ANNUAL REPORT 2014

Transforming Vossloh

Vossloh's corporate structure

In financial year 2014 the Group's activities were structured under the umbrella of Vossloh AG into the two divisions Rail Infrastructure and Transportation.

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

- Vossloh Fastening Systems is a leading supplier of rail fastening systems for all areas of application, from light-rail to heavy-haul and high-speed lines.
- Vossloh Switch Systems supplies, installs and services switches as well as control and monitoring systems for rail networks. Areas of application range from from light-rail to high-speed lines.
- Vossloh Rail Services provides services for the rails themselves including welding, transport, maintenance, preventive care, and reconditioning.

The Transportation division that continued to exist after December 31, 2014 covers operations concerned with rail vehicles and vehicle systems/components including related services.
It has three business units:

- Vossloh Locomotives has been developing and manufacturing diesel locomotives at the location in Kiel for nearly 100 years. In addition, comprehensive services are offered, particularly for maintenance and repair of locomotives.
- Vossloh Rail Vehicles develops and produces diesel locomotives as well as light-rail vehicles at its location in Valencia. The line-up also includes maintenance work.
- Vossloh Electrical Systems develops and manufactures key electrical components and systems for local transport rail vehicles. The business unit is among the world's leading suppliers of electrical equipment for trams as well trolleybuses and hybrid buses. Besides furnishing complete systems, the unit supplies air conditioners for rail vehicles, individual components, subassemblies, revamping work, servicing and maintenance.

The activities of the former Rail Infrastructure division were reorganized into three separate divisions with effect from January 1, 2015 – Core Components, Customized Modules and Lifecycle Solutions.
In the future they will represent Vossloh's core business and will be managed and controlled in accordance with the basic principles of their business models, i.e. by product, project and service orientation.

Detailed descriptions of Vossloh's new organization can be found in events after the balance sheet date and outlook (from page 117).

Key Group figures		2014	2013*
Orders received	€ mill.	1,368	1,473
Order backlog	€ mill.	1,751	1,707
Income statement data			
Net sales	€ mill.	1,323.9	1,300.7
Rail Infrastructure	€ mill.	868.9	875.5
Transportation	€ mill.	455.0	425.2
EBIT	€ mill.	(171.6)	52.7
EBIT margin	%	(13.0)	4.1
Net interest expense	€ mill.	(23.1)	(21.4)
EBT	€ mill.	(194.7)	31.3
Net income	€ mill.	(205.7)	23.6
Earnings per share	€	(16.46)	1.25
Return on capital employed (ROCE)[1]	%	(21.2)	5.9
Value added[1]	€ mill.	(252.6)	(22.8)
Balance sheet data			
Fixed assets[2]	€ mill.	619.2	714.5
Capital expenditures	€ mill.	55.2	64.4
Amortization/depreciation	€ mill.	132.0	40.8
Closing working capital	€ mill.	103.9	94.5
Closing capital employed	€ mill.	723.1	809.0
Total equity	€ mill.	349.6	481.1
Non-controlling interests	€ mill.	19.7	18.6
Net financial debt	€ mill.	272.0	204.1
Net leverage	%	77.8	42.4
Total assets	€ mill.	1,598.3	1,562.4
Equity ratio	%	21.9	30.8
Cash flow statement data			
Gross cash flow	€ mill.	(8.7)	82.0
Cash flow from operating activities	€ mill.	(42.2)	130.5
Cash flow from investing activities	€ mill.	(58.3)	(75.4)
Cash flow from financing activities	€ mill.	103.7	(63.1)
Net cash (outflow)/inflow	€ mill.	3.2	(8.0)
Workforce data			
Annual average headcount	Number	5,737	5,247
Rail Infrastructure	Number	3,537	3,285
Transportation	Number	2,149	1,916
Vossloh AG	Number	51	46
Personnel expenses	€ mill.	326.5	284.0
Share data			
Annual closing price	€	53.50	72.50
Closing market capitalization	€ mill.	712.9	870.3

[1]Based on average capital employed

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

*Previous year figures presented in a comparable manner see page 134.

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems
Vossloh Rail Services

Indicators		2014	2013*
Net sales	€ mill.	868.9	875.5
EBIT	€ mill.	11.6	92.7
EBIT margin	%	1.3	10.6
Average working capital	€ mill.	218.8	251.6
Average working capital intensity	%	25.2	28.7
Fixed assets	€ mill.	444.6	488.8
Capital expenditures[1]	€ mill.	35.0	39.5
Amortization/depreciation[1]	€ mill.	85.4	24.0
Average capital employed	€ mill.	683.1	732.7
ROCE	%	1.7	12.7
Value added	€ mill.	(56.7)	30.4

Business units:

Vossloh Locomotives
Vossloh Rail Vehicles
Vossloh Electrical Systems

Indicators		2014	2013*
Net sales	€ mill.	455.0	425.2
EBIT	€ mill.	(152.3)	(21.2)
EBIT margin	%	(33.5)	(5.0)
Average working capital	€ mill.	(68.0)	(36.7)
Average working capital intensity	%	(14.9)	(8.6)
Fixed assets	€ mill.	163.2	213.2
Capital expenditures[1]	€ mill.	20.0	24.6
Amortization/depreciation[1]	€ mill.	45.8	15.9
Average capital employed	€ mill.	116.0	149.0
ROCE	%	(131.3)	(14.2)
Value added	€ mill.	(163.9)	(33.8)

[1]Excluding noncurrent financial instruments, scheduled amortization/depreciation plus impairment losses/reversals

*Previous year figures presented in a comparable manner, see page 134

Volker Schenk
Member of the Executive Board

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

Oliver Schuster
Member of the Executive Board

Dear shareholders,

"Transforming Vossloh" – the headline for our Annual Report, describes the current situtation very well: Vossloh finds itself in the middle of a far-reaching change process, a "transformation" toward something new. Old structures are being removed and a new form is taking shape: lean, powerful and well-adapted to the economic environment. We will not, however, lose sight of the core of our company, our identity: it is from this identity that we will draw the strength for the tasks that lie before us.

We – your new Executive Board – assumed management of the Group in a financial year 2014 that was already underway. We found the company in dire straits: over the course of many years, Vossloh had deteriorated in terms of its economic strength. Profitability was unsatisfactory, value added from several business units was either low or negative. This was due in part to changed economic framework conditions and intensified competition. A much more important reason, however, was home-made: Vossloh failed to reposition itself for the future at the right point in time. Instead, ever greater volumes were generated with the existing business without a corresponding improvement in profitability. Individual business units had also entered into areas in which they did not have sufficient competence. The result was problem projects with decreasing margins and angered customers. The Group's costs structures were also no longer adequate for the market and the debt situation was tense. A cut was necessary.

We carried out this cut in 2014: following a careful analysis of the Group as a whole, goodwill was reviewed and – where necessary – partially impaired. An update of current project calculations was also undertaken. We corrected the market evaluations of individual business units which, in our view, were too optimistic and introduced a restructuring of certain areas. These measures made a decisive contribution to earnings development in the reporting year.

Earnings before interest and taxes (EBIT) of €(171.6) million were within the EBIT corridor of €(150) million to €(180) million forecasted by us in June 2014. Before special items, an EBIT of €30.6 million was achieved, which corresponds to an EBIT margin of slightly more than 2 percent. Before the new Executive Board took office, profit expectations were at 5 percent to 7 percent. Group sales increased slightly in 2014 by 1.8 percent to €1,323.9 million and were thus within the corridor we had communicated of up to 3%. Planning from the previous Executive Board had called for growth of over 10 percent.

The immediate measures that were introduced were painful but necessary: it was the only way to put Vossloh back on a healthy footing. The decisions that were required were not taken by external consultants or made in the "ivory tower" of a purely strategic holding. We see ourselves as an operational Executive Board, one that is directly involved in the business. The members of our management team bring with them many years of experience in the rail technology market and in restructuring processes. For this reason in particular we are aware that in a phase of entrepreneurial transformation, the management of a company must be present – with the customers and, above all else, with the employees. We are therefore regularly on site at the plants and administration sites, answering questions and explaining what we are doing. Only in this way – transparently, precisely and quickly – will we be able to achieve our goals.

Parallel to the immediate measures described above, we have also developed a Group strategy with which we will reposition the Group. It includes the following points:

Vossloh will concentrate on its core business of rail infrastructure. In precisely defined, high growth product areas and regional markets, we intend to become one of the top two suppliers or to secure our current position as market leader. We have defined Western Europe, China, the USA and Russia as our four primary focus markets and, since January 1, 2015, have organized the core business in the three new divisions Core Components, Customized Modules and Lifecycle Solutions. These will be managed and controlled according to the basic principles of their business models – product, project and service orientation. They work together closely and present themselves to the market in a uniform and coordinated manner as "One Vossloh". The objective is to expand or reasonably complement the existing business units in the divisions. To this end, we are investing, on the one hand, in the development of future-oriented technologies and, on the other hand, can imagine targeted acquisitions to add to the existing business units.

At the same time, we have decided that the business with vehicles and vehicle components – bundled in the Transportation division – is no longer part of our core business. Our analysis clearly shows that none of these activities under the Vossloh umbrella can achieve the necessary size or market importance that are necessary for a sustainably positive business development. Transportation will therefore continue to operate as a fourth division for the time being. Our goal, however, is to sell the business in whole or in part by 2017 at the latest, or to transfer it to a more fitting structure.

With this decision, we have introduced the long-term restructuring of the Group into a new rail infrastructure company – the transformation of Vossloh by 2017. In 2014 we took key decisions for the future. In 2015 we will work intensively on the operational improvements. At the same time, we are implementing our new strategy and transforming Vossloh. The complex task demands strength and requires our full concentration. We are therefore gradually increasing profitability: on the basis of the current portfolio structure 2015 initially at an EBIT margin of 3 percent to 4 percent, which is still below our target margin. Restructuring and repositioning, higher research and development costs as well as old projects with limited returns continue to curb improvement here. We intend to reach the target EBIT margin of 5 percent to 6 percent in 2017. Basis for this is also the current portfolio structure.

To put it briefly: Vossloh is changing, will become fit for the future and is pursuing clear objectives – namely consistently positive value added and a sustainably positive free cash flow in all business units. We have started on our journey and are traveling at good speed and with a high degree of concentration. But there are even more far-reaching tasks before us. We are confident that we will be able to meet these challenges.

Sincerely,

Dr. h.c. Hans M. Schabert

Chairman of the Executive Board

Overview of 2014

February

The Supervisory Board of Vossloh AG completely **replaces the Executive Board.** Dr. h. c. Hans M. Schabert is appointed Chairman of the Executive Board, Volker Schenk and Oliver Schuster appointed members of the Executive Board.

March

Oliver Schuster joins the Executive Board on March 1 and assumes responsibility as Chief Financial Officer on April 1. A thorough survey of the situation in the Group begins.

Vossloh sells all treasury shares, corresponding to 9.91 percent of the capital stock by means of an accelerated bookbuilding. Gross proceeds amount to approximately €91 million.

Former members of the Executive Board Werner Andree and Dr.-Ing. Norbert Schiedeck step down at the end of the month.

April

Dr. h.c. Hans M. Schabert becomes new Chairman of the Executive Board on April 1.

The Executive Board announces that it will pursue an operational management approach. The model of a purely financial and management holding for Vossloh AG with decentrally managed operating units is discarded. "One Vossloh" is the **new guiding principle** of an integrated Group.

May

Volker Schenk takes office as member of the Executive Board with effect from May 1 – the new Executive Board team is thus complete. The Executive Board launches intensive internal communications to prepare for the new leadership culture.

The new Executive Board introduces itself to shareholders for the first time at the **Annual General Meeting in Düsseldorf**. The Annual General Meeting elects Dr.-Ing. Wolfgang Schlosser and Ursus Zinsli, two distinguished industry experts, to the Supervisory Board of Vossloh AG.

June

At the end of a thorough analysis and evaluation, the new Executive Board identifies a significant need for action in individual areas. This leads to the ad hoc announcement of **additional charges against earnings** of up to €250 million for the Vossloh Group in the current financial year.

Necessary restructuring measures and updated project calculations relate primarily to the Transportation division. An updated market assessment, however, also makes a comprehensive revaluation of individual assets in the Switch Systems business unit necessary.

Approximately one third of the Management Boards and department heads are cut in the **course of the new operational management structure**.

At the end of June, the relatively expensive and inflexible financing by means of a US private placement which had been in place since 2004 was fully replaced by a **low-interest financing** from a number of banks in the total amount of €250 million.

July

A Group-wide project for the optimized management and sustainable **improvement of net working capital** begins with the goal of as low a capital commitment as possible in the entire company.

Vossloh announces the **construction of a locomotive plant** in Kiel, Germany, by the end of 2015. The location will focus exclusively on the business with standardized industrial and shunting locomotives.

The Electrical Systems business unit will in future concentrate once again on its **core competence as an independent supplier** of electrical equipment.

August

In order to tap into future growth markets, a production joint venture for rail fasteners in **Russia** is founded.

September

Vossloh presented itself uniform and compact with an impressive **appearance at the InnoTrans**, the rail industry's most important international trade fair in Berlin. "One Vossloh" becomes visible for the first time.

Analysts and financial market specialists are given an update on the current status of the repositioning at the fair.

October

The ultra-modern **production facility from Vossloh Fastening Systems** in the US state of Texas begins operations. In Waco, Texas, plastic components are produced in addition to tension clamps.

December

In Frankfurt am Main, the Executive Board presents the **new strategy and planning until 2017** as previously approved by the Supervisory Board.

From 2015, Group activities will be divided into three new core divisions: **Core Components, Customized Modules and Lifecycle Solutions.** The Transportation division will initially continue to operate as a fourth pillar but is no longer part of the core business.

Vossloh stock

Development in the stock markets for 2014 was largely characterized by the sustained expansive monetary policy of the European Central Bank, as well as an increasingly robust US economy. Economic development in Europe and China, however, was weakened despite the liquidity measures of the central banks. At the same time, the political crises and military conflicts in Eastern Europe and the Middle East, as well as the massive decrease in oil prices, had a cushioning effect on share prices worldwide. In this climate shaped by volatile market reactions beginning in the summer and amplified towards the end of the year, several of the world's stock indices reached new all-time highs.

US markets closed with very significant gains: the Dow Jones recorded an increase of 10 percent for 2014. The S&P 500 reached a new record level and recorded growth of 14 percent for the full year. The NASDAQ had the strongest gains, with a plus of around 19 percent compared with the 2013 year-end. Japan's Nikkei Index rose 9 percent compared to the end of the year 2013, and the Euro STOXX 50 increased in value by 5 percent for the reporting year.

The German blue-chip indices likewise developed positively, though overall they were weaker than international stock markets. The DAX ended 2014 at 9,806 points and was thus up 3 percent compared to the previous year. In 2014 the DAX marked both its high for the year and, on the same date, December 5, its new historic high of over 10,000 points, at 10,093. The German blue-chip index recorded its lowest level of the year at 8,355 points on October 16. The MDAX also reached its lowest recorded value for the reporting year at 14,398 points on October 16. In the summer, on June 10, the index had set a new record high of 17,204 points. Overall, the MDAX improved by approximately 2 percent for the reporting year, and closed 2014 at 16,935 points. The SDAX, to which Vossloh's shares belong, rose by around 6 percent to reach 7,186 at the end of the year 2014. The highest and lowest values of the SDAX in the previous year, 7,573 and 6,088 respectively, were reached in the course of trading on June 9 and October 16, 2014.

Vossloh stock

From a full-year perspective, Vossloh stock remained markedly behind development of the overall market. The share price of €53.50 on December 30, 2014 was 26.2 percent lower than the closing price of the previous year. Over the course of the year, Vossloh shares reached their highest level on February 25, 2014 at €75.92. As a result of the announcement on June 27, 2014 of a comprehensive restructuring and measures to refocus the company, the share price departed from overall market development in the second half of the year and in the course of trading on November 7, reached its lowest price of 2014 at €41.88, which was also the lowest level since September 2006.

Vossloh stock price trend from December 30, 2013 to December 30, 2014

Vossloh share ID data:
WKN 766710
German SIN: 766710
Reuters VOSG.DE
Bloomberg VOS GR

Trading volume for Vossloh stock increased from 6.3 million for the 2013 market year to 11.7 million for the reporting year. The cause of this significant increase was primarily the substantially higher sales in the second half of the year. For each of the 252 trading days in the year, Vossloh stocks averaged 46,300 shares traded per day (previous year: 25,200 shares). A further factor leading to an increase in trading volume for 2014 was the divestiture of 1,320,603 shares held by Vossloh AG in spring 2014. The number of outstanding shares thus rose by approximately 10 percent to 13,325,290 (previous year as of December 31: 12,004,687). Using accelerated bookbuilding, Vossloh divested shares acquired in 2011 through the stock market – less a small number of shares used in 2012 and 2013 for the employee bonus program – on March 31, 2014 at a price of €69 per share. Gross proceeds amounted to €91 million. As of December 31, 2014, market capitalization for Vossloh was at €712.9 million, considerably less than the value on the prior year's balance sheet date of €870.3 million due to the lower share price. Within the index comparison ranking of Deutsche Börse, which are determined by market capitalization and trading volume, Vossloh shares were ranked 62nd on the list for free float market capitalization in December 2014. In terms of average-traded shares, Vossloh was ranked 52nd.

Vossloh stock indicators		2014	2013*
Earnings per share	€	(16.46)	1.25
Cash flow per share	€	(3.25)	10.88
Dividend per share	€	0.0**	0.50
Total dividend payout	€ mill.	–	6.7
Carrying amount per share (without minority interests)	€	24.75	38.53
Annual average number of shares outstanding	1,000	13,000	11,999
Number of shares outstanding at year-end	1,000	13,325	12,005
Closing stock price	€	53.50	72.50
Closing market capitalization	€ mill.	712.9	870.3
Annual high/low	€	75.92/41.88	84.84/62.02
Price-earnings ratio		–	58.0
Price-cash flow ratio		–	6.7
Price-book-ratio		2.2	1.9
Share trading volume	1,000	11,679	6,349
Average daily turnover of shares	1,000	46.3	25.2

*Previous year figures presented in a comparable manner, see page 134

**Dividend proposal subject to approval of the Annual General Meeting

Dividend

As a result of the markedly negative Group net income attributable to Vossloh AG's shareholders in financial year 2014, Vossloh AG’s Executive Board and Supervisory Board are expected to make a proposal to the shareholders at the Annual General Meeting scheduled for May 20, 2015 to suspend dividend payments for the 2014 financial year. For the 2013 financial year Vossloh AG distributed a dividend of €0.50 per share.

Ownership structure

Vossloh AG’s largest shareholder is Mr. Heinz Hermann Thiele. Per notice published on January 20, 2015, regarding a voluntary public takeover bid by KB Holding GmbH, the proportion of shares held by Mr. Thiele amounted to 29.99 percent at that date. Additional Vossloh AG shareholders with voting rights exceeding the legal reporting threshold of 3 percent are: ETHENEA Independent Investors S. A., Luxemburg, with 4.88 percent (January 28, 2015), Franklin Mutual Advisors, LLC, Wilmington, Delaware, USA, with 5.68 percent (July 1, 2014), as well as Mr. Iskander Makhmudov, Russian Federation, with 3.08 percent (February 5, 2015). Franklin Templeton Investment Funds, Luxembourg, announced an ownership stake of 3.05 percent as of June 30, 2014, and LAZARD FRERES GESTION S. A. S., Paris, France, reported a 3.01 percent ownership on March 24, 2014. Because these are purely financial investments, the assets of institutional investors count toward the free float market capitalization as defined by Deutsche Börse AG. The free float of Vossloh AG shares as calculated by Deutsche Börse AG was thus 74.86 percent of capital stock at the end of December 2014 (previous year: 64.95 percent) and at the end of January 2015 it was 70.01 percent of capital stock.

Voluntary public takeover bid from KB Holding GmbH

On February 16, 2015, KB Holding GmbH published the offer document for the voluntary public takeover of all no-par bearer shares of Vossloh AG at a price of €48.50 per share. The bidder, KB Holding, explained that the strategic background for the offer's filing was to moderately expand and secure its long-term entrepreneurial investment in Vossloh. The bidder made clear in the document that it wishes to assist Vossloh in the role of an entrepreneurial investor and would support the independent, publicly traded company with the transformation process that has begun, as well as the strategy published by its Executive Board in December 2014. The acceptance period for the offer began on February 16, and expired on March 16, 2015, at 12:00 a.m., Frankfurt am Main local time / 6 p.m. New York local time. On February 26, 2015, the Executive Board and Supervisory Board of Vossloh AG published their joint and reasoned opinion. Both corporate bodies recommended not to accept KB Holding's offer. At the same time, the Executive Board and Supervisory Board welcomed KB Holding's long-term commitment to Vossloh.

Analysts' assessment

In 2014 a total of 15 analyst agencies observed the development in Vossloh stock and regularly published comments and studies on the company. At the end of 2014, a total of seven analysts had a 'buy' recommendation for Vossloh shares. Likewise, seven institutions had a 'hold' recommendation while one issued a 'sell' recommendation. Based on what were, at the time, current analysts' ratings, the average price target for Vossloh shares was €55. The lowest target price was €38, while the highest assumed a target price of €70.

Sustainability

As a rail technology company, Vossloh is active in an industrial segment for which sustainability is a major priority. With its products and services, Vossloh helps to ensure that the transport of people and goods is as safe as possible, while also being environmentally-friendly. Resources should be used sparingly, and pollution – in the case of rail technology, largely CO_2 and noise pollution – should be kept at the lowest levels possible and reduced even further through new technologies. Because of this, Vossloh AG also has the right qualifications for investors focusing on sustainability. Since 2008 Vossloh has been listed in multiple sustainability rankings and belongs to the Oekom Research's investment universe, as well as to Kempen/SNS SRI. Likewise, Vossloh AG has already participated in the Carbon Disclosure Project (CDP) seven times and will take part once again the Vigeo rating rating in 2015.

Capital market dialogue

The Vossloh Investor Relations team was also involved in an intensive dialogue with institutional and private investors in 2014. Vossloh AG, over the course of the year, took part in several capital market conferences and also itself organized three meetings for investors and analysts, as well as multiple teleconferences. The team was also always available for any questions, either written or over the phone.

We will gladly answer any questions or concerns. Please address questions to:
investor.relations@ag.vossloh.com or contact us at the number +49(0)2392/52-609.

Transforming Vossloh

Strategic realignment, a new management team and a new management style – 2014 marked a turning point in Vossloh's corporate history. Within a very short period of time, all business units and models were reviewed, entrepreneurial objectives were redefined and the first decisive measures initiated. One of the most significant changes was the focusing on the rail infrastructure core business. Here, we intend to achieve success in the future as a Group. We are redefining Vossloh in many ways in order to position ourselves for the future.

Behind every major renewal, there are not only cold analyses, facts and figures – more than anything else it is ideas that guide us. Ideas that arise in discussions with our customers, investors and employees. They shape the way we think, act and take the decisions that form the basis for developments that become visible later.

We would like to use the following pages of this, the first Annual Report published under the new Executive Board, to explain the foundations and the principles behind our actions: Transforming Vossloh.

One Vossloh

Guiding principle of an integrated group

We have taken a decision in favor of a new company management path. Under the slogan "One Vossloh", we will in future bring together the guiding principles of an integrated group that has a more powerful organization, is more networked and that can react to the market more quickly than in the past. On the path to this goal, we have already established facts and initiated more extensive improvements. But there are tasks that still lie ahead. We will tackle these with confidence, concentration and an intensive desire to achieve the goal.

The basis for all efforts is a new guiding principle: the direct responsibility of the Executive Board for entrepreneurial activities. We, the management of the company, in addition to strategic leadership, also assume operational responsibility from the very beginning. Because we feel directly responsible for the business success of this company.

Networked management instead of historically grown decentralized structures

Change and progress sometimes require a look back at historical development so that the background can be understood: Looking back from 2014, it had been many years since Vossloh's last strategic repositioning. At the core of the previous strategy was the internationalization of business operations. This approach was successful for many years. The organizational structure, however, did not keep pace with the broad growth of the company. Years later – in 2014 – Vossloh had grown into a decentralized Group formed around the original core business of rail fasteners. Each of the newly-added business units had its own historical roots and operated independently on the market. The Vossloh holding was organized solely around the management of the company portfolio.

Our model now follows a different and, we believe, better approach. Vossloh AG and its Executive Board do not see themselves as portfolio administrators. Instead, the Group holding now forms the uppermost operational management level. In addition to their strategic leadership responsibility, all members of the Executive Board consistently think and act with an operational focus. The number of managers reporting directly to the Executive Board was reduced by one third. Management is lean, centrally led, operates in close proximity to the business and is networked Group-wide. This allows for fast and sustainable decisions that are supported by the entire management team.

"One Vossloh" conforms to the market perspective

"One Vossloh" is consistently geared toward market requirements: the various Vossloh companies generally serve – either directly or indirectly – the same customers. For these customers, performance, quality and price are key. Our company's internal structures are not relevant for them. This means: We must act as a single point of contact which executes the customer's order from a single source.

Focus

Vossloh gains a clear profile

We gave Vossloh a new strategy in December 2014. The comprehensive document does not have a fancy name, but the headline could well be: Focus.

Firstly: focus on the core business. Vossloh has roughly a 1 percent share of the global rail technology market – but covers a third of all the product groups available in this market. In other words: Vossloh's product portfolio is too broad for the size of the company.

The product portfolio that had previously been brought together in the Rail Infrastructure division now belongs almost entirely to our core business. It meets all of the criteria defined in the strategy: rail infrastructure is in demand worldwide and for Vossloh it is possible to become number 1 or 2 in the world in this market. Vossloh is already among the top 2 worldwide in the rail fasteners and switches business. A majority of the products in the rail services business offer – with accelerated internationalization – an appropriate degree of potential. The global market for rail infrastructure is showing sustainable growth and, in addition, above the average of the rail technology market. Further Vossloh criteria such as high market entry barriers for potential competitors, limited cyclicality and attractive margins with low capital commitment are all met.

Rail infrastructure is our core business, transportation is not

The situation is different in the Transportation division which includes our vehicle business: alone, this unit cannot achieve a leading market position on the global stage. It lacks size and market strength. The forecast for profitability therefore does not comply with our target criteria. Furthermore, only moderate growth is anticipated in this area in the coming years.

We have therefore decided to find a new perspective for Transportation by 2017 at the latest. This could mean the selling of the business or the establishment of a joint venture in which Vossloh no longer has a majority interest.

We will nevertheless continue to apply all of our energy and determination to the repositioning and restructuring efforts in the business units, especially with regard to Vossloh Locomotives and Vossloh Kiepe. The construction of the locomotive plant in Kiel – an absolute necessity for an efficient producion and repositioning – has already begun, as has the refocusing of Vossloh Kiepe on its position as an independent electrical systems supplier in the areas public transportation, trolleybuses, components, e-mobility and services.

Concentration on key markets

Secondly: focus on key markets. Around the world, Vossloh meets demand for products, solutions and services in the field of rail infrastructure. It is, however, our entrepreneurial objective to grow, especially in those markets which offer particular potential or outstanding framework conditions. These are the large, fast-growing and technologically leading regions of the world: Western Europe, China, the USA and Russia. These are our focus markets – markets in which we aim to be market leader or one of the top two providers. They should contribute the largest portion our business success by far and be a source of further growth.

Networking

Other individual markets we also consider attractive include Australia, Brazil, Canada, the Middle East, Northern Europe and the so-called STAN countries (Kyrgyzstan, Uzbekistan, Kazakhstan, etc.). From a market perspective, they will be cultivated more intensively than the other countries, which we will continue to deal with as until now on a project basis.

