from currency translation differences	(0.9)	–	–	–	–	(0.9)	(1.8)
at fair value	–	–	–	0.0	–	0.0	3.5
Disposal	0.0	–	–	–	0.1	0.1	0.1
Total	**(1.3)**	**(7.4)**	**0.0**	**(0.3)**	**0.4**	**(8.6)**	**(4.2)**

*Previous year's figures presented in a comparable manner, see page 106

Interest is shown within net interest expense, allowances for straight (primarily trade) receivables are recognized within the functional (mainly selling) expenses while the net gains or losses on disposal and currency translation are disclosed within net other operating income (or expense, as applicable). Gains from the remeasurement to fair value of securities held for trading and the write-down of financial instruments available for sale are included in the above table and recognized within the other financial result. Remeasurements to fair value for available-for-sale financial assets were recognized directly in equity (OCI) in the year under review in the amount of €0.0 million (previous year: €0.0 million).

Financial risk management

The Vossloh Group's business operations are exposed to financial risks. These risks relate to liquidity, currency, interest and credit. The Group-wide management and limitation of the liquidity, currency and interest rate risks is handled by treasury management. Credit risks are monitored as part of general risk management.

Liquidity risks

Vossloh manages its liquidity risks (i.e., the risk that the Group is not able at all times to meet its payment obligations) through a rolling cash budget and a central cash management system. As of the end of the reporting period, cash, cash equivalents and readily salable securities of €96.8 million were at the Group's disposal, besides additional, unutilized credit facilities of €223.6 million to satisfy any future cash requirements. €148.4 million were related to free credit lines of Vossloh AG under the syndicated loan with a term until November 2022. The free credit lines of the subsidiaries, in the amount of €75.2 million, essentially had a duration of up to a year or were granted for an unlimited term. The table below shows the contractually agreed undiscounted payments of principal and interest for financial liabilities:

Maturities of interest and principal payments

	Up to 1 year				1 to 5 years				More than 5 years			
€ mill.	2017		2016		2017		2016		2017		2016	
	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest
Nonderivative financial liabilities	(55.7)	(4.1)	(8.7)	(4.8)	(134.2)	(10.8)	(246.9)	(2.4)	(114.5)	(2.9)	–	–
Derivative financial liabilities	(0.3)		(2.6)		0.0		(0.9)		0.0		–	
Derivative financial assets	3.4		0.5									

Currency risks

Currency risks arise from recognized noneuro assets and liabilities whose euro equivalent may be adversely affected by unfavorable exchange rates, and pending or uncompleted currency transactions whose future cash flows may show a negative trend depending on how foreign exchange rates develop. Significant operations-related currency risks Vossloh is exposed to originate from trade receivables and payables denominated in a noneuro currency, as well as from pending or uncompleted trade and purchasing transactions. Vossloh has issued binding instructions to centrally hedge against currency risks Group-wide through Treasury Management by using foreign currency forwards at matching maturities and amounts as micro hedges of the associated underlying transactions. The fixed exchange rates for the hedged underlying transactions counter any unfavorable rate effects on cost estimates and assets.

Interest rate risks

Interest rate risks mainly result from floating-rate short-term loans raised for Group financing purposes, as well as from short-term funds invested at variable rates.

The risk of an unfavorable market rate trend and thus higher interest payments for floating-rate notes is contained by contracting interest rate swaps and caps (see glossary, page 155). In connection with hedge accounting, such interest rate hedging transactions are accounted for as cash flow hedges.

The fair value of derivatives used for hedging against currency and interest rate risks, as well as the hedged nominal volumes are detailed in the notes to financial instruments on page 128 et seq.

Taking into account the existing interest rate derivatives, 74 percent of the financial liabilities were taken up with fixed interest rates as of the reporting date, with 26 percent subject to a variable interest rate.

Sensitivity analysis

Given certain assumptions, sensitivity analyses put an approximate figure to the risk that exists if certain influential factors undergo changes. The following changes have been assumed with regard to interest-rate risk and exchange-rate risk:
- An increase in market interest rates of 1 percent or a reduction in market interest rates of 0.2 percent (parallel shift in the yield curve)
- Simultaneous appreciation of the euro against all foreign currencies by 10 percent

Financial instruments originally stipulated with variable interest rates as well as existing interest rate derivatives were taken into consideration in the determination of the interest-rate risk as of the reporting date. A market interest rate that is higher by 100 percentage points related to the financial liabilities and receivables identified with variable rates as of December 31, 2017, would have reduced the financial expense by €0.1 million. A market interest rate that was lower by 20 points would have increased the net financial result by €0.2 million owing to the existing Euribor floor rule in the syndicated loan. This is based on the underlying assumption that the higher interest rate would have applied for an entire year.

