ANNUAL REPORT 2020

Enabling green mobility

Key Group figures		2020	2019
Orders received	€ mill.	915.5	938.2
Order backlog	€ mill.	594.5	549.2
Income statement data			
Sales revenues	€ mill.	869.7	916.4
Core Components	€ mill.	375.3	351.7
Customized Modules	€ mill.	401.8	473.2
Lifecycle Solutions	€ mill.	103.8	106.0
EBITDA (2019 adjusted)	€ mill.	123.1	105.5
EBITDA margin (2019 adjusted)	%	14.2	11.5
EBIT (2019 adjusted)	€ mill.	73.1	55.7
EBIT margin (2019 adjusted)	%	8.4	6.1
Net interest result	€ mill.	(14.4)	(18.5)
EBT	€ mill.	58.7	(56.1)
Net income	€ mill.	20.8	(136.8)
Earnings per share	€	0.98	(8.32)
Return on capital employed[1]	%	8.4	(4.2)
Value added[1]	€ mill.	12.4	(105.4)
Balance sheet data			
Fixed assets[2]	€ mill.	696.2	659.2
Capital expenditure	€ mill.	68.7	59.8
Depreciation/amortization	€ mill.	50.0	86.4
Closing working capital	€ mill.	155.3	180.3
Closing capital employed	€ mill.	851.5	839.5
Equity	€ mill.	414.5	403.6
Noncontrolling interests	€ mill.	15.9	9.4
Net financial debt	€ mill.	307.4	321.3
Net financial debt (including lease liabilities)	€ mill.	351.3	370.4
Total assets	€ mill.	1,216.5	1,331.4
Equity ratio	%	34.1	30.3
Cash flow statement data			
Gross cash flow	€ mill.	112.9	39.3
Cash flow from operating activities	€ mill.	56.1	12.3
Cash flow from investing activities	€ mill.	(3.0)	(15.5)
Cash flow from financing activities	€ mill.	(67.4)	28.1
Free cash flow from continuing operations	€ mill.	58.1	2.4
Free cash flow (including discontinued operations)	€ mill.	4.0	(42.4)
Workforce data			
Annual average headcount	No.	3,482	3,774
Core Components	No.	938	879
Customized Modules	No.	1,987	2,286
Lifecycle Solutions	No.	498	546
Vossloh AG	No.	59	63
Personnel expenses	€ mill.	205.1	260.1
Share data			
Year-end closing price	€	41.35	37.00
Closing market capitalization	€ mill.	726.3	649.9

[1] Based on average capital employed

[2] Fixed assets = intangible assets plus property, plant and equipment plus investment properties plus investments in companies accounted for using the equity method plus other noncurrent financial instruments

Letter from the CEO

Dear Readers,

Before talking about Vossloh's performance in the past fiscal year and looking ahead to the future, I want to take this opportunity to commemorate a truly remarkable person. On February 23, we received the shocking news that our majority shareholder Heinz Hermann Thiele had passed away. Mr. Thiele provided Vossloh with enormous support in a financial and mainly personal capacity for the better part of a decade. He was our supporter and our critic. He had a significant influence on our Company during his years of service as Chairman of the Supervisory Board, and his incomparable wealth of experience enriched us in countless ways. His strength, discipline and courage spurred us on, and his unwavering commitment gave us stability during Vossloh's realignment. We are mourning the loss of a truly unique individual. Our deepest sympathies are with his bereaved family.

The header for my letter in the 2019 annual report stated "In 2019 we built the foundation for the future of Vossloh." Looking back, we could not have implemented our extensive performance program at a better time – particularly in light of the impact of the COVID-19 pandemic. Halfway through 2019, nobody could have imagined the acid test that we would all be facing just a few months later. The pandemic fundamentally changed every part of our lives in 2020, and continues to do so today. COVID-19 has affected us all individually and as a society. And of course also economically.

The pandemic has, without a doubt, caused more economic damage across the world than anyone thought possible. Many sectors are acutely threatened in their diversity or even in their continued existence. The coronavirus outbreak has also shown that certain areas of the economy are more robust in a crisis than others. The rail infrastructure market is undoubtedly among them. Passenger and freight rail transport are a critical part of our system. Making sure that they are reliable is particularly important in times of crisis. 2020 definitely left a mark on Vossloh. The year's events demanded a lot from our employees, both personally and professionally. But the results of our work in the last fiscal year are clear to see.

Orders received increased by 5.6 percent year on year on a comparable basis, while the order backlog at the end of 2020 was up 8.2 percent on the previous year. Our customers did not cancel any significant orders. Sales went up slightly when adjusted for portfolio effects despite our customers delaying around €90 million in orders for Vossloh services and products due to the pandemic. The EBIT margin came to 8.4 percent and exceeded our originally communicated forecast. This figure includes pandemic-related burdens of approximately 25 million, which were partly offset by a positive book effect of almost €16 million in connection with the transitional consolidation of a Chinese joint venture.

This past fiscal year was a thoroughly successful one in other areas as well. After years of realignment and restructuring, 2020 marks a major turning point in the history of the Vossloh Group. Vossloh completed the transformation into a company focused exclusively on rail infrastructure when it finalised the sale of Vossloh Locomotives at the end of May 2020. The Transportation division had been a significant financial burden for the Group for a number of years. Vossloh can now move on and look to the future with confidence. It is time for us to focus on our strengths and expand our strong position in the rail infrastructure market.

“With our products and services, we are making a significant contribution to the future of sustainable mobility.”

Oliver Schuster CEO

We used 2020 for the last fine-tuning of our corporate strategy and to chart our path precisely into the future. In summary, Vossloh’s strategic approach is to expand its existing business of products and services while increasing profitability. This strong foundation will be used to develop digital business models and scale them up. In addition, our strategic initiatives focus on accelerating the development of digital expertise, increasing process efficiency in every area of the company, and placing greater emphasis on sustainable business practices. Placing a €150 million hybrid note in February 2021 significantly improved the structure of our balance sheet. It will also help us to implement our strategy from a financial perspective.

The importance of rail systems is growing quickly around the world. Many countries are now far more willing to invest in their rail networks than they have been in the past, with generous subsidy schemes becoming increasingly commonplace. The EU Commission has designated 2021 as the “European Year of Rail”. Megatrends like population growth, urbanisation, globalisation, digitisation and the increasing importance of sutainability are guaranteed to shift traffic to rail as the most environmentally friendly mode of transport. There are a number of factors which make it impossible to expand rail networks in proportion with the increasing amount of traffic. As a result, increasing the availability of these networks will be extremely important. Modern management and safety systems and digital interlockings will make it possible for network operators to significantly increase traffic density on rail lines without compromising on safety. More traffic means more wear on track components, which will drive up demand for Vossloh’s products and services. As the level of route utilization goes up, the amount of time available for track maintenance will go down. At the same time a higher density of traffic in the rail network will also exacerbate the economic impact of disruption. This will increase demand for effective, efficient and predictive maintenance. This is an area with a great deal of additional potential for Vossloh. Our unique selling point is that we know more about the physics of all of the main track components than anyone else and, crucially, their systemic interaction. By assessing current track conditions and forecasting changes, Vossloh can not only provide customers with recommendations about how to optimize their maintenance practices, but also offer to carry out this work itself. We are currently deploying measurement technology on our maintenance vehicles. When combined with stationary data recorded on the track, this will provide a well-rounded picture of the condition of the track. That’s why we are the ideal partner to develop condition-based and predictive maintenance plans together with our customers. The projects that Vossloh has been awarded in Sweden and France are a clear indication that we are on the right path.

What does all of this mean for Vossloh in practice? We are confident that our sales will grow by between four and five percent on average per year over the medium term. This far exceeds the growth which relevant studies are forecasting for the rail infrastructure market. UNIFE, the Association of the European Rail Industry, recently published a forecast predicting that the market would grow by 2.3 percent per year. In terms of profitability, we aim to achieve a double-digit EBIT margin in every division over the medium term. This is also the long-term EBIT margin target for the Group as a whole. This corresponds to an EBITDA margin of roughly 16 percent. We are currently planning for sales revenues of between €850 million and €925 million in the 2021 fiscal year. We expect the EBIT margin to be between 7 and 8 percent. This corresponds to an EBITDA margin of between 13 and 14 percent. When adjusted for the one-time effect of just under €16 million in 2020 mentioned above, this would represent a significant increase in our operational profitability.

Dear shareholders, Vossloh is currently in a better position than ever before. Our consistent efforts in recent years are clearly paying off – for Vossloh and thus also for you. After suspending dividends in the previous year due to the uncertainty surrounding the pandemic, we are firmly convinced that we are now in a position to give you a regular and appropriate share in the Company's success in the future. The Executive Board and Supervisory Board of Vossloh AG will therefore propose a dividend of €1.00 per share for the 2020 fiscal year at the Annual General Meeting scheduled for May 19, 2021. This would correspond to just over 40 percent of our net income from continuing operations attributable to our shareholders.

The Executive Board has set itself some ambitious targets. We are confident that we will achieve them. I am very pleased that Mr. Jan Furnivall and Dr. Thomas Triska, long-standing members of the management team, have joined the Vossloh Group's Executive Board. Together, we will do everything in our power to make sure that your company continues to increase in value while leading Vossloh into a successful future. The signs are more promising for the rail industry than they have been in quite some time. Vossloh has the range of products and services it needs to not only benefit from the rail renaissance in the digital age, but also be a driving force in this trend. We have a strong and experienced team which is committed to innovation and in tune with the needs of our customers. We make a significant contribution to climate protection and green mobility. That's why our motto for this annual report is "Vossloh – enabling green mobility". Please continue to accompany us on this journey, dear shareholders, and stay with us.

On behalf of the Executive Board

Oliver Schuster
CEO

Dr. Thomas Triska (CFO) **Oliver Schuster** (CEO) **Jan Furnivall** (COO)

Overview of the year 2020

Q1 2020

- The **COVID-19 outbreak** plunges the world into a crisis the likes of which no one had seen before. Vossloh acts quickly to put together a set of safety measures; pandemic units are responsible for the global coordination. Over 1,000 Vossloh employees start working from home. Extensive precautions are put in place at Vossloh's production facilities for optimal infection protection. The rail sector is and remains a critical part of the global infrastructure.

- **Prof. Dr. Rüdiger Grube**, former Chairman of the Executive Board of Deutsche Bahn AG, is appointed to the Supervisory Board and voted in as the new Chairman on February 10. He succeeds previous Supervisory Board Chairman **Ulrich M. Harnacke**, who returns to his role as Chairman of the Audit Committee.

- Vossloh is awarded a contract for a new 139-km route in the Middle East. The Company will supply switches and heavy-haul fastening systems for the **Gulf Railway**. The route runs between Ruwais and Ghuwaifat, a town near the border between Saudi Arabia and United Arab Emirates.

- The **Finnish city of Tampere** decides to focus on preventive maintenance from the get go for its 15-km tram network due to open in summer 2021. The municipal operator orders a compact HSG-city grinder and enters into a maintenance agreement with Vossloh.

Q2 2020

- Vossloh holds its **first ever virtual Annual General Meeting** on May 27. The event is streamed online. Around 71 percent of the share capital is represented. **Two new members join the Supervisory Board**: Dr. Bettina Volkens, previously a member of the Deutsche Lufthansa AG Executive Board, and Dr. Roland Bosch, the former CEO of DB Cargo AG.

- Vossloh AG finalizes the **sale of the Locomotives business unit** to CRRC Zhuzhou Locomotive Co., Ltd., Zhuzhou, China (CRRC ZELC) effective May 31, 2020. Locomotives was the last remaining business unit in the Transportation division.

- The **Uruguay** Central Railroad draws up plans to modernize its network and to build a new 273-km rail line between Montevideo and Paso de los Toros in the middle of the country in order to increase rail freight volumes and make sustainable improvements to the capital's transport links. Vossloh is chosen to supply rail fastening systems for this project.

Q3 2020

- Vossloh Fastening Systems celebrates **the production of its billionth tension clamp** at the headquarters in Werdohl. That would be enough rail fasteners for around 150,000 kilometers of track – enough to go around the earth almost four times.

- Vossloh wins another tender in **China** worth in excess of €30 million. The Company will supply rail fastening systems for a section of the planned high-speed route between Guiyang and Nanning in southern China. Vossloh has operated its own production facilities in China since 2006.

- Vossloh is awarded more tender packages for the **Gulf Railway**. The company will supply its tried-and-tested heavy-haul rail fastening system for the 310-km stretch along the coast of the United Arab Emirates.

- Vossloh supplies rail fastening systems for a heavy-haul route in **Mongolia** for the first time. The 270-km line connects the Tavan Tolgoi mine with Gashuun Sukhait on the border with China. Around 30 million tons of goods will pass along this route every year.

Q4 2020

- The Supervisory Board of Vossloh AG **expands the Executive Board to three members**, effective November 1. **Dr. Thomas Triska** (Chief Financial Officer) and **Jan Furnivall** (Chief Operating Officer) **join as new members.** Oliver Schuster remains CEO. Dr.-Ing. Karl Martin Runge steps down from the Executive Board.

- Vossloh has been awarded a strategically important multiyear contract in **Sweden**. The company will handle data-based condition monitoring for 1,000 switches. The customer is Trafikverket, the Swedish Transport Administration. The project is being carried out together with DB Systemtechnik GmbH, a subsidiary of Deutsche Bahn AG.

- Vossloh concludes multiyear maintenance agreements for tram networks with the individual operators in the **French cities of Le Havre and Valenciennes**. Vossloh will provide the network operators with an efficient maintenance service for the entire network.

- After consulting market leaders and rail associations, Messe Berlin decides to delay the 13th **InnoTrans** trade fair. It is rescheduled for September 20 to 23, 2022, due to the global COVID-19 situation.

- The Executive Board presents its recently finalized corporate strategy on December 15 as part of the virtual **Capital Markets Day**. It is divided into three subsections: In its traditional core business, Vossloh will focus on lowering production costs, increasing sales volumes, expanding its product range and targeted innovation. The Company will also expand its range of services and harness the digitization trend to develop intelligent maintenance solutions. The third part of the Company's strategy is a range of initiatives focusing on its processes and performance in the areas of sales, digital expertise, management, efficiency and sustainability.

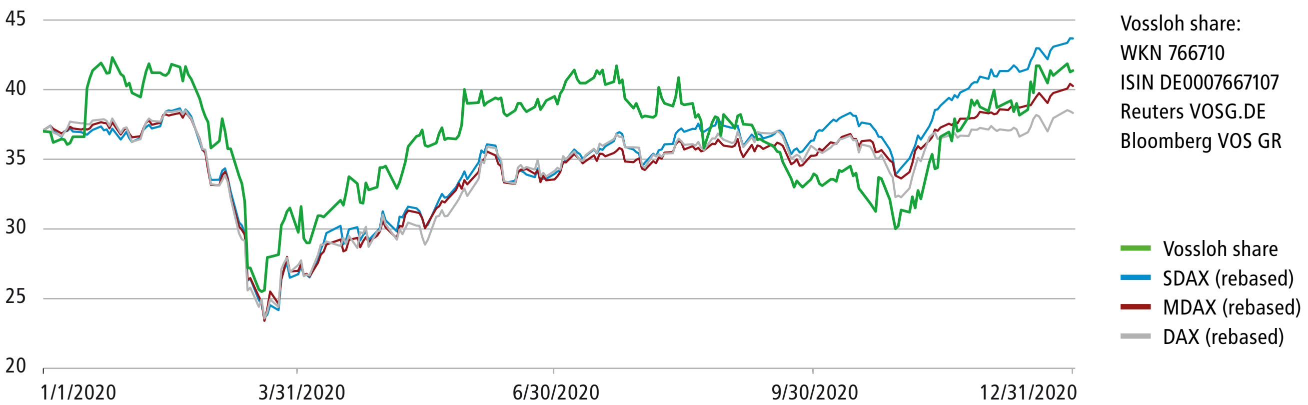
Vossloh stock

Stock markets were performing well at the beginning of the year before a steep decline in the middle of the first quarter as the COVID-19 pandemic predicted to trigger a global recession. The DAX fell by 25 percent in the first quarter. Both the MDAX and SDAX lost 26 percent of their value. This was mainly due to a spike in global infection rates, restrictive lockdowns and the low price of oil. Countermeasures taken by central banks and government stimulus packages stabilized the world's stock markets relatively quickly. Infection rates fell over the course of the second quarter, and nations loosened their restrictions. Further comprehensive monetary and fiscal measures caused German stock markets to bounce back strongly. The DAX went up 24 percent, while the MDAX and SDAX improved by 23 percent and 25 percent, respectively. The poor performance of the German economy, political unrest in the USA and increasing tensions between the USA and China had a short-term negative impact on the markets. Stock markets continued to recover in the third quarter of the year.

Stock markets continued to perform well despite a second wave of COVID-19 infections due to the unexpectedly good performance of the German economy, the EU's comprehensive €750 billion recovery fund and the ongoing recovery of China's economy. The DAX rose by just under 4 percent in the third quarter, the MDAX by around 5 percent and the SDAX even by 8 percent. Stock markets continued to bounce back in the final quarter and reached new record highs. Despite an increase in the number of new infections and new restrictive lockdowns being put in place, the DAX went up by just under 8 percent, while the MDAX and SDAX went up by 14 percent and 18 percent, respectively. This strong performance was buoyed in particular by the positive news that a number of vaccines had been approved and vaccinations beginning at the end of the year. Growth was also spurred by the ECB's decision to ramp up its bond buying program by €500 billion to a total of €1,850 billion, the EU and the UK finalizing a Brexit agreement and the increase in the price of oil. The DAX finished the year at 13,719 points, a year on year increase of 3.5 percent. The MDAX and SDAX added 8.8 percent and 18.0 percent respectively, and ended at 30,796 and 14,765 points.

The Vossloh share outperformed German indices for significant stretches of the 2020 fiscal year, and increased in value significantly over the course of the year. The Vossloh share started the

Stock price trend from January 1, 2020 to December 31, 2020



Vossloh stock indicators		2020	2019
Earnings per share	€	0.98	(8.32)
Dividend per share[1]	€	1.00	0.00
Annual average number of shares outstanding	thousand shares	17,564	16,799
Number of shares outstanding at year-end	thousand shares	17,564	17,564
Closing share price	€	41.35	37.00
Price high/low	€	42.50/23.60	44.85/31.00
Closing market capitalization	€ mill.	726.3	649.9
Trading volume	thousand shares	3,854	3,600
Average daily trading volume	thousand shares	15.2	14.3

[1] Proposed dividend for the 2020 fiscal year, subject to the approval of the Annual General Meeting

year at €36.80 on January 2, 2020. The Vossloh share performed well at the beginning of the year and reached €42.50 on January 21, its high point for the year. Vossloh's share price was stable until February 2020 before declining sharply until the middle of March in line with the performance of German share indexes. The Vossloh share reached its low point for the year of €23.60 on March 16, 2020. As stock markets began to recover, the Vossloh share began to bounce back and largely outperformed German indices. The Vossloh share came under much higher pressure compared to them from the middle of August onwards. This below-average performance lasted until the end of October, after which the Vossloh share went up considerably in value. Vossloh's share price increased by more than 30 percent between the end of October and the end of 2020. It finished the year up by 11.8 percent. It therefore significantly outperformed the DAX and MDAX for part of the year. The Vossloh share finished the year at €41.35 (end of 2019: €37.00), corresponding to a year-end market capitalization of €726.3 million.

The Deutsche Börse made an unscheduled adjustment to the SDAX index on January 3, 2020. As a result, the Vossloh AG share was readmitted to the SDAX index. The Vossloh AG share has been listed in the SDAX index since January 8, 2020.

Dividend

The Executive Board and Supervisory Board of Vossloh AG will propose a dividend of €1.00 per share for the 2020 fiscal year to the shareholders at the Annual General Meeting currently scheduled for May 19, 2021. Based on the number of dividend-bearing shares, this equates to a dividend payout of approximately €17.6 million.

Shareholder structure

With a share of 50.09 percent, KB Holding GmbH is the largest shareholder of Vossloh AG. Another shareholder of Vossloh AG with voting rights exceeding the legal reporting threshold of 3 percent is Franklin Mutual Advisers, LLC, Wilmington, Delaware, USA, which holds 4.99 percent of capital stock. The latter is attributed to free market capitalization in line with the definition used by Deutsche Börse AG. As a result, the free float of Vossloh AG's share capital was 49.91 percent on December 31, 2020. According to this definition, the freely available market capitalization totaled around €350 million on the basis of a volume-weighted average price over 20 trading days on the reporting date of December 30, 2020.

Analysts' ratings

From late February 2021, the Vossloh AG share was being tracked by five financial analysts, who issue reports and assessments at regular intervals. Four of them recommend buying the Vossloh share. One analyst recommends holding the share. The average price target for the Vossloh share was €46 based on the analysts' ratings made available up to end of February 2021. The lowest price target was €40 and the highest was €48.

Sustainability

Vossloh AG's sustainability measures have been assessed by a number of international rating agencies for several years. Among other things, Vossloh currently has Prime status according to ISS ESG. MSCI ESG Research has given the Company's sustainability performance a rating of AA (on a scale from AAA to CCC). EcoVadis also provides regular assessments of Vossloh from a sustainability standpoint. For more information about sustainability at Vossloh AG, please refer to page 80 of the Non-financial Group statement.

Capital market dialog

The Investor Relations team of Vossloh AG was regularly in close contact with institutional and private investors in the 2020 fiscal year. Vossloh took part in several capital market conferences and organized its own events for capital market representatives in the 2020 fiscal year. In addition, Vossloh representatives have used regular teleconferences as a way to maintain links with the capital market for a number of years.

The Investor Relations Team of Vossloh AG is glad to be at your disposal for any inquiries submitted in writing or in person. Additional information about the company and the Vossloh AG share is available on www.vossloh.com. In addition to up-to-date financial reports, presentations and press releases, the website also provides information about creditor relations. You can send an email to investor.relations@vossloh.com or call us at (02392) 52609.

After years of transformation, Vossloh now focuses solely on rail infrastructure. It is unique in the world to handle the development, production and sale of all significant track components and offer a wide range of services under a single roof. As one of the global market leaders, Vossloh is active in all of the largest rail markets and is highly trusted by its customers. Sustainability is an increasingly important topic for society at large. Achieving ambitious climate targets will only be possible if we shift people and goods onto the rail network. Rail's status as the most environmentally friendly form of mass transport will become increasingly important over the coming decades. Vossloh will both drive this trend and noticeably benefit from it.

Vossloh in the future rail market

In addition to sustainability, other megatrends like population growth, urbanization, globalization and digitalization will have a positive impact on the rail industry and spur significant growth.

Mobility is at a turning point. The growing global population and urbanization as well as the globalized trade are making sustainable mobility and sustainable transport absolutely vital. This will invariably lead to an increase in traffic on the rail network, as this means of transport makes efficient use of resources and produces low levels of emissions, making it by far the most sustainable means of transport.

However, expanding existing route networks in proportion with the increasing amount of traffic on the rails is not feasible for a number of reasons, particularly in the near future. Therefore, it will become a matter of key importance to increase the availability of rail infrastructure, and tracks in particular. Modern train control systems like ETCS (European Train Control System) and the ongoing shift towards using digital signal boxes will make it possible to increase capacity in the medium term.

The resulting increase in traffic density will drive up the amount of wear on track components. This trend will benefit Vossloh due to its wide range of cutting-edge products and comprehensive services.

As the level of route utilization increases, the amount of time available for maintenance measures decreases. This means that maintenance models need to become much more efficient, ideally identifying and remedying defects before they lead to serious problems. As traffic density goes up, so too does the potential economic damage caused by delays and routes being unavailable. Furthermore, rapid preventive maintenance technologies will become even more important in the future. Vossloh's patented high-speed grinding, for example, makes it possible to perform maintenance work almost entirely without route disruption and reduces the likelihood of severe rail defects when employed on a regular basis.

Vossloh now distinguishes itself from its competitors worldwide through its uniquely comprehensive range of cutting-edge track-related products and services. We know more about the physics of all of the main components than anyone else, and, crucially, how they interact with each other. That's why we are perfectly placed to develop and implement concepts ranging from condition-based to predictive maintenance with our customers.

Vossloh remains committed to its established range of cutting-edge, high-quality products and its constantly expanding range of services. In this digital age, the two are more integrated, synergistic and inseparable than ever. Digitalization is opening up new opportunities which are a key part of our strategic approach, due in no small part to the fact that it makes large data sets easier to process and analyze.

Vossloh has three main strategic focus areas: expanding our existing products and services and improving their profitability; establishing new digital-based business models for services; optimizing internal processes and structures across the Group, while also increasing and institutionalizing the importance of sustainability.

Expanding existing business, increasing profitability

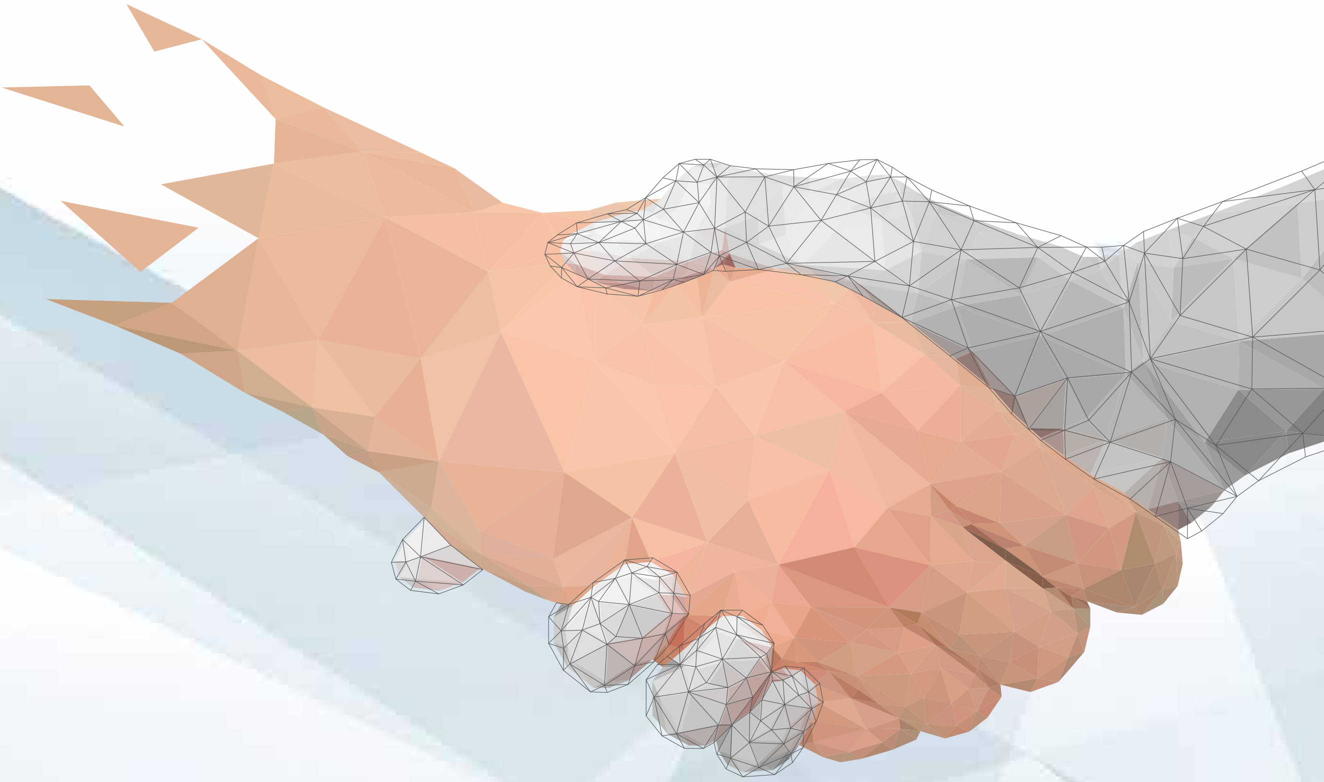
More rail traffic will inevitably lead to increased wear, and therefore greater demand for the kind of rail infrastructure components, which currently account for the majority of Vossloh's Group sales.

In order to continuously improve its profitability, Vossloh is pursuing a strategy of sustainably reducing production costs, increasing its focus on growth regions, adding complementary products and services to its range and engaging in targeted innovations.

A number of important modernization projects will be completed this year, which will significantly reduce production costs. Vossloh's factory of the future in Werdohl is the world's most cutting-edge rail fastening system production facility and will significantly improve the company's competitive position. Highly automated processes will shorten delivery and response times and significantly increase efficiency across the entire value chain. Vossloh has sites in France which specialize in different stages of the switch manufacturing process: Reichshoffen focuses on metal milling, while the site in Fère-en-Tardenois focuses on final assembly and shipping. In addition to greater efficiency, the new manufacturing model will improve our ecological footprint over the medium term. Work is nearly complete on our enhancements of the production facility in Outreau. The site in the north of France is our competence center for foundry technology. The renovation of the cutting-edge foundry will be finished once the last few work areas have moved into the new halls.

Initiatives to increases sales volumes include not only more intensive marketing activities but also opening up of new market segments and new products. A joint venture in Anyang, China, will allow Vossloh to supply the mainline railway and local transport markets and increase its vertical integration.

In addition to continuously adding complementary products to its portfolio, Vossloh is developing innovative products and getting them to a level where they are ready for the market. Vossloh wants its internally developed composite tie to be the first choice that operators turn to when replacing wooden ties. The innovative tie has a comparatively low weight and a longer service life. Operational testing has already been approved in Germany. The glass fiber-reinforced synthetic tie was developed by the Tie Technologies business unit as an alternative for specific markets or specific applications.



Bringing service into the digital era

We are enhancing and expanding our range of traditional services. We are also using digital business models to open up new sales markets. For this reason, Vossloh will continue to invest in new technologies which are capable of providing and analyzing real-time track condition data to identify relevant information.

Vossloh is already growing in the area of traditional rail services, as is the case with the successful business in China. It already entered the North American market in 2020 with the launch of mobile milling technology. High-speed railgrinders will be able to reprofile rails and operate with greater efficiency due to technical enhancements. Vossloh will be making investments to expand its switch maintenance business.

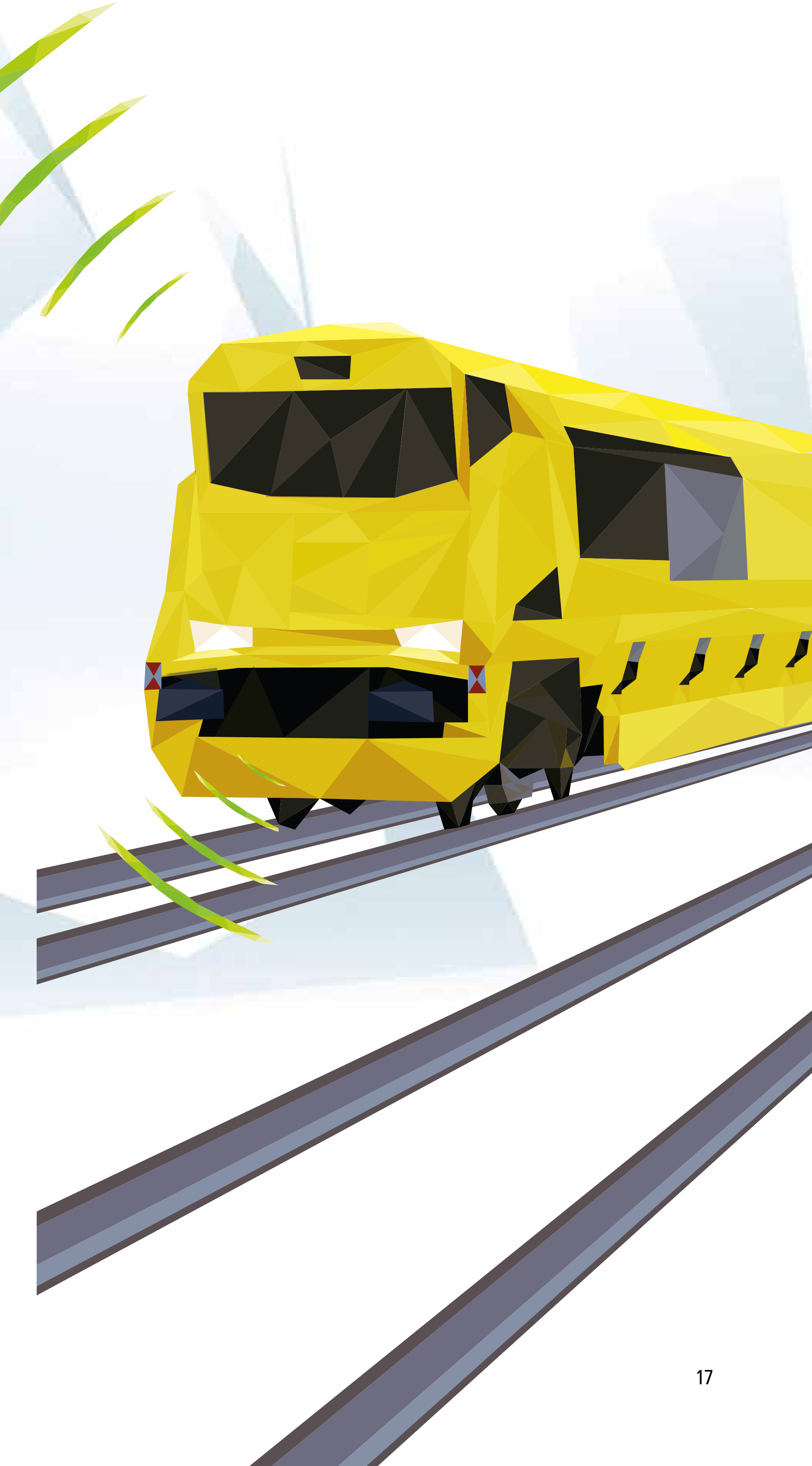
We also want to make a more concerted effort to meet the constantly increasing demand from customers for higher track availability. Due to its wide range of infrastructure products and infrastructure-related services, Vossloh can monitor condition data both at fixed points and on the move with its own service vehicles.

Both sets of data complement one another and provide a comprehensive picture of the condition of the track. As rail track experts, we use this data to identify relevant information and reach conclusions about the current and perspectively also about the future condition of the track. Vossloh then works together with customers to develop applications and solutions for smart maintenance.

Switches are the most maintenance-intensive element and are particularly important in this context. With the order we recently won for the data-based condition monitoring of switches in Sweden, we and our strategic partner Deutsche Bahn Systemtechnik booked a major success.

We already have partnerships and service level agreements in place in some projects involving French tram operators.

We will be expanding this business to other countries based on our experience from these projects. Framework agreements reflect our customers' need for efficient maintenance on busier routes without disruption to schedules. Our continuous sensor-based track condition monitoring will also feed into our product development processes and provide us with competitive advantages.



Optimizing process and structures, institutionalizing sustainability

The Vossloh team sees the strategic importance in improving its own processes and expertise if it wants to achieve its targets, alongside our long-standing commitment to enhancements and optimization.

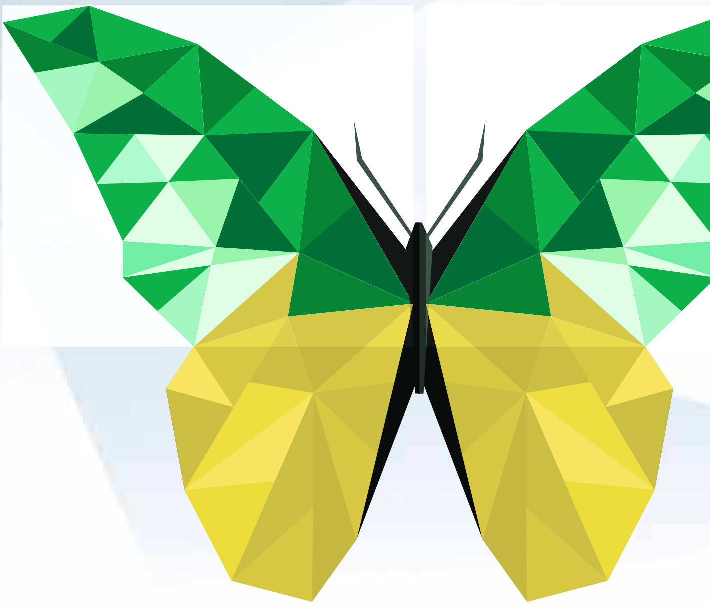
In addition to its existing strategic partnerships, Vossloh is building up its expertise in the areas of the internet of things (IoT), artificial intelligence and algorithms in order to establish new digital business models. The Company is in the process of setting up an analysis platform for processing data. We are standardizing our current IT landscape wherever it makes sense across the Group. We have established and consistently implemented a global program to ensure that we are always improving and increasing our efficiency.

Sustainable mobility is only going to become more important in future. Rail is a green mode of transport. Vossloh is convinced that sustainability will play a key strategic role in its success. Vossloh signed up to the UN Global Compact in early 2020. Signatories are required to meet specific ecological and social standards. It also set up a central office for sustainability, health and safety at a Group level. The strategic approach has been defined: Vossloh strives to achieve climate neutrality in Europe by 2030.

Of course, ecology and economics go hand in hand: in addition to reducing our impact on the environment, acting sustainably will lower our costs by reducing the amount of resources we consume. For example, we use secondary raw materials from recycling in plastics production. We implement the principles of the circular economy whenever this is possible. Waste concrete from the tie production process is reused as ballast for new roads. In the foundry sector, the chips from mechanical processing go back into the melting process.

In summary: Realistically, climate protection targets in the transport sector cannot be achieved without shifting greater levels of traffic onto rail networks. Therefore, in light of the diverse and obvious limitations on the expansion of rail networks, the focus should be on significantly increasing the availability of existing networks. Vossloh has more than 130 years of experience in the development and production of reliable and cutting-edge track components. Using digital tools and applications and a comprehensive range of applications allows us to offer our customers unique comprehensive solutions with regard to availability. This is how we lay the foundation for sustainable rail-based mobility. Our motto is:

Vossloh – enabling green mobility



Prof. Dr. Rüdiger Grube
Chairman of the Supervisory Board

Supervisory Board of Vossloh AG

Prof. Dr. Rüdiger Grube *(since February 5, 2020), Chairman, managing partner of Rüdiger Grube International Business Leadership GmbH and former CEO of Deutsche Bahn AG, Hamburg*

Ulrich M. Harnacke*, Deputy Chairman, independent auditor, tax advisor and management consultant, Mönchengladbach*

Dr. Roland Bosch*, (since May 27, 2020), former CEO of DB Cargo AG, Königstein im Taunus*

Marcel Knüpfer *(since June 1, 2020), Technical Manager and Shift Leader, Zwenkau*

Andreas Kretschmann*, social security employee, Chairman of the Works Council of Vossloh Fastening Systems GmbH and Chairman of the Group Works Council, Neuenrade*

Dr. Bettina Volkens *(since May 27, 2020), former member of the Executive Board of Deutsche Lufthansa AG, Königstein im Taunus*

Prof. Dr. Anne Christine d'Arcy *(until May 27, 2020), University Professor for Corporate Governance and Management Control, Vienna, Austria*

Dr. Sigrid Evelyn Nikutta *(until May 27, 2020), Member of the Management Board of Deutsche Bahn AG for Freight Transport and CEO of DB Cargo AG, Berlin*

Michael Ulrich *(until May 31, 2020), Machinist, Chairman of the Works Council of Vossloh Locomotives GmbH, Kiel*

Report of the Supervisory Board

Dear shareholders,

On behalf of myself and my colleagues on the Supervisory Board, I would like to express my personal sorrow and grief at the unexpected death of our majority shareholder Heinz Hermann Thiele. Mr. Thiele supported and encouraged Vossloh for many years in his own unique way. As a shareholder, he invested his money in this Company; as Chairman of the Supervisory Board, he held a position of great responsibility in the company for many years; as an experienced businessman, he charted a path for Vossloh's realignment and accompanied us on our journey. Heinz Hermann Thiele's death is a great loss for us, for Germany and for the international business community. At first glance, he may have seemed a bit rough around the edges. Those who had the pleasure of getting to know him knew that he was a courageous and principled man of conviction. Vossloh owes him its gratitude and he has permanently secured an important place in this Company's history. Our deepest sympathies and condolences are with his bereaved family.

Once again in the 2020 fiscal year, the Supervisory Board discharged the duties incumbent upon it pursuant to the law and the Articles of Incorporation with due care, continually monitored the work of the Executive Board and advised the Executive Board on the Company's management. The Executive Board met its information obligations and regularly informed the Supervisory Board of all the issues relevant to Vossloh AG and the Group with regard to strategy, planning, business development, the risk situation and developments, and compliance on a comprehensive and prompt basis, in written and in verbal form. This also included information about deviations in the actual development from the previously reported targets and deviations in business performance from the plans.

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

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

Focus of the meetings

The Supervisory Board met 13 times during the year. The Supervisory Board convened for four ordinary meetings on March 18, May 26, October 1 and November 26, 2020. Extraordinary meetings were held on January 6, February 10, April 6, April 16 and April 28, May 27, September 30, October 8 and October 13. The Supervisory Board also made a written resolution in December 2020. Almost all the Supervisory Board meetings were attended by all of the members of the Supervisory Board. Attendance was 98.7 percent during the year under review. The only absence was caused by Dr. Sigrid Evelyn Nikutta being unable to attend the extraordinary meeting on April 28, 2020 due to a scheduling conflict. The Executive Board members attended the Supervisory Board meetings unless the Chairman of the Supervisory Board specified otherwise. When required, the Supervisory Board also met to discuss individual agenda items during the meetings without the members of the Executive Board.

In all their meetings last year, the Supervisory Board and Executive Board dealt extensively with the further development of the Vossloh Group. In addition, the Executive Board reported on the business situation in all the meetings and provided detailed information regarding the development of sales and earnings in the individual business units, on business development opportunities and risks and on key managing measures. The Supervisory Board also continually addressed the status of the regulatory and civil proceedings relating to earlier anticompetitive agreements, compliance issues and the ongoing development of the Vossloh Compliance-Management-System. The COVID-19 pandemic and its impact on operations was addressed on a regular basis from the beginning of the pandemic onwards. The Supervisory Board also focused on the following issues in the individual meetings:

The main items on the agenda of the extraordinary meetings on January 6 and February 10, 2020 were the organizational and personnel changes to the Supervisory Board which were made necessary by Dr. Bernhard Düttmann stepping down from the Supervisory Board and the judicial appointment of Prof. Dr. Rüdiger Grube as a member of the Supervisory Board effective February 5, 2020. The Supervisory Board received comprehensive information about the finalization of the sale of Vossloh Locomotives GmbH in its meetings on February 10, March 18, April 16, April 28, May 26 and May 27, 2020.

The balance sheet meeting on March 18, 2020, considered in particular the separate and consolidated financial statements for 2019 as well as the agenda and the draft proposals for the Annual General Meeting on May 27, 2020. The Supervisory Board also used this meeting as an opportunity to discuss preparations for the Annual General Meeting and remuneration for members of the Executive Board.

The extraordinary meetings on April 6, April 16 and April 28, 2020, focused on organizing the 2020 Annual General Meeting as a virtual event due to the COVID-19 pandemic, alongside the impact of the pandemic on the Vossloh Group. This included a discussion of the measures adopted by the Executive Board to keep employees safe and safeguard Vossloh's operations. At the meeting on April 16, 2020, the Supervisory Board scrutinized Vossloh's finance and liquidity situation in light of the pandemic and the preparatory work for putting forward Dr. Bettina Volkens and Dr. Roland Bosch as candidates for the Supervisory Board.

In addition to regular reporting topics, the meeting on May 26, 2020 also dealt with the sale of Vossloh Locomotives. The Supervisory Board also used this meeting to prepare for the virtual Annual General Meeting in 2020.

At the extraordinary meeting on May 27, 2020, following the Annual General Meeting, the Chairman and Deputy Chairman of the Supervisory Board were elected along with the committee members.

At the all-day extraordinary meeting on September 30, 2020, the Supervisory Board dealt extensively with Vossloh's future strategy. This strategy was discussed in detail with the Executive Board and the Head of Strategy in attendance and approved.

In addition to regular reporting topics, the agenda for the meeting on October 1, 2020, mainly concerned a thorough discussion of the updated version of the German Corporate Governance Code (GCGC) as amended on December 16, 2019, which had been published in the Federal Gazette on March 20, 2020, in addition to the German Act Implementing the Second Shareholder Rights Directive (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie – ARUG II), the changes required in response and how these changes would be implemented.

The extraordinary meetings on October 8 and October 13, 2020 dealt with personnel matters relating to the Executive Board. Following an extensive selection process and in-depth preparations on the part of the Personnel Committee of the Supervisory Board, the Supervisory Board decided to expand the Executive Board to three members and appoint Dr. Thomas Triska and Mr. Jan Furnival, two long-serving executives at Vossloh, to the Executive Board with effect from November 01, 2020. Dr.-Ing. Karl Martin Runge left by mutual agreement on October 31, 2020.

At its final ordinary meeting of the year on November 26, 2020, the Supervisory Board dealt intensively with the business development in the 2020 fiscal year as well as planning for the years 2021 through 2023. The Supervisory Board approved the budget for 2021 following an in-depth examination and discussion with the Executive Board. The Supervisory Board also performed a self-evaluation to assess the effectiveness of the Supervisory Board and its committees. It focused on the composition of the Supervisory Board and how its members are appointed, how well the Supervisory Board members work together, the Supervisory Board's organization and work methods, both independently and with its committees, in addition to the agenda of the Supervisory Board's meetings and how it is provided with information. The agenda also included the discussion and approval of the new remuneration system for the Executive Board and an assessment and confirmation of the remuneration system for the Supervisory Board in light of the changes required under ARUG II and new recommendations of the GCGC. The Supervisory Board also decided on changes to the Rules of Procedure of the Supervisory Board and Executive Board, and established an internal procedure for specific related party transactions. There were no transactions which needed to be approved or published in the year under review. A declaration of conformity with the GCGC was approved in collaboration with the Executive Board.

The Supervisory Board and the Company are committed to providing support for new members and continuous training for existing Supervisory Board members. The Company provides the members of the Supervisory Board with an appropriate level of support in this regard. A number of events took place in the year under review with the aim of assisting new members of the Supervisory Board who only recently joined the Company. These included the new members of the Supervisory Board meeting Vossloh AG executives and touring the VFS production facility in Werdohl, where the "factory of the future" is currently under construction. At least one other site visit and meetings with local management is planned for 2021. In addition, the Supervisory Board held an all-day extraordinary meeting on September 30, 2020, to discuss Vossloh's situation and its strategy. Supervisory Board members also availed themselves of individual training on topics like corporate governance and digitalization in the rail sector with the support of the Company in the last fiscal year.

Supervisory Board committees

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

As in the previous year, the Audit Committee convened on six occasions in the 2020 fiscal year. All the Audit Committee meetings were attended by all of the committee members. The Executive Board is usually present in full at these meetings. Most of the meetings were also attended by representatives of the auditor and the individuals responsible for Accounting, Controlling and Legal Affairs & Compliance at Vossloh AG. Individuals are also asked to attend in order to provide input about specific agenda items.

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

Following an extensive discussion in the presence of the auditor based on the auditor's reports on the audit of the annual financial statements of Vossloh AG and the Vossloh Group and of the combined management report, the Audit Committee decided to recommend the approval of the consolidated financial statements, the financial statements of Vossloh AG and the combined management report for the 2019 fiscal year to the Supervisory Board during its meeting on March 18, 2020. At its meetings on April 29, July 29 and October 27, 2020, the Audit Committee discussed the half-year report and the quarterly statements with the Executive Board before their publication.

The Company's relationship with the auditor also falls within the responsibility of the Audit Committee. The committee submitted a proposal to the Supervisory Board on March 18, 2020, to appoint an auditor, and subsequently awarded auditing responsibility to the auditor elected by the Annual General Meeting and agreed the focal points of the audit and the remuneration with the auditor. The committee also monitored the auditor's independence and assessed the quality of the audit. The auditor may only be contracted to perform nonaudit services subject to the mandatory approval of the Audit Committee.

In all of its meetings, the Audit Committee also dealt with the key risks and legal and compliance issues. The Audit Committee discussed the main risks identified within the Group in detail with the Executive Board, as well as the necessity and adequacy of the risk provisioning, in particular also for risks due to legal disputes relating to earlier anticompetitive agreements. The Audit Committee also considered compliance issues continuously and in depth, and received comprehensive information about related issues, how they were being handled and the ongoing monitoring and improvement of Vossloh's Compliance-Management-System. In addition, the Audit Committee dealt extensively with the Company's internal control system. Internal Audit provided the Audit Committee with information about its activities during the fiscal year at the meeting on November 26, 2020.

The Nomination Committee convened once in the course of the 2020 fiscal year. The meeting on April 16, 2020 dealt with the preparation of the election proposal for the by-elections of Dr. Bettina Volkens and Dr. Roland Bosch to the Supervisory Board by the Annual General Meeting on May 27, 2020. The Personnel Committee convened a total of three times in 2020. Their meetings focused on preparing for the changes to the Executive Board which were implemented on November 1, 2020. The Personnel Committee conducted an extensive selection process prior to these changes. This process involved considering and discussing a number of internal and external candidates, in addition to interviewing the candidates. Following this period of deliberation, the Supervisory Board appointed Dr. Thomas Triska and Mr. Jan Furnivall to the Executive Board in line with the Personnel Committee's recommendations.

Personnel changes on the Supervisory Board and Executive Board

Some changes took place in the Supervisory Board during the year under review. Dr. Bernhard Düttmann stepped down from the Supervisory Board at the end of the 2019 fiscal year in light of his obligations at CECONOMY AG. In an extraordinary meeting of the Supervisory Board on January 6, 2020, it was decided to apply for the court to appoint Prof. Dr. Rüdiger Grube as a new member of the Supervisory Board. Following his appointment by the court on February 5, 2020, Prof. Dr. Rüdiger Grube also took over as Chairman of the Supervisory Board on February 10, 2020. Mr. Ulrich M. Harnacke was re-elected Chairman of the Audit Committee with effect from the same day.