Organization by core competence, uniform appearance

Thirdly: focus on business models. Fundamentally different customer requirements for products and services as well as the intention to expand in a targeted manner through acquisitions have caused us to undertake a restructuring of the divisions. In future, Vossloh will operate with three "pillars" representing the predominant business models and processes in the rail technology market: product, project and service orientation.

Through its Fastening Systems business unit, the Core Components division offers standard products that are industrially produced in large volumes. A key customer requirement in this segment is economic efficiency; quality and safety considerations are seen as a matter of course. Therefore, in addition to our leading technological competence, we must pay close attention to cost leadership here. The entire division, to which further business units will be added in the future, is consistently oriented to the product.

Through its Switch Systems business unit, the Customized Modules division concentrates on project and customer-specific solutions. In addition to economic efficiency, it is primarily technical solutions competence and reaction times that are of greatest importance here. We thus rely first and foremost on technological leadership. We also intend to further expand and complement this division in future.

Through its Rail Services business unit, the Lifecycle Solutions division focuses on specialist rail line related services. Success factors include innovative services and integrated offerings for infrastructure operations and maintenance.
We have defined the internationalization of existing services, retention and expansion of our competitive advantage in the preventive maintenance of tracks and switches as well as the addition of comprehensive solutions as the primary objective for this division.

From now on, the market appearance of these three divisions will, under the operational management of Vossloh AG, be uniform and closely networked and their sales activities will be coordinated. Vossloh thus gains a strong new profile and will be the partner of choice throughout the world.

Due care

Achieving goals through precise planning

When starting down a new path, you should be aware of where the journey began: insufficient profitability and negative value added in several units in 2014 meant that immediate action was required. It was necessary, however, to ensure that this action was targeted, well thought out and sustainable so that these sometimes painful interventions would make Vossloh fit for the future.
We solved this difficult task by carefully analyzing all business units before we introduced a repositioning and restructuring. The charges to earnings carried out for the most part in 2014 are therefore painful, but at the same time healing.

Realistic adjustments to market evaluations

We first reviewed – and corrected – the existing expectations with regard to sales markets. This occurred primarily in the business with diesel locomotives and switches.

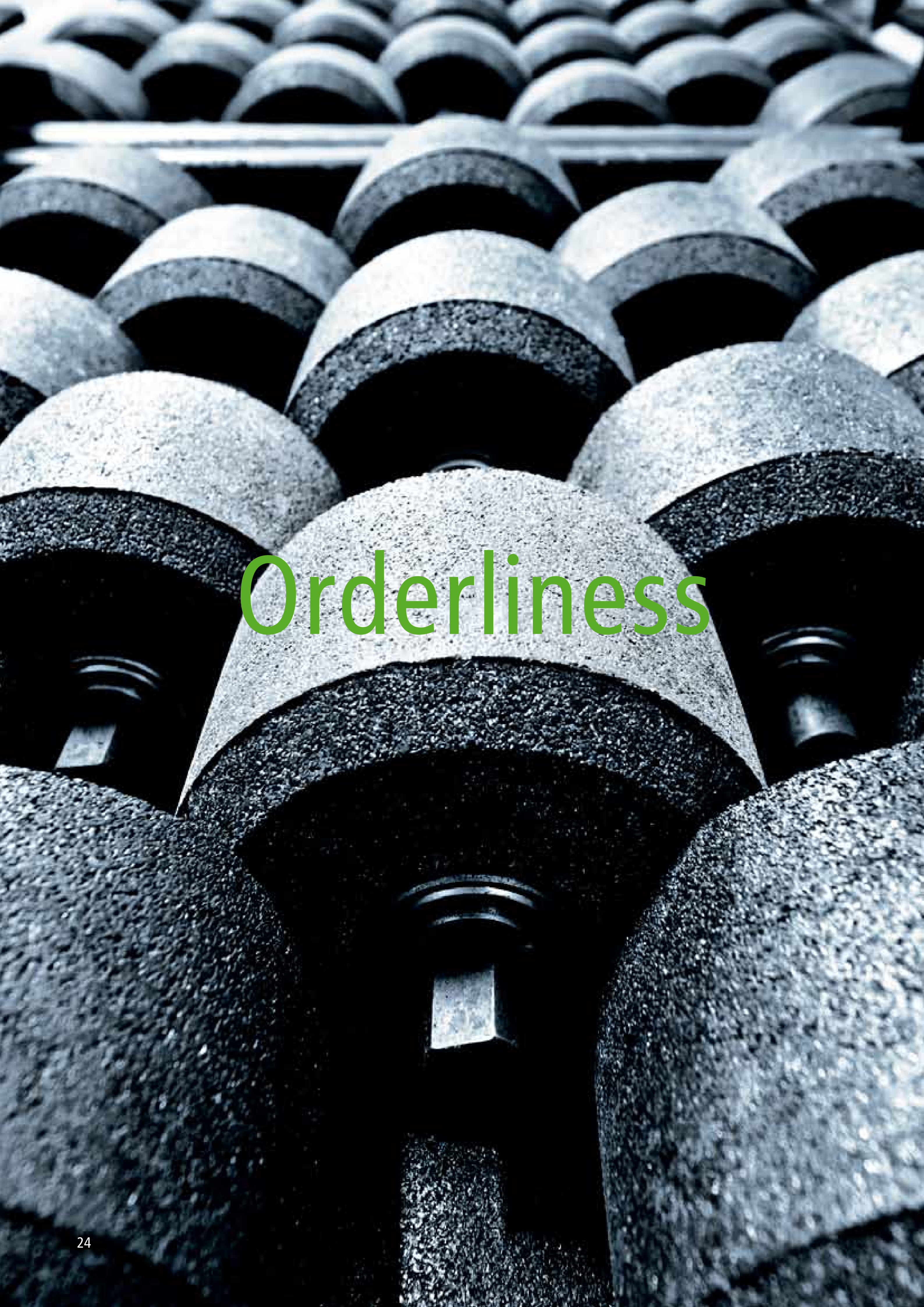
For Vossloh Locomotives in Kiel, we see an annual sales target of about 40 locomotives as realistic. It was therefore decided to move the production facility in Kiel to a new location, to focus on the standard shunting locomotive business and, at the same time, to adjust production capacities in line with market demand.
Because an investment in the double-digit million range was made in the current locomotive family in previous years, the reported values of these capitalized development costs had to be reduced in line with the capacity adjustments.

From today's perspective, the market prospects for the switch business in individual regions is weaker than previously expected. Here, we therefore had to correct the goodwill, and the corresponding expense was already recognized in the six-month financial statements.

In addition, restructuring expenses for the switch production facility in China had to be undertaken. Vossloh, together with partners, had built an ultra-modern production plant there. Because the switch market in China is facing sustained and considerable over-capacities, a substantial impairment loss with a negative impact on earnings in 2014 had to be taken into account.

Project risks consistently mitigated

The rapid growth of recent years brought with it a series of risks. These include, among others, the insufficiently structured expansion of business beyond the core competences of individual companies. At Vossloh Kiepe, for example, responsibility for complete vehicles was increasingly assumed. Components and services were bought from third parties.
Vossloh was nevertheless accountable for any defects or project delays that arose from these third-party products. Earnings were negatively impacted. We intervened here and adjusted the positioning of the business.



Orderliness

In addition to acute corrections in the business, we also paid very close attention to the objective of strongly positioning Vossloh for the future.
To this end, we have established or already executed an entire range of individual measures and projects. Two important objectives are financial scope and innovation.

Measures to provide financial scope and innovation

At the end of June 2014, the relatively expensive and inflexible US private placement which had been in place since 2004 was fully replaced by a low-interest financing from a number of banks in the total amount of €250 million. The capital commitment will be optimized through a Group-wide project for the enhancement and sustainable improvement in net working capital. The focus here is on a review of processes between order placement and delivery.

In the past, Vossloh needed too much time from the point an order was received until it was delivered to the customer.

We are optimizing these processes on a Group-wide basis and have thus already improved our cash flow – an objective which will have significantly higher priority in the future.

Innovations, though less relevant for the current key figures, are essential for the future of the company. Considering that a period of approximately five years is needed until a new product in appreciable quantities is accepted on the market, it is necessary to invest in the future product and services portfolio.
Existing patents expire and must gradually be replaced in order to protect the leading position. For this reason, we are immediately initiating a targeted doubling of expenditures for research and development in individual segments of the rail infrastructure core business.

Simplicity

Less is more

There is one principle behind the extensive changes in the reporting year: Simplicity. As a decentrally-managed Group, Vossloh was very complex. The operating units focused on their individual business activities. A focus on the overall success of the Group was often neglected.
This led to redundancies and ineffectiveness, which increasingly burdened margins. On top of this, a range of new risks were taken on board. Our concept here is: Reduction to what is essential.

One Group, one consistent decision-making process, one core business

"One Vossloh" is simple: the Executive Board leads the operating units directly and in close cooperation with the considerably streamlined Management Boards, assumes the role of coordinator and monitors the achievement of goals; all in close consultation with an entrepreneurially-experienced Supervisory Board. This results in information and decision-making processes in the company that are both straightforward and consistent – without diversions or detours.

One simple priority is also now valid for the management of the business: Vossloh as a single unit. We are aware that each action in the company has a direct impact on the Group and its overall functionality. This is something that we keep in mind. A prominent example is free cash flow. Here an equally simple and effective mechanism will take effect in future: If additional funds are needed in one area of the Group, funds must be freed up in another area, for example through reduced inventories or improved management of receivables. Only in this way can the Group as a whole maintain its balance and avoid losing its strength.

Last but not least is the principle of simplicity which also applies to the definition of what a "core business" is for us. Each of our business activities must have at least the perspective that it can be market leading on the global stage. A too broad portfolio of products and services without the corresponding competitive weighting runs counter to the objective of generating sustainable value. We therefore consciously limit ourselves and keep things "simple".

Culture

Vossloh values revived

Despite all of the changes and conscious breaks in 2014 – Vossloh's values were never in question. On the contrary: passion, perfection, trust and entrepreneurial spirit are more important than ever before. Only in this way can we motivate all Vossloh employees for the upcoming tasks.

We therefore remain convinced that it is not only important what you do, but how you do it. For this "how", there are shared convictions and values. Especially in times of change, these values can prove their worth or, even better, be revived. That's what we have done.

Passion means burning for the things you do. Passion is a powerful feeling that drives us to give the decisive little bit more than what our competitors give. A company must project this passion in order to exercise a significant degree of appeal.
Vossloh has this passion and we are proud that we have an extraordinarily skilled team with many years of experience with the company. But in order to retain this "capital", we must make "investments": in credibility and straightforwardness. We as the Executive Board of Vossloh therefore take the view that the people in those areas that are no longer core business can continue to count on Vossloh. We will continue to invest and will also pay very close attention to ensuring that these companies are developed and promoted in the future.

Perfection means no more and no less than meeting the customer's expectations. To achieve that, it is important to understand our core competences and to focus on them. We are supporting these efforts with our new organizational structure. The clear definition of the business models lays out a clear direction and helps to avoid detours; in those individual areas where detours have already been taken, corrections have been made.

We foster and promote cooperation and networking

Trust is not only a precondition for good cooperation, it is created through close collaboration. A paradigm shift away from decentralized structures and toward an integrated Group will foster this trust, as will significantly more open communication.
The preparation of the new strategy was therefore intentionally not the work of external consultants. It was created over a period of months within the scope of a shared, internal exchange of ideas and information among the business units, the bodies of the company, the hierarchical levels and staff units.

Entrepreneurial spirit is perhaps the most important revived value at Vossloh: It implies thinking not only about one's own success, but also assuming responsibility for the whole – even when this sometimes requires a certain esprit de corps.
We therefore support and foster the close cooperation among everyone in the Group. From each and every individual Vossloh member, we want to see that his or her thinking can go outside the box and focus on the whole. And we include ourselves.

That is "One Vossloh" par excellence.

Dynamic

We have reached cruising speed – and are maintaining it

We have presented the clear objective of leading the company into an economically successful future and of sustainably increasing the value of the company. With outstanding products, committed employees and passion, we intend to achieve this objective.

We have carefully developed our new strategy on the basis of a thorough analysis and have thus laid the foundation for the years to come. The company has been stabilized and the repositioning, the transformation of Vossloh is underway. The financial goals for the current year and for the next two financial years have been clearly set. We know what we want to achieve and how we will be measured.

In order to achieve all of these goals, we had to pick up speed already during the ongoing restructuring phase: an aggregate acceleration which gradually takes on each new component to gain additional power and to maintain it over time. This is demanding and requires a high degree of precision. But we are confident: After a little less than one year, the positive impact from unambiguous goals, clear communication, short decision-making paths and intensive cooperation is already being felt – that was the unanimous perception at InnoTrans, our most important trade fair.
We are also receiving the same feedback from our workforce. Today, all Vossloh employees are more conscious of the fact that they are part of one and the same company. That, in the end, is what makes us successful. This is a path that we will consistently pursue.

Vossloh AG's Supervisory Board

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

Dr. Wolfgang Scholl (until May 28, 2014)
Vice-Chairman, lawyer, partner in the law firm Arnecke Siebold, Frankfurt am Main

Dr. Alexander Selent (until September 14, 2014)
Vice-Chairman, Vice-Chairman of the Executive Board and CFO of Fuchs Petrolub SE, Limburgerhof

Silvia Maisch
Electrical mechanic, Works Council Chairman of Vossloh Kiepe GmbH, Monheim

Dr.-Ing. Kay Mayland (until May 28, 2014)
Graduate engineer, former Executive Board chairman of SMS Siemag AG, Ettlingen

Dr.-Ing. Wolfgang Schlosser (since May 28, 2014)
Business consultant and former member of the management of Knorr-Bremse Systeme für Schienenfahrzeuge GmbH, Puchheim

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

Ursus Zinsli (since May 28, 2014)
Delegated member of the Administrative Board and former managing director of Scheuchzer SA (Switzerland), Saint-Sulpice (Vaud Canton, Switzerland)

Heinz Hermann Thiele,
Chairman

Report of the Supervisory Board

In the financial year 2014 the Executive Board worked in close and regular cooperation with the Supervisory Board on the new realignment of the Vossloh Group, with the aim of putting the company on a sustainably successful and profitable course. One of the main decisions was to maintain a focus on the business of rail infrastructure in the future. The current Rail Infrastructure division will, in the future, form the core business of Vossloh and, as such, will be subdivided according to the relevant product, project or service focus of the business model into the new divisions of Core Components, Customized Modules and Lifecycle Solutions. At the same time, the cooperation between these divisions will be intensified significantly in order to be able to improve the use of existing synergies and to be able to offer a complete, complementary and coordinated portfolio of products and services on the market from one source. This will enable Vossloh to differentiate itself in international competition in the long term and to further build on its strengths in the area of solutions for rail infrastructure. The current Transportation division will no longer be part of the core business in the future and, depending on how quickly the restructuring advances, will be sold off either in full or in parts no later than 2017 or transferred to one or several partnerships that are no longer controlled by Vossloh.

The Supervisory Board has carefully and conscientiously carried out its supervisory and advisory duties imposed on it by law, the articles of incorporation and the German Corporate Governance Code (the "Code") and the Supervisory Board Rules of Procedure during the financial year 2014.

Meetings and attendance

In 2014 the Supervisory Board convened at four scheduled meetings on March 26, May 27, September 18 and on December 1/2, and four extraordinary meetings on May 28, July 15, July 23 and September 9. The members of the Supervisory Board all participated in all meetings except one member who could not attend in one extraordinary meeting.

The Executive Board and the Supervisory Board worked very intensively together on the new direction and the need for restructuring in parts of the Vossloh Group on several occasions. The Supervisory Board considered the results of the current situation audit thoroughly, in particular at Vossloh Locomotives and in the business unit of Electrical Systems, it discussed the potential options for intervention with the Executive Board and, after detailed discussions, concurred with the Executive Board's suggestions for the new strategy for both business units. In the business unit Switch Systems, detailed discussions with the Executive Board included the new valuations of individual assets which had been brought about by reviews of the market estimates in North America, China, Australia and Europe.

The Supervisory Board was regularly informed on a comprehensive and timely basis regarding business development, the profit situation, return, liquidity, share-price development and risk situation of Vossloh AG, including the Group companies, in accordance with the law and obligations set out in the Supervisory Board Rules of Procedure. The object of the joint discussions with the Executive Board concerned the issues of short-term and medium-term corporate planning, the investment planning as well as the trend of profits, returns and liquidity. Deviations from the planned business performance were explained by the Executive Board in detail, and measures taken were introduced and discussed with the Supervisory Board.

The Supervisory Board had several and far-reaching discussions together with the Executive Board about issues of long-term company financing and optimising working capital management.

In the regular meetings, the Supervisory Board was informed continually by the Executive Board regarding the developments in the individual business segments. Major projects and specific business transactions were explained by the Executive Board and discussed in detail. Before the decision of the Supervisory Board, significant transactions and measures requiring approval were examined on the basis of the underlying information and analyses together with the Executive Board. The Executive Board also provided regular information about the business performance in individual key countries and about the status of major projects in individual business units. There were continuous discussions about the assessment and development of significant risks, the general evaluation of the risk situation and risk management.

In several meetings, the Supervisory Board dealt with potential acquisition targets which were discussed and evaluated jointly with the Executive Board.

On an ongoing basis, the Supervisory Board was briefed in detail on the status of the investigation proceedings relating to anti-competitive agreements in the rail market, as well as the progress of subsequent civil proceedings. The development of the legal and consulting costs were also discussed.

The regular items on the agenda included the further development of the compliance regulations, implementing these binding standards of conduct demanding global application within the Vossloh Group, management and further development of an organisation to monitor these standards, measures to observe and react to changes in the risk situation, the requirements of case law for a compliance system corresponding to a high standard and the status of associated training measures of the Executive Board, the members of the management teams, managers and employees with external contacts.

In preparation for the Annual General Meeting (AGM) on May 28, 2014, the Supervisory Board discussed the proposed agenda items with the Executive Board.

Because of personnel changes in the Supervisory Board following the AGM on May 28, 2014, the Supervisory Board dispensed with an external evaluation in connection with the assessment of its efficiency in the financial year 2014. An assessment of this kind is planned for 2015.

Periodical briefings outside Supervisory Board meetings

The Supervisory Board was also informed by the Executive Board regarding important projects between the regular meetings. In addition, the Chairman of the Supervisory Board regularly maintained contact with the Executive Board, and in particular with the Chairman of the Executive Board, and they discussed strategic considerations, business trend, important issues and risk management. The Chairman of the Supervisory Board was throughout directly informed by the Chairman of the Executive Board about unusual events of significance for the assessment of the situation and the development of the Vossloh Group. The Chairman of the Supervisory Board, in turn, ensured that all members of the Supervisory Board were promptly informed.

Personnel changes in the Supervisory Board and its committees

At the end of the AGM on May 28, 2014, the members of the Supervisory Board, Dr.-Ing. Kay Mayland (also a member of the Audit and Nomination Committee) and Dr. Wolfgang Scholl (also a member of the Staff and Nomination Committee) left the Supervisory Board. In September 2014, Dr. Selent stepped down from his seat on the Supervisory Board. On behalf of Vossloh AG, the Supervisory Board would like to express its sincere thanks for their good, constructive, responsible and committed work.

The AGM on May 28, 2014, on behalf of the stockholders, elected Dr.-Ing. Wolfgang Schlosser and Ursus Zinsli onto the Supervisory Board.

Supervisory Board Committees

In order to carry out its duties efficiently, Vossloh AG's Supervisory Board has formed three committees. The Staff Committee and Audit Committee each have three members, and the Nomination Committee has four members. The primary duties of the Staff and Audit Committees include the preparation of issues to be dealt with in the plenary meetings. In addition, in certain cases, the decision-making authority of the Supervisory Board has been transferred to the committees; thus, for example, authority has been transferred to the Staff Committee for the conclusion, amendment or termination of employment contracts with members of the Executive Board. The entire Supervisory Board remains responsible for the appointment and dismissal of members as well as resolutions regarding the compensation system for the Executive Board, the establishment and regular review of the total compensation and the decision regarding the reduction of compensation of members of the Executive Board in accordance with Article 87(2) German Stock Corporation Act ("AktG").

The **Staff Committee** met once in 2014. The subjects under discussion were the departing members of the Executive Board, Mr. Andree and Dr.-Ing. Schiedeck.

The **Audit Committee** met six times in 2014. In the meetings on April 29, July 23 and October 24, the main focus was the discussion of the quarterly reports with the Executive Board. In its meeting on March 25, in the presence of the Executive Board and the auditor, the documents related to the seperate and consolidated financial statements and the combined Management Report for Vossloh AG and the Vossloh Group for the financial year 2013 were discussed and examined in detail. The auditors reported extensively to the Audit Committee on the measures taken to ensure the regularity of the conduct of the audit. The Audit Committee concurred with the results of the audit by the auditor.

The Audit Committee discussed the development of the working capital and the value contribution in detail and was provided with explanations of the other operating expenses. This meeting also focused on the statement of independence of the auditor and preparation of the proposal for selection of the auditor of the separate financial statements and the auditor of the consolidated financial statements for the financial year 2014 including the discussion of the audit budget and the recommendation to agree a fee for the auditor. After the selection at the AGM, the letter of engagement to audit the accounts for the financial year 2014 on behalf of the entire Supervisory Board was issued by the Audit Committee according to the recommendation of the Code. In its meetings in April, July and October, the Audit Committee discussed the causes and consequences of the budget deviations and the resulting restructuring requirements with the Executive Board in detail. In its September meeting, the Audit Committee considered the recommendations concerning the key points of content of the audit of the annual financial statements as of December 31, 2014 and issues related to this. Together with the Executive Board there were discussions related to examining the internal control systems in the HR area as part of the audit as well as the current focus points of the German Financial Reporting Enforcement Panel. The Audit Committee was also informed in detail and several times about the progress related to replacing the current corporate financing and setting up new long-term corporate financing. Risk management was the subject of intense deliberations in the meetings on March 25, April 29, July 23, September 18, October 24 and November 26. The meeting on November 26, included a report from Internal Audit to the members of the Committee. The Audit Committee was continually kept up to date by the Executive Board about the main risks identified within the Group. The necessity and adequacy of the provisions recognised were discussed. Risks arising from legal disputes, the value of open receivables and risks connected to antitrust proceedings were also the subject of discussions. The Audit Committee was regularly informed about the topics and the status of compliance.

The **Nomination Committee** met twice in 2014. The subject of the discussions were, firstly, recommendations for replacement members of the Supervisory Board and the preparatory recommendations for this to the AGM on May 28, 2014. Secondly, the Nomination Committee met in order to find a replacement member for Dr. Selent who stepped down on September 14. The guiding principles in this connection were requirements specified by the Stock Corporation Act, the Code and the Rules of Procedure. This issue was also repeatedly discussed within the Supervisory Board.

In the respective meeting of the entire Supervisory Board following each Committee meeting the Chairmen of the committees reported to the entire Supervisory Board on the topics discussed and the results of the discussion. The minutes of the meetings of the Audit Committee are made available to the Chairman of the Supervisory Board.

German Corporate Governance Code

No Supervisory Board member was subject to any conflicts of interests under the terms of Section 5.5 of the Code. The Executive and Supervisory Boards most recently issued a declaration of conformity in accordance with Article 161 AktG in December 2014 and made this permanently available to the stockholders on the Company´s website (see page 43).

Separate and consolidated financial statements 2014

The separate financial statements of Vossloh AG according to German GAAP, the consolidated financial statements according to IFRS and the combined management report on Vossloh AG and the Group for the financial year 2014 (including the accounting) as prepared by the Executive Board, were examined by the statutory auditor, BDO AG Wirtschaftsprüfungsgesellschaft, Essen Office, which had been duly appointed by the AGM on May 28, 2014 and issued with an unqualified audit opinion.

In its audit opinion, the auditor concluded that the Executive Board had installed a proper early risk identification system as required by Article 91(2) AktG to identify any risks that could endanger the Group's continued existence.

The separate and consolidated financial statements, the combined management report for Vossloh AG and the Vossloh Group, the disclosures required by Articles 289(4) and 315(4) German Commercial Code ("HGB"), the remaining annual report, the profit appropriation proposal and the audit reports of the auditor were distributed to every member of the Supervisory Board in good time prior to the meeting to approve the financial statements on March 25, 2015.

In this meeting of the Supervisory Board, in the presence of the auditors, all issues arising in connection with these documents were discussed in detail. During the meeting, the auditors reported on the significant results of their audit and the provided additional information. The auditors also reported on the risk management system of the Vossloh Group. No evidence was found during the audit suggesting that the declaration of conformity issued in the previous year by the Executive and Supervisory Boards in connection with the Code was incorrect.

The Supervisory Board also reviewed the separate and consolidated financial statements and the combined management report for Vossloh AG and the Vossloh Group for the financial year 2014 as submitted by the Executive Board and the proposed profit appropriation. According to the final result of its own review, the Supervisory Board raised no objections. The Supervisory Board approved the separate and consolidated financial statements as of December 31, 2014. Thus, the annual financial statements as of December 31, 2014 were adopted. The Supervisory Board concurs with the combined management report, in particular the statements on further company development and the disclosures pursuant to Articles 289(4) and 315(4) HGB. The Supervisory Board agrees with the Executive Board's recommendation not to pay the stockholders any dividends as a result of the weak business performance in the financial year 2014.

The Supervisory Board would like to thank the Executive Board and all the employees for their dedication and – in the light of the difficult business environment – their successful service.

Werdohl, March 25, 2015

The Supervisory Board
Heinz Hermann Thiele
Chairman

Declaration on Corporate Governance

For Vossloh, an effective and transparent organisation as well as responsible and reliable management and supervision are the core elements of sound and effective corporate governance.

Sound and sustainable corporate governance is also the indispensable basis for a relationship based on trust between the Company and its stockholders, its investors and lenders, employees and business partners. In this declaration, the Executive Board, also on behalf of the Supervisory Board, reports on corporate governance in accordance with Section 3.10 of the German Corporate Governance Code ("the Code") and Article 289a(1) HGB.

Management and control structure

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

Executive Board

The members of the Executive Board are responsible for running the company together and they determine the strategic orientation of the Group. As Chairman of the Executive Board, Dr. h.c. Hans M. Schabert is responsible for coordinating the work of the members of the Executive Board and for the Corporate Development, Market Development & Internationalization, Mergers & Acquisitions, Human Resources and Marketing Communications. Oliver Schuster is in charge of the Controlling, Accounting, Treasury, Law, Corporate Communications, Investor Relations and IT. Volker Schenk, as the third member of the Executive Board, is responsible for the Purchasing, Technology and Innovation. In addition, the members of the Executive Board are involved operationally in the individual business units. Dr. h.c. Schabert has taken over operational responsibility for the business units Locomotives, Rail Vehicles and Fastening Systems, Mr. Schuster for the business unit Rail Services and Mr. Schenk for the business units Switch Systems and Electrical Systems. As from February 2015, the areas of responsibility have been subject to changes. Mr. Schuster has the additional responsibility for the area of Purchasing and Marketing Communications, Mr. Schenk has taken over Sales. Dr. h.c. Schabert now has operational responsibility for the entire business unit Transportation as well as the business unit Core Components.

The Executive Board is focused on sustainably increasing the enterprise value and works closely with the Supervisory Board. Certain measures which are described in the rules of procedures for the Executive Board require the approval of the Supervisory Board. A business distribution plan governs the responsibility of the individual Executive Board members. They work together as colleagues and inform each other on an ongoing basis regarding important measures and transactions in their business areas. The entire Executive Board makes decisions regarding all significant issues. Potential conflicts of interest are immediately made known to the Supervisory Board and the other Executive Board members. Secondary employment or the assumption of external Supervisory Board mandates requires the prior approval of the Supervisory Board. Currently, no member of the Executive Board holds a supervisory board seat in a listed company outside the Group. Further information on the members of the Executive Board of Vossloh AG can be found on page 178 of this annual report.

