ANNUAL REPORT 2016

Transforming Vossloh.

Clear focus. Sharpened profile.

Key Group figures		2016	2015*
Orders received	€ mill.	1,078.6	941.9
Order backlog	€ mill.	729.6	582.7
Income statement data			
Sales revenues	€ mill.	931.6	952.9
Core Components	€ mill.	257.1	256.6
Customized Modules	€ mill.	492.3	523.0
Lifecycle Solutions	€ mill.	83.5	71.7
Transportation	€ mill.	109.3	109.6
EBIT	€ mill.	50.0	42.3
EBIT margin	%	5.4	4.4
Net interest result	€ mill.	(9.4)	(11.1)
EBT	€ mill.	40.6	31.2
Net income	€ mill.	10.1	77.8
Earnings per share	€	0.22	5.42
Return on capital employed (ROCE)[1]	%	7.1	5.8
Value added[1]	€ mill.	(13.8)	(31.1)
Balance sheet data			
Fixed assets[2]	€ mill.	490.8	486.7
Capital expenditures	€ mill.	37.8	34.2
Depreciation/ amortization	€ mill.	35.6	35.7
Closing working capital	€ mill.	186.8	213.8
Closing capital employed	€ mill.	677.6	700.5
Total equity	€ mill.	550.8	428.7
Non-controlling interests	€ mill.	18.0	17.0
Net financial debt	€ mill.	83.9	218.6
Total assets	€ mill.	1,367.6	1,389.9
Equity ratio	%	40.3	30.8
Cash flow statement data			
Gross cash flow	€ mill.	90.7	71.7
Cash flow from operating activities	€ mill.	65.8	107.8
Cash flow from investing activities	€ mill.	(43.2)	(11.6)
Cash flow from financing activities	€ mill.	79.3	(77.0)
Free cash flow	€ mill.	25.2	66.1
Workforce data			
Annual average headcount	No	4.076	4.069
Core Components	No	631	609
Customized Modules	No	2,537	2,589
Lifecycle Solutions	No	457	400
Transportation	No	396	415
Vossloh AG	No	55	56
Personnel expenses	€ mill.	225.4	218.1
Share data			
Annual closing price[3]	€	59.61	57.74
Closing market capitalization	€ mill.	951.8	793.1

[1] Based on average capital employed
[2] Fixed assets = intangible and tangible assets + investment properties + shares in associated companies + other non-current financial instruments
[3] Share price adjusted at the end of the previous year due to the capital increase carried out in financial year 2016
* Prior-year figures adjusted due to the treatment of the Electrical Systems business unit as discontinued operations

Dear Shareholders,

Over the course of the past financial year, significant steps forward were taken in the transformation of our company into a focused, leading international provider of products and services for rail infrastructure. The agreement on the sale of Vossloh Kiepe, our Electrical Systems business unit, was signed in December 2016 and the sale has now been finalized. On the one hand, sales from continuing operations decreased slightly from a comparable €952.9 million in the previous year to €931.6 million in the reporting year and were thus at the lower end of the most recently communicated forecast. On the other hand, we were able to improve profitability, measured by the EBIT margin, at a rate which, pleasingly, was stronger than previously forecast. The Group's earnings before interest and taxes (EBIT) in the reporting year amounted to €50.0 million (comparable prior-year figure: €42.3 million), the EBITA margin thus reached 5.4 percent after a comparable 4.4 percent in financial year 2015. In addition to our focus on high-margin orders, ambitious cost reduction programs and efficiency enhancements have contributed to earnings-side improvements.

We have also further strengthened the financial foundation of the Group. We were able to very successfully conclude the 20-percent capital increase with subscription rights to existing shareholders with a subscription rate of 98.2 percent. In line with the strategy approved at the end of 2014, we have now sold the business units that are no longer part of our core business – Rail Vehicles and, most recently, Electrical Systems. As a result, the Group

Volker Schenk
(Member of the Executive Board)

Dr. h.c. Hans M. Schabert
(Chairman of the Executive Board)

Oliver Schuster
(Member of the Executive Board)

has a cash inflow in the high double-digit million euro range and net financial debt decreased accordingly. We also intend to put the last remaining Transportation activities, Vossloh Locomotives in Kiel, in the hands of new owners. The prospects are not bad: The business unit is currently moving into Europe's most modern locomotive manufacturing facility and the order books are also full thanks to a major order that was won in 2016.

Since the repositioning that was started in 2014, it has always been especially important to us that we always act in a manner that is reliable and predictable. We again succeeded in 2016 by keeping the operational and strategic promises that we made. In the core business of rail infrastructure, a foundation for future profitable growth has been laid. The Tie Technologies business unit established through the acquisition of Rocla in the USA will, for example, with its concrete ties and other concrete products, significantly strengthen the Core Components division and allow for the leveraging of additional synergies. A strengthening of the strategically important sector "mobile rail milling" in the Lifecycle Solutions division is also fully in line with the new Vossloh strategy. In 2016, Vossloh acquired the remaining shares in Apha Rail Team GmbH & Co. KG.

Vossloh's newly-gained strength – and the resulting success of the transformation – is founded on a number of factors. The focus on the core business of rail infrastructure with strong market position was the right step. Our rail fastening and switch systems serve as a benchmark in many countries throughout the world. The newly-added tie products are an ideal strategic supplement. This is on top of the innovative services for the value retention of the tracks. Vossloh has a technology with a unique selling proposition in its portfolio with high-speed grinding. Another key success factor is the guiding principle of the integrated group. We have bundled the competence and the resources from the infrastructure areas and are thus in a position to provide comprehensive answers and corresponding solutions to the most urgent questions in rail transport. Not least, we have managed, with leaner management structures and more direct communication, to establish a Vossloh culture that will make your company consistently better.

This goal is also served by our decision taken in 2016 to create a highly-modern lead factory at our headquarters in Werdohl. In addition to an optimal value stream and the most modern procedures, it will also provide a greater degree of vertical integration and thus safeguard jobs. Close to the technology center innovative technologies can thus be developed that can then be applied throughout the world.

The refocusing on the Vossloh core business of rail infrastructure as well as the bundling of our competences in comprehensive solutions reflect the needs and desires of rail operators. We have thus gained a distinct profile. And we have a team effort to thank for this development. With a tremendous amount of heart, quality awareness and pride, the Vossloh workforce has untiringly supported and implemented changes. The transformation is also being driven by a willingness to succeed and the experience of our Supervisory Board. The fact that Vossloh's success rests on many shoulders will also ensure that we will continue along this path following the long announced change to the Chief Executive Officer.

Dear shareholders, your loyalty has also played an important role in the new strength of Vossloh. With your support, your company will be able to sustainably continue its growth course. We would be delighted if you were to stay with us on this journey.

Yours sincerely,

Hans M. Schabert

Dr. h.c. Hans M. Schabert
Chairman of the Executive Board

Overview of the year

Q1 2016

The 2015 Annual Report published on March 17, 2016 showed that the operational development targets set by management had been reached. Earnings and cash flow both increased noticeably. In addition, substantial progress was made on the road toward the transformation of the company into an industry leader that is purely focused on rail infrastructure. In this regard, with effect from the end of December 31, 2015, the sale of the Spanish locomotive business to Swiss company Stadler Rail AG was completed. As a result of the transaction, the equity of the Vossloh Group was increased and the net financial debt reduced.

Dr. h.c. Hans M. Schabert, CEO of Vossloh AG since April 1, 2014, announced that he will not be available for an extension of his contract after expiry on March 31, 2017 due to family-related reasons. The contracts of the two other Management Board members Oliver Schuster and Volker Schenk will be extended as planned for another three year term after expiry on February 28, 2017 and April 30, 2017, respectively.

Q2 2016

At the Annual General Meeting of Vossloh AG, the shareholder representatives approved all items on the agenda with large majorities. Among other things, shareholders approved the amendment to the business purpose of Vossloh AG in the Articles of Association. The change underscores the focus of Vossloh's business activities on rail infrastructure.

Vossloh Aktiengesellschaft successfully completed its capital increase resolved on May 24, 2016. The new shares began trading on June 17, 2016. In the course of the transaction 98.2 percent of subscription rights were exercised by the subscription right holders, thus confirming the confidence in the company's strategy and the envisaged growth of Vossloh.

Q3 2016

Vossloh Fastening Systems China, the subsidiary of Vossloh's Core Components division based in Kunshan, China, won another tender for high-speed fastening systems worth approximately €50 million. The fastening systems will be delivered for the route from Qingdao City on the east coast to Ji Nan City, where the line will be connected to the north-south connection from Beijing to Shanghai.

Vossloh Locomotives in Kiel signed a contract for the delivery of 44 DE 18 diesel-electric locomotives with French company Akiem SAS. Akiem is one of the leading leasing firms for rail vehicles in Europe. The volume of the order amounts to about €140 million. The locomotives for Akiem will be produced at the new Vossloh Locomotives location in Kiel-Suchsdorf and shipped from 2018 onwards.

Vossloh presents its comprehensive integrated product and service portfolio at the InnoTrans rail technology trade fair in Berlin, which takes place every two years. Under the "connecting expertise" banner, Vossloh presents itself as a solutions provider for the most urgent questions in the industry. The focus is on noise and vibration protection, track availability and efficiency as well as a reduction of lifecycle costs for rail infrastructure.

Parallel to the InnoTrans, the "World Rail Market Study" from industry association UNIFE is presented. In comparison with 2011 to 2013 and 2013 to 2015, the accessible market segments rail infrastructure and infrastructure services have grown by an average of 2.0 percent every year. In the same period, sales of the Vossloh Group's core business of rail infrastructure increased by an average of 2.8 percent each year.

The Supervisory Board appointed Andreas Busemann as CEO of Vossloh AG with effect from April 1, 2017, for a term of three years as the successor to Dr. h.c. Hans M. Schabert.

Q4 2016

The Executive Board of Vossloh AG decides to substantially upgrade and strengthen the company headquarters in Werdohl in the coming years. At its meeting on November 29, the Supervisory Board issues its approval for the concept. The approved lead factory will allow for a significant optimization of manufacturing processes. At the same time, Vossloh secures jobs at the location over the long term through an increase in vertical integration. The major project should be completed as planned by 2020 and consists of several modular, inter-dependent construction measures so that ongoing manufacturing can be maintained at all times.

Vossloh signed a contract for the acquisition of the US rail infrastructure company Rocla Concrete Tie with Altus Capital Partners II. Rocla is North America's leading manufacturer of concrete ties. In addition to concrete ties, the company's product portfolio also includes switch ties as well as concrete components for fixed rail and rail crossing systems that are produced in six of its own plants in the USA and at a production plant in Mexico. From 2017, Rocla, as Vossloh Tie Technologies, will form a business unit within the Core Components division.

At the same time, Vossloh further strengthens its market position in the Lifecycle Solutions division in the strategically important service segment "mobile rail milling". On December 2, 2016, a contract was signed for the purchase of the remaining 50 percent of the shares in the previous Alpha Rail Team joint venture.

Vossloh AG signed a contract on the sale of the Electrical Systems business unit, which is presented as discontinued operations, to Knorr-Bremse Systeme für Schienenfahrzeuge GmbH, a wholly-owned subsidiary of Knorr-Bremse AG in Munich.

Vossloh stock

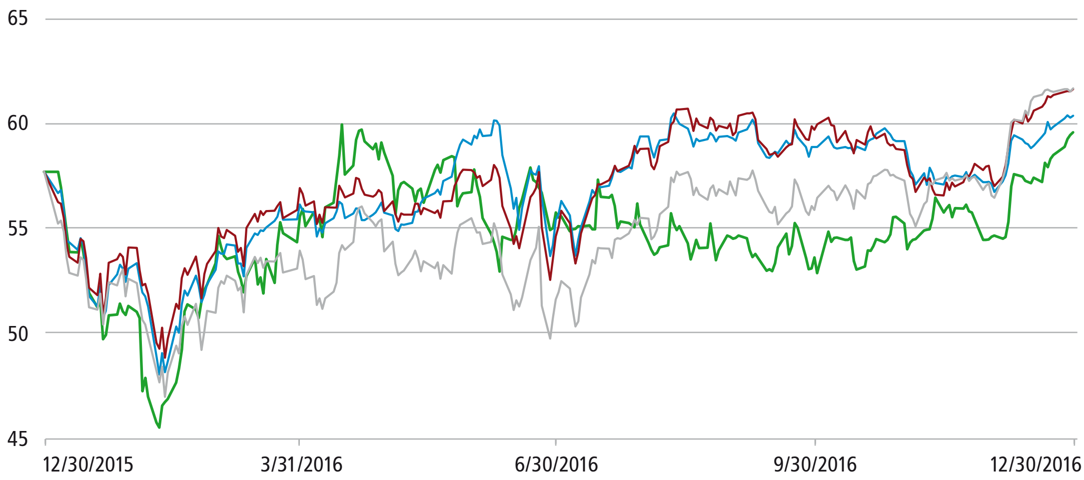
Strong price fluctuations shaped global stock markets in 2016. Unexpected political decisions, macro-economic challenges and the continuing monetary policy measures taken by central banks led to sometimes considerable price swings. At the beginning of the year, the situation was initially dominated by burdening factors that included the drop in the price of crude oil to a multi-year low in February. A weaker economic outlook in China and the collapse of the Chinese stock market in the first six weeks of 2016 also had a dampening effect on global stock markets. As the year progressed, the most important national and international benchmark indexes recovered noticeably, but the European stock exchanges, in particular, again found themselves under pressure in the middle of the year due to the unexpected results of the United Kingdom's referendum on leaving the EU. Supported by a more stable oil price development as well as improved economic data in Europe, China and in the USA, together with expected good economic perspectives in the aftermath of the election of the new US President, a generally positive market development began toward the end of the year. Most of the major international indexes closed out the year 2016 with substantial gains.

The most important German benchmark indexes also closed out the year with gains. On December 30, 2016, the DAX reached a level of 11,481 points and was thus 6.9 percent higher than at the end of 2015. Development of the MDAX was similar. At the end of 2016, the index was at 22,189 points and thus ended the stock exchange year 6.8 percent above the level at the end of the previous year. The SDAX increased by 4.6 percent in the reporting year to 9,519 points.

Successful capital increase in June 2016

On June 17, 2016, Vossloh AG successfully conducted a capital increase of 2,642,147 new shares at a subscription price of €48. The new shares, which were offered at a subscription ratio of 5:1, were introduced into stock market trading on the same day. In the course of the transaction, the number of shares outstanding in Vossloh AG increased from 13,325,290 to 15,967,437. Accordingly, the company's share capital increased to €45,325,167.47. All shares from the capital increase have full dividend rights. As part of the transaction, a total of 98.2 percent of the subscription rights were exercised by the subscription right holders.

Vossloh stock price trend from January 1, 2016 to December 30, 2016



Vossloh share ID data:

German SIN 766710
ISIN DE0007667107
Reuters VOSG.DE
Bloomberg VOS GR

Vossloh stock indicators		2016	2015
Earnings per share	€	0.22	5.42
Dividend per share	€	0.0[1]	0.0
Annual average number of shares outstanding	thousand shares	14,769	13,325
Number of shares outstanding at year-end	thousand shares	15,967	13,325
Closing stock price[2]	€	59.61	57.74
high/low[2]	€	60.53/45.24	67.66/49.39
Closing market capitalization	€ million	951.8	793.1
Trading volume	thousand shares	4,434	8,378
Average daily trading volume	thousand shares	17.4	33.1

[1] Dividend proposal subject to approval of the Annual General Meeting
[2] Value of the capital increase carried out in June 2016 adjusted retroactively

On May 24, 2016, the Executive Board decided to carry out the capital increase as part of the strategic positioning of the Group under utilization of the entire authorized capital. The cash inflow in the net amount of €123.1 million lends additional financial stability and flexibility for the targeted organic and non-organic growth of the company. On January 3, 2017, as part of the strategy, Vossloh successfully completed the acquisition of US rail infrastructure company Rocla Concrete Tie.

Vossloh's stock started 2016 with a price of €57.62 on January 4. The share reached a low for the year on February 9 at €45.24. It reached a high for the year on April 21 at €60.53. The Vossloh share closed out the year with a price of €59.61 on December 30. This corresponds to an increase of 3.2 percent as compared to the closing price for the year 2015 (December 30, 2015: €57.74). The share price information that relates to the period prior to the capital increase that was completed in June 2016 has been adjusted retroactively.

The market capitalization of Vossloh AG, calculated on the basis of the 15,967,437 shares outstanding, amounted to €951.8 million as of December 30, 2016. Due to the higher share price as compared to the prior-year reporting date and the higher number of outstanding shares, the figure noticeably exceeded the market capitalization from the prior-year reporting date of €793.1 million. In the Deutsche Börse ranking, the Vossloh share in December 2016 was ranked 77th in terms of free float market capitalization, in terms of the average number of shares traded it was ranked 80th.

Dividends

In light of the repositioning of the Vossloh Group, Vossloh AG's Executive Board and Supervisory Board will make a proposal to shareholders at the Annual General Meeting scheduled for Wednesday, May 24, 2017 to again suspend dividend payments for the 2016 financial year.

Ownership structure

Vossloh AG's largest shareholder remains Mr. Heinz Hermann Thiele, whose shareholdings amount to 44.73 percent of the capital stock according to a notification from December 30, 2016. Additional known shareholders of Vossloh AG with voting rights exceeding the legal reporting threshold of 3 percent are: LAZARD FRERES GESTION SAS, Paris, France, with 3.01 percent (March 24, 2014), Franklin Mutual Advisors, LLC, Wilmington, Delaware, USA, with 5.68 percent (July 1, 2014), as well as Iskander Makhmudov, Russian Federation, with 3.08 percent (February 5, 2015). Because these are purely financial investments, the assets of institutional investors are not considered fixed shareholdings but rather count toward the free float market capitalization as defined by Deutsche Börse AG. Therefore, the free float of Vossloh AG was 55.27 percent as calculated by Deutsche Börse as of the end of December 2016.

Analysts' ratings

At the beginning of 2017, nine financial analysts published extensive commentaries on Vossloh. Of these, seven recommended holding Vossloh shares, one gave the stock a buy recommendation and another analyst issued a sell recommendation. The average price target for the Vossloh share was €57 on the basis of the analysts' ratings submitted by the end of February 2017. The lowest price target amounted to €45.50, and the highest price target was €63.50.

Sustainability

Vossloh AG also qualified for investors with a sustainability focus. Since 2008, Vossloh has been listed in multiple sustainability rankings and belongs to the Oekom Research's investment universe, as well as to Kempen/ SNS SRI.

Capital market dialog

The Vossloh Investor Relations team was also involved in an intensive dialogue with institutional and private investors in 2016. Over the course of the year, Vossloh AG took part in a number of capital market conferences. In addition, the company itself held events with investors and analysts as well as numerous telephone conferences.

Employees of the Investor Relations team was also readily available to answer written or phone inquiries. We continue to be available to answer any questions or concerns you may have. Please address questions to investor.relations@vossloh.com or contact us at the number +49 (0)2392/52-609.

Clear focus. Sharpened profile.

Inner strength generates success

Focusing on the rail infrastructure core business is the key to Vossloh's new strength. For far too long, the company has struggled to offer a third of the product groups in demand in the global rail technology market – with just a one percent market share. If you want to be successful in the long-term, you have to focus on your strengths. For Vossloh this means that our rail fastening and switch systems are setting standards in many countries around the world and are an important component of modern rail tracks, alongside innovative services for the value retention of the rails. With high speed grinding, Vossloh's portfolio includes technology with a unique selling proposition. By contrast, in the Transportation division, it became clear that Vossloh alone would not be able to develop a significant position on the global markets. This reason contributed to the decision at the end of 2014 to seek an owner with a higher focus on the vehicle business.

The guiding principle of the integrated Group represents a further important success factor. In 2016, Vossloh presented itself at the world's largest rail technology trade fair with the motto "connecting expertise". The know-how and resources of the three divisions were bundled in order to offer products, systems and services from a single source. Interface competence in the company also meets the expectations of customers in the rail infrastructure market who want components to function individually and collectively. The availability of entire tracks or networks are important criteria for making decisions. Customers are looking for solutions for topical issues within rail transport, such as noise reduction or optimization of lifecycle costs. Vossloh has taken this into account by forming a strong, international sales organization from existing teams. Vossloh contact partners are available at many locations worldwide. They have been given extensive technical training in order to be able to answer questions about all aspects of the entire product and service portfolio and offer integrated solutions for customers. Competence centers with inter-disciplinary teams are already in place in key regions, such as the USA, China, Thailand and Russia.

InnoTrans 2016: Vossloh presented itself at the rail technology trade fair with the motto "connecting expertise". With lifecycle cost management, noise reduction and efficient track availability, we focused on the right topics

The constant scrutinizing of performance is an important element of inner strength – always with the aim of exploiting available potential. The core business and management have also not escaped scrutiny at Vossloh. One of the immediate measures in 2014 was a significant streamlining of the management structure. Constant improvement processes have long been a firm part of everyday life within production. Nowadays, Vossloh has expanded this concept into administrative areas.

The interlinking of the divisions, straightforward communication and clear processes were used to implement more streamlined structures and greater efficiency in administration.

A powerful, networked core business will allow us to assert ourselves in the competitive rail market and to grow using our own strength. Vossloh is a sought-after partner. With integrated and value-adding solutions, excellent further business opportunities exist particularly in mature markets.

Sustainable through innovation

The rail world is facing radical changes through the digitalization of rails. For rail infrastructure, the digital transformation means that it will have to be more reliable and, above all, more efficient. Business opportunities are available: Well maintained and durable components, real-time analysis and wear-dependent maintenance as well as fast component replacement are becoming increasingly important. And this is exactly where Vossloh comes in.

Research and development are the drivers of organic growth. For this reason, Vossloh has never scaled back its research and development expenses, even in difficult phases of transformation; numerous projects are currently in development. In the rail sector, which is focused on safety and reliability, new products ultimately need many years to be ready for the market.

Rail milling, for example, is a tried and tested technology. It is used for advanced rail defects to extend the service life of the rails. Vossloh has expanded its commitment in this area through the acquisition of the former Alpha Rail Team joint venture. However, the current state of technology offers clear room for improvements. With the in-house development of marketable high performance milling, Vossloh will carry out rail milling significantly faster and achieve a substantial improvement to the surface quality of the processed rails.

Composite ties are an alternative to wood ties, as they are lighter, odorless, have a long lifespan, and can be recycled. Interest from rail operators is therefore high. The product solutions available on the market are, however, relatively expensive. Vossloh is researching its own solution in terms of material mix, technical properties and costs.

Innovation as part of the digital revolution also includes process innovation. At the end of 2016, Vossloh decided to create a state-of-the-art lead factory at its headquarters, making Werdohl a flagship location for Vossloh. In the next four years, the "factory of the future" will be created, with production uninterrupted. Just one third of the usable area will remain unchanged, the rest will either be newly constructed or modernized.

A rail fastening system must withstand a lot. That is why reality, and strains far beyond reality, is reconstructed in the Werdohl laboratory, where all national and international standards can be tested.

Optimal value stream, highly modern processes, increased value added: Vossloh is gradually implementing the concept of ideal manufacturing alongside the technological development of products. The production of tension clamps will be renewed in one third less space, with straightforward processes and a high degree of automation. This will also allow optimized delivery and improved quality of the tension clamps, significantly speeding up processing for customers and improving economic efficiency. Jobs at the Werdohl location are secured: The production depth for rail fasteners will be significantly expanded in the future factory and will result in increased value added. Plastic and rubber components for Vossloh systems will be produced on site and in-house. The product management and storage, parts of which are currently outsourced to nearby Lüdenscheid, will be brought back on site with modern equipment and optimum access routes – an overall perfect production flow. The lead factory will also be a green factory. Equal focus is placed on increasing the energy efficiency and increased use of alternative energy. Occupational safety and health protection for employees on site will be at the highest level. The physical proximity of the future factory and the idea factory – the modern technology center with its laboratories is already on the Werdohl site – will allow innovative technology to be developed, which can be multiplied as part of a second stage and used at other locations worldwide.