As currency risks were almost fully hedged, the impact of a simultaneous 10 percent depreciation of the euro on the unhedged foreign currency positions was insignificant for the results of operations. The following tables show the effects of the sensitivity analysis on the provisions for hedging transactions:

Sensitivity analysis of key foreign currency derivatives

		Equity			Equity	
€ mill.	2017	+ 10%	– 10%	2016	+ 10%	– 10%
USD	185.7	0.0	0.0	146.3	(5.7)	7.0
CNY	2.7	0.1	(0.2)	–	–	–

Credit risks

Credit risks are defined as the risk that counterparties fail to meet their financial obligations. The credit risk attaching to the cash and cash equivalents invested by the Vossloh Group with banks and the short-term securities held by subsidiaries, as well as to hedging instruments contracted with banks, is minimized by selecting counterparties of prime standing only. As part of business operations, trade and other receivables are exposed to a certain default risk.

These credit risks are monitored by the risk management system and minimized by taking out credit insurance (for example, Euler Hermes). Specific collection risks are taken into account through adequate allowances.

The balance of gross receivables (receivables before deduction of allowances) breaks down as follows in terms of operational credit risks:

Balance of gross current receivables

€ mill.	Receivables neither past due nor impaired	Receivables past due but not impaired	Impaired receivables	Gross balance
Trade receivables				
2017	142.4	70.9	12.9	226.2
2016	114.7	59.4	13.9	188.0
Others				
2017	40.3	3.4	0.1	43.8
2016	30.7	2.1	0.1	32.9

The analysis below breaks down the receivables past due but not impaired:

Receivables past due but not impaired

€ mill.	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Trade receivables						
2017	30.8	12.4	9.9	11.8	6.0	**70.9**
2016	17.3	15.5	14.7	7.0	4.9	**59.4**
Others						
2017	0.1	1.1	0.6	0.9	0.7	**3.4**
2016	0.3	0.7	0.1	0.2	0.8	**2.1**

No specific default risk arises from past due receivables since, given customer structure of the Vossloh Group, many debtors are government or other public-sector agencies. In terms of financial assets, which are neither impaired nor past due, no indications of potential impairment existed on the balance sheet date.

The maximum credit risk of all financial assets corresponds to their carrying amounts (see analysis on page 130).

Other disclosures

Contingent liabilities

Contingent liabilities decreased significantly from December 31, 2016, by €4.6 million to €24.4 million. €9.0 million was attributable to total contingent liabilities for the former Electrical Systems business unit sold with effect from January 31, 2017. Vossloh AG was given an irrevocable and unconditional guarantee for these contingent liabilities at first request by a first-class bank. The Group has incurred contingent liabilities under guarantees of €5.7 million (including €5.4 million in favor of unconsolidated subsidiaries) and of €18.7 million for letters of comfort (including €10.0 million allocable to unconsolidated affiliated companies). The risk of a claim is considered unlikely for all of the listed contingent liabilities.

Other financial obligations

Commitments for the acquisition of property, plant and equipment and intangible assets totaled €21.0 million (previous year: €5.5 million).

The minimum undiscounted future payments under operating and similar leases and under rental agreements respectively amounted to €30.8 million (previous year: €27.0 million). Commitments under operating leases fall due as follows:

Financial commitments under operating leases

€ mill.	2017	2016
Due up to 1 year	4.5	3.1
Due in 1 to 5 years	8.6	3.4
Due in more than 5 years	2.7	0.3
	15.8	**6.8**

Financial commitments under rental agreements

€ mill.	2017	2016
Due up to 1 year	5.9	6.8
Due in 1 to 5 years	6.9	11.6
Due in more than 5 years	2.2	1.8
	15.0	**20.2**

The obligations under operating leases have been incurred primarily for factory and office equipment. The following payments were recognized in profit or loss:

Lease payments recognized in expense

€ mill.	2017	2016
Expense of minimum lease payments	2.0	2.1
Expense of contingent rental payments	1.0	0.9
Income from subleases	0.1	0.2

Future minimum payments of €0.8 million are expected under noncancelable subleases (previous year: €0.5 million).