For all of its Executive and Supervisory Board members, Vossloh AG has entered into so-called D&O insurance policies (against consequential economic loss) with an agreed deductible amounting to 10 percent of the loss or, alternatively, 150 percent of the fixed annual remuneration of the individual board member.

Supervisory Board

In accordance with Article 10(1) sentence 1 of the Articles of Incorporation, the six-member Supervisory Board is composed according to the provisions of the One-Third Participation Act (Drittelbeteiligungsgesetz) and the Stock Corporation Act. It comprises one-third employee representatives and two-thirds stockholder representatives. The owner representatives are elected by the AGM, the employee representatives by the workforce. According to the recommendations of the Code, the representatives of the stockholders were elected individually by the AGM on May 29, 2013. As a result of the resignation of two members, two new members were elected in individual votes by the AGM on May 28, 2014. The terms of office of the current owner and employee representatives end on conclusion of the AGM in 2018 which will pass a resolution to discharge the members for the financial year 2017. Dr. Alexander Selent resigned as of September 14, 2014; the search for a suitable successor is currently ongoing.

The Supervisory Board oversees and advises the Executive Board in its management of the business. Certain material transactions (specified in the Executive Board Rules of Procedure) are subject to prior Supervisory Board approval. The Supervisory Board periodically discusses with the Executive Board the business performance and planning, the strategy and its implementation and the risk management and compliance issues. It approves the annual planning and decides on the adoption of the separate financial statements of Vossloh AG and the approval of the consolidated financial statements with due consideration of the statutory auditor’s audit reports. The Supervisory Board is also responsible for the appointment and dismissal of Executive Board members.

The Executive and Supervisory Boards have concerned themselves again in this financial year with the recommendations of the Code. The compensation of the Supervisory Board members was changed to a sole and fixed remuneration by a resolution of the AGM on May 28, 2014. Since that time, the recommendations of the Code have been fully complied with. In December 2014, the Executive and

Supervisory Boards issued the most recent declaration of conformity and made this permanently available to the stockholders on the Company´s website (see page 43).

The Supervisory Board includes a sufficient number of independent members who have no personal or business relationship to either the Company or its Executive Board. The Supervisory Board constitutes a quorum if at least three members participate in voting. Supervisory Board resolutions require the simple majority of votes cast unless statutory or legislative regulations provide otherwise. If a vote results in a tie, any Supervisory Board member has the right to require that the voting be immediately repeated on the same agenda item. If the second vote also results in a tie, the vote of the Supervisory Board Chairman counts twice.

The Supervisory Board performs its duties both as a plenary body and through the current three committees it has established to improve its efficiency.

The three-member Staff Committee is mainly responsible for Executive Board matters. It prepares personnel decisions as well as resolutions and reviews of the plenary Supervisory Board regarding the compensation system and the total remuneration of the individual Executive Board members, as well as resolutions on reductions of remuneration of Executive Board members in accordance with Article 87(2) AktG. In addition, it decides on the rules governing the legal relations between the Company and the individual Executive Board members (in particular, the execution, amendment, renewal, rescission, cancellation or termination of employment contracts), the regulation of the legal relationship between the Company and former Executive Board members, the approval of contracts or agreements with Supervisory Board members, as well as the granting of loans to Supervisory Board members. The Chairman of the Supervisory Board presides over the Staff Committee.

The Audit Committee is responsible for proposing the auditors for the Company and the Group to the Supervisory Board for election by the AGM, and deals in particular with aspects relating to the statutory auditor's required independence and with issuing the audit engagement letter, determining the audit focus areas and fixing the auditor fees. The Audit Committee monitors the risk management on an ongoing basis and deals with regulatory and corporate compliance issues, which includes overseeing the internal control system. For these purposes, the Audit Committee obtains regular reports directly from Corporate Internal Auditing and the Chief Compliance Officer. The Audit Committee prepares the examination by the Supervisory Board of the Company's and the Group's financial statements, combined management report, and audit reports. The Audit Committee and the Executive Board jointly discuss each quarterly financial report prior to publication. Mr. Zinsli assumed the role of Chairman of the three member Audit Committee on an interim basis after Dr. Selent stepped down. He will remain until a successor is found. As a former director of finance and administration of two Swiss companies, Mr. Zinsli meets the requirements of Article 100(5) AktG as an independent financial expert.

The four-member Nomination Committee is responsible for the Supervisory Board's long-term succession planning and submits to the Supervisory Board a slate of suitable Supervisory Board candidates to be proposed to, for election by, the annual general meeting wherever any Supervisory Board member steps down early. The Supervisory Board then makes a decision about the proposed candidates who are presented for appointment by the AGM. In this process, the Nomination Committee and the plenary Supervisory Board make sure that the composition of the Supervisory Board reflects technical expertise, specialist and international experience, knowledge and experience in the area of financial reporting, internal control procedures and the Company, as well as diversity. In connection with the search for candidates, the Nomination Committee also pays attention to the required independence, the availability with respect to time and the avoidance of conflicts of interest. The Chairman of the Nomination Committee is Mr. Thiele.

Every Supervisory Board member is obliged to act in the Company's best interests. Potential conflicts of interest must be reported to the Chairman of the Supervisory Board immediately. Supervisory Board members must abstain from voting on any business that affects themselves or related parties or companies. No Supervisory Board member may also be on a board or provide consultancy services to a competitor. The Company has not granted any loans to any Supervisory Board members. Mr. Zinsli received compensation of €26,000 for consultancy services related to a review of the current situation and assessment of the business activities, the business model and the procedures in one business unit. The Supervisory Board agreed to the conclusion of this time-limited consultancy contract in advance. Apart from this, no Supervisory Board members have received any compensation or benefits for personally rendered services. No former members of the Executive Board belong to the Supervisory Board of Vossloh AG.

For information on Vossloh AG's Supervisory Board members, see page 179 of this annual report.

Compliance

Aside from compliance with the legal and regulatory framework, which is a matter of course, Vossloh sees corporate compliance as the observance of intergroup regulations and voluntary commitments.

Doing business according to sustainable economic, ecological and social criteria is a central element of corporate culture for Vossloh. Vossloh sees the foundation for a successful future in the competence, quality and innovative strength of the Company, as well as the long-standing trust of its business partners. An essential precondition for this success is Vossloh's integrity in its dealings with employees, business partners, stockholders and the general public.

Vossloh AG's Executive Board has unambiguously expressed its zero-tolerance policy regarding any infringements against law and order and has published this on its website at www.vossloh.com. Any misconduct is rigorously pursued within the context of the applicable regulations.

In order to ensure uniform exemplary conduct, a code of conduct has existed for the entire Group since 2007. In conjunction with the supplementary guidelines which also apply across the entire Group, this represents a framework which sets out binding principles and standards for all of Vossloh's employees in addition to the statutory regulations. There are also references to typical situation, which provide advice to employees in terms of the right ethical conduct in their daily work.

The compliance guidelines have been published in 14 languages and have been distributed to all employees in the Vossloh Group worldwide. All employees who have contact outside the Company are instructed using eLearning programs and in class training events. Country-specific features are included in supplementary policies which, however, are always built on the generally applicable policies of the Vossloh Group as a minimum standard. It is the duty of the compliance organisation, the management and the executives to communicate compliance as a sustainable value and to anchor it into the Group structure. It ensures that the compliance program is implemented worldwide.

The Vossloh Group has an appropriate compliance organisation which is, firstly, based on internal employees appointed as local compliance officers. These individuals are available to advise their colleagues on matters concerning conduct. They report regularly to the central Compliance Committee which is established at the level of Vossloh AG and where difficult cases are discussed and guidance is developed. This body continually observes further developments and changes in the risk structure and adapts the internal compliance policies accordingly. It reports to the Executive Board and the Supervisory Board through the Chief Compliance Officer.

Secondly, Vossloh, together with an international law firm, has appointed "ombudspersons", who are contact persons for indications of potential compliance violations. The languages spoken in the Vossloh Group are largely covered. This means that Vossloh employees have the possibility to turn to the ombudsperson in their native language. The ombudsperson takes the necessary measures to clarify the matter in advance so that the information/the complaint can be followed up. For the employee, the possibility exists that his or her name can remain anonymous to the respective employer, but an efficient and successful resolution of the issue is nevertheless made possible.

Risk and control management

Responsible business risk management belongs to the principles of good corporate governance practice. Vossloh AG's Executive Board and the management of Vossloh subsidiaries have access to group-wide and specifically tailored reporting and controlling systems which ensure that such risks are recorded, assessed and managed. The systems are continually checked for effectiveness and, where necessary, adapted to changing requirements and examined by the auditor. The Supervisory Board and the Audit Committee, as outlined above, are regularly informed and are integrated into the process of risk management.

Details of risk management within the Vossloh Group are presented in the risk report (starting on page 104). This also includes the report on the accounting-related internal control and risk management system.

Declaration of conformity

Again in 2014, Vossloh AG's Executive and Supervisory Boards have thoroughly dealt with the Code requirements. Vossloh's corporate governance practices are accordingly reviewed on a regular basis.

To this end, the Executive and Supervisory Boards have made the following declaration:

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

In the financial year 2014, Vossloh AG complied with all recommendations of the German Corporate Governance Code Government Commission, which have been published by the Federal Ministry of Justice in the official part of the digital Federal Gazette in its respective current version of May 13, 2013 and June 24, 2014.

The recommendation in Section 5.4.6(2) sentence 2 was complied with as from July 1, 2014. The members of the Supervisory Board have only received a fixed remuneration since that time.

Werdohl, December 2014
Vossloh Aktiengesellschaft
The Executive and Supervisory Boards

This declaration of conformity was issued in December 2014 in accordance with Article 161 AktG and is permanently available on the Company's website.

Stockholders and their general meeting

Vossloh AG's stockholders safeguard their statutory rights and exercise their voting rights at the general meeting. As a rule, the Supervisory Board Chairman presides over the general meeting, which resolves with binding effect on all matters assigned or subjected by the law to AGM vote, including on the appropriation of net earnings, the official approval of the acts and omissions of Executive and Supervisory Board members in the fiscal year, the election of the statutory auditor, as well as on intercompany agreements, equity moves and other amendments to the bylaws. At the general meeting, one share of (common) stock entitles to one vote. For the stockholders' convenience, the Company appoints a general proxy who ensures the exercise of the voting rights of, in accordance with instructions issued by, stockholders at the meeting. Directly after the AGM, the voting results are published online on the Company's website.

Investor Relations

Vossloh attaches high priority to the early, timely and efficient information of all stockholders and other capital market participants at the same time by ensuring a continuous, prompt and concurrent flow of information about the Vossloh Group. Any corporate news published by Vossloh is promptly disclosed in German and English on the Company's website at www.vossloh.com, including (without limitation) the annual, semiannual and quarterly reports, AGM invitations and other information. The dates scheduled for major recurring or periodical events and publications (such as the AGM, annual and interim reports) are summarized in a financial diary which is published in good time on Vossloh AG's website for long-term availability. The consolidated financial statements are published within 90 days after fiscal year-end while quarterly reports are publicly available within 45 days after closing date. The website also includes the so-called Annual Document according to Sec. 10 German Securities Prospectuses Act ("WpPG") where all the preceding 12 months' information is compiled if of relevance under companies or capital market laws and regulations.

Any facts or circumstances surfacing or occurring outside Vossloh AG's periodic reporting are promptly communicated in ad-hoc notifications if of potential impact on the Vossloh share price. Furthermore, the corporate website at www.vossloh.com provides a host of up-to-date news and facts on the Group and Vossloh stock.

Accounting and annual audit

The Vossloh Group's accounting basis is the International Financial Reporting Standards (IFRS), while the separate financial statements of Vossloh AG are prepared according to German GAAP (viz. the accounting regulations of the Commercial Code), as prescribed by law. Both the IFRS consolidated financial statements and the separate financial statements according to German GAAP were audited by BDO AG Wirtschaftsprüfungsgesellschaft (the statutory auditor elected by the AGM 2014 as proposed by the Supervisory Board), in accordance with German audit regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. The audit engagement letter was issued by the Supervisory Board's Audit Committee in conformity with the recommendations of the Code and after due verification beyond any doubt of the statutory auditor's independence. The Supervisory Board has agreed with the statutory auditor that the former will be promptly informed of any significant findings, conclusions and circumstances which are established during the annual audit and may be of relevance to the Supervisory Board's duties. While the statutory auditor has further agreed to notify the Supervisory Board if it finds any facts suggesting a departure from the declaration of conformity (as issued by the Executive and Supervisory Boards), no such indications were found during the audit 2014. The semiannual financial report (condensed interim financial statements and interim management report of the Group) as of June 30, 2014, was reviewed by the statutory auditor.

Remuneration of the Executive and Supervisory Boards

The remuneration of the Supervisory Board was established as purely a fixed remuneration by the resolution of the AGM of May 28, 2014, amending the articles of incorporation and with effect from July 1, 2014. During the period prior to the coming into effect of the new provision of the articles of incorporation, the members of the Supervisory Board received a fixed remuneration and a variable compensation based on the Group profits. You can find further details in the Remuneration Report starting on page 82, which is both a part of the combined management report and also a part of this declaration on the Company management.

The Supervisory Board dealt extensively with the compensation for the Executive Board. The reasonableness of the Executive Board remuneration and the variable Executive Board compensation was examined. An assessment basis over a period of several years has been agreed with the members of the Executive Board for the largest part of the variable compensation. The overall compensation takes reasonable account of the duties of the individual members of the Executive Board, their personal performance, the economic situation, the success and future outlook of the Company, as well being line with industry peers and the overall Company compensation system. You can find further details regarding the remuneration of the Executive Board in the Remuneration Report starting on page 82, which is both a part of the combined management report and also a part of this declaration on the Company management.

Directors' Dealings

The provisions of Article 15a German Securities Trading Act ("WpHG") oblige members of Vossloh AG's Executive and Supervisory Boards, certain other employees at the executive level and related parties to disclose the purchase or sale of Vossloh AG shares or related financial instruments. The full details of all so-called "directors' dealings" are published on the Vossloh website under "Directors' Dealings".

Stock option programmes and similar securities-based incentive schemes

Since 1998 Vossloh has issued stock option programmes, formulated in line with its articles of incorporation and available to Executive Board members and other executives. Under the terms of this long-term incentive plan (LTIP), the grant of Vossloh stock options is contingent on the prior purchase of Vossloh shares from each LTIP participant's own funds ("personal investment"). However, since 2005 there has not been a new issue of the LTIP. No active or former Executive Board member holds any stock options.

Combined management report

Business and market environment

Strategy, segmentation, and competitive position

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

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

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

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

International leader in selected rail infrastructure product areas

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

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

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

- In the Locomotives business unit, diesel locomotives have been developed and produced for almost 100 years, setting benchmarks in terms of technological standards, efficiency, flexibility and environmental friendliness. In addition, a wide range of services, in particular for the maintenance and repair of locomotives are also offered.
- In the Rail Vehicles business unit at the location in Valencia, innovative diesel electric locomotives and light rail vehicles are developed and manufactured. Repair and maintenance services are also part of the range.
- The Electrical Systems business unit develops and manufactures key electrical components and systems for local transport rail vehicles. It is among the world's foremost suppliers of electrical equipment for trams as well trolleybuses and hybrid buses. Besides furnishing complete systems, the unit supplies air conditioners for rail vehicles, individual components, subassemblies, revamping work, servicing and maintenance.

Strategic principles

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

Organization

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

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

Control system and targets

Vossloh follows a value-oriented growth strategy. Positive value added is generated when a premium on top of the return claimed by investors and lenders (cost of capital) is earned. This premium is the difference between the return on capital employed (ROCE) and WACC, the weighted average cost of capital (debt and equity). Multiplying the premium with average capital employed produces the value added in a period in absolute terms. For intragroup Multiplying controlling purposes, ROCE and value added are determined on a pretax basis. In line with IFRS 8, value added is disclosed in published reports as the business unit controlling parameter.

Cost of equity is composed of a risk-free rate plus a market risk premium. As a result of the pretax consideration, the interest factor is accordingly adjusted. Cost of debt is calculated on the basis of the Group's average funding terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not from the balance sheet since it is not only predicated on a benchmark for the funding structure but also because equity is here based on fair value and not the carrying amounts of the balance sheet. Intragroup controlling in fiscal 2014 was based on pretax WACC of 10.0 percent as the yield expected by investors and lenders.
In financial year 2013, WACC was 8.5 percent.

Financial targets

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

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

Economic report

Economic environment

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

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

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

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

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

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

A number of studies regularly analyze and forecast the development of the global rail technology market. The most important of these publications are the World Rail Market Study, published by the Association of the European Rail Industry (UNIFE), and the Worldwide Market for Railway Technology, published by the consultancy SCI Verkehr. Both studies are updated every two years, and the most recent results were presented in September 2014 at the InnoTrans industry event in Berlin.

UNIFE currently estimates the global volume of the rail market at some €150 billion a year, while SCI Verkehr anticipates an annual volume of €162 billion. The European industry association considers about 68 percent of the total volume – some €102 billion – to be accessible market share. Accessible means that this market is accessible in principle to foreign suppliers, and that the market demand is not exclusively met through domestic capacity.

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

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

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

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

Results of operations

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

Results well short of original forecast

An adjusted EBIT of €30.6 million was achieved before one-time items. The adjusted EBIT margin was slightly more than 2 percent. Detailed information on the calculation of the adjusted EBIT can be found on page 59. Originally, an EBIT margin between 5 percent to 7 percent was forecast by the former Executive Board for the financial year. The adjusted earnings were thus clearly weaker than assumed at the beginning of financial year 2014. As a result of unsatisfactory development, numerous measures were put in place to sustainably improve the earnings situation.

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

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

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

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

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

Vossloh Group: sales by business unit

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

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

Vossloh Group: sales by region

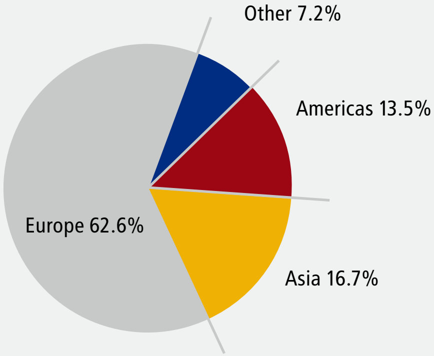
	€ million	%	€ million	%
	2014		2013	
Germany	256.0	19.3	278.8	21.4
France	168.5	12.7	154.5	11.9
Rest of Western Europe	154.9	11.7	151.4	11.6
Northern Europe	86.9	6.6	70.9	5.5
Southern Europe	77.1	5.8	92.4	7.1
Eastern Europe	85.7	6.5	67.4	5.2
Total Europe	**829.1**	**62.6**	**815.4**	**62.7**
Americas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

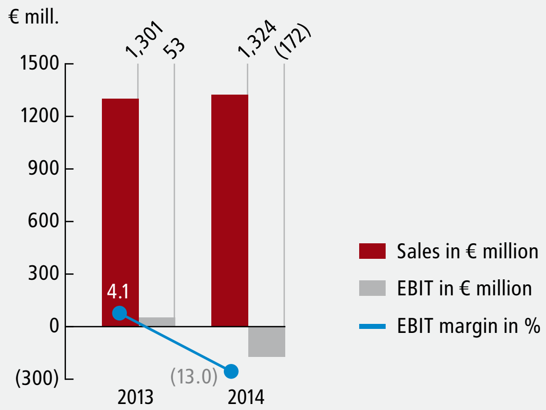
Europe is largest market

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

Sales virtually unchanged in the core market of Western Europe

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





Sales by region in 2014

Sales and EBIT of the Vossloh Group, 2013–2014

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

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

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

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

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

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

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

Earnings situation strongly influenced by the measures introduced

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

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

Vossloh Group: sales and earnings

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

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

EBIT significantly negative, adjusted EBIT margin at about 2 percent

Vossloh Group: reconciliation of EBIT to adjusted EBIT

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

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

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

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

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

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

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

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

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

Orders received again exceeds sales generated

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

Vossloh divisions: order backlog

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

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

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

Financial position and investing activities

As the Group's management holding company, Vossloh AG is also responsible for the Group's financial management. In addition to the central management of cash flows, Corporate Treasury Management is responsible for ensuring the financing of all subsidiaries as well as for hedging and managing financial risks. These include not only liquidity risks but also and in particular risks from interest and exchange rate fluctuations. For hedging purposes, derivative hedging instruments, among others, are employed. The Group companies are primarily financed through intra-group funding by Vossloh AG. Only in isolated cases where funding outside Germany is either economically preferable or required by law do subsidiaries obtain original financing locally.

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

Vossloh Group: net leverage

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

[1] Group equity, including non-controlling interests

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

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

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

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

Vossloh Group: analysis of cash flows

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

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

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

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

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

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

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

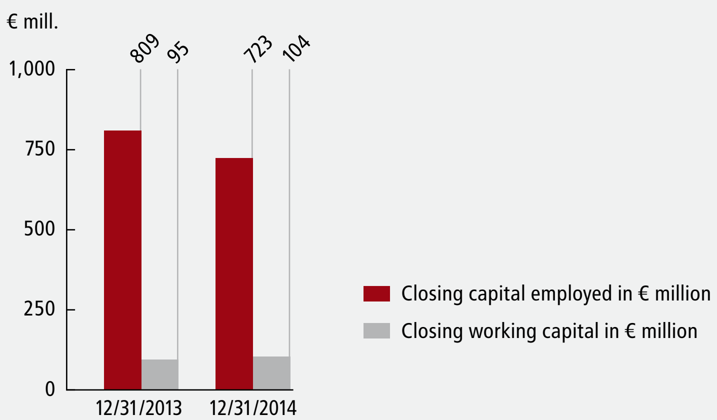
Asset and capital structure

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

Equity decreases noticeably

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

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



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

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

Vossloh Group: asset and capital structure

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

*Group equity including non-controlling interests

Value management

Value added and return on capital employed significantly negative

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

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

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

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

Vossloh Group: value management

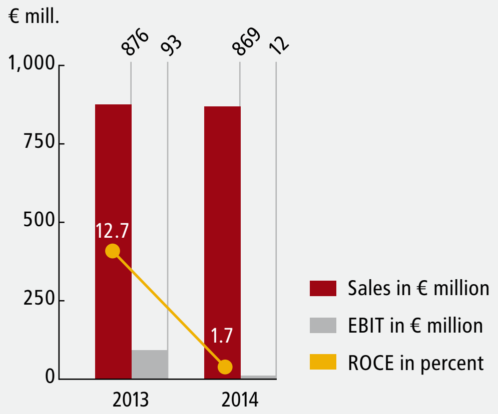
		2014	2013
Average capital employed	€ mill.	809.3	889.2
ROCE	%	(21.2)	5.9
Value added*	€ mill.	(252.6)	(22.8)

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

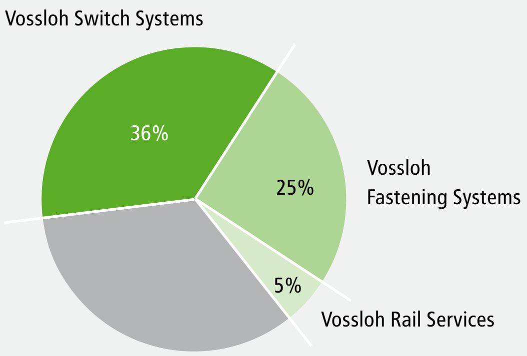
Sales decrease in Vossloh Fastening Systems after extraordinarily high prior year sales

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

Significant sales growth at Vossloh Rail Services



Sales, EBIT and ROCE of Rail Infrastructure division



Shares of business units in Group sales

Rail Infrastructure business trend

The Rail Infrastructure division, which existed up until December 31, 2014, comprises all of Vossloh's rail infrastructure products and services. The division included three business units: Fastening Systems, Switch Systems, and Rail Services. As of 2015, these three business units form the cornerstone of the new divisions Core Components, Customized Modules and Lifecycle Solutions, which are discussed in greater detail in the Outlook (from page 117). The following reporting follows the reporting structure to the Executive Board and the Supervisory Board which was valid in 2014.

Division no longer part of core business

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

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

Sales near prior-year level

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

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

High additional expenses burden profitability

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

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

Rail Infrastructure

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

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

Vossloh Fastening Systems

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

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

Sales decrease at Vossloh Fastening Systems in the range expected

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

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

Production facilities in the USA go into operation

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

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

Vossloh Switch Systems

Slight sales growth with weak earnings development

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

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

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

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

Additional burden on earnings from impairment of goodwill

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

Vossloh Rail Services

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

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

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

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

High investments in mobile services

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

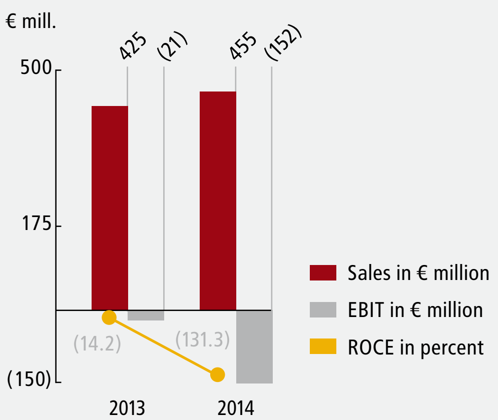
The division recorded a negative value added also in 2014 of €(8.0)million (previous year: €(3.2) million). Alongside a weaker earnings performance, increased capital employed contributed significantly to the decline in value added. This effect was reinforced by the adjustment of the weighted average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

Transportation division no longer part of core business

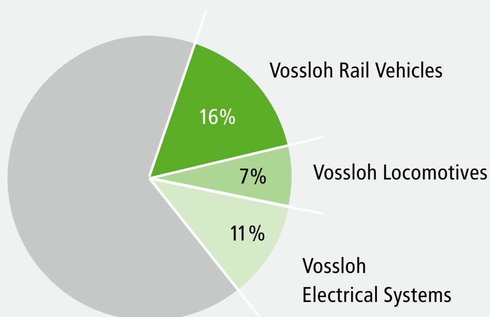
Earnings situation shaped by restructuring and repositioning at Vossloh Locomotives and Vossloh Electrical Systems

Comprehensive program of measures set up to sustainably improve profitability

Vossloh Rail Vehicles with strong growth



Sales, EBIT and ROCE
Transportation division



Shares of business units
in Group sales in 2014

Transportation business trend

Division no longer part of core business

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

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

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

Significant increase in non-European sales

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

Profitability affected by restructuring and realignment

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

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

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

Transportation

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

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

Vossloh Locomotives

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

Declining sales at Vossloh Locomotives

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

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

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

One-time expenses of more than €60 million

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

Vossloh Rail Vehicles

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

Strong growth at Spanish location

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

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

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

Positive value added in the business unit

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

Vossloh Electrical Systems

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

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

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

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

Updated project calculations significantly impact earnings

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

Vossloh AG

As a management and financial holding company, Vossloh AG is the parent of the Vossloh Group and controls and oversees all major operations and activities within the Group. In addition to determining corporate strategy and controlling corporate development, Vossloh AG allocates the financial resources, such as for capital expenditures and acquisitions, is responsible for corporate accounting and controlling, groupwide treasury management, risk and opportunity management, internal auditing, as well as for IT, investor relations, and corporate communications. It oversees sales and marketing communication activities and coordinates the procurement processes of its subsidiaries. In addition to being in charge of human resources policy, it is responsible for personnel development and support of the Group's senior management. Its role in the control of the operational activities of the business units has transformed significantly in the course of the financial year into an operational management holding, exemplified by the operational responsibility of Vossloh AG's Chairman of the Executive Board who has a dual role as Managing Director of the lead company in the Fastening Systems business unit. The other members of the Executive Board are also involved in the operating processes of the business units in a similar way.

