Transforming Vossloh

Separate financial statements of Vossloh AG
as of December 31, 2014

Combined management report

Business and market environment

Strategy, segmentation, and competitive position

Vossloh is a global player in rail technology markets. The Group is currently in a phase of repositioning and longer-term restructuring. Until December 31, 2014 Vossloh operated on the basis of its previous structure. As this Annual Report reflects the operating activities of 2014, it follows the structure of the "old Vossloh" for the two divisions, Rail Infrastructure and Transportation. In some places the information on 2014 is supplemented with information on the "new Vossloh".

On January 1, 2015 Vossloh restructured its operating activities. The focus of activities is on products and services for rail infrastructure. These are provided by three divisions – Core Components, Customized Modules and Lifecycle Solutions. The activities of the former Vossloh Fastening Systems business unit will make up the initial nucleus of the new Core Components division. The new division Customized Modules will be grouped around the existing Switch Systems business unit. The new Lifecycle Solutions division has been formed around the previous Rail Services business unit. The fourth division, Transportation, which is no longer part of the core business, will continue to bundle activities related to locomotives, light rail vehicles and electrical components, for example for rolling stock and trolley buses. The three new rail infrastructure core divisions will be managed and controlled in accordance with the basic principles of their business models, i.e. by product, project and service orientation. All divisions will work together closely and will appear externally as a uniform and coordinated "One Vossloh".

The operating activities in the Group will continue under the umbrella of Vossloh AG. This ceased functioning as a pure management and financial holding in mid-2014 and instead, as an integral top management level, now has direct operational influence on the divisions. Close personal interaction between Vossloh AG's Executive Board and the management of the operating units has taken place and Vossloh AG has since coordinated, managed and controlled the divisions and business units closely.

The Rail Infrastructure division, which existed until December 31, 2014, offered products and services for rail traffic. It had three business units:

International leader in selected rail infrastructure product areas

- Vossloh Fastening Systems is a leading supplier of rail fastening systems. It produces and distributes rail fasteners for all types of transport, from light-rail via heavy-haul to high-speed.
- Vossloh Switch Systems supplies, installs and services switches and turnouts as well as control and monitoring systems for rail networks. Here, too, the range reaches from light-rail to high-speed lines.
- Vossloh Rail Services supplies all types of services having to do with the rails themselves, including welding, transport, maintenance, preventive care, and reconditioning.

The Transportation division that continued to exist after December 31, 2014 covers the company's operations related to rail vehicles and vehicle systems/components including associated services. In financial 2014 it was decided that for the Kiel location, activities will focus exclusively on business with standardized industrial and shunting locomotives. Project business will in the future only be represented in Valencia. As a result, reporting will be further differentiated. The current Transportation Systems business unit is divided into the two business units Locomotives (Kiel location) and Rail Vehicles (Valencia location). Thus, together with Vossloh Electrical Systems, three business units form the Transportation division. The activities of Vossloh Locomotives and Vossloh Rail Vehicles were previously combined in the Transportation Systems division.

Diesel locomotives, light rail vehicles, electrical systems and key components

- 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. In addition, a wide range of services, in particular for the maintenance and repair of locomotives are also offered.
- In the Rail Vehicles business unit at the location in Valencia, innovative diesel electric locomotives and light rail vehicles are developed and manufactured. Repair and maintenance services are also part of the range.
- The Electrical Systems business unit develops and manufactures key electrical components and systems for local transport rail vehicles. It is among the world's foremost suppliers of electrical equipment for trams as well trolleybuses and hybrid buses. Besides furnishing complete systems, the unit supplies air conditioners for rail vehicles, individual components, subassemblies, revamping work, servicing and maintenance.

Strategic principles

The Group is managed by Vossloh AG according to three strategic principles:
- Focused portfolio: Vossloh concentrates on the core business of rail infrastructure while only addressing submarkets in which it has market leadership or where market leadership can be achieved. Defined focus markets include: Western Europe, China, USA and Russia. Alongside these there are also other attractive markets in which the Group operates on a project basis.
- Value-driven growth: The Group has the clear objective to grow at least as fast as the market for rail infrastructure - but ideally faster. Growth is to be achieved both organically, for example by developing new products and services, as well as through selective acquisitions. Research and innovation are therefore areas of focus for Vossloh.
- High profitability: Vossloh wants to generate positive value added. This means: EBIT that exceeds the cost of capital. In addition, Vossloh aims for sustained positive free cash flow in all divisions.

Organization

The Vossloh Group is active throughout the world. Its local presence and customer proximity are integral elements of its business model. The main production facilities for rail fastening systems are located in Germany, Poland, Turkey and China. The company has also been producing rail fasteners in the USA since fall 2014. Vossloh's switch systems are mainly produced in France, USA, Sweden, Australia, Luxembourg, Poland and the UK. Rail services are mainly carried out from Germany. The Transportation division's main production facilities are in Germany and Spain.

Vossloh operates globally through sales companies and branches. It has in some instances, together with competent regional partners, entered into local joint ventures and alliances. Major subsidiaries and, at the same time, business unit lead companies of the previous Rail Infrastructure division are: Vossloh Fastening Systems GmbH, Werdohl (Germany), Vossloh Cogifer SA, Rueil-Malmaison (France) and Vossloh Rail Services GmbH, Seevetal (Germany). For the Transportation division, these are Vossloh Locomotives GmbH, Kiel (Germany), Vossloh España S.A.U., Valencia (Spain), and Vossloh Kiepe GmbH, Düsseldorf (Germany).

Control system and targets

Vossloh follows a value-oriented growth strategy. 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) and WACC, the weighted average cost of capital (debt and equity). Multiplying the premium with average capital employed produces the value added in a period in absolute terms. For intragroup Multiplying controlling purposes, ROCE and value added are determined on a pretax basis. In line with IFRS 8, value added is disclosed in published reports as the 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 accordingly adjusted. Cost of debt is calculated on the basis of the Group's average funding terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not 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 of the balance sheet. Intragroup controlling in fiscal 2014 was based on pretax WACC of 10.0 percent as the yield expected by investors and lenders.
In financial year 2013, WACC was 8.5 percent.

Financial targets

Vossloh has defined financial targets for the Group as a whole. These are:
- positive value added
- above-average market growth
- sustainable profitability improvement (EBIT margin)
- positive free cash flow in all divisions

The monthly financial reporting represents a central element for the analysis and control of the Group companies, business units and the Group for 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. Variations from plan are investigated as to their effects on the financial targets and are explained in a commentary. The monthly and quarterly annual projections are supplemented by a risk report to identify potential decreases or increases to assets. The effectiveness of actions proposed in order to achieve targets or benchmarks is repeatedly analyzed. The figures of the operating units are intensively discussed by the management and the Executive Board; the personal interaction guarantees a rapid flow of information and also allows short-term responses.

Economic report

Economic environment

The global economy was on the path to recovery in 2014, according to the International Monetary Fund (IMF), despite partial backlashes and disparities in development. Gathering momentum in industrialized countries in the second half of the year was a key factor in reaching global GDP growth of 3.3 percent, which matched the 2013 figure. Over the past few years, Vossloh has committed itself to the continued internationalization of its business and is currently well-positioned internationally. Europe, China and the USA are critically important regions for the development of our business. In Europe, Vossloh places a special focus on Western Europe and Russia. As regional focus markets, Western Europe, China, the USA and Russia take center stage.

According to the IMF, economic growth in the euro area – still Vossloh's primary market – returned to positive territory at 0.8 percent following a value of (0.5) percent in the year prior. During the same period, Germany achieved economic growth of 1.5 percent, up from 0.2 percent in 2013. European economies bordering on the euro area grew by 2.7 percent in 2014, a rate similar to the previous year (2013: 2.8 percent).

Emerging countries in Asia again achieved the strongest growth in 2014, gaining 6.5 percent on average (previous year: 6.6 percent). At a growth rate of "only" 7.4 percent, China's economy experienced a slight dip (previous year: 7.8 percent). The USA saw economic growth in 2014 of 2.4 percent. It thus maintained stable growth in line with the previous year (2.2 percent). Russia, however, saw weak development. After experiencing 1.3 percent growth in 2013, it achieved just 0.6 percent in 2014.

Vossloh's rail technology markets only follow these broader economic trends to a limited degree, however. Furthermore, conditions have changed significantly over the past few years. Market deregulation is progressing, and product standardization continues. Established providers are expanding their capacities, and new competitors are entering the market. Among the new players are local providers that are expanding their businesses internationally, which has increased global competition. This is unfolding against the backdrop of several global megatrends which continue to support the attractiveness of the rail technology market: International trade flows are growing along with the global economy, which is boosting demand for needed transport capacities. According to a current OECD study conducted by its International Transport Forum (ITF), the volume of transported goods will increase by a factor of 4.3 by the year 2050. Ongoing urbanization is also creating a higher demand for mobility, as more and more people flock to the world's cities. Dwindling energy reserves and growing environmental awareness as a result of climate change have focused more attention on rail as a mode of transport.

This is driving a global rise in demand for environmentally friendly, safe, and economical mobility for people and goods. An example of this trend is playing out in the European Union, which is working toward a major shift of transport to the railways. One of the goals set out in the EU's "Transport White Paper" is a reduction of greenhouse gas emissions by some 20 percent in the transportation sector by 2030 from the 2008 level (and 60 percent by 2050). In order to reach this goal despite a continuous rise in traffic, the aim is to develop new traffic patterns in which, "larger volumes of freight and greater numbers of travelers are carried jointly to their destination by the most efficient (combination of) modes," as the EU puts it in its white paper. Accordingly, one of the goals is to shift 30 percent of the goods transported by road over distances exceeding 300 kilometers to other, more efficient modes of transport by 2030. Apart from waterways, rail lines could play a key role in achieving this. The EU wants to create high-capacity environmentally-friendly transport corridors for rail freight traffic, and generally maintain or expand a dense rail network in all of the member states. By 2030, for instance, plans call for a tripling of the overall length of European high-speed railway networks.

The severely weakened funding capability of public budgets in Europe has a significant impact on demand in the rail technology market. As of the third quarter of 2014, the debt ratio (the ratio of public debt to GDP) of the euro countries (EU18), according to the statistics office of the European Union (Eurostat), was 92.1 percent – as of the information cutoff date of this publication, this was the most current figure available. The figure was higher than it was at the same time the previous year (September 2013: 91.1 percent), but slightly lower than it was in the preceding quarter (June 2014: 92.7 percent). The debt ratio of the EU as a whole (EU 28) developed along similar lines. Although it was slightly higher in the end of September 2014, at 86.6 percent, than it was by the end of September 2013 (85.3 percent), it was lower than late-June 2014 figure of 87.0 percent. According to Eurostat, the public debt ratio for the EU 28 fell for the first time in the third quarter of 2014 after rising for 15 consecutive quarters. Eurostat recorded this drop for eighteen member states; in nine countries, however, the debt level continued to rise, while in one country it remained unchanged. By the end of September 2014, the highest debt ratios in the EU were in Greece (176.0 percent), Italy (131.8 percent) and Portugal (131.4 percent).

A number of studies regularly analyze and forecast the development of 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 Technology, published by the consultancy SCI Verkehr. Both studies are updated every two years, and the most recent results were presented in September 2014 at the InnoTrans industry event in Berlin.

UNIFE currently estimates the global volume of the rail market at some €150 billion a year, while SCI Verkehr anticipates an annual volume of €162 billion. The European industry association considers about 68 percent of the total volume – some €102 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.

UNIFE breaks down the overall market for rail technology into five segments: Infrastructure, rolling stock, control/signaling and safety, services, and new turnkey projects (i.e. projects in which procurement is controlled by a general contractor or system provider). The rolling stock segment makes up the largest share, with some 40 percent of the accessible market. The services segment, at about 30 percent, is followed by infrastructure, which ranks third at 20 percent, ahead of control/signaling and safety (nearly 11 percent) and turnkey projects (about 1.5 percent).

From a regional perspective, the Western European market, at 31 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: Canada, USA, and Mexico) with a 22 percent share, and the Asia-Pacific region with 19 percent. These are followed by the community of independent states (CIS) countries, with a share of some 12 percent, and Eastern Europe with 7.1 percent. The Middle East/Africa region and Latin America comprise somewhat smaller shares, at 7 percent and 4 percent, respectively.

Vossloh is now active in the railway infrastructure segment with its Core Components, Customized Modules and Lifecycle Solutions business units, which it defined as of 1 January 2015. The company is active globally through all of these units with the exception of the Lifestyle Solutions unit. Vossloh is one of the leading global providers of both switches and rail fastening systems. The Transportation unit, which is no longer part of the core business, is primarily involved in the rolling stock segment. At Vossloh, this business is highly tailored to the European market.

Generally, the structure and development of Vossloh’s key sales markets are very diverse and, moreover, accessibility to widely available and reliable data on them is limited. A more detailed description of the key trends is therefore given in the following business unit reports and in the Outlook.

Results of operations

For Vossloh, financial 2014 was marked by the restructuring and repositioning of the company. A comprehensive current analysis of the whole of the Group in early summer 2014 set in motion the transformation process that has been underway ever since and meant that significant adjustments to the original forecast for financial 2014 were required. Necessary measures were taken immediately and were pursued consistently in the remaining months of the financial year by the Executive Board, management team and employees. The restructuring and repositioning significantly influenced the development of earnings in financial 2014. At €(171.6) million, earnings before interest and taxes was within the EBIT range forecast in June 2014 of €(150) million to €(180) million.

Results well short of original forecast

An adjusted EBIT of €30.6 million was achieved before one-time items. The adjusted EBIT margin was slightly more than 2 percent. Detailed information on the calculation of the adjusted EBIT can be found on page 15. Originally, an EBIT margin between 5 percent to 7 percent was forecast by the former Executive Board for the financial year. The adjusted earnings were thus clearly weaker than assumed at the beginning of financial year 2014. As a result of unsatisfactory development, numerous measures were put in place to sustainably improve the earnings situation.

Due to the negative earnings before interest and taxes in financial 2014, the return on capital employed, ROCE, was also negative at (21.2) percent. The forecast for this key figure at the beginning of 2014 called for an increase of between 7.5 percent and 10.5 percent. A weighted average cost of capital of 10 percent before taxes is applied in the Vossloh Group. The expected return was not achieved and the value added was consequently significantly negative. Average capital employed declined significantly in the past year contrary to the original almost unchanged expectations. Contributing factors, in addition to the lower than expected average working capital, mainly included reduced fixed assets, related primarily to goodwill impairment and write downs on capitalized development costs.

The Group's sales rose slightly in 2014 by 1.8 percent to €1,323.9 million, and was thus within the most recently communicated target corridor of 3 percent. Overall, however, sales growth was well below the growth rate originally expected by the former Executive Board of over 10 percent. A detailed explanation of the differences can be found in the Outlook on page 121. The decisive factor for this was the significantly lower sales growth in the Transportation division as compared to original planning. Nevertheless, a significant increase in sales was recorded in this division.

Change in accounting and impact on the previous year's comparative figures

Since 2014, several new accounting standards have been relevant for listed companies in the EU, which, among other things, affect the scope of consolidation, in particular the inclusion of joint ventures. The now valid IFRS 11 "Joint arrangements", no longer allows proportionate consolidation for the Group's interests in joint ventures but instead stipulates at-equity accounting. Under this method, in simple terms, the investment approach reflects the share of net assets of the joint venture whereas proportionate consolidation means that the individual assets and liabilities, income and expenses are included proportionately in the Group figures. Pursuant to the IFRS 10 "Consolidated financial statements", which is also being used for the first time, a company from the Switch Systems business unit in the Vossloh Group was deconsolidated and since then has also used at-equity accounting methods.

As part of the transitional regulations for the new standard, at the beginning of the comparative period, i.e. the 2013 financial year, the new rules are to be applied in order to satisfy the principle of comparability of information. Therefore, all of the corresponding figures for financial year 2013 were calculated on a comparable basis and may thus differ from the figures published one year ago. In the information that follows, to avoid unclarity, only the figures calculated on a comparable basis and evident in the consolidated financial statements for comparison purposes are used. The changes mainly affect the Switch Systems business unit and, to a lesser extent, the Rail Services business unit.

Vossloh Group: sales by business unit

	€ mill.	%	€ mill.	%
	2014		2013	
Rail Infrastructure	**868.9**	**65.6**	**875.5**	**67.3**
Fastening Systems	331.0	25.0	376.4	28.9
Switch Systems	473.1	35.7	444.6	34.2
Rail Services	69.6	5.3	56.9	4.4
Consolidation	(4.8)	(0.4)	(2.4)	(0.2)
Transportation	**455.0**	**34.4**	**425.2**	**32.7**
Locomotives	90.0	6.8	111.3	8.6
Rail Vehicles	223.2	16.9	150.7	11.6
Electrical Systems	143.8	10.9	165.7	12.7
Consolidation	(2.0)	(0.2)	(2.5)	(0.2)
Holding companies and consolidation	**0.0**	**0.0**	**0.0**	**0.0**
Total	**1,323.9**	**100.0**	**1,300.7**	**100.0**

In 2014 Vossloh achieved Group sales of €1,323.9 million. Compared to sales in 2013 of €1,300.7 million, this represents an increase of 1.8 percent. The increase in sales was due to the significantly higher sales volume in the Transportation division and, in particular, in the Rail Vehicles business unit. The increase in sales was, however, tempered by lower sales at the Locomotives and Electrical Systems business units. In the Rail Infrastructure division, strong sales of the previous year were not quite reached. Lower sales at Vossloh Fastening Systems were a decisive factor while sales in the Switch Systems and Rail Services business units increased slightly year on year. The Transportation division’s share of Group sales increased slightly to 34.4 percent (previous year: 32.7 percent). The Rail Infrastructure division’s share of Group sales declined correspondingly to 65.6 percent (previous year: 67.3 percent).

Vossloh Group: sales by region

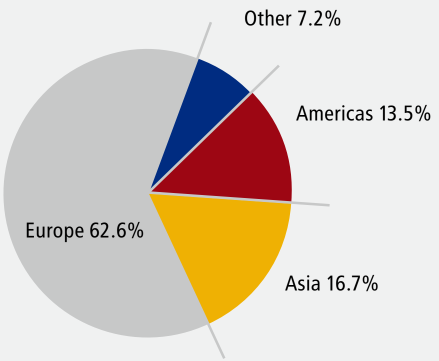
	€ mill.	%	€ mill.	%
	2014		2013	
Germany	256.0	19.3	278.8	21.4
France	168.5	12.7	154.5	11.9
Rest of Western Europe	154.9	11.7	151.4	11.6
Northern Europe	86.9	6.6	70.9	5.5
Southern Europe	77.1	5.8	92.4	7.1
Eastern Europe	85.7	6.5	67.4	5.2
Total Europe	**829.1**	**62.6**	**815.4**	**62.7**
Americas	178.8	13.5	123.5	9.5
Asia	220.7	16.7	306.3	23.6
Africa	70.1	5.3	22.4	1.7
Australia	25.2	1.9	33.1	2.5
Total	**1,323.9**	**100.0**	**1,300.7**	**100.0**

Europe is largest market

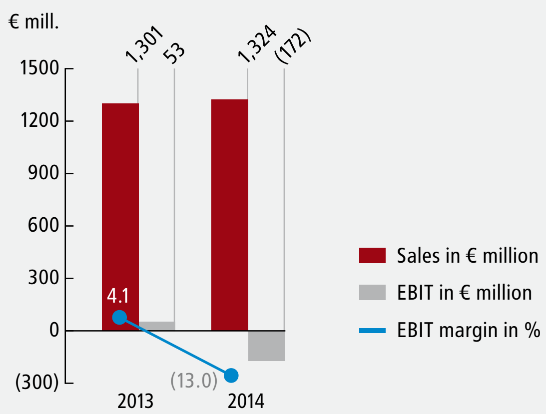
In spite of the growing importance of Asia, Europe remains the largest sub-market for rail technology worldwide. In 2014 Vossloh generated sales of €829.1 million in Europe. This was a slight increase of 1.7 percent on the previous year's sales volume of €815.4 million. The increase in Europe was almost equivalent to the sales growth throughout the entire Vossloh Group. The share of non-European sales was thus 37.4 percent compared to 37.3 percent in the previous year.

Sales virtually unchanged in the core market of Western Europe

Western Europe remains an essential core region for Vossloh. At €579.4 million, sales in 2014 were at about the level of the previous year (€584.8 million). Declining sales in Germany and Switzerland were offset by higher sales in France and the United Kingdom. Southern Europe again registered significantly lower sales but sales in Northern and Eastern Europe were higher than the previous year.



Sales by region in 2014



Sales and EBIT of the Vossloh Group, 2013–2014

Lower sales in Spain and Turkey in particular played decisive role in the further decline in revenues in Southern Europe. Sales in Spain have been declining for years due to the high level of national debt. Slight increases in sales were achieved in Greece, Italy and Portugal, however.

Sales in the Nordic market are achieved primarily in the Rail Infrastructure division. Vossloh's largest single market here is Sweden where sales increased significantly compared to financial 2013. Furthermore, positive developments in Norway also contributed to sales growth in the region.

Sales in Eastern Europe benefited from very strong sales growth in Poland where Vossloh produces both rail switch and fastening systems; both areas showed positive development. Sales in Russia, so far largely driven by the supply of rail fastening systems from Germany, remained practically unchanged. In financial 2014, Vossloh established a joint venture with the Russian leader for railroad sleepers for the manufacture and distribution of rail fastening systems, which will start production from 2016. In the other countries of Eastern Europe, primarily Serbia, Lithuania and Latvia, generally moderate sales increases were achieved.

Sales in Asia decreased noticeably in the reporting period. As expected, sales in China and Kazakhstan in particular did not reach the high prior-year figures. The 2013 financial year was characterized by very high project sales for new construction projects. In 2014, further sales in the million euro range in Asia were achieved in India, Thailand, Singapore, Indonesia, Malaysia and Japan. The Middle East region also recorded a clear downward sales trend after the expiry of a locomotive contract for Israel Railways. This could be only be partially offset by higher sales in Saudi Arabia. Vossloh Group sales in Asia, including the Middle East amounted to €220.7 million in 2014, compared to € 306.3 million in the previous year. With a sales share of 16.7 percent, Asia as a whole remains the strongest sales region outside Europe for Vossloh.

In America, in 2014 Vossloh was, as expected, able to increase sales significantly to €178.8 million (previous year: €123.5 million). The largest single market in this area for Vossloh is still the USA with sales of approximately €100 million, followed by Brazil, Argentina and Mexico. In the USA, Vossloh Fastening Systems started operation of its own production location for fastening systems in 2014, meaning that three business units now produce locally in this important Vossloh market (the others are Vossloh Switch Systems and Vossloh Electrical Systems). In Brazil, Vossloh Switch Systems has had an operating company since the beginning of 2013. Significant sales contributions in Brazil were also generated with an order for light rail vehicles in the Rail Vehicles business unit.

Africa, despite ongoing political uncertainty not only in the north, but also in other parts of the continent, is becoming an increasingly important player in the market for rail technology. In South Africa in particular, Vossloh is very successful. In the past financial year sales of €70.1 million were achieved in Africa (previous year: €22.4 million). About two-thirds of this total was accounted for by South Africa, mainly driven by a large order for Vossloh Rail Vehicles. Other notable sales were achieved in Morocco, Mauritania and Algeria.

At €25.2 million, sales of Vossloh in Australia, were well below the previous year's figure of €33.1 million. This was mainly due to a weaker switch business.

Earnings situation strongly influenced by the measures introduced

Vossloh Group's gross profit – sales less cost of sales – amounted to €120.6 million in 2014, representing a gross margin of 9.1 percent (previous year: 17.5 percent). The decline in gross profit compared to the previous year (€228.0 million), and the significantly lower margin were in large part due to the additional burdens on earnings announced in June 2014. The majority of the one-time items burdened the cost of sales. The most significant items in terms of amounts were accounted for by the measurement at net realizable value of projects at Vossloh Electrical Systems and write downs on prototypes at Vossloh Locomotives. A weaker operational development also had a significant impact on gross profit.

At €204.9 million in 2014, the costs of the two functional areas sales and administration significantly topped the previous year's figure of €182.2 million. This represented an expense ratio compared to sales of 15.5 percent (previous year: 14.0 percent). Compared to the prior year, there were increases in both selling expenses to €103.6 million (previous year: €98.4 million) and in administrative expenses to €101.3 million (previous year: €83.8 million). This functional area's costs were also negatively impacted by non-recurring effects. The "other result" of the Vossloh Group in 2014 was €(63.8) million (previous year: €17.0 million). Here, too, additional impacts on earnings had a strong influence. In particular, goodwill impairment in the Switch Systems business unit and capitalized development costs at Vossloh Locomotives burdened this item considerably.

Vossloh Group: sales and earnings

	€ million	%	€ million	%
	2014		2013	
Sales	1,323.9	100.0	1,300.7	100.0
Gross profit	120.6	9.1	228.0	17.5
Operating result	(162.7)	(12.3)	51.2	3.9
EBITDA	(39.6)	(3.0)	93.5	7.2
EBIT	(171.6)	(13.0)	52.7	4.1
EBT	(194.7)	(14.7)	31.3	2.4
Group net income	(205.7)	(15.5)	23.6	1.8
Earnings per share (in €)	(16.46)		1.25	

Due to the extensive additional impact on earnings, a significant pre-tax loss was reported in the Vossloh Group in 2014. The Vossloh Group's EBIT amounted to €(171.6) million. In 2013 EBIT amounted to €52.7 million. The EBIT margin was (13.0) percent (previous year: 4.1 percent). EBIT adjusted for one-time items amounted to €30.6 million. In comparison to the figure shown in the income statement, for the calculation of EBIT adjusted for one-time items, those earnings effects which result from restructuring measures, the repositioning of individual business units and goodwill impairment have been eliminated. In addition, items were eliminated if they were aperiodic and/or of a non-recurring nature. For the most part, these include loss-free valuation of projects due to negative developments that occured in the financial year as well as adjustment of earnings contributions in previous years for multi-year percentage of completion projects in the Electrical Systems business unit due to the ongoing project calculations and the higher costs that need to be taken into consideration. The amount of the individual items can be reconciled to the individual business units as follows:

EBIT significantly negative, adjusted EBIT margin at about 2 percent

Vossloh Group: reconciliation of EBIT to adjusted EBIT

€ million	
Adjusted EBIT	**30.6**
Vossloh Switch Systems (goodwill impairment, write down on investment JV China)	(68.9)
Vossloh Locomotives (restructuring, repositioning)	(67.3)
Vossloh Electrical Systems (restructuring, repositioning, update project calculations)	(49.4)
Other	(16.6)
EBIT	**(171.6)**

In the Switch Systems business unit, market prospects in the switch business were carefully analyzed as part of an analysis conducted in spring 2014. It became apparent that the development of markets in some regions was notably weaker than previously expected. As a result, goodwill impairment was required. The impairment of €60.0 million was carried out in the six-month financial statements. Other non-recurring expenses in the Switch Systems business unit related to switch production in China, where Vossloh built an ultra-modern production facility with two local partners. Because capacity utilization at the facility is significantly lower than originally expected, even after completion of the startup phase, a recent valuation of the investment showed that an impairment was necessary. In total, one-time items from these two situations amounted to €68.9 million.

At Vossloh Locomotives substantial investments have been made in the development of a new family of locomotives in recent years. As part of the investments proposed relocation to a new production facility in Kiel, production capacities will be significantly reduced on the basis of changed market assessments. The planned sales figures of the locomotive family were therefore adjusted, resulting in comprehensive impairments on capitalized development costs. Additional impacts on earnings were directly connected to the relocation of the production facility. The current lease ends after the planned plant relocation at the end of 2015.

Future lease payments up until the end of the current lease have been deferred. Another special effect is associated with prototypes that were built as part of the development of the new locomotive family for client presentations and approval purposes. With the decision to sell these prototypes, a revaluation of the net market value was required. As a result, the amounts were adjusted accordingly in the balance sheet. Further, less significant burdens resulted from provisions for employee redundancies, anticipated losses for two long-running projects and a change in the recognition of sales from the "percentage of completion" to the "completed contract" method in the wake of the decision to not carry out any more project business at the Kiel location. Overall, one-time items from these items totaled €67.3 million.

The Electrical Systems business unit has also been subjected to comprehensive restructuring and repositioning. Going forward, the business unit will focus again on the areas of light rail vehicles, trolley-buses, components, e-mobility and related services. The resulting streamlining of capacity and updating of current project calculations led to extensive expenses in financial 2014. The loss-free valuation of projects thus contributed significantly to the decline in earnings. With the updated estimates of project risks, margins already credited to income in the previous year had to be corrected for some multi-year projects, since, as a result of the additional project costs to be considered, the degree of completion for these PoC projects declined. In addition, provisions were made for employee redundancies. Overall, one-time items from these topics totaled €49.4 million.

In addition, further one-time items amounting to €16.6 million also burdened the Group. These effects related to several business units and included negative effects from the bankruptcy of a customer, charges for antitrust issues, impairments in inventories for a project which had been interrupted for years and is now eliminated from the order backlog as well as severance payments outside the Switch Systems and Electrical Systems business units.

Net interest expense in financial 2014 amounted to €23.1 million, slightly above the previous year's figure of €21.4 million. With the complete repayment of a US private placement at the end of the second quarter, one-time early repayment interest penalties and fees in the amount of €7.3 million were incurred in 2014. In turn, in the second half of 2014 there were very high interest savings due to the very good bridge financing conditions as compared to the US private placement. Earnings before taxes of the Group for financial 2014 was €(194.7) million (previous year: €31.3 million). In particular, the capitalization of deferred taxes on loss carry forwards, which was only possible to a limited extent, as well as the non-tax-deductible impairment of goodwill and the investment value of the Chinese company in the Switch Systems business unit led to distortions to the tax rate in the reporting period. As a result, the Group's net income amounted to €(205.7) million (previous year: €23.6 million). Consolidated net income attributable to shareholders of Vossloh AG amounted to €(213.9) million (previous year: €15.0 million).

Compared to the previous year, the average number of shares outstanding increased to 13.0 million (previous year: 12.0 million). The increase resulted from the sale of all treasury shares by Vossloh AG in the first quarter of financial year 2014. Based on the average outstanding shares, earnings per share for 2014 amounted to €(16.46) (previous year: €1.25).

Due to the significantly negative net profit attributable to shareholders of Vossloh AG achieved in financial 2014, the Executive Board and Supervisory Board of Vossloh AG are likely to propose to shareholders at the Annual General Meeting scheduled for May 20, 2015 to suspend the dividend payment for the 2014 financial year. For financial 2013, Vossloh AG distributed a dividend of €0.50 per share.

Orders received again exceeds sales generated

At €1,750.9 million, the Vossloh Group again had a very high order backlog at the end of financial year 2014. This is a slight increase over the previous year figure of €1,707.1 million. Both divisions increased their order backlogs. Overall, orders received in the Group during the past financial year was €1,367.7 million, which was below the previous year's figure of €1,472.5 million. Nevertheless, in 2014 orders received also exceeded sales generated. The book-to-bill ratio was 1.03.

Vossloh divisions: order backlog

€ million	2014	2013
Rail Infrastructure	502	496
Transportation	1,250	1,211
Consolidation	(1)	0
Vossloh Group	**1,751**	**1,707**

In the course of 2014, the Rail Infrastructure division received orders amounting to €874.6 million. Thus, the figure from 2013 in the amount of €784.1 million was clearly exceeded. In particular, the Fastening Systems business unit clearly exceeded the previous year's figure. Vossloh Rail Services also experienced higher orders than the prior year, while Vossloh Switch Systems posted somewhat lower orders than in the previous year. As of the end of 2014, the order backlog of the Rail Infrastructure division amounted to €501.7 million (previous year: €496.0 million).

Orders received in the Transportation division in 2014 were significantly weaker than in the previous year, amounting to €493.9 million (previous year: €687.0 million). In 2013 Vossloh Rail Vehicles received a major order for locomotives from South Africa. An order of a comparable magnitude was not won in 2014. As of December 31, 2014, the order backlog in the entire Transportation division of €1,250.0 million was higher than the previous year (€1,211.1 million) since despite the decline in new orders, more orders were won than sales generated.

Financial position and investing activities

As the Group's management holding company, Vossloh AG is also responsible for the Group's financial management. 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 also and in particular risks from interest and exchange rate fluctuations. For hedging purposes, derivative hedging instruments, among others, are employed. The Group companies are primarily financed through intra-group funding by Vossloh AG. Only in isolated cases where funding outside Germany is either economically preferable or required by law do subsidiaries obtain original financing locally.

The net financial debt of the Vossloh Group increased significantly from €204.1 million at December 31, 2013, to the balance at December 31, 2014 of €272.0 million. The main reason for this development was the negative cash flow from operating activities. In addition, the negative cash flow from investing activities as well as the negative net interest, dividend payments and the repayment of the US private placement contributed to the increased debt. This increase was compensated in part by the sale of all of the Company's treasury shares in March 2014. At the end of 2014, the Group's financial liabilities of €331.0 million were significantly higher than the corresponding amount of €260.1 million as of the December 31, 2013 balance sheet date.

Vossloh Group: net leverage

		2014	2013
Equity[1]	€ mill.	349.6	481.1
Net financial debt	€ mill.	272.0	204.1
Net leverage	%	77.8	42.4

[1] Group equity, including non-controlling interests

Current financial liabilities of the Group at the end of 2014 of €281.2 million were more than twice as high as at the end of 2013 (€135.5 million). The increase is mainly explained by the early repayment of the second tranche of the US private placement which was taken up in 2004. This second tranche of US-$100 million was only scheduled for repayment in 2016 and was replaced, along with the first installment due in June 2014 of US-$140 million, in the middle of the year initially through a short-term bridge loan. The refinancing of the short-term bridge loans and other bilateral credit lines into medium-term syndicated financing is currently being implemented and should be complete by April 2015.

The Vossloh Group's noncurrent financial liabilities fell accordingly to €49.8 million as of December 31, 2014 (previous year: €124.5 million). For the partial refinancing of the financial liabilities maturing in 2014, a promissory note bond for €50 million was taken up in financial year 2013. The loan carries a variable interest rate tied to the six-month Euribor.

Cash and cash equivalents as well as short-term securities of the Vossloh Group totaled €59.0 million as of December 31, 2014 (previous year: €55.9 million). The net leverage of the Group, defined as the net financial debt in relation to equity, amounted at the end of 2014 to 77.8 percent (previous year: 42.4 percent). The main contributing factor for this development, alongside the higher net financial debt, was the significantly lower equity, which was due to the high losses. At the end of 2014, it amounted to €349.6 million, (previous year: €481.1 million). In addition to the directly available funds, the Vossloh Group had unused credit lines available at December 31, 2014 in the amount of €359.5 million. For a partial amount of €265.8 million the maturity was up to one year; €13.2 million was available for over one year and €80.5 million was granted for an unlimited term. €181.1 million of the unutilized credit facilities were at Vossloh AG's direct disposal, the remaining unutilized credit facilities were at Group company level.

The cash flow from the Vossloh Group's operating activities was also particularly negatively influenced by the weak operating performance. In 2014 it amounted to €(42.2) million (previous year: €130.5 million). In the previous year, among other things, a significant decrease in working capital as a result of extensive advances received from customers shortly before the end of the financial year also contributed to the positive cash flow from operating activities. At the end of financial year 2014, another pleasingly low working capital level of €103.9 million was achieved. This can be primarily attributed to a Group-wide initiative launched in the middle of the year for intensive and sustainable working capital management.

Vossloh Group: analysis of cash flows

€ million	2014	2013
Cash flow from operating activities	(42.2)	130.5
Cash flow from investing activities	(58.3)	(75.4)
Cash flow from financing activities	103.7	(63.1)
Net cash outflow/inflow	**3.2**	**(8.0)**

At the same time as an analysis carried out in spring 2014, numerous investment projects were also critically scrutinized in the Group. As a result, the volume of investment in 2014 was €55.2 million, well below the previous year's figure of € 64.4 million. In 2014 both the Rail Infrastructure and the Transportation divisions invested less than in the previous year, again with the significantly larger portion of investments being in infrastructure. Depreciation, amortization and impairment in financial year 2014 increased strongly from €40.8 million to €132.0 million. In particular, the impairment of goodwill in the Switch Systems business unit and of capitalized development costs in the Locomotives business unit were responsible for the exceptional increase. Without these two non-recurring effects, depreciation, amortization and impairment in the reporting year amounted to €44.3 million.

Free cash flow, defined as cash flow from operating activities less investments in intangible assets and property, plant and equipment amounted to €(97.4) million in 2014 (previous year: €66.1 million). Cash flow from financing activities in 2014 amounted to €103.7 million (previous year: €(63.1) million).

Vossloh Group: Capital expenditure and depreciation/amortization (incl. Impairment and reversals of write-downs) by division

€ million	2014		2013	
	Capital expenditure	Depreciation/ amortization	Capital expenditure	Depreciation/ amortization
Rail Infrastructure	35.0	85.4	39.5	24.0
Transportation	20.0	45.9	24.6	15.9
Holding companies	0.2	0.7	0.3	0.9
Vossloh Group	**55.2**	**132.0**	**64.4**	**40.8**

Capital expenditure in the Rail Infrastructure division amounted to €35.0 million in the reporting period and was €4.5 million lower than the amount of €39.5 million in 2013. Both the Switch Systems and the Rail Services business units invested less than in the prior year. Vossloh Fastening Systems, however, reported higher investment. This was chiefly related to the construction of the production facility for rail fasteners in the United States. Overall, the investments in this business unit increased to € 13.5 million (previous year: €8.1 million). Vossloh Rail Services invested a total of €10.5 million (previous year: €12.3 million), mainly in the construction of a milling train. The investments made in the Switch Systems business unit of €11.0 million (previous year: €19.1 million) related, among other things, to a new forge at the Luxembourg location.

In the Transportation division capital expenditures in financial year 2014 of €20.0 million were also below the previous year (€24.6 million). The Electrical Systems business unit showed a significant decline in investment activity with €6.6 million (previous year: €10.1 million). In the previous year, high capital expenditures were made in a test field in the Düsseldorf location. Investments of Vossloh Rail Vehicles were incurred mainly for development expenditures and amounted in total to €6.8 million (previous year: €8.2 million). Vossloh Locomotives invested €5.8 million (previous year: €5.3 million).

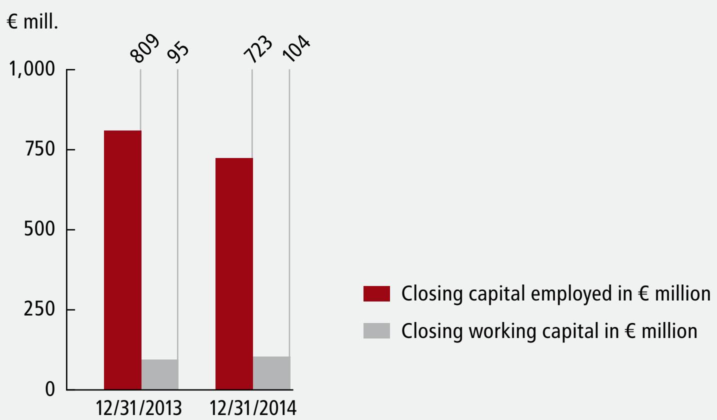
Asset and capital structure

The Group's balance sheet total of €1,598.3 million as of December 31, 2014 was slightly higher than the €1,562.4 million at the prior year's balance sheet date.

Equity decreases noticeably

The equity ratio of the Group as of the balance sheet date was 21.9 percent which was significantly lower compared to the prior year (30.8 percent). The Group's unexpectedly poor results of operations had a major impact with equity decreasing significantly. The sale of all treasury shares of Vossloh AG in March 2014 compensated the decline in equity by €90 million. A the end of 2014 equity amounted to €349.6 million, compared to €481.1 million in the previous year.

The Group's working capital as of December 31, 2014 amounted to €103.9 million, compared to €94.5 million as of December 31, 2013. In the fourth quarter of 2013, high advance payments had been received, which led to the historically low working capital at the end of financial year 2013. Typical of Vossloh's business, a significant increase in working capital was then recorded at the beginning of the financial year 2014. Subsequent to the analysis of the current situation of the entire Group conducted in spring 2014, an initiative was launched to sustainably optimize working capital. At the end of the financial year, working capital in the Vossloh Group was €103.9 million. It was possible to bring the increase down to a more modest level by the end of the year. On average for the year in 2014, working capital was €148.0 million. The annual average in 2013 amounted to €209.7 million, as the payments received late in 2013 only had a relatively minor effect on this figure. At 11.2 percent, the working capital intensity based on the average working capital in financial 2014, showed a clear downward movement compared to the previous year (16.1 percent).



Vossloh Group: capital employed and working capital trend, 2013–2014

As of December 31, 2014, capital employed in the Group amounted to €723.1 million. The decrease as compared to the balance sheet date in the prior year of €809.0 million is due to the sustained decline in fixed assets. In particular, the impairment of goodwill in the Switch Systems business unit which was taken into account for the first time in the six-month financial statements in 2014, and the impairment on capitalized development costs at Vossloh Locomotives had a significant impact on this figure. On average for the year, capital employed of the Group decreased from €889.2 million in financial 2013 to €809.3 million.

Vossloh Group: asset and capital structure

		12/31/2014	12/31/2013*
Total assets	€ mill.	1,598.3	1,562.4
Total equity*	€ mill.	349.6	481.1
Equity ratio	%	21.9	30.8
Closing working capital	€ mill.	103.9	94.5
Closing capital employed	€ mill.	723.1	809.0
Noncurrent assets	€ mill.	619.2	714.5

*Group equity including non-controlling interests

Value management

The negative pre-tax profit was also reflected in the Vossloh Group's value-based performance indicators. As a result, the Company's return on capital employed (ROCE) in 2014 was negative and amounted to (21.2) percent. Originally, the return expectation for the 2014 financial year lay between 7.5 percent and 10.5 percent. In 2013 an interest rate of 5.9 percent was achieved. The significantly lower capital employed had a slightly positive effect on the ROCE in financial year 2014. On average for the year it amounted to €809.3 million, compared to €889.2 in the previous year. One reason for the decrease in the average values was a considerably reduced average working capital. In addition, the reduced carrying amounts of intangible assets and property, plant and equipment also had an impact on the lower capital employed. In 2014, the weighted return expectations for equity holders and lenders were estimated to be 10.0 percent (previous year: 8.5 percent). The value added of Vossloh Group for 2014 amounted to €(252.6) million, compared to €(22.8) million for financial year 2013. The original expectation for the 2014 financial year lay within the range of a negative to slightly positive value added.

Value added and return on capital employed significantly negative

The ROCE in the Rail Infrastructure division in the past financial year amounted to 1.7 percent while in the prior year it was 12.7 percent. The effects of the additional burdens on earnings were clearly felt here too. The reported value added in 2014 was €(56.7) million, compared to €30.4 million in financial year 2013. As in the previous year, Vossloh Switch Systems and Vossloh Rail Services again recorded negative value added. Fastening Systems, on the other hand, once again achieved positive value added.

Value-based performance indicators significantly burdened by one-time items

As a result of the substantially lower earnings, the ROCE in the Transportation division also continued to fall in financial year 2014. It amounted to (131.3) percent, compared to (14.2) percent for 2013. Value added in 2014 was €(163.9), (previous year: €(33.8)). While Vossloh Locomotives and Vossloh Electrical Systems both reported negative value added, value added at Vossloh Rail Vehicles was positive.

Vossloh Group: value management

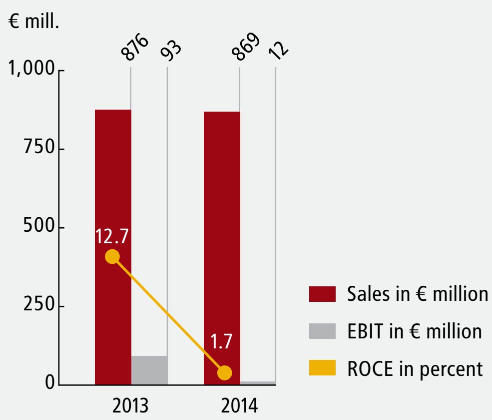
		2014	2013
Average capital employed	€ mill.	809.3	889.2
ROCE	%	(21.2)	5.9
Value added*	€ mill.	(252.6)	(22.8)

*To calculate value added, a weighted average cost of capital (WACC) of 8.5 percent was applied in 2013 and 10.0 percent in 2014.

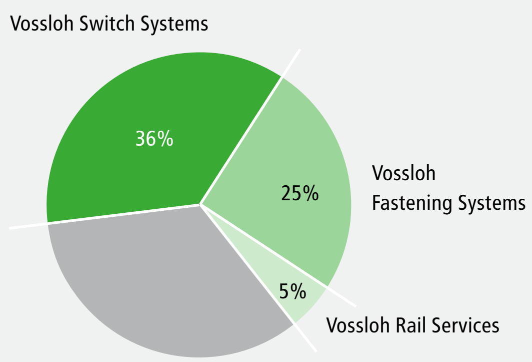
Sales decrease in Vossloh Fastening Systems after extraordinarily high prior year sales

Vossloh Switch Systems records sales growth, high one-time items – mainly goodwill impairment and carrying amount of joint venture in China – burdened earnings

Significant sales growth at Vossloh Rail Services



Sales, EBIT and ROCE of Rail Infrastructure division



Shares of business units in Group sales

Rail Infrastructure business trend

The Rail Infrastructure division, which existed up until December 31, 2014, comprises all of Vossloh's rail infrastructure products and services. The division included three business units: Fastening Systems, Switch Systems, and Rail Services. As of 2015, these three business units form the cornerstone of the new divisions Core Components, Customized Modules and Lifecycle Solutions, which are discussed in greater detail in the Outlook (from page 73). The following reporting follows the reporting structure to the Executive Board and the Supervisory Board which was valid in 2014.

Vossloh is a leading international manufacturer of fastening and switch systems worldwide. On conventional, heavy-haul or high-speed lines – the Fastening Systems and Switch Systems business units set standards in terms of innovative solutions acquired through decades of comprehensive expertise. The Rail Services business unit supplies all types of services related to the rails themselves, throughout the entire life cycle: from the production and logistics of long welded rails, through to the maintenance and preventive care and including the refurbishing and reuse of old rails. Vossloh leads the market in the application area of high-speed track grinders.

Sales near prior-year level

In the Rail Infrastructure division, sales in 2014 of €868.9 million were roughly at the level of the previous year's figure of €875.5 million. There was a significant sales decrease in the Fastening Systems business unit. Sales were down 10 percent compared to the prior year. However, revenue at the Vossloh Switch Systems which, in terms of sales, is the largest business unit in the Group, increased. Vossloh Rail Services once again recorded strong sales growth in the double-digit percentage range.

In the past year, Europe – and Western Europe in particular – remained the most important market for the Rail Infrastructure division, with an unchanged share of sales of around 50 percent. Europe's biggest individual markets, in the financial year as in the previous year, were France with a 13 percent share of sales and Germany with a 10 percent share of sales. The largest contributor to sales outside of Europe was Asia, with a share of sales in the division of 23 percent. The American market contributed 16 percent of Rail Infrastructure sales.

High additional expenses burden profitability

EBIT in the Rail Infrastructure division was only slightly positive at €11.6 million. In the prior year an EBIT of €92.7 million was generated. Substantial one-time items in particular had a negative impact in 2014. The largest single item here was a reduction in goodwill in the Switch Systems business unit. A positive special effect resulted from the internal sale of a company for which the elimination of the internal Group gain was conducted at Group level. Adjusted for one-time items, an EBIT of €79.5 million was generated.

Value added in the Rail Infrastructure division in 2014 was also significantly reduced by the additional burdens on earnings and amounted to €(56.7) million. In the prior year, value added of €30.4 million was achieved. To a lesser extent, the increase in the weighted return expectations from 8.5 percent to 10.0 percent also contributed to this decline. In 2014, positive value added was only generated in the Fastening Systems business unit.

Due to the low reported EBIT, the return on capital employed (ROCE), was just 1.7 percent (previous year: 12.7 percent). The significantly lower average capital employed of €683.1 million (previous year: €732.7 million), which was essentially due to the reduction in goodwill at Vossloh Switch Systems, had no significant impact on the level of this indicator in 2014. The deciding factor was the strong decline in earnings. Average working capital also decreased. At €218.8 million, the value was below the previous year's level of €251.6 million. The average working capital intensity decreased to 25.2 percent from 28.7 percent in the previous year. Higher trade payables, among other things, were responsible for the decrease.

Rail Infrastructure

		2014	2013
Sales	€ mill.	868.9	875.5
EBIT	€ mill.	11.6	92.7
EBIT margin	%	1.3	10.6
Average working capital	€ mill.	218.8	251.6
Average working capital intensity	%	25.2	28.7
Noncurrent assets	€ mill.	444.6	488.8
Capital expenditures*	€ mill.	35.0	39.5
Amortization/depreciation*	€ mill.	85.4	24.0
Average capital employed	€ mill.	683.1	732.7
ROCE	%	1.7	12.7
Value added	€ mill.	(56.7)	30.4

*Excluding noncurrent financial instruments; scheduled amortization/depreciation plus impairments and reversals

Vossloh Fastening Systems

Vossloh Fastening Systems is a globally established and leading manufacturer of rail fastening systems and will in future form the cornerstone of the Core Components division. Major production locations are located in Germany, China, Turkey and Poland.

At the end of 2014, production also commenced at the newly built plant in the United States.

Sales decrease at Vossloh Fastening Systems in the range expected

As expected, the Fastening Systems business unit's revenues of €331.0 million in fiscal year 2014 were lower than the prior year figure of €376.4 million. Strong sales in Asia could not be repeated, as anticipated. Lower sales were recorded primarily in China, Kazakhstan and South Korea. This was due in particular to the fact that there were not as many recurring construction projects for Vossloh in these countries. Sales developed positively in Argentina and Saudi Arabia, among other places.

Orders received at Vossloh Fastening Systems in 2014 reached €347.2 million (previous year: €258.7 million). Significant contract awards were attributable to China, Argentina, Germany, Italy, Turkey and Poland. On December 31, 2014, the order backlog of the business unit amounted to €182.6 million and was thus well above the previous year's figure of €166.5 million.

Production facilities in the USA go into operation

Investments in the Fastening Systems business unit amounted to €13.5 million in the reporting year and thus significantly exceeded the previous year's figure of €8.1 million. A large part of the investments were accounted for by the construction and commissioning of the new production facilities in the USA. Investments were also made in a logistics center at the German location.

Vossloh Fastening Systems value added amounted to €45.6 million in the reporting year, not fully reaching the previous year's figure of €47.7 million. The value added in the reporting period was increased by the internal sale of a subsidiary by around €15 million. The elimination of the internal Group gain was conducted at Group level.

Vossloh Switch Systems

Slight sales growth with weak earnings development

Vossloh Switch Systems is the second largest supplier of switches and monitoring and control systems for rail networks worldwide. The product portfolio includes switches for all ranges of applications. With 39 production facilities in 22 countries, the business unit is internationally positioned and, since January 2015, has formed cornerstone of the Customized Modules division.

Vossloh Switch Systems' sales of €473.1 million in 2014 surpassed the sales of the previous year of €444.6 million. In Sweden, Poland and Brazil in particular, higher sales were achieved than in the previous year. In contrast, declining sales contributions were recorded in the USA and Australia. In addition to France, the largest individual markets of the business unit are the USA, Sweden, Poland and Australia. In total, the share of sales of Vossloh Switch Systems' non-European business declined from 41 percent in the previous year to 37 percent in the financial year.

Orders received at Vossloh Switch Systems in financial year 2014 amounted to €458.7million, falling short of the prior-year figure of €467.0 million. The highest orders received were attributable to France, USA, Sweden, Poland, Norway, Netherlands, Brazil and Mexico. The order backlog at the end of 2014 amounted to €309.1 million, just below the previous year's figure of €323.6 million.

In 2014, total investments in the amount of €11.0 million were made in the Switch Systems business unit. Investments in 2014 were thus lower than the amortization amount adjusted for the impairment of goodwill. In the prior year €19.1 million was invested. The focus of investment in 2014 was again the new forge at the Luxembourg location.

Additional burden on earnings from impairment of goodwill

Vossloh Switch Systems' value added was reduced to a great extent by additional burdens on earnings. The impairment of goodwill in the amount of €60 million had a significant impact. The reduction of the valuation of the investment in the Chinese joint venture also had a negative effect. In addition to the weak earnings performance, this led to an overall value added of €(94.3)million (previous year: €(14.1) million).

Vossloh Rail Services

Vossloh Rail Services supplies all types of services related to the rails themselves, from the manufacturing and transport of long rails through to maintenance and preventive care of rails. Vossloh Rail Services thus contributes to protecting the value and to the safety of modern rail lines. In future the business unit will form the cornerstone of the Lifecycle Solutions division.

In financial year 2014, Vossloh Rail Services' sales were €69.6 million (previous year: €56.9 million). Supported by positive development in mobile-grinding services (high-speed grinding) and comprehensive logistics services, sales again saw double-digit growth. At over 80 percent, the share of sales in Germany remained very high. Further relevant sales contributions were achieved in Sweden, Denmark, China, Turkey and France.

Significant sales growth through high-speed grinding and more comprehensive logistics services

Orders received by Vossloh Rail Services of €72.9 million in 2014 were also significantly higher than the prior year figure of €61.1 million. At the end of 2014, the order backlog of the business unit amounted to €10.4 million (previous year: €7.1 million).

In 2014, investments totaling €10.5 million were made in the Rail Services business segment (previous year: €12.3 million). Investments were again made in the development of milling capacity as well as the further development and capacity expansion of of high-speed grinding trains.

High investments in mobile services

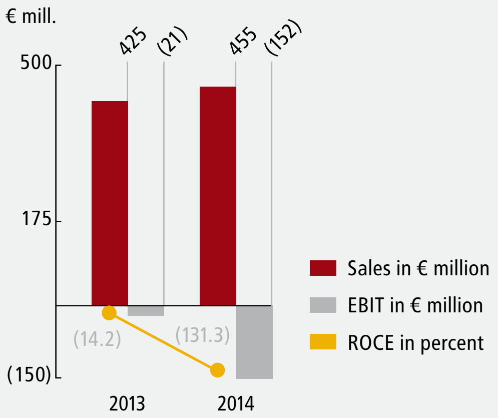
The division recorded a negative value added also in 2014 of €(8.0)million (previous year: €(3.2) million). Alongside a weaker earnings performance, increased capital employed contributed significantly to the decline in value added. This effect was reinforced by the adjustment of the weighted average cost of capital to 10.0 percent which was carried out in 2014. In financial year 2013, the return expected by investors was set at 8.5 percent.

Transportation division no longer part of core business

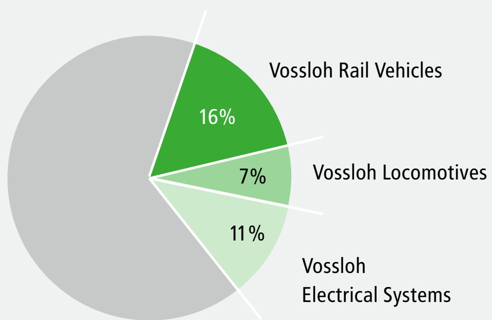
Earnings situation shaped by restructuring and repositioning at Vossloh Locomotives and Vossloh Electrical Systems

Comprehensive program of measures set up to sustainably improve profitability

Vossloh Rail Vehicles with strong growth



Sales, EBIT and ROCE
Transportation division



Shares of business units
in Group sales in 2014

Transportation business trend

Division no longer part of core business

On December 2, 2014, Vossloh announced that the former Transportation division would no longer be part of the company's core business, but for the time being would remain a division within the Group. The goal is to sell either all or parts of the Transportation division by 2017 at the latest depending on the progress of the measures currently being carried out to restructure and reposition the Vossloh Group, or to convert it into a partnership that would no longer be controlled by Vossloh.

The Transportation division includes the Group's vehicle and vehicle components business along with related services. It consists of the three business units Locomotives, Rail Vehicles and Electrical Systems. For nearly 100 years, Vossloh Locomotives has been developing and producing diesel locomotives and also offers an extensive range of services. Vossloh Rail Vehicles develops and manufactures innovative diesel-electric locomotives as well as local transport trains. Offerings also include maintenance services. The Electrical Systems business unit complements the product range with technically sophisticated electrical systems for local transport vehicles.

In the Transportation division, sales of €455.0 million for the financial year exceeded the previous year's figure of €425.2 million. Sales growth is attributable solely to Vossloh Rail Vehicles, while sales at Vossloh Electrical Systems and Vossloh Locomotives were much weaker in comparison to the previous year.

Significant increase in non-European sales

Considered geographically, in 2014 Germany with a share of 37 percent (previous year: 44 percent) was by far the leading region for sales. It was followed by France with 12 percent and the United Kingdom with 11 percent (previous year: 10 percent respectively). Due to the large order from South Africa for Vossloh Rail Vehicles, sales in the African market increased significantly in 2014. The share of the division's sales was 10 percent (previous year: 1 percent). In Spain, the negative trend of previous years continued. In 2014 only approximately 6 percent of sales were generated there (previous year: just under 9 percent). In total, the Transportation division generated 77 percent of its sales in Europe (previous year: 88 percent), mainly in Western and Southern Europe. The largest markets outside of Europe in 2014 were South Africa and Brazil.

Profitability affected by restructuring and realignment

The division's EBIT was greatly affected in 2014 by the impact on earnings arising from the restructuring program and the repositioning, by updates in project calculations for the Electrical Systems business unit as well as the weak operational business development. After an EBIT of €(21.2) million in 2013 an EBIT of €(152.3) million was recorded in 2014. One-time items of approximately €115 million resulted from the repositioning and restructuring of Vossloh Locomotives and Vossloh Electrical Systems as well as from the updating of project calculations at Vossloh Electrical Systems. Adjusted for these and other one-time items, EBIT amounted to €(33.6) million.

The value added of the Transportation division in 2014 was significantly negative and amounted to €(163.9) million (previous year: €(33.8) million). The increase in the weighted return expectations from 8.5 percent to 10.0 percent also contributed to this decline to a very limited extent. Vossloh Electrical Systems and Vossloh Locomotives generated negative value added. In the Rail Vehicles business unit, significantly positive value added was generated as in previous years.

In 2014 the Transportation division's return on capital employed (ROCE) was (131.3) percent (previous year: (14.2) percent). This is caused by the significantly lower result compared to the previous year due to the described one-time items. Capital employed was substantially reduced in the reporting year. In an annual average, the figure declined from €149.0 million in 2013 to €116.0 million in the current reporting year. The decrease in capital employed is attributable to the impairment of capitalized development costs at Vossloh Locomotives, among other things. In addition, average working capital was reduced again. After €(36.7) million in financial year 2013, the figure for the current reporting period amounted to €(68.0) million. The average working capital intensity decreased to (14.9) percent (previous year: (8.6) percent). Higher trade payables, among other things, were the key reason for this.

Transportation

		2014	2013
Sales	€ mill.	455.0	425.2
EBIT	€ mill.	(152.3)	(21.2)
EBIT margin	%	(33.5)	(5.0)
Average working capital	€ mill.	(68.0)	(36.7)
Average working capital intensity	%	(14.9)	(8.6)
Noncurrent assets	€ mill.	163.2	213.2
Capital expenditures*	€ mill.	20.0	24.6
Amortization/depreciation*	€ mill.	45.9	15.9
Average capital employed	€ mill.	116.0	149.0
ROCE	%	(131.3)	(14.2)
Value added	€ mill.	(163.9)	(33.8)

*Excluding noncurrent financial instruments; scheduled amortization/depreciation plus impairment write-downs and reversals

Vossloh Locomotives

For nearly 100 years, the Locomotives business unit's location in Kiel, Germany has been developing and producing diesel locomotives that serve as a benchmark in terms of technological standards, economic efficiency, flexibility and environmental friendliness. In addition, Vossloh Locomotives offers a broad range of services, in particular for the maintenance and repair of locomotives.

Declining sales at Vossloh Locomotives

Business development at Vossloh Locomotives in 2014 was well below planning and the prior year figures. Sales were only €90.0 million. In the previous year, sales of €111.3 million were generated. Besides the lower orders received, an accounting change also contributed to the sales decline. As a result of a focus on the business with standard locomotives, accounting was changed to the completed contract method which, in comparison to the previously applied percentage of completion method, generally leads to later sales and earnings recognition.

Orders received at Vossloh Locomotives remained weak in financial year 2014 and amounted to €86.5 million (previous year: €81.7 million). Order backlog amounted to €92.7 million and was thus roughly at the level of the prior year figure of €96.3 million. Overall, orders were gained for 30 new and 6 used locomotives.

Capital expenditures at Vossloh Locomotives in financial year 2014 totaled €5.8 million and were thus slightly above the prior year figure (€5.3 million). The focus of investment at the Kiel location continued to be on the further development of the new, modular family of locomotives with diesel hydraulic and diesel electric models.

One-time expenses of more than €60 million

Vossloh Locomotives' value added was greatly influenced by high costs for the restructuring and repositioning of the Kiel location. Overall, one-time items totaled more than €60 million. The business unit's value added in the financial year amounted to a negative figure of €(94.8) million; in 2013 it was also negative at €(34.2) million.

Vossloh Rail Vehicles

Vossloh Rail Vehicles develops and manufactures diesel locomotives as well as light rail vehicles. The EURO 4000, for example, Europe's strongest diesel-electric locomotive, is built in Valencia. In the area of light rail vehicles, metro trains, trams and traintrams are developed and produced. The service range also includes maintenance work.

Strong growth at Spanish location

Sales in the business unit increased as a result of a contract for the supply of tram links in the Brazilian port city of Santos and the positive development of the powerful EURO 4000 locomotives. In 2014, sales increased to €223.2 million. In the previous year, sales were just €150.7 million.

In financial year 2014, orders valued at €213.4 million were won. In the previous year, an extraordinarily high level of €372.2 million was achieved due to the major order in South Africa of approximately €250 million. The order backlog fell slightly to €625.7 million at December 31, 2014. On the balance sheet date of the previous year, the order backlog stood at €635.4 million.

Capital expenditures for Vossloh Rail Vehicles amounted to €6.8 million in 2014 (previous year: €8.2 million). A majority of the funds were used for the development of a locomotive for the American market.

Positive value added in the business unit

Value added from Vossloh Rail Vehicles in the reporting year totaled €16.3 million, thus exceeding the prior year figure of €13.1 million. The increase in value added resulted primarily from the decrease in average capital employed, which was once again negative. As a consequence, the credit entry for the cost of capital was higher than in the previous year. This effect was intensified by the adjustment to the weighted average cost of capital to 10.0 percent which was undertaken in 2014. In financial year 2013, the return expected by providers of equity was set at 8.5 percent.

Vossloh Electrical Systems

Vossloh Electrical Systems develops and produces electrical systems for light rail vehicles and buses. This includes integrated systems solutions in the areas of drive units, on-board power supply, vehicle control systems and heating and air-conditioning technology.

The Electrical Systems business unit's sales in 2014 of €143.8 million were, contrary to initial expectations, significantly lower than in the previous year (€165.7 million). Sales in the Rolling Stock segment were approximately the same as the previous year. Due to the high order backlog at the end of 2013, very strong growth in this segment was originally anticipated. This goal could not be achieved because of delays in order processing. The business unit was also unable to achieve sales on the level of the previous year in the other segments, including in the bus business. Business is still tailored very heavily to the European market. Non-European sales amounted to less than 10 percent.

In 2014 new orders totaling €190.9 million were won, but the prior year's high figure of €238.4 million was not achieved. Nevertheless, in the past financial year, orders received exceeded sales.
The largest single order concerned the supply of traction systems for trolley buses in Seattle and San Francisco. The contract for the 200 ordered traction systems amounts to approximately €50 million. Among other things, the business unit also received a repeat order for the electrical equipment of 16 light rail cars for Manchester and, together with Vossloh Rail Vehicles, a tram contract in Austria. At the end of 2014, the order backlog of the business unit amounted to €551.3 million (previous year: €504.2 million).

Vossloh Electrical Systems capital expenditures fell from €10.1 million in 2013 to €6.6 million in 2014. As in the previous year, they focused on the systems-testing facility at the Düsseldorf location.

Updated project calculations significantly impact earnings

Value added of Vossloh Electrical Systems was negative. The Electrical Systems business unit is currently in a comprehensive restructuring and repositioning process and will focus again on the areas of light rail vehicles, trolley-buses, components, e-mobility and related services. The resulting streamlining of capacity and updating current project calculations led to extensive expenses in 2014. Overall, the one-time items in the business unit totaled approximately €50 million. After €(13.3) million in 2013, the business unit ended the financial year 2014 with a value added of €(80.8) million.

Vossloh AG

As a 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, is responsible for corporate accounting and controlling, groupwide 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 and coordinates the procurement processes of its subsidiaries. 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 has transformed significantly in the course of the financial year into an operational management holding, exemplified by the operational responsibility of Vossloh AG's Chairman of the Executive Board who has a dual role as Managing Director of the lead company in the Fastening Systems business unit. The other members of the Executive Board are also involved in the operating processes of the business units in a similar way.

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 accounted for differently according to IFRS.

Analysis of the separate financial statements

Vossloh AG's revenue for financial year 2014 of €1.4 million (previous year: €1.5 million) consists of rental income and intercompany allocations. 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.

In fiscal 2014, administrative expenses of €20.4 million were below the level of the prior year figure of €23.3 million. This decline was the result of significantly lower consulting expenses despite the higher trade fair costs in an InnoTrans year. Personnel expenses of €9.2 million were significantly below the prior year's amount of €6.8 million primarily as a result of the personnel measures that were undertaken. The number of employees as an annual mean in 2014 of 51 – calculated as the number at the end of each quarter – increased slightly compared with the prior year. Other operating income decreased compared to 2013 by €0.9 million to €4.6 million. This includes primarily income from marketing and IT levies from Group companies.

Compared to the prior year, the net financial result decreased in 2014 from €14.1 million to a negative amount of €(62.1) million.The major components of the net financial result in 2014 are income from dividends in the total amount of €30.0 million (previous year: €50.0 million) as well as profit transfers and tax allocations of Vossloh-Werke GmbH totaling €37.2 million (previous year: €23.9 million). The net financial result was negatively affected primarily by the takeover of losses of Vossloh Locomotives GmbH and Vossloh Kiepe GmbH and, to a lesser extent, Vossloh Rail Services GmbH in the total amount of €(119.2) million (previous year: €(52.4) million).

Opposite interest expenses of €20.0 million (previous year: €15.9 million), mostly from the refinancing of the Group's capital requirements, was interest income of €8.9 million (previous year: €7.5 million), primarily from the transfer of these funds in the form of short-term credit or long-term loans to Group companies. Income taxes amounted to €4.3 million (previous year: €0.3 million). Vossloh AG's net income in the reporting year was €(85.0) million (previous year: (€4.8) million).

The balance sheet total increased to €864.6 million (previous year: €840.0 million). On the asset side of the balance sheet, amounts due from affiliated companies rose slightly while other assets were up significantly. The equity and liabilities side of the balance sheet showed a marked decrease in amounts due to affiliated companies as a result of the higher transfer of losses in particular. Liabilities to banks rose significantly from €63.2 million in 2013 to €322.8 million due to the bridge loan of €250 million taken up during the year and a promissory note bond in the amount of €50 million. In contrast, other liabilities decreased from €214.2 million to €0.7 million through the partial early repayment of the US private placement. Equity decreased only slightly. In contrast to the substantial net loss, the sale of Vossloh AG's treasury shares in March 2014 resulted in an increase in equity of €91.1 million. The equity ratio amounted to 33.2 percent, compared to 34.2 percent in the prior year.

Vossloh AG's financial position depends on the funds needed by subsidiaries and the borrowings undertaken by the Company to refinance such requirements. The Executive Board of Vossloh AG is currently in advanced negotiations with several banks in order to put the Group's financing on a longer-term and more favorable footing. As mentioned in June 2014, in addition to the first tranche of the US private placement due, the second tranche was also repaid early in order to benefit earlier from the significantly lower interest rate as compared to the interest rate for the US private placement.

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 of Executive Board remuneration

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. By means of adequate variability, the system should also clearly and directly reflect collective and individual performances of the Executive Board, as well as the sustainable success of the company.

Criteria for the appropriate level of remuneration for Executive Board members are based on each member's function and personal performance, as well as Vossloh AG's economic situation and customary remuneration polices, while also taking the remuneration structure of the company and comparable corporations into account. These criteria have been considered in the Executive Board's updated contracts.

Classification of Executive Board member remuneration for 2014. The annual remuneration is a fixed basic salary plus variable remuneration with multi-year incentives. Here, the short-term portion of the remuneration plan is allotted a 45 percent share, while any long-term portion is allotted 55 percent.

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), primarily in the form of company car use.

Variable remuneration is based on multiple financial targets set by Vossloh AG as well as the goals within the direct responsibility of Executive Board members as defined by the Supervisory Board. The range of potential achievable targets is capped at double the base value.

In addition, the Supervisory Board, in well-founded cases and on a voluntary basis, may set an extra bonus allocation for extraordinary performance in the reporting period.

Executive Board remuneration in financial year 2014

Total remuneration granted by Vossloh AG to the Executive Board is calculated from
- basic remuneration in 2014, as well as
- variable remuneration in 2014.

For the variable remuneration plan's multi-year component, the allocated amounts cannot currently be quantified as these are dependent on the achievement of further targets for the current fiscal year. A view of inflow in accordance with § 4.2.5, 3rd paragraph, (2nd indent), of the German Corporate Governance Code serves no purpose for fiscal 2014 since inflow in 2014 for the multi-year remuneration component could not be compiled.

Remuneration for the Executive Board has been assigned by name and is in compliance with the recommendations of the German Corporate Governance Code. Payments in kind (PIK) essentially cover private company car use in the amount recognized for tax purposes. No remuneration was received for services performed on behalf of subsidiaries.

€					Variable remuneration				
Benefits granted		Fixed remuneration*	Fringe benefits	**Total**	One-year variable remuneration	Multi-year variable remuneration	**Total**	Benefit expenses	**Total remuneration**
Dr. h.c. Hans M. Schabert Chairman of the Executive Board since April 1, 2014	2013	–	–	**0**	–	–	**0**	–	**0**
	2014	562,513	16,274	**578,787**	187,500	–**	**187,500**	203,844	**970,131**
	2014 min.	562,513	16,274	**578,787**	0	0	**0**	203,844	**782,631**
	2014 max.	562,513	16,274	**578,787**	253,125	309,375	**562,500**	203,844	**1,345,131**
Oliver Schuster CFO since March 1, 2014	2013	–	–	**0**	–	–	**0**	–	**0**
	2014	510,429	17,443	**527,872**	72,917	–**	**72,917**	138,614	**739,403**
	2014 min.	510,429	17,443	**527,872**	0	0	**0**	138,614	**666,486**
	2014 max.	510,429	17,443	**527,872**	164,062	200,521	**364,583**	138,614	**1,031,070**
Volker Schenk COO since May 1, 2014	2013	–	–	**0**	–	–	**0**	–	**0**
	2014	350,010	7,422	**357,432**	0	–**	**0**	135,557	**492,989**
	2014 min.	350,010	7,422	**357,432**	0	0	**0**	135,557	**492,989**
	2014 max.	350,010	7,422	**357,432**	157,500	192,500	**350,000**	135,557	**842,989**
Werner Andree Chairman of the Executive Board until March 31, 2014***	2013	481,767	17,289	**499,056**	193,030	–	**193,030**	377,663	**1,069,749**
	2014	320,010	4,623	**324,633**	250,500	–	**250,500**	0	**575,133**
	2014 min.	320,010	4,623	**324,633**	250,500	–	**250,500**	0	**575,133**
	2014 max.	320,010	4,623	**324,633**	250,500	–	**250,500**	0	**575,133**
Dr.-Ing. Norbert Schiedeck COO until March 31, 2014	2013	327,559	21,796	**349,355**	123,539	–	**123,539**	143,158	**616,052**
	2014	83,798	5,482	**89,280**	–	–	**0**	145,716	**234,996**
	2014 min.	83,798	5,482	**89,280**	–	–	**0**	145,716	**234,996**
	2014 max.	83,798	5,482	**89,280**	–	–	**0**	145,716	**234,996**

* Of this, €187,500 (Dr h.c. Schabert), €218,750 (Mr. Schuster) and €116,667 (Mr. Schenk) are a guaranteed bonus for 2014.
** The grant of multi-year variable compensation for 2014 depends on the achievement of further performance targets for the current year. Target fulfilment is measured after the expiry of the contractually-defined multi-year period.
*** Expiry of employment contract on August 31, 2014

Entitlements to defined retirement benefits in accordance with German GAAP (Commercial Code) are as follows:

€		Amount accrued for the fiscal year	Present value of pension obligation
Dr. h.c. Hans M. Schabert	2013	–	–
Chairman of the Executive Board	2014	93,184	93,184
Oliver Schuster	2013	–	–
Member of the Executive Board	2014	64,426	64,426
Volker Schenk	2013	–	–
Member of the Executive Board	2014	51,498	51,498
Werner Andree	2013	543,677	4,019,699
Chairman of the Executive Board	2014	–	4,002,598
Dr.-Ing. Norbert Schiedeck	2013	141,127	681,417
Member of the Executive Board	2014	265,753	947,170

In connection to the early termination of his Executive Board duties, a one-time payment in the amount of €325,000 was approved and granted to Dr.-Ing. Norbert Schiedeck in the course of the financial year.

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 1 percent, or in the case of a first time contract renewal 2 percent, up to a maximum of 40 percent of the pensionable annual basic remuneration. In financial 2014, a total of €474,861 was provided for the accrued balance of Executive Board members (previous year: €661,501). Upon the death of an active or former member of the Executive Board, the pension payed to the surviving spouse is reduced to a maximum of 60 percent of the most recently paid pension.

Commitments in the event of early termination of duties. In the case of early termination of services provided, without proper grounds for said termination, the Executive Board employment contracts guarantee the payment of a base salary, with a set maximum limit of two years' salary remuneration. 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 2014 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 members of the Executive Board and their surviving dependants totaled €907,230 (previous year: €664,602). Current retirement pensions are subject to adjustment respective to the collective pay trend of salaried employees in the Iron, Metal, Electric and Central Heating Industries of North Rhine-Westphalia. Pension obligations to former members of the Executive Board and members of the Executive Management, as well as their surviving dependants amounted to €17,500,736 (previous year: €12,338,786). Included here are obligations to former members of the Executive Board who stepped down from their positions during the year. Employer pension liability insurance policies totaling €11,054,586 (previous year: €11,571,995) are pledged in each beneficiary's favor. The balance of these pension obligations is covered by provisions.

Supervisory Board remuneration

Supervisory Board remuneration 2014. 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 the independence required for the Supervisory Board to carry out its monitoring function is further strengned.

The resolution relating to the Articles of Incorporation took effect on July 1, 2014, resulting in the determination of Supervisory Board remuneration on a pro rata basis for the first six months of the fiscal year as defined by the old regulation, while the last six months of the fiscal year are to be determined by a new regulation.

Supervisory Board remuneration for the first six months of the year is determined on a pro rata basis as follows: Supervisory Board members receive a fixed annual remuneraton of €20,000 each, while also being reimbursed for their expenses. In addition, they are paid a variable annual remuneration of €1,000 for each €0.10 in excess of the Group's earnings per share over €2 (based on the number of shares issued).

Remuneration for Supervisory Board members in the second half of the fiscal year is defined by the Articles of Incorporation as amended on May 28, 2014 and on a pro rata basis as follows: Supervisory Board members receive a fixed annual remuneration for duties performed of €40,000 (gross) to be paid after the conclusion of the financial year and are also reimbursed for their expenses.

The following regulation applies to the current and future remuneration policy for the Supervisory Board: The Supervisory Board Chairman receives 300.0 percent, the Vice-Chairman 150.0 percent and all other committee members receive 125.0 percent of the above remuneration. Membership for each committee is thus compensated through a premium of 25.0 percent for each of the aforementioned remuneration amounts. The Audit Committee Chairman receives three times the premium for Audit Committee membership. However, membership in the Nomination Committee is only remunerated by the payment of an additional 25.0 percent of the fixed annual remuneration if the Committee convenes in the financial year. If the Supervisory Board Chairman is also a committee member, no additional remuneration is to be paid for his activities on the committee.

In accordance with the Articles of Incorporation, Supervisory Board members received a total remuneration of €306,667 for 2014, (previous year: €236,875). Of that total, €306,667 is fixed and €0 is performance-related.

The table below itemizes the amounts attributable to each Supervisory Board member (previous year's amounts in parentheses):

€	Fixed remuneration	Variable remuneration	Total
Heinz Hermann Thiele (Chairman)	90,000 (40,000)	0 (0)	90,000 (40,000)
Ursus Zinsli (since May 28, 2014)	35,833 (–)	0 (–)	35,833 (–)
Dr.-Ing. Wolfgang Schlosser (since May 28, 2014)	32,500 (–)	0 (–)	32,500 (–)
Dr. Alexander Selent (until September 14, 2014)[1]	44,167 (26,667)	0 (0)	44,167 (26,667)
Dr. Wolfgang Scholl (until May 28, 2014)[2]	16,667 (28,333)	0 (0)	16,667 (28,333)
Dr.-Ing. Kay Mayland (from January 9, 2013 until May 28,2014)	12,500 (30,000)	0 (0)	12,500 (30,000)
Michael Ulrich	45,000 (26,667)	0 (0)	45,000 (26,667)
Silvia Maisch (since May 29, 2013)	30,000 (13,333)	0 (0)	30,000 (13,333)
Dr.-Ing. Wilfried Kaiser (Chairman, until May 29, 2013)	– (25,000)	0 (–)	– (25,000)
Peter Langenbach (until May 29, 2013)[3]	– (17,708)	0 (–)	– (17,708)
Dr. Christoph Kirsch (until May 29, 2013)	– (16,667)	0 (–)	– (16,667)
Wolfgang Klein (until May 29, 2013)	– (12,500)	0 (–)	– (12,500)
Total	**306,667** **(236,875)**	**0** **(0)**	**306,667** **(236,875)**

[1] Vice Chairman from May 28, 2014 until September 14, 2014
[2] Vice Chairman from May 29, 2013 until May 28, 2014
[3] Vice Chairman until May 29, 2013

Loans to Supervisory Board members. In 2014, no advances or loans were granted to any Supervisory Board members.

Consulting Contracts. In 2014 a consulting contract was concluded with Mr. Ursus Zinsli

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

The provisions of Articles 289(4) and 315(4) HGB require that the following takeover-related disclosures as of December 31, 2014, be made.

Composition of subscribed capital
The Company's subscribed capital (share capital) of €37,825,168.86 is divided into 13,325,290 no-par bearer shares of common stock, each entitled to one vote.

Restrictions on voting rights or transfer of shares
Each share is entitled to one vote at the Annual General Meeting, the same rights attaching to all Vossloh AG shares. 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 29.99 percent of the voting rights in Vossloh AG. These voting rights are to be attributed to the TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany, and Mr. Heinz Hermann Thiele, Germany, pursuant to Art. 30 (1) sentence 1 no. 3 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 of the Company exercise their control rights similarly to other shareholders, directly in accordance with applicable statutory requirements and the Articles of Incorporation.

Appointment/dismissal of Executive Board members; bylaw amendments
Vossloh AG's Executive Board members are appointed or dismissed in accordance with the provisions of Articles 84, 85 AktG in conjunction with Art. 7 of the Articles of Incorporation. Pursuant to Art. 84(1) AktG, Executive Board members are appointed by the Supervisory Board for a maximum term of five years, their reappointment or the renewal of their term of office being permitted. The appointment of an Executive Board member may be revoked in the cases set out in Art. 84(3) AktG. While, according to Art. 179(1) AktG, the Articles of Incorporation may be amended by vote of the general meeting, amendments that merely relate to wording may also be delegated to the Supervisory Board. In conformity with Art. 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. Art. 27 of the Articles of Incorporation authorizes the Supervisory Board to amend the Articles of Incorporation where only their wording is involved. Art. 4(8) of the Articles of Incorporation further authorizes 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 Executive Board to issue and repurchase shares
Art. 4 of the Articles of Incorporation specifies the Executive Board's powers to issue new stock.

a) Authorized capital
The provisions of Art. 4(2) of the Articles of Incorporation authorize the Executive Board, subject to the Supervisory Board's approval, to increase the capital stock on or before May 27, 2019, by an aggregate maximum of €7,500,000 by issuing once or several times new no-par bearer shares of common stock against cash and/or noncash contributions ("Authorized Capital") while duly granting stockholders their statutory subscription right. However, after first obtaining approval from the Supervisory Board, the Executive Board may exclude this subscription right:
(i) for fractions resulting from the subscription ratio;
(ii) in order to grant to holders of conversion rights, options and/or warrants, or of a conversion obligation from convertible and/or warrant bonds previously floated or issuable by the Company or one of its wholly-owned subsidiaries which are outstanding at the time of the utilization of the authorized capital, subscription rights for new shares in the amount they would be entitled to upon exercise of their conversion rights and/or options or upon satisfaction of a conversion obligation;
(iii) if new shares are issued against cash contributions at a price that is not significantly below the stock market price current for same-class Vossloh stock at the time at which the final issuance price is fixed, and the newly issued stock does not exceed a total of ten percent of the capital stock either at the effective date or at the date of exercise of this authority. The sale of treasury shares is taken into account for this capital limit, if during the term of this authorization this is carried out excluding the subscription right pursuant to Art. 186(3) sentence 4 AktG. Shares issued or issuable to service convertible and/or warrant bonds or to satisfy conversion obligations shall also be counted toward the 10-percent ceiling, provided that the bonds are issued ex rights during the validity period of this authority in application of the provisions of Art. 186(3) Clause 4 AktG;
(iv) for any capital increase against noncash contributions.

The Executive Board is authorized, subject to the Supervisory Board's approval, to stipulate all further details of the capital increase, as well as all stock issuance terms and conditions.

b) Conditional capital
(i) Pursuant to Art. 4(3) of the Articles of Incorporation, the Company's capital stock has been conditionally increased by €6,979,134.18 by issuing 2,730,000 bearer shares of common stock. This contingent capital increase will be implemented only to the extent that, under the warrant bond issues floated by Vossloh AG and/or its (directly or indirectly) wholly owned non-German subsidiaries on or before June 28, 1999, the warrant holders exercise their right to subscribe for common stock. The new common shares participate in profits from the beginning of the financial year in which they arise through the exercise of options.

(ii) Pursuant to Art. 4(4) of the Articles of Incorporation, the Company's capital stock has been conditionally increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to employees under an SOP authorized by the annual general meetings of June 25, 1998, and/or June 3, 2004, have exercised or will exercise their options. The new common stock participates in profits from the beginning of financial year in which it is created by option exercise, on whose profit appropriation is resolved in the succeeding financial year's AGM.

(iii) Pursuant to Art. 4(5) of the Articles of Incorporation, the Company's capital stock has been conditionally increased by €1,468,225.77 by issuing 574,320 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to officers, executives and other management staff under a long-term incentive plan (LTIP) authorized by the annual general meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock participates in profits from the beginning of financial year in which it is created by option exercise, on whose profit appropriation is resolved in the succeeding financial year's AGM.

(iv) Pursuant to Art. 4(6) of the Articles of Incorporation, the Company's capital has been conditionally increased by a total of €3,782,500 by issuing up to 1,479,585 no-par bearer shares of stock in order to grant new no-par bearer shares to the holders or creditors of such convertible bonds, warrant bonds, participating rights and/or income bonds (or any combination of such instruments) as are issued or floated by Vossloh AG or any of its (directly or indirectly) wholly-owned subsidiaries through the authority conferred by the AGM of May 19, 2010, according to Agenda Item 8.
The new no-par bearer shares will be issued at a conversion or option price to be determined in accordance with the aforesaid AGM resolution. The conditional capital increase shall be implemented only to the extent that conversion rights or equity warrant options are exercised, the bondholders, warrant owners or creditors subject to a conversion obligation actually meet their conversion obligations, and no cash compensation is paid in lieu, or treasury shares or new shares issued by utilizing authorized capital are used. The newly issued no-par bearer shares participate in profits as from the beginning of the financial year in which they are created by conversion or option exercise or by satisfaction of conversion obligations. The Executive Board is authorized to specify all further details of the conditional capital increase and its implementation.

c) Repurchase of treasury stock
According to the resolution of the Annual General Meeting of May 19, 2010, and pursuant to Art. 71(1) No. 8 AktG, the Company is authorized until May 18, 2015, to acquire treasury stock equivalent to an aggregate maximum of ten percent of Vossloh AG's capital stock. The Executive Board exercised this authority to repurchase 1,332,529 treasury shares (10.0 percent of the capital stock) between July 27 and December 2, 2011. No further authority of Vossloh AG to buy back treasury shares exists.

At December 31, 2014, the Company did not hold any treasury shares.

Agreements in the event of a change of control
Nine significant agreements of the Company exist which could come into effect upon a change in control. Change of control in this connection in principle means that a company or person directly or indirectly obtains the majority (>50.0 percent) of the capital shares, or more specifically, the voting shares of the Company.

- Two credit facility agreements with Landesbank Baden-Württemberg:
  In the event of a change in control, the credit facility agreements with Landesbank Baden-Württemberg contain an extraordinary right of cancellation without notice on the part of the bank of the credit facility agreement and the underlying transactions concluded.

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

- A credit facility agreement with the Commerzbank AG:
  In the event of a change in control, the credit facility agreement with the Commerzbank AG contains an extraordinary right of cancellation without notice on the part of the bank of ''the credit facility agreement and the underlying transactions concluded''. In the event of termination, the Bank will "allow adequate time for processing, unless an immediate settlement is required".

- Two credit facility agreements with Deutsche Bank AG:
  In the event of a change in control, the credit facility agreement with Deutsche Bank AG contains an extraordinary right of cancellation without notice on the part of the bank of ''the credit facility agreement and the underlying transactions concluded''. In the event of termination, the Bank will "allow adequate time for processing, unless an immediate settlement is required".

The other credit facility agreement provides that in the event of a change in control and if “an agreement between the parties on the continuation, if necessary under amended conditions, in terms of interest, security, or other agreements, is not reached in time,” the bank is entitled to an extraordinary termination right. In the event of a cancellation, the outstanding balance, including accrued interest, would be immediately due and payable.

- A credit facility agreement with Landesbank Hessen-Thüringen:
  In the event of a change in control, the credit facility agreement with Landesbank Hessen-Thüringen contains an extraordinary right of cancellation on the part of the bank (with a four-week period of notice) of the credit facility agreement and the underlying individual loan agreements. In the event of a cancellation, the outstanding balance, including accrued interest, would be immediately due and payable.

- A credit facility agreement and a syndicated guarantee with SEB AG:
  In the event of a change in control, both agreements with SEB AG contain an extraordinary right of cancellation of the credit facility agreement on the part of the bank. In the event of a cancellation, the outstanding balance, including accrued interest, would be immediately due and payable.

Compensation agreements upon change of control
No agreements for compensation have been reached with members of the Executive Board or employees of the Company in the event of a takeover offer.

Employees

At December 31, 2014, the Vossloh Group employed a workforce worldwide of 5,781.
This figure was 301 more than in the previous year (5,480), and represents an increase of 5.5 percent.

Employee-related indicators

		2014	2013*
Personal expense per employee	k€	56.9	54.1
Revenues per employee	k€	230.8	247.9

*Previous year figures presented in a comparable manner, see page 134 of the Group's annual report

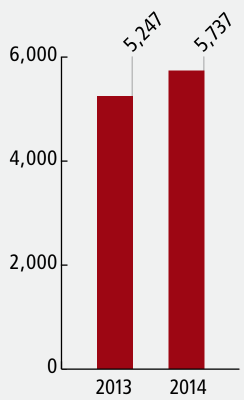
The average number of employees in the past financial year amounted to 5,737, compared to 5,247 in 2013.

A total of 82.5 percent of the employees worked at the Group's European locations. Of the remaining 17.5 percent, 36.1 percent (previous year: 37.8 percent) were employed in the North American area and 40.5 percent (previous year: 41.1 percent) at production locations in Asia. In addition, employees were located in Australia and South America.

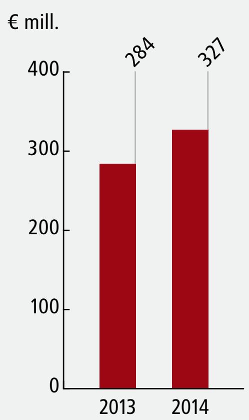
Personnel expenses

€ million	2014	2013*	% change
Wages and salaries	262.8	229.2	+ 14.7
Social security and benefits	58.6	49.1	+ 19.4
Pension expenses	5.1	5.7	(11.5)
Total	**326.5**	**284.0**	**+15.0**

*Previous year figures presented in a comparable manner, see page 134 of the Group's annual report



Average Group headcount



Personnel expenses in € million

Due to the increase in labor costs, provisions for employee redundancies and the growth in personnel, personnel expenses increased in 2014 by 15.0 percent, from €284.0 million to €326.5 million. Personnel expense per employee increased from k€54.1 to k€56.9.

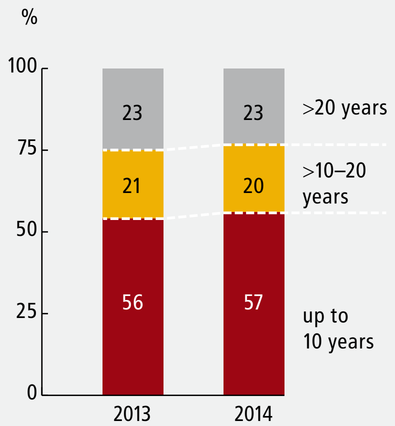
The age structure of employees in the Group changed only slightly in 2014. The share of employees aged between 35 and 50 declined slightly to 38.4 percent, while the share of employees aged under 35 increased slightly to 30.6 percent. The portion of Group employees working for more than 10 years for the Company increased to almost 57.0 percent (previous year: 55.7 percent).

Rail Infrastructure

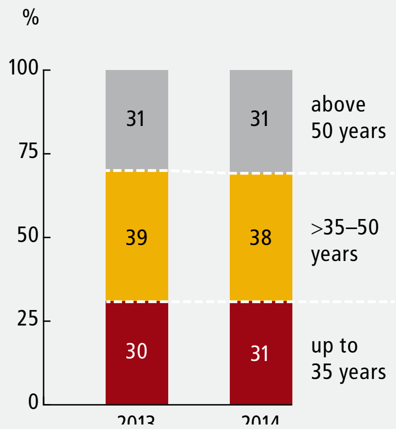
The workforce in the Rail Infrastructure division increased in 2014 by 252 to 3,537 employees above the prior year's 3,285 average number of employees. Personnel expense per employee increased from k€46.3 to k€47.2. Sales per employee declined substantially and amounted to k€245.7 (previous year: k€266.5).

Transportation

Employees in the Transportation division also increased in 2014 – with an average number of employees of 2,149 this represents an increase of 233 employees over the prior year's average of 1,916. In 2014, personnel expense per employee amounted to k€70.1 and was above the prior year's amount of k€65.2. In 2014, provisions for employee redundancies, among other things, led to this increase. Sales per employee declined by from k€221.9 in previous year to k€211.7.



Service years in%



Age structure in %

Human Resources (HR) Strategy

With the strategic realignment of the Group, Vossloh set itself the goal of making the systematic identification and development of potential a focus point of the HR Strategy.

An important step in fiscal 2014 was the establishment of an international HR community, which implements standardized strategic tools across the whole Group, thus ensuring cooperation across borders and time zones.

Central initiatives for the implementation and sustainable anchoring of the HR strategy also include the introduction of Group-wide succession planning, development of cross-divisional career planning and the further expansion of health and safety management.

Personnel development

The passion and expertise of our employees is the motor that continuously drives us forward. That is why we encourage the development and transfer of knowledge in the daily working environment through intelligent personnel development.

This is reflected in a wide range of internal and external training and development activities. Within the scope of the Vossloh Academy, cross-company training sessions are offered that support individuals in developing more methods, management skills and social skills, according to the requirements determined by managers and employees. Additionally, employees from various divisions can network with each other during the training and exchange and share their valuable knowledge. The experience of older employees and the contribution of employees of different nationalities is especially valued. Ultimately, the diversity of the workforce at all levels is a strategic success factor for Vossloh.

Management development

Whether it's anchoring HR strategies within the Group, promoting talented employees or living up to the jointly developed Vossloh values of passion, excellence, trust and respect as well as entrepreneurship as a role model for others: management plays a key role.

We support and promote the performance of our managers. The Group's strategic realignment therefore calls for a revision of the leadership development program successfully implemented in the past "We lead Vossloh". This program, like the Leaders' Lounge, the annual top management conference, will in future be geared toward a broader target group, so that high potentials can benefit from the cross-hierarchical network within the Group.

Initialtraining@Vossloh

An important building block for the training of future skilled workers is the initial training. Vossloh offers training opportunities in commercial and industrial-technical vocations as well as dual courses of study at the locations Düsseldorf, Hamburg, Kiel, Moers, Seevetal, Trier und Werdohl. In 2014, 18 young individuals started an apprenticeship at the German locations. As of the end of the year, a total of 85 apprentices were employed – this represents an apprentice quota of approximately 5.4 percent.

In 2014 Vossloh created a special incentive for the apprentices – the four best in the year group in Germany share a company car for the year – the Smart Apprentice powered by Vossloh!

Occupational health and safety

A Work Safety Commitee operates intensively at Group level to ensure that the goal of "zero accidents" is achieved. More than 80 percent of Vossloh employees work at OHSAS 18001 certified locations.

Another task of the Work Safety Committee is to develop and implement a Group-wide occupational safety program for the continuous improvement of working conditions for our employees. This will create a new safety culture. A production worker in China will then work under the same safety conditions as his colleague at a plant in Europe.

Occupational health is also very important to us. Various offerings for occupational health management underline the Group's efforts (healthy food in the canteen, non smoking courses, driving courses or company runs).

Thanks to the employees

We would like to thank our employees, apprentices and managers for their tireless commitment, personal dedication and passion with which they support the goals of the company.

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

Research and development

Vossloh is a technology leader in its core markets. To meet specific customer expectations in different market regions, Vossloh continuously invests in the refinement and optimization of its products and services, as well as in research and implementation of innovative rail technology solutions. An essential part of our research and development takes place in connection with individual orders. This is especially true with regard to the Transportation business unit. The associated costs are therefore recognized in the income statement under cost of sales, rather than under research and development (R&D) expenses.

The development costs of a marketable product are capitalized wherever they fulfill IAS 38 criteria for capitalization of development costs. Development costs which cannot be capitalized – insofar as they are not reported under cost of sales – are recognized as research and development costs.

Vossloh Group: research and development expenses

€ million	2014*	2013
Total research and development expenses	23.4	24.1
thereof capitalized	8.8	12.5
Research and development costs (income statement)	**14.6**	**11.6**
Amortization (of capitalized development expenditures)	37.1	8.0

*In 2014 impairment losses were incurred for capitalized development expenses in the amount of € 27.8 million.

Research and development activities in 2014 increased as compared to the year prior in both divisions. At Rail Infrastructure, expenses amounted to €7.4 million (previous year: €6.6 million) and in the Transportation division they were €7.2 million (previous year: €5.0 million). Expenses for research and development in 2014 — before work performed and capitalized — thus totaled €14.6 million (previous year: €11.6 million). This corresponds to a share of sales of approximately 1.1 percent percent (previous year: 0.9 percent). Work performed and capitalized in 2014 amounted to €8.8 million after €12.5 million in the previous year. Of that total, €1.4 million was accounted for by the Rail Services business unit while Locomotives and Rail Vehicles each accounted for €3.3 million. In total, expenses for research and development including work performed and capitalized was €23.4 million (previous year: €24.1 million), a ratio of 1.8 percent as related to Group sales (previous year: 1.9 percent). Amortization of capitalized development costs came to €37.1 million in 2014 (previous year: €8.0 million). The increase was primarily a result of unscheduled amortization on the capitalized development costs at Vossloh Locomotives.

The focus of Vossloh's research and development activities has always been continuous adaptation of existing products and services to specific requirements and market developments, as well as targeted expansion of our existing portfolio. In this process, a systematic development approach encompassing each of the individual business units has emerged. The idea is to develop products and services in terms of optimal overall customer solutions through cooperation among the various Vossloh business units.

To this end, we continued and strengthened cooperation among research and development teams across the entire Group in 2014. In addition, we started organizing regularly scheduled innovation forums. These forums offer the company's research and development experts a venue apart from their day-to-day duties in which to generate creative development approaches.

Research and development activities in the Rail Infrastructure business unit in 2014 are focused on optimizing components for equipping and working on the rail network. There was a special emphasis on noise reduction, for example through the introduction of low-noise materials in track beds, as well as avoidance and treatment of wear on the track network, for example through regular track care. The Transportation business unit developed new products and services that have a sustained positive effect on the environment while at the same time increasing profitability. Reducing emissions and energy consumption is a concrete example of what this business unit is working on. However, its efforts also focus on improving driver and passenger comfort, as well as bringing down the operating and maintenance expense of rolling stock and components.

For a range of research projects, Vossloh taps into the specific expertise of outside specialists. There are numerous partnerships with high-profile universities and research institutions. Vossloh is making contributions to the rail traffic of the future in several large-scale European projects. These projects focus on a further reduction of emissions and noise, the efficient use of resources, utilization of alternative energy sources, and enhanced rail safety and efficiency. For instance, Vossloh Rail Vehicles successfully participated in the European Commission's MARATHON project. The abbreviation stands for "MAke RAil The HOpe for protecting Nature." One of the goals of the initiative is to develop innovative vehicle technologies for secure and economically sensible cargo transport within Europe. As part of a project team comprised of leading rail technology companies, Vossloh developed a special system – including the necessary vehicle fixtures – which enables two EURO 4000 locomotives to communicate with each other. Field testing was impressive: on April 12, 2014, a 1.5 kilometer long train – extremely long by European standards – weighing more than 4,000 tons traveled at 100 kilometers per hour along a test route in France. This longest freight train ever in Europe had 72 cars. A specially equipped EURO 4000 lead locomotive pulled and controlled the train; additional power came from an unmanned EURO 4000 in the middle.

Vossloh also took part in the Clean European Rail-Diesel (CleanER-D) initiative. The main goal of this project is the development and continuous improvement of innovative technologies for reducing emissions in diesel locomotives and other rolling stock. The locomotive engines were designed such that their harmful emissions were many times lower than the limits specified in the new European NRMM directive (Non-Road Mobile Machinery Directive). Vossloh Rail Vehicles demonstrated this in a EURO*LIGHT* locomotive with an innovative exhaust recirculation system and a special downstream diesel particulate filter. Testing conducted in a Vossloh-specific subproject showed significant reductions of NO_x emissions and particulate matter.

Vossloh Rail Vehicles also took part in the EU project REFRESCO (toward a REgulatory FRamework for the usE of Structural new materials in railway passenger and freight CarbOdyshells). It aims to develop a framework designed to promote the use of new, environmentally friendly materials for the manufacture of rolling stock. Vossloh Rail Vehicles was one of 18 partners working in various development stages and with a special emphasis on developing a characterization methodology for alternative materials selection. The business unit is also associated with SHIFT2RAIL, another European cooperation platform in the form of a public-private partnership. Its goal is to develop innovative products and technologies for rail traffic. Vossloh took part in the complete preparatory phase of the SHIFT2RAIL project and together with other partners helped plan the essential framework for SHIFT2RAIL; it successfully took part in various consortiums, among them IP1 (Energy & Mass Efficient Technologies for High Capacity Trains) and IP5 (Technologies for Sustainable & Attractive European Freight). Other key projects in which Vossloh business units take an active part, are ERI (Eco Rail Innovation; Vossloh Locomotives, Vossloh Rail Services), CAPACITY4RAIL (Vossloh Switch Systems) and RAILENIUM (Vossloh Switch Systems).

Vossloh Fastening Systems invested much of its research and development effort in 2014 into further development of the new generation of screw-dowel fasteners. The innovative next-generation fasteners were certified and comprehensively tested in 2014 in Germany, Austria and North America. In spring 2015 they will be installed and tested under real-world conditions for the first time. In addition, Vossloh Fastening Systems is intensively studying rail acoustics. With the goal of noise reduction, research and development activities are concentrating on the use of alternative materials for elastic elements of the track superstructure and alternative designs in the rail/sleeper system. Our own test benches and in-house testing procedures, as well as continuous optimization of independent testing processes in close cooperation with research institutes and universities, form an important basis for this development work. Since 2013 Vossloh Fastening Systems has increasingly taken part in international railway superstructure projects in order to take an active role in the creation of new standards. Vossloh Fastening Systems is currently involved in standards development in Russia and China.

At Vossloh Switch Systems, a new technology center opened in Reichshoffen, France in the fall of 2013 has combined the research and development capabilities for both Switch Systems and Signaling Equipment under a single roof. In 2014, engineers at Vossloh Switch Systems developed a switch model specifically for use in freight trains which is now ready for testing. They also developed a support solution for check rails which will be comprehensively tested in 2015. In addition, several newly developed switch systems and system components were field tested during the reporting period – lubrication-free switches and a switch system with very low stiffness, for instance. Furthermore, in 2014 all of the necessary technical requirements were set for the test phase, scheduled for 2015, of the new software for dynamic switch behavior simulation, which was developed in-house. Concurrently, Vossloh Switch Systems and a partner are developing a new service concept to improve the performance of the rail/switch system. The first joint projects are planned for 2015. A large part of the development work for switch monitoring and locking systems also took place in 2014 to meet specific customer requests.

The focus of research and development activities at Vossloh Rail Services in 2014 was on optimization measures for the in-house developed HSG-city high-speed grinder in 2014, equipment developed primarily for track maintenance on municipal rail lines. The developers implemented measures to improve the maintenance-friendliness and modularity of the system while improving the configurability of the HSG-city, which will be produced in small numbers in the future. Vossloh Rail Services also refined certain aspects of the second-generation Vossloh HSG-2 high-speed grinder. For example, the contact-surface spread was redesigned and work was started on a new derailment sensor. Also, engineers started work on improving essential aspects of the HSG-2 dust collection system. In 2014 the business unit was also involved in the development of an innovative mobile milling machine with one of its partners. The machine is capable of high-performance milling which, by removing more material per cycle at high speeds with less residual ripple, achieves substantially better processed rail quality than conventional milling techniques. This development project will continue through 2016. In 2014, the unit filed a relevant patent application.

The Transportation business unit continued the optimization in 2014 of its product portfolio begun in recent years in line with the new areas of focus specified in the realignment initiated in June of the reporting year. Vossloh Locomotives continued development of its new family of modular locomotives. This series approval of the new locomotives progressed in 2014. The four-axle G 18 models were approved for the French market in September, and in the end of 2014 the DE 18 also achieved approval there. In Germany the G 12 and G 18 were approved for use in December 2013. This was followed in October 2014 by the approval for the DE 12 and the DE 18. In December 2014, Vossloh Locomotives also received approval in the German market for the G 6 at 60 tons and 100 km/h hauled speed. Series certification for the G 6 variant equipped with an MTU engine was issued for Germany in 2014. Finally, the fall of 2014 saw the beginning of the EuroKVB Tri-Standard train protection project involving Vossloh Locomotives, Vossloh Rail Vehicles and a system provider. Preparations for equipping the locomotive series DE 12, DE 18, EURO 4000 and EuroDual with the new system are underway; country transitions between France/Germany/Belgium/Luxembourg are under development.

At Vossloh Rail Vehicles in Valencia the hard work of recent years has paid off with a number of pioneering results. For instance, the Vossloh locomotives delivered since 2014 have a highly precise optional display which indicates the remaining range of the vehicle based in the fuel level. This avoids any unnecessary refueling stops. The R&D team in Spain is also working on a sensor that continuously monitors the wheel profile of the locomotive, thus improving safety. In addition, Vossloh Rail Vehicles has continued development on its new lightweight bogie generation; new welding techniques were tested in 2014. The aim is to reduce the weight of the bogie by up to 30 percent without compromising safety. Vossloh Rail Vehicles performed simulations with a new actuator that better compensates for uneven tracks, thus significantly improving passenger comfort. There were significant improvements to lateral acceleration in curve entry. Based on these insights, a final test phase for the new actuators was initiated in December 2014.

For urban transit vehicles, 2014 saw a continued focus at Vossloh Rail Vehicles on a uniform modular interior design concept. The aim is a Vossloh design with a high recognition factor and an up-market, elegant look, which at the same time enables a customer-specific and flexible layout.

Vossloh Electrical Systems in Düsseldorf successfully commissioned a new system proving ground in 2014, following a two-year planning and implementation phase. An area of some 1,800 square meters is now home to nine test stations - five traction test benches, three auxiliary test benches and a 1,400-kilowatt locomotive test bench. Also at the end of 2014, a power storage testing facility was set up which will be commissioned in 2015.

In addition to the general certification requirements for trams, a number Vossloh Electrical Systems projects must meet requirements set by the German Railway Agency. This applies to all of the municipal railways traveling on Deutsche Bahn routes, and thus for all of the vehicles ordered for the cities of Karlsruhe and Chemnitz as well as the modernization project in Saarbrucken. Similar requirements are in place for the suspension railway in Wuppertal. To this end, a modular control system for the project design was developed in 2014 which will be used whenever Vossloh municipal trains travel outside of tram networks. The first approval process to operate the system in traffic was completed in Karlsruhe in 2014. The rest of the approvals are expected to be granted in the first half of 2015.

An energy storage unit with double-layer capacitors was developed for the first time for use in the Tramlink vehicle in Rostock. This technology is also intended for use in other tramways – in Braunschweig, for instance. In the course of further refinement of the machine control for traction equipment based on indirect stator value control (ISR), Vossloh Electrical Systems built and tested a new development platform, MATLAB-Simulink. In the future, the positive experience will be used in the development of the new power converter controllers. In 2014 Vossloh Electrical Systems also looked at the technical potential of increasing the service life of bearings in Vossloh traction motors, which resulted in a patent application.

Energy storage, in particular for trolley buses, is a future area of development for Vossloh Electrical Systems. The focus in this area is on the power converter technology required for power and energy management. For the trolleybus project in Esslingen, for instance, a battery converter was developed which is scalable both in voltage and output. This modular battery power converter concept enables Vossloh Electrical Systems to respond highly flexibly to future customer requirements.

Environmental protection

Rail transportation is among the most environmentally-friendly modes of transportation that there is – for both local and long-distance transport. Products and services from Vossloh make an important contribution so that the environmentally-friendly movement of people and goods can be both cost effective and safe. The company thus supports rail lines as an attractive mode of transportation. The vehicles in road-based local traffic, such as buses fitted out with Vossloh hybrid technology and, in particular, the electric buses equipped with Vossloh systems, have a significant advantage in terms of ecological benefits compared with private cars.

In its rolling stock and drive systems, Vossloh places particular importance on environmental compatibility and sustainability. Regular audits by the local environmental authorities ensure that all statutory and regulatory requirements are complied with and emissions are below the permitted limits, in some instances significantly.

In the development of Vossloh diesel locomotives, efforts are primarily focused on a reduction of fuel consumption to a minimum while at the same time improving the performance and reliability of the vehicles and thus producing the lowest possible amount of CO_2 and other pollutants. For years now, Vossloh Locomotives in Kiel and Vossloh Rail Vehicles in Valencia have been active in research projects with a focus on reducing emissions. These include, for example, efforts to continuously improve the efficiency levels of power trains and use of new materials and material mixtures to reduce the weight of locomotives through constructive developments. Vossloh locomotives are also equipped with a number of assistance systems which support environmentally friendly operation. New models of the EURO family from Valencia and modular-platform locomotives from Kiel already meet the strict exhaust emission standards of the European Non-Road Mobile Machinery Directive (NRMM). Also in the case of rail vehicles for local transport, Vossloh contributes to environmentally-friendly transportation: traction systems from Vossloh Electrical Systems, for example, are designed in such a way that in trams, city railways and regional trains the braking energy is used and can be fed back into the grid.

A further key element in the area of environmental protection is the reduction of the noise emissions from locomotives and local transport vehicles that are generated when driving. Efforts are focused both on the noise levels inside the vehicles as well as noise generated along the routes. This is thus not only an issue for the engineers the Vossloh vehicles business, but increasingly also an area in which Vossloh Rail Infrastructure will become active. Work on rail lines and switches by Vossloh Rail Services contributes not only to an extended service life of the materials, but also ensures a noticeable reduction in noise emissions through the establishment of smooth surfaces. At Vossloh Fastening Systems and Vossloh Switch Systems, the focus is on the development of innovative systems which ensure that less vibration and therefore also less noise occur upon contact between the rail and wheel. Electric buses with drive technology from Vossloh Electrical Systems operate nearly noise-free and without any exhaust emissions whatsoever. Even conventional buses can become more environmentally-friendly and quieter with Vossloh technology: a hybrid drive reduces exhaust and noise emissions significantly.

In production, all Vossloh companies attach great importance to a sparing and efficient use of resources. This applied in particular to the planning for the new locomotive plant in the German city of Kiel, which will be built in 2015. The planned building meets the latest technical standards and allows for efficient production processes. Emissions and the consumption of resources can be kept to an absolute minimum.

At Vossloh Fastening Systems, the development of a comprehensive and target-oriented energy management was continued and, in summer, successfully completed with certification in accordance with DIN EN ISO 50001. In 2015, the system will be fully-integrated into the existing management systems. This means that key figures from the energy area and the monitoring of the responsible handling of energy become a permanent component of the regular reporting. In order to take better advantage of potential synergies in environmental protection and environmental management, the already related topics of environment, health, quality and safety were combined organizationally. This also takes into account the fact that statutory requirements with regard to environmental, health and occupational safety are overlapping to an ever-greater extent.

At Vossloh Switch Systems, too, measures are continuously being implemented to reduce consumption of raw materials, water and energy – the highest priority here is generally given to the protection of the groundwater. The technology center in Reichshoffen, France conforms to all current requirements with respect to thermal insulation and energy savings. At Vossloh Switch Systems in Luxembourg, an 800 square meter photovoltaic system that was installed on the roofs of the production buildings is now producing about 600 megawatt hours of electricity each year, thus covering roughly one fifth of the location's electricity needs.

Throughout the entire production process for locomotives in both Kiel and Valencia, Vossloh pays careful attention to hazardous substance management, environmentally friendly materials as well as the use of processes and technologies that conserve resources. At Vossloh Electrical Systems in Düsseldorf and Vossloh Rail Vehicles in Valencia, the use of an environmental register is a permanent component of the procurement process. In Valencia, additional investments were also made in 2014 to further reduce energy consumption. Vossloh Rail Vehicles is also working to ensure that the later dismantling and disposal of locomotives is as efficient and environmentally compatible as possible: currently, the potential recycling rate of a EURO locomotive is up to 93 percent.

The large Vossloh locations have all been certified to the DIN EN ISO 14001 environmental management system or comparable certified systems. The companies undergo regular audits by external, independent bodies. Vossloh Rail Vehicles in Valencia is working continuously to introduce EMAS (Eco-Management and Audit Scheme) – the joint system of the European Union for environmental management and audit – and will likely have the process ready for certification in 2015. The location from Vossloh Electrical Systems in Düsseldorf in 2014 participated in the municipal environmental and climate protection project ÖKOPROFIT with the goal of sustainably and measurably reducing operating costs and CO_2 emissions.

Through process optimization and behavioural changes, it was possible to achieve these objectives. Vossloh Electrical Systems also established more efficient processes in waste management at the location in Düsseldorf in 2014. As a result of these efforts, the costs of future waste disposal have been significantly decreased. The environmental measures that were implemented led to considerable savings already in 2014 as well as a reduction of CO_2 emissions of 50 tons annually. From spring 2015, Vossloh Rail Services will also be participating in the ÖKOPROFIT project.

Most companies and locations in the Vossloh Group have now successfully completed the certification process in accordance with the social standard OHSAS 18001 – these include in 2014, for example, all companies from Vossloh Rail Vehicles, Vossloh Locomotives, Vossloh Rail Services as well as Vossloh Fastening Systems. Nearly all Vossloh locations are thus now certified in accordance with OHSAS 18001.

Vossloh generates a significant share of its sales with products and services that contribute to environmentally-friendly and sustainable solutions, qualifying Vossloh AG also for investors with a sustainability focus. Vossloh has already been listed in several sustainability rankings since 2008 and belongs to the investment universe of oekom research and Kempen/SNS SRI. In addition, Vossloh AG has already participated for seven years in the Carbon Disclosure Project (CDP) and in 2015 will once again participate in the vigeo rating.

Risk and opportunity management

Organization

Risks and opportunities for the net assets, financial position and results of operations are systematically identified, analyzed, assessed, reported, communicated, monitored, controlled 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). This ensures that the impact of possible adverse changes is avoided or contained and that any opportunities arising are identified and exploited.

The risk and opportunity management system forms an integral component of the business, planning and controlling processes. The system's structure and processes are described in Group-wide policies and procedures. The organization of the RMS is oriented to the operating processes and procedures of the respective units. 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, systematically, and on a timely basis.

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

All direct or indirect Vossloh subsidiaries, both in Germany and abroad, are covered by the RMS, irrespective of their inclusion in the consolidated financial statements. Newly acquired companies are integrated into the system on a timely basis.

Risks and opportunities are documented and communicated by Vossloh in standardized reports. These contain detailed information on the type of risk and opportunity and on the measurement parameters, as well as on potential measures for managing 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 periods. Ad-hoc reports additionally facilitate an updated assessment of the 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 divisions. These individuals manage and monitor the risks and opportunities. The current risk situation is regularly discussed at the level of Vossloh AG between business unit management and the Executive Board. The close interaction among personnel ensures a rapid flow of information and also allows short-term responses.

The system is regularly reviewed by Corporate Internal Auditing and the statutory auditor for the adequacy, efficiency and compliance with legal requirements. No substantial weak points were identified in 2014. Suggestions for the incremental optimization of the risk and opportunity management system were implemented.

The report below presents 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. Risks whose impact have already been recognized in the balance sheet in the form of write-downs, impairments, or provisions or which have been shifted by contract, e.g. to insurers, are not covered by the following report unless deemed essential for the overall evaluation of the risk situation; this would be the case, for example, if a material residual risk were retained.

General economic and sector risks and opportunities

General economic risks and opportunities are essentially related to economic cycle swings, sociopolitical events, exchange and interest rate trends, as well as changes to legal and tax-related conditions. Sector risks and opportunities are tied to the competitive situation and the characteristics of the relevant markets.

In addition to the overall economic development, relevant influencing factors include public policy measures, the state of deregulation of rail traffic and the public debt situation. The latter affects the financing ability of public authorities awarding contracts. Thus, the restricted availability of financing has a negative effect on the future development of the business. For Vossloh, the debt situation, in particular of some Southern European nations, continues to be a prime cause for delayed and therefore shrinking order inflow from this region. In some cases, the risk exists that public as well as private customers will delay orders or in exceptional cases will potentially cancel orders. In spite of the tight budget situation of public contractors, savings in the maintenance market, which is important for Vossloh, are only expected to be temporary given the increasing rail traffic. Opportunities may arise from modernization initiatives for rail infrastructure.

In 2014 Vossloh was active globally in the markets for rail infrastructure and rolling stock and is one of the leading suppliers in selected markets. The markets of relevance to Vossloh have oligopolistic structures, both on the demand and supply sides. Most of the customers are rail and network operators, which as a rule are still publicly owned. Vossloh has been countering the dependence on the spending patterns of public-sector customers for some time through the constant expansion of its international presence. In recent years Vossloh has rapidly expanded its activities outside of Europe. In 2014, non-European sales amounted to 37 percent, as in the previous year.

Vossloh has identified Western Europe, China, USA and Russia as regional focus markets. Moreover, Australia, Brazil, Canada, the Middle East, Northern Europe and the STAN countries are attractive as regional markets for the rail infrastructure business. The Transportation division, which as of 2015 is no longer part of the core-business, is mainly active on the European market. Rail markets in Western Europe and North America are distinguished by their considerably stable political and economic factors and hence as far as these core markets of Vossloh are concerned, there are no major risks expected. Activities in other markets – particularly in Asia, South America, Eastern Europe, Russia and Africa – not only hold opportunities for Vossloh but also additional risks. These mainly result from political and social instability, exchange rate fluctuations - primarily translation risks – and by legal uncertainties. As the share of group sales in these markets grows, both opportunities and risk exposure rise.

The oligopolistic nature of the supply side of the market also harbors risks for Vossloh. The high level of market transparency may further lead to adverse effects on margins. There is also the risk of products being replaced by new technical developments and that new competitors enter the market. Vossloh contains such risks by repeatedly refining its products and services and focusing on customer needs. Overall, increasing competitive pressure has been experienced in the past years in all business units.

Operating risks and opportunities

Operating risks and opportunities arise in operations-related activities, especially relating to procurement, production, and contract performance. In connection with the procurement process, Vossloh attempts to counteract purchase price (input market) risks especially through long-term procurement contracts or price escalator clauses through agreements with customers. Exchange rate risks from purchasing are normally managed by forward exchange contracts. The medium-term planning assumptions of increases in the cost of materials and components are based on such factors as supplier information and market analyses.

No significant variances from the 2014 materials input market prices are expected in 2015. Any rises appreciably above these assumptions may drain profitability as forecast by the business units. 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 longstanding local vendors. Despite a careful selection of suppliers, ongoing monitoring and setting-up alternative sources, future procurement process risks may be contained but can never be fully ruled out.

Within the value creation process, Vossloh subsidiaries are exposed to work interruption, quality problems, as well as occupational safety and environmental risks. Vossloh avoids or reduces these risks 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.

The principal Vossloh locations have been certified according to the DIN ISO 9001 quality management system, and the large locations fulfill the criteria of the ISO 14001 environmental management standard. Further, about 83 percent of Vossloh's employees work in a company that is certified in accordance with OHSAS 18001. This is perhaps 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 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.

Especially in the project business of the Transportation division, which no longer belongs to the core business, risks can have a significant impact on the earnings of the company. In 2014, the risks incurred when processing orders significantly affected the profit situation. The significant increase in complexity caused by assuming leadership of consortiums or general contracting presented major challenges for the Electrical Systems business unit. In addition, the extent of required development capacity was underestimated in some projects. Stricter registration requirements for vehicles to be delivered also had a negative impact. In many cases this resulted in project delays and higher contract costs than originally calculated. For some projects, provisions for contingent losses were made. In addition, the margins stated for a number of projects in previous years had to be corrected after the calculations were updated. In total, the burden on earnings in 2014 amounted to a sum in the medium to high double-digit million range.

Risks can also result from necessary changes to the goodwill of acquisitions carried out, if the 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 case of extraordinary events such a test should also be carried out during the year. In this connection, the carrying amount of a cash generating unit (CGU) to which the goodwill has been assigned is compared to its recoverable amount. In the course of the profit forecast published on 27 June 2014 by Vossloh the recoverability of goodwill from business acquisitions was also examined. As a result, goodwill in the Switch Systems business unit was reduced by €60 million as of June 30, 2014.

Risks arising in 2014 and still existing operational risks have been provided for as required by IFRS.

Financial risks and opportunities

Financial risks are monitored and managed, and the Group's financing is optimized, by Corporate Treasury. The goals, principles, responsibilities and accountabilities are defined in policy statements. The overriding objective is to contain financial risks that might affect the sustainability and profitability of the Vossloh Group. Moreover, intragroup synergies and economies of scale must be realized wherever considered expedient.

Vossloh uses financial derivatives solely to hedge against specific risks from current or forecast underlying transactions. These economic hedging relationships are also treated as hedges for financial accounting purposes. In this connection, only marketable financial instruments approved beforehand are deployed. The trading, settlement and controlling functions have been strictly segregated from one another. For further details on financial derivatives, turn to the notes to the consolidated financial statements starting on page 163 of the Group's annual report the following financial risks are controlled: liquidity risks, cash flow risks, price risks, as well as default risks.

Liquidity risks
Liquidity risks may arise if the Group is unable to provide the funds required to meet its obligations on a timely and unrestricted basis. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies and the necessary flexibility for translating corporate strategies into practice) through a continuous cash management system. An intragroup financial netting concept through cash pooling and intercompany loans ensures the best possible application of any surplus cash of individual subsidiaries to meet the liquidity requirements of individual group companies.

As of December 31, 2014, the Vossloh Group had cash and cash equivalents (including short-term securities) in a total amount of €59.0 million. In addition, bilaterally committed, unutilized credit facilities of another €359.5 million were at Vossloh's disposal, including €265.8 million with terms of up to one year, and another €13.2 million with terms over one year. An additional €80.5 million was committed with no maturity. In 2014 the first tranche of over US-$140.0 million of the US private placement that was carried out in 2004 was due for repayment. In addition, the second tranche of over US-$100.0 million was replaced early. For the refinancing, a bridge financing was concluded with several banks which will be replaced in the course of 2015 by a syndicated loan. The syndicated loan will replace the existing bilateral working capital lines of Vossloh AG. There are currently no existing financing or liquidity shortfalls.

Cash flow risks
Changes in future interest rates may cause cash flow fluctuations 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 163 of the Group's annual report.

Price risks
Price risks arise from the possibility that the value of a financial instrument is changed by higher or lower market interest or exchange rates. Current or expected liabilities and receivables denominated in foreign currencies are generally hedged at the time of initiation through forward exchange contracts. Risks from translating currency positions in the financial statements are subject to ongoing monitoring.

Default risks
Default risks result if counterparties default on their obligations in a business transaction by late or non-performance, causing a financial loss to Vossloh. The Group minimizes the default risk by doing business with counterparties of good to excellent standing only, mainly based on the assessment of international rating agencies. As of December 31, 2014, cash investments and financial derivatives with a positive fair value were allocable at 9.0 percent to counterparties rated (according to Standard & Poor's) between AA+ and AA–, at 52.0 percent to those rated from A+ to A–, at 32.0 percent to counterparties rated BBB+ to BBB–, and at 7.0 percent to BB-rated or non-rated counterparties. Furthermore, risks are spread by distributing the Group's cash and other financial assets among a large number of banks. No dependence on specific banks has existed or currently exists.

Many of Vossloh's customers are government agencies, and the risk of their default is regarded as very low. Nonetheless, balances outstanding are monitored on an ongoing basis and partly covered by credit insurance. In exceptional cases, in spite of the precautionary measures taken, bad debt losses cannot be ruled out.

In the export business, the risk of customer default is usually counteracted by using documentary credits.

Legal risks and opportunities

Legal risks for Vossloh comprise basically those arising from complaints, warranty claims, claim 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 substantially exceed recognized provisions. In contrast, rewards may in some cases be reaped if risk provisions remain underutilized.

The German Federal Cartel Office is continuing to investigate a Vossloh Group company regarding alleged anti-competitive agreements in the switches product segment. In the same product segment, the Spanish competition authority has launched investigations into a company in which Vossloh owns an equity interest, among others. Group companies of the Deutsche Bahn have filed claims for damages against the Vossloh subsidiary Stahlberg Roensch GmbH, Seeveta. The Company has an indemnification claim for by far the largest portion of the prosecuted claim, which is secured with bank guarantees in an adequate amount. 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 fines and damages are duly provided for. Net income was negatively affected in 2014 by legal risks.

Other risks and opportunities

Other risks include primarily personnel and IT risks. The Group’s economic situation could be negatively affected as a result of inadequate staffing such as a shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, an inadequate level of training, and mistakes or theft committed by employees. Vossloh has a whole menu of measures to meet such risks: in particular, the Company is well positioned as an attractive company for which to work, a reputation that strengthens its position in the competition for highly qualified employees. In-house courses allow employees to regularly upgrade their skills while attractive pay structures increase the likelihood of retaining employees in the Company in the long term. The control of operational and strategic business processes largely relies on complex and high-performance IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability, confidentiality and security. At the same time, such precautionary measures ensure efficient information processing.

In 2014, provisions in the low double-digit million range were made for employee redundancies within the framework of the implementation of the restructuring of the Transportation business unit.

Overall assessment of the risk and opportunity situation

The potential impact of any or all risks described above and to which Vossloh is exposed regarding its net assets, financial position and results of operations, is continually monitored and controlled. Provisions have been recognized in accordance with IFRS for all risks identified to date. In addition, the updated annual forecasts consider any additional potential risks and opportunities, where adequately specified. From today's vantage point, neither any specific risks nor all currently known risks in the aggregate threaten continued existence of the Group or of any individual subsidiaries in terms of either assets or liquidity. The existing Group equity declined significantly due to the high net loss in the reporting period. The existing Group equity is nevertheless substantially in excess of the equity share which is required to be maintained 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 accounting-related internal control and risk management systems (ICS/RMS) pursuant to Articles 289(5) and 315(2) No. 5 HGB

As explained above in the report on risks and opportunities, Vossloh has installed a comprehensive monitoring system for the Group-wide systematic early identification of going-concern risks as required by Art. 91(2) AktG, with a view to identifying early on, managing and monitoring not only risks jeopardizing Vossloh's sustainability but also other risks, including those beyond the statutory scope. According to Art. 317(4) HGB, the statutory group auditor assesses the existence and effectiveness of the early risk identification system (ERIS). The Vossloh Group's ICS described below encompasses all principles, processes and measures designed to ensure not only the accounting system's effectiveness, efficiency and propriety but also compliance with applicable legal and statutory regulations.

Responsible at the Group level for the ICS are primarily Vossloh AG's corporate departments of Internal Auditing, Controlling, Accounting, Treasury, and Legal Affairs.

Process-integrated and process-independent monitoring procedures and routines are ICS components. In addition to manual process controls (such as principal of dual review), IT processes are also a key element of process-integrated measures. Furthermore, Corporate Legal Affairs ensures that in-process monitoring routines are ensured.

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 consolidated financial statements as well as the financial statements of all companies included in Vossloh's consolidated financial are audited by an independent auditor. As part of this audit the accounting processes of the annual and consolidated financial statements are reviewed and assessed.

Information technology
For their separate financial statements, subsidiaries record accounting transactions, currently using different local accounting systems. However, for the purposes of Vossloh AG's consolidated financial statements, all Vossloh companies complement their separate financial statements 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. A multiyear SAP project is currently being implemented in the Vossloh Group in order to roll out a standardized SAP system at all entities involved in accounting and reporting processes. The new standardized software will enable centralized access to data and centrally initiated controls. The SAP rollout has so far been completed for Vossloh AG and principle companies of the Fastening Systems, Switch Systems, Electrical Systems and Rail Services business units.

Accounting-related risks
Preparing financial statements requires management to make a number of assumptions and estimates. These estimates affect the reported values of recognized assets and liabilities and of current amounts of contingent liabilities as of the balance sheet date, 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.

Key activities designed to ensure the propriety and reliability of the financial reporting
Based on the rules of those 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 German and foreign 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 balance sheet, income statement, 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 formal requirements also specify all details of the mandatory, standardized and complete set of reporting package forms. The most recent revision was made in December 2014. The Manual is regularly revised and updated and 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 subsidiary, the monthly accounts and annual financial statements are reviewed at the level of the business unit lead company. Indications for items to be reviewed, in addition to random selections, are especially high-amount or unusual transactions. Corporate guidelines exist, for instance, 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 subsidiaries are then consolidated in several steps at the level of Vossloh AG 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 earnings from intragroup transfers are generally ensured by carrying out dual reviews and running appropriate validation routines in corresponding control 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 about significant subsequent events).

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

Particularly individual discretionary or arbitrary decisions, faulty controls, fraud, or other factors can naturally not be fully ruled out and, therefore, even the group-wide application of installed systems cannot provide absolute protection.

Limitations

The statements herein refer only to Vossloh AG and companies 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 according to Art. 289a HGB

For the corporate governance report (which is an integral part of the combined management report) see page 43 of the Group's annual report. The annual report is also permanently available on Vossloh AG's website at www.vossloh.com.

Events after the balance sheet date

At the beginning of December of 2014, Vossloh AG agreed on the key points of a new corporate strategy that became effective at the beginning of the 2015 fiscal year. This includes the splitting of the previous Rail Infrastructure division into three new divisions: Core Components, Customized Modules and Lifecycle Solutions. These three new infrastructure divisions make up the future core business of the Vossloh Group. The former Transportation division is no longer defined as a core business. For the time being it will remain as the Group's fourth division. The goal however is to sell either all or parts of the Transportation division by 2017 at the latest depending on the progress of the measures currently being carried out to restructure and reposition the Vossloh Group, or to convert it into a partnership that would no longer be controlled by Vossloh. These measures mark the start of the longer-term transformation of the Vossloh Group into a new rail infrastructure company. It is also planned to strengthen the three new core divisions (Core Components, Customized Modules and Lifecycle Solutions) where appropriate through acquisitions. This was announced by Vossloh AG in an ad hoc announcement on December 2, 2014. Consequently, beginning with the report for the first quarter 2015, the reporting in both the group management report and within the scope of the segment report in the explanatory report or in the Notes (Group), will be adjusted to the new structure by the end of the year.

On January 20, 2015, KB Holding GmbH decided to offer the shareholders of Vossloh AG the possibility to purchase all of their no-par-value bearer shares with a calculated proportional share of €2.84 per share ("Vossloh shares") by means of a voluntary public takeover. According to their announcement on the same day, KB Holding GmbH holds 29.99 percent of the Vossloh AG shares. On February 16, 2015, KB Holding GmbH published the corresponding offer document on the Internet. The price offered by KB Holding GmbH is €48.50 and corresponds to the legal minimum bid price.

Vossloh AG's Executive Board and Supervisory decided to publish a joint statement on the voluntary public takeover offer. This statement was published on Vossloh's website on February 26, 2015. In it, the Executive Board and Supervisory Board recommend shareholders of Vossloh AG not to accept the offer.

Vossloh AG is currently negotiating with several banks over a syndicated loan of €500 million, which, alongside the current bonded loan, would completely replace the Group's existing financing. It is planned that, in addition to four leading banks, further consortium banks would provide the necessary financing. The syndication began in late February 2015.

Studies anticipate an ongoing upturn in rail technology market

Sales growth in the Vossloh Group of between 3 percent and 4 percent expected

EBIT margin in the 3 percent to 4 percent corridor anticipated in 2015

Medium-term, prospect of an EBIT margin between 5 percent and 6 percent for the newly-structured Group in 2017 with the current portfolio structure.

Outlook

This combined management report contains forward looking statements based on management's estimates of future trends within the Vossloh Group. This Outlook is predicated 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 global economy and the international rail technology market have been taken into account, as well as the specific business expectations of Vossloh's business units. 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 60). If the assumptions underlying the statements and forecasts in the Outlook fail to materialize, or the risks and/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 group management report beyond statutory publication dates.

IMF's economic forecast for 2015

The IMF expects higher growth rate for the global economy

The global economy is expected to continue growing by 3.5 percent in 2015, according to estimations from the International Monetary Fund (IMF), (previous year: 3.3 percent). In line with worldwide economic development, growth rate increases are also expected in markets important to Vossloh, namely the euro area and the USA. Countries within the Euro zone are anticipated to grow by 1.2 percent in 2015, (previous year: 0.8 percent), with a growth rate of 3.6 percent expected for the US economy. Additional focus markets for Vossloh's core business are China and Russia. IMF experts predict the Chinese market to expand by 6.8 percent in 2015, after an increase of 7.4 percent in 2014. The Russian market, in contrast, is expected to experience markedly negative growth of (3.0) percent for 2015, after increasing by 0.6 percent in 2014.

Driven by the global economy's increasing recovery, predictions by the IMF show a renewed, above-average rise in worldwide trade. Following a gain of 3.1 percent in 2014, the IMF expects growth of 3.8 percent for 2015. Trading volume and the related demand for transport services are among the drivers of the rail technology market. In addition, demand in these markets should continue to benefit from ongoing urbanization and the growing importance of ecological approaches to solving traffic problems.

Public-sector budget deficits also have a strong influence on demand within the rail technology market. According to the Statistical Office of the European Union (Eurostat), the debt situation in the euro area has continually deteriorated since the end of 2009. The debt ratio – the ratio of public debt to GDP – rose from an average of 80.0 percent in 2009, to over 92.0 percent in 2014. According to Eurostat, the debt ratio in Europe reached its most recent highest level in the second quarter of 2014 at 92.7 percent and fell to 92.1 percent in the quarter following. During the same period, the average debt ratio for all 28 countries of the European Union fell from 87.0 percent to 86.6 percent – for the first time in the last 15 consecutive quarters. Whether this development can be seen as trend reversal is not yet assessable from a current perspective. However, the debt dynamics in regions of Europe important for Vossloh appear to be easing.

Rail Industry Association forecast for the rail technology market

Studies call for 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 in the global rail technology market and on this basis, elaborates on predictions for the coming years. The most recent study was presented in September 2014 at the InnoTrans industry event in Berlin. According to the study, the yearly global market volume of around €150 billion, will increase to over €176 billion in 2019 – an average increase of 2.7 percent per year. In doing so, the so-called accessible market will amount to almost €121 billion, based on the estimates of UNIFE. "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 €102 billion per year is classified as „accessible"; the expected increase signifies a gain of 2.8 percent per year. The results of a study conducted by consultants at SCI Verkehr and also published at the InnoTrans industry event in 2014 confirm the assessments made by the railway industry association. The study indicates that the total market volume for the global rail technology market will be approximately €190 billion in 2018, while the market volume for 2014 is projected to be €162 billion.

In regional distribution however, forecasts for market growth diverge sharply. According to predictions from UNIFE, strong above-average growth is expected in the coming years from regions including: Latin America at 6.1 percent, Asia-Pacific at 4.1 percent, and NAFTA at 3.6 percent (includes Canada, USA and Mexico, the countries of the North-American Free Trade Agreement). Below-average growth is predicted for the the rail technology markets in Western Europe (2.0 percent), in the Community of Independent States (CIS, 1.3 percent), in the rest of Eastern Europe (0.9 percent), and in Africa / Middle-East ((0.2) percent). However, the size of the individual markets and their accessibility is also to be taken into account. Western Europe remains Vossloh's largest accessible rail technology market, with a yearly volume of approximately €35 billion and a converted growth rate of 2.2 percent based on these numbers. The NAFTA regions follow with a market volume of almost €28 billion and growth of 3.7 percent per year, as well as Asia-Pacific with a volume of around €24 billion and anticipated growth of 4.2 percent per year. Almost three-fourths of the entire accessible market for rail technology is located within these three regions. For comparison: the accessible market of growth leader Latin America comprises around €5.8 billion per year.

Above-average growth is forecast for Vossloh's markets

The European rail industry association divides the rail technology market into the segments of infrastructure, rolling stock, control/signaling and safety, services and turnkey projects. The rolling stock segment currently makes up the largest share of the accessible market with some 40.0 percent. The services segment, with a market share of around 30.0 percent, is followed by infrastructure, which ranks third at almost 20.0 percent, ahead of control/signaling and safety at around 10.0 percent. The segment turnkey projects, while still small, is becoming increasingly important and is expected to reach a volume of €14 billion globally in 2019.

With its Core Components, Customized Modules and Lifecycle Solutions divisions in the future Vossloh will be particularly active in the infrastructure and services segments. UNIFE estimates the globally accessible infrastructure market at current almost €20 billion per year. Growth is forecast to be an annual 3.3 percent by 2019, which results in a future market volume of around €24.6 billion annually.

Growth stimuli are expected, particularly in the regions of Asia-Pacific and Western Europe, as well as – on a markedly smaller scale – in Latin America. China and India in particular are focus areas; others include France, Germany, the United Kingdom and Sweden as well as Brazil. According to statistics from UNIFE, the accessible volume of the market segment of services currently amounts to almost €29.4 billion per year and comprises services offered for road ways, rail lines and rolling stock. With an average rate of 3.7 percent yearly, the accessible service market is predicted to grow to a volume of almost €37.0 billion per year by 2019. The countries with the highest growth expectations are those in Asia-Pacific (India and Australia), and Latin America (Brazil). The accessible market for those products and services relevant to Vossloh, comprises high-growth sub-areas of the service and infrastructure segments. In total, the market amounted to around €25 billion for the period between 2011 and 2013 and is forecast to experience above-average yearly growth of 3.8 percent, reaching €31 billion between 2017 and 2019.

Vossloh is currently still involved in the rolling stock segment, which belongs to the Transportation division and is no longer part of the core business. According to UNIFE, the accessible market for rolling stock has a volume of around €40 billion per year. By 2019, an average yearly growth rate of 1.6 percent on a volume of around €44 billion per year is expected. In urbanized regions in particular, local transport is seen as a driver for growth, although the demand for locomotives is generally expected to develop more slowly. Relevant contributions to the market growth of this segment are expected in Asia-Pacific (China, India and South Korea), in the NAFTA region from the USA, in Western Europe from France and the United Kingdom and in Latin America from Brazil.

Vossloh Group: Outlook for 2015

New organizational structure from January 1, 2015

As a result of its strategic realignment, in the future Vossloh is to concentrate exclusively on defined, high-growth segments of rail infrastructure in economically attractive regions. Business is to be further accelerated, especially in the important infrastructure markets of Western Europe, China, USA and Russia. This initiates the longer-term transformation of the Group into a new rail infrastructure company with the goal of becoming one of the two leading providers in the product areas and regional markets essential to Vossloh, while also further maintaining and strengthening current market leadership positions. To achieve this, company activities will be represented in three new core divisions, in line with current business models and beginning 2015. These divisions are: Core Components, Customized Modules and Lifecycle Solutions.

In the future, the three new core divisions of rail infrastructure are to be managed and controlled according to the fundamental principles of their respective business models, i.e. in accordance with product, project, and service orientation. The holding company is to take direct operating influence over the business units. The divisions are to work closely among themselves and will externally present themselves uniformly and in a coordinated fashion as “One Vossloh”.

Starting 2015, the Core Components division will comprise the company’s standardized products with the former rail fasteners product group. Cost and technology leadership are the focus for securing and expanding the variety of currently robust market positions. The short-term expansion of Core Components to include complementary activities is also planned. The starting point for this division is thus the previous Fastening Systems business unit.

The Customized Modules division consists of individualized infrastructure modules and thus the switch business for Vossloh. Through globally-controlled innovation management, the division is also expected to further improve its technological competence, its flexibility and its reaction times for project-specific individual solutions and to further strengthen its position as a technology leader within the segment. The Switch Systems business unit, with its strong solutions competence in all areas of switch system applications forms the starting point for this division.

Lifecycle Solutions is to concentrate on specialized track systems services and to strive for service leadership on the basis of Vossloh Rail Services’ portfolio. Activities are to be internationalized and the range of high-quality services in the areas of operation and maintenance to be broadened to also cover the entire life cycle of infrastructure. Where relevant, growth should also be accelerated through acquisitions.

The Transportation division is no longer part of the core business. Vossloh, after careful consideration of numerous criteria, came to the conclusion that the business with vehicle products and components – the Transportation division – no longer belongs to the core business. Because the activities of the Transportation division cannot, under the Vossloh umbrella, reach the needed size and international positioning required for sustained, positive business development, Transportation will be continued in its current structure as a fourth division and will be either sold or transferred, in part or full, to a more fitting enterprise by 2017 at the latest, depending on the progress of the ongoing restructuring measures.

The following forecast from the Vossloh Group is based on the expected reporting structure for 2015, which takes into account the sale of the Transportation division, in part or full. A target of 2017, at the latest, has been set for this to occur and depends on the success of the implemented restructuring measures. Currently, the criteria to justify the classification of business activities as “discontinued” for 2015, are not met. In this respect, the following forecast refers to the Vossloh Group and the four divisions indicated.

In addition to general economic and industry-related conditions, Vossloh’s plans take into consideration, in particular, assumptions specific to the divisions. These concern aspects such 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 requirements. As a rule, this results in lengthy delivery and project lead times. Accordingly, order backlogs extend over several months and can, at times, even reach multiple years.

Sales deviations within individual regions were more pronounced than originally forecast for the 2014 financial year. More information on these and other deviations has already been noted at the beginning of the section "Results of Operations" from page 10. In Germany, in particular, sales expectations fell short by a wide margin. This was very closely associated with high sales deviations in the Electrical Systems business segment, due to project delays. As a result of this, the anticipated strong growth in sales throughout Europe was not reached, despite the unexpected positive business development in Eastern Europe, especially in Poland. Because Germany still represents the largest individual market for the Vossloh Group, it was not possible to achieve the strong growth planned for the entire company.

The following table illustrates Vossloh's current sales development for 2015. The sales figures for 2014 are made in comparison to those originally forecast for 2014 from the Annual Report 2013. An expected trend in the range of +/– 5.0 percent is considered essentially unchanged. Changes above 5.0 percent are classified as slight growth, above 10.0 percent as strong and from 25.0 percent as very strong growth.

Vossloh-Group: sales by region

€ million	2013	Annual Report 2013, Outlook for 2014	2014	growth in%	Outlook for 2015 (Basis 2014)
Germany	278.8	very strong growth	256.0	(8.2)	strong growth
France	154.5	essentially unchanged	168.5	9.1	strong decline
the rest of Western Europe	151.4	slight growth	154.9	2.3	strong growth
Northern Europe	70.9	strong growth	86.9	22.6	slight decline
Southern Europe	92.4	strong decline	77.1	(16.6)	essentially unchanged
Eastern Europe	67.4	essentially unchanged	85.7	27.0	strong decline
Total for Europe	815.4	strong growth	829.1	1.7	essentially unchanged
Americas	123.5	very strong growth	178.8	44.8	very strong growth
Asia	306.3	very strong decline	220.7	(27.9)	strong decline
Africa	22.4	very strong growth	70.1	212.9	very strong growth
Australia	33.1	strong decline	25.2	(23.9)	slight growth
Total	**1,300.7**	**strong growth**	**1,323.9**	**1.8**	**Growth 3.0 to 4.0%**

Sales growth of between 3 percent and 4 percent expected for 2015

According to current information, Vossloh expects to reach a growth rate between 3 percent and 4 percent for 2015. Predicted growth will be driven by the Transportation division. All three business units in this division are expected to make a positive contribution to growth. The Group anticipates lower sales in Core Components division in 2015. In the Fastening Systems business unit, other regions will not, based on current knowledge, be able to fully compensate for the expected decline of sales in China. The Customized Modules division and its Switch Systems business unit anticipate essentially unchanged sales development. Lifecycle Solutions is also forecast to continue its positive sales growth from the previous years in 2015.

EBIT margin to increase to between 3 percent and 4 percent in 2015

Sales expectations are supported by the high backlog of orders for the Vossloh Group, which amounted to €1,751 million at the end of 2014. On the basis of the current portfolio structure, the Executive Board expects an EBIT margin between 3 percent and 4 percent for 2015. The EBIT margin in 2015 will be effected negatively by the ongoing restructuring and repositioning measures in the Group, as well as by the weak margins of multi-year projects in the Transportation division. However, no further one-time items of significant magnitude are anticipated for 2015. Differentiation between the adjusted EBIT and the EBIT reported in the income statement is therefore not required for the 2015 financial year. Vossloh again anticipates a reserved start to 2015, typical for our business.

For 2015, the EBIT margin and the value added for the Core Components division are forecast to be lower than in 2014. This is due to appreciable declines in sales from high-margin regions. In contrast, Customized Modules and Lifecycle Solutions anticipate an improvement in profitability and significantly higher value added. However, from the current perspective, the value added in the two divisions will remain negative. Vossloh expects its transportation division to achieve a marginally positive earnings before interest and taxes and a slightly negative value added. Significant improvement is projected in comparison to the adjusted EBIT for 2014, however, existing projects with relatively low margins will negatively affect the quality of results, also in the coming years.

Due to ongoing measures for the restructuring and repositioning of the Group, as well as the planned intensification of expenditures to accelerate innovation, the EBIT margin in 2016 is likely to remain under the EBIT target margin set for 2017. On the basis of the current portfolio structure, this is expected to be between 5 percent and 6 percent in 2017. In a future portfolio structure without the Transportation division, higher profitability is to be expected.

Currently, the average capital employed in the current portfolio structure is expected to significantly decline. In particular, goodwill impairments within the Switch Systems business unit and depreciation of capitalized development expenses at Vossloh Locomotives impacted only around half of the average capital employed in 2014. The Vossloh Group also anticipates further positive effects from the successful start of its working capital initiative. The positive EBIT, in combination with the declining capital employed, is expected to lead to a sharp increase in the return on capital employed (ROCE). From the current perspective, the performance indicator will range between 5 percent and 8 percent for 2015. Assuming a pretax cost of capital (WACC) of 10.0 percent in 2014, value added for 2015 is also predicted to be negative.

Risks for Vossloh's business development may arise, especially within Transportation division. Due to the high project volumes and extremely high complexity of the projects, additional unforeseen impacts on earnings are not to be completely excluded. Development of orders received at Vossloh Locomotives in Kiel is expected to have a continuing important impact on profitability in the Transportation division. Portions of the locomotive sales for 2015 are not yet secured by order backlog. Opportunities may present themselves in the infrastructure business, owing to better than expected business operations in China and through the modernization initiative for rail infrastructure in Germany. Regarding any further risks which may affect the planning presented, please refer to the report on Risk and Opportunty Management (page 60 ff.).

Vossloh AG's performance as an operative management holding company is primarily affected by administrative expenses and the net financial result. The general administrative expenses at Vossloh AG in 2015 are expected to be at approximately the same level as those of the previous year. In addition to incurred interest expenses, the net financial result is strongly dependent on income from dividends and from profit transfer agreements, or as the case may be, from the assumption of losses. In total, because Vossloh AG's performance in 2014 was also heavily influenced by one-time items, financial results and performance in ordinary business activities are in line to see considerable improvements.

Vossloh is focused on organic growth with an increase in profitability and positive cash generation, as well as the achievement of targets set for the coming years; specifically, the search for appropriate acquisition objects in order to further develop the three core divisions Core Components, Customized Modules, and Lifecycle Solutions strategically and to achieve a sustainable increase in enterprise value. The strategy in the form represented here only takes into account targeted organic growth for the 2015 financial year.

Separate financial statements of Vossloh AG as of December 31, 2014

Income statement for the year ended December 31, 2014

€ million	2014	2013
Net sales revenue	1.4	1.5
Cost of sales	(0.9)	(1.3)
Gross margin	**0.5**	**0.2**
General administrative expenses	(20.4)	(23.3)
Other operating income	4.6	5.5
Other operating expenses	(3.3)	(1.0)
Operating result	**(18.6)**	**(18.6)**
Income from investments	30.0	50.0
thereof from subsidiaries: €30.0 million (previous year: €50.0 million)		
Income from profit transfer agreements	37.2	24.4
thereof from subsidiaries: €37.2 million (previous year: €24.4 million), thereof €2.2 million tax allocations (previous year €5. million)		
Income from other long-term securities and loans	1.1	1.2
thereof from subsidiaries: €0.8 million (previous year: €0.9 million)		
Other interest and similar income	8.9	7.5
thereof from subsidiaries: €8.4 million (previous year: €7.4 million)		
Write-downs of financial assets and short-term securities	(0.1)	(0.1)
Expenses from losses absorbed	(119.2)	(53.0)
thereof from subsidiaries: €119.2 million (previous year: €53.0 million), thereof €32.0 million tax allocations (previous year €5.1)million)		
Interest and similar expenses	(20.0)	(15.9)
thereof from subsidiaries: €1.2 million (previous year: €0.4 million)		
Net financial result	**(62.1)**	**14.1**
Result of ordinary activities	**(80.7)**	**(4.5)**
Income taxes	(4.3)	(0.3)
Net loss	**(85.0)**	**(4.8)**

Balance sheet

Assets in € million	12/31/2014	12/31/2013
Purchased concessions, industrial-property and similar rights and assets, as well as licenses for such rights and assets	0.2	0.2
Total intangible assets	**0.2**	**0.2**
Land, land rights and buildings including buildings on third-party land	9.4	9.8
Other plant, operating and office equipment	0.4	0.5
Total tangible assets	**9.8**	**10.3**
Shares in subsidiaries	497.0	497.0
Loans to subsidiaries	25.8	25.0
Investments	0.1	0.1
Other long-terms securities	0.1	0.1
Other long-term loans	0.0	0.0
Total financial assets	**523.0**	**522.2**
Total fixed assets	**533.0**	**532.7**
Trade receivables	0.0	0.0
Due from subsidiaries	314.7	305.5
Due from investees	3.0	0.4
Other assets	13.6	1.0
Receivables and sundry assets	**331.3**	**306.9**
Cash on hand, cash in banks	0.0	0.0
Total current assets	**331.3**	**306.9**
Prepaid assets and deferred charges	**0.3**	**0.4**
	864.6	**840.0**

Stockholders' equity & liabilities in € million	12/31/2014	12/31/2013
Capital stock issued	37.8	37.8
less treasury shares at notional par	–	(3.7)
Outstanding capital stock	37.8	34.1
Additional paid-in capital	37.6	37.6
Reserve retained from earnings		
Other revenue reserves	270.6	183.3
Unappropriated profit	(59.3)	32.3
Total stockholders' equity	**286.7**	**287.3**
Provisions for pensions and similar obligations	8.6	7.6
Tax provisions	5.3	–
Other provisions	2.9	2.8
Total provisions	**16.8**	**10.4**
Due to banks	322.8	63.2
Trade payables	0.9	0.6
Due to subsidiaries	236.6	264.3
Due to investees	0.1	–
Other liabilities	0.7	214.2
thereof taxes: €0.2 million (previous year: €10.0 million)		
Total liabilities	**561.1**	**542.3**
	864.6	**840.0**

Schedule of changes in fixed assets

€ million	Cost				Accumulated amortization/ depreciation/ write-downs			Net carrying amount	
	Balance 1/1/2014	Additions	Disposals	Balance 12/31/ 2014	Balance 12/31/ 2014	Amortization/ depreciation / write-downs reporting year	Disposals	Balance 12/31/ 2014	Balance 12/31/ 2013
Intangible assets									
Purchased concessions, industrial-property and similar rights and assets, as well as licenses for such rights and assets	8.6	0.1	–	8.7	8.5	0.1	0.0	0.2	0.2
	8.6	**0.1**	**0.0**	**8.7**	**8.5**	**0.1**	**0.0**	**0.2**	**0.2**
Tangible assets									
Land, land rights and buildings including buildings on third-party land	17.5	0.0	–	17.5	8.1	0.5	–	9.4	9.8
Other plant, operating and office equipment	1.3	0.0	0.0	1.3	0.9	0.1	0.0	0.4	0.5
	18.8	**0.0**	**0.0**	**18.8**	**9.0**	**0.6**	**0.0**	**9.8**	**10.3**
Financial assets									
Shares in subsidiaries	515.5	–	–	515.5	18.5	–	–	497.0	497.0
Loans to subsidiaries	25.0	0.8	–	25.8	–	–	–	25.8	25.0
Investments	0.1	–	–	0.1	–	–	–	0.1	0.1
Other long-terms securities	0.1	–	–	0.1	0.0	–	–	0.1	0.1
Other long-term loans	6.5	0.1	(2.1)	4.5	4.5	0.1	(2.1)	0.0	0.0
	547.2	**0.9**	**(2.1)**	**546.0**	**23.0**	**0.1**	**(2.1)**	**523.0**	**522.2**
Total	**574.6**	**1.0**	**(2.1)**	**573.5**	**40.5**	**0.8**	**(2.1)**	**533.0**	**532.7**

Notes

General information

Vossloh AG is a large capital company within the meaning of Sec. 267 (3) Sent. 2 HGB in conjunction with Sec. 264d HGB.

The separate annual financial statements of Vossloh AG for the financial year ended December 31, 2014, were prepared in accordance with German GAAP, i.e., the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

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

Accounting policies

The accounting policies were continued unchanged from the prior year.

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

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

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

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

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

Performance obligations on pension plans and similar obligations are measured using the projected-unit-credit method. In this connection, the mortality tables 2005 G of Prof. Dr. Klaus Heubeck are used as a basis. According to the German Regulation on the Discounting of Provisions, the discount rate published by the Deutsche Bundesbank as of November 30, 2014 for obligations with a 15-year average remaining term in the amount of 4.54 percent is applied. As additional calculation parameters, a wage and salary increase of 3.00 percent, an expected increase in pension payments of 1.80 percent and an average fluctuation rate of 6.00 percent are applied.

Assets that are protected from creditors and serve solely to fulfill the pension liabilities (so-called plan assets) are measured at fair value and are netted against these obligations. Thereby, the provisions for pensions were reduced by €11.1 million (previous year: €11.6 million).

Income and expenses from these assets are offset against the interest expense from the discounting of the respective obligation and shown in the financial result.

For further risk or obligations in the personnel area, for example, vacation claims, provisions are recognized according to principles of commercial law. Tax provisions and other provisions are recognized in the settlement amount that is required under the principles of prudent commercial judgment. Provisions with a remaining term of more than one year are principally discounted with the average market interest rate over the last seven years corresponding to their term as determined and published by the Deutsche Bundesbank. In the case of pension and anniversary provisions, a flat remaining term of fifteen years is assumed in exercising the option pursuant to Sec. 253 (2) Sent. 2 HGB. Interest rates corresponding to the respective term are used for provisions for preretirement part-time employment. Expected price and cost increases are considered.

Liabilities are recognized at the settlement amount.

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

Notes to the balance sheet

Fixed assets

Classification and movements of fixed assets are detailed in the above schedule of changes in fixed assets.

The loans to subsidiaries increased due to a loan granted to Vossloh Kiepe Limited, Birmingham, United Kingdom, of €0.8 million.

Prepaid assets and deferred charges in the amount of k€274 (previous year: k€356) includes a loan discount in the amount of k€192 (previous year: k€242).

List of shareholdings

		Footnote	Shareholding in %	in	Consolidation[1]	Equity[2]	Result after taxes[2]
(1)	**Vossloh AG, Werdohl**				(k)	298.2	(36.7)
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(k)	22.9	(0.3)
(3)	Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	(k)	32.8	(0.5)
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(k)	8.4	0.0
(5)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(k)	(7.5)	(0.1)
	Rail Infrastructure division						
(6)	Vossloh France SAS, Paris, France		100.00	(1)	(k)	168.1	13.2
	Fastening Systems business unit						
(7)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(k)	4.0	32.8
(8)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(7)	(k)	11.4	2.2
(9)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania	4	100.00	(7)	(n)	0.1	0.0
(10)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100.00	(7)	(n)	1.8	0.2
(11)	Vossloh Sistemi S.r.l., Sarsina, Italy		100.00	(7)	(k)	6.5	0.7
(12)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4.6	51.00	(7)	(n)	1.6	(0.2)
(13)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	(e)	0.6	1.0
(14)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	(n)	0.0	0.0
(15)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl	4	100.00	(7)	(n)	(1.4)	(0.1)
(16)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	(k)	8.9	5.6
(17)	Vossloh Rail Technologies Ltd. Sti., Erzincan, Turkey		99.50/0.50	(7/8)	(k)	6.9	0.1
(18)	FÉDER-7 Rugógyártó Kft., Sárkeresztes, Hungary	4	96.67/3.33	(7/8)	(n)	0.4	0.0
(19)	Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(3)	(k)	4.6	(0.8)
(20)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	(k)	42.4	23.0
(21)	Vossloh-Werke International GmbH, Werdohl		100.00	(7)	(k)	10.8	(0.2)
(22)	Beijing China Railway Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	(n)	1.9	0.5
(23)	Vossloh Fastening Systems Southern Africa Proprietary Limited, Cape Town, South Africa	4	100.00	(108)	(n)	0.0	0.0
(24)	ZAO Vossloh Fastening Systems Rus, Moscow, Russia	4	50.10	(7)	(n)	0.0	0.0
(25)	Vossloh Fastening Systems Kazakhstan Proiswodstwennaja kompanija, Qapschaghai, Kazakhstan		50.00	(21)	(e)	0.8	0.1
(26)	Suzhou Vossloh Track Systems Co. Ltd., Suzhou, China	4	100.00	(21)	(n)	0.5	(0.1)
(27)	OAO Vossloh Fastening Systems RUS, Engels, Russia	4	50.10	(7)	(n)	0.0	0.0
	Switch Systems business unit						
(28)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	(k)	104.3	(0.5)
(29)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(28)	(k)	2.9	0.6
(30)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(31)	(k)	1.5	0.8
(31)	Vossloh Nordic Switch Systems AB, Ystad, Sweden		100.00	(28)	(k)	12.8	4.2
(32)	Vossloh Cogifer Kihn SA, Rumelange, Luxembourg		89.21	(28)	(k)	13.3	0.9
(33)	Vossloh Laeis GmbH, Trier		100.00	(32)	(k)	1.2	(0.1)
(34)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(28)	(k)	2.2	0.1
(35)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(28)	(e)	29.5	1.1
(36)	Montajes Ferroviarios SL, Amurrio, Spain	4	100.00	(35)	(n)	0.4	0.0
(37)	Burbiola SA, Amurrio, Spain		50.00	(35)	(n)	1.2	0.0
(38)	Vossloh Cogifer UK Limited, Scunthorpe, United Kingdom		100.00	(28)	(k)	6.1	1.2
(39)	Vossloh Cogifer Italia S.r.l., Pomezia, Italy		100.00	(28)	(k)	0.1	0.0
(40)	Vossloh Cogifer Polska Sp.z o.o., Bydgoszcz, Poland		92.86	(28)	(k)	13.2	2.8
(41)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(28)	(e)	3.2	0.8
(42)	Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(28)	(k)	0.9	0.4
(43)	Cogifer Americas, Inc., Cincinnati, USA	4	100.00	(28)	(n)	0.1	0.0
(44)	Siema Applications SAS, Villeurbanne, France		100.00	(28)	(k)	3.9	1.2
(45)	VOSSLOH MIN SKRETNICE DOO ZA Proizvodnjui Montazu Skretnica i Opreme Niš, Niš, Serbia		100.00	(28)	(k)	3.6	0.7
(46)	Vossloh Cogifer Turnouts India Private Limited, Secunderabad, India	4,6	100.00	(28)	(n)	0.7	0.0
(47)	Vossloh Beekay Castings Ltd., Bhilai, India	6	58.48	(28)	(k)	6.8	0.2
(48)	Vossloh Cogifer Signalling India Private Limited, Bangalore, India	4,6	100.00	(28)	(n)	0.2	(0.1)
(49)	Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(k)	16.1	0.0
(50)	Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	(k)	16.9	0.3
(51)	Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(k)	15.7	3.1
(52)	Vossloh Cogifer Kloos BV, Nieuw-Lekkerland, Netherlands		100.00	(28)	(k)	4.5	0.6
(53)	Vossloh France International SAS, Rueil-Malmaison, France	4	100.00	(6)	(n)	0.0	0.0
(54)	Wuhu China Railway Cogifer Track Co., Wuhu, China		50.00	(28)	(e)	19.7	(2.7)
(55)	'J' Rail Components & Manufacturing, Inc., Grass Valley, USA		100.00	(56)	(k)	1.8	(0.1)
(56)	Vossloh Signaling USA Inc., Cleveland, USA		100.00	(3)	(k)	5.0	0.1
(57)	Vossloh Cogifer Argentina, Buenos Aires, Argentina	4	90.00/10.00	(28/29)	(n)	1.0	(0.3)
(58)	ADIF SE – Vossloh Cogifer Argentina SA Consorcio de Cooperacion, Buenos Aires, Argentina	4	51.00	(57)	(n)	0.0	0.0
(59)	Vossloh Cogifer SP Technologies BV, Amsterdam, Netherlands	4	10.00	(28)	(n)	7.6	0.0
(60)	Vossloh Cogifer Southern Africa Proprietary Limited, Cape Town, South Africa	4	100.00	(108)	(n)	0.0	0.0
(61)	Vossloh Cogifer do Brazil Administracao de Bens e Participacoes Ltda., Sorocaba, Brazil		99.99/0.01	(28/29)	(k)	0.0	0.0

		Footnote	Shareholding in %	in	Consolida-tion[1]	Equity[2]	Result after taxes[2]
(62)	Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil		100.00	(61)	(k)	1.1	(0.4)
(63)	Outreau Technologies SAS, Outreau, France		100.00	(28)	(k)	4.7	(0.7)
(64)	Vossloh Cogifer HBA Makas Teknoloji Sanayi ve Ticaret Anonim Şirketi, Ankara, Turkey	4	65.00	(28)	(n)	0.5	(0.3)
(65)	Vossloh Cogifer – SP Technologia L.L.C., Moscow, Russia	4	100.00	(59)	(n)	7.9	(0.6)
(66)	NOVOSIBIRSKIY STRELOCHNIY ZAVOD – NSZ, Novosibirsk, Russia	4	74.99	(65)	(n)	45.6	(0.4)
	Rail Services business unit						
(67)	Vossloh Rail Services GmbH, Seevetal	3	100.00	(1)	(k)	22.7	(1.4)
(68)	Stahlberg Roensch GmbH, Seevetal	3	100.00	(67)	(k)	23.7	1.0
(69)	Vossloh Rail Center Nürnberg GmbH, Nuremberg	3	100.00	(68)	(k)	0.6	1.7
(70)	Vossloh Rail Center Bützow GmbH, Bützow	3	100.00	(68)	(k)	1.2	(0.2)
(71)	Vossloh Rail Center Leipzig GmbH, Seevetal	3	100.00	(68)	(k)	1.2	0.0
(72)	GTS Gesellschaft für Gleistechnik Süd mbH, Seevetal	3	100.00	(68)	(k)	0.0	0.0
(73)	Vossloh Rail Center Hamburg GmbH, Hamburg	3	100.00	(68)	(k)	0.9	0.3
(74)	Alpha Rail Team GmbH & Co. KG, Berlin		50.00	(68)	(e)	8.1	3.2
(75)	Alpha Rail Team Verwaltungs GmbH, Berlin		50.00	(68)	(n)	0.0	0.0
(76)	LOG Logistikgesellschaft Gleisbau mbH, Hanover	3	100.00	(67)	(k)	6.0	2.7
(77)	Vossloh Ray Hizmetleri Limited Sirketi, Istanbul, Turkey		100.00	(80)	(k)	(0.9)	(0.8)
(78)	Vossloh High Speed Grinding GmbH, Seevetal	3	100.00	(67)	(k)	0.0	(2.9)
(79)	Vossloh Mobile Rail Services GmbH, Seevetal	3	100.00	(68)	(k)	1.1	0.1
(80)	Vossloh Rail Services International GmbH, Seevetal	3	100.00	(67)	(k)	(0.2)	(0.4)
(81)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(80)	(e)	(0.6)	(0.4)
(82)	Vossloh Rail Services Scandinavia AB, Helsingborg, Sweden		100.00	(80)	(k)	0.1	0.1
(83)	Vossloh Rail Services North America Corporation, Dover, USA	4	100.00	(3)	(n)	0.2	0.1
(84)	Beijing CRM-Vossloh Track Maintenance Technology Co.,Ltd., Beijing, China		47.00	(80)	(e)	0.7	(0.3)
	Transportation division						
	Locomotives business unit						
(85)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(k)	34.5	(60.5)
(86)	Locomotion Service GmbH, Kiel	3	100.00	(85)	(k)	0.2	(0.3)
(87)	Vossloh Locomotives France SAS, Antony, France		100.00	(85)	(k)	0.3	0.1
	Rail Vehicles business unit						
(88)	Vossloh Espãna S.A.U., Valencia, Spain		100.00	(1)	(k)	100.9	7.2
(89)	Erion Mantenimiento Ferroviario S.A., Madrid, Spain		51.00	(88)	(k)	1.6	0.7
(90)	Erion France SAS, Arc-lès-Gray, France		100.00	(89)	(k)	0.5	0.2
(91)	Metros Ligeros de Colombia SAS, Bogotá, Colombia		50.00	(88)	(e)	0.0	0.0
	Electrical Systems business unit						
(92)	Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(k)	52.9	(49.0)
(93)	Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(92)	(k)	2.5	2.3
(94)	Vossloh Kiepe Ges.m.b.H., Vienna, Austria		100.00	(93)	(k)	25.9	4.1
(95)	Vossloh Kiepe Corporation, Vancouver, Canada	4	100.00	(93)	(n)	0.7	0.2
(96)	Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy	4	100.00	(93)	(n)	0.1	0.1
(97)	Vossloh Kiepe Sp. z o.o., Kraków, Poland	4	99.00/1.00	(93/92)	(n)	0.0	0.0
(98)	Vossloh Kiepe Main Line Technology GmbH, Düsseldorf	3	100.00	(93)	(k)	3.7	(3.0)
(99)	APS electronic AG, Niederbuchsiten, Switzerland		100.00	(93)	(k)	0.7	(0.1)
(100)	Vossloh Kiepe Inc., Alpharetta, USA	5	100.00	(3)	(k)	2.2	0.2
(101)	Vossloh Kiepe Limited, Birmingham, United Kingdom		100.00	(93)	(k)	0.3	(0.2)
(102)	Vossloh Kiepe UK Limited, Birmingham, United Kingdom		100.00	(101)	(k)	(0.6)	(4.0)
(103)	Vossloh Kiepe Southern Africa Proprietary Limited, Cape Town, South Africa	4	100.00	(108)	(n)	0.0	0.0
(104)	Heiterblick Projektgesellschaft mbH, Leipzig		49.00	(93)	(n)	0.0	0.0
(105)	Vossloh Kiepe d.o.o., Niš, Serbia	4	100.00	(93)	(n)	0.0	0.0
	Other companies						
(106)	Vossloh Schwabe Australia Pty. Ltd., Sydney, Australia	4	100.00	(4)	(n)	1.0	0.0
(107)	Vossloh Track Systems GmbH, Werdohl	4	100.00	(1)	(n)	(0.1)	0.0
(108)	Vossloh Southern Africa Holdings Proprietary Ltd., Johannesburg, South Africa	4	100.00	(107)	(n)	0.2	0.1
(109)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia	4	99.00/1.00	(107/2)	(n)	0.0	0.2
(110)	Vossloh Middle East Business Rail LLC, Abu Dhabi, UAE		49.00	(107)	(n)	0.0	0.0
(111)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl	4	100.00	(1)	(n)	0.0	0.0
(112)	Vossloh Dritte Beteiligungsgesellschaft mbH (formerly: Vossloh Dritte Beteiligungs-Aktiengesellschaft), Düsseldorf	4	100.00	(111)	(n)	0.0	0.0

[1] Fully consolidated companies are noted (k), those included at equity (e) and unconsolidated companies (n)

[2] Foreign currency amounts in the case of equity are translated at the average exchange rate as of the balance sheet date and results after tax are translated at the annual average rate

[3] Exercise of the exemption according to Art. 264 (3) HGB or Art. 264b HGB

[4] Excluded from scope of consolidation due to immateriality with respect to net assets, financial position and results of operations

[5] Included in the consolidation for the first time

[6] Differing financial year 4/1 to 3/31

Receivables and other assets

As in the prior year, receivables and other assets, except for k€143 (previous year: k€202) of other assets, all have remaining terms of less than one year. With respect to amounts due from subsidiaries and due from investees, these relate solely to other receivables.

Stockholders' equity

Capital stock

Vossloh AG's capital stock in the amount of €37,825,168.86 (previous year: €37,825,168.86) is divided into 13,325,290 (previous year: 13,325,290) no-par bearer shares of common stock only. One no-par share represents a notional interest of €2.84 in the capital stock.

Treasury stock

The treasury stock was repurchased in prior years by virtue of previous AGM authorizations according to Sec. 71(1) No. 8 AktG.

At December 31, 2014, a total of 0 (previous year: 1,320,603) treasury shares were held by Vossloh AG, equivalent to a stake of 0.00 percent (previous year: 9.91) in the capital stock.

The calculated share of the capital stock amounts to €0.00 (previous year: €3,748,663.71).
As of March 31, 2014, the shares were sold.

Stock repurchase

	Number of purchased shares	Purchase price of the shares (€)[1]	Capital stock (€)	Capital stock (shares)	% of capital stock
July 2011	11,690	1,025,563.96	37,825,168.86	13,325,290	0.09
August 2011	222,725	17,861,660.50	37,825,168.86	13,325,290	1.67
September 2011	187,431	15,225,554.33	37,825,168.86	13,325,290	1.41
October 2011	536,786	39,368,948.29	37,825,168.86	13,325,290	4.03
November 2011	350,473	25,672,731.54	37,825,168.86	13,325,290	2.63
December 2011	23,424	1,793,815.01	37,825,168.86	13,325,290	0.18
Balance as of 12/31/2011	**1,332,529**	**100,948,273.63**	**37,825,168.86**	**13,325,290**	**10.00**
November 2012	(5,808)	(440,014.08)	37,825,168.86	13,325,290	(0.04)
Balance as of 12/31/2012	**1,326,721**	**100,508,259.55**	**37,825,168.86**	**13,325,290**	**9.96**
December 2013	(6,118)	(463,499.68)	37,825,168.86	13,325,290	(0.05)
Balance as of 12/31/2013	**1,320,603**	**100,044,759.87**	**37,825,168.86**	**13,325,290**	**9.91**
March 2014	(1,320,603)	(91,121,607.00)	37,825,168.86	13,325,290	(9.91)
Balance as of 12/31/2014	**0**	**0.00***	**37,825,168.86**	**13,325,290**	**0.00**

[1] Excluding bank commissions
*The difference between cost of acquisition and selling price was netted with the capital reserve.

Authorized capital

In the Annual General Meeting on May 28, 2014, a new authorized capital was approved in the amount of €7,500,000. This authorization is limited until May 27, 2019.

Conditional capital

The contingent capital totaling €12,586,846.49 as of December 31, 2014 breaks down as follows:

The Company's capital stock has been conditionally raised by €6,979,134.18 by issuing 2,730,000 bearer shares of common stock. This contingent capital increase will be implemented only to the extent that, under the warrant bond issues floated on or before June 28, 1999, the warrant holders exercise their right to subscribe for common stock. The new common stock is entitled to dividends from the beginning of the financial year in which it is created by option exercise.

The Company's capital stock has been conditionally increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which were granted to employees under a stock ownership plan (SOP) authorized by the Annual General Meetings of June 25, 1998, and/or June 3, 2004, have exercised or will exercise their options. The new common stock is entitled to dividends from the beginning of the financial year in which it is created by option exercise.

The Company's capital stock has been conditionally raised by €1,468,225.77 by issuing 574,320 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which were granted to officers, executives and other management staff under a long-term incentive plan (LTIP) authorized by the Annual General Meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock is entitled to dividends from the beginning of the financial year in which it is created by option exercise.

The Company's capital has been conditionally raised by an aggregate €3,782,500 by issuing up to 1,479,585 no-par bearer shares of stock in order to grant new no-par bearer shares to the holders or creditors of such convertible bonds, warrant bonds, participating rights and/or income bonds (or any combination of such instruments) as are issued or floated by dint of the authority conferred by the AGM of May 19, 2010, according to Agenda Item 8. The new no-par bearer shares will be issued at a conversion or option price to be determined in accordance with the aforesaid AGM resolution. The conditional capital increase shall be implemented only to the extent that conversion rights or equity warrant options are exercised, the bondholders, warrant owners or creditors subject to a conversion obligation actually meet their conversion obligations, no cash compensation is paid in lieu, or treasury shares or new shares issued by utilizing authorized capital are used. The newly issued no-par bearer shares are entitled to dividends from the beginning of the financial year in which they are created by conversion or option exercise or by fulfillment of conversion obligations. The authorization will expire May 18, 2015.

Additional paid-in capital

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

The reserves retained from earnings totaled €270,671,697.46 (previous year: €183,298,754.17). The increase in retained earnings resulted from the sale of treasury stock as of March 31, 2014. In the previous year, net cost (excluding incidentals) of the treasury stock in excess of the calculated value in the amount of €96,296,116.00 was netted with other retained earnings. An opposite effect was achieved by the difference between the cost of acquisition and the proceeds from the sale of treasury stock in the amount of €8,923,172.71 which was netted with retained earnings in financial year 2014.

Total provisions

As of December 31, 2014, the amount required to settle pension obligations came to k€19,629 (previous year: k€19,143); the fair value of plan assets offset against this settlement amounted to k€11,055 (previous year: k€11,572).

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

In the income statement, expenses of k€486 (previous year: k€925) were netted against income of k€11 (previous year: k€49).

The other provisions of k€2,940 (previous year: k€2,801) include k€1,713 for personnel (previous year: k€1,295) and k€1,227 for sundry administrative purposes (previous year: k€1,506).

Liabilities and contingent liabilities

k€50,000 of the liabilities recognized in the balance sheet falls due after one but within five years (previous year: k€134,962). All other liabilities have maturities of less than one year. The amounts due to subsidiaries and due to investees comprise solely other liabilities.

The contingent liabilities under guarantees of k€717,014 (previous year: k€775,666) were incurred in the amount of k€715,305 for obligations of subsidiaries (previous year: k€774,017).

The limited-amount guaranties in favor of subsidiaries total k€897,435 (previous year: k€888.864). In 36 cases, the guarantees do not have a stipulated ceiling.

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

The other financial obligations (exclusively to third parties) total k€251 (previous year: k€352) and break down into k€113 falling due within one (previous year: k€190) and another k€138 between one and five years (previous year: k€162).

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

Notes to the income statement

k€1,442 million (down from k€1,472) of net sales, generated in 2014 solely in Germany, basically referred to rental income, including k€1,145 charged to subsidiaries (down from k€1,175).

The functional expenses break down into cost of sales and general administrative expenses. Cost of sales mainly includes amortization, depreciation, and maintenance & repair expenses.

Vossloh AG's personnel expenses are shown within general administrative expenses. In the reporting year, personnel expenses totaled k€9,160 (previous year: k€6,833), of which k€8,131 million (previous year: k€6,002) is allocable to wages and salaries, another k€1,029 (previous year: k€831) to social security, pension expense and related employee benefits. Pension expense alone accounting for k€458 (previous year: k€293). The k€1,286 interest portion (previous year: k€1,254) in the addition to pension provisions was recognized as interest and similar expenses.

In addition, general administrative expenses cover expenses for legal and management consultancy, as well as for trade fairs and exhibitions.

The other operating income came to k€4,611 (previous year: k€5,503) and mainly resulted from allocated marketing fees of k€ 2,266 (previous year: €1,679), the allocation of central purchasing Transportation of k€355 (previous year k€1,497), IT cost allocations of k€1,305 (previous year: k€1,356) and exchange gains of k€314 (previous year: k€134).

Other operating expenses primarily include exchange losses in the amount of k€1,857 (previous year: k€806) as well as fees from the sale of treasury stock in the amount of k€1,313 (previous year: k€0).

The net financial result includes write-downs of k€88 of other long-term loans (previous year: k€86).

Net interest expense includes income from the discounting of other provisions of k€98 (previous year: k€114) and expenses for the addition of interest to discounted other provisions of k€0 (previous year: k€323).

Income taxes relate to the result of ordinary activities of the prior financial years.

Other disclosures

In financial year 2014, Vossloh AG employed an average number of salaried employees of 51 (previous year: 46).

The employee bonus program 2014 (on terms unchanged versus 2013) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares free or eight shares at a discount of 50 percent of the issue price of €52.63 per share (previous year: €68.00), determined at market as of the share transfer date.

Under this program, Vossloh employees were granted in 2014 altogether 3,714 free shares (previous year: 3,530) at an expense to the Company of k€199 (previous year: k€267).

Remuneration of Executive Board members (excluding pension expenses) for 2014 totaled k€2,506, including k€1,304 of fixed and k€1,151 of variable compensation plus k€51 payments in kind. Former Executive Board members received in 2014 a total k€907. Pension obligations to former executive officers and their surviving dependents amounted to €17,501. This amount is partially covered by employer pension liability insurance policies totaling k€11,055 pledged in each beneficiary's favor.

Total Supervisory Board fees for 2014 came to k€307, including fixed and variable components of k€307 and k€0, respectively.

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

Derivative financial instruments and hedge accounting

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

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

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

All hedged underlying transactions are accounted for at the hedged rate. Since the so-called net method is used, neither any expected loss or gain, nor any decrease or increase in the hedging instrument's value, are recognized.

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

Derivative financial instruments

€ million	2014		2013	
	Market value	Notional volume	Market value	Notional volume
Currency hedging transactions				
Cross-currency swaps	0.0	0.0	(30.5)	203.9
Interest rate swap	(0.2)	50.0	0.0	0.0
Forward exchange contracts	(7.7)	152.1	0.5	139.3
	(7.9)	**202.1**	**(30.0)**	**343.2**

The method of determining market to measure (mark to market) derivatives depends on the type of instrument.

Interest rate hedges are marked to market on the basis of bank valuations.

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

Currency risk and interest rate hedge accounting

Where the criteria are met, hedge accounting is used for financial derivatives by combining the derivative with the underlying into one valuation unit. If the criteria are not met, negative market values are recognized as liabilities, while positive market values are not recognized. In 2014, all financial derivatives were combined as hedging instruments with the related underlying transactions to form microhedges whose future effectiveness is assessed in terms of matching maturities and volumes, i.e., on the basis of a critical term match.

Due to matching maturities and volumes in each currency, Vossloh AG’s forex hedging is 100 percent effective.

Underlying transactions include firmly contracted purchase orders or shipments at fixed dates, as well as currency loans. The contracted cash flow is hedged by buying or selling forex forwards, thus also closing the currency positions of subsidiaries for their account. As of December 31, 2014, positions in UAE dirhem (AED), Australian dollar (AUD), Chinese renminbi yuan (CNY), Czech crown (CZK), British pound (GBP), Polish złoty (PLN), Swedish krona (SEK), US dollar (USD) and South African rand (ZAR) were hedged.

Transactions with related parties

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

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

In December 2014, the Executive and Supervisory Boards issued, and made permanently available to the stockholders the declaration of conformity as required by Sec. 161 AktG on the Company's Internet site under the URL http://www.vossloh.com/en/investors/corporate_ governance/declarations_of_ conformity/declarations_of_conformity.html.

Notifications pursuant to the German Securities Trading Act (WpHG)

The German Securities Trading Act ("WpHG") obligates investors whose voting interests in listed corporations cross certain thresholds to notify the issuer accordingly. Vossloh AG received the following voting-interest notifications in 2014 under the terms of Sec. 21 WpHG:

Notifying party	Date of notification	Date of change	Threshold crossed above 25%	New voting interest		thereof attributable	
				in %	absolut	in %	absolut
KB Holding GmbH, Grünwald, Germany	11/21/2012	11/19/2012	crossed above 25%	25.14	3,349,888	–	–
Mr. Heinz Hermann Thiele, Germany	7/17/2013	10/25/2012	crossed above 25%	25.14	3,349,888	19.53	2,602,731
Stella Vermögensverwaltungs GmbH, Grünwald, Germany	7/17/2013	11/19/2012	crossed above 25%	25.14	3,349,888	25.14	3,349,888
TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany	17.07.2013	11/19/2012	crossed above 25%	25.14	3,349,888	25.14	3,349,888

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

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

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

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

"(I) Acquisition purposes:

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

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

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

"(I) Acquisition purposes:

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

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

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

"(I) Acquisition purposes:
with reference to the acquisition purposes to be disclosed under Sec. 27a(1) Sent. 3 WpHG, reference is made to the notification pursuant to Sec. 27a WpHG of KB Holding GmbH and Stella Vermögensverwaltungs GmbH from November 21, 2012.
The notifying parties have no other or additional purposes.

(II) The acquisition of the voting interests was exclusively funded through internal resources.
The notifying parties themselves, however, have not directly acquired any voting rights, so that no funds have been expended by them to acquire voting rights."

Notifying party	Date of notification	Date of change	Threshold	New voting interest in %	New voting interest absolut
ETHENEA Independent Investors S.A., Luxembourg	12/23/2013	12/20/2013	crossed above 5 %	5.11	681,191
Ministry of Finance for the State of Norway[1]	1/16/2014	1/15/2014	crossed above 3 %	3.12	415,263
Norges Bank[1], Norway	1/16/2014	1/15/2014	crossed above 3 %	3.12	415,263
Mr. Stefan Kürschner, Germany	2/7/2014	10/31/2013	fell below 3%	0.07	8,775
LAZARD FRERES GESTION S.A.S., France	3/24/2014	3/18/2014	crossed above 3 %	3.01	401,000
Norwegian Ministry of Finance[1], Norway	5/22/2014	5/21/2014	fell below 3%	1.43	190,135
Norges Bank[1], Norway	5/22/2014	5/21/2014	fell below 3%	1.43	190,135
Franklin Templeton Investment Funds, Luxembourg	6/30/2014	6/27/2014	crossed above 3 %	3.05	406,724
Franklin Mutual Advisers, LLC, USA	7/1/2014	6/30/2014	crossed above 5 %	5.68	757,247
SICAV OBJECTIF SMALL CAPS EURO, France	10/6/2014	10/1/2014	crossed above 3 %	3.01	401,000
Ms. Annette Oesterlee, Germany	11/5/2014	11/29/2013	fell below 3%	1.89	252,141
Ms. Christine Piekenbrock-Oesterlee, Germany	11/25/2014	11/29/2013	fell below 3%	0.06	7,582
Mr. Philipp Oesterlee, Germany	11/26/2014	11/29/2013	fell below 3%	0.04	5,500
Mr. Cornelius Oesterlee, Switzerland	1/19/2015	11/29/2013	fell below 3%	0.04	5,450
Mr. Iskander Makhmudov, Russian Federation	2/4/2015	12/17/2014	crossed above 3 %	3.08	409,809

[1] During the reporting year, the 3 percent threshold was first exceeded and then not reached, so both notifications are listed instead of only the most recent one.

Statutory auditor's fees

The following fees for services rendered by the statutory auditor, BDO AG Wirtschaftsprüfungsgesellschaft ("BDO"), were recognized as expense:

Statutory auditor's fees

€ million	2014	2013
Statutory year-end audits	0.1	0.1
Other certification/verification services	0.2	0.8
Tax advisory services	0.2	0.4
Other services	0.1	0.1
	0.6	**1.4**

The fees for statutory audit services mainly include those paid for the statutory annual audits by BDO of Vossloh AG's separate and consolidated financial statements where such fees are borne directly by Vossloh AG. The fees include €0.0 million (previous year: €0.1 million) for other certification or verification services and €0.0 million (previous year: €0,0 million) for tax consultancy provided by non-German BDO firms but invoiced through BDO AG. The fees for other attestation services relate primarily to consultancy and auditing work in connection with the implementation of group- wide accounting policies, for due diligence work, as well as for quarterly report reviews.

The tax advisory fees substantially cover advisory services rendered for the preparation of tax returns, the review of tax assessment notices, as well as for other national and international tax matters.

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 (since July 1, 2014)
– Vossloh Fastening Systems GmbH: Managing Director (since July 1, 2014)
– Vossloh Werdohl GmbH: Head of Executive Management (July 1, 2014 until August 26, 2014)
– Vossloh-Werke International GmbH: Managing Director (since July 1, 2014)
– Vossloh España S.A.U.: Member of the Administrative Board (since September 8, 2014)
– Vossloh Dritte Beteiligungs-Aktiengesellschaft: Chairman of the Supervisory Board (June 25, 2014 until October 2, 2014)

Volker Schenk, born 1964, Düsseldorf
First appointment: May 1, 2014, appointed until: April 30, 2017
Group mandates:
– Vossloh Cogifer SA: Chairman of the Administrative Board (since June 27, 2014)
– Vossloh France International SAS: President (since June 26, 2014)
– Vossloh Australia Pty. Ltd.: Member of the Administrative Board (since August 28, 2014)
– Vossloh Schwabe Australia Pty. Ltd.: Member of the Administrative Board (since August 28, 2014)
– Vossloh Kiepe GmbH: Head of Executive Management (July 1, 2014 until January 31, 2015)

Oliver Schuster, born 1964, Kierspe
First appointment: March 1, 2014, appointed until: February 28, 2017
External mandates:
– Wohnungsgesellschaft Werdohl GmbH: Member of the Supervisory Board
Group mandates:
– Vossloh Cogifer SA: Member of Administrative Board (since June 25, 2014)
– Vossloh France SAS: President (since June 18, 2014)
– Vossloh España S.A.U.: Member of the Administrative Board (since September 8, 2014)
– Vossloh Dritte Beteiligungs-Aktiengesellschaft: Vice-Chairman of the Supervisory Board (June 25, 2014 until October 2, 2014)

Werner Andree, born 1951, Neuenrade
Chairman of the Executive Board (until March 31, 2014), first appointment: September 1, 2001
Group mandates*:
– Vossloh Cogifer SA: Member of the Administrative Board
– Vossloh France SAS: President
– Vossloh Australia Pty. Ltd.: Member of the Administrative Board
– Vossloh Schwabe Australia Pty. Ltd.: Member of the Administrative Board
– Vossloh España S.A.U.: Member of the Administrative Board
– Vossloh Dritte Beteiligungs-Aktiengesellschaft: Chairman of the Supervisory Board

Dr.-Ing. Norbert Schiedeck, born 1965, Arnsberg
(until March 31, 2014), first appointment: April 1, 2007
External mandates:
– Wohnungsgesellschaft Werdohl GmbH: Member of the Supervisory Board
Group mandates*:
– Vossloh Cogifer SA: Member of the Administrative Board
– Amurrio Ferrocarril y Equipos S.A.: Member of the Administrative Board
– Vossloh España S.A.U.: Member of the Administrative Board
– Vossloh Dritte Beteiligungs-Aktiengesellschaft: Member of the Supervisory Board

* All mandates resigned as of March 31, 2014

Vossloh AG's Supervisory Board

Heinz Hermann Thiele[2,4], Chairman, Munich,
Entrepreneur, former Chairman of the Executive Board of Knorr-Bremse AG
– Knorr-Bremse AG: Chairman of the Supervisory Board
– Knorr-Bremse GmbH Austria: Chairman of the Supervisory Board

Silvia Maisch[1], Monheim, Electrical Mechanic

Dr.-Ing. Wolfgang Schlosser[2,3,4], Puchheim, Consultant and former Managing Director of Knorr-Bremse Systeme für Schienenfahrzeuge GmbH (since May 28, 2014)

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

Ursus Zinsli[3,4], Saint-Sulpice (Canton of Vaud, Switzerland), delegate of the Administrative Board and former Managing Director of Scheuchzer SA (Switzerland) (since May 28, 2014)
– Vice-President of the Administrative Board of FURRER + FREY AG, Bern (Switzerland)

Dr. Alexander Selent[3,4], Vice-Chairman (until September 14, 2014), Limburgerhof,
Vice-Chairman of the Executive Board and Chief Financial Officer of Fuchs Petrolub SE

Dr. Wolfgang Scholl[2,4], Vice-Chairman (until May 28, 2014), Frankfurt am Main,
Attorney, Partner of the law firm Arnecke Siebold

Dr.-Ing. Kay Mayland[3,4] (until May 28, 2014), Ettlingen, Engineering Graduate,
former Chairman of the Executive Board of SMS Siemag AG
– SMS Siemag AG: member of the Supervisory Board
– Elexis AG: member of the Supervisory Board

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

In accordance with German GAAP, Vossloh AG's separate financial statements 2014 show a net loss of €84,994,106.09 and, after including the profit carryforward of €25,642,472.58, an accumulated loss of €59,351,633.51.

The Executive Board will propose to the Annual General Meeting that the accumulated loss be carried forward.

Proposed profit appropriation

€	
Undistributed profit as of January 1, 2014	32,305,117.58
Payment of dividend 2014	6,662,645.00
Net loss 2014	(84,994,106.09)
Unappropriated loss as of December 31, 2014 = carryforward to new account	(59,351,633.51)

Werdohl, February 27, 2015

Vossloh AG Executive Board

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

Responsibility statement

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

Werdohl, February 27, 2015
The Executive Board

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

Independent auditor's report and opinion on the separate financial statements

We have audited the annual financial statements (consisting of balance sheet, income statement, and notes) including the records and books of account and the combined management report (on the Company and the Group) of Vossloh AG, Werdohl, for the financial year ended December 31, 2014. The accounting and the preparation of the annual financial statements and combined management report in accordance with the German Commercial Code and the supplementary provisions of the Company's Articles of Incorporation are the responsibility and assertions of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and combined management report.

We have conducted our annual audit in accordance with the provisions of Sec. 317 HGB and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Public Auditors in Germany. Those standards require that we plan and perform the audit to obtain reasonable assurance that any misstatement or fraud which has a material impact on the view of the net assets, financial position and results of operations as presented by the annual financial statements in accordance with accounting principles generally accepted in Germany and by the combined management report is identified. When planning the audit procedures, knowledge and understanding of the Company's business, its economic and legal environment as well as sources of potential errors are given due consideration. An audit includes examining, largely on a test basis, the accounting-related internal control system's effectiveness and the evidence supporting the amounts and disclosures in the accounting, the annual financial statements, and the combined management report. An audit also includes assessing the accounting principles used, and significant estimates made, by the Company's legal representatives, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any objections or exceptions.

It is our opinion that, based on our audit conclusions, the annual financial statements, with due regard to accounting principles generally accepted in Germany, comply with the law and the supplementary provisions of the Company's Articles of Incorporation, and present a true and fair view of the Company's asset and capital structure, financial position and results of operations. The combined management report is consistent with the annual financial statements and presents fairly, in all material respects, the Company's overall position and the risks and rewards inherent in its future development.

Essen, February 27, 2015

BDO AG
Wirtschaftsprüfungsgesellschaft

Fritz	ppa. Barhold
German Public Auditor	German Public Auditor

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