Significant Group companies with shareholders that have a noncontrolling interest are:
1. Vossloh Fastening Systems China Co. Ltd., Kunshan, China
2. Vossloh Cogifer Kihn SA, Rumelange, Luxembourg

Re 1.: 32 percent of the shares of capital of this company are held by shareholders with a noncontrolling interest. In the 2017 fiscal year, €8.7 million (previous year: €6.7 million) of the company's net income was attributable to these shareholders. As of December 31, 2017, the share of equity attributable to shareholders with a noncontrolling interest was €14.9 million (previous year: €13.7 million).

Significant financial information for Vossloh Fastening Systems China Co. Ltd., Kunshan, China

€ mill.	2017	2016
Noncurrent assets	13.8	16.2
Current assets	80.4	66.2
Noncurrent liabilities	2.7	2.7
Current liabilities	44.8	36.9
Sales revenues	128.8	96.8
Net income after taxes	27.3	21.0
Total comprehensive income	24.7	19.1
Cash flow	(3.0)	11.9
Dividends to shareholders	20.7	15.4

Re 2.: 10.79 percent of the shares of capital of this company are held by shareholders with a noncontrolling the 2017 fiscal year, €(0.2) million (previous year: €0.2 million) of the company's net income was attributable to these shareholders. As of December 31, 2017, the share of equity attributable to shareholders with a noncontrolling interest was €1.4 million (previous year: €1.7 million).

Significant financial information for Vossloh Cogifer Kihn, SA, Rumelange, Luxembourg

€ mill.	2017	2016
Noncurrent assets	16.3	20.0
Current assets	19.7	14.7
Noncurrent liabilities	0.6	0.8
Current liabilities	22.3	18.2
Sales revenues	45.2	27.9
Net income after taxes	(2.1)	2.0
Total comprehensive income	(2.1)	2.0
Cash flow	1.1	(0.3)
Dividends to shareholders	0.5	0.0

Where shareholders of other Group companies hold noncontrolling interests, these interests are insignificant both individually and cumulatively.

Related party transactions

As the ultimate controlling parent, Vossloh AG is at the helm of the Vossloh Group. The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated affiliated companies, joint ventures and associated companies. Resulting transactions were executed on an arm's length basis. Related unconsolidated companies and associated companies are disclosed in the list of shareholdings on page 142 et seq.

Individuals among the Vossloh Group's related parties are the members of the Executive and Supervisory Boards and certain other senior management staff.

Mr. Heinz Hermann Thiele, who was the largest single shareholder in the Annual General Meetings in recent years, indirectly controls the companies of the Knorr-Bremse Group. These companies are accordingly to be treated as related parties. Resulting from transactions with companies of the Knorr-Bremse Group in the fiscal year were material purchases in the amount of €0.0 million (previous year: €0.0 million), sales revenues in the amount of €0.1 million (previous year: €0.0 million) as well as open receivables and advance payments as of December 31, 2017, in the amount of €0.0 million (previous year: €0.0 million) and trade payables of €0.0 million (previous year: €0.0 million). Other securities were granted in the amount of €0.1 million.

The table below breaks down the period's transactions with related parties (entities/individuals), conducted almost exclusively with unconsolidated subsidiaries and reflected in segment reporting as internal sales revenues and in the consolidated balance sheet as receivables/payables due from or to affiliated companies. The volume of transactions with related individuals was negligible.

€ mill.	2017	2016*
Sale or purchase of goods		
Sales revenues from the sale of finished goods or WIP	16.1	10.7
Cost of materials from the purchase of finished goods or WIP	7.3	7.8
Trade receivables	13.1	6.6
Trade payables	2.1	2.3
Sale or purchase of other assets		
Sales revenues from the sale of other assets	0.9	0.0
Receivables from the sale of other assets	0.4	0.1
Liabilities from the purchase of other assets	1.1	1.1
Services rendered or received		
Income from services rendered	1.5	0.6
Expenses for services received	1.6	1.9
Licenses		
License expenses	1.2	1.1
Financing		
Interest income from financial loans granted	0.1	0.0
Receivables on financial loans granted	5.6	3.4
Provision of guarantees and collateral		
Provision of guarantees	5.4	9.0
Provision of other collateral	1.4	1.3

*Previous year's figures presented in a comparable manner, see page 106

Supervisory Board members will receive short-term benefits of €420.0 thousand for the reporting period (previous year: €410.0 thousand). A consulting contract existed with Mr. Ursus Zinsli from 2016 to 2017, from which he received €16,000 in the year under review (previous year: €44,000). For an itemized breakdown by member of this total, and further details of the remuneration system, see the remuneration report (an integral part of the Vossloh Group's combined management report).