On May 27, 2020, the Annual General Meeting confirmed the Supervisory Board's proposed appointment of Prof. Dr. Rüdiger Grube and elected Dr. Bettina Volkens and Dr. Roland Bosch as new members of the Supervisory Board. Prof. Dr. Anne Christine d'Arcy and Dr. Sigrid Evelyn Nikutta, who had been appointed to the Executive Board of Deutsche Bahn AG, stepped down at the end of the 2020 Annual General Meeting. Due to the finalization of the sale of Vossloh Locomotives GmbH, Mr. Marcel Knüpfer replaced Mr. Michael Ulrich as an employee representative on the Supervisory Board effective June 1, 2020. At the extraordinary meeting following the Annual General Meeting, Dr. Bettina Volkens was appointed to the Personnel Committee and the Nomination Committee, while Dr. Roland Bosch was appointed to the Audit Committee and the Nomination Committee. Mr. Andreas Kretschmann replaced Michael Ulrich on the Personnel Committee and the Audit Committee effective June 1, 2020.

There were also changes that took place to the Executive Board during the year under review. At its extraordinary meeting on October 13, 2020, the Supervisory Board decided to expand the Executive Board of Vossloh AG from two to three members effective November 1, 2020, while retaining Oliver Schuster as CEO. Dr. Thomas Triska and Mr. Jan Furnivall were appointed as additional members for the next three years. Dr.-Ing. Karl Martin Runge stepped down and left the Executive Board on October 31, 2020, by mutual agreement.

Corporate Governance and Declaration of Conformity

The Supervisory Board is committed to ensuring effective corporate governance. At its meeting on November 26, 2020, the Supervisory Board considered the recommendations of the GCGC and, together with the Executive Board, issued a Declaration of Conformity in accordance with Section 161 AktG. This was made permanently accessible on the Company website (see also page 28 of the annual report). Vossloh AG has been in compliance with all of the recommendations laid out in the February 7, 2017 version of the GCGC since submitting its most recent declaration of conformity in November 2019. It is also in compliance with all but two of the recommendations of the December 16, 2019 version of the GCGC. Details of corporate governance within the Company can be found in the Declaration on Corporate Governance (starting on page 25 of the annual report).

Separate and consolidated financial statements for 2020

The annual financial statements of Vossloh AG in accordance with German accounting standards, the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU and the combined management report for Vossloh AG and the Group for the 2020 fiscal year, including the accounting, were examined by the auditor duly appointed by the Annual General Meeting on May 27, 2020, Deloitte GmbH Wirtschaftsprüfungsgesellschaft based in Munich (Düsseldorf office), and were each issued with an unqualified audit opinion. In its audit opinion, the auditor concluded that the Executive Board had taken the necessary steps to put in place an appropriate risk identification system as required by Section 91 (2) AktG and that the system was suitable for identifying going concern risks early on.

The auditor also examined the dependent company report prepared by the Executive Board (Section 312 AktG) in accordance with Section 313 AktG and issued the following audit opinion: "After due and proper examination and assessment, we hereby confirm, first of all, that the information contained in the report is correct and second, that payment made by the Company for the legal transactions stated in the report was not inappropriately high."

The financial statements including the nonfinancial Group statement (Section 315b HGB) and the auditor's reports were distributed to the members of the Supervisory Board in good time prior to the meeting held on March 17, 2021, to approve the financial statements. During the meeting, the auditor reported on the key findings of their audit and provided additional information. The Supervisory Board comprehensively discussed all the issues that arose in relation to these documents following the Audit Committee's preparations and in the presence of the auditor. The auditor also reported on the Vossloh Group's early risk detection system. The auditor additionally heard, read and acknowledged other information including the Declaration of Conformity in accordance with Section 161 AktG, the Declaration on Corporate Governance and the nonfinancial statement of the Group (Section 315b HGB) and found nothing that suggested this information constituted a material misrepresentation. The Supervisory Board also contracted Deloitte GmbH Wirtschaftsprüfungsgesellschaft to perform a voluntary audit of its nonfinancial Group statement (Section 315b HGB) to achieve a certain degree of assurance therefor. This did not result in any objections.

The Supervisory Board likewise reviewed the annual financial statements submitted by the Executive Board, the consolidated financial statements and the combined management report for Vossloh AG and the Vossloh Group for the 2020 fiscal year including the nonfinancial Group statement (Section 315b HGB), the dependent company report including the Executive Board's closing statement, and the proposal for the appropriation of net earnings. According to the final result of its own review, the Supervisory Board raised no objections. The Supervisory Board approved the annual financial statements and consolidated financial statements on December 31, 2020. The annual financial statements were thus adopted on December 31, 2020. The Supervisory Board concurred with the combined management report, in particular the statements on the Company's continued development and the disclosures pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code (HGB), both in conjunction with the transitional provisions of Art. 83 para. 1 of the Introductory Law to the German Commercial Code (EGHGB), and with the dependent company report. The Supervisory Board approved the Executive Board's proposal for the appropriation of the 2020 net earnings, which recommended the payment of a dividend in the amount of €1.00 per dividend-bearing share.

The Supervisory Board would like to thank the Executive Board and all employees of the Vossloh Group for their dedication and successful service in the past fiscal year. Vossloh's performance was outstanding in the past fiscal year despite the challenging environment and the impact of the ongoing COVID-19 pandemic.

Werdohl, Germany, March 17, 2021

The Supervisory Board
Prof. Dr. Rüdiger Grube
Chairman

Declaration on Corporate Governance/ Corporate Governance Report

The following Declaration on Corporate Governance in accordance with Sections 289f (1) (in conjunction with the transitional provision of Article 83 (1) of the Introductory Act to the German Commercial Code) and 315d of the German Commercial Code is the central element of the corporate governance reporting process (Principle 22 of the German Corporate Governance Code (GCGC) as per December 16, 2019).

Management and control structure

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

Executive Board

The three members of the Executive Board are responsible for jointly running the Company. As CEO, Mr. Oliver Schuster is responsible for coordinating the work of the Executive Board in the areas of Strategy and M&A, Media Relations, Legal Affairs and Compliance, IT and Digital Business, Innovation and Research & Development, Human Resources and Internal Audit. As Chief Financial Officer, Dr. Thomas Triska is responsible for Accounting and Taxes, Controlling, Treasury and Investor Relations. As Chief Operating Officer, Mr. Jan Furnivall is responsible for Sales, Marketing Communication, Technology and EHS/Sustainability. Divisions are also allocated to individual members of the Executive Board. Mr. Oliver Schuster is responsible for the Core Components division, Dr. Thomas Triska for the Customized Modules division and Mr. Jan Furnivall for the Lifecycle Solutions division. More information on the members of the Executive Board of Vossloh AG can be found on page 160 of this annual report.

The work of the Executive Board is regulated by the Executive Board's Rules of Procedure. The members of the Executive Board work cooperatively and inform one another on an ongoing basis about important measures and events within their respective areas of responsibility. The entire Executive Board makes decisions regarding all significant issues. Potential conflicts of interest are immediately made known to the Supervisory Board and the other Executive Board members. Secondary employment or the assumption of external Supervisory Board positions require the prior approval of the Supervisory Board.

The Supervisory Board is responsible for the appointment and dismissal of the Executive Board members. In this regard, the Supervisory Board observes specific target figures stipulated by the German Act on Equal Participation of Men and Women in Executive Positions in the Public and Private Sectors and also the age limit stipulated for members of the Supervisory Board in the Rules of Procedure (i.e. the statutory retirement age). The Supervisory Board discusses the issue of long-term succession planning on a regular basis (at least once per fiscal year) to identify action which needs to be taken in the near future and over a longer term, in addition to identifying and developing suitable candidates. Mainly because of the small size of Vossloh AG's Executive Board, a general diversity concept stipulating requirements regarding career paths and education is not in place for the Executive Board. Instead, the Supervisory Board makes every effort to find the most suitable candidates for vacant spots on the Executive Board on a case-by-case basis. Executive Board members are selected on the basis of a systematic search, which focuses in particular on expertise and personality, and numerous other features, including the diversity of the Executive Board.

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

Supervisory Board

The Supervisory Board, which comprises six members in accordance with Article 10 (1) sentence 1 of the Articles of Incorporation, is composed subject to the provisions of Germany's One-Third Participation Act (DrittelbG) and the Stock Corporation Act (AktG). Two thirds of its members are shareholder representatives and one third is made up of employee representatives. In accordance with the recommendations of the German Corporate Governance Code, the shareholder representatives were elected individually. The terms in office of all the current Supervisory Board members end on conclusion of the Annual General Meeting in 2023, at which a resolution will be passed to formally approve the actions of the Supervisory Board members in the 2022 fiscal year. More information on the members of the Supervisory Board of Vossloh AG, including how long they have been on the Board, can be found on page 161 of this annual report.

The Supervisory Board oversees and advises the Executive Board on its management of business and discusses business development, planning, the strategy and its implementation, risk management and compliance issues with the Executive Board at regular intervals. It approves the annual plan and decides on the adoption of the annual financial statements of Vossloh AG and approval of the consolidated financial statements, in addition to deciding whether or not to approve related party transactions. Certain material transactions and measures regulated by the Executive Board's Rules of Procedure are subject to the approval of the Supervisory Board. The work methods of the Supervisory Board are regulated by the Rules of Procedure, which are published on the company's website.

The Supervisory Board most recently stipulated concrete targets for its composition at its meeting on September 28, 2017, and developed a competency profile for the body as a whole. The "Requirements and Objectives for the Composition of the Vossloh Aktiengesellschaft Supervisory Board" are published on the Company's website and also include the diversity concept. With regard to diversity, the Supervisory Board is setting its sights on a composition within the parameters of the Company-specific situation that takes into account a varied career and international experience and, in particular, the appropriate involvement of all genders. Based on the German Act on Equal Participation of Men and Women in Executive Positions in the Public and Private Sectors, the Supervisory Board set itself a target of at least 16.67 percent women (one female member) for the target period up to June 30, 2022. Vossloh remained on track with this target even after Dr. Sigrid Nikutta and Dr. Anne Christine d'Arcy stepped down at the end of the Annual General Meeting on May 27, 2020 due to the continued presence of Dr. Bettina Volkens on the Supervisory Board.

The Supervisory Board's other requirements and objectives regarding its composition relate, in addition to other factors, to the full board's expertise, the independence of its members, potential conflicts of interest, availability, an age limit (usually 70) and the duration of board tenures (usually no longer than three terms). The Supervisory Board meets these requirements and objectives with its current composition. Specifically, the Supervisory Board members have the necessary professional and personal qualifications. Regarding independence, the Supervisory Board determined that, taking into account the Vossloh owner structure, at least half of the shareholder representatives on the Supervisory Board should be independent members within the meaning of Recommendation C.6 of the GCGC (or number 5.4.2 of the GCGC as amended on February 7, 2017. The Supervisory Board concludes that as of December 31, 2020, all shareholder representatives on the Supervisory Board were deemed independent within the meaning of Recommendations C.6 and C.7 of the GCGC. The election proposals put to the Annual General Meeting by the Supervisory Board are to accommodate the "Requirements and Objectives for the Composition of the Vossloh Aktiengesellschaft Supervisory Board" as adopted by the Supervisory Board.

The Supervisory Board performs its duties both as a plenary body and through its three current committees, which it established to improve the efficiency of its activities. The committee chairs report on relevant issues and the results of discussions in the plenary Supervisory Board meeting following each committee meeting.

The Personnel Committee currently has four members: Prof. Dr. Rüdiger Grube, Dr. Bettina Volkens, Mr. Ulrich M. Harnacke and Mr. Andreas Kretschmann. The Personnel Committee is mainly responsible for Executive Board matters. It prepares personnel decisions, resolutions and the reviews of the full Supervisory Board regarding the remuneration system and the total remuneration of the individual Executive Board members. The Chairman of the Supervisory Board is also Chairman of the Personnel Committee.

The Audit Committee is first and foremost responsible for monitoring accounting, the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system, the financial statement audits and compliance. Its members are Mr. Ulrich M. Harnacke, Dr. Roland Bosch and Mr. Andreas Kretschmann. The Audit Committee prepares the Supervisory Board's auditing of the annual and consolidated financial statements, the combined management report and the audit reports of Vossloh AG and the Vossloh Group. The quarterly statements and half-year report are discussed jointly by the Audit Committee and the Executive Board prior to publication. The Audit Committee recommends auditors to the Supervisory Board and commissions audits for the annual financial statements and consolidated financial statements and reviews of interim reports. It also works with the auditor to define which areas their audit will focus on, and assesses the quality of audits based on a range of criteria. The Audit Committee also obtains regular reports directly from the Internal Audit department and the Chief Compliance Officer. The Audit Committee also performs tasks in accordance with Section 111a(2) sentence 1 and 2 of the German Stock Corporation Act (AktG). The Chairman of the Audit Committee remains in contact with the auditor on a regular basis outside of the meetings of the Audit Committee. The Chairman of the Audit Committee is Mr. Ulrich M. Harnacke. Mr. Harnacke is a tax adviser and auditor and the former managing director of Deloitte & Touche GmbH. As a financial expert, he meets the requirements stipulated in Section 100 (5) AktG. He is also considered independent (Recommendation D.4 of the GCGC).

The Nomination Committee is responsible for long-term succession planning for the Supervisory Board and for preparing candidate proposals for shareholder representatives on the Supervisory Board. Its four members are Prof. Dr. Rüdiger Grube, Dr. Bettina Volkens, Dr. Roland Bosch and Mr. Ulrich M. Harnacke. The Supervisory Board then selects the election proposals that will be presented to the Annual General Meeting for an appointment decision. The Chairman of the Nomination Committee is Prof. Dr. Rüdiger Grube.

The Supervisory Board assesses the efficiency of its activities on a regular basis. The Supervisory Board does this by alternating between using external assistance and performing internal evaluations. The performance of the Supervisory Board and its committees was last reviewed in November 2020 on the basis of a self-evaluation. The results of this self-evaluation were extremely positive. It focused on the composition of the Supervisory Board and how its members are appointed, how well the Supervisory Board members work together, the organization and work methods of the Supervisory Board and its committees, in addition to the agenda of the Supervisory Board's meetings and how it is provided with information. The next evaluation with external assistance is scheduled for 2021.

Every Supervisory Board member is obligated to act in the Company's best interests. Potential conflicts of interest must be reported to the Chairman of the Supervisory Board immediately. Members of the Supervisory Board are required to recuse themselves from any decision made by the Supervisory Board regarding them individually or related parties or companies. No member of the Supervisory Board received remuneration or benefits for personally rendered services in addition to their emoluments for their Supervisory Board activities. There are no former members of the Executive Board on the Supervisory Board of Vossloh AG.

Compliance

Vossloh considers compliance to be conduct in line with all the applicable laws and internal guidelines. As a global enterprise with an approximately 135-year history, Vossloh has a social responsibility toward its customers, partners, employees, investors and the public. This social responsibility involves Vossloh and all its employees adhering to the applicable laws, respecting basic ethical values and acting in an exemplary fashion at all times and in all situations in the course of their work.

The Executive Board of Vossloh AG has unequivocally summed up these principles in its Compliance Commitment, which states: "Compliance with the law has absolute priority over closing a deal or achieving internal targets. We would rather forgo a business opportunity than violate the law. We will not tolerate any violation of the law or of our internal guidelines and policies and will sanction any such behavior (zero tolerance policy)." The Compliance Commitment is also published on the Company's website. The Executive Board of Vossloh AG has put a Compliance-Management-System in place for the Vossloh Group. The Vossloh Compliance-Management-System is designed to identify compliance violation risks and to minimize these risks in order to prevent Vossloh and its employees from incurring damage and liability risks. Anticorruption and the strict observance of antitrust regulations play a particularly important role.

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

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

Vossloh set up a whistleblower hotline in partnership with an international law firm in order to uncover potential compliance violations. The whistle-blower hotline allows company employees and external whistle-blowers to report possible misconduct to an independent external contact (ombudsperson). The whistleblower hotline has so far been set up for 24 countries. As such, the main regions and the languages spoken within the Vossloh Group are essentially covered. The Chief Compliance Officer follows up all reports and implements appropriate measures where necessary. The same applies for reports which employees can make internally. Employees can contact the Compliance Office directly.

The Chief Compliance Officer and the Group Compliance Committee continually review the effectiveness throughout the Group of the Compliance-Management-System. In the 2017 fiscal year, the Vossloh Group's Compliance-Management-System was subjected to a comprehensive audit in accordance with Assurance Standard 980 of the Institute of Public Auditors in Germany (IDW) (IDW AsS 980) by KPMG AG Wirtschaftsprüfungsgesellschaft regarding the subsections of antitrust law and anticorruption. The audit was performed as an effectiveness assessment and was concluded in February 2018. KPMG confirmed that the Vossloh Group's Compliance-Management-System is implemented appropriately and was effective in the period under review. Vossloh has published the audit report on the Company website under "Corporate Governance" > "Compliance" in the "Investor Relations" section.

The Group Compliance Committee additionally performs regular general audits, usually with the assistance of external auditors, in order to check the effectiveness of the Compliance-Management-System within the Group companies and to identify new or changed risks and any scope for improvement.

Risk and control management

The principles of good corporate governance include responsible business risk management. The Vossloh AG Executive Board and the management teams of Vossloh Group companies have Group-wide and company-specific reporting and control systems at their disposal that ensure that such risks are recorded, assessed and managed. The systems are continually checked for their effectiveness, adapted to changing parameters if applicable and examined by the auditor as part of the statutory auditing requirements. As described above, the Supervisory Board and Audit Committee are regularly briefed on and involved in the risk management process. Details of risk management within the Vossloh Group can be found in the risk report section (from page 67 of this annual report). This also includes the report on the accounting-related internal control and risk management system.

Declaration of conformity

Once again in 2020, the Executive Board and Supervisory Board of Vossloh AG dealt extensively with the recommendations of the German Corporate Governance Code. Vossloh's corporate governance practices are regularly reviewed accordingly.

The Executive Board and Supervisory Board issued the following declaration of conformity in November 2020:

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

Vossloh Aktiengesellschaft has complied with all of the recommendations of the German Corporate Governance Code as amended on February 7, 2017 and published in the Federal Gazette by the Federal Ministry of Justice since submitting its most recent declaration of conformity in November 2019. Vossloh Aktiengesellschaft currently complies with all of the recommendations of the German Corporate Governance Code as amended on December 16, 2019 (GCGC) published in the Federal Gazette by the Federal Ministry of Justice on March 20, 2020, with the exceptions listed below. It will remain in compliance in future, with the exceptions listed below.

Recommendation C.4: "A Supervisory Board member who is not a member of any Executive Board of a listed company shall not accept more than five Supervisory Board mandates at non-group listed companies or comparable functions, with an appointment as Chairman of the Supervisory Board being counted twice."

Explanation: The Chairperson of the Supervisory Board, Prof. Dr. Grube, has two other Supervisory Board mandates at listed companies (Hamburger Hafen- und Logistik AG as well as RIB Software SE); he is the Chairman of one of these Supervisory Boards. Furthermore, Prof. Dr. Grube holds four other mandates at non-listed companies (please refer to the disclosure on the company's website) that could be considered to represent a similar function within the meaning of DCGK Recommendation C.4. In the opinion of the Executive Board and the Supervisory Board, Prof. Dr. Grube makes an extremely valuable contribution to the company, not least on account of his outstanding expertise and many years of experience in the industry, and this contribution is not lessened by the additional mandates referred to herein. In particular, Prof. Dr. Grube has sufficient time available to conscientiously fulfill his responsibilities as the Chairman of the company's Supervisory Board.

Recommendation G.10: "Taking the respective tax burden into consideration, Executive Board members' variable remuneration shall be predominantly invested in company shares by the respective Executive Board member or shall be granted predominantly as share-based remuneration. Granted long-term variable remuneration components shall be accessible to Executive Board members only after a period of four years."

Explanation: The Supervisory Board considers the share price-based components of the variable remuneration of the Executive Board, which currently account for approx. one-third of the variable Executive Board remuneration, as being sufficient. The Supervisory Board is of the opinion that any greater weighting of share price-based remuneration components could weaken the focus on the sustainable achievement of key operational performance indicators. In addition, the Supervisory Board takes into account the fact that for share price-based remuneration components, changes in the share price depend not only on the performance of the Executive Board members, but also on external factors over which the company and its bodies do not have any influence. In light of the recommendation of the DCGK that the first-time appointment of Executive Board members should not exceed a period of three years – a recommendation that is regularly practiced by the company – the Supervisory Board does not believe that a four-year measurement period for the long-term variable remuneration of Executive Board members (or a distribution prohibition of one year directly following the three-year measurement period) would be appropriate.

This declaration of conformity and others from previous years are available on the Vossloh AG website.

Shareholders and Annual General Meeting

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

Investor Relations

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

Accounting and auditing

Vossloh Group accounting is based on the International Financial Reporting Standards (IFRS) as applicable in the EU. The annual financial statements of Vossloh AG, on the other hand, are prepared in accordance with the German Commercial Code (HGB) as stipulated by law. Both the consolidated financial statements in accordance with IFRS and the separate financial statements pursuant to German accounting regulations were audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft in accordance with the German regulations and taking into account the generally accepted German auditing principles promulgated by the Institute of Public Auditors in Germany (IDW), this audit firm having been elected by the 2020 Annual General Meeting at the Supervisory Board's proposal. The audit work was contracted by the Supervisory Board's Audit Committee in accordance with the recommendations of the German Corporate Governance Code following verification beyond doubt of the auditor's independence. An agreement was reached with the auditor that the auditor would notify the Supervisory Board without delay of any findings or events of significance to the Supervisory Board's duties that came to light in the course of its audit and would notify the Supervisory Board of any facts identified that would make its declaration of conformity with the German Corporate Governance Code incorrect. No indications of any such facts were identified in the course of the audit. The condensed interim consolidated financial statements and the interim Group management report as of June 30, 2020, were subjected to an auditor's review.

Involvement of women and men in executive positions

The Supervisory Board and Executive Board set the targets outlined below for Vossloh AG in accordance with the German Act on Equal Participation of Men and Women in Executive Positions in the Public and Private Sectors (for information on the targets for the Supervisory Board, see the "Supervisory Board" section above).

On May 23, 2017, the Supervisory Board set a target of 0 percent for the Executive Board of Vossloh AG, which currently comprises three male members, for the next target period up to June 30, 2022. Following the change in November 2020, there are no current plans to make any changes or additions to the Executive Board. Female candidates were considered as part of the selection process when preparing for the changes to the Executive Board in November 2020.

On May 19, 2017, the Executive Board set targets of 25 percent for both the first and second management levels below the Executive Board, to be achieved by June 30, 2022. Women made up 20 percent of the first management level (previous year: 16.7 percent), which was below the target figure despite reorganization of the first management level following the change to the Executive Board on November 1, 2020. Women made up 50 percent (previous year: 25.0 percent) of the second management level, exceeding the target.

Executive Board and Supervisory Board remuneration

The Supervisory Board approves and regularly reviews the Executive Board's remuneration system. The remuneration structure is geared toward sustainable corporate development. A multiyear assessment basis has been agreed for the majority of the variable remuneration. The total remuneration of the individual Executive Board members is determined by the Supervisory Board. This takes into account the individual members' duties, their personal performance, the economic situation, the Company's success and future prospects and how customary the remuneration is when compared horizontally and vertically, as well as the development of these individual criteria. The system for the remuneration of Executive Board members, which was revised in the 2017 fiscal year, had been approved by the Annual General Meeting on May 9, 2018. This remuneration system was revised due to personnel changes and the temporary downsizing of the Executive Board in October 2019. It was reviewed and revised again in November 2020 to reflect the German act on implementing the Second Shareholder Rights Directive (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie – ARUG II) and the new recommendations of the GCGC for the Executive Board. The remuneration system for the Executive Board chosen by the Supervisory Board applies for all new appointments to the Executive Board and extensions of Executive Board terms from January 1, 2021 onwards. The multiyear variable remuneration of Executive Board members is largely dependent on the Company's share price. Remuneration is not invested in the shares of the Company. The Executive Board's remuneration system is available on the Company's website.

Since 2014, Supervisory Board remuneration has been purely fixed remuneration; this is regulated in the Articles of Incorporation of Vossloh AG. The remuneration system of the Supervisory Board was reviewed in 2020 in light of ARUG II and the recommendations of the GCGC. The Executive Board and Supervisory Board prepared a system based on the remuneration specified in the Articles of Incorporation of Vossloh AG. The remuneration systems for the Executive Board and Supervisory Board will be submitted to the Annual General Meeting in 2021 for approval. More information on Executive Board and Supervisory Board remuneration in 2020 can be found in the remuneration report starting on page 53, which is part of both the combined management report and this Declaration on Corporate Governance.

Combined management report

Business and market environment

Segmentation and competitive position

Vossloh is active in rail infrastructure markets worldwide. Its business activities are organized into three divisions – Core Components, Customized Modules and Lifecycle Solutions. The Core Components division is made up of two business units, Fastening Systems and Tie Technologies. The two other divisions encompass one business unit each: Vossloh Switch Systems belongs to Customized Modules, and Vossloh Rail Services belongs to Lifecycle Solutions. You can find detailed descriptions of the individual divisions on page 46 et seq. Vossloh Locomotives was the last business unit in the Transportation division and was part of the Group until the end of May 2020. The legal representatives of Vossloh AG signed a contract on August 26, 2019, for the sale of this business unit to CRRC Zhuzhou Locomotive Co., Ltd., Zhuzhou, China (CRRC ZELC), a subsidiary of CRRC Corporation Ltd. The transaction was completed on May 31, 2020 after it was approved by the relevant authorities.

Vossloh holds the following competitive positions in the rail infrastructure sector:

- Vossloh is a leading global supplier and technological leader in rail fastening systems.
- Vossloh is a global market and technology leader in the switches and crossings segment.
- In Germany, Vossloh is a leading supplier of innovative technologies and services for the entire lifecycle of rails and switches.
- In North America and Australia, Vossloh is a leading manufacturer of concrete ties.

Strategic decisions

In mid-2020, Vossloh completed the transformation of the Group and transitioned into a company focused on its core business of rail infrastructure. Vossloh's unique selling point is its comprehensive range of track-related products and services. Vossloh manufactures all significant track components. The associated knowledge of the technical and physical properties of the rail track forms the basis for understanding the systemic interaction of all components.

Improving track availability will play a significant role in transporting more people and goods by environmentally friendly rail. Vossloh contributes to this in two different areas: The company is continuing to enhance its rail infrastructure products to make them more durable, easier to maintain and more reliable. Vossloh is also playing its part in making the process of maintaining rail networks more efficient. Digitalization will be at the heart of this, as it enables the processing and evaluation of ever larger amounts of data. Vossloh brings its comprehensive and systemic understanding of rail infrastructure to bear to derive relevant information and maintenance recommendations from the collected data. This is the foundation for meeting the specific needs of publicly and privately owned regional, freight and long-distance transport operators and offering them tailored condition-based maintenance solutions.

Vossloh's existing business with products and conventional services forms the basis for the development and expansion of the digital service business. The conventional hardware business and the constantly growing service business form an inseparable unit. The new possibilities afforded by digitalization and, most importantly, the efficient processing and analysis of large amounts of data serve as the link that joins the business models.

Vossloh aligned itself to clearly defined strategic cornerstones in 2020 as part of an extensive internal project, while also defining its role in the international rail infrastructure market. The strategy newly devised and pursued by Vossloh is divided into three sub-areas:

- The existing business with products pertaining to rail infrastructure will be expanded and further strengthened with a view to their profitability. In this context, the focus is on sustainable reduction of production costs, increased sales concentration on selected markets, and also acquisitive expansion of the product portfolio with complementary products as well as an entire series of selective innovations.
- The existing service business will be further internationalized and expanded to include further service offerings. The focus of smart maintenance is on the collection of condition data, both directly on the track and through Vossloh's own fleet of maintenance vehicles and using artificial intelligence to draw up condition-based, predictive maintenance programs. This provides customers with an outstanding opportunity to improve their efficiency levels.
- The new strategy also focuses on accelerating the development of digital expertise, including through relevant partnerships, and emphasizes the importance of sustainable management more strongly than before. At the same time, a Group-wide system for continuously increasing efficiency in every division has been designed.

Strategic measures were implemented and reviewed on a regular basis. The new strategy will contribute significantly towards achieving an average annual sales growth rate of between 4 and 5 percent over the medium term. This improvement would be well above the rate currently forecast for the market in a number of studies. Vossloh also expects all of its divisions to achieve double-digit EBIT margins over the medium term. Vossloh intends for the Group as a whole to achieve an EBIT margin of at least 10 percent over the long term. A double-digit EBIT margin for the Vossloh Group equates to an EBITDA margin of at least 16 percent.

Organization

The Vossloh Group is active around the world. Local presence and customer proximity are integral elements of our business activities. Important production sites for the Fastening Systems business unit are located in Germany, China, Poland, the USA and Russia. In the year under review, a further production facility for certain rail fastening system components was added in China through the full consolidation of the company Vossloh (Anyang) Track Material. The Tie Technologies business unit manufactures concrete ties in the USA, Mexico, Canada and Australia. The switch systems in the Customized Modules division are manufactured primarily in France, Sweden, Australia, Luxembourg, Poland, Finland, the United Kingdom, India and China. The majority of rail services in the Lifecycle Solutions division are provided in Western and Northern Europe from Germany, in addition to China.

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

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

Controlling system

The most significant financial performance indicators for the Vossloh Group are value added, sales revenues, EBITDA margin and EBIT margin[1]. While the Company uses sales revenues, EBITDA margin and EBIT margin as key performance indicators for short-term planning, the long-term management of the business units within the framework of the value-oriented growth strategy is focused on value added. Value added is the management-relevant earnings indicator for the divisions and business units within the framework of external reporting.

Positive value added is generated when a premium is earned on top of the return claimed by investors and lenders (cost of capital). This premium is the difference between the return on capital employed (ROCE, calculated as EBIT/Capital employed) and the cost of capital, which is calculated as the weighted average cost of equity and debt. Multiplying the premium by average capital employed produces the value added over a period in absolute terms. For internal controlling purposes, ROCE and value added are determined before taxes.

Cost of equity is composed of a risk-free interest rate plus a market risk premium. The interest rate factor is adjusted accordingly on the basis of the input tax consideration. Cost of debt is calculated on the basis of the Group's average financing terms. The ratio of equity to interest-bearing debt of two-thirds to one-third, which is used to determine WACC, is not derived from the balance sheet since it is not only predicated on a benchmark for the funding structure but also because equity is based on target market values in this case and not the carrying amounts recognized in the balance sheet. A weighted average cost of capital before taxes (WACC) of 7.0 percent was based on the yield expected by investors and lenders for the purposes of intragroup controlling in the 2020 fiscal year (previous year: 7.5 percent).

There are two ways of increasing value added: increasing EBIT and optimizing capital employed. ROCE is derived from both values. Vossloh seeks to improve the parameters it can influence to optimize this performance indicator. As a result, the Company additionally focuses on working capital, working capital intensity (average working capital/annual revenue) and free cash flow.

Management uses nonfinancial performance indicators for the purpose of managing the company and making long-term strategic decisions. However, nonfinancial performance indicators do not play a central role in the management of the company. Instead, they provide information about the situation within the Group and are used as a basis for decisions. The Vossloh Group has no nonfinancial performance indicators of significance for the activities of the company. Further nonfinancial performance indicators which do not play a central role in management are provided in the nonfinancial Group statement, which begins on page 80.

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

[1] Adjusted figures will be reported for the EBITDA margin and EBIT margin for the 2019 fiscal year due to the negative one-time effects on earnings caused by the performance program.

Economic report

Macroeconomic and industry-specific conditions

Investments in rail infrastructure are generally made around the world on the basis of long-term decision-making processes. For this reason, short-term economic developments are only reflected in the sales markets for rail technology to a limited extent. More significant is the development of debt levels in Vossloh's sales markets, as the majority of the Group's clients are public-sector customers. The debt ratio (the ratio of public debt to GDP) of the euro countries at the end of the third quarter of 2020 was 97.3 percent according to the statistics office of the European Union (Eurostat). This was the most recent figure available when this annual report was prepared. The debt ratio was 85.8 percent at the end of the third quarter of 2019. At the end of September 2020, the debt ratio of the entire EU was 89.8 percent, compared to 79.2 percent in the previous year. The higher debt ratios result from substantial increases in sovereign debt (mainly due to the financing requirements for the government measures to contain the COVID-19 pandemic) on the one hand and declining GDP on the other. In the year under review, there was no significant impact on Vossloh's business activities from the increase in sovereign debt.

From a global perspective, the rail technology market has shown a steadily growing trend for years. This is the result of rising demand around the world for environmentally friendly, safer and more economical mobility for people and goods. The driving forces for this development include megatrends such as population growth, urbanization, the increase of international trade flows and, most significantly, increasing environmental awareness. Passengers and freight needs to be shifted onto the rail network if we want to increase their mobility while also reducing their environmental footprint in the interest of combating climate change. The European Union has designated the year 2021 as the "European Year of Rail" to promote the climate targets for the transport sector defined in the European Green Deal. In addition, the rail sector is undergoing a profound transformation due to digitalization, automation and artificial intelligence, but also due to the standardization and liberalization of rail transport. At the same time, competitive pressure has been rising, also as a result of new players on the market.

A number of studies regularly analyze developments in the global rail technology market. The most important of these is the World Rail Market Study, published by European rail industry association UNIFE. The study is updated every two years; the most recent results were published in October 2020.

According to UNIFE, the current global volume of the rail market is around €177 billion per year. The Association of the European Rail Industry considers about 62 percent of the total volume – some €110 billion – to be an accessible market share. Accessible means that this market is accessible in principle to European suppliers and market demand is not exclusively met through domestic manufacturers.

Since the completed sale of the Locomotives business unit, Vossloh has focused exclusively on products and services for rail infrastructure. The market segments of infrastructure and infrastructure services are therefore of particular importance for Vossloh. Based on UNIFE data, the accessible share of the infrastructure market (excluding electrification) was worth around €18 billion per year on average between 2017 and 2019. Roughly 35 percent of market volume is currently accounted for by Western Europe and approximately 30 percent by NAFTA countries (USA, Canada and Mexico) according to UNIFE data. These are followed by the Asia Pacific region with roughly 14 percent, Eastern Europe with 8 percent and Africa/Middle East with 6 percent. Markets in the Commonwealth of Independent States (CIS) and Latin America represent smaller portions of the accessible market volume at approximately 4 percent and 3 percent respectively. The total volume of the accessible infrastructure services market is currently worth around €6 billion based on UNIFE data, equivalent to approximately 40 percent of the total infrastructure services market.

Preliminary remarks on the net assets, financial position and results of operations

The COVID-19 pandemic had an impact on the net assets, financial position and results of operations of the Vossloh Group in the 2020 fiscal year. However, the crisis has had less of an impact on Vossloh and the rail infrastructure industry as a whole than it has had on other sectors. The transport of goods and people is particularly crucial in times of crisis. For this reason, the rail industry is only being affected by official measures to a relatively limited extent in most countries. The majority of the customers are in the public sector and are therefore relatively unaffected by economic developments. In addition, the majority of the business is related to the necessary maintenance of existing rail networks, which cannot be completely avoided even in times of limited financing. As a result, there were no significant order cancellations in the 2020 fiscal year, and orders received exceeded sales. However, the pandemic still had some negative impact on the operations of the Vossloh Group. Sales revenues and EBIT were negatively affected by customers rescheduling projects and the loss of efficiency caused by temporary production shutdowns.

In the 2019 fiscal year, the Vossloh Group implemented a performance program aimed at sustainably improving its profitability and self-financing power. The program primarily encompassed a reduction of the number of employees and the separation of unprofitable or disadvantageous activities. EBIT was adjusted for the effects of the performance program in the previous year. The adjustment encompassed negative one-time effects on earnings arising from the performance program and related exclusively to the EBIT and EBIT margin for the 2019 fiscal year. Unless stated otherwise, none of the figures for the 2020 fiscal year have been adjusted.

Results of operations

Vossloh divisions – Orders received and order backlog

	Orders received		Order backlog	
€ mill.	2020	2019	2020	2019
Core Components	349.6	382.0	247.0	267.6
Customized Modules[1]	472.6	468.2	338.4	273.0
Lifecycle Solutions	103.5	103.5	10.2	10.5
Vossloh AG / consolidation	(10.2)	(15.5)	(1.1)	(1.9)
Group[1]	**915.5**	**938.2**	**594.5**	**549.2**

[1]The orders received figure of the previous year includes €71.5 million from the US switch business which was sold at the end of 2019.

Book-to-Bill ratio of 1.05 despite COVID-19; order backlog up 8.2 percent

Orders received went up in the 2020 fiscal year. The total year on year increase was 5.6 percent on a comparable basis, i.e. excluding orders received attributed to the US switch business which were sold at the end of the 2019 fiscal year. This was largely due to a significant improvement in the Customized Modules division. On a comparable basis, the figure for this division was 19.2 percent higher than in the previous year. This rise was due to significant orders, particularly in Egypt, the United Kingdom and Australia. Orders received in the Core Components division were down compared to the previous year's high level due to project-related factors. In the Tie Technologies business unit in particular, the 2019 fiscal year was characterized by very high figures for new orders in Australia. Orders received in the Lifecycle Solutions division remained stable and on a par with the previous year. The book-to-bill ratio of the Vossloh Group, i.e. the ratio of orders received to sales, amounted to 1.05 in the fiscal year (previous year: 1.02). The order backlog was up by a significant 8.2 percent at the end of the year under review.

EBIT margin 8.4 percent higher than expected

The pandemic had a material negative impact on the sales performance of the Vossloh Group in the 2020 fiscal year. Portfolio changes also make comparisons to the previous year more challenging. The previous year's figures included €54.9 million in sales attributed to the US switch business, which was sold at the end of 2019. When adjusted for the sold companies, Group sales went up from €861.5 million in 2019 (reported: €916.4 million) to €869.7 million, as most recently forecast. COVID-19 was the main factor that prevented further sales growth. Sales revenues of around €90 million were deferred to subsequent years. These effects also caused sales to fall slightly below the original forecast of between €900 million and €1 billion. The operating result went up noticeably in the fiscal year. EBIT came to €73.1 million (previous year [adjusted]: €55.7 million) despite negative effects related to COVID-19 totaling approximately €25 million. The EBIT margin of 8.4 percent (previous year [adjusted]: 6.1 percent) was well above the original forecast of between 7 and 8 percent. The EBITDA margin was 14.2 percent (previous year [adjusted]: 11.5 percent), higher than the forecast of between 12 and 13 percent. Earnings were boosted by a €15.6 million carrying amount adjustment recognized in profit and loss. This transpired in the course of the transitional consolidation of a company in China which had been established in the previous year. Excluding this effect, the EBITDA margin and EBIT margin in the 2020 fiscal year were 12.4 percent and 6.6 percent respectively.

Vossloh Group – Sales by region

	€ mill.	%	€ mill.	%
	2020		2019	
Germany	74.2	8.5	81.8	8.9
France	89.1	10.2	103.8	11.3
Rest of Western Europe	67.4	7.8	68.1	7.4
Northern Europe	115.5	13.3	105.2	11.5
Southern Europe	64.4	7.4	74.0	8.1
Eastern Europe	65.4	7.5	71.3	7.8
Total of Europe	**476.0**	**54.7**	**504.2**	**55.0**
Americas	127.3	14.7	187.6	20.5
Asia	151.4	17.4	149.7	16.3
Africa	15.8	1.8	15.0	1.7
Australia	99.2	11.4	59.9	6.5
Total	**869.7**	**100.0**	**916.4**	**100.0**

Sales down year on year in Europe, mainly due to COVID-19

The Vossloh Group's sales in Europe for the year under review were 5.6 percent lower than in the previous year due to the pandemic. Sales saw a particularly steep decline in France and Germany. In France, the Customized Modules division was particularly affected, while in Germany the Fastening Systems business unit and the Lifecycle Solutions division were equally affected. Production had to be temporarily shut down at several sites in France in the first half of 2020. Sales in Southern Europe were 12.9 percent lower than in the previous year, mainly due to the Fastening Systems business unit generating a lower level of sales in Turkey. The 8.2 percent downturn in sales in Eastern Europe was mainly driven by the Fastening Systems business unit generating a lower level of sales in Russia. Sales went up by 9.7 percent in Northern Europe. Vossloh's Customized Modules division and Fastening Systems business unit significantly increased their sales volumes in Finland.

Sales in the Americas down significantly compared to the previous year due to portfolio changes

In the Americas, sales were significantly lower year on year due to the portfolio, but excluding the previous-year sales of the US switch business sold at the end of 2019, they were at the level of the previous year. The sales generated by the Fastening Systems business unit in Mexico went down due to project-related factors. However, the entirety of this decline was compensated for by sales growth in the Tie Technologies business unit.

Sales in Asia stable compared to the previous year

Sales in Asia closed the gap with the previous year thanks to strong sales in the second half of the year. Vossloh's sales in this region were roughly equivalent to the previous year in the 2020 fiscal year. Sales remained down on the previous year in China due to the pandemic. The Lifecycle Solutions division posted a particularly significant decrease in sales. The Fastening Systems business unit saw particularly strong sales growth in Mongolia and the United Arab Emirates, while the Customized Modules division improved its sales in Israel.

Significant increase in sales in Australia

Group sales in Australia went up by 65.6 percent in the 2020 fiscal year. This positive performance is almost entirely attributable to the Australian company in the Tie Technologies business unit. The sales growth was mainly driven by deliveries for projects which were won in the previous year. The Australian switch business of the Customized Modules division posted a small year on year increase in sales.

Sales in Africa in line with the previous year

In Africa, sales were similar to the previous year. The Fastening Systems business unit and Customized Modules division improved their sales in Tanzania and Egypt respectively. This more than made up for a downturn in sales in Algeria.

The Vossloh Group's cost of sales came to €672.8 million in the year under review, far lower than the previous year's €745.6 million. This was partly due to savings which came out of the 2019 performance program. Lower sales volumes also played a role. One-time expenses related to the performance program had a negative impact on the cost of sales in the previous year. The cost of sales accounted for 77.4 percent of sales in the year under review, a decrease on the previous year's figure of 81.4 percent. The performance program was also the driving factor in the Vossloh Group's general administrative and selling expenses falling from €169.4 million to €148.1 million. As a result, these expenses as a percentage of sales revenues decreased from 18.5 percent to 17.0 percent. The operating result, the balance of other operating income of €21.3 million (previous year: €26.0 million) and other operating expenses of €10.0 million (previous year: €48.3 million) therefore increased from €(22.3) million to €11.3 million. The improvement was again largely attributable to the absence of expenses from the performance program in the previous year and, to a lesser extent, to income from the sale of land in the Customized Modules division in the year under review amounting to €2.6 million.

Vossloh Group – Sales and earnings

	€ mill.	%	€ mill.	%
	2020		2019	
Sales	869.7	100.0	916.4	100.0
EBITDA / EBITDA margin (2019 adjusted)	123.1	14.2	105.5	11.5
EBIT / EBIT margin (2019 adjusted)	73.1	8.4	55.7	6.1
Net income	20.8	2.4	(136.8)	–
Earnings per share (in €)	0.98		(8.32)	

Clear increase in profitability despite impact of COVID-19

Both EBITDA and EBIT improved significantly year on year. EBIT in 2020 was significantly higher than the corresponding figure for the previous year after adjusting for the effects of the performance program (unadjusted EBIT for 2019: €(37.6) million). In the year under review, EBIT included a €15.6 million carrying amount adjustment recognized in profit and loss as a result of the transitional consolidation of a Chinese company in the Fastening Systems business unit that had been accounted for using the equity method in the previous year. When adjusted for this effect, EBIT came to €57.5 million, corresponding to an EBIT margin of 6.6 percent. Profitability increased significantly despite negative effects related to COVID-19 totaling €25 million. This improvement was driven by the performance program implemented 2019.

The net interest result came to €(14.4) million in the 2020 fiscal year, a clear improvement compared to the previous year's figure of €(18.5) million. Financing costs fell significantly due to the sale of Vossloh's US switch activities at the end of 2019 and other factors. Earnings before tax came to €58.7 million in the year under review. The previous year's figure of €(56.1) million was impacted by one-time effects related to the performance program.

Earnings per share clearly positive despite impact of COVID-19 and discontinued operations

The Vossloh Group's income taxes in the year under review came to €11.7 million, slightly above the previous year's figure of €10.3 million. Because the effect of the transitional consolidation has no tax impact, the tax rate is lower than the rate that would have resulted based on the statutory tax rate of Vossloh AG. The result from discontinued operations was €(26.2) million (previous year: €(70.4) million). The sale of the locomotive business also had a significant negative impact on net income this past fiscal year. No significant losses are expected from the Locomotives business unit now that its sale has been completed. Vossloh's net income was positive in the year under review after the previous year's figure was well in the negative range due to the negative effects related to the performance program and discontinued operations. Net income attributable to Vossloh AG shareholders of €17.2 million was up substantially compared to the previous year's figure of €(139.7) million. Based on the average number of shares outstanding of 17,564,180 (previous year: 16,798,618), earnings per share went up considerably year on year. The earnings per share attributable to continuing operations in the year under review came to €2.47 (previous year: €(4.13)).

Dividend of €1.00 per share planned for 2020

The Executive Board and Supervisory Board of Vossloh AG are committed to ensuring that its shareholders benefit from the economic performance of the Group. No dividends were paid in the previous year due to the significant uncertainty surrounding the COVID-19 pandemic in spring 2020. The Executive Board and Supervisory Board will propose a dividend of €1.00 for the 2020 fiscal year at the Annual General Meeting scheduled for May 19, 2021 due to the Group's improved profitability in its core business and better financial position.

Vossloh Group – Value management

€ mill.	2020	2019
Average capital employed	867.9	904.1
ROCE	8.4	(4.2)
Value added	12.4	(105.4)

Value added once again positive in the 2020 fiscal year

ROCE went up in the year under review due to the higher EBIT figure and the considerable year on year decrease in average capital employed. The downturn in average capital employed was primarily due to the sales of Vossloh's US switch business, which significantly outweighed the increase due to the first-time full consolidation of the Chinese company in the Fastening Systems business unit. Value added improved significantly and was therefore within the originally expected range of €0 million to €15 million. The previous year's figure was impacted by negative one-time effects related to the performance program. The weighted average cost of capital before taxes (WACC) was 7.0 percent in the 2020 fiscal year (previous year: 7.5 percent).

Financial position and investing activities

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

Net financial debt down compared to the previous year despite COVID-19

The net financial debt of the Vossloh Group (calculated as financial liabilities minus cash and cash equivalents and short-term securities) excluding lease liabilities fell slightly from €321.3 million at the end of 2019 to €307.4 million at the end of the 2020 fiscal year despite COVID-19. This was mainly due to a significantly positive free cash flow from continuing operations. Running counter to this were free cash flow from discontinued operations and lease and interest payments. The proceeds from the sale of the Locomotives business unit failed to fully cover the negative free cash flow from discontinued operations of €54.1 million. Net financial debt, including lease liabilities of €43.9 million (previous year: €49.1 million), came to €351.3 million (previous year: €370.4 million) at the end of 2020.

Financial liabilities amounted to €419.5 million at the end of the year under review, a slight decrease compared to the previous year's figure of €427.1 million. Current financial liabilities went up considerably year on year, from €41.3 million to €175.0 million. This increase was mainly due to €135 million in Schuldschein loans, whose term ends in July 2021, being reclassified as current financial liabilities. Noncurrent financial liabilities went down accordingly.

Excluding lease liabilities, €250 million of the total financial liabilities at the end of 2020 were attributed to Schuldschein loans placed in the 2017 fiscal year with terms of four years (until July 2021) totaling €135 million and terms of seven years (until July 2024) totaling €115 million. The agreed interest rate is fixed at 0.988 percent for the four-year maturities for an amount of €85 million, and variable at an amount of €50 million with a margin of 85 basis points above Euribor. For the seven-year maturities, a partial amount of €90 million has a fixed interest rate of 1.763 percent and the remaining amount of €25 million, 120 basis points above Euribor. A floor of 0.0 percent is respectively applicable to the reference value. The Schuldschein loans are unsecured and have not been arranged with any covenants. An additional €83 million relates to drawdowns from the syndicated loan agreed in November 2017 with a current volume of €230 million and a term which runs until November 2024. Interest is applied to drawdowns based on an indicator stipulated in the credit agreement (net financial debt relative to EBITDA) as well as the extent of the drawdowns on the line of credit and was 1.50 percent at the end of the fiscal year. A limit is set for this indicator (covenant). If exceeded, the lending banks are permitted to terminate the agreement ahead of time. Compliance with the covenant is verified every six months and was affirmed as of the half-year and as of the end of 2020. When added together, the sum total of cash and cash equivalents and short-term securities came to €68.1 million at the end of 2020 (previous year: €56.7 million).

The Group's contingent liabilities increased from €21.0 million in the previous year to €109 million. The majority of this, €100.8 million, was attributable to the former Locomotives business unit. For the outstanding contingent liabilities, Vossloh AG has received irrevocable and unconditional guarantees at first request by first-class banks.

As of the end of the year, the Group had committed and unutilized credit facilities of €223.7 million at its disposal.

Events after the reporting period

In February 2021, a hybrid note of €150 million with an indefinite term was issued that can be called and repaid by the Company for the first time after five years. The structure of the bond means that it is treated as equity in the consolidated financial statements. The funds from the hybrid note will support the implementation of the strategy revised in the 2020 fiscal year and will be used in the short term to repay the Schuldschein loans maturing in July in particular. The resulting strengthening of the balance sheet structure leads to significantly greater financial flexibility.