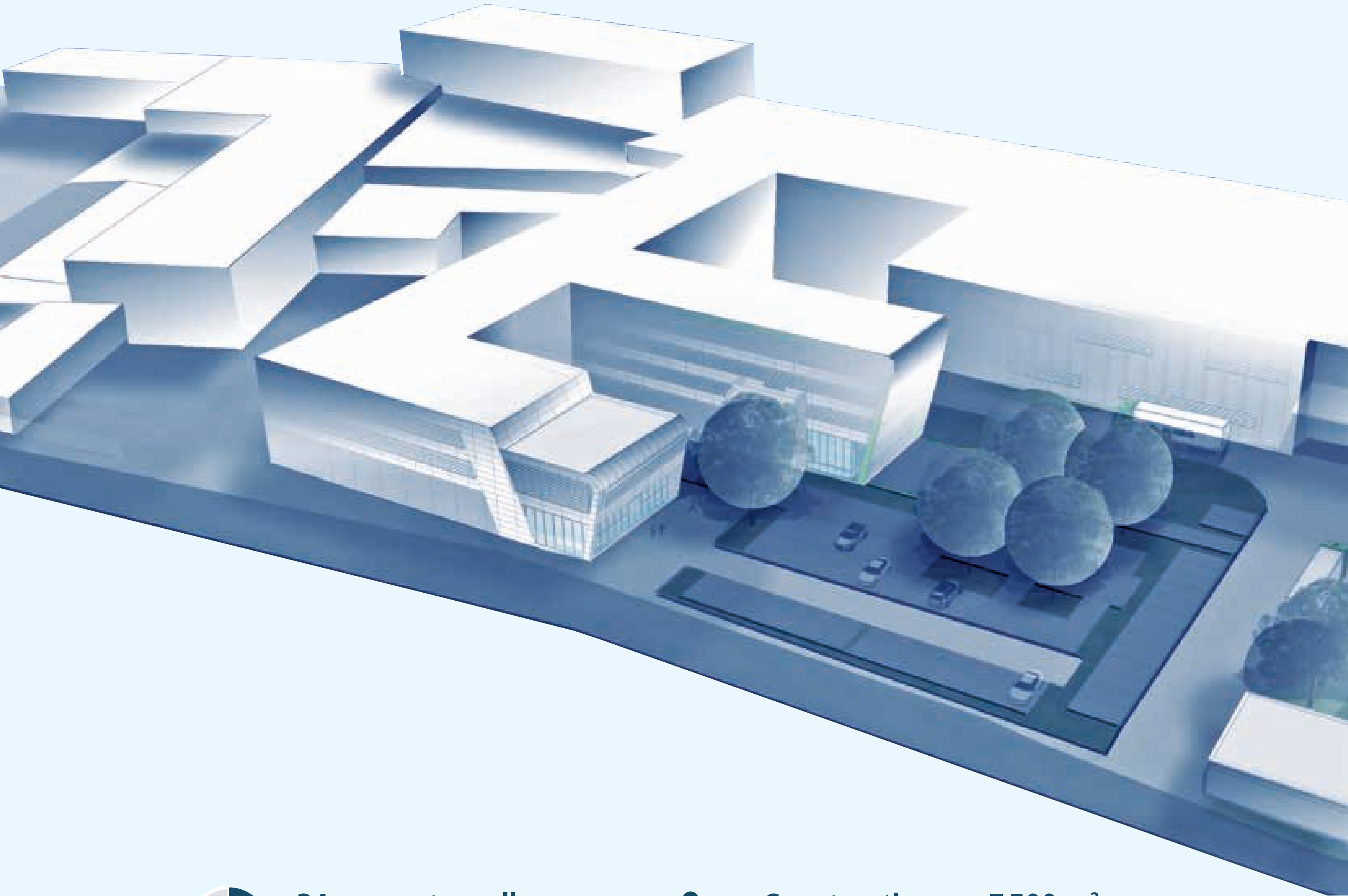
The Kiel location shows that Vossloh knows how to use its manufacturing competence. Before the Vossloh Locomotives Group, the last remaining part of the Transportation division, is handed over to a new owner, the locomotive builders will move into Europe's most modern locomotive production site. The time needed to produce a standard locomotive will be reduced by at least 50 percent.

A further example shows just how serious Vossloh is when it comes to using innovative manufacturing processes as the foundation for future growth: In Outreau, Vossloh is completely modernizing buildings and production plants at the foundry for switch frogs. The location in Northern France is one of the largest of its kind in Europe and is a competence center for foundry technology for Vossloh.

In the modern rail world, the best aspects of the analog world, such as innovative materials, components and solutions, will be symbiotically implemented in digitalized processes, whether in manufacturing or in modern forms of mobility. Vossloh is not only well prepared for this, but is also a key player in the revolution.

The lead factory of the future

will be established at the Werdohl site, close to the modern technology center.
The Fastening Systems business unit and Vossloh AG have their headquarters here by the River Lenne.



34 percent smaller
area for highly automated new manufacturing

From 8 to 4 days
Reduction of the time for tension clamp manufacturing from 8 to 4 days

Construction time
Autumn 2017 to the end of 2020

3,200 m²
renovation

7,500 m²
new construction

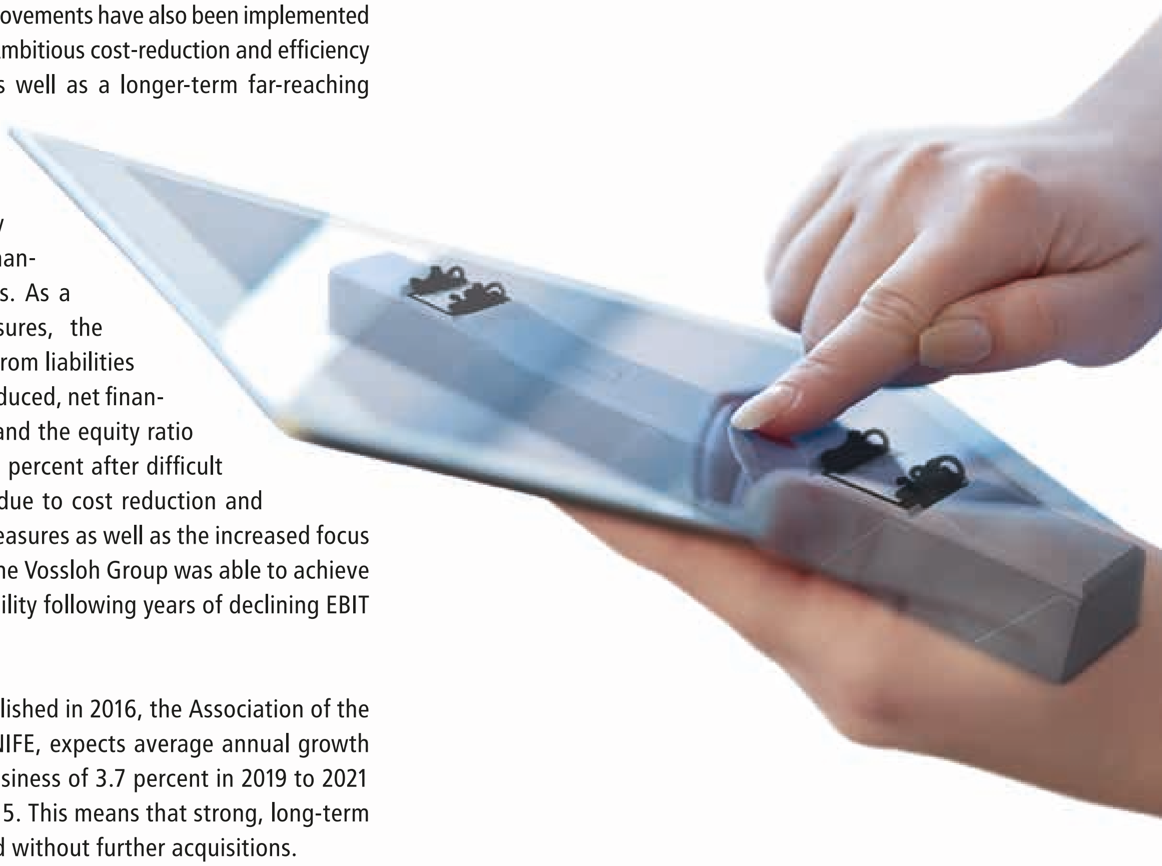
5,500 m²
unchanged

Solid basis **for future growth**

Vossloh has set itself the target of sustainable and profitable growth in the coming years within rail infrastructure, including the corresponding services. Such growth depends on a stable financial starting point, which Vossloh has secured in the last three years. In the first stage, shares owned by the company itself were sold as part of an accelerated bookbuilding procedure in the first quarter of 2014. Several months later, the financing through a US private placement, which had been in place since 2004 and was comparatively expensive, was replaced with a significantly lower-interest bridge loan. In Spring 2015, significant parts of the Group financing were transferred into a flexibly structured, medium-term syndicated loan. In Spring 2016, a capital increase of around 20 percent was very successfully carried out with a subscription rate of 98.2 percent.

Important milestones in the transformation of the Vossloh Group were not only reached in terms of finance. We have also sold the Rail Vehicles and Electrical Systems business units in accordance with the strategy agreed at the end of 2014, generating positive effects on the net financial debt of the Vossloh Group. A cash inflow in the high double-digit million range was recorded by the Group.

Furthermore, extensive improvements have also been implemented in the operating business. Ambitious cost-reduction and efficiency enhancement programs as well as a longer-term far-reaching project to optimize the net working capital also made a significant contribution towards substantially strengthening Vossloh's financial and earnings positions. As a result of all these measures, the ongoing interest expense from liabilities to banks was noticeably reduced, net financial debt fell significantly and the equity ratio almost doubled to over 40 percent after difficult cuts in 2014. In addition, due to cost reduction and efficiency enhancement measures as well as the increased focus on higher-margin orders, the Vossloh Group was able to achieve a trend reversal in profitability following years of declining EBIT margins since 2011.



According to its study, published in 2016, the Association of the European Rail Industry, UNIFE, expects average annual growth within the Vossloh core business of 3.7 percent in 2019 to 2021 compared with 2013 to 2015. This means that strong, long-term growth cannot be achieved without further acquisitions.

The noticeably improved balance sheet structure as well as continually improving profitability and positive cash flow provide the basis for the necessary flexibility in the financing of such acquisitions.

It is, of course, difficult to predict precisely when the opportunity for the acquisition of a company at economically beneficial conditions will arise. However, it is important to be prepared to be able to react quickly at the key moment. The focus of considerations is on rail infrastructure companies, whose business model can be allocated to one of the three active principles of Vossloh's core business, i.e. product, project or service orientation, whose acquisition would particularly strengthen the position in the reported focus markets and which would contribute towards reaching Vossloh's profitability targets. The two acquisitions at the end of 2016 – Rocla Concrete Tie and Alpha Rail Team – are good first examples of this.

Clear focus. **Sharpened profile.**

The last three years have brought significant change to the Vossloh Group. An operational Executive Board, restructuring, "One Vossloh" as the new guiding principle, a new strategy focused on the rail infrastructure core business: The complete transformation of an entire company has been carried out.

The core business is now being expanded. The acquisition of the US rail infrastructure company Rocla Concrete Tie is an ideal strategic expansion of the product portfolio. The acquisition will strengthen the rail infrastructure core business in the focus market USA. The proportion of concrete ties in North American freight transportation is continually increasing. In the future, Vossloh will be able to deliver switches, rail fastening systems and ties in the USA from a single source and from its own local production locations. Rocla is North America's leading manufacturer of concrete ties. The company is firmly established in the US market and serves the most important customers in the US rail industry. In addition to ties, the product portfolio also includes switch ties as well as concrete components for fixed rail and rail crossing systems that are produced in six of its own plants in the USA and at a production plant in Mexico. From 2017, Rocla will form the Tie Technologies business unit within the Core Components division.

The strengthening of the strategically important "mobile rail milling" service segment within the Lifecycle Solutions division is also part of the Vossloh strategy. In 2016, Vossloh purchased the remaining 50 percent of shares in the former Alpha Rail Team joint venture. Vossloh now plans to further expand and internationalize the business.

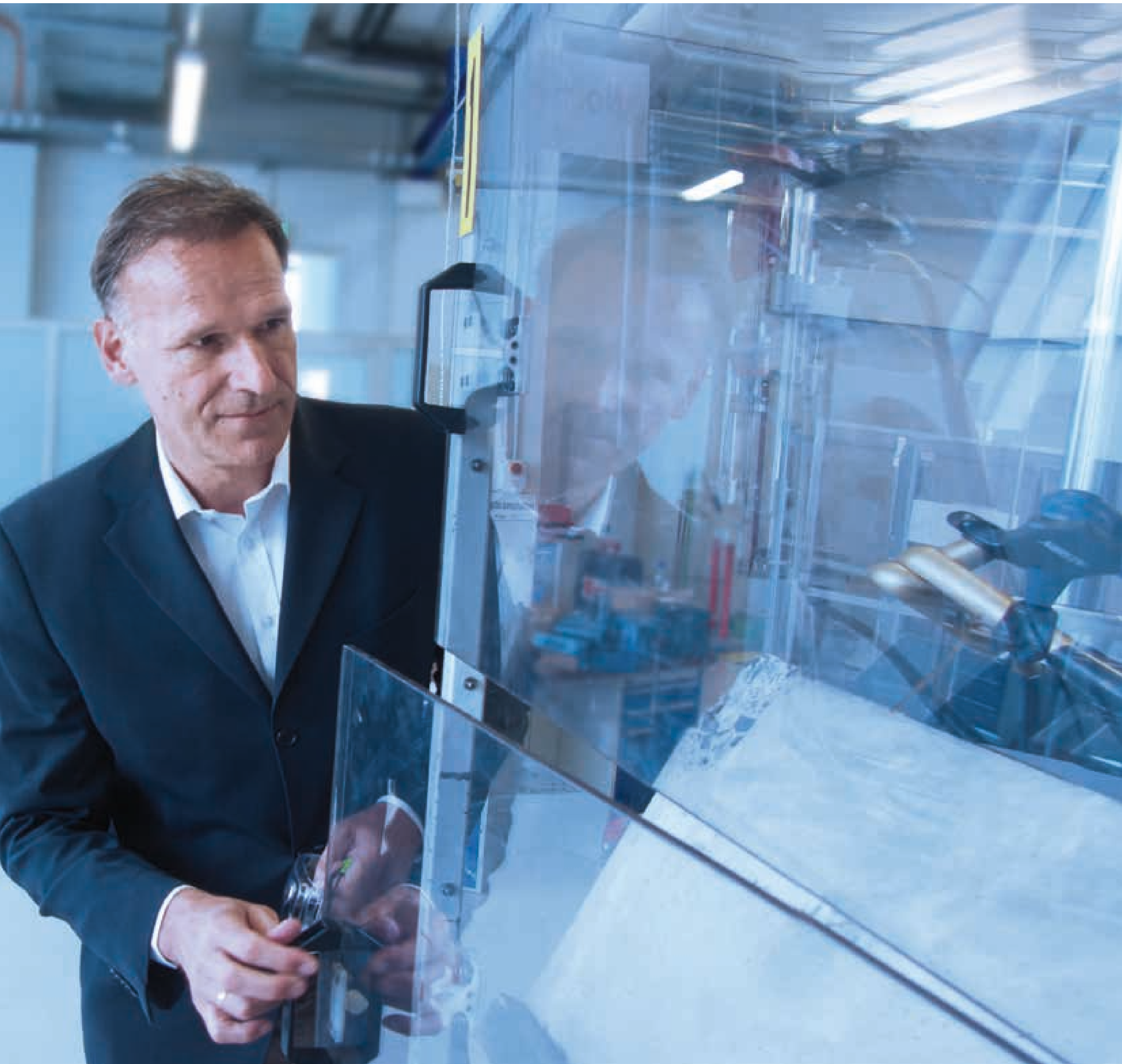
The US rail infrastructure company Rocla will become the new Vossloh Tie Technologies business unit. Ties and other concrete products are an ideal strategic addition to Vossloh's rail fasteners and switches.

The Group had already taken a further step towards internationalization in 2015 with two new joint ventures with a subsidiary of the Finnish national railway, VR Group. Since then, Vossloh has operated several switch locations and a long-rail welding plant in Finland. Vossloh has significantly increased its value added in the Finnish switch business with the joint venture and has created market access for the Lifecycle Solutions business.

A significant part of the transformation related to the transition from a decentrally organized Group to an operationally managed company. The paradigm shift in the corporate culture was implemented and successfully completed in all areas with networked decision structures and intensified communication.

The realignment and refocusing on rail infrastructure led to the restructuring of the Group and allowed for the offering of integrated solutions to meet customers' needs. This gave Vossloh a distinctive and authentic profile to convince on the market and to directly use growth opportunities.

Three years of transformation and **five reasons** to be proud of Vossloh



First: Careful and effective restructuring

Following the far-reaching review of the current situation in 2014, we have given Vossloh back its inner strength with a series of ambitious programs and measures. One thing was always important to us: In the Transportation division, which has been put up for sale, the restructuring and repositioning has been carried out with the same level of commitment. In contrast: Vossloh Kiepe is once again a sought-after, independent supplier of electrical equipment and was able to be successfully sold. We have built the most modern locomotives plant in Europe for Vossloh Locomotives in Kiel. The move has just begun – with a full order book for the coming years. In 2017, as planned, we have an attractive company for sale.

Second: New profile as a leading supplier for rail infrastructure

Less is more, when you are concentrating on your own strengths. With the new strategy, we have focused the company on the long-term growing and high margin rail infrastructure segment, in which our products and solutions already have or could reach leading positions worldwide. This allows us to perfectly expand with acquisitions. Vossloh Tie Technologies, for example, will significantly strengthen the Core Components division with its tie products and will achieve synergies in the USA. The strategy of successfully acting as a more focused and financially stronger supplier for rail infrastructure is making progress.

Third: "One Vossloh" is working

If, for example, Vossloh employees are presenting customers with solutions for urgent rail traffic problems at trade fairs or in their daily sales work, this is exactly our claim. But something has fundamentally changed in the last three years: The search for the right contact partner has ended. We are Vossloh – under one brand. The guiding principle of the integrated Group was in place at the beginning of the transformation of the company: One Vossloh. Since then, we have persistently demanded and promoted cooperation in both production and administration. There are, of course, still local, historically grown identities, but today, we are more conscious of the fact that we are part of one and the same company. The Executive Board members are operationally oriented, the expanded management circle is streamlined and works closely together. Ever more collective projects, bundled solutions for customers, greater communication, noticeably higher speed: That is One Vossloh, however inexclusive the term may seem today. It works.

Fourth: The people at Vossloh

The quality orientation, the passion and solidarity of our Vossloh team was never in question. Following an extremely difficult task for the team as part of the transformation in recent years, it is clear how concentrated, competent and motivated Vossloh employees from all areas are in representing their company, nowadays. This is no coincidence. The decentralized structure has given way to a straightforward and consistent information and decision flow. Approachability transcends hierarchies. An international management circle, comprising the Executive Board, division managers and staff functions, ensures a comprehensive exchange of information. Vossloh Talk, confidential discussions, which all Executive Board members regularly carry out with groups of employees from all levels, ensure proximity, mutual trust and understanding. To show that commitment pays off, the top apprentices in each year group in Germany are allowed to drive a company car for a few months – our brightly painted "Smart Azubi". Gas station conversation starter included.

Fifth: Vossloh is reliable

In recent years, our core business has recorded better development than the overall market. At the same time, profitability is increasing as forecasted. We are working tirelessly on efficient work environments, the reduction of costs and capital commitment in the knowledge that we are implementing a constant improvement process. What was promised has been done. The sale of Transportation is going according to plan. The sale of Vossloh Locomotives in Kiel has a good starting point. With the support of our shareholders and the experienced Supervisory Board, we have the freedom to take the first steps to expand the core business, as announced.

Heinz Hermann Thiele, Chairman of the Supervisory Board

Supervisory Board of Vossloh AG

Heinz Hermann Thiele, *Chairman, Businessman, former Chairman of the Executive Board of Knorr-Bremse AG, Munich*

Ulrich M. Harnacke*, Vice-Chairman, tax advisor and auditor, Mönchengladbach*

Silvia Maisch *(until January 31, 2017), Electrical mechanic, Works Council Chairwoman 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), Welder, Member of the Works Council of Vossloh Laeis GmbH, Trier*

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

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

Report of the Supervisory Board

Dear Shareholders,

In financial year 2016, the Supervisory Board discharged its duties imposed on it by law and the Articles of Incorporation with due care, continuously 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 relevant issues for Vossloh AG and the Group with regard to the strategy, planning, business development, risk situation and development as well as compliance on a comprehensive and timely basis, in written and in verbal form. This also included information about deviations in actual development from the previously reported targets in addition to deviations from planning in business performance.

The Supervisory Board extensively discussed the Executive Board's reports. In addition, it discussed and verified the plausibility of the economic situation depicted in the reports of the Executive Board in addition to the development prospects of the Group, the individual business units and key holding companies in Germany and abroad together with the Executive Board. The Supervisory Board was involved in all decisions of significant importance for the company. The Supervisory Board was thereby always convinced of the legality, appropriateness and regularity of the work of the Executive Board. If an approval was required for decisions or management measures due to statutory regulations, the Articles of Incorporation or the Rules of Procedure, the members of the Supervisory Board verified the draft resolutions and provided the necessary approval.

The Supervisory Board was also informed of key processes between meetings by the Executive Board. In addition, the Chairman of the Supervisory Board and the Chairman of the Executive Board regularly exchanged information. In this way, the Supervisory Board was always informed of the business policies intended in addition to corporate planning (including financial, investment and staff planning), the profitability, the business situation and the situation of the company and the Group overall.

Focal points of the meetings

In reporting year 2016, the Supervisory Board convened at four scheduled meetings on March 16, May 24, September 29 and November 29, 2016. Extraordinary meetings were not necessary in reporting year 2016. The members of the Supervisory Board all took part in all Supervisory Board meetings. The Executive Board members took part in the Supervisory Board meetings, unless the Chairman of the Supervisory Board specified otherwise.

In all meetings the Supervisory Board dealt extensively with the repositioning and transformation of the Vossloh Group and the process of refocusing on rail infrastructure, which was ongoing in the reporting year. In addition, in all meetings the Executive Board reported on the business situation with detailed information on the development of sales and earnings in the individual business units and on opportunities and risks in business development as well as key management measures. In addition, the Supervisory Board was also continually informed of the status of regulatory and civil processes related to earlier anti-competitive agreements, compliance issues and the implementation and development of the Vossloh compliance management system. In the individual meetings, the Supervisory Board focused on the following issues:

The basis of the meeting on March 16, 2016 was the separate and consolidated financial statements 2015 as well as the agenda for the Annual General Meeting on May 25, 2016. The Supervisory Board also dealt extensively with the financing of the Group and the compliance of the company and finally approved a settlement agreement with Deutsche Bahn AG. The Supervisory Board also advised on Vossloh Switch Systems' central production location for manganese frogs in Outreau, France, and on the results of the efficiency review of the activities of the Supervisory Board conducted with the support of the Deutsche Schutzvereinigung für Wertpapierbesitze e.V. (German Shareholders' Association, DSW).