Executive Board remuneration

€ mill.	2017	2016
Short-term total remuneration paid	4.0	3.9
Post-employment benefits	0.4	0.2

In the year under review, former Executive Board members received benefits in the form of pension payments totaling €1,133.3 thousand (previous year: €1,105.2 thousand). Pension obligations to former Executive Board and management members and their dependents amount to €19.3 million (previous year: €18.8 million). The full amount of these obligations is recognized in the consolidated financial statements, and the majority of them are covered by plan assets.

Auditor fees

The following fees for services rendered by the statutory auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, as well as by firms of KPMG AG's international network in the reporting year were recognized as expenses:

Auditor fees

€ mill.	2017	2016
Statutory audits	1.3	1.1
Other certification/verification services	0.1	0.6
Tax advisory services	0.0	0.0
Other services	0.1	0.0
	1.5	**1.7**

In the 2017 fiscal year, the Group auditor's fees include €0.6 million for statutory audits (previous year: €0.5 million), €0.1 million for other attestation services (previous year: €0.5 million) plus €0.0 million (previous year: €0.0 million) for tax services and €0.0 million (previous year: €0.0 million) for other services.

The fees for statutory audits mainly include those paid for the mandatory Group audit and the statutory audits by KPMG AG of Vossloh AG and its German subsidiaries' financial statements. In addition, there were reviews of the interim financial statements, which – unlike in the previous year due to changes in the relevant reporting standards – are included in the auditor's services, as well as a project-related IT audit. The fees for other attestation services include the fees for the audit of the Compliance Management System according to IDW PS 980 as well as the review of a covenant calculation. Other services relate to training on current accounting developments and quality assurance support, such as services regarding the preparation of the nonfinancial statement. The fees include €0.1 million (previous year: €0.1 million) for other attestation services plus €0.0 million (previous year: €0.0 million) for tax consultancy provided by KPMG firms based outside of Germany but invoiced through KPMG AG. The fees for other attestation services in the previous year mainly related to consultancy in connection with the capital increase, various transactions and for quarterly report reviews. In the previous year, KPMG AG Wirtschaftsprüfungsgesellschaft performed other services amounting to €0.0 million.

German Corporate Governance Code

In November 2017, the Executive and Supervisory Boards issued, and made permanently available to the stockholders on Vossloh's website, the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG).

Group companies and investees

Pursuant to Section 313 (2) HGB, details of the Vossloh Group's shareholdings are listed below.

List of shareholdings

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

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

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

Executive Board
of Vossloh AG

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

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

Volker Schenk, born 1964, Düsseldorf
First appointment: May 1, 2014, appointed until: April 30, 2017
Second appointment: until April 30, 2020
External mandates:
– Institut für Bahntechnik GmbH: Member of the Supervisory Board (since 2011)
Group mandates:
– Vossloh Cogifer SA: Chairman of the Administrative Board
– Vossloh France International SAS: President (until November 30, 2017)
– Vossloh Australia Pty. Ltd.: Member of the Administrative Board
– Vossloh Fastening Systems Australia Pty. Ltd.: Member of the Administrative Board
– Vossloh Track Systems GmbH: Managing Director
– Vossloh International GmbH: Managing Director
– Vossloh Southern Africa Holdings Pty. Ltd.: Managing Director
– Wuhu China Railway Cogifer Track Co. Ltd.: Member of the Administrative Board
– Vossloh Fastening Systems (China) Co. Ltd.: Chairman of the Administrative Board
– Beijing China-Railway Vossloh Technology Co. Ltd.: Member of the Administrative Board
– Beijing CRM-Vossloh Track Maintenance Co. Ltd.: Chairman of the Supervisory Board
– Suzhou Vossloh Track Systems Co. Ltd.: Chairman of the Administrative Board

Oliver Schuster, born 1964, Kierspe
First appointment: March 1, 2014, appointed until: February 28, 2017
Second appointment: until February 29, 2020
External mandates:
– Wohnungsgesellschaft Werdohl GmbH: Member of the Supervisory Board
Group mandates:
– Vossloh Cogifer SA: Member of the Administrative Board
– Vossloh France SAS: President