Vossloh Group – Development of cash flows

€ mill.	2020	2019
Cash flow from operating activities	56.1	12.3
Cash flow from investing activities	(3.0)	(15.5)
Cash flow from financing activities	(67.4)	28.1
Net cash inflow/outflow	(14.3)	24.9
Free Cashflow	4.0	(42.4)

Free cash flow from continuing operations significantly higher at €58.1 million (previous year: €2.4 million)

Cash flow from operating activities was significantly higher in the year under review than in the previous year. This was due to a considerable increase in gross cash flow (calculated as the sum total of EBIT of discontinued and continuing operations, amortization/depreciation/impairment losses [less write-ups] of noncurrent assets and changes in noncurrent provisions) due to improved results. In contrast, high negative effects resulted from the increase in working capital in the Transportation division, which has since been sold. With comparable cash outflows from investments, free cash flow – defined as cash flow from operating activities less capital expenditures in intangible assets and property, plant and equipment as well as capital expenditures in companies accounted for using the equity method and plus cash inflows from profit distributions or the sale of companies accounted for using the equity method – was also significantly higher than in the previous year. Free cash flow from discontinued operations amounted to €(54.1) million (previous year: €(44.8) million). Free cash flow from continuing operations increased significantly from €2.4 million in the previous year to €58.1 million. Cash flow from investing activities was higher than the previous year, mainly due to proceeds from the sale of the Transportation division. Cash flow from financing activities was significantly lower year on year. This was due on the one hand to the net inflows from the capital increase in the previous year. On the other hand, this was mainly due to higher repayments of short, medium and long-term loans.

Vossloh Group – capital expenditure and depreciation/amortization

€ mill.	2020		2019	
	Capital expenditure	Depreciation/ amortization	Capital expenditure	Depreciation/ amortization
Core Components	31.1	22.6	30.4	20.1
Customized Modules	18.0	14.6	15.8	44.3
Lifecycle Solutions	16.5	12.2	13.3	21.1
Vossloh AG/Consolidation	3.1	0.6	0.3	0.9
Total	**68.7**	**50.0**	**59.8**	**86.4**

Capital expenditure at a Group level went up by a significant 14.9 percent compared to the previous year's figure. Capital expenditure in the Core Components division was in line with the previous year. Capital expenditure went up significantly in the Fastening Systems business unit due to the construction of a cutting-edge manufacturing facility for rail fasteners in Werdohl ("factory of the future"). Capital expenditure in the Tie Technologies business unit fell in 2020. A considerable amount of capital expenditure in 2019 went towards a new plant in Canada and upgrades to a site in Australia. The biggest individual investment in the Customized Modules division went towards the modernization of the manufacturing facility for manganese frogs in Outreau. A significant proportion of the Lifecycle Solutions division's capital expenditure went towards enhancements to milling technology. The investments shown in the table above reflect additions in the fiscal year and also include investments in assets financed by a lease agreement. The Group's figures reported here therefore do not match the figures in the cash flow statement, which only includes cash expenditure and the capital expenditure of the Transportation division which was sold in the 2020 fiscal year. Depreciation and amortization in the cash flow statement includes effects from the sold Transportation division. Depreciation and amortization at a Group level include impairments/reversals of impairment losses and are significantly lower than in the previous year. The previous year saw a significant level of impairment due to the performance program.

Capital expenditure commitments for the acquisition of intangible assets and property, plant and equipment totaled €19.0 million as of December 31, 2020 (previous year: €22.2 million). They resulted first from the Australian company in the Tie Technologies business unit and second mainly from orders for the "factory of the future" in Werdohl and the modernization of the production site in Outreau.

Asset and capital structure

Vossloh Group – Asset and capital structure

		12/31/2020	12/31/2019
Total assets	€ mill.	1,216.5	1,331.4
Equity	€ mill.	414.5	403.6
Equity ratio	%	34.1	30.3
Closing working capital[1]	€ mill.	155.3	180.3
Fixed assets[2]	€ mill.	696.2	659.2
Closing capital employed[3]	€ mill.	851.5	839.5

[1] Working Capital = trade receivables (including contract assets) plus inventories minus trade payables (including contract liabilities) minus prepayments received minus other current provisions (adjusted for matters not attributable to the operating business).
[2] Fixed assets = intangible assets plus property, plant and equipment plus investment properties plus investments in companies accounted for using the equity method plus other noncurrent financial instruments.
[3] Capital Employed = working capital plus fixed assets.

Equity ratio significantly higher

The Vossloh Group's equity ratio went up 2.7 percent year on year. The positive net income far outweighed negative effects related to the translation of financial statements. Total assets went down considerably due to the sale of the Transportation division, resulting in a notable 3.8 percent rise in Vossloh's equity ratio.

Working capital as of end of 2020 well under previous year's figure

The working capital as of December 31, 2020 reporting date was 13.9 percent lower than the corresponding figure from the previous year. This was driven by improvements to working capital management as a result of the 2019 performance program, in which the reduction of working capital was a key component. The Customized Modules and Lifecycle Solutions divisions needed much less working capital to finance their operations. Average working capital totaled €186.4 million in the year under review (previous year: €227.2 million). Average working capital intensity fell as a result from 24.8 percent to 21.4 percent. Capital employed went up in 2020, mainly as a result of the Chinese joint venture in the Fastening Systems business unit being fully consolidated for the first time.

General statement on the economic situation

The 2020 fiscal year was dominated by the COVID-19 pandemic and a resulting global economic crisis of historic proportions. Vossloh could not escape the effects of the pandemic. However, it was far less affected than companies in other sectors due to the relatively crisis-resistant nature of its business. The sale of the Transportation division was another major event in the 2020 fiscal year. It marked the end of the Vossloh Group's lengthy and extensive process of strategic realignment.

Vossloh is resilient in a crisis due to a number of factors. The need to keep the transport network going is particularly pressing in times of crisis. The majority of Vossloh's customers are in the public sector and less susceptible to economic trends. Replacements and maintenance are an integral part of operating rail networks, and cannot be delayed indefinitely. The pandemic-related sales and earnings effects are therefore mainly temporary shifts that should largely be made up for in the coming years.

In a year dominated by COVID-19, sales went up when adjusted for the US switch business which was sold at the end of 2019. The EBIT margin far exceeded the previous year and the original forecast for 2020, and was at the upper end of the most recent EBIT margin forecast of between 7.5 percent and 8.5 percent.
It was buoyed by a carrying amount adjustment recognized in profit and loss as a result of the transitional consolidation of a Chinese joint venture. Sales and earnings were more than satisfactory given the general economic situation.

The order situation was also extremely robust. When adjusted for the US switch business, which was sold, orders received went up by 5.6 percent. The book-to-bill ratio of the Group was 1.05. The order backlog grew by 8.2 percent compared to the previous year's figure. The Vossloh Group's order situation was therefore highly satisfactory in the 2020 fiscal year.

The Group's financial position also improved significantly. The equity ratio went up to just above 34 percent. Net financial debt fell year on year, mainly as a result of a considerable improvement in free cash flow from continuing operations. This was another area in which the Vossloh Group performed well.

The 2020 fiscal year was also highly successful from a strategic perspective. The sale of the Locomotives business unit was completed at the end of May. Negative effects related to this business unit (such as its free cash flow of €(54 .1) million and earnings per share of €(1.49)) will not be incurred in future. Vossloh published an revised corporate strategy containing medium and long-term financial ambitions (see page 34 Business and Market Environment) at the end of 2020. Vossloh will expand its existing business with products and services, and use this as a foundation for establishing and expanding digital-based business models, which include maintenance services. Vossloh took some important steps forward in this regard at the end of 2020: Vossloh was awarded a contract for data-based condition monitoring of switches in Sweden and signed long-term service contracts for condition-based maintenance of tram networks in France.

2020 was an extremely successful year overall for the Vossloh Group from an operational and strategic perspective, despite the impact of the COVID-19 pandemic.

Business performance of Core Components

In the Core Components division, Vossloh has combined its range of industrially manufactured series products, which are required in large quantities for rail infrastructure projects. This includes the rail fastening systems developed, produced and marketed in the Fastening Systems business unit for all areas of application worldwide – from heavy-haul to high-speed rail lines and urban transport. The Tie Technologies business unit is the leading manufacturer of concrete ties in North America and Australia. In addition to concrete rail ties, the business unit also manufactures switch ties, concrete low-vibration blocks for slab track and crossing panels.

Core Components

		2020	2019
Orders received	€ mill.	349.6	382.0
Order backlog	€ mill.	247.0	267.6
Sales revenues[1]	€ mill.	375.3	351.7
EBITDA (2019 adjusted)	€ mill.	74.2	58.7
EBITDA margin (2019 adjusted)	%	19.8	16.7
EBIT (2019 adjusted)	€ mill.	51.6	39.3
EBIT margin (2019 adjusted)	%	13.7	11.2
Average working capital	€ mill.	99.9	90.9
Average working capital intensity	%	26.6	25.9
Average capital employed	€ mill.	320.3	282.4
ROCE	%	16.1	12.4
Value added	€ mill.	29.1	13.7

[1] Sales revenues include external sales revenues and sales with other divisions.

Orders received down after major orders in previous year

In the Core Components division, orders received in the year under review were €32.4 million lower than in the previous year. The previous year was characterized by a high figure for orders received, particularly in the Australian tie market. The book-to-bill ratio for 2020 was 0.93 (previous year: 1.09). The order backlog at the end of 2020 was 7.7 percent lower than in the previous year.

Sales higher than previous year despite COVID-19

In the year under review, sales revenues in the Core Components division rose by 6.7 percent despite the COVID-19 pandemic. The increase was due to significantly higher sales in the Tie Technologies business unit. In contrast, sales in the Fastening Systems business unit were down year on year due to the pandemic.

Profitability once again in the double-digit range

EBIT in the Core Components division was significantly higher than the adjusted previous-year figure. The increase amounted to €12.3 million and was due to a €15.6 million carrying amount adjustment recognized in profit and loss. This transpired in the course of the business combination achieved in stages of a joint venture in China, which had been established in the previous year in the Fastening Systems business unit. The very positive business performance in the Australian tie market was offset by pandemic-related effects in Europe and Asia. Excluding the one-time effect of the transitional consolidation, EBIT in the Core Components division would be €36.0 million and profitability 9.6 percent.

Nonadjusted EBIT in the previous year was €34.9 million and included a financial burden of €4.4 million from the performance program included.

Return on capital employed (ROCE) in the Core Components division in 2020 was significantly higher than in the previous year due to the very positive EBIT development. Average capital employed increased as a result of the full consolidation of the Chinese joint venture Anyang. Value added in the 2020 fiscal year was significantly higher year on year. Average working capital intensity was just 0.7 percent higher than in the previous year.

Vossloh Fastening Systems

At €211.0 million, orders received at Vossloh Fastening Systems in 2020 were slightly below the previous year's figure of €220.4 million. In China, slightly fewer new orders were recorded than in the previous year. The order backlog at the end of 2020 stood at €177.1 million, the same level as the previous year (€177.2 million).

Orders received slightly down compared to previous year

Sales revenues for Vossloh Fastening Systems in 2020 amounted to €216.3 million (previous year: €234.2 million). Declines were recorded in particular in North America and Turkey. In addition, business suffered from pandemic-related postponements of some projects, particularly in China. Nevertheless, Vossloh achieved sales in China at the prior-year level after a good fourth quarter.

The book-to-bill ratio of Vossloh Fastening Systems stood at 0.98 (previous year: 0.94).

At €30.2 million, the value added for Vossloh Fastening Systems was significantly higher than the prior year's level (€21.6 million).

High positive value added once again

Vossloh Tie Technologies

The Tie Technologies business unit recorded orders received of €151.7 million in the year under review, which represents a decrease of €16.4 million from the previous year's figure of €168.1 million. The decline was due to the Australian company Austrak, which was handed a major order by Rio Tinto during the previous year. In contrast, orders received were up slightly in North America. The order backlog amounted to €75.5 million at the end of 2020 (previous year: €92.9 million).

Orders received down compared to strong previous year

The sales revenue in the Tie Technologies business unit totaled €169.1 million, significantly exceeding the previous year's figure of €125.7 million. This was mainly due to processing orders in the Australian tie market. In addition, higher sales were also generated in the USA.

Sales revenues significantly higher than in previous year

The book-to-bill ratio decreased significantly to 0.90 (previous year: 1.34).

At €(1.1) million, the value added for Vossloh Tie Technologies was significantly higher than the previous year's level of €(7.8) million as a result of the substantially improved earnings.

Business performance of Customized Modules

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

Customized Modules

		2020	2019
Orders received[1]	€ mill.	472.6	468.2
Order backlog	€ mill.	338.4	273.0
Sales revenues[2]	€ mill.	401.8	473.2
EBITDA (2019 adjusted)	€ mill.	44.6	40.8
EBITDA margin (2019 adjusted)	%	11.1	8.6
EBIT (2019 adjusted)	€ mill.	30.0	23.7
EBIT margin (2019 adjusted)	%	7.5	5.0
Average working capital	€ mill.	76.0	123.2
Average working capital intensity	%	18.9	26.0
Average capital employed	€ mill.	365.1	436.8
ROCE	%	8.2	(12.4)
Value added	€ mill.	4.4	(87.1)

[1] The orders received for 2019 include a total of €71.5 million from the US switch business sold at the end of 2019.

[2] Sales revenues include external sales revenues and sales with other divisions. Sales in 2019 include €54.9 million from the US switch business sold at the end of 2019.

Significant increase in orders received on a comparable basis

Orders received in the Customized Modules division exceeded the previous year's level by €4.4 million even though the previous year's figure still included orders received of €71.5 million from the sold US switch business. This was surpassed largely due to significantly higher order levels in Europe – particularly in the UK, Poland, Finland and Sweden – and in Australia. The book-to-bill ratio was 1.18 (previous year: 0.99). Accordingly, the order backlog at the end of 2020 was 24.0 percent higher than in the previous year.

Sales after divestments and temporary shutdowns below previous year's level

The previous year's figure included a total of €54.9 million in sales revenues from the sold US activities. Excluding these, sales revenues were only slightly below the previous year's level despite COVID-19. The temporary shutdowns of several production sites due to the pandemic were particularly noticeable in France. The division achieved higher sales in Israel, Poland and Croatia, among others.

EBIT significantly above previous year's result.

The division's EBIT in 2020 was €6.3 million above the adjusted figure from the previous year – a significant increase. The main reason for the earnings improvements was the positive effects from the performance program. This positive earnings performance was supported in Poland, Italy, Sweden, Finland and the United Kingdom. The EBIT performance was slightly boosted by a land sale in Germany. The pandemic-related production shutdowns in the spring prevented an even better performance compared to 2019.

Nonadjusted EBIT in the previous year was €(54.3) million and included a financial burden of €78.0 million from the performance program.

Following this positive performance and after the one-time effects from the performance program were eliminated, ROCE was clearly in positive territory. Value added also improved significantly and was positive again in the year under review. Average capital employed was significantly lower than a year earlier due to the divestments of the US switch business.

Average working capital again fell significantly below the previous year's figure, mainly as a consequence of the performance program. Working capital intensity improved significantly by 7.1 percent compared with 2019.

Working capital intensity decreased by 7.1 percent

Business performance of Lifecycle Solutions

Through its Rail Services business unit, the Lifecycle Solutions division concentrates on specialist services for the maintenance of tracks and switches. Its innovative technologies promote the safety of rail lines, contribute to extending the service life of rails and switches and improve track availability. The service portfolio mainly includes maintenance, grinding and milling for the corrective and preventive care of rails and switches, welding services and rail and switch logistics. Lifecycle Solutions' extensive range of services complements the product portfolios of Core Components and Customized Modules.

Lifecycle Solutions

		2020	2019
Orders received	€ mill.	103.5	103.5
Order backlog	€ mill.	10.2	10.5
Sales revenues[1]	€ mill.	103.8	106.0
EBITDA (2019 adjusted)	€ mill.	20.9	18.2
EBITDA margin (2019 adjusted)	%	20.2	17.2
EBIT (2019 adjusted)	€ mill.	8.8	6.2
EBIT margin (2019 adjusted)	%	8.4	5.9
Average working capital	€ mill.	13.1	14.6
Average working capital intensity	%	12.6	13.8
Average capital employed	€ mill.	181.5	183.7
ROCE	%	4.8	(3.5)
Value added	€ mill.	(3.9)	(20.3)

[1] Sales revenues include external sales revenues and sales with other divisions.

Orders received at the previous year's level

In the 2020 fiscal year, the Lifecycle Solutions division recorded orders received at the same level as the previous year. Orders received in the stationary welding and logistics segment were higher than in the previous year, particularly in Germany. In the Netherlands, orders received in the milling segment were also higher. Orders received were lower above all in vehicle sales. The order backlog at the end of 2020 was virtually unchanged from the previous year.

Sales once again above €100 million

Sales revenues in the Lifecycle Solutions division again exceeded the €100 million mark in the 2020 fiscal year and just reached the previous year's level. Lower sales contributions from the sale of maintenance machines, mainly due to the pandemic, were largely offset by higher sales in the stationary welding and logistics areas.

The Lifecycle Solutions division's degree of internationalization, measured on the basis of sales revenues earned outside of Germany, rose from 45.4 percent in the 2019 fiscal year to 46.9 percent.

EBIT significantly higher than in previous year

The division's EBIT increased by €2.6 million compared with the adjusted EBIT of the previous year. This performance resulted mainly from increased business activity in the stationary welding and logistics areas. In addition, operating improvements resulting from the performance program contributed to the EBIT increase.

Nonadjusted EBIT in the previous year was €(6.5) million and included a financial burden of €12.7 million from the performance program.

Value added increased significantly by €16.4 million compared with the previous year, in line with the positive EBIT trend and following the absence of one-time expenses from the performance program. Working capital intensity improved by 1.2 percent compared with the previous year.

Vossloh AG

As an operational management and financial holding company, Vossloh AG serves as the parent of the Vossloh Group and controls and oversees all major operations and activities within the Group. In addition to determining corporate strategy and controlling corporate development, Vossloh AG allocates the financial resources, particularly for capital expenditures and acquisitions, and is responsible for corporate accounting and controlling, Group-wide treasury management, risk and opportunity management and internal auditing as well as for innovation and development, EHS/sustainability, IT, legal affairs and compliance, investor relations and corporate communications, among others. The Company oversees sales activities including marketing communications. In addition to HR policy, it is also responsible for personnel development and supporting the Group's senior management. Business unit representatives report on the events and developments in their area of responsibility on a regular basis. The Executive Board exerts a direct influence on the operational management of the business units in this context, alongside its management responsibility for different functions. A comprehensive catalog of approval requirements also ensures that the Executive Board is closely involved in significant operational decisions.

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 the annual financial statements. In isolated cases, certain transactions are handled differently in the consolidated financial statements according to IFRS. The relevant provisions of the German Commercial Code (HGB) have not changed significantly in the fiscal year.

Analysis of the separate financial statements

For the 2020 fiscal year, Vossloh AG reported sales revenues of €7.5 million (previous year: €5.2 million) resulting primarily from intercompany allocations with Group companies that obtain a wide range of services via Vossloh AG (mainly in the areas of IT and marketing). Operating expenses were mainly incurred in connection with the Company's management and financing functions. The business performance and economic development of Vossloh AG follow the activities of its subsidiaries and investees. The most significant performance indicators for Vossloh AG are the general administrative expenses, the net financial result and the result after tax/net income.

At €19.8 million, the administrative expenses in 2020 were slightly higher than in the previous year (€18.7 million), although a decrease had been expected in the previous year. This increase was due, among other things, to higher consulting costs, which at €3.6 million were significantly higher than in the previous year (€2.1 million) as a result of the strategic project carried out in the year under review. Personnel expenses came to €11.6 million (previous year: €13.4 million). The significant decrease was caused by the performance program that was implemented in the previous year. Trade fair costs remained roughly on a par with the previous year due to the InnoTrans industry trade fair not taking place in the year under review due to the COVID-19 pandemic.

The considerable decrease in other operating expenses from €7.2 million in the previous year to €3.5 million was due to lower exchange rate losses from the hedging of intragroup receivables from Group companies in countries which use foreign currencies. Other operating income saw a sharp rise to €12.3 million (previous year: €5.0 million) due to a subsequent purchase price component from the sale of Vossloh Kiepe GmbH and the sale of Vossloh Locomotives GmbH. The previous year's figure was dominated by the release of provisions and price gains.

The net financial result improved slightly year on year by €0.9 million and totaled €(42.0) million in 2020. This was largely due to write-downs on investments due to a permanent impairment of €47.0 million (previous year: €26.3 million). Income from profit transfer agreements went down to €13.1 million in the year under review (previous year: €18.8 million), while expenses from losses absorbed saw a considerable downturn from €60.5 million in the previous year to €28.6 million in the year under review. It is important to note that a loss transfer agreement with Vossloh Locomotive GmbH was only in place between January and May 2020 due to the sale of the shares in this company being finalized on May 31, 2020.

Interest expenses totaling €8.9 million (previous year: €9.1 million) for the year under review stood opposite interest income of €9.6 million (previous year: €14.2 million), primarily from passing on these funds in the form of short and long-term loans to Group companies. Loss carryforwards kept income taxes low at €0.0 million (previous year: €0.1 million). Vossloh AG's net loss in the reporting year was €53.0 million (previous year: €63.5 million). The forecast in the 2019 annual report expected a significant improvement in the result after taxes. At end of 2019, there was another unexpected delay to the finalization of the sale of Vossloh Locomotives. This and the aforementioned write-down on an investment significantly counteracted the improvement in earnings compared to the 2019 fiscal year, which had been heavily impacted by negative one-time effects related to the performance program.

Total assets came to €895.8 million, a decrease from the previous year's figure of €953.9 million. The main reason for this was the decrease in Group financing in the form of loans and short-term receivables from affiliated companies.

Financial investments went down by €3.7 million to €603.0 million. An increase of €47 million in shares in affiliated companies due to a refinancing of the US business and the aforementioned impairment of the carrying amount of the investment offset each other. The disposal of Vossloh Locomotives GmbH only had a minor impact due to the investment being written down in the previous year. Current assets decreased by €57.4 million to €288.6 million, largely as a result of a decrease of €50.1 million in short-term receivables from affiliated companies. There were no significant changes in other assets.

On the liabilities side of the balance sheet, liabilities to banks were slightly lower at €332.8 million (previous year: €348.0 million). Liabilities to affiliated companies went up slightly from €21.1 million to €25.7 million. Provisions totaled €25.7 million, roughly equivalent to the previous year's figure of €25.4 million. Equity fell from €553.1 million to €500.1 million due to the net loss. The equity ratio went down year on year from 58.0 percent to 55.8 percent due to equity falling at a sharper rate than total assets.

Overall, the development of Vossloh AG's earnings, net assets and financial position in the 2020 fiscal year can be viewed as positive.

Dependency report

The Executive Board of Vossloh AG considers Vossloh AG to be dependent in the sense of Section 17 of the German Stock Corporation Act due to Mr. Heinz Hermann Thiele indirectly holding 50.09 percent of its share capital on December 31, 2020. In accordance with Section 312 AktG, the Company prepared a report on its relationships with affiliated companies containing the following declaration: "In respect of the legal transactions listed in the report on relationships with affiliated companies, the Company, according to the circumstances known at the time when the legal transactions were made, received an appropriate consideration for each legal transaction. No measures were enacted that put the Company at a disadvantage at the request or in the interest of Mr. Heinz Hermann Thiele or companies affiliated with him. This assessment is based on the facts and circumstances known by us at the time such reportable transactions were conducted." The report was audited by the auditor and was issued with an unqualified auditor's opinion.

Remuneration report

Principles of remuneration for Executive Board members

This report describes the principles of remuneration for Executive Board members of Vossloh AG and explains the amount and structure of the remuneration of the individual Executive Board members in the 2020 fiscal year. In addition, the report describes the principles and amount of Supervisory Board remuneration.

Purpose. The objective of the remuneration system for the Executive Board is to ensure that the Executive Board members are appropriately remunerated in accordance with their area of activity and responsibility, in line with the statutory requirements and taking into account the recommendations of the German Corporate Governance Code, in order to make a significant contribution to promoting and implementing the corporate strategy of Vossloh AG, namely strengthening the product business and further expanding the conventional and digital service business with the aim of sustainably increasing the value of the company. Criteria for the appropriate remuneration of Executive Board members are based on each member's function and individual performance, Vossloh AG's economic situation, success and sustainable future prospects in addition to customary remuneration polices in view of the Company's comparative environment, remuneration structure and their development over time.

Executive Board remuneration system. In connection with the personnel changes and the expansion of the Executive Board from two to three members, the remuneration system for the Executive Board was revised in the fall of 2020 and, in particular, supplemented with a quantified maximum remuneration as well as malus and clawback provisions. The adjustments serve in particular to implement the new requirements of the Act Implementing the Second Shareholders' Rights Directive (ARUG II) and take into account the new recommendations of the German Corporate Governance Code as amended on December 16, 2019. The Vossloh AG compensation system for Executive Board members as adopted by the Supervisory Board is available on the Company's website and applies in principle from January 1, 2021. The new system has already been incorporated in the employment contracts with the Executive Board members appointed as of November 1, 2020, but contains certain opening clauses for the incumbent CEO's old contract. The remuneration system is composed of fixed non-performance-related components and variable performance-related components, the sum of which constitutes the total compensation for Executive Board members.

Basic remuneration is a fixed annual sum, based on the responsibilities of each Executive Board member and is to be paid in twelve equal monthly installments. It also includes fringe benefits in the form of payments in kind which mainly consist of private use of a company car and allowances for health insurance and accident and baggage insurance. No separate remuneration was provided for services performed on behalf of subsidiaries. The adjusted remuneration system does not include a company pension plan. An exception in this respect still applies to the incumbent CEO, whose existing contract includes a commitment for pension payments upon reaching an age limit of 63.

The basic remuneration in each case amounts to around 40 percent (around 53 percent with the pension expense in the case of the incumbent CEO) of the target total remuneration, i.e., the total remuneration assuming 100 percent target achievement of the variable remuneration components.

The **variable remuneration components** include the **annual bonus and the multiyear bonus**. The predefined performance targets are based on financial performance indicators that can be measured objectively and are considered a relevant indicator of the Vossloh Group's economic performance and strategy implementation, in addition to the performance of the Vossloh share. All performance targets are forward-looking and are (with the exception of the share price-based remuneration component) set by the Supervisory Board with target values before the beginning of each assessment period by means of target agreements with the members of the Executive Board. Targets for the share price-based variable remuneration component are derived directly from the relevant employment contracts. A subsequent change of the target values is generally excluded. If 100 percent of the targets are met, the variable remuneration components will contribute around 60 percent (around 47 percent in the case of the incumbent CEO including the pension expense) to the total target remuneration of the Executive Board members.

The components of the variable remuneration are regulated in detail as follows:

The **annual bonus** is determined on the basis of annual performance targets. If all of these targets are 100 percent achieved, the annual bonus amounts to slightly less than half of the total variable target remuneration. The performance targets for the annual bonus are Group EBIT, Group sales and the average capital employed of the Vossloh Group. The specific weighting of the performance targets and the associated target values are determined before the beginning of the assessment period. The Supervisory Board can reduce the bonus for 100 percent target achievement by up to 20 percent or increase it by up to 30 percent at its discretion in the event of extraordinary developments.

The **multiyear bonus** amounts to slightly more than 50 percent of total variable target remuneration if all multiyear performance targets are 100 percent achieved. ROCE (return on capital employed) accounts for 48 percent (for the CEO) and around 31 percent (for the other Executive Board members) of the performance targets for the multiyear bonus. The remainder is split evenly between the absolute and the relative performance of the Vossloh share. The relative performance of the Vossloh share is measured and assessed by comparing it to the average performance of the DAX, MDAX and SDAX. The multiyear bonus still had a two-year assessment period in the 2020 reporting year and has been measured over three years since January 1, 2021 in the adjusted remuneration system. The three-year assessment period is already included in the employment contracts of the Executive Board members newly appointed as of November 2020.

The achievement of targets for the annual bonus and the financial performance targets for the multiyear bonus are determined annually by the Supervisory Board on the basis of the audited consolidated financial statements. The component of the multiyear bonus related to the performance of the Vossloh share is assessed on the basis of volume-weighted XETRA average share prices or the average closing prices of the relevant indexes as published by Deutsche Börse AG. Both of these are taken from the 40 days immediately before or after the assessment period. The target bonus is granted if the target is fully realized. The bonus increases or decreases in relation to the target bonus depending on the achievement of the defined target values. The annual bonus and the multiyear bonus are limited to a maximum of 170 percent of the respective target bonus.

However, the Supervisory Board may use its discretion to set an extra bonus allocation for extraordinary performance in the period under review. In the adjusted compensation, the amount of these possible extra bonuses is limited to the target amount of the annual bonus.

Malus and clawback provisions. The new remuneration system also contains malus and clawback provisions which allow the Supervisory Board to withhold or reclaim variable compensation components in full or in part in justified cases.

Maximum remuneration. The remuneration of the individual Executive Board members is capped in accordance with the new remuneration system. The maximum remuneration set by the Supervisory Board is €2,923,000 gross p.a. for the CEO (including pension expense) and €1,812,800 gross p.a. for each of the other Executive Board members.

Review and approval of Executive Board remuneration

In the fall of 2020, the Supervisory Board conducted a review of the Executive Board remuneration based on the criteria of the German Corporate Governance Code as amended on December 16, 2019. Based on a horizontal comparison (with comparable companies in a peer group) and a vertical comparison (with the compensation of senior executives and the workforce as a whole), the Supervisory Board determined that the remuneration of the Executive Board was appropriate and in line with market practice. The peer group used for this purpose was already formed in 2017 with external support as part of the systematic review of the Executive Board's remuneration at that time and was last confirmed by the Supervisory Board in November 2020. It mainly comprises manufacturing companies from the MDAX and SDAX. Compared to the peer group, the remuneration granted to the Executive Board members is consistently below the average and median, which is also due to the fact that Vossloh has slipped two places down the rankings within the peer group in terms of revenue and employees respectively since 2017 following the realignment and restructuring undertaken. In a vertical comparison with the remuneration of senior executives and also with the workforce as a whole, Executive Board remuneration has developed below average since 2017.

The remuneration system for the members of the Executive Board as adopted by the Supervisory Board and applicable since January 1, 2021 will be submitted to the 2021 Annual General Meeting for approval in accordance with Section 120a (1) German Stock Corporation Act (AktG).

Executive Board remuneration in the 2020 fiscal year

In the following table, the remuneration of the Executive Board is listed by name and – as the provision of Section 162 AktG does not yet apply – prepared in accordance with the recommendations of the German Corporate Governance Code as amended in 2017. The benefits granted also include accrued amounts for variable remuneration components that will not be paid out until 2021 or 2022. The payments in kind include the private use of company cars in the amount of the taxable values and allowances for health insurance and accident and baggage insurance. Dr.-Ing. Karl Martin Runge left the Executive Board on October 31, 2020. This table includes his remuneration for the period in which he was still an Executive Board member. Benefits due to employment contracts coming to an end have been listed separately.

€		Fixed remuneration	Payments in kind	**Total fixed remuneration**	Annual variable remuneration*	Multiyear variable remuneration**			**Total variable remuneration**	**Total payments**	Service costs
Benefits granted						2018 & 2019	2019 & 2020	2020 & 2021			according to IFRS
Oliver Schuster CEO since 10/1/19, member of the Executive Board since 3/1/2014	2019	475,000	21,242	**496,242**	470,133	(64,641)	360,286	–	**765,778**	**1,262,020**	324,919
	2020	550,000	23,139	**573,139**	711,377	–	(47,123)	677,878	**1,342,132**	**1,915,271**	339,511
	2020 min.	550,000	23,139	**573,139**	0	–	–	–	**0**	**573,139**	339,511
	2020 max.	550,000	23,139	**573,139**	1,034,000	–	–	714,000	**1,748,000**	**2,321,139**	339,511
Dr. Thomas Triska member of the Executive Board since 11/1/2020	2019	–	–	**0**	–	–	–	–	**0**	**0**	–
	2020	58,333	3,076	**61,409**	65,494	–	–	–	**65,494**	**126,903**	–
	2020 min.	58,333	3,076	**61,409**	0	–	–	–	**0**	**61,409**	–
	2020 max.	58,333	3,076	**61,409**	149,800	–	–	–	**149,800**	**211,209**	–
Jan Furnivall member of the Executive Board since 11/1/2020	2019	–	–	**0**	–	–	–	–	**0**	**0**	–
	2020	58,333	1,568	**59,901**	65,494	–	–	–	**65,494**	**125,395**	–
	2020 min.	58,333	1,568	**59,901**	0	–	–	–	**0**	**59,901**	–
	2020 max.	58,333	1,568	**59,901**	149,800	–	–	–	**149,800**	**209,701**	–
Dr.-Ing. Karl Martin Runge[1] former member of the Executive Board between 10/1/2019 and 10/31/2020	2019	87,500	3,859	**91,359**	106,533	–	–	–	**106,533**	**197,892**	–
	2020	291,667	13,639	**305,306**	151,499	–	–	29,760	**181,259**	**486,565**	–
	2020 min.	291,667	13,639	**305,306**	–	–	–	–	**0**	**305,306**	–
	2020 max.	291,667	13,639	**305,306**	515,667	–	–	566,667	**1,082,334**	**1,387,640**	–

[1] All values for Dr.-Ing. Runge are based on the termination agreements concluded; the employment contracts expires on September 30, 2022.

*The annual variable remuneration includes extra bonus allocations for extraordinary performance. These amounted to €150,000 for Oliver Schuster in the reporting year and €120,000 for Oliver Schuster and €19,000 for Dr.-Ing. Karl Martin Runge in the previous year.

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

The table below shows the receipt of remuneration in the reporting year and the previous year in accordance with the recommendations of the German Corporate Governance Code as amended in 2017. The paid amounts for the variable remuneration were allocated to the years in which they were received by the respective Executive Board member.

€		Fixed remun-eration	Payments in kind	**Total fixed remun-eration**	Annual variable remuneration	Multiyear variable remuneration		**Total variable remuneration**	**Total remuneration**
Receipt						2017 & 2018	2018 & 2019		
Oliver Schuster CEO since 10/1/19, member of the Executive Board since 3/1/2014	2019	475,000	21,242	**496,242**	165,070	245,632	–	**410,702**	**906,944**
	2020	550,000	23,139	**573,139**	470,133	–	157,017	**627,150**	**1,200,289**
Dr. Thomas Triska member of the Executive Board since 11/1/2020	2019	–	–	**–**	–	–	–	**–**	**–**
	2020	58,333	3,076	**61,409**	–	–	–	**–**	**61,409**
Jan Furnivall member of the Executive Board since 11/1/2020	2019	–	–	**–**	–	–	–	**–**	**–**
	2020	58,333	1,568	**59,901**	–	–	–	**–**	**59,901**
Dr.–Ing. Karl Martin Runge[1] member of the Executive Board between 10/1/2019 and 10/31/2020	2019	87,500	3,859	**91,359**	–	–	–	**–**	**91,359**
	2020	291,667	13,639	**305,306**	106,533	–	–	**106,533**	**411,839**

[1] Employment contract expired on September 30, 2022.

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

€		Amount deferred for the fiscal year	Present value of pension obligation
Entitlements to defined retirement benefits			
Oliver Schuster CEO since 10/1/2019	2019	517,265	1,273,636
	2020	370,147	1,643,783

Retirement benefits

In principle, the remuneration system does not provide a company pension plan for Executive Board members. An exception exists for the current CEO Oliver Schuster, whose existing contract includes a commitment for pension payments upon reaching an age limit of 63. Depending on the years of service on the Executive Board, annual pension benefits after a minimum three-year Executive Board membership amount to 1 percent, or in the case of a first-time contract renewal 2 percent, up to a maximum of 40 percent of the pensionable annual basic remuneration. The addition to the provision made in the 2020 fiscal year for members of the Executive Board in accordance with the requirements of German commercial law amounted to €370,147 (previous year: €517,265). Upon the death of an active or former member of the Executive Board, the pension entitlement or the most recent pension paid to the surviving spouse is reduced to 60 percent.

Commitments in the event of premature termination of duties

In the event of an agreed premature termination of the employment contract, the Executive Board contracts contain commitments to pay out their expected remuneration for the regular remaining term of the contract, unless the termination is based on a unilateral resignation by the Executive Board member without good cause or on a revocation of the appointment for a reason that also constitutes good cause for the termination of the employment relationship. However, the commitments are in any case limited to a maximum of two years’ remuneration (severance payment cap). Variable remuneration already earned is paid out under the adjusted remuneration system in accordance with the originally agreed targets and comparison parameters and according to the due dates specified in the contract. No payment obligations are made in the event of an early termination of Executive Board duties due to a change of control.

The benefits in the following table have been pledged or made to the Executive Board members who left during the reporting year and in the previous year due to their employment contracts coming to an end. The fixed remuneration components were received in the year of departure. The variable remuneration of Dr.-Ing. Runge, who left the Company by mutual agreement on October 31, 2020, was paid in 2020.

Benefits due to employment contracts coming to an end

€	Fixed remuneration	Payments in kind	**Total fixed remuneration**	Annual variable remuneration	Multiyear variable remuneration	**Total variable remuneration**	**Total**
Dr.-Ing. Karl Martin Runge[1]	670,833	11,973	**682,806**	348,447	55,950	**404,397**	**1,087,203**

[1] Employment contract expired on September 30, 2022

No advances or loans were granted to any Executive Board members of Vossloh AG in the 2020 fiscal year.

Loans to Executive Board members

Remuneration in the form of pension payments to former members of the Executive Board and management as well as their surviving dependents totaled €2,731,814 (previous year: €3,683,409). These were pension payments of €1,183,658, unchanged from the previous year, and benefits totaling €1,548,156 to the Executive Board members who left during the respective fiscal year (previous year: €2,499,751). Current pension payments are subject to adjustment in relation to the collective pay trend in the metal and electrical industries of North Rhine-Westphalia. Pension obligations to former members of the Executive Board and management, as well as their surviving dependents amounted to €23,389,389 (previous year: €22,809,518). Employer pension liability insurance policies totaling €10,155,725 (previous year: €10,297,220) are pledged in each beneficiary's favor. The remaining amount of these pension obligations is covered by provisions.

Remuneration to former Executive Board members of Vossloh AG and their surviving dependents

The remuneration of members of the Supervisory Board is to be determined by the Annual General Meeting and governed by Section 17 of the Company's Articles of Incorporation. The remuneration system complies with the statutory provisions, takes into account the responsibilities and scope of activities of the Supervisory Board members and complies with recommendation G.18 of the German Corporate Governance Code as amended on December 16, 2019, in that the exclusively fixed remuneration ensures that the Supervisory Board performs its supervisory activities independently and effectively. The Executive Board and Supervisory Board have prepared a remuneration system for the Supervisory Board members based on existing and unchanged provisions of the Articles of Incorporation, which is available on the Company's website. The 2021 Annual General Meeting should pass a resolution on the confirmation of this remuneration system in accordance with Section 113 (3) AktG. In addition to reimbursement for their expenses, Supervisory Board members receive a fixed annual remuneration for duties performed of €40,000 (gross) to be paid after the conclusion of the fiscal year. The Supervisory Board Chairman receives three times and the vice-chairman one-and-a-half times the above fee. Membership in a committee is compensated by a premium of one quarter of the aforementioned remuneration amounts. The Audit Committee Chairman receives three times the additional Audit Committee membership fee. If the Supervisory Board Chairman is also a committee member, no additional fee is to be paid for his activities on the committee. Supervisory Board members who are members of the Supervisory Board or a committee for only part of the fiscal year receive pro rata remuneration.

Remuneration of the Supervisory Board

For the 2020 fiscal year, Supervisory Board members received a net remuneration of €456,666 (previous year: €429,167).

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

€	2020	2019
Prof. Dr. Rüdiger Grube (Chairman since 2/9/2020)	110,000	–
Ulrich Harnacke (Chairman between 4/2/2019 and 2/9/2020; Deputy Chairman since 5/27/2020)	108,333	117,500
Dr. Sigrid Evelyn Nikutta (until 5/27/2020; Deputy Chairwoman between 5/22/2019 and 5/27/2020)	33,333	46,667
Prof. Dr. Anne Christine d'Arcy (until 5/27/2020)	25,000	60,000
Dr. Roland Bosch (since 5/27/2020)	40,000	–
Dr. Bettina Volkens (since 5/27/2020)	40,000	–
Andreas Kretschmann	51,667	40,000
Marcel Knüpfer (since 6/1/2020)	23,333	–
Michael Ulrich (until 5/31/2020)	25,000	60,000
Dr-Ing. Volker Kefer (Chairman until 3/4/2019)	–	30,000
Dr. Bernhard Düttmann (until 12/31/2019)	–	75,000
Total	**456,666**	**429,167**

Consulting

No consulting agreements with Supervisory Board members existed in the 2020 fiscal year.

Loans to Supervisory Board members

In the 2020 fiscal year, no advances or loans were granted to any Supervisory Board members.

Statutory takeover-related disclosures pursuant to Section 289a (1) and Section 315a (1) HGB

The provisions of Sections 289a (1) and 315a (1) HGB require that the following takeover-related disclosures be made as of December 31, 2020.

Composition of the subscribed capital
The subscribed capital (share capital) of the Company amounts to €49,857,682.23. It is distributed across 17,564,180 no-par-value ordinary shares.

Restrictions on voting rights and share transferability
All shares carry the same rights. Each share grants one vote at the Annual General Meeting.
The Executive Board of the Company is not aware of any restrictions on voting rights or share transferability.

Shareholdings in excess of 10 percent of the voting rights
On the basis of the notifications of voting rights submitted to the Company in accordance with the provisions of the German Securities Trading Act (WpHG), the Company holds an interest in the Company's capital that exceeds 10 percent of the voting rights. KB Holding GmbH, Grünwald, Germany, holds 50.09 percent of the voting rights in Vossloh AG. These voting rights are to be attributed to the TIB Vermögens- und Beteiligungsholding GmbH, Grünwald, Germany, Stella Vermögensverwaltung GmbH, Grünwald, Germany, and Mr. Heinz Hermann Thiele, Munich, Germany, pursuant to Section 34 (1) WpHG.

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

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

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

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

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

Authorized capital
The Executive Board is authorized, subject to the consent of the Supervisory Board, to increase the share capital until May 26, 2025, by up to a total of €24,928,841.11 through one or more issuances of new, no-par-value shares against contributions in cash and/or in kind (Authorized Capital 2020).

The shareholders are entitled to subscription rights. The shares may also be taken over by one or more credit institutions with the obligation to offer them to the shareholders for subscription.

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

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

(ii) To grant the holders – or, in the case of registered securities, the creditors – of conversion and/or option rights in circulation at the time when the Authorized Capital 2020 is utilized, or of a conversion obligation from convertible bonds and/or bonds with warrants to be issued by the Company or one of its wholly owned Group companies in the future, a subscription right for new shares to the extent to which they would be entitled after exercising their conversion and/or option rights or after fulfillment of a conversion obligation as shareholders;

(iii) In the case of capital increases against cash contributions, if the issue price of the new shares is not significantly lower than the stock exchange price of the already listed shares of the same class at the time the issue price is finally fixed and the total number of shares issued does not exceed 10 percent of the share capital neither at the time this authorization becomes effective nor at the time it is exercised. Counting toward this capital limit are: (1.) The sale of treasury shares, insofar as they are sold during the term of this authorization under exclusion of subscription rights pursuant to Section 186 (3) sentence 4 AktG; (2.) Those shares issued or to be issued to service bonds with conversion and/or option rights or a conversion obligation, if the bonds are issued during the term of this authorization under exclusion of subscription rights in analogous application of Section 186 (3) sentence 4 AktG; and (3.) Those shares that were issued during the term of this authorization on the basis of other capital measures under exclusion of shareholder subscription rights pursuant to or in analogous application of Section 186 (3) sentence 4 AktG.

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

The authorizations contained in the above paragraphs (i) to (iv) to exclude subscription rights in the case of capital increases against cash and/or contributions in kind are limited to an amount not exceeding 10 percent of the share capital, either at the time this authorization becomes effective or at the time this authorization is exercised. The above-mentioned 10 percent limit must also take into account: (1.) Own shares that are sold during the term of this authorization under exclusion of subscription rights; (2.) Those shares that are issued to service bonds if the bonds were issued during the term of this authorization under exclusion of shareholder subscription rights; and (3.) Those shares that were issued during the term of this authorization on the basis of other capital measures under exclusion of shareholder subscription rights.

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

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

Purchase of treasury shares
There is currently no authorization for the Company to purchase treasury shares.
As of December 31, 2020, the Company did not hold any treasury shares.

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

In the case of seven of these agreements, a change of control means that a person or a group of persons acting in concert – with the exception of Mr. Heinz Hermann Thiele – directly or indirectly obtains more than 50 percent of the shares or voting rights in the Company.

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

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

- A guarantee facility agreement with Skandinaviska Enskilda Banken AB's (publ) Frankfurt branch: If there is a change of control, the bank is entitled to an extraordinary cancellation right. In the event of a cancellation, the outstanding balance, including accrued interest, is immediately due and payable;

- A guarantee insurance policy with Tryg Deutschland, a branch of Tryg Forsikring A/S: If there is a change of control, the insurer has the right to cancel the policy without notice within 30 days after becoming aware of the change. If the policy is canceled, the insurer is entitled to demand collateral for outstanding guarantees in the form of a cash deposit.

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

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

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

Workforce

As at December 31, 2020, there were 3,467 employees within the Vossloh Group contributing to achieving the Group's goals. This represents a decrease of 64 employees or 1.8 percent compared to the previous year (3,531 employees). The headline figure included 126 employees at the end of 2019 who were working until the end of their notice periods after downsizing measures.

Workforce-related performance indicators

€ thousand	2020	2019
Personnel expenses per employee	58.9	68.9
Sales revenues per employee	249.8	242.8

The average number of employees[1] was 3,482 in the reporting year compared to 3,774 in the 2019 fiscal year. The 7.7 percent downturn is largely due to the 2019 performance program and the resulting divestments. Employees were added in the year under review due to the Chinese joint venture Anyang in the Fastening Systems business unit being fully consolidated for the first time.

Out of the overall average number of employees, 73.9 percent (previous year: 72.8 percent) were employed at locations in Europe. Of the remaining 26.1 percent, 34.7 percent (previous year: 50.4 percent) were primarily active in the North American region and 32.7 percent (previous year: 27.0 percent) in Asia.

Personnel expenses

€ mill.	2020	2019
Wages and salaries	162.9	210.8
Social security expenses and charges	36.8	43.5
Pensions expenses	5.4	5.8
Total	**205.1**	**260.1**

The downturn in personnel expenses is largely due to the absence of one-time expenses related to the previous year's performance program and the resulting cost savings.

Divisions

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

Division	Number of Ø employees		Personnel expenses per employee in € thousand		Sales revenues per employee in € thousand	
	2020	2019	2020	2019	2020	2019
Core Components	938	879	60.5	64.1	400.2	400.1
Customized Modules	1,987	2,286	52.2	68.1	202.2	207.0
Lifecycle Solutions	498	546	66.0	64.6	208.2	194.0

In addition, an average of 59 employees (previous year: 63) were employed by Vossloh AG.

For additional information, please refer to the "Employee aspects" section of the nonfinancial statement.

[1] The average number of employees is calculated on the basis of quarterly figures. Reported figures in the previous year were calculated on the basis of monthly figures. For comparability purposes, the prior-year figures have been adjusted accordingly.

Research and development

Vossloh ranks among the technological leaders in its fields of activity in rail infrastructure. Innovation plays a decisive role in ensuring that the Company remains competitive from a technological position. In the interest of locomotive safety, Vossloh's products and services are subject to detailed technical specifications and standards that must be met. Before products and services for rail infrastructure are ready for market, they usually undergo several years of (further) development and testing, as well as complex approval procedures by independent testing institutions. Research and development projects at Vossloh are therefore usually scheduled to run for several years.

To satisfy the specific expectations of customers in individual market regions over the long term and reinforce its own competitive position, Vossloh uses a structured innovation management approach to continuously invest in the enhancement and optimization of its products and services. After reviewing its production processes, the Company is now implementing a range of measures which will provide ongoing efficiency gains, including new construction, modernization, increased automation and specialization.

One focus of innovation at Vossloh is digitalization as the link between hardware and services. The company uses specialized sensor systems to create smart infrastructure components which monitor load levels and the condition of the track. This data provides an indication of how worn these components are, making it easier to identify which maintenance strategies will be most effective, and when they should be deployed. This can reduce the risk of component failure – and thus partial infrastructure failure – during ongoing operations. Vossloh draws on the expertise of the Company's business units to develop comprehensive solutions and uses its strengths as "rail track experts" to help customers manage their infrastructure.

A significant proportion of Vossloh's research and development efforts relate to specific customer contracts. Accordingly, these expenses are reported under cost of sales in the income statement and not under research and development (R&D). Expenses for the development of a market-ready product are capitalized if they satisfy the criteria related to this defined in IAS 38. Development costs that cannot be capitalized are shown as research and development costs if they are not reported under cost of sales.

In 2020, expenses for research and development – including capitalized internally generated assets – came to a total of €13.5 million (previous year: €12.6 million). This represents a share of approximately 1.6 percent of Group sales (previous year: 1.4 percent). €4.0 million (previous year: €4.0 million) of R&D expenses were attributable to the Core Components division and almost completely to the Fastening Systems business unit. R&D expenses in the Customized Modules division came to €4.2 million (previous year: €4.2 million). €5.3 million (previous year: €4.2 million) were attributable to the Lifecycle Solutions division.

€4.6 million of the newly capitalized assets that were generated internally or as a result of third-party deliveries or service performance in the 2020 fiscal year (previous year: €1.9 million) concerned the Lifecycle Solutions division.

Vossloh-Konzern – Research and development costs

€ mill.	2020	2019
Research and development expenses	13.5	12.6
thereof capitalized	4.6	1.9
Research and development expenses (income statement)	**8.9**	**10.7**
Amortization (of capitalized development costs)	0.3	2.8

Maximizing track availability and reducing lifecycle costs

Vossloh's research and development efforts in 2020 focused on creating new products and services that provide a solution to the significant challenges currently facing the rail sector. This includes increasing the availability of rail tracks and developing solutions to deal with the consequences of the resulting increased load on tracks, such as wear and noise emissions. Vossloh also conducts research with a focus on extending the service life of infrastructure and infrastructure components and reducing their lifecycle costs. Vossloh possesses comprehensive expertise regarding rail as a complex mode of transportation. The Company uses this expertise to significantly improve the efficiency of rail network maintenance processes. Digitalization plays a key role in this. The focus is on intelligent railway systems and digital track monitoring. Vossloh's solutions minimize disruption and lay the groundwork for increasing the amount of traffic on the rail network. In this way, Vossloh is contributing to an efficient rail infrastructure, which is a necessary prerequisite for the environmentally friendly mobility of people and the transport of goods ("enabling green mobility").

