ANNUAL REPORT 2015

Transforming Vossloh.

Separate financial statements of Vossloh AG as of December 31, 2015

Combined management report

Business and market environment

Segmentation and competitive position

Vossloh is a global player on rail technology markets. The operating activities are performed under the umbrella of Vossloh AG. Since the restructuring on January 1, 2015, the Group's core business has been rail infrastructure. It is made up of three divisions: Core Components, Customized Modules and Lifecycle Solutions. The Vossloh product range for rail infrastructure is divided into the following categories: (standard) products, project business and service.

The fourth division, known as the Transportation division, does not belong to the core business and bundles the production of industrial and shunting locomotives, electrical equipment for trains and buses and associated maintenance services. The Rail Vehicles business unit, which was sold with effect from the end of December 31, 2015, was also established here. You can find detailed descriptions of the individual divisions starting on page 21.

In its core business of rail infrastructure, the company has the following competitive positions:

- Vossloh is a leading provider of rail fastening systems worldwide.
- Vossloh is a leading manufacturer of switch systems worldwide.
- Vossloh is a leading provider of rail services in Germany.

Organization

The Vossloh Group is active throughout the world. Local presence and customer proximity are integral elements of our business model. The most important production facilities for Vossloh rail fastening systems are in Germany, Poland, China and the USA. Vossloh's switch systems are mainly produced in France, the USA, Sweden, Australia, Luxembourg, Poland and the UK. Rail services are currently still mainly carried out from Germany. The Transportation division has its main production facilities in Germany; the manufacture of locomotives and light rail vehicles in Spain was sold as at December 31, 2015:

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

- Vossloh Fastening Systems GmbH, Werdohl (Germany) for the Core Components division
- Vossloh Cogifer SA, Rueil-Malmaison (France) for the Customized Modules division
- Vossloh Rail Services GmbH, Hamburg (Germany), for the Lifecycle Solutions division

Vossloh Locomotives GmbH, Kiel (Germany) and Vossloh Kiepe GmbH, Düsseldorf (Germany) have this function in the Transportation division, which is not part of the core business.

The Rail Vehicles business unit, which was sold as at December 31, 2015, was managed by Vossloh España S.A.U., Valencia (Spain).

Control system and targets

Vossloh follows a value-oriented growth strategy. Value added serves as an indicator. Positive value added is generated when a premium on top of the return claimed by investors and lenders (cost of capital) is earned. This premium is the difference between the return on capital employed (ROCE) 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 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 division and business unit controlling parameter.

Cost of equity is composed of a risk-free rate plus a market risk premium. As a result of the pretax consideration, the interest factor is 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 statement of financial position since it is not only predicated on a benchmark for the funding structure but also because equity is here based on fair value and not the carrying amounts recognized in the statement of financial position. Intragroup controlling in the 2015 financial year – as in 2014 – was based on pretax WACC of 10.0 percent as the yield expected by investors and lenders.

Our financial performance indicators include value added, revenue, EBIT or EBIT margin.

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

Monthly financial reporting represents a central element for the analysis and control of the divisions, 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. 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 financial figures of the operating units are intensively discussed by the management and the Executive Board; the personal interaction between the Executive Board of Vossloh AG and the management of the operating units guarantees a rapid flow of information and also allows short-term responses.

Economic report

Economic environment

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

A number of studies regularly analyze developments on 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 firm 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 around €150 billion per year in the 2011-2013 period, while SCI Verkehr has estimated 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. According to UNIFE, in the 2017-2019 period this accessible market is set to grow by an annual average of 2.8 percent (CAGR) to around €120 billion.

Products and services for rail infrastructure are Vossloh's core business. According to UNIFE data, the accessible volume of this market segment relevant to Vossloh was approximately €25 billion per year between 2011 and 2013. In the 2017-2019 period, the expectation is of strong average annual growth amounting to 3.8 percent to approximately €31 billion per year.

From a regional perspective, the Western European market, at around 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 approximately 7 percent. The Middle East/Africa region and Latin America comprise somewhat smaller shares, at around 7 percent and approximately 4 percent, respectively. Vossloh is active worldwide, particularly in its core business with the exception of the Lifecycle Solutions unit. The company is one of the leading global providers of both switches and rail fastening systems.

Since the restructuring on January 1, 2015, Vossloh has been focusing on target markets China, the USA, Russia and Western Europe. Australia, Brazil, Canada, the Middle East, Northern Europe and the stan countries (such as Kyrgyzstan, Uzbekistan, Kazakhstan and Turkmenistan) are also considered as attractive regional markets.

As a rule, investments in rail infrastructure are made around the world after lengthy decision-making processes. Therefore, current economic trends are reflected on the markets only to a limited degree. However, the ”general climate” of the economy has an impact on Vossloh’s business performance–even if this occurs with a time lag. In 2015 the company generated approximately 35 percent of its sales outside Europe, which is why economic development as a whole, for instance in China, Russia and the USA, is of importance. According to the International Monetary Fund (IMF), in 2015, the USA was the only country to report an increase in growth of 2.5 percent as against the previous year (2.4 percent), while China and Russia remained below the figures for 2014 (6.9 percent and (3.7) percent as against 7.3 percent and 0.6 percent respectively). According to the IMF, economic growth in the eurozone was positive at 1.5 percent – compared with 0.9 percent in the previous year. According to UNIFE data, Western Europe is still the most important region on the rail technology market, with a volume of over €30 billion; Europe as a whole remains Vossloh’s primary market. In recent years, the severely weakened funding capability of public budgets has had an impact on the demand for rail technology. As of the end of the third quarter of 2015, the debt ratio (the ratio of public debt to GDP) of the euro countries (EU-19), according to the statistics office of the European Union (Eurostat), was 91,6 percent – as of the information cutoff date of this publication, this was the most current figure available. At the same time in the previous year, this figure was 92.3 percent. At the end of September 2015, the debt ratio of the EU as a whole (EU-28) amounted to 86,0 percent compared with 86,9 percent in the previous year.

Business acquisitions

Two transactions relating to the subsidiaries in Finland were completed with effect from July 1, 2015. Firstly, two switch plants were acquired in Finland by Vossloh Cogifer Finland Oy on the basis of an asset deal. Secondly, shares were acquired in the newly established company Vossloh Rail Services Finland Oy, to which a subsidiary of the finnish national railway transferred the business operations of a switch factory.

While the additionally acquired switch plants are operated within the company already established in the Customized Modules division, Vossloh Rail Services Finland Oy is part of the Lifecycle Solutions division.

Both business acquisitions have strengthened Vossloh’s presence on the Finnish market for rail infrastructure.

Preliminary remarks

In the 2015 financial year, the net assets, financial position and results of operations of the Vossloh Group and of the Transportation division were essentially influenced by the disposal of the Rail Vehicles business unit. Rail Vehicles, based in Valencia, was managed by Vossloh as one of the three business units of the Transportation division. With management's strategic decision in 2014 to focus the Group's business activities on rail infrastructure, a decision was also reached to sell or transfer the three business units of the Transportation division into suitable partnerships no longer controlled by Vossloh by 2017 at the latest.

The sale of Vossloh's Spanish locomotive business to the Swiss company Stadler Rail AG, Bussnang, was completed with effect from December 31, 2015. The Rail Vehicles business unit was deconsolidated following the completion of the disposal. Against this backdrop, all expenses and income of the Rail Vehicles business unit have been included in the item "Net result from discontinued operations," both in the 2015 reporting period and in the comparative period of the previous year, starting from the interim report as of September 30, 2015. The assets and liabilities of the previous year's reporting date are reported separately under "Assets or liabilities from discontinued activities" in the statement of financial position. As of the 2015 reporting date, the assets and liabilities are no longer included in the statement of financial position due to the disposal and the deconsolidation. Accordingly, the Group figures now reported are not comparable with those presented in the reports up to and including the 2015 semi-annual report. For further details in this regard, please refer to the notes to the consolidated financial statements page 121 of the Group's annual report and Note (7).

Results of operations

Forecast for 2015 met: Sales growth by 9.1 percent to €1.2 billion; EBIT margin of 3.8 percent

In the 2015 financial year, the development of sales and earnings of the Vossloh Group was noticeably normalized compared with the restructuring year of 2014. The key figures that were forecast for business development were achieved. Overall, the Vossloh Group generated revenue of €1,200.7 million in the 2015 financial year. Compared with the 2014 financial year (€1,100.8 million), the increase in sales amounted to €99.9 million or 9.1 percent. Sales exceeded the most recently forecast corridor between €1.13 billion and €1.16 billion due to an unexpectedly sharp rise in sales in the last quarter of 2015.

In the 2015 financial year, the translation of exchange rates had positive effects on sales amounting to €37.5 million. The original forecast for the 2015 financial year communicated sales growth including the Rail Vehicles business unit of 3 percent to 4 percent. More detailed commentary on the differences is provided in the Outlook from page 63.

The Group's EBIT improved to €45.1 million and was thus considerably above the previous year's figure adjusted for one-time items, which amounted to €18.8 million. In the 2015 financial year, the translation of exchange rates had positive effects on EBIT amounting to €2.7 million.

In the 2015 financial year, the EBIT margin increased to 3.8 percent as against 1.7 percent in the previous year. Vossloh had originally forecast an EBIT margin between 3 and 4 percent for the 2015 financial year. The Rail Vehicles business unit reported an EBIT margin in the mid-double-digit range. For this reason, the sale did not have any material effects on profitability in the Group as a whole.

In 2015, the Vossloh Group generated a return on capital employed (ROCE) of 5.6 percent (previous year unadjusted: (21.7) percent). As anticipated, ROCE therefore improved considerably and rose again to a positive figure. However, it failed to exceed the weighted average cost of capital (WACC) applied at 10 percent. Accordingly, value added remained negative as expected at €(35.9) million in 2015, but saw a noticeable year-on-year improvement (€(267.8) million).

In 2015, the Group's jump in sales primarily resulted from a significant increase in sales in the Transportation division, which had been anticipated. Revenue in the Transportation division rose by 54.1 percent in total, which was predominately driven by additional sales in the Electrical Systems business unit. Sales growth in the Customized Modules division was also higher than expected. In 2015, sales growth of 10.6 percent was reported here. As expected, the Lifecycle Solutions division saw higher revenues thanks to a year-on-year rise in sales of 3.1 percent. In contrast, sales in the Core Components division were below the level of the previous year by 22.5 percent due to ongoing weaker development in several countries. The decline had been anticipated but was greater than originally planned.

Vossloh-Group – sales by division and business unit

	€ million	%	€ million	%
	2015		2014	
Core Components	**256.6**	**21.4**	**331.0**	**30.1**
Customized Modules	**523.0**	**43.6**	**473.1**	**43.0**
Lifecycle Solutions	**71.7**	**6.0**	**69.6**	**6.3**
Transportation	**357.3**	**29.7**	**231.9**	**21.0**
Locomotives	109.5	9.1	90.0	8.2
Electrical Systems	249.5	20.8	143.8	13.0
Consolidation	(1.7)	(0.2)	(1.9)	(0.2)
Holding companies and consolidation	**(7.9)**	**(0.7)**	**(4.8)**	**(0.4)**
Total	**1,200.7**	**100.0**	**1,100.8**	**100.0**

Against this backdrop, the sales share of the Core Components division in the Group's total sales declined from 30.1 percent in the previous year to 21.4 percent in the year under review. In the Customized Modules division, the sales share amounted to 43.6 percent in the past financial year (previous year: 43.0 percent). In 2015, a 6.0 percent share in Group sales was attributable to the Lifecycle Solutions division, after 6.3 percent in the previous year. In the 2015 financial year, the Transportation division's share of Group sales totaled 29.7 percent (previous year: 21.0 percent).

Vossloh-Group – sales by region

	€ million	%	€ million	%
	2015		2014	
Germany	269.7	22.5	215.8	19.6
France	128.9	10.7	137.5	12.5
Other Western Europe	137.8	11.5	124.8	11.3
Northern Europe	107.0	8.9	86.9	7.9
Southern Europe	59.2	4.9	47.9	4.4
Eastern Europe	76.0	6.3	85.7	7.8
Total Europe	**778.6**	**64.8**	**698.6**	**63.5**
Americas	219.8	18.3	148.3	13.5
Asia	149.4	12.5	206.3	18.7
Africa	30.4	2.5	22.4	2.0
Australia	22.5	1.9	25.2	2.3
Total	**1,200.7**	**100.0**	**1,100.8**	**100.0**

Sales share in Europe at 64.8 percent

In Europe, revenue in the Vossloh Group in 2015 totaled €778.6 million (previous year: €698.6 million) and thereby contributed 64.8 percent to Group sales (previous year: 63.5 percent). In the past financial year, the sales share of markets outside Europe accordingly amounted to 35.2 percent (previous year: 36.5 percent).

Western Europe still the core region of the Vossloh Group

In Western Europe, sales amounted to €536.4 million in the year under review compared with €478.1 million in the previous year; sales growth amounted to 12.2 percent. Growth continued, particularly in Germany but also in the United Kingdom, and was primarily driven by highly positive development in the Transportation division. In contrast, revenue in France slightly declined as a result of lower sales contributions from the Customized Modules and Core Components divisions. Sales dropped sharply in Switzerland, where the volume of sales almost halved in comparison to the previous year.

In Southern Europe, the Vossloh Group saw a rise in revenue in the year under review. A decisive factor for positive development were essentially higher sales in the Customized Modules and Core Components divisions in Italy.

Joint ventures in Finland strengthen market position in Northern Europe

In the 2015 financial year, revenue in Northern Europe was clearly above the prior-year level. This was achieved thanks to sales growth, particularly as a result of a significant sales increase in the Customized Modules division in Sweden, Vossloh's largest single market in Northern Europe. In addition, first-time inclusion of the switch and welding plants acquired in Finland in the Customized Modules and Lifecycle Solutions divisions contributed to the rise in revenue in the Northern Europe region. In Norway, the prior-year level of sales was not reached, whereas sales in Denmark were nearly equal to the level of the previous year.

In Eastern Europe, sales saw a year-on-year decline. The decrease was primarily due to lower sales in rail fastening systems in Russia. In Lithuania and Poland as well, revenue fell short of the prior-year level, whereas a significant sales increase in percent was achieved in the Czech Republic, Serbia and Romania.

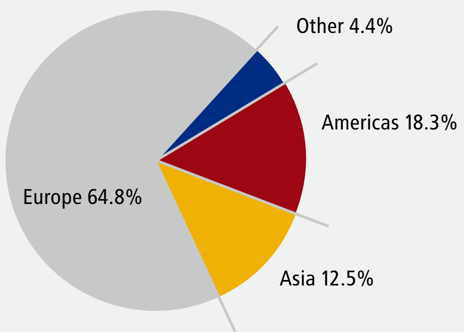
In Asia, Vossloh reported another noticeable decline in the volume of sales in the past financial year. Including the Middle Eastern region, sales worth €149.4 million were generated (previous year: €206.3 million). A key factor for the decrease was the anticipated decline in the volume of sales in China as against the high sales contributions from previous years. In addition, sales contributions from Thailand, Indonesia and Singapore were lower than in the previous year.

As expected, Vossloh's revenue in North America went up in the 2015 financial year, as the region with the most sales (after Europe) with a share of 18.3 percent. Overall, revenue amounted to €219.8 million after €148.3 million in the previous year, corresponding to a 48.2 percent jump in sales. In the USA, a considerable sales increase was achieved particularly in the Transportation division thanks to the Electrical Systems business unit. The Customized Modules and Core Components divisions also experienced sales growth here. In South America, the Customized Modules division achieved a significant increase in sales in Brazil and Chile, while the Core Components division reported higher sales in Argentina in particular.

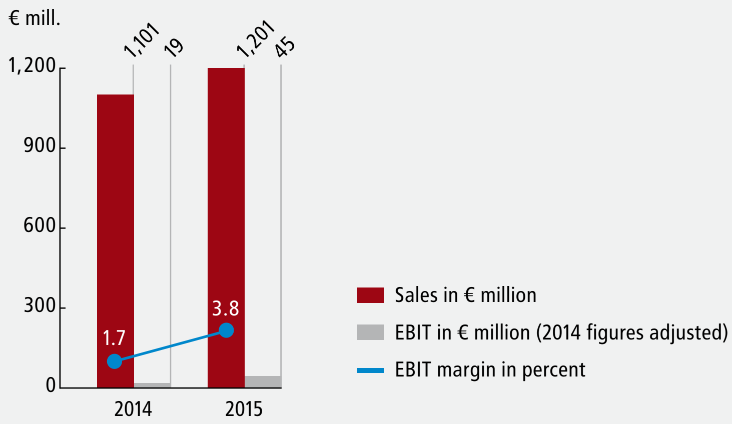
In the 2015 financial year, Vossloh sales in Africa amounted to €30.4 million compared with €22.4 million in the previous year. Higher sales were generated in Morocco in the Customized Modules division. At €22.5 million, sales in Australia, where Vossloh is essentially represented by the Customized Modules division, were below the prior-year level of €25.2 million.