Heinz Hermann Thiele[2,4], Chairman (until 5/24/2017), Munich, businessman, former Chairman of the Executive Board of Knorr-Bremse AG
– Honorary chairman of the Supervisory Board of Knorr-Bremse AG
– Chairman of the Supervisory Board of Knorr-Bremse Ges.m.b.H., Mödling, Austria

Supervisory Board of Vossloh AG

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

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

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

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

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

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

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

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

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

Proposed profit appropriation

In accordance with German GAAP, Vossloh AG's separate financial statements for the 2017 fiscal year show a net profit of €11,588,000.94 and, after including the profit carryforward of €118,581,615.30, net profit retained of €130,169,616.24.

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

Werdohl, Germany, March 7, 2018.

Vossloh AG
The Executive Board

Responsibility Statement

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

Werdohl, Germany, March 7, 2018

Vossloh AG
The Executive Board

Andreas Busemann, Volker Schenk, Oliver Schuster

Independent auditor's report

To Vossloh Aktiengesellschaft, Werdohl

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Vossloh AG, Werdohl, and it subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2017, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (hereinafter referred to as „group management report") of Vossloh AG for the financial year from January 1, 2017, to December 31, 2017. In accordance with the German legal requirements we have not audited the content of the nonfinancial statement and the corporate governance statement which are included in section „Nonfinancial statement" and section „Reference to the corporate governance statement pursuant to Section 289f HGB" of the group management report.

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

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and

– the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the nonfinancial statement and the corporate governance statement mentioned above.

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 consolidated financial statements and of the group management report.

Basis for the Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

Measurement and recognition of the Locomotives business unit pursuant to IFRS 5

Please refer to the note 7 for further information on the accounting policies applied.

THE FINANCIAL STATEMENT RISK

The assets held for sale amount to EUR 137.9 million. The liabilities held for sale amount to EUR 87.0 million as of the reporting date. Profit/loss from discontinued operations in financial year 2017 equals EUR –35.8 million.

An impairment loss of EUR 26.0 million was recognized as a result of measurement pursuant to IFRS 5, which was reported under profit/loss from discontinued operations.

To be classified as held for sale, the asset (operation) must be available for immediate sale, and the sale must be highly probable and be expected within one year of classification. If these three conditions are met, then the special recognition and measurement rules of IFRS 5 apply.

Due to reclassification of the Locomotives business unit as a discontinued operation for the first time as of December 31, 2017, it was measured for the first time as of this date at the lower of the carrying amount and fair value less costs to sell.

There is the risk that an impairment loss remains unrecognized as of December 31, 2017. Furthermore, there is a potential risk in our view that the disclosures in the notes on this matter are improper and insufficient.

OUR AUDIT APPROACH

We confirmed that the conditions for classification of the Locomotives business unit as an asset (operation) held for sale were met as of the date of initial reclassification as well as the reporting date. To this end, we consulted the executive board and inspected the minutes of the meetings of the executive and supervisory boards. Furthermore, our audit procedures included, among other activities, inspecting the offers of interested parties and evaluating the calculation of the impairment loss.

In addition, we verified by inspecting the accounting records and offers that only those assets and liabilities that are part of the discontinued operation are the subject of the offers. Based on this examination, we assessed whether the items in the balance sheet and/or income statement were accurately reclassified as assets and liabilities held for sale and/or as profit/loss from discontinued operations.

We verified that before initial measurement the assets belonging to the operation held for sale were first measured according to the applicable and relevant IFRSs.

In the course of initial recognition under IFRS 5 as of the reporting date, we evaluated that the estimates of the Company are proper and appropriate. For this purpose, we conducted surveys of the executive board and the specialist departments of Vossloh AG involved with the disposal, and critically evaluated the information obtained. In addition, we reconciled the expected costs to sell with the underlying offers and verified the calculation of the resulting impairment expense and its allocation to the non-current assets of the Locomotives business unit.

Moreover, we assessed whether the disclosures in the notes are appropriate and sufficiently detailed.

OUR OBSERVATIONS

The classification of the Locomotives business unit as a discontinued operation pursuant to IFRS 5 is appropriate. Measurement pursuant to the provisions of IFRS 5 is appropriate and judgment was properly exercised with regard to measurement. The required disclosures in the notes are complete and accurate.