Predictive maintenance based on track condition data

The digitalization of rail infrastructure opens up new opportunities for Vossloh to create value with its products and services. Apps released by Vossloh combine measurements and track condition data, provide a quick overview of which routes require action and suggest suitable measures for repairing damage. Vossloh uses configurable IoT sensors to measure vibrations and provide data from different parts of the track (rail ties, frogs, point machine etc.). This data is validated and compressed, and then sent to the Vossloh Analytics Platform using a mobile phone network for analysis. The platform compiles data from measurement instruments and sensors in various infrastructure components with data from Vossloh railgrinders to provide an overall picture of the condition of the track. This makes it possible to prepare efficient forecasts for the predictive maintenance of the rail network.

Vossloh's rail profiling machines are also used to diagnose issues with the track. They record data about the condition of the track without disrupting rail schedules, and then send this data to an asset management system, such as mapl-e or MR.Pro, both of which were developed in-house by Vossloh. In addition to visualizing the condition of the track, mapl-e can also identify appropriate maintenance measures and assess their economic viability. This enables asset managers to plan and budget for maintenance. In future, Vossloh's customers will be able to access measurement data, analyses, assessments and recommendations from a secure area of the analysis platform. With this digital service, Vossloh wants to give its customers the opportunity to significantly deepen their knowledge of their infrastructure and increase its availability through targeted maintenance.

Vossloh's "Digital Twin" application enhances maintenance measures for point machines by combining augmented reality with virtual reality: The "digital twin" provides a virtual depiction of a physical object or system, which includes comprehensive product and function data as well as a real-time visual overlay. Vossloh also uses drones to generate digital three-dimensional models of busy routes. These 3D models can be used to optimize track layouts, switch designs and overhead lines to increase speeds and capacity on routes while reducing the need for maintenance.

Switch disruptions are one of the main reasons for routes being unavailable and unplanned maintenance. In switch management in particular, digitalization has now created solutions to problems. In urban regional transportation, for example, Vossloh's compact electro-hydraulic Easydrive point machine can be equipped with smart sensor technology for remote monitoring. With the Easyswitch MIM-H for mainline routes, Vossloh has developed a new version of this point machine that distinguishes itself as a modular plug-and-play solution with a high degree of reliability.

Digitalization also offers opportunities directly for the R&D activities of Vossloh: The research and development activities of every division are increasingly focused on data-processing technology – a trend which continued in 2020. This makes it possible for multidimensional simulations such as the finite element or multi-body simulation methods to be implemented more quickly and more economically than with conventional methods. The innovative DYNADeV platform developed by Vossloh simulates wheel-rail contact to predict the mechanical behavior of a switch. The simulation tool removes the need for expensive track measurements and lengthy laboratory testing. In addition to accelerating the development and certification process for switches, the virtual process also provides an indication of the impact that different trains have on the rail infrastructure.

Working towards "quiet rails"

All of Vossloh's innovations also focus on "quiet rails". Noise and vibrations are a particular inconvenience for people in dense urban areas. With dampening rail fasteners, "whisper switches" and acoustic rail grinding, Vossloh helps to reduce noise emissions. All solutions in this area were further improved in 2020. The Company also provides maintenance services that keep noise levels low. By using sensor technology to monitor noise levels, Vossloh can target specific areas for grinding to guarantee long-term reductions in the amount of noise created by the rail infrastructure – yet another example of how Vossloh is using digitalization to improve the quality of life in urban areas.

Cooperation and Partnerships

Vossloh has long relied on the specific expertise of external specialists for some of its development work. The Group has access to an extensive network of experts. The Company works closely with renowned universities and research institutions throughout the world under the framework of longstanding partnerships. Vossloh focuses on partnerships with technology companies and start-ups in the area of digitalization and big data analysis. One example is Vossloh's close partnership with Deutsche Bahn AG subsidiary DB Systemtechnik GmbH in the area of data-based switch monitoring. The joint venture established with Rhomberg Sersa represents a crucial partnership that offers a wide range of monitoring and maintenance services for switches and rails. The MR.pro software provides the joint venture with a set of open system digital tools for evaluating and visualizing the condition and substance of track infrastructure.

R&D by division

In 2020, the R&D experts in the Core Components division continued to work on new solutions for increased noise and vibration protection. This included looking at ways to increase the elasticity of the 336V and 300 UTS rail fastening systems used on local transport routes. Both systems use *cellentic* intermediate layers. *cellentic* is a highly flexible elastomer. Components made from this material optimize the elasticity of the track. This reduces vibrations and protects the superstructure. Vossloh's researchers also focused on under-sleeper pads, which provide a vibration-reducing base for concrete ties. Vossloh has also been researching the interaction between concrete ties and dowels as part of its efforts to make rails quieter. In 2020, the German Federal Railway Authority granted Vossloh's application for its EPS project to enter operational testing. This project focuses on developing innovative composite ties for different applications. Vossloh's experts have performed some basic research for a new generation of tension clamps and conducted experiments to investigate the relationship between the lateral rigidity of tension clamps and reducing track wear.

In 2020, the R&D engineers of the Customized Modules division also continued to test the new, ultra-resilient rolled steel CogX. The heat-treated laminated steel for frogs and switch points was tested in additional switch systems for trams and heavy-duty traffic. The material provides a higher level of resistance to wear and impact compared to existing solutions, and extends service lives by up to 30 percent. The Company also continued practical tests of an energy-efficient completely hydraulic point machine and the digitally controlled MIM-H point machine on high-speed routes. The COGISLIDE coating, developed by the Customized Modules division, was integrated into the production process. This makes it possible for coated switch rail chairs to be moved without lubrication. In 2020, the division entered into a strategically important partnership agreement with France's national state-owned railway company SNCF for all of its switch development projects.

The Lifecycle Solutions division focused its R&D activities on milling machines, onboard rail condition measuring systems and software for evaluating and visualizing condition data, all with the aim of enhancing smart maintenance. New units were developed for high-speed railgrinders in 2020. These include units that increase the amount that can be removed per pass, and others that provide an immediate indication of grinding quality. The control system for high-performance milling was adapted to meet the requirements of a rail operator. Vossloh made changes to the sensor system used for multi-purpose milling so that these milling systems can also be deployed for switch points and stock rails. The division's Logistics wing outfitted its fleet of freight cars with composite brake shoes (LL brake shoes). This braking system keeps the running surface of the wheels smooth, making them quieter than cars using standard cast iron brake shoes.

Optimizing production and administration

In addition to enhancing its range of products and services, Vossloh is also making consistent improvements to its production processes. The Company wants its factories to be smart and highly efficient. That's why Vossloh is building a "factory of the future" at its Werdohl site. This factory will produce tension clamps using a digitally managed and highly automated process. Now that Vossloh has completed its "OT 2020" project, the Company has an optimized frog production facility and a competence center for foundry technology in Outreau. The Group's two major switch plants specialize in specific stages along the value chain: Reichshoffen focuses on metalworking, while the site in Fère-en-Tardenois focuses on final assembly and shipping. Vossloh is also increasingly involved in international development projects which facilitate global partnerships and rapid communication. The Company uses cutting-edge communication and collaboration solutions for these projects.

Vossloh's internal business processes will be shaped by streamlined processes and digital data streams. The Group completed a preliminary study for its enterprise resource planning system in 2020. The solution which was chosen can be adapted to the business models of different Vossloh units and can interface with other platforms, such as Customer Relationship Management (CRM) and Product Lifecycle Management (PLM).

Risk and opportunity management

Organization

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

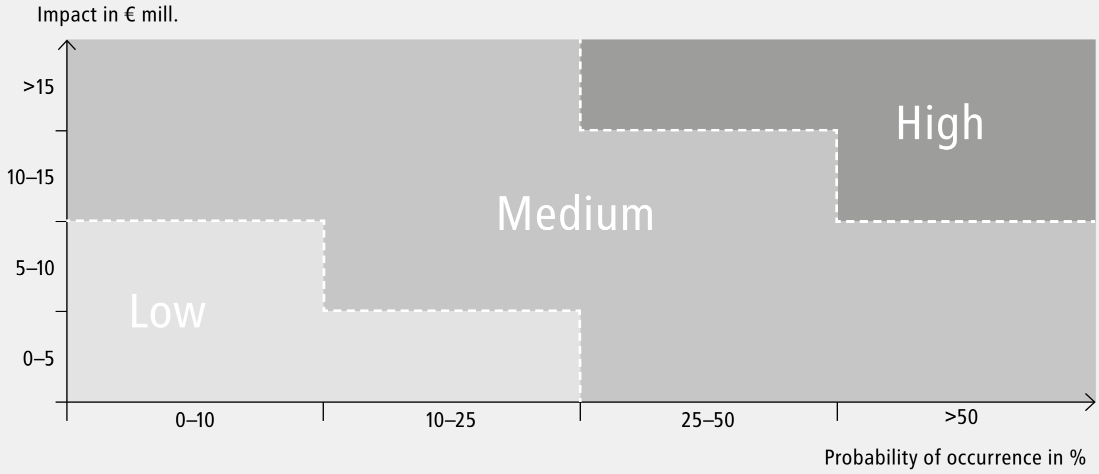
The risk and opportunity management system is a component of the business, planning and control process. The organization of structures and processes is documented in a Group-wide policy. The Group is preparing to adapt the policy in the 2021 fiscal year due to the additional requirements in the amended version of the assurance standard IDW PS 340. The structure of the management system is based on the structure of the operating processes of each of the organizational units. There are appointed Risk Managers, Risk Officers and Risk Controllers at all levels of the group. A permanent inventory identifies risks and opportunities on an ongoing basis and ensures that relevant risks are recorded effectively, promptly and systematically.

Vossloh evaluates risks and opportunities in regard to their potential impact on the results of operations. The possible impact is primarily identified on the basis of EBIT, the financial performance indicator. Interest and income tax risks and risks from discontinued operations are assessed in light of the impact of the risk on net income. This evaluation determines not only the most likely outcome but also the worst case and best case scenarios. In line with the value-at-risk method, a minimum probability of 5 percent is required for these. Additionally, an evaluation of the probability of occurrence is carried out. Nonfinancial risks and opportunities are incorporated into risk reporting. These are assessed to determine their impact on nonfinancial issues, such as environmental and labor concerns.

Vossloh documents and communicates risks and opportunities in standardized reports. They contain detailed information on risks and opportunities, the parameters by which they are evaluated, and potential measures to manage these risks or harness these opportunities. The risks and opportunities report is issued on a quarterly basis. It supplements the current annual outlook and also addresses predictable and adequately specific risks and opportunities for the following years. Ad hoc reports round out the regular reports and provide the means to assess the current situation at any time. The risk reports are intended to be read by the Executive Board of Vossloh AG as well as the management of the Group companies and business units. These are responsible for managing and monitoring risks and opportunities. The management of the business units, Controlling and the Vossloh Executive Board discuss the current risk situation on a regular basis. The tight-knit personnel structure enables information to flow quickly and reactions to be invoked at short notice. The Executive Board has adopted suitable measures in order to promptly identify developments that may jeopardize the Group's standing as a going concern. Internal Audit checks whether the risk and opportunity management system is adequate and functional and whether it is in compliance with statutory requirements on an annual basis. The early warning risk control system is audited on a regular basis by the group auditor.

The significance that individual risk categories hold for the Vossloh Group is evaluated, where possible, on the basis of the potential negative impact on the forecast financial targets and on the probability of occurrence of the given risk category. The risk situation is assessed following the implementation of risk mitigation measures (net effect) based on a worst-case assessment. Risks are categorized as high, moderate or low based on their possible negative impact and probability of occurrence.

This is shown in the figure below.



The following statements illustrate the risks and opportunities within the identified risk categories that were relevant as at the reporting date (December 31, 2020) and are significant to the development of the Vossloh Group. Significant individual risks and opportunities are highlighted separately if they have a worst or best case of more than €2 million (net view) taking into account a minimum probability of occurrence.

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

General economic risks and opportunities arise as a result of economic fluctuations, social and political events, changes in exchange rates and interest rates, and changes to legislation and taxation. Industry-specific risks and opportunities develop based on the competitive situation as well as global megatrends such as population growth, urbanization, globalization, sustainability and digitalization.

The Vossloh Group could not escape the effects of the pandemic in the 2020 fiscal year. Production facilities were closed and projects delayed due to state-ordered lockdowns, which had a negative impact on business. There were no significant cancellations of orders. Compared to other sectors, the impact of the pandemic on rail infrastructure and therefore also on Vossloh was significantly lower. The rail industry is considered part of the critical infrastructure as people and goods still need to be transported in a crisis. Rail network maintenance, which accounts for most of Vossloh's business, can be delayed, but not indefinitely. There are also a number of initiatives and long-term plans in place for investing in rail infrastructure. Many of Vossloh's customers are in the public sector, making them less susceptible to economic developments. As a result, the general economic situation only has a limited impact on the performance of the Group.

The ongoing global pandemic and its consequences will have a significant impact on the global economy in 2021. Uncertainty will remain high. Despite the comparatively minor impact described above, this is also a significant individual risk for the Vossloh Group. Impacts such as those in the past 2020 fiscal year (or further negative consequences) that have not already been taken into account in the planning cannot be ruled out entirely, but are considered to be less likely in view of the good resistance to crises described above.

Regulatory activities, the state of rail deregulation in different countries and government budgets also have an influence on Vossloh. The latter has a major impact on the ability of public clients to make investments. Reduced availability of public funding can have a negative impact on the future business performance of Vossloh. In the infrastructure maintenance market, which is highly critical to the Group, there has been an increased trend toward cost-cutting in recent years due to the continuing strain on public clients' budgets. This trend may intensify sporadically as a consequence of the pandemic. However, there currently seems to be far more political will to shift a considerable amount of passengers and cargo onto the rail network, the most environmentally friendly means of transport, in order to reach climate targets. The EU Commission has designated 2021 as the European Year of Rail. Numerous regions around the world have set up rail subsidy schemes as part of climate action initiatives. Many countries have announced economic stimulus programs which include measures to boost investment in rail infrastructure.

Vossloh was active in rail infrastructure markets around the world in 2020. In selected markets, the Group is one of the leading providers in its core business. Vossloh generates more than 85 percent of its sales in Europe, America and Asia.

The political and economic factors that have an impact on European rail infrastructure markets are largely stable. North American markets are significantly more volatile in terms of demand, as most of the rail and network operators there do not benefit from state funding. Vossloh's performance in Asia is characterized by projects related to the rapid growth of the Chinese high-speed network. Activities in these and other markets – particularly in the rest of Asia, Australia and Africa – present opportunities for Vossloh as well as additional risks. In these markets, risks may arise in particular as a result of political and social instability, protectionist tendencies, oil price changes or exchange rate volatility – mainly translation risks – and as a result of legal uncertainty.

In isolated cases, there are also risks that products may be substituted by new technical developments and that new competitors may enter the market. The intensity of competition in the field of rail infrastructure has grown noticeably and sustainably in recent years. Vossloh counters these risks by continuously enhancing its products and services and consistently focusing its activities on the needs of its customers and comprehensive cost reduction measures. Digitalization and the new business models resulting from it are playing an increasingly important role in Vossloh's ambitions to focus on the customer.

Vossloh classifies the overall economic risk as medium due to the continuing uncertainties resulting from the pandemic. Like in the previous year, the industry risk for the forecast financial targets is assessed as low.

Operating risks and opportunities

Operating risks and opportunities can originate from various operational activities, particularly in procurement, production and order performance. In the procurement process, Vossloh seeks to limit price risks by means of long-term contractual agreements or sliding scale pricing clauses. However, sliding scale pricing clauses are frequently only possible to implement with a delay, and occasionally not possible at all. Vossloh primarily limits exchange rate risks in relation to procurement through the use of foreign currency forwards. The price changes assumed in medium-term planning for materials and components are largely based on information from suppliers and market analyses.

Vossloh monitors changes in material prices on an ongoing basis. If the prices of the materials which are used do not follow the expected trend due to the pandemic or other factors, risks or opportunities for forecast income may arise from prices being higher or lower, particularly in the Core Components division. This is a significant individual risk or opportunity.

Risks can also emerge in the course of the procurement process as a result of the loss of suppliers, quality problems affecting materials or delays in the supply process. Vossloh minimizes these risks by prioritizing arrangements with well-established partners and increasing its vertical integration in selected areas. Even though suppliers are carefully selected and regularly contacted and alternative procurement sources are established, future risks relating to the procurement process can be limited, but never entirely eliminated.

Within the value chain, the operating units are generally exposed to the risk of operational shutdowns, quality problems affecting production, and health, safety and environmental risks. These risks can accumulate if significant investment at a site has an impact on production processes or if individual sites are in a restructuring process. A number of manufacturing sites in the Customized Modules division are currently going through restructuring. These are significant individual risks or opportunities. Vossloh avoids or reduces the ensuing risks by means of extensive policies and directives on product and quality management, safe manufacturing practices, occupational health and safety and on environmental protection. The Vossloh Group is certified in accordance with a wide range of international quality, environmental and social standards, such as ISO 9001, ISO 14001, ISO 50001, OHSAS 18001 and ISO 45001. If newly acquired units do not hold equivalent certifications, they are brought into compliance with these standards as quickly as possible.

In the context of order performance, risks for Vossloh may arise from the complexity of projects. These can be caused by unexpected technical difficulties, unforeseeable developments at project sites, problems with partners or subcontractors and logistical challenges, as well as delays in approvals, acceptance and billing. Finalizing the sale of the Transportation division significantly reduced the risks related to order handling. However, increased risks can occur during the start-up phase and implementation of major projects with correspondingly high development costs or in cases of first-time collaboration with new partners or subcontractors, leading to significant additional expenditure or contractual penalties. These risks can be limited, but not fully eliminated, by formulating contracts appropriately and ensuring that project and quality management are thorough. On the other hand, there may be isolated indirect opportunities if the recognized risk provisions do not need to be fully utilized.

Risks may also arise after acquisitions where it becomes necessary to impair goodwill if the medium-term operational performance of the units in question is significantly weaker than expected or if the general interest level increases substantially. The goodwill of acquired companies is not amortized in accordance with IFRS 3 in conjunction with IAS 36. Instead, this goodwill undergoes impairment testing each year as of the balance sheet date. Vossloh also carries out impairment testing during the year if exceptional events occur. This testing involves a comparison of the relevant carrying amount of a group of cash-generating units (CGUs) in relation to the goodwill of acquired companies against the value in use. An impairment test was performed during the year as a result of the COVID-19 pandemic, in addition to an impairment test on the balance sheet date. No impairment losses were recognized in either case.

Divestment projects may also result in risks or opportunities if the actual or expected purchase price of an acquirer does not completely cover the existing carrying amounts or if the purchase price exceeds the existing carrying amounts. Losses in the mid double-digit million euro range were incurred in 2019 as a result of the sale of the American activities in the Customized Modules division as part of the performance program. Some additional effects had an insignificant impact in 2020.

Vossloh has recognized risk provisions for existing operational risks, in accordance with IFRS requirements. Despite the risk provisions for known risks with a very high probability of occurrence, the risk of net profit reductions arising from the restructuring of individual sites cannot be fully eliminated and may have negative effects on the achievement of forecast financial targets. The absolute risk value arising from the completion of projects is dependent on the volume and value of development services connected to the relevant order and on the quality of the products.

Vossloh believes that the amount of risk arising from the value chain and the completion of projects is still of a medium nature. The risk of possible impairment of goodwill also continues to be classified as moderate. The risk arising from changes in material prices was raised from low to moderate. The risks from divestments were reduced from moderate to low. The other operating risks are all still deemed to be low.

Financial risks and opportunities

Corporate Treasury monitors and limits financial risk within the Vossloh Group and optimizes Group financing on an ongoing basis. Targets, principles, duties and expertise are consistent with corresponding policies. The prime objective is to preserve the Company's status as a going concern by ensuring solvency and liquidity at all times. Synergies and economies of scale are also harnessed within the Group where it seems appropriate to do so.

Vossloh only uses derivative financial instruments to hedge specific risks from existing or expected future underlying transactions. These economic hedges are also reported as hedge relationships in the balance sheet. These only make use of previously approved, market-standard financial instruments. The trade, performance and controlling functions are organizationally separated. Group Treasury continuously ensures and monitors the effectiveness of risk hedging. It manages the following specific financial risks: liquidity risks, interest rate risks (cash flow risks), price risks and credit risks.

Liquidity risks
Liquidity risks can arise if Vossloh is unable to settle liabilities in a timely and complete fashion. For this reason, the Group conducts ongoing liquidity management that incorporates reserves for potential special needs and the scope required to implement the Company's strategy. The Group focused on monitoring liquidity in the 2020 fiscal year to ensure that it had adequate reserves to handle the potential impact of the COVID-19 pandemic. Revenue sharing measures within the Group with the help of cash pooling systems in individual countries and intercompany loans facilitate the use of the excess liquidity of individual Group companies in order to cover the financing requirements of others.

Financing and the provision of liquidity typically take place centrally through Vossloh AG as the Group holding company. In July 2017, Schuldschein loans were granted amounting to €135 million (maturity: July 2021) and €115 million (maturity: July 2024). A syndicated loan concluded with eight banks for €150 million with a term until November 2024 has been in effect since November 2017. In April 2019, the volume of the loan was increased by €80 million to €230 million. If necessary, it can be increased by up to a further €70 million during the term of the loan. The funds are available to the Company in the form of a revolving line of credit that can be flexibly accessed. As at the end of the year, the Group had unutilized credit facilities of €223.7 million at its disposal.

In February 2021, Vossloh AG issued a hybrid note of €150 million. The funds from the hybrid note will be used in particular to repay the Schuldschein loans of €135 million due in July 2021.

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

Interest rate risks
Changes to the future interest rate may cause cash flow volatility where asset and debt positions are subject to variable interest rates. Vossloh hedges this risk as appropriate with the use of interest rate swaps and caps. The Company regularly performs analyses to determine how changes to interest rates affect cash flows. For the purposes of active risk management, the variable-rate interest cash flows from a long-term loan concluded in 2018 were replaced with an interest rate swap for fixed cash flows. The probability of the interest rate changing at short notice and the positive and negative impact of this on cash flows is deemed to be low. The risk is therefore also still deemed to be low.

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

Credit risks
Credit risks arise whenever a contract partner does not comply with their obligations in relation to a transaction (or only does so in a delayed fashion), thus causing Vossloh to incur financial losses. The Group minimizes credit risks by ensuring that contract partners mostly have good or excellent credit ratings. These ratings – where available – are mainly based on the statements of international rating agencies. As of the end of 2020, of the financial investments and derivative financial instruments with positive market values, 59 percent were with contract partners with a rating of AA+ to AA–, 28 percent were with contract partners with a rating of A+ to A–, 12 percent were with contract partners with a rating of BBB+ to BBB–, while 1 percent were with contract partners with a rating of BB or no available rating. The Group also distributes its financial assets across a number of credit institutions, thus broadly diversifying its risk exposure. There were and are no dependencies on individual banks.

Credit risk is considered low due to the fact that the majority of Vossloh's customers are in the public sector. However, outstanding amounts owed are continuously monitored by Group companies. Some are also insured by means of credit insurance policies. Despite the precautionary measures taken, it is impossible to entirely eliminate the risk of financial losses from nonpayment of receivables. In the export business, orders are usually concluded with letters of credit to limit the credit risk. All contract partners must have good or excellent credit ratings. As a result, credit risk is still deemed to be low.

Legal risks and opportunities

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

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

Since the end of 2014, the Transportation division no longer belongs to the core business of the Vossloh Group. Vossloh sold the Rail Vehicles business unit in 2015, followed by the Electrical Systems business unit at the beginning of 2017. The sale of Vossloh Locomotives, the Transportation division's last remaining business unit, was finalized on May 31, 2020. A number of American companies were sold in the Customized Modules division as part of the performance program. The purchasers were granted certain guarantee rights and rights of recourse in the purchase agreements. Risk provisions have been recognized for any claims asserted on the basis of these rights, where utilization of the guarantees and rights of recourse is deemed to be very likely. Opportunities may arise indirectly if the recognized risk provisions do not need to be fully utilized. These are significant individual risks and opportunities.

For the existing legal risks, risk provisions have been recognized in accordance with IFRS.

It is impossible to exclude the possibility of the forecast financial targets for Vossloh being reduced due to legal risks, and these risks are still deemed to be moderate.

Nonfinancial risks and opportunities[1]

According to the HGB, it is necessary to report on the nonfinancial risks that are associated with the Company's own business activities, business relationships, products and services, where these risks have had or are very likely to have severe negative repercussions on the reportable aspects relating to the environment, employment, social welfare, human rights, anti-corruption and anti-bribery activities. The nonfinancial risks are reflected in the Vossloh Group's risk reporting.

There are presently no material risks that meet the criteria described. Vossloh therefore still deems the risk situation in connection with nonfinancial risks to be low.

Other risks and opportunities

Other risks consist primarily of personnel and information technology risks. Inadequate human resources, such as due to a lack of managers and specialist personnel, can negatively influence the economic situation of the Group. Personnel risks may also relate to high turnover figures of highly specialized personnel and inadequate training, as well as errors made or theft committed by employees. Vossloh applies a variety of measures to counteract these risks, including in particular the positioning of the Company as an attractive employer to enable it to successfully compete for highly qualified specialist personnel. A range of training activities are used to improve the expertise of employees, while attractive pay structures increase the likelihood of retaining personnel within the Company in the long term.

Complex and powerful information technology has a decisive effect on the management of operational and strategic business processes. Having high-performance information technology at your disposal is becoming increasingly important as the digitalization trend continues. This trend has accelerated due to the pandemic in the 2020 fiscal year. Through the use of technical and organization precautions, Vossloh minimizes risks related to the reliability, availability and confidentiality of the data stored in its information systems. They also ensure that data is processed efficiently. A data protection policy was also adopted in 2018 for all Vossloh companies.

Vossloh was listed on the SDAX index of the Deutsche Börse on the balance sheet date after being removed in June 2019. The main criteria for inclusion in the index are the available market capitalization and the volumes traded on the Frankfurt Stock Exchange. Due to relatively low trading volumes in particular, there is a risk of the Company being removed from the SDAX in the 2021 fiscal year. The financing opportunities for larger acquisitions – for example by means of capital increases – would possibly be worse if the Company were to be excluded from the SDAX again. Following the successful placement of the hybrid note, Vossloh considers the risks arising from this to be low from today's perspective, even in the event of a withdrawal from the SDAX.

Other risks had no significant impact on the net income in 2020. Overall, the risk is classified as low (previous year: moderate personnel risks due to the performance program).

[1] Part of the nonfinancial Group statement audit for providing limited assurance provided by Deloitte GmbH Wirtschaftsprüfungsgesellschaft – see page 99.

Assessment of the risk and opportunities situation

All of the described risks and opportunities that the Vossloh Group is exposed to are continuously monitored and managed in terms of their effects on the net assets, financial position and results of operations of the Group. For risks that are currently known, risk provisions have been recognized in accordance with IFRS. Other current risks and opportunities are – if adequately specified – accounted for in the current annual outlooks. On this basis and at the time this annual report was prepared, Vossloh does not anticipate any significant deviations from its targets for the 2021 fiscal year. Based on current information, there is no risk to the Vossloh Group as a going concern in terms of substance or liquidity based on individual risks or all of the currently known risks collectively. The available Group equity is adequate to cover potential risks. The risk and opportunity situation within the Vossloh Group is therefore considered satisfactory overall.

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

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

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

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

Information technology
Accounting transactions are recorded locally in the local accounting systems of the Group companies. For the preparation of the consolidated financial statements of Vossloh AG, the subsidiaries add additional information to the individual financial statements, which are prepared on the basis of standardized Group accounting methods, to form standardized reporting packages. These packages are then incorporated into the Group reporting and consolidation system used by all of the companies included in the consolidated financial statements. This system, Cognos Controller from IBM (current version in use: 10.4.0) is used to both consolidate and provide additional management information.

With a small number of exceptions, the accounting of Group companies is carried out with a standardized system from the manufacturer SAP. This IT system enables central access and centrally initiated controls in regard to the accounting process. The system is currently used within Vossloh AG and the overwhelming majority of companies in the Core Components, Customized Modules and Lifecycle Solutions divisions.

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

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

The "Group Accounting Manual" undergoes regular revision and updates; the most recent update was made in December 2020. New or revised editions are made available directly to all those involved in the Group accounting process via the Group intranet.

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

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

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

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

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

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

Reference to the Declaration on Corporate Governance pursuant to Section 289f HGB and Section 315d HGB

The Declaration on Corporate Governance is printed in the annual report, which is permanently available on the Vossloh AG website (see www.vossloh.com/en/ > Investor Relations > News and publications > Financial Publications; www.vossloh.com/en/investor-relations/financial/financial-publications/).

Outlook

This outlook contains forward-looking statements that are based on the expectations of Vossloh management in relation to the future development of the Group. These expectations are based on estimates made by management using available information. Assumptions regarding the future development of the international rail engineering market and the specific business expectations of the divisions of the Vossloh Group have been taken into particular account. The statements made are subject to opportunities and risks that Vossloh cannot entirely control or manage. For more information on this, please refer to the statements made regarding the Group's risk and opportunity management (starting on page 67). If the assumptions underlying the outlook prove to be inaccurate or the described risks or opportunities occur, the actual results and developments may differ from these forecasts. The Vossloh Group accepts no liability for updating the statements made in this outlook beyond statutory publication requirements.

Macroeconomic developments and outlook for the rail engineering market

The short- and medium-term fluctuations of the global economy are generally of minor importance to Vossloh. Investments in rail infrastructure are generally made around the world on the basis of long-term decision-making processes. The current economic trends are therefore only reflected in rail markets to a limited degree. Therefore, Vossloh was only slightly affected by the COVID-19 pandemic comparatively in the 2020 fiscal year. Nevertheless, further unexpected effects in the 2021 fiscal year cannot be completely ruled out. Of greater importance for Vossloh is the increasing demand for improved sustainability and the increasing stature of rail as a means of transport and associated subsidy programs. This trend is expected to result in an increased level of investment in rail infrastructure. On the other hand, an increase in the debt of individual countries, particularly in the home market of Europe, may have a negative impact on Vossloh's business activities. Due to the COVID-19 pandemic, the debts of European countries increased significantly in the 2020 fiscal year. Sovereign debt in the eurozone and the European Union in 2021 is generally expected to remain at the high level of 2020.

With its World Rail Market Study, the Association of the European Rail Industry UNIFE publishes an extensive biannual analysis of developments in the global rail technology market, and makes justified predictions for the coming years on this basis. The most recent study was presented in October 2020. Due to the uncertainty of COVID-19's long-term impact on the rail industry, the study includes a scenario analysis that is alternatively based on a V-shaped and U-shaped pattern of future market development. In the V-shaped pattern, the market is expected to recover quickly, while in the U-shaped pattern, a longer recovery phase is assumed. In the study, the V-shaped pattern is assumed to be the most likely scenario to occur. The reasons cited for this include the large number of economic stimulus packages and public aid for the rail sector as well as a survey of UNIFE members. Therefore, the V-shaped pattern is discussed in more detail below. It includes all known COVID-19-related issues, such as a reduction in volume in the service market and already-known project postponements and cancellations. Looking at 2020, the study expects a significant decline in market volume of 8 percent. Despite the decline in this submarket, the annual global volume for the overall rail technology market is expected to grow from an average of €177 billion between 2017 and 2019 to an average of around €204 billion between 2023 and 2025 – an average growth rate of 2.3 percent per year. The market accessible to European providers such as Vossloh in the future is estimated by UNIFE to be worth approximately €126 billion between 2023 and 2025. Accessible markets refers to the markets that are available to European suppliers and non-European markets where demand is not exclusively met by domestic capacity. For markets that can only be addressed by European suppliers via joint venture structures, half of the market volume is classified as accessible. For comparison, a market volume of around €110 billion per year on average was considered accessible for the 2017–2019 period. The expected increase to €126 billion also represents growth of 2.3 percent per year.

The UNIFE study shows strong differences in the forecast growth of the market from region to region. The largest rail technology market accessible to Vossloh has been and continues to be Western Europe, with an annual volume of around €40 billion in the 2017–2019 period. Market growth of 2.1 percent per year to around €46 billion is anticipated between 2023 and 2025. This is followed by the NAFTA region with a current annual market volume of around €27 billion and future annual market volume of around €31 billion (+ 2.6 percent) and the Asia-Pacific region with a volume of just under €20 billion, expected to rise to around €21 billion (+ 1.3 percent). These three regions account for more than three quarters of the total accessible rail technology market. For the remaining regions, UNIFE expects the following growth rates in the coming years: Latin America 4.9 percent, Eastern Europe 3.6 percent, Africa/Middle East 2.5 percent and CIS 1.9 percent.

The Association of the European Rail Industry breaks the rail technology market down into the segments of infrastructure, rolling stock, rail control, services and turnkey projects. With its divisions of Core Components, Customized Modules and Lifecycle Solutions, Vossloh operates in the infrastructure segment and the infrastructural services sub-segment of the services segment. The volume of the globally accessible infrastructure market (excluding electrification) has been quantified by UNIFE at an average of roughly €18 billion per year in the period between 2017 and 2019. An annual growth rate of 2.4 percent is currently forecast for the 2023–2025 period. This will provide an annual market volume of approximately €21 billion. The growth forecast for the infrastructural services sub-segment until the 2023–2025 period is 1.8 percent, meaning that an increase in the accessible market volume is expected from the current €6.0 billion per year to €6.7 billion. In total, the accessible market that is relevant to Vossloh between 2017 and 2019 came to around €24 billion per year. We expect annual growth to be roughly €28 billion by the 2023–2025 period (+2.2 percent).

Outlook for 2021

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

Outlook for management-related performance indicators

		2020	2021 forecast
Sales	€ mill.	869.7	850 to 925
EBITDA margin[1]	%	12.4	13 to 14
EBIT margin[1]	%	6.6	7 to 8
Value added	€ mill.	12.4	0 to 15

[1] Key figures for the 2020 fiscal year presented without the one-time effect of the transitional consolidation of a Chinese company in the amount of €15.6 million; corresponds to an EBIT and EBITDA margin of approximately 1.8 percent.

Sales expected at previous year's level or slightly above

Vossloh expects a generally stable to slightly growing sales level for the 2021 fiscal year. Based on current knowledge, Vossloh assumes that it will be able to generate sales between €850 million and €925 million in 2021.

In the Core Components division, Vossloh expects slightly higher sales overall. A significant increase in expected sales from China from higher shipments of rail fasteners in the high-speed segment in the Fastening Systems business unit is offset by a noticeable decline in sales in the Tie Technologies business unit following the expiration of several projects in Australia. Stable sales developments are expected in each of the Customized Modules and Lifecycle Solutions divisions. In the Customized Modules division, lower sales due to the divestment of smaller units in America are to be offset by positive sales developments in other regions. In the Lifecycle Solutions division, project-related lower sales in the switch grinding segment will be offset by higher sales of maintenance machines and increased services in the urban transport sector.

The Vossloh Group forecasts an EBITDA margin of between 13 and 14 percent for the 2021 fiscal year. The EBIT margin is expected to be between 7 and 8 percent. In operational terms, this means a significant increase in profitability with sales tending to be stable to slightly higher. Excluding the one-time effect of €15.6 million from the transitional consolidation of a joint venture in China in the 2020 fiscal year, the EBITDA margin and EBIT margin in the past fiscal year were 12.4 percent and 6.6 percent respectively. All divisions plan to increase their margin ratios compared with the 2020 fiscal year. The outlook for the 2021 fiscal year is not subject to any material new unplanned impacts related to the COVID-19 pandemic.

EBITDA margin of between 13 and 14 percent and EBIT margin of between 7 and 8 percent expected

Average capital employed will probably increase slightly year on year in the 2021 fiscal year. Value added in the 2021 fiscal year is expected to be roughly at the same level as in 2020 due to the higher expected operational profitability and is therefore expected to be positive again. Adjusted for the EBIT-relevant one-time effect in the 2020 fiscal year, a noticeable increase is also expected here. The weighted average cost of capital before taxes (WACC) relevant for internal management purposes will again be set at 7.0 percent in the 2021 fiscal year.

Positive value added forecast again for 2021

Risks for Vossloh's business development arise from the COVID-19 pandemic among other things. Largely temporary plant shutdowns, as in the second quarter of 2020, and further project postponements could have a negative impact on sales and earnings. In addition, earnings may be adversely affected by legal risks and the value chain, as well as by higher material input prices. Please refer to the statements made in the risk report (starting on page 67) for additional information about risks that may affect the stated planning.

Vossloh AG prepares its annual financial statements in accordance with the regulations of the German Commercial Code and the German Stock Corporation Act. The statements below refer to the separate financial statements. The net profit of Vossloh AG as an operational management holding company is largely dictated by administration costs and the net financial result. The administrative expenses of Vossloh AG in the 2021 fiscal year are expected to remain at approximately the same level as the previous year. The net financial result is dependent not only on interest expense but also heavily on the income from dividends and profit-sharing agreements, as well as expenses from the assumption of losses and impairment losses recognized on financial investments. Vossloh is expecting a tangible improvement in this area compared to 2020. The assumption of losses for the Transportation division had a significant negative impact on the net financial result in 2020. On the whole, result after tax is expected to improve significantly in 2021.

For the coming years, the focus at Vossloh will be on implementing the strategy that was fundamentally revised and made more concrete in the 2020 fiscal year. In addition to organic growth with increasing profitability, the focus is on the implementation of specific partnerships and acquisitions in order to strategically develop the core business and sustainably increase the value of the company. The planning presented for the 2021 fiscal year only reflects the targeted organic growth and additions and removals in the scope of consolidation. Changes in sales due to consolidation are expected to largely offset each other.

Nonfinancial Group statement[1]

Vossloh's 2020 nonfinancial Group statement in accordance with Sections 315b and 315c HGB is submitted to meet the requirements of commercial law. In preparing this statement, Vossloh used the standards of the Global Reporting Initiative (GRI, "Core" option) to select the nonfinancial performance indicators and was guided by the principles of the United Nations (UN) Global Compact. Vossloh is committed to the guiding principles of sustainable development; a corresponding declaration by the Executive Board is published on the company website www.vossloh.com in the "Investor relations" section under the keyword "Sustainability" (and there under "Sustainability management at Vossloh").

Significance of sustainability for the Vossloh business model

Vossloh is active in rail infrastructure markets worldwide (for more information, please refer to the section "Business and market environment" on page 34 et seq.). With its products and services for rail infrastructure, Vossloh makes an important contribution to people's mobility and the transport of goods. For both local and long-distance traffic, rail is one of the most sustainable and also safest means of transport. Shifting more traffic from road to rail is one of the key prerequisites for achieving climate targets. In addition, the digital revolution in the rail industry is currently opening up new opportunities for rail transport to make even greater use of its ecological and economic advantages and contribute even more to the sustainable solution for transport problems worldwide.

Under the motto "enabling green mobility," Vossloh offers products and services that support additional utilization of environmentally friendly rail transport. Specifically, the goal is to increase the availability of existing rail lines and enable disruption-free operation while reducing lifecycle costs for the infrastructure. The Group supplies long-lasting components for rail infrastructure and constantly develops these components further by using innovative materials and designs. Vossloh's rail track maintenance services, both damage repair and damage prevention, allow rail operators to increase transport capacity. At the same time, the digital services offered by Vossloh to continuously monitor the condition of rail infrastructure with sensors enable a significant increase in the efficiency of track maintenance. Another focus at Vossloh is on solutions for reducing vibration and noise caused by rail traffic.

In addition to its activities that promote sustainability in the rail infrastructure market, Vossloh has a general commitment to fulfilling its social responsibility in its business activities. This includes the expectation that both the Company and its employees adhere to the applicable laws, respect basic ethical values and act in an exemplary fashion at all times and in all scenarios. The Group therefore has an audited Compliance-Management-System (CMS) that provides regular training on compliance issues. All employees accept and sign the Vossloh Code of Conduct upon joining the company.

About nonfinancial issue reporting

Vossloh included the nonfinancial statement in its reporting in 2017 and has since been systematically establishing and expanding a corresponding reporting structure. The initial preparation of the statement was preceded by a multi-stage materiality analysis. Based on a broad-based Group-wide survey of managers and experts with close contact to various Vossloh stakeholders, the nonfinancial aspects that are necessary to understand the economic situation of the company and the impacts of its business activities were identified. They are reviewed annually to ensure that they are up to date and supplemented if necessary. The following materiality matrix depicts the significance of the current total of 14 nonfinancial aspects.

[1] Not part of the financial statement audit, but part of an audit to obtain limited assurance. The independent auditor's report can be found on page 99.

Vossloh is reporting on the following aspects and issues in the Group nonfinancial declaration for 2020:
- Environmental issues, in particular climate-related emissions and noise emissions as well as water consumption
- Employee issues, in particular occupational health and safety, vocational and further training and development, labor conditions and employer attractiveness
- Corporate governance, compliance, combating corruption and bribery, compliance with antitrust law and the respect for human rights, all grouped under the term corporate responsibility
- Customer and product issues, in particular product safety and customer satisfaction

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

Reporting covers the Group's global activities; the companies considered correspond to the scope of consolidation of the consolidated financial statements (see page 112 et seq., "Consolidation"). The management report contains supplementary and/or more detailed information regarding a number of the nonfinancial aspects and issues, and these are cross-referenced accordingly. All of the material risks related to Vossloh's business activities are part of the Company's risk reporting. It also covers any significant nonfinancial risks that may exist for Vossloh (see "Nonfinancial risks and opportunities" on page 73).

For reporting purposes, Vossloh collects and validates energy and water consumption for all locations worldwide and data on employee matters such as workplace safety and developments in the area of Human Resources (HR) centrally using Cognos consolidation software. In addition, comparable Group-wide data from the HR Business Information tool is used. Selected indicators for the area of compliance are also available for the entire Group. For some nonfinancial issues, no uniform quantitative information is available for the entire Group to date; if information relates to individual Vossloh units, a corresponding note is included.

Development of a Group-wide sustainability strategy

The Group Executive Board regularly deals with nonfinancial matters used by Vossloh to meet its environmental, economic, and social responsibility. In operational management, sustainability is the responsibility of the Chief Operation Officer (COO). In the year under review, Vossloh completed a multi-year phase of restructuring and focusing on rail infrastructure. At the end of 2020, the Executive Board and Supervisory Board of Vossloh AG adopted a revised corporate strategy in which sustainability is one of the central initiatives. The high priority given to this issue is reflected in the accelerated development of a Group-wide sustainability strategy among other things. For this purpose, the new central area of Sustainability, Health & Safety was created at Vossloh AG as of July 1, 2020. The head of this area, who was appointed on November 1, 2020, reports directly to the Executive Board. The Sustainability, Health & Safety Committee was also newly created. This is made up of the heads of certain Vossloh AG departments together with the HSE (Health/Safety/Environment) officers of the business units. Employees responsible for sustainability, health & safety were appointed in each business unit; previously, the topic had been located in the Group-wide sustainability working group. At present, Group-wide working, reporting, managing and decision-making structures for sustainability are being revised. This will put more focus on sustainability, both strategically and operationally, and refine responsibilities and processes.

The new structure will systematically bring together the company's existing approaches to managing the environment, energy and occupational health and safety, standardize them in an integrated management system and develop them into a Group-wide sustainability strategy. It will include mandatory, measurable targets for all divisions, also defined in terms of scope and time frame, for matters deemed to be material. On this basis, measures and activities can then be developed to achieve the desired goals. Vossloh aims to achieve climate neutrality in Europe by 2030 in the categories of scope 1 (direct emissions from the combustion of fossil fuels for heating and mobility) and scope 2 (indirect emissions caused by purchased electricity).

Vossloh's sustainability performance has been assessed for many years by various rating agencies, which provide recommendations for investment decisions. Among other things, Vossloh currently has Prime status according to ISS ESG for meeting demanding requirements, and has been awarded an AA by MSCI, which is the second-best rating. One criterion for such ratings is certification in accordance with internationally recognized norms and standards. In recent years, more and more Vossloh units have been awarded certification in at least one of the international quality, environmental, energy efficiency or social standards such as ISO 9001, ISO 14001, ISO 50001, OHSAS 18001 or its successor standard ISO 45001 or a comparable national standard and have corresponding management systems in place. At the reporting date December 31, 2020, more than 98 percent of the Vossloh workforce was employed at a unit with such certification.

UN Global Compact and implementation of its principles at Vossloh

Since January 23, 2020, Vossloh has been a member of the United Nations Global Compact. By supporting the principles of the UN Global Compact, Vossloh is once again outlining its contribution to achieving the global Sustainable Development Goals (SDGs) by 2030. The Group focuses its commitment on the six of the total 17 SDGs that are particularly relevant to Vossloh's business activities (ordered according to the goal numbers, not according to their significance for the company):

- SDG 5: Achieve gender equality and empower all women and girls
- SDG 6: Ensure availability and sustainable management of water and sanitation for all
- SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- SDG 12: Ensure sustainable consumption and production patterns
- SDG 13: Take urgent action to combat climate change and its impacts

The following table provides an overview of voluntary commitments, mission statements and management systems that help Vossloh integrate the principles of the UN Global Compact into its business processes:

Principle	Vossloh's statements, guidelines and management systems	Section of the nonfinancial statement
Human rights		
1. Companies should ensure that international human rights are supported and protected. 2. Companies should ensure that they are not complicit in human rights abuses.	- Vossloh Code of Conduct - Group-wide occupational safety policy - Group-wide travel security management - Occupational health management at Vossloh companies - Group-wide privacy policy as per GDPR	- Labor conditions - Occupational health and safety - Respect for human rights - Compliance/combating corruption/compliance with antitrust law
Labor standards		
3. Companies should respect the freedom of association and the effective recognition of the right to collective bargaining. 4. Companies should work to eliminate all forms of forced labor. 5. Companies should advocate the abolition of child labor. 6. Companies should advocate the elimination of discrimination in employment and at work.	- Vossloh Code of Conduct - Corporate Compliance Commitment - Group-wide Compliance-Management-System - Group-wide diversity and inclusion policy in development - "All on Track" initiative in the Customized Modules division	- Labor conditions - Compliance/combating corruption/compliance with antitrust law - Respect for human rights
Environmental protection		
7. Companies should follow the precautionary principle when dealing with environmental problems. 8. Companies should take initiatives to promote greater environmental awareness. 9. Companies should accelerate the development and dissemination of environmentally friendly technologies.	- Vossloh Code of Conduct - Environmental management at Vossloh companies - Waste and hazardous materials management at Vossloh companies - Quality management at Vossloh companies	- Environmental matters - Product safety
Preventing corruption		
10. Companies should work to avoid all forms of corruption, including extortion and bribery.	- Vossloh Code of Conduct - Corporate Compliance Commitment - Group-wide Compliance-Management-System - Group-wide embargo and export control policy - Group-wide policy on the use of intermediaries	- Labor conditions - Compliance/combating corruption/compliance with antitrust law

Environmental matters

The primary focus of environmental management within the Vossloh Group is generally geared towards making efficient use of resources and minimizing environmental impact. To achieve this, the company strives to constantly optimize the relevant processes and structures. This applies to the manufacture of rail infrastructure products as well as the provision of rail track services. Environmental officers have been appointed in the Group companies and a corresponding report system has been put in place. At the reporting date December 31, 2020, approximately 72 percent of the Vossloh workforce was employed at a unit with ISO 14001 certification.

All Vossloh companies have set a goal for themselves of using natural resources responsibly and sparingly. Material consumption and disposal quantities are recorded and monitored in the individual units. Vossloh units use safe disposal methods that are separated according to waste types. The selected waste management companies are then reviewed regularly. Where it is technically possible and practical, closed material life cycles and reprocessing plans reduce the consumption of valuable new raw materials such as fresh water to a minimum. Recycling is becoming increasingly important in a greater number of production areas. Economically viable recycling programs and processes ensure that the amount of waste ultimately sent to landfill sites is steadily on the decline. Vossloh Tie Technologies, for example, recycles steel scrap and process water on a large scale. Downcycling can also be a way to extend the lifecycle of the material. At Vossloh Rail Services, for example, nonreprocessable residue from grinding stones is used as an additive in slag production.

In its materiality analysis, Vossloh identified climate-relevant carbon emissions, noise emissions and additionally water consumption as relevant nonfinancial performance indicators relating to the environment. In all three areas, Vossloh has been striving for years to steadily reduce emissions and consumption. The definition of concrete targets for fixed periods is one of the responsibilities of the new central Sustainability, Health & Safety area. In 2020, temporary factory shutdowns and production cutbacks at various sites as well as working from home offices due to the COVID-19 pandemic reduced the company's CO_2-related energy consumption and water consumption.

CO_2-emissions

With regard to the impact on climate change, carbon emissions and carbon equivalents are relevant to Vossloh. These are generated by the energy consumption of the company itself or in the upstream or downstream areas. All the Vossloh divisions have been making targeted investments to reduce energy consumption and boost energy efficiency for years, such as by switching to LED technology for its lighting. A number of production sites use waste heat from production. The "Factory of the Future" at Vossloh Fastening Systems in Werdohl and the new "OT 2020" foundry at Vossloh Cogifer in Outreau are regarded throughout the Group as flagship projects in terms of energy-efficient production.

The following tables present the consumption of significant energy sources within the Vossloh Group for the year under review and the comparative figures from 2019:

MWh (Vossloh Group)	2020	2019
Gas consumption	72,268.5	105,957.6
Electricity consumption	64,175.1	68,678.0
District heating consumption	4,384.2	4,376.2
Liters (Vossloh Group)	**2020**	**2019**
Heating oil consumption	228,862.0	292,695.1
Fuel consumption[1]	828,094.1	1,073,495.8

[1] This includes the fuel consumption of Vossloh's vehicle fleet.