Vossloh AG prepares its annual financial statements in accordance with the regulations of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The explanations below refer to these separate financial statements. In isolated cases, certain transactions are accounted for differently according to IFRS.

Analysis of the separate financial statements

Vossloh AG's revenue for financial year 2014 of €1.4 million (previous year: €1.5 million) consists of rental income and intercompany allocations. The operating expenses are mainly incurred in connection with the company's management and financing functions. Therefore, the result of ordinary activities (earnings before taxes = EBT) is substantially influenced by general administrative expenses, other operating income and the net financial result.

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

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

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

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

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

Remuneration report

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

Principles of Executive Board remuneration

Goals. The aim of the Executive Board remuneration system is the fair remuneration of Vossloh AG's Executive Board members in accordance with their areas of activity and responsibility and in compliance with legal requirements. By means of adequate variability, the system should also clearly and directly reflect collective and individual performances of the Executive Board, as well as the sustainable success of the company.

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

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

The details of the remuneration system are:

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

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

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

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

Executive Board remuneration in financial year 2014

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

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

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

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

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

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

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

Commitments in the event of termination of duties

Retirement benefits. The members of the Executive Board have been granted entitlements to defined retirement benefits in the form of pension payments upon reaching the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits after a minimum three-year Executive Board membership amount to 1 percent, or in the case of a first time contract renewal 2 percent, up to a maximum of 40 percent of the pensionable annual basic remuneration. In financial 2014, a total of €474,861 was provided for the accrued balance of Executive Board members (previous year: €661,501). Upon the death of an active or former member of the Executive Board, the pension payed to the surviving spouse is reduced to a maximum of 60 percent of the most recently paid pension.

Commitments in the event of early termination of duties. In the case of early termination of services provided, without proper grounds for said termination, the Executive Board employment contracts guarantee the payment of a base salary, with a set maximum limit of two years' salary remuneration. No payment obligations are made in the event of an early termination of Executive Board duties due to a change of control.

Loans to Executive Board members. In 2014 no advances or loans were granted to any Executive Board members of Vossloh AG.

Remuneration to former Executive Board members of Vossloh AG and their surviving dependants. The remuneration in the form of pension payments to former members of the Executive Board and their surviving dependants totaled €907,230 (previous year: €664,602). Current retirement pensions are subject to adjustment respective to the collective pay trend of salaried employees in the Iron, Metal, Electric and Central Heating Industries of North Rhine-Westphalia. Pension obligations to former members of the Executive Board and members of the Executive Management, as well as their surviving dependants amounted to €17,500,736 (previous year: €12,338,786). Included here are obligations to former members of the Executive Board who stepped down from their positions during the year. Employer pension liability insurance policies totaling €11,054,586 (previous year: €11,571,995) are pledged in each beneficiary's favor. The balance of these pension obligations is covered by provisions.

Supervisory Board remuneration

Supervisory Board remuneration 2014. The remuneration of members of the Supervisory Board is to be determined by the Annual General Meeting and governed by the company's Articles of Incorporation. The remuneration system is in compliance with German law and takes into account the responsibilities and duties of Supervisory Board members.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Restrictions on voting rights or transfer of shares
Each share is entitled to one vote at the Annual General Meeting, the same rights attaching to all Vossloh AG shares. Share transfer or assignment is not subject to any restrictions.

Direct or indirect shareholdings in excess of 10.0 percent
The Executive Board is aware of one investment in the Company's capital stock that exceeds 10.0 percent of the voting rights: KB Holding GmbH, Grünwald, Germany, holds 29.99 percent of the voting rights in Vossloh AG. These voting rights are to be attributed to the TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany, and Mr. Heinz Hermann Thiele, Germany, pursuant to Art. 30 (1) sentence 1 no. 3 WpHG.

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

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

Appointment/dismissal of Executive Board members; bylaw amendments
Vossloh AG's Executive Board members are appointed or dismissed in accordance with the provisions of Articles 84, 85 AktG in conjunction with Art. 7 of the Articles of Incorporation. Pursuant to Art. 84(1) AktG, Executive Board members are appointed by the Supervisory Board for a maximum term of five years, their reappointment or the renewal of their term of office being permitted. The appointment of an Executive Board member may be revoked in the cases set out in Art. 84(3) AktG. While, according to Art. 179(1) AktG, the Articles of Incorporation may be amended by vote of the general meeting, amendments that merely relate to wording may also be delegated to the Supervisory Board. In conformity with Art. 21(2) of the Articles of Incorporation but subject to overriding statutory provisions to the contrary, the general meeting shall pass its resolutions with the simple majority of votes cast. Where the law prescribes a stock ownership majority in addition to a voting majority, the simple majority of the capital stock represented at the vote shall suffice unless the provisions of the law or Vossloh AG's Articles of Incorporation prescribe otherwise. Art. 27 of the Articles of Incorporation authorizes the Supervisory Board to amend the Articles of Incorporation where only their wording is involved. Art. 4(8) of the Articles of Incorporation further authorizes the Supervisory Board to update the Articles of Incorporation accordingly after the capital stock has been increased by utilizing authorized or contingent capital.

Authority of Executive Board to issue and repurchase shares

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

a) Authorized capital

The provisions of Art. 4(2) of the Articles of Incorporation authorize the Executive Board, subject to the Supervisory Board's approval, to increase the capital stock on or before May 27, 2019, by an aggregate maximum of €7,500,000 by issuing once or several times new no-par bearer shares of common stock against cash and/or noncash contributions ("Authorized Capital") while duly granting stockholders their statutory subscription right. However, after first obtaining approval from the Supervisory Board, the Executive Board may exclude this subscription right:

(i) for fractions resulting from the subscription ratio;

(ii) in order to grant to holders of conversion rights, options and/or warrants, or of a conversion obligation from convertible and/or warrant bonds previously floated or issuable by the Company or one of its wholly-owned subsidiaries which are outstanding at the time of the utilization of the authorized capital, subscription rights for new shares in the amount they would be entitled to upon exercise of their conversion rights and/or options or upon satisfaction of a conversion obligation;

(iii) if new shares are issued against cash contributions at a price that is not significantly below the stock market price current for same-class Vossloh stock at the time at which the final issuance price is fixed, and the newly issued stock does not exceed a total of ten percent of the capital stock either at the effective date or at the date of exercise of this authority. The sale of treasury shares is taken into account for this capital limit, if during the term of this authorization this is carried out excluding the subscription right pursuant to Art. 186(3) sentence 4 AktG. Shares issued or issuable to service convertible and/or warrant bonds or to satisfy conversion obligations shall also be counted toward the 10-percent ceiling, provided that the bonds are issued ex rights during the validity period of this authority in application of the provisions of Art. 186(3) Clause 4 AktG;

(iv) for any capital increase against noncash contributions.

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

b) Conditional capital

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compensation agreements upon change of control

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

Employees

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

Employee-related indicators

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

*Previous year figures presented in a comparable manner, see page 134

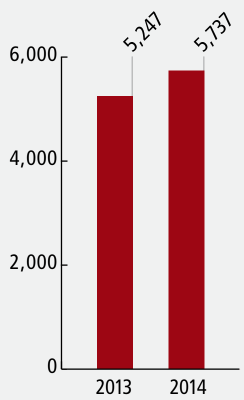
The average number of employees in the past financial year amounted to 5,737, compared to 5,247 in 2013.

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

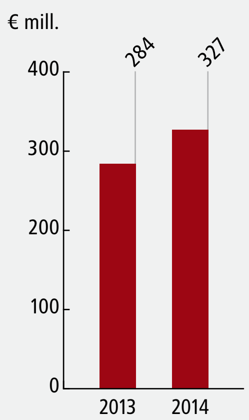
Personnel expenses

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

*Previous year figures presented in a comparable manner, see page 134



Average Group headcount



Personnel expenses in € million

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

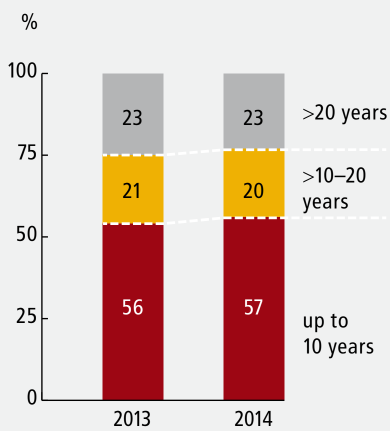
The age structure of employees in the Group changed only slightly in 2014. The share of employees aged between 35 and 50 declined slightly to 38.4 percent, while the share of employees aged under 35 increased slightly to 30.6 percent. The portion of Group employees working for more than 10 years for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

Rail Infrastructure

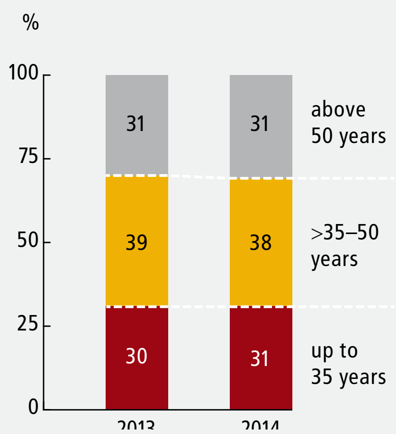
The workforce in the Rail Infrastructure division increased in 2014 by 252 to 3,537 employees above the prior year's 3,285 average number of employees. Personnel expense per employee increased from k€46.3 to k€47.2. Sales per employee declined substantially and amounted to k€245.7 (previous year: k€266.5).

Transportation

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



Service years in%



Age structure in %

Human Resources (HR) Strategy

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

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

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

Personnel development

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

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

Management development

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

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

Initialtraining@Vossloh

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

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

Occupational health and safety

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

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

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

Thanks to the employees

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

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

Research and development

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

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

Vossloh Group: research and development expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Environmental protection

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

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

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

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

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

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

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

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

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

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

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

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

Risk and opportunity management

Organization

Risks and opportunities for the net assets, financial position and results of operations are systematically identified, analyzed, assessed, reported, communicated, monitored, controlled and managed at all levels of the Vossloh Group. To this end, Vossloh has set up a group-wide risk and opportunity management system (RMS). This ensures that the impact of possible adverse changes is avoided or contained and that any opportunities arising are identified and exploited.

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

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

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

Risks and opportunities are documented and communicated by Vossloh in standardized reports. These contain detailed information on the type of risk and opportunity and on the measurement parameters, as well as on potential measures for managing risks and exploiting opportunities. Periodic reporting on risks and opportunities is quarterly and serves as a supplement to the rolling annual projection and comprises risks and opportunities potentially arising in future periods. Ad-hoc reports additionally facilitate an updated assessment of the situation at all times.

These reports are addressed to Vossloh AG's Executive Board as well as to the management of the Group companies and divisions. These individuals manage and monitor the risks and opportunities. The current risk situation is regularly discussed at the level of Vossloh AG between business unit management and the Executive Board. The close interaction among personnel ensures a rapid flow of information and also allows short-term responses.

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

The report below presents those risks and opportunities which were of relevance at the time the consolidated financial statements were prepared and which are material to the Vossloh Group's future development. Risks whose impact have already been recognized in the balance sheet in the form of write-downs, impairments, or provisions or which have been shifted by contract, e.g. to insurers, are not covered by the following report unless deemed essential for the overall evaluation of the risk situation; this would be the case, for example, if a material residual risk were retained.

General economic and sector risks and opportunities

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

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

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

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

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

Operating risks and opportunities

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

No significant variances from the 2014 materials input market prices are expected in 2015. Any rises appreciably above these assumptions may drain profitability as forecast by the business units. Opportunities arise from material and component prices which are lower than planned.

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

Within the value creation process, Vossloh subsidiaries are exposed to work interruption, quality problems, as well as occupational safety and environmental risks. Vossloh avoids or reduces these risks through a comprehensive set of guidelines and standard procedures or policies that govern project and quality management, product and occupational safety, as well as environmental protection.

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

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

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

Risks can also result from necessary changes to the goodwill of acquisitions carried out, if the operational development turns out to be significantly weaker than expected. In accordance with IFRS 3 in conjunction with IAS 36, goodwill from business combinations is not amortized on a scheduled basis. Instead, the recoverability of the goodwill is tested annually (impairment test). In case of extraordinary events such a test should also be carried out during the year. In this connection, the carrying amount of a cash generating unit (CGU) to which the goodwill has been assigned is compared to its recoverable amount. In the course of the profit forecast published on 27 June 2014 by Vossloh the recoverability of goodwill from business acquisitions was also examined. As a result, goodwill in the Switch Systems business unit was reduced by €60 million as of June 30, 2014.

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

Financial risks and opportunities

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

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

Liquidity risks

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

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

Cash flow risks

Changes in future interest rates may cause cash flow fluctuations where variable-rate assets and liabilities are involved. Vossloh contains this risk by means of interest rate swaps, and it regularly analyzes the impact of changes in interest rate levels on cash flows. As part of active risk management, the variable interest payments of the bonded loan concluded in 2013 were replaced in 2014 by fixed cash flows with an interest rate swap. For details, see the notes to the consolidated financial statements, starting from page 163.

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

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

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

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

Legal risks and opportunities

Legal risks for Vossloh comprise basically those arising from complaints, warranty claims, claim for damages or indemnification, and litigation. Identifiable risks are either covered by insurance or, if the applicable criteria are met, adequately provided for in the balance sheet. Nevertheless, losses may occur that are uninsured or underinsured, or substantially exceed recognized provisions. In contrast, rewards may in some cases be reaped if risk provisions remain underutilized.

The German Federal Cartel Office is continuing to investigate a Vossloh Group company regarding alleged anti-competitive agreements in the switches product segment. In the same product segment, the Spanish competition authority has launched investigations into a company in which Vossloh owns an equity interest, among others. Group companies of the Deutsche Bahn have filed claims for damages against the Vossloh subsidiary Stahlberg Roensch GmbH, Seeveta. The Company has an indemnification claim for by far the largest portion of the prosecuted claim, which is secured with bank guarantees in an adequate amount. Various customers have filed claims for damages in connection with ongoing or concluded anti-trust proceedings. Wherever the enforcement of specific customer claims appears reasonably likely and the resulting loss can be reliably estimated, such potential fines and damages are duly provided for. Net income was negatively affected in 2014 by legal risks.

Other risks and opportunities

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

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

Overall assessment of the risk and opportunity situation

The potential impact of any or all risks described above and to which Vossloh is exposed regarding its net assets, financial position and results of operations, is continually monitored and controlled. Provisions have been recognized in accordance with IFRS for all risks identified to date. In addition, the updated annual forecasts consider any additional potential risks and opportunities, where adequately specified. From today's vantage point, neither any specific risks nor all currently known risks in the aggregate threaten continued existence of the Group or of any individual subsidiaries in terms of either assets or liquidity. The existing Group equity declined significantly due to the high net loss in the reporting period. The existing Group equity is nevertheless substantially in excess of the equity share which is required to be maintained to cover potential risks. This risk and opportunity report refers to the situation of the Group at the time the combined management report was prepared.

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

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

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

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

Process-independent audit procedures are the responsibility of Vossloh AG's Supervisory Board (specifically its Audit Committee) and Internal Auditing, as well as of staff locally assigned at the level of the business unit lead companies. The consolidated financial statements as well as the financial statements of all companies included in Vossloh's consolidated financial are audited by an independent auditor. As part of this audit the accounting processes of the annual and consolidated financial statements are reviewed and assessed.

Information technology
For their separate financial statements, subsidiaries record accounting transactions, currently using different local accounting systems. However, for the purposes of Vossloh AG's consolidated financial statements, all Vossloh companies complement their separate financial statements in the reporting and consolidation system used in the group, with additional information and disclosures which thus constitute standardized reporting packages. This system, the "Cognos Controller" from IBM, is used for both the consolidation and the provision of additional management information. A multiyear SAP project is currently being implemented in the Vossloh Group in order to roll out a standardized SAP system at all entities involved in accounting and reporting processes. The new standardized software will enable centralized access to data and centrally initiated controls. The SAP rollout has so far been completed for Vossloh AG and principle companies of the Fastening Systems, Switch Systems, Electrical Systems and Rail Services business units.

Accounting-related risks
Preparing financial statements requires management to make a number of assumptions and estimates. These estimates affect the reported values of recognized assets and liabilities and of current amounts of contingent liabilities as of the balance sheet date, as well as the recognition of income and expenses in the period. The use or misuse of the necessary discretion may entail accounting-related risks for the Group.

Key activities designed to ensure the propriety and reliability of the financial reporting
Based on the rules of those International Financial Reporting Standards (IFRS) which have been endorsed by the EU, the Vossloh Group's Corporate Reporting Manual governs the group-wide uniform accounting policies and principles to be applied by all German and foreign Vossloh companies included in the consolidated financial statements, essentially by describing, in addition to general accounting principles and methods, the methods to be used for preparing balance sheet, income statement, and the notes to be in compliance with current EU law. Furthermore, the Manual provides specific guidance for the official format of consolidated financial statements, and details the determination of the consolidation group and the reporting package elements to be submitted by the subsidiaries. The formal requirements also specify all details of the mandatory, standardized and complete set of reporting package forms. The most recent revision was made in December 2014. The Manual is regularly revised and updated and made available on a timely basis to all those involved in the Group's accounting process through a web-based information system.

After transactions have been recorded in the local accounting system of each subsidiary, the monthly accounts and annual financial statements are reviewed at the level of the business unit lead company. Indications for items to be reviewed, in addition to random selections, are especially high-amount or unusual transactions. Corporate guidelines exist, for instance, for capital expenditures, bidding, and risk management. Vossloh companies and business units are, moreover, obligated to issue local guidelines for material areas.

The separate financial statements reported by the subsidiaries are then consolidated in several steps at the level of Vossloh AG after they have been adjusted to conform to Group-wide accounting policies. The correct offset of intercompany receivables/payables, income/expenses and shareholdings as well as the proper elimination of earnings from intragroup transfers are generally ensured by carrying out dual reviews and running appropriate validation routines in corresponding control files.

In addition, further data is compiled and aggregated at group level in order to publish information in the notes and the management report (including about significant events after the balance sheet date).

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

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

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

Reference to the corporate governance report according to Art. 289a HGB

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

Events after the balance sheet date

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

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

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

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

Studies anticipate an ongoing upturn in rail technology market

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

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

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

Outlook

This combined management report contains forward looking statements based on management's estimates of future trends within the Vossloh Group. This Outlook is predicated on statements and forecasts representing management's assessment of the information available at the time of this report's publishing. In particular, assumptions on future trends of the global economy and the international rail technology market have been taken into account, as well as the specific business expectations of Vossloh's business units. These statements are subject to risks and offer opportunities not entirely within Vossloh's control. For additional information in this regard, please refer to the section on Risk and Opportunity Management (from page 104). If the assumptions underlying the statements and forecasts in the Outlook fail to materialize, or the risks and/or opportunities depicted do materialize, actual results may differ from this outlook. Vossloh does not assume any obligation to update its statements in this combined group management report beyond statutory publication dates.

IMF's economic forecast for 2015

The IMF expects higher growth rate for the global economy

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

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

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

Rail Industry Association forecast for the rail technology market

Studies call for continued growth in the rail technology market

The Association of the European Rail Industry (UNIFE), in its biennial World Rail Market Study, thoroughly analyzes developments in the global rail technology market and on this basis, elaborates on predictions for the coming years. The most recent study was presented in September 2014 at the InnoTrans industry event in Berlin. According to the study, the yearly global market volume of around €150 billion, will increase to over €176 billion in 2019 – an average increase of 2.7 percent per year. In doing so, the so-called accessible market will amount to almost €121 billion, based on the estimates of UNIFE. "Accessible" markets are those open to foreign suppliers and whose demand is not exclusively covered by domestic capacities. For comparison: currently, a market volume of €102 billion per year is classified as „accessible"; the expected increase signifies a gain of 2.8 percent per year. The results of a study conducted by consultants at SCI Verkehr and also published at the InnoTrans industry event in 2014 confirm the assessments made by the railway industry association. The study indicates that the total market volume for the global rail technology market will be approximately €190 billion in 2018, while the market volume for 2014 is projected to be €162 billion.

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

Above-average growth is forecast for Vossloh's markets

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

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

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

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

Vossloh Group: Outlook for 2015

New organizational structure from January 1, 2015

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

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

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

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

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

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

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

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

Sales deviations within individual regions were more pronounced than originally forecast for the 2014 financial year. More information on these and other deviations has already been noted at the beginning of the section "Results of Operations" from page 54. In Germany, in particular, sales expectations fell short by a wide margin. This was very closely associated with high sales deviations in the Electrical Systems business segment, due to project delays. As a result of this, the anticipated strong growth in sales throughout Europe was not reached, despite the unexpected positive business development in Eastern Europe, especially in Poland. Because Germany still represents the largest individual market for the Vossloh Group, it was not possible to achieve the strong growth planned for the entire company.

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

Vossloh-Group: sales by region

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

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

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

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

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

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

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

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

Risks for Vossloh's business development may arise, especially within Transportation division. Due to the high project volumes and extremely high complexity of the projects, additional unforeseen impacts on earnings are not to be completely excluded. Development of orders received at Vossloh Locomotives in Kiel is expected to have a continuing important impact on profitability in the Transportation division. Portions of the locomotive sales for 2015 are not yet secured by order backlog. Opportunities may present themselves in the infrastructure business, owing to better than expected business operations in China and through the modernization initiative for rail infrastructure in Germany. Regarding any further risks which may affect the planning presented, please refer to the report on Risk and Opportunty Management (page 104 ff.).

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

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

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

Income statement for the year ended December 31, 2014

€ million	Note	2014	2013*
Sales revenue	(1)	1,323.9	1,300.7
Cost of sales	(2.1)	(1,203.3)	(1,072.7)
General administrative and selling expenses	(2.2)	(204.9)	(182.2)
Research and development expenses	(2.3)	(14.6)	(11.6)
Other operating result	(3)	(63.8)	17.0
Operating result		**(162.7)**	**51.2**
Investment result from associated companies		(7.3)	1.0
Other financial income	(4)	0.4	0.8
Other financial expenses	(5)	(2.0)	(0.3)
Earnings before interest and taxes (EBIT)		**(171.6)**	**52.7**
Interest income		3.3	3.0
Interest expense		(26.4)	(24.4)
Earnings before income taxes (EBT)		**(194.7)**	**31.3**
Income taxes	(6)	(11.1)	(10.6)
Net result from discontinued operations	(7)	0.1	2.9
Net income/loss		**(205.7)**	**23.6**
thereof attributable to the shareholders of Vossloh AG		**(213.9)**	**15.0**
thereof attributable to non-controlling interests	(8)	8.2	8.6
Earnings per share (EpS)			
Undiluted/fully diluted EpS (€)	(9)	(16.46)	1.25
thereof attributable to continuing operations		(16.47)	1.00
thereof attributable to discontinued operations		0.01	0.25

*Previous year figures presented in a comparable manner, see page 134

Statement of comprehensive income for the year ended December 31, 2014

€ million	2014	2013*
Net income/loss	**(205.7)**	**23.6**
Changes in fair value of hedging instruments (cash flow hedges)	(2.6)	0.0
Currency translation differences	9.5	(10.0)
Changes in fair value of available-for-sale securities	0.0	0.0
Income taxes	0.7	0.0
Amounts that will potentially be transferred into profit or loss in future periods	**7.6**	**(10.0)**
Actuarial gains/losses on employee benefits	(6.8)	(1.2)
Income taxes	1.9	0.3
Amounts that will not be transferred into profit or loss in future periods	**(4.9)**	**(0.9)**
Total income and expenses recognized directly in equity	**2.7**	**(10.9)**
Comprehensive income	**(203.0)**	**12.7**
thereof attributable to shareholders of Vossloh AG	(212.6)	4.8
thereof attributable to non-controlling interests	9.6	7.9

*Previous year figures presented in a comparable manner, see page 134

Cash flow statement for the year ended December 31, 2014

€ million	2014	2013*
Cash flow from operating activities		
Earnings before interest and taxes (EBIT)	(171.6)	52.7
Net result from discontinued operations	0.1	2.9
Amortization/depreciation/write-downs (less write-ups) of noncurrent assets	132.0	40.7
Change in noncurrent provisions	30.8	(14.3)
Gross cash flow	**(8.7)**	**82.0**
Noncash change in shares in associated companies	7.4	(0.6)
Other noncash income/expenses, net	2.2	4.5
Net loss/(gain) on the disposal of intangible assets and property, plant and equipment	0.1	1.5
Income taxes paid	(25.9)	(25.2)
Change in working capital	(6.1)	45.5
Changes in other assets/liabilities, net	(11.2)	22.8
Cash flow from operating activities	**(42.2)**	**130.5**
Cash flow from investing activities		
Investments in intangible assets and property, plant and equipment	(55.2)	(64.4)
Investments in noncurrent financial instruments	(5.2)	(0.6)
Proceeds from the disposal of intangible assets and property, plant and equipment	0.2	1.0
Disbursements/proceeds from the purchase/sale of short-term securities	2.1	(4.7)
Proceeds from disposals of noncurrent financial instruments	0.9	0.4
Cash-effective changes in investments in associated companies	(2.4)	(0.9)
Cash-effective dividends from associated companies	1.3	0.0
Disbursements for the acquisition of or increase in the shares of consolidated companies	0.0	(6.2)
Cash flow from investing activities	**(58.3)**	**(75.4)**
Cash flow from financing activities		
Change in treasury shares	89.8	0.4
Disbursements for increases in ownership interests	0.0	(1.2)
Disbursements to shareholders and non-controlling interests	(15.2)	(27.6)
Net financing from short-term loans	139.3	(62.3)
Net financing from medium-/long-term loans	(87.2)	49.3
Interest received	3.3	2.8
Interest paid	(26.3)	(24.5)
Cash flow from financing activities	**103.7**	**(63.1)**
Net increase (decrease) in cash and cash equivalents	3.2	(8.0)
Change in cash and cash equivalents from the first-time consolidation of companies	0.5	0.0
Exchange rate effects	1.6	(1.3)
Opening cash and cash equivalents	**53.2**	**62.5**
Closing cash and cash equivalents	**58.5**	**53.2**

*Previous year figures presented in a comparable manner, see page 134

Balance sheet

Assets in € million	Note	12/31/2014	12/31/2013*	1/1/2013*
Intangible assets	(10)	338.3	421.9	419.9
Property, plant and equipment	(11)	228.1	235.5	186.3
Investment properties	(12)	4.5	4.3	4.7
Investments in associated companies	(13)	33.2	41.1	42.0
Other noncurrent financial instruments	(14)	15.5	12.0	11.6
Sundry noncurrent assets	(15)	3.1	2.8	2.2
Deferred tax assets	(16)	37.2	28.0	27.3
Total noncurrent assets		**659.9**	**745.6**	**694.0**
Inventories	(17)	422.9	363.7	357.7
Trade receivables	(18)	257.5	237.6	223.7
Receivables from construction contracts	(18)	103.2	89.8	85.3
Income tax assets	(19)	10.8	6.6	7.0
Sundry current assets	(20)	85.0	63.2	48.0
Short-term securities	(21)	0.5	2.7	0.5
Cash and cash equivalents	(22)	58.5	53.2	62.5
Total current assets		**938.4**	**816.8**	**784.7**
Total assets		**1,598.3**	**1,562.4**	**1,478.7**

Equity and liabilities in € million	Note	12/31/2014	12/31/2013*	1/1/2013*
Capital stock	(23.1)	37.8	37.8	37.8
Additional paid-in capital	(23.2)	30.9	42.6	42.7
Treasury shares	(23.3)	0.0	(102.0)	(102.5)
Retained earnings	(23.4)	453.6	438.5	424.5
Group profit carried forward		25.6	37.2	19.9
Net income/loss		(213.9)	15.0	59.2
Accumulated other comprehensive income	(23.5)	(4.1)	(6.6)	0.0
Equity excluding non-controlling interests		**329.9**	**462.5**	**481.6**
Non-controlling interests	(23.6)	19.7	18.6	15.2
Total equity		**349.6**	**481.1**	**496.8**
Pension provisions	(24)	28.7	22.6	22.4
Other noncurrent provisions	(25)	72.2	47.0	56.8
Noncurrent financial liabilities	(26.1)	49.8	124.5	184.9
Noncurrent trade payables	(26.2)	0.6	0.0	10.3
Other noncurrent liabilities	(26.4)	4.3	22.3	26.2
Deferred tax liabilities	(16)	4.4	15.9	29.2
Total noncurrent liabilities		**160.0**	**232.3**	**329.8**
Other current provisions	(25)	171.8	110.2	101.8
Current financial liabilities	(26.1)	281.2	135.5	82.8
Current trade payables	(26.2)	197.6	171.5	151.6
Current liabilities from construction contracts	(26.2)	290.1	277.0	219.6
Current income tax liabilities	(26.3)	14.3	6.0	7.6
Other current liabilities	(26.4)	133.7	148.8	88.7
Total current liabilities		**1,088.7**	**849.0**	**652.1**
Total equity and liabilities		**1,598.3**	**1,562.4**	**1,478.7**

*Previous year figures presented in a comparable manner, see page 134

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital	Treasury shares	Retained earnings	Group profit carried forward	Net income/loss	Accumulated other comprehensive income	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance at December 31, 2012	**37.8**	**42.7**	**(102.5)**	**432.7**	**19.9**	**59.2**	**0.0**	**489.8**	**15.9**	**505.7**
Changes in accounting principles (IFRS 10/IFRS 11)				(8.2)				(8.2)	(0.7)	(8.9)
Balance at January 1, 2013*	**37.8**	**42.7**	**(102.5)**	**424.5**	**19.9**	**59.2**	**0.0**	**481.6**	**15.2**	**496.8**
Carryforward to new account					59.2	(59.2)		0.0		0.0
Transfer to retained earnings				14.3	(17.9)		3.6	0.0		0.0
Increase in equity shares				(0.3)				(0.3)	(1.0)	(1.3)
Comprehensive income						15.0	(10.2)	4.8	7.9	12.7
Dividends paid					(24.0)			(24.0)	(3.5)	(27.5)
Treasury shares acquired/sold		(0.1)	0.5					0.4		0.4
Balance at December 31, 2013*	**37.8**	**42.6**	**(102.0)**	**438.5**	**37.2**	**15.0**	**(6.6)**	**462.5**	**18.6**	**481.1**
Carryforward to new account					15.0	(15.0)	0.0	0.0		0.0
Transfer to retained earnings				18.7	(19.9)		1.2	0.0		0.0
Changes in the scope of consolidation		0.5		(3.6)				(3.1)		(3.1)
Comprehensive income						(213.9)	1.3	(212.6)	9.6	(203.0)
Dividends paid					(6.7)			(6.7)	(8.5)	(15.2)
Treasury shares sold		(12.2)	102.0					89.8		89.8
Balance at December 31, 2014	**37.8**	**30.9**	**0.0**	**453.6**	**25.6**	**(213.9)**	**(4.1)**	**329.9**	**19.7**	**349.6**

*Previous year figures presented in a comparable manner, see page 134

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2014

Segment information by division/business unit[1]

€ million		Fastening Systems	Switch Systems	Rail Services	Consolidation	Rail Infrastructure
Value added	2014**	45.6	(94.3)	(8.0)	0.0	**(56.7)**
	2013*	47.7	(14.1)	(3.2)	0.0	**30.4**
External sales revenue	2014	324.3	471.8	67.9	0.0	**864.0**
	2013*	371.7	439.7	56.1	0.0	**867.5**
Intersegment sales revenue	2014	6.7	1.3	1.7	(4.8)	**4.9**
	2013*	4.7	4.9	0.8	(2.4)	**8.0**
Interest income	2014	0.2	0.4	0.1	0.0	**0.7**
	2013*	0.1	0.5	0.0	0.0	**0.6**
Interest expense	2014	(1.8)	(3.6)	(2.7)	0.0	**(8.1)**
	2013*	(3.5)	(2.7)	(2.2)	(0.8)	**(9.2)**
Amortization/depreciation	2014	7.0	11.9	4.9	0.0	**23.8**
	2013*	6.6	12.6	4.0	0.0	**23.2**
Income from investments in associated companies	2014	0.5	(9.2)	1.4	0.0	**(7.3)**
	2013*	0.7	(1.0)	1.3	0.0	**1.0**
Income taxes	2014	13.8	5.4	0.6	0.0	**19.8**
	2013*	16.5	10.1	0.9	(0.6)	**26.9**
Net result from discontinued operations	2014	0.0	0.1	0.0	0.0	**0.1**
	2013*	0.0	2.9	0.0	0.0	**2.9**
Other major noncash expenses	2014	6.3	24.4	2.0	0.0	**32.7**
	2013*	2.4	12.5	0.1	0.0	**15.0**
Impairment losses	2014	1.3	60.2	0.1	0.0	**61.6**
	2013*	0.0	0.7	0.0	0.0	**0.7**
Reversals of write-downs	2014	0.0	0.0	0.0	0.0	**0.0**
	2013*	0.0	0.0	0.0	0.0	**0.0**
Total assets	2014	240.2	584.8	174.6	(0.9)	**998.7**
	2013*	200.2	443.6	140.7	182.7	**967.2**
Liabilities	2014	158.8	305.4	156.1	(0.8)	**619.5**
	2013*	126.6	217.1	123.1	55.9	**522.7**
Capital expenditures for noncurrent assets	2014	13.5	11.0	10.5	0.0	**35.0**
	2013*	8.1	19.1	12.3	0.0	**39.5**
Investments in associated companies	2014	1.4	–	6.9	24.9	**33.2**
	2013*	1.5	23.8	7.2	8.6	**41.1**
Average headcount	2014	636	2,555	346	0	**3,537**
	2013*	566	2,414	305	0	**3,285**

[1] For further segment information, see p. 159 ff.
* Previous year figures presented in a comparable manner, see page 134
** Value added in the Fastening Systems business unit and in the Rail Infrastructure division includes the intragroup disposal of an investment, see page 160

	Locomotives	Rail Vehicles	Electrical Systems	Consolidation	Transportation	Holding companies	Consolidation	Group
	(94.8)	16.3	(80.8)	(4.6)	**(163.9)**	11.8	(43.8)	**(252.6)**
	(34.2)	13.1	(13.3)	0.6	**(33.8)**	28.7	(48.1)	**(22.8)**
	89.9	223.2	141.2	0.0	**454.3**	0.3	0.0	**1,318.6**
	111.2	150.7	161.7	0.0	**423.6**	0.4	0.0	**1,291.5**
	0.1	0.0	2.6	(2.0)	**0.7**	1.1	(1.4)	**5.3**
	0.1	0.0	4.0	(2.5)	**1.6**	1.2	(1.6)	**9.2**
	0.8	2.0	0.2	0.0	**3.0**	9.3	(9.7)	**3.3**
	1.3	0.7	0.1	0.0	**2.1**	7.9	(7.6)	**3.0**
	(2.8)	(0.3)	(3.9)	0.0	**(7.0)**	(21.7)	10.4	**(26.4)**
	(4.9)	(0.3)	(2.4)	0.0	**(7.6)**	(16.1)	8.5	**(24.4)**
	5.1	8.8	4.1	0.1	**18.1**	0.7	0.0	**42.6**
	2.6	9.3	4.0	0.0	**15.9**	0.8	0.0	**39.9**
	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	**(7.3)**
	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	**1.0**
	(27.2)	4.3	(24.3)	(1.4)	**(48.6)**	39.9	0.0	**11.1**
	(8.8)	3.0	(3.8)	0.4	**(9.2)**	(7.1)	0.0	**10.6**
	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.1**
	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	**2.9**
	25.8	16.3	32.6	0.3	**75.0**	5.9	0.0	**113.6**
	3.8	22.7	8.3	(1.3)	**33.5**	2.0	0.0	**50.5**
	25.0	0.0	0.0	2.8	**27.8**	0.0	0.0	**89.4**
	0.0	0.0	0.0	0.0	**0.0**	0.1	0.0	**0.8**
	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.0**
	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.0**
	174.4	406.9	377.2	(11.8)	**946.7**	1,116.7	(1,463.8)	**1,598.3**
	186.7	355.4	354.8	(8.5)	**888.4**	919.3	(1,212.5)	**1,562.4**
	137.2	305.1	302.9	(15.3)	**729.9**	761.9	(862.6)	**1,248.7**
	132.1	260.1	271.6	(14.7)	**649.1**	568.4	(658.9)	**1,081.3**
	5.8	6.8	6.6	0.8	**20.0**	0.2	0.0	**55.2**
	5.3	8.2	10.1	1.0	**24.6**	0.3	0.0	**64.4**
	–	–	–	–	**–**	–	–	**33.2**
	–	–	–	–	**–**	–	–	**41.1**
	433	854	862	–	**2,149**	51	–	**5,737**
	440	671	805	–	**1,916**	46	–	**5,247**

General principles

Vossloh AG is a listed company based in Werdohl, Germany, and is registered under number HRB 5292 at the Commercial Register of the Iserlohn Local Court. The Vossloh Group's key activities include the manufacture and marketing of rail infrastructure products, locomotives, electrical systems for local transport vehicles (LTVs), as well as the provision of rail-related services.

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

On February 27, 2015, Vossloh AG's Executive Board released the consolidated financial statements for transmittal to the Supervisory Board's Audit Committee; they will be submitted to the plenary Supervisory Board for the meeting of March 25, 2015.

New accounting rules

The following standards and interpretations were issued by the IASB or endorsed by the EU during 2014 but were not yet mandatorily applicable for financial year 2014 or were not yet adopted into European law. In the case of standards and interpretations that have not yet been adopted by the EU, the first-time application according to the IASB is indicated.

IASB Standard	Issued	First-time adoption	Endorsed by the EU	Expected impact on the consolidated financial statements of Vossloh AG
New or amended standards				
IFRS 9: Financial Instruments	July 2014	2018	./.	No significant impact is expected. The new provisions on assessing bad debt may give rise to a change in the level of impairments to be recognized; this potential change cannot be quantified at this time.
IFRS 14: Regulatory Deferral Accounts	January 2014	2016	./.	None
IFRS 15: Revenue from Contracts with Customers	May 2014	2017	./.	The amended requirements for the recognition of sales revenue from construction contracts can in particular situations lead to the deferral of revenue recognition to later periods, the extent of which, however, cannot yet be quantified.
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception	December 2014	2016	./.	None

IASB Standard	Issued	First-time adoption	Endorsed by the EU	Expected impact on the consolidated financial statements of Vossloh AG
New or amended standards				
Amendments to IAS 1: Disclosure Initiative	December 2014	2016	./.	No significant impact; in particular situations, additional line items may be possible in the statement of comprehensive income.
Annual Improvements to IFRSs 2012 – 2014 Cycle	September 2014	2016	./.	No significant impact
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 2014	2016	./.	Because the impact will depend on specific transactions closing, it is not possible to provide information here.
Amendments to IAS 27: Equity Method in Separate Financial Statements	August 2014	2016	./.	None
Amendments to IAS 16 and IAS 41: Bearer Plants	Juni 2014	2016	./.	None
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	May 2014	2016	./.	None
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	May 2014	2016	./.	Because the impact will depend on specific transactions closing, it is not possible to provide information here.
Annual Improvements IFRSs 2011-2013 Cycle	December 2013	2015	December 2014	None
Annual Improvements IFRSs 2010-2012 Cycle	December 2013	2015	December 2014	None
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	November 2013	2015	December 2014	None
Revised Interpretations				
IFRIC 21 – Levies	May 2013	2015	June 2014	None

First-time application of Standards

In financial year 2014, the standards and interpretations listed in the following table were applied for the first time.

IASB Standard	Issued	Endorsed by the EU
New or amended Standards		
IFRS 10: Consolidated Financial Statements	May 2011	December 2012
IFRS 11: Joint Arrangements	May 2011	December 2012
IFRS 12: Disclosure of Interests in Other Entities	May 2011	December 2012
IAS 27: Separate Financial Statements	May 2011	December 2012
IAS 28: Investment in Associates and Joint Ventures	May 2011	December 2012
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	June 2013	December 2013
Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	June 2012	April 2013
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	October 2012	November 2013
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	December 2011	December 2012

The new IFRS 10 has provided clearer guidance concerning the definition of the consolidation group by means of a uniform consolidation model. An analysis of the new provisions revealed that, based on a renewed assessment of how the decision-making rights are structured and allocated to the minority partner and to the Group company holding the interest, it was necessary to deconsolidate a subsidiary in the South-East Asian region. From this point, the company will be treated as a joint venture and will be accounted for in the consolidated financial statements using the equity method. As expected, the first-time application of IFRS 11 to three Group companies resulted in a change in the method of consolidation. Proportionate consolidation had been used for these up until 2013, however they are now accounted for using the equity method. The previous year figures have been presented in a comparable manner accordingly.

In accordance with the transition provisions of IFRS 11, the following table shows the assets and liabilities as of January 1, 2013 (date of the transition), which were reclassified at that time to the line item “investments in associated companies” in the balance sheet. The company mentioned above that had been fully consolidated in the past was also taken into account here:

Transition of joint venture accounting method from proportionate consolidation to the equity method as of January 1, 2013

€ million	
Intangible assets and property, plant and equipment	20.2
Goodwill allocated	19.4
Sundry noncurrent assets	0.9
Inventories	7.4
Trade receivables	11.8
Short-term securities, cash and cash equivalents	6.9
Sundry current assets	1.8
Total assets	68.4
Financial liabilities	(3.0)
Trade payables	(9.3)
Other liabilities	(6.6)
Total liabilities	(18.9)
Applicable carrying amount at the time of the transition of joint ventures now accounted for using the equity method	49.5

The new IFRS 12 provides uniform guidance on the disclosure requirements for all types of interests in other companies. In particular, there have been changes in the notes to the consolidated financial statements with respect to the disclosure of Group companies with shareholders that have a significant non-controlling interest and to the disclosure of associated companies.

The remaining standards or, respectively, amendments to standards applied for the first time did not have any significant impact on the Vossloh AG consolidated financial statements.

The financial statements of all companies included in Vossloh’s consolidated financial statements are prepared as of December 31 (Vossloh AG’s closing date) in accordance with group-wide uniform accounting and valuation methods; they are audited or reviewed by independent statutory accountants. The Group currency is the euro. The consolidated financial statements are prepared in euro, and the presentation is made for the most part in € million. The income statement is presented in cost-of-sales format.

Preparing the consolidated financial statements requires management to make certain assumptions and estimates. These estimates affect the carrying amounts of recognized assets and liabilities and of current amounts of contingent liabilities as of the balance sheet date, as well as the recognition of income and expenses in the period. Accordingly, the actual values subsequently determined may differ from those estimates and hence from the amounts disclosed in the consolidated financial statements. The estimates and underlying assumptions are subject to ongoing review. Adjustments are accounted for in the period of change.

Estimates are particularly required for the accounting and the impairment test of goodwill (see Note 10), the recognition and measurement of deferred taxes (see Note 16), the determination of the discount rate for pension provisions (see Note 24), as well as for the recognition and measurement of other provisions (see Note 25).

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

Consolidation

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date control is obtained until the control relationship expires. In line with the acquisition method, the equity of the subsidiary is offset against the investment in the company. In this connection, the acquisition cost of the acquired shares is offset against the Group's interest in the equity of the respective subsidiary, being the net amount of the acquiree's identifiable assets and liabilities (including contingent liabilities) at fair value as of the acquisition date. Any remaining excess of cost over the revalued proportionate net assets is recognized as goodwill according to IFRS 3 and tested for impairment once annually, while any resulting negative goodwill is directly released to income after fair values have been reassessed.

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

In accordance with IFRS 11, joint ventures are generally accounted for using the equity method insofar as the Group company holding the interest holds typical shareholder rights applicable to the net assets of the joint venture. Insofar as the rights of the Group company holding the interest apply to individual assets or liabilities, or the companies participating in the joint venture have entered into specific agreements regarding the division of the goods produced or services rendered by the joint venture, such a joint venture would be deemed jointly operated and the assets and liabilities or, respectively, the expense and income would be accounted for using proportionate consolidation.

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

All remaining investments are carried at cost, taking into consideration potential impairment, and are presented under other noncurrent financial instruments. In financial year 2014, the following changes occurred to the consolidation group:

On August 26, 2014, Vossloh Werdohl GmbH in Werdohl was merged with Vossloh Fastening Systems GmbH in Werdohl. Since both companies had already been fully consolidated, this intragroup merger did not have any impact on the consolidated financial statements. In addition, two American companies in the Switch Systems business unit were merged with one another. The companies DDL SA in Rodange, Luxembourg and Vossloh Sportek A/S in Arhus, Denmark were liquidated during the reporting year. As mentioned previously, one company in the Switch Systems business unit was deconsolidated due to the first-time application of IFRS 10. A company in the Electrical Systems business unit that was established in 2010 was included in the consolidated group for the first time during the reporting year.

Consequently, 64 subsidiaries (including 23 in Germany) were fully consolidated as of December 31, 2014.

Changes in fully-consolidated subsidiaries

	2014
Fully consolidated as of January 1	68
Newly consolidated	(3)
Disposal	1
Intragroup mergers	(2)
Fully consolidated as of December 31	64

Two German and seven foreign companies were carried at equity.

Due to their minor significance to the Group's net assets, financial position and results of operations, 28 subsidiaries (previous year: 26) were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights or otherwise controlled them at the balance sheet date.

Currency translation

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

Currency translation differences, from the translation of assets and liabilities compared to the prior year's translation or those between income statement and balance sheet, are recognized without profit or loss effect in equity and shown in a separate item within accumulated other comprehensive income (OCI).

In the separate financial statements, foreign-currency transactions are translated at the historical rate (upon initial recognition). Gains or losses arising up to the balance sheet date from the remeasurement of financial instruments as well as cash and equivalents are recognized in the income statement.

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

Exchange rates

Country	Currency	€	2014	2013	2014	2013
			Current rate at Dec. 31		Average rate	
Australia	AUD	1 €	1.48	1.54	1.47	1.38
Brazil	BRL	1 €	3.24	3.25	3.12	2.87
China	CNY	1 €	7.56	8.33	8.17	8.23
Denmark	DKK	1 €	7.45	7.46	7.45	7.46
Great Britain	GBP	1 €	0.78	0.83	0.81	0.85
India	INR	1 €	77.47	85.22	80.99	77.77
Kazakhstan	KZT	1 €	222.26	212.98	238.16	202.14
Malaysia	MYR	1 €	4.26	4.52	4.35	4.18
Poland	PLN	1 €	4.29	4.15	4.18	4.20
Sweden	SEK	1 €	9.43	8.83	9.10	8.65
Switzerland	CHF	1 €	1.20	1.23	1.21	1.23
Serbia	RSD	1 €	120.70	114.86	117.23	113.07
Thailand	THB	1 €	40.02	45.22	43.17	40.83
Turkey	TRY	1 €	2.83	2.95	2.91	2.53
USA	USD	1 €	1.22	1.38	1.33	1.33

Notes to the consolidated income statement

(1) Sales revenue

Breakdown of sales revenue

€ million	2014	2013*
Sales of products	934.4	974.0
Revenues from construction contracts and from the rendering of services	389.5	326.7
Total	**1,323.9**	**1,300.7**

*Previous year figures presented in a comparable manner, see page 134

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

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

Sales revenue on services are recognized in an analogous manner according to the work performed under the contract, provided the conditions for application of the PoC method are fulfilled.

The segment reports starting on pages 130 ff. and 159 ff. include breakdowns of net sales revenue by division, business unit, and region.

(2) Functional expenses

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

Nature of expenses

€ million	2014	2013*
Cost of raw materials and supplies	652.6	618.1
Cost of services purchased	111.0	93.1
Cost of materials	**763.6**	**711.2**
Wages and salaries	262.8	229.2
Social security and employee benefits	58.6	49.1
Pension expense	5.1	5.7
Personnel expenses	**326.5**	**284.0**
Amortization/depreciation	**132.0**	**40.8**
Expenses on operating leases	**10.8**	**10.9**

*Previous year figures presented in a comparable manner, see page 134

Based on the quarterly numbers, the workforce structure was on average the following:

Workforce structure

	2014	2013*
Executive/management boards	60	79
Other officers/executives	178	190
Non-tariff employees	1,347	1,254
Tariff employees	4,197	3,719
Apprentices	110	91
Interns/degree candidates	33	22
	5,925	**5,355**

*Previous year figures presented in a comparable manner, see page 134

(2.1) Cost of sales

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

(2.2) Selling and general administrative expenses

Breakdown of selling and general administrative expenses

€ million	2014	2013*
Selling expenses	103.6	98.4
General administrative expenses	101.3	83.8
	204.9	**182.2**

*Previous year figures presented in a comparable manner, see page 134

In addition to personnel expenses, selling expenses mainly consist of outbound freight and commissions and include most of the allowances for bad trade receivables and sundry assets. The expense from allowances for trade receivables and other assets recognized in the reporting period as selling and general administrative expenses came to €3.3 million (previous year: €1.1 million).

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

(2.3) Research and development expenses

In accordance with IAS 38, all research costs are directly expensed as research and development expenses. The costs incurred for developing a marketable product are capitalized if they meet the intangible-asset recognition criteria. Non-capitalizable development costs are also expensed under this item. R&D expenses before capitalized development expenses in 2014 came to €23.4 million (previous year: €24.1 million).

(3) Other operating result

Breakdown of other operating result

€ million	2014	2013*
Income from the release of provisions	10.1	11.3
Currency exchange gains	12.5	4.9
Income from governmental grants	2.4	1.6
Rental income	1.8	1.8
Insurance reimbursements	0.3	1.0
Release of allowances and reversal of write-downs	0.8	0.9
Gains from the disposal of intangible assets and property, plant and equipment	0.3	0.2
Sundry income	11.3	5.7
Other operating income	**39.5**	**27.4**
Currency exchange losses	(13.6)	(7.8)
Losses on the disposal of intangible assets and property, plant and equipment	(0.3)	(1.7)
Expenses for buildings	(0.5)	(0.5)
Impairment losses from intangible assets and property, plant and equipment	(87.8)	0.0
Sundry expenses	(1.1)	(0.4)
Other operating expenses	**(103.3)**	**(10.4)**
Other operating result	**(63.8)**	**17.0**

*Previous year figures presented in a comparable manner, see page 134

In particular, impairment losses from intangible assets and property, plant and equipment include a goodwill impairment charge in the Switch Systems business unit of €60.0 million as well as an impairment loss from the intangible asset related to the development of DE/DH locomotives of €27.8 million. Income from public grants/subsidies is mainly related to R&D projects. Payments received on account of such grants are recognized as deferred income and amortized to other operating income. Investment/capex-related grants or incentives are offset against cost of the tangible assets concerned. Conditions yet to be met and where the failure to meet such conditions would entail the repayment of grants do not exist, nor do any contingent liabilities in this regard.

(4) Other financial income

Breakdown of other financial income

€ million	2014	2013*
Income from investments	0.2	0.2
Income from unconsolidated subsidiaries	0.0	0.3
Income from securities	0.2	0.3
Other financial income	**0.4**	**0.8**

*Previous year figures presented in a comparable manner, see page 134

(5) Other financial expenses

Breakdown of other financial expenses

€ million	2014	2013*
Write-down of financial instruments	(1.5)	(0.3)
Losses from the remeasurement of financial instruments at fair value	(0.5)	0.0
Other financial expenses	**(2.0)**	**(0.3)**

*Previous year figures presented in a comparable manner, see page 134

(6) Income taxes

Breakdown of income taxes

€ million	2014	2013*
Current income taxes	30.1	24.0
Deferred income taxes	(19.0)	(13.4)
Income taxes	**11.1**	**10.6**

*Previous year figures presented in a comparable manner, see page 134

In Germany, income taxes reflect the statutory corporate income tax rate of 15 percent, the 5.5 percent solidarity surtax thereon, and the municipal trade tax rate by applying factors fixed by local municipalities. We expect an average income tax rate of approximately 30 percent for both the Vossloh Group's German subsidiaries and group-wide.

The Vossloh Group's actual tax expense of €11.1 million (previous year: €10.6 million) was €69.5 million (previous year: €1.2 million) above the anticipated tax expense that would have resulted from applying a group-wide uniform rate of approximately 30 percent to EBT.

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

Reconciliation of the expected to the actually recognized income tax expense

		2014	2013*
Earnings before taxes (EBT)	€ mill.	(194.7)	31.3
Income tax rate including trade taxes	%	30.0	30.0
Expected income tax by applying a uniform rate	€ mill.	(58.4)	9.4
Effect of lower foreign income tax rates	€ mill.	(3.8)	(2.4)
Non-taxable income	€ mill.	(2.2)	(1.8)
Nondeductible expenses	€ mill.	22.8	5.4
Taxes for prior periods	€ mill.	5.9	(0.6)
Effect from goodwill impairment	€ mill.	18.0	–
Tax effect of write-ups/write-downs of deferred tax assets	€ mill.	23.0	0.2
Double-taxation effects	€ mill.	2.5	1.1
Effect of remeasurement of deferred taxes	€ mill.	2.8	(0.5)
Other differences	€ mill.	0.5	(0.2)
Recognized income tax expense	€ mill.	11.1	10.6
Effective income tax rate	%	(5.7)	32.0

*Previous year figures presented in a comparable manner, see page 134

Deferred taxes from items directly debited or credited to other comprehensive income (OCI) totaled €2.6 million (previous year: €0.3 million). Deferred taxes arose mainly from actuarial losses arising in 2014 on pension obligations and the changes in the measurement of hedging instruments on cash flow hedges which are recognized directly in equity.

(7) Net result from discontinued operations

The net result from discontinued operations comprises income of €0.1 million (previous year: €2.9 million) from the release of provisions which had been recognized in connection with the divestment of the Infrastructure Services business unit and expenses of €0.0 million (previous year: €0.0 million) for deferred taxes.

(8) Non-controlling interests

The Group's total net income includes non-controlling interests in profit of €8.2 million (previous year: €8.9 million) and in losses of €0.0 million (previous year: €0.3 million).

(9) Earnings per share

Earnings per share

		2014	2013*
Weighted average number of common shares	shares	13,325,290	13,325,290
Weighted number of acquired treasury shares	shares	(325,628)	(1,326,403)
Weighted average of shares outstanding	shares	12,999,662	11,998,887
Weighted average of shares outstanding – diluted –	shares	12,999,662	11,998,887
Consolidated profit (loss) attributable to Vossloh AG shareholders	€ mill.	(213.9)	15.0
Undiluted earnings per share	**€**	**(16.46)**	**1.25**
thereof attributable to continuing operations	€	(16.47)	1.00
thereof attributable to discontinued operations	€	0.01	0.25

*Previous year figures presented in a comparable manner, see page 134

Notes to the consolidated statement of cash flows

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

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

The inflow of cash and cash equivalents from the acquisition of consolidated subsidiaries and other units amounting to €0.0 million (previous year: €1.8 million) is netted against cash outflows for purchase price payments of €0.0 million (previous year: €8.0 million).

Notes to the consolidated balance sheet

In accordance with IAS 1, the balance sheet is broken down into noncurrent and current assets and liabilities. Assets and liabilities maturing or due within one year are deemed current. Irrespective of their maturity, trade receivables/payables are always considered current even if due after one year but within one normal business cycle. In accordance with IAS 12, deferred tax assets and liabilities are presented as noncurrent.

(10) Intangible assets

Breakdown of intangible assets

€ million	2014	2013*
Goodwill	301.1	357.1
Capitalized development costs	24.5	52.7
Concessions, licenses, property rights	12.0	12.0
Advance payments	0.7	0.1
	338.3	**421.9**

*Previous year figures presented in a comparable manner, see page 134

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

Pursuant to IFRS 3 in conjunction with IAS 36, goodwill from acquisitions (business combinations) is not amortized but is tested annually for impairment as of December 31. In this connection, the carrying amount of a cash generating unit (CGU) is compared to its value in use. There are six different CGUs in the Vossloh Group to which goodwill is allocated. The value in use is calculated as a market value that is based on the medium-term budget for the respective units and is derived from the expected discounted cash flows. This formula utilizes a pre-tax discount rate that is specific to the CGU. In determining the respective discount rate (based on the regional distribution of sales of the respective CGU), weighted specific country risks, inflation effects and tax rates are considered. The planning is based on empirical data and expected future market trends and encompasses a detailed planning period of three years. The budget for this period assumes an average growth rate in the mid-single-digit percentage range for the average of the CGUs.

As in the prior year, for periods beyond this planning horizon, the cash flows are projected forward by assuming a CGU-specific annual growth rate to determine the market value. Since the CGUs' market values (including assigned goodwill) exceed their carrying amounts, no goodwill impairment was required at the end of financial year 2014. In connection with the sensitivity analysis performed, there would not arise a need for a an impairment even if the discount rate in each CGU was marked up 0.5 percent or if a flat-rate reduction of the expected cash flows by 7.5 percent was assumed. Already in the consolidated financial statements as of June 30, 2014, an impairment charge of €60.0 million was recognized on goodwill allocated to the Switch Systems business unit and reported in other operating expenses.

Breakdown of goodwill by CGU and parameters for the impairment test

€ million	Discount rate (in percent)	Growth rate (in percent)	Value in use/ recoverable amount	2014	2013
Vossloh Switch Systems	10.0	1.2	433.9	175.4	232.4
Vossloh Rail Vehicles	11.9	1.3	155.2	50.0	50.0
Vossloh Rail Services	8.3	0.9	164.6	48.4	48.4
Vossloh Electrical Services	15.2	0.9	92.7	34.7	34.2
Vossloh Locomotives	8.3	0.7	120.0	2.4	2.4
Vossloh Fastening Systems	12.4	1.7	291.6	1.2	1.2
				312.1	**368.6**

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

The expected sales growth of the CGUs is based on the planned (and to a large extent documented in the order backlog) projects. Especially in the Electrical Systems business unit, significant increases in sales are expected due to project delays.

Also in the Rail Vehicles business unit – especially on the basis of the large order included in the backlog for locomotives to be delivered to South Africa – significant increases in sales are expected.

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

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

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

The amortization of intangible assets in the amount of €12.9 million (previous year: €12.6 million) is included in the income statement in the respective functional expenses.

In the reporting year, impairment losses of € 87.8 million were recognized, while no write-downs were made in the prior year.

Analysis of changes in intangible assets

€ million	2014	2013*	2014	2013*	2014	2013*	2014	2013*	2014	2013*
	Goodwill		Development costs		Concessions, licenses and property rights		Advance payments		Intangible assets	
Net carrying amount at December 31.	**301.1**	**357.1**	**24.5**	**52.7**	**12.0**	**12.0**	**0.7**	**0.1**	**338.3**	**421.9**
Cost:										
Balance at January 1	**357.5**	**377.4**	**93.1**	**80.5**	**43.7**	**41.7**	**0.1**	**0.2**	**494.4**	**499.8**
First-time consolidation	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3
Additions/ongoing investments	0.0	0.0	8.8	12.4	1.8	2.5	0.6	0.0	11.2	14.9
Disposals	0.0	(1.2)	(3.0)	0.0	(1.8)	(0.2)	(0.1)	0.0	(4.9)	(1.4)
Transfers	0.0	(19.4)	0.0	0.2	1.2	(0.1)	0.1	(0.1)	1.3	(19.4)
Currency translation differences	4.0	(2.6)	0.1	0.0	1.3	(0.2)	0.0	0.0	5.4	(2.8)
Balance at December 31	**361.5**	**357.5**	**99.0**	**93.1**	**46.2**	**43.7**	**0.7**	**0.1**	**507.4**	**494.4**
Accumulated amortization and write-downs:										
Balance at January 1	**0.4**	**0.4**	**40.4**	**32.4**	**31.7**	**27.5**	**0.0**	**0.0**	**72.5**	**60.3**
Amortization of the period	60.0	0.0	37.1	8.0	3.6	4.6	0.0	0.0	100.7	12.6
Disposals	0.0	0.0	(3.0)	0.0	(1.8)	(0.2)	0.0	0.0	(4.8)	(0.2)
Transfers	0.0	0.0	0.0	0.0	0.3	(0.4)	0.0	0.0	0.3	(0.4)
Currency translation differences	0.0	0.0	0.0	0.0	0.4	0.2	0.0	0.0	0.4	0.2
Balance at December 31	**60.4**	**0.4**	**74.5**	**40.4**	**34.2**	**31.7**	**0.0**	**0.0**	**169.1**	**72.5**

*Previous year figures presented in a comparable manner, see page 134

(11) Property, plant and equipment

Breakdown of property, plant and equipment

€ million	2014	2013*
Land, leasehold rights and buildings, including buildings on non-owned land	58.8	58.0
Technical equipment and machinery	104.5	102.9
Other plant, factory and office equipment	34.7	27.1
Advance payments and construction in process	30.1	47.5
	228.1	**235.5**

*Previous year figures presented in a comparable manner, see page 134

Property, plant and equipment is capitalized at cost and depreciated on a straight-line basis over the expected useful lives.

Depreciation is primarily based on the following useful lives:

Useful lives of property, plant and equipment

	2014
Buildings	5 to 50 years
Technical equipment and machinery	2 to 30 years
Other plant, factory and office equipment	2 to 30 years

Where the carrying amount of property, plant and equipment is determined to be impaired, appropriate write-downs are made. In 2014, impairment losses of €0.1 million (previous year: €0.5 million) were recognized. Depreciation expense of €29.4 million is included within the functional expenses in the income statement (previous year: €27.6 million).

Changes in property, plant and equipment

€ million	2014	2013*	2014	2013*	2014	2013*	2014	2013*	2014	2013*
	Land, leasehold rights and buildings, including buildings on non-owned land		Technical equipment and machinery		Other plant, factory and office equipment		Advance payments and construction in process		Property, plant and equipment	
Net carrying amount December 31	**58.8**	**58.0**	**104.5**	**102.9**	**34.7**	**27.1**	**30.1**	**47.5**	**228.1**	**235.5**
Cost										
Balance at January 1	**110.4**	**115.5**	**246.1**	**238.0**	**76.6**	**69.6**	**47.5**	**25.8**	**480.6**	**448.9**
First-time consolidation	0.0	0.0	0.1	2.4	0.0	0.3	–	–	0.1	2.7
Additions/ongoing investment	1.5	4.0	17.2	11.7	9.1	8.5	16.5	25.3	44.3	49.5
Disposal	(0.3)	(0.2)	(15.3)	(4.3)	(5.6)	(3.1)	(13.2)	(0.4)	(34.4)	(8.0)
Transfers	2.0	(7.5)	27.3	2.8	2.9	1.9	(20.6)	(3.0)	11.6	(5.8)
Currency translation differences	2.0	(1.4)	4.6	(4.5)	0.8	(0.6)	(0.1)	(0.2)	7.3	(6.7)
Balance at December 31	**115.6**	**110.4**	**280.0**	**246.1**	**83.8**	**76.6**	**30.1**	**47.5**	**509.5**	**480.6**
Accumulated depreciation and write-downs										
Balance at January 1	**52.4**	**50.5**	**143.2**	**145.3**	**49.5**	**46.8**	**–**	**–**	**245.1**	**242.6**
Depreciation of the period	3.8	4.0	19.0	16.8	6.7	6.8	–	–	29.5	27.6
Disposals	(0.2)	(0.2)	(3.5)	(3.5)	(5.5)	(3.0)	–	–	(9.2)	(6.7)
Transfers	0.6	(1.7)	14.6	(13.6)	(2.0)	(0.7)	–	–	13.2	(16.0)
Currency translation differences	0.2	(0.2)	2.2	(1.8)	0.4	(0.4)	–	–	2.8	(2.4)
Balance at December 31	**56.8**	**52.4**	**175.5**	**143.2**	**49.1**	**49.5**	**–**	**–**	**281.4**	**245.1**

*Previous year figures presented in a comparable manner, see page 134

(12) Investment properties

Changes in investment properties

€ million	2014	2013*
Net carrying amount	**4.5**	**4.3**
Cost		
Balance at January 1	7.6	7.8
Currency translation differences	0.5	(0.2)
Balance at December 31	**8.1**	**7.6**
Accumulated depreciation and write-downs		
Balance at January 1	3.3	3.1
Depreciation of the period	0.2	0.2
Currency translation differences	0.1	0.0
Balance December 31	**3.6**	**3.3**

*Previous year figures presented in a comparable manner, see page 134

Investment properties include land and buildings not used for operations and fully or partly leased to non-group lessees. According to IAS 40, buildings owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years. Rental income in the period amounted to €1.1 million (previous year: €1.1 million). Expenses (including depreciation, maintenance and repairs and incidentals) incurred in 2014 for properties leased out totaled €0.5 million (previous year: €0.5 million), those for non-leased properties amounting to k€2 (previous year: k€2). As in the prior year, expenses for leased properties include no amounts for write-downs.

The fair values of investment properties totaled €4.9 million at December 31, 2014, (previous year: €4.7 million) and are mostly based on current market prices of comparable real estate.

(13) Investments in associated companies

Information regarding investments in associated companies

€ million	2014	2013*
Profit or loss from continuing operations	(7.3)	1.0
Profit or loss net of tax from discontinued operations	–	–
Total income and expenses recognized directly in equity	1.5	0.6
Comprehensive income	**(5.8)**	**1.6**

*Previous year figures presented in a comparable manner, see page 134

The investments in associated companies are accounted for using the equity method. In this connection, the carrying amounts of associated companies are adjusted for proportional profits or losses, dividends distributed or any other changes in equity. This pertains to shares in two German and seven foreign companies, upon which significant influence is exercised.

Loss from continuing operations in the reporting period contains an impairment loss of €8.9 million relating to a joint venture in the Switch Systems business unit.

Due to the first-time application of IFRS 11 "Joint Arrangements", all interests in joint ventures have been accounted for using the equity method since financial year 2014. For the impact on the consolidated balance sheet at the time of the transition, see page 134.

(14) Other noncurrent financial instruments

Breakdown of other noncurrent financial instruments

€ million	2014	2013*
Shares in unconsolidated subsidiaries	9,6	4,4
Other investments	0,5	0,5
Loans	4,0	5,8
Securities	1,0	1,0
Derivative financial instruments in a hedging relationship	0,1	0,0
Other noncurrent financial assets	0,3	0,3
	15,5	**12,0**

*Previous year figures presented in a comparable manner, see page 134

The shares in unconsolidated subsidiaries as well as the other investments are recognized at amortized cost as market values are not available or cannot readily be determined.

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

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

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

The other financial instruments are measured according to their IAS 39 classification. For the reconciliation of the balance sheet line to the IAS 39 valuation categories, see pages 162 ff., Additional disclosures on financial instruments.

(15) Sundry noncurrent assets

This item mostly includes noncurrent prepaid expenses and deferred charges.

(16) Deferred taxes

In accordance with IAS 12, deferred taxes are recognized for temporary differences between tax bases and IFRS carrying amounts, for tax loss carryforwards, as well as for consolidation transactions recognized in the income statement. Deferred taxes are determined at the rates already enacted at December 31 that will apply at the expected time of realization.

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

Deferred taxes

€ million	2014		2013*	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and property, plant and equipment	0.3	31.9	1.2	38.0
Inventories	5.3	3.0	4.1	7.7
Receivables	1.4	2.7	1.0	6.3
Other assets	1.9	0.2	0.3	1.3
Pension provisions	7.3	0.0	6.6	0.0
Other provisions	30.6	(0.3)	30.6	1.8
Liabilities	0.8	0.4	2.1	0.5
Other credit items	5.0	3.0	0.9	1.0
Loss carryforwards	21.1	–	21.9	–
Total	**73.7**	**40.9**	**68.7**	**56.6**
Netting	(36.5)	(36.5)	(40.7)	(40.7)
Balance sheet presentation	**37.2**	**4.4**	**28.0**	**15.9**

*Previous year figures presented in a comparable manner, see page 134

As of December 31, 2014, loss carryforwards of €165.0 million (previous year: €69.3 million) existed in Germany for corporate income tax purposes and of €157.3 million for municipal trade tax purposes (previous year: €60.8 million). No deferred taxes were recognized for corporation income tax losses of €131.5 million (previous year: €11.3 million) and trade tax losses of €116.3 million (previous year: €11.3 million). According to existing German law, the carryforward of tax losses is not subject to any limitation or expiration. In order to determine the recognizable deferred tax assets on loss carryforwards, the period of detailed planning, which normally covers three years, was extended by two years. In addition, non-German companies reported tax loss carryforwards of an additional €15.8 million (previous year: €11.5 million) of which €15.6 million (previous year: €7.5 million) were considered for deferred taxes.

Allowances were recorded in 2014 against deferred tax assets in the amount of €5.3 million (previous year: €1.0 million).

(17) Inventories

Breakdown of inventories

€ million	2014	2013*
Raw materials and supplies	185.5	175.5
Work in process	114.5	103.4
Merchandise	19.7	14.4
Finished products	32.5	21.5
Advance payments	70.7	48.9
Total	**422.9**	**363.7**

*Previous year figures presented in a comparable manner, see page 134

Inventories are stated at the lower of cost or net realizable value (NRV). In addition to direct costs, production cost also includes all fixed and variable manufacturing overheads systematically allocable to the production process, as well as special direct manufacturing costs. Borrowing costs are capitalized as part of cost wherever qualifying assets according to IAS 23 exist. To the extent that a group valuation is made, inventories are valued at the moving average price. Risks from obsolescence or slow-moving items are taken into consideration, resulting in allowances at the balance sheet date of €72.3 million (previous year: €45.5 million). The carrying amount of inventories stated at NRV totaled €86.2 million (previous year: €32.8 million).

As the reasons for previous write-downs no longer existed, inventories were written up in 2014 by €1.2 million (previous year: €0.6 million).

(18) Trade receivables and Receivables from construction contracts

Given their short remaining term, trade receivables other than those from construction contracts are carried at their nominal value. Specific risks are taken into account by appropriate allowances.

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

Changes in the allowances for trade receivables

€ million	2014	2013*
Balance at January 1	**11.6**	**9.0**
Additions	7.8	4.9
Releases	(1.4)	(1.4)
Utilization	(0.2)	(0.8)
Currency translation differences	0.2	(0.1)
Balance at December 31	**18.0**	**11.6**

*Previous year figures presented in a comparable manner, see page 134

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

PoC receivables and payables

€ million	2014			2013*		
	Shown under assets	Shown under liabilities	Total	Shown under assets	Shown under liabilities	Total
Contract costs	380.5	431.7	812.2	202.6	622.6	825.2
Proportional profit	46.8	107.6	154.4	44.3	105.6	149.9
Proportional losses	(13.7)	(8.2)	(21.9)	(2.5)	(9.4)	(11.9)
Total progress under construction contracts	413.6	531.1	944.7	244.4	718.8	963.2
Partial billings and advances received	(310.4)	(821.2)	(1,131.6)	(154.6)	(995.8)	(1,150.4)
Receivables from construction contracts per balance sheet	**103.2**		**103.2**	**89.8**		**89.8**
Liabilities under construction contracts per balance sheet		**290.1**	**290.1**		**277.0**	**277.0**

*Previous year figures presented in a comparable manner, see page 134

(19) Income tax assets

These include €8.2 million of income taxes refundable to companies of the Rail Infrastructure division (up from €5.3 million), plus another €1.7. million to Transportation companies (up from €0.7 million), and €0.9 million to companies at Group level (up from €0.6 million).

(20) Sundry current assets

Breakdown of sundry current assets

€ million	2014	2013*
Receivables from reimbursements	28.8	7.9
Other tax receivables (excluding income taxes)	24.4	9.5
Interest receivable	0.2	0.2
Prepaid expenses and deferred charges	2.6	2.3
Receivables from affiliated companies	5.6	6.3
Loans and other financial receivables	1.1	3.6
Security and similar deposits	3.2	0.8
Creditors with debit accounts	0.9	0.8
Derivative financial instruments	0.7	2.1
Receivables from employees	1.6	1.5
Receivables from investees	8.9	13.0
Miscellaneous current assets	7.0	15.2
Sundry current assets	**85.0**	**63.2**

*Previous year figures presented in a comparable manner, see page 134

The receivables shown under sundry current assets are recognized at acquisition cost or, where appropriate, at amortized cost due to their short remaining terms. Specific risks are taken into account by appropriate allowances.

The balances and changes in allowances are presented below:

Changes in the allowances

€ million	2014	2013*
Balance at January 1	**1.5**	**1.4**
Additions	2.3	0.2
Releases	0.0	(0.1)
Utilization	0.0	0.0
Currency translation differences	0.0	0.0
Balance at December 31	**3.8**	**1.5**

*Previous year figures presented in a comparable manner, see page 134

For the reconciliation of financial instruments shown as sundry current assets to the IAS 39 valuation categories, see pages 162 ff., Additional disclosures on financial instruments. The other tax receivables and miscellaneous current assets are measured at cost.

(21) Short-term securities

This line item presents funds invested in short-term fixed-income securities in the amount of €0.1 million (previous year: €0.2 million) which are classified as held to maturity and hence carried at cost. The remaining securities of €0.4 million (previous year: €2.5 million) are available for sale and therefore stated at fair value. Changes in the value of these assets are recognized in equity (OCI) without profit-or-loss effect. For the reconciliation of short-term securities to the IAS 39 valuation categories, see pages 162 ff., Additional disclosures of financial instruments.

(22) Cash and cash equivalents

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

(23) Total equity

For the statement of changes in equity, see page 129.

(23.1) Capital stock

Vossloh AG’s capital stock in 2014 amounted to an unchanged €37,825,168.86, divided into 13,325,290 (previous year: 13,325,290) no-par bearer shares of common stock only. One no-par share is equivalent to a notional €2.84 interest in the capital stock.

The AGM of May 28, 2014, authorized new capital of €7,500,000; the authorization expires May 27, 2019.

(23.2) Additional paid-in capital

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

Employee bonus program 2014

The employee bonus program 2014 (on terms unchanged from 2013) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares at no cost or eight shares at a discount of 50 percent of the issue price of €52.63 per share (previous year: €68.00), determined as the market price as of the share transfer date. Under this program, Vossloh employees were granted in 2014 altogether 3,586 free shares (previous year: 3,332) as well as employees of a joint venture 128 shares (previous year: 198 shares) at an expense to the Company of k€199,6 (previous year: k€296.7).

(23.3) Treasury shares

The shares of treasury shares held as of December 31, 2013 were sold effective March 31, 2014.

Change in treasury shares

€	2014	2013
Balance at January 1	102,036,134.18	102,508,840.26
Employee bonus program	0.00	(472,706.08)
Treasury shares sold	(102,036,134.18)	0.00
Balance at December 31	0.00	102,036,134.18

(23.4) Retained earnings

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

(23.5) Accumulated other comprehensive income

Breakdown of accumulated OCI

€ million	2014	2013*
Currency translation differences	4.7	(3.3)
Remeasurement of financial instruments at fair value	(5.6)	(2.9)
Actuarial gains and losses from employee benefits	(7.0)	(1.8)
Remeasurement of available-for-sale financial instruments at fair value	0.0	0.0
Deferred taxes effect on OCI changes	3.8	1.4
Balance at December 31	**(4.1)**	**(6.6)**

*Previous year figures presented in a comparable manner, see page 134

Accumulated OCI contains the changes in equity without profit or loss effect from the translation of financial statements of foreign subsidiaries, from the measurement of derivatives in connection with hedging transactions (cash flow hedges), and of available-for-sale financial instruments as well as remeasurements from liabilities relating to employee benefits recognized during the reporting year.

(23.6) Non-controlling interests

€13.6 million (previous year: €12.5 million) of non-controlling interests relate to the Fastening Systems business unit, another €5.2 million (previous year: €5.4 million) to the Switch Systems business unit, plus €0.9 million (previous year: €0.7 million) to the Rail Vehicles business unit.

(24) Pension provisions

Analysis of changes in pension provisions

€ million	Present value of benefit obligation	Fair value of plan assets	Total
Balance at January 1, 2013	**37.3**	**(14.9)**	**22.4**
Service cost	0.9		0.9
Net interest expense/(income)	1.2	(0.5)	0.7
Remeasurements			
Return on plan assets excluding the portion included in net interest expense/(income)		0.0	0.0
Gains/losses on changes in demographic assumptions	0.3		0.3
Gains/losses on changes in financial assumptions	(0.2)		(0.2)
Experience-related assumptions	0.3		0.3
Contributions			
from beneficiaries	0.1	(0.1)	0.0
from employer		(0.1)	(0.1)
Benefits paid	(1.6)	0.6	(1.0)
Transfer of obligations	(0.7)		(0.7)
Other/currency translation differences	(0.0)	0.0	0.0
Balance at December 31, 2013	**37.6**	**(15.0)**	**22.6**
Service cost	0.5		0.5
Net interest expense / (income)	1.3	(0.5)	0.8
Remeasurements			
Return on plan assets excluding the portion included in net interest expense/(income)		0.5	0.5
Gains/losses on changes in demographic assumptions	0.0		0.0
Gains/losses on changes in financial assumptions	5.8		5.8
Experience-related assumptions	0.3		0.3
Contributions			
from beneficiaries	0.1	(0.1)	0.0
from employer		(0.1)	(0.1)
Benefits paid	(1.4)	0.2	(1.2)
Transfer of obligations	(0.4)		(0.4)
Other/currency translation differences	0.0	(0.1)	(0.1)
Balance at December 31, 2014	**43.8**	**(15.1)**	**28.7**

Vossloh AG and some subsidiaries have entered into pension obligations to employees. These defined benefit obligations (DBO) vary according to the economic situation and are as a rule based on service years, pensionable pay, and position within Vossloh. As these are defined benefit plans, the pension payment obligations must be met by the subsidiaries concerned. In addition, defined contribution plans exist at certain subsidiaries. These companies are under no obligation to make any pension-related payments other than their contractual contributions to an outside fund, which totaled €11.6 million (previous year: €11.0 million).

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

The plan assets which are offset against the present value of the pension benefits pertain primarily to reinsurance policies, which cover the major portion of the claims from the pension commitments. The reinsurance contracts are pledged to the individual beneficiaries concerned; the offsetting with the present value of the obligation is carried out at fair value.

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

Assumptions for the calculation of the pension obligations

%	2014	2013
Discount rate	2.3	3.5
Expected increase in pension payments	1.8	2.0
Expected increase in wages and salaries	3.0	3.0
Estimated fluctuation rate	6.0	6.0

The recognized pension provision is derived as follows:

Analysis of the recognized pension provision

€ million	2014	2013
Present value of pension commitments covered by plan assets	20.9	17.7
Fair value of plan assets	(15.1)	(15.0)
Provision for pension benefits covered by plan assets	**5.8**	**2.7**
Present value of pension commitments not covered by plan assets	22.9	19.9
Provision for pension benefits not covered by plan assets	**22.9**	**19.9**
Recognized pension provision	**28.7**	**22.6**

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

The actual return on plan assets amounted to 3.7 percent (previous year: 3.8 percent) in the reporting period.

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

In the current financial year, the Group expects an increase to the plan assets of €0.9 million.
The average duration of the defined benefit pension plans is 15 years.

(25) Other provisions

Breakdown of other provisions

€ million	2014	2013*
Personnel-related provisions	14.4	13.2
Warranty obligations and follow-up costs	27.0	19.2
Litigation risks and impending losses	27.9	11.9
Sundry provisions	2.9	2.7
Other noncurrent provisions	**72.2**	**47.0**
Personnel-related provisions	1.1	0.7
Warranty obligations and follow-up costs	68.8	54.7
Litigation risks and impending losses	48.1	37.4
Sundry provisions	53.8	17.4
Other current provisions	**171.8**	**110.2**
	244.0	**157.2**

*Previous year figures presented in a comparable manner, see page 134

Provisions are disclosed as current if due within one year; all others are noncurrent. The other provisions consider all obligations which are identifiable at the balance sheet date, based on past events, and are uncertain in terms of amount or timing. Accruals are recognized at amounts most likely to be utilized. If the effect of discounting is material, noncurrent provisions are recognized at the present value of the uncertain obligations.

The maximum risk inherent to recorded provisions is €35.6 million above the amount recognized in the balance sheet (previous year: €22.2 million). Additional risks of €1.9 million (previous year: €1.6 million) exist as below-the-line items but are not provided for since their probability is below 50 percent.

The personnel-related provisions also include provisions required under the law in France planned for non-recurring payments ("Indemnités de fin de carrière") for employees that depart the Company (both in the case of transitioning to retirement as well as other situations). As per IAS 19, such provisions are required to be treated as employee benefits and, because of the way they have been structured, classified as a "defined benefit plan".

Assets have partially been set up in an external benefit fund ("plan assets") in order to finance the expected payments. Thus the provisions recognized on the balance sheet constitute the total of the fair value of the plan assets less the present value of the obligation:

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

%	2014	2013
Discount rate	2.0	2.5
Expected increase in wages and salaries	2.0	2.5
Estimated fluctuation rate	0 to 10	0 to 10

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

€ million	2014	2013
Present value of pension commitments covered by plan assets	4.9	4.3
Fair value of plan assets	(1.2)	(1.4)
Provision for pension benefits covered by plan assets	**3.7**	**2.9**
Present value of pension commitments not covered by plan assets	1.4	1.7
Provision for pension benefits not covered by plan assets	**1.4**	**1.7**
Recognized pension provision	**5.1**	**4.6**

The following table shows how the present value of the obligation and the plan assets established for financing purposes developed during the financial year and the previous year:

Changes in provisions for "Indemnités de fin de carrière"

€ million	Present value of benefit obligation	Fair value of plan assets	Total
Balance at January 1, 2013	**3.8**	**(1.6)**	**2.2**
Service cost	0.2		0.2
Net interest expense/(income)	0.2	0.0	0.2
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		0.0	0.0
Gains/losses on changes in financial assumptions	0.5		0.5
Experience-related assumptions	(0.1)		(0.1)
Benefits paid	(0.3)	0.2	(0.1)
Effects from changes in the scope of consolidation	1.7		1.7
Balance at December 31, 2013	**6.0**	**(1.4)**	**4.6**
Service cost	0.3		0.3
Net interest expense/(income)	0.2	0.0	0.2
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		0.0	0.0
Gains/losses on changes in financial assumptions	0.2		0.2
Experience-related assumptions	0.0		0.0
Benefits paid	(0.4)	0.2	(0.2)
Balance at December 31, 2014	**6.3**	**(1.2)**	**5.1**

The warranty accruals include both provisions for specific warranty cases and the general warranty risks empirically derived from past sales. The accrued litigation risks and impending losses account for obligations under lawsuits and for loss risks from contracts in progress. As of the balance sheet date, €0.8 million was accrued for impending losses on purchase obligations (previous year: €0.5 million).

Changes in other provisions

€ million	Opening balance 1/1/2014*	Addition from first- time consolidation	Utilization	Release	Addition	Interest effect differences	Currency translation differences	Closing balance 12/31/2014
Personnel-related provisions	13.9	0.0	(2.2)	(0.2)	4.0	0.0	0.0	15.5
Warranty obligations and follow-up costs	73.9	0.5	(14.2)	(6.0)	41.2	0.0	0.4	95.8
Litigation risks and impending losses	49.3	0.0	(14.2)	(3.0)	43.3	0.2	0.4	76.0
Sundry provisions	20.1	0.1	(11.9)	(0.9)	49.1	0.1	0.1	56.7
Other provisions	**157.2**	**0.6**	**(42.5)**	**(10.1)**	**137.6**	**0.3**	**0.9**	**244.0**

*Previous year figures presented in a comparable manner, see page 134

The release of sundry provisions relates in the amount of €0.1 million (previous year: €2.3 million) to discontinued operations.

(26) Liabilities

Liabilities according to remaining terms

€ million	2014	2013*	2014	2013*	2014	2013*	2014	2013*
Remaining term	≤ 1 year		1–5 years		> 5 years		Total	
Financial liabilities	281.2	135.5	49.8	123.1	0.0	1.4	331.0	260.0
Trade payables	197.6	171.5	0.6	0.0	0.0	0.0	198.2	171.5
Liabilities from construction contracts	290.1	277.0	–	–	–	–	290.1	277.0
Income tax liabilities	14.3	6.0	–	–	–	–	14.3	6.0
Other liabilities	133.7	148.8	4.3	20.0	0.0	2.3	138.0	171.1
	916.9	**738.8**	**54.7**	**143.1**	**0.0**	**3.7**	**971.6**	**885.6**

*Previous year figures presented in a comparable manner, see page 134

(26.1) Financial liabilities

Breakdown of financial liabilities

€ million	2014	2013*
US private placement	–	72.6
Other long-term liabilities to banks	49.8	51.9
Noncurrent financial liabilities	**49.8**	**124.5**
US private placement	–	101.6
Short-term liabilities to banks	280.8	33.5
Interest payable	0.4	0.4
Current financial liabilities	**281.2**	**135.5**
Financial liabilities	**331.0**	**260.0**

*Previous year figures presented in a comparable manner, see page 134

Financial debts are principally carried at amortized cost. The private placement in the U.S. was redeemed in its entirety in early summer 2014. The first tranche scheduled to come due as well as the second tranche due in the summer of 2016 were both paid off. Insofar as they had not yet reached their maturity date, the corresponding derivative financial instruments were also closed out at the same time. These transactions and the prepayment penalty for the second tranche resulted in expenses of €7.3 million. For the reconciliation of the financial liabilities to the IAS 39 valuation categories, see pages 162 ff., Additional disclosures on financial instruments.

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

(26.2) Trade payables and liabilities on construction contracts

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

(26.3) Income tax liabilities

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

(26.4) Other liabilities

Breakdown of other liabilities

€ million	2014	2013*
Derivative financial instruments on fair value hedges	0.0	12.3
Derivative financial instruments on cash flow hedges	2.6	2.2
Advance payments received	0.0	3.2
Noncurrent deferred income	1.2	1.9
Personnel-related liabilities	0.4	0.2
Sundry	0.1	2.5
Other noncurrent liabilities	**4.3**	**22.3**
Advance payments received	53.8	39.4
VAT payable	5.3	17.1
Social security and health insurance contributions	6.6	7.1
Other non-income taxes	4.7	5.4
Liabilities to employees	4.5	4.9
Other liabilities to affiliated companies	2.7	6.1
Commissions	2.0	0.9
Deferred income	2.4	2.9
Derivative financial instruments on fair value hedges	6.0	17.6
Derivative financial instruments on cash flow hedges	3.7	0.8
Personnel-related liabilities	33.5	27.7
Sundry	8.5	18.9
Other current liabilities	**133.7**	**148.8**
	138.0	**171.1**

*Previous year figures presented in a comparable manner, see page 134

Upon initial recognition, financial instruments are stated at their historical fair value (as of the trading date) including direct transaction costs (if any) and thereafter carried at amortized cost unless their measurement at fair value is required. The recognition of gains/losses from the measurement at fair value depends on whether the IAS 39 hedge accounting criteria are met. Gains/losses from the restatement at fair value of derivatives in fair value hedges are recognized in the income statement, as are the changes in value of the hedged underlying transactions. In contrast, the corresponding gains/losses from measuring derivatives in cash flow hedges at fair value are recognized without profit-or-loss effect in equity (OCI) after considering deferred taxes.

For the reconciliation of other liabilities to the IAS 39 valuation categories, see pages 162 ff., Additional disclosures on financial instruments.

The prepayments received, shown at €53.8 million (previous year: €39.4 million) as other liabilities, do not include advance payments received on construction contracts. In accordance with IAS 19, the current liabilities to employees are recognized at the undiscounted amount owed.

Notes to the segment report

The Vossloh Group's operating segments are defined by its internal organizational and reporting structures, which are based on the products and services offered by Vossloh's business units. In accordance with IFRS 8, segment reporting encompasses not only the divisions but also separately presents their business units.

In financial year 2014, the decision was made to focus business activities at the Kiel location exclusively on standardized industrial and shunting locomotives. In future, project business will be presented exclusively in Valencia, which will result in further differentiations in the reporting. What was previously the Transportation Systems business unit will be divided into the two business units "Locomotives" (Kiel location) and "Rail Vehicles" (Valencia location). Together with Vossloh Electrical Systems, these form the three business units in the Transportation division.

As a consequence of the new corporate strategy that was unveiled at the beginning of December 2014 and which, as of financial year 2015, provides the basis for the internal reporting structures for the first time, the segment reports will also be based on this structure from financial year 2015 onward. However, there is no difference between the former business units and the business units of relevance starting in 2015. At the moment, the Fastening Systems business unit is the only business unit in the new Core Components division, Vossloh Switch Systems is the only business unit in the new Customized Modules division, and Vossloh Rail Services is the only business unit in the new Lifecycle Solutions division. The Transportation division will continue to exist in its current structure. The reports concerning financial year 2014 were prepared throughout the year using the previous structure, and in this regard the segment reports in these notes to the consolidated financial statements are also presented in the previous form. As described in the paragraph above, the previously utilized reporting segment Transportation Systems, which had been produced through the aggregation of two business units utilized for internal reporting purposes, is handled in this segment report analogously to the report submitted to the Executive and Supervisory Boards.

The Rail Infrastructure division covers the Group's related products and services and comprises the Fastening Systems, Switch Systems and Rail Services business units.

The Fastening Systems business unit is a foremost supplier of rail fastening systems. The product lineup includes fasteners for every application: from light-rail, extending through heavy-haul, to high-speed lines.

The Switch Systems business unit, one of the world's leading rail switch manufacturers, equips rail networks with switches (turnouts, crossings, etc.), as well as with the related control and monitoring systems which it also installs and maintains. Here, also, the lineup extends from light-rail to high-speed applications.

Vossloh Rail Services engages in activities such as rail trading, long-rail (un)loading at construction sites, welding new rails, reconditioning old rails, on-site welding, rail replacement, rail grinding/milling, rail inspection, and construction site supervision, in addition to organizing and monitoring just-in-time rail shipments to construction sites and ensuring on-site availability of the approved (un)loading systems.

The Transportation division includes the rail vehicle and vehicle system/component operations plus the related services. The division comprises following business units: Locomotives, Rail Vehicles and Electrical Systems.

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

At the Valencia location, the Rail Vehicles business unit develops and produces innovative diesel-electric locomotives and light rail vehicles. The services on offer also include maintenance.

The Electrical Systems business unit develops and produces key electrical components and systems for public transport vehicles and locomotives. The business unit counts as one of the leading suppliers of electrical equipment both for trolleybuses and hybrid buses. In addition to the complete equipping of vehicles, the unit's businesses also cover air-conditioning systems for rail vehicles, components and subassemblies, revamping, servicing and maintenance and repair work.

In the consolidation, all intra-segment and intersegment transactions are eliminated. This pertains primarily to the offsetting of intragroup income/expenses, the elimination of intragroup income and dividends and the elimination of receivables/payables. During financial year 2014, a Group company that belongs to the Fastening Systems business unit was sold to a company at Group level. The intercompany profit of €14.5 million generated from this transaction is included in the value added attributable to Vossloh Fastening Systems and to the Rail Infrastructure division and was removed only at the holding company level by means of intercompany profit elimination.

The accounting methods applied by all segments are identical and conform to IFRS as adopted by the EU. Intersegment business is transacted on an arm's length basis.

Segment financial information is presented for each division and business unit on pages 130 f.

The major noncash segment expenses include additions to provisions.

In the analysis of its results of operations in the combined management report, the Vossloh Group reports the pretax value added (VA) as a key performance indicator. In this connection, a weighted average cost of capital (WACC) of 10.0 percent was used in financial year 2014, while in 2013 the value used was 8.5 percent.

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

Reconciliation of value added to EBIT

€ million	2014	2013*
Value added	(252.6)	(22.8)
Cost of capital applied to the capital required for business operations (WACC 10 percent, previous year: 8.5 percent)	81.0	75.5
EBIT	**(171.6)**	**52.7**

*Previous year figures presented in a comparable manner, see page 134

Segment information by region is provided for noncurrent assets and (external) sales revenue in accordance with IFRS 8.33. The sales revenue presented by region are based on the customer location. As sales with unconsolidated subsidiaries are not taken into account in this overview of external sales revenue, the figures are not compatible with the overview of sales by region on page 56 of the combined management report.

Segment information by region

€ million	2014	2013*	12/31/2014	12/31/2013*
	External sales revenue		Noncurrent assets	
Germany	255.9	278.7	204.3	242.3
France	168.4	154.5	154.5	216.7
Other Western Europe	155.0	151.5	51.3	46.3
Northern Europe	86.9	70.9	9.4	10.7
Southern Europe	76.7	91.9	67.0	79.2
Eastern Europe	82.1	65.4	5.5	5.7
Total Europe	**825.0**	**812.9**	**492.0**	**600.9**
Americas	177.8	122.4	62.2	35.0
Asia	220.5	300.7	10.2	19.1
Africa	70.1	22.4	0.0	0.0
Australia	25.2	33.1	9.6	9.5
Total	**1,318.6**	**1,291.5**	**574.0**	**664.5**

*Previous year figures presented in a comparable manner, see page 134

Additional disclosures on financial instruments

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

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

Non-derivative financial instruments

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

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

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

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

Available-for-sale financial assets are likewise remeasured and carried at fair value if their fair value is reliably determinable. The resulting gains/losses are recognized in equity (OCI) without profit-or-loss effect and after allowing for deferred taxes. This category mainly includes securities other than loans, receivables or financial instruments held to maturity.

Derivative financial instruments

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

Hedges of recognized assets and liabilities are treated as fair value hedges, i.e., both the underlying and the currency forward are stated at fair value, any fair value changes (gains/ losses) due to exchange rate volatility are recognized in the income statement. In a completely effective hedge (in the case of a micro hedge this is generally the case), the gains (or losses) on the derivative's fair value remeasurement equal the losses (or gains) on the underlying's.

When accounting for cash flow hedges of pending or uncompleted transactions (so-called executory contracts), changes in the derivative's fair value are recognized in equity (OCI) without profit-or-loss effect and after allowing for deferred taxes. Upon completion or recognition of the underlying transactions, the associated gains/losses previously accumulated in OCI are either recycled to the income statement or offset against the cost of purchased assets.

The table below shows the fair value of derivatives used for hedging currency and interest rate risks, as well as the hedged nominal volumes:

Derivative financial instruments			Market	Nominal	Market	Nominal
€ million			2014	2014	2013	2013
Cross currency swaps (US-PP)	Maturity	≤ 1 year	–	–	(17.3)	118.9
		> 1– 5 years	–	–	(13.2)	85.0
		> 5 years	–	–	–	–
					(30.5)	**203.9**
Interest rate swap (promissory-note loan)	Maturity	≤ 1 year	–	–	–	–
		> 1– 5	(0.2)	50.0	–	–
		> 5 years	–	–	–	–
			(0.2)	**50.0**		
Forward exchange contracts	Maturity	≤ 1 year	(8.2)	170.1	0.8	104.8
		> 1– 5 years	(3.1)	39.7	(1.0)	69.7
		> 5 years	–	–	–	–
			(11.3)	**209.8**	**(0.2)**	**174.5**
Total			(11.5)	**259.8**	**(30.7)**	**378.4**

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

The tables below detail financial instrument carrying amounts, the breakdown into IAS 39 measurement categories, financial instrument fair values, as well as fair value hierarchy levels of financial instruments according to IFRS 7, and include – although not covered by any IAS 39 valuation category – derivatives in hedging relationships and payables under capital leases.

Carrying amounts, measurement categories and fair values as of December 31, 2014

€ million	Carrying amount at 12/31/2014	Measurement according to IAS 39			Fair value at 12/31/2014
		Amortized cost	Fair value through OCI	Fair value through income statement	
Trade receivables	**257.5**				
Loans and receivables	257.5	257.5			257.5
Securities	**0.6**				
Held to maturity	0.2	0.2			0.2
Available for sale	0.4		0.4		0.4
Other financial instruments and other assets	**103.5**				
Loans and receivables	54.6	54.6			54.6
Held to maturity	0.4		0.4		0.4
Available for sale	1.0	0.6	0.4	0.0	1.0
Derivatives in hedging relationships (not a category according to IAS 39.9)	0.8	0.0	0.3	0.5	0.8
IAS 39 not applicable	46.7				–
Total financial assets	**361.6**	**312.9**	**1.5**	**0.5**	**314.9**
Financial liabilities	**331.0**				
Loans and receivables	331.0	331.0			331.0
Finance leases (IAS 39 not applicable)	0.0				–
Trade payables	**198.1**				
Loans and receivables	198.1	198.1			198.1
Other liabilities	**138.0**				
Loans and receivables	106.2	106.2			106.2
Derivatives in hedging relationships (not a category according to IAS 39.9)	12.3		6.3	6.0	12.3
IAS 39 not applicable	19.5				–
Total financial liabilities	**667.1**	**635.3**	**6.3**	**6.0**	**647.6**

Cash and cash equivalents are not listed in the above table, since these financial instruments do not fall within the measurement categories of IAS 39.9

Summary of measurement category of IAS 39

€ million	Carrying amount at 12/31/2014	Measurement according to IAS 39			Fair value at 12/31/2014
		Amortized cost	Fair value through OCI	Fair value through income statement	
Financial assets					
Loans and receivables	312.1	312.1			312.1
Held to maturity	0.6	0.2	0.4		0.6
Available for sale	1.4	0.6	0.8		1.4
Total financial assets	**314.1**	**312.9**	**1.2**	**0.0**	**314.1**
Financial liabilities					
Measurement at amortized cost	635.3	635.3			635.3
Total financial liabilities	**635.3**	**635.3**	**–**	**–**	**635.3**

Carrying amounts, measurement categories and fair values as of December 31, 2013

€ million	Carrying amount at 12/31/2013*	Measurement according to IAS 39			Fair value at 12/31/2013*
		Amortized cost	Fair value through OCI	Fair value through income statement	
Trade receivables	**237.6**				
Loans and receivables	237.6	237.6			237.6
Securities	**2.8**				
Held to maturity	0.3	0.3			0.3
Available for sale	2.5		2.5		2.5
Other financial instruments and other assets	**78.0**				
Loans and receivables	40.4	40.4			40.4
Held to maturity	0.4		0.4		0.4
Available for sale	1.0	0.6	0.4	0.0	1.0
Derivatives in hedging relationships (not a category according to IAS 39.9)	2.1	0.0	0.0	2.1	2.1
IAS 39 not applicable	34.1				–
Total financial assets	**318.4**	**278.9**	**3.3**	**2.1**	**284.3**
Financial liabilities	**260.0**				
Loans and receivables	260.0	260.0			260.0
Finance leases	0.0				–
Trade payables	**171.5**				
Loans and receivables	171.5	171.5			171.5
Other liabilities	**171.1**				
Loans and receivables	91.3	91.3			91.3
Derivatives in hedging relationships (not a category according to IAS 39.9)	32.8		2.9	29.9	32.8
IAS 39 not applicable	47.0				–
Total financial liabilities	**602.6**	**522.8**	**2.9**	**29.9**	**555.6**

*Previous year figures presented in a comparable manner, see page 134
Cash and cash equivalents are not listed in the above table, since these financial instruments do not fall within the measurement categories of IAS 39.9.

Summary of measurement category of IAS 39

€ million	Carrying amount at 12/31/2013*	Measurement according to IAS 39			Fair value at 12/31/2013*
		Amortized cost	Fair value through OCI	Fair value through income statement	
Financial assets					
Loans and receivables	278.0	278.0			278.0
Held to maturity	0.7	0.3	0.4		0.7
Available for sale	3.5	0.6	2.9		3.5
Total financial assets	**282.2**	**278.9**	**3.3**	**0.0**	**282.2**
Financial liabilities					
Measurement at amortized cost	522.8	522.8			522.8
Total financial liabilities	**522.8**	**522.8**	**–**	**–**	**522.8**

*Previous year figures presented in a comparable manner, see page 134

Due to the mostly short remaining terms, the fair value of trade receivables and from construction contracts, cash and cash equivalents, other receivables and assets essentially corresponds as of December 31 to their carrying amount.

Trade payables and payables on construction contracts as well as other liabilities also usually have short terms, which is why their carrying amounts essentially correspond to their fair values. Trade payables and payables on construction contracts as well as other liabilities also usually have short terms, which is why their carrying amounts essentially correspond to their fair values.

The financial assets carried at fair value mainly pertain to derivatives in hedging relationships.

The table below shows the assignment of the financial assets and payables carried at fair value to the fair value hierarchy levels in accordance with IFRS 7 and IRFS 13. There were no reclassifications between the various levels of the fair value hierarchy either during the reporting year or the previous year.

Assignment of levels of the fair value hierarchy

	Level 1: Input of quoted prices		Level 2: Input of observable market data		Level 3: No input of observable market data	
€ million	12/31/2014	12/31/2013*	12/31/2014	12/31/2013*	12/31/2014	12/31/2013*
Financial assets at fair value						
Held for trading	0.0	0.0				
Available for sale			0.8	2.8		
Derivatives in hedging relationships			0.8	2.1		
Total	**0.0**	**0.0**	**1.6**	**4.9**	**0.0**	**0.0**
Financial liability measured at fair value						
Derivatives in hedging relationships			12.3	32.8		
Total	**0.0**	**0.0**	**12.3**	**32.8**	**0.0**	**0.0**

*Previous year figures presented in a comparable manner, see page 134

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

The net gains/losses and net interest income/expense recognized in the income statement result from the following financial instrument measurement categories:

Net gains/(losses) on financial instruments by measurement category

€ million	Loans and receivables	Held to maturity	Held for trading	Available for sale	2014	2013*
Net gains/(losses) from:						
Interest	(9.0)	0.6	0.1	(0.1)	(8.4)	(14.7)
Remeasurement						
from allowances	(6.3)	0.2	(0.3)	0.7	(5.7)	(3.5)
from exchange differences	(1.2)	–	–	–	(1.2)	(2.5)
at fair value	–	–	(0.5)	–	(0.5)	0.0
Disposal	0.0	–	–	0.0	0.0	0.0
Total	**(16.5)**	**0.8**	**(0.7)**	**0.6**	**(15.8)**	**(20.7)**

*Previous year figures presented in a comparable manner, see page 134

Interest is shown within net interest expense, allowances for (primarily trade) receivables are recognized within the functional (mainly selling) expenses while the net gains or losses on disposal and currency translation are disclosed within net other operating income (or expense, as applicable). Gains from the remeasurement to fair value of securities held for trading and the write-down of financial instruments available for sale are included in the above table and recognized within the other financial results. Remeasurements to fair value for available-for-sale financial assets were recognized in 2014 in the amount of €0.0 million (previous year: €0.0 million) in OCI.

Because of the redemption of the private placement in the U.S. and the accompanying close-out of the derivatives used to hedge debts denominated in foreign currencies, the remeasurement gains/losses of the cross-currency swaps entered into for this purpose that were previously recognized in equity (OCI) without profit-or-loss effect were recognized as an expense in the amount of €1.2 million in financial year 2014. In 2013, income from remeasurement gains was €0.2 million.

Additionally, income from the increase in the fair value of the derivatives in the amount of €18.2 million (previous year: €8.8 million) was offset by an equally high level of expenses generated from the increase in the euro equivalent of U.S. dollar-denominated debt.

Financial risk management

The Vossloh Group's business operations are exposed to financial risks such as liquidity, currency, interest rate, default and other credit risks. Vossloh's Treasury Management controls and contains group-wide all liquidity, currency and interest rate risks while default and other credit risks are monitored by the general risk management system.

Liquidity risks

Vossloh manages its liquidity risks (i.e., that the Group is not able at all times to meet its payment obligations) through a rolling cash budget and a central cash management system. As of the end of the reporting period, cash, cash equivalents and readily salable securities of €59.0 million were at the Group's disposal, besides additional, unutilized credit facilities of €359.5 million to satisfy any future cash requirements. The table below shows the contractually agreed undiscounted payments of principal and interest for financial liabilities:

Maturities of interest and principal payments as of December 31, 2014

	within 1 year				to 5 years			
€ million	2014		2013		2014		2013	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Non-derivative financial liabilities	(281.2)	(1.4)	(135.5)	(8.7)	(49.8)	(2.6)	(123.1)	(10.9)
Derivative financial liabilities	(8.8)	–	(18.3)	–	(3.3)	–	(14.5)	–
Derivative financial assets	0.6	–	2.1	–	–	–	–	–

Currency risks

Currency risks arise from (i) recognized non-euro assets and liabilities whose euro equivalent may be adversely affected by unfavorable exchange rates, and (ii) pending or uncompleted currency transactions whose future cash flows may show a negative trend depending on how forex rates develop. Significant operations-related currency risks Vossloh is exposed to originate from trade receivables and payables denominated in a non-euro currency, as well as from pending or uncompleted trade and purchasing transactions. Vossloh has issued binding instructions to centrally hedge against currency risks group-wide through Treasury Management by using currency forwards at matching maturities and amounts as micro hedges of the associated underlying transactions. The fixed exchange rates for the hedged underlying transactions counter any unfavorable rate effects on cost estimates and assets.

Interest rate risks

Interest rate risks mainly result from floating-rate short-term loans raised for Group financing purposes, as well as from short-term funds invested at variable rates.

The risk of an unfavorable market rate trend and thus higher interest payments for floating-rate notes is contained by contracting interest rate swaps and caps.

In connection with hedge accounting, such interest rate hedging transactions are accounted for as cash flow hedges. Both the hedged amounts and the fair value of the financial instruments are not material compared to the currency hedging.

The fair value of derivatives used for hedging against currency and interest rate risks, as well as the hedged nominal volumes are detailed in the notes to financial instruments on page 162 ff.

Sensitivity analyses

Given certain assumptions, sensitivity analyses put an approximate figure to the risk that exists if certain influential factors undergo changes. The following changes have been assumed with regard to interest-rate risk and exchange-rate risk:
- an increase in market interest rates of one percentage point (parallel shift in the yield curve);
- simultaneous appreciation of the euro against all foreign currencies by 10 percent.

Financial instruments originally stipulated with variable interest rates as well as existing interest rate derivatives were taken into consideration in the determination of the interest-rate risk. A market interest rate that is higher by one percentage point applied to the financial liabilities identified with variable rates as of December 31, 2014 would have increased the financial expense by €2.8 million. This is based on the underlying assumption that the higher interest rate would have applied for an entire year.

As currency risks were almost fully hedged, the impact of a simultaneous 10 percent depreciation of the euro on the unhedged foreign currency positions was of minor significance.

Credit risks

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

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

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

Balance of gross current receivables

€ million	Receivables neither past due nor impaired	Receivables past due but not impaired	Impaired receivables	Gross balance of receivables
Trade receivables				
2014	176.3	82.3	16.9	275.5
2013*	162.9	75.8	10.9	249.6
Other				
2014	93.0	0.0	3.7	96.7
2013*	62.1	0.9	1.4	64.4

*Previous year figures presented in a comparable manner, see page 134

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

Receivables not impaired but past due

€ million	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	more than 12 months	Total
Trade receivables						
2014	34.4	22.4	13.1	5.0	7.4	**82.3**
2013*	31.8	19.9	11.3	8.3	4.5	**75.8**
Other						
2014	0.0	0.0	0.0	0.0	0.0	**0.0**
2013*	0.8	0.0	0.0	0.1	0.0	**0.9**

*Previous year figures presented in a comparable manner, see page 134

No specific default risk arises from past due receivables since, given Vossloh's customer structure, many debtors are government or other public-sector agencies.

The maximum loss on default from all financial assets corresponds to their carrying amount (see the analysis on page 164).

Other disclosures

Contingent liabilities

As of December 31, 2014, total contingent liabilities were up by €1.4 million to €11.7 million. The Group has incurred contingent liabilities under guarantees of €8.6 million (including €6.9 million in favor of unconsolidated subsidiaries), and for the collateralization of third-party debts of €3.1 million (including €1.3 million allocable to unconsolidated subsidiaries). The risk of an enforcement of any of these contingent liabilities is not considered likely.

Other financial obligations

Commitments for the acquisition of property, plant and equipment and intangible assets totaled €20.4 million (previous year: €25.6 million).

The minimum undiscounted future payments under operating and similar leases and under rental agreements respectively amounted to €113.9 million (previous year: €87.4 million).

Commitments under operating leases fall due as follows:

Financial commitments under operating leases

€ million	2014	2013*
Due up to 1 year	11.2	10.8
Due in 1 to 5 years	21.2	18.8
Due in more than 5 years	0.0	0.5
	32.4	**30.1**

*Previous year figures presented in a comparable manner, see page 134

Financial commitments under rental agreements

€ million	2014	2013*
Due up to 1 year	12.5	13.3
Due in 1 to 5 years	35.5	34.0
Due in more than 5 years	33.5	10.0
	81.5	**57.3**

*Previous year figures presented in a comparable manner, see page 134

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

Lease payments recognized in expense

€ million	2014	2013*
Expense of minimum lease payments	10.8	10.9
Income from subleases	10.1	9.3

*Previous year figures presented in a comparable manner, see page 134

Future minimum payments of €19.5 million are expected under non-cancelable subleases (previous year: €22.4 million).

Significant Group companies with shareholders that have a non-controlling interest are

1. Vossloh Fastening Systems China Co. Ltd., Kunshan, China,
2. Vossloh Cogifer Kihn SA, Rumelange, Luxembourg and
3. Vossloh Beekay Castings Ltd., Bhilai, India.

Re 1: 32 percent of the shares of capital of this company are held by shareholders with a non-controlling interest. During the reporting year, €7.4 million (previous year: €7.7 million) of the company's net income was attributable to these shareholders. As of December 31, 2014, the share of equity attributable to shareholders with a non-controlling interest was €13.6 million (previous year: €12.7 million).

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

€ million	12/31/2014	12/31/2013
Noncurrent assets	18.7	17.0
Current assets	78.7	73.4
Noncurrent liabilities	3.5	1.3
Current liabilities	51.5	49.5
Sales revenue	135.3	165.3
Net income (after taxes)	23.0	24.2
Comprehensive income	26.9	23.5

Re 2: 10.79 percent of the shares of capital of this company are held by shareholders with a non-controlling interest. During the reporting year, €0.1 million (previous year: €0.2 million) of the company's net income was attributable to these shareholders. As of December 31, 2014, the share of equity attributable to shareholders with a non-controlling interest was €1.7 million (previous year: €1.6 million).

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

€ million	12/31/2014	12/31/2013
Noncurrent assets	19.6	16.5
Current assets	11.0	12.6
Noncurrent liabilities	0.3	2.4
Current liabilities	17.0	14.3
Sales revenue	26.9	25.0
Net income (after taxes)	0.9	1.4
Comprehensive income	0.9	1.4

Re 3: 41.52 percent of the shares of capital of this company are held by shareholders with a non-controlling interest. During the reporting year, €0.1 million (previous year: €0.3 million) of the company's net income was attributable to these shareholders. As of December 31, 2014, the share of equity attributable to shareholders with a non-controlling interest was €2.7 million (previous year: €2.5 million).

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

€ million	12/31/2014	12/31/2013
Noncurrent assets	3.2	3.2
Current assets	5.6	4.2
Noncurrent liabilities	0.2	0.2
Current liabilities	1.9	1.0
Sales revenues	6.8	8.9
Net Income (after taxes)	0.2	0.7
Comprehensive income	0.8	(0.5)

Where shareholders of other Group companies hold non-controlling interests, these interests are insignificant both individually and cumulatively.

Related parties

Vossloh AG as the ultimate controlling parent is at the helm of the Vossloh Group. The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated subsidiaries, joint ventures and associated companies. Resulting transactions were executed on an arm's length basis. Related unconsolidated companies and associated companies are disclosed in the list of shareholdings on page 176 f.

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

The Chairman of the Supervisory Board indirectly controls the Knorr-Bremse Group. This company is accordingly to be treated as a related party. Resulting from transactions with the Knorr-Bremse Group in 2014 were material purchases in the amount of €8.6 million (previous year: €11.2 million), sales in the amount of €1.2 million (previous year: €1.2million) as well as open receivables and advance payments as of December 31, 2014 in the amount of €0.6 million (previous year: €0.9 million) and trade payables of €1.2 million (previous year: €0.6 million).

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

€ million	2014	2013
Sale or purchase of goods		
Sales revenue from the sale of finished goods or WIP	7.9	9.3
Cost of materials from the purchase of finished goods or WIP	12.2	18.5
Trade receivables	69.8	7.4
Trade payables	2.9	4.0
Advance payments received	0.0	0.0
Sale or purchase of other assets		
Payables for the purchase of other assets	0.9	0.9
Services rendered or received		
Income from services rendered	3.8	1.6
Expenses for services received	6.2	4.4
Leasing arrangements		
Income from operating leases	0.0	0.1
Expenses on operating leases	0.1	0.0
Licenses		
License expenses	1.4	2.0
Financing		
Interest income from loans granted	0.1	0.3
Interest expense from financing loans taken up	1.0	0.0
Receivables on loans issued	6.4	8.7
Provision of guarantees and collateral		
Provision of guarantees	6.9	5.6
Provision of other collateral	1.3	1.3

Supervisory Board members will receive short-term benefits of k€306.7 for the reporting period (previous year: k€236.9). For an itemized breakdown by member of this total, and further details of the remuneration system, see the Board Compensation Report (an integral part of the Vossloh Group's combined management report).

Executive Board remuneration

€ million	2014	2013
Current remuneration	2.5	1.2
Post-retirement benefits	0.5	0.2

Former Executive Board members received in 2014 a total k€907.2 (previous year: k€664.6). Pension obligations to former Executive and Management Board members and their surviving dependents amount to €17.5 million (previous year: €12.3 million). The full amount of these obligations is recognized in the consolidated financial statements, and the majority of them are covered by plan assets. The figure as of December 31, 2014 also includes pension obligations for the Executive Board members departing the Company during the course of the reporting year.
The following fees for services rendered by the statutory auditor, BDO AG Wirtschaftsprüfungsgesellschaft, as well as by firms of BDO AG's international network were recognized as expense:

Statutory auditor's fees

Statutory auditor's fees

€ million	2014	2013
Year-end audit fees	1.3	1.2
Other attestation services	0.3	0.9
Tax services	0.7	0.8
Other services	0.1	0.1
	2.4	**3.0**

In financial year 2014, the group auditor's fees include €0.4 million for statutory audits (previous year: €0.4 million), €0.2 million for other attestation services (previous year: €0.9 million) plus €0.7 million (previous year: €0.7 million) for tax services and €0.1 million (previous year: €0.1 million) for other services.

The fees for statutory audits mainly include those paid for the mandatory group audit and the statutory audits by BDO AG of Vossloh AG's and its German subsidiaries' financial statements.The fees include €0.0 million (previous year: €0.1 million) for other attestations services plus €0.0 million (previous year: €0.0 million) for tax consultancy provided by non-German BDO firms but invoiced through BDO AG. The fees for other attestation services mainly account for consultancy and auditing work in connection with the implementation of group-wide accounting policies, for due diligence work and the quarterly report reviews. The tax consultancy fees cover substantially advisory services rendered for the formulation of tax returns, the review of tax assessment notices, as well as for national and international tax matters. The other services relate mainly to support services in connection with the introduction of a human resources reporting.

German Corporate Governance Code

In December 2014 the Executive and Supervisory Boards issued, and made permanently available to the stockholders on Vossloh's website, the declaration of conformity pursuant to Sec. 161 AktG.

Group companies and investees

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

List of shareholdings

		Footnote	Shareholding in %	in	Consolida-tion[1]	Equity[2]	Result after taxes[2]
(1)	**Vossloh AG, Werdohl**				(k)		
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(k)		
(3)	Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	(k)		
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(k)		
(5)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(k)		
	Rail Infrastructure division						
(6)	Vossloh France SAS, Paris, France		100.00	(1)	(k)		
	Fastening Systems business unit						
(7)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(k)		
(8)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(7)	(k)		
(9)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania	4	100.00	(7)	(n)	0.1	0.0
(10)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100.00	(7)	(n)	1.8	0.2
(11)	Vossloh Sistemi S.r.l., Sarsina, Italy		100.00	(7)	(k)		
(12)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4.6	51.00	(7)	(n)	1.6	(0.2)
(13)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	(e)		
(14)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	(n)	0.0	0.0
(15)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl	4	100.00	(7)	(n)	(1.4)	(0.1)
(16)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	(k)		
(17)	Vossloh Rail Technologies Ltd. Sti., Erzincan, Turkey		99.50/0.50	(7/8)	(k)		
(18)	FÉDER-7 Rugógyártó Kft., Sárkeresztes, Hungary	4	96.67/3.33	(7/8)	(n)	0.4	0.0
(19)	Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(3)	(k)		
(20)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	(k)		
(21)	Vossloh-Werke International GmbH, Werdohl		100.00	(7)	(k)		
(22)	Beijing China Railway Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	(n)	1.9	0.5
(23)	Vossloh Fastening Systems Southern Africa Proprietary Limited, Cape Town, South Africa	4	100.00	(108)	(n)	0.0	0.0
(24)	ZAO Vossloh Fastening Systems Rus, Moscow, Russia	4	50.10	(7)	(n)	0.0	0.0
(25)	Vossloh Fastening Systems Kazakhstan Proiswodstwennaja kompanija, Qapschaghai, Kazakhstan		50.00	(21)	(e)		
(26)	Suzhou Vossloh Track Systems Co. Ltd., Suzhou, China	4	100.00	(21)	(n)	0.5	(0.1)
(27)	OAO Vossloh Fastening Systems RUS, Engels, Russia	4	50.10	(7)	(n)	0.0	0.0
	Switch Systems business unit						
(28)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	(k)		
(29)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(28)	(k)		
(30)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(31)	(k)		
(31)	Vossloh Nordic Switch Systems AB, Ystad, Sweden		100.00	(28)	(k)		
(32)	Vossloh Cogifer Kihn SA, Rumelange, Luxembourg		89.21	(28)	(k)		
(33)	Vossloh Laeis GmbH, Trier		100.00	(32)	(k)		
(34)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(28)	(k)		
(35)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(28)	(e)		
(36)	Montajes Ferroviarios SL, Amurrio, Spain	4	100.00	(35)	(n)	0.4	0.0
(37)	Burbiola SA, Amurrio, Spain		50.00	(35)	(n)	1.2	0.0
(38)	Vossloh Cogifer UK Limited, Scunthorpe, United Kingdom		100.00	(28)	(k)		
(39)	Vossloh Cogifer Italia S.r.l., Pomezia, Italy		100.00	(28)	(k)		
(40)	Vossloh Cogifer Polska Sp.z o.o., Bydgoszcz, Poland		92.86	(28)	(k)		
(41)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(28)	(e)		
(42)	Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(28)	(k)		
(43)	Cogifer Americas, Inc., Cincinnati, USA	4	100.00	(28)	(n)	0.1	0.0
(44)	Siema Applications SAS, Villeurbanne, France		100.00	(28)	(k)		
(45)	VOSSLOH MIN SKRETNICE DOO ZA Proizvodnjui Montazu Skretnica i Opreme Niš, Niš, Serbia		100.00	(28)	(k)		
(46)	Vossloh Cogifer Turnouts India Private Limited, Secunderabad, India	4.6	100,00	(28)	(n)	0.7	0.0
(47)	Vossloh Beekay Castings Ltd., Bhilai, India	6	58.48	(28)	(k)		
(48)	Vossloh Cogifer Signalling India Private Limited, Bangalore, India	4.6	100.00	(28)	(n)	0.2	(0.1)
(49)	Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(k)		
(50)	Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	(k)		
(51)	Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(k)		
(52)	Vossloh Cogifer Kloos BV, Nieuw-Lekkerland, Netherlands		100,00	(28)	(k)		
(53)	Vossloh France International SAS, Rueil-Malmaison, France	4	100.00	(6)	(n)	0.0	0.0
(54)	Wuhu China Railway Cogifer Track Co., Wuhu, China		50.00	(28)	(e)		
(55)	'J' Rail Components & Manufacturing, Inc., Grass Valley, USA		100.00	(56)	(k)		
(56)	Vossloh Signaling USA Inc., Cleveland, USA		100.00	(3)	(k)		
(57)	Vossloh Cogifer Argentina, Buenos Aires, Argentina	4	90.00/10.00	(28/29)	(n)	1.0	(0.3)
(58)	ADIF SE – Vossloh Cogifer Argentina SA Consorcio de Cooperacion, Buenos Aires, Argentina	4	51.00	(57)	(n)	0.0	0.0
(59)	Vossloh Cogifer SP Technologies BV, Amsterdam, Netherlands	4	10.00	(28)	(n)	7.6	0.0
(60)	Vossloh Cogifer Southern Africa Proprietary Limited, Cape Town, South Africa	4	100.00	(108)	(n)	0.0	0.0
(61)	Vossloh Cogifer do Brazil Administracao de Bens e Participacoes Ltda., Sorocaba, Brazil		99.99/0.01	(28/29)	(k)		

		Footnote	Shareholding in %	in	Consolida-tion[1]	Equity[2]	Result after taxes[2]
(62)	Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil		100.00	(61)	(k)		
(63)	Outreau Technologies SAS, Outreau, France		100.00	(28)	(k)		
(64)	Vossloh Cogifer HBA Makas Teknoloji Sanayi ve Ticaret Anonim Şirketi, Ankara, Turkey	4	65.00	(28)	(n)	0.5	(0.3)
(65)	Vossloh Cogifer – SP Technologia L.L.C., Moscow, Russia	4	100.00	(59)	(n)	7.9	(0.6)
(66)	NOVOSIBIRSKIY STRELOCHNIY ZAVOD – NSZ, Novosibirsk, Russia	4	74.99	(65)	(n)	45.6	(0.4)
	Rail Services business unit						
(67)	Vossloh Rail Services GmbH, Seevetal	3	100.00	(1)	(k)		
(68)	Stahlberg Roensch GmbH, Seevetal	3	100.00	(67)	(k)		
(69)	Vossloh Rail Center Nürnberg GmbH, Nuremberg	3	100.00	(68)	(k)		
(70)	Vossloh Rail Center Bützow GmbH, Bützow	3	100.00	(68)	(k)		
(71)	Vossloh Rail Center Leipzig GmbH, Seevetal	3	100.00	(68)	(k)		
(72)	GTS Gesellschaft für Gleistechnik Süd mbH, Seevetal	3	100.00	(68)	(k)		
(73)	Vossloh Rail Center Hamburg GmbH, Hamburg	3	100.00	(68)	(k)		
(74)	Alpha Rail Team GmbH & Co. KG, Berlin		50.00	(68)	(e)		
(75)	Alpha Rail Team Verwaltungs GmbH, Berlin		50.00	(68)	(n)	0.0	0.0
(76)	LOG Logistikgesellschaft Gleisbau mbH, Hanover	3	100.00	(67)	(k)		
(77)	Vossloh Ray Hizmetleri Limited Sirketi, Istanbul, Turkey		100.00	(80)	(k)		
(78)	Vossloh High Speed Grinding GmbH, Seevetal	3	100.00	(67)	(k)		
(79)	Vossloh Mobile Rail Services GmbH, Seevetal	3	100.00	(68)	(k)		
(80)	Vossloh Rail Services International GmbH, Seevetal	3	100.00	(67)	(k)		
(81)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(80)	(e)		
(82)	Vossloh Rail Services Scandinavia AB, Helsingborg, Sweden		100.00	(80)	(k)		
(83)	Vossloh Rail Services North America Corporation, Dover, USA	4	100.00	(3)	(n)	0.2	0.1
(84)	Beijing CRM-Vossloh Track Maintenance Technology Co.,Ltd., Beijing, China		47.00	(80)	(e)		
	Transportation division						
	Locomotives business unit						
(85)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(k)		
(86)	Locomotion Service GmbH, Kiel	3	100.00	(85)	(k)		
(87)	Vossloh Locomotives France SAS, Antony, France		100.00	(85)	(k)		
	Rail Vehicles business unit						
(88)	Vossloh Espãna S.A.U., Valencia, Spain		100,00	(1)	(k)		
(89)	Erion Mantenimiento Ferroviario S.A., Madrid, Spain		51.00	(88)	(k)		
(90)	Erion France SAS, Arc-lès-Gray, France		100.00	(89)	(k)		
(91)	Metros Ligeros de Colombia SAS, Bogotá, Colombia		50,00	(88)	(e)		
	Electrical Systems business unit						
(92)	Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(k)		
(93)	Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(92)	(k)		
(94)	Vossloh Kiepe Ges.m.b.H., Vienna, Austria		100.00	(93)	(k)		
(95)	Vossloh Kiepe Corporation, Vancouver, Canada	4	100.00	(93)	(n)	0.7	0.2
(96)	Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy	4	100.00	(93)	(n)	0.1	0.1
(97)	Vossloh Kiepe Sp. z o.o., Kraków, Poland	4	99.00/1.00	(93/92)	(n)	0.0	0.0
(98)	Vossloh Kiepe Main Line Technology GmbH, Düsseldorf	3	100.00	(93)	(k)		
(99)	APS electronic AG, Niederbuchsiten, Switzerland		100.00	(93)	(k)		
(100)	Vossloh Kiepe Inc., Alpharetta, USA	5	100.00	(3)	(k)		
(101)	Vossloh Kiepe Limited, Birmingham, United Kingdom		100.00	(93)	(k)		
(102)	Vossloh Kiepe UK Limited, Birmingham, United Kingdom		100.00	(101)	(k)		
(103)	Vossloh Kiepe Southern Africa Proprietary Limited, Cape Town, South Africa	4	100.00	(108)	(n)	0.0	0.0
(104)	Heiterblick Projektgesellschaft mbH, Leipzig		49.00	(93)	(n)	0.0	0.0
(105)	Vossloh Kiepe d.o.o., Niš, Serbia	4	100.00	(93)	(n)	0.0	0.0
	Other companies						
(106)	Vossloh Schwabe Australia Pty. Ltd., Sydney, Australia	4	100.00	(4)	(n)	1.0	0.0
(107)	Vossloh Track Systems GmbH, Werdohl	4	100.00	(1)	(n)	(0.1)	0.0
(108)	Vossloh Southern Africa Holdings Proprietary Ltd., Johannesburg, South Africa	4	100,00	(107)	(n)	0.2	0.1
(109)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia	4	99.00/1.00	(107/2)	(n)	0.0	0.2
(110)	Vossloh Middle East Business Rail LLC, Abu Dhabi, UAE		49.00	(107)	(n)	0.0	0.0
(111)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl	4	100.00	(1)	(n)	0.0	0.0
(112)	Vossloh Dritte Beteiligungsgesellschaft mbH (formerly: Vossloh Dritte Beteiligungs-Aktiengesellschaft), Düsseldorf	4	100.00	(111)	(n)	0.0	0.0

[1] Fully consolidated companies are noted (k), those included at equity (e) and unconsolidated companies (n)
[2] The mean current rate or the annual average rate has been used to translate foreign-currency equity and net income/(loss), respectively.
[3] Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB
[4] Not included in the consolidation group for lack of materiality to net assets, financial position, and results of operations
[5] Newly consolidated in 2014
[6] Fiscal year from April 1 to March 31 due to legal requirements

Vossloh AG's Executive Board

Dr. h.c. Hans M. Schabert, born 1961, Nuremberg
Chairman of the Executive Board
First appointment: April 1, 2014, appointed until: March 31, 2017
Group mandates:
– Vossloh-Werke GmbH: Head of Executive Management (since July 1, 2014)
– Vossloh Fastening Systems GmbH: Managing Director (since July 1, 2014)
– Vossloh Werdohl GmbH: Head of Executive Management (July 1, 2014 until August 26, 2014)
– Vossloh-Werke International GmbH: Managing Director (since July 1, 2014)
– Vossloh España S.A.U.: Member of the Administrative Board (since September 8, 2014)
– Vossloh Dritte Beteiligungs-Aktiengesellschaft: Chairman of the Supervisory Board (June 25, 2014 until October 2, 2014)

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

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

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

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

* All mandates resigned as of March 31, 2014

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

Vossloh AG's Supervisory Board

Silvia Maisch[1], Monheim, Electrical Mechanic

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

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

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

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

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

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

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

Proposed profit appropriation

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

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

Werdohl, February 27, 2015

Vossloh AG
Executive Board

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

Responsibility statement

"We represent that, to the best of our knowledge and in accordance with applicable accounting principles, the consolidated financial statements present a true and fair view of the Vossloh Group's net assets, financial position and results of operations, and the combined management report gives a true and fair view of the Group's performance and the overall position of the Group, as well as the significant risks and opportunities associated with the Group's expected development."

Werdohl, February 27, 2015

Vossloh AG
Executive Board

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

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

We have audited the consolidated financial statements (consisting of balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes) and the combined management report on the Company and the Group, all as prepared by Vossloh AG, Werdohl, for the fiscal year ended December 31, 2014. The preparation of the consolidated financial statements and combined management report in accordance with the IFRS as adopted by the EU, and with the additionally applicable financial-accounting provisions of Art. 315a(1) HGB and the supplementary provisions of the Company's Articles of Incorporation, is the responsibility of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and combined management report.

We have conducted our annual group audit in accordance with Art. 317 HGB and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the German Institute of Public Auditors in Germany. Those standards require that we plan and perform the audit to obtain reasonable assurance that any misstatement or fraud which has a material impact on the view of the net assets, financial position and results of operations as presented by the consolidated financial statements in accordance with accounting principles generally accepted in Germany and by the combined management report is identified. When planning the audit procedures, knowledge and understanding of the Group's business, its economic and legal environment as well as expectations as to possible misstatements are taken into account. An audit includes examining, largely on a test basis, the accounting-related internal control system's effectiveness and the evidence supporting the amounts and disclosures in the consolidated financial statements and combined management report. An audit also includes assessing the accounting information of operational units included in the consolidated financial statements, the definition of the consolidation group, the accounting and consolidation principles used, and significant estimates made, by the Company's legal representatives, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements are in conformity with the IFRS as adopted by the EU, and with the additionally applicable financial-accounting provisions of Art. 315a(1) HGB and the supplementary provisions of the Company's Articles of Incorporation, and, with due regard to these standards, regulations and provisions, present a true and fair view of the Group's net assets, financial position and results of operations. The combined management report is in conformity with the consolidated financial statements and presents fairly, in all material respects, the Group's position and the risks and opportunities of the future development.

Essen, February 27, 2015

BDO AG
Wirtschaftsprüfungsgesellschaft

Fritz	ppa. Barhold
German Public Auditor	German Public Auditor

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Glossary

at equity	Accounting principle for investees at the prorated equity
Bilateral credit facility	Credit (line) agreement between two parties
Capital employed	Working capital + fixed assets
Capital lease	Type of lease (a.k.a. finance lease) which requires the lessee to capitalize the leased asset
Cash pooling	Concentration of cash funds for intercompany account balancing
EBIT	Earnings before interest and income taxes
EBIT margin	EBT ÷ net sales
EBT	Earnings before income taxes
Employee bonus program	Program for granting Vossloh AG's shares to employees free of charge or at reduced prices
Equity method	Accounting method for the investment in associated companies, where the holding group company has a significant influence
Equity ratio	Equity ÷ total assets
Financial derivative	Contract whose fair value is derived from an underlying (e.g. stock or currency)
Financial debts	Private placement loans + bank debts + notes payable + payables under capital leases
Guaranty facility	Credit line for guaranties and guaranty bonds
IAS/IFRS	International Accounting Standards/International Financial Reporting Standards
Interest rate cap	Option contract for an interest rate ceiling to hedge against rising rates
Interest rate swap	Contract for swapping variable and fixed interest payments based on underlying principal
Investment grade	Rating between AAA and BBB– (S&P's), any credit standing below being "speculative grade"

Long-term incentive plan (LTIP)	Incentive-based stock option plan for officers/executives
Net financial debt	Financial debts – cash & cash equivalents – short-term securities
Net leverage	Net financial debt ÷ equity
Operating lease	Type of lease which requires the lessor to capitalize the leased asset
Personnel expenses per capita	Personnel expenses ÷ annual average headcount
Return on capital employed (ROCE)	EBIT ÷ capital employed
Treasury	Finance management
Value added	(ROCE – WACC) × average capital employed
Working capital	Trade receivables (incl. PoC receivables) + inventories – trade payables (incl. PoC payables) – prepayments received – other current accruals
Working capital intensity	Averange working capital ÷ net sales

Financial calendar 2015/2016

Dates 2015

Annual General Meeting	May 20, 2015
Publication of interim reports	
as of March 31	April 30, 2015
as of June 30	July 30, 2015
as of September 30	October 29, 2015

For further dates, go to www.vossloh.com

Dates 2016

Publication of 2015 financial data	March 2016
Press conference	March 2016
Investors and analysts conference	March 2016
Annual General Meeting	May 2016

Investor Relations

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Information on Vossloh stock

ISIN	DE0007667107
Traded at	Xetra, Düsseldorf, Frankfurt, Berlin-Bremen, Hanover, Hamburg, Stuttgart, Munich
Index	SDAX
Average shares outstanding as of December 31, 2014	13,325,290
Average shares outstanding in 2014	12,999,662
Share price (12/31/2014)	€53.50
2014 high/low	€75.92 / €41.88
Reuters code	VOSG.DE
Bloomberg code	VOS GR
Proposed dividend	€0.00

Ten-year overview of the Vossloh Group

		2014	2013*	2012	2011	2010	2009	2008	2007	2006	2005
Income statement data											
Net sales	€ mill.	1,323.9	1,300.7	1,243.0	1,197.2	1,351.3	1,173.7	1,212.7	1,232.1	1,015.2	996.4
EBIT	€ mill.	(171.6)	52.7	97.5	97.2	152.1	137.9	137.7	121.5	82.7	90.8
Net interest expense	€ mill.	(23.1)	(21.4)	(21.4)	(12.3)	(11.7)	(9.4)	(9.3)	(12.3)	(14.1)	(19.6)
EBT	€ mill.	(194.7)	31.3	76.1	84.9	140.4	128.5	128.4	109.2	68.6	71.2
Net income	€ mill.	(205.7)	23.6	64.8	60.5	111.1	96.7	146.2	74.1	22.6	45.9
Earnings per share	€	(16.46)	1.25	4.94	4.32	7.32	6.57	9.48	4.83	1.38	3.07
Return on capital employed (ROCE)[1]	%	(21.2)	5.9	11.5	12.0	17.2	20.5	18.8	14.9	12.9	12.0
Value added	€ mill.	(252.6)	(22.8)	13.0	16.1	54.8	63.7				
Balance sheet data											
Noncurrent assets	€ mill.	619.2	714.5	662.7	625.6	590.7	458.2	431.4	503.4	423.4	453.3
Capital expenditures[2]	€ mill.	55.2	64.4	61.1	65.6	57.9	41.9	37.6	52.6	23.9	34.5
Amortization/depreciation[2]	€ mill.	132.0	40.7	41.4	38.2	39.5	24.6	22.8	29.2	25.9	23.9
Closing working capital[3]	€ mill.	103.9	94.5	166.0	200.3	258.0	245.1	300.7	312.8	216.7	303.3
Closing capital employed	€ mill.	723.1	809.0	828.7	825.9	848.6	703.2	732.1	816.2	640.1	756.6
Total equity	€ mill.	349.6	481.1	505.7	480.1	580.0	492.6	492.7	434.0	371.1	361.0
thereof: non-controlling interests	€ mill.	19.7	18.6	15.9	14.0	27.9	20.4	16.9	12.1	9.3	6.1
Net financial debt[4]	€ mill.	272.0	204.1	200.8	238.8	136.6	70.2	(35.0)	124.9	62.3	220.5
Total assets	€ mill.	1,598.3	1,562.4	1,500.0	1,495.9	1,405.8	1,338.4	1,339.4	1,326.8	1,198.5	1,091.2
Equity ratio	%	21.9	30.8	33.7	32.3	41.3	36.8	36.8	32.7	31.0	33.1
Cash flow statement data											
Cash flow from operating activities	€ mill.	(42.2)	130.5	162.6	138.5	139.1	44.9	133.8	80.2	186.9	54.6
Cash flow from investing activities	€ mill.	(58.3)	(75.4)	(72.9)	(90.6)	(151.1)	(52.3)	116.8	(123.6)	(15.4)	(65.5)
Cash flow from financing activities	€ mill.	103.7	(63.1)	(109.9)	(47.3)	(71.8)	(84.1)	(77.0)	(25.7)	(81.5)	(78.9)
Net cash inflow/(outflow)	€ mill.	3.2	(8.0)	(20.2)	0.6	(83.8)	(91.5)	173.6	(69.1)	90.0	(89.8)
Workforce											
Annual average headcount		5,737	5,247	5,078	5,000	4,984	4,717	4,631	5,493	4,765	4,732
thereof: Germany		1,853	1,759	1,756	1,747	1,667	1,312	1,243	1,183	1,168	1,494
abroad		3,884	3,487	3,322	3,253	3,317	3,405	3,388	4,310	3,597	3,238
thereof: Rail Technology		5,686	5,201	5,031	4,954	4,936	4,666	4,585	5,455	4,734	4,701
Vossloh AG		51	46	47	46	48	51	46	38	31	31
Personnel expenses	€ mill.	326.5	284.0	271.0	259.0	249.5	229.6	223.2	268.9	223.9	223.9
Personnel expenses per capita	k€	56.9	54.1	53.4	51.8	50.1	48.7	48.2	49.0	47.0	47.0

Vossloh-AG-Ten-year overview

		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Capital stock	€ mill.	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.7	37.7
Dividends per share	€	0.00[5]	0.50	2.00	2.50	2.50	2.00	2.00+1.00	1.70	1.30	1.30
Stock price at December 31	€	53.50	72.50	74.47	74.07	95.50	69.52	79.49	80.10	57.14	41.10
Market capitalization at December 31	€ mill.	712.9	870.3	893.5	888.3	1,272.6	926.0	1,104.0	1,185.1	842.0	605.6

[1] As from 2009, based on average capital employed
[2] Excluding noncurrent financial instruments, scheduled amortization/depreciation plus write-offs/write ups
[3] As from 2009, the other current provisions, being non-interest, are also deducted.
[4] With a negative sign: net financial assets
[5] Subject to the approval of the Annual General Meeting
*Previous year figures presented in a comparable manner, see page 134

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