Consolidated financial statements of Vossloh AG as of December 31, 2018

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Income statement

€ mill.	Note	2018	2017
Sales revenues	(1)	865.0	918.3
Cost of sales	(2.1)	(678.7)	(713.2)
General administrative and selling expenses	(2.2)	(144.4)	(148.1)
Research and development costs	(2.3)	(10.9)	(10.3)
Other operating result	(3)	18.4	21.5
Operating result		**49.4**	**68.2**
Income from investments in companies accounted for using the equity method		1.4	0.2
Other financial income	(4.1)	3.4	2.2
Other financial expenses	(4.2)	0.0	(0.3)
Earnings before interest and taxes (EBIT)		**54.2**	**70.3**
Interest income		1.5	3.5
Interest expenses	(5)	(14.9)	(16.0)
Earnings before taxes (EBT)		**40.8**	**57.8**
Income taxes	(6)	(16.0)	(21.7)
Result from continuing operations		**24.8**	**36.1**
Result from discontinued operations	(7)	(2.1)	(35.8)
Net income		**22.7**	**0.3**
thereof attributable to shareholders of Vossloh AG		**18.2**	**(8.0)**
thereof attributable to noncontrolling interests	(8)	4.5	8.3
Earnings per share			
Basic/diluted earnings per share (€)	(9)	1.14	(0.50)
thereof attributable to continuing operations		1.27	1.74
thereof attributable to discontinued operations		(0.13)	(2.24)

Statement of comprehensive income

€ mill.	Note	2018	2017
Net income		**22.7**	**0.3**
Changes in fair value of hedging instruments (cash flow hedges)		0.2	0.6
Currency translation differences		(2.4)	(5.6)
Changes in the fair value of securities available for sale		0.0	0.0
Income taxes		0.0	(0.2)
Amounts that will potentially be transferred to profit or loss in future periods		**(2.2)**	**(5.2)**
Remeasurement of defined benefit plans		0.3	0.5
Income taxes		0.2	(0.2)
Amounts that will not be transferred to profit or loss in future periods		**0.5**	**0.3**
Income and expenses recognized directly in equity		**(1.7)**	**(4.9)**
Total comprehensive income		**21.0**	**(4.6)**
thereof attributable to shareholders of Vossloh AG		16.7	(12.0)
thereof attributable to noncontrolling interests		4.3	7.4

Cash flow statement for the period from January 1 to December 31, 2018

€ mill.	2018	2017
Cash flow from operating activities		
Earnings before interest and taxes (EBIT)	54.2	70.3
EBIT from discontinued operations	(1.8)	(35.6)
Amortization/depreciation/impairment losses (less write-ups) of noncurrent assets	38.4	63.2
Change in noncurrent provisions	(0.5)	(1.6)
Gross cash flow	**90.3**	**96.3**
Noncash change in investments in companies accounted for using the equity method	(2.0)	(0.3)
Other noncash income/expenses, net	(23.7)	4.1
Net loss/gain from the disposal of noncurrent assets	(0.4)	(1.2)
Income taxes paid	(18.0)	(29.1)
Change in working capital	(2.5)	(42.7)
Changes in other assets/liabilities, net	(6.1)	(2.6)
Cash flow from operating activities	**37.6**	**24.5**
Cash flow from investing activities		
Investments in intangible assets and property, plant and equipment	(57.1)	(41.0)
Investments in companies accounted for using the equity method	(1.2)	(6.3)
Cash-effective dividends from companies accounted for using the equity method	0.2	0.5
Proceeds from the disposal of companies accounted for using the equity method	1.5	0.0
Free cash flow	**(19.0)**	**(22.3)**
Investments in noncurrent financial instruments	(0.2)	(0.6)
Proceeds from the disposal of intangible assets and property, plant and equipment	3.4	1.8
Proceeds from disposals of noncurrent financial instruments	1.3	0.1
Proceeds from the disposal of consolidated companies	0.0	42.4
Payments for the acquisition of consolidated companies	(42.9)	(121.1)
Cash flow from investing activities	**(95.0)**	**(124.2)**
Cash flow from financing activities		
Disbursements to shareholders and noncontrolling interests	(20.3)	(6.8)
Net financing from short-term loans	30.4	(11.9)
Net financing from medium-term and long-term loans	14.9	51.8
Repayments from finance leases	(0.2)	0.0
Interest received	1.5	3.8
Interest paid	(15.4)	(16.2)
Cash flow from financing activities	**10.9**	**20.7**
Net cash inflow/outflow	(46.5)	(79.0)
Exchange rate effects	(0.6)	(1.5)
Opening cash and cash equivalents	**98.1**	**178.6**
Closing cash and cash equivalents	**51.0**	**98.1**

For more information on the cash flow statement, see page 118 et seq.

Balance sheet

Assets in € mill.	Note	12/31/2018	12/31/2017
Intangible assets	(10)	301.3	280.4
Property, plant and equipment	(11)	268.6	212.5
Investment properties	(12)	2.2	2.8
Investments in companies accounted for using the equity method	(13)	66.2	64.2
Other noncurrent financial instruments	(14)	7.7	8.9
Other noncurrent assets	(15)	4.3	3.5
Deferred tax assets	(16)	13.4	23.7
Noncurrent assets		**663.7**	**596.0**
Inventories	(17)	174.8	154.3
Trade receivables	(18)	212.6	210.3
Contract assets	(18)	6.9	6.6
Income tax assets	(19)	7.6	7.8
Other current financial instruments	(20)	27.9	30.2
Other current assets	(20)	18.2	13.0
Short-term securities	(21)	0.5	0.5
Cash and cash equivalents	(22)	48.7	96.3
Current assets		**497.2**	**519.0**
Assets held for sale	(7)	104.5	137.9
Assets		**1,265.4**	**1,252.9**

Equity and liabilities in € mill.	Note	12/31/2018	12/31/2017
Capital stock	(23.1)	45.3	45.3
Additional paid-in capital	(23.2)	146.5	146.5
Retained earnings and net income	(23.3)	318.7	321.7
Accumulated other comprehensive income	(23.4)	2.0	3.9
Equity excluding noncontrolling interests		**512.5**	**517.4**
Noncontrolling interests	(23.5)	10.8	15.0
Equity		**523.3**	**532.4**
Pension provisions	(24)	22.1	22.4
Other noncurrent provisions	(25)	17.0	23.9
Noncurrent financial liabilities	(26.1)	267.9	248.8
Noncurrent trade payables	(26.2)	0.0	0.0
Other noncurrent liabilities	(26.4)	7.4	4.6
Deferred tax liabilities	(16)	7.1	12.8
Noncurrent liabilities		**321.5**	**312.5**
Other current provisions	(25)	36.4	44.4
Current financial liabilities	(26.1)	88.6	55.7
Current trade payables	(26.2)	139.2	141.9
Current contract liabilities	(26.2)	0.0	0.0
Current income tax liabilities	(26.3)	1.8	6.3
Other current liabilities	(26.4)	84.0	72.7
Current liabilities		**350.0**	**321.0**
Liabilities held for sale	(7)	70.6	87.0
Equity and liabilities		**1,265.4**	**1,252.9**

Statement of changes in equity

				Accumulated other comprehensive income						
€ mill.	Capital stock	Additional paid-in capital	Retained earnings and net income	Currency translation	Financial instruments available for sale	Hedging transactions	Remeasurement of defined benefit plans	Equity excluding noncontrolling interests	Noncontrolling interests	Total
As of 12/31/2016	**45.3**	**146.5**	**333.2**	**11.0**	**0.0**	**(0.7)**	**(2.5)**	**532.8**	**18.0**	**550.8**
Transfer to retained earnings			(2.5)				2.5	0.0		0.0
Change in the scope of consolidation			(1.0)	(2.1)		(0.3)		(3.4)	(3.6)	(7.0)
Net income			(8.0)					(8.0)	8.3	0.3
Income and expenses recognized directly in equity after taxes				(4.7)	0.0	0.4	0.3	(4.0)	(0.9)	(4.9)
Dividend payments								0.0	(6.8)	(6.8)
As of 12/31/2017	**45.3**	**146.5**	**321.7**	**4.2**	**0.0**	**(0.6)**	**0.3**	**517.4**	**15.0**	**532.4**
Conversion effects from the application of new standards*			(6.2)					(6.2)	0.0	(6.2)
Transfer to retained earnings			0.3				(0.3)	0.0		0.0
Change in the scope of consolidation		0.0	0.7	0.0		0.0		0.7	0.0	0.7
Net income			18.2					18.2	4.5	22.7
Income and expenses recognized directly in equity after taxes				(2.2)		0.1	0.5	(1.6)	(0.2)	(1.8)
Dividend payments			(16.0)					(16.0)	(8.5)	(24.5)
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**

For more information on accumulated comprehensive income, please refer to sections 23.1 through 23.5 in the Notes.
* In regard to the conversion effects from the application of new standards (IFRS 9 and IFRS 15), please refer to the statements on pages 104 et seq.

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2018

Segment information by division and business unit

€ mill.		Fastening Systems	Tie Technologies	Consolidation	Core Components	Customized Modules (Switch Systems)	Lifecycle Solutions (Rail Services)
Value added	2018	21.4	(3.8)	(0.1)	**17.5**	**(6.4)**	**2.2**
	2017	37.7	(3.3)	(0.1)	**34.3**	**(1.3)**	**(3.5)**
Information from income statement/flow figures							
External sales revenues	2018	208.5	74.7	–	**283.2**	**480.9**	**97.0**
	2017	264.0	78.5	–	**342.5**	**480.6**	**87.3**
Intersegment sales revenues	2018	8.3	3.4	(2.3)	**9.4**	**1.7**	**3.0**
	2017	9.4	0.7	(1.2)	**8.9**	**2.7**	**3.7**
Depreciation/amortization	2018	6.8	9.5	0.0	**16.3**	**12.8**	**6.1**
	2017	7.7	8.5	0.0	**16.2**	**14.5**	**6.7**
Investments in noncurrent assets	2018	6.7	10.5	0.0	**17.2**	**28.1**	**14.9**
	2017	9.4	3.3	0.0	**12.7**	**18.5**	**8.6**
Income from investments in companies accounted for using the equity method	2018	0.7	0.0	0.0	**0.7**	**0.3**	**0.4**
	2017	(0.3)	0.0	0.0	**(0.3)**	**0.2**	**0.3**
Result from discontinued operations	2018	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
	2017	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
Other material noncash segment expenses	2018	6.8	0.9	–	**7.7**	**6.2**	**0.7**
	2017	6.6	0.0	–	**6.6**	**8.0**	**7.0**
Impairment losses	2018	0.0	–	–	**0.0**	**0.0**	**0.0**
	2017	1.3	–	–	**1.3**	**0.3**	**0.0**
Reversals of impairment losses	2018	0.0	0.0	0.0	**0.0**	**0.2**	**0.0**
	2017	0.0	0.0	0.0	**0.0**	**7.2**	**0.0**
Information from the balance sheet							
Total assets	2018	201.2	175.6	(0.5)	**376.3**	**605.3**	**213.0**
	2017	211.7	131.3	(0.5)	**342.5**	**575.1**	**174.3**
Liabilities	2018	121.1	49.2	(0.4)	**169.9**	**308.9**	**196.3**
	2017	119.7	40.3	(0.5)	**159.5**	**280.7**	**161.4**
Investments in companies accounted for using the equity method	2018	4.0	0.0	0.0	**4.0**	**50.2**	**12.0**
	2017	4.8	0.0	0.0	**4.8**	**49.2**	**10.2**
Annual average headcount (monthly values)	2018	577	220	0	**797**	**2,404**	**509**
	2017	644	209	0	**853**	**2,546**	**473**

* 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.

	Discontinued operations / Locomotives	Discontinued operations / Electrical Systems	Consolidation*	**Transportation**	Holding companies	Consolidation	**Group**
	(25.6)	–	25.2	**(0.4)**	4.9	(23.6)	**(5.8)**
	(17.1)	–	16.7	**(0.4)**	17.4	(35.4)	**11.1**
	200.9	–	(200.9)	**0.0**	0.1	–	**861.2**
	97.2	11.7	(108.9)	**0.0**	0.3	–	**910.7**
	0.0	–	0.0	**0.0**	0.1	(10.4)	**3.8**
	0.0	0.5	(0.5)	**0.0**	1.1	(8.8)	**7.6**
	6.0	–	(6.0)	**0.0**	0.5	0.0	**35.7**
	4.1	0.3	(4.4)	**0.0**	0.7	0.0	**38.1**
	3.1	–	(3.1)	**0.0**	0.4	(0.1)	**60.5**
	7.4	0.3	(7.7)	**0.0**	0.9	(1.2)	**39.5**
	(0.2)	–	0.2	**0.0**	0.0	0.0	**1.4**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.2**
	(15.9)	–	–	**(15.9)**	13.8	–	**(2.1)**
	(37.2)	(1.5)	0.0	**(38.7)**	0.0	2.9	**(35.8)**
	8.7	–	(8.7)	**0.0**	1.5	0.0	**16.1**
	4.0	0.0	(4.0)	**0.0**	19.0	0.0	**40.6**
	–	–	–	**–**	–	–	**0.0**
	0.0	0.0	0.0	**0.0**	0.0	0.0	**1.6**
	0.0	–	0.0	**0.0**	0.0	0.0	**0.2**
	0.0	0.0	0.0	**0.0**	0.0	(1.1)	**6.1**
	144.9	–	(22.6)	**122.3**	1,313.1	(1,364.6)	**1,265.4**
	180.8	–	(26.0)	**154.8**	1,266.4	(1,260.2)	**1,252.9**
	119.0	–	(71.4)	**47.6**	612.2	(663.4)	**671.5**
	150.3	–	(90.4)	**59.9**	569.6	(597.6)	**633.5**
	0.0	–	0.0	**0.0**	0.0	0.0	**66.2**
	0.2	0.0	(0.2)	**0.0**	0.0	0.0	**64.2**
	449	–	(449)	**0**	63	0	**3,773**
	407	75	(482)	**0**	62	0	**3,934**

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 development, manufacturing and sale of products as well as the provision of services of all varieties in the field of transport technology, particularly in rail infrastructure and railbound vehicles, 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 315a (1) of the German Commercial Code (HGB). All mandatorily applicable standards as of the balance sheet date have been considered.