Gas consumption with the Vossloh Group fell significantly in a year on year comparison. The decrease is mainly attributable to the Customized Modules division. This was mainly due to the US switch business sold at the end of 2019 and was also a major reason for the lower power consumption. The lower fuel consumption is directly attributable to reduced mobility as a result of the COVID-19 pandemic.

The amount of Vossloh's carbon and greenhouse gas (GHG) emissions was determined, as in previous years, on the basis of the Greenhouse Gas Protocol in the categories of scope 1 and scope 2. The results were as follows:

t CO_2 equivalents, scope 1 (Vossloh Group)	2020	2019
Gas consumption	13,289.4	19,482.4
Heating oil consumption	581.4	743.6
Fuel consumption	2,064.8	2,725.9
Scope 1	**15,935.6**	**22,952.0**

t CO_2 equivalents, scope 2 (Vossloh Group)	2020	2019
Electricity consumption	27,622.6	28,697.5
District heating consumption	1,315.3	1,684.7
Scope 2	**28,937.9**	**30,382.2**

Vossloh does not as yet have sufficient data with which to ascertain the greenhouse gas emissions relating to the upstream and downstream areas (scope 3).

The company's operating units are working on further reducing CO_2 emissions with a wide range of measures. These also include small changes such as orienting the fleet on low-carbon vehicles. Employees of the German Vossloh companies are encouraged to use the train for business trips; frequent travelers can receive a business rail card ("Bahncard Business"). Due to the COVID-19 pandemic, travel in the Group decreased by a total of about 65 percent in 2020.

At Vossloh Fastening Systems, the lighting in both the production spaces and the administration building at the site in Poland was converted to energy-saving LEDs in 2020. The new compressor in the cooling system and the new control cabinets also require less energy than the previous models. The plant in Anyang, China, now uses excess steam from neighboring companies instead of producing it itself in natural gas-fired boilers. At Vossloh Tie Technologies, the conversion of lighting to LED and the replacement of compressors in ventilation systems also reduced energy consumption. Customized Modules is gradually equipping its sites with charging stations for electric cars to promote the use of these vehicles. The Vossloh Switch Systems technology center in Reichshoffen now covers its hot water needs with the help of solar collectors on the roof. Lifecycle Solutions converted the last of its welding plants, Nuremberg, to green power in 2020. The conversion to LED lighting was also continued there. The mobile service business of Vossloh Rail Services involves a lot of unavoidable employee business travel. However, the company does encourage its employees to make their travel activities energy-efficient, for example to ensure that they drive in a fuel-efficient manner when using their cars.

In 2020, the example of a call for tenders for the supply of switches in the Netherlands showed how much attention customers are now paying to ensuring that rail infrastructure products they install have the smallest possible environmental footprint. The Environmental Cost Indicator (ECI) of the switches offered played a decisive role in the award decision. The ECI includes energy consumption and CO_2 emissions during production as well as the results of a life cycle analysis (LCA). The Vossloh switches performed best in the ECI evaluation, which is why the company was able to secure a multi-year framework agreement.

Noise emissions

When manufacturing its products and providing its services, Vossloh aspires to comply with the legal requirements applicable at the respective locations with regard to noise emissions. The products and services of Vossloh, however, serve the purposes of creating and maintaining rail infrastructure. For rail routes of all types, noise protection is a key subject of public perception and currently counts among the most pressing challenges of rail transport. Noise hampers the urgently needed expansion of routes, can cause sickness among people living near rail routes and results in high costs for the transport operators and consumers. An essential factor in effective noise reduction is combating it at the source, by optimizing the wheel-rail contact on the track. Reducing the noise caused by rail traffic and improving track acoustics have been a focus of Vossloh's research and development work for years (see also "Research and development" on page 63). The Company offers suitable products and services in all divisions that can reduce rail noise on a sustainable basis. Examples are the *cellentic* components and rail fastening systems with a high plastic content that dampen structure-borne noise, called whisper switches, and rail machining technologies (grinding, milling) for restoring a smooth and therefore "quiet" surface. The rail and switch processing machinery can achieve noise reduction of up to 10 dB(A) by precisely removing material. The machines themselves also operate quietly. The Multi Purpose Milling (MPM) compact milling machine, for example, generates noise measuring less than 78 dB(A) during operation, so that residents are not disturbed even during a night shift. For comparison, on a quiet residential street, the noise level is roughly 40 dB(A); a car going 50 km/h reaches a volume of 70 dB(A).

Water consumption

In Vossloh factories, water is mainly used for surface treatment of products, as a coolant in various production processes and for the production of concrete ties. Vossloh units obtain the water from the respective local public water supply systems. The company intends to use this basic resource as efficiently as possible. As such, used water is reprocessed in our own plants and returned to the operating process, particularly in production areas that require a substantial amount of water. In some cases, the production units work with closed water circuits. At all of its sites, Vossloh disposes of wastewater via the respective public sewage systems. Process water that is heavily contaminated during production is first treated in our own wastewater treatment plants in such a way that it (at least) meets the discharge standards of the public systems.

The following table illustrates the Vossloh Group's water requirements as determined by the water meters:

m^3 (Vossloh Group)	2020	2019
Water consumption	177,553.1	145,145.6

The increase in water consumption is almost entirely attributable to the Core Components division. In the Tie Technologies business unit in particular, water consumption increased in line with the significant rise in business activity. However, water consumption in the Fastening Systems business unit was also above the previous year's level due to a significant increase in vertical integration at the largest production facility for rail fastening systems in Werdohl.

Employee matters

The key nonfinancial issues identified by Vossloh in its materiality analysis in relation to employee aspects were occupational safety and health, vocational and further training and development, labor conditions and employer attractiveness. The concepts developed and implemented in these areas by the HR departments (Human Resources) at the various levels within the Group and the objectives pursued with these concepts are explained below. There are currently no significant risks in regard to employee aspects (see also: "Nonfinancial risks and opportunities" in the chapter "Risk and Opportunity Management" on page 73).

Occupational health and safety

Workplace safety and maintaining the employees' health are at the heart of Vossloh's care obligations as an employer. Nearly all major production plants worldwide are certified under the internationally-recognized standard OHSAS 18001 (Occupational Health and Safety Assessment Series) or the successor standard ISO 45001, and undergo the prescribed audits by independent external auditors. As of the end of 2020, over 76 percent of Vossloh employees were employed at units certified in accordance with OHSAS 18001 or ISO 45001. For the top managers of the operating units, achievement of the defined occupational safety performance indicators is an integral part of their pay-related target agreements.

There has been a permanent Group-wide occupational safety body since 2012 in the form of the Work Safety Committee. This has initiated important steps to harmonize the occupational safety conditions across the various divisions in recent years. For example, a standard occupational safety policy has been developed which is mandatory for all companies around the world. In this policy, the zero-accident strategy vision is defined. In 2020, the Work Safety Committee was intensively involved in the development of the Group's own SAFE+ app for reporting safety risks and mitigating moments of danger. It was also permanently involved in the planning and management of measures to deal with the COVID-19 pandemic from March onwards.

The COVID-19 pandemic also presented Vossloh with special challenges in the past year with regard to protecting the health of its employees. The Company's COVID-19 crisis team, consisting of the Chief Operating Officer, the Head of Corporate Human Resources, the Head of Corporate Controlling and the HSE managers of all business units, received all information from the Vossloh units on suspected and confirmed COVID-19 cases. Together with the Groups Works Council, local employee representatives and the Work Safety Committee, it developed comprehensive protection and precautionary measures for the workforce. Measures were promptly readjusted as needed. A newsletter regularly informed employees and repeatedly raised awareness of appropriate pandemic behavior.

China was the first country to be affected by the COVID-19 pandemic. The management of the Vossloh plants there took extensive measures to protect employees before resuming operations at the beginning of February 2020. After the pandemic spread to Europe, on March 2, 2020, all Vossloh employees were instructed to observe distancing and hygiene rules and to avoid travel and in-person meetings. As of March 17, up to 70 percent of employees in administrative areas were working from home offices. They were able to access psychological care if needed and were given in-depth information about the dangers posed by hacking activities. For communicating and working with each other, Vossloh IT rolled out the MS Teams tool. Contact with customers, suppliers and service providers was also preferably kept online.

When problems in the procurement of masks and infrared thermometers occurred at several European sites at the beginning of the pandemic, Chinese Vossloh employees ensured that these supplies were delivered by ship. Following government lockdown orders, a total of 12 Vossloh factories worldwide had to be shut down for an average of about two and a half weeks in spring 2020. This meant that throughout the Group, Vossloh plants stopped for a total of more than 160 work days due to the COVID-19 pandemic. The lockdowns ordered in the fall of 2020 did not result in any plant shutdowns or production cutbacks. For the administrative staff, Vossloh switfly extended the home office phase until March 31, 2021. As of December 31, 2020, 195 COVID-19 cases were reported in the Group worldwide; all affected individuals have recovered. There was no indication in follow-ups that an employee had become infected in the company.

At Vossloh, workplace accidents throughout the Group have been documented every month on the basis of uniform criteria, over and above what is required by law. The most important key performance indicators here are the globally used metrics of lost time accident frequency rate (LTAFR) and lost time accident severity rate (LTASR). Accidents resulting in lost time due to an employee's ill health are immediately reported directly to the Executive Board. The Work Safety Committee, the Group Works Council and the new Sustainability, Health & Safety area cooperate closely in order to further reduce workplace accidents and further develop the culture of safety.

Workplace accidents (Vossloh Group)	2020	2019
Lost time accidents (LTA)[1]	102.0	112.0
Lost time accident frequency rate (LTAFR)[2]	16.2	16.0
Lost time accident severity rate (LTASR)[3]	2.6	2.9

[1] Accidents involving injury-related lost time of at least 1 hour.
[2] Frequency of accidents involving injury-related lost time of at least 1 hour, measured in the number of workplace accidents in relation to the cumulative actual work time, based on 1 million hours worked.
[3] Severity of accidents involving injury-related lost time of at least 1 hour, measured in the duration of lost time in relation to the cumulative actual work time, based on 1,000 hours worked.

Both accidents with and without lost time and near accidents are analyzed at Vossloh in order to learn from them for the future and reduce the number of accidents at all the Company's sites. The definition of concrete targets for specific time frames in the area of occupational safety is likewise one of the responsibilities of the new Sustainability, Health & Safety area.

Prevention is a matter of importance to Vossloh in order to stop workplace accidents from happening in the first place. This includes regular conduct-based safety inspections designed to raise safety awareness among the employees, regular safety instruction and training for all the staff, online training sessions on safety-relevant subjects, the provision of comprehensive protective equipment, safety markings at the various workstations, and awareness campaigns. Impressive videos or safety flashes (anonymized summaries) of accidents are also frequently used. The "Four seconds for safety" campaign is regularly discussed at the start of a working day or a get-together within the Vossloh Group, with brief reference being made to a specific safety aspect, and not just in the production area.

Raising even greater awareness of safety issues among all employees and minimizing potential risks are the goals of the SAFE+ app, which was launched in 2020 in close cooperation with the new Sustainability and Health & Safety area, the Work Safety Committee and the Group Works Council, as well as with the support of Vossloh IT. The app technology, which is commonly used around the world, is designed to ensure that the new tool is easy to use and that the workforce can therefore participate on a wide scale. Currently, employees from several operating units are putting the app through its paces. Their suggestions for improvement will be incorporated into the next version, which will be available in German, English and French. Once it is rolled out in all languages spoken in the Group and accessible to all employees after appropriate training, in the final stage each Vossloh employee will identify at least three potential safety risks in the Company per year.

Preventing possible accidents was the focus of activities by Vossloh Fastening Systems at the two Chinese production sites in 2020. In Kunshan, the loading station for forklift trucks was separated from the production area to minimize the risk of fire. In addition, storage facilities with liquefied gas tanks and cylinders were structurally improved and the area surrounding a boiler heater with liquefied natural gas was upgraded in terms of safety. The plant in Anyang has only been part of the Group since August 2019. The approach to safety standards that is customary to Vossloh was introduced there in 2020 following the preparation of a corresponding report by independent experts. Among other things, the accident prevention regulations were updated and implemented in training courses for employees. Vossloh Tie Technologies also revised and standardized all safety regulations. In addition, more training sessions were held at the plants in Australia, which have been part of the Group since late 2018. At Vossloh Switch Systems, the forge in Rumelange, Luxembourg was the focus in 2020. In a four-week intensive workshop, employees dealt with various aspects of operational safety and identified starting points for improvement. In 2020, Vossloh Rail Services continued the five-point program which had been initiated the previous year to reduce the frequency of accidents. In addition to the measures implemented throughout the Group, it includes the introduction of new safety footwear with ankle protection to prevent sprains in the foot area, the continuation of group bonuses for accident-free work and a doubling of bonuses for improvements in occupational safety implemented as part of the Company suggestion system.

If employees have to travel internationally for their work for Vossloh, they can make use of the Group's travel safety management system. They will then receive comprehensive support with regard to medical and safety aspects of their trip as well as precautions for possible emergencies. The company's Travel Security

Managers and worldwide Assistance Centers, in addition to a service provider's assistance app, are available for this purpose. In the Duty of Care Award competition, which recognizes initiatives for safer travel by Company employees, Vossloh was shortlisted in 2019 for the best-practice examples for this service.

Vossloh's occupational health management pursues the goal of offering all its employees preventive healthcare. This includes the occupational safety measures already mentioned, workplace ergonomics, driver safety training and company medical care, as well as making fruit available on a daily basis, nutritional counseling, company sports (including jogging groups and yoga courses), help quitting smoking, and preventive measures (including colorectal cancer screening, flu vaccinations, health screening and health tips).

Vocational and further training and development

Aging societies in developed countries, a shortage of skilled workers in many parts of the world, increasingly digitalized workplaces, global competition for well-qualified engineers and the younger generation's changing expectations of employers – these are just some of the challenges faced by Vossloh in the area of human resources. 2020 was also marked by the COVID-19 pandemic, which significantly accelerated digitalization, particularly in the area of training and education.

One of the Company's major advantages in terms of its attractiveness as an employer is the comprehensive array of development measures it offers its employees. In an annual meeting between the manager and employee, various measures are agreed upon to individually train the employee while taking operational needs into account. Proper implementation of these measures is closely monitored and evaluated by the HR departments. As a key management tool, the yearly performance reviews entail not only such development measures, but also mutual feedback from the manager and the employee regarding working together and agreement on goals for a defined period of time. For nontariff employees, Vossloh has the People Review Process (PRP) where goals are discussed. In the past fiscal year, more than 70 percent of nontariff employees went through this process. The process, which was previously exclusively paper based, was digitalized in 2020. The digital PRP was used in the pilot phase in the management area and is now being further developed based on experiences for the next expansion stage.

The range of professional development measures for Vossloh employees covering all areas of expertise comprises external and internal training, workshops, project involvement (within or outside of a business unit) and coaching as well as increasingly digital learning opportunities. As a result of the COVID-19 pandemic, there was a strong focus on training in online and blended learning formats in 2020. Overall, online and blended learning training has nearly doubled compared to 2019. However, since not all classroom training content could be immediately digitally implemented, not all employee training requests could be fulfilled in 2020. Vossloh also supports employees gaining qualifi-cations on their own initiative, such as by studying alongside working. In addition, there is a cross-business unit LEAD! Program, which prepares high-potential employees for more advanced duties. The measures planned for 2020 had to be postponed to 2021 due to the COVID-19 pandemic. However, a virtual Alumni Conference organized by former LEAD! participants encouraged the exchange of experiences. The annual Leaders Lounge was also held virtually in 2020 with around 100 of the Group's top managers from all over the world, where everything revolved around the adjusted corporate strategy.

The Vossloh Learning Platform (VLP) is a digital environment for continuous learning ("LEARN"), sharing ("SHARE"), and growth ("GROW") in the Company. The platform creates an inspiring and motivating culture of learning that every employee can contribute to and benefit from. The VLP demonstrates that learning takes place every day and in numerous ways. Learning options are divided into on-site, tailor-made and digital learning so a suitable solution can be found quickly depending on the learning need. The new design of the VLP, which was released in the spring, also contributes to this, making the platform even more intuitive to use. Learning options were particularly expanded in the area of digital learning in 2020 – for instance, with courses on the home office tool MS Teams. The VLP is available to all employees worldwide in German, English and French.

In the area of initial vocational training for young people, there is great demand at Vossloh in Germany for existing dual training opportunities, in other words the combination of company-based training and studies, in both the industrial/technical and commercial fields. Despite the COVID-19 pandemic, all current training was maintained in 2020 and new training relationships were also started. Commercial apprentices were included in home office arrangements, and industrial/technical apprentices were able to complete digital learning units from home.

The Vossloh Rail Services division has held a stake in the established training provider BahnWege-Seminare since 2019 via the Rhomberg-Sersa-Vossloh GmbH joint venture. The company's wide-ranging program of training courses in all aspects of rail infrastructure maintenance can also be used by Vossloh employees. Due to the COVID-19 pandemic, various training courses were offered in an online format on a trial basis in 2020.

Labor conditions

Committed employees are the bedrock of the Company's long-term success. Vossloh therefore attaches great importance to fair labor conditions. Key issues in this regard are equal opportunity, fair remuneration, additional company benefits (above and beyond the statutory and/or tariff-based arrangements), and a safe work environment. Adherence to local laws and standards (for example, minimum wage or fundamental labor law conditions) is an integral part of Vossloh's compliance obligations. The European Works Council, the Group Works Council, the Executive Board and Corporate Human Resources regularly communicate at Vossloh in order to guarantee the flow of information, discuss scope for improvements, address new issues together and tackle these in projects. In 2020, the Group Works Council and Corporate HR Learning & Development developed a diversity and inclusion policy for Vossloh. The working group was part of a joint initiative from Human Resources and the Groups Work Council in connection with the "Work and Family" certification, which Vossloh successfully completed in 2019. In addition, in the wake of the COVID-19 pandemic and based on extensive experience with working from home, a Group company agreement on mobile working was drawn up and adopted in 2020.

Vossloh practices a life phase-oriented HR policy. The "Work and Family" audit represents an important milestone in further improving the work-life balance for employees of the German Vossloh companies. The instruments range from flexible working hours, flextime, part-time and parental leave models to mobile working, personal sabbaticals, childcare and care support services as well as the conversion of bonus payments into free time for the family. Arrangements are in place at Vossloh's companies in France to ensure the (un)availability of employees for work during their leisure time. The Customized Modules division is also involved in the French "All on track" initiative for promoting diversity in the Company. Vossloh Fastening Systems has been testing flexible schedules around a core working time in a 40-hour week at the management level at its Chinese sites since July 2020.

Issues that further strengthen Vossloh's sustainability orientation are also incorporated into the Company's incentive system. A continuous improvement process (CIP), which is not yet centralized, is in place in a number of business units. Vossloh employees participate financially from the savings that result from the implementation of their ideas. The suggestions for improvement relate in part to product, process and service quality and in part to occupational health and safety as well as environmental protection (with a focus on resource conservation and energy saving). In the production of *cellentic* intermediate plates and layers, for example, two improvements at once have resulted in more efficient utilization of the high-quality starting material EPDM (ethylene propylene diene monomer rubber). Around 3 to 5 percent of the blanks coming out of the converter do not meet the specified standards. Previously, they had been transported back to the supplier of the starting material and recycled there. In the first step, Vossloh employees found a way to rework these blanks themselves and feed them back into the forming process. In the second step, a machine was converted in such a way that this recirculation no longer has to be carried out manually, but rather takes place automatically.

The general rules for working at Vossloh are summarized in a Code of Conduct that each and every employee is required to sign upon joining the Company. The Code of Conduct stipulates and precisely defines the values of integrity and upstanding business conduct. The principles of conduct that this prescribes are a binding yardstick and benchmark for the day-to-day activities of all the employees (see also the detailed coverage of the topic of compliance on page 27).

Vossloh expects its business partners, be they companies or individuals, "to apply similar standards to the ones we have established for ourselves," as the Company's Code of Conduct stipulates. Therefore suppliers, service providers and subcontractors who are new to working with Vossloh are required to provide comprehensive information on themselves by means of checklists. The issues of safety, health and the environment are likewise increasingly being considered in these evaluations as Vossloh itself is required to present its own customers with evidence in these areas (see the "Customer and product aspects" chapter on page 97).

Employer attractiveness

Vossloh's corporate culture is founded on the four basic values of "passion," "excellence," "trust and respect," and "entrepreneurship." Its specific corporate culture is an important argument for Vossloh in terms of both competing for qualified professionals and retaining skilled employees in the long term. At the same time, Vossloh offers a transnational, project-based and digital culture, with the objective of creating attractive workplaces for young talent and maintaining the Company's competitiveness.

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

- Equal opportunity
- Systematic support of talented individuals and junior employees
- Development of a Vossloh management culture, currently supplemented by the topic of digital leadership
- Group-wide succession planning to facilitate international careers within the Group
- Employer branding as a green company in a crisis-proof industry
- Occupational health management (see "Occupational health and safety" on page 87)
- Employees as ambassadors for the Company (through the "Employees Recruiting Employees" program and other initiatives)
- Joint development by employee representatives and management of topics relevant to success (e.g. collaboration between Work Safety Committee and Group Works Council/European Works Council as well as on the topic of "Career and family")
- In Germany: family support services
- In Germany: attractive initial training opportunities in industrial/technical and commercial areas and dual training options
- In Germany: "Smart Azubi" provides a free company car (three months) for the best apprentices each year in the commercial or industrial/technical professions
- Harmonized HR processes and tools

Vossloh Group companies assess employee satisfaction by means of regular surveys regarding various focal issues. The surveys are conducted and evaluated using scientific methods, and the results serve as the basis for improvement measures and changes. In 2020, the focus was on dealing with the COVID-19 pandemic and on experiences working from home. At Vossloh Fastening Systems, the overall mood was positive, with around 60 percent of employees in production and administration taking part. Many of the respondents would like to integrate home office even more into their normal workday. In digital leadership workshops held in parallel, the need for support in digital leadership and the desire for binding and uniform home office regulations became clear. A survey on home office experiences at Vossloh Rail Services yielded similar results.

An initial survey at Vossloh Switch Systems on this topic covered all French sites. Based on the results, employee representatives and management are currently negotiating a home working agreement. In September 2020, a second survey was conducted in the entire business unit to find out how employees use digital communication tools and what their expectations of these tools are. The analysis showed, among other things, that employees want an easily accessible information platform with news primarily about their working environment, provided in their native language if possible. As a thank you for their commitment under COVID-19 conditions, there were carefully selected gifts, surprises and activities for the employees during the 2020 christmas season.

Vossloh Fastening Systems surveyed its employees in China on various aspects of job satisfaction at the end of 2019. In line with the wishes expressed in the process, a learning offering to improve self-presentation for the entire workforce and e-learning to improve communication skills were launched in 2020. At Tie Technologies, there was a survey of Austrak company employees about health/wellness and diversity in April 2020. Based on the results, the preventative care/nutrition/sports offerings were expanded. With regard to diversity, a strategy has been developed to make the workforce more “colorful” at all sites. Vossloh Rail Services systematically introduced the exit interview tool in 2020 with the aim of learning from employees who leave the Company.

Vossloh’s flat hierarchies generally promote open dialog within the workforce. The annual performance review is firmly institutionalized throughout the Group as an opportunity for feedback to flow between employees and managers; in addition, regular discussions between employees and managers are encouraged. In order to encourage people to look at the bigger picture, upstream and downstream process steps are presented and explained in a transparent way. On the other hand, employees are systematically given insights into other areas and new areas.

Social matters/CSR

Stakeholder engagement

Vossloh maintains an ongoing dialog with its internal and external stakeholders. In doing so, it is important for the Company to address the individual groups directly and take their interests into account. The following table provides an overview of the issues involved in the stakeholder dialog along with the dialog formats Vossloh uses:

Stakeholder	Topics	Dialog formats
Customers	- (New) Vossloh products and services - Product and service quality - Customized solutions for the respective task - Quick response to inquiries, as well as order handling and logistics	- Regular customer talks - Publications (printed and digital) - Participation in trade fairs - Events for/with customers - Integration of customers into the system by means of EDI (Electronic Data Interchange)
Capital market participants	- Development of the Company's value - Current business development - Strategic alignment of the Company - Corporate governance as per the relevant rules - Commitment to sustainability	- Financial reporting - Annual General Meeting - Investor conferences - Conference calls - Roadshows - Capital markets days - Website
Employees	- Employment contract regulations - Company agreements - Internal communication - Dialog with the executive level - Opportunity for further training - Promotion of junior employees	- Regular performance reviews - Employee magazine "in*motion*" - Employee surveys - Exchange forums and project teams reaching across national borders, hierarchies and divisions - Vossloh Learning Platform - LEAD! development program
Suppliers	- New/alternative materials - Framework conditions for supplier agreements - Communication of scope of supply specifications	- Regular supplier meetings - Participation in trade fairs
Media / trade press	- External portrayal of the Company - Reports on industry-specific topics - Information about interesting projects	- Press releases - Website - Social media presence - Publications in journals - Participation in trade fairs
Science	• Dialog between scientific institutions and the industry • Reports on research work	- Collaboration to solve specific tasks - Expert involvement in research projects - Publications in journals - Promotion of science (awards, supporting work for dissertations, etc.)
Associations	- Active participation in industry-wide dialog - Involvement in the work of associations - Information about the underlying conditions and regulations in markets	- Involvement in the designing of events, conferences, etc. of associations - Involvement in association bodies - Participation in trade fairs - Involvement in standardization committees - Involvement in market studies

On-site commitment

Social issues at Vossloh are the responsibility of the operating units, and therefore there is no Group-wide concept. Contributions made to the community by the individual corporate entities at the various sites are also not systematically recorded.

Individual companies traditionally support civic society at their respective locations in a variety of ways, including by making donations of cash and in kind – for example, to associations or hospitals. They also release employees for voluntary work in the public interest (for example, in fire departments or local councils, or for work in associations). Numerous Vossloh employees also volunteer in their local communities in their spare time. The Lifecycle Solutions division uses funds that can be donated to charitable organizations to promote increased participation in social, athletic, cultural or environmental areas by its employees. At Austrak in Australia, employees have a paid absence day which they can use to work for a charity organization of their choice.

Additionally, Vossloh’s research and development departments in particular collaborate with a number of universities and research institutes at varying levels and in various constellations, including in Germany, France, Sweden, China, Australia and the USA.

Corporate responsibility

The nonfinancial aspects of corporate governance, particularly combating corruption and bribery, compliance with antitrust law and the respect for human rights are outlined below. All of the above points have responsibility and risk minimization in common. As a global enterprise with a more than 135-year history, Vossloh has a social responsibility toward its customers, employees, partners, investors and the public. From this responsibility, Vossloh derives the requirement that the Company and its employees adhere to the laws as applicable, respect basic ethical values and act in an exemplary fashion at all times and in all scenarios. This requirement is set out in writing in the Vossloh Code of Conduct. The Code of Conduct, which all employees sign when they join the Company, is designed to help workers live up to this responsibility.

Corporate Governance

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

Compliance/combating corruption and bribery/compliance with antitrust law

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

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

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

Since 2007, Vossloh's Compliance-Management-System has been based on the Vossloh Code of Conduct. The Code of Conduct stipulates and precisely defines the values of integrity and upstanding business conduct, and interprets them as clear and straightforward rules and principles. It is currently available in 15 languages and is mandatory for all Company employees. It was most recently completely revised and further developed in 2016. There are also guidelines on the prevention of corruption, conduct compliant with antitrust law and the bringing in of intermediaries as well as data protection guidelines, export control guidelines and insider guidelines. (More information see: www.vossloh.com >"Investor Relations" > "Corporate Governance" >"Compliance").

Compliance as part of business activities constitutes part of regular classroom training held at all Vossloh companies. The teaching requirements and the participants are identified and selected by the Compliance Officers within the business units and the Local Compliance Officers on the basis of the Vossloh Compliance Training Concept. The Compliance Office headed by the Chief Compliance Officer keeps a record of the classroom training sessions held. In 2020, Vossloh conducted compliance training around the world for a total of 309 participants (2019: 1,063 participants). The significant decrease in training compared to the previous year can be explained by the fact that on-site classroom training was practically not or hardly possible due to the COVID-19 pandemic. This was partially compensated for with virtual training courses which, however, cannot reach all employees; experience also tells us that virtual training is not as effective or instructive. Vossloh will resume classroom training to a greater extent as soon as possible.

Compliance training is also provided in the form of e-learning, which was rolled out again in a fundamentally updated form in early 2021. The "Code of Conduct – Compliance Basics" module is aimed at all employees who work at a computer workstation. In addition, there are two modules for all managerial staff and employees with external contact that focus on competition law and anticorruption. These are also the target audience of the "refresher" module on anticorruption, competition law and foreign trade law. All new employees are gradually taken through the e-Learning program. The Local Compliance Officers systematically record the employees' attendance and send them reminders to attend, if need be. As of December 31, 2020, the training rate stood at 96.4 percent (2019: 95.9 percent).

Compliance audits are performed – usually with the assistance of external audit firms – in order to verify that the Compliance-Management-System rules are being adhered to within the individual operating units. These are performed both ad hoc and without there being any specific suspicions. In 2020, no physical compliance audits (2019: three) were conducted Group-wide due to the COVID-19 pandemic and the associated travel restrictions. Instead, the three compliance audits that were decided and planned for 2020 were postponed to 2021. However, compliance issues were also audited as part of the internal audit process. Additionally, Vossloh regularly has its Compliance-Management-System reviewed by external experts and asks them to make recommendations regarding its further development and improvement. The most recent review took place in 2017; the audit report has been published on www.vossloh.com under "Corporate Governance" > "Compliance" in the "Investor Relations" section. Insofar as findings and recommendations were stated regarding compliance work, they have been implemented in the course of the ongoing development and improvement of the Compliance-Management-System. Vossloh also performed a stocktaking and survey of 215 managers and other employees of the Vossloh Group in 2018 which confirmed the effectiveness of the established Compliance-Management-System as well as high levels of awareness and acceptance of compliance within the Vossloh Group. An update of the risk inventory that was also decided and planned for 2020 had to be postponed due to the COVID-19 pandemic.

Vossloh set up a whistleblower hotline together with an international law firm. In addition to the option of contacting the Compliance Officer directly, this allows company employees and external persons the opportunity to report possible misconduct to an independent external contact (ombudsperson) in their native language. The whistleblower hotline has so far been set up for 24 countries. As such, the main regions and the languages spoken within the Vossloh Group are essentially covered. Vossloh systematically looks into every report of conduct that is potentially illegal or against the rules. The ombudspersons were contacted on five occasions in 2020 (2019: six occasions). All resulting investigations into possible compliance violations were completed.

Vossloh has also taken special precautions to ensure compliance with foreign trade regulations, notably export control and embargo legislation. Beyond the obvious need to comply with applicable legal provisions, Vossloh shares the security objectives pursued by foreign trade legislation, especially the strengthening of international peace efforts and the non-proliferation of weapons of mass destruction. An export control policy for the entire Group and which is based on applicable law creates a binding framework for the entire Vossloh Group and all its employees to ensure compliance with the respective legal requirements. The framework requirements of this policy are supplemented by more extensive regulations in the form of work and organizational instructions, process descriptions, etc. The policy states that each operational unit must appoint an Export Officer and a Trade Compliance Officer (TCO). In cooperation with the respective HR departments, they develop training concepts and ensure that all employees working in areas relevant to foreign trade receive the appropriate training. Vossloh's central compliance e-learning tool also includes the module "Foreign trade law."

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

Since early 2017, Vossloh has maintained a Group-wide register of associations as part of its Compliance-Management-System, in which all company and private memberships in industry associations are recorded. Vossloh AG's primary association memberships are as follows:
- Verband der Bahnindustrie in Deutschland (VDB) e. V., German Railway Industry Association
- Union des Industries Ferroviaires Européennes (UNIFE), Association of the European Rail Industry
- Deutsches Verkehrsforum (DVF)
- Institut für Bahntechnik GmbH (IfB)
- Allianz pro Schiene e. V.
- Verband Deutscher Verkehrsunternehmen e. V. (VDV), Association of German Transport Companies

Details of material nonfinancial risks regarding ongoing legal proceedings and legal disputes can be found in the section entitled "Risk and opportunity management" on page 67.

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

The protection of personal data is a matter of importance to Vossloh. Vossloh revised its data protection management system in 2018 to comply with the European General Data Protection Regulation (GDPR) and adjusted the organization in accordance with the new legal requirements. The new data protection policy came into effect in May 2018. It is binding for all Vossloh companies and all staff worldwide, even outside the European Union. Compliance with the Vossloh Data Protection Policy is monitored by appointed data protection officers and data protection coordinators as well as a data protection committee at the Vossloh AG level that meets regularly.

Respect for human rights

Vossloh respects internationally recognized human rights in its business activities, and these are codified as binding rules for all employees in Section 10 of the Vossloh Code of Conduct ("Protection of human and labor rights"). The Code of Conduct can be found under "Corporate Governance" > "Compliance" in the "Investor Relations" section of the corporate website www.vossloh.com. Risks that may result from the violation of human rights are recorded under "Nonfinancial risks and opportunities" on page 73.

As a globally acting Group, Vossloh actively promotes diversity within its workforce. In 2020, the Company employed men and women from over 45 countries and with a wide range of qualification levels, education levels, vocational training paths, career experience and service years within all of its hierarchical levels. Vossloh is fundamentally committed to promoting equal opportunities in the workplace, such as in the selection of employees for high-potential programs or recruitment for open positions, as well as part of its HR policy focusing on life phases. In the Customized Modules division, the "All on track" initiative that was launched in 2019 is having an impact, but was only able to implement part of its planned activities due to the COVID-19 pandemic. The network for more diversity and especially more women in the workforce is now actively supported by 35 people in six countries. The initiative was given a boost by the fact that French companies with more than 50 employees are obliged to publish annual figures on equality between men and women in the workplace. In this Penicaud index, Vossloh Cogifer SA achieved 85 out of a possible 100 points in 2020. The French Vossloh sites also participate in the nationwide TREMPLIN initiative (translated: springboard; abbreviation for TRansport EMPLoi INnovation). It aims to reduce the shortage of skilled workers in the transport and logistics industry by encouraging and promoting applications from people with disabilities.

To minimize the risk of child labor, Vossloh, as a rule, does not employ anyone under the age of 14 or 15 (depending on the legal provisions in the different countries). In addition, the majority of Vossloh's production facilities are located in Europe. Employees under the age of 18 are usually apprentices. The instructors responsible for them are duty-bound to observe all the relevant labor law and occupational safety rules and provisions. A whistleblower hotline is available in order for possible misconduct to be reported. No human rights violations were reported in the 2020 fiscal year (2019: also no reports).

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

To date, neither Vossloh's own sites nor its suppliers have been subject to checks of their compliance with the human rights clauses, and corresponding monitoring and assessment processes have not been established. The various Vossloh companies subject their suppliers and intermediaries to intensive preliminary checks before concluding a contract with them. Here the Company has so far not had cause to check compliance with human rights.

Customer and product aspects

The rail infrastructure markets in which Vossloh operates have a number of particular characteristics. These are the result of the historic development of rail as a means of transportation, among other things. In the majority of these markets, the rail infrastructure and numerous rail transport operators are still state-owned. Vossloh's potential customers are therefore companies the investment scope of which can also be influenced by political specifications. Building and maintaining rail routes and purchasing and maintaining the rail vehicles are costly as rail transport operators are required to comply with extensive technical, logistical and legal provisions. The number of potential Vossloh customers is therefore limited. Furthermore, safety is elementary when it comes to the (mass) transportation of people and goods. Rail performs well in this respect compared to other modes of transport. The safety of its products and services and customer satisfaction are therefore key nonfinancial performance indicators for Vossloh. The material nonfinancial risks that the Company faces because of the underlying industry conditions or the markets it develops are covered in the section entitled "Nonfinancial risks and opportunities" on page 73.

Product safety

Vossloh makes considerable contributions to the safety of rail services, meeting the most stringent of standards itself in the process. Vossloh's products and services are subject to detailed technical specifications and standards that must be met. All the main production plants have quality management in accordance with ISO 9001 or a comparable national standard like the AAR's M1003 standard in the USA. At the reporting date December 31, 2020, around 97 percent of the Vossloh workforce was employed at a unit with such a certification. The products and services generally undergo thorough testing that often lasts for years before they are applied to the tracks. This is performed on the Company's own test benches and in its own testing laboratories, with test installations/test usage by the customers and as part of the complex approval process of certified testing organizations. In 2020, for example, the Core Components division also tested the innovative EPS composite tie in regular operation on selected routes. The Customized Modules division tested further products made from its extremely hard rolled steel CogX. The Lifecycle Solutions division continued with the HavenZuG project – together with some renowned partners. The focus of this project is on investigating how the permanent monitoring and analysis of the condition of port railway tracks can be incorporated into daily shunting operations. The stringent requirements result in lengthy development times. All of Vossloh's business units have their own Research and Development departments, which are staffed by highly specialized professionals (see the "Research & Development" chapter from page 63).

Through the use of tailored instructions, briefings, consulting, training and seminars both before and after delivery, Vossloh ensures that customers' employees can handle the Company's products appropriately. Specialists from Sales and Engineering are available to handle customer questions.

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

Customer satisfaction

Vossloh has customers in over 80 countries worldwide, and the Company has its own sales offices in 25 countries. Since February 2018, a uniform CRM (customer relationship management) software program has been rolled out across the Group. This software makes all information on all Vossloh customers available to all operating units centrally, in a secure environment, and at the same time records all rail infrastructure projects worldwide. In 2020, enhancements were developed for CRM, primarily to make it even more user friendly and optimize offer processing. The current version of CRM (Business Release II) went online in January 2021. The most important new feature is the request that sales employees assess customer satisfaction using a 5-star scale. Business Release III will be launched during 2021. This version surveys customer satisfaction using specific questions associated with customer groups, resulting in an overall score. To objectify this assessment, direct customer surveys and analyses will be conducted regularly in the future by means of the marketing tool that was also added to CRM in 2020. This is based on various segmentation criteria (regions, customer categories, customer classifications, service segments) and the division into buying center functions.

Vossloh Fastening Systems is a pioneer in the permanent registration of customer satisfaction. Starting in 2020, five relevant questions had to be answered for each customer visit report, either together with the customer or as an assessment by the sales employee. In parallel, Vossloh Switch Systems developed a Net Promoting Score (NPS) in 2020, a metric that measures the extent to which a customer would recommend a product or service to others.

Limited Assurance Report of the Independent Practitioner[1]

To Vossloh AG, Werdohl/Germany

Engagement
We have performed a limited assurance engagement on the consolidated non-financial statement pursuant to Section 315b German Commercial Code (HGB), which is included in the combined management report, of Vossloh AG, Werdohl/Germany, ("the Company") for the period from 1 January to 31 December 2020.

Responsibilities of the Executive Board
The executive board of Vossloh AG is responsible for the preparation of the consolidated non-financial statement in accordance with the requirements of Sections 315b, 315c in conjunction with Sections 289c to 289e HGB.

In preparing the consolidated non-financial statement, the executive board used the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) stated under the "Core" option and indicated these in the consolidated non-financial statement.

These responsibilities of the executive board of the Company include the selection and application of appropriate methods to prepare the consolidated non-financial statement and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. In addition, the executive board is responsible for such internal control as it has determined necessary to enable the preparation of a consolidated non-financial statement that is free from material misstatement, whether due to fraud or error.

The accuracy and completeness of environmental data in the consolidated non-financial statement is subject to inherent boundaries, which result from the nature and type of data collection, data calculation and respective necessary assumptions.

Responsibilities of the Independent Practitioner
Our responsibility is to express a conclusion on the consolidated non-financial statement based on our work performed within our limited assurance engagement.

We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the German national legal requirements and the German professional pronouncements on quality control, in particular the Professional Charter for German Public Auditors and German Sworn Auditors (Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer) as well as the Quality Assurance Standard: Quality Assurance Requirements in Audit Practices (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW), which comply with the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB).

We conducted our work in accordance with the International Standard on Assurance Engagements 3000 (Revised): Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 (Revised)), issued by the IAASB. This standard requires that we plan and perform the assurance engagement so that we can conclude with limited assurance that no matters have come to our attention to

[1] We have performed a limited assurance engagement on the German version of the consolidated non-financial statement and issued an independent practitioner's assurance report in German language, which is authoritative. The following text is a convenience translation of the independent practitioner's assurance report.

cause us to believe that the consolidated non-financial statement has not been prepared, in all material respects, in accordance with the requirements of Sections 315b, 315c HGB. The procedures performed in a limited assurance engagement are less in extent than for a reasonable assurance engagement; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. The choice of assurance work is subject to the practitioner's professional judgement.

Within the scope of our limited assurance engagement, which we performed between December 2020 and March 2021, we notably performed the following work and other activities:

- Gaining an understanding of the structure of the sustainability organisation and of the stakeholder engagement
- Examining the processes for collecting, analysing and aggregating selected information
- Inquiries of relevant personnel that participated in the preparation of the consolidated non-financial statement about the preparation process, about the measures and arrangements (system) in place for the preparation of the consolidated non-financial statement as well as about the disclosures contained therein
- Identification of risks of material misstatements in the consolidated non-financial statement
- Analytical evaluation of disclosures contained in the consolidated non-financial statement
- Comparison of the disclosures contained in the consolidated non-financial statement with the corresponding data in the annual financial statements, the consolidated financial statements and the combined management report
- Assessment of the presentation of the disclosures

Practitioner's Conclusion
Based on the assurance work performed and the evidence obtained, nothing has come to our attention that causes us to believe that the consolidated non-financial statement of Vossloh AG for the period from 1 January to 31 December 2020 has not been prepared, in all material respects, in accordance with the requirements of Sections 315b, 315c in conjunction with 289c to 289e HGB.

Purpose of the Assurance Report
We issue this report as stipulated in the engagement letter agreed with Vossloh AG. The limited assurance engagement has been performed for the purposes of Vossloh AG and the report is solely intended to inform Vossloh AG about the result of the assurance engagement.

Liability
This report is not intended to be used by third parties as a basis for making (financial) decisions. We are liable solely to Vossloh AG and our liability is also governed by the engagement letter dated 4 January 2021 / 21 January 2021 agreed with Vossloh as well as the "General Engagement Terms for Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften (German Public Auditors and Public Audit Firms)" promulgated by the Institut der Wirtschaftsprüfer (IDW) in the version dated 1 January 2017 (IDW-AAB). We assume no responsibility with regard to any third parties. By reading and using the information contained in this report, each recipient confirms notice of the provisions of the General Engagement Terms (notably the limitation of our liability for negligence to mEUR 4 as stipulated in no. 9 of the IDW-AAB) and agrees and acknowledges the General Engagement Terms towards us.

Düsseldorf/Germany, 1 March 2021

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: René Kadlubowski   Signed: ppa. Dr Matthias Schmidt
Wirtschaftsprüfer
(German Public Auditor)

Consolidated financial statements of Vossloh AG as of December 31, 2020

Income statement

€ mill.	Notes	2020	2019
Sales revenues	(1)	869.7	916.4
Cost of sales	(2.1)	(672.8)	(745.6)
General administrative and selling expenses	(2.2)	(148.1)	(169.4)
Allowances and write-ups of financial assets		1.9	(10.4)
Research and development costs	(2.3)	(8.9)	(10.7)
Other operating income	(3.1)	21.3	26.0
Other operating expense	(3.2)	(10.0)	(48.3)
Operating result		**53.1**	**(42.0)**
Result from investments in companies accounted for using the equity method		3.9	5.0
Other financial income	(4.1)	16.7	0.6
Other financial expense	(4.2)	(0.6)	(1.2)
Earnings before interest and taxes (EBIT)		**73.1**	**(37.6)**
Interest income	(5.2)	7.8	2.6
Interest and similar expense	(5.1)	(22.2)	(21.1)
Earnings before taxes (EBT)		**58.7**	**(56.1)**
Income taxes	(6)	(11.7)	(10.3)
Result from continuing operations		**47.0**	**(66.4)**
Result from discontinued operations	(7)	(26.2)	(70.4)
Net income		**20.8**	**(136.8)**
thereof attributable to shareholders of Vossloh AG		**17.2**	**(139.7)**
thereof attributable to noncontrolling interests	(8)	3.6	2.9
Earnings per share			
Basic/diluted earnings per share (€)	(9)	0.98	(8.32)
thereof attributable to continuing operations		2.47	(4.13)
thereof attributable to discontinued operations		(1.49)	(4.19)

Statement of comprehensive income

€ mill.	Notes	2020	2019
Net income		**20.8**	**(136.8)**
Changes in fair value of hedging instruments (cash flow hedges)		0.2	(0.3)
Currency translation differences	(23)	(11.5)	2.3
Amounts that will potentially be transferred to profit or loss in future periods		**(11.3)**	**2.0**
Remeasurement of defined benefit plans	(24)	(1.2)	(3.7)
Income taxes	(16)	0.5	1.1
Amounts that will not be transferred to profit or loss in future periods		**(0.7)**	**(2.6)**
Income and expenses recognized directly in equity		**(12.0)**	**(0.6)**
Total comprehensive income		**8.8**	**(137.4)**
thereof attributable to shareholders of Vossloh AG		5.8	(140.3)
thereof attributable to noncontrolling interests		3.0	2.9

*In order to improve transparency, other operating result is presented for the first time in this financial statement in two separate lines as other operating expense and other operating income. The previous-year figures have been calculated accordingly.

Cash flow statement for the period from January 1 to December 31, 2020

€ mill.	2020	2019
Cash flow from operating activities		
Earnings before interest and taxes (EBIT)	73.1	(37.6)
EBIT from discontinued operations	(22.7)	(69.7)
Amortization/depreciation/impairment losses/reversal of impairment losses of noncurrent assets	60.8	137.8
Change in noncurrent provisions	1.7	8.8
Gross cash flow	**112.9**	**39.3**
Noncash change in investments in companies accounted for using the equity method	(17.6)	(4.9)
Other noncash income/expenses, net	1.3	15.9
Gains/losses from the disposal of noncurrent assets	(2.0)	(0.5)
Income taxes paid	(12.4)	(8.6)
Change in working capital	(21.7)	(19.5)
Changes in other assets/liabilities, net	(4.4)	(9.4)
Cash flow from operating activities	**56.1**	**12.3**
Cash flow from investing activities		
Investments in intangible assets and property, plant and equipment	(52.0)	(51.3)
Investments in companies accounted for using the equity method	(0.1)	(3.5)
Cash-effective dividends from companies accounted for using the equity method	0.0	0.1
Free cash flow	**4.0**	**(42.4)**
Investments in noncurrent financial instruments	(0.4)	(1.1)
Proceeds from the disposal of intangible assets and property, plant and equipment	3.7	4.0
Disbursements/proceeds from the purchase/sale of short-term securities	(0.3)	0.5
Proceeds from disposals of noncurrent financial instruments	0.2	1.0
Proceeds from the disposal of consolidated companies	45.9	39.6
Payments for the acquisition of consolidated companies	0.0	(4.8)
Cash flow from investing activities	**(3.0)**	**(15.5)**
Cash flow from financing activities		
Net proceeds from additions to equity	0.0	48.5
Disbursements to shareholders and noncontrolling interests	(4.2)	(20.3)
Net financing from short-term loans	4.3	10.2
Net financing from medium-term and long-term loans	(35.2)	28.5
Repayments from leases	(19.1)	(21.6)
Interest received	7.9	2.7
Interest paid and similar expenses	(21.1)	(19.9)
Cash flow from financing activities	**(67.4)**	**28.1**
Net cash inflow/outflow	(14.3)	24.9
Change in cash and cash equivalents from the first-time consolidation of companies	0.6	0.0
Exchange rate effects	(2.2)	0.4
Opening cash and cash equivalents	**48.6**	**23.3**
Closing cash and cash equivalents	**32.7**	**48.6**

For more information on the cash flow statement, see page 123 et seq.

Balance sheet

Assets in € mill.	Notes	12/31/2020	12/31/2019
Intangible assets	(10)	299.6	280.1
Property, plant and equipment	(11)	313.6	296.8
Investment properties	(12)	4.4	1.8
Investments in companies accounted for using the equity method	(13)	72.8	74.6
Other noncurrent financial instruments	(14)	6.0	6.0
Other noncurrent assets	(15)	3.9	4.0
Deferred tax assets	(16)	20.4	17.7
Noncurrent assets		**720.7**	**681.0**
Inventories	(17)	163.4	152.1
Trade receivables	(18)	209.5	212.8
Contract assets	(18)	4.3	5.0
Income tax assets	(19)	3.3	5.8
Other current financial instruments	(20)	21.8	29.6
Other current assets	(20)	24.1	25.8
Short-term securities	(21)	0.3	0.0
Cash and cash equivalents	(22)	67.8	56.7
Current assets		**494.5**	**487.8**
Assets held for sale	(7)	1.3	162.6
Assets		**1,216.5**	**1,331.4**

Equity and liabilities in € mill.	Notes	12/31/2020	12/31/2019
Capital stock	(23.1)	49.9	49.9
Additional paid-in capital	(23.2)	190.4	190.4
Retained earnings and net income	(23.3)	172.3	158.7
Accumulated other comprehensive income	(23.4)	(14.0)	(4.8)
Equity excluding noncontrolling interests		**398.6**	**394.2**
Noncontrolling interests	(23.5)	15.9	9.4
Equity		**414.5**	**403.6**
Pension provisions/provisions for other post-employment benefits	(24)	35.5	34.8
Other noncurrent provisions	(25)	12.4	8.9
Noncurrent financial liabilities	(26.1)	244.5	385.8
Noncurrent trade payables	(26.2)	0.0	1.4
Other noncurrent liabilities	(26.4)	2.8	10.6
Deferred tax liabilities	(16)	7.7	7.9
Noncurrent liabilities		**302.9**	**449.4**
Other current provisions	(25)	56.4	59.4
Current financial liabilities	(26.1)	175.0	41.3
Current trade payables	(26.2)	152.3	132.8
Current contract liabilities	(26.2)	0.0	0.2
Current income tax liabilities	(26.3)	6.8	4.4
Other current liabilities	(26.4)	105.6	91.7
Current liabilities		**496.1**	**329.8**
Liabilities related to assets held for sale	(7)	3.0	148.6
Equity and liabilities		**1,216.5**	**1,331.4**

Previous year's figures for provisions for other post-employment benefits adjusted, see number 24 on page 139 et seq.