Approach and measurement of the assets and liabilities as part of the first-time consolidation of Rocla in the consolidated financial statements as well as the completeness of the related notes

Please refer to the section „Consolidation" in the notes to the consolidated financial statements of the Company for further information on the acquisition of Rocla International Holding, Inc.

THE FINANCIAL STATEMENT RISK

On December 5, 2016, Vossloh acquired 100% of the shares in Rocla International Holding Inc., Denver, USA, at a purchase price of EUR 117.3 million with effect from January 3, 2017. Taking into account the acquired net assets of EUR 69.9 million, goodwill amounts to EUR 47.4 million.

Pursuant to IFRS 3, the acquired assets and assumed liabilities were recognized at fair value for the purposes of a purchase price allocation in the consolidated financial statements as of December 31, 2017. Vossloh consulted an independent expert to determine and measure the identifiable assets acquired and liabilities assumed.

For purposes of the first-time consolidation in the consolidated financial statements, the assets and liabilities to be acquired and assumed were identified. In a further step, fair values are derived for the identified assets and liabilities taking account of planning and other assumptions. Both steps are complex and based on assumptions of the executive board that require judgment.

There is the risk for the financial statements that the assets acquired and liabilities assumed are identified improperly or measured inaccurately. There is also the risk that the disclosures in the notes to the consolidated financial statements are not complete and accurate.

OUR AUDIT APPROACH

Our audit of the approach and measurement of the assets and liabilities as part of the first-time consolidation of Rocla in the consolidated financial statements was performed with the involvement of our valuation experts and including, among others, the following steps:

– Audit of the existence of control from January 3, 2017 by verifying compliance with the closing conditions pursuant to the purchase agreement.

– Plausibility check and critical assessment of the assumptions used for the purchase price allocation as well as the identification and measurement method, including
  - Plausibility of the underlying revenue and earnings planning for Rocla taking account of general and industry-specific market expectations and studies.
  - Assessment of whether the acquired assets and liabilities meet the recognition criteria of IFRS 3
  - Assessment of the appropriateness of the valuation method and its implementation in the valuation models as well as
  - Evaluation of the material measurement parameters such as WACC, reduction rates and license fees with the aid of external sources

– Audit of the computational accuracy of the models used based on risk-based criteria for the derivation of fair values

– Assessment of the expertise, competence and objectivity of the external valuation experts engaged by Vossloh AG

– Evaluation of the deferred taxes on disclosed hidden reserves and liabilities arising from the remeasurement of assets and liabilities

– Verification of the accounting treatment of the transaction in the consolidated financial statements as well as the completeness of the disclosures in the notes.

OUR OBSERVATIONS

The approach used for identifying and measuring the assets acquired and liabilities assumed is appropriate and in line with the accounting policies to be applied. The key assumptions and parameters are appropriate and they are completely and properly presented in the notes to the consolidated financial statements.

Recognizing revenue in the period in which it is incurred

Please refer to note 1 for further information on the accounting policies applied.

THE FINANCIAL STATEMENT RISK

Revenue amounted to EUR 918.3 million in financial year 2017.

Revenue from sales transactions can be recognized if a purchase agreement was concluded, the main service has been performed and the price risk has thus been transferred to the buyer. The contracting parties generally negotiate the transfer of risk and thereby also the date of revenue recognition using incoterms.

The Group's focus markets are China, North America, Western Europe and Russia. Global deliveries of switch and rail fastening systems are carried out by the group companies on the basis of differing incoterms. Vossloh AG has an accounting policy that stipulates the procedure to be used by group companies for the recognition of revenue. There is the risk for the financial statements that revenue may be incorrectly recognized by mistake due to differing incoterms and differing transport itineraries and times.

As revenue is one of the Group's key performance indicators and due to its direct and indirect influence on further primary performance indicators that are relevant for the Group (e.g. EBIT), during our audit we identified a risk of material misstatement regarding the correct recognition of revenue in the period in which it was incurred.

OUR AUDIT APPROACH

We assessed the group-wide instructions in the accounting policies. In order to audit whether revenue was recognized in the period in which it was incurred, we assessed whether the internal controls of order acceptance, outgoing goods and invoices have been properly set up and are effective. We confirmed the proper recognition of revenue as of the reporting date (revenue recognition cut-off) for selected group entities. For this purpose, we inspected documents for significant entities for the consolidated financial statements based on random samples, which were selected by taking a mathematically-based statistical approach for a defined period of time around the reporting date. Based on invoices selected in this manner and external proof of delivery, we audited the correct revenue recognition cut-off based on the transfer of risk stipulated in the incoterms. In addition, we also obtained third party confirmation from debtors or – as an alternative audit procedure – reconciled the selected invoices with the proof of delivery documents and receipts of payment.