On May 24, 2016, the Supervisory Board dealt with the capital increase proposed by the Executive Board using the existing authorized capital. The capital measure provided Vossloh with additional financial stability and flexibility to promote the intended profitable growth. The Supervisory Board dealt extensively with the proposal and approved the capital increase following careful consideration. The status of the disposal projects, the approval of the acquisition of the site for the production location in Outreau and the preparation for the Annual General Meeting were the focuses of this meeting.

In the meeting of September 29, 2016, the Supervisory Board dealt intensively with Vossloh's growth strategy, particularly the plans for organic growth and possible acquisition targets. Executive Board matters were also a point of discussion in the meeting. The Supervisory Board agreed the appointment of Mr. Andreas Busemann as Chairman of the Executive Board from April 1, 2017 and extended the Executive Board mandates of Mr. Schuster and Mr. Schenk by an additional three years.

In the last meeting of the year on November 29, 2016, the Supervisory Board particularly addressed business development in 2016 and plans for 2017-2019 and approved the budget for 2017 following examination and discussion. Further agenda items included two significant investment decisions, which the Supervisory Board approved after an in-depth discussion. With the "factory of the future" investment project, the Fastening Systems business unit will gain a modern and efficient factory at the Werdohl site. The extensive modernization of the production location in Outreau, France, also represents a further pioneering investment. Following extensive examination and discussion, the Supervisory Board approved the sale of the Electrical Systems business unit to Knorr-Bremse Systeme für Schienenfahrzeuge GmbH, a 100 percent subsidiary of Knorr Bremse AG, Munich, which represents a further milestone towards becoming a focused infrastructure supplier. As the owner of Knorr-Bremse AG, the Chairman of the Supervisory Board, Mr. Heinz Hermann Thiele, did not take part in the vote due to a potential conflict of interest. In addition, the Supervisory Board approved the purchase of the US manufacturer of railway sleepers, Rocla Concrete Tie, Inc., Lakewood, Colorado, which significantly strengthened the core business in the focus market of the USA, and approved the declaration of conformity 2016 in accordance with Article 161 of the German Stock Corporation Act (AktG).

Supervisory Board Committees

To carry out its duties efficiently, Vossloh AG's Supervisory Board formed three committees: The Personnel Committee, the Audit Committee and the Nomination Committee. The committees dealt extensively with the issues assigned to them and prepared decisions for plenary meetings where necessary. To the extent permitted by law, the Supervisory Board may transfer its decision-making authority to the committees in certain cases. The Chairmen of the committees report on relevant issues and the results of the discussions in the meeting of the entire Supervisory Board 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 met six times in the 2016 financial year. All but one member participated in all meetings of the Audit Committee. As a rule, the Executive Board is fully present during these meetings. In addition, in most cases auditor representatives and the department heads of Accounting, Controlling and Legal Affairs & Compliance attend the meetings.

Key points of the Audit Committee include the accounting audits of the company and of the separate and consolidated financial statements prepared by the Executive Board, of the combined management report, of the report on relations with affiliated companies (Article 312 AktG) and the recommendation on the appropriation of net earnings. Based on the auditor's reports on the audit of the annual financial statements of Vossloh AG and the Vossloh Group, as well as on 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 2015 financial year to the Supervisory Board during its meeting on March 16, 2016, following an extensive discussion in the presence of the auditor. In its meetings on April 27, July 26 and

October 26, 2016, the Audit Committee discussed the half-year report as well as the quarterly reports and statements with the Executive Board before their publication.

The Audit Committee is also in charge of the company's relationship with the auditor. The committee submitted a proposal to the Supervisory Board to appoint an auditor on March 16, 2016 and subsequently to submit the audit engagement letter to the auditor elected by the Annual General Meeting and determine the focal points of the audit and the auditor's remuneration. Furthermore, the committee monitors the auditor's independence.

In all its meetings, the Audit Committee also dealt with risk management, key risks and legal and compliance issues. With the Executive Board, the Audit Committee extensively discussed the main risks identified within the Group in addition to the necessity and adequacy of the provisions recognized, particularly for risks arising from legal disputes and in connection with the procedure regarding previous anti-competitive agreements. Furthermore, the Audit Committee continuously and intensively dealt with compliance issues and received extensive information about relevant items, the way in which they are handled and the continuous monitoring and improvement of the Vossloh compliance management system. In addition, the Audit Committee extensively dealt with the company's internal control system. The meeting on November 29, 2016 included a report from Internal Audit to the members of the Committee.

The Personnel Committee convened once in 2016. On September 6, 2016, the Personnel Committee dealt with the issue of the succession of Dr. h.c. Schabert and the selection of suitable candidates to succeed him and prepared the appointment of Mr. Busemann as Chairman of the Executive Board from April 1, 2017 for the Supervisory Board. All Executive Board matters were prepared and approved during plenary meetings. The Nomination Committee did not meet in financial year 2016.

Personnel changes in the Supervisory Board and the Executive Board

In the year under review, there were no changes in the Supervisory Board. At the end of the reporting year, Ms. Silvia Maisch left the Supervisory Board with the conclusion of the contract for the sale of Vossloh Electrical Systems on January 31, 2017. Ms. Maisch was suceeded in the Supervisory Board by Mr. Helmut Schwind, Member of the Works Council of Vossloh Laeis GmbH, Trier, from February 1, 2017 as replacement member elected by employees. The Supervisory Board thanks Ms. Maisch, who has been part of the Supervisory Board since 2013, for her work and supervisory activity.

In the year under review, there were also no changes in the Executive Board. The Chairman of the Executive Board of Vossloh AG, Dr. h.c. Hans M. Schabert, informed the Supervisory Board of the Company on March 2, 2016, that for family reasons he will not be available for another term of office after his current term of office ends on March 31, 2017. The Supervisory Board took note of this decision with great regret and expresses its sincere thanks to Dr. h.c. Schabert for his very successful work and tremendous personal commitment. Together with the other members of the Executive Board, managers and employees, with the support of the Supervisory Board Dr. h.c. Schabert has comprehensively restructured, streamlined and repositioned Vossloh since 2014. Under his leadership, Vossloh has made far-reaching strategic decisions, significantly improved operating performance, among other things through efficiency enhancement and through the bundling and networking of available competences, made substantial investments and innovations and established the basis for the planned future growth. With the acquisition of Rocla Concrete Tie, the first step on this path has been completed.

In its meeting of September 29, 2016, the Supervisory Board appointed Mr. Andreas Busemann, currently Member of the Executive Board for Sales and Marketing at DB Cargo AG, Mainz, successor of Dr. h.c. Schabert as Chairman of the Executive Board of Vossloh AG with effect from April 1, 2017 for a term of office of three years. The mandates of Mr. Oliver Schuster and Mr. Volker Schenk were each extended for a further three years until 2020.

Corporate Governance and Declaration of Conformity

The Supervisory Board attaches considerable importance to the guarantee of good corporate governance. In its meeting on November 29, 2016, the Supervisory Board dealt with the recommendations of the German Corporate Governance Code and together with the Executive Board issued the declaration of conformity in line with Article 161 AktG. The declaration was made permanently accessible on the company's website (see page 24 of the annual report). Vossloh complied and complies with all recommendations of the German Corporate Governance Code. Details on corporate governance within the company can be found in the Declaration on Corporate Governance and the Corporate Governance Report (see pages 22 to 26 of the annual report).

Separate and consolidated financial statements 2016

The separate financial statements of Vossloh AG according to German GAAP, the consolidated financial statements according to International Financial Reporting Standards (IFRS) and the combined management report on Vossloh AG and the Group for the 2016 financial year (including the accounting) were examined by the statutory auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, based in Berlin (Düsseldorf branch) which had been duly appointed by the AGM on May 25, 2016 and each issued with an unqualified audit opinion. In its audit opinion, the auditor concluded that the Executive Board had installed a proper early risk identification system as required by Article 91 (2) AktG to identify any risks that could endanger the Group's continued existence.

In addition, the report prepared by the Executive Board on the relations with affiliated companies (Article 312 AktG) was examined by the auditor. The auditor issued the following audit opinion on the report: "Based on our proper audit and assessment, we confirm that 1. the factual details in the report are correct, 2. the amounts paid by the company in the course of legal transactions listed in the report were not unreasonably high."

The financial statements and the audit reports were distributed to the members of the Supervisory Board in good time prior to the meeting that was held to approve the financial statements on March 22, 2017. During the meeting, the auditors reported on the significant results of their audit and the additional information provided. The Supervisory Board extensively clarified any questions raised in connection with these documents following the Audit Committee's preparations and in the presence of the auditors. The auditors also reported on the risk management system of the Vossloh Group. No evidence was found during the audit suggesting that the declaration of conformity issued by the Executive and Supervisory Boards in line with Article 161 AktG was incorrect.

The Supervisory Board also reviewed the separate and consolidated financial statements and the combined management report for Vossloh AG and the Vossloh Group for financial year 2016, the report on relations with affiliated companies including the final declaration of the Executive Board and the proposed profit appropriation. According to the final result of its own review, the Supervisory Board raised no objections. The Supervisory Board approved the separate and consolidated financial statements as of December 31, 2016. Thus, the annual financial statements as of December 31, 2016 were adopted. The Supervisory Board concurred with the combined management report, particularly the statements on further company development and the disclosures pursuant to Articles 289 (4) and 315 (4) of the German Commercial Code (HGB), in addition to the report on relations with affiliated companies. The Supervisory Board approved the proposal of the Executive Board to carry forward the unappropriated surplus of 2016 and to use it for further growth.

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

Werdohl, March 22, 2017

The Supervisory Board
Heinz Hermann Thiele
Chairman

Declaration on Corporate Governance

The following corporate governance declaration in accordance with Section 289a (1) HGB also includes the corporate governance report in accordance with Section 3.10 of the German Corporate Governance Code (the "Code").

Management and control structure

Vossloh AG is subject to the provisions of the German Stock Corporation Act, capital market legislation, codetermination law, as well as to its own articles of incorporation. As with all German stock corporations, Vossloh AG has a dual management and control structure which is reflected in the two bodies, the Executive Board and the Supervisory Board. The Annual General Meeting is responsible for fundamental decisions of the Company. All three bodies are obligated to act in the best interests of the corporation and its owners.

Executive Board

The members of the Executive Board are responsible for running the company together. As Chairman of the Executive Board, Dr. h.c. Hans M. Schabert is responsible for coordinating the work of the members of the Executive Board and for Human Resources, M&A and Company Development. As Chief Financial Officer, Mr. Oliver Schuster is responsible for Legal Affairs, Compliance, IT, Accounting, Controlling, Communication, Investor Relations, Internal Revision and Treasury. Mr. Volker Schenk is responsible for Sales, Development, Production, Quality Assurance, Environmental Protection and Occupational Safety in addition to association activities. In addition, the members of the Executive Board are involved operationally in the individual business units. Dr. h.c. Schabert 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 within the Executive Board is regulated by the Executive Board Rules of Procedure. The members of the Executive Board work together as colleagues and inform each other on an ongoing basis regarding important measures and transactions in their business areas. The entire Executive Board makes decisions regarding all significant issues. Some transactions and measures are subject to the approval of the Supervisory Board. 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 mandates requires the prior approval of the Supervisory Board. Further information on the members of the Executive Board of Vossloh AG can be found on page 118 of this annual report.

For all of its Executive and Supervisory Board members, Vossloh AG has entered into so-called D&O insurance policies (against consequential economic loss) with an agreed deductible amounting to ten percent of the loss, up to 150 percent of the fixed annual remuneration of the individual board member.

Supervisory Board

In accordance with Article 10 (1) sentence 1 of the Articles of Incorporation, the six-member Supervisory Board is composed according to the provisions of the One-Third Participation Act (Drittelbeteiligungsgesetz) and the Stock Corporation Act. Two thirds of its members are shareholder representatives and the remaining one third is made up of employee representatives. According to the recommendations of the Code, the representatives of the stockholders were elected individually by the Annual General Meeting on May 29, 2013, May 28, 2014, and May 20, 2015. The terms of office of all current Supervisory Board members end on conclusion of the Annual General Meeting in 2018 which will pass a resolution to discharge the members for the 2017 financial year. Further information on the members of the Supervisory Board of Vossloh AG can be found on page 119 of this annual report.

The Supervisory Board oversees and advises the Executive Board the Executive Board in its management and conduct of business and regularly discusses business development, planning, strategy and implementation as well as risk management and compliance. It approves the annual planning and decides on the adoption of the separate financial statements of Vossloh AG and the approval of the consolidated financial statements. Certain material transactions (specified in the Executive Board Rules of Procedure) are subject to the approval of the Supervisory Board. The Supervisory Board is also responsible for the appointment and dismissal of Executive Board members. The work of the Supervisory Board is regulated by Rules of Procedure.

The Supervisory Board revised the objectives for its composition at its meeting on November 25, 2015. Diversity is in the interest of Vossloh AG, also with regard to the composition of the Supervisory Board. With due regard to the entity-specific situation of Vossloh AG and the Vossloh-Group, diversity will therefore be promoted to include candidates who are suitable from a personal and professional point of view. This also includes the promotion of internationality on the Supervisory Board. As a result, at least one member of the Supervisory Board must have particular long-standing experience abroad. Based on the statutory regulation to introduce a quota of women, the Supervisory Board has established a target value of 16.67 percent for the Supervisory Board in the first target period until June 30, 2017. The targets for the composition of the Supervisory Board had been reached as of December 31, 2016. In its Rules of Procedure, the Supervisory Board established other criteria for nominations at the Annual

General Meeting, including an age limit and an upper limit on regular Supervisory Board membership. Furthermore, the Supervisory Board includes a sufficient number of independent members who have no personal or business relationship to either the Company or its Executive Board.

The Supervisory Board performs its duties both as a plenary body and through the current three committees it has established to improve the efficiency of its activities. The three-member Personnel Committee is mainly responsible for Executive Board matters. It prepares personnel decisions as well as resolutions and reviews of the plenary Supervisory Board in terms of the remuneration system and total remuneration of the individual Executive Board members. The Supervisory Board Chairman presides over the Personnel Committee.

The Audit Committee is particularly responsible for the monitoring of accounting processes, the effectiveness of the internal control system, the risk management system and the internal audit system, the audit of financial statements and compliance issues. The Audit Committee prepares the examination by the Supervisory Board of the Company's and Vossloh AG's financial statements, combined management report, and audit reports. The Audit Committee and the Executive Board jointly discuss each quarterly statement and financial report prior to publication. For these purposes, the Audit Committee obtains regular reports directly from Internal Audit and the Chief Compliance Officer. Mr. Ulrich M. Harnacke is the Chairman of the Audit Committee, which comprises three members. Mr. Harnacke is a tax accountant and auditor as well as the former Managing Director of Deloitte & Touche GmbH and meets the requirements set out in Article 100 (5) AktG as an independent financial expert.

The four-member Nomination Committee is responsible for the Supervisory Board's long-term succession planning and preparation of candidate proposals in the event of an early retirement of individual Supervisory Board members. The Supervisory Board then makes a decision about the proposed candidates who are presented for appointment by the Annual General Meeting. In this process, the Nomination Committee and the plenary Supervisory Board make sure that the objectives for the composition and the other established criteria for nominations in the Rules of Procedure for the Supervisory Board at the Annual General Meeting are observed. The Chairman of the Nomination Committee is Mr. Heinz Hermann Thiele.

Every Supervisory Board member is obliged 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 also be on a board or provide consultancy services to a competitor. In financial year 2016, Mr. Ursus Zinsli received compensation of €44,000 for consultancy services related to the development and optimization of production locations and one location within one business unit in particular. The Supervisory Board agreed to the conclusion of this consultancy contract in advance. No member of the Supervisory Board received additional payments or benefits for personally rendered services in addition to their remuneration. No former Executive Board members serve on Vossloh AG's Supervisory Board.

Compliance

Vossloh considers Compliance to be conduct in line with all applicable laws and internal company guidelines and policies. As a global player with a tradition of over 130 years in business, Vossloh bears a responsibility towards its customers, partners, employees, investors and the public. It is part of this social responsibility that Vossloh and all its employees comply, always and anywhere, with applicable law, respect ethical principles, and act as a role model when we act on behalf of the company.

The Executive Board of Vossloh AG has explicitly expressed these principles in its Compliance Commitment, including: "Compliance with laws 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 published on the company's website.

The Executive Board of Vossloh AG has established a Compliance Management System for the Vossloh Group. The Vossloh Compliance Management System is designed to identify risks of Compliance breaches and minimizing these risks by taking the appropriate steps to prevent damage and liability risks for Vossloh and its employees. Prevention of corruption 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 clearly defines and sets out the values of integrity and integral business conduct and is binding for the entire Group and all employees. The Code of Conduct was extensively revised and developed in 2016. Together with the Compliance guidelines, which apply across the Group and were also revised in 2016, all employees have a framework, which represents a guideline for the daily work and helps to make good and lawful decisions. The Compliance framework is available in all major Group languages and was distributed to all employees of the Vossloh Group worldwide. All employees are regularly provided with focused training on Compliance issues on the basis of the Compliance Training Concept. Vossloh has also established a Compliance eLearning program for all employees with a computer workstation.

The Executive Board has established a Compliance Organization to implement and monitor Compliance, whose structure, responsibilities and tasks of the individual Compliance functions as well as reporting channels are set out in the Rules of Procedure of the Compliance Organization. The Vossloh Compliance Organization comprises the Chief Compliance Officer (supported by a Compliance Office) and the Group Compliance Committee at Vossloh AG level, Compliance Officers and Compliance Committees in the Business Units and Local Compliance Officers in the operating companies. The Chief Compliance Officer regularly reports to the Executive and Supervisory Boards in addition to the Audit Committee of the Supervisory Board, which is in charge of Compliance.

Together with an international law firm, Vossloh has established a whistleblower hotline to uncover potential Compliance violations. The whistleblower hotline gives employees and external whistleblowers an independent external contact (ombudsperson) in order to report suspicions of potential misconduct. The whistleblower hotline is currently available for 20 countries, covering the most important regions and languages in the Vossloh Group. The Chief Compliance Officer follows up all reports and introduces appropriate measures, where necessary.

The Chief Compliance Officer and the Group Compliance Committee regularly review the effectiveness of the Compliance Management System throughout the Group. This also involves regular reviews by external Compliance experts. The Group Compliance Committee also carries out regular audits, generally with external auditors, in order to review the effectiveness of the Compliance Management System in the Group companies and to identify new or changed risks as well as potential opportunities for improvement.

Risk and control management

Responsible business risk management is part of the principles of good corporate governance practice. Vossloh AG's Executive Board and the management of Vossloh subsidiaries have access to Group-wide and specifically tailored reporting and controlling systems which ensure that such risks are recorded, assessed and managed. The systems are continually checked for effectiveness and, where necessary, adapted to changing requirements and examined by the auditor as part of the statutory audit engagement. As described above, the Supervisory Board and its Audit Committee are regularly briefed on, and duly involved in, the risk management process. Details of risk management within the Vossloh Group are presented in the risk report (starting on page 55). This also includes the report on the accounting-related internal control and risk management system.

Declaration of conformity

Again in 2016, Vossloh AG's Executive and Supervisory Boards have thoroughly dealt with the Code recommendations. Vossloh's corporate governance practices are regularly reviewed and revised accordingly.

To this end, the Executive and Supervisory Boards made the following declaration in November 2016:

Declaration made by the Executive and Supervisory Boards of Vossloh AG on the recommendations of the "Government Commission of the German Corporate Governance Code" pursuant to Article 161 AktG.

Vossloh Aktiengesellschaft complies with all recommendations of the Government Commision of the Corporate Governance Code ("the Code") published by the Federal Ministry of Justice in the official part of the Federal Gazette in the version of May 5, 2015. It will also comply with this in the future.

Werdohl November 2016
Vossloh Aktiengesellschaft
The Executive Board and Supervisory Board

Shareholders and Annual General Meeting

Vossloh AG's stockholders safeguard their statutory rights and exercise their voting rights at the general meeting. As a rule, the Supervisory Board Chairman presides over the Annual General Meeting, which resolves with binding effect on all matters assigned or subjected by the law to Annual General Meeting vote, including on the appropriation of net earnings, the official approval of the acts and omissions of Executive and Supervisory Board members in the financial year, the election of the statutory auditor, as well as on intercompany agreements, equity moves and other amendments to the bylaws. At the Annual General Meeting, each share entitles the holder to one vote. The shareholders have the option to exercise their voting rights themselves or to have their rights exercised through an authorized representative of their choice or a proxy voting representative of the Company. Directly after the Annual General Meeting, the voting results are published on the Company's website.

Investor relations

Vossloh attaches high priority to the early, timely and efficient information of all stockholders and other capital market participants. All information published by Vossloh regarding the Company is immediately made available on the Company's website under www.vossloh.com in German and English. This pertains especially to the annual report, half-year report and quarterly statements and invitations to the Annual General Meeting and other information. The dates scheduled for major recurring or periodical events and publications (such as the Annual General Meeting, annual and interim reports and statements) are summarized in a financial diary which is published in good time on Vossloh AG's website. The consolidated financial statements are published at the latest within 90 days after end of the financial year while quarterly reports are publicly available at the latest within 45 days after closing date.

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

Accounting and annual audit

Accounting in the Vossloh Group is based on the International Financial Reporting Standards (IFRS). The financial statements of Vossloh AG, on the other hand, are prepared in accordance with the regulations of the German Commercial Code (HGB). Both the IFRS consolidated financial statements and the separate financial statements according to German GAAP were audited by KPMG AG Wirtschaftsprüfungsgesellschaft (the statutory auditor elected by the Annual General Meeting 2016 as proposed by the Supervisory Board), in accordance with German audit regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. The audit engagement letter was issued by the Supervisory Board's Audit Committee in conformity with the recommendations of the German Corporate Governance Code and after due verification beyond any doubt of the statutory auditor's independence. The Supervisory Board has agreed with the statutory auditor that the former will be promptly informed of any significant findings, conclusions and circumstances which are established during the annual audit and may indicate an inaccuracy in the declaration of corporate governance in accordance with the German Corporate Governance Code by the Executive Board and Supervisory Board. However, in connection with the audit there were no indications of any such matters. The condensed interim financial statements and interim management report as of June 30, 2016 were subjected to a review by the independent auditor.

Participation of women and men in management positions

In accordance with the Law for the Equal Participation of Women and Men in Management Positions in the Private Sector and the Public Sector, the Supervisory Board and Executive Board have set the following targets for Vossloh AG.

As targets for the Executive Board of Vossloh AG, currently comprising three male members, and against the backdrop of the ongoing appointments and recruitment contracts of Executive Board members until spring 2017, on September 24, 2015, the Supervisory Board has resolved that no women will be members of the Executive Board until the end of the first target period on June 30, 2017, according to the plans of the Supervisory Board. Mr. Andreas Busemann will succeed Dr. h.c. Hans M. Schabert as Chairman of the Executive Board from April 1, 2017. Further changes to or extensions of the Executive Board are currently not planned.

For the proportion of women in the first and second tier management levels below the Executive Board, Vossloh AG's Executive Board has established targets of 28.6 percent and 30 percent with a deadline of June 30, 2017. The target for the first tier management level below the Executive Board was achieved on December 1, 2016. In the second management level, the proportion of women is currently at 25 percent and therefore slightly below the target for June 30, 2017.

Remuneration of the Executive and Supervisory Boards

The Supervisory Board approves and regularly reviews the remuneration system for the Executive Board. The remuneration structure is oriented towards sustainable corporate development. An assessment basis over a period of several years has been agreed for the largest part of the variable compensation. The total remuneration of the individual Executive Board members is determined by the Supervisory Board. It takes account of the duties of the individual members of the Executive Board, their personal performance, the economic situation, the success and future outlook of the Company, as well being line with industry peers and the overall Company compensation system.