Statement of changes in equity

€ mill.	Capital stock	Additional paid-in capital	Retained earnings and net income	Accumulated other comprehensive income: Reseve for currency translation	Reserve for financial instruments held for sale	Reserve for hedging trans-actions	Reserves for the remeasurement of defined benefit plans	Equity excluding noncontrolling interests	Noncon-trolling interests	Total
As of 12/31/2018	**45.3**	**146.5**	**318.7**	**2.0**	**0.0**	**(0.5)**	**0.5**	**512.5**	**10.8**	**523.3**
Transfer to retained earnings			0.5				(0.5)	0.0		0.0
Capital increase	4.6	43.9						48.5		48.5
Changes in the scope of consolidation			(6.8)	(5.7)				(12.5)	0.0	(12.5)
Other effects			2.0					2.0		2.0
Net income			(139.7)					(139.7)	2.9	(136.8)
Income and expenses recognized directly in equity after taxes				2.3		(0.3)	(2.6)	(0.6)	0.0	(0.6)
Dividend payments			(16.0)					(16.0)	(4.3)	(20.3)
As of 12/31/2019	**49.9**	**190.4**	**158.7**	**(1.4)**	**0.0**	**(0.8)**	**(2.6)**	**394.2**	**9.4**	**403.6**
Transfer to retained earnings			(2.6)				2.6	0.0		0.0
Changes in the scope of consolidation		0.0	(0.4)	(1.3)			1.2	(0.5)	7.1	6.6
Other effects			(0.6)				(0.3)	(0.9)	0.6	(0.3)
Net income			17.2					17.2	3.6	20.8
Income and expenses recognized directly in equity after taxes				(10.9)		0.2	(0.7)	(11.4)	(0.6)	(12.0)
Dividend payments			0.0					0.0	(4.2)	(4.2)
As of 12/31/2020	**49.9**	**190.4**	**172.3**	**(13.6)**	**0.0**	**(0.6)**	**0.2**	**398.6**	**15.9**	**414.5**

For more information about changes in equity components, see numbers (23.1) to (23.5) on pages 137 et seq.

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2020

Segment information by division and business unit

€ mill.		Fastening Systems	Tie Technologies	Consolidation	Core Components	Customized Modules (Switch Systems)
Value added	2020	30.2	(1.1)	0.0	**29.1**	**4.4**
	2019	21.6	(7.8)	(0.1)	**13.7**	**(87.1)**
Information from income statement/flow figures						
External sales revenues	2020	198.7	166.5	0.0	**365.2**	**400.5**
	2019	219.7	120.0	0.0	**339.7**	**472.7**
Internal sales revenues	2020	17.6	2.6	(10.1)	**10.1**	**1.3**
	2019	14.5	5.7	(8.2)	**12.0**	**0.5**
Depreciation/amortization	2020	8.5	13.7	0.0	**22.2**	**14.0**
	2019	7.8	11.9	0.0	**19.7**	**17.1**
Investments in noncurrent assets	2020	25.5	5.6	0.0	**31.1**	**18.0**
	2019	16.3	14.1	0.0	**30.4**	**15.8**
Income from investments in companies accounted for using the equity method	2020	0.5	0.0	0.0	**0.5**	**2.3**
	2019	1.9	0.0	0.0	**1.9**	**1.9**
Result from discontinued operations	2020	0.0	0.0	0.0	**0.0**	**0.0**
	2019	0.0	0.0	0.0	**0.0**	**0.0**
Other material noncash segment expenses	2020	3.2	2.8	0.0	**6.0**	**13.9**
	2019	3.1	3.2	0.0	**6.3**	**27.9**
Impairment losses	2020	0.4	–	–	**0.4**	**0.7**
	2019	0.5	–	–	**0.5**	**27.2**
Reversals of impairment losses	2020	0.0	0.0	0.0	**0.0**	**0.1**
	2019	0.1	0.0	0.0	**0.1**	**0.0**
Information from the balance sheet						
Total assets	2020	280.0	205.5	(1.4)	**484.1**	**522.2**
	2019	229.7	206.3	(0.6)	**435.4**	**532.3**
Liabilities	2020	161.1	67.6	(1.3)	**227.4**	**292.4**
	2019	130.2	74.8	(0.6)	**204.4**	**301.6**
Investments in companies accounted for using the equity method	2020	4.5	0.0	0.0	**4.5**	**53.8**
	2019	9.3	0.0	0.0	**9.3**	**52.0**
Annual average headcount**	2020	542	396	0	**938**	**1,987**
	2019	541	338	0	**879**	**2,286**

* The Consolidation column incorporates the elimination of reclassified income, expenses and balance sheet items of reporting segments reported as discontinued operations as required in accordance with IFRS 5.

** The average number of employees is calculated based on quarterly figures. Reported values in the previous year were calculated based on monthly values. For comparability purposes the previous year's figures have been adjusted accordingly.

Lifecycle Solutions (Rail Services)	Discontinued operations/ Locomotives	Consolidation*	Transportation	Holding companies	Consolidation	Group
(3.9)	(30.7)	37.7	**7.0**	(9.0)	(15.2)	**12.4**
(20.3)	(43.9)	44.0	**0.1**	1.3	(13.1)	**(105.4)**
99.6	41.7	(41.7)	**0.0**	0.0	0.0	**865.3**
98.6	142.7	(142.7)	**0.0**	0.0	0.0	**911.0**
4.2	7.0	0.0	**7.0**	0.0	(18.2)	**4.4**
7.4	0.2	0.0	**0.2**	0.1	(14.8)	**5.4**
11.8	7.6	(7.6)	**0.0**	0.7	0.0	**48.7**
12.9	17.2	(17.2)	**0.0**	0.6	0.0	**50.3**
16.5	1.8	(1.8)	**0.0**	3.4	(0.3)	**68.7**
13.3	4.6	(4.6)	**0.0**	0.3	0.0	**59.8**
1.1	0.0	0.0	**0.0**	0.0	0.0	**3.9**
1.2	0.0	0.0	**0.0**	0.0	0.0	**5.0**
0.0	(31.7)	0.0	**(31.7)**	5.5	0.0	**(26.2)**
0.0	(74.4)	0.0	**(74.4)**	4.0	0.0	**(70.4)**
2.8	0.0	0.0	**0.0**	7.5	0.0	**30.2**
4.7	6.9	(6.9)	**0.0**	6.1	0.0	**45.0**
0.4	–	–	**–**	47.8	(47.9)	**1.4**
8.2	–	–	**–**	0.3	–	**36.2**
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	**0.1**
238.1	232.7	(232.7)	**0.0**	1,230.5	(1,258.4)	**1,216.5**
248.9	251.3	(54.1)	**197.2**	1,395.7	(1,478.1)	**1,331.4**
211.3	139.4	(139.4)	**0.0**	529.2	(461.3)	**799.0**
227.5	195.7	(143.2)	**52.5**	647.9	(654.8)	**779.1**
14.5	0.0	0.0	**0.0**	0.0	0.0	**72.8**
13.3	0.0	0.0	**0.0**	0.0	0.0	**74.6**
498	125	(125)	**0**	59	0	**3,482**
546	486	(486)	**0**	63	0	**3,774**

General principles

Vossloh AG is a listed company based in Werdohl, Germany. The Company is registered under HRB 5292 in the commercial register of the Iserlohn Local Court, the place of business is Vosslohstraße 4, 58791 Werdohl, Germany. The development, manufacturing and sale of products as well as the provision of services of all varieties in the field of rail technology, particularly in rail infrastructure and railbound traffic, are the Vossloh Group's primary activities.

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

On March 1, 2021, Vossloh AG's Executive Board released the consolidated financial statements for transmittal to the Supervisory Board's Audit Committee.

New accounting rules

The following standards and interpretations were issued by the International Accounting Standards Board (IASB) but were not yet binding for the 2020 fiscal year according to the EU's adoption regulations or were not yet adopted into European law. In the case of standards and interpretations that have not yet been adopted by the EU, the first-time application in accordance with the IASB is indicated. Early adoption of these standards is not planned.

New or amended standards	Issued	Applied for the first time in the fiscal year	Endorsed by the EU	Key content and impact on the consolidated financial statements of Vossloh AG
IFRS 17: Insurance Contracts	May 2017	2023	./.	None
Classification of Liabilities as Current or Non-current including Deferral of Effective Date (Amendment to IAS 1)	January/July 2020	2023	./.	May affect the classification of liabilities as current or noncurrent when dealing with expiring financing agreements, dependent on the case.
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	2022	./.	None
Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)	May 2020	2022	./.	None
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	May 2020	2022	./.	We do not expect this to have any significant impact as we only sell a small volume of products which are produced while we prepare new items of property, plant and equipment for their intended use.
Annual Improvements to IFRS Standards 2018-2020	May 2020	2022	./.	None
Extension of temporary exemption from IFRS 9 (Amendments to IFRS 4)	June 2020	2023	2020	None
Reform of reference interest rates — Phase 2. Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	August 2020	2021	2021	The impact is currently being assessed
Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments to IAS 1 and Practice Statement 2)	February 2021	2023	./.	The impact is currently being assessed
Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting (Amendments to IAS 8)	February 2021	2023	./.	The impact is currently being assessed

First-time application of standards and interpretations

In the 2020 fiscal year, the changes to standards and interpretations listed in the following table were applied for the first time:

Standard/Interpretation	Issued	Endorsed by the EU
Amendments to References to the Conceptual Framework in IFRS Standards	March 2018	December 2019
Amendments to IFRS 3 (Definition of a Business)	October 2018	April 2020
Amendments to IAS 1 and IAS 8 (Definition of Material)	October 2018	December 2019
Reform of reference interest rates, amendments to IFRS 9, IAS 39 and IFRS 7	September 2019	January 2020
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	May 2020	October 2020

The standards and interpretations which were applied for the first time had no significant impact on the consolidated financial statements. The amendments to IFRS 9, IAS 39 and IFRS 7 due to the reform of reference interest rates are described in detail in the notes on financial instruments and on financial risk management.

Principles for preparing the consolidated financial statements

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

The consolidated financial statements are prepared in Euro, the functional currency of the company. Figures are mostly presented in millions of euros. The income statement is structured according to the cost-of-sales method. The consolidated financial statements were prepared on a going concern basis.

The COVID-19 pandemic caused production difficulties and project delays which had a significant impact on our business. However, the impact was relatively low compared to companies in other sectors. These two main factors reduced sales revenues by around €90 million. We expect EBIT to fall by around €25 million due to the pandemic. The main factors affecting our future performance will be the pace at which vaccinations can be rolled out in different countries and regions, as well as what further impact the pandemic will have on the economy in our main sales markets – particularly in light of how new variants are currently driving up infection rates. We analyze all risks relevant to our business on an ongoing basis in order to ensure that we are able to take any appropriate action at short notice.

Preparing the consolidated financial statements requires management to make certain discretionary decisions, assumptions and estimates. These estimates involve a certain level of uncertainty. They affect the valuation of recognized assets, liabilities and of contingent liabilities as of the balance sheet date, as well as the recognition of income and expenses in the reporting period.

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

Estimation uncertainty with a significant impact on the consolidated financial statements is particularly prevalent when accounting for goodwill (see Note 10), recognizing deferred taxes (see Note 16) and recognizing and measuring other provisions (see Note 25).

Discretionary decisions with a significant impact on the consolidated financial statements are particularly common when determining the duration of leases in the event of extension or termination options (see “Information on leases”).

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

Consolidation

Vossloh's consolidated financial statements comprise the financial statements of Vossloh AG and (generally speaking) all of its subsidiaries. All subsidiaries, where Vossloh AG usually exercises control by directly or indirectly holding the majority of voting rights, are fully consolidated.

The financial statements of subsidiaries are included in the consolidated financial statements from the date control is obtained until the control relationship expires. The acquisition method (purchase method) of accounting is applied for capital consolidation purposes. This involves offsetting the cost of the acquired shares against the Group's holding in the equity of the subsidiaries. To determine the equity of subsidiaries acquired upon initial consolidation, all identifiable assets, liabilities and contingent liabilities of the subsidiary are recognized at fair value at the acquisition date. Remaining positive differences between the purchase price and the market value of the acquired assets and liabilities are recognized as goodwill in accordance with IFRS 3 and are tested for impairment annually at the level of the relevant business unit. Negative goodwill is directly recognized in profit after the fair values of assets and liabilities have been reassessed. Shares belonging to other investors with a corresponding stake in the identifiable net assets of the respective company acquired are measured at the acquisition date. Changes to the Group's holdings in subsidiaries, which do not lead to an acquisition or loss of control over this subsidiary, are treated as equity transactions.

Receivables and payables, and income and expenses, between consolidated Group companies are eliminated in connection with the consolidation of liabilities as well as income and expenses. 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. Interim profits and losses from intragroup transactions are eliminated.

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

All other equity interests are measured at fair value and recognized in other noncurrent financial instruments.

In the 2020 fiscal year, the following changes occurred in the scope of consolidation:

The Locomotives business unit was removed from the scope of consolidation on May 31, 2020 due to the finalization of the agreement signed on August 26, 2019, for the sale of the shares in Vossloh Locomotives GmbH. This caused five fully consolidated companies and one joint venture accounted for using the equity method to leave the Group.

A previously insignificant Group company was included in the scope of consolidation for the first time on January 1, 2020. One other Group company was sold, while two Group companies merged.

On January 1, 2020, Vossloh assumed control of Vossloh (Anyang) Track Material Co. Ltd., Anyang, China, a joint venture which had been jointly managed in the 2019 fiscal year during the start-up phase. The company has been fully consolidated since this date. Vossloh holds 51 percent of the shares in this company. The joint venture was founded together with a partner in the 2019 fiscal year with the objective of bundling the production of specific components of rail fastening systems in order to generate cost benefits. Against the backdrop of a number of relevant decisions in the start-up year, it was already contractually agreed at the time of the company's establishment that significant decisions over the course of 2019 would be made jointly, but that control would be transferred to Vossloh at the beginning of 2020 through the amendment of the corresponding provisions on unanimity requirements in the case of matters involving significant decisions.

Pursuant to IAS 28.22 (a) the acquisition of control was recognized in the balance sheet as a business combination in accordance with the regulations in IFRS 3. The difference between the previous carrying amount and the fair value of the shares at the time of gaining control resulted in income of €15.6 million, which was recognized as part of other financial income in the income statement. The fair value of the shares held previously amounted to a total of €19.5 million as of the time of taking over the control over the assets and liabilities, and incorporates the income prospects of the joint venture, which are thus also reflected in the goodwill resulting from the business combination. This amount was treated as consideration in the context of the first-time consolidation. The following assets and liabilities, which have been offset with the consideration in the amount of Vossloh's share of the equity and which resulted in the recorded goodwill as well as a corresponding recognition of noncontrolling interests, have been taken over:

€ mill.	Fair value
Intangible assets	9.7
Property, plant and equipment	9.7
Inventories	3.0
Trade receivables	4.8
Other current assets	3.2
Assets	**30.4**
Financial liabilities	2.1
Trade payables	5.7
Other liabilities	8.1
Total liabilities	**15.9**
Equity	0.0
Net assets included in the consolidated financial statements	**14.5**
thereof the share attributable to the JV partner (49%)	7.1
Share of net assets attributable to Vossloh	**7.4**
Surrendered value of shares	19.5
Goodwill	**12.1**

Since the time of its initial consolidation, the company has contributed €5.0 million to sales revenues and €(1.1) million to net income. No transaction costs were incurred for the acquisition of control. The company's cash balances as of the time of gaining control totaled €0.6 million, and are disclosed in the cash flow statement in the line item "Change in cash and cash equivalents from first-time consolidation". The trade receivables acquired are the result of deliveries to the joint venture partner and are recognized according to their gross value; it is unlikely that they will be irrecoverable. The goodwill acquired through the acquisition is not relevant for tax purposes.

As of the end of the fiscal year, 55 companies (previous year: 60 companies) were fully included in the consolidated financial statements, 14 of which were domiciled in Germany (previous year: 16 companies).

Nine companies domiciled outside of Germany (previous year: eleven) and one company domiciled in Germany (previous year: one) were accounted for using the equity method.

Due to their immateriality with respect to net assets, financial position and results of operations, 11 companies (previous year: 12) in which Vossloh AG directly or indirectly holds a voting majority as of the reporting date or controls by other means were not accounted for in the consolidated financial statements.

Currency translation

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

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

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

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

Exchange rates

Country	Currency	€	2020	2019	2020	2019
			Current rate		Average rate	
Australia	AUD	1 €	1.59	1.60	1.66	1.61
Brazil	BRL	1 €	6.35	4.51	5.90	4.42
China	CNY	1 €	7.99	7.82	7.87	7.74
United Kingdom	GBP	1 €	0.90	0.85	0.89	0.88
India	INR	1 €	89.32	80.07	84.57	78.85
Kazakhstan	KZT	1 €	515.58	429.30	471.80	428.56
Malaysia	MYR	1 €	4.92	4.59	4.79	4.63
Mexico	MXN	1 €	24.35	21.17	24.52	21.56
Poland	PLN	1 €	4.56	4.25	4.44	4.30
Russia	RUB	1 €	90.46	69.61	82.63	72.47
Sweden	SEK	1 €	10.05	10.49	10.49	10.59
Serbia	RSD	1 €	117.57	117.57	117.58	117.82
Thailand	THB	1 €	36.71	33.80	35.69	34.76
Turkey	TRY	1 €	9.08	6.68	8.04	6.36
USA	USD	1 €	1.22	1.12	1.14	1.12

Notes to the income statement

In the previous year, the Executive Board of Vossloh AG approved a performance program for a sustainable increase in profitability as well as an improvement in the self-financing capacity of the Vossloh Group. The resulting expenses mainly led to the impairment of intangible assets and property, plant and equipment, in addition to termination payments and related payments. Impairments in the previous year related to the divestment of unprofitable or disadvantageous activities came to €41.9 million. The expenses related to reducing the number of employees came to €30.2 million, divided between termination payments and provisions for such payments. Additional expenses of €21.2 million were mostly recognized in the cost of sales, in addition to further impairments of trade receivables under general administrative and selling expenses. One-time effects in the previous year led to expenses of €93.3 million in the income statement. Subsequent effects and reversal effects took the form of income from the reversal of staff-related provisions (€3.3 million) and expenses from the divestment of unprofitable activities (€4.9 million). These effects netted out to €(1.6) million in the year under review, and had little impact on the consolidated financial statements.

They are normally recognized in other operating income, other operating expense or cost of sales.

(1) Sales revenues

Breakdown of sales revenues

€ mill.	2020	2019
Sales of products		
Fastening Systems	216.3	234.2
Tie Technologies	169.1	125.7
Consolidation	(10.1)	(8.2)
Core Components	375.3	351.7
Customized Modules	403.2	471.9
Lifecycle Solutions	7.0	27.6
Consolidation	(11.1)	(14.5)
Group	**774.4**	**836.7**
Sales revenues from rendering services		
Lifecycle Solutions	84.5	64.4
Group	**84.5**	**64.4**
Sales revenues from customer-specific manufacturing		
Customized Modules	(1.4)	1.3
Lifecycle Solutions	12.3	14.0
Consolidation	(0.1)	0.0
Group	**10.8**	**15.3**
Total Group sales across all activities	**869.7**	**916.4**
Sales revenues by division and business unit		
Fastening Systems	216.3	234.2
Tie Technologies	169.1	125.7
Consolidation	(10.1)	(8.2)
Core Components	375.3	351.7
Customized Modules	401.8	473.2
Lifecycle Solutions	103.8	106.0
Consolidation	(11.2)	(14.5)
Group	**869.7**	**916.4**

The performance obligations of Group companies consist primarily of the delivery of typical products or the rendering of services, which are listed in the description of the business activities of the divisions and business units in the notes to the segment report on pages 144 et seq. Sales revenues are recognized net of sales deductions and price allowances such as discounts, bonuses, rebates, and purchases or returns credited. As a general rule, in accordance with IFRS 15, recognition takes place upon transfer of control of the products to be delivered on the basis of the respective contractually agreed incoterms. In most cases, this is covered by the transfer of ownership and risks to the buyer or when the customer takes physical possession. At several Group companies, "bill-and-hold" arrangements have been contractually agreed because the customers manage the delivery of products on the basis of their own planning of construction projects in cases of new or overhauled rail routes. In such cases, the products have already been accepted by the customer in advance and are also stored separately as the property of the customer. Where partial invoices have been contractually agreed upon in advance, sales are recognized after the customer has finally and formally accepted the partial delivery. The payment terms for the majority of customer contracts do not include any financing components. Some orders include de facto redemption obligations for individual components in the event that components need to be replaced with more suitable versions due to specific effects. Contractual guarantees are also concluded on at arm's length basis.

For certain projects, the performance of the owed service and the associated revenue recognition take place over a period of time. The same applies generally to the provision of services. In this context, the proportional earnings contribution realized as of the reporting date is also recognized along with the revenue in the income statement. The percentage of completion of the contracts is recognized using the percentage-of-completion method (PoC) by comparing the contract costs already incurred with the total expected contract costs. 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). Costs due to inefficiencies or similar causes are deducted in the calculation of the percentage of completion. The proportional profit from the PoC method is recognized only where the results of the customer contracts can be determined reliably. If this condition is not met, sales are recognized without including the proportional profit. Where a loss from a customer contract is imminent, this is recognized in full.

The Customized Modules division recognized negative sales revenues from customer-specific manufacturing of €(1.4) million in the year under review due to an order being canceled which had not progressed for a number of years.

The segment reports starting on pages 108 et seq. and 144 et seq. include breakdowns of external sales revenues by division, business unit and region. A further overview of overall sales by region can also be found in the combined management report on page 39 of this annual report.

(2) Functional expenses

According to the cost-of-sales format of the 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:

Breakdown of cost types

€ mill.	2020	2019
Cost of raw materials and supplies	360.6	394.4
Cost of services purchased	63.6	67.8
Cost of materials	**424.2**	**462.2**
Wages and salaries	162.9	210.8
Social security expenses and charges	36.8	43.5
Pension expenses	5.4	5.8
Personnel expenses	**205.1**	**260.1**
Depreciation/amortization	**50.0**	**86.4**

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

	2020	2019
Executive Board/Management Board	22	21
Other managers/executives	107	123
Nontariff employees	800	894
Tariff employees	2,625	2,772
Apprentices/trainees	35	43
Interns/working students	15	20
Total	**3,604**	**3,873**

The Locomotives business unit, which was sold on May 31, 2020, had 142 employees on average (previous year: 537). The number of employees in the Vossloh Group in accordance with Section 314 (1) No. 4 of the German Commercial Code was 3,666 (previous year: 4,299). Adjustments were made to the previous year's figures related to the structure of the workforce and the disclosure required under German commercial law. The values indicate the number of employed people; the average employee figures broken down by segment on page 108 et seq. are based on a conversion to Full Time Equivalents (FTE).

(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 comprises indirect costs, primarily depreciation on plant, property and equipment, in addition to amortization of intangible assets. Cost of sales also includes any write-downs of inventories in the period.

(2.2) General administrative and selling expenses

Breakdown of general administrative and selling expenses

€ mill.	2020	2019
Selling expenses	61.2	57.4
General administrative expenses	86.9	112.0
General administrative and selling expenses	**148.1**	**169.4**

In addition to personnel expenses, selling expenses primarily include outbound freight and commissions. Administrative expenses cover personnel, material and other administration expenses, including amortization and depreciation of corresponding assets.

(2.3) Research and development costs

All research costs are directly recognized as research and development expenses in the income statement. Costs incurred for developing a marketable product are capitalized if the criteria in IAS 38 are met. Noncapitalizable development costs are also recognized under this item in the income statement. R&D expenses before capitalized development expenses came to €10.5 million in the past fiscal year (previous year: €11.6 million). Of these costs for development projects, €1.6 million (previous year: €0.9 million) were recognized in the balance sheet.

(3.1) Other operating income

Breakdown of other operating income

€ mill.	2020	2019
Currency exchange gains	7.2	12.3
Income from the disposal of intangible assets and property, plant and equipment	3.1	1.2
Income from government grants	1.7	1.2
Rental income	1.2	1.0
Insurance reimbursements	0.3	0.7
Release of allowances and reversal of write-downs	0.1	0.0
Other income	7.7	9.6
Other operating income	**21.3**	**26.0**

Currency exchange gains include €1.3 million related to the release of currency translation differences in connection with the sale of Vossloh Signaling USA. Currency exchange gains and losses also include changes in the market value of stand-alone derivatives for the economic hedging of currency risk.

Income from government grants is mainly related to subsidies to R&D projects.

Payments received to subsidize expenses are recognized as deferred income under other liabilities and amortized to other operating income. Investment/capex-related grants or incentives are offset against the cost of the property, plant and equipment concerned. Conditions yet to be met and where the failure to meet such conditions would entail the repayment of grants do not exist, nor do any contingent liabilities in this regard. As of the end of the reporting period, no grants were recognized as a cost reduction in property, plant and equipment, as in the previous year.

(3.2) Other operating expense

Breakdown of other operating expense

€ mill.	2020	2019
Currency exchange losses	(6.9)	(3.7)
Losses on the disposal of intangible assets and property, plant and equipment	(1.1)	(1.0)
Expenses for buildings	(0.5)	(0.3)
Impairment of inventories and other assets	(0.5)	(6.8)
Impairment of intangible assets and property, plant and equipment	(0.2)	(35.1)
Other expenses	(0.8)	(1.4)
Other operating expense	**(10.0)**	**(48.3)**

The impairment of inventories and other assets is related solely to disposal groups which have been sold and are still available for sale. Additional information can be found in Note 7 on page 121 et seq.

(4.1) Other financial income

Breakdown of other financial income

€ mill.	2020	2019
Income from the measurement of financial instruments at fair value	15.6	0.0
Income from investments	1.0	0.3
Income from securities	0.1	0.1
Income from shares in affiliated companies	0.0	0.2
Other financial income	**16.7**	**0.6**

All income from the measurement of financial instruments at fair value in the year under review is related to the market assessment of the shares in Vossloh (Anyang) Track Material Co. due to its transitional consolidation. This joint venture was accounted for using the equity method in the previous year (further information is available in the "Consolidation" section on page 113).

(4.2) Other financial expense

Breakdown of other financial expense

€ mill.	2020	2019
Write-down of financial instruments	(0.6)	(1.2)
Other financial expense	**(0.6)**	**(1.2)**

(5.1) Interest and similar expense

Breakdown of interest and similar expense

€ mill.	2020	2019
Interest from bank liabilities	(7.2)	(6.2)
Interest from leases	(1.0)	(1.2)
Guarantee commissions	(0.8)	(0.9)
Other interest expense	(13.2)	(12.8)
Interest and similar expense	**(22.2)**	**(21.1)**

The majority of other interest expense relates to currency exchange losses from intragroup financing.

(5.2) Interest income

Currency exchange gains from intragroup financing totaling €6.8 million (previous year: €2.2 million) make up the majority of the €7.8 million in interest income in the income statement (previous year: €2.6 million).

(6) Income taxes

Breakdown of income taxes

€ mill.	2020	2019
Current income taxes	17.4	13.0
Deferred taxes	(5.7)	(2.7)
Income taxes	**11.7**	**10.3**

Of the current income taxes, €2.3 million (previous year: €(0.1) million) related to previous years. In the case of deferred taxes, this applied to €(3.0) million (previous year: €(0.3) million). Totaling €4.3 million (previous year: €3.2 million) of deferred tax income resulted from the changes of temporary differences and from loss and interest carryforwards. Remeasurements of temporary differences resulted in deferred tax expenses of €1.6 million (previous year: €0.3 million).

In Germany, the statutory corporate income tax rate of 15 percent and the solidarity surcharge (5.5 percent of corporate income tax) are applied. Municipal trade tax is also collected at rates defined by the respective local municipalities. We expect an average tax rate of 31.98 percent for Vossloh AG as the parent company (previous year: 31.87 percent).

The Vossloh Group's actual tax expense of €11.7 million (previous year: €10.3 million) was €7.1 million lower (previous year: €28.2 million higher) than the anticipated tax expense that would have resulted from applying a Group holding-wide tax rate to EBT.

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

Reconciliation to the recognized income tax expense

		2020	2019
Earnings before taxes	€ mill.	58.7	(56.1)
Income tax rate including trade taxes	%	31.98	31.87
Expected tax expense when applying a uniform tax rate	€ mill.	18.8	(17.9)
Tax reduction/increase due to divergent foreign income tax rates	€ mill.	(2.6)	5.3
Tax reduction due to tax-exempt income	€ mill.	(3.1)	(7.0)
Tax increase due to nondeductible expenses	€ mill.	6.2	8.6
Taxes for previous years	€ mill.	(0.7)	(0.1)
Tax effect of write-ups/write-downs of deferred tax assets	€ mill.	(2.8)	20.7
Double-taxation effects	€ mill.	0.5	(0.1)
Effect from the remeasurement of deferred taxes	€ mill.	1.6	0.3
Effects from the measurement of investments in companies accounted for using the equity method	€ mill.	(6.0)	1.6
Other differences	€ mill.	(0.2)	(1.1)
Recognized income tax expense	€ mill.	11.7	10.3
Effective income tax rate	%	19.9	(18.4)

Effects from the measurement of investments in companies accounted for using the equity method primarily relate to changing the carrying amount of the joint venture in China to its fair value in connection with the transition from using the equity method to full consolidation. This change was recognized in profit or loss. The other deviations in the previous year are mainly the result of tax credits for Vossloh Cogifer KIHN SA in Luxembourg. Deferred taxes from items, which increased other comprehensive income, amounted to €0.5 million (previous year: €1.1 million). Those deferred taxes arose from the remeasurement of defined benefit plans in the amount of €0.5 million (previous year: €1.1 million) to be accounted for in the fiscal year in addition to changes in the measurement of hedging instruments on cash flow hedges amounting to €0.0 million (previous year: €0.0 million).

Taxable temporary differences of €97.5 million resulted from the valuation of investments in the respective parent companies and the net assets in the consolidated balance sheet (previous year: €194.3 million). The resulting deferred tax liabilities to be recognized would theoretically amount to €1.6 million (previous year: €3.3 million). Because the Group can manage the reversal of temporary differences and this reversal is not considered likely in the near future, no related deferred tax liabilities are incurred.

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

The result from discontinued operations during the reporting year almost exclusively concerned the Locomotives business unit, which was reported as “discontinued operations” in accordance with IFRS 5 until it has been deconsolidated. The transfer of the shares in Vossloh Locomotives GmbH, which was originally agreed in August 2019, was finalized on May 31, 2020. The result disclosed in the income statement includes all income and expenses for the period of January to May 2020 and the 2019 fiscal year. The corresponding assets and liabilities reported under “Assets held for sale” and “Liabilities related to assets held for sale” in the consolidated balance sheet are solely presented in the 2019 fiscal year.

The following table shows a breakdown of the result from discontinued operations in the income statement:

Composition of the result from discontinued operations

€ mill.	2020	2019
Income	41.7	142.7
Expenses	(54.4)	(168.3)
Result from operating activities, before taxes	**(12.7)**	**(25.6)**
Income taxes	(3.0)	0.8
Result from operating activities, after taxes	**(15.7)**	**(24.8)**
Impairment loss on noncurrent assets	(10.3)	(49.6)
Subsequent effects from former business units	(0.2)	4.0
Result from discontinued operations	**(26.2)**	**(70.4)**
thereof attributable to shareholders of Vossloh AG	(26.2)	(70.4)
thereof attributable to noncontrolling interests	0.0	0.0

In the statement of comprehensive income, €0.0 million (previous year: €(0.4) million) results from the revaluation of defined benefit plans and related income taxes of €0.0 million (previous year: €0.1 million) from discontinued operations.

The assets and liabilities held for sale reported on the balance sheet relate to the company Vossloh Cogifer do Brasil Metalùrgica in Brazil. Vossloh Signaling USA, which was classified as held for sale in the previous year, was sold during the fiscal year. The remaining property, plant and equipment allocated to Vossloh Track Material was sold or transferred within the Group during the fiscal year. The significant assets of Vossloh Track Material had been sold in two transactions in the previous year. The following table shows the main groups of assets held for sale and the related liabilities:

Assets and liabilities related to disposal groups

€ mill.	12/31/2020	12/31/2019
Property, plant and equipment	0.0	1.5
Other noncurrent assets	0.0	0.0
Noncurrent assets	**0.0**	**1.5**
Inventories	0.2	4.6
Trade receivables	0.6	2.7
Other current assets	0.1	0.6
Cash and cash equivalents	0.4	0.7
Current assets	**1.3**	**8.6**
Assets	**1.3**	**10.1**
Provisions	0.1	0.3
Trade payables	0.2	0.8
Liabilities from leases	0.3	1.8
Other liabilities	2.4	2.7
Liabilities	**3.0**	**5.6**

As in the previous year, the table above includes the assets and liabilities of disposal groups in the sense of IFRS 5. As a result, it includes the assets and liabilities of the aforementioned Brazilian company for the year under review. In the previous year, this table also included the assets and liabilities of Vossloh Signaling USA, which has now been sold.

The assets held for sale and the liabilities related to assets held for sale reported in the balance sheet as of December 31, 2019 still included assets of €152.5 million and liabilities of €143.0 million from the Locomotives business unit, which has since been sold.

(8) Noncontrolling interests

The share of the Group's total net income attributable to noncontrolling interests includes shares in profit of €4.1 million (previous year: €4.4 million) and shares in losses of €0.5 million (previous year: €1.5 million).

(9) Earnings per share

		2020	2019
Weighted average of shares outstanding	Number	17,564,180	16,798,618
Net income attributable to Vossloh AG shareholders	€ mill.	17.2	(139.7)
Basic/diluted earnings per share	€	0.98	(8.32)
thereof attributable to continuing operations	€	2.47	(4.13)
thereof attributable to discontinued operations	€	(1.49)	(4.19)

Notes to the cash flow statement

The cash flow statement shows the changes in cash and cash equivalents and short-term bank overdrafts within the Vossloh Group. Cash pertains to cash on hand and in the bank. Cash equivalents comprise any financial instruments with a maximum residual term of three months from the time of acquisition that can be readily converted into cash. Short-term bank overdrafts result from credit balances of bank balances due in the near future and are included in cash and cash equivalents. The cash flow statement is prepared in conformity with IAS 7 and breaks down changes in cash and cash equivalents into the cash inflows from, and outflows for, operating, investing and financing activities. The cash flow from operating activities is presented according to the indirect method.

The other noncash income and expenses primarily encompass currency translation effects and the changes to deferred taxes. In the cash receipts and payments arising from the purchase or sale of consolidated companies and other units, the cash inflows and outflows are offset against each other. Cash inflows from purchase price payments came to €48.3 million in the year under review (previous year: €40.1 million), while cash outflows totaled €2.4 million (previous year: €0.5 million).

As it did not result in cash flows, the reclassification of the Schuldschein loan tranches due in 2021 totaling €135 million from long-term to short-term loans was not reflected in the two relevant items of the cash flow statement: "Net financing from short-term loans" and "Net financing from medium-term and long-term loans". Net financing from short-term loans includes the repayment of the loan from Bayerische Landesbank (€10.6 million). In the previous year, net financing from short-term loans included the repayment of the loan from Bayerische Landesbank (€14.4 million) and a new loan taken out by Vossloh Fastening Systems China totaling €9.3 million. "Net financing from medium-term and long-term loans" in the previous year primarily consisted of drawdowns from additional tranches of the syndicated loan totaling €35.0 million. For more information, see our notes on the financial liabilities under Note 26.1.

The figures in the cash flow statement shown on page 105 relate to the entire Group, including the effects of discontinued operations. The table below divides the subtotals of the cash flow statement and opening and closing cash and cash equivalents into continuing and discontinued operations.

€ mill.	2020		2019	
Cash flow items	thereof from continuing operations	thereof from discontinued operations	thereof from continuing operations	thereof from discontinued operations
Gross cash flow	126.2	(13.3)	56.0	(16.7)
Cash flow from operating activities	109.3	(53.2)	54.8	(42.5)
Free cash flow	58.1	(54.1)	2.4	(44.8)
Cash flow from investing activities	(2.1)	(0.9)	(13.2)	(2.3)
Cash flow from financing activities	(121.3)	53.9	(17.0)	45.1
Opening cash and cash equivalents	46.0*	2.6	21.0	2.3
Exchange rate effects	(2.2)	0.0	0.4	0.0
Closing cash and cash equivalents	32.7*	0.0	46.0	2.6

* Thereof €0.7 million held in a disposal group at the beginning of the period and €0.4 million held in a disposal group at the end of the period and reported under "Assets held for sale".

The following table clarifies the breakdown of the changes in financial liabilities, as well as in derivatives from hedging relationships included in the cash flow from financing activities, between cash and noncash items:

€ mill.	Noncurrent and medium-term credit liabilities	Current credit liabilities	Lease liabilities	Derivatives in hedging relationships	Total
As of 12/31/2018	**319.8**	**31.7**	**5.0**	**8.1**	**364.6**
Payments for the period	28.5	(6.1)	(13.5)	0.0	8.9
Noncash changes					
Change due to disposal groups which have been sold and those which are still available for sale	0.0	0.0	(2.5)	0.0	(2.5)
New lease agreements	0.0	0.0	58.9	0.0	58.9
Changes in fair value	0.0	0.0	1.2	1.9	3.1
Exchange rate effects	0.0	0.0	0.0	0.0	0.0
Other	0.0	4.1	0.0	0.0	4.1
Considering bank overdrafts in cash and cash equivalents	(0.8)	(10.6)	0.0	0.0	(11.4)
As of 12/31/2019	**347.5**	**19.1**	**49.1**	**10.0**	**425.7**
Payments for the period	(35.2)	6.4	(12.1)	0.0	(40.9)
Noncash changes					
Reclassification	(135.0)	135.0	0.0	0.0	0.0
Change due to disposal groups which have been sold and those which are still available for sale	0.0	0.0	0.0	0.0	0.0
Change due to initial consolidation	0.0	2.1	0.0	0.0	2.1
New lease agreements	0.0	0.0	4.7	0.0	4.7
Changes in fair value	0.0	0.0	0.5	(5.9)	(5.4)
Exchange rate effects	0.0	0.0	0.7	0.0	0.7
Other	0.0	0.0	1.0	0.0	1.0
As of 12/31/2020	**177.3**	**162.6**	**43.9**	**4.1**	**387.9**

The figures for current, noncurrent and medium-term credit liabilities as of December 31, 2019 were adjusted due to bank overdrafts being considered in cash and cash equivalents since the previous year.

Notes to the balance sheet

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

(10) Intangible assets

Breakdown of intangible assets

€ mill.	2020	2019
Goodwill	260.2	252.3
Development costs	4.9	5.0
Concessions, licenses and property rights	26.8	21.6
Advance payments	7.7	1.2
	299.6	**280.1**

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

Pursuant to IFRS 3 in conjunction with IAS 36, goodwill from acquisitions is not amortized but is tested annually for impairment as of the balance sheet date or upon the occurrence of triggering events. This involves comparing the recoverable amount, calculated as value in use, to the respective carrying amount of a group of cash-generating units (CGUs). Within the Vossloh Group, goodwill is assigned to the business units, which represent groups of CGUs. The impairment test is performed at this level. The value in use is calculated based on the medium-term budget for the respective units and is derived from the expected discounted cash flows. In this respect, key assumptions are the anticipated orders resulting from sales planning, the corresponding expected sales revenues and the full earnings and balance sheet planning based on this.

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

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

For periods beyond this planning horizon, the cash flows are projected forward by assuming the described growth rate to determine the value in use. An equal level of financing of inventories, trade receivables and payables, and property, plant and equipment associated with this growth was also included in the cash flow. As the business units’ values in use (including assigned goodwill) exceed their carrying amounts, no goodwill impairment loss had to be recognized. Within the scope of sensitivity analyses, various scenarios are examined: an increase in the discount rates by 50 basis points, a separate derivation of the WACC just for the terminal value and a general reduction in cash flows by 7.5 percent. A need for impairment ranging between €0.7 million and €3.0 million was identified in the first and third scenario for the Rail Services business unit. The value in use of this business unit exceeds the carrying amount by €13.4 million.

Goodwill breakdown by reporting segment

€ mill.	2020				2019
	Discount rate (in %)	Growth rate of the perpetual annuity (in %)	Average sales growth p.a. (in %)	Carrying amount	Carrying amount
Vossloh Switch Systems	11.24	0.87	5.2	138.5	137.8
Vossloh Rail Services	8.54	0.66	9.2	56.8	56.8
Vossloh Tie Technologies	9.84	0.93	(0.8)	53.7	57.6
Vossloh Fastening Systems	12.87	1.26	13.1	13.0	1.2
				262.0	**253.4**

In the goodwill of the Vossloh Switch Systems business unit, €1.8 million of calculated noncontrolling interests are included for the purposes of the impairment test (previous year: €1.1 million). Due to the sale of the shares in Vossloh Signaling USA, the goodwill impaired in the previous year, part of which was allocated to Vossloh Signaling USA, no longer applies. The increase in goodwill in the Fastening Systems business unit during the year under review is due to the transition from using the equity method for Vossloh (Anyang) Track Material Co. in China to full consolidation. The decrease in the carrying amount of the goodwill allocated to the Tie Technologies business unit is solely down to currency effects.

Development costs are recognized at manufacturing costs in the balance sheet wherever such costs can clearly be assigned, the developed product's technical feasibility and future marketability are ensured, and the development work is reasonably certain to produce future cash inflows. Manufacturing costs include all costs directly or indirectly assignable to the development process. Capitalized development costs are amortized on a straight-line basis over useful lives of one to ten years.

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

The amortization of intangible assets in the amount of €2.9 million (previous year: €2.7 million) is included in the income statement under cost of sales, €1.8 million (previous year: €2.3 million) under general administrative and selling expenses and €0.4 million (previous year: €0.9 million) under research and development costs.

No impairment losses were recognized during the reporting year (previous year: €4.8 million).

Changes in intangible assets

€ mill.	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	Goodwill		Development costs		Concessions, licenses and property rights		Advance payments		Intangible assets	
Net carrying amount as of December 31	**260.2**	**252.3**	**4.9**	**5.0**	**26.8**	**21.6**	**7.7**	**1.2**	**299.6**	**280.1**
Cost										
As of January 1	**309.6**	**327.1**	**10.9**	**11.3**	**59.9**	**65.2**	**1.2**	**0.3**	**381.6**	**403.9**
Changes from first-time consolidation/business acquisitions	0.0	0.1	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0
Changes from transitional consolidation and deconsolidation	11.9	0.0	0.0	0.0	9.5	(3.7)	0.0	0.0	21.4	(3.7)
Additions/ongoing investments	0.0	0.0	0.2	0.7	1.3	1.3	6.4	1.1	7.9	3.1
Disposals	(2.7)	(19.7)	0.0	(1.1)	(3.6)	(4.9)	0.0	0.0	(6.3)	(25.7)
Transfers	0.0	0.0	0.0	0.0	(0.1)	1.6	0.1	(0.2)	0.0	1.4
Currency translation differences	(4.0)	2.1	0.0	0.0	(1.3)	0.5	0.0	0.0	(5.3)	2.6
As of December 31	**314.8**	**309.6**	**11.1**	**10.9**	**65.7**	**59.9**	**7.7**	**1.2**	**399.3**	**381.6**
Accumulated amortization and impairment losses										
As of January 1	**57.3**	**60.2**	**5.9**	**4.0**	**38.3**	**36.9**	**0.0**	**0.0**	**101.5**	**101.1**
Changes from transitional consolidation and deconsolidation	0.0	0.0	0.0	0.0	0.0	(2.5)	0.0	0.0	0.0	(2.5)
Depreciation and impairment losses in the fiscal year	0.0	14.9	0.3	2.8	4.8	8.2	0.0	0.0	5.1	25.9
Disposals	(2.7)	(18.5)	0.0	(0.9)	(3.5)	(4.6)	0.0	0.0	(6.2)	(24.0)
Transfers	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Currency translation differences	0.0	0.7	0.0	0.0	(0.7)	0.2	0.0	0.0	(0.7)	0.9
As of December 31	**54.6**	**57.3**	**6.2**	**5.9**	**38.9**	**38.3**	**0.0**	**0.0**	**99.7**	**101.5**

The deconsolidation of a company resulted in the adjustment of the previous year's disposal in goodwill reflected in accumulated depreciation and cost.

(11) Property, plant and equipment

Breakdown of property, plant and equipment

€ mill.	2020	2019
Land, leasehold rights and buildings including buildings on nonowned land	87.8	76.3
Rights of use – land, leasehold rights and buildings including buildings on nonowned land	29.4	33.1
Technical equipment and machinery	121.2	116.2
Rights of use – technical equipment and machinery	11.1	11.0
Other equipment, factory and office equipment	13.2	13.0
Rights of use – other equipment, factory and office equipment	4.3	5.1
Advance payments and construction in process	46.6	42.1
	313.6	**296.8**

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

In the case of qualifying assets as defined by IAS 23, the borrowing costs allocable to the production period are also recognized. No interest expense was recognized during the reporting year (previous year: €0.1 million).

In accordance with IFRS 16, rights of use from leased property, plant and equipment is recognized at the time of addition using the total of the lease liability, payments before and at the beginning of use, ancillary costs in connection with entering into the contract and the estimated cost of restoration or similar liabilities at the end of the period of use. The initial valuation of the lease liability is derived from the present value of the expected lease payments. The interest rate used for the calculation of the present value is usually the marginal financing rate used in the monetary area with a similar maturity for the financing of an asset. The term of the agreements in question (and by extension the total of expected lease payments) is determined on the basis of the conditions of the agreement, in addition to the expectations of the relevant management team if extension or termination options are in place. Contracts are remeasured in response to changes in their expected term and other estimates. The resulting changes in value are shown in the line item "First-time application of IFRS 16 (2019) / remeasurements and modifications (2020)" in the table showing changes in carrying amounts. The relevant management has discretionary scope which is documented for material lease agreements. Fixed payments are agreed in the majority of cases. Contractual residual value guarantees are recognized at their anticipated value. Hire purchase agreements exist for a variety of assets in the Rail Services business unit. The purchase price at the end of the basic lease term was taken into account accordingly for the purposes of the measurement. Capitalized rights of use are mainly depreciated over the assumed term of the lease agreement. In the event of a subsequent transfer of ownership, depreciation is based on the expected total period of use for the asset in question.

Change in property, plant and equipment including the rights of use capitalized in accordance with IFRS 16

€ mill.	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	Land, leasehold rights and buildings including buildings on nonowned land		Technical equipment and machinery		Other equipment, factory and office equipment		Advance payments and construction in process		Property, plant and equipment	
Net carrying amount as of December 31	**117.2**	**109.4**	**132.3**	**127.2**	**17.5**	**18.1**	**46.6**	**42.1**	**313.6**	**296.8**
Cost										
Stand January 1	**175.0**	**144.1**	**346.3**	**340.6**	**54.5**	**51.6**	**48.3**	**31.7**	**624.1**	**568.0**
First-time application of IFRS 16 (2019)/ remeasurements and modifications (2020)	3.7	41.2	0.0	10.3	0.2	6.0	–	–	3.9	57.5
Changes from first-time consolidation/ business acquisitions	0.0	0.0	1.1	0.0	0.2	0.0	8.5	0.0	9.8	0.0
Changes from transitional consolidation and deconsolidation	0.0	(12.6)	0.0	(18.5)	0.0	(3.7)	0.0	(2.7)	0.0	(37.5)
Additions/ongoing investments	10.3	3.7	10.9	12.0	4.3	4.5	31.8	33.2	57.3	53.4
Disposals	(8.3)	(4.1)	(5.9)	(8.3)	(4.2)	(3.6)	(0.1)	(3.3)	(18.5)	(19.3)
Transfers	13.7	1.7	19.3	8.8	1.8	(0.5)	(34.8)	(11.1)	0.0	(1.1)
Currency translation differences	(3.6)	1.0	(5.5)	1.4	(0.8)	0.2	(0.9)	0.5	(10.8)	3.1
As of December 31	**190.8**	**175.0**	**366.2**	**346.3**	**56.0**	**54.5**	**52.8**	**48.3**	**665.8**	**624.1**
Accumulated amortization and impairment losses										
As of January 1	**65.6**	**53.9**	**219.1**	**210.8**	**36.4**	**34.7**	**6.2**	**0.0**	**327.3**	**299.4**
Changes from first-time consolidation	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Changes from transitional consolidation and deconsolidation	0.0	(2.6)	0.0	(13.3)	0.0	(2.5)	0.0	0.0	0.0	(18.4)
Depreciation and impairment losses in the fiscal year	13.7	17.9	23.5	26.4	6.4	8.7	0.0	6.2	43.6	59.2
Disposals	(4.7)	(4.5)	(5.4)	(5.5)	(3.7)	(3.7)	0.0	0.0	(13.8)	(13.7)
Transfers	0.0	0.8	0.0	0.0	0.0	(0.9)	0.0	0.0	0.0	(0.1)
Currency translation differences	(1.0)	0.1	(3.4)	0.7	(0.6)	0.1	0.0	0.0	(5.0)	0.9
As of December 31	**73.6**	**65.6**	**233.9**	**219.1**	**38.5**	**36.4**	**6.2**	**6.2**	**352.2**	**327.3**

The following rights of use are capitalized as part of property, plant and equipment:

Development of capitalized rights of use in accordance with IFRS 16

Mio.€	2020	2019	2020	2019	2020	2019
	Land, leasehold rights and buildings including buildings on nonowned land		Technical equipment and machinery		Other equipment, factory and office equipment	
Net carrying amount as of December 31	**29.4**	**33.1**	**11.1**	**11.0**	**4.3**	**5.1**
Cost						
As of January 1	**40.3**	**0.0**	**11.9**	**0.0**	**7.5**	**0.0**
First-time application of IFRS 16 (2019)/ remeasurements and modifications (2020)	3.7	41.2	0.0	10.3	0.2	6.0
Changes from first-time consolidation/ business acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Changes from transitional consolidation and deconsolidation	0.0	(1.0)	0.0	0.0	0.0	(0.1)
Additions/ongoing investments	2.8	3.0	1.5	1.7	1.3	1.7
Disposals	(5.2)	(3.0)	0.0	(0.1)	(0.9)	(0.1)
Transfers	1.0	0.0	(0.1)	0.0	0.0	0.0
Currency translation differences	(0.4)	0.1	0.1	0.0	0.1	0.0
As of December 31	**42.2**	**40.3**	**13.4**	**11.9**	**8.2**	**7.5**
Accumulated amortization and impairment losses						
As of January 1	**7.2**	**0.0**	**0.9**	**0.0**	**2.4**	**0.0**
Changes from transitional consolidation and deconsolidation	0.0	(0.3)	0.0	0.0	0.0	0.0
Amortization and impairment in the fiscal year	7.6	8.0	1.4	0.9	2.3	2.5
Disposals	(2.2)	(0.5)	0.0	0.0	(0.8)	(0.1)
Transfers	0.3	0.0	0.0	0.0	0.0	0.0
Currency translation differences	(0.1)	0.0	0.0	0.0	0.0	0.0
As of December 31	**12.8**	**7.2**	**2.3**	**0.9**	**3.9**	**2.4**

Depreciation is primarily based on the following useful lives:

Useful lives of property, plant and equipment

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

Changes from transitional consolidation relate to the change from using the equity method for Vossloh (Anyang) Track Material Co. in China in the previous year to full consolidation at the beginning of the year under review. Companies in the Switch Systems business unit made significant additions to their land holdings in the year under review, particularly Outreau Technologies and Vossloh Cogifer SA. Companies in the Rail Services business unit made additions to their technical equipment and machinery. The majority of advance payments and construction in process related to the “Factory of the Future” project at Vossloh Fastening Systems in Germany. Changes from deconsolidation in the previous year relate to the property, plant and equipment of the sold company Cleveland Track Material. Disposals included property, plant and equipment classified as held for sale in the previous year. Impairments going beyond planned cost allocations for property, plant and equipment totaled €0.2 million in the year under review (previous year: €15.0 million). These are mainly related to assets which were written down due to the sale of Group company Vossloh Signaling USA, in addition to assets of Vossloh Track Material and Vossloh Cogifer do Brasil Metalùrgica. Impairments of assets in the Rail Services and Fastening Systems business units totaled €0.2 million.