On February 28, 2019, Vossloh AG's Executive Board released the consolidated financial statements for transmittal to the Supervisory Board's Audit Committee.

New accounting rules

The following standards and interpretations were issued by the IASB or endorsed by the EU during 2018 but were not yet mandatorily applicable for the 2018 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. Unless otherwise stated, the impact on the consolidated financial statements is currently being reviewed.

Standard	Publication	First-time application	Endorsed by the EU	Key content and impact on the consolidated financial statements of Vossloh AG
New or amended standards				
IFRS 16: Leasing	January 2016	2019	October 2017	See separate explanations
IFRS 17: Insurance Contracts	May 2017	2021	./.	None
Amendments to IFRS 3: Definition of Business	October 2018	2020	./.	Cannot be estimated – dependent on future transactions
Amendments to IFRS 9: Prepayment Features with Negative Compensation	October 2017	2019	March 2018	None
Annual Improvements to IFRS Standards 2015–2017	December 2017	2019	./.	None
Amendments to IAS 1 and IAS 8: Definition of Material	October 2018	2020	./.	The adjusted definition of materiality may be relevant to individual balance sheet accounting issues
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	February 2018	2019	./.	None
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	October 2017	2019	./.	None
IFRIC 23: Uncertainty over Income Tax Treatments	June 2017	2019	October 2018	None
Amendments to References to the Conceptual Framework in IFRS Standards	March 2018	2020	./.	None

Estimated impact of the first-time application of IFRS 16

In the 2019 fiscal year, IFRS 16 - Leases will be applied for the first time. We have provided comprehensive information on general aspects of the amendment to the accounting treatment of leases in the case of a lessee in the 2017 annual report.

The conversion to IFRS 16 will take place in the Vossloh Group by applying the relevant transitional provisions as follows:

- The previous assessment of existing contracts with regard to their classification as leases in accordance with IAS 17 or IFRIC 4 will be adopted.

- The first-time application of the new accounting method will be limited retrospectively. In this respect, the cumulative changes in the existing leases at the time of the first-time application of IFRS 16 (= January 1, 2019) are reported and recognized in the values carried forward to the 2019 fiscal year. The comparative figures for the 2018 fiscal year remain unchanged.

- Contracts previously categorized as operating leases will be recognized for the first time on January 1, 2019. In this case, the liability to be recognized is calculated in the amount of the present value of the remaining lease installments. The marginal financing rate of Vossloh AG is used as a discount rate on the basis of the Group financing principle. The right of use is typically recognized at the amount that would have occurred in the event of a full retrospective treatment of the individual lease agreement as of January 1, 2019. Any difference between assets and liabilities that arise as a result of this is recognized directly in retained earnings.

Short-term leases (term including extension options of up to one year maximum) and low-value assets are excluded from the generally required accounting treatment in accordance with the exemptions set out in IFRS 16. In such cases, the contractual lease payments continue to be recognized as operating expenses at the time of payment. Low-value assets include, in particular, leased office equipment and other equipment. By capitalizing the rights of use for all other leases and the recognition of the corresponding lease liabilities, Vossloh expects the balance sheet total to be increased to a range of €65 million to €70 million a result of the application of IFRS 16.

At the same time, the presentation of the profit and loss components of a lease will change in the income statement. While leasing rates were recognized as operating expenses in accordance with IAS 17 when classifying them as operating leases, the new rules result in an expense recognition in two areas: on the one hand in the operating expenses through the amortization of the capitalized rights of use, on the other hand in the interest expense due to the compounding of the lease liability recognized as a present value. This tends to improve the operating result compared to the current regulation. However, the accounting treatment significantly increases both capital employed and net financial liabilities. Thus, the impact on ROCE and the value added cannot be determined. Due to the provisions of the syndicated loan concluded in November 2017, the conversion of the lease accounting has no effect on compliance with the financial ratios since the corresponding key figures are determined on the basis of the previous accounting method.

First-time application of standards and interpretations

In the 2018 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 IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 2016	February 2018
Amendments to IFRS 4: Application of IFRS 9: Financial Instruments together with IFRS 4: Insurance Contracts	September 2016	November 2017
IFRS 9: Financial Instruments	July 2014	November 2016
IFRS 15: Revenue from Contracts with Customers	May 2014	September 2016
Clarifications to IFRS 15: Revenue from Contracts with Customers	April 2016	November 2017
Amendments to IAS 40: Transfers of Investment Property	December 2016	March 2018
Annual improvements to IFRS Standards, 2014-2016 cycle	December 2016	February 2018
IFRIC 22: Foreign Currency Transactions and Advance Consideration	December 2016	March 2018

IFRS 9: Financial Instruments

IFRS 9: Financial Instruments regulates the recognition and measurement of financial assets, financial liabilities and certain contracts for the acquisition or disposal of nonfinancial items. IFRS 9 was adopted into European law on November 22, 2016, and published in the Official Journal of the European Union on November 29, 2016. The standard replaces the previous standard IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 classifies financial assets into three categories:

- 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 through other comprehensive income (FVOCI)

Under IAS 39, the majority of financial assets were classified in the category of “loans and receivables“, which encompassed trade receivables, cash and cash equivalents and a portion other assets. These are still recognized at amortized cost under IFRS 9. There are also no significant changes due to the application of new standards for the categorization of financial liabilities.

As of 12/31/2017 as well as 12/31/2018, equity instruments were only recognized by the Vossloh Group to an insignificant extent.

The new categorization of financial assets and liabilities can be found in the following table

Measurement categories under IAS 39	Measurement categories under IFRS 9	IAS 39 carrying amounts as of 1/1/2018	Reclassification	Remeasurement	IFRS 9 carrying amounts as of 1/1/2018
Trade receivables					
Loans and receivables	Amortized cost	210.3		(0.9)	209.4
Securities					
Held to maturity	Amortized cost	0.1			0.1
Available for sale	Fair value through OCI (FVOCI)	0.4			0.4
Other financial instruments and other assets					
Loans and receivables	Amortized cost	29.3			29.3
Held to maturity	Fair value through OCI (FVOCI)	2.7			2.7
Available for sale	Amortized cost	0.6			0.6
Interest rate swaps	Fair value through profit or loss (FVTPL)	0.0			0.0
Freestanding derivatives	Fair value through profit or loss (FVTPL)	3.4			3.4
Cash and cash equivalents					
Loans and receivables	Amortized cost	96.3			96.3
Financial liabilities	Amortized cost	304.5			304.5
Trade payables	Amortized cost	141.9			141.9
Other liabilities					
Sundry liabilities	Amortized cost	55.2			55.2
Interest rate swaps	Fair value through profit or loss (FVTPL)	0.0			0.0
Freestanding derivatives	Fair value through profit or loss (FVTPL)	0.0			0.0
Cash flow hedges	Fair value through OCI (FVOCI)	0.3			0.3

Impairments of financial assets are explained and recognized in the notes to the consolidated financial statements. Impairments of other financial assets are recognized within the financial result.

IFRS 9 introduces the concept of “expected credit losses” as an impairment model. The new impairment model applies to financial assets classified as “Measurement at amortized cost” and “Measurement at fair value through other comprehensive income (FVOCI)” and to contract assets in accordance with IFRS 15. Trade receivables are the main application. The expected credit losses are determined through an analysis over a period of three years of sales and the actual write-downs of receivables using a customer-based segmentation. Impairments in varying amounts are determined in relation to the degree of overdue receivables. Future-oriented region-specific and country-specific information is also taken into consideration.

For cash and cash equivalents, the rating and the associated average probability of default of the credit institution are used.

When hedge accounting is used, the methodology of IAS 39 is maintained by exercising an option.

In the transition to IFRS 9, comparative information for previous periods will not be adjusted for changes in classification and measurement (including impairment). Differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 were recognized directly in retained earnings at an amount of €(0.7) million and in the shares of noncontrolling interests at an amount of €(0.0) million as of January 1, 2018. The reduction in the carrying amounts concern trade receivables at an amount of €0.9 million and assets held for sale at an amount of €(0.2) million. Effects of the introduction of IFRS 9 beyond these were negligible overall.

Allowances as of 12/31/2017 in accordance with IAS 39	13.4
Additional need for impairment on trade receivables as of 1/1/2018	0.9
Allowances as of 1/1/2018 in accordance with IFRS 9	14.3

IFRS 15: Revenue from Contracts with Customers

The standard comprehensively regulates the accounting for sales revenues in terms of the amount and timing of their recognition. In this respect, IFRS 15 replaces the provisions in IAS 11 and IAS 18. We have provided comprehensive information on general aspects of the change in revenue recognition in the 2017 annual report. Overall, the effects of the application of IFRS 15 are not substantial.

Under IFRS 15, sales revenues are recognized when a customer gains control of the goods and services. For the vast majority of transactions, this occurs at a specific time. However, with a smaller number of business transactions, this occurs over a longer or shorter period.

When delivering standardized bulk goods such as tension clamps or concrete ties, revenue is realized when they are inspected and handed over to the customers. The transfer of risk is normally used as an indication of the transfer of control depending on the delivery conditions (incoterms) stipulated in the contract.

For services such as rail logistics, rail maintenance and similar services, the total charge for all services is split based on their stand-alone selling prices. These prices are set, where applicable, on the basis of the list prices at which the Group offers the services in separate transactions.

For customer-specific orders, particularly specialized rail vehicles, which are manufactured according to specific customer requirements, accounting was carried out in past fiscal years in accordance with IAS 11: Construction Contracts, which provides for revenue recognition over a period of time in accordance with the percentage of completion method.

IFRS 15 has significantly limited the options for applying revenue recognition over a period of time. As a result, Vossloh recognizes revenue over a period of time if Vossloh is contractually entitled to a pro rata remuneration, including a margin, measured in terms of performance at all times, even if the contract is terminated by the customer, and the agreed performance obligations can only be used by the customer. At Vossloh, these conditions were not met in several cases, one of which being in the Locomotives business unit.

The equity effect addressed on the next page consists exclusively of the conversion of the revenue recognition for these contracts from the previously applied percentage-of-completion method (revenue recognition over a period of time) to the completed-contract method (revenue recognition at a point in time).

With regard to the transitional rules, the option of using the modified retrospective method has been exercised, according to which the cumulative adjustment amounts are recognized in equity as of January 1, 2018. Accordingly, IFRS 15 is not applied to the comparative period, and is also not applied to certain information in the notes. Overall, this has not resulted in any significant adjustments.

For projects where the conditions of IFRS 15 for revenue recognition over a period of time using the percentage of completion method were not met, revenue recognition was converted to revenue recognition at a point in time. Because the performance obligations had not yet been fully rendered, retained earnings were reduced by €5.5 million as of January 1, 2018. Through the derecognition of Vossloh Locomotives as a "discontinued operation", the otherwise apparent effect of switching revenue recognition over a period of time to revenue recognition at a point in time is not discernible. Within the assets and liabilities held for sale, previous receivables from construction contracts in the amount of €0.1 million, liabilities from construction contracts in the amount of €0.1 million and deferred tax liabilities in the amount of €1.7 million are to be replaced by €26.6 million for work in progress and €32.1 for advance payments received at the conversion date. For contracts in other business units that are to be recognized differently, receivables from construction contracts in the amount of €3.1 million and deferred tax liabilities in the amount of €0.8 million are to be replaced by €4.9 million for work in progress, €4.4 million for advance payments received and provisions of €0.3 million at the conversion date. The total balance of this conversion is the above-mentioned effect on retained earnings.

In the 2018 fiscal year, effects on revenue recognition were incurred particularly as a result of rights of return for individual customers. Vossloh does not record sales for goods which are expected to be returned. In the current fiscal year, reimbursement liabilities for such cases were recognized at an amount of €6.2 million. In this respect, the sales revenues during the year under review would have amounted to €871.2 million under the previous provisions for revenue recognition. For the associated claim to the expected return delivery, an asset in the amount of the original cost of €4.5 million was recognized within other current assets.

No significant influences on the consolidated financial statements have resulted from the first-time application of other standards, amendments of standards or interpretations.

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 Group currency is the euro.

The consolidated financial statements are prepared in the 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.

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 deciding on control in the case of joint ventures in order to distinguish between full consolidation accounting and using the equity method. There is a similar situation with accounting methods for consortia (see "Consolidation"). In addition, such discretionary decisions are required for the classification of leases in property, plant and equipment (see Note 11).

The recognition and measurement principles 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 used for capital consolidation of the subsidiaries. In this regard, the cost of the acquired shares is offset against the Group's holding in the equity of the subsidiaries. To determine the equity of subsidiaries acquired, 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. Negative goodwill is directly recognized in profit after the 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 would be deemed jointly operated and the assets and liabilities, or the expense and income, would be 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 remaining investments are carried at cost, taking into consideration potential impairment, and are presented under other noncurrent financial instruments.

In the 2018 fiscal year, the following changes occurred in the scope of consolidation:

The contract for the acquisition of all shares of Austrak Pty Ltd., Brisbane, Australia, was concluded on November 30, 2018. Austrak develops, manufactures and distributes concrete ties in Australia. This acquisition expands the Company's product portfolio in the Australian concrete ties market and increases Vossloh's vertical integration in the Australian rail infrastructure business. The purchase price amounted to AUD 44.0 million (€27.1 million) as of the balance sheet date and was paid in full using liquid assets. On the basis of the balance sheet at the time of execution, a purchase price adjustment of AUD 1.3 million is due in March 2019 which will lead to a correspondingly higher goodwill. Future business prospects were decisive in determining the goodwill paid in the purchase price. The goodwill has no tax impact. The adjustments to fair value for the intangible assets and property, plant and equipment must be taken into account for tax purposes in some cases.