The remuneration of members of the Supervisory Board is regulated in the Articles of Incorporation of Vossloh AG. The members of the Supervisory Board have received a purely fixed remuneration since July 1, 2014. For further details of Executive and Supervisory Board remuneration, see the Board Compensation Report on page 43, which is an integral part of both the combined management report and this corporate governance report.

Share ownership and proprietary trading by managers

The Chairman of the Supervisory Board, Mr. Heinz Herrmann Thiele, indirectly held 44.73 percent of the Vossloh shares via KB Holding GmbH as of the closing date of December 31, 2016. Members of the Executive Board and other members of the Supervisory Board each held significantly less than one percent of the total shares issued by the company.

In accordance with Article 19 of the Market Abuse Directive, persons with management responsibilities in listed corporations must disclose proprietary transactions with shares or securities of the issuer or associated financial instruments. The same obligation is incumbent on any party related to the aforementioned persons. The full details of all such reportable so-called "Director's Dealings" are published on the Vossloh website.

Combined management report

Business and market environment

Segmentation and competitive position

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

In addition, Vossloh is also active in the locomotive business. The Electrical Systems business unit, which was sold at the end of January 2017, was also located in Transportation, a non-core business division. You can find detailed descriptions of the individual divisions starting on page 38.

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

Organization

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

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

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

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

Controlling system and targets

Vossloh follows a value-oriented growth strategy. Value added serves as an indicator. Positive value added is generated when a premium on top of the return claimed by investors and lenders (cost of capital) is earned. This premium is the difference between the return on capital employed (ROCE, see glossary page 123) and WACC, the weighted average cost of capital (debt and equity). Multiplying the premium by average capital employed produces the value added in a period in absolute terms.

For intragroup controlling purposes, ROCE and value added are determined before taxes. In line with IFRS 8, value added is disclosed in published reports as the division and business unit controlling parameter.

Cost of equity is composed of a risk-free rate plus a market risk premium. As a result of the pretax consideration, the interest factor is adjusted accordingly. Cost of debt is calculated on the basis of the Group's average financing terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is not derived from the balance sheet since it is not only predicated on a benchmark for the funding structure but also because equity is here based on fair value and not the carrying amounts recognized in the balance sheet. Intragroup controlling in fiscal 2016 was based on pretax WACC of 9 percent as the yield expected by investors and lenders. From financial year 2017, WACC will be reduced to 7.5 percent due to the continuing low interest rate environment.

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

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

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

Economic report

Economic environment

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

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

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

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

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

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

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

Business acquisitions

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

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

Results of operations

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

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

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

Vossloh Group: Sales by region

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

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

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

Sales in America significantly below previous year

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

Considerable sales growth in Asia

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

Sales in Africa significantly above previous year

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

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

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

Vossloh Group: Sales and earnings

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

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

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

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

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

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

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

Vossloh Group: Value management

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

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

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

Vossloh divisions: Orders received and order backlog

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

Orders received by Vossloh Group in 2016 clearly above sales level

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

Financial position and investing activities

As the Group's management holding company, Vossloh AG is also responsible for managing the Group's finance and funding. In addition to the central management of cash flows, Corporate Treasury Management is responsible for ensuring the financing of all subsidiaries as well as for hedging and managing financial risks. These include not only liquidity risks but particularly risks from interest and exchange rate fluctuations. Derivative financial instruments (see term in glossary, page 123) are used, among other things, for hedging. The group companies' funding level is largely ensured by Vossloh AG providing the necessary cash resources intragroup. Only in isolated cases where funding outside Germany is either economically preferable or required by law do subsidiaries obtain original financing locally.

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

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

Current financial liabilities of the Vossloh Group were at a very low level of €8.7 million at the end of 2016 and were therefore significantly lower than the corresponding prior-year level of €25.6 million. In 2015 Vossloh AG secured the medium-term financing of the Group with the concluding of a syndicated loan of €500 million (see page 58 under "liquidity risks" for more information).

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

Vossloh Group: Development of cash flows

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

Free cash flow again positive

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

Vossloh-Group: Capital expenditure and depreciation/amortization

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

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

Asset and capital structure

Vossloh Group: Asset and capital structure

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

[1] Group equity, including non-controlling interests

Capital structure strengthened, Equity ratio above 40 percent

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

General statement on the economic situation

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

Business performance of Core Components

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

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

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

Core Components

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

Sales revenues slightly above previous year

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

Earnings and profitability significantly higher than the previous year

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

Average working capital strong reduced

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

Business performance of Customized Modules

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

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

Orders received remained below the high level of the previous year

Customized Modules

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

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

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

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

EBIT at prior-year level, profitability increased

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

ROCE slightly improved, Value added still slightly negative

Business performance of Lifecycle Solutions

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

Orders received significantly above the previous year

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

Lifecycle Solutions

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

Degree of internationalization significantly increasing

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

EBIT and EBIT margin above prior year

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

Value added improved, but still negative

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

Business performance of Transportation

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

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

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

Transportation

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

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

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

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

Loss in the Transportation division could be further reduced

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

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

Vossloh AG

As an operational management and financial holding company, Vossloh AG is the parent of the Vossloh Group and controls and oversees all major operations and activities within the Group. In addition to determining corporate strategy and controlling corporate development, Vossloh AG allocates the financial resources, such as for capital expenditures and acquisitions and is responsible for corporate accounting and controlling, Group-wide treasury management, risk and opportunity management, internal auditing, as well as for IT, investor relations, and corporate communications. It oversees sales and marketing communication activities. In addition to being in charge of human resources policy, it is responsible for personnel development and support of the Group's senior management. Its role in the control of the operational activities of the business units as an operational management holding has further strengthened in the course of the financial year, exemplified by the operational responsibility of Vossloh AG's Executive Board members for the business units of the Group.

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

Analysis of the separate financial statements

Vossloh AG's reported sales revenues for financial year 2016 of €5.0 million (previous year: €1.5 million) resulted from rental income and intercompany allocations to Group companies in particular, which obtain a range of services within IT and marketing through Vossloh AG. The operating expenses are mainly incurred in connection with the Company's management and financing functions. Therefore, the result of ordinary activities (earnings before taxes = EBT) is substantially influenced by general administrative expenses, other operating income and the net financial result. Other operating income of €10.3 million (previous year: €167.4 million) primarily resulted from the gain on disposal of Vossloh España S.A.U., Valencia, Spain in the previous year, and primarily related to an earnout received. In the previous year, this figure had been directly influenced by the gain on disposal.

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

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

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

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

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

Relationships with affiliated companies

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

Remuneration report

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

Principles for the remuneration of Executive Board Members

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

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

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

The details of the remuneration system are:

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

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

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

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

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

Executive Board remuneration in financial year 2016

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

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

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

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

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

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

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

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

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

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

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

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

Commitments in the event of termination of duties

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

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

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

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

Supervisory Board remuneration

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

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

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

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

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

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

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

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

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

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

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

Restrictions on voting rights or share transfer
Each share entitles the bearer to one vote at the Annual General Meeting. All shares carry the same rights. Share transfer or assignment is not subject to any restrictions.

Direct or indirect shareholdings in excess of 10.0 percent
The Executive Board is aware of one investment in the Company's capital stock that exceeds 10.0 percent of the voting rights. KB Holding GmbH, Grünwald, Germany, holds 44.73 percent of the voting rights in Vossloh AG. These voting rights are to be attributed to the TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany, Stella Vermögensverwaltung GmbH, Grünwald, Germany, and Mr. Heinz Hermann Thiele, Germany, pursuant to Article 22 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz "WpHG").

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

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

Appointment/dismissal of Executive Board members; amendments to the Articles of Incorporation
Vossloh AG's Executive Board members are appointed or dismissed in accordance with the provisions of Articles 84, 85 AktG in conjunction with Article 7 of the Articles of Incorporation. Pursuant to Article 84(1) AktG, Executive Board members are appointed by the Supervisory Board for a maximum term of five years, whereby their reappointment or the renewal of their term of office is permitted. The appointment of an Executive Board member may be revoked in the cases set out in Article 84(3) AktG. According to Article 179 (1) AktG, the Articles of Incorporation may be amended by vote of the Annual General Meeting. In conformity with Article 21(2) of the Articles of Incorporation but subject to overriding statutory provisions to the contrary, the general meeting shall pass its resolutions with the simple majority of votes cast. Where the law prescribes a stock ownership majority in addition to a voting majority, the simple majority of the capital stock represented at the vote shall suffice unless the provisions of the law or Vossloh AG's Articles of Incorporation prescribe otherwise. Article 27 of the Articles of Incorporation authorizes the Supervisory Board to amend the Articles of Incorporation where only their wording is involved. Article 4(3) of the Articles of Incorporation further entitles the Supervisory Board to update the Articles of Incorporation accordingly after the capital stock has been increased by utilizing authorized or contingent capital.

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

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

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

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

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

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

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

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

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

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

Workforce

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

Employee-related indicators

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

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

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

Personnel expenses

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

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

Age structure and service years

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

Divisions

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

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

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

Occupational health and safety

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

Demographic changes

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

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

Attracting, developing and retaining employees

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

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

Thanks to the employees

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

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

Research and development

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

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

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

Vossloh Group: Research & development expenses

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

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

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

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

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

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

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

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

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

Environmental protection

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

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

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

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

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

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

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

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

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

Risk and opportunity management

Organization

Risks and opportunities for the net assets, financial position and results of operations are systematically identified, analyzed, assessed, communicated, monitored, and managed at all levels of the Vossloh Group. To this end, Vossloh has set up a group-wide risk and opportunity management system (RMS). The purpose of this is both to prevent or limit negative impacts from changes, and to indicate and seize any opportunities that arise.

In addition to Vossloh AG, all of the (direct or indirect) Vossloh subsidiaries, both in Germany and abroad, are covered by the RMS, irrespective of their inclusion in the consolidated financial statements. New acquirees are integrated into the system in good time. The new Tie Technologies business unit will be integrated into the system during the first quarter of 2017.

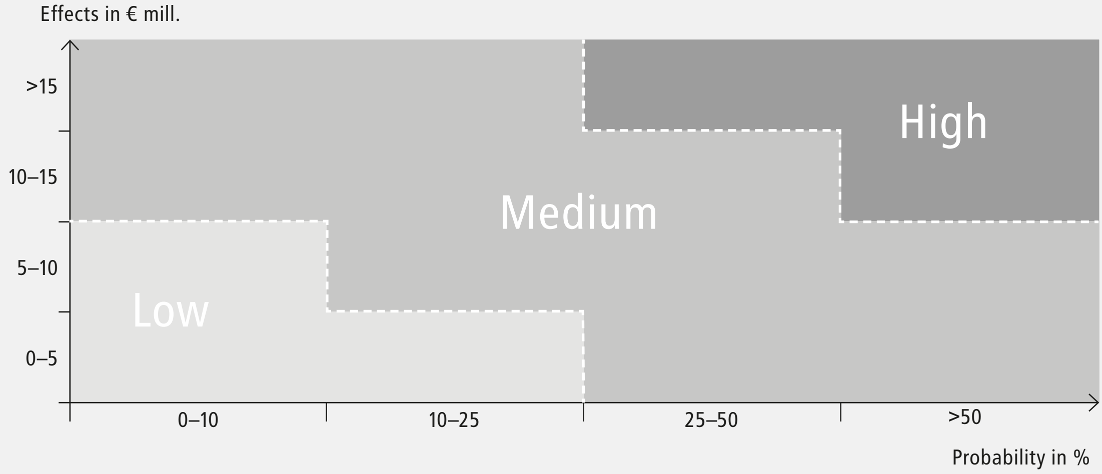
The risk and opportunity management system is an integral component of the business, planning and controlling processes. The system's setup is defined and described in group-wide policies and procedures. The organizational RMS setup is based on the structure of the operating processes and procedures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

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

Risks and opportunities are documented and communicated at Vossloh in standardized reports. These contain detailed information on the type of risk and opportunities and on the assessment parameters, as well as on the action for controlling risks and exploiting opportunities. Periodic reporting on risks and opportunities is quarterly and serves as a supplement to the rolling annual projection and comprises risks and opportunities potentially arising in future years. Ad-hoc reports supplement the periodic reporting and facilitate an updated evaluation of the current situation at all times.

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

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



The report below accounts for those risks and opportunities which were of relevance at the time the consolidated financial statements were prepared and which are material to the Vossloh Group's future development.

General economic and industry risks and opportunities

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

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

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

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

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

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

Operating risks and opportunities

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

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

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

Along the value-adding chain, Vossloh subsidiaries are exposed to work interruption, quality problems, as well as occupational safety and environmental risks. These risks are either avoided or reduced through a comprehensive set of guidelines and standard procedures or policies that govern project and quality management, product and occupational safety, as well as environmental protection. Key Vossloh locations are certified in accordance with the DIN ISO 9001 quality management system. Large locations fulfill the criteria of the DIN ISO 14001 environmental management standard and all key production facilities in the Vossloh Group are certified in accordance with OHSAS 18001, the world's most important standard for an occupational safety management system.

Project complexity is another source of risks and includes unexpected technical or engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors, logistic challenges, and acceptance and invoicing delays. Especially in the start-up phase of new projects in the Transportation division, which is no longer part of the core business, with correspondingly high development expenses or in the case of first-time cooperation on a project with new partners or subcontractors, risks can arise repeatedly and lead to additional expenses or contract penalties. Contract provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. On the other hand, opportunities can occur sporadically if the risk provisions made do not need to be fully utilized.

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

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

Financial risks and opportunities

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

Vossloh uses derivative financial instruments solely to hedge against specific risks from current underlyings or forecast transactions. These economic hedging relationships are also treated as hedges in financial accounting. In this context, only marketable financial instruments approved beforehand are deployed. The trading, settlement and controlling functions have been strictly segregated. For further details on derivative financial instruments, please refer to the notes on the consolidated financial statements starting on page 104 ff. The intragroup Treasury secures and manages the effectiveness of hedging on an ongoing basis. In particular, the following financial risks are managed: liquidity risks, cash flow risks, price risks, as well as default risks.

Liquidity risks

Liquidity risks may arise if the Group is potentially unable to provide the funds required to meet its obligations in due course and fully. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies and the necessary latitude for translating corporate strategies into practice) through a rolling cash management system. An intragroup financial netting concept through cash pooling (see term in glossary, page 123) in individual countries and through intercompany loans facilitates the application of any surplus cash at certain subsidies to meet the liquidity requirements at other Group companies.

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

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

Cash flow risks

Changes in future interest rates may cause cash flow fluctuation where variable-rate assets and liabilities are involved. Vossloh contains this risk by means of interest rate swaps, and it regularly analyzes the impact of changes in interest rate levels on cash flows. As part of active risk management, the variable interest payments of the bonded loan concluded in 2013 were replaced in 2014 by fixed cash flows with an interest rate swap. For details, see the notes to the consolidated financial statements, starting from page 110 ff. The probability of a short-term change in interest rates and its impact on cash flows are estimated to be small. This risk is therefore assessed as low.

Price risks

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

Default risks

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

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

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

Legal risks and opportunities

Legal risks for Vossloh result in particular from complaints, warranty claims, claims for damages or indemnification, and litigation. Identifiable risks are either covered by insurance or, if the applicable criteria are met, adequately provided for in the balance sheet. Nevertheless, losses may occur that are uninsured or underinsured, or significantly exceed the recognized provisions. In contrast, opportunities may arise in some cases if risk provisions remain underutilized.

Group companies of Deutsche Bahn have filed claims for damages against the Vossloh Rail Center GmbH, Hamburg, which is part of the Group. Although damages attributable directly to the company were settled by a partial settlement with Deustche Bahn in 2016, the risk of a joint and several liability for as yet unsettled damages remains. For unresolved claims, Vossloh Rail Center GmbH, Hamburg, has an indemnification claim, which is partially secured with bank guarantees. Furthermore, various customers have filed claims for damages in connection with ongoing or concluded anti-trust proceedings. Wherever the enforcement of specific customer claims appears reasonably likely and the resulting loss can be reliably estimated, such potential damages are duly provided for.

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

Other risks and opportunities

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

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

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

Overall assessment of the risk and opportunity situation

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

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

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

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

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

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

Process independent audit procedures are the responsibility of Vossloh AG's Supervisory Board (specifically its Audit Committee) and Internal Auditing, as well as of staff locally assigned at the level of the business unit lead companies. The statutory company/Group auditor also carries out process-independent audit procedures. Particularly the annual audit of the consolidated financial statements, as well as the focal interim audit procedures prior to the annual audit of the separate financial statements are essential process-independent monitoring procedures that center on the corporate accounting system.

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

A multi-year SAP project is currently being implemented within the Vossloh Group in order to roll out a standardized SAP system at all entities involved in accounting and reporting processes. This new standardized software will enable centralized access to data and centrally-initiated controls. The new system is currently being used at Vossloh AG and at principle companies in the Core Components, Customized Modules and Lifecycle Solutions divisions.

Accounting-related risks

Preparing financial statements requires management to make certain assumptions and estimates. These estimates affect the carrying amounts of recognized assets and liabilities and of current amounts of contingent liabilities as of the end of the reporting period, as well as the recognition of income and expenses in the period. The use or misuse of the necessary discretion may entail accounting-related risks for the Group.

Major safeguards for a valid and reliable accounting system

Based on the rules of the International Financial Reporting Standards (IFRS), which have been endorsed by the EU, the Vossloh Group's Corporate Reporting Manual governs the Group-wide uniform accounting policies and principles to be applied by all Vossloh companies included in the consolidated financial statements, essentially by describing, in addition to general accounting principles and methods, the methods to be used for preparing the statement of financial position, statement of profit and loss and other comprehensive income, and the notes to be in compliance with current EU law. Furthermore, the Manual provides specific guidance for the official format of consolidated financial statements, and details the determination of the consolidation group and the reporting package elements to be submitted by the subsidiaries. The format requirements also cover all details of the obligatory, standardized set of reporting package forms. The Manual is periodically revised and updated, most recently in February 2016. Revised and updated versions are made available on a timely basis to all those involved in the Group's accounting process through a web-based information system.

After transactions have been recorded in the local accounting system of each Group company, the monthly accounts and annual financial statements are reviewed at the level of the business unit lead company. As well as random-sampled cases, tests focus primarily on high-amount or unusual transactions. There are Corporate guidelines, for example, for capital expenditures, bidding, and risk management. Vossloh companies and business units are, moreover, obligated to issue local guidelines for material areas.

The separate financial statements reported by the individual companies are then consolidated in several steps at Vossloh AG level after they have been adjusted to conform to Group-wide accounting policies. The correct offset of intercompany receivables/payables, income/expenses and shareholdings as well as the proper elimination of profits from intragroup transfers are generally ensured by adopting peer review principles and running appropriate validation routines in check files.

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

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

In particular, individual discretionary decisions, faulty controls, fraud, or other factors cannot, however, be fully ruled out due to their nature, and, therefore, even the Group-wide installation of such systems cannot provide absolute protection.

Limitations

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

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

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

Outlook

This combined management report contains forward looking statements based on management's estimates of future trends within the Vossloh Group. This outlook is based on statements and forecasts representing management's assessment of the information available at the time of this report's publishing. In particular, assumptions on future trends of the international rail technology market and the specific business expectations of Vossloh's divisions have been taken into account. These statements are subject to risks and offer opportunities not entirely within Vossloh's control. For additional information in this regard, please refer to the section on Risk and Opportunity Management (from page 55). If the assumptions underlying the statements and forecasts in the Outlook fail to materialize, or the risks or opportunities depicted do materialize, actual results may differ from this outlook. Vossloh does not assume any obligation to update its statements in this combined management report beyond statutory publication dates.

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

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

Studies expect continued growth in the rail technology market

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

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

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

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

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

Vossloh Group: Outlook for 2017

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

In addition to industry-specific conditions, Vossloh's sales plans take into consideration, in particular, assumptions specific to the divisions. These concern such aspects as product perspectives, the expected behavior of competitors, project award probabilities, and market risks and rewards in the individual regions. Vossloh's customers are public and private local and long-distance transport operators, who carry out capital expenditures after lengthy decision-making processes and within the framework of long-range financing. Vossloh accompanies its customers as a partner through the years and works with them to develop and plan solutions for individual product and service requirements. As a rule, this results in delivery and project lead times spanning months and sometimes years.

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

Sales between €1.0 billion and €1.1 billion projected

EBIT margin between 5.5 percent and 6.0 percent expected

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

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

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

Risks are emerging for Vossloh from the current market situation in the USA in particular. Weak overall demand is also expected to continue for 2017. However, in comparison to 2016, Vossloh is expected to recover slightly in the second half of 2017. Sharply increasing material prices could also negatively influence the earnings situation, especially in the Core Components division. In addition, high relocation costs and order awards caused by moving to the new location in the Transportation division cannot be completely ruled out. However, the good order situation in the Kiel location at Vossloh Locomotives guarantees a high capacity localization in 2017. Regarding other risks possibly affecting the planning presented, we refer to the report on risks and opportunities (starting on page 55 ff).