Depreciation of property, plant and equipment is included in the income statement in the amount of €36.7 million (previous year: €37.6 million) under cost of sales, €6.4 million (previous year: €6.3 million) under general administrative and selling expenses and €0.3 million (previous year: 0.3 million) under research and development costs.

(12) Investment properties

Development of investment property

€ mill.	2020	2019
Net carrying amounts	**4.4**	**1.8**
Cost		
As of January 1	4.0	5.2
Additions	3.9	0.0
Disposals	0.0	(0.9)
Transfers	0.0	(0.3)
Currency translation differences	(0.2)	0.0
As of December 31	**7.7**	**4.0**
Accumulated amortization and impairment losses		
As of January 1	2.2	3.0
Amortization of the fiscal year	1.2	0.2
Disposals	0.0	(0.9)
Transfers	0.0	(0.1)
Currency translation differences	(0.1)	0.0
As of December 31	**3.3**	**2.2**

Investment properties include land and buildings not used for operations and fully or partly leased to nongroup lessees. According to IAS 40, buildings owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of between 15 and 20 years.

Rental income in the reporting year amounted to €0.4 million (previous year: €1.0 million). Expenses (including depreciation, maintenance and repairs and incidentals) incurred for properties leased out totaled €0.5 million (previous year: €0.3 million); as in the previous year, there were no nonleased properties.
As in the previous year, expenses for leased properties include no amounts for write-downs. The fair value of property owned for investment purposes, including buildings under construction, totals €4.8 million (previous year: €2.5 million). Fair value is determined by an accredited expert.

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

Information on investments in companies accounted for using the equity method

€ mill.	2020	2019
Result from continuing operations	3.9	5.0
Result from discontinued operations	0.1	(0.1)
Income and expenses recognized directly in equity	(0.9)	0.1
Total comprehensive income	**3.1**	**5.0**

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

€ mill.	2020	2019
Noncurrent assets	14.2	15.5
Current assets	19.8	20.6
thereof cash and cash equivalents	2.7	2.1
Noncurrent liabilities	0.0	0.0
thereof noncurrent financial liabilities	0.0	0.0
Current liabilities	12.8	17.6
thereof current financial liabilities	2.9	6.6
Sales revenues	19.5	22.3
Result from continuing operations	3.0	1.9
Depreciation/amortization	1.8	1.8
Interest income	0.1	0.1
Interest expenses	0.3	0.5
Tax expense	0.0	0.0
Total comprehensive income	**2.6**	**1.9**

Significant financial information for Vossloh Beekay Castings Ltd., Bhilai, New Delhi, India, which is accounted for using the equity method

€ mill.	2020	2019
Noncurrent assets	2.3	2.4
Current assets	9.0	8.6
thereof cash and cash equivalents	0.3	0.3
Noncurrent liabilities	0.2	0.3
thereof noncurrent financial liabilities	0.0	0.0
Current liabilities	4.3	4.4
thereof current financial liabilities	0.0	0.0
Sales revenues	10.6	10.1
Result from continuing operations	0.7	(0.6)
Depreciation/amortization	0.3	0.3
Interest income	0.0	0.0
Interest expenses	0.0	0.0
Tax expense	0.2	0.1
Total comprehensive income	**0.0**	**(0.6)**

Significant financial information for Futrifer-Indústrias Ferroviárias, SA, Lisbon, Portugal, which is accounted for using the equity method

€ mill.	2020	2019
Noncurrent assets	0.5	0.3
Current assets	6.2	3.6
thereof cash and cash equivalents	3.0	1.7
Noncurrent liabilities	0.0	0.0
thereof noncurrent financial liabilities	0.0	0.0
Current liabilities	3.7	1.6
thereof current financial liabilities	0.0	0.0
Sales revenues	9.1	6.3
Result from continuing operations	1.0	0.3
Depreciation/amortization	0.1	0.1
Interest income	0.0	0.0
Interest expenses	0.0	0.0
Tax expense	0.3	0.2
Total comprehensive income	**1.0**	**0.3**

The investments in these companies are accounted for using the equity method. In this connection, the carrying amounts of associated companies are adjusted for proportional profits or losses after taxes, dividends distributed or any other changes in equity. These investments are held in nine (previous year: eleven) foreign companies and one domestic company (previous year: one) which are normally jointly controlled by a Group company and one external partner or upon which significant influence is exercised. The company Vossloh (Anyang) Track Material has been fully consolidated since January 1, 2020 due to Vossloh assuming control. It was accounted for using the equity method in the previous year. A joint venture accounted for using the equity method was deconsolidated due to the sale of the Locomotives business unit. Detailed information about the scope of consolidation is provided in the notes on page 113 et seq.

(14) Other noncurrent financial instruments

Breakdown of other noncurrent financial instruments

€ mill.	2020	2019
Other investments	3.1	3.3
Shares in unconsolidated affiliated companies	2.3	2.0
Loans	0.3	0.5
Securities	0.1	0.1
Derivative financial instruments in hedging relationships	0.1	0.0
Other noncurrent financial assets	0.1	0.1
Other noncurrent financial instruments	**6.0**	**6.0**

Shares in unconsolidated affiliated companies where the criterion of control is fulfilled but which are not included in the scope of consolidation due to insignificance are generally recognized at fair value. They do not play a material role in the net asset and earnings position of the Group. The related assessment is made on the basis of the primary financial indicators of the companies, such as EBIT, sales, total assets and equity. No further information is provided for these equity instruments in accordance with IFRS 9 due to lack of materiality.

Loans not quoted in an active market as well as other noncurrent financial assets are initially measured at fair value (which generally equals the nominal amount of the receivable or the loan amount) on the basis of the business model followed for such financial instruments (payment flows arise exclusively from interest payments or the repayment amount upon maturity). 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 that are quoted in an active market and for which the business model described above applies are measured at amortized cost using the effective interest rate method.

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

Other financial instruments are measured according to their IFRS 9 classification. For the reconciliation of the IFRS 9 valuation categories, see pages 145 et seq., “Additional information on financial instruments”.

(15) Other noncurrent assets

Prepaid expenses are primarily recognized under other noncurrent assets.

(16) Deferred taxes

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

Deferred taxes due to temporary differences and deferred taxes on loss and interest carryforwards were allocated to the following balance sheet items:

Deferred taxes

€ mill.	2020		2019	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and property, plant and equipment	2.0	21.5	2.1	26.7
Inventories	2.8	0.0	4.0	0.0
Receivables	1.0	2.0	1.5	2.6
Other assets	0.0	0.0	0.0	0.0
Pension provisions	7.9	0.0	7.7	0.0
Other provisions	5.9	0.4	4.5	1.4
Liabilities	4.7	0.5	4.9	1.1
Other liabilities	3.8	4.5	5.5	5.2
Loss and interest carryforwards	13.5	–	16.6	–
Total	**41.6**	**28.9**	**46.8**	**37.0**
Netting	(21.2)	(21.2)	(29.1)	(29.1)
Deferred taxes according to the balance sheet	**20.4**	**7.7**	**17.7**	**7.9**

The changes in deferred tax assets and liabilities for the year under review were recognized primarily in the income statement, and to a lesser degree in the statement of comprehensive income. This was also the case in the previous year.

As of December 31, 2020, tax loss carryforwards of €389.1 million (previous year: €338.2 million) existed in Germany for corporate income tax purposes and of €376.4 million for trade tax purposes (previous year: €308.7 million). No deferred taxes were recognized for corporate income tax losses of €361.8 million (previous year: €316.5 million), and no deferred taxes were recognized for trade tax losses of €342.6 million (previous year: €285.7 million). For the determination of deferred tax assets on loss and interest carryforwards, two additional years are considered beyond the three-year period of the detailed planning, as in previous periods, and the expected taxable income is estimated over this five-year period. Companies which realized losses in the reporting period or previous periods reported deferred tax assets of €8.7 million (before netting). Tax forecasts confirmed a lack of impairment. The forecasts for the group of companies consolidated for tax purposes in Germany are based on taxable profits which can reasonably be expected due to the absence of the loss-making and sold Locomotives business unit, expected contributions from additional investment in the German railway network, and condition-based monitoring projects expected to take place over the medium term.

In addition, non-German companies reported tax loss carryforwards of €80.1 million (previous year: €88.5 million), of which €9.9 million (previous year: €36.8 million) resulted in deferred tax assets. In the year under review, deferred tax assets in the amount of €17.4 million (previous year: €23.3 million) were impaired or not recognized due to the relevant conditions not being met. Deferred tax assets that had previously been impaired or which met recognition criteria for the first time totaled €20.2 million (previous year: €2.6 million). According to current German law and the law of most other countries, the carryforward of tax losses is not subject to any limitation or expiration. Loss carryforwards totaling €21.9 million (previous year: €15.2 million) will expire in the future, of which €20.3 million (previous year: €14.9 million) expire after more than five years.

(17) Inventories

Breakdown of inventories

€ mill.	2020	2019
Raw materials and supplies	83.3	81.1
Work in process	36.4	32.6
Merchandise	10.7	9.7
Finished products	31.4	28.0
Advance payments	1.6	0.7
Total	**163.4**	**152.1**

Inventories are stated at the lower of cost or net realizable value (NRV). Manufacturing costs comprise all production-related costs. This includes directly attributable direct costs as well as all fixed and variable manufacturing overheads systematically allocable to the production process and special direct manufacturing costs. Borrowing costs are capitalized as part of cost wherever qualifying assets according to IAS 23 exist. To the extent that a group valuation is made, inventories are valued at the moving average price. Inventory risks from obsolescence or slow-moving items are appropriately allowed for. Allowances on inventories amounted to €19.9 million as of the balance sheet date (previous year: €22.4 million), which primarily resulted from excessive inventories. €0.9 million of this was recognized in profit or loss in the year under review (previous year: €1.1 million). The carrying amount of inventories stated at net realizable value totaled €2.5 million (previous year: €4.3 million).

As the reasons for previous write-downs no longer existed, inventories were written up in 2020 by €0.5 million (previous year: €0.3 million).

(18) Trade receivables and contract assets

Given their short remaining term, trade receivables are carried at their nominal value. The simplified method for calculating the expected credit loss (ECL) is applied for valuation allowances. As of every reporting date, risk provisioning is carried out on the basis of the entire term by means of a provision matrix based on the actual receivables defaults per business unit. Prior experiences are then supplemented with future-oriented information such as macroeconomic circumstances and expectations for the divisions. Depending on the age of the trade receivables, valuation allowances are recognized at a loss rate based on the number of days of arrears.

The provision matrix is presented in table format below.

	2020				2019			
Risk class	Gross carrying amounts (€ million)	Net carrying amounts (after factoring in individual risks without refundable VAT) (€ million)	Impairment loss (€ million)	Average Vossloh Group loss rate (in %)	Gross carrying amounts (€ million)	Net carrying amounts (after factoring in individual risks without refundable VAT) (€ million)	Impairment loss (€ million)	Average Vossloh Group loss rate (in %)
Assets not due	163.5	136.3	0.1	0.09	173.6	136.4	0.2	0.13
Overdue by 1 to 30 days	21.7	19.6	0.1	0.26	20.1	18.0	0.1	0.52
Overdue by 31 to 90 days	14.3	12.9	0.1	0.79	12.6	11.2	0.1	0.70
Overdue by 91 to 180 days	5.4	4.8	0.1	3.12	12.9	11.5	0.1	0.59
Overdue by 181 to 360 days	5.5	4.8	0.2	4.70	7.7	6.8	0.4	5.74
Overdue by more than 360 days	5.0	4.4	0.8	18.31	1.0	1.0	0.4	41.94
Overdue by more than 360 days with individual value adjustment	2.3	2.1	0.1	4.17	5.2	4.7	0.3	6.02
	217.7	**184.9**	**1.5**		**233.1**	**189.6**	**1.6**	

Specific risks are taken into account by appropriate allowances. If there are indications of probable impairment, such as a declaration of insolvency, an appropriate valuation allowance is recognized. Derecognition only occurs if the recovery of the respective receivable is virtually impossible for legal or practical reasons (e.g. end of insolvency proceedings). Trade receivables vis-à-vis certain customers are treated as a special category due to past experiences and thus impaired to a lesser extent, despite being past due by more than 360 days.

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

Changes in the allowances (including consideration of individual risks) for trade receivables

€ mill.	2020	2019
Balance as of January 1	**20.3**	**12.7**
Additions	2.1	10.9
Releases	(3.5)	(1.8)
Utilizations	(4.9)	(1.5)
Currency translation differences	(0.6)	0.0
Balance as of December 31	**13.4**	**20.3**

In the previous year, additions included €7.7 million in additional valuation allowances connected to the performance program. Additional information about the performance program is available on page 116.

Contract assets and liabilities result from the recognition of customer contracts for which revenue is realized over the course of the fulfillment of the performance obligation. For each pertinent contract, the contracts costs including a proportion of profit corresponding to the percentage of completion less any loss recognized in full are recognized as a contract asset or contract liability. Where total progress under construction contracts exceeds the total of all advance payments received from customers, construction contracts are presented under assets as a contract asset. Where the situation is reversed, after advance payments are credited toward total progress, they are recognized on the balance sheet under liabilities as "Contract liabilities". Prepayments ordinarily only take place to a limited extent, with the result that the orders relevant in this context typically result in a debit balance during the period of fulfillment of performance obligations.

Contract assets and liabilities

€ mill.	2020		2019	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Contract costs	18.4	0.8	14.4	0.8
Proportional profit	0.9	0.2	1.0	0.0
Proportional losses	(1.3)	0.0	(0.7)	0.0
Total progress under construction contracts	18.0	1.0	14.7	0.8
Advance payments received	0.0	0.0	0.0	0.0
Partial billings	(13.7)	(1.0)	(9.7)	(1.0)
Balance sheet presentation	**4.3**	**0.0**	**5.0**	**0.2**

(19) Income tax assets

Tax refund claims include €0.2 million of income taxes (previous year: €0.3 million) reimbursable to companies of the Fastening Systems business unit, €2.4 million (previous year: €4.7 million) to Vossloh Switch Systems, €0.5 million (previous year: €0.4 million) to the companies of the Rail Services business unit, €0.0 million (previous year: €0.1 million) to the Tie Technologies business unit and €0.2 million (previous year: €0.3 million) to companies at Group level.

(20) Other current financial instruments and other current assets

Breakdown of other current financial instruments and other current assets

€ mill.	2020	2019
Other financial receivables	8.3	5.7
Receivables from reimbursements	6.1	12.8
Receivables from affiliated companies	2.2	0.2
Derivative financial instruments	2.0	0.7
Receivables from investees	1.4	7.2
Security and similar deposits	1.3	2.4
Creditors with debit accounts	0.3	0.4
Receivables from employees	0.2	0.2
Loans	0.0	0.0
Interest receivables	0.0	0.0
Other current financial instruments	**21.8**	**29.6**
Other tax receivables (excluding income taxes)	12.2	11.2
Deferred income	4.4	2.8
Sundry current assets	7.5	11.8
Other current assets	**24.1**	**25.8**

The receivables shown under other current financial instruments are measured at fair value through profit or loss. Specific risks are taken into account by appropriate allowances. The receivables from reimbursements are not reimbursements made by shareholders. The majority of other financial receivables relate to retained amounts in connection with factoring contracts in the Switch Systems business unit totaling €5.4 million (previous year: €4.3 million) and in the Rail Services business unit amounting to €1.9 million (previous year: €1.4 million). The receivables represent claims against factoring banks. The nominal value of these receivables is equivalent to their fair value because they are due in the near future. Other financial receivables were not the subject of any impairment.

In the previous year, a financial asset from a previous sale of a business unit was reported at €6.0 million.

The balances and changes in allowances are presented below:

Changes in allowances

€ mill.	2020	2019
Balance as of January 1	**3.9**	**1.1**
Additions	0.0	3.0
Releases	0.0	0.0
Utilizations	(2.5)	0.0
Currency translation differences	0.0	(0.2)
Balance as of December 31	**1.4**	**3.9**

For the reconciliation of the IFRS 9 valuation categories, see pages 145 et seq., "Additional information on financial instruments". Other tax receivables and miscellaneous current assets are measured at amortized cost.

(21) Short-term securities

This line item presents funds invested in short-term fixed-income securities for which both interest payments and sales come into account. These are reported at fair value; changes in value are recognized directly in other equity.

For the reconciliation of the IFRS 9 valuation categories, see pages 145 et seq., "Additional information on financial instruments".

(22) Cash and cash equivalent

Cash comprises cash on hand and in the bank. Cash equivalents comprise any financial instruments with a maximum residual term of three months from the time of acquisition that can be readily converted into cash. Cash and cash equivalents are carried at their nominal value.

(23) Equity/capital management

For the statement of changes in equity, see page 107. Vossloh's capital management strategy is primarily geared towards raising enterprise value on a sustainable basis by making a positive contribution to its value added. Secondary to this, the aim is also to safeguard liquidity at all times as well as to ensure that the Vossloh Group's equity ratio is adequate in order to ensure the ability of the Company to operate as a going concern. The optimization of the capital structure contributes as much to this as does efficient management of cash inflows and outflows from financing activities and effective risk management.

Vossloh AG observes all statutory regulations within the scope of its capital management activities. It is not subject to any capital requirements imposed by the Articles of Incorporation. No special capital terms are used. Through its dividend policy, the Vossloh Group aims to pay out dividends on a sustainable basis if so permitted by the economic situation and approved by the corporate bodies. The decision on the amount of the annual dividend is made on a year-by-year basis.

(23.1) Capital stock

Vossloh AG's capital stock of €49,857,682.23 (previous year: €49,857,682.23) and is divided into 17,564,180 no-par-value shares, as it was in the previous year. Only shares of common stock are issued. One no-par-value share represents a notional interest of €2.84 in the capital stock.

The capital stock was increased in the previous year and concluded on June 19, 2019. This involved issuing 1,596,743 new shares at a placement price of €30.70 per share by way of an accelerated placement procedure. €0.7 million of the gross proceeds of the issue amounting to €49.0 million was deducted from equity with no effect on income.

(23.2) Additional paid-in capital

The additional paid-in capital includes the stock premium from shares issued by Vossloh AG. There are also differences recorded in additional paid-in capital that arose based on the purchase and sale prices for treasury shares. €43.9 million was added to the additional paid-in capital as a result of the capital increase in the previous year.

Employee bonus program

The employee bonus program was suspended in the year under review, as it was in the previous year. The suspension in the previous year was due to the performance program. The suspension in the year under review was due to the uncertainty surrounding the COVID-19 pandemic.

(23.3) Retained earnings and net income

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

Two adjustments resulting from previous years related to actuarial losses (€(0.3) million) and how non-controlling interests were factored in when determining the expected credit loss for a Group company (€0.6 million) were recognized in retained earnings, other comprehensive income and noncontrolling interests. The retained earnings for the previous year contain an effect from switching to the correct method to be used to take account of currency losses from certain financial transactions stemming from previous fiscal years amounting to €2.0 million.

Change in other comprehensive income

€ mill.	Reserves for currency translation	Reserve from hedging transactions (cash flow hedges	Reserve for the remeasurement of defined benefit plans	Other comprehensive income not including noncontrolling interests	Noncontrolling interests	Other comprehensive income
	2020					
Reclassification of actuarial gains and losses from defined benefit plans to retained earnings			2.6	**2.6**		**2.6**
Foreign subsidiaries – Currency translation differences	(10.9)			**(10.9)**	(0.6)	**(11.5)**
Cash flow hedges		0.2		**0.2**		**0.2**
Actuarial gains and losses from defined benefit plans			(0.7)	**(0.7)**		**(0.7)**
Effects from deconsolidation and transitional consolidation	(1.3)		1.2	**(0.1)**		**(0.1)**
Other effects			(0.3)	**(0.3)**		**(0.3)**
Total	**(12.2)**	**0.2**	**2.8**	**(9.2)**	**(0.6)**	**(9.8)**

€ mill.	2019					
Reclassification of actuarial gains and losses from defined benefit plans to retained earnings			(0.5)	**(0.5)**		**(0.5)**
Foreign subsidiaries – Currency translation differences	2.3			**2.3**	0.0	**2.3**
Cash flow hedges		(0.3)		**(0.3)**		**(0.3)**
Actuarial gains and losses from defined benefit plans			(2.6)	**(2.6)**		**(2.6)**
Effects from deconsolidation	(5.7)			**(5.7)**		**(5.7)**
Total	**(3.4)**	**(0.3)**	**(3.1)**	**(6.8)**	**0.0**	**(6.8)**

(23.4) Accumulated other comprehensive income

Accumulated other comprehensive income contains the changes in equity without profit or loss effect from the translation of financial statements of foreign subsidiaries, from the measurement of derivatives in connection with hedging transactions (cash flow hedges), and of financial instruments classified at fair value through other comprehensive income as well as actuarial gains and losses relating to employee benefits recognized during the reporting year. During the year under review, actuarial losses of €2.6 million (previous year: €0.5 gain) were reclassified from the reserve for revaluation of defined benefit plans to retained earnings.

(23.5) Noncontrolling interests

€15.0 million (previous year: €8.7 million) of noncontrolling interests relate to minority shareholders of the Fastening Systems business unit; another €0.9 million (previous year: €0.7 million) relates to the Switch Systems business unit.

(24) Pension provisions/ provisions for other post-employment benefits

Development of pension provisions/provisions for other post-employment benefits

€ mill.	Present value of the obligation	Fair value of plan assets	Total
As of 1/1/2019	**43.2**	**(11.7)**	**31.5**
Service cost	1.1		1.1
Net interest expense/income	0.8	(0.2)	0.6
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		(0.1)	(0.1)
Gains/losses on changes in actuarial assumptions	4.9		4.9
Experience-related assumptions	(1.9)		(1.9)
Benefits paid	(1.9)	0.6	(1.3)
Currency translation differences	0.0		0.0
As of 12/31/2019	**46.2**	**(11.4)**	**34.8**
Service cost	1.1		1.1
Net interest expense/income	0.5	(0.1)	0.4
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		(0.2)	(0.2)
Gains/losses on changes in actuarial assumptions	1.5		1.5
Experience-related assumptions	(0.2)		(0.2)
Benefits paid	(1.8)	0.8	(1.0)
Settlement of obligations	(0.9)		(0.9)
Currency translation differences	0.0		0.0
As of 12/31/2020	**46.4**	**(10.9)**	**35.5**

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

Provisions for pensions are formed using the projected unit credit method in accordance with IAS 19. This method takes into account current capital market interest rates, likely increases to salaries and pensions in the future and expected employee turnover. Accounting risks of the defined benefit plans particularly arise from the development of the current market interest rates, as the current low interest rate leads to comparably high present values of liabilities.

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

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

The pension provisions recognized are based on actuarial reports of independent actuaries using the mortality tables 2018 G from Klaus Heubeck.

The recognized pension provisions and the provisions for other post-employment benefits are derived as follows:

Analysis of the recognized pension provisions / provisions for other post-employment benefits

€ mill.	2020		2019	
	Pension provisions	Provisions for other post-employment benefits	Pension provisions	Provisions for other post-employment benefits
Present value of pension commitments covered by plan assets	16.9	5.8	15.5	7.7
Fair value of plan assets	(10.2)	(0.9)	(10.3)	(0.9)
Provision for pension benefits covered by plan assets	**6.7**	**4.9**	**5.2**	**6.8**
Present value of pension commitments not covered by plan assets	20.4	3.5	21.1	1.7
Provision for pension benefits not covered by plan assets	**20.4**	**3.5**	**21.1**	**1.7**
Recognized provision	**27.1**	**8.4**	**26.3**	**8.5**

The current service cost represents a portion of the personnel expense that is included in the functional costs. Interest expense is shown in other interest expense. The actual return on plan assets amounted to 3.5 percent in the reporting period (previous year: 3.7 percent).

A discount rate of 0.78 percent (previous year: 1.16 percent) was used in the year under review. This parameter is seen as significant; for this reason, a sensitivity analysis was performed due to possible changes. A decrease or increase in the discount rate by 25 basis points would have increased or decreased the defined benefit obligation (DBO) and therefore increased the provision by €1.7 million (previous year: €1.5 million) or decreased the provision by €1.7 million (previous year: €1.4 million). The average duration of the defined benefit pension plans is 15.3 years. Other parameters include the anticipated staff turnover (6.0 percent), income trend (3.0 percent), pension trend (1.8 percent) and the anticipated increase in the contribution measurement threshold (2.5 percent) (all values are per annum and unchanged over the previous year).

In addition, voluntary or statutory defined contribution plans are in place at a number of Group companies. These Group companies are not normally under any obligation to make pensions-related payments other than their contractual contributions to an outside fund, which totaled €7.2 million in the fiscal year (previous year: €8.2 million).

The pension provisions include provisions for nonrecurring payments ("indemnités de fin de carrière") which are a legal requirement for a number of Group companies (particularly those in France) for employees who leave the Company (both in the case of retirement as well as other situations). In accordance with IAS 19, such provisions are required to be treated as employee benefits and, because of the way they have been structured, classified as a "defined benefit plan". Obligations of this nature from other Group companies were recognized as other provisions in previous years. A €1.6 million adjustment was therefore made to the previous year's figures for provisions for other post-employment benefits and other noncurrent provisions.

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

When calculating the provision, a discount rate of 0.59 percent (previous year: 0.77 percent) and an expected increase of wage and salary payments in line with the previous year of 2.0 percent was assumed.

(25) Other provisions

Breakdown of other provisions

€ mill.	2020	2019
Personnel-related provisions	1.5	1.9
Warranty obligations and follow-up costs	1.5	2.0
Litigation risks and impending losses	2.9	0.0
Other provisions	6.5	5.0
Other noncurrent provisions	**12.4**	**8.9**
Personnel-related provisions	0.0	0.1
Warranty obligations and follow-up costs	11.7	7.2
Litigation risks and impending losses	7.6	10.0
Other provisions	37.1	42.1
Other current provisions	**56.4**	**59.4**
Other provisions	**68.8**	**68.3**

All provisions reported as current provisions have maturities of one year or less. All provisions reported as noncurrent provisions have remaining terms exceeding one year. The utilization dates are subject to significant uncertainty, especially with regard to risks from warranty obligations and litigation risks. The other provisions consider all obligations that are identifiable at the balance sheet date, based on past events, and are uncertain in terms of amount or timing. Provisions are recognized at amounts most likely to be utilized if the probability of a charge is higher than 50 percent. If the effect of discounting is material, noncurrent provisions are recognized at the present value of the uncertain obligations.

Change in other provisions

€ mill.	Opening balance 1/1/2020	Addition from first-time consolidation	Utilization	Release	Addition	Interest effects	Currency translation differences	Closing balance as of 12/31/2020
Personnel-related provisions	2.0	–	(0.2)	(0.2)	0.2	–	(0.3)	1.5
Warranty obligations and follow-up costs	9.2	0.0	(1.0)	(1.6)	6.6	0.0	0.0	13.2
Litigation risks and impending losses	10.0	–	(2.0)	(1.0)	3.7	–	(0.2)	10.5
Other provisions	47.1	–	(14.2)	(5.1)	16.0	0.0	(0.2)	43.6
Other provisions	**68.3**	**0.0**	**(17.4)**	**(7.9)**	**26.5**	**0.0**	**(0.7)**	**68.8**

The warranty obligations include both provisions for specific warranty cases and the general warranty costs empirically derived from past sales. The accrued litigation risks and impending losses account for obligations under lawsuits and for loss risks from contracts in progress. As of the balance sheet date, provisions for impending losses on purchase obligations totaled €5.3 million (previous year: €6.2 million). The other provisions include provisions for risks from company disposals and possible claims for damages.

Liabilities

Liabilities according to remaining terms

€ mill.	2020	2019	2020	2019	2020	2019	2020	2019
Remaining term	≤ 1 year		1–5 years		> 5 years		Total	
Financial liabilities	175.0	41.3	234.4	373.3	10.1	12.5	419.5	427.1
Trade payables	152.3	132.8	–	0.9	–	0.5	152.3	134.2
Liabilities from construction contracts	0.0	0.2	–	–	–	–	0.0	0.2
Income tax liabilities	6.8	4.4	–	–	–	–	6.8	4.4
Other liabilities	105.6	91.7	2.8	10.6	–	–	108.4	102.3
Total	**439.7**	**270.4**	**237.2**	**384.8**	**10.1**	**13.0**	**687.0**	**668.2**

(26.1) Financial liabilities

Breakdown of financial liabilities

€ mill.	2020	2019
Other noncurrent liabilities to banks	177.3	347.5
Noncurrent liabilities from leases	34.4	37.5
Overdraft facilities	32.8	0.8
Noncurrent financial liabilities	**244.5**	**385.8**
Current liabilities to bank	157.0	13.4
Interest payable	1.5	1.5
Current notes payable	0.0	0.0
Current liabilities for outstanding dividend payments	4.2	4.2
Current liabilities from leases	9.5	11.6
Overdraft facilities	2.8	10.6
Current financial liabilities	**175.0**	**41.3**
Financial liabilities	**419.5**	**427.1**

Financial liabilities are principally measured at amortized cost. Vossloh has current and noncurrent lease liabilities arising from leases which are recognized in accordance with IFRS 16. See the explanatory notes to section (11) on page 128 for how these line items are measured. Bank overdrafts are shown separately from current and noncurrent liabilities to banks in the table because they were allocated to cash and cash equivalents in the cash flow statement. The figure for the previous year has been adjusted.

In July 2017, Schuldschein loans with terms of four years amounting to €135 million and seven years amounting to €115 million were issued by Vossloh AG. The agreed interest rate is fixed at 0.988 percent for the four-year maturities for an amount of €85 million, and variable at an amount of €50 million with a margin of 85 basis points above Euribor. For the seven-year maturities, a partial amount of €90 million has a fixed interest rate of 1.763 percent and the remaining amount of €25 million, 120 basis points above Euribor. A floor of 0.0 percent is respectively applicable to the reference value.

At the end of November 2017, Vossloh AG concluded a €150 million syndicated loan with eight banks. The financing agreement now has a term until November 2024 after exercising the option to extend it by one year respectively in November 2018 and 2019. In April 2019, the volume of the loan was increased by €80 million to €230 million. If necessary, it can be increased by up to a further €70 million during the term of the loan. The funds are available to the Company in the form of a revolving line of credit that can be flexibly accessed. Compliance with a covenant in the form of the ratio of net financial debt to EBITDA was agreed here. If the agreed threshold of this key figure is breached, this will allow the lending banks to terminate the agreement ahead of time. At the same time, the amount of the key figure in question determines the interest (basis points above Euribor). This is currently 1.50 percent. As of the balance sheet date, the credit line had been utilized in the amount of €85.9 million via cash, lines of credit available to subsidiaries, and guarantees (previous year: €102.3 million). Compliance with the covenant is verified every six months and was affirmed as of the half-year and as of the reporting date. The existing liability stemming from this syndicated loan is reported under noncurrent financial liabilities as required by the terms of the contract.

For the reconciliation of the IFRS 9 valuation categories, see pages 145 et seq., “Additional information on financial instruments“.

(26.2) Trade payables and contract liabilities

Contract liabilities result from contracts where the revenue recognition takes place over a period of time and the advance payments made by customers and partial invoices are in excess of the cumulative performance from the processing of the respective contracts. For the detailed breakdown of these liabilities into gross receivables, prepayments received and partial invoices and other information, see Note (18) “Contract assets“.

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

(26.3) Income tax liabilities

(26.4) Other liabilities

Breakdown of other liabilities

€ mill.	2020	2019
Freestanding derivatives	0.0	10.1
Derivatives from cash flow hedges	0.0	0.0
Noncurrent financial liabilities	**0.0**	**10.1**
Noncurrent deferred income	2.8	0.2
Personnel-related liabilities	0.0	0.3
Other	0.0	0.0
Noncurrent nonfinancial liabilities	**2.8**	**0.5**
Other noncurrent liabilities	**2.8**	**10.6**
Social security and health insurance contributions	6.9	4.6
VAT payable	6.9	7.8
Freestanding derivatives	6.0	0.3
Other nonincome taxes	5.3	5.6
Liabilities to employees	2.3	2.3
Debtors with credit balances	1.1	0.6
Other liabilities to affiliated companies	0.8	1.1
Derivatives from cash flow hedges	0.2	0.4
Liabilities to other long-term investees and investors	0.0	1.7
Liabilities due to insurance companies	0.0	0.0
Commissions	0.0	0.0
Current financial liabilities	**29.5**	**24.4**
Advance payments received	41.8	28.5
Personnel-related liabilities	26.8	31.7
Deferred income	0.9	0.5
Other	6.6	6.6
Current nonfinancial liabilities	**76.1**	**67.3**
Other current liabilities	**105.6**	**91.7**

Upon initial recognition, financial instruments are stated at their fair value as of the trading date including direct transaction costs, if any, and thereafter carried at amortized cost unless their measurement at fair value is required. The recognition of gains/losses from the measurement at fair value depends on whether the IFRS 9 hedge accounting criteria are met. The corresponding gains/losses from measuring derivatives in cash flow hedges at fair value are recognized directly in equity after considering deferred taxes. Changes in the market value of freestanding derivatives are recognized in other operating income or other operating expenses. An interest rate floor embedded in an interest rate swap has also been designated as a hedging instrument for the purposes of fair value hedging. This is measured at fair value through profit or loss, and had a positive fair value on December 31, 2020.

The prepayments received, recognized at €41.8 million (previous year: €28.5 million) under other liabilities, consist of customer payments for projects where revenue recognition will not be carried out over a period of time. In accordance with IAS 19, the current liabilities to employees are recognized at the undiscounted amount owed.

Notes to the segment report

The primary format for segment reporting is defined by Vossloh's internal organizational and reporting structure, which differentiates between the products and services offered by the Vossloh Group's business units. Segment reporting to the Executive Board and Supervisory Board encompasses the business units and divisions as reportable segments in accordance with IFRS 8.

The segment structure in the three core divisions has not changed compared with the previous year. In addition to the Fastening Systems business unit, the Tie Technologies business unit is part of the Core Components division. Vossloh Switch Systems and Vossloh Rail Services continue to be the only business units of the Customized Modules and Lifecycle Solutions divisions, respectively. The Transportation division was removed from the scope of consolidation and sold upon finalization of the purchase agreement on May 31, 2020. In the previous year, this division consisted entirely of the Locomotives business unit, which was reported as a discontinued operation.

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

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

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

Activities in the field of rail vehicles, including corresponding services were combined in the Transportation division. The Locomotives business unit, the sale of which was finalized on May 31, 2020, was allocated to this division.

In the consolidation, all intrasegment and intersegment transactions are eliminated. This pertains primarily to the offsetting of intragroup income/expenses, the elimination of dividends between Group companies and the elimination of intragroup receivables/payables. The accounting methods applied by all segments are identical and conform to IFRS as adopted by the EU. Intersegment business is transacted on at arm's length basis.

Segment information is presented for each division and business unit on pages 108 et seq. The major noncash segment expenses include additions to provisions.

In the analysis of its results of operations in the combined management report, the Vossloh Group reports the pretax value added as a key performance indicator. The Group used a pre-tax WACC of 7.0 percent (previous year 7.5 percent) for this purpose.

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

Reconciliation of value added to EBIT

€ mill.	2020	2019
Value added	12.4	(105.4)
Cost of capital employed (2020 WACC: 7.0 percent; 2019: 7.5 percent)	60.7	67.8
EBIT	**73.1**	**(37.6)**

Segment information by region is provided for noncurrent assets and external sales revenues in accordance with IFRS 8.33. The external sales revenues presented by region are based on the customer location. As sales with unconsolidated subsidiaries are not taken into account in this overview of external sales revenues, the figures are not compatible with the overview of sales by region on page 39 of the combined management report.

Segment information by region

€ mill.	2020	2019	2020	2019
	External sales revenues		Noncurrent assets[1]	
Germany	74.2	81.8	203.2	181.6
France	89.1	103.8	169.9	165.5
Rest of Western Europe	67.4	68.1	29.7	30.5
Northern Europe	115.5	105.2	21.5	21.3
Southern Europe	64.4	74.0	1.1	1.3
Eastern Europe	61.1	67.7	11.9	11.3
Total of Europe	**471.7**	**500.6**	**437.3**	**411.5**
Americas	127.3	185.8	97.8	117.2
Asia	151.3	149.7	43.3	11.3
Africa	15.8	15.1	0.0	0.0
Australia	99.2	59.8	43.1	42.7
Total	**865.3**	**911.0**	**621.5**	**582.7**

[1] Excluding financial instruments and deferred tax assets

Additional information on financial instruments

Financial instruments are recognized and measured according to the measurement categories of IFRS 9 mentioned in the following:

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

Vossloh's consolidated balance sheet includes both derivative and nonderivative financial instruments.

Nonderivative financial instruments

Nonderivative financial instruments primarily comprise receivables, cash and cash equivalents and other financial assets. On the liabilities side, they include financial liabilities. They are recognized in the consolidated balance sheet when Vossloh becomes a contractual party to the financial instrument. Financial assets are derecognized according to IFRS 9 when the contractual right to payments from a financial asset expires or when the financial asset is transferred along with all material risks and opportunities. Financial liabilities are derecognized when the contractual obligation is settled, canceled or expires.

Derivative financial instruments

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

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

Hedges of assets and liabilities reported in the balance sheet are recognized as freestanding derivatives. The offsetting changes in value of the underlying and hedging transactions, which relate to the hedged risk, are recognized in the consolidated financial statements. Any fair value changes (gains/losses) due to exchange rate volatility are recognized in the income statement. Rather than being carried out on the basis of planned items, the hedging of currency exposure is typically handled directly after an order is received by means of a foreign currency forward.

When accounting for cash flow hedges of pending or uncompleted transactions (executory contracts), changes in the derivative’s fair value are recognized directly in equity after allowing for deferred taxes. Upon completion or recognition of the underlying transactions, the associated gains/losses previously recognized in profit and loss are either recycled to the income statement or offset against the cost of purchased assets. A hedging relationship that was previously classified as effective was closed in the 2020 fiscal year due to an amendment to the terms of a contract (see Financial Risk Management on page 149 for more information). The derivative which was originally designated as a hedging instrument was measured at fair value through profit or loss on December 31, 2020.

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

€ mill.	Currency	2020	2019
USA	USD	118.3	163.2
Australia	AUD	17.2	15.8
Poland	PLN	2.2	–
United Kingdom	GBP	–	1.2
		137.7	**180.2**

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 € mill.			Fair value 2020	Nominal value 2020	Fair value 2019	Nominal value 2019
Interest rate swaps	Maturity	up to 1 year	–	–	–	–
		up to 5 years	–	–	–	–
		over 5 years	(0.1)	7.1	(0.1)	8.0
			(0.1)	**7.1**	**(0.1)**	**8.0**
Foreign currency forwards	Maturity	up to 1 year	(4.1)	137.7	0.3	110.7
		up to 5 years	–	–	(10.1)	69.6
		over 5 years	–	–	–	–
			(4.1)	**137.7**	**(9.8)**	**180.3**
Total			**(4.2)**	**144.8**	**(9.9)**	**188.3**

Discounted estimated future cash flow methods are used to determine fair values of interest hedging instruments, currency hedging transactions and foreign currency forwards. The discount is based on current market rates, which match the maturity of the financial instruments.

The carrying amounts of financial instruments, the assignment based on measurement category and the required disclosures on fair value according to IFRS 13 and their measurement sources according to IFRS 7 are presented in the following table.

Carrying amounts, measurement categories and fair values as of December 31, 2020

		Measurement categories pursuant to IFRS 9			
€ mill.	IFRS 9 carrying amounts according to balance sheet 12/31/2020	Amortized cost	Fair value through OCI (FVOCI)	Fair value through profit or loss (FVTPL)	Fair values 12/31/2020
Trade receivables	209.5	209.5	0.0	0.0	209.5
Securities	0.3	0.0	0.0	0.3	0.3
Other financial instruments and other assets	23.5	20.3	0.5	2.7	23.5
Cash and cash equivalents	67.8	67.5	0.0	0.3	67.8
Total financial assets	**301.1**	**297.3**	**0.5**	**3.3**	**301.1**
Financial liabilities	375.5	375.5	0.0	0.0	375.5
Trade payables	152.3	152.3	0.0	0.0	152.3
Other liabilities	88.0	81.8	0.2	6.0	88.0
Total financial liabilities	**615.8**	**609.6**	**0.2**	**6.0**	**615.8**

Carrying amounts, measurement categories and fair values as of December 31, 2019

		Measurement categories pursuant to IFRS 9			
€ mill.	IFRS 9 carrying amounts according to balance sheet 12/31/2019	Amortized cost	Fair value through OCI (FVOCI)	Fair value through profit or loss (FVTPL)	Fair values 12/31/2019
Trade receivables	212.8	212.8	0.0	0.0	212.8
Securities	0.0	0.0	0.0	0.0	0.0
Other financial instruments and other assets	32.9	29.4	0.6	2.9	32.9
Cash and cash equivalents	56.7	56.7	0.0	0.0	56.7
Total financial assets	**302.4**	**298.9**	**0.6**	**2.9**	**302.4**
Financial liabilities	377.9	377.9	0.0	0.0	377.9
Trade payables	134.2	134.2	0.0	0.0	134.2
Other liabilities	83.8	73.0	0.4	10.4	83.8
Total financial liabilities	**595.9**	**585.1**	**0.4**	**10.4**	**595.9**

Trade receivables, cash and cash equivalents and other receivables and assets primarily have short maturities. Their carrying amounts as of the reporting date therefore approximately correspond to the fair value.

Trade payables and liabilities from construction contracts as well as other liabilities also usually have short remaining terms. Their carrying amounts therefore approximately correspond to the fair value. The fair value of noncurrent financial liabilities was calculated by discounting the payments of principal and interest to be expected from these liabilities in the future based on current market interest rates.

The financial liabilities carried at fair value mainly pertain to freestanding derivatives.

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

Assignment to levels of the fair value hierarchy

	Determined based on market prices (Level 1)		Derived from fair value (Level 2)		Measurement not based on fair value (Level 3)	
€ mill.	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Financial assets measured at fair value			3.8	3.5		
Financial liabilities measured at fair value			6.2	10.8		
Total	**0.0**	**0.0**	**10.0**	**14.3**	**0.0**	**0.0**

The basis for the levels of the hierarchy for the measurement of fair value is the inputs applied. In Level 1, inputs are in the form of unadjusted quoted prices in active markets for identical assets or liabilities. Measurement models are normally used for inputs at both Level 2 and Level 3. While the inputs at Level 2 are observable on the market or can be derived, there is no observable market data at Level 3.

Vossloh AG enters into derivatives transactions for a framework agreement (“framework agreement for financial futures contracts”) which do not qualify for netting. The reason for this is that the Group has no legal claim to offset the amounts recognized at the present time. The right to offset can only be enforced when future events occur, such as if a bank loan is defaulted on or other credit events. The following table presents the carrying amounts of the recognized financial instruments that are subject to the outlined agreements:

Offsetting possibilities for derivative financial assets and liabilities

€ mill.	2020	2019
Financial assets		
Recognized gross amounts of financial assets	1.9	0.6
Financial instruments that qualify for offsetting	0.0	0.0
Net balance sheet figures of financial assets	**1.9**	**0.6**
Offsettable on the basis of framework agreements	(1.7)	(0.5)
Total net value of financial assets	**0.2**	**0.1**
Financial liabilities		
Recognized gross amounts of financial liabilities	(5.7)	(10.5)
Financial instruments that qualify for offsetting	0.0	0.0
Net balance sheet figures of financial liabilities	**(5.7)**	**(10.5)**
Offsettable on the basis of framework agreements	1.7	0.5
Total net value of financial liabilities	**(4.0)**	**(10.0)**

Net gains/(losses) on financial instruments by measurement category

€ mill.	Assets at amortized cost	Assets at fair value through profit or loss (FVTPL)	Assets at fair value through other comprehensive income (FVOCI)	Liabilities at amortized cost	2020	2019
Net gains/losses from:						
Income from investments			1.0		1.0	–
Interest	0.0			(7.1)	(7.1)	(6.0)
Remeasurement						
from addition to valuation allowances	(0.8)				(0.8)	(12.2)
from reversal of valuation allowances	2.7				2.7	1.8
from currency translation differences	0.2				0.2	8.7
at fair value		(0.4)			(0.4)	(3.2)
Total	**2.1**	**(0.4)**	**1.0**	**(7.1)**	**(4.4)**	**(10.9)**

Interest is accounted for here within net interest income, while the net gains and losses on disposal and currency translation are disclosed within other operating income or other operating expenses. 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 above table and recognized within the other financial result.

Financial risk management

The Vossloh Group's business operations are exposed to financial risks. These risks relate to liquidity, currency, interest and credit. The Group-wide management and limitation of the liquidity, currency and interest rate risks is handled by Treasury Management. Credit risks are monitored as part of general risk management.

Liquidity risks

Vossloh manages its liquidity risks (i.e. the risk that the Group is not able at all times to meet its payment obligations) through liquidity planning and a central cash management system. At the end of the reporting period, cash, cash equivalents and readily salable securities of €68.1 million were at the Group's disposal, besides additional, unutilized credit facilities of €223.7 million to satisfy any future cash requirements. €144.1 million were related to free credit lines of Vossloh AG under the syndicated loan with a term until November 2024. The majority of the free credit lines of the subsidiaries, which totaled €79.6 million, had a duration of up to a year or were granted for an unlimited term. The table below shows the contractually agreed undiscounted payments of principal and interest for financial liabilities:

Maturities of interest and principal payments

	up to 1 year				1 to 5 years				More than 5 years			
€ mill.	2020		2019		2020		2019		2020		2019	
	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment	Interest
Nonderivative financial liabilities	(168.0)	(5.5)	(37.1)	(5.3)	(201.6)	(6.3)	(373.3)	(9.5)	(10.1)	0.0	(12.5)	0.0
Derivative financial liabilities	(6.2)	0.0	(0.6)	(0.1)	0.0	(0.1)	(10.1)	(0.1)	0.0	0.0	0.0	
Derivative financial assets	2.0		0.7									

Currency risks

Currency risks arise from recognized noneuro assets and liabilities whose euro equivalent may be adversely affected by unfavorable exchange rates, and pending or uncompleted currency transactions whose future cash flows may show a negative trend depending on how foreign exchange rates develop. Significant operations-related currency risks Vossloh is exposed to originate from trade receivables and payables denominated in a noneuro currency, as well as from pending or uncompleted trade and purchasing transactions. Vossloh has issued binding instructions to centrally hedge against currency risks Group-wide through Treasury Management by using foreign currency forwards at matching maturities and amounts as micro hedges of the associated underlying transactions. The fixed exchange rates for the hedged underlying transactions counter any unfavorable rate effects on cost estimates and assets. As of the reporting date, Vossloh had €0.1 million in currency derivatives designated as a cash flow hedge. All other currency derivatives are freestanding. The translation of foreign separate financial statements into the Group currency, the euro, results in currency translation differences (translation risks) which are recognized directly in the "Accumulated other comprehensive income" balance sheet item (see "Currency translation" on page 115). Income, expenses and carrying values of companies that are not based in the eurozone are thus dependent on the respective euro exchange rate. Translation risks are not currently hedged because they do not directly affect cash flow. In addition, investments in foreign companies are typically long-term.

Interest rate risks

Interest rate risks mainly result from floating-rate short- and long-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 (see the glossary for these terms on page 173).

In connection with hedge accounting, such interest rate hedging transactions are accounted for as cash flow hedges. Interest rate floors embedded in hedging transactions are recognized in the income statement as fair value hedges. The nominal amount of the interest rate swap amounted to €7.1 million as of the reporting date. Its term has been adjusted to the middle of 2026.

The dollar offset method is used for assessing the effectiveness of the hedge. The new terms of the agreement mean that this interest rate hedge is no longer effective. The cash flow hedge reserve of €(0.2) million will be released on a straight line basis in profit or loss over the remaining term, which runs until the middle of 2026.