OUR OBSERVATIONS

Vossloh AG has an appropriate set of rules (accounting policy) in place for recognizing revenue, which is used by the group companies. Vossloh AG's approach for revenue recognition cut-off is appropriate.

Other Information

Management is responsible for the other information. The other information comprises:

– the non-financial statement and the corporate governance statement, and

– the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

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

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

– otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group 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 group management report.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 opinions on the consolidated financial statements and on the group 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 consolidated financial statements and this group management report.

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

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

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

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

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

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

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

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

German Public Auditor Responsible for the Engagement

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

Düsseldorf, 7 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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

Financial calendar 2018/2019

Financial calendar 2018

Annual General Meeting	May 9, 2018
Publication of quarterly statement	
as of March 31	April 26, 2018
as of June 30	August 1, 2018
as of September 30	October 25, 2018

For further dates, go to www.vossloh.com

Financial calendar 2019

Publication of 2018 financial data	March 2019
Press conference	March 2019
Investor and analyst conference	March 2019
Annual General Meeting	May 2019

Investor relations

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Information on the Vossloh share

ISIN	DE0007667107
Trading locations	Xetra, Düsseldorf, Frankfurt, Berlin-Bremen, Hanover, Hamburg, Stuttgart, Munich
Index	SDAX
Number of shares outstanding as of December 31, 2017	15,967,437
Annual average number of shares outstanding	15,967,437
Share price (December 31, 2017)	€46.80
2017 high/low price	€63.99/€44.10
Reuters code	VOSG.DE
Bloomberg code	VOS GR
Dividend proposed	€1.00

Glossary

Borrowings	Schuldschein loans, bank debts, notes payable and liabilities from finance leases
Capital employed	Working capital plus fixed assets
Cash pooling	Balance transfer procedure for pooling liquidity
Class-I railroads	Class-I railroads are the major freight rail companies in North America
Derivative financial instruments	Contracts whose fair values are derived from basis values (e.g., stocks or currencies)
EBIT	Earnings before interest and income taxes
EBIT-Marge	margin EBIT/sales
EBT	Earnings before income taxes
Employee bonus program	Program for granting shares to employees free of charge or at reduced prices
Equity ratio	Equity/balance sheet total
Guarantee	Assumption of guarantees and surety bonds
IAS/IFRS	International Accounting Standards/ International Financial Reporting Standards
Interest rate cap	Option deal that hedges buyers against increasing interest rates through an interest rate ceiling
Interest rate swap	Contractual agreement on the exchange of fixed and variable interest payment flows based on an underlying nominal value
Line of credit	Credit agreement between two or more parties
Net financial debt	Financial liabilities – cash and cash equivalents – short-term securities
Operating lease	Type of lease contract that requires the lessor to account for the leased asset
Personnel expenses per employee	Personnel expenses/annual average headcount
Return on capital	See return on capital employed
Return on capital employed	EBIT/average capital employed
Treasury value added	Finance management
Value added	EBIT minus weighted average cost of capital (WACC) x average capital employed
Working capital	Trade receivables (incl. receivables from long-term construction contracts) + inventories – trade payables (incl. liabilities from long-term construction contracts) – prepayments received – other short-term provisions (adjusted for items not attributable to operating business)
Working capital intensity	Average working capital/sales

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Impressum

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Editorial deadline: March 2018

This Annual Report has also been published in German and is available at www.vossloh.com

Ten-year overview of the Vossloh Group*

		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Income statement data											
Sales revenues	€ mill.	918.3	822.5	952.9	1,100.8	1,300.7	1,243.0	1,197.2	1,351.3	1,173.7	1,212.7
EBIT	€ mill.	70.3	57.5	42.3	(183.4)	52.7	97.5	97.2	152.1	137.9	137.7
Net interest result	€ mill.	(12.5)	(10.6)	(11.1)	(24.2)	(21.4)	(21.4)	(12.3)	(11.7)	(9.4)	(9.3)
EBT	€ mill.	57.8	46.9	31.2	(207.6)	31.3	76.1	84.9	140.4	128.5	128.4
Net income	€ mill.	0.3	10.1	77.8	(205.7)	23.6	64.8	60.5	111.1	96.7	146.2
Earnings per share	€	(0.50)	0.22	5.42	(16.46)	1.25	4.94	4.32	7.32	6.57	9.48
Return on capital employed[1]	%	8.9	8.8	5.8	(21.7)	5.9	11.5	12.0	17.2	20.5	18.8
Value added	€ mill.	11.1	(1.5)	(31.1)	(267.8)	(22.8)	13.0	16.1	54.8	63.7	
Balance sheet data											
Fixed assets	€ mill.	568.7	467.8	486.7	548.8	714.5	662.7	625.6	590.7	458.2	431.4
Investments[2]	€ mill.	39.5	30.3	34.2	50.7	64.4	61.1	65.6	57.9	41.9	37.6
Depreciation/amortization[2]	€ mill.	33.6	31.5	35.7	123.2	40.7	41.4	38.2	39.5	24.6	22.8
Closing working capital[3]	€ mill.	190.0	159.2	213.8	226.5	94.5	166.0	200.3	258.0	245.1	300.7
Closing capital employed	€ mill.	758.7	627.0	700.5	775.3	809.0	828.7	825.9	848.6	703.2	732.1
Equity	€ mill.	532.4	550.8	428.7	349.6	481.1	505.7	480.1	580.0	492.6	492.7
thereof: Noncontrolling interests	€ mill.	15.0	18.0	17.0	19.7	18.6	15.9	14.0	27.9	20.4	16.9
Net financial debt[4]	€ mill.	207.7	85.0	218.6	283.0	204.1	200.8	238.8	136.6	70.2	(35.0)
Total assets	€ mill.	1,252.9	1,367.2	1,389.9	1,604.4	1,562.4	1,500.0	1,495.9	1,405.8	1,338.4	1,339.4
Equity ratio	%	42.5	40.3	30.8	21.8	30.8	33.7	32.3	41.3	36.8	36.8
Cash flow statement data											
Cash flow from operating activities	€ mill.	24.5	65.8	107.8	(42.2)	130.5	162.6	138.5	139.1	44.9	133.8
Cash flow from investing activities	€ mill.	(124.2)	(43.2)	(11.6)	(58.3)	(75.4)	(72.9)	(90.6)	(151.1)	(52.3)	116.8
Cash flow from financing activities	€ mill.	20.7	79.3	(77.0)	103.7	(63.1)	(109.9)	(47.3)	(71.8)	(84.1)	(77.0)
Net cash inflow/outflow	€ mill.	(79.0)	101.9	19.2	3.2	(8.0)	(20.2)	0.6	(83.8)	(91.5)	173.6
Employees											
Annual average headcount	No.	3,934	3,682	4,069	4,883	5,247	5,078	5,000	4,984	4,717	4,631
thereof: Germany	No.	854	840	1,244	1,853	1,759	1,756	1,747	1,667	1,312	1,243
Abroad	No.	3,080	2,842	2,825	3,030	3,487	3,322	3,253	3,317	3,405	3,388
Personnel expenses	€ mill.	214.8	197.1	218.1	283.0	284.0	271.0	259.0	249.5	229.6	223.2
Personnel expenses per employee	€ thous.	54.6	53.5	53.6	58.0	54.1	53.4	51.8	50.1	48.7	48.2

Ten-year overview of Vossloh AG

		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Capital stock	€ mill.	45.3	45.3	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8
Dividends per share	€	1.00[5]	0.00	0.00	0.00	0.50	2.00	2.50	2.50	2.00	2.00 + 1.00
Share price as of December 31	€	46.80	59.61	57.74	53.50	72.50	74.47	74.07	95.50	69.52	79.49
Market capitalization as of December 31	€ mill.	747.3	951.8	793.1	712.9	870.3	893.5	888.3	1,272.6	926.0	1,104.0

*2017 and 2016 Locomotives and Electrical Systems business units reported under discontinued operations;
2015 Rail Vehicles and Electrical Systems reported under discontinued operations.
2014 and earlier years reported as previously

[1] From 2009, based on average capital employed

[2] Excluding noncurrent financial instruments, depreciation/amortization plus impairment losses and write-downs

[3] From 2009, the other current provisions, being noninterest bearing, are also deducted

[4] In brackets: net financial assets

[5] Subject to the approval of the Annual General Meeting

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