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

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

Consolidated financial statements of Vossloh AG as of December 31, 2016

Income statement

€ mill.	Notes	2016	2015*
Sales revenues	(1)	931.6	952.9
Cost of sales	(2.1)	(736.3)	(772.8)
General administrative and selling expenses	(2.2)	(162.3)	(161.6)
Research and development expenses	(2.3)	(10.2)	(9.6)
Other operating result	(3)	21.1	32.6
Operating result		**43.9**	**41.5**
Investment result from companies accounted for using the equity method		2.3	3.0
Other financial income	(4.1)	4.3	0.8
Other financial expenses	(4.2)	(0.5)	(3.0)
Earnings before interest and taxes (EBIT)		**50.0**	**42.3**
Interest income		1.2	4.1
Interest expense	(5)	(10.6)	(15.2)
Earnings before income taxes (EBT)		**40.6**	**31.2**
Income taxes	(6)	(21.8)	(17.2)
Result from continuing operations		**18.8**	**14.0**
Result from discontinued operations	(7)	(8.7)	63.8
Net income		**10.1**	**77.8**
thereof attributable to shareholders of Vossloh AG		**3.3**	**72.2**
thereof attributable to non-controlling interests	(8)	6.8	5.6
Earnings per share			
Basic/diluted earnings per share (€)	(9)	0.22	5.42
thereof attributable to continuing operations		0.81	0.60
thereof attributable to discontinued operations		(0.59)	4.82

* Previous year figures presented in a comparable manner, see page 78

Statement of comprehensive income

€ mill.	Notes	2016	2015*
Net income		**10.1**	**77.8**
Changes in fair value of hedging instruments (cash flow hedges)		3.3	(0.1)
Currency translation differences		(3.0)	8.9
Changes in fair value of available-for-sale securities		0.0	0.0
Income taxes		(1.0)	0.0
Amounts that will potentially be transferred to profit or loss in future periods		**(0.7)**	**8.8**
Remeasurement of defined benefit plans	(24)	(3.7)	(0.6)
Income taxes		1.2	0.2
Amounts which will not be transferred to profit or loss in future periods		**(2.5)**	**(0.4)**
Income and expenses recognized directly in equity		**(3.2)**	**8.4**
Comprehensive income		**6.9**	**86.2**
thereof attributable to shareholders of Vossloh AG		0.7	80.6
thereof attributable to non-controlling interests		6.2	5.6

* Previous year figures presented in a comparable manner, see page 78

Cash flow statement

€ mill.	2016	2015*
Cash flow from operating activities		
Earnings before interest and taxes (EBIT)	50.0	42.3
EBIT from discontinued operations	(1.9)	(3.5)
Amortization/depreciation/write-downs (less write-ups) of non-current assets	46.7	48.7
Change in non-current provisions	(4.1)	(15.8)
Gross cash flow	**90.7**	**71.7**
Non-cash change in investments in companies accounted for using the equity method	(2.3)	(2.5)
Other non-cash income/expenses, net	(7.5)	2.7
Net loss/(gain) on the disposal of non-current assets	0.3	(1.6)
Income taxes paid	(21.3)	(18.4)
Change in working capital	4.0	17.2
Changes in other assets/liabilities, net	1.9	38.7
Cash flow from operating activities	**65.8**	**107.8**
Cash flow from investing activities		
Investments in intangible assets and property, plant and equipment	(38.1)	(46.1)
Cash-effective changes in investments in companies accounted for using the equity method	(3.2)	(1.9)
Cash-effective dividends from companies accounted for using the equity method	0.7	4.0
Proceeds from the disposal of companies accounted for using the equity method	0.0	2.3
Free cash flow[1]	**25.2**	**66.1**
Investments in non-current financial instruments	0.0	(3.8)
Proceeds from the disposal of intangible assets and property, plant and equipment	5.2	1.2
Disbursements/proceeds from the purchase/sale of short-term securities	(0.1)	0.1
Proceeds from the disposal of non-current financial instruments	1.2	4.6
Proceeds from the disposal of consolidated companies	0.0	34.4
Disbursements for the acquisition of consolidated companies	(8.9)	(6.4)
Cash flow from investing activities	**(43.2)**	**(11.6)**
Cash flow from financing activities		
Net proceeds from additions to equity[2]	123.1	0.0
Disbursements to shareholders and non-controlling interests	(5.2)	(6.6)
Net financing from short-term loans	(19.6)	(260.8)
Net financing from medium-term and long-term loans	(6.6)	203.7
Interest received	1.4	4.6
Interest paid	(13.8)	(17.9)
Cash flow from financing activities	**79.3**	**(77.0)**
Net cash inflow/outflow	101.9	19.2
Change in cash and cash equivalents from first-time consolidation	0.1	0.0
Change in cash and cash equivalents from deconsolidation	0.0	0.0
Exchange rate effects	(2.2)	1.1
Opening cash and cash equivalents	**78.8**	**58.5**
Closing cash and cash equivalents	**178.6**	**78.8**

* Previous year figures presented in a comparable manner, see page 78

[1] Free cash flow comprises cash flow from operating activities, investments in intangible assets and property, plant and equipment in addition to inflows and outflows of cash in connection with investments in companies accounted for using the equity method. For an allocation of cash flows to continued and discontinued operations see page 85.

[2] Net of transaction costs. Transaction costs total €3.7 million and are recognized directly in equity in additional paid-in capital.

Balance sheet

Assets in € mill.	Notes	12/31/2016	12/31/2015*
Intangible assets	(10)	260.5	254.7
Property, plant and equipment	(11)	184.4	183.5
Investment properties	(12)	3.6	4.5
Investments in companies accounted for using the equity method	(13)	35.0	33.1
Other non-current financial instruments	(14)	7.6	11.2
Sundry non-current assets	(15)	3.4	3.1
Deferred tax assets	(16)	28.2	25.9
Non-current assets		**522.7**	**516.0**
Inventories	(17)	218.9	234.1
Trade receivables	(18)	177.0	220.8
Receivables from construction contracts	(18)	8.5	7.1
Income tax assets	(19)	3.9	7.1
Sundry current assets	(20)	34.8	58.9
Short-term securities	(21)	0.5	0.5
Cash and cash equivalents	(22)	171.2	60.0
Current assets		**614.8**	**588.5**
Assets held for sale	(7)	230.1	285.4
Assets		**1,367.6**	**1,389.9**

Equity and liabilities in € mill.	Notes	12/31/2016	12/31/2015*
Capital stock	(23.1)	45.3	37.8
Additional paid-in capital	(23.2)	146.5	30.9
Retained earnings and net income	(23.3)	333.2	332.7
Accumulated other comprehensive income	(23.4)	7.8	10.3
Equity excluding non-controlling interests		**532.8**	**411.7**
Non-controlling interests	(23.5)	18.0	17.0
Equity		**550.8**	**428.7**
Pension provisions	(24)	25.4	22.1
Other non-current provisions	(25)	29.7	28.6
Non-current financial liabilities	(26.1)	246.9	253.5
Non-current trade payables	(26.2)	0.0	3.2
Other non-current liabilities	(26.4)	4.2	10.2
Deferred tax liabilities	(16)	4.1	3.0
Non-current liabilities		**310.3**	**320.6**
Other current provisions	(25)	67.2	103.0
Current financial liabilities	(26.1)	8.7	25.6
Current trade payables	(26.2)	132.1	151.0
Current liabilities from construction contracts	(26.2)	11.4	0.4
Current income tax liabilities	(26.3)	11.0	12.0
Other current liabilities	(26.4)	95.6	102.3
Current liabilities		**326.0**	**394.3**
Liabilities held for sale	(7)	180.5	246.3
Equity and liabilities		**1,367.6**	**1,389.9**

* Previous year figures presented in a comparable manner, see page 78

Statement of changes in equity

€ mill.	Capital stock	Additional paid-in capital	Retained earnings and net income	Accumulated other comprehensive income: Currency translation	Accumulated other comprehensive income: Available for-sale financial instruments	Accumulated other comprehensive income: Hedging transactions	Accumulated other comprehensive income: Remeasure-ment of defined benefit plans	Equity excluding non-controlling interests	Non-controlling interests	Total
Balance at December 31, 2014	**37.8**	**30.9**	**265.3**	**4.7**	**0.0**	**(3.9)**	**(4.9)**	**329.9**	**19.7**	**349.6**
Transfer to retained earnings			(4.9)				4.9	0.0		0.0
Changes in the scope of consolidation			0.1			1.1		1.2	(1.8)	(0.6)
Net income			72.2					72.2	5.6	77.8
Income and expenses recognized directly in equity				8.9	0.0	(0.1)	(0.4)	8.4		8.4
Dividend payments									(6.5)	(6.5)
Balance at December 31, 2015	**37.8**	**30.9**	**332.7**	**13.6**	**0.0**	**(2.9)**	**(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
Changes in the scope of consolidation			(2.4)	(0.3)				(2.7)		(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)
Balance at December 31, 2016	**45.3**	**146.5**	**333.2**	**10.9**	**0.0**	**(0.6)**	**(2.5)**	**532.8**	**18.0**	**550.8**

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2016

Segment information by division and business unit[1]

€ mill.		Core Components (Fastening Systems)	Customized Modules (Switch Systems)	Lifecycle Solutions (Rail Services)	Locomotives
Value added	2016	**22.5**	**(2.9)**	**(4.6)**	(8.7)
	2015	**16.6**	**(8.3)**	**(6.7)**	(10.4)
Information from the income statement/flow figures					
External sales revenues	2016	**251.5**	**489.2**	**77.7**	109.1
	2015	**243.7**	**522.2**	**68.4**	108.6
Intersegment sales revenues	2016	**5.6**	**3.1**	**5.8**	0.0
	2015	**12.9**	**0.8**	**3.3**	0.9
Interest income	2016	**0.1**	**0.3**	**0.0**	0.6
	2015	**0.2**	**0.4**	**0.0**	0.7
Interest expense	2016	**(1.7)**	**(4.4)**	**(3.2)**	(2.2)
	2015	**(2.2)**	**(4.7)**	**(3.5)**	(2.4)
Amortization/depreciation	2016	**8.4**	**13.7**	**5.9**	4.0
	2015	**8.8**	**13.2**	**5.1**	4.6
Investments in non-current assets	2016	**2.9**	**15.9**	**11.3**	7.5
	2015	**6.4**	**11.4**	**9.6**	5.9
Investment result from companies accounted for using the equity method	2016	**0.1**	**0.8**	**1.4**	0.0
	2015	**0.1**	**1.8**	**1.1**	0.0
Income taxes	2016	**7.4**	**9.1**	**0.6**	0.7
	2015	**7.9**	**9.7**	**(0.9)**	2.0
Result from discontinued operations	2016	**0.0**	**0.0**	**0.0**	0.0
	2015	**0.0**	**0.0**	**0.0**	0.0
Other major non-cash expenses	2016	**4.0**	**8.3**	**1.7**	8.3
	2015	**4.5**	**17.4**	**0.3**	9.9
Impairment losses	2016	**1.8**	**0.5**	**0.6**	–
	2015	**0.3**	**3.0**	**0.0**	0.0
Write-ups	2016	**0.0**	**0.0**	**0.0**	0.0
	2015	**0.0**	**0.0**	**0.0**	0.0
Information from the balance sheet					
Total assets	2016	**184.8**	**565.7**	**177.5**	111.7
	2015	**204.7**	**605.1**	**205.2**	108.2
Liabilities	2016	**105.9**	**261.0**	**166.1**	81.1
	2015	**133.9**	**326.1**	**193.2**	75.8
Investments in companies accounted for using the equity method	2016	**1.9**	**25.0**	**7.8**	0.3
	2015	**1.8**	**24.6**	**6.7**	0.0
Average headcount (monthly figures)	2016	**631**	**2,537**	**457**	396
	2015	**609**	**2,589**	**400**	415

[1] For more segment information, see page 102 ff. For previous year figures in the Transportation business division and in the Group presented in a comparable manner, see page 78.

	Rail Vehicles (discontinued operations)	Electrical Systems (discontinued operations)	Consolidation	**Transportation**	Holding companies	Consolidation	**Group**
	0.0	(3.5)	2.3	**(9.9)**	(15.6)	(3.3)	**(13.8)**
	17.2	(8.1)	(11.7)	**(13.0)**	165.4	(185.1)	**(31.1)**
	0.0	197.7	(197.7)	**109.1**	0.3	0.0	**927.8**
	239.3	247.0	(486.2)	**108.7**	0.3	(0.1)	**943.2**
	0.0	4.7	(4.5)	**0.2**	1.2	(12.1)	**3.8**
	1.2	2.5	(3.7)	**0.9**	1.2	(9.4)	**9.7**
	0.0	0.4	(0.2)	**0.8**	11.6	(11.6)	**1.2**
	0.7	1.9	(0.2)	**3.1**	13.6	(13.2)	**4.1**
	0.0	(4.0)	2.8	**(3.4)**	(9.8)	11.9	**(10.6)**
	(1.1)	(4.1)	3.2	**(4.4)**	(14.4)	14.0	**(15.2)**
	0.0	4.5	(4.5)	**4.0**	0.7	0.0	**32.7**
	8.4	4.6	(13.0)	**4.6**	0.7	0.0	**32.4**
	0.0	3.5	(3.5)	**7.5**	0.2	0.0	**37.8**
	11.6	2.4	(13.7)	**6.2**	0.3	0.3	**34.2**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**2.3**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**3.0**
	0.0	3.9	(3.9)	**0.7**	4.0	0.0	**21.8**
	2.0	2.9	(4.9)	**2.0**	(1.5)	0.0	**17.2**
	0.0	0.0	(7.9)	**(7.9)**	0.0	(0.8)	**(8.7)**
	0.0	0.0	10.4	**10.4**	0.0	53.4	**63.8**
	0.0	7.6	(7.6)	**8.3**	5.4	0.1	**27.8**
	16.7	9.6	(26.3)	**9.9**	2.3	(0.1)	**34.3**
	–	–	–	**–**	–	–	**2.9**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**3.3**
	0.0	0.5	(0.5)	**0.0**	0.0	0.0	**0.0**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.0**
	0.0	276.7	(6.7)	**381.7**	1,090.2	(1,032.3)	**1,367.6**
	375.1	366.3	(278.8)	**570.8**	1,008.4	(1,204.3)	**1,389.9**
	0.0	197.3	(180.2)	**98.2**	434.8	(429.7)	**636.3**
	283.2	285.1	(532.2)	**111.9**	446.1	(496.3)	**714.9**
	0.0	0.0	0.0	**0.3**	0.0	0.0	**35.0**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**33.1**
	0	726	(726)	**396**	55	0	**4,076**
	913	806	(1,719)	**415**	56	0	**4,069**

General principles

Vossloh AG is a listed company based in Werdohl, Germany. The company is registered under number HRB 5292 at 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 rail infrastructure, railbound vehicles as well as transport technology represent 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 Article 315a (1) German Commercial Code ("HGB"). All mandatorily applicable standards as of the end of the reporting period have been considered.

On February 24, 2017, 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 2016 but were not yet mandatorily applicable for financial year 2016 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. An early adoption of these standards is not planned. The following new and amended standards will have, in some cases, a significant impact on Vossloh's consolidated financial statements:

Standard	Issued	First-time adoption	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	As a result of the new regulations on the measurement of bad debt, Vossloh anticipates a one-time effect from expected losses, which however has yet to be estimated.
IFRS 15: Revenue from contracts with customers	May 2014	2018	September 2016	In particular the recognition of sales revenues over time is subject to certain preconditions; as this is not relevant for the regular transactions of the business units, Vossloh does not expect any significant effects.
Clarifications to IFRS 15: Revenue from Contracts with Customers	May 2014	2018	./.	
IFRS 16 Leases	January 2016	2019	./.	The standard comprises key amendments to the accounting of leases for the lessee through the general capitalization of rights-of-use assets with the simultaneous recognition of the net present value of the minimum lease payments as liabilities. Significant impacts on the consolidated financial statements are expected, particularly in terms of property, plant and equipment, financial liabilities and of the equity ratio due to the higher amount of total assets. In addition, EBIT will tend to increase as a result of the separate recognition of depreciation and interest expense. A further analysis of the effects is currently being undertaken.
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.

Apart from these new or amended standards and interpretations a number of other standards and interpretations were adopted whose impact on the consolidated financial statements is expected to be insignificant:

Standard	Published by the IASB	First-time adoption	Endorsed by the EU
New or amended standards			
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	January 2016	2017	./.
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 2016	2018	./.
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016	2018	./.
Annual Improvements IFRS Standards 2014–2016 Cycle	December 2016	2018	./.
Amendments to IAS 40: Transfers of Investment Property	December 2016	2018	./.
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	December 2016	2018	./.

First-time application of standards and interpretations

In the 2016 financial year, the amendments to standards and interpretations illustrated in the table below were used for the first time.

Standard	Published by the IASB	Endorsed by the EU
New or amended standards		
Amendments to IAS 16: Property, plant and equipment and IAS 41: Agriculture: Bearer plants	June 2014	November 2015
Amendments to IFRS 11: Accounting for acquisitions of interests in joint operations	May 2014	November 2015
Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortization	May 2014	December 2015
Annual improvements to IFRSs 2012–2014 cycle	September 2014	December 2015
Amendments to IAS 1: Disclosure initiative	December 2014	December 2015
Amendments to IAS 27: Equity method in separate financial statements	August 2014	December 2015
Amendment to IAS 19: Defined benefit plans: employee contributions	November 2013	December 2014
Adoption of annual improvements to IFRSs 2010–2012 cycle	December 2013	December 2014
Amendments to IFRS 10: Consolidated financial statements, IFRS 12: Disclosure of interests in other entities and IAS 28: Investment in associates and joint ventures	December 2014	September 2016

Neither of the pronouncements had a significant impact on Vossloh's consolidated financial statements.

Principles for preparing the consolidated financial statements

The financial statements of all companies included in Vossloh's consolidated financial statements are prepared as of December 31 (Vossloh AG's closing date) in accordance with Group-wide uniform accounting and 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 euro, the functional currency of the company, and the statements are presented in € million to a large extent. The income statement is structured in cost-of-sales format.

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 period.

Due to uncertainty, the actual values subsequently determined may differ from those estimates and hence from the amounts disclosed in the consolidated financial statements. The estimates and underlying assumptions are subject to ongoing review. Adjustments are 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 and at-equity accounting. 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 respective notes.

Consolidation

Vossloh's consolidated financial statements comprise the financial statements of Vossloh AG and principally all its subsidiaries. Generally all subsidiaries where Vossloh AG can exercise control 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 (a.k.a. purchase method) of accounting is used for capital consolidation. 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 acquisition-date fair value. 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.

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

Where material, other enterprises in which Vossloh owns an equity interest of between 20 and 50 percent and where Vossloh can exercise a significant influence on their business and financial policies (so-called associated companies) are accounted for using the equity method.

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

In financial year 2016, the following changes occurred to the scope of consolidation:

The purchase of 50 percent of the shares in Alpha Rail Team GmbH & Co. KG and Alpha Rail Team Verwaltungs GmbH, both based in Berlin, was completed on December 7, 2016. Vossloh thereby gained full control over these companies, as the remaining shares were already held by a Group company. The fair value of these shares at the time of acquisition was €6.75 million. Recognition of this fair value resulted in a profit of €3.5 million, which was included under other financial result in the statement of income. The operating company runs two milling trains and is allocated to the Rail Services business unit. As a result of the acquisition of these shares, this activity is fully controlled by the business unit, allowing milling services offered by the operating company to be more efficiently marketed. The purchase price for the newly acquired shares amounted to €6.75 million and was paid in cash. To derive the resulting goodwill, this amount together with the fair value of the previously held shares, of the same value, will be compared to the assets and liabilities, which are now reported in the Group balance sheet.

€ mill.	Carrying amounts immediately before the business combination	Adjustments	Fair values at first-time consolidation
Intangible assets	–	0.7	0.7
Property, plant and equipment	1.3	1.7	3.0
Inventories	0.3	–	0.3
Trade receivables	1.6	–	1.6
Other assets	0.0	0.1	0.1
Cash and cash equivalents	3.2	–	3.2
Trade payables	0.1	–	0.1
Provisions	0.3	–	0.3
Other liabilities	0.1	0.7	0.8
Net assets acquired	**5.9**	**1.8**	**7.7**
Total consideration plus fair value of previously held interests			13.5
Remaining goodwill			**5.8**

Transaction costs associated with the acquisition in the amount of €0.1 million were presented as other operating expenses in the income statement. Since consolidation, the subsidiaries have contributed €0.5 million to sales revenues and €0.1 million to net income. Group sales revenues would have been €6.4 million higher and net income €0.9 million higher if the acquisition had taken place at the beginning of the financial year.

In addition to this acquisition, a foreign company was newly established in the Locomotives business unit and two foreign companies in the Fastening Systems business unit were included in the scope of consolidation for the first time after exceeding the materiality threshold. One foreign company and five German companies were merged with other Group companies.

Consequently, 62 subsidiaries (including 19 in Germany) were fully consolidated as of the end of the financial year.

Changes in fully-consolidated subsidiaries

	2016	2015
Fully consolidated as of January 1	63	64
Disposals	0	(3)
First-time consolidations	3	3
Reclassification of companies previously accounted for using the equity method	2	0
Intragroup mergers	(6)	(1)
Fully consolidated as of December 31	**62**	**63**

Seven companies (previous year: six) based outside of Germany were accounted for using the equity method. In addition, in the previous year one German company was accounted for using the equity method.

Due to their minor significance to the Group's net assets, financial position and results of operations, 26 subsidiaries (previous year: 29) were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights or otherwise controlled them at the end of the reporting period.

Events after the balance sheet date

On January 3, 2017, the contract signed on December 5, 2016 for the acquisition of all shares in Rocla International Holding, Inc., Lakewood/Colorado, USA was concluded. The company is a pure holding company and holds the operating companies' shares in the new Tie Technologies business unit, which belongs to the Core Components division, together with Vossloh Fastening Systems. Vossloh Tie Techologies develops, produces and sells concrete railway ties for the American market and operates several plants in the USA and Mexico. The acquisition significantly strengthens Vossloh's market position on the American markets for rail infrastructure.

The purchase price totaled €117.3 million and was paid in cash. In the reporting year, transaction costs in the amount of €2.0 million were incurred for this transaction and were reported in the income statement under administrative expenses.

At the time of preparation of the consolidated financial statements, the determination of the fair values for the assets acquired and liabilities assumed had not yet been completed, as a result of which it was not yet possible to state the corresponding values in terms of the key groups of assets and liabilities. The expected goodwill primarily results from intangible assets, which are not capitalizable individually, such as the value of customer relationships as well as expected synergies in terms of the Group companies active in the USA, for example through coordinated sales activities, etc.

In financial year 2017, sales revenues of around €75 million are expected in the new business unit.

On December 21, 2016, a contract was signed for the sale of the shares in Vossloh Kiepe GmbH, Düsseldorf and the shares in Vossloh Kiepe, Inc., Alpharetta, USA and Vossloh Kiepe Southern Africa Prt. Ltd., Cape Town/South Africa. During the period of preparation of the consolidated financial statements of Vossloh AG, this sale was completed on January 31, 2017. In the balance sheet as of December 31, 2016, all assets and liabilities associated with this contract are recognized as held for sale. All income and expenses from sold companies or which are associated with the sale, are reported in the income statement under result from discontinued operations. The prior-year figures are presented in a comparable manner and therefore differ from the figures presented in the 2015 annual report. Further information can be found in the notes under (7) Result from discontinued operations.

Currency translation

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

Currency translation differences, whether from the interperiod differences in assets and liabilities or those 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 historical 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 the statement of profit or loss.

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

Exchange rates

Country	Currency	€	2016	2015	2016	2015
			Current rate at Dec. 31		Average rate	
Australia	AUD	€1	1.46	1.49	1.48	1.48
Brazil	BRL	€1	3.43	4.31	3.86	3.69
China	CNY	€1	7.32	7.07	7.35	6.92
Great Britain	GBP	€1	0.86	0.74	0.82	0.73
India	INR	€1	71.59	72.31	74.35	71.20
Kazakhstan	KZT	€1	352.36	370.76	378.67	246.64
Malaysia	MYR	€1	4.73	4.67	4.58	4.33
Poland	PLN	€1	4.41	4.26	4.31	4.18
Sweden	SEK	€1	9.55	9.18	9.44	9.35
Switzerland	CHF	€1	1.07	1.08	1.09	1.07
Serbia	RSD	€1	123.50	121.62	123.09	120.67
Thailand	THB	€1	37.73	39.25	38.32	38.01
Turkey	TRL	€1	3.71	3.18	3.31	3.02
USA	USD	€1	1.05	1.09	1.10	1.11

Notes to the income statement

(1) Sales revenues

Breakdown of sales revenues

€ mill.	2016	2015*
Sales of products	857.6	860.7
Revenues from construction contracts and from the rendering of services	74.0	92.2
Total	**931.6**	**952.9**

* Previous year figures presented in a comparable manner, see page 78

Sales revenues are recognized net of sales deductions and price allowances (such as cash and other discounts, bonuses, rebates, purchases or returns credited). In line with IAS 18, sales are generally recognized once goods have been delivered or services rendered, provided that 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 milestone or partial invoices have been agreed upon in advance, sales are recognized after the customer has finally and formally accepted the milestone or partial delivery.

Sales from specific manufacturing or construction contracts with customers ("PoC contracts") is 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.

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 Electrical System business unit, which has been classified as discontinued operations, see Note 7 on page 83f.