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 "Additional information on financial instruments" on pages 145 et seq. Taking into account the existing interest rate derivatives, 46 percent of the financial liabilities were taken up with fixed interest rates as of the reporting date, with 54 percent subject to a variable interest rate.

Sensitivity analysis

Given certain assumptions, sensitivity analyses put an approximate figure to the risk that exists if certain influential factors undergo changes. The following changes have been assumed with regard to interest-rate risk and exchange-rate risk:
- an increase in market interest rates of 1 percent or a reduction in market interest rates of 0.25 percent (parallel shift in the yield curve);
- a simultaneous appreciation and depreciation of the euro against all foreign currencies by 10 percent.

Financial instruments originally stipulated with variable interest rates as well as existing interest rate derivatives were taken into consideration in the determination of the interest-rate risk as of the reporting date. A market interest rate that is higher by 100 percentage points related to the financial liabilities and receivables identified with variable rates as of December 31, 2020, would have increased the financial result by €0.3 million. A market interest rate that was lower by 25 points would have reduced the net financial result by €0.1 million owing to the existing Euribor floor rule in the syndicated loan. Equity would have been €0.2 million lower at the higher market interest rate or €0.1 million lower at the lower market interest rate. This is based on the underlying assumption that the changed interest rate would have applied for an entire year.

As currency risks were almost fully hedged, the impact of a simultaneous 10 percent depreciation of the euro on the unhedged foreign currency positions was insignificant for the results of operations. The following table shows the effects of the sensitivity analysis of key existing foreign currency derivatives and currency loans on other net interest income and equity. A positive value reflects an increase in earnings and equity.

Sensitivity analysis of key foreign currency derivatives

	USD			
€ mill.	12/31/2020		12/31/2019	
	+ 10%	– 10%	+ 10%	– 10%
Net interest result	(0.5)	0.6	(0.1)	0.1
Equity	(0.4)	0.4	0.0	0.1

Credit risks

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

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

The balance of gross receivables (receivables before deduction of allowances) is broken down as follows in terms of operational credit risks:

Balance of gross current receivables

€ mill.	Receivables neither past due nor impaired	Receivables past due but not impaired	Impaired receivables	Gross balance
Trade receivables				
2020	153.2	57.2	12.4	222.8
2019	153.3	59.5	20.3	233.1
Others				
2020	45.9	1.5	0.0	47.4
2019	55.6	2.4	1.4	59.4

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

Receivables past due

€ mill.	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Trade receivables						
2020	21.8	15.4	5.6	6.0	8.4	**57.2**
2019	20.1	12.6	12.9	7.7	6.2	**59.5**
Others						
2020	0.0	0.0	0.0	0.0	1.5	**1.5**
2019	0.3	0.3	0.5	0.3	1.0	**2.4**

No specific credit risk arises from past due receivables since, given customer structure of the Vossloh Group, many debtors are government or other public-sector agencies.

The maximum credit risk of all financial assets corresponds to their carrying amounts (see analysis on page 147).

IBOR reform

Leading global interest rate benchmarks are currently going through a period of reform. This process includes a transition away from some Interbank Offered Rates (IBORs) and towards alternative risk-free rates. IBOR reform will have an impact on the Vossloh Group due to its use of financial instruments whose cash flows are tied to IBORs and could therefore be replaced or reformed due to these initiatives. However, there is still some uncertainty over the methods that will be used to make this transition and when it will take place. The central Treasury department is tracking developments in this area and assessing agreements which are affected. It is also responsible for managing the transition to alternative rates and making the necessary amendments to agreements. IBOR reform could impact how Vossloh accounts for hedges if it becomes necessary to replace some or all of the company's current hedging arrangements.

As of December 31, 2020, the Vossloh Group had just one hedge in place which was directly affected by IBOR reform. The Group used an interest rate swap to achieve a fixed rate for a loan with a variable interest rate based on the 3-month Euribor rate and a floor of 0.00 percent. The nominal volume of the hedge due in 2026 was €9.0 million initially and was down to €7.1 million at the end of the year. An exemption is being used for this hedge on the basis of the amendments to IFRS 9, IAS 39 and IFRS 7 which the IASB published on September 26, 2019. These amendments permit entities to continue to apply hedge accounting even if the risk component (reference rate) is not separately identifiable on an ongoing basis. Euribor will be discontinued at the end of 2021. The interest rate swap involved is based on the framework agreement of Fédération Bancaire Française (FBF).

The FBF published a new technical schedule – 2021 FBF Rate Definitions – after it was announced that some IBOR rates would be discontinued. This new schedule updates certain definitions to provide fallback solutions for discontinued reference rates. The most significant change introduced by the FBF was the inclusion of the IBOR Fallbacks Supplement and IBOR Fallbacks Protocol published by the International Swaps and Derivatives Association (ISDA) in October 2020 into the framework agreement. The Supplement changes the ISDA's standard definitions for interest rate derivatives to include robust fallbacks for derivatives that are linked to specific IBORs. These changes came into effect on January 25, 2021. The Protocol makes it possible for market participants to incorporate the changes into their existing derivative agreements with counterparties who agree to the Protocol. It also came into effect on January 25, 2021. The fallbacks are adapted versions of the risk-free rates determined in every currency.

The Group is currently planning to adhere to the Protocol and monitor compliance among its counterparties. Vossloh will enter into bilateral negotiations with any counterparties who choose not to adhere to the Protocol so that new fallback clauses can be added to their agreements. The Group will also take the same course of action if it ultimately decides against adhering to the Protocol.

Information is provided below about financing agreements which the Vossloh Group considers significant and are affected by reference rate reform.

Base contract	Nominal volume	Remaining term	Reference rate	Hedging instrument
Syndicated loan	€230 million	Nov. 2024	Euribor rate by maturity	
Schuldschein loan	€135 million	Jul. 2021	6-month Euribor	
Schuldschein loan	€115 million	Jul. 2024	6-month Euribor	
Loan	€9 million	Jul. 2026	3-month Euribor	Interest rate swap
Factoring agreements	€48 million		Various Euribor rates	

Other disclosures

Contingent liabilities

As a result of the completed sale of the business unit Locomotives with effect from May 31, 2020, the contingent liabilities issued for these companies must now be disclosed in the consolidated financial statements. Contingent liabilities went up significantly – from €21.0 million at the end of 2019 to €109.0 million, an increase of €88.0 million. €100.8 million thereof is attributable to contingent liabilities for the Locomotives business unit, while €0.3 million is attributable to contingent liabilities for the Electrical Systems business unit sold as of January 31, 2017. For the outstanding contingent liabilities from the two former business units, Vossloh AG has received irrevocable and unconditional guarantees at first request by first-class banks. The costs arising from these contingent liabilities are charged to the respective buyers or their affiliated companies. The Group has incurred contingent liabilities under guarantees of €26.0 million (previous year: €2.7 million). €24.3 million thereof are attributed to the former business units and €1.7 million (previous year: €2.4 million) to nonconsolidated affiliated companies. €83.0 million (previous year: €18.3 million) of the contingent liabilities are attributable to letters of comfort. €76.8 million thereof was related to the former business units and €6.2 million (previous year: €9.6 million) to nonconsolidated affiliated companies. The risk of a claim is considered unlikely for all of the listed contingent liabilities.

Commitments triggered by orders arising from the acquisition of property, plant and equipment and intangible assets totaled €19.0 million (previous year: €22.2 million).

Leasing

Agreements on the use of assets have frequently been concluded between the companies of the Vossloh Group and the respective owners. The subject of these agreements primarily relate to land and buildings, machinery and factory and office equipment, in particular company cars and IT equipment. The resulting assets subject to such rights of use are capitalized under property, plant and equipment pursuant to IFRS 16, while the present values of payment obligations are recognized financial liabilities. The option granted under IFRS 16.4 as regards rights of use for intangible assets is exercised in such a way that rights of use arising from such contracts are not recognized on the balance sheet. The accounting methods applied for the rights of use and for the financial liability resulting from the lease are outlined in the explanatory notes to property, plant and equipment. There, the expense incurred for the depreciation of capitalized values in use was also shown. Interest expense from the compounding of lease liabilities is accounted for under net interest expense.

Expenses relating to short-term leases (term of less than one year) and for low-value assets – the resulting rights of use are not capitalized in accordance with the option in IFRS 16.6 – are accounted for as other operating expense in the income statement. The same applies to variable lease payments, which are not to be taken into account when measuring the lease liability. Gains or losses from what are referred to as "sale-and-leaseback" transactions are accounted for depending on the conditions of the lease agreement to the extent that such transactions take place. There were no such transactions during the reporting year, as in the previous year. Rental income stemming from subleases is accounted for as other operating income.

The following table provides a summary of the expenses and payments recognized in the income statement relating to leases. All payments in this regard relate to cash changes in lease liabilities and expenses recognized in the income statement related to leases which did not lead to right-of-use assets being recognized in the balance sheet.

€ mill.	2020	2019
Interest expense from the compounding of lease liabilities	1.0	1.2
Expenses from short-term leases	3.4	4.5
Expenses from the renting of low-value assets	0.4	0.3
Expenses from variable lease payments	0.2	0.1
Total lease payments	21.2	27.3
Rental income from subletting	0.0	0.1

The following table shows the residual terms of the recognized leases:

Liabilities according to remaining terms

€ mill.	2020	2019	2020	2019	2020	2019	2020	2019
Remaining term	≤ 1 year		1 to 5 years		> 5 years		Total	
Liabilities from leases	9.5	11.6	25.4	27.2	9.0	10.3	43.9	49.1

Future payments that have not yet been taken into account when measuring lease liabilities may result from variable lease payments, extension options that do not yet appear to be largely probable or not exercising termination options or from residual value guarantees that have not been taken into account. The resulting payments are insignificant in total. As of the reporting date, the Vossloh Group had no lease agreements that have already been concluded but for which utilization would not commence until a later date. In the previous year, arrangements of this kind were expected to result in payments totaling €1.8 million. There are no restrictions imposed by lease agreements or assurances about certain financial circumstances.

Disclosures regarding companies with noncontrolling interests

Significant Group companies with other shareholders that have a noncontrolling interest are:
1. Vossloh Fastening Systems (China) Co. Ltd., Kunshan, China
2. Vossloh (Anyang) Track Material Co., Ltd., Anyang, China
3. Vossloh Cogifer KIHN SA, Rumelange, Luxembourg.

Re 1: 32 percent of the shares of capital of this company are held by shareholders with a noncontrolling interest. In the 2020 fiscal year, €3.8 million (previous year: €4.1 million) of the company’s net income was attributable to these shareholders. As of December 31, 2020, the share of equity attributable to shareholders with a noncontrolling interest was €10.2 million (previous year: €10.3 million).

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

€ mill.	2020	2019
Noncurrent assets	10.3	11.3
Current assets	89.0	86.2
Noncurrent liabilities	4.2	2.2
Current liabilities	63.1	62.1
Sales revenues	58.8	66.7
Value added	13.2	14.9
Total comprehensive income	10.8	13.4
Cash flow	(0.3)	(9.2)
Dividends to shareholders	12.9	13.0

Re 2: 49 percent of the shares of capital of this company are held by shareholders with a noncontrolling interest. In the year under review, €(0.6) million of the company's net income was attributable to these shareholders. As of December 31, 2020, the share of equity attributable to shareholders with a noncontrolling interest was €6.3 million.

Significant financial information for Vossloh (Anyang) Track Material Co., Ltd., Anyang, China

€ mill.	2020	2019
Noncurrent assets	34.5	9.7
Current assets	8.6	10.1
Noncurrent liabilities	6.9	5.1
Current liabilities	11.4	8.5
Sales revenues	12.8	8.4
Value added	(3.0)	0.0
Total comprehensive income	(1.7)	0.8
Cash flow	(0.1)	0.6
Dividends to shareholders	0.0	0.0

Re 3: 10.79 percent of the shares of capital of this company are held by shareholders with a noncontrolling interest. In the year under review, €0.2 million (previous year: €(0.6) million) of the company's net income was attributable to these shareholders. As of December 31, 2020, the share of equity attributable to shareholders with a noncontrolling interest was €1.8 million (previous year: €0.6 million).

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

€ mill.	2020	2019
Noncurrent assets	15.4	15.4
Current assets	15.0	15.2
Noncurrent liabilities	0.4	1.1
Current liabilities	15.0	17.0
Sales revenues	34.3	39.4
Value added	0.7	(6.1)
Total comprehensive income	1.9	(5.1)
Cash flow	(0.6)	1.3
Dividends to shareholders	0.0	0.0

Where shareholders of other Group companies hold noncontrolling interests, these interests are insignificant both individually and cumulatively.

Related party transactions

As the ultimate controlling parent, Vossloh AG is at the helm of the Vossloh Group. The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated affiliated companies, joint ventures and associated companies. Resulting transactions were executed at arm's length basis. Related unconsolidated companies and associated companies are disclosed in the list of shareholdings on page 158 et seq.

Individuals among the Vossloh Group's related parties are the members of the Executive and Supervisory Boards.

Mr. Heinz Hermann Thiele passed away on February 23, 2021. He was in a position to dominate the decisions made at the Annual General Meeting due to the majority stake in Vossloh AG which he held indirectly through KB Holding GmbH. He also controlled the companies of the Knorr-Bremse Group indirectly. These companies are accordingly to be treated as related parties. Transactions with companies of the Knorr-Bremse Group in the fiscal year resulted in material purchases in the amount of €0.0 million (previous year: €0.0 million), sales in the amount of €0.0 million (previous year: €0.0 million) as well as open receivables and advance payments as of December 31, 2020, in the amount of €0.0 million (previous year: €0.0 million) and trade payables of €0.0 million (previous year: €0.0 million). Vossloh recognized a financial asset in the previous year worth €6.0 million resulting from the sale of shares of the former Vossloh Kiepe GmbH, Düsseldorf. The corresponding payment was received in the year under review.

The table below breaks down transactions with related parties (entities/individuals). These were conducted almost exclusively with unconsolidated subsidiaries and reflected in segment reporting as internal sales revenues and in the consolidated balance sheet as receivables/payables due from or to affiliated companies. Transactions with associated companies are also taken into consideration. No transactions with related individuals took place.

€ mill.	2020	2019
Sale or purchase of goods		
Sales revenues from the sale of finished goods and WIP	14.5	16.3
Cost of materials from the purchase of finished goods and WIP	20.5	11.4
Trade receivables	5.2	10.9
Trade payables	4.2	1.8
Advance payments received	0.0	0.1
Expenses for irrecoverable/doubtful accounts	0.0	0.1
Sale or purchase of other assets		
Income from the sale of other assets	0.1	0.0
Receivables from the sale of other assets	0.5	6.2
Liabilities from the purchase of other assets	0.8	1.0
Services rendered or received		
Income from services rendered	1.4	1.6
Expenses for services received	0.5	0.5
Licenses		
License income	0.1	0.1
License expenses	0.7	0.1
Funding		
Interest income from financial loans granted	0.1	0.1
Receivables on financial loans granted	4.1	3.1
Provision of guarantees and collateral		
Provision of guarantees	1.7	2.4
Provision of other collateral	0.0	0.7

Payments to related parties

	Short-term remuneration due		Pension entitlements (service cost)		Other noncurrent grants		Benefits due to employment contracts coming to an end		Total	
€	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Executive Board of Vossloh AG	1,993,619	2,382,122	339,511	324,919	677,878	658,243	1,087,203	1,151,176	4,098,211	4,516,460
Supervisory Board of Vossloh	456,666	429,167	–	–	–	–	–	–	456,666	429,167

The short-term benefits paid for the Executive Board comprised the fixed and annual variable remuneration. Provisions for pensions for the CEO come to €2.3 million (previous year: €1.9 million). For an itemized breakdown by member of this total, and further details of the remuneration system, see the remuneration report (an integral part of the Vossloh Group’s combined management report).

The fees for the services provided by the auditor of the consolidated financial statements in the year under review totaled €0.9 million, of which €0.1 million relates to the previous fiscal year. They relate mainly to attestation services, with the majority being fees paid to Deloitte GmbH for the audit of the consolidated financial statements and the financial statements of Vossloh AG and its German subsidiaries as well as audits in connection with corporate transactions. The auditor also reviewed interim financial statements and provided a small number of other services and certifications.

Auditor fees

In November 2020, the Executive and Supervisory Boards issued the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG), and made it permanently available to the stockholders on Vossloh's website (www.vossloh.com).

German Corporate Governance Code

A number of agreements were signed and finalized with Talleres de Amurrio on January 29, 2021. One of these was for the transfer of 81 percent of the shares in Vossloh Cogifer do Brasil Administracao de Bens e Participacoes Ltda., Sorocaba, Brazil, which in turn holds all of the shares in Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil. In future, the companies will be accounted for as financial instruments measured at fair value through profit or loss. Changes were also made to the governance structure of the joint venture Vossloh Beekay Castings Ltd., New Delhi, India, which was previously accounted for using the equity method. These changes gave Vossloh control over the company. As a result, it will be fully included in the consolidated financial statements.

Events after the reporting period

A €150 million subordinated perpetual bond was issued in February 2021. Due to the nature of the bond, it is classified as equity for accounting purposes in the consolidated financial statements. This bond can only be canceled by Vossloh AG, and not before February 23, 2026. The interest rate of the bond is 4.0 percent.

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

Group companies and investees

List of shareholding

€ mill.		Foot-note	Shareholding in %	at	Consoli-dation[1]	Equity[2]	Result after taxes[2]
(1)	**Vossloh Aktiengesellschaft, Werdohl**				(k)		
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(k)		
(3)	Vossloh US Holdings, Inc., Wilmington, Delaware, USA		100.00	(2)	(k)		
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(k)		
	Core Components division						
	Fastening Systems business unit						
(5)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(1)	(k)		
(6)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania		100.00	(5)	(n)	0.0	0.0
(7)	Vossloh Drazni Technika s.r.o., Prague, Czech Republic		100.00	(5)	(n)	1.9	1.1
(8)	Vossloh Sistemi S.r.l., Cesena, Italy		100.00	(5)	(k)		
(9)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(5)	(k)		
(10)	FÉDER-7 Rugógyártó Kft., Sárkeresztes, Hungary		100.00	(5)	(n)	0.4	0.0
(11)	Vossloh Fastening Systems America Corp., Chicago, Illinois, USA		100.00	(3)	(k)		
(12)	Vossloh Fastening Systems (China) Co. Ltd., Kunshan, China		68.00	(5)	(k)		
(13)	Vossloh-Werke International GmbH, Werdohl		100.00	(5)	(k)		
(14)	Beijing China-Railway Vossloh Technology Co. Ltd., Beijing, China		49.00	(5)	(n)	1.6	0.0
(15)	Vossloh Fastening Systems Southern Africa Proprietary Limited, Cape Town, South Africa	6	100.00	(80)	(n)	0.0	0.0
(16)	TOO Vossloh Fastening Systems (Kazakhstan), Kapshagay, Kazakhstan		50.00	(13)	(e)		
(17)	Suzhou Vossloh Track Systems Co. Ltd., Suzhou, China		100.00	(13)	(k)		
(18)	AO Vossloh Fastening Systems RUS, Engels, Russia		50.00	(5)	(e)		
(19)	Vossloh Fastening Systems Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(n)	1.0	0.1
(20)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia		99.00/1.00	(2)/(1)	(k)		
(21)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl		100.00	(5)	(n)	1.6	(0.1)
(22)	Vossloh Fastening Systems India Private Ltd., New Delhi, India	4	99.99/0.01	(5)/(13)	(k)		
(23)	Vossloh (Anyang) Track Material Co., Ltd., Anyang, China		51.00	(13)	(k)		
(24)	Kunshan Vossloh Railway Materials Trading Co. Ltd., Kunshan, China		100.00	(13)	(k)		
	Tie Technologies business unit						
(25)	Rocla International Holdings, Inc., Wilmington, Delaware, USA		100.00	(3)	(k)		
(26)	Rocla Concrete Tie, Inc., Lakewood, Colorado, USA		100.00	(25)	(k)		
(27)	RCTI de Mexico, S. de R. L. de C. V., Mexico City, Mexico		99.998/0.002	(26)/(3)	(k)		
(28)	RocBra Participacoes e Empreendimentos Ltda., São Paulo, Brazil	6	100.00	(25)	(n)	3.5	0.0
(29)	Cavan Rocbra Industria E Comercio De Pre Moldados De Concreto S/A, São Paulo, Brazil	6	20.00	(28)	(n)	18.0	6.9
(30)	Austrak Pty. Ltd., Brisbane, Australia		100.00	(4)	(k)		
(31)	Vossloh Tie Technologies Canada ULC, Vancouver, Canada		100.00	(26)	(k)		
	Customized Modules division						
	Switch Systems business unit						
(32)	Vossloh France SAS, Rueil-Malmaison, France		100.00	(1)	(k)		
(33)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(32)	(k)		
(34)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(33)	(k)		
(35)	Vossloh Cogifer Finland Oy, Teijo, Finland		100.00	(36)	(k)		
(36)	Vossloh Nordic Switch Systems AB, Ystad, Sweden		100.00	(33)	(k)		
(37)	Vossloh Cogifer KIHN SA, Rumelange, Luxembourg		89.21	(33)	(k)		
(38)	Vossloh Laeis GmbH, Trier		100.00	(37)	(k)		
(39)	Futrifer-Indústrias Ferroviárias, SA, Lisbon, Portugal		61.00	(33)	(e)		
(40)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(33)	(e)		
(41)	Montajes Ferroviarios, S. L., Amurrio, Spain	6	100.00	(40)	(n)	0.2	(0.1)
(42)	Burbiola SA, Amurrio, Spain		50.00	(40)	(n)	1.6	0.1
(43)	Vossloh Cogifer UK Limited, Scunthorpe, United Kingdom		100.00	(33)	(k)		
(44)	Vossloh Cogifer Italia S.r.l., Milan, Italy		100.00	(33)	(k)		
(45)	Vossloh Cogifer Polska Sp.z o.o., Bydgoszcz, Poland		96.95	(33)	(k)		

	€ mill	Foot-note	Shareholding in %	at	Consoli-dation[1]	Equity[2]	Result after taxes[2]
(46)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(33)	(e)		
(47)	Vossloh Cogifer Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(33)	(k)		
(48)	Siema Applications SAS, Villeurbanne, France		100.00	(33)	(k)		
(49)	VOSSLOH MIN SKRETNICE DOO ZA Proizvodnjui Montazu Skretnica i Opreme Nis, Niš, Serbia		100.00	(33)	(k)		
(50)	Vossloh Beekay Castings Ltd., New Delhi, India	5	58.48	(33)	(e)		
(51)	Vossloh Cogifer Turnouts India Private Limited, Hyderabad, India	5	100.00	(33)	(k)		
(52)	Vossloh Cogifer Signalling India Private Limited, Bangalore, India	5	100.00	(33)	(k)		
(53)	Vossloh Track Material, Inc., Wilmington, Delaware, USA		100.00	(3)	(k)		
(54)	Vossloh Cogifer Australia Pty. Ltd., Castlemaine, Australia		100.00	(4)	(k)		
(55)	Vossloh Cogifer Kloos BV, Nieuw-Lekkerland, the Netherlands		100.00	(33)	(k)		
(56)	Wuhu China Railway Cogifer Track Co. Ltd., Wuhu, China		50.00	(33)	(e)		
(57)	Vossloh Cogifer Southern Africa Proprietary Limited, Cape Town, South Africa	6	100.00	(80)	(n)	0.0	0.0
(58)	Vossloh Cogifer do Brasil Administracao de Bens e Participacoes Ltda., Sorocaba, Brazil		99.99/0.01	(33)/(34)	(k)		
(59)	Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil		100.00	(58)	(k)		
(60)	Outreau Technologies SAS, Outreau, France		100.00	(33)	(k)		
(61)	Vossloh Infrastructure Systems LLC, Moscow, Russia		90.00/10.00	(37)/(49)	(n)	0.0	0.0
	Lifecycle Solutions division						
	Rail Services business unit						
(62)	Vossloh Rail Services GmbH, Hamburg	3	100.00	(1)	(k)		
(63)	Vossloh Rail Center GmbH, Hamburg	3	100.00	(62)	(k)		
(64)	Vossloh Rail Inspection GmbH, Leipzig (formerly: GTS Gesellschaft für Gleistechnik Süd mbH)	3	100.00	(63)	(k)		
(65)	Alpha Rail Team GmbH & Co. KG, Berlin	3	100.00	(63)	(k)		
(66)	Alpha Rail Team Verwaltungs GmbH, Berlin		100.00	(63)	(k)		
(67)	Vossloh Logistics GmbH, Hanover	3	100.00	(62)	(k)		
(68)	VOSSLOH Turkey Demiryolu Sistemleri Ltd. Sti., Istanbul, Turkey		100.00	(71)	(k)		
(69)	Vossloh Rail Maintenance GmbH, Hamburg (formerly: Vossloh High Speed Grinding GmbH)	3	100.00	(62)	(k)		
(70)	Vossloh Mobile Rail Services GmbH, Leipzig	3	100.00	(63)	(k)		
(71)	Vossloh Rail Services International GmbH, Hamburg	3	100.00	(62)	(k)		
(72)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(71)	(e)		
(73)	Vossloh Rail Services Scandinavia AB, Örebro, Sweden		100.00	(71)	(k)		
(74)	Vossloh Rail Services North America Corporation, Denver, Colorado, USA		100.00	(3)	(n)	(0.1)	(0.8)
(75)	Beijing CRM-Vossloh Track Maintenance Technology Co.,Ltd., Beijing, China		47.00	(71)	(e)		
(76)	Vossloh Rail Services Kunshan Co. Ltd., Kunshan, China		100.00	(71)	(k)		
(77)	Vossloh Rail Services Finland Oy, Kouvola, Finland		100.00	(71)	(k)		
(78)	Rhomberg Sersa Vossloh GmbH, Föhren		50.00	(62)	(e)		
(79)	Vossloh Services France SAS, Rueil-Malmaison, France		49.90/50.10	(33)/(71)	(k)		
	Other companies						
(80)	Vossloh Southern Africa Holdings Proprietary Ltd., Johannesburg, South Africa	6	100.00	(2)	(n)	0.4	0.0

[1] Fully consolidated companies are noted (k), those accounted for using the equity method (e) and unconsolidated companies (n). Exclusion from the scope of consolidation is based on immateriality with respect to net assets, financial position and results of operations.
[2] Foreign currency amounts in the case of equity are translated at the average exchange rate as of the balance sheet date and post-tax profits or losses are translated at the annual average rate.
[3] Company claims exemption from preparing and publishing separate financial statements pursuant to Section 264 (3) or 264b HGB.
[4] Included in the consolidation for the first time in the reporting year.
[5] Differing fiscal year April 1 to March 31
[6] Information on equity and result after taxes is based on the latest available financial statements.

Executive Board of Vossloh AG

Oliver Schuster, born 1964, Kierspe
Chairman of the Executive Board (since 10/1/2019)
First appointment: 3/1/2014, appointed until: 2/28/2025
External mandates:
- Wohnungsgesellschaft Werdohl GmbH: Member of the Supervisory Board (until 11/25/2020)
Group mandates:
- Vossloh Cogifer SA: Member of the Supervisory Board
- Vossloh France SAS: President
- Vossloh Fastening Systems (China) Co., Ltd.: Chairman of the Administrative Board (since 11/10/2020) and legal representative of the company (since 11/30/2020)

Dr. Thomas Triska, born 1975, Balve
First appointment: 11/1/2020, appointed until: 10/31/2023
External mandates:
- Wohnungsgesellschaft Werdohl GmbH: Member of the Supervisory Board (since 11/30/2020)
Group mandates:
- Vossloh Cogifer SA: Chairman of the Supervisory Board (since 12/3/2020)
- Vossloh International GmbH: Managing Director (since 11/2/2020)

Jan Furnivall, born 1976, Meerbusch
First appointment: 11/1/2020, appointed until: 10/31/2023
Group mandates:
- Vossloh International GmbH: Managing Director (since 11/2/2020)
- Vossloh Maschinenfabrik Deutschland GmbH: Managing Director (until 11/2/2020)

Dr.-Ing. Karl Martin Runge, born 1964, Kassel
First appointment: 10/1/2019, appointed until: 10/31/2020
Group mandates:
- Vossloh Cogifer SA: Chairman of the Supervisory Board (until 10/31/2020)
- Vossloh International GmbH: Managing Director (until 10/31/2020)
- Vossloh Fastening Systems (China) Co., Ltd.: Chairman of the Administrative Board (until 10/31/2020)

Prof. Dr. Rüdiger Grube[2,4], Chairman, Hamburg,
Managing Partner of Rüdiger Grube International Business Leadership GmbH and former CEO of Deutsche Bahn AG (Member of the Supervisory Board since 2/5/2020)
- Chairman of the Supervisory Board of Hamburger Hafen- und Logistik AG, Hamburg
- Non-Executive Member of the Administrative Board of RIB Software SE, Stuttgart
- Member of the Supervisory Board of Herrenknecht AG, Lahr-Schwanau (until 12/17/20)
- Non-Executive Member of the Administrative Board of Deufol SE, Hofheim (Wallau)
- Chairman of the Supervisory Boards of Bombardier Transportation Germany GmbH, Berlin, and Bombardier Transportation (Bahntechnologie) Holding Germany GmbH, Berlin
- Chairman of the Supervisory Board of Vantage Towers AG, Düsseldorf (since 1/18/2021)

Ulrich M. Harnacke[2,3,4], Deputy Chairman, Mönchengladbach, Independent Auditor, Tax Advisor and Management Consultant (Member of the Supervisory Board since 5/20/2015)
- Member of the Shareholders' Committee of Thüga Holding GmbH & Co., KGaA, Munich
- Member of the Supervisory Board and Chairman of the Audit Committee of Brenntag AG, Essen
- Member of the Advisory Board of Zentis GmbH & Co. KG, Aachen

Dr. Roland Bosch[3,4], Königstein im Taunus, former CEO of DB Cargo AG
(Member of the Supervisory Board since 5/27/2020)
- Chairman of the Supervisory Board of Danzer Holding AG, Dornbirn/Austria

Dr. Bettina Volkens[2,4], Königstein im Taunus, former member of the Executive Board of Deutsche Lufthansa AG (Member of the Supervisory Board since 5/27/2020)
- Member of the Supervisory Board of CompuGroup Medical SE & Co. KGaA, Koblenz (since 6/18/2020)
- Member of the Supervisory Board of Bilfinger SE, Mannheim (since 6/24/2020)

Dr. Sigrid Evelyn Nikutta[2,4], Deputy Chairwoman, Berlin, Member of the Management Board of Deutsche Bahn AG for Freight Transport and CEO of DB Cargo AG
(Member of the Supervisory Board between 5/22/2019 and 5/27/2020)
- Chairwoman of the Supervisory Board of DB Polska S.A., Warsaw, Poland (since 1/1/2020)
- Member of the Administrative Board of Kombiverkehr Deutsche Gesellschaft für kombinierten Verkehr mbH & Co. KG, Frankfurt a.M. (since 1/1/2020)

Prof. Dr. Anne Christine d'Arcy[3,4], Vienna (Austria), University Professor for Corporate Governance and Management Control (Member of the Supervisory Board between 5/9/2018 and 5/27/2020)

Marcel Knüpfer[1], Zwenkau, Technical Manager and Shift Leader
(Member of the Supervisory Board since 6/1/2020)

Andreas Kretschmann[1,2,3], Neuenrade, social security employee
(Member of the Supervisory Board since 8/30/2017)

Michael Ulrich[1,2,3], Kiel, Machinist (Member of the Supervisory Board between 4/20/2007 and 5/31/2020)

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

Proposed dividend

In accordance with German GAAP, the financial statements for the 2020 fiscal year show a net loss of €53,054,222.91 and, after including the profit carryforward of €81,171,140.50 and withdrawals from retained earnings of €50,000,000.00, the net profit retained amounts to €78,116,917.59.

The Executive Board and Supervisory Board will propose to the Annual General Meeting that a dividend of €1.00 per share be paid out on the dividend-bearing capital stock of €49,857,682.23 and that the remaining amount of €60,552,737.59 be carried forward. The total dividend amount is €17,564,180.00.

Werdohl, Germany, March 1, 2021

Vossloh AG
The Executive Board

Oliver Schuster, Dr. Thomas Triska, Jan Furnivall

Responsibility statement

We confirm that, to the best of our knowledge and in accordance with applicable accounting principles, the consolidated financial statements present a true and fair view of the Vossloh Group's net assets, financial position and results of operations, and the combined management report gives a true and fair view of the Group's performance and the overall position of the Group, as well as the significant risks and opportunities associated with the Group's expected development.

Werdohl, Germany, March 1, 2021,

Vossloh AG
The Executive Board

Oliver Schuster, Dr. Thomas Triska, Jan Furnivall

Independent Auditor's report

To Vossloh Aktiengesellschaft, Werdohl/Germany

Report on the audit of the consolidated financial statements and of the combined management report

Audit Opinions

We have audited the consolidated financial statements of Vossloh Aktiengesellschaft, Werdohl/Germany, and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report for the parent and the group of Vossloh Aktiengesellschaft, Werdohl/Germany, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement pursuant to Section 289f and Section 315d German Commercial Code (HGB), which is referred to in the combined management report, nor the content of the consolidated non-financial statement pursuant to Section 315b HGB, which is included in the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the corporate governance statement and of the consolidated non-financial statement referred to above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following, we present the issue of recoverability of goodwill, which we have determined in the course of our audit to be a key audit matter.

Our presentation of this key audit matter has been structured as follows:

a) description (including reference to corresponding information in the consolidated financial statements)

b) auditor's response

Recoverability of goodwill

a) The consolidated financial statements of Vossloh Aktiengesellschaft disclose goodwill of mEUR 260.2 under the intangible assets balance sheet item, accounting for 21.4% of the consolidated balance sheet total.

Within Vossloh Group, a distinction is made between four cash-generating units (CGUs), each of which is allocated goodwill. Goodwill is tested for impairment (impairment test) annually as at the balance sheet date or on related occasions. This impairment test is carried out by comparing the carrying amounts of the cash-generating units with their respective recoverable amounts in order to determine any need for impairment. The recoverable amount is determined on the basis of value in use taking into account the medium-term budget of the respective unit using expected discounted cash flows (discounted cash flow method).

The cash flow forecasts are based on the group planning for a three-year detailed planning period that was approved by the executive board, acknowledged by the supervisory board and which is applicable at the time the impairment test is carried out. This also comprises expectations on the future development of the market and country-specific assumptions on the development of macro-economic indicators. Planning periods further in the future that account for a significant portion of value in use (period of perpetuity) are included in the value in use by rolling forward of cash flows taking into account a CGU-specific growth rate. Discounting is made using the weighted capital costs of the respective cash-generating unit.

The result of this valuation is highly dependent on the executive board's assessment of the future cash flows and the discount rate used and, therefore, is subject to great uncertainty. Therefore, and due to the complexity of the valuation of this high-amount item, this matter was of particular significance in the scope of our audit.

The executive board's disclosures on goodwill are included in chapter 10 of the notes to the consolidated financial statements.

b) During our audit, we, among other things, obtained an understanding of the method applied in the impairment test, estimated the determination of the weighted capital costs and assessed the calculation method of the impairment test by consulting our valuation specialists. We examined the appropriateness of the future cash flows used in the valuation, among other things, by comparing them with the current planning prepared by the executive board and acknowledged by the supervisory board and by means of questioning the executive board regarding the material planning assumptions. Moreover, we reviewed the planning in a critical manner taking into account general and industry-specific market expectations.

Together with the Parent's representatives in charge, we thoroughly discussed and obtained an understanding of any incremental adjustments of the detailed planning period and the rolling forward of cash flows for the period of perpetuity.

As already minor changes of the discount rate used may have material impacts on the amount of the determined recoverable amount, we dealt in detail with the parameters used in determining the discount rate used and obtained an understanding of the computation scheme. Furthermore, on account of the material significance of goodwill for assets and liabilities of the Group, we performed additional own sensitivity analyses in order to be able to assess any possible risk for impairment in the event of a potential change in a key valuation assumption. In addition, we audited the completeness and appropriateness of the disclosures in the notes to the consolidated financial statements required under IAS 36.

Other Information

The executive board and the supervisory board are responsible for the other information. The other information comprises

- the report of the supervisory board,
- the corporate governance statement pursuant to Section 289f HGB and Section 315d HGB, which is referred to in the combined management report,
- the consolidated non-financial statement pursuant to Section 315b HGB, which is included in the combined management report,
- the executive board's confirmation pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, respectively, regarding the consolidated financial statements and the combined management report, and
- all other parts of the annual report,
- but not the consolidated financial statements, not the audited content of the combined management report and not our auditor's report thereon.

The supervisory board is responsible for the report of the supervisory board. The executive board and the supervisory board as well are responsible for the declaration on corporate governance according to Section 161 German Stock Corporation Act (AktG), which is part of the corporate governance statement and which is referred to in the combined management report. Apart from that the executive board is responsible for the other information.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information stated above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the audited content of the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Board and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive board is responsible for such internal control as it has determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive board is responsible for assessing the Group’s ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive board is responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive board is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive board and the reasonableness of estimates made by the executive board and related disclosures.
- conclude on the appropriateness of the executive board’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to

the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive board in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Audit of the Electronic Files of the Consolidated Financial Statements and of the Combined Management Report prepared for Publication pursuant to Section 317 (3b) HGB

Audit Opinion

In accordance with Section 317 (3b) HGB, we have assessed with reasonable assurance whether the electronic files of the consolidated financial statements and of the combined management report (hereafter referred to as "ESEF files") prepared for publication, contained in the accompanying file, which has the SHA-256 value EDC0209C67E1009F4B47C1965AB11B0E6A319CFF55AEF79F76C14C3D802468D0, meet, in all material respects, the requirements concerning the electronic reporting format ("ESEF format") pursuant to Section 328 (1) HGB. In accordance with the German legal requirements, this audit only covers the transfer of the consolidated financial statements' and the combined management report's information into the ESEF format, and therefore covers neither the information contained in these electronic files nor any other information contained in the file stated above.

In our opinion, the electronic files of the consolidated financial statements and of the combined management report prepared for publication contained in the accompanying file stated above meet, in all material respects, the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying combined management report for the financial year from 1 January to 31 December 2020 contained in the above "Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report", we do not express any audit opinion on the information contained in these electronic files and on any other information contained in the file stated above.

Basis for the Audit Opinion

We conducted our audit of the electronic files of the consolidated financial statements and of the combined management report contained in the accompanying file stated above in accordance with Section 317 (3b) HGB and on the basis of the IDW Draft Auditing Standard: Audit of the Electronic Files of the Annual Financial Statements and of the Management Report prepared for Publication pursuant to Section 317 (3b) HGB (IDW Draft AuS 410). Our responsibilities in this context are further described in the section "Group Auditor's Responsibilities for the Audit of the ESEF Files". Our audit firm has applied the Quality Assurance Standard: Quality Assurance Requirements in Audit Practices (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW).

Responsibilities of the Executive Board and the Supervisory Board for the ESEF Files

The executive board of the parent is responsible for the preparation of the ESEF files based on the electronic files of the consolidated financial statements and of the combined management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive board of the parent is responsible for such internal control as it has determined necessary to enable the preparation of ESEF files that are free from material violations against the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB, whether due to fraud or error.

The executive board of the parent is also responsible for the submission of the ESEF files together with the auditor's report and the accompanying audited consolidated financial statements and the audited combined management report as well as other documents to be filed with the publisher of the Federal Gazette.

The supervisory board is responsible for overseeing the preparation of the ESEF files as part of the financial reporting process.

Group Auditor's Responsibilities for the Audit of the ESEF Files

Our objectives are to obtain reasonable assurance about whether the ESEF files are free from material violations, whether due to fraud or error, against the requirements pursuant to Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material violations against the requirements pursuant to Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- obtain an understanding of internal control relevant to the audit of the ESEF files in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.
- assess the technical validity of the ESEF files, i.e. whether the file containing the ESEF files meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as of the balance sheet date as to the technical specification of this file.

- evaluate whether the ESEF files enable a XHTML copy of the audited consolidated financial statements and of the audited combined management report whose content is identical with these documents.
- evaluate whether the ESEF files have been tagged using inline XBRL technology (iXBRL) in a way that enables an appropriate and complete machine-readable XBRL copy of the XHTML copy.

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the general meeting on 27 May 2020. We were engaged by the supervisory board on 26 October 2020. We have been the group auditor of Vossloh Aktiengesellschaft, Werdohl/Germany, without interruption since the financial year 2019.

We declare that the audit opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is René Kadlubowski.

Düsseldorf/Germany, 1 March 2021

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed:	Signed:
René Kadlubowski	Christian Siepe
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Financial calendar 2021/2022

Financial calendar 2021

Annual General Meeting	May 19, 2021
Publication of interim report/interim financial statements	
as of March 31	April 29, 2021
as of June 30	July 28, 2021
as of September 30	October 28, 2021
For further dates, go to www.vossloh.com	

Financial calendar 2022

Publication of 2021 financial data	March 2022
Press conference	March 2022
Investor and analyst conference	March 2022
Annual General Meeting	May 2022

Investor Relations

Contact	Dr. Daniel Gavranovic
Email	investor.relations@vossloh.com
Phone	+49 2392 52-609
Fax	+49 2392 52-219

Information on the Vossloh share

ISIN	DE0007667107
Trading locations	Xetra, Düsseldorf, Frankfurt, Berlin-Bremen, Hanover, Hamburg, Stuttgart, Munich
Index	SDAX
Number of shares outstanding as of 12/31/2020	17,564,180
Annual average number of shares outstanding	17,564,180
Share price (12/31/2020)	€41.35
2020 high/low price	€42.50/ €23.60
Reuters code	VOSG.DE
Bloomberg code	VOS GR
Dividend proposed	€1.00

Glossary

Capital employed	Working capital plus fixed assets
Cash pooling	Balance transfer procedure for pooling liquidity
Credit line	Credit agreement between two or more parties
Derivative financial instruments	Contracts whose fair values are derived from basis values (e.g. stocks or currencies)
EBIT	Earnings before interest and taxes
EBIT margin	EBIT/sales revenues
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA margin	EBITDA/sales revenues
EBT	Earnings before taxes
Employee bonus program	Program for granting shares to employees free of charge or at reduced prices
Equity ratio	Equity/balance sheet total
Financial liabilities	Schuldschein loans, bank debts, notes payable and liabilities from finance leases
Guarantee	Assumption of guarantees and surety bonds
IAS/IFRS	International Accounting Standards/ International Financial Reporting Standards
Interest rate cap	Option deal that hedges buyers against increasing interest rates through an interest rate ceiling
Interest rate swap	Contractual agreement on the exchange of fixed and variable interest payment flows based on an underlying nominal value
Net financial debt	Financial liabilities – cash and cash equivalents – short-term securities
Personnel expenses per employee	Personnel expenses/ annual average headcount
Return on capital employed	EBIT/average capital employed
Return on capital	See return on capital employed
Treasury	Finance management
Value added	EBIT minus weighted average cost of capital (WACC) x average capital employed
Working Capital	Trade receivables (including contract assets) plus inventories minus trade payables (including contract liabilities) minus prepayments received minus other current provisions (adjusted for matters not attributable to the operating business)
Working capital intensity	Average working capital/sales

Addresses

Vossloh Aktiengesellschaft
Vosslohstraße 4 • 58791 Werdohl, Germany
PO Box 1860 • 58778 Werdohl, Germany
Phone +49 2392 52-0
Fax +49 2392 52-219
www.vossloh.com

Vossloh Fastening Systems GmbH
Vosslohstraße 4 • 58791 Werdohl, Germany
PO Box 1860 • 58778 Werdohl, Germany
Phone +49 2392 52-0
Fax +49 2392 52-448

Vossloh Tie Technologies
Rocla Concrete Tie, Inc.
1819 Denver W Dr,
S 450 Lakewood, CO 80401
Phone +1 303 296-3500
Fax +1 303 297-2255

Vossloh Switch Systems
Vossloh Cogifer SA
21 avenue de Colmar
92565 Rueil-Malmaison, France CEDEX
Phone +33 155 477 300
Fax +33 155 477 392

Vossloh Rail Services GmbH
Hannoversche Straße 10
21079 Hamburg, Germany
Phone +49 40 430931-0
Fax +49 40 430931-342

Imprint

Vossloh AG
Main address:
Vosslohstraße 4 • 58791 Werdohl, Germany
Mailing address:
PO Box 1860 • 58778 Werdohl, Germany

Editorial staff:
Vossloh AG
Uwe Jülichs, Swisttal
Dr. Ilse Preiss, Winnenden

Photography:
Andreas Henk, Düsseldorf
Studio Lassen
Vossloh AG

Illustration:
Getty Images
Adobe Stock
Vossloh AG

Final corrections:
pro verbis, Bochum

Production:
Staudt Lithographie GmbH, Bochum

Editorial deadline: March 2021

This Annual Report has also been published in German and is available at www.vossloh.com.

Ten-year overview*

		2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Income statement data											
Sales revenues	€ mill.	869.7	916.4	865.0	918.3	822.5	952.9	1,100.8	1,300.7	1,243.0	1,197.2
EBIT (2019 adjusted)	€ mill.	73.1	55.7	54.2	70.3	57.5	42.3	(183.4)	52.7	97.5	97.2
Net interest result	€ mill.	(14.4)	(18.5)	(13.4)	(12.5)	(10.6)	(11.1)	(24.2)	(21.4)	(21.4)	(12.3)
EBT	€ mill.	58.7	(56.1)	40.8	57.8	46.9	31.2	(207.6)	31.3	76.1	84.9
Net income	€ mill.	20.8	(136.8)	22.7	0.3	10.1	77.8	(205.7)	23.6	64.8	60.5
Earnings per share	€	0.98	(8.32)	1.14	(0.50)	0.22	5.42	(16.46)	1.25	4.94	4.32
Return on capital employed[1]	%	8.4	(4.2)	6.8	8.9	8.8	5.8	(21.7)	5.9	11.5	12.0
Value added	€ mill.	12.4	(105.4)	(5.8)	11.1	(1.5)	(31.1)	(267.8)	(22.8)	13.0	16.1
Balance sheet data											
Fixed assets	€ mill.	696.2	659.2	646.1	568.7	467.8	486.7	548.8	714.5	662.7	625.6
Investments[2]	€ mill.	68.7	59.8	60.5	39.5	30.3	34.2	50.7	64.4	61.1	65.6
Depreciation[2]	€ mill.	50.0	86.4	35.5	33.6	31.5	35.7	123.2	40.7	41.4	38.2
Closing working capital[3]	€ mill.	155.3	180.3	216.0	190.0	159.2	213.8	226.5	94.5	166.0	200.3
Closing capital employed	€ mill.	851.5	839.5	862.0	758.7	627.0	700.5	775.3	809.0	828.7	825.9
Equity	€ mill.	414.5	403.6	523.3	532.4	550.8	428.7	349.6	481.1	505.7	480.1
thereof: Noncontrolling interests	€ mill.	15.9	9.4	10.8	15.0	18.0	17.0	19.7	18.6	15.9	14.0
Net financial debt[4]	€ mill.	351.3	370.4	307.3	207.7	85.0	218.6	283.0	204.1	200.8	238.8
Total assets	€ mill.	1,216.5	1,331.4	1,266.9	1,252.9	1,367.2	1,389.9	1,604.4	1,562.4	1,500.0	1,495.9
Equity ratio	%	34.1	30.3	41.3	42.5	40.3	30.8	21.8	30.8	33.7	32.3
Cash flow statement data											
Cash flow from operating activities	€ mill.	56.1	12.3	37.6	24.5	65.8	107.8	(42.2)	130.5	162.6	138.5
Cash flow from investing activities	€ mill.	(3.0)	(15.5)	(95.0)	(124.2)	(43.2)	(11.6)	(58.3)	(75.4)	(72.9)	(90.6)
Cash flow from financing activities	€ mill.	(67.4)	28.1	(14.1)	20.7	79.3	(77.0)	103.7	(63.1)	(109.9)	(47.3)
Net cash inflow/outflow	€ mill.	(14.3)	24.9	(71.5)	79.0	101.9	19.2	3.2	(8.0)	(20.2)	0.6
Employees											
Annual average headcount	No.	3,482	3,774	3,720	3,934	3,682	4,069	4,883	5,247	5,078	5,000
thereof: In Germany	No.	720	871	866	854	840	1,244	1,853	1,759	1,756	1,747
Abroad	No.	2,762	2,903	2,854	3,080	2,842	2,825	3,030	3,487	3,322	3,253
Personnel expenses	€ mill.	205.1	260.1	214.9	214.8	197.1	218.1	283.0	284.0	271.0	259.0
Personnel expenses per employee	€ thous.	58.9	68.9	57.0	54.6	53.5	53.6	58.0	54.1	53.4	51.8

Ten-year overview of Vossloh AG

		2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Capital stock	€ mill.	49.9	49.9	45.3	45.3	45.3	37.8	37.8	37.8	37.8	37.8
Dividends per share[5]	€	1.00	0.00	1.00	1.00	0.00	0.00	0.00	0.50	2.00	2.50
Share price as of December 31	€	41.35	37.00	42.45	46.80	59.61	57.74	53.50	72.50	74.47	74.07
Market capitalization as of December 31	€ mill.	726.3	649.9	677.8	747.3	951.8	793.1	712.9	870.3	893.5	888.3

*2017 and 2016 with Locomotives and Electrical Systems business units reported under discontinued operations;
2015 with Rail Vehicles and Electrical Systems reported under discontinued operations;
2014 and earlier years as described previously.

[1] From 2009, based on average capital employed

[2] Excluding noncurrent financial instruments, depreciation/amortization plus impairment losses and write-downs

[3] From 2009, the other current provisions, being noninterest, are also deducted

[4] In brackets: net financial assets

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

vossloh.com

Vossloh Aktiengesellschaft · Vosslohstraße 4 · 58791 Werdohl, Germany · PO Box 1860 · 58778 Werdohl, Germany · Phone +49 2392 52-0 · Fax +49 2392 52-219