More sales, lower costs

The Vossloh Group's gross profit – sales less cost of sales – amounted to €204.9 million in the 2015 financial year (previous year: €100.1 million). Despite a significant increase in sales, the cost of sales declined to €995.8 million compared with €1,000.7 million in the previous year. In 2014, this was shaped to a great extent by extraordinary charges in connection with the restructuring. In the reporting period, the gross margin recovered from 9.1 percent in the previous year, normalizing to 17.1 percent in the 2015 financial year.



Sales by region in 2015



Sales and EBIT of the Vossloh Group, 2014-2015

The costs of the two functional areas of sales and administration totaled €183.0 million in the 2015 financial year, and were thus substantially below the prior-year level of €193.9 million. In relation to sales, this corresponds to an expense ratio of 15.2 percent (previous year: 17.6 percent). Besides the elimination of non-recurring expenses, a decisive factor for this improvement was the decline in selling expenses to €82.4 million in the 2015 financial year (previous year: €96.5 million). Administrative expenses of €100.6 million were slightly above the level of the prior-year figure of €97.4 million.
In the 2015 financial year, the other operating result of the Vossloh Group amounted to €35.5 million, thus improving considerably as against the prior-year figure of €(67.7) million. This was burdened by one-time items in 2014, particularly as a result of the goodwill impairment of Vossloh Switch Systems and the impairment of capitalized development costs at Vossloh Locomotives.

Vossloh Group – sales and earnings

	€ million	%	€ million	%
	2015		2014	
Sales	1,200.7	100.0	1,100.8	100.0
Gross profit	204.9	17.1	100.1	9.1
Operating result	44.3	3.7	(174.4)	(15.9)
EBIT	45.1	3.8	(183.4)	(16.7)
EBT	31.6	2.6	(207.6)	(18.9)
Group net income	77.8	6.5	(205.7)	(18.7)
Earnings per share (in €)	5.42		(16.46)	

Group's EBIT improves significantly to €45.1 million, EBIT margin at 3.8 percent.

A sales increase and improvements in profitability pushed up the Vossloh Group's EBIT to €45.1 million in the year under review. In the previous year, unadjusted EBIT was reported at €(183.4) million.
On a comparable basis, i.e. excluding non-recurring extraordinary effects, the Group achieved EBIT of €18.8 million in 2014. In comparison to the figure shown in the income statement, for the calculation of EBIT adjusted for one-time items in the 2014 financial year, those earnings effects that resulted from restructuring measures, the repositioning of individual business units and goodwill impairment were eliminated. In addition, items were eliminated if they were aperiodic and/or of a non-recurring nature. For the most part, these included loss-free valuation of projects due to negative developments that occurred in the 2014 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.

The rise in EBIT in 2015 was driven strongly by a significant reduction of losses in the Transportation division. In addition, EBIT saw a tangible improvement in the Customized Modules division. In contrast, EBIT in the Core Components division remained below the prior-year figure, as anticipated. EBIT in the Lifecycle Solutions division was equal to the previous year's comparative figure and improved as against the figure reported in 2014. In 2015, effects from the translation of exchange rates had a positive impact on the Group's EBIT in the amount of €2.7 million. In the year under review, the EBIT margin amounted to 3.8 percent as against 1.7 percent in the previous year.

In 2015, the interest income improved to €(13.5) million as against €(24.2) million in the previous year. In 2014, interest fees amounting to €7.3 million for the early repayment of a tranche of a US private placement were charged as interest expense. In 2015, the net interest expense already benefited from the more favorable conditions of the new funding structures. In April 2015, using a syndicated loan Vossloh settled the company's bridge loan of €250 million, which had been taken out in the middle of 2014.

With the significant rise in Group EBIT and the simultaneous reduction in net interest expense, EBT improved to €31.6 million in the past financial year (previous year: €(207.6) million). In 2015, income taxes amounted to €20.2 million (previous year: €7.0 million). The comparatively high tax rate of 64.1 percent in 2015 resulted from an adjustment of deferred tax assets. The Vossloh Group's net result from discontinued operations amounted to €66.4 million (previous year: €8.9 million). This primarily comprised, besides the result of the Rail Vehicles business unit in 2015 and the attributable transaction costs for the sale of this entity, book profits resulting from the disposal of Vossloh Rail Vehicles. Vossloh's consolidated profit amounted to €77.8 million in the 2015 financial year. This was significantly higher than the prior-year figure of €(205.7) million. Non-controlling interests in the post-tax profit totaled €5.6 million in 2015 compared with €7.8 million in the previous year. The decline in the past financial year is attributable particularly to the lower result of a Chinese subsidiary in the Core Components division.

In the year under review, the weighted average number of shares outstanding was 13,325,290. Consolidated net income per share attributable to shareholders of Vossloh AG amounted to €5.42. In the previous year, this was a loss of €(16.46).

In light of the continued restructuring and repositioning of the Vossloh Group, Vossloh AG's Executive Board and Supervisory Board will make a proposal to shareholders at the Annual General Meeting scheduled for May 25, 2016 to suspend dividend payments for the 2015 financial year. The profit achieved in 2015, also thanks to the disposal of the Spanish locomotive business, is set to strengthen the equity base and thus be used to secure future growth.

Order backlog at €1,031.3 million

As at the end of the 2015 financial year, the Vossloh Group had an order backlog amounting to €1,031.3 million. This represented a year-on-year decline of 9.7 percent compared with the order backlog of €1,142.1 million as of the previous year's reporting date. Here, all divisions of the Vossloh Group, particularly the Transportation division, report a year-on-year decline in the order backlog.

Vossloh divisions: Order backlog

€ mill.	2015	2014
Core Components	177.6	182.6
Customized Modules	298.1	309.1
Lifecycle Solutions	7.8	10.4
Transportation	547.9	641.2
Vossloh AG/consolidation	(0.1)	(1.2)
Group	1,031.3	1,142.1

As of the end of December 2015, the order backlog of the Core Components division amounted to €177.6 million as against €182.6 million at the end of December 2014. This corresponds to a 2.8 percent decline. In the Customized Modules division, the order backlog was below the prior-year figure by 3.6 percent, amounting to €298.1 million as of December 31, 2015 (previous year: €309.1 million). At €7.8 million, the order backlog of the Lifecycle Solutions division declined by around 25 percent as of the end of the reporting period (previous year: €10.4 million). At €547.9 million as of December 31, 2015, the order backlog of the Transportation division was significantly below the prior-year figure (€641.2 million). This development is largely attributable to the fact that the focus of the repositioning, particularly in the Electrical Systems business unit, will be placed on handling the high order backlog of previous years in a profitable manner and achieving customer satisfaction. Going forward, the business unit will focus again on the areas of light rail vehicles, trolleybuses, components, e-mobility and related services. This will reduce the project volumes allocable to Vossloh Electrical Systems in specific orders. In addition, in isolated cases expected orders were not obtained, and there were delays in the awarding of projects.

Fewer orders received

In 2015, the Vossloh Group's orders received amounted to €1,089.8 million, which was below the prior-year figure as expected (€1,149.6 million). Orders received in the past financial year were below sales generated, resulting in a book-to-bill ratio of 0.91 in the Group.

Orders received in the Core Components, Lifecycle Solutions and Transportation divisions saw weaker development as against the previous year. At €251.6 million, orders received in the Core Components division still lagged behind the high figure of the previous year (€347.2 million) by 27.5 percent in 2015 despite a larger new order from China for high-speed fastening systems of around €70 million. Orders received in the Lifecycle Solutions division were also lower than in the previous year (€72.9 million) with a 5.1 percent decline to €69.2 million in the year under review.

In the Transportation division, orders received amounted to €264.0 million in the year under review, which was below the level of the previous year (€275.8 million) by 4.3 percent. While the Locomotives business unit generated new orders of €115.9 million in 2015 (previous year: €86.5 million), orders received of €150.0 million in the Electrical Systems business unit remained below the prior-year figure (€190.9 million). This was also due to a strategic repositioning of the business unit and the moderate number of contract awards as a result of project delays. In contrast, the Customized Modules division saw a significant rise in orders received. Overall, new orders in the year under review reached €512.0 million, thus exceeding the prior-year figure of €458.7 million by 11.6 percent.

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.

Net financial debt significantly reduced

The Vossloh Group's net financial debt significantly decreased from €283.0 million as of December 31, 2014 to €200.1 million as of the end of December 2015. The cash inflow from the disposal of the Rail Vehicles business unit, which was transferred to the Stadler Rail AG Group, Bussnang, Switzerland, with effect from December 31, 2015, contributed nearly half of this development. Furthermore, the Group's free cash flow from operating activities also saw a noticeable improvement in 2015 due to the continued implementation of the program to optimize working capital initiated in 2014. At the end of 2015, the Vossloh Group's financial liabilities amounted to €279.3 million, and were thus below the corresponding figure as of the end of the reporting period of the previous year (€330.8 million). In addition, the total of cash and cash equivalents and short-term securities increased to €79.3 million as of December 31, 2015 (previous year: €47.8 million).

In particular, current financial liabilities declined as of the end of the reporting period in December 2015. These liabilities amounted to €25.9 million, while they saw a significant increase to €281.0 million in the 2014 financial year as a result of bridge financing for the early repayment of the second tranche of the US private placement that was taken up in 2004. In 2014, financing of €250 million with a term until June 2015 had been agreed with several banks in order to fund the US private placement.
In April 2015, Vossloh AG found a new basis for its medium-term financing framework by successfully concluding a syndicated loan of €500 million and repaid the bridge loan. The loan is structured in two tranches and has a term of three years starting from April 23, 2015, and therefore provides a stable medium-term financing basis. €200 million has been made available to the company in the form of an interest-only loan, €300 million in the form of a revolving credit line, i.e. a flexibly available credit line.

Vossloh Group – equity and net financial debt

€ mill.	2015	2014
Equity[1]	428.7	349.6
Net financial debt	200.1	283.0

[1]Group equity, including non-controlling interests

In addition to unused directly available funds, the Vossloh Group had unused credit lines available at December 31, 2015, totaling €427.7 million, of which Vossloh AG directly had €279.0 million. The remaining unused credit lines were available at Group company level. The majority of these credit lines had a term of up to one year. The smaller proportion was granted for an unlimited term.

In the year under review, cash flow from operating activities amounted to €107.8 million (previous year: €(42.2) million). The year-on-year increase mainly resulted from the significant improvement in the Group's EBIT and the further decline in working capital.

Vossloh Group – analysis of cash flows

€ mill.	2015	2014
Cash flow from operating activities	107.8	(42.2)
Cash flow from investing activities	(11.6)	(58.3)
Cash flow from financing activities	(77.0)	103.7
Net cash outflow/inflow	**19.2**	**3.2**

Cash flow from investing activities in the Vossloh Group totaled €(11.6) million in the 2015 financial year (previous year: €(58.3) million). This was due in particular to cash inflow from the disposal of the Rail Vehicles business unit. The free cash flow – defined as cash flow from operating activities less investments in intangible assets and property, plant and equipment as well as cash-effective changes in investments in associated companies plus proceeds from dividends or the sale of associated companies – amounted to €66.1 million in the past financial year as against €(98.5) million in the previous year. Cash flow from financing activities amounted to €(77.0) million in the year under review (previous year: €103.7 million).

Vossloh-Group – capital expenditure and depreciation/amortization

€ mill.	2015		2014	
	Capital expenditure	Amortization/ depreciation	Capital expenditure	Amortization/ depreciation
Core Components	6.4	9.1	13.5	8.3
Customized Modules	11.4	16.2	13.3	72.1
Lifecycle Solutions	9.6	5.1	10.5	5.0
Transportation	8.6	9.2	13.2	37.1
Vossloh AG/Consolidation	0.7	0.7	0.2	0.7
Total	**36.7**	**40.3**	**50.7**	**123.2**

Not including the sold Rail Vehicles business unit, the Vossloh Group invested €36.7 million in property, plant and equipment and intangible assets in the 2015 financial year, which was significantly less than in the previous year (€50.7 million). The decline in capital expenditure in all divisions was primarily due to the completion of major investment projects.

In the Core Components division, capital expenditure in the past financial year more than halved to €6.4 million as against €13.5 million in the previous year. This was caused by the construction and commissioning of the new production facilities in the USA in the spring of 2015. Other investments of the Core Components division primarily related to a logistics center near the German headquarters in Werdohl and the expansion of production capacities in China. At €9.6 million, the Lifecycle Solutions division also invested less than in the previous year (€10.5 million). Here, capital expenditure mainly applied to the development of high-speed grinding trains and the further development and manufacture of a milling train. Capital expenditure in the Customized Modules division amounted to €11.4 million in the year under review and was thus also below the prior-year figure of €13.3 million. Capital expenditure comprised a large number of small investment projects. The largest single investment related to a welding machine for the Outreau site in France. The Transportation division spent a total of €8.6 million on investments (previous year: €13.2 million). €5.9 million related to the Locomotives business unit, flowing primarily into the development of the new locomotive family in Kiel (previous year: €5.8 million). In the Electrical Systems business unit, capital expenditure in the 2015 financial year totaled €2.4 million (previous year: €6.6 million) and related in particular to IT systems.

In the 2015 financial year, investments in property, plant and equipment and intangible assets fell slightly below write-downs of €40.3 million. In the previous year, the Vossloh Group’s write-downs amounted to €123.2 million due to the restructuring and realignment of several business units – in particular, the impairment of goodwill in the Switch Systems business unit and write-downs of capitalized development costs in the Locomotives business unit. Like capital expenditure, these figures do not include the write-downs of the sold Rail Vehicles business unit.

Asset and capital structure

The Vossloh Group’s total assets amounted to €1,375.1 million as of December 31, 2015. Including assets from discontinued activities, total assets amounted to €1,604.4 million as of December 31, 2014.

As of the end of the reporting period, the Vossloh Group’s equity amounted to €428.7 million (previous year: €349.6 million). The year-on-year rise by €79.1 million is primarily attributable to book profit from the disposal of the Rail Vehicles business unit. The Vossloh Group’s equity ratio increased accordingly to 31.2 percent as of the end of the reporting period (previous year: 21.8 percent).

The Group’s working capital as of December 31, 2015 amounted to €210.2 million, compared to €226.5 million in the previous year. Despite a significant increase in sales, the decline in working capital was caused by the increase in trade payables while lower inventories also contributed to the improved working capital in the past financial year. At the same time, trade receivables were also virtually unchanged as against the end of 2014 although the Group’s sales volume increased strongly.

Over the year, average working capital amounted to €251.8 million in the year under review (previous year: €258.3 million). Average working capital intensity – the ratio of average working capital to sales – improved to 21.0 percent in the 2015 financial year (previous year: 23.5 percent).

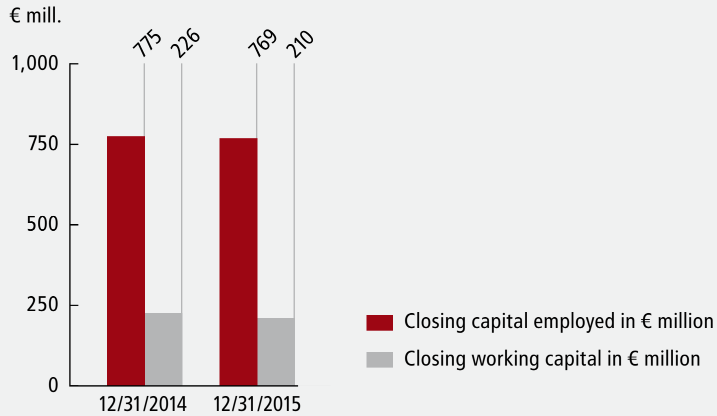
As of December 31, 2015, the capital employed of the Vossloh Group totaled €768.5 million (previous year: €775.3 million). A decisive factor for the decline was primarily the year-on-year fall in working capital at the reporting date. Average capital employed amounted to €809.7 million in the past financial year. The difference compared to the prior-year figure (€844.2 million) was primarily attributable to the goodwill impairment at Vossloh Switch Systems as of June 30, 2014, and the write-down of capitalized development costs at Vossloh Locomotives.

Vossloh Group – asset and capital structure

		31.12.2015	31.12.2014
Total assets	€ mill.	1,375.1	1,604.4
Equity[1]	€ mill.	428.7	349.6
Equity ratio	%	31.2	21.8
Closing working capital	€ mill.	210.2	226.5
Fixed assets	€ mill.	558.3	548.8
Closing capital employed	€ mill.	768.5	775.3

[1]Group equity, including non-controlling interests

In the 2015 financial year, Vossloh performed well following the radical cuts in 2014. Group sales increased more rapidly than most recently expected by 9 percent to €1.2 billion. On a like-for-like basis, EBIT of €18.8 million in 2014 soared to €45.1 million in the past financial year. The EBIT margin rose to 3.8 percent last year and was thus at the higher end of the range communicated since December 2014. A decisive and strategic milestone in Vossloh's transformation was reached with the disposal of the Spanish locomotive business at the end of 2015. Vossloh's equity improved in a positive fashion due to book profits on the disposal, and the Group's equity ratio again reached a figure of more than 31 percent as of the end of reporting period. Net financial debt was reduced significantly compared to the previous year.



Vossloh Group: Capital employed and working capital trend, 2014-2015

Value management

Against the backdrop of extraordinarily high charges in 2014, key value management figures for the 2014 and 2015 financial years are barely comparable.

In the 2015 financial year, the Vossloh Group's ROCE – return on capital employed – was positive at 5.6 percent. ROCE amounted to (21.7) percent in the previous year due to the significantly negative EBIT. The improvement in ROCE in 2015 was driven primarily by the significant rise in EBIT. The decline in average working capital against the previous year and the resulting decrease in average capital employed also had a positive effect. For 2015, a weighted average cost of capital (WACC) of 10 percent before taxes was applied in the Vossloh Group. In the year under review, ROCE was therefore below the internal WACC by 4.4 percentage points, but was within the anticipated range of 5 to 8 percent.

ROCE of the Vossloh Group at 5.6 percent; due to WACC of 10 percent negative value added in the 2015 financial year

In the Core Components division, ROCE amounted to 23.3 percent in the year under review. Due to significantly lower EBIT and the elimination of positive one-time effects from the internal sale of a company in 2014 in the division, ROCE remained below the prior-year figure of 45.7 percent. The Customized Modules division reported a ROCE of 8.1 percent in the 2015 financial year (previous year: (11.7) percent). The ROCE in the Lifecycle Solutions division amounted to 4.5 percent while in the prior year it was 3.1 percent. At (3.9) percent, the Transportation division also improved in the past financial year (previous year: (104.3) percent). The Locomotives and Electrical Systems business units contributed to this improvement.

Vossloh Group's value added was negative in the 2015 financial year, amounting to €(35.9) million (previous year: €(267.8) million). Although the Core Components division reported positive value added of €16.6 million in the year under review, it was still below the corresponding prior-year figure of €45.9 million. In contrast, the Customized Modules, Lifecycle Solutions and Transportation divisions reported negative value added. However, the figure was better than the previous year. Value added in the Customized Modules division was €(8.3) million (previous year: €(94.0) million). Value added in the Lifecycle Solutions division in the 2015 financial year was €(6.7) million (previous year: €(8.0) million). In the 2015 financial year, value added in the Transportation division amounted to €(17.7) million (previous year: €(179.7) million).

Vossloh Group: Value management

		2015	2014
Average capital employed	€ mill.	809.7	844.2
ROCE	%	5.6	(21.7)
Value added	€ mill.	(35.9)	(267.8)

Core Components includes standardized products in high volumes

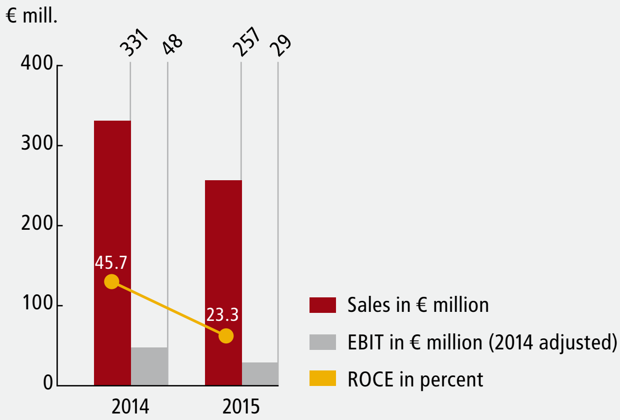
Division currently comprises the Fastening Systems business unit

Declining sales following extraordinarily high sales in China in the previous year

Profitability remains high – EBIT margin in double digits

Core Components

		2015	2014
Sales	€ mill.	256.6	331.0
EBIT	€ mill.	29.2	58.8
EBIT margin	%	11.4	17.8
Average working capital	€ mill.	68.8	76.0
Average working capital intensity	%	26.8	23.0
Average capital employed	€ mill.	125.1	128.6
ROCE	%	23.3	45.7
Value added	€ mill.	16.6	45.9



Sales, EBIT and ROCE
of the Core Components division

Business performance of Core Components

The Core Components division comprises the Group's range of industrially manufactured standard products needed in large volumes for rail infrastructure projects. The division currently comprises the Fastening Systems business unit and is set to be expanded by complementary activities in the medium term. Vossloh Fastening Systems, a globally established and leading manufacturer of rail fastening systems, offers an extensive portfolio of rail fasteners for a wide application area. With its many years of experience and extensive technological expertise, standards and innovative solutions, Vossloh Fastening Systems is setting benchmarks for the future for ballasted tracks, slab tracks, local rail traffic and all load profiles ranging from heavy-haul to high-speed.

Sales of €256.6 million, declining as expected

At €256.6 million, sales in the Core Components division in the 2015 financial year remained significantly below the previous year's figure of €331.0 million. As expected, the high sales of the previous year were not achieved again in China. The drop is largely attributable to fewer call-ups and deliveries of rail fasteners after extraordinarily high sales in previous years. Business performance in Turkey, Russia and Thailand also contributed to the decline in sales. In contrast, a considerable increase in sales was seen in Argentina, Italy and the Czech Republic.

In 2015, orders received in the Core Components division totaled €251.6 million as against €347.2 million in the previous year. Despite a major new order in China worth around €70 million for high-speed fastening systems and significant new orders from Italy, the orders received in the Core Components division failed to reach the level of the previous year. As of December 31, 2015, the division's order backlog amounted to €177.6 million. As a result, it was slightly under the value of €182.6 million at the end of 2014.

EBIT margin 2015 at 11.4 percent

In 2015, EBIT in the Core Components division fell due to a decline in sales to €29.2 million as against the comparable figure in the previous year of €47.6 million. Before adjustments, EBIT amounted to €58.8 million. However, this included the gain on the intragroup sale of a company that was only eliminated again at Group level. The EBIT margin remains in double digits and amounts to 11.4 percent, below the adjusted prior-year figure of 14.4 percent.

In the past financial year, the Core Components division generated positive value added of €16.6 million. However, due to the decline in earnings and the extraordinary effect from the intragroup sale of a subsidiary, this was considerably below the previous year's figure of €45.9 million.

ROCE, the return on capital employed, was clearly positive again at 23.3 percent in the year under review. However, it was also clearly below the previous year's figure of 45.7 percent due to the above extraordinary effect. Average capital employed fell slightly to €125.1 million (previous year: €128.6 million). Average working capital as a key element of average capital employed also declined. After €76.0 million in the 2014 financial year, the figure for the current reporting period amounted to €68.8 million. Due to a slump in sales, average working capital intensity rose to 26.8 percent (previous year: 23.0 percent) despite lower working capital.

Customized modules – focus on project- and customer-specific solutions

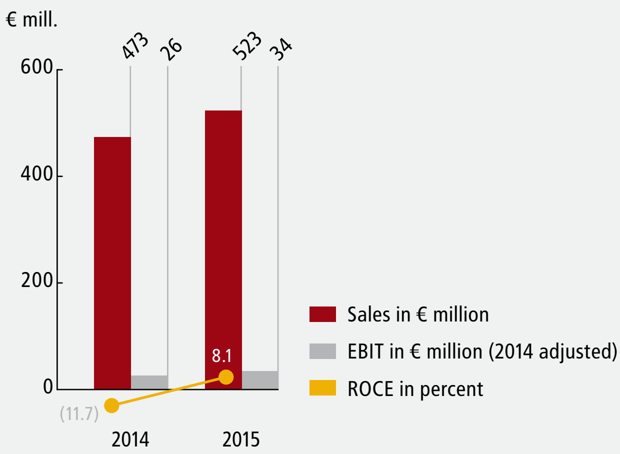
Division currently comprises the Switch Systems business unit

Increase in sales of over 10 percent

Significant rise in profitability as against the adjusted prior-year figure

Customized Modules

		2015	2014
Sales	€ mill.	523.0	473.1
EBIT	€ mill.	34.4	(50.7)
EBIT margin	%	6.6	(10.7)
Average working capital	€ mill.	141.1	129.0
Average working capital intensity	%	27.0	27.3
Average capital employed	€ mill.	427.1	431.7
ROCE	%	8.1	(11.7)
Value added	€ mill.	(8.3)	(94.0)



Sales, EBIT and ROCE
of the Customized Modules division

Business performance of Customized Modules

All the Group's services for the manufacture, installation and maintenance of individualized infrastructure modules are bundled in the Customized Modules division. The Switch Systems business unit, one of the largest providers of switch systems worldwide, currently belongs to the division. From numerous production facilities in over 20 countries, Vossloh Switch Systems equips, installs and maintains global rail networks with switches as well as with control and monitoring elements. The product portfolio covers a very wide range of applications, extending from light-rail to high-speed applications.

In the 2015 financial year, the Customized Modules division reported a strong increase in sales by 10.6 percent to €523.0 million (previous year: €473.1 million). Positive revenue development in Northern Europe – primarily in Sweden – contributed in particular to the sales growth. In Finland, the Customized Modules division continued to build on its market position and more than doubled its revenue. In addition, higher sales were achieved in Italy, Brazil, Morocco and – primarily due to exchange rates – the USA compared with the previous year. In contrast, the extraordinarily high sales of the previous year were not achieved again in France. Business performance also declined in Norway, Indonesia and Switzerland in the year under review.

Over €500 million orders received in 2015

In the 2015 financial year, orders received in the Customized Modules division amounted to €512.0 million, which was significantly above the prior-year figure (previous year: €458.7 million). Key new orders came from France, the USA and Sweden. The order backlog at the end of 2015 amounted to €298.1 million, only immaterially below the previous year's figure of €309.1 million.

EBIT and EBIT margin considerably above prior-year figures

EBIT in the Customized Modules division improved by 30.9 percent to €34.4 million compared with the adjusted figure for the previous year. In the previous year, adjusted EBIT had amounted to €26.3 million. Including one-time items – especially the impairment of goodwill of €60 million here – EBIT in the 2014 financial year was €(50.7) million. In addition to higher earnings contributions driven by higher sales, efficiency improvements also contributed to the increased profitability. The EBIT margin improved tangibly from an adjusted value of 5.6 percent to 6.6 percent.

The value added of the Customized Modules division remained negative again in the 2015 financial year at €(8.3) million, but recovered considerably compared to the unadjusted prior year figure of €(94.0) million, which was dominated by extraordinary charges.

In the period under review, the division achieved a positive ROCE of 8.1 percent, again owing to clearly positive EBIT. In the same period in the previous year, unadjusted ROCE had amounted to (11.7) percent. Average capital employed declined slightly to €427.1 million compared with €431.7 million in the previous year. This was primarily due to the goodwill impairment not recognized until midway through 2014, which in 2015 was therefore included in the average calculation for the whole twelve months. In contrast, average working capital increased to €141.1 million (previous year: €129.0 million) due to the significant sales growth and exchange rate effects. The rise was particularly attributable to higher trade receivables. In contrast, average working capital intensity fell slightly from 27.3 percent in the previous year to 27.0 percent.

Lifecycle Solutions – specialized services relating to the life cycle of rail lines

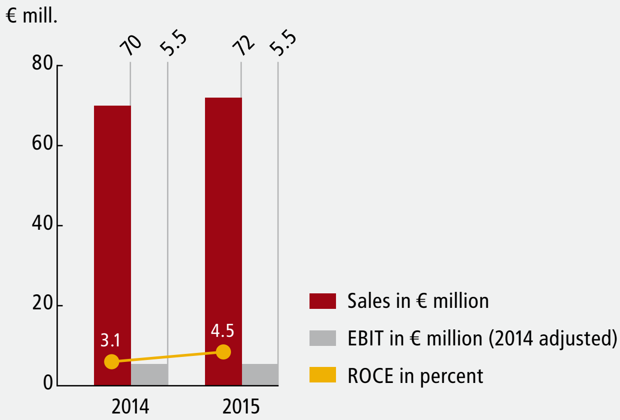
Division comprises the Rail Services business unit

Internationalization advanced as a result of newly established joint venture in Finland

Slight sales growth in financial year 2015

Lifecycle Solutions

		2015	2014
Sales	€ mill.	71.7	69.6
EBIT	€ mill.	5.5	3.5
EBIT margin	%	7.7	5.1
Average working capital	€ mill.	9.9	9.6
Average working capital intensity	%	13.8	13.8
Average capital employed	€ mill.	122.0	114.9
ROCE	%	4.5	3.1
Value added	€ mill.	(6.7)	(8.0)



Sales, EBIT and ROCE of the Lifecycle Solutions division

Business performance of Lifecycle Solutions

Through its Rail Services business unit, the Lifecycle Solutions division concentrates on specialist services for the maintenance of tracks and switches. With its own innovative technologies, Lifecycle Solutions promotes the safety of rail lines and contributes to the extension of the service life of tracks. In addition to welding services and rail logistics, maintaining, working on and providing preventive care for tracks and switches are part of the service portfolio. Comprehensive services supplement the product range of Core Components and Customized Modules. Lifecycle Solutions is to be further internationalized and the range of high-quality logistics and maintenance services simultaneously broadened to also cover the entire life cycle of infrastructure. In 2015, the internationalization of the division was successfully continued in Finland.

Internationalization of the Lifecycle Solutions division picks up momentum

Sales of the Lifecycle Solutions division increased slightly to €71.7 million as against the previous year's figure of €69.6 million. The sales upturn is essentially the result of the solid order for stationary services and the first-time consolidation of the Finnish joint venture. The internationalization of the division is also increasingly taking shape. After a sales level under 20 percent outside Germany in the previous year, this figure increased to nearly 30 percent in the year under review. In addition to a considerable increase in sales in Northern Europe, sales in China also rose significantly.

Orders received in the Lifecycle Solutions division reached €69.2 million, which was near the prior-year level of €72.9 million. This was primarily related to the call-up business, with the exception of a track maintenance order in Croatia. As of December 31, 2015, the order backlog amounted to €7.8 million (previous year: €10.4 million).

EBIT on a par with the previous year

In the past year, the Lifecycle Solutions division achieved EBIT of €5.5 million, which is equal to the prior-year figure adjusted for one-time items. In 2014, unadjusted EBIT had amounted to €3.5 million. At 7.7 percent, the EBIT margin was essentially unchanged as against the adjusted prior-year figure of 7.9 percent.

Value added improved but remained negative at €(6.7) million. The reported value for the previous year amounted to an unadjusted figure of €(8.0) million.

ROCE of 4.5 percent

The Lifecycle Solutions division achieved a ROCE of 4.5 percent in the year under review, which was higher than the unadjusted prior-year figure of 3.1 percent. Average capital employed climbed from €114.9 million to €122.0 million due to an increase in fixed assets. Average working capital was virtually unchanged at €9.9 million (previous year: €9.6 million). As a result, at 13.8 percent in 2015 average working capital intensity was at exactly the level of the previous year.

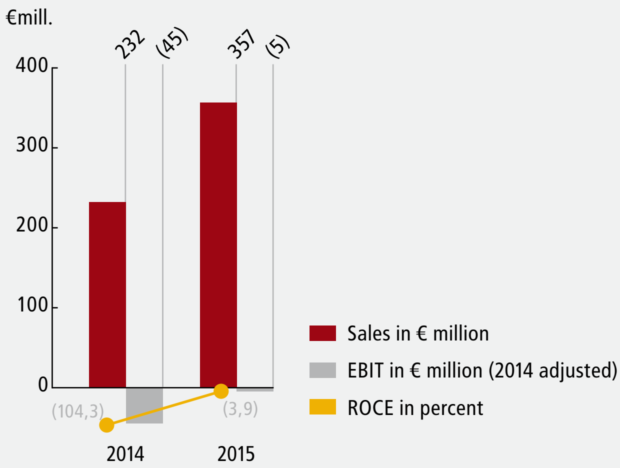
Sale of the Rail Vehicles business unit completed with effect from the end of December 31, 2015

Division consists of the Locomotives and Electrical Systems business units

Significant increase in sales by 54.1 percent

Positive earnings development – considerable year-on-year improvement

Transportation		2015	2014
Sales	€ mill.	357.3	231.9
EBIT	€ mill.	(5.0)	(164.0)
EBIT margin	%	(1.4)	(70.7)
Average working capital	€ mill.	35.2	46.3
Average working capital intensity	%	9.8	20.0
Average capital employed	€ mill.	127.4	157.3
ROCE	%	(3.9)	(104.3)
Value added	€ mill.	(17.7)	(179.7)



Sales, EBIT and ROCE of the Transportation division

Business performance of Transportation

Sale of Rail Vehicles to Stadler Rail AG completed

Since the announcement of the Group strategy in December 2014, the Transportation division has not been part of the Vossloh Group's core business. By 2017, activities in this division are expected to be sold or transferred to one or more partnerships that are no longer consolidated. A first milestone in the Vossloh Group's transformation into a rail infrastructure company was achieved with the sale of the Rail Vehicles business unit. The sale of Rail Vehicles to the Swiss company Stadler Rail AG was completed with effect from the end of December 31, 2015. As a result, the generated profit contributions, gains and transaction costs from the disposal of Rail Vehicles are shown as the "net result from discontinued activities" as a separate item in the statement of profit or loss and are not contained in the explanations below. The Transportation division thus comprises the Locomotives and Electrical Systems business units and provides state-of-the-art locomotives and electric components for local transport vehicles and associated services.

Significant increase in revenue in both business units

Processing high-volume orders from the order backlog resulted in a considerable increase in sales in 2015. Sales rose by 54.1 percent to €357.3 million (previous year: €231.9 million). The increase in sales was primarily driven by extraordinarily positive business performance in the Electrical Systems business unit. Vossloh Locomotives also reported strong sales growth in the double-digit range.

In the 2015 financial year, orders received in the Transportation division amounted to €264.0 million, achieving nearly the level of the previous year of €275.8 million. The order backlog is still very high at €547.9 million, but it remains below the prior-year figure of €641.2 million, owing to the high level of sales in the year under review and the refocusing of the Electrical Systems business unit.

Successful and continued implementation of the program of measures leads to an increase in earnings

At €(5.0) million, EBIT in the Transportation division significantly improved as against the adjusted prior-year figure of €(45.3) million. Following a weaker first half of the year, which was anticipated, EBIT rose significantly in the second half of the year as a result of the ongoing implementation of the cost reduction program and other measures to increase profitability. In the fourth quarter of 2015, positive EBIT had been achieved again for the first time since the end of 2012, which reflects the favorable development in the division. The EBIT margin also increased accordingly from a comparable (19.5) percent to (1.4) percent in the year under review.

In the year under review, the value added of the Transportation division amounted to €(17.7) million and was significantly above the unadjusted value added of the previous year of €(179.7) million.

The division's return on capital employed (ROCE) was still negative but improved from (104.3) percent in the previous year to (3.9) percent. Over the year, average capital employed was significantly below the level of the previous year. Decisive factors for the decline included impairments of capitalized development costs in the business unit Locomotives business unit in 2014. In the year under review, these were included in the average calculation for twelve full months for the first time, thus leading to lower capital employed of €127.4 million (previous year: €157.3 million). At €35.2 million, average working capital was also significantly below the prior-year figure of €46.3 million despite the considerable rise in sales. As a result, average working capital intensity decreased significantly to 9.8 percent (previous year: 20.0 percent).

Vossloh Locomotives

The Locomotives business unit develops and manufactures state-of-the-art diesel locomotives at the Kiel location, which have a leading position on the European market in terms of efficiency, flexibility and eco-friendliness. In addition, Vossloh Locomotives provides all necessary services for the servicing and maintenance of locomotives.

New construction of production site in Kiel-Suchsdorf makes progress – move planned for the second half of 2016

A key element in the repositioning and restructuring of the business unit is the move to a new locomotive plant in Kiel. The construction of this new plant has already made a lot of progress and the move is planned for the second half of 2016. Once the construction is complete, it will be one of the most innovative and efficient production sites for rolling stock in Europe. As a result of the move, operating procedures will be optimized and production and delivery times will be significantly shortened, allowing the efficiency of Vossloh Locomotives to be further increased.

Vossloh Locomotives reports strong rise in sales

In the 2015 financial year, revenue in the Locomotives business unit amounted to €109.5 million and was thus significantly above the prior-year figure of €90.0 million by 21.6 percent. This was mainly due to higher sales of new and used locomotives. Overall, 48 locomotives were supplied for various purposes in the past financial year. Germany and France remained by far the largest sales markets. Sales noticeably increased year on year in Sweden as well.

Orders received in the Locomotives business unit amounted to €115.9 million, which was 34.0 percent above the level in the previous year of €86.5 million. This was caused by high orders received of around €70 million in the last quarter of the 2015 financial year. The order backlog at the end of 2015 amounted to €99.2 million, also below the previous year's figure of €92.7 million.

Vossloh Locomotives value added was still negative at €(10.4) million. The unadjusted figure of the previous year of €(94.5) million was greatly influenced by high costs for the restructuring and repositioning of the Kiel location.

Vossloh Electrical Systems

The Electrical Systems business unit develops and manufactures electric systems for local transport rail and road vehicles. The portfolio of electric key components comprises drive equipment, on-board power supply, vehicle control systems and heating and air-conditioning technology.

The positive year-on-year business development of Vossloh Electrical Systems validates the restructuring and repositioning process, which began in 2014. With extensive operating and strategic measures, such as the focus on established application areas, including light rail vehicles, trolleybuses, components, e-mobility and related services, and capacity streamlining, the efficiency of Vossloh Electrical Systems was significantly increased.

Very strong sales growth as a result of scheduled project implementation

The business unit reported sales growth of 73.5 percent. Sales soared from €143.8 million in the previous year to €249.5 million in 2015. This was particularly attributable to the scheduled implementation of projects in the Rolling Stock and Buses and E-Mobility segment. Germany remained the market with the strongest sales in 2015. However, the business unit also generated a considerable sales share in the USA thanks to bus projects in Seattle and San Francisco.

In the 2015 financial year, Vossloh Electrical Systems recognized orders received of €150.0 million. The prior-year figure of €190.9 million was also shaped by the large order from the USA of around €50 million. The order backlog declined following the strong rise in sales, but remained at a high level at €451.7 million as of December 31, 2015 (previous year: €551.3 million). The reduction in the order backlog is a consequence of the strategic realignment of the business unit. Going forward, the business unit will focus again on the areas of light rail vehicles, trolleybuses, components, e-mobility and related services.

At €(8.1) million, the value added of Vossloh Electrical Systems was also negative in the year under review. Likewise heavily diminished by one-time items, value added in the previous year amounted to €(80.5) million.

Vossloh AG

As an operational management and financial holding company, Vossloh AG is the parent of the Vossloh Group and controls and oversees all major operations and activities within the Group. In addition to determining corporate strategy and controlling corporate development, Vossloh AG allocates the financial resources, such as for capital expenditures and acquisitions, is responsible for corporate accounting and controlling, group-wide treasury management, risk and opportunity management, internal auditing, as well as for IT, legal, investor relations, and corporate communications. It oversees sales and marketing communication activities. In addition to being in charge of human resources policy, it is responsible for personnel development and support of the Group's senior management. Its role in the control of the operational activities of the business units as an operational management holding has further strengthened in the course of the financial year, exemplified by the operational responsibility of Vossloh AG's 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 2015 of €1.5 million (previous year: €1.4 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. The financial year's other operating income of €167.4 million (previous year: €4.6 million) was determined by the income from the disposal of Vossloh España S.A.U., Valencia, Spain. At the level of the separate financial statements, income of €156.0 million was generated from the disposal of the investment. In addition, it includes income from marketing and IT levies from Group companies.

In fiscal 2015, administrative expenses of €45.3 million were considerably higher than in the previous year (€20.4 million). This was due in particular to expenses relating to the planned and in one case successful divestment projects. Personnel expenses of €11.1 million were higher than the prior year's amount of €9.2 million. One reason for this was the mean number of employees in 2015 – calculated as the average of the figure at the end of each quarter – which increased by four compared with the previous year to 55.

Compared to the previous year, the 2015 net financial result increased from €(62.1) million to €66.3 million. The major components of the net financial result in 2015 were income from dividends from investments of €45.0 million (previous year: €30.0 million) as well as profit transfers or tax allocations mainly of Vossloh-Werke GmbH and Vossloh Rail Services GmbH totaling €36.8 million (previous year: €37.2 million). The net financial result was negatively affected primarily by the takeover of losses mainly of Vossloh Locomotives GmbH and Vossloh Kiepe GmbH in the total amount of €(16.2) million (previous year: €(119.2) million).

Opposite interest expenses of €12.9 million (previous year: €20.0 million), mostly from the refinancing of the Group's capital requirements, was interest income of €13.1 million in 2015 (previous year: €8.9 million), primarily from the transfer of these funds in the form of short-term credit or long-term loans to Group companies. In the previous year, interest expenses were negatively impacted by early repayment interest penalties due to the early repayment of the US private placement at that time. Income taxes amounted to €(1.8) million (previous year: €4.3 million). Vossloh AG's net income in the reporting year was €182.8 million (previous year: €(85.0) million).

The balance sheet total increased from €864.6 million to €888.2 million. While financial assets decreased from €523.0 million to €492.3 million as a result of the disposal of the investment in Vossloh España S.A.U. and lower loans to subsidiaries, current amounts due from subsidiaries increased considerably from €314.7 million to €369.3 million. Other assets were reduced materially by the receipt of sales tax refunds. The equity and liabilities side of the balance sheet showed a marked decrease in amounts due to subsidiaries as a result of the assumption of financial liabilities to Vossloh España by the acquirer of the investment. Amounts due to banks were reduced on the basis of the positive change in financial liabilities in the Group from €322.8 million to €268.0 million. In April 2015, new medium-term financing was arranged with the agreement of a credit facility of €500 million.

Equity increased from €286.7 million to €469.5 million. This was mainly driven by the significantly improved net income. The equity ratio amounted to 52.9 percent, compared to 33.2 percent in the prior year.

Relationships with affiliated companies

Due to the existing majority of capital represented at the 2015 Annual General Meeting, we assume that Vossloh AG is indirectly controlled within the meaning of Article 17 of the German Stock Corporation Act (AktG) by Mr. Heinz Hermann Thiele. In accordance with Article 312 AktG, the Company prepared a report on the relationships with affiliated companies containing the following wording: "In respect of the legal transactions listed in the report on relationships with affiliated companies, the Company, according to the circumstances known at the time when the legal transactions were made, received an appropriate consideration for each legal transaction. Measures putting the Company at a disadvantage at the request or in the interest of Mr. Heinz Hermann Thiele or companies affiliated with him were not made or omitted. This assessment is based on the facts and circumstances known by us at the time such reportable transactions were conducted." The report was audited by the statutory auditor and was issued with an unqualified auditor's opinion.

Remuneration report

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

Principles 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.

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

Classification of Executive Board member remuneration for 2015. The annual remuneration is a fixed basic salary plus variable remuneration. The variable remuneration is calculated on the basis of target remuneration defined for each Executive Board member in the case of 100 percent target attainment in terms of performance targets set by the Supervisory Board. 45 percent of the target remuneration is calculated using annual performance targets (one-year bonus); the larger portion of 55 percent of the target remuneration is determined according to the achievement of multi-year performance targets (multi-year bonus).

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 paid in twelve equal monthly installments. In addition, Executive Board members receive non-cash fringe benefits as payments in kind (PIK), which are primarily in the form of private company car use.

The performance targets of the **variable remuneration** are set and regularly reviewed by the Supervisory Board and are based either on financial performance indicators or personal targets. In the event of 100 percent target attainment, the variable remuneration equals the basic remuneration. The potential target attainment is capped at double the base value.

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

Total remuneration granted by Vossloh AG to the Executive Board is calculated from basic remuneration in 2015 and variable remuneration for 2015. The performance targets for the one-year bonus in financial year 2015 are the EBIT, sales and working capital intensity of the Vossloh Group. The performance targets for the multi-year bonus are the average sales growth and average ROCE. In addition, the Supervisory Board granted Executive Board members special bonuses for extraordinary performance in 2014/2015 in connection with the realignment and transformation of the Vossloh Group. These comprised €300,000 for Dr. h.c. Hans M. Schabert, €192,500 € for Mr. Oliver Schuster and €100,000 € for Mr. Volker Schenk.

Executive Board remuneration in financial year 2015

Remuneration for the Executive Board has been assigned by name and is in compliance with the recommendations of the German Corporate Governance Code. The benefits granted also include accrued amounts for variable remuneration components that will not be paid out until 2016 or 2017. Payments in kind (PIK) cover private company car use in the amount recognized for tax purposes. No remuneration was received for services performed on behalf of subsidiaries. The special bonus granted for extraordinary performance in 2014 and 2015 is separately reported as multi-year variable remuneration.

€		Fixed remuneration[1]	Fringe benefits	**Total**	One-year-variable remuneration	Multi-year variable remuneration			**Total**	Benefit expenses	**Total remuneration**
Benefits granted						2014 & 2015	Special bonus	2015 & 2016			
Dr. h.c. Hans M. Schabert Chairman of the Executive Board since April 1, 2014	2014	562,513	16,274	**578,787**	187,500	–[2]	–	–	**187,500**	203,844	**970,131**
	2015	500,000	14,736	**514,736**	343,993	306,317	300,000	161,658[3]	**1,111,968**	212,594	**1,839,298**
	2015 Min.	500,000	14,736	**514,736**	0	0	0	0	**0**	212,594	**727,330**
	2015 Max.	500,000	14,736	**514,736**	450,000	550,000	500,000	550,000	**2,050,000**	212,594	**2,777,330**
Oliver Schuster CFO since March 1, 2014	2014	510,429	17,443	**527,872**	72,917	–[2]	–	–	**72,917**	138,614	**739,403**
	2015	525,000	21,970	**546,970**	65,795	214,422	192,500	113,161[3]	**585,878**	144,380	**1,277,228**
	2015 Min.	525,000	21,970	**546,970**	0	0	0	0	**0**	144,380	**691,350**
	2015 Max.	525,000	21,970	**546,970**	140,000	385,000	350,000	385,000	**1,260,000**	144,380	**1,951,350**
Volker Schenk COO since May 1, 2014	2014	350,010	7,422	**357,432**	–	–[2]	–	–	**–**	135,557	**492,989**
	2015	350,000	11,461	**361,461**	240,795	214,422	100,000	113,161[3]	**668,378**	141,191	**1,171,030**
	2015 Min.	350,000	11,461	**361,461**	0	0	0	0	**0**	141,191	**502,652**
	2015 Max.	350,000	11,461	**361,461**	315,000	385,000	350,000	385,000	**1,435,000**	141,191	**1,937,652**
Werner Andree Chairman of the Executive Board until March 31, 2014[4]	2014	320,010	4,623	**324,633**	250,500	–	–	–	**250,500**	–	**575,133**
Dr.-Ing. Norbert Schiedeck COO until March 31, 2014	2014	83,798	5,482	**89,280**	–	–	–	–	**–**	145,716	**234,996**

[1]Of this, €187,500 (Dr. h.c. Schabert), €218,750 (Mr. Schuster) and €116,667 (Mr. Schenk) are a guaranteed bonus for 2014 and €175,000 (Mr. Schuster) are a guaranteed bonus for 2015.
[2]The grant of multi-year variable compensation for 2014 & 2015 depends on the achievement of the performance targets for the years 2014 and 2015. Target attainment was measured after the expiry of the contractually defined multi-year period.
[3]The grant of multi-year variable compensation for 2015 & 2016 was calculated on the basis of the most likely value and recognized as a provision.
[4]Expiry of employment contract on August 31, 2014

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

€		Fixed remuneration	Fringe benefits	**Total**	One-year variable remuneration	Multi-year variable remuneration			**Total**	Benefit expenses	**Total remuneration**
Receipt						2014 & 2015	Special bonus	2015 & 2016			
Dr. h.c. Hans M. Schabert Chairman of the Executive Board since April 1, 2014	2014	562,513	16,274	**578,787**	–	–[1]	–	–	**–**	203,844	**782,631**
	2015	500,000	14,736	**514,736**	187,500	–	–	–[2]	**187,500**	212,594	**914,830**
Oliver Schuster CFO since March 1, 2014	2014	510,429	17,443	**527,872**	–	–[1]	–	–	**–**	138,614	**666,486**
	2015	525,000	21,970	**546,970**	72,917	–	–	–[2]	**72,917**	144,380	**764,267**
Volker Schenk COO since May 1, 2014	2014	350,010	7,422	**357,432**	–	–[1]	–	–	**–**	135,557	**492,989**
	2015	350,000	11,461	**361,461**	–	–	–	–[2]	**–**	141,191	**502,652**
Werner Andree Chairman of the Executive Board until March 31, 2014[3]	2014	320,010	4,623	**324,633**	250,500	–	–	–	**250,500**	0	**575,133**
Dr.-Ing. Norbert Schiedeck COO until March 31, 2014	2014	83,798	5,482	**89,280**	–	–	–	–	**–**	145,716	**234,996**

[1]The grant of multi-year variable compensation for 2014 & 2015 depends on the achievement of the performance targets for the years 2014 and 2015. Target attainment was measured after the expiry of the contractually defined multi-year period.
[2]The grant of multi-year variable compensation for 2015 & 2016 was calculated on the basis of the most likely value and recognized as a provision.
[3]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
Entitlements to defined retirement benefits			
Dr. h.c. Hans M. Schabert Chairman of the Executive Board	2014	93,184	93,184
	2015	165,303	258,487
Oliver Schuster Member of the Executive Board	2014	64,426	64,426
	2015	107,512	171,938
Volker Schenk Member of the Executive Board	2014	51,498	51,498
	2015	103,862	155,360
Werner Andree Chairman of the Executive Board (until March 31, 2014)	2014	–	4,002,598
Dr.-Ing. Norbert Schiedeck Member of the Executive (until March 31, 2014)	2014	265,753	947,170

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 2015, a total of €376,677 was provided for the accrued balance of Executive Board members (previous year: €474,861). Upon the death of an active or former member of the Executive Board, the pension entitlement or the most recent pension paid to the surviving spouse is reduced to 60 percent.

Commitments in the event of termination of duties

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 2015 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 dependents. The remuneration in the form of pension payments to former members of the Executive Board and their surviving dependents totaled €1,082,407 (previous year: €907,230). Current retirement pensions are subject to adjustment respective to the collective pay trend of salaried employees in the metal and electrical industries of North Rhine-Westphalia. Pension obligations to former members of the Executive Board and members of the Executive Management, as well as their surviving dependents, amounted to €19,070,851 (previous year: €17,500,736). Employer pension liability insurance policies totaling €10,930,434 (previous year: €11,054,586) are pledged in each beneficiary's favor. The balance of these pension obligations is covered by provisions.

Supervisory Board remuneration

Supervisory Board remuneration in 2015. The remuneration of members of the Supervisory Board is to be determined by the Annual General Meeting and governed by the company's Articles of Incorporation. The remuneration system is in compliance with German law and takes into account the responsibilities and duties of Supervisory Board members.

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

Remuneration for Supervisory Board members for financial year 2015 is defined by the Articles of Incorporation as amended on May 28, 2014, as follows: Supervisory Board members receive 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. At the meeting of the Supervisory Board on September 24, 2015, the members of the Nomination Committee unanimously declared that they would waive the remuneration stipulated by the Articles of Incorporation for their work on the Nomination Committee. 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 €393,334 for 2015 (previous year: €306,667).

The table below itemizes the amounts attributable to each Supervisory Board member.

€	2015	2014
Heinz Hermann Thiele (Chairman)	120,000	90,000
Ulrich M. Harnacke (from May 20, 2015)[1]	60,000	–
Ursus Zinsli	61,667	35,833
Dr.-Ing. Wolfgang Schlosser	51,667	32,500
Michael Ulrich	60,000	45,000
Silvia Maisch	40,000	30,000
Dr. Alexander Selent (until Sept. 14, 2014)	–	44,167
Dr. Wolfgang Scholl (until May 28, 2014)	–	16,667
Dr.-Ing. Kay Mayland (until May 28, 2014)	–	12,500
Total	**393,334**	**306,667**

[1] Vice Chairman since May 20, 2015

Loans to Supervisory Board members. In 2015, no advances or loans were granted to any Supervisory Board members.

Consulting Contracts. In 2015 a consulting contract was concluded with Mr. Ursus Zinsli, from which he received €34,000 in the financial year.

Statutory takeover-related disclosures pursuant to Articles 289 (4) 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, 2015, 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 40.79 percent of the voting rights in Vossloh AG. These voting rights are to be attributed to the TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany, Stella Vermögensverwaltung GmbH, Grünwald, Germany, and Mr. Heinz Hermann Thiele, Germany, pursuant to Article 22 (1) German Securities Trading Act (Wertpapierhandelsgesetz "WpHG").

Shares with special rights/controlling rights

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

Voting control of employee shareholdings

Employees who are shareholders 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 Article 7 of the Articles of Incorporation. Pursuant to Article 84 (1) AktG, Executive Board members are appointed by the Supervisory Board for a maximum term of five years, 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 Article 84 (3) AktG. According to Article 179 (1) AktG, the Articles of Incorporation may be amended by vote of the annual general meeting. In conformity with Article 21 (2) of the Articles of Incorporation but subject to overriding statutory provisions to the contrary, the Annual General Meeting shall pass its resolutions with the simple majority of votes cast. Where the law prescribes a stock ownership majority in addition to a voting majority, the simple majority of the capital stock represented at the vote shall suffice unless the provisions of the law or Vossloh AG's Articles of Incorporation prescribe otherwise. Article 27 of the Articles of Incorporation authorizes the Supervisory Board to amend the Articles of Incorporation where only their wording is involved. Article 4 (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

Article 4 of the Articles of Incorporation specifies the Executive Board's powers to issue new stock.

a) Authorized capital

The provisions of Article 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 Article 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 Article 186 (3) sentence 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) Contingent capital

(i) Pursuant to Article 4 (3) of the Articles of Incorporation, the Company's capital stock has been contingently 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 Article 4 (4) of the Articles of Incorporation, the Company's capital stock has been contingently increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This capital increase is implemented only to the extent that the holders of stock options, which are granted to employees under an employee bonus program 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 the financial year in which it is created by option exercise, on whose profit appropriation is resolved in the succeeding financial year's annual general meeting.

(iii) Pursuant to Article 4 (5) of the Articles of Incorporation, the Company's capital stock has been contingently 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 the financial year in which it is created by option exercise, on whose profit appropriation is resolved in the succeeding financial year's Annual General Meeting.

(iv) Pursuantto Article 4 (6) of the Articles of Incorporation, the Company's capital has been contingently 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 Annual General Meeting 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 Annual General Meeting resolution. The contingent 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 contingent capital increase and its implementation.

c) Repurchase of treasury stock
No authority of Vossloh AG to buy back treasury shares currently exists. At December 31, 2015, the Company did not hold any treasury shares.

Agreements upon a change of control
Four significant agreements of the Company exist which could come into effect upon a change in control.

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

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

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

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

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

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

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

Workforce

At December 31, 2015, the Vossloh Group employed a workforce worldwide of 4,793. This figure was 112 fewer than in the previous year (4,905), and represents a decrease of 2.3 percent.

Employee-related indicators

k€	2015	2014
Personnel expense per employee	58.5	58.0
Sales per employee	246.3	225.4

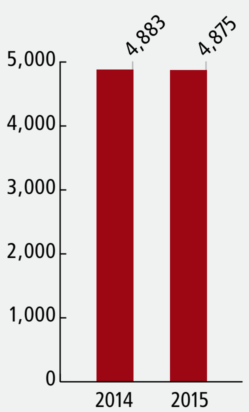
The average number of employees in the past financial year amounted to 4,875, compared to 4,883 in 2014.

A total of 78.8 percent of the employees worked at the Group's European locations. Of the remaining 21.2 percent, 37.8 percent (previous year: 36.1 percent) were employed in the North American area and 38.9 percent (previous year: 40.5 percent) at production locations in Asia. In addition, employees were located in Australia and South America.

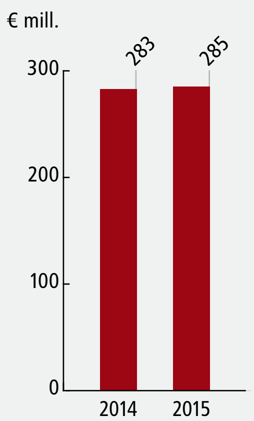
Personnel expenses

€ million	2015	2014
Wages and salaries	229.4	229.9
Social security and employee benefits	49.7	49.0
Pension expenses	6.3	4.1
Total	**285.4**	**283.0**

Despite a slight decrease in the number of employees, personnel expenses increased by 1.0 percent from €283.0 million to €285.4 million in 2015. Personnel expense per employee increased from k€58.0 to k€58.5.



Average number of group employees



Personnel expenses in € million

Age structure and service years

The age structure in the Group changed only slightly in 2015. The share of employees aged between 35 and 50 declined slightly to 38 percent and the share of employees aged under 35 also fell, to 30 percent. The portion of Group employees working for more than 10 years for the Company decreased to 54 percent.

Age	%	Service years	%
> 50 years	32	> 20 years	24
35 to 50 years	38	10 to 20 years	22
Up to 35 years	30	Up to 10 years	54

Core Components

In the Core Components division, work capacity was 609 FTE on average in 2015, a year-on-year decrease of 27 FTE. Personnel expenses per FTE amounted to k€50.3 and increased by k€3.8 compared to the prior year. Sales per FTE amounted to k€421.4, a decrease of k€99.1 from the prior year.

Customized Modules

In the Customized Modules division, work capacity was 2,589 FTE on average in 2015, an increase of 34 FTE compared to the prior year. Personnel expenses per FTE amounted to k€48.8, a year-on-year increase of k€2.6. Sales per FTE amounted to k€202.0, an increase of k€16.8 over the prior year.

Lifecycle Solutions

In the Lifecycle Solutions division, work capacity was 400 FTE on average in 2015, an increase of 54 FTE compared to the prior year. Personnel expenses per FTE amounted to k€57.3, a year-on-year increase of k€1.1. Sales per FTE amounted to k€179.3, a decrease of k€21.2 compared to the previous year.

Transportation

In the Transportation division, work capacity was 1,221 FTE on average in 2015. There were 74 FTE fewer than in the previous year. Personnel expenses per FTE amounted to k€78.3, below the prior-year figure by k€4.4. Sales per FTE amounted to k€292.7 thus k€113.6 above the prior-year figure.

HR management

HR initiatives launched as part of the strategic realignment were continuously developed and intensified in 2015. These initiatives include close international cooperation between the Group's HR managers to develop certain areas such as HR marketing, recruitment and expatriation with the aim to attract skilled and motivated employees to Vossloh and retain these employees within the company in the long run.

Key measures to sustainably increase employer attractiveness include anchoring Group-wide succession planning, which was implemented in 2014, in addition to attractive specialist and personal development opportunities at all levels and all functions and the further development of health and safety management.

Staff and management development

Success requires life-long learning – this is all the more true in rapidly changing and challenging times. This is why we are building on systematically identifying development needs, e.g. at the annual employee meeting between managers and employees and by consistently developing and exchanging expertise using targeted and tailored HR development measures.

This includes a wide range of internal and external training measures - from individual support for new managers by means of coaching, to diverse specialized seminars in all fields, to language and methodical expertise training to internal CIP workshops to optimize processes within the company.

Management plays a key role in the implementation of the "One Vossloh" concept. Putting our values into practice, providing qualified support in periods of change as well as managing and encouraging employees as the company's key capital - this requires integrity and awareness with regard to the responsibility that has been given. Vossloh therefore places a lot of emphasis on the selection and development of its managers. The "Vossloh Leadership Mindsets" that have been developed for this purpose form the basis for understanding the concept of leadership and for the new leadership development program LEAD! that is aimed at people with high potential in the Group. Here, participants have the opportunity to acquire Vossloh-specific management skills, expand their network and thus prepare for further tasks in advance within the Group. The "Leaders' Lounge" annual conference for the Group's decision-makers also offers more opportunities to network across the divisions and discuss strategic issues. Top management is personally involved in all management processes, including Group-wide succession planning, and sets an example by consistently and systematically promoting high-potential and talented individuals in the Group.

Diversity

The diversity of the workforce at all levels is a strategic success factor for Vossloh. The experience of older employees and the contribution of employees of different nationalities are especially valued. This is part of our daily business in the context of cross-division and international collaborations – to the advantage of our customers.

Vossloh also acknowledges the huge potential of female staff and encourages women in all areas of the company – this has not only been the case since the introduction of a statutory quota of women in Germany. The success of our longstanding emphasis on this issue is reflected in the significant number of women holding responsible management and specialist functions in the company.

Initialtraining@Vossloh

An important building block to safeguard our company's future is initial training. Vossloh offers training opportunities in commercial and industrial-technical vocations as well as dual courses of study at the locations in Düsseldorf, Hamburg, Kiel, Moers, Trier and Werdohl. In 2015, 14 young individuals started an apprenticeship at the German locations. As of the end of the year, a total of 64 apprentices were employed – this represents an apprentice quota of approximately 4.1 percent.

In addition, Vossloh supports employees who are part-time apprentices or students by means of financial help, therefore giving incentives to improve their qualifications.

Occupational health and safety

"Zero accidents" – this is our vision! All those involved are working very hard to make working conditions a bit better every day. After successfully certifying all major production locations of Vossloh around the world in accordance with OHSAS 18001, the Work Safety Committee is now taking the lead and is working on reducing the number of injuries, particularly those related to exposed body parts (e.g. by means of optimized personal protective equipment) and on raising awareness of dangerous situations and near-accidents among employees. Occupational safety is always at the top of the agenda. Every meeting – from management conferences to daily production meetings – starts with a safety contact who informs participants of ways to avoid danger and is thus aimed at safeguarding the health of our employees.

In addition, we are continuously expanding our offer as part of occupational health management. Nutrition advice, support to quit smoking, driving courses or sport courses (e.g. team events such as running/triathlon events) are examples of the companies' versatile initiatives within the Group.

Thanks to the employees

We would like to thank our employees, apprentices and managers for their tireless commitment and high level of identification with Vossloh that they contribute to the success of the company on a daily basis.

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

Research and development

Vossloh is one of the leading technological providers on 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 the implementation of innovative rail technology solutions. Particularly in the Transportation division, which is no longer part of Vossloh's core business, an essential part of research and development takes place in connection with individual orders. The associated costs are accordingly recognized in the statement of profit or loss and other comprehensive income 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.

Expenses for research and development in 2015 – before own work capitalized and after consolidation effects – totaled €16.3 million (previous year: €18.7 million). This corresponded to a sales share of approximately 1.4 percent (previous year: 1.7 percent). €4.2 million (previous year: €3.1 million) related to the Core Components division, €3.9 million (previous year: €3.6 million) to the Customized Modules division, €2.3 million (previous year: €2.1 million) to the Lifecycle Solutions division and €6.1 million (previous year: €9.9 million) to the Transportation division, which is no longer part of core business.

Vossloh Group: research and development expenses

€ million	2015	2014
Research and development expenses	16.3	18.7
thereof capitalized	3.2	5.8
Research and development costs (income statement)	**13.1**	**12.9**
Amortization (of capitalized development expenses)	3.0	30.8

Capitalized own work in 2015 amounted to €3.2 million (previous year: €5.8 million). €2.6 million (previous year: €4.3 million) related to the Transportation division, €0.4 million (€1.3 million) to the Lifecycle Solutions division and €0.2 million (previous year: €0.2 million) to the Customized Modules division. Amortization of capitalized development expenses amounted to €3.0 million in the year under review (previous year: €30.8 million, strongly influenced by the amortization of capitalized development expenses at Vossloh Locomotives).

The focus of Vossloh's research and development activities has always been the continuous adaptation of existing products and services to specific customer requirements and to market developments, as well as the targeted expansion of our existing portfolio. In this process, a systemic development approach encompassing each of the individual divisions and business units has come to the fore with the "One Vossloh" guiding principle, which has been adopted since the Group's restructuring. The aim is to develop products and services in terms of optimal overall customer solutions by means of a close cooperation among the various Vossloh business units. To this end, cooperation between research and development teams across the entire Group was stepped up in 2015, also by means of regular 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.

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. In several large-scale European projects, Vossloh is making contributions to the rail traffic of the future (e.g. ERI – Eco Rail Innovation with Vossloh Locomotives and Vossloh Rail Services in addition to CAPACITY4RAIL and RAILENIUM with Vossloh Switch Systems). These projects focus on a further reduction in emissions and noise, the utilization of alternative energy sources, and enhanced rail safety and efficiency.

In the Core Components division, the Fastening Systems business unit focused even more intensively on rail acoustics with noise reduction as a goal in 2015; the research and development team was reinforced with appropriate expertise. Other focal points included the development of materials for various rail fastening components and systems in addition to improvements in surface coating for metal parts. Furthermore, research and development experts intensively dealt with the consequences of the rise in track loads and the resulting wear of superstructure components and with the effects of high-frequency stimulation on rail fastening systems. The tests on rail fasteners under the extreme loads of the heavy-haul lines which were started in the previous year were continued and intensified.

In the year under review, several newly developed switch systems and system components were field tested in the Customized Modules division, including lubrication-free switches, which are to be built into the high-speed lines Le Mans – Rennes and Nîmes – Montpellier in France. After the end of the test phase, a new switch system will also be operational. This system stands out as a result of its particularly low stiffness. The largest part of the development work for switch monitoring and locking systems also took place in 2015 to meet specific customer requests. Research and development in the Switch Systems business unit benefited strongly from bundling all staff and technical capacities for switch systems and signaling technology under one roof in the new technology center in Reichshoffen.

Research and development activities in the Lifecycle Solutions division were carried out in projects and pre-projects, with the aim to develop machinery and systems for work on rail lines and switches. In 2015, this involved particularly the advance development of the HSG-metro grinder for China, the development of the drive technology for milling machines (high performance milling) and various developments related to HSG-city and HSG-2.

In the Transportation division, Vossloh Locomotives started to design and integrate further train safety systems for its vehicles and to develop Stage IIIB motors for the DE 18 locomotive in Kiel in 2015. Various studies had the objective of providing low emissions vehicles. Other national approvals were obtained for several types of locomotives.

In 2015, Vossloh Electrical Systems in Düsseldorf brought a new energy storage laboratory into service and successfully completed the development of a battery converter module – a patent application has been filed for this power converter principle. The module has already been built in the trolleybuses for Esslingen. In-house development of a new H-bridge was also successful. This is a key element for the operation of rail vehicles on routes with AC voltage overhead lines. The technology is currently being used in the modernization of both the two-system vehicles for Saarbrücken and the British Class 321 vehicles.

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. Modern vehicles in road-based local traffic, such as buses fitted out with Vossloh hybrid technology and, in particular, electric buses equipped with Vossloh systems, also have a significant advantage in terms of ecological benefits compared with private cars.

In addition to energy efficiency, the reduction of noise emissions generated when driving is an increasingly important topic in rail traffic. In Vossloh's Core Components and Customized Modules core divisions, the focus is on the development of innovative systems that ensure that less vibration and therefore also less noise occur upon contact between the rail and wheel. Work on rail lines and switches associated with the Lifecycle Solutions division contributes to an extended service life of the materials and ensures a noticeable reduction in noise emissions through the establishment of smooth surfaces.

In production, Vossloh traditionally attaches great importance to a sparing and efficient use of resources along the entire process chain – including comprehensive hazardous materials and waste management. Further improvements are being constantly achieved with a variety of measures in all environmentally-relevant areas. In 2015, the Fastening Systems business unit implemented several projects to reduce the electricity consumption of the Werdohl and Lüdenscheid locations. A CHP plant, which produces heat and electricity from natural gas, is also in operation. As a result, hot water to clean the tension clamps before they are tempered can now be produced with less energy.

At the end of 2014, the Customized Modules division systematically recorded and analyzed the energy consumption of all production areas. In 2015, the study resulted in a five-point-program to use energy more efficiently and thus reduce greenhouse gases in a targeted manner. The results are currently being assessed.

The large Vossloh locations have all been certified to the DIN EN ISO 14001 environmental management system or comparable certified systems. All of the Groups major production locations have now successfully completed the certification process in accordance with the social standard OHSAS 18001. The companies undergo regular audits by external, independent bodies. In the Core Components and Customized Modules divisions, environmental, energy, quality, occupational safety and health management systems are being successively combined into an integrated management system. In the first quarter of 2015, the Lifecycle Solutions division started the expansion of an environment management system; certification in accordance with DIN ISO 14001 is expected to be complete in the fall of 2016. For the first time, Vossloh Cogifer SA published a report on corporate social responsibility (CSR) in 2015. At the beginning of 2016, an energy audit took place at the Reichshoffen and Fère-en-Tardenois locations in line with the EU Directive EED 2012/27/EU.

In the Transportation division, the focus has been placed on the most environmentally-friendly locomotives and drive systems possible. The objective of Vossloh Locomotives is to reduce fuel consumption while improving the performance and reliability of vehicles and producing less CO_2 – and other pollutants – at the same time. Technical assistance systems support the environmentally-friendly operation of locomotives. The modular platform locomotives from Kiel already meet the strict exhaust emission standards of the European Non-Road Mobile Machinery Directive (NRMM). Traction systems from Vossloh Electrical Systems are designed in such a way that braking energy is used and can be fed back into the grid in trams, city railways and regional trains. Electric buses equipped with a Vossloh engine operate without producing any exhaust emissions whatsoever. With Vossloh-Kiepe's hybrid drive, even conventional buses can be more environmentally-friendly.

Risk and opportunity management

Organisation

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 effects on earnings. For this purpose, the worst-case and best-case scenarios and the most probable impact on earnings are determined. This is supplemented by an assessment of loss probability. For the best case and worst case scenarios, a value-at-risk approach with a minimum probability of 5.0 percent is assumed.

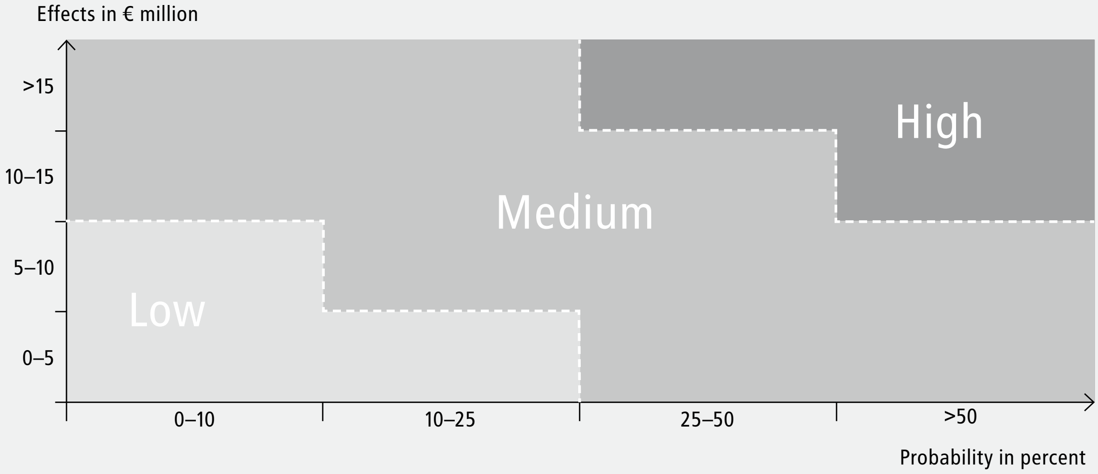
All direct or indirect Vossloh subsidiaries, both in Germany and abroad, are covered by the RMS, irrespective of their inclusion in the consolidated financial statements. Newly acquired companies are integrated into the system on a timely basis.

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 foreseeable and sufficiently concrete 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 Executive Board has accordingly taken suitable measures to ensure that developments that pose a risk to the Company as a going concern are identified at an early stage.

The risk and opportunity management system is regularly reviewed by Internal Auditing for the adequacy, efficiency and compliance with legal requirements. No substantial weak points were identified in 2015.

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



The report below 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.

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.

General economic development had only a limited impact on the business development of the Vossloh Group. More significant 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. As a result, the Group reported a significant increase in business activities in Italy in the 2015 financial year. Opportunities may also arise from modernization initiatives for rail infrastructure, such as in Germany at the moment.

In 2015, Vossloh was active globally on the markets for rail infrastructure and rolling stock and is one of the leading suppliers on 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 are often still publicly owned. Vossloh has identified China, the USA, Russia, and Western Europe 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 has not been part of the core-business since 2015, 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, the development of oil prices, exchange rate fluctuations – primarily translation risks – and legal uncertainties. For example, business development was negatively affected in Russia as a result of EU sanctions and falling oil prices in 2015. 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.

Overall, the general economic risk and the sector risk for the projected financial targets are classified as low.

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 2015 materials input market prices are expected in 2016. 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. Key Vossloh locations are certified in accordance with the DIN ISO 9001 quality management system. Large locations fulfill the criteria of the ISO 14001 environmental management standard and all key production facilities in the Vossloh Group are certified in accordance with OHSAS 18001, the world's most important standard for an occupational safety management system.

Project complexity is another source of risks and includes unexpected technical or engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors, logistic challenges, and acceptance and invoicing delays. Especially in the start-up phase of new projects with correspondingly high development expenses or in the case of first-time cooperation on a project with new partners or subcontractors, risks can arise repeatedly and lead to additional expenses or contract penalties. Contract provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. On the other hand, opportunities can occur sporadically if the risk provisions made do not need to be fully utilized.

Risks can also result from necessary impairment of goodwill if operational development turns out to be significantly weaker than expected. In accordance with IFRS 3 in conjunction with IAS 36, goodwill from business combinations is not amortized on a scheduled basis. Instead, the recoverability of the goodwill is tested annually (impairment test). In 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 goodwill has been attributed is compared to its recoverable amount.

Risks arising in 2015 and still existing operational risks have been provided for as required by IFRS. Although appropriate provisions have been recognized for identified and highly probable risks, further significant impacts on earnings from the execution of projects cannot be completely ruled out and could have negative effects on the projected financial targets. Therefore, and in light of the extraordinarily high negative effects from this risk category in 2014, Vossloh classifies the risk from the execution of projects as medium. The risk of work interruption is also classified as a medium risk. The other operational risks are classified as low.

Financial risks and opportunities

Financial risks are monitored and managed, and the Group's financing is continually 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 150 of the Group's annual report. The following financial risks are managed: liquidity risks, cash flow risks, price risks, as well as default risks.

Liquidity risks

Liquidity risks may arise if the Group is 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.

In April 2015, a stable medium-term financing basis was created by concluding a syndicated loan of €500 million with a term lasting until April 2018. The loan has two tranches: €200 million are available in the form of an interest-only loan, €300 million in the form of a revolving credit line, i.e. a flexibly available credit line. The loan agreement requires compliance with certain financial covenants, the violation of which entitles the lending banks to terminate the agreement. The financial covenants are defined as the ratio of net financial debt to EBITDA, the ratio of EBITDA to the net interest result, and the equity ratio. The covenants were complied with in the year under review. The syndicated loan was used to settle the bridge financing of €250 million with an agreed term until the end of June 2015, which had been taken up US to repay the US private placement in June 2014. At the same time, the existing bilateral cash credit lines of Vossloh AG were refinanced.

As of December 31, 2015, the Vossloh Group had cash and cash equivalents (including short-term securities) in a total amount of €79.3 million. In addition, Vossloh had free credit lines in the amount of €427.7 million. €279.0 million were related to free credit lines of Vossloh AG under the syndicated loan. The free credit lines of the subsidiaries, in the amount of €148.7 million, essentially had a duration of up to a year or were granted for an unlimited term. There are currently no existing financing or liquidity shortfalls. Overall, Vossloh classifies liquidity risk as a low risk.

Cash flow risks

Changes in future interest rates may cause cash flow 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 156 of the Group's annual report. The short-term change in interest rates and its impact on cash flows are estimated to be small. This risk is therefore classified as low.

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. Translation risks – resulting from the translation of financial statements prepared in foreign currencies – are subject to ongoing monitoring. Due to the high level of hedging of price risks, this risk is classified as low overall.

Default risks

Default risks 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 extensively limiting its business with counterparties of good to excellent standing only, whenever available, mainly based on the assessment of international rating agencies. As of December 31, 2015, cash investments and financial derivatives with a positive fair value were allocable at 29 percent to counterparties rated between AA+ and AA-, at 30 percent to those rated from A+ to A-, at 36 percent to counterparties rated BBB+ to BBB-, and at 5 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.

Due to the high proportion of business with public contractors and the restriction to counterparties with good or excellent credit ratings, default risk is classified as a low risk.

Overall, there were no significant effects on earnings owing to financial risks in 2015.

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 the 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 Deutsche Bahn have filed claims for damages against the Vossloh subsidiary Stahlberg Roensch GmbH, Hamburg. 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.

Risks arising in 2015 and still existing legal risks have been provided for as required by IFRS. The negative impact of legal risks on the projected financial targets cannot be ruled out for Vossloh and is therefore classified as a medium risk overall.

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. Personnel risks can also arise from 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 addition, risks from acquisitions carried out are conceivable if synergies assumed in the business plan cannot be leveraged during the post-merger integration. However, recent business acquisitions have mostly been smaller acquisitions whereby only very limited synergy effects were anticipated. An acquisition of additional shares by Mr. Heinz Hermann Thiele under the conditions of Sec. 8c Sent. 2 of the German Corporation Tax Act (KStG) (acquisition of more than 50 percent of the shares in a maximum period of five years) could result in the necessity to write down deferred taxes on loss and interest carryforwards.

In 2015, other risks did not have a significant impact on consolidated profit or loss. As things stand, potentially significant negative effects on the projected financial targets are unlikely. For this reason, the risk is classified as a low risk.

Overall assessment of the risk and opportunity situation

The potential impact of any or all risks described above and 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 in terms of either assets or liquidity. In the 2015 financial year, Group equity increased significantly after the sale of the Rail Vehicles business unit and is sufficient to cover potential risks. This risk and opportunity report refers to the situation of the Group at the time the combined management report was prepared.

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

Vossloh has installed a comprehensive monitoring system for the Group-wide systematic early identification of going-concern risks as required by Article 91 (2) AktG, with a view to identifying early on, managing and monitoring not only risks jeopardizing Vossloh's sustainability but also other risks, including those beyond the statutory scope. According to Article 317 (4) HGB, the statutory auditor of Vossloh AG 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 Internal Auditing, as well as the Controlling, Accounting, Treasury, and Legal Affairs divisions.

Process-integrated and process-independent monitoring procedures and routines are ICS components. In addition to manual process controls (such as principle 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 statutory company/Group auditor is also involved in process-independent audit procedures. Particularly the audit of the consolidated financial statements and the focal audit procedures in the preliminary examination for the annual audit of the financial statements are key process-independent monitoring procedures with regard to the Group's accounting process.

Information technology

For their separate financial statements, Group companies 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. The 10.1.1 version is currently being used.

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 new system has so far been introduced at Vossloh AG and principle companies in the Core Components, Customized Modules and Lifecycle Solutions divisions in addition to the Electrical Systems business unit.

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 end of the reporting period, as well as the recognition of income and expenses in the period. The use or misuse of the necessary discretion may entail accounting-related risks for the Group.

Key activities designed to ensure the propriety and reliability of the financial reporting
Based on the rules of those International Financial Reporting Standards 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 the statement of financial position, statement of profit or loss and other comprehensive income, and the notes to be in compliance with current EU law. Furthermore, the Manual provides specific guidance for the official format of consolidated financial statements, and details the determination of the consolidation group and the reporting package elements to be submitted by the subsidiaries. The formal requirements also specify all details of the mandatory, standardized and complete set of reporting package forms. The Corporate Reporting Manual is regularly revised and updated, most recently in November 2015. Revised and updated versions are made available on a timely basis to all those involved in the Group's accounting process through a web-based information system.

After transactions have been recorded in the local accounting system of each Group company, the monthly accounts and annual financial statements are reviewed at the level of the business unit lead company. 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 individual companies 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 events after the end of the reporting period).

Through the organizational, controlling and monitoring structures established within the Group, Vossloh's ICS and RMS supports (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 pursuant to Art. 289a HGB

For the corporate governance report (which is an integral part of the combined management report) see page 34 of the Group's annual report. The annual report is also permanently available on Vossloh AG's website at www.vossloh.com.

Studies anticipate an upturn in rail technology market

Sales growth in the Vossloh Group to between €1.2 billion and €1.3 billion expected

EBIT margin forecast to increase to between 4.0 percent and 4.5 percent in 2016

EBIT margin of between 5.5 percent and 6.0 percent anticipated for 2017 with 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 international rail technology market and the specific business expectations of Vossloh's business units have been taken into account. These statements are subject to risks and offer opportunities not entirely within Vossloh's control. For additional information in this regard, please refer to the section on Risk and Opportunity Management (from page 50). 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.

Macroeconomic developments

The development of the global economy is of only minor importance to Vossloh. Around the world, investments in rail infrastructure are usually made after long-term decision-making processes; the current economic trends are therefore only partially reflected by the markets. Nevertheless, the macroeconomic situation at large can affect business performance at Vossloh – albeit somewhat delayed in some cases. As Vossloh generates a large share of its sales outside Europe, the overall economic development in China, Russia and the USA, among others, is certainly of interest.
At 3.4 percent, the International Monetary Fund (IMF) is forecasting slightly higher growth in 2016 than in 2015 (3.1 percent). Growth in the countries of the euro area should slightly exceed the figure for 2015 at 1.7 percent (1.5 percent). An increase of 2.6 percent is expected in the USA in 2016 after 2.5 percent in 2015. China is again expected to see weaker growth than in 2015 (6.9 percent) at 6.3 percent. The IMF is forecasting a further decline in economic performance for Russia at (1.0) percent. However, the decline should be considerably less severe than in 2015 ((3.7) percent).
For 2016, the Organisation for Economic Co-operation and Development (OECD) is forecasting a slight decline in the debt ratios of the countries in the euro zone (EU-19) and in the European Union as a whole (EU-28). Detailed information on the debt ratios can be found in the Economic Report on page 7.

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 substantiated predictions for the coming years. The current study was presented in September 2014 at the InnoTrans industry event in Berlin. According to the study, the yearly global market volume of currently around €150 billion, will increase to over €176 billion in 2019 – an average increase of 2.7 percent per year. In doing so, the market accessible to European providers such as Vossloh 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 was projected to be €162 billion. This results in annual growth of 3.4 percent.

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, the USA and Mexico, the countries of the North-American Free Trade Agreement). Below-average growth is predicted for the rail technology markets in Western Europe (2.0 percent), in the Community of Independent States (CIS, 1.3 percent), in 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 percent. The services segment, with a market share of around 30 percent, is followed by infrastructure, which ranks third at almost 20 percent, ahead of control/signaling and safety at around 10 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 divisions of Core Components, Customized Modules and Lifecycle Solutions, Vossloh is particularly active in the infrastructure and infrastructure services segments. UNIFE currently estimates the globally accessible infrastructure market at almost €20 billion per year. Growths forecast to be an annual 3.3 percent until 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. The focus is on China and India, 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 India and Australia in the Asia-Pacific region and Brazil in Latin America. As well as the infrastructure segment, the accessible market for products and services relevant to Vossloh comprises the high-growth infrastructure services sub-segment. In total, this market amounted to approximately €25 billion per year for the period 2011 to 2013; it is expected to grow strongly by 3.8 percent per year to €31 billion in the period 2017 to 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 currently 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 market growth are expected in Asia-Pacific from 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 2016

The following forecast is based on the expected reporting structure of the Vossloh Group in 2016. While it is intended to sell the remaining business units of the Transportation division in full or in part by 2017 at the latest, or to transfer them to one or more partnerships no longer controlled by Vossloh, the criteria to justify the classification of these operations as "discontinued" in accordance with IFRS 5 have not been met for 2016. In this respect, the following comments refer to the Vossloh Group and the four divisions indicated in the current Group structure.

In addition to industry-related conditions, Vossloh's sales 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, increasingly, orders awarded can even cover periods lasting several years.

Regional sales forecast for 2015 largely accurate

As a result of the adjustment of the Group's structure following the sale of the Rail Vehicles business unit, the forecast for 2015 found in the 2014 annual report for sales by region can only be compared with the actual figures for fiscal 2015 to a limited extent. Vossloh Rail Vehicles generated significant sales in Western and Southern Europe in particular, and in the Americas and Africa. The strong growth in Germany and the decline in sales in France also occurred as forecast with the current Group structure. However, the decline in sales was somewhat smaller than originally expected. The growth in the rest of Western Europe was also achieved with the current Group structure, although the expected increase in income at Vossloh Rail Vehicles in the UK had been particularly crucial to the original forecast for this region.

The development in Northern Europe was better than expected in 2015, in particular as a result of the high sales of the Customized Modules division in Sweden. Southern Europe also performed better than originally assumed, thanks particularly to improved business activities in Italy. The sharp decline in Eastern Europe was as expected. Even without Vossloh Rail Vehicles, the very strong growth in the Americas was achieved by the other business units, with the exception of Lifecycle Solutions. Lifecycle Solutions is not currently active in the Americas. The Asian region experienced a rather sharper drop in sales than expected. However, the projected minor growth in Australia was not achieved. Sales increased very sharply in Africa as forecast.

Sales between €1.2 billion and €1.3 billion projected

According to current information, Vossloh expects to generate sales of between €1.2 billion and €1.3 billion in 2016. The rise in sales in the Core Components division and in the Transportation division's Electrical Systems business unit is expected to be especially strong

EBIT margin to increase to between 4.0 percent and 4.5 percent in 2016

With the continuing ongoing restructuring measures and the more intensive expenses planned to drive innovation, improvement in the Group's EBIT will be limited in 2016. The Vossloh Group is forecasting an EBIT margin of between 4.0 percent and 4.5 percent in 2016. The EBIT margin is expected to be between 5.5 percent and 6.0 percent in 2017 based on the current Group structure. In a future portfolio structure without the Transportation division, significantly higher profitability is to be expected. Vossloh again anticipates a reserved start to 2016, typical for our business.

In fiscal 2016, WACC before taxes, which is relevant to internal controlling, will fall from previously 10 percent to 9 percent. This is due to significantly lower refinancing rates thanks to the new medium-term Group financing arranged in April 2015. The higher EBIT forecast and the reduced weighted cost of capital are expected to lead to a significant improvement in value added, though this is still expected to be negative again in 2016 overall. In 2016, Vossloh expects the average number of employees to increase slightly.

Customized Modules and Lifecycle Solutions anticipate an improvement in profitability. Profitability in the Core Components division is expected to remain on a par with the 2015 financial year. Vossloh is expecting a noticeable improvement in the Transportation division, which should lead to slightly positive EBIT after the division's remaining business areas reported negative EBIT overall in 2015.

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 ruled out. 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 2016 are not yet secured by order backlog. Regarding any further risks which may affect the planning presented, please refer to the report on Risk and Opportunity Management (page 50 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 2016 are expected to be considerably below the level 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. The net financial result is expected to improve slightly overall. Net income in 2015 was significantly affected by the gain on the disposal of the Rail Vehicles business unit. As things stand, this positive one-time effect will not recur and will result in a very sharp decline in 2016.

Vossloh is focused on organic growth with an increase in profitability as well as the achievement of targets set for the coming years; specifically, the targeted search for 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 presented here only takes into account targeted organic growth for fiscal 2016 with the current Group structure.

Separate Financial Statements of Vossloh AG as of December 31, 2015

Income statement for the year ended December 31, 2015

€ mill.	2015	2014
Net sales revenue	1.5	1.4
Cost of sales	(0.8)	(0.9)
Gross margin	**0.7**	**0.5**
General administrative expenses	(45.3)	(20.4)
Other operating income	167.4	4.6
Other operating expenses	(8.1)	(3.3)
Operating result	**114.7**	**(18.6)**
Income from investments	45.0	30.0
thereof from subsidiaries: €45.0 million (previous year: €30.0 million)		
Income from profit transfer agreements	36.8	37.2
thereof from subsidiaries: €36.8 million (previous year: €37.2 million), thereof €1.4 million tax allocations (previous year: €2.2 million)		
Income from other long-term securities and loans	0.5	1.1
thereof from subsidiaries: €0.5 million (previous year: €0.8 million)		
Other interest and similar income	13.1	8.9
thereof from subsidiaries: €11.9 million (previous year: €8.4 million)		
Write-downs of financial assets and short-term securities	0.0	(0.1)
Expenses from losses absorbed	(16.2)	(119.2)
thereof from subsidiaries: €16.2 million (previous year: €119.2 million), thereof €0.9 million tax allocations (previous year: €32.0 million)		
Interest and similar expenses	(12.9)	(20.0)
thereof from subsidiaries: €0.8 million (previous year: €1.2 million)		
Net financial result	**66.3**	**(62.1)**
Result of ordinary activities	**181.0**	**(80.7)**
Income taxes	1.8	(4.3)
Net income (previous year: net loss)	**182.8**	**(85.0)**

Balance sheet

Assets in € million	12/31/2015	12/31/2014
Purchased concessions, industrial-property and similar rights and assets, as well as licenses for such rights and assets	0.2	0.2
Intangible assets	**0.2**	**0.2**
Land, land rights and buildings including buildings on third-party land	9.0	9.4
Other plant, operating and office equipment	0.3	0.4
Tangible assets	**9.3**	**9.8**
Shares in subsidiaries	480.9	497.0
Loans to subsidiaries	11.2	25.8
Investments	0.1	0.1
Other long-terms securities	0.1	0.1
Other long-term loans	0.0	0.0
Financial assets	**492.3**	**523.0**
Fixed assets	**501.8**	**533.0**
Trade receivables	0.0	0.0
Due from subsidiaries	369.3	314.7
Due from investees	2.2	3.0
Other assets	0.3	13.6
Receivables and other assets	**371.8**	**331.3**
Cash on hand, cash with Bundesbank, cash in banks	14.3	0.0
Current assets	**386.1**	**331.3**
Prepaid assets and deferred charges	**0.3**	**0.3**
	888.2	**864.6**

Stockholders' equity & liabilities in € million	12/31/2015	12/31/2014
Capital stock	37.8	37.8
Additional paid-in capital	37.6	37.6
Reserve retained from earnings		
Other revenue reserves	270.6	270.6
Unappropriated surplus (previous year: accumulated loss)	123.5	(59.3)
Stockholders' equity	**469.5**	**286.7**
Provisions for pensions and similar obligations	10.5	8.6
Tax provisions	3.6	5.3
Other provisions	25.0	2.9
Provisions	**39.1**	**16.8**
Due to banks	268.0	322.8
Trade payables	0.9	0.9
Due to subsidiaries	108.3	236.6
Due to investees	0.0	0.1
Other liabilities	2.4	0.7
thereof taxes: €1.3 million (previous year: €0.2 million)		
Liabilities	**379.6**	**561.1**
	888.2	**864.6**

Schedule of changes in fixed assets

€ mill.									
	Cost				Accumulated amortization/ depreciation/ write-downs			Net carrying amount	
	Balance 1/1/2015	Additions	Disposals	Balance 12/31/ 2015	Balance 12/31/ 2015	Amortization/ depreciation / write-downs reporting year	Disposals	Balance 12/31/ 2015	Balance 12/31/ 2014
Intangible assets									
Purchased concessions, industrial-property and similar rights and assets, as well as licenses for such rights and assets	8.7	0.2	(2.4)	6.5	6.3	0.1	(2.4)	0.2	0.2
	8.7	**0.2**	**(2.4)**	**6.5**	**6.3**	**0.1**	**(2.4)**	**0.2**	**0.2**
Tangible assets									
Land, land rights and buildings including buildings on third-party land	17.5	0.0	0.0	17.5	8.5	0.5	0.0	9.0	9.4
Other plant, operating and office equipment	1.3	0.1	(0.1)	1.3	1.0	0.1	(0.1)	0.3	0.4
	18.8	**0.1**	**(0.1)**	**18.8**	**9.5**	**0.6**	**(0.1)**	**9.3**	**9.8**
Financial assets									
Shares in subsidiaries	515.5	–	(34.6)	480.9	0.0	–	(18.5)	480.9	497.0
Loans to subsidiaries	25.8	5.7	(20.3)	11.2	–	–	–	11.2	25.8
Investments	0.1	–	–	0.1	–	–	–	0.1	0.1
Other long-terms securities	0.1	–	–	0.1	–	–	–	0.1	0.1
Other long-term loans	4.5	–	(4.5)	0.0	0.0	–	(4.5)	0.0	0.0
	546.0	**5.7**	**(59.4)**	**492.3**	**0.0**	**0.0**	**(23.0)**	**492.3**	**523.0**
Total	**573.5**	**6.0**	**(61.9)**	**517.6**	**15.8**	**0.7**	**(25.5)**	**501.8**	**533.0**

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, 2015, 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 and principles

The accounting policies were continued unchanged from the prior year.

The recognition and measurement are based on the following principles - purchased intangible assets and tangible assets are measured at cost. Depreciable assets are amortized/depreciated on a scheduled basis by applying declining-balance 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 December 31, 2015, for obligations with a 15-year average remaining term in the amount of 3.89 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 €10.9 million (previous year: €11.1 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 shares in subsidiaries declined as a result of the disposal of the investment in Vossloh España S.A.U. of €16.1 million and the merger of Vossloh Verwaltungsgesellschaft mbH of €18.5 million, which was already impaired in full in previous years.

The loans to subsidiaries were altered primarily by the loan repayment from Vossloh US Holding, Inc., Wilmington, USA, of €15.4 million and increased due to a loan granted to Vossloh Kiepe Limited, Birmingham, United Kingdom, of €1.0 million.

Prepaid expenses in the amount of k€278 (previous year: k€274) includes a loan discount in the amount of k€142 (previous year: k€192).

List of shareholdings

		Footnote	Shareholding in %	in	Consolidation[1]	Equity[2]	Result after taxes[2]
(1)	**Vossloh AG, Werdohl**				(k)	483.7	185.9
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(k)	21.9	(0.9)
(3)	Vossloh US Holdings Inc., Wilmington, USA		100.00	(2)	(k)	47.1	1.9
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(k)	10.2	1.8
	Core Components division / Fastening Systems business unit						
(5)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(k)	4.3	0.3
(6)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(5)	(k)	11.2	(0.2)
(7)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania		100.00	(5)	(n)	0.0	0.0
(8)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic		100.00	(5)	(n)	2.3	0.6
(9)	Vossloh Sistemi S.r.l., Sarsina, Italy		100.00	(5)	(k)	7.8	0.0
(10)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	5	51.00	(5)	(n)	1.5	(0.2)
(11)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl		100.00	(5)	(n)	0.2	0.0
(12)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(5)	(k)	6.7	3.2
(13)	Vossloh Rail Technologies Ltd Sti., Erzincan, Turkey		99.5/0.50	(5/6)	(k)	4.6	(1.7)
(14)	FÉDER-7 Rugógyártó Kft., Sárkeresztes, Hungary		96.67/3.33	(5/6)	(n)	0.5	0.1
(15)	Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(3)	(k)	0.5	(4.6)
(16)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(5)	(k)	39.0	16.7
(17)	Vossloh-Werke International GmbH, Werdohl		100.00	(5)	(k)	10.4	(0.4)
(18)	Beijing China-Railway Vossloh Technology Co., Ltd., Beijing, China		49.00	(5)	(n)	2.2	0.8
(19)	Vossloh Fastening Systems Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(101)	(n)	0.0	0.0
(20)	TOO Vossloh Fastening Systems (Kazakhstan) Co. Ltd., Kapchagay, Kazakhstan		50.00	(17)	(e)	0.1	(0.8)
(21)	Suzhou Vossloh Track Systems Co., Ltd., Suzhou, China		100.00	(17)	(n)	0.0	0.6
(22)	OAO Vossloh Fastening Systems RUS, Engels, Russia		51.00	(5)	(n)	2.4	0.1
(23)	Vossloh Fastening Systems Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(n)	0.9	(0.1)
	Customized Modules division / Switch Systems business unit						
(24)	Vossloh France SAS, Rueil-Malmaison, France		100.00	(1)	(k)	157.2	14.1
(25)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(24)	(k)	104.1	14.5
(26)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(25)	(k)	1.9	0.7
(27)	Vossloh Cogifer Finland Oy, Teijo, Finland		60.00	(28)	(k)	19.4	1.1
(28)	Vossloh Nordic Switch Systems AB, Ystad, Sweden		100.00	(25)	(k)	18.8	4.8
(29)	Vossloh Cogifer KIHN SA, Rumelange, Luxembourg		89.21	(25)	(k)	13.8	0.5
(30)	Vossloh Laeis GmbH, Trier		100.00	(29)	(k)	1.2	0.0
(31)	Futrifer-Indústrias Ferroviárias, SA, Lisbon, Portugal		61.00	(25)	(k)	2.2	0.1
(32)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(25)	(e)	29.2	0.8
(33)	Montajes Ferroviarios, S.L., Amurrio, Spain		100.00	(32)	(n)	0.4	0.0
(34)	Burbiola SA, Amurrio, Spain		50.00	(32)	(n)	1.2	0.0
(35)	Vossloh Cogifer UK Limited, Scunthorpe, United Kingdom		100.00	(25)	(k)	5.6	0.8
(36)	Vossloh Cogifer Italia S.r.l., Milan, Italy		100.00	(25)	(k)	0.0	0.0
(37)	Vossloh Cogifer Polska Sp.z o.o., Bydgoszcz, Poland		96.20	(25)	(k)	12.9	3.1
(38)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(25)	(e)	1.1	1.0
(39)	Vossloh Cogifer Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(25)	(k)	1.3	1.2
(40)	Cogifer Americas, Inc., Cincinnati, USA		100.00	(25)	(n)	0.1	0.0
(41)	Siema Applications SAS, Villeurbanne, France		100.00	(25)	(k)	4.0	1.0
(42)	VOSSLOH MIN SKRETNICE DOO ZA Proizvodnjui Montazu Skretnica i Opreme Niš, Niš, Serbia		100.00	(25)	(k)	3.9	0.8
(43)	Vossloh Cogifer Turnouts India Private Limited, Hyderabad, India	5	100.00	(25)	(n)	1.5	0.7
(44)	Vossloh Beekay Castings Ltd., Bhilai, India	5	58.48	(25)	(k)	7.1	0.1
(45)	Vossloh Cogifer Signalling India Private Limited, Bangalore, India	5	100.00	(25)	(n)	0.2	0.0
(46)	Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(k)	16.8	(1.2)
(47)	Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	(k)	17.8	1.4
(48)	Vossloh Cogifer Australia Pty. Ltd., Castlemaine, Australia		100.00	(4)	(k)	14.4	0.6
(49)	Vossloh Cogifer Kloos BV, Nieuw-Lekkerland, Netherlands		100.00	(25)	(k)	3.9	0.9
(50)	Vossloh France International SAS, Rueil-Malmaison, France		100.00	(24)	(n)	0.0	0.0
(51)	Wuhu China Railway Cogifer Track Co., Wuhu, China		50.00	(25)	(e)	19.0	(2.1)
(52)	'J' Rail Components & Manufacturing, Inc., Grass Valley, USA		100.00	(53)	(k)	1.3	(0.7)
(53)	Vossloh Signaling USA Inc., Cleveland, USA		100.00	(3)	(k)	4.6	(0.2)
(54)	Vossloh Cogifer Argentina S.A., Buenos Aires, Argentina		90.00/10.00	(25/26)	(n)	0.5	(0.3)
(55)	ADIF S.E. - Vossloh Cogifer Argentina SA Consorcio de Cooperacion, Buenos Aires, Argentina		51.00	(54)	(n)	2.6	0.0
(56)	Vossloh Cogifer - SP Technologies B.V., Amsterdam, Netherlands		10.00	(25)	(n)	7.2	0.4
(57)	Vossloh Cogifer Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(101)	(n)	0.0	0.0
(58)	Vossloh Cogifer do Brazil Administracao de Bens e Participacoes Ltda., Sorocaba, Brazil		100.00	(25)	(k)	0.4	0.0
(59)	Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil		100.00	(58)	(k)	1.1	0.3
(60)	Outreau Technologies SAS, Outreau, France		100.00	(25)	(k)	0.9	(3.8)
(61)	VOSSLOH COGIFER – SP TECHNOLOGIA L.L.C., Moscow, Russia		100.00	(56)	(n)	9.0	(1.7)
(62)	NOVOSIBIRSKIY STRELOCHNIY ZAVOD - NSZ, Novosibirsk, Russia		74.99	(61)	(n)	38.2	1.0

		Footnote	Shareholding in %	in	Consoli-dation[1]	Equity[2]	Result after taxes[2]
	Lifecycle Solutions division / Rail Services business unit						
(63)	Vossloh Rail Services GmbH, Hamburg	3	100.00	(1)	(k)	22.8	0.0
(64)	Stahlberg Roensch GmbH, Hamburg	3	100.00	(63)	(k)	17.7	(5.9)
(65)	Vossloh Rail Center Nürnberg GmbH, Nuremberg	3	100.00	(64)	(k)	0.4	(0.2)
(66)	Vossloh Rail Center Bützow GmbH, Bützow	3	100.00	(64)	(k)	2.1	0.8
(67)	Vossloh Rail Center Leipzig GmbH, Leipzig	3	100.00	(64)	(k)	1.1	0.0
(68)	GTS Gesellschaft für Gleistechnik Süd mbH, Leipzig	3	100.00	(64)	(k)	0.1	0.0
(69)	Vossloh Rail Center Hamburg GmbH, Hamburg	3	100.00	(64)	(k)	0.9	0.0
(70)	Alpha Rail Team GmbH & Co. KG, Berlin		50.00	(64)	(e)	9.1	2.5
(71)	Alpha Rail Team Verwaltungs GmbH, Berlin		50.00	(64)	(n)	0.0	0.0
(72)	LOG Logistikgesellschaft Gleisbau mbH, Hanover	3	100.00	(63)	(k)	6.3	0.3
(73)	Vossloh Ray Hizmetleri Limited Sirketi, Ankara, Turkey		100.00	(76)	(k)	(2.0)	(1.3)
(74)	Vossloh High Speed Grinding GmbH, Hamburg	3	100.00	(63)	(k)	0.0	0.0
(75)	Vossloh Mobile Rail Services GmbH, Leipzig	3	100.00	(64)	(k)	1.2	0.1
(76)	Vossloh Rail Services International GmbH, Hamburg	3	100.00	(63)	(k)	(0.5)	(0.2)
(77)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(76)	(e)	(1.0)	(0.4)
(78)	Vossloh Rail Services Scandinavia AB, Helsingborg, Sweden		100.00	(76)	(k)	0.2	0.1
(79)	Vossloh Rail Services North America Corporation, Chicago, USA		100.00	(3)	(n)	0.3	(0.1)
(80)	Beijing CRM-Vossloh Track Maintenance Technology Co., Ltd., Beijing, China		47.00	(76)	(e)	0.3	(0.4)
(81)	Vossloh Rail Services Kunshan Co., Ltd., Kunshan, China	4	100.00	(76)	(k)	7.3	0.1
(82)	Vossloh Rail Services Finland Oy, Kouvola, Finland	4	60.00	(76)	(k)	1.0	0.0
	Transportation division						
	Locomotives business unit						
(83)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(k)	29.4	(5.0)
(84)	Locomotion Service GmbH, Kiel	3	100.00	(83)	(k)	0.2	0.0
(85)	Vossloh Locomotives France SAS, Antony, France		100.00	(83)	(k)	0.6	0.2
(86)	Vossloh Locomotives Scandinavia AB, Örebro, Sweden	4	100.00	(83)	(k)	0.0	0.0
	Electrical Systems business unit						
(87)	Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(k)	62.0	9.1
(88)	Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(87)	(k)	2.5	0.0
(89)	Vossloh Kiepe Ges.m.b.H., Vienna, Austria		100.00	(88)	(k)	27.7	2.9
(90)	Vossloh Kiepe Corporation, Vancouver, Canada		100.00	(88)	(n)	0.4	0.1
(91)	Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy		100.00	(88)	(n)	0.2	0.0
(92)	Vossloh Kiepe Main Line Technology GmbH, Düsseldorf	3	100.00	(88)	(k)	3.2	(0.6)
(93)	APS electronic AG, Niederbuchsiten, Switzerland		100.00	(88)	(k)	0.8	0.0
(94)	Vossloh Kiepe Inc., Alpharetta, USA		100.00	(3)	(k)	3.1	0.7
(95)	Vossloh Kiepe Limited, Birmingham, United Kingdom		100.00	(88)	(k)	(0.3)	(0.2)
(96)	Vossloh Kiepe UK Limited, Birmingham, United Kingdom		100.00	(95)	(k)	(4.9)	(4.2)
(97)	Vossloh Kiepe Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(101)	(n)	0.0	0.0
(98)	Heiterblick Projektgesellschaft mbH, Leipzig		49.00	(88)	(n)	0.0	0.0
(99)	Vossloh Kiepe d.o.o., Niš, Serbia		100.00	(88)	(n)	0.0	0.0
	Other companies						
(100)	Vossloh Track Systems GmbH, Werdohl		100.00	(1)	(n)	0.1	0.0
(101)	Vossloh Southern Africa Holdings Proprietary Ltd., Johannesburg, South Africa		100.00	(100)	(n)	0.2	0.0
(102)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia		99.00/1.00	(100/2)	(n)	0.4	0.2
(103)	Vossloh Middle East Business Rail - L.L.C., Abu Dhabi, UAE (i.L.)		49.00	(100)	(n)	0.0	0.0
(104)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl		100.00	(1)	(n)	0.0	0.0
(105)	Vossloh Dritte Beteiligungsgesellschaft mbH, Düsseldorf		100.00	(104)	(n)	0.0	0.0

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

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

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

[4] Included in the consolidation for the first time

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

Receivables and other assets

As in the prior year, receivables and other assets, except for k€93 (previous year: k€143) 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

Subscribed capital

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

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, 2015, breaks down as follows:

The Company's capital stock has been contingently 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 shares participate in profits from the beginning of the financial year in which they arise through the exercise of options.

The Company's capital stock has been contingently 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 contingently 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 25. June 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 contingently 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 contingent 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.

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: €270,671,697.46).

Total provisions

As of December 31, 2015, the amount required to settle pension obligations came to k€21,340 (previous year: k€19,629); the fair value of plan assets offset against this settlement amounted to k€10,930 (previous year: k€11,055).

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€2,370 (previous year: k€486) were netted against income of k€407 (previous year: k€11) in the net financial result.

The other provisions of k€25,017 (previous year: k€2,940) include k€4,358 for personnel (previous year: k€1,713) and k€20,659 for sundry administrative purposes (previous year: k€1,227). The other provisions also include provisions for risks from business disposals..

Liabilities and contingent liabilities

k€250,000 of the liabilities recognized in the balance sheet falls due after one but within five years (previous year: k€50,000). 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€873,895 (previous year: k€717,014) were incurred in the amount of k€689,815 for obligations of subsidiaries (previous year: k€715,305).

The limited-amount guaranties in favor of subsidiaries total k€930,158 (previous year: k€897,435).

In 41 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€336 (previous year: k€251) and break down into k€213 falling due within one (previous year: k€113) and another k€123 between one and five years (previous year: k€138).

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 date and the situation up to financial statement preparation do not indicate any such enforcement, either.

Notes to the income statement

Net sales in 2015 primarily comprised rental income of k€1,506 (previous year: k€1,442), including k€1,210 (previous year: k€1,145) charged to subsidiaries, generated solely in Germany.

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€11,110 (previous year: k€9,160), of which k€9,650 (previous year: k€8,131) is allocable to wages and salaries, another k€1,460 (previous year: k€1,029) to social security, pension expense and related employee benefits. Pension expenses amounted to k€832 (previous year: k€458). The k€1,963 interest portion (previous year: k€1,286) 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€167,439 (previous year: k€4,611) and mainly resulted from the gain on the disposal of Vossloh España S.A.U., Valencia, Spain, of k€155,967 (previous year: €0), the income from the reversal of a specific valuation allowance on Vossloh Verwaltungsgesellschaft mbH, Werdohl, which was merged, of k€7,521 (previous year: €0), the allocated marketing fees of k€936 (previous year k€2,266), IT cost allocations of k€1,746 (previous year: k€1,305) and exchange gains of k€510 (previous year: k€314).

Other operating expenses primarily include a loss on the merger of Vossloh Verwaltungsgesellschaft mbH, Werdohl, of k€7,523 (previous year: €0) and exchange losses in the amount of k€569 (previous year: k€1,857). In the previous year, other operating expenses primarily included fees from the sale of treasury stock in the amount of k€1,313.

The net financial result includes write-downs of k€0.0 of other long-term loans (previous year: k€88).

Net interest expense includes income from the discounting of other provisions of k€8 (previous year: k€98).

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

Other disclosures

Vossloh AG employed an average number of salaried employees of 55 (previous year: 51).

The employee bonus program 2015 (on terms unchanged versus 2014) 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 €62.09 per share (previous year: €52.63), determined at market as of the share transfer date.

Under this program, Vossloh employees were granted a total of 5,624 free shares in the reporting year (previous year: 3,714) at an expense to the Group of k€8 (previous year: k€199).

Remuneration of Executive Board members (excluding pension expenses) for 2015 totaled k€3,789 (previous year: k€2,389), including k€1,375 (previous year: k€1,827) of fixed and k€2,366 (previous year: k€511) of variable compensation plus k€48 (previous year: k€51) payments in kind. Former Executive Board members received a total of k€1,082 in the reporting year. Pension obligations to former executive officers and their surviving dependents amounted to k€19,071. This amount is partially covered by employer pension liability insurance policies totaling k€10,930 pledged in each beneficiary’s favor.

Total Supervisory Board fees for the reporting year came to k€393, including fixed and variable components of k€393 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 hedge presentation method is used, neither any expected loss or gain, nor any decrease or increase in the hedging instrument's value, are recognized.

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

Derivative financial instruments

€ mill.	2015		2014	
	Market value	Notional	Market value	Notional
Currency hedging transactions				
Interest rate swap	(0,5)	50,0	(0,2)	50,0
Forward exchange contracts	(2,4)	177,0	(7,7)	152,1
	(2,9)	**227,0**	**(7,9)**	**202,1**

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

Derivative financial instruments are concluded to hedge cash flow risks and, where the criteria are met, are combined with the underlying into one valuation unit. The currency futures have terms of up to two years. The resulting cash flows will therefore balance each other out by the end of 2017 and the end of 2018 for the interest rate swap.
If the criteria are not met, negative market values are recognized as liabilities, while positive market values are not recognized. In 2015, all financial derivatives were combined as hedging instruments with the related underlying transactions to form micro-hedges whose future effectiveness is assessed in terms of matching maturities and volumes, i.e., on the basis of a critical term match.

Due to the match of the designated value-critical parameters of the underlying and hedging transactions, Vossloh AG’s forex hedging is nearly entirely effective.

Underlying transactions include firmly contracted purchase orders or shipments at fixed dates, as well as currency loans. The contracted cash flow is hedged by buying or selling forex forwards, thus also closing the currency positions of subsidiaries for their account. As of December 31, 2015, positions in UAE dirham (AED), Australian dollar (AUD), Chinese renminbi yuan (CNY), Czech crown (CZK), British pound (GBP), Polish zloty (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 2015, 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/investor-relations/corporate-governance/declaration-of-conformity/

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 2015 under the terms of Sec. 21 WpHG:

Notifying party	Date of notification	Date of change	Threshhold	New voting interest		thereof attributable	
				in %	absolute	in %	absolute
KB Holding GmbH, Grünwald, Germany	9/21/2015	9/17/2015	Above 30%	35.80	4,770,461	–	–
TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany	9/21/2015	9/17/2015	Above 30%	35.80	4,770,461	35.80	4.770.461
Stella Vermögensverwaltungs GmbH, Grünwald, Germany	9/21/2015	9/17/2015	Above 30%	35.80	4,770,461	35.80	4.770.461
Mr. Heinz Hermann Thiele, Germany	9/21/2015	9/17/2015	Above 30%	35.80	4,770,461	35.80	4.770.461

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

Pursuant to Sec. 22 (1) Sentence 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) Sentence 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:

"1. 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.
2. The acquisition of the voting interests was exclusively funded through internal resources. The notifying parties themselves, however, have not directly acquired any voting rights, so that no funds have been expended by them to acquire voting rights."

A notification dated October 1, 2015, was made as per Sec. 15a WpHG that KB Holding GmbH had acquired 665,000 shares. A total of 5,435,461 shares are therefore held. This equates to 40.8 percent of the total shares issued. 5,435,461 shares or 40.8 percent are therefore also attributable to TIB Vermögens- und Beteiligungsholding GmbH, Stella Vermögensverwaltungs GmbH and Mr. Heinz Hermann Thiele.

Notifying party	Date of notification	Date of change	Threshhold	New voting interest in %	New voting interest absolute	thereof attributable in %	thereof attributable absolute
Norwegian Ministry of Finance, Norway	1/16/2014	1/15/2014	Above 3%	3.12	415,263	3.12	415,263
Norges Bank, Norway	1/16/2014	1/15/2014	Above 3%	3.12	415,263	–	–
Mr. Stefan Kürschner, Germany	2/7/2014	10/31/2013	Below 3%	0.07	8,775	0.07	8,775
LAZARD FRERES GESTION S.A.S., France	3/24/2014	3/18/2014	Above 3%	3.01	401,000	2.89	384,500
Franklin Templeton Investment Funds, Luxembourg	6/30/2014	6/27/2014	Above 3%	3.05	406,724	–	–
Franklin Mutual Advisers, LLC, USA	7/1/2014	6/30/2014	Above 5%	5.68	757,247	5.68	757,247
SICAV OBJECTIF SMALL CAPS EURO, France	10/6/2014	10/1/2014	Above 3%	3.01	401,000	–	–
Mr. Iskander Makhmudov, Russian Federation	2/4/2015	12/17/2014	Above 3%	3.08	409,809	–	–
Mr. Matthias D. Bomnüter-Vossloh, Germany	2/13/2015	11/29/2013	Below 3%	0.0004	50	–	–
Mr. Edouard Carmignac[1], France	4/9/2015	3/27/2015	Above 5%	5.000011	666,266	0.43	57,729
Carmignac Gestion S.A.[1], Paris, France	4/9/2015	3/27/2015	Above 5%	5.000011	666,266	0.43	57,729
Mr. Edouard Carmignac[1], France	7/2/2015	7/2/2015	Below 3%	0.00	0	–	–
Carmignac Gestion S.A.[1], Paris, France	8/6/2015	8/4/2015	Below 3%	0.00	0	–	–
Deutsche Bank AKTIENGESELLSCHAFT[1], Frankfurt, Germany	8/7/2015	8/4/2015	Above 5%	7.96	1,061,303	–	–
ETHENEA Independent Investors S.A., Luxembourg	8/18/2015	8/18/2015	Below 3%	2.95	393,305	–	–
Deutsche Bank AKTIENGESELLSCHAFT[1], Frankfurt, Germany	9/18/2015	9/15/2015	Below 3%	0.19	25,000	–	–

[1]During the reporting year, the 5 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, KPMG AG Wirtschaftsprüfungsgesellschaft (previous year: BDO AG Wirtschaftsprüfungsgesellschaft), were recognized as expense:

Statutory auditor’s fees

€ mill.	2015	2014
Statutory year-end audits	0.1	0.1
Other certification/verification services	0.2	0.8
Tax advisory services	0.0	0.4
Other services	0.1	0.1
	0.4	**1.4**

The fees for statutory audit services mainly include those paid for the statutory annual audits of Vossloh AG’s separate and consolidated financial statements where such fees are borne directly by Vossloh AG. The fees for other attestation services relate primarily to due diligence work and quarterly report reviews. In the previous year, KPMG AG Wirtschaftsprüfungsgesellschaft performed other services amounting to €0.1 million.

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
– Vossloh Fastening Systems GmbH: Managing Director
– Vossloh-Werke International GmbH: Managing Director
– Vossloh España S.A.U.: Member of the Administrative Board (since December 31, 2015)

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
– Vossloh France International SAS: President
– Vossloh Australia Pty. Ltd.: Member of the Administrative Board
– Vossloh-Schwabe Australia Pty. Ltd.: Member of the Administrative Board
– Vossloh Kiepe GmbH: Head of Executive Management (until January 31, 2015)
– Vossloh Fastening Systems Australia Pty. Ltd. (formerly: Vossloh-Schwabe Australia Pty. Ltd.): Member of the Administrative Board
– Vossloh Track Systems GmbH: Managing Director (since May 6, 2015)
– Vossloh International GmbH: Managing Director (since May 6, 2015)
– Vossloh Southern Africa Holdings Pty. Ltd.: Managing Director (since July 21, 2015)
– Wuhu China Railway Cogifer Track Co. Ltd.: Member of the Administrative Board (since July 31, 2015)
– Vossloh Fastening Systems (China) Co. Ltd.: Chairman of the Administrative Board (since August 21, 2015)
– Beijing China-Railway Vossloh Technology Co. Ltd.: Member of the Administrative Board (since December 14, 2015)
– Suzhou Vossloh Track Systems Co. Ltd.: Chairman of the Administrative Board (since July 20, 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 the Administrative Board
– Vossloh France SAS: President
– Vossloh España S.A.U.: Member of the Administrative Board (since December 31, 2015)

Vossloh AG's Supervisory Board

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

Ulrich M. Harnacke[2,3,4], Vice Chairman, Mönchengladbach,
tax consultant and auditor (since May 20, 2015)
– Member of the Supervisory Board of Elexis AG
– Member of the Shareholders' Committee of Thüga Holding GmbH & Co. KGaA

Silvia Maisch[1], Monheim, electrical mechanic

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

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

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

[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 2015 show net income of €182,818,029.11 and, after including the loss carryforward of €59,351,633.51, an unappropriated surplus of €123,466,395.60.

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

Proposed profit appropriation

€	
Loss carryforward as of January 1, 2015	(59,351,633.51)
Net income 2015	182,818,029.11
Unappropriated surplus as of December 31, 2015 = carryforward to new account	**123,466,395.60**

Werdohl, February 26, 2016

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 combined 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 26, 2016

Vossloh AG
The Executive Board

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

Auditor's report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements and the bookkeeping system of Vossloh AG, Werdohl, together with the report on the situation of the Company and the Group (combined management report) for the financial year from January 1 to December 31, 2015. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code [HGB] and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, 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 led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 26, 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

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