The segment reports starting on pages 72 ff. and 102 ff. 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 as well as research and development expenses:

Nature of expenses

€ mill.	2016	2015*
Cost of raw materials and supplies	391.7	411.8
Cost of services purchased	75.2	96.1
Cost of materials	**466.9**	**507.9**
Wages and salaries	179.1	173.1
Social security and employee benefits	41.1	39.9
Pension expense	5.2	5.1
Personnel expenses	**225.4**	**218.1**
Depreciation/amortization	**35.6**	**35.7**
Expenses on operating leases[1]	**10.9**	**10.0**

[1] See glossary term, page 123

* Previous year figures presented in a comparable manner, see page 78

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

Workforce structure

	2016	2015
Executive/management boards	29	30
Other managers/executives	137	149
Non-tariff employees	873	776
Tariff employees	3,014	3,085
Apprentices	76	78
Interns/degree candidates	24	18
	4,153	**4,136**

In the Electrical systems business unit, which has been classified as discontinued operations, 756 people on average were employed over the year (previous year: 824 employees). The number of employees in accordance with Article 314 (1) No. 4 HGB was 4,753 (previous year: 5,763).

(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 plant, property and equipment and primarily 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.	2016	2015*
Selling expenses	66.4	70.1
General administrative expenses	95.9	91.5
	162.3	**161.6**

* Previous year figures presented in a comparable manner, see page 78

In addition to personnel expenses, selling expenses primarily include outbound freight and commissions. This item also includes most of the allowances for bad trade receivables and sundry assets. The expense from allowances for trade receivables and other assets recognized in the reporting period as general administrative and selling expenses came to €1.6 million (previous year: €4.0 million).

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

(2.3) Research and development expenses

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. Non-capitalizable development costs are also expensed under this item. R&D expenses before capitalized development expenses came to €12.8 million in the past financial year (previous year: €12.5 million). Of these costs for development projects, €2.6 million (previous year: €2.9 million) were recognized in the balance sheet.

(3) Other operating result

Breakdown of other operating result

€ mill.	2016	2015*
Income from the release of provisions	11.4	17.4
Currency exchange gains	8.8	9.0
Income from governmental grants	1.5	1.6
Rental income	1.4	1.7
Insurance reimbursements	0.2	0.3
Release of allowances and reversal of write-downs	1.7	0.8
Income from the disposal of intangible assets and property, plant and equipment	0.4	0.3
Income from the disposal of financial instruments	0.1	1.7
Sundry income	11.2	14.4
Other operating income	**36.7**	**47.2**
Currency exchange losses	(10.7)	(12.8)
Losses on the disposal of intangible assets and property, plant and equipment	(0.8)	(0.4)
Expenses for buildings	(0.5)	(0.5)
Impairment losses from intangible assets and property, plant and equipment	(2.4)	(0.3)
Sundry expenses	(1.2)	(0.6)
Other operating expenses	**(15.6)**	**(14.6)**
Other operating result	**21.1**	**32.6**

* Previous year figures presented in a comparable manner, see page 78

Income from public grants/subsidies 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 cost of the tangible assets concerned. As at the end of the reporting period, €0.0 million was recognized as a cost reduction in property, plant and equipment (previous year: €1.3 million). 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.

Income from the release of provisions in the previous year was offset in the amount of €8.0 million by relevant expenses for guarantees or the like. No comparable situation occurred in the reporting year. Write-downs on intangible assets and property, plant and equipment in the reporting year primarily resulted from the Turkish company in the Fastening Systems business unit.

(4.1) Other financial income

Breakdown of other financial income

€ mill.	2016	2015*
Income from investments	0.3	0.2
Income from unconsolidated subsidiaries	0.3	0.0
Income from the measurement of investments in companies accounted for using the equity method at fair value	3.5	0.0
Income from the remeasurement of other financial instruments at fair value	0.0	0.5
Income from securities	0.2	0.1
Other financial income	**4.3**	**0.8**

* Previous year figures presented in a comparable manner, see page 78

(4.2) Other financial expenses

Breakdown of other financial expenses

€ mill.	2016	2015*
Write-down of financial instruments	(0.5)	(3.0)
Other financial expenses	**(0.5)**	**(3.0)**

* Previous year figures presented in a comparable manner, see page 78

(5) Interest expense

Breakdown of interest expense

€ mill.	2016	2015*
Interest from bank liabilities	(5.9)	(9.8)
Guarantee commissions	(0.7)	(0.6)
Other interest expense	(4.0)	(4.8)
Interest expense	**(10.6)**	**(15.2)**

* Previous year figures presented in a comparable manner, see page 78

(6) Income taxes

Breakdown of income taxes

€ mill.	2016	2015*
Current income taxes	22.2	17.5
Deferred income taxes	(0.4)	(0.3)
Income taxes	**21.8**	**17.2**

* Previous year figures presented in a comparable manner, see page 78

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 30 percent.

The Vossloh Group's actual tax expense of €21.8 million (previous year: €17.2 million) was €9.6 million (previous year: €7.8 million) above the anticipated tax expense that would have resulted from applying a group-wide uniform rate of 30 percent to EBT.

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

Reconciliation of the expected to the actually recognized income tax expense

		2016	2015*
Earnings before taxes	€ mill.	40.6	31.2
Income tax rate including trade taxes	%	30.0	30.0
Expected income tax by applying a uniform rate	€ mill.	12.2	9.4
Effect of divergent foreign income tax rates	€ mill.	(1.8)	(1.8)
Non-taxable income	€ mill.	(1.6)	(1.6)
Nondeductible expenses	€ mill.	5.3	5.9
Taxes for prior periods	€ mill.	0.4	(1.5)
Tax effect of write-ups/write-downs of deferred tax assets	€ mill.	6.3	3.6
Double-taxation effects	€ mill.	0.5	1.0
Effect of remeasurement of deferred taxes	€ mill.	0.1	1.4
Other differences	€ mill.	0.4	0.8
Recognized income tax expense	€ mill.	21.8	17.2
Effective income tax rate	%	53.4	55.1

* Previous year figures presented in a comparable manner, see page 78

Deferred taxes from items, which increased other comprehensive income, amounted to €0.1 million (previous year: €0.1 million). Those deferred taxes arose from the remeasurement of defined benefit plans in the amount of €1.1 million (previous year: €0.2 million) to be accounted for in the financial year in addition to changes in the measurement of hedging instruments on cash flow hedges amounting to €(1.0) million (previous year: €(0.1) 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 reported as discontinued operations since September 30, 2016 in accordance with IFRS 5. In the fourth quarter of 2016, a share purchase and transfer agreement was concluded with the buyer however, was first completed after the balance sheet date. The result reported in the income statement comprises all income and expenses resulting from current business of the former business unit 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. In the previous year, in addition to income and expenses attributable to the Electrical Systems business unit, income and expenses attributable to the sold Rail Vehicles business unit, the associated tax expenses as well as effects from the remeasurement at fair value and the net result of disposal after taxes including the associated costs are included here.

The assets and liabilities of the Electrical Systems business unit, which has been classified as discontinued operations, are each reported separately in the balance sheet. The table below shows major classes. On the balance sheet date of the previous year, as a result of the completion of the sales transaction for the Rail Vehicles business unit, all related assets and liabilities had already been derecognized.

€ mill.	12/31/2016	12/31/2015*
Intangible assets (excluding goodwill)	4.9	15.0
Goodwill	26.4	85.9
Property, plant and equipment	30.6	47.9
Sundry non-current assets	3.4	30.4
Non-current assets	**65.3**	**179.2**
Inventories	95.9	181.4
Trade receivables	29.0	41.5
Receivables from construction contracts	28.7	92.8
Sundry current assets	3.7	11.7
Cash and cash equivalents	7.5	57.4
Current assets	**164.8**	**384.8**
Assets	**230.1**	**564.0**
Provisions	32.0	125.3
Trade payables	14.5	58.6
Liabilities from construction contracts	96.6	260.6
Other liabilities	37.4	73.2
Liabilities	**180.5**	**517.7**

* Assets and liabilities in addition to cumulative income and expenses in OCI coming from the former business unit Rail Vehicles disposed of as a result of sale

The comparable figures of the previous year also include the Rail Vehicles division, which was deconsolidated at the end of 2015. The comparable figures of the previous year are therefore not reconcilable to the balance sheet.

€ mill.	12/31/2016	12/31/2015
Income	217.3	455.1
Expenses	(223.4)	(441.7)
Result from operating activities, before tax	**(6.1)**	**13.4**
Income taxes	(4.2)	(5.8)
Result from operating activities net of tax	**(10.3)**	**7.6**
Impairment to goodwill	(7.7)	–
Gain from the disposal of the Rail Vehicles business unit	9.3	56.2
Income tax on the gain from the disposal of the business unit	–	–
Result of discontinued operations	**(8.7)**	**63.8**
thereof attributable to the shareholders of Vossloh AG	(8.7)	63.2
thereof attributable to non-controlling interests	0.0	0.6

(8) Non-controllling interests

The share of the Group's total net income attributable to non-controlling interests includes shares in profit of €7.0 million (previous year: €5.6 million) and shares in losses of €0.2 million (previous year: €0.0 million).

(9) Earnings per share

		2016	2015*
Weighted average number of common shares outstanding	Number	14,769,086	13,325,290
Net income attributable to Vossloh AG shareholders	**€ mill.**	**3.3**	**72.2**
Basic/diluted EpS	**€**	**0.22**	**5.42**
thereof attributable to continuing operations	€	0.81	0.60
thereof attributable to discontinued operations	€	(0.59)	4.82

* Previous year figures presented in a comparable manner, see page 78

Notes to the consolidated statement of cash flows

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

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

The cash outflow for the acquisition of consolidated subsidiaries and other units included inflowing cash and cash equivalents of €3.5 million (previous year: €0.1 million) netted against cash outflows for consideration transferred of €12.4 million (previous year: €6.5 million). Purchase price payments in the amount of €5.6 million related to business acquisitions from the previous year. While no consolidated company was sold in the reporting period, proceeds from the sale of consolidated subsidiaries concluded in the previous year comprised the balance of the cash purchase price of €73.0 million and cash outflows of €38.6 million.

The figures in the statement of cash flows shown on page 69 relate to the entire Group including effects of discontinued operations. The table below divides the subtotals of the statement of cash flows and opening and closing cash and cash equivalents into continuing and discontinued operations.

€ mill.	2016		2015	
Cash flow items	thereof from continuing operations	thereof from discontinued operations	thereof from continuing operations	thereof from discontinued operations
Gross cash flow	85.8	4.9	62.6	9.1
Cash flow from operating activities	93.1	(27.3)	52.9	54.9
Free cash flow	56.0	(30.8)	25.3	40.8
Cash flow from investing activities	(39.7)	(3.5)	40.6	(52.2)
Cash flow from financing activities	59.5	19.8	(73.1)	(3.9)
Opening cash and cash equivalents	60.0	18.8	39.0	19.5
Closing cash and cash equivalents	171.2	7.4	60.0	18.8

Notes to the balance sheet

The balance sheet is broken down into non-current 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 non-current assets or liabilities.

(10) Intangible assets

Breakdown of intangible assets

€ mill.	2016	2015*
Goodwill	229.2	223.2
Development costs	16.0	16.2
Concessions, licenses, property rights	15.1	15.0
Advance payments	0.2	0.3
	260.5	**254.7**

* Previous year figures presented in a comparable manner, see page 78

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

Pursuant to IFRS 3 in conjunction with IAS 36, goodwill from acquisitions (business combinations) is not amortized but is tested annually for impairment as of the balance sheet date or with the occurrence of so-called "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). 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 from the country risks as well as the inflation effects from the regional distribution of sales were derived from both the past financial 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.

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 and plants associated with this growth was also included in the cash flow. As the CGUs' values in use (including assigned goodwill) exceed their book values, no goodwill impairment loss had to be recognized. In the previous year, a sensitivity analysis was required for the Locomotives business unit as the value in use was only €0.5 million above the carrying amount. In the context of the sensitivity analysis, the discount rate was raised and the anticipated cash flows were reduced. An 11 basis point increase in the interest rate and a decrease in cash flows by 1.5 percentage points gave rise to identical values in the carrying amount and value in use.

Goodwill breakdown by reporting segment

€ mill.	2016				2015
	Discount rate (in %)	Sustainable growth rate (in %)	Average sales growth p.a. (in %)	Carrying amount	Carrying amount
Vossloh Switch Systems	10.0	1.5	3.9	179.6	179.6
Vossloh Rail Services	7.2	0.9	7.4	56.8	51.0
Vossloh Locomotives	12.5	0.7	15.8	2.4	2.4
Vossloh Fastening Systems	11.0	1.9	5.5	1.2	1.2
				240.0	**234.2**

In the goodwill of the CGU Vossloh Switch Systems, for purposes of the impairment test €10.8 million (previous year: €11.0 million) of calculated non-controlling interests are included.

Development costs are capitalized 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.

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

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

The amortization of intangible assets in the amount of €5.8 million (previous year: €6.0 million) is included in the income statement in the respective functional expenses.

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

Analysis of changes in intangible assets

€ mill.	2016	2015*	2016	2015*	2016	2015*	2016	2015*	2016	2015*
	Goodwill		Development costs		Concessions, licenses and property rights		Advance payments		Intangible assets	
Net carrying amount at December 31	**229.2**	**223.2**	**16.0**	**16.2**	**15.1**	**15.0**	**0.2**	**0.3**	**260.5**	**254.7**
Cost										
Balance at January 1	**283.4**	**276.5**	**51.4**	**49.3**	**46.2**	**36.9**	**0.3**	**0.7**	**381.3**	**363.4**
First time consolidation	5.8	3.9	0.0	0.0	0.7	5.4	0.0	0.0	6.5	9.3
Additions/ongoing investments	0.0	0.0	3.1	3.9	1.8	1.6	0.1	0.8	5.0	6.3
Disposals	0.0	0.0	(0.3)	(0.5)	0.0	(2.6)	0.0	(0.2)	(0.3)	(3.3)
Transfers	0.0	0.0	0.2	(1.3)	0.1	3.8	(0.2)	(0.9)	0.1	1.6
Currency translation differences	0.2	3.0	0.0	0.0	0.3	1.1	0.0	(0.1)	0.5	4.0
Balance December 31	**289.4**	**283.4**	**54.4**	**51.4**	**49.1**	**46.2**	**0.2**	**0.3**	**393.1**	**381.3**
Accumulated amortization and impairment losses										
Balance at January 1	**60.2**	**60.2**	**35.2**	**32.4**	**31.2**	**27.8**	**0.0**	**0.0**	**126.6**	**120.4**
First time consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of the financial year	0.0	0.0	3.2	3.0	2.6	3.0	0.0	0.0	5.8	6.0
Disposals	0.0	0.0	0.0	(0.1)	0.0	(2.5)	0.0	0.0	0.0	(2.6)
Transfers	0.0	0.0	0.0	(0.1)	0.0	2.6	0.0	0.0	0.0	2.5
Currency translation differences	0.0	0.0	0.0	0.0	0.2	0.3	0.0	0.0	0.2	0.3
Balance December 31	**60.2**	**60.2**	**38.4**	**35.2**	**34.0**	**31.2**	**0.0**	**0.0**	**132.6**	**126.6**

* Previous year figures presented in a comparable manner, see page 78

(11) Property, plant and equipment

Breakdown of property, plant and equipment

€ mill.	2016	2015*
Land, leasehold rights and buildings including buildings on non-owned land	50.8	50.3
Technical equipment and machinery	91.7	102.7
Other equipment, factory and office equipment	16.0	15.5
Advance payments and construction in process	25.9	15.0
	184.4	**183.5**

* Previous year figures presented in a comparable manner, see page 78

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.

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 €2.4 million (previous year: €0.3 million) were recognized. Depreciation expense of €26.6 million is included within the functional expenses in the income statement (previous year: €26.2 million).

Changes in property, plant and equipment

€ mill.	2016	2015*	2016	2015*	2016	2015*	2016	2015*	2016	2015*
	Land, leasehold rights and buildings including buildings on non-owned land		Technical equipment and machinery		Other equipment, factory and office equipment		Advance payments and construction in process		Property, plant and equipment	
Net carrying amount at December 31.	**50.8**	**50.3**	**91.7**	**102.7**	**16.0**	**15.5**	**25.9**	**15.0**	**184.4**	**183.5**
Cost										
Balance at January 1	**93.1**	**81.8**	**275.2**	**254.3**	**44.7**	**43.8**	**15.0**	**27.7**	**428.0**	**407.6**
First time consolidation	0.6	0.0	19.4	2.1	0.8	0.2	0.3	0.0	21.1	2.3
Additions/ongoing investments	5.4	2.6	6.0	7.3	4.2	4.4	14.1	10.4	29.7	24.7
Disposals	(1.4)	0.0	(6.0)	(8.0)	(1.0)	(1.6)	(0.1)	0.0	(8.5)	(9.6)
Transfers	0.4	6.9	2.3	15.8	0.6	(2.7)	(3.4)	(23.3)	(0.1)	(3.3)
Currency translation differences	(0.5)	1.8	(1.0)	3.7	(0.1)	0.6	0.0	0.2	(1.6)	6.3
Balance December 31	**97.6**	**93.1**	**295.9**	**275.2**	**49.2**	**44.7**	**25.9**	**15.0**	**468.6**	**428.0**
Accumulated depreciation and write-downs										
Balance at January 1	**42.8**	**39.6**	**172.5**	**158.6**	**29.2**	**28.7**	**0.0**	**0.0**	**244.5**	**226.9**
First time consolidation	0.2	0.0	15.1	0.0	0.2	0.0	0.0	0.0	15.5	0.0
Depreciation of the financial year	4.3	2.9	19.9	19.2	4.8	4.4	0.0	0.0	29.0	26.5
Disposals	(0.3)	0.0	(2.4)	(7.5)	(0.9)	(1.6)	0.0	0.0	(3.6)	(9.1)
Transfers	0.0	0.0	0.0	0.0	0.0	(2.6)	0.0	0.0	0.0	(2.6)
Currency translation differences	(0.2)	0.3	(0.9)	2.2	(0.1)	0.3	0.0	0.0	(1.2)	2.8
Balance December 31	**46.8**	**42.8**	**204.2**	**172.5**	**33.2**	**29.2**	**0.0**	**0.0**	**284.2**	**244.5**

* Previous year figures presented in a comparable manner, see page 78

(12) Investment properties

Changes in investment properties

€ mill.	2016	2015*
Net carrying amount	**3.6**	**4.5**
Cost		
Balance at January 1	8.6	8.2
Additions	0.0	0.0
Disposals	(0.5)	0.0
Transfers	0.0	0.0
Currency translation differences	(0.2)	0.4
Balance December 31	**7.9**	**8.6**
Accumulated depreciation and write-downs		
Balance at January 1	4.1	3.7
Depreciation of the financial year	0.3	0.3
Disposals	0.0	0.0
Transfers	0.0	0.0
Currency translation differences	(0.1)	0.1
Balance December 31	**4.3**	**4.1**

* Previous year figures presented in a comparable manner, see page 78

Investment properties include land and buildings not used for operations and fully or partly leased to non-group lessees. According to IAS 40, buildings owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years.

In the year under review, a property with a carrying amount of €0.5 million was sold. The resulting gain on disposal was insignificant. Rental income in the period amounted to €1.0 million (previous year: €1.2 million). Expenses (including depreciation, maintenance and repairs and incidentals) incurred for properties leased out totaled €0.5 million (previous year: €0.5 million), those for non-leased properties amounted to €2,000 (previous year: €2,000). As in the prior year, expenses for leased properties include no amounts for write-downs. The fair value of investment properties totals €7.5 million (previous year: €7.7 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.	2016	2015*
Profit or loss from continuing operations	0.7	0.9
Profit or loss from discontinued operations after taxes	0.0	0.0
Total income and expenses recognized directly in equity	1.9	1.5
Comprehensive income	**2.6**	**2.4**

* Previous year figures presented in a comparable manner, see page 78

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 seven foreign companies (previous year: six) upon which significant influence is exercised. In the previous year, shares in one German company were reported, too. As a result of an increase in the shareholding in the reporting year, this company is now fully included in the consolidated financial statements; see page 77.

(14) Other non-current financial instruments

Breakdown of other non-current financial instruments

€ mill.	2016	2015*
Shares in unconsolidated subsidiaries	4.3	6.8
Other investments	0.4	1.5
Loans	2.5	2.6
Securities	0.1	0.2
Derivative financial instruments in a hedging relationship	0.0	0.0
Other non-current financial assets	0.3	0.1
	7.6	**11.2**

* Previous year figures presented in a comparable manner, see page 78

The shares in unconsolidated subsidiaries 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.

Non-current loans not quoted in an active market as well as the other non-current financial assets are initially measured as non-derivative 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.

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

The other financial instruments are measured according to their IAS 39 classification. For the reconciliation of the balance sheet line to the IAS 39 valuation categories, see pages 104 ff., "Additional information on financial instruments".

(15) Sundry non-current assets

This item mostly includes non-current prepaid expenses and deferred charges.

(16) Deferred taxes

In accordance with IAS 12, deferred taxes are recognized for temporary differences between tax bases and IFRS carrying amounts, for tax loss carryforwards, as well as for consolidation transactions recognized in the income statement. Deferred taxes are determined at the rates 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.	2016		2015*	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and property, plant and equipment	2.7	18.3	(2.1)	13.8
Inventories	4.1	(1.9)	5.5	0.0
Receivables	1.7	1.6	1.8	0.5
Other assets	0.0	0.0	0.2	0.2
Pension provisions	7.7	0.0	6.6	0.0
Other provisions	4.1	(0.5)	6.9	0.1
Liabilities	1.2	0.5	1.0	0.9
Other liabilities	3.6	2.9	4.4	3.7
Loss carryforwards	19.9	–	17.8	–
Total	**45.0**	**20.9**	**42.1**	**19.2**
Netting	(16.8)	(16.8)	(16.2)	(16.2)
Balance sheet presentation	**28.2**	**4.1**	**25.9**	**3.0**

* Previous year figures presented in a comparable manner, see page 78

The changes in deferred tax assets and liabilities in the year under review were primarily recognized in profit or loss.

As of December 31, 2016 tax loss carryforwards of €202.5 million (previous year: €165.7 million) existed in Germany for corporate income tax purposes and of €198.2 million for municipal trade tax purposes (previous year: €159.2 million). No deferred taxes were recognized for corporate income tax losses of €182.3 million (previous year: €141.1 million) and trade tax losses of €176.8 million (previous year: €125.5 million). According to current German law, the carryforward of tax losses is not subject to any limitation or expiration. In order to determine the recognizable deferred tax assets on loss carryforwards, the period of detailed planning, which normally covers three years, 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 an additional €31.6 million (previous year: €10.0 million), of which €25.6 million (previous year: €10.0 million) was considered for deferred taxes.

Allowances were recorded in the year under review against deferred tax assets in the amount of €6.3 million (previous year: €3.6 million).

(17) Inventories

Breakdown of inventories

€ mill.	2016	2015*
Raw materials and supplies	119.0	128.0
Work in process	67.2	66.9
Merchandise	9.8	10.6
Finished products	21.0	25.2
Advance payments	1.9	3.4
Total	**218.9**	**234.1**

* Previous year figures presented in a comparable manner, see page 78

Inventories are stated at the lower of cost or net realizable value (NRV). Cost 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. Risks from obsolescence or slow-moving items are appropriately allowed for. In the year under review, allowances of €56.7 million are recognized in the balance sheet (previous year: €58.3 million), which primarily resulted from excessive inventories.

€(0.2) million of this were recognized in profit or loss in the year under review (previous year: €2.1 million). The carrying amount of inventories stated at NRV totaled €33.6 million (previous year: €69.9 million).

As the reasons for previous write-downs no longer existed, inventories were written up in 2016 by €0.2 million (previous year: €1.3 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.	2016	2015*
Balance at January 1	**14.5**	**12.3**
Additions	1.9	4.7
Releases	(1.3)	(1.6)
Utilization	(0.2)	(1.1)
Currency translation differences	(0.1)	0.2
Balance at December 31	**14.8**	**14.5**

* Previous year figures presented in a comparable manner, see page 78

Receivables from construction contracts are calculated based on the "percentage-of-completion" (PoC) 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."

PoC receivables and liabilities

€ mill.	2016		2015*	
	Receivables from construction contracts	Liabilities from construction contracts	Receivables from construction contracts	Liabilities from construction contracts
Contract costs	22.0	19.9	18.4	8.9
Proportional profit	1.1	0.8	1.0	0.0
Proportional losses	(0.9)	(0.2)	(0.6)	0.0
Total progress under construction contracts	22.2	20.5	18.8	8.9
Advance payments received	(2.1)	(21.5)	(1.2)	0.0
Partial billings	(11.6)	(10.4)	(10.5)	(9.3)
Balance sheet presentation	**8.5**	**11.4**	**7.1**	**0.4**

* Previous year figures presented in a comparable manner, see page 78

(19) Income tax assets

These include €0.2 million of income taxes (previous year: €1.6 million) refundable to companies of the Core Components division, €1.9 million (previous year: €4.1 million) to the Customized Modules division, €0.1 million (previous year: €0.0 million) to the companies of the Lifecycle Solutions division, €0.1 million (previous year: €0.0 million) to companies of the Transportation division and €1.6 million (previous year: €1.4 million) to companies at Group level.

(20) Sundry current assets

Breakdown of sundry current assets

€ mill.	2016	2015*
Receivables from reimbursements	6.5	28.8
Other tax receivables (excluding income taxes)	8.5	5.8
Interest receivable	0.0	0.0
Deferred income	2.4	2.6
Receivables from affiliated companies	1.0	3.6
Loans and other financial receivables	6.2	1.8
Security and similar deposits	0.9	1.0
Creditors with debit accounts	0.4	0.5
Derivative financial instruments	0.5	0.3
Receivables from employees	0.3	0.3
Receivables from investees	3.5	5.9
Miscellaneous current assets	4.6	8.3
Sundry current assets	**34.8**	**58.9**

* Previous year figures presented in a comparable manner, see page 78

The receivables shown under sundry 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 investors. 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.	2016	2015*
Balance at January 1	**0.1**	**3.7**
Additions	0.0	0.2
Releases	0.0	(0.1)
Utilization	0.0	(3.7)
Currency translation differences	0.0	0.0
Balance at December 31	**0.1**	**0.1**

* Previous year figures presented in a comparable manner, see page 78

For the reconciliation of financial instruments shown as sundry current assets to the IAS 39 valuation categories, see pages 104 ff., “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 €0.2 million (previous year: €0.1 million) which are classified as held to maturity and hence carried at cost. The remaining securities of €0.3 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 in equity (OCI) without impacting profit or loss. For the reconciliation of short-term securities to the IAS 39 valuation categories, see pages 104 ff., “Additional information of financial instruments”.

(22) Cash and cash equivalents Cash comprises cash on hand and in bank. Cash equivalents comprise any financial instruments with an initial term of 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 71. The most important objectives of financial management are the sustainable increase of enterprise value through positive value added, the safeguarding of liquidity through positive free cash flow, 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 in the amount of €45,325,167.47 (previous year: €37,825,168.86) increased through the capital increase in the reporting year and is divided into 15,967,437 (previous year: 13,325,290) no-par bearer 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 2016 The employee bonus program 2016 (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 €55.61 per share (previous year: €62.09), 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 3,350 shares from both implementation options in the reporting year (previous year: 3,288) at an expense to the Group of k€177.3 (previous year: k€219). 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.

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

(23.4) Accumulated other comprehensive income

Accumulated other comprehensive income in reserves after taxes

€ mill.	Reserve from currency translation	Reserves for hedging transactions (Cash flow hedges)	Reserves from remeasurement of defined benefit plans	Other comprehensive income not including non-controlling interests	Non-controlling interests	Accumulated other comprehensive income
	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**
Remeasurement of defined benefit plans			(2.5)	**(2.5)**	0.0	**(2.5)**
Deconsolidation effects	(0.3)			**(0.3)**		**(0.3)**
Total	**(2.7)**	**2.3**	**(2.1)**	**(2.5)**	**(0.6)**	**(3.1)**
€ mill.	2015					
Reclassification of actuarial gains and losses from defined benefit plans to retained earnings			4.9	**4.9**		**4.9**
Foreign subsidiaries – Currency translation differences –	8.9			**8.9**	0.0	**8.9**
Cash flow hedges		(0.1)		**(0.1)**		**(0.1)**
Remeasurement of defined benefit plans			(0.4)	**(0.4)**		**(0.4)**
Deconsolidation effects		1.1		**1.1**		**1.1**
Total	**8.9**	**1.0**	**4.5**	**14.4**	**0.0**	**14.4**

Accumulated OCI 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 remeasurements from liabilities relating to employee benefits recognized during the reporting year. In the reporting year an expense of €0.5 million was reclassified from the reserves for hedging transactions to the income statement.

(23.5) Non-controlling interests

€13.7 million (previous year: €12.5 million) of non-controlling interests relate to minority shareholders of the Fastening Systems business unit, another €5.9 million (previous year: €4.5 million) relate to the Switch Systems business unit.

(24) Pension provisions

Changes in pension provisions

€ mill.	Present value of benefit obligations	Fair value of plan assets	Total
Balance at 1/1/2015	**32.8**	**(11.1)**	**21.7**
Service cost	0.6		0.6
Net interest expense/(income)	0.8	(0.2)	0.6
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		(0.2)	(0.2)
Gains/losses on changes in demographic assumptions		0.0	0.0
Gains/losses on changes in financial assumptions		0.0	0.0
Experience-related assumptions	0.4	0.0	0.4
Benefits paid	(1.6)	0.5	(1.1)
Other/currency translation differences	0.0	0.1	0.1
Balance at 12/31/2015	**33.0**	**(10.9)**	**22.1**
Service cost	0.6		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	2.9		2.9
Gains/losses on changes in financial assumptions	0.0		0.0
Experience-related assumptions	0.6		0.6
Benefits paid	(1.6)	0.5	(1.1)
Other/currency translation differences	0.0	(0.1)	(0.1)
Balance at 12/31/2016	**36.3**	**(10.9)**	**25.4**

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 (DBO) vary according to the economic situation and are as a rule based on service years, pensionable pay, and position within Vossloh. As these are defined benefit plans, the pension payment obligations must be met by the subsidiaries concerned. In addition, voluntary or statutory defined contribution plans are in place at a number of subsidiaries. These companies are under no obligation to make any pensions-related payments other than their contractual contributions to an outside fund, which totaled €8.5 million in the reporting year (previous year: €9.0 million).

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

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

Assumptions for the calculation of the pension obligations

%	2016	2015
Discount rate	1.75	2.32
Expected increase in pension payments	1.8	1.8
Expected increase in wages and salaries	3.0	3.0
Estimated fluctuation rate	6.0	6.0

The recognized pension provision is derived as follows:

Analysis of the recognized pension provision

€ mill.	2016	2015
Present value of pension commitments covered by plan assets	16.0	15.0
Fair value of plan assets	(10.9)	(10.9)
Provision for pension benefits covered by plan assets	**5.1**	**4.1**
Present value of pension commitments not covered by plan assets	20.3	18.0
Provision for pension benefits not covered by plan assets	**20.3**	**18.0**
Recognized pension provision	**25.4**	**22.1**

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

The actual return on plan assets amounted to 3.6 percent (previous year: 3.7 percent) in the reporting period.

The discount rate is seen as a significant parameter for which a sensitivity analysis was performed due to possible changes. A decrease or increase in the discount rate by 25 basis points would have increased or decreased the DBO and therefore increased the provision by €1.4 million (previous year: €1.3 million) or decreased the provision by €1.3 million (previous year: €1.1 million).

The average duration of the defined benefit pension plans is 14.3 years.

(25) Other provisions

Breakdown of other provisions

€ mill.	2016	2015*
Personnel-related provisions	10.9	9.8
Warranty obligations and follow-up costs	7.7	9.0
Litigation risks and impending losses	0.6	4.9
Sundry provisions	10.5	4.9
Other non-current provisions	**29.7**	**28.6**
Personnel-related provisions	0.4	0.4
Warranty obligations and follow-up costs	24.7	30.4
Litigation risks and impending losses	9.2	7.0
Sundry provisions	32.9	65.2
Other current provisions	**67.2**	**103.0**
	96.9	**131.6**

* Previous year figures presented in a comparable manner, see page 78

All provisions reported as current provisions have maturities of one year or less. All provisions reported as non-current 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 which are identifiable at the balance sheet date, based on past events, and are uncertain in terms of amount or timing. Accruals are recognized at amounts most likely to be utilized. If the effect of discounting is material, non-current provisions are recognized at the present value of the uncertain obligations.

The maximum risk inherent to recorded provisions is €37.8 million above the amount recognized in the balance sheet (previous year: €20.4 million). Additional risks of €10.7 million (previous year: €4.3 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 non-recurring payments required under the law in France planned for non-recurring payments ("Indemnités de fin de carrière") for employees who leave the Company (both in the case of retirement as well as 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 constitute the total of the fair value of the plan assets less the present value of the obligation:

Assumptions for the calculation of provisions for "Indemnités de fin de carrière"

%	2016	2015
Discount rate	1.31	2.03
Expected increase in wages and salaries	1.5	2.0
Estimated fluctuation rate	0 to 10	0 to 10

Analysis of the recognized provisions for "Indemnités de fin de carrière"

€ mill.	2016	2015
Present value of commitments covered by plan assets	6.0	5.5
Fair value of plan assets	(1.1)	(1.2)
Provision for commitments covered by plan assets	**4.9**	**4.3**
Present value of commitments not covered by plan assets	1.5	1.4
Provision for commitments not covered by plan assets	**1.5**	**1.4**
Recognized provision	**6.4**	**5.7**

The following table shows how the present value of the obligation and the plan assets established for financing purposes developed during financial year 2016 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 at 1/1/2015	**6.3**	**(1.2)**	**5.1**
Service cost	0.4		0.4
Net interest expense/(income)	0.1	(0.1)	0.0
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		0.0	0.0
Gains/losses on changes in financial assumptions	0.0		0.0
Experience-related assumptions	0.3		0.3
Benefits paid	(0.2)	0.1	(0.1)
Balance at 12/31/2015	**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 at 12/31/2016	**7.5**	**(1.1)**	**6.4**

The warranty accruals 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, €0.0 million was accrued for impending losses on purchase obligations (previous year: €0.1 million). The other provisions include provisions for risks from company disposals and antitrust investigations. Reimbursements in connection with the latter risks are accounted for under other assets.

Changes in other provisions

€ mill.	Opening balance 1/1/2016*	Utilization	Release	Addition	Interest effects	Currency translation differences	Closing balance 12/31/2016
Personnel-related provisions	10.2	(0.8)	0.0	1.9	0.0	0.0	11.3
Obligations from trade payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Warranty obligations and follow-up costs	39.4	(10.8)	(6.5)	10.4	0.0	(0.1)	32.4
Litigation risks and impending losses	11.9	(2.2)	(3.5)	3.5	0.1	0.0	9.8
Sundry provisions	70.1	(41.9)	(5.7)	20.9	0.1	(0.1)	43.4
Other provisions	**131.6**	**(55.7)**	**(15.7)**	**36.7**	**0.2**	**(0.2)**	**96.9**

* Previous year figures presented in a comparable manner, see page 78

(26) Liabilities

Liabilities according to remaining terms

€ mill.	2016	2015*	2016	2015*	2016	2015*	2016	2015*
Remaining term	≤ 1 year		1–5 years		> 5 years		Total	
Financial liabilities	8.7	25.6	246.9	253.5	0.0	0.0	255.6	279.1
Trade payables	132.1	151.0	0.0	3.2	0.0	0.0	132.1	154.2
Liabilities from construction contracts	11.4	0.4	0.0	0.0	0.0	0.0	11.4	0.4
Income tax liabilities	11.0	12.0	0.0	0.0	0.0	0.0	11.0	12.0
Other liabilities	95.6	102.3	4.2	10.2	0.0	0.0	99.8	112.5
Total	**258.8**	**291.3**	**251.1**	**266.9**	**0.0**	**0.0**	**509.9**	**558.2**

* Previous year figures presented in a comparable manner, see page 78

(26.1) Financial liabilities

Breakdown of financial liabilities

€ mill.	2016	2015*
Other long-term liabilities to banks	246.9	253.5
Non-current finance leasing	0.0	0.0
Non-current financial liabilities	**246.9**	**253.5**
Short-term liabilities to banks	8.1	24.6
Interest payable	0.6	1.0
Current notes payable	0.0	0.0
Current finance leasing	0.0	0.0
Current financial liabilities	**8.7**	**25.6**
Financial liabilities	**255.6**	**279.1**

* Previous year figures presented in a comparable manner, see page 78

Financial debts are principally carried at amortized cost.

In spring 2015, a syndicated loan of €500 million with a term of three years was concluded between Vossloh AG and eleven banks. The loan has two tranches: €200 million are available in the form of a bullet loan, €300 million in the form of a revolving credit line, i.e. a flexibly available credit line. The interest rate is dependent on the amount of specific indicators known as covenants; it is currently 1.25 percent. At the same time, a breach of the thresholds defined in these covenants leads to an early right of cancellation on the part of the lending banks. The covenants are defined as the ratio of net financial debt to EBITDA, the ratio of EBITDA to the net interest result, and the equity ratio. Compliance with the covenants was reviewed every quarter; they were complied with in the entire reporting year as well as in the previous year from the beginning of the reviews.

For the reconciliation of the financial liabilities to the IAS 39 valuation categories, see pages 104 ff., "Additional information on financial instruments".

Covenants exist for two US Group companies in connection with bank credit lines, which as of the balance sheet date were not utilized.

(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) on receivables from construction contracts.

(26.3) Income tax liabilities

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

(26.4) Other liabilities

Breakdown of other liabilities

€ mill.	2016	2015*
Derivative financial instruments from fair value hedges	0.4	0.1
Derivative financial instruments from cash flow hedges	0.5	0.5
Advance payments received	0.0	0.0
Non-current deferred income	0.3	0.7
Personnel-related liabilities	0.4	0.2
Sundry	2.6	8.7
Other non-current liabilities	**4.2**	**10.2**
Advance payments received	26.5	37.2
VAT payable	2.5	4.7
Social security and health insurance contributions	4.1	5.0
Other non-income taxes	3.5	3.9
Liabilities to employees	2.1	2.3
Other liabilities to affiliated companies	1.1	1.1
Commissions	0.1	0.2
Deferred income	0.6	1.5
Derivative financial instruments from fair value hedges	2.1	2.7
Derivative financial instruments from cash flow hedges	0.5	0.0
Personnel-related liabilities	33.6	29.4
Sundry	18.9	14.3
Other current liabilities	**95.6**	**102.3**
	99.8	**112.5**

* Previous year figures presented in a comparable manner, see page 78

Upon initial recognition, financial instruments are stated at their historical fair value (as of the trading date) including direct transaction costs (if any) and thereafter carried at amortized cost unless their measurement at fair value is required. The recognition of gains/losses from the 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 in fair value hedges are recognized in the income statement, as are the changes in value of the hedged underlying transactions. In contrast, the corresponding gains/losses from measuring derivatives in cash flow hedges at fair value are recognized directly in equity (OCI) after considering deferred taxes.

For the reconciliation of other liabilities to the IAS 39 valuation categories, see pages 104 ff., "Additional information on financial instruments".

The prepayments received, shown at €26.5 million (previous year: €37.2 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 encompasses not only the divisions but also separately presents their business units.

The segment structure in the three core business divisions has not changed compared with the previous year. The Fastening Systems business unit is currently the only business unit in the Core Components division, Vossloh Switch Systems is the only business unit in the Customized Modules division, and Vossloh Rail Services is the only business unit in the Lifecycle Solutions division. The Transportation division continues to exist in its current structure and still includes the Locomotives and Electrical Systems business units following the disposal of the former Rail Vehicles business unit. The Electrical Systems business unit is still reported within the segment reporting as discontinued operations.

The Core Components division currently comprises the Fastening Systems business unit. It is a leading provider of rail fastening systems. The product lineup includes fasteners for every application from light-rail, to heavy-haul and high-speed lines. In future, Vossloh Tie Technologies will be reported as a further business unit within this division. For the acquisition of this business unit see page 31.

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 (turnouts, crossings, etc.), as well as with the related control and monitoring systems which it also installs and maintains. Here, too, the lineup extends from light-rail to high-speed lines.

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 as well as the Electrical Systems business unit, which has been classified as discontinued operations.

In the Locomotives business unit, diesel locomotives have been developed and produced for almost 100 years, setting benchmarks in terms of technological standards, efficiency, flexibility and environmental friendliness. This business unit also offers extensive services, particularly for the maintenance and repair of locomotives.

Vossloh Electrical Systems develops and produces key electrical components and systems for public transport vehicles and locomotives. The business unit is one of the leading suppliers of electrical equipment both for trolleybuses and hybrid buses. Besides 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. Inter-segment business is transacted at normal market conditions.

Segment financial information is presented for each division and business unit on pages 72 f.

The major non-cash 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 (VA) as a key performance indicator. In this connection, a weighted average cost of capital (WACC) of 9.0 percent was used in financial year 2016, while in the preceding year the value used was 10.0 percent.

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

Reconciliation of value added to EBIT

€ mill.	2016	2015*
Value added	(13.8)	(31.1)
Cost of capital applied to the capital required for business operations (WACC: current year 9 percent, previous year: 10 percent)	63.8	73.4
EBIT	**50.0**	**42.3**

* Previous year figures presented in a comparable manner, see page 78

Segment information by region is provided for non-current 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 32 of the combined management report.

Segment information by region

€ mill.	2016	2015*	2016	2015*
	External sales revenues		Non-current assets	
Germany	129.8	159.2	181.1	182.0
France	158.4	128.4	170.6	165.6
Other Western Europe	65.6	65.9	30.2	31.8
Northern Europe	118.6	106.7	19.2	20.0
Southern Europe	59.8	52.1	5.8	8.2
Eastern Europe	32.9	60.0	5.7	5.5
Total Europe	**565.1**	**572.3**	**412.6**	**413.1**
Americas	105.8	172.9	78.2	69.9
Asia	190.6	145.5	22.9	23.0
Africa	44.0	30.0	0.0	0.0
Australia	22.3	22.5	9.0	10.0
Total	**927.8**	**943.2**	**522.7**	**516.0**

* Previous year figures presented in a comparable manner, see page 78

Additional information on financial instruments

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

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

Non-derivative financial instruments

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

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

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

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

Available-for-sale financial assets are also remeasured and carried at fair value if their fair value is reliably determinable. The resulting gains/losses are recognized in equity (OCI) without profit-or-loss effect and 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 fair value hedges. 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 (so-called executory contracts), changes in the derivative's fair value are recognized in equity (OCI) without profit-or-loss effect and after allowing for deferred taxes. Upon completion or recognition of the underlying transactions, the associated gains/losses previously accumulated in OCI are either recycled to the income statement or offset against the cost of purchased assets.

The nominal volume of the hedged foreign currencies is divided as follows:

€ mill.	Currency	2016	2015
USA	USD	146.3	121.3
Great Britain	GBP	9.0	44.6
Australia	AUD	2.8	3.0
Brazil	BRL	1.2	–
Poland	PLN	–	3.8
Sweden	SEK	0.1	3.3
China	CNY	–	2.0
Others	Others	2.5	1.7
		161.9	**179.7**

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			Market value	Nominal value	Market value	Nominal value
€ mill.			2016	2016	2015	2015
Interest rate swap	Maturity	≤ 1 year	–	–	–	–
		≤ 5 years	(0.5)	50.0	(0.5)	50.0
		> 5 years	–	–	–	–
			(0.5)	**50.0**	**(0.5)**	**50.0**
Currency forwards	Maturity	≤ 1 year	(2.6)	161.9	(2.4)	142.5
		≤ 5 years	0.0	0.0	(0.1)	37.1
		> 5 years	–	–	–	–
			(2.6)	**161.9**	**(2.5)**	**179.6**
Total			**(3.1)**	**211.9**	**(3.0)**	**229.6**

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

The 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, 2016

€ mill.	Carrying amount at 12/31/2016	Measurement according to IAS 39			Fair values 12/31/2016
		(Amortized) cost	Fair value through OCI	Fair value through profit or loss	
Trade receivables	**177.0**				
Loans and receivables	177.0	177.0			177.0
Receivables from construction contracts	**8.5**				
Loans and receivables	8.5	8.5			8.5
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 sundry assets	**45.8**				
Loans and receivables	21.5	21.5			21.5
Held to maturity	0.0		0.0		0.0
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)	0.5	0.0	0.3	0.2	0.5
IAS 39 not applicable	23.2				–
Cash and cash equivalents	**171.2**				
Loans and receivables	171.2	171.2			171.2
Total financial assets	**403.0**	**378.9**	**0.7**	**0.2**	**379.8**
Financial liabilities	**255.6**				
Loans and receivables	255.6	255.6			255.6
Finance leases (IAS 39 not applicable)	0.0				–
Trade payables	**132.1**				
Loans and receivables	132.1	132.1			132.1
Liabilities from construction contracts	**11.4**				
Loans and receivables	11.4	11.4			11.4
Other liabilities	**99.8**				
Loans and receivables	56.2	56.2			56.2
Derivatives in hedging relationships (not a category according to IAS 39.9)	3.6		1.1	2.5	3.6
IAS 39 not applicable	40.0				–
Total financial liabilities	**498.9**	**455.3**	**1.1**	**2.5**	**458.9**

Summary of measurement categories of IAS 39

€ mill.	Carrying amount at 12/31/2016	Measurement according to IAS 39			Fair values 12/31/2016
		(Amortzied) cost	Fair value through OCI	Fair value through profit or loss	
Financial assets					
Loans and receivables	378.2	378.2			378.2
Held to maturity	0.1	0.1			0.1
Held for trading	0.0			0.0	0.0
Available for sale	1.0	0.6	0.4		1.0
Total financial assets	**379.3**	**378.9**	**0.4**	**0.0**	**379.3**
Financial liabilities					
Measurement at amortized cost	455.3	455.3	–	–	455.3
Total financial liabilities	**455.3**	**455.3**	**–**	**–**	**455.3**

Carrying amount, measurement categories and fair values as of December 31, 2015*

€ mill.	Carrying amount at 12/31/2015*	Measurement according to IAS 39			Fair values 12/31/2015*
		(Amortized) cost	Fair value through OCI	Fair value through profit or loss	
Trade receivables	**220.8**				
Loans and receivables	220.8	220.8			220.8
Receivables from construction contracts	**7.1**				
Loans and receivables	7.1	7.1			7.1
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 sundry assets	**73.2**				
Loans and receivables	44.8	44.8			44.8
Held to maturity	0.0		0.0		0.0
Held for trading	0.0			0.0	0.0
Available for sale	1.6	1.3	0.3	0.0	1.6
Derivatives in hedging relationships (not a category according to IAS 39.9)	0.4	0.0	0.0	0.4	0.4
IAS 39 not applicable	26.4				–
Cash and cash equivalents	**60.0**				
Loans and receivables	60.0	60.0			60.0
Total financial assets	**361.6**	**334.1**	**0.7**	**0.4**	**335.2**
Financial liabilities	**279.1**				
Loans and receivables	279.1	279.1			279.1
Finance leases (IAS 39 not applicable)	0.0				0.0
Trade payables	**154.2**				
Loans and receivables	154.2	154.2			154.2
Liabilities from construction contracts	**0.4**				
Loans and receivables	0.4	0.4			0.4
Other liabilities	**112.5**				
Loans and receivables	79.2	79.2			79.2
Derivatives in hedging relationships (not a category according to IAS 39.9)	3.3		0.5	2.8	3.3
IAS 39 not applicable	30.0				–
Total financial liabilities	**546.2**	**512.9**	**0.5**	**2.8**	**516.2**

* Previous year figures presented in a comparable manner, see page 78

Summary of measurement categories of IAS 39

€ mill.	Carrying amount at 12/31/2015*	Measurement according to IAS 39			Fair values 12/31/2015*
		(Amortized) cost	Fair value through OCI	Fair value through profit or loss	
Financial assets					
Loans and receivables	332.7	332.7	0.0		332.7
Held to maturity	0.1	0.1	0.0		0.1
Held for trading	0.0				0.0
Available for sale	2.0	1.3	0.7	0.0	2.0
Total financial assets	**334.8**	**334.1**	**0.7**	**0.0**	**334.8**
Financial liabilities					
Measurement at amortized cost	512.9	512.9	–	–	512.9
Total financial liabilities	**512.9**	**512.9**	**–**	**–**	**512.9**

* Previous year figures presented in a comparable manner, see page 78

There was no reclassification between the measurement 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 terms. Their carrying amounts therefore approximately correspond to the fair value. The fair value of non-current 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 payables 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 the levels of the fair value hierarchy

	Determined based on market prices (Level 1)		Derived from market values (Level 2)		Measurement not based on market values (Level 3)	
€ mill.	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Financial assets measured at fair value						
Held to maturity	0.0	0.0		0.0		
Available for sale			0.4	0.7		
Derivatives in a hedging relationship			0.5	0.4		
Total	**0.0**	**0.0**	**0.9**	**1.1**	**0.0**	**0.0**
Financial liabilities measured at fair value						
Derivatives in a hedging relationship			3.6	3.3		
Total	**0.0**	**0.0**	**3.6**	**3.3**	**0.0**	**0.0**

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

The 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.	2016	2015
Financial assets		
Recognized gross amounts of the financial assets	0.5	2.7
Financial instruments that qualify for offsetting	0.0	0.0
Net balance sheet figures of financial assets	**0.5**	**2.7**
Offsettable on the basis of framework agreements	(0.5)	(0.7)
Total net value of financial assets	**0.0**	**2.0**
Financial liabilities		
Recognized gross amounts of the financial liabilities	(3.5)	(5.7)
Financial instruments that qualify for offsetting	0.0	0.0
Net balance sheet figures of financial liabilities	**(3.5)**	**(5.7)**
Offsettable on the basis of framework agreements	0.5	0.7
Total net value of financial liabilities	**(3.0)**	**(5.0)**

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	Held to maturity	Held for trading	Available for sale	2016	2015*
Net gains/(losses) from:						
Interest	(5.7)	0.0	0.0	0.1	(5.6)	(9.3)
Remeasurement						
from allowances	(0.4)	0.2	(0.5)	0.3	(0.4)	0.3
from currency translation differences	(1.8)	–	–	–	(1.8)	(3.7)
at fair value	–	–	3.5	–	3.5	0.5
Disposals	0.0	–	–	0.1	0.1	1.7
Total	**(7.9)**	**0.2**	**3.0**	**0.5**	**(4.2)**	**(10.5)**

* Previous year figures presented in a comparable manner, see page 78

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). Interest on loans and receivables comprises interest expenses in the amount of €5.9 million for financial liabilities, which are recognized at amortized cost, as well as €0.2 million in interest income for financial receivables. Gains from the remeasurement to fair value of securities held for trading and the write-down of financial instruments available for sale are included in the above table and recognized within the other financial results. Remeasurements to fair value for available-for-sale financial assets were recognized in the year under review in the amount of €0.0 million (previous year: €0.0 million) in OCI.

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., 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 €171.7 million were at the Group's disposal, besides additional, unutilized credit facilities of €392.0 million to satisfy any future cash requirements. €299.9 million were related to free credit lines of Vossloh AG under the syndicated loan. The free credit lines of the subsidiaries, in the amount of €92.1 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 as of 12/31/2016

	Up to 1 year				1 to 5 years			
€ mill.	2016		2015		2016		2015	
	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest
Non-derivative financial liabilities	(8.7)	(4.8)	(25.6)	(4.9)	(246.9)	(2.4)	(253.5)	(6.3)
Derivative financial liabilities	(2.6)		(2.7)		(0.9)		(0.5)	
Derivative financial assets	0.5		0.3					

Currency risks

Currency risks arise from recognized non-euro 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 non-euro currency, as well as from pending or uncompleted trade and purchasing transactions. Vossloh has issued binding instructions to centrally hedge against currency risks groupwide through Treasury Management by using currency forwards at matching maturities and amounts as micro hedges of the associated underlying transactions. The fixed exchange rates for the hedged underlying transactions counter any unfavorable rate effects on cost estimates and assets.

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 the glossary for these terms, page 123).

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 pages 104 ff.

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 one percentage point (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. A market interest rate

that is higher by 100 percentage points applied to the financial liabilities identified with variable rates as of December 31, 2016 would have increased the financial expense by €2.1 million. A market interest rate that was lower by 100 points would have reduced the net financial result by €0.1 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

€ mill.	2016	Equity + 10 %	Equity – 10 %	2015	Equity + 10 %	Equity – 10 %
USD	146.3	(5.7)	7.0	121.3	0	0

Credit risks

Credit risks are defined as the risk that counterparties fail to meet their financial obligations. The credit risk attaching to the cash and cash equivalents invested by Vossloh with banks and the short-term securities held by subsidiaries, as well as to hedging instruments contracted with banks, is minimized by selecting counterparties of prime standing only. As part of business operations, trade and other receivables are exposed to a certain default risk.

These credit risks are monitored by the risk management system and minimized by taking out credit insurance (for example Euler Hermes). Specific collection risks are taken into account through adequate allowances.

The balance of gross receivables (receivables before allowances or write-down) breaks down as follows in terms of operational credit risks:

Balance of gross current receivables

€ mill.	Receivables neither past due nor impaired	Receivables past due but not impaired	Impaired receivables	Gross balance of receivables
Trade receivables				
2016	119.3	61.0	13.9	194.2
2015	164.8	59.4	13.6	237.8
Others				
2016	32.4	2.4	0.1	34.9
2015	58.4	0.7	0.0	59.1

The analysis below breaks down the receivables past due but not impaired:

Receivables not impaired but past due

€ mill.	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	>12 months	Total
Trade receivables						
2016	18.4	15.9	14.8	7.0	4.9	**61.0**
2015	21.6	12.1	8.9	8.0	8.8	**59.4**
Others						
2016	0.3	1.0	0.1	0.2	0.8	**2.4**
2015	0.0	0.2	0.1	0.0	0.4	**0.7**

No specific default risk arises from past due receivables since, given Vossloh's customer structure, 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 loss on default from all financial assets corresponds to their carrying amount (see the analysis on page 106).

Other disclosures

Contingent liabilities

Contingent liabilities decreased significantly from December 31, 2015 by €166.3 million to €29.1 million. €12.7 million was attributable to total contingent liabilities for the sold Rail Vehicles business unit with effect from December 31, 2015. 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 €13.4 million (including €11.7 million in favor of unconsolidated subsidiaries), of €12.7 million for letters of comfort and of €3.0 million for the collateralization of third-party debts (including €1.3 million allocable to unconsolidated subsidiaries). The risk of an enforcement of any of these contingent liabilities is not considered likely.

Other financial obligations

Commitments for the acquisition of property, plant and equipment and intangible assets totaled €8.4 million (previous year: €8.5 million).

The minimum undiscounted future payments under operating and similar leases and under rental agreements respectively amounted to €108.9 million (previous year: €119.6 million). Commitments under operating leases fall due as follows:

Financial commitments under operating leases

€ mill.	2016	2015
Due up to 1 year	11.5	11.0
Due in 1 to 5 years	27.8	29.7
Due in more than 5 years	10.1	13.2
	49.4	**53.9**

Financial commitments under rental agreements

€ mill.	2016	2015
Due up to 1 year	11.3	11.1
Due in 1 to 5 years	23.4	30.3
Due in more than 5 years	24.8	24.3
	59.5	**65.7**

The obligations under operating leases have been incurred primarily for factory, business and office equipment. The following payments were recognized in expense:

Lease payments recognized in expense

€ mill.	2016	2015
Expense of minimum lease payments	10.0	10.0
Expense of contingent rental payments	0.9	0.0
Income from subleases	10.5	12.7

Future minimum payments of €31.2 million are expected under non-cancelable subleases (previous year: €32.1 million).

Significant Group companies with shareholders that have a non-controlling interest are
1. Vossloh Fastening Systems China Co. Ltd., Kunshan, China
2. Vossloh Cogifer Kihn SA, Rumelange, Luxembourg and
3. Vossloh Beekay Castings Ltd., Bhilai, India

Information on companies with significant non-controlling interest

Re 1.: 32 percent of the shares of capital of this company are held by shareholders with a non-controlling interest. In financial year 2016, €6.7 million (previous year: €5.3 million) of the company's net income was attributable to these shareholders. As of December 31, 2016, the share of equity attributable to shareholders with a non-controlling interest was €13.7 million (previous year: €12.5 million).

Significant financial information for Vossloh Fastening Systems China Co. Ltd., Kunshan, China

€ mill.	2016	2015
Non-current assets	16.2	18.5
Current assets	66.2	74.1
Non-current liabilities	2.7	5.3
Current liabilities	36.9	48.4
Sales revenues	96.8	97.3
Net income after taxes	21.0	16.7
Comprehensive income	19.1	16.1
Cash flow	11.9	(8.4)
Dividends to shareholders	15.4	19.6

Re 2.: 10.79 percent of the shares of capital of this company are held by shareholders with a non-controlling interest. During the reporting year, €0.2 million (previous year: €0.1 million) of the company's net income was attributable to these shareholders. As of December 31, 2016, the share of equity attributable to shareholders with a non-controlling interest was €1.7 million (previous year: €1.5 million).

Significant financial information for Vossloh Cogifer Kihn, SA, Rumelange, Luxembourg

€ mill.	2016	2015
Non-current assets	20.0	19.8
Current assets	14.7	13.8
Non-current liabilities	0.8	0.9
Current liabilities	18.2	18.9
Sales revenues	27.9	24.4
Net income after taxes	2.0	0.5
Comprehensive income	2.0	0.5
Cash flow	(0.3)	(0.4)
Dividends to shareholders	0.0	0.0

Re 3.: 41.52 percent of the shares of capital of this company are held by shareholders with a non-controlling interest. During the reporting year, €(0.1) million (previous year: €0.0 million) of the company's net income was attributable to these shareholders. As of December 31, 2016, the share of equity attributable to shareholders with a non-controlling interest was €2.9 million (previous year: €2.8 million).

Significant financial information for Vossloh Beekay Castings Ltd., Bhilai, India

€ mill.	2016	2015
Non-current assets	2.9	3.3
Current assets	6.3	6.0
Non-current liabilities	0.2	0.2
Current liabilities	2.1	2.1
Sales revenues	5.3	7.9
Net income after taxes	(0.2)	0.1
Comprehensive income	(0.2)	0.6
Cash flow	(0.1)	0.0
Dividends to shareholders	0.0	0.3

Where shareholders of other Group companies hold non-controlling interests, these interests are insignificant both individually and cumulatively. Existing joint ventures and investments accounted for at equity are also insignificant in the view of the Group.

Related party transactions

Vossloh AG as the ultimate controlling parent is at the helm of the Vossloh Group. The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated subsidiaries, joint ventures and associated companies. 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 116 f.

Individuals among the Vossloh Group's related parties are the members of the executive and Supervisory Boards and certain other senior management staff.

The Chairman of the Supervisory Board indirectly controls the Knorr-Bremse Group. These companies are accordingly to be treated as related parties. Resulting from transactions with the Knorr-Bremse Group in the financial year were material purchases in the amount of €5.2 million (previous year: €4.5 million), sales in the amount of €0.0 million (previous year: €0.0 million) as well as open receivables and advance payments as of December 31, 2016 in the amount of €0.0 million (previous year: €0.0 million) and trade payables of €0.8 million (previous year: €0.6 million).

The table below breaks down the period's transactions with related parties (entities/individuals), conducted almost exclusively with unconsolidated subsidiaries and reflected in segment reporting as intragroup transfers (internal sales revenues) and in the consolidated balance sheet as inter-company receivables/payables due from or to unconsolidated subsidiaries (within other current assets or liabilities, as applicable). The volume of transactions with related individuals was negligible.

€ mill.	2016	2015*
Sale or purchase of goods		
Sales revenues from the sale of finished goods or WIP	10.7	13.9
Cost of materials from the purchase of finished goods or WIP	13.1	13.4
Trade receivables	6.6	6.9
Trade payables	3.1	2.8
Sale or purchase of other assets		
Receivables from the sale of other assets	0.1	0.0
Payables for the purchase of other assets	1.1	0.9
Services rendered or received		
Income from services rendered	0.6	4.2
Expenses for services received	1.9	2.2
Leasing arrangements		
Income from operating leases	0.0	0.0
Expenses on operating leases	0.0	0.0
Transfers of services in research and development		
Income from the transfer of research and development services	0.0	0.6
Licenses		
License income	0.0	0.0
License expenses	1.1	0.6
Financing		
Income from the provision of guarantees	0.0	1.6
Interest income from financial loans granted	0.0	0.3
Interest expense from financial loans	0.0	0.0
Receivables on financial loans granted	3.4	7.1
Provision of guarantees and collateral		
Provision of guarantees	9.0	7.1
Provision of other collateral	1.3	1.3

* Previous year figures presented in a comparable manner, see page 78

Supervisory Board members will receive short-term benefits of k€410.0 for the reporting period (previous year: k€393.3). In financial year 2016 a consulting contract was concluded with Mr. Ursus Zinsli, from which he received €44,000 in the financial year. For an itemized breakdown by member of this total, and further details of the remuneration system, see the Board Compensation Report (an integral part of the Vossloh Group's combined management report).

Executive Board remuneration

€ mill.	2016	2015
Short-term total remuneration paid	3.9	3.8
Post-employment benefits	0.2	0.4

In the year under review, former Executive Board members received benefits in the form of pension payments totaling k€1,105.2 (previous year: k€1,082.4). Pension obligations to former Executive and Management Board members and their surviving dependents amount to €18.8 million (previous year: €19.1 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 expense:

Auditor fees

€ mill.	2016	2015
Statutory audits	1.1	1.2
Other certification/verification services	0.6	0.2
Tax advisory services	0.0	0.0
Other services	0.0	0.0
	1.7	**1.4**

In financial year 2016, the group auditor's fees include €0.5 million for statutory audits (previous year: €0.4 million), €0.5 million for other attestation services (previous year: €0.2 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's and its German subsidiaries' financial statements. 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 non-German KPMG firms but invoiced through KPMG AG. The fees for other attestation services in the year under review mainly related to consultancy in connection with the capital increase, various transactions and for quarterly report reviews. In the previous year, fees for other attestation services were incurred for consulting on 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 December 2016 the Executive and Supervisory Boards issued, and made permanently available to the stockholders on Vossloh's website, the declaration of conformity pursuant to Sec. 161 AktG.

Group companies and investees

Pursuant to Sec. 313 (2) HGB, details of the Group's shareholdings are listed below:

List of shareholdings

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

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

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

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

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

[4] Included in the consolidation for the first time

[5] Differing financial year April 1 to March 31

Vossloh AG's Executive Board

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

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

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

Supervisory Board of Vossloh AG

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

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

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

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

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

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

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

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

Proposed profit appropriation

In accordance with German GAAP, Vossloh AG's separate financial statements show a net loss of €(4,884,780.30) and, after including the profit carrryforward of €123,466,395.60, net profit retained of €118,581,615.30).

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

Werdohl, February 24, 2017

Vossloh AG
The Executive Board

Responsibility statement

We represent that, to the best of our knowledge and in accordance with applicable accounting principles, the consolidated financial statements present a true and fair view of the Vossloh Group's net assets, financial position and results of operations, and the 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, February 24, 2017

Vossloh AG
The Executive Board

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

Independent auditor's report

We have audited the consolidated financial statements prepared by Vossloh AG, Werdohl, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the consolidated financial statements, together with the report on the situation of the Company and the Group (combined group management report) for the financial year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the combined group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code [HGB] are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the combined group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined group management report is consistent with the consolidated financial statements, complies with legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 28, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

Financial calendar 2017/2018

Financial calendar 2017

Annual General Meeting	May 24, 2017
Publication of interim reports/interim notes	
as of March 31	April 27, 2017
as of June 30	July 26, 2017
as of September 30	October 25, 2017

For further dates, go to www.vossloh.com

Financial calendar 2018

Publication of 2017 financial data	March 2018
Press conference	March 2018
Investors and analysts conference	March 2018
Annual General Meeting	May 2018

Investor relations

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Information on the Vossloh share

ISIN	DE0007667107
Trading platforms	Xetra, Düsseldorf, Frankfurt, Berlin-Bremen, Hannover, Hamburg, Stuttgart, Munich
Index	SDAX
Shares outstanding as of 12/31/2016	15,967,437
Annual average number of shares outstanding	14,769,086
Share price (12/31/2016)	€59.61
2016 high/low	€60.53/ €45.24
Reuters code	VOSG.DE
Bloomberg code	VOS GR
Dividend proposed	€0.00

Disclaimer: This annual report contains forward-looking statements based on estimates of future trends on the part of the Executive Board. The statements and forecasts represent an assessment based on all information presently available. If the assumptions underlying such statements and forecasts fail to materialize, actual results may differ from current expectations. Trademarks: All trademarks or product names mentioned in this annual report are the property of their respective owners. This applies in particular to DAX, MDAX, SDAX, TecDAX and Xetra, which are registered trademarks and the property of Deutsche Börse AG.

Glossary

Capital employed	Working capital plus fixed assets
Cash pooling	Balance transfer procedure for pooling liquidity
Derivative financial instruments	Contracts whose fair values are derived from basis values (e.g. stocks or currencies)
EBT	Earnings before taxes
EBIT	Earnings before interest and taxes
EBIT margin	EBIT/sales
Employee stock participation program	Program for granting shares to employees free of charge or at reduced prices
Equity ratio	Equity/balance sheet total
Financial liabilities	Bonded loans, bank debts, notes payable and liabilities from finance leases
Guarantee	Assumption of guarantees and surety bonds
IAS/IFRS	International Accounting Standards/ International Financial Reporting Standards
Interest rate cap	Option contract for an interest rate ceiling to hedge against rising rates
Interest rate swap	Contract for swapping variable and fixed interest payments based on underlying principal
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
Payroll per capita	Personnel expenses/annual average headcount
Return on capital	See Return on capital employed
Return on capital employed	EBIT/average capital employed
Treasury	Finance management
Value added	EBIT - 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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Ten-year overview of the Vossloh Group

		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Income statement data											
Sales revenues	€ mill.	931.6	952.9	1,100.8	1,300.7	1,243.0	1,197.2	1,351.3	1,173.7	1,212.7	1,232.1
EBIT	€ mill.	50.0	42.3	(183.4)	52.7	97.5	97.2	152.1	137.9	137.7	121.5
Net interest result	€ mill.	(9.4)	(11.1)	(24.2)	(21.4)	(21.4)	(12.3)	(11.7)	(9.4)	(9.3)	(12.3)
EBT	€ mill.	40.6	31.2	(207.6)	31.3	76.1	84.9	140.4	128.5	128.4	109.2
Net income	€ mill.	10.1	77.8	(205.7)	23.6	64.8	60.5	111.1	96.7	146.2	74.1
Earnings per share	€	0.22	5.42	(16.46)	1.25	4.94	4.32	7.32	6.57	9.48	4.83
Return on capital employed[1]	%	7.1	5.8	(21.7)	5.9	11.5	12.0	17.2	20.5	18.8	14.9
Value added	€ mill.	(13.8)	(31.1)	(267.8)	(22.8)	13.0	16.1	54.8	63.7		
Balance sheet data											
Non-current assets	€ mill.	490.8	486.7	548.8	714.5	662.7	625.6	590.7	458.2	431.4	503.4
Capital expenditures[2]	€ mill.	37.8	34.2	50.7	64.4	61.1	65.6	57.9	41.9	37.6	52.6
Depreciation/ amortization[2]	€ mill.	35.6	35.7	123.2	40.7	41.4	38.2	39.5	24.6	22.8	29.2
Closing working capital[3]	€ mill.	186.8	213.8	226.5	94.5	166.0	200.3	258.0	245.1	300.7	312.8
Closing capital employed	€ mill.	677.6	700.5	775.3	809.0	828.7	825.9	848.6	703.2	732.1	816.2
Equity	€ mill.	550.8	428.7	349.6	481.1	505.7	480.1	580.0	492.6	492.7	434.0
thereof: Non-controlling interests	€ mill.	18.0	17.0	19.7	18.6	15.9	14.0	27.9	20.4	16.9	12.1
Net financial debt[4]	€ mill.	83.9	218.6	283.0	204.1	200.8	238.8	136.6	70.2	(35.0)	124.9
Total assets	€ mill.	1,367.6	1,389.9	1,604.4	1,562.4	1,500.0	1,495.9	1,405.8	1,338.4	1,339.4	1,326.8
Equity ratio	%	40.3	30.8	21.8	30.8	33.7	32.3	41.3	36.8	36.8	32.7
Cash flow statement data											
Cash flow from operating activities	€ mill.	65.8	107.8	(42.2)	130.5	162.6	138.5	139.1	44.9	133.8	80.2
Cash flow from investing activities	€ mill.	(43.2)	(11.6)	(58.3)	(75.4)	(72.9)	(90.6)	(151.1)	(52.3)	116.8	(123.6)
Cash flow from financing activities	€ mill.	79.3	(77.0)	103.7	(63.1)	(109.9)	(47.3)	(71.8)	(84.1)	(77.0)	(25.7)
Net cash inflow/outflow	€ mill.	101.9	19.2	3.2	(8.0)	(20.2)	0.6	(83.8)	(91.5)	173.6	(69.1)
Employees											
Annual average headcount	No	4,076	4,069	4,883	5,247	5,078	5,000	4,984	4,717	4,631	5,493
thereof: Germany	No	1,223	1,244	1,853	1,759	1,756	1,747	1,667	1,312	1,243	1,183
Abroad	No	2,853	2,.825	3,030	3,487	3,322	3,253	3,317	3,405	3,388	4,310
Personnel expenses	€ mill.	225.4	218.1	283.0	284.0	271.0	259.0	249.5	229.6	223.2	268.9
Personnel expenses per capita	k€	55.2	53.6	58.0	54.1	53.4	51.8	50.1	48.7	48.2	49.0

Ten-year overview of Vossloh AG

		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Capital stock	€ mill.	45.3	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8
Dividends per share	€	0.00[5]	0.00	0.00	0.50	2.00	2.50	2.50	2.00	2.00+1.00	1.70
Share price at December 31	€	59.61	57.74[6]	53.50	72.50	74.47	74.07	95.50	69.52	79.49	80.10
Market capitalization at December 31	€ mill.	951.8	793.1	712.9	870.3	893.5	888.3	1,272.6	926.0	1,104.0	1,185.1

*2016 and 2015 Rail Vehicles and Electrical Systems business units reported under discontinued operations; 2014 and earlier years reported as previously

[1] From 2009, based on average capital employed

[2] Excluding non-current financial instruments; scheduled amortization/depreciation plus impairment losses and reversals

[3] From 2009, the other current provisions, being non-interest, are also deducted

[4] In brackets: net financial assets

[5] Subject to the approval of the Annual General Meeting

[6] Share priced adjusted as a result of the capital increase carried out in 2016

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