The purchase price was compensated for by the following assets and liabilities:

€ mill.	Carrying amounts immediately before acquisition	Adjustments	Fair value
Intangible assets	–	3.1	3.1
Property, plant and equipment	3.2	6.4	9.6
Inventories	1.7	0.1	1.8
Trade receivables	3.5	–	3.5
Other current and noncurrent assets	1.0	–	1.0
Cash and cash equivalents	2.0	–	2.0
Current and noncurrent liabilities	(4.7)	(0.9)	(5.6)
Acquired net equity	**6.7**	8.7	**15.4**
Purchase price			27.1
Remaining goodwill			**11.7**

The fair values of the acquired assets and liabilities should be viewed as provisional, since the determination process is at an advanced stage but is not yet complete.

The contribution of the acquired company to sales for the 2018 fiscal year amounted to €1.4 million; the contribution to net income amounted to €(0.1) million. If the acquisition had taken place at the beginning of the fiscal year, €26.3 million would have been contributed to sales revenues and €1.1 million would have been contributed to net income. The transaction costs for the acquisition were €0.7 million. These are reported under general administrative expenses in the income statement. At the time of addition, cash amounted to €2.0 million. The acquired trade receivables correspond to the gross values; no receivables defaults are expected.

As part of an asset deal, a company in the Rail Services business unit took over the rail milling business of STRABAG Rail GmbH on December 21, 2018. The significant assets included four milling machines and the associated replacement parts and further items of equipment. In addition, the employees of this unit also transferred to the Vossloh Group; the order backlog was also taken over and continued. As a result of this acquisition, the existing milling business has been expanded and the market position strengthened. The purchase price for the acquired business was €15.0 million and was paid in full using liquid assets. The fair values at the time of the acquisition, particularly of the acquired milling machines and the customer relationships, resulted in a difference between the fair value of the transferred assets and liabilities and the purchase price (negative goodwill) of €5.5 million, even after reassessing the initially measured fair values. This gain is reported under other operating income in the income statement. Since the seller wished to exit this market segment, it was possible to negotiate a bargain purchase. In terms of tax, the acquisition costs of the business are limited to €15.0 million. The purchase price was compensated for by the following assets and liabilities:

mill.	Fair value
Intangible assets	4.9
Property, plant and equipment	20.1
Other assets	0.8
Current and noncurrent liabilities	(5.3)
Acquired net equity	**20.5**
Purchase price	15.0
Negative goodwill	**(5.5)**

In light of the time of the execution, the contribution of the acquired business to sales and net income, not including the effects from the "acquisition accounting", is insignificant. Due to the limited information situation against the backdrop of the separation of the acquired business from a larger legal entity, the potential contribution to sales revenues / net income if the acquisition had taken place at the beginning of the fiscal year cannot be specified. The transaction costs for the acquisition were €0.2 million. These are reported under administrative expenses in the income statement. The acquisition did not include any cash balances.

In addition, a previously insignificant company was included in the scope of consolidation for the first time. As of the end of the fiscal year, 60 companies were fully included in the consolidated financial statements, 17 of which were domiciled in Germany.

Development of fully consolidated companies

	2018	2017
Companies fully consolidated as of January 1	58	62
Disposals	–	(7)
First-time consolidation	1	6
Reclassifications	1	(2)
Intragroup mergers	–	(1)
Companies fully consolidated as of December 31, 2018	**60**	**58**

Ten companies domiciled outside of Germany (previous year: nine) and one company domiciled in Germany (previous year: none) were accounted for using the equity method.

Due to their immateriality with respect to net assets, financial position and results of operations, 16 companies (previous year: 15) in which Vossloh AG directly or indirectly holds a voting majority as of the reporting date or controls by other means were not included 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	€	2018	2017	2018	2017
			Current rate at Dec. 31		Average rate	
Australia	AUD	€ 1	1.62	1.54	1.58	1.47
Brazil	BRL	€ 1	4.44	3.98	4.30	3.61
China	CNY	€ 1	7.84	7.82	7.81	7.62
United Kingdom	GBP	€ 1	0.90	0.89	0.88	0.88
India	INR	€ 1	79.65	76.71	80.74	73.54
Kazakhstan	KZT	€ 1	435.98	399.69	406.97	368.84
Malaysia	MYR	€ 1	4.73	4.86	4.76	4.85
Mexico	MXN	€ 1	22.51	23.55	22.71	21.33
Poland	PLN	€ 1	4.29	4.18	4.26	4.26
Russia	RUB	€ 1	79.80	69.10	74.04	65.94
Sweden	SEK	€ 1	10.16	9.82	10.26	9.64
Serbia	RSD	€ 1	118.30	118.50	118.24	121.36
Turkey	TRY	€ 1	6.07	4.55	5.71	4.12
USA	USD	€ 1	1.14	1.20	1.18	1.13

Notes to the income statement

(1) Sales revenues

Breakdown of sales revenues

€ mill.	2018	2017
Sale of products (performance obligation satisfied at a point in time)		
Fastening Systems	216.9	273.4
Tie Technologies	78.1	79.2
Consolidation	(2.4)	(1.1)
Core Components	292.6	351.5
Customized Modules	482.6	482.8
Lifecycle Solutions	26.1	20.8
Consolidation	(10.2)	(7.5)
Group	**791.1**	**847.6**
Sales revenues from rendering services		
Lifecycle Solutions	64.1	57.0
Group	**64.1**	**57.0**
Sales revenues from customer-specific manufacturing (performance obligation satisfied over time)		
Customized Modules	0.0	0.5
Lifecycle Solutions	9.8	13.2
Group	**9.8**	**13.7**
Sales revenues		
Fastening Systems	216.9	273.4
Tie Technologies	78.1	79.2
Consolidation	(2.4)	(1.1)
Core Components	292.6	351.5
Customized Modules	482.6	483.3
Lifecycle Solutions	100.0	91.0
Consolidation	(10.2)	(7.5)
Group	**865.0**	**918.3**

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 performance obligations of Group companies consist primarily of the delivery of typical products or the performance 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 138 et seq. For individual projects and the performance of services in general, the performance of the owed service and the associated revenue recognition take place over a period of time. In this context, the proportional earnings contribution realized as of the reporting date is also recognized along with the revenue. The degree of processing 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 not taken into consideration 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 segment reports starting on pages 100 et seq. and 138 et seq. include breakdowns of external sales revenues by division, business unit and region. A further overview of overall sales revenues by region can also be found in the combined management report on page 42 of this annual report.

(2) Functional expenses

According to the cost-of-sales format of the income statement, 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.	2018	2017
Cost of raw materials and supplies	375.3	392.4
Cost of services purchased	61.6	64.6
Cost of materials	**436.9**	**457.0**
Wages and salaries	167.5	169.6
Social security expenses and employee benefits	41.8	39.8
Pension expenses	5.6	5.4
Personnel expenses	**214.9**	**214.8**
Depreciation/amortization	**35.5**	**33.6**
Expenses on operating leases	**5.7**	**3.0**
Allowances for trade receivables	**0.3**	**2.2**

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

Workforce structure

	2018	2017
Executive Board/management	21	26
Other managers/executives	124	130
Nontariff employees	880	907
Tariff employees	2,770	2,781
Apprentices/trainees	58	63
Interns/working students	24	23
	3,877	**3,930**

In the Locomotives business unit, which has been classified as available for sale, 481 people on average were employed over the year (previous year: 444). The number of employees in accordance with Section 314 (1) No. 4 HGB was 4,237 (previous year: 4,947).

(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 amortization of intangible assets, in addition to depreciation on plant, property and equipment. 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.	2018	2017
Selling expenses	56.1	58.4
General administrative expenses	88.3	89.7
General administrative and selling expenses	**144.4**	**148.1**

In addition to personnel expenses, selling expenses primarily include outbound freight and commissions. This item also includes most of the allowances for devaluations on trade receivables. The expense from allowances for trade receivables recognized in the reporting period as general administrative and selling expenses came to €0.1 million (previous year: €1.5 million).

Administrative expenses cover personnel, material and other administration expenses, including related amortization and depreciation.

(2.3) Research and development costs

All research costs are directly expensed 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. R&D expenses before capitalized development expenses came to €12.3 million in the past fiscal year (previous year: €11.3 million). Of these costs for development projects, €1.4 million (previous year: €1.0 million) were recognized in the balance sheet.

(3) Other operating result

Breakdown of other operating result

€ mill.	2018	2017
Currency exchange gains	3.1	3.2
Release of allowances and reversal of write-downs	2.0	7.6
Income from government grants	1.6	1.5
Insurance reimbursements	1.6	1.0
Rental income	1.1	1.2
Income from the disposal of intangible assets and property, plant and equipment	0.8	1.1
Income from the disposal of financial instruments	0.0	0.0
Income from the release of provisions	0.0	5.7
Other income	13.1	6.9
Other operating income	**23.3**	**28.2**
Currency exchange losses	(3.6)	(3.8)
Expenses for buildings	(0.4)	(0.4)
Losses on the disposal of intangible assets and property, plant and equipment	(0.3)	(0.2)
Impairment of property, plant and equipment	0.0	(1.3)
Other expenses	(0.6)	(1.0)
Other operating expenses	**(4.9)**	**(6.7)**
Other operating result	**18.4**	**21.5**

Income from government grants is mainly related to R&D projects. Payments received on account of such grants are recognized as deferred income and amortized to other operating income. Investment/capex-related grants or incentives are offset against 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. Other income includes a negative goodwill of €5.5 million. Impairment losses on property, plant and equipment in the previous year relate to technical equipment and machinery in the Fastening Systems business unit.

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.

(4.1) Other financial income

Breakdown of other financial income

€ mill.	2018	2017
Income from investments	2.9	0.3
Income from shares in affiliated companies	0.4	1.7
Income from securities	0.1	0.2
Other financial income	**3.4**	**2.2**

(4.2) Other financial expenses

Breakdown of other financial expenses

€ mill.	2018	2017
Write-down of financial instruments	0.0	(0.3)
Other financial expenses	**0.0**	**(0.3)**

(5) Interest expenses

Breakdown of interest expense

€ mill.	2018	2017
Interest from bank liabilities	(5.0)	(7.6)
Guarantee commissions	(0.9)	(0.8)
Other interest expense	(9.0)	(7.6)
Interest expenses	**(14.9)**	**(16.0)**

(6) Income taxes

Breakdown of income taxes

€ mill.	2018	2017
Current income taxes	13.6	21.3
Deferred taxes	2.4	0.4
Income taxes	**16.0**	**21.7**

Of the current income taxes, €(1.3) million (previous year: €(1.7) million) related to previous years. In the case of deferred taxes, this applied to €(0.7) million (previous year: €0.3 million). Totaling €3.6 million (previous year: €4.9 million) of deferred tax income resulted from the reversal of temporary differences. Remeasurements of temporary differences resulted in deferred tax expenses of €0.1 million (previous year: €1.1 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 31.88 percent for Vossloh AG as the parent company (previous year: 31.98 percent).

The Vossloh Group's actual tax expense of €16.0 million (previous year: €21.7 million) was €3.0 million (previous year: €3.2 million) above 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

		2018	2017
Earnings before taxes	€ mill.	40.8	57.8
Income tax rate including trade taxes	%	31.88	31.98
Expected tax expense when applying a uniform tax rate	€ mill.	13.0	18.5
Tax reduction due to divergent foreign income tax rates	€ mill.	(1.7)	(3.5)
Tax reduction due to tax-exempt income	€ mill.	(4.0)	(1.1)
Tax increase due to nondeductible expenses	€ mill.	3.6	3.0
Taxes for previous years	€ mill.	(2.1)	(1.4)
Tax effect of write-ups/write-downs of deferred tax assets	€ mill.	6.6	3.9
Double-taxation effects	€ mill.	0.0	0.7
Effects from the remeasurement of deferred taxes	€ mill.	0.1	1.1
Effects from the measurement of investments in companies accounted for using the equity method	€ mill.	0.5	0.1
Other differences	€ mill.	0.0	0.4
Recognized income tax expense	€ mill.	16.0	21.7
Effective income tax rate	%	39.2	37.6

Deferred taxes from items, which increased other comprehensive income, amounted to €0.2 million (decrease in previous year: €0.4 million). Those deferred taxes arose from the remeasurement of defined benefit plans in the amount of €0.2 million (previous year: €(0.2) 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: €(0.2) million). Temporary differences of €307.8 million resulted from the valuation of investments in the respective parent companies and the net assets in the consolidated balance sheet. The resulting deferred taxes to be recognized would theoretically amount to €5.3 million. Since the conditions for recognition were not fulfilled, these were not recognized.

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

The result from discontinued operations during the reporting year primarily concerned the Locomotives business unit, which is reported as “discontinued operations” in accordance with IFRS 5. The Executive Board expects a sale of the business unit within the next twelve months. The result reported in the income statement comprises all income and expenses resulting from current business of Vossloh Locomotives and the associated tax expense in addition to all expenses incurred as a result of the measurement of assets and liabilities at fair value less expected costs to sell. In addition, provisions in connection with earlier sales from sub-units of the former Transportation division have been released. The assets and liabilities of the Locomotive business unit held for sale are each reported separately in the balance sheet. The following table shows the material items:

Assets and liabilities held for sale

€ mill.	12/31/2018	12/31/2017
Intangible assets (excl. goodwill)	0.0	0.0
Goodwill	0.0	0.0
Property, plant and equipment	0.0	0.0
Other noncurrent assets	0.7	1.0
Noncurrent assets	**0.7**	**1.0**
Inventories	69.6	103.5
Trade receivables	9.7	21.9
Contract assets	19.8	8.2
Other current assets	2.5	1.5
Cash and cash equivalents	2.2	1.8
Current assets	**103.8**	**136.9**
Assets	**104.5**	**137.9**
Provisions	19.0	14.3
Trade payables	20.3	28.0
Contract liabilities	0.0	0.3
Other liabilities	31.3	44.4
Liabilities	**70.6**	**87.0**

Composition of the result from discontinued operations

€ mill.	2018	2017
Income	200.9	109.1
Expenses	(215.3)	(123.0)
Result from operating activities, before taxes	**(14.4)**	**(13.9)**
Income taxes	0.1	0.7
Result from operating activities, after taxes	**(14.3)**	**(13.2)**
Impairment loss on goodwill	0.0	(2.4)
Impairment loss on other noncurrent assets	(2.7)	(23.6)
Subsequent effects from former business units	14.9	3.2
Result from discontinued operations	**(2.1)**	**(35.8)**
thereof attributable to shareholders of Vossloh AG	(2.1)	(35.8)
thereof attributable to noncontrolling interests	0.0	0.0

In the statement of comprehensive income, €0.0 million (previous year: €0.1 million) of changes in the market value of hedging instruments (cash flow hedges) and related income taxes of €0.0 million (previous year: €0.0 million) are assigned to discontinued operations. In addition, €0.0 million (previous year: €(0.8) million) relates to currency translation differences from discontinued operations and €0.0 million (previous year: €0.1 million) results from the revaluation of defined benefit plans and related income taxes of €0.0 million (previous year: €0.0 million) from discontinued operations.

(8) Noncontrolling interests

The share of the Group's total net income attributable to noncontrolling interests includes shares in profit of €4.6 million (previous year: €8.9 million) and shares in losses of €0.1 million (previous year: €0.6 million).

(9) Earnings per share

		2018	2017
Weighted average of shares outstanding	Number	15,967,437	15,967,437
Net income attributable to Vossloh AG shareholders	€ mill.	**18.2**	**(8.0)**
Basic/diluted earnings per share	€	**1.14**	**(0.50)**
thereof attributable to continuing operations	€	1.27	1.74
thereof attributable to discontinued operations	€	(0.13)	(2.24)

Notes to the cash flow statement

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

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

The other noncash income and expenses primarily encompass currency translation effects and the changes to deferred taxes. The cash outflow for the acquisition of consolidated subsidiaries and other units included inflowing cash and cash equivalents of €2.0 million (previous year: €0.4 million) netted against cash outflows for consideration transferred of €44.9 million (previous year: €121.5 million). Proceeds from the sale of consolidated subsidiaries in the previous year comprised the balance of the cash purchase price of €72.5 million and cash outflows of €30.1 million. The net financing from short-term loans includes the repayment of the Schuldschein loan of €50.0 million, the utilization of the credit line from the syndicated loan at €56.2 million and the raising of a short-term loan for €25.0 million from Bayerische Landesbank. Net financing from medium-term and long-term loans includes the funds used to modernize the production plant in Outreau. For more information, see our notes on the financial liabilities under 26.1.

The figures in the cash flow statement shown on page 97 relate to the entire Group including 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.	2018		2017	
Cash flow items	Thereof from continuing operations	Thereof from discontinued operations	Thereof from continuing operations	Thereof from discontinued operations
Gross cash flow	87.3	3.0	106.3	(10.0)
Cash flow from operating activities	36.2	1.4	62.4	(37.9)
Free cash flow	(17.3)	(1.7)	23.3	(45.6)
Cash flow from investing activities	(92.1)	(2.9)	(116.6)	(7.6)
Cash flow from financing activities	9.0	1.9	(62.0)	82.7
Opening cash and cash equivalents	96.3	1.8	170.0	8.6
Closing cash and cash equivalents	48.7	2.3	96.3	1.8

The following table clarifies the distribution 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	Liabilities from leases	Derivatives in hedging relationships	Total
As of 12/31/16	**246.9**	**8.7**	**0.0**	**3.3**	**258.9**
Payments for the period	51.8	(5.5)	0.0	(6.4)	39.9
Noncash changes					
Business acquisitions	0.0	1.3	0.0	0.0	1.3
New lease agreements	0.0	0.0	0.0	0.0	0.0
Changes in fair value	0.0	0.0	0.0	0.0	0.0
Currency translation differences	0.0	1.3	0.0	0.0	1.3
Other	(49.9)	49.9	0.0	0.0	0.0
As of 12/31/2017	**248.8**	**55.7**	**0.0**	**(3.1)**	**301.4**
Payments for the period	14.7	32.1	(0.2)	0.0	46.6
Noncash changes					
Business acquisitions	0.0	0.0	0.0	0.0	0.0
New lease agreements	0.0	0.0	5.2	0.0	5.2
Changes in fair value	0.2	0.4	0.0	11.2	11.8
Currency translation differences	0.0	(0.4)	0.0	0.0	(0.4)
Other	0.0	0.0	0.0	0.0	0.0
As of 12/31/2018	**263.7**	**87.8**	**5.0**	**8.1**	**364.6**

The increase in cash changes in 2018 in the area of current loans is the result of higher utilization of the syndicated loan.

The cash changes in the area of medium-term and long-term loans of €51.8 million reported in the previous year include the proceeds from the issue of the Schuldschein loan in the amount of €250 million in July 2017.

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.	2018	2017
Goodwill	265.4	251.2
Development costs	7.3	6.3
Concessions, licenses, property rights	28.3	22.8
Advance payments	0.3	0.1
	301.3	**280.4**

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 (impairment test). In this connection, the higher amount from value in use or fair value less costs to sell is compared to the respective carrying amount of a cash-generating unit (CGU). For the CGUs in question, the value in use is always the higher value. As in the previous year, there are four different CGUs in the Vossloh Group to which goodwill is allocated. The value in use is calculated based on the medium-term budget for the respective units and is derived from the expected discounted cash flows. In this respect, key assumptions are 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 CGU is applied. When determining the respective discount rate, weighted specific country risks, inflation effects and tax rates were considered, whereby the weightings from the country risks as well as the inflation effects from the regional distribution of sales were derived from both the past 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 CGUs. The planning is based on empirical data and expected future market trends and encompasses a detailed planning period of three years. The expected sales growth of the CGUs is based on the planned projects and projects which are already included in the order backlog to various extents. Average annual sales growth in the CGUs, which is anticipated for this period in line with the medium-term budget, is reported in the table below. The growth rate of the perpetual annuity was set at 50 percent of the CGU-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 a CGU-specific annual growth rate to determine the value in use. A 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 CGUs' values in use (including assigned goodwill) exceed their carrying amounts, no goodwill impairment loss had to be recognized. Within the scope of the generally conducted sensitivity analyses, various scenarios were 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. There was also no need for impairment in these scenarios.

Goodwill breakdown by reporting segment

€ mill.	2018				2017
	Discount rate (in %)	Growth rate of the perpetual annuity (in %)	Average sales growth p. a. (in %)	Carrying amount	Carrying amount
Vossloh Switch Systems	11.4	1.2	3.1	155.7	155.1
Vossloh Rail Services	9.1	1.0	15.7	56.8	56.8
Vossloh Tie Technologies	10.9	1.2	24.3	54.6	41.0
Vossloh Fastening Systems	15.0	1.9	10.0	1.2	1.2
				268.3	**254.1**

In the goodwill of the CGU Vossloh Switch Systems, €2.9 million of calculated noncontrolling interests are included for purposes of the impairment test, as in the previous year.

Development costs are capitalized at cost of sales 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.

The cost of sales includes 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 for the most part amortized on a straight-line basis over a period of one to twenty years.

The amortization of intangible assets in the amount of €2.7 million (previous year: €2.7 million) is included in the income statement under cost of sales, €1.7 million (previous year: €1.5 million) under general administrative and selling expenses and €0.9 million (previous year: €0.8 million) under research and development costs.

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

Changes in intangible assets

€ mill.	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Goodwill		Development costs		Concessions, licenses and property rights		Advance payments		Intangible assets	
Net carrying amount as of December 31	**265.4**	**251.2**	**7.3**	**6.3**	**28.3**	**22.8**	**0.3**	**0.1**	**301.3**	**280.4**
Cost										
Balance as of January 1	**311.4**	**286.9**	**9.4**	**10.9**	**55.0**	**44.0**	**0.1**	**0.2**	**375.9**	**342.0**
Changes from first-time consolidation / business acquisitions	11.6	41.0	0.0	0.0	8.1	11.2	0.0	0.0	19.7	52.2
Changes from transitional consolidation and deconsolidation	0.0	(12.4)	0.0	(2.7)	0.0	(0.4)	0.0	0.0	0.0	(15.5)
Additions/ongoing investments	0.0	0.0	1.9	1.4	1.1	1.7	0.3	0.0	3.3	3.1
Disposals	0.0	0.0	0.0	0.0	(0.2)	(0.2)	0.0	0.0	(0.2)	(0.2)
Transfers	0.0	0.0	0.0	0.0	0.0	0.1	0.0	(0.1)	0.0	0.0
Currency translation differences	2.6	(4.1)	0.0	(0.2)	1.2	(1.4)	(0.1)	0.0	3.7	(5.7)
Balance as of December 31	**325.6**	**311.4**	**11.3**	**9.4**	**65.2**	**55.0**	**0.3**	**0.1**	**402.4**	**375.9**
Accumulated amortization and impairment losses										
Balance as of January 1	**60.2**	**60.2**	**3.1**	**5.1**	**32.2**	**29.3**	**0.0**	**0.0**	**95.5**	**94.6**
Changes from transitional consolidation and deconsolidation	0.0	0.0	0.0	(2.7)	0.0	(0.4)	0.0	0.0	0.0	(3.1)
Amortization of the fiscal year	0.0	0.0	0.9	0.8	4.4	4.2	0.0	0.0	5.3	5.0
Disposals	0.0	0.0	0.0	0.0	(0.1)	(0.2)	0.0	0.0	(0.1)	(0.2)
Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency translation differences	0.0	0.0	0.0	(0.1)	0.4	(0.7)	0.0	0.0	0.4	(0.8)
Balance as of December 31	**60.2**	**60.2**	**4.0**	**3.1**	**36.9**	**32.2**	**0.0**	**0.0**	**101.1**	**95.5**

(11) Property, plant and equipment

Breakdown of property, plant and equipment

€ mill.	2018	2017
Land, leasehold rights and buildings including buildings on nonowned land	90.2	73.2
Technical equipment and machinery	129.8	94.6
Other equipment, factory and office equipment	16.9	16.3
Advance payments and construction in process	31.7	28.4
	268.6	**212.5**

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. During the year under review, €0.1 million (previous year: €0.0 million) was recognized.

Development of property, plant and equipment

€ mill.	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	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	**90.2**	**73.2**	**129.8**	**94.6**	**16.9**	**16.3**	**31.7**	**28.4**	**268.6**	**212.5**
Cost										
Balance as of January 1	**121.1**	**93.8**	**288.6**	**275.9**	**46.2**	**41.3**	**28.4**	**21.0**	**484.3**	**432.0**
Changes from first-time consolidation / business acquisitions	1.9	25.0	27.0	20.4	0.0	5.0	0.8	1.0	29.7	51.4
Changes from transitional consolidation and deconsolidation	0.0	(1.8)	0.0	(5.3)	0.0	(1.8)	0.0	0.0	0.0	(8.9)
Additions/ongoing investments	14.7	5.4	19.2	6.1	5.7	3.8	16.7	15.0	56.3	30.3
Disposals	(0.5)	(1.0)	(2.2)	(7.7)	(1.7)	(1.3)	(0.9)	(0.5)	(5.3)	(10.5)
Transfers	5.0	1.7	7.3	5.7	1.2	0.6	(13.5)	(8.0)	0.0	0.0
Currency translation differences	1.9	(2.0)	0.7	(6.5)	0.2	(1.4)	0.2	(0.1)	3.0	(10.0)
Balance as of December 31	**144.1**	**121.1**	**340.6**	**288.6**	**51.6**	**46.2**	**31.7**	**28.4**	**568.0**	**484.3**
Accumulated depreciation and impairment losses										
Balance as of January 1	**47.9**	**43.2**	**194.0**	**186.4**	**29.9**	**27.6**	**0.0**	**0.0**	**271.8**	**257.2**
Changes from transitional consolidation and deconsolidation	0.0	(0.8)	0.0	(3.9)	0.0	(1.2)	0.0	0.0	0.0	(5.9)
Depreciation and impairment of the fiscal year	6.4	7.1	18.1	21.0	5.7	5.6	0.0	0.0	30.2	33.7
Disposals	(0.4)	(0.9)	(1.3)	(5.0)	(0.9)	(1.2)	0.0	0.0	(2.6)	(7.1)
Transfers	0.0	0.1	0.0	(0.2)	0.0	0.1	0.0	0.0	0.0	0.0
Currency translation differences	0.0	(0.8)	0.0	(4.3)	0.0	(1.0)	0.0	0.0	0.0	(6.1)
Balance as of December 31	**53.9**	**47.9**	**210.8**	**194.0**	**34.7**	**29.9**	**0.0**	**0.0**	**299.4**	**271.8**

Depreciation is primarily based on the following useful lives:

Useful lives of property, plant and equipment

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

Where the carrying amount of property, plant and equipment is determined to be impaired, appropriate write-downs are made. No impairment losses were recognized during the reporting year (previous year: €1.3 million). Depreciation of property, plant and equipment is included in the income statement in the amount of €26.6 million (previous year: €28.5 million) under cost of sales, €3.4 million (previous year: €4.2 million) under general administrative and selling expenses and €0.2 million (previous year: 0.2 million) under research and development costs. The impairment losses in the previous year relate to technical equipment and machinery in the Fastening Systems business unit in which the previous carrying amount had to be adjusted due to current business forecasts. The recoverable amount of assets impaired in the previous year was €3.4 million.

(12) Investment properties

Development of investment property

€ mill.	2018	2017
Net carrying amounts	**2.2**	**2.8**
Cost		
Balance as of January 1	5.7	7.9
Additions	0.0	0.0
Disposals	0.0	(1.9)
Transfers	(0.6)	0.0
Currency translation differences	0.0	(0.3)
Balance as of December 31	**5.1**	**5.7**
Accumulated amortization and impairment losses		
Balance as of January 1	2.9	4.3
Amortization of the fiscal year	0.2	0.2
Disposals	0.0	(1.5)
Transfers	(0.2)	0.0
Currency translation differences	0.0	(0.1)
Balance as of December 31	**2.9**	**2.9**

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 20 years.

In the previous year, a property with a carrying amount of €0.4 million was sold. The resulting gain on disposal was insignificant. Rental income in the reporting year amounted to €1.0 million (previous year: €1.1 million). Expenses (including depreciation, maintenance and repairs and incidentals) incurred for properties leased out totaled €0.4 million (previous year: €0.4 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 buildings owned for investment purposes, including existing buildings, totals €6.9 million (previous year: €5.9 million). The fair values are primarily based on the current market prices of comparable properties. An assessment performed by an accredited expert did not take place.

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

Information on investments in companies accounted for using the equity method

€ mill.	2018	2017
Result from continuing operations	1.4	0.2
Result from discontinued operations	(0.2)	0.0
Income and expenses recognized directly in equity	(0.1)	(1.1)
Total comprehensive income	**1.1**	**(0.9)**

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

€ mill.	2018	2017
Noncurrent assets	17.1	18.9
Current assets	22.6	15.5
thereof cash and cash equivalents	4.9	0.8
Noncurrent liabilities	0.0	0.0
thereof noncurrent financial liabilities	0.0	0.0
Current liabilities	22.9	18.2
thereof current financial liabilities	8.9	8.3
Sales revenues	17.3	13.3
Result from continuing operations	0.5	(0.1)
Depreciation/amortization	1.8	1.9
Interest income	0.0	0.0
Interest expenses	0.5	0.6
Tax expense	0.0	0.0
Total comprehensive income	**0.5**	**(1.2)**

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

€ mill.	2018	2017
Noncurrent assets	2.1	2.4
Current assets	7.8	6.8
thereof cash and cash equivalents	0.5	0.3
Noncurrent liabilities	0.1	0.2
thereof noncurrent financial liabilities	0.0	0.0
Current liabilities	2.9	2.4
thereof current financial liabilities	0.0	0.0
Sales revenues	10.3	8.2
Result from continuing operations	0.8	0.2
Depreciation/amortization	0.4	0.4
Interest income	0.0	0.0
Interest expenses	0.0	0.0
Tax expense	0.3	0.2
Total comprehensive income	**0.6**	**(0.3)**

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

€ mill.	2018	2017
Noncurrent assets	0.2	0.2
Current assets	3.9	3.1
thereof cash and cash equivalents	1.4	1.0
Noncurrent liabilities	0.0	0.0
thereof noncurrent financial liabilities	0.0	0.0
Current liabilities	2.1	1.1
thereof current financial liabilities	0.0	0.0
Sales revenues	5.6	4.1
Result from continuing operations	0.1	0.1
Depreciation/amortization	0.1	0.1
Interest income	0.0	0.0
Interest expenses	0.0	0.0
Tax expense	0.0	0.0
Total comprehensive income	**0.1**	**0.1**

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. This pertains to shares in ten foreign companies (previous year: nine) and one domestic company (previous year: zero) upon which significant influence is exercised. During the previous year, the division of control between Vossloh and the other shareholders changed in the case of two foreign companies to such an extent that the companies were no longer fully consolidated but included using the equity method as part of a transitional consolidation.

(14) Other noncurrent financial instruments

Breakdown of other noncurrent financial instruments

€ mill.	2018	2017
Shares in unconsolidated affiliated companies	2.9	3.1
Other investments	3.3	3.2
Loans	1.4	2.5
Securities	0.1	0.1
Derivative financial instruments in hedging relationships	0.0	0.0
Other noncurrent financial assets	0.0	0.0
	7.7	**8.9**

Shares in unconsolidated affiliated companies for which the criterion of control has been fulfilled but which are not included due to insignificance are recognized at cost. Other investments are similarly insignificant for obtaining a view of the net assets and results of operations of the Group, and are thus recognized at amortized cost. There is currently no plan to sell shares.

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 which can also be sold 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 balance sheet line with the IFRS 9 valuation categories, see pages 140 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 were allocable to the following balance sheet items:

Deferred taxes

€ mill.	2018		2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and property, plant and equipment	2.8	25.2	2.2	19.2
Inventories	4.7	0.0	4.3	0.0
Receivables	1.4	2.0	1.3	4.4
Other assets	0.0	0.0	0.0	0.0
Pension provisions	6.8	0.0	6.9	0.0
Other provisions	2.9	0.0	3.0	0.0
Liabilities	0.9	0.7	0.8	0.7
Other liabilities	3.1	4.6	4.0	2.1
Loss carryforwards	16.2	–	14.8	–
Total	**38.8**	**32.5**	**37.3**	**26.4**
Netting	(25.4)	(25.4)	(13.6)	(13.6)
Deferred taxes according to the balance sheet	**13.4**	**7.1**	**23.7**	**12.8**

Taking into account the new deferred taxes resulting from the business acquisitions, 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, 2018, tax loss carryforwards of €269.4 million (previous year: €235.5 million) existed in Germany for corporate income tax purposes and of €261.8 million for trade tax purposes (previous year: €230.3 million). No deferred taxes were recognized for corporate income tax losses of €255.6 million €216.1 million), and no deferred taxes were recognized for trade tax losses of €247.5 million (previous year: €210.7 million). In order to determine the deferred taxes on loss carryforwards which are eligible for capitalization, the period of detailed planning, which normally covers three years, has been extended by two years as in previous periods and specifically taken into account in anticipated taxable income.

In addition, non-German companies reported tax loss carryforwards of €52.2 million (previous year: €41.7 million), of which €52.2 million (previous year: €26.2 million) was incorporated. Allowances were recorded in the year under review against deferred tax assets in the amount of €10.3 million (previous year: €5.7 million). At the same time, deferred tax assets that had previously been impaired of €3.7 million (previous year: €1.7 million) were released. 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 €9.1 million (previous year: €7.6 million) expire after more than five years.

(17) Inventories

Breakdown of inventories

€ mill.	2018	2017
Raw materials and supplies	102.4	87.7
Work in process	37.8	35.2
Merchandise	10.5	10.7
Finished products	22.6	19.8
Advance payments	1.5	0.9
Total	**174.8**	**154.3**

Inventories are stated at the lower of cost or net realizable value (NRV). Cost of sales comprises all production costs including directly attributable 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 €27.0 million as of the balance sheet date (previous year: €32.6 million), which primarily resulted from excessive inventories. €(2.1) million of this was recognized in profit or loss in the year under review (previous year: €(0.6) million). The carrying amount of inventories stated at net realizable value totaled €12.2 million (previous year: €48.4 million).

As the reasons for previous write-downs no longer existed, inventories were written up in 2018 by €0.2 million (previous year: €0.9 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 division. Prior experiences were 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.

€ mill.				%
Risk class	**Gross carrying amounts**	**Net carrying amounts (after consideration of individual risks; not including refundable VAT)**	**Valuation allowance**	**Average Vossloh Group loss rate**
Assets not due	149.2	121.6	0.1	0.12
Overdue by 1 to 30 days	26.6	23.8	0.1	0.28
Overdue by 31 to 90 days	15.7	14.0	0.1	0.54
Overdue by 91 to 180 days	11.8	10.5	0.1	0.84
Overdue by 181 to 360 days	12.4	11.1	0.2	2.03
Overdue by more than 360 days	2.7	2.4	0.3	11.54
Individual valuation allowance	6.9	4.2	0.3	7.57
	225.3	**187.6**	**1.2**	

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 (end of insolvency proceedings).

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.	2018	2017
Balance as of January 1	**13.4**	**14.7**
Adjustment by conversion in accordance with IFRS 9	0.9	–
Additions	2.9	2.4
Releases	(4.4)	(1.6)
Utilizations	(0.1)	(1.7)
Currency translation differences	0.0	(0.4)
Balance as of December 31	**12.7**	**13.4**

Contract assets result from the recognition of customer contracts for which revenue is realized over the course of the fulfillment of the service obligation. In applying this method, any contract costs incurred, including a percentage of profit equivalent to the percentage of completion less any losses, are recognized as a contract asset. 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 extend, with the result that the orders relevant in this context typically result in a positive credit balance during the period of fulfillment of performance obligations.

Contract assets and liabilities

€ mill.	2018		2017	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Contract costs	17.5	0.0	13.7	0.0
Proportional profit	0.7	0.0	3.1	0.0
Proportional losses	(3.7)	0.0	(0.4)	0.0
Total progress under construction contracts	14.5	0.0	16.4	0.0
Advance payments received	(0.6)	0.0	(5.1)	0.0
Partial billings	(7.0)	0.0	(4.7)	0.0
Balance sheet presentation	**6.9**	**0.0**	**6.6**	**0.0**

(19) Income tax assets

These include €0.2 million of income taxes (previous year: €0.3 million) reimbursable to companies of the Fastening Systems business unit, €6.2 million (previous year: €7.1 million) to Vossloh Switch Systems, €0.6 million (previous year: €0.3 million) to the companies of the Rail Services business unit, €0.1 million (previous year: €0.0 million) to the Tie Technologies business unit and €0.5 million (previous year: €0.1 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.	2018	2017
Receivables from reimbursements	6.1	6.9
Receivables from investees	6.0	4.5
Receivables from affiliated companies	4.3	1.8
Subsequent purchase price adjustment	3.9	0.0
Loans and other financial receivables	3.5	10.5
Security and similar deposits	1.9	2.6
Creditors with debit accounts	1.1	0.2
Derivative financial instruments	0.7	3.4
Receivables from employees	0.4	0.3
Interest receivables	0.0	0.0
Other current financial instruments	**27.9**	**30.2**
Other tax receivables (excluding income taxes)	6.7	6.1
Deferred income	3.3	2.9
Sundry current assets	8.2	4.0
Other current assets	**18.2**	**13.0**

The receivables shown under other current financial instruments are recognized at cost or, where appropriate, at amortized cost. Specific risks are taken into account by appropriate allowances. The receivables from reimbursements are not reimbursements made by shareholders. Other financial receivables primarily result from retained amounts in connection with factoring contracts in the Switch Systems business unit.
A financial asset from a previous sale of a business unit was reported for the first time at €3.9 million.

The balances and changes in allowances are presented below:

Changes in allowances

€ mill.	2018	2017
Balance as of January 1	**0.6**	**0.1**
Additions	0.5	0.5
Releases	0.0	0.0
Utilizations	0.0	0.0
Currency translation differences	0.0	0.0
Balance as of December 31	**1.1**	**0.6**

For the reconciliation of other current financial instruments to the IFRS 9 valuation categories, see "First-time application of standards and interpretations" on page 104 et seq. 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 short-term securities to the IFRS 9 valuation categories, see page 104 et seq, "First-time application of standards and interpretations."

(22) Cash and cash equivalents

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

(23) Equity/capital management

For the statement of changes in equity, see page 99. Some of the primary objectives of financial management are the sustainable increase of enterprise value through positive value added, the safeguarding of liquidity and an adequate equity ratio for the Vossloh Group. The optimization of the capital structure contributes as much to this as does efficient management of cash inflows and outflows from financing activities and effective risk management.

(23.1) Capital stock

Vossloh AG's capital stock of €45,325,167.47, which is unchanged from the previous year, is divided into 15,967,437 (previous year: 15,967,437) no-par-value shares. Only shares of common stock are issued. One no-par-value share represents a notional interest of €2.84 in the capital stock.

(23.2) Additional paid-in capital

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

Employee bonus program 2018

The employee bonus program 2018 (on terms unchanged from the previous year) offered employees of German Vossloh companies the option of acquiring either two Vossloh AG shares at no cost or eight shares at a discount of 50 percent of the issue price of €40.10 per share (previous year: €50.38), determined as the market price as of the share transfer date. Under this program, employees of the Vossloh Group, including employees of the business unit held for sale, were granted a total of 2,286 shares at no cost from both implementation options in the reporting year (previous year: 2,338 shares). The expense to the Group for granting shares was €102.5 thousand (previous year: €133.5 thousand) and was determined on the basis of the price of €44.85 per share on the final day of the participation period. The shares issued are each subject to a three-year holding period. The shares issued are acquired via the capital market; there are no other obligations from the program.

(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.

Cumulative other comprehensive income in reserves after taxes

€ mill.	Reserve from currency translation	Reserve from hedging transactions (cash flow hedges)	Reserve from the remeasurement of defined benefit plans	Other comprehensive income not including noncontrolling interests	Noncontrolling interests	Other comprehensive income
	2018					
Reclassification of actuarial gains and losses from defined benefit plans to retained earnings			(0.3)	**(0.3)**		**(0.3)**
Foreign subsidiaries – Currency translation differences –	(2.2)			**(2.2)**	(0.2)	**(2.4)**
Cash flow hedges		0.1		**0.1**		**0.1**
Actuarial gains and losses from defined benefit plans			0.5	**0.5**		**0.5**
Total	**(2.2)**	**0.1**	**0.2**	**(1.9)**	**(0.2)**	**(2.1)**

€ mill.	Reserve from currency translation	Reserve from hedging transactions (cash flow hedges)	Reserve from the remeasurement of defined benefit plans	Other comprehensive income not including noncontrolling interests	Noncontrolling interests	Other comprehensive income
	2017					
Reclassification of actuarial gains and losses from defined benefit plans to retained earnings			2.5	**2.5**		**2.5**
Foreign subsidiaries – Currency translation differences –	(4.7)			**(4.7)**	(0.9)	**(5.6)**
Cash flow hedges		0.4		**0.4**		**0.4**
Actuarial gains and losses from defined benefit plans			0.3	**0.3**	0.0	**0.3**
Deconsolidation and transfer effects	(2.1)	(0.3)		**(2.4)**	(3.6)	**(6.0)**
Total	**(6.8)**	**0.1**	**2.8**	**(3.9)**	**(4.5)**	**(8.4)**

(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 available-for-sale financial instruments as well as actuarial gains and losses relating to employee benefits recognized during the reporting year. In the reporting year, an expense of €0.3 million was reclassified from the reserve for revaluation of defined benefit plans to retained earnings.

(23.5) Noncontrolling interests

€10.4 million (previous year: €14.9 million) of noncontrolling interests relate to minority shareholders of the Fastening Systems business unit; another €2.0 million (previous year: €1.6 million) relates to the Switch Systems business unit.

(24) Pension provisions

Changes in pension provisions

€ mill.	Present value of the obligations	Fair value of plan assets	Total
As of 1/1/2017	**33.5**	**(10.9)**	**22.6**
Service cost	0.7		0.7
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 demographic assumptions	(0.2)		(0.2)
Gains/losses on changes in financial assumptions	0.0		0.0
Benefits paid	(1.5)	0.6	(0.9)
Other/currency translation differences	0.0	0.0	0.0
Balance as of 12/31/2017	**33.0**	**(10.6)**	**22.4**
Service cost	0.5		0.5
Net interest expense/(income)	0.7	(0.3)	0.4
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		(0.2)	(0.2)
Gains/losses on changes in demographic assumptions	(0.7)		(0.7)
Experience-related assumptions	0.8		0.8
Contributions			
from beneficiaries		0.0	0.0
from the employer		0.0	0.0
Benefits paid	(1.6)	0.5	(1.1)
Transfer of obligations	0.0		0.0
Other/currency translation differences	0.0		0.0
Balance as of 12/31/2018	**32.7**	**(10.6)**	**22.1**

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).

In accordance with IAS 19, the projected unit credit method has been used to determine pension obligations, taking into account current market interest rates and anticipating future pay and pension increases, as well as fluctuation rates. Accounting risks of the defined benefit plans particularly arise from the development of the current market interest rates, as the current low interest rate leads to comparably high present values of liabilities.

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

The plan assets, which are offset against the present value of the pension benefits, pertain primarily to pension liability insurance policies, which cover the major portion of the personal claims from the pension commitments. Each of these insurance contracts has been pledged to the individual beneficiary concerned, 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 provision is derived as follows:

Derivation of recognized pension provisions

€ mill.	2018	2017
Present value of pension commitments covered by plan assets	15.6	15.8
Fair value of plan assets	(10.6)	(10.6)
Provision for commitments covered by plan assets	**5.0**	**5.2**
Present value of financial commitments not covered by plan assets	17.1	17.2
Provision for commitments not covered by plan assets	**17.1**	**17.2**
Recognized provision	**22.1**	**22.4**

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 3.6 percent in the reporting period (previous year: 3.5 percent).

A discount rate of 1.75 percent was used in the year under review, as in the previous year. 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 €1.2 million (previous year: €1.2 million) or decreased the provision by €1.1 million (previous year: €1.2 million). The average duration of the defined benefit pension plans is 14.6 years (previous year: 14.3 years).

In addition, voluntary or statutory defined contribution plans are in place at a number of Group companies. These Group companies are under no obligation to make any pensions-related payments other than their contractual contributions to an outside fund, which totaled €7.9 million in the fiscal year (previous year: €7.3 million).

(25) Other provisions

Breakdown of other provisions

€ mill.	2018	2017
Personnel-related provisions	10.4	9.8
Warranty obligations and follow-up costs	1.9	4.0
Litigation risks and impending losses	0.0	0.0
Other provisions	4.7	10.1
Other noncurrent provisions	**17.0**	**23.9**
Personnel-related provisions	0.1	0.2
Warranty obligations and follow-up costs	7.6	12.7
Litigation risks and impending losses	9.1	5.9
Other provisions	19.6	25.6
Other current provisions	**36.4**	**44.4**
	53.4	**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 effect of discounting is material, noncurrent provisions are recognized at the present value of the uncertain obligations.

The maximum risk inherent to other provisions is €20.1 million above the amount recognized in the balance sheet (previous year: €27.6 million). Additional risks of €2.2 million (previous year: €4.5 million) exist as below-the-line items with a probability below 50 percent.

In addition to obligations from partial retirement contracts, the personnel-related provisions also include provisions for possible nonrecurring payments required under the law in France ("Indemnités de fin de carrière") for employees who leave the Company (both in the case of retirement as well as other situations). In accordance with IAS 19, such provisions are required to be treated as employee benefits and, because of the way they have been structured, classified as a "defined benefit plan." As these are not lifelong pension payments, the resulting provisions are included in the line item other provisions.

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

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

%	2018	2017
Discount rate	1.54	1.55
Expected increase of wage and salary payments	2.0	2.0
Turnover probability	**0 to 10**	**0 to 10**

The following table shows how the present value of the obligation, measured using a discount rate of 1.54 percent (previous year: 1.55 percent), and the plan asset established for financing purposes developed during the 2018 fiscal year and the previous year:

Changes in provisions for "Indemnités de fin de carrière"

€ mill.	Present value of the obligations	Fair value of plan assets	Total
As of 1/1/2017	**7.5**	**(1.1)**	**6.4**
Service cost	0.4		0.4
Net interest expense/(income)	0.1	0.0	0.1
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		(0.1)	(0.1)
Gains/losses on changes in financial assumptions	0.3		0.3
Experience-related assumptions	(0.1)		(0.1)
Benefits paid	(0.1)	0.1	0.0
As of 12/31/2017	**8.1**	**(1.1)**	**7.0**
Service cost	0.5		0.5
Net interest expense/(income)	0.1	0.0	0.1
Remeasurements			
Return on plan assets excluding the portion included in net interest expense		0.1	0.1
Gains/losses on changes in financial assumptions	0.1		0.1
Experience-related assumptions	0.1		0.1
Benefits paid	(0.1)	0.1	0.0
As of 12/31/2018	**8.8**	**(0.9)**	**7.9**

Change in other provisions

€ mill.	Opening balance 1/1/2018	Addition from first-time consolidation	Utilization	Release	Addition	Interest effect	Currency translation differences	Closing balance as of 12/31/2018
Personnel-related provisions	10.0	0.0	(0.3)	(0.1)	0.9	0.0	0.0	10.5
Warranty obligations and follow-up costs	16.7	0.1	(3.3)	(6.7)	2.7	0.0	0.0	9.5
Litigation risks and impending losses	5.9	0.0	(1.5)	(2.7)	7.4	0.0	0.0	9.1
Sundry provisions	35.7	2.2	(5.2)	(13.0)	4.1	0.5	0.0	24.3
Other provisions	**68.3**	**2.3**	**(10.3)**	**(22.5)**	**15.1**	**0.5**	**0.0**	**53.4**

Liabilities according to remaining terms

€ mill	2018	2017	2018	2017	2018	2017	2018	2017
Remaining term	up to 1 year		1–5 years		> 5 years		Total	
Financial liabilities	88.6	55.7	146.3	134.3	121.6	114.5	356.5	304.5
Trade payables	139.2	141.9	0.0	0.0	0.0	0.0	139.2	141.9
Income tax liabilities	1.8	6.3	0.0	0.0	0.0	0.0	1.8	6.3
Other liabilities	84.0	72.7	7.4	4.6	0.0	0.0	91.4	77.3
Total	**313.6**	**276.6**	**153.7**	**138.9**	**121.6**	**114.5**	**588.9**	**530.0**

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 €6.5 million (previous year: €2.9 million). The other provisions include provisions for risks from company disposals and possible claims for damages. The release of other provisions concern subsequent effects from the sale of former business units in an amount of €11.0 million.The income resulting from this is reported in the result from discontinued operations in the income statement. Claims for reimbursement in connection with the latter risks are accounted for under other assets.

(26.1) Financial liabilities

Breakdown of financial liabilities

€ mill.	2018	2017
Other noncurrent liabilities to banks	263.7	248.8
Noncurrent finance leases	4.2	0.0
Noncurrent financial liabilities	**267.9**	**248.8**
Current liabilities to bank	86.3	54.1
Interest payable	1.5	1.6
Current finance leases	0.8	0.0
Current financial liabilities	**88.6**	**55.7**
Financial liabilities	**356.5**	**304.5**

Financial liabilities are principally carried at amortized cost.

In 2015, a syndicated loan of €500 million with a term of three years was concluded between Vossloh AG and eleven credit institutions. The loan has two tranches: €200 million is available in the form of a bullet loan and €300 million in the form of a revolving credit line. The interest rate is dependent on the amount of specific indicators (covenants). At the same time, a breach of the thresholds defined in these covenants leads to an early right of cancellation on the part of the lending banks. The covenants are defined as the ratio of net financial debt to EBITDA, the ratio of EBITDA to the net interest result, and the equity ratio. Compliance with the covenants was reviewed every quarter; they were complied with until this loan was repaid in the previous year. In March 2017, Vossloh canceled and called back €100 million of the bullet loan ahead of schedule.

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. The loans were used to fully repay the bullet loan in the amount of €100 million outstanding and to partially reduce the revolving credit line. Under the revolving credit line, Vossloh AG still had around €150 million available.

At the end of November 2017, Vossloh AG concluded a new €150 million syndicated loan with eight banks, definitively replacing the syndicated loan which had been in place since 2015 and was scheduled to expire in April 2018. The financing agreement has a term until November 2023 and, after the exercise of the first extension option in November 2018, still contains one option to extend the credit period by one year, which can be exercised in November 2019. In addition, the volume of the loan can be increased if needed by up to €150 million. 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 was currently 1.2 percent. As of the balance sheet date, €56.2 million of the credit line had been utilized (previous year: €0.0 million). Compliance with the covenant is checked every six months; this was the case in the reporting year.

For the reconciliation of financial liabilities to the IFRS 9 valuation categories, see page 104 et seq, "First-time application of standards and interpretations."

At a US Group company, there are covenants related to a bank line that could be used for project-related guarantees. In this context, the necessary covenants were fulfilled at all times.

(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."

(26.3) Income tax liabilities

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.

(26.4) Other liabilities

Breakdown of other liabilities

€ mill.	2018	2017
Freestanding derivatives	5.0	0.0
Derivatives from cash flow hedges	0.1	0.0
Noncurrent financial liabilities	**5.1**	**0.0**
Personnel-related liabilities	0.1	1.6
Other	2.2	3.0
Noncurrent nonfinancial liabilities	**2.3**	**4.6**
Other noncurrent liabilities	**7.4**	**4.6**
Other nonincome taxes	5.1	5.3
Social security and health insurance contributions	4.8	4.0
VAT payable	3.9	5.5
Freestanding derivatives	3.6	0.1
Liabilities to other long-term investees and investors	3.4	2.7
Liabilities to employees	2.2	1.9
Other liabilities to affiliated companies	1.4	1.1
Debtors with credit balances	0.2	0.1
Commissions	0.2	0.3
Liabilities due to insurance companies	0.2	0.2
Derivatives from cash flow hedges	0.1	0.3
Current financial liabilities	**25.1**	**21.5**
Personnel-related liabilities	29.1	28.5
Advance payments received	14.3	13.0
Deferred income	1.5	0.6
Other	14.0	9.1
Current nonfinancial liabilities	**58.9**	**51.2**
Other current liabilities	**84.0**	**72.7**

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. Gains/losses from the restatement at fair value of derivatives are recognized in the income statement, as are the changes in value of the associated underlying transactions. In contrast, the corresponding gains/losses from measuring derivatives in cash flow hedges at fair value are recognized directly in equity after considering deferred taxes.

For the reconciliation of other liabilities to the IFRS 9 valuation categories, see pages 140 et seq., "Additional information on financial instruments."

The prepayments received, recognized at €14.3 million (previous year: €13.0 million) under other liabilities, include advance 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. The other current liabilities include adopted but not yet distributed dividend payments to noncontrolling interests of €4.3 million.

Notes to the segment report

The primary format for segment reporting is defined by Vossloh's internal organizational and reporting structures, which are based on the products and services offered by the Vossloh Group's business units. In accordance with IFRS 8, segment reporting to the Executive Board and Supervisory Board encompasses not only the divisions but also separately presents their business units.

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 acquired at the beginning of 2017 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. As of the balance sheet date, the Transportation division consisted solely of the Locomotives business unit, which was reported as a "discontinued operation" after the sale of the former Electrical Systems business unit was completed on January 31, 2017.

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 fastening systems 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 a production site in Mexico. In December 2018, Vossloh Tie Technologies acquired a leading manufacturer of concrete ties in Australia, Austrak Pty Ltd.

The Customized Modules division and the Switch Systems business unit comprised in this division are among leading switch manufacturers worldwide. The business unit equips rail networks with switches and crossings as well as with the related control and monitoring systems, which it also installs and maintains. Here, also, the lineup extends from light-rail to high-speed applications.

The Lifecycle Solutions division and Rail Services business unit engage in activities such as rail trading, long-rail (un)loading at construction sites, welding new rails, reconditioning old rails, on-site welding, rail replacement, rail grinding/milling, rail inspection and construction site supervision. It also organizes and monitors just-in-time rail shipments to construction sites and ensures on-site availability of the approved (un)loading systems.

The Transportation division includes the rail vehicle and vehicle system/component operations plus the related services. The division comprises the Locomotives business unit available for sale. In the previous year the Electrical Systems business unit, which has since been sold, was also part of it.

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

The former Electrical Systems business unit develops and produces key electrical components and systems for public transportation rail vehicles and locomotives. The contract for the sale of this business unit was signed in December 2016 and concluded at the end of January 2017.

In the consolidation, all intrasegment and intersegment transactions are eliminated. This pertains primarily to the offsetting of intragroup income/expenses, the elimination of intragroup income and dividends and the elimination of receivables/payables. 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 100 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. In this context, a WACC of 7.5 percent before tax was employed in the reporting year as well as the previous year.

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.	2018	2017
Value added	(5.8)	11.1
Cost of capital employed (WACC: 7.5 percent)	60.0	59.2
EBIT	**54.2**	**70.3**

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 42 of the combined management report.

Segment information by region

€ mill.	2018	2017	2018	2017
	External sales revenues		Noncurrent assets[1]	
Germany	85.7	74.3	166.8	136.0
France	102.1	97.8	148.8	134.0
Rest of Western Europe	67.3	69.6	28.6	29.6
Northern Europe	111.6	114.5	16.8	18.0
Southern Europe	77.2	62.9	1.9	1.3
Eastern Europe	83.7	50.3	7.7	7.2
Total of Europe	**527.6**	**469.4**	**370.6**	**326.1**
Americas	158.7	158.4	161.3	152.9
Asia	132.1	215.6	12.7	12.4
Africa	19.3	46.3	0.0	0.0
Australia	23.5	21.0	31.9	7.8
Total	**861.2**	**910.7**	**576.5**	**499.2**

[1] Excluding financial instruments and deferred tax assets

Additional information on financial instruments

Financial instruments are now recognized and measured according to the measurement categories of IFRS 9. The previous categorization model for financial assets (held-to-maturity, loans and receivables, available-for-sale) contained in IAS 39 has been replaced by the following categories:

- 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 through other comprehensive income (FVOCI)

Vossloh's consolidated balance sheet includes both derivative and nonderivative financial instruments.

Nonderivative financial instruments

Nonderivative financial instruments on the assets side 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 derivative financial instruments primarily to hedge for currency risks from firm foreign-currency contractual obligations, future currency receivables/payables, price risks from sales or sourcing transactions and interest rate risks arising from long-term financing.

Hedges of assets and liabilities reported in the balance sheet are recognized as stand-alone derivatives. The offsetting changes in value of the underlying and hedging transactions, which relate to the hedged risk, are recognized in the balance sheet. Any fair value changes (gains/losses) due to exchange rate volatility are recognized in the income statement. In a completely effective hedge (in the case of a micro hedge this is generally the case), the gains (or losses) on the derivative's fair value remeasurement equal the losses (or gains) on the underlying's. 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. The cash flow hedges existing on December 31, 2018 had a maximum term of seven years.

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

€ mill.	Currency	2018	2017
USA	USD	206.3	185.7
United Kingdom	GBP	–	1.7
Australia	AUD	14.7	1.5
Poland	PLN	–	1.2
China	CNY	–	2.7
United Arab Emirates	AED	–	0.4
South Africa	ZAR	0.3	0.3
		221.3	**193.5**

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

Derivative financial instruments			Fair value	Nominal value	Fair value	Nominal value
€ mill.			2018	2018	2017	2017
Interest rate swaps	Maturity	up to 1 year	–	–	(0.3)	50.0
		up to 5 years	–	–	–	–
		over 5 years	(0.1)	8.0	–	–
			(0.1)	**8.0**	**(0.3)**	**50.0**
Foreign currency forwards	Maturity	up to 1 year	(3.0)	151.7	2.9	149.3
		up to 5 years	(5.0)	69.6	0.5	44.2
		over 5 years	–	–	–	–
			(8.0)	**221.3**	**3.4**	**193.5**
Total			**(8.1)**	**229.3**	**3.1**	**243.5**

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, 2018

€ mill.	IFRS 9 carrying amounts according to 12/31/2018 balance sheet	Measurement categories pursuant to IFRS 9			Fair values as of 12/31/2018
		Amortized cost	Fair value through OCI (FVOCI)	Fair value through profit or loss (FVTPL)	
Trade receivables	212.6	212.6			212.6
Securities	0.5	0.1	0.4		0.5
Other financial instruments and other assets	32.9	32.2		0.7	32.9
Cash and cash equivalents	48.7	48.7			48.7
Total financial assets	**294.7**	**293.6**	**0.4**	**0.7**	**294.7**
Financial liabilities	351.5	351.5			351.5
Trade payables	139.2	139.2			139.2
Other liabilities	70.9	62.1	0.1	8.7	70.9
Total financial liabilities	**561.6**	**552.8**	**0.1**	**8.7**	**561.6**

Carrying amounts, measurement categories and fair values as of December 31, 2017

€ mill.	Carrying amounts acc. to balance sheet 12/31/2017	Measurement pursuant to IAS 39			Fair values as of 12/31/2017
		(Amortized) cost	Fair value through OCI	Fair value through profit or loss	
Trade receivables	**210.3**				
Loans and receivables	210.3	210.3			210.3
Securities	**0.5**				
Held to maturity	0.1	0.1			0.1
Held for trading	0.0			0.0	0.0
Available for sale	0.4		0.4		0.4
Other financial instruments and other assets	**36.0**				
Loans and receivables	29.3	29.3			29.3
Held to maturity	2.7		2.7		2.7
Held for trading	0.0			0.0	0.0
Available for sale	0.6	0.6	0.0	0.0	0.6
Derivatives in hedging relationships (not a category according to IAS 39.9)	3.4	0.0	0.0	3.4	3.4
Cash and cash equivalents	**96.3**				
Loans and receivables	96.3	96.3			96.3
Total financial assets	**343.1**	**336.6**	**3.1**	**3.4**	**343.1**
Financial liabilities	**304.5**	**304.5**			**304.5**
Trade payables	**141.9**	**141.9**			**141.9**
Other liabilities	**55.5**				
Sundry liabilities	55.2	55.2			55.2
Derivatives in hedging relationships (not a category according to IAS 39.9)	0.3		0.2	0.1	0.3
Total financial liabilities	**501.9**	**501.6**	**0.2**	**0.1**	**501.9**

Measurement pursuant to IAS 39

€ mill.	Carrying amounts acc. to balance sheet 12/31/2017	Measurement pursuant to IAS 39			Fair values as of 12/31/2017
		Amortized cost	Fair value through OCI	Fair value through profit or loss	
Financial assets					
Loans and receivables	335.9	335.9			335.9
Held to maturity	2.8	0.1	2.7		2.8
Held for trading	0.0			0.0	0.0
Available for sale	1.0	0.6	0.4		1.0
Total financial assets	**339.7**	**336.6**	**3.1**	**0.0**	**339.7**
Financial liabilities					
Measurement at amortized cost	501.6	501.6	–	–	501.6
Total financial liabilities	**501.6**	**501.6**	**–**	**–**	**501.6**

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 derivatives in hedging relationships.

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.	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Financial assets measured at fair value			0.4	3.8		
Financial liabilities measured at fair value			8.8	0.3		

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. Level 2 covers inputs for identical or similar assets/liabilities derived from observable market data. Level 3 is for when no observable market data are available, so a measurement model must be used for fair value.
The potential offsetting of financial instruments based on legally enforceable global netting agreements is shown in the following table:

Offsetting possibilities for derivative financial assets and liabilities

€ mill.	2018	2017
Financial assets		
Recognized gross amounts of financial assets	0.7	3.4
Financial instruments that qualify for offsetting	0.0	0.0
Net balance sheet figures of financial assets	**0.7**	**3.4**
Offsettable on the basis of framework agreements	(0.7)	(0.1)
Total net value of financial assets	**0.0**	**3.3**
Financial liabilities		
Recognized gross amounts of financial liabilities	(8.8)	(0.3)
Financial instruments that qualify for offsetting	0.0	0.0
Net balance sheet figures of financial liabilities	**(8.8)**	**(0.3)**
Offsettable on the basis of framework agreements	0.7	0.1
Total net value of financial liabilities	**(8.1)**	**(0.2)**

The net gains/losses and net interest income/expense recognized in the income statement result from the following financial instrument measurement categories:

Net gains/(losses) on financial instruments by measurement category

€ mill.	Assets at amortized cost	Assets at fair value through profit or loss (FVTPL)	Liabilities at amortized cost	Liabilities at fair value through OCI (FVOCI)	2018	2017
Net gains/(losses) from:						
Interests	0.1	0.1	(4.7)		(4.5)	(7.2)
Remeasurement						
from allowances	1.6				1.6	(0.6)
from currency translation differences	(0.2)				(0.2)	(0.9)
at fair value		2.8		0.2	3.0	0.0
Disposal					0.0	0.1
Total	**1.5**	**2.9**	**(4.7)**	**0.2**	**(0.1)**	**(8.6)**

Interest is shown within net interest expense, allowances for loans and (primarily trade) receivables are recognized within the functional (mainly selling) expenses while the net gains or losses on disposal and currency translation are disclosed within net other operating income (or expense, as applicable). Gains from the remeasurement to fair value of securities held for trading and the write-down of financial instruments available for sale are included in the above table and recognized within the other financial 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 rolling liquidity planning and a central cash management system. As of the end of the year cash, cash equivalents and readily salable securities of €49.2 million were at the Group's disposal, as well as additional, un-utilized credit facilities of €183.2 million to satisfy any future liquidity requirements. €93.8 million were related to free credit lines of Vossloh AG under the syndicated loan with a term until November 2023. The majority of the free credit lines of the subsidiaries, which totaled €89.4 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.	2018		2017		2018		2017		2018		2017	
	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest
Nonderivative financial liabilities	(88.6)	(3.9)	(55.7)	(4.1)	(143.8)	(11.5)	(134.2)	(10.8)	(119.8)	(2.3)	(114.5)	(2.9)
Derivative financial liabilities	(3.7)		(0.3)		(5.1)		0.0		0.0		0.0	
Derivative financial assets	0.7		3.4									

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 has not designated any currency derivatives as a cash flow hedge; as such, all 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 111). 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-term loans raised for Group financing purposes, as well as from short-term funds invested at variable rates.

The risk of an unfavorable market rate trend and thus higher interest payments for floating-rate notes is contained by contracting interest rate swaps and caps (see the glossary for these terms, page 165).

In connection with hedge accounting, such interest rate hedging transactions are accounted for as cash flow hedges. The nominal amount of the interest rate swap amounted to €9.0 million as of the reporting date and has a term until the end of 2025. The "critical terms match" is applied as the method for assessing the effectiveness of the hedge. The swap displays an effectiveness of 100 percent. The effects from the swap were recognized directly in other comprehensive income at €0.2 million as of the reporting date.

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 140 et seq.

Taking into account the existing interest rate derivatives, 54 percent of the financial liabilities were taken up with fixed interest rates as of the reporting date, with 46 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 0.2 percent (parallel shift in the yield curve);
- a simultaneous appreciation of the euro against all foreign currencies by 10 percent.

Financial instruments originally stipulated with variable interest rates as well as existing interest rate derivatives were taken into consideration in the determination of the interest-rate risk 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, 2018, would have increased the financial result by €0.8 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. 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 on the provision for hedging transactions:

Sensitivity analysis of key foreign currency derivatives

		Equity			Equity	
€ mill.	2018	+ 10 %	– 10 %	2017	+ 10 %	– 10 %
USD	206.3	0.1	(1.0)	185.7	0.0	0.0
CNY	0.0	0.0	0.0	2.7	0.1	(0.2)

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 default 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				
2018	136.7	76.1	12.5	225.3
2017	142.4	70.9	12.9	226.2
Others				
2018	44.6	1.0	1.5	47.1
2017	40.3	3.4	0.1	43.8

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

Receivables past due but not impaired

€ mill.	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Trade receivables						
2018	26.6	15.7	11.8	12.4	9.6	**76.1**
2017	30.8	12.4	9.9	11.8	6.0	**70.9**
Others						
2018	0.3	0.0	0.1	0.3	0.3	**1.0**
2017	0.1	1.1	0.6	0.9	0.7	**3.4**

No specific default risk arises from past due receivables since, given the customer structure of the Vossloh Group, many debtors are government or other public-sector agencies. In terms of financial assets which are neither past due nor impaired, no indications of potential impairment existed on the balance sheet date.

The maximum credit risk of all financial assets corresponds to their carrying amounts (see analysis on page 142).

Other disclosures

Contingent liabilities

In comparison to December 31, 2017, contingent liabilities decreased by €3.1 million to €21.3 million. As in the previous year, €9.0 million was attributable to total contingent liabilities for the former Electrical Systems business unit sold with effect from January 2017. Vossloh AG was given an irrevocable and unconditional guarantee for these contingent liabilities at first request by a first-class bank. The Group has incurred contingent liabilities under guarantees of €3.5 million (previous year: €5.7 million), (of which €3.2 million (previous year: €5.4 million) are attributed to nonconsolidated affiliated companies) and of €17.8 million (previous year: €18.7 million) for letters of comfort (including €9.1 million (previous year: €10.0 million) attributed to nonconsolidated affiliated companies). The risk of a claim is considered unlikely for all of the listed contingent liabilities.

Other financial obligations

Commitments arising from the acquisition of property, plant and equipment and intangible assets totaled €16.0 million (previous year: €21.0 million).

The minimum undiscounted future payments under operating leases and rental agreements respectively amounted to €36.9 million (previous year: €30.8 million). Commitments under operating leases fall due as follows:

Financial commitments under operating leases

€ mill.	2018	2017
Due up to 1 year	4.8	4.5
Due in 1 to 5 years	7.8	8.6
Due in more than 5 years	2.8	2.7
	15.4	**15.8**

Financial commitments under rental agreements

€ mill.	2018	2017
Due up to 1 year	5.5	5.9
Due in 1 to 5 years	11.5	6.9
Due in more than 5 years	4.5	2.2
	21.5	**15.0**

The obligations under operating leases have been incurred primarily for factory and office equipment. The following payments were recognized in profit or loss:

Lease payments recognized as an expense

€ mill.	2018	2017
thereof from minimum lease payments	4.6	2.0
thereof from contingent rental payments	1.1	1.0
thereof from subleases	0.1	0.1

Future minimum payments of €4.8 million are expected under noncancelable subleases (previous year: €0.8 million).

Significant Group companies with shareholders that have a noncontrolling interest are:
1. Vossloh Fastening Systems (China) Co. Ltd., Kunshan, China
2. 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 2018 fiscal year, €4.1 million (previous year: €8.7 million) of the company's net income was attributable to these shareholders. As of December 31, 2018, the share of equity attributable to shareholders with a noncontrolling interest was €10.5 million (previous year: €14.9 million).

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

€ mill.	2018	2017
Noncurrent assets	12.1	13.8
Current assets	73.1	80.4
Noncurrent liabilities	0.9	2.7
Current liabilities	51.6	44.8
Sales revenues	57.1	128.8
Net income after taxes	12.9	27.3
Total comprehensive income	12.4	24.7
Cash flow	(0.9)	(3.0)
Dividends to shareholders	26.3	20.7

Re 2.: 10.79 percent of the shares of capital of this company are held by shareholders with a noncontrolling interest. In the 2018 fiscal year, €0.5 million (previous year: €(0.2) million) of the company's net income was attributable to these shareholders. As of December 31, 2018, the share of equity attributable to shareholders with a noncontrolling interest was €1.9 million (previous year: €1.4 million).

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

€ mill.	2018	2017
Noncurrent assets	16.0	16.3
Current assets	19.7	19.7
Noncurrent liabilities	0.8	0.6
Current liabilities	17.3	22.3
Sales revenues	49.6	45.2
Net income after taxes	4.4	(2.1)
Total comprehensive income	4.4	(2.1)
Cash flow	(0.5)	1.1
Dividends to shareholders	0.0	0.5

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 152 et seq.

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

Mr. Heinz Hermann Thiele, who was the largest single shareholder in the Annual General Meetings in recent years, indirectly controls the companies of the Knorr-Bremse Group. 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 €0.1 million (previous year: €0.0 million), sales in the amount of €0.0 million (previous year: €0.1 million) as well as open receivables and advance payments as of December 31, 2018, in the amount of €0.0 million (previous year: €0.0 million) and trade payables of €0.0 million (previous year: €0.0 million). Other securities were granted in the amount of €0.1 million in the previous year. There is also a financial asset worth €3.9 million resulting from the sale of shares of the former Vossloh Kiepe GmbH, Düsseldorf.

The table below breaks down the period's 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. The volume of transactions with related individuals was negligible.

€ mill.	2018	2017
Sale or purchase of goods		
Sales revenues from the sale of finished goods or WIP	11.7	16.1
Cost of materials from the purchase of finished goods or WIP	0.7	7.3
Trade receivables	7.8	13.1
Trade payables	1.0	2.1
Sale or purchase of other assets		
Income from the sale of other assets	0.4	0.9
Receivables from the sale of other assets	4.9	0.4
Liabilities from the purchase of other assets	1.1	1.1
Services rendered or received		
Income from services rendered	1.1	1.5
Expenses for services received	0.8	1.6
Licenses		
License income	0.1	0.0
License expenses	0.6	1.2
Financing		
Interest income from financial loans granted	0.0	0.1
Receivables on financial loans granted	8.8	5.6
Provision of guarantees and collateral		
Provision of guarantees	3.2	5.4
Provision of other collateral	1.3	1.4

Supervisory Board members receive short-term benefits of €435.8 thousand for the reporting period (previous year: €420.0 thousand). 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).

Executive Board remuneration

€ mill.	2018	2017
Short-term total remuneration paid	2.5	4.0
Post-employment benefits	0.4	0.4

In the year under review, former Executive Board members received benefits in the form of pension payments totaling €1,172.9 thousand (previous year: €1,133.3 thousand). Pension obligations to former Executive Board and management members and their dependents amount to €24.8 million (previous year: €24.9 million). The full amount of these obligations is recognized in the consolidated financial statements, and the majority of them are covered by plan assets.

The following fees for services rendered by the statutory auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, as well as by firms of KPMG AG's international network in the reporting year were recognized as an expense:

Auditor fees

€ mill.	2018	2017
Statutory audits	1.5	1.3
Other certification/verification services	0.1	0.1
Tax advisory services	0.0	0.0
Other services	0.0	0.1
	1.6	**1.5**

In the 2018 fiscal year, the Group auditor's fees include €0.6 million for statutory audits (previous year: €0.6 million), €0.1 million for other attestation services (previous year: €0.1 million) plus €0.0 million (previous year: €0.0 million) for tax advisory services and €0.0 million (previous year: €0.0 million) for other services.

The fees for statutory audits mainly include those paid for the mandatory Group audit and the statutory audits by KPMG AG of Vossloh AG and its German subsidiaries' financial statements. In addition, there were report reviews of the interim financial statements. The fees for other attestation services include fees for consulting in connection with the continued development of the compliance management system. The fees include €0.1 million (previous year: €0.1 million) for other attestation services plus €0.0 million (previous year: €0.0 million) for tax advisory services provided by KPMG firms based outside of Germany but invoiced through KPMG AG.

German Corporate Governance Code

In November 2018, 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.

Group companies and investees

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

List of shareholdings

€ mill.		Footnote	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-Werke GmbH, Werdohl	3	100.00	(1)	(k)		
(6)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(5)	(k)		
(7)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania		100.00	(5)	(n)	0.1	0.0
(8)	Vossloh Drázni Technika s.r.o., Prague, Czech Republic		100.00	(5)	(n)	0.7	0.3
(9)	Vossloh Sistemi S.r.l., Cesena, Italy		100.00	(5)	(k)		
(10)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(5)	(k)		
(11)	Vossloh Rail Technologies Ltd. Sti., Erzincan, Turkey		99.5/0.5	(5)/(6)	(k)		
(12)	FÉDER-7 Rugógyártó Kft., Sárkeresztes, Hungary		96.67/3.33	(5)/(6)	(n)	0.4	0.0
(13)	Vossloh Fastening Systems America Corp., Chicago, Illinois, USA		100.00	(3)	(k)		
(14)	Vossloh Fastening Systems (China) Co. Ltd., Kunshan, China		68.00	(5)	(k)		
(15)	Vossloh-Werke International GmbH, Werdohl		100.00	(5)	(k)		
(16)	Beijing China-Railway Vossloh Technology Co. Ltd., Beijing, China		49.00	(5)	(n)	2.1	0.6
(17)	Vossloh Fastening Systems Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(89)	(n)	0.0	0.0
(18)	TOO Vossloh Fastening Systems (Kazakhstan), Kapshagay, Kazakhstan		50.00	(15)	(e)		
(19)	Suzhou Vossloh Track Systems Co. Ltd., Suzhou, China		100.00	(15)	(k)		
(20)	AO Vossloh Fastening Systems RUS (formerly: OAO Vossloh Fastening Systems RUS), Engels, Russia	4	50.00	(5)	(e)		
(21)	Vossloh Fastening Systems Australia Pty Ltd., Sydney, Australia		100.00	(4)	(n)	1.0	0.0
(22)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia	4	99.00/1.00	(88)/(2)	(k)		
(23)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl		100.00	(5)	(n)	(1.9)	(0.2)
(24)	Vossloh Fastening Systems India Private Limited, New Delhi, India		99.00/1.00	(5)/(15)	(n)	0.0	0.0
	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)	RCTI Texas LLC, Dallas, Texas, USA		100.00	(26)	(k)		
(29)	RocBra Participacoes e Empreendimentos Ltda., São Paulo, Brazil		100.00	(25)	(n)	5.0	0.0
(30)	Cavan Rocbra Industria E Comercio De Pre Moldados De Concreto Ltda., São Paulo, Brazil		20.00	(29)	(n)	25.8	9.4
(31)	Austrak Pty Ltd., Brisbane, Australia	4	100.00	(4)	(k)		
(32)	Vossloh Tie Technologies Canada ULC, Vancouver, Canada		100.00	(26)	(n)	0.0	0.0
	Customized Modules division						
	Switch Systems business unit						
(33)	Vossloh France SAS, Rueil-Malmaison, France		100.00	(1)	(k)		
(34)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(33)	(k)		
(35)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(34)	(k)		
(36)	Vossloh Cogifer Finland Oy, Teijo, Finland		90.00	(37)	(k)		
(37)	Vossloh Nordic Switch Systems AB, Ystad, Sweden		100.00	(34)	(k)		
(38)	Vossloh Cogifer KIHN SA, Rumelange, Luxembourg		89.21	(34)	(k)		
(39)	Vossloh Laeis GmbH, Trier		100.00	(38)	(k)		
(40)	Futrifer-Indústrias Ferroviárias, SA, Lisbon, Portugal		61.00	(34)	(e)		
(41)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(34)	(e)		
(42)	Montajes Ferroviarios, S. L., Amurrio, Spain		100.00	(41)	(n)	0.3	(0.1)
(43)	Burbiola SA, Amurrio, Spain		50.00	(41)	(n)	1.4	0.1
(44)	Vossloh Cogifer UK Limited, Scunthorpe, United Kingdom		100.00	(34)	(k)		
(45)	Vossloh Cogifer Italia S.r.l., Milan, Italy		100.00	(34)	(k)		
(46)	Vossloh Cogifer Polska Sp.z o.o., Bydgoszcz, Poland		96.87	(34)	(k)		
(47)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(34)	(e)		
(48)	Vossloh Cogifer Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(34)	(k)		
(49)	Siema Applications SAS, Villeurbanne, France		100.00	(34)	(k)		

€ mill.		Footnote	Shareholding in %	at	Consoli-dation[1]	Equity[2]	Result after taxes[2]
(50)	VOSSLOH MIN SKRETNICE DOO ZA Proizvodnjui Montazu Skretnica i Opreme Nis, Niš, Serbia		100.00	(34)	(k)		
(51)	Vossloh Beekay Castings Ltd., New Delhi, India	5	58.48	(34)	(e)		
(52)	Vossloh Cogifer Turnouts India Private Limited, Hyderabad, India	5	100.00	(34)	(k)		
(53)	Vossloh Cogifer Signalling India Private Limited, Bangalore, India	5	100.00	(34)	(k)		
(54)	Vossloh Track Material, Inc., Wilmington, Delaware, USA		100.00	(3)	(k)		
(55)	Cleveland Track Material Inc., Cleveland, Ohio, USA		100.00	(3)	(k)		
(56)	Vossloh Cogifer Australia Pty Ltd., Castlemaine, Australia		100.00	(4)	(k)		
(57)	Vossloh Cogifer Kloos BV, Nieuw-Lekkerland, Netherlands		100.00	(34)	(k)		
(58)	Wuhu China Railway Cogifer Track Co. Ltd., Wuhu, China		50.00	(34)	(e)		
(59)	Vossloh Signaling USA, Inc., Wilmington, Delaware, USA		100.00	(3)	(k)		
(60)	Vossloh Cogifer Argentina S. A., Buenos Aires, Argentina		90.00/10.00	(34)/(35)	(n)	(2.5)	(0.2)
(61)	Vossloh Cogifer Southern Africa Proprietary Limited, Cape Town, South Africa		100.00	(89)	(n)	0.0	0.0
(62)	Vossloh Cogifer do Brasil Administracao de Bens e Participacoes Ltda., Sorocaba, Brazil		99.99/0.01	(34)/(35)	(k)		
(63)	Vossloh Cogifer do Brasil Metalúrgica MBM SA, Sorocaba, Brazil		100.00	(62)	(k)		
(64)	Outreau Technologies SAS, Outreau, France		100.00	(34)	(k)		
	Lifecycle Solutions division						
	Rail Services business unit						
(65)	Vossloh Rail Services GmbH, Hamburg	3	100.00	(1)	(k)		
(66)	Vossloh Rail Center GmbH, Hamburg	3	100.00	(65)	(k)		
(67)	GTS Gesellschaft für Gleistechnik Süd mbH, Leipzig	3	100.00	(66)	(k)		
(68)	Alpha Rail Team GmbH & Co. KG, Berlin	3	100.00	(66)	(k)		
(69)	Alpha Rail Team Verwaltungs GmbH, Berlin		100.00	(66)	(k)		
(70)	Vossloh Logistics GmbH, Hanover	3	100.00	(65)	(k)		
(71)	Vossloh Ray Hizmetleri Limited Sirketi, Ankara, Turkey		100.00	(74)	(k)		
(72)	Vossloh High Speed Grinding GmbH, Hamburg	3	100.00	(65)	(k)		
(73)	Vossloh Mobile Rail Services GmbH, Leipzig	3	100.00	(66)	(k)		
(74)	Vossloh Rail Services International GmbH, Hamburg	3	100.00	(65)	(k)		
(75)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(74)	(e)		
(76)	Vossloh Rail Services Scandinavia AB, Örebro, Sweden		100.00	(74)	(k)		
(77)	Vossloh Rail Services North America Corporation, Chicago, Illinois, USA		100.00	(3)	(n)	0.0	(0.1)
(78)	Beijing CRM-Vossloh Track Maintenance Technology Co., Ltd., Beijing, China		47.00	(74)	(e)		
(79)	Vossloh Rail Services Kunshan Co., Ltd., Kunshan, China		100.00	(74)	(k)		
(80)	Vossloh Rail Services Finland Oy, Kouvola, Finland		90.00	(74)	(k)		
(81)	Rhomberg Sersa Vossloh GmbH, Longuich	4	50.00	(65)	(e)		
	Transportation division						
	Locomotives business unit						
(82)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(k)		
(83)	Locomotion Service GmbH, Kiel	3	100.00	(82)	(k)		
(84)	Vossloh Locomotives France SAS, Paris, France		100.00	(82)	(k)		
(85)	Vossloh Locomotives Scandinavia AB, Örebro, Sweden		100.00	(82)	(k)		
(86)	Imateq SAS, Saint Pierre des Corps, France		55.00	(84)	(e)		
(87)	Imateq Italia S.r.l., Tortona, Italy		100.00	(82)	(k)		
	Other companies						
(88)	Vossloh Track Systems GmbH, Werdohl		100.00	(1)	(n)	(0.2)	(0.1)
(89)	Vossloh Southern Africa Holdings Proprietary Ltd., Johannesburg, South Africa		100.00	(88)	(n)	0.5	0.0
(90)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl		100.00	(1)	(n)	0.0	0.0
(91)	Vossloh Dritte Beteiligungsgesellschaft mbH, Düsseldorf		100.00	(90)	(n)	0.0	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

Executive Board of Vossloh AG

Andreas Busemann, born 1966, Frankfurt am Main,
Chairman of the Executive Board
First appointment: 4/1/2017, appointed until: 3/31/2020

Volker Schenk, born 1964, Düsseldorf
First appointment: 5/1/2014, appointed until: 4/30/2020
External mandates:
- Institut für Bahntechnik GmbH: Member of the Supervisory Board

Group mandates:
- Vossloh Cogifer SA: Chairman of the Administrative Board (until 6/26/2018)
- Vossloh Cogifer SA: Chairman of the Supervisory Board (since 6/26/2018)
- Vossloh Australia Pty Ltd.: Member of the Administrative Board
- Vossloh Fastening Systems Australia Pty Ltd.: Member of the Administrative Board
- Vossloh Track Systems GmbH: Managing Director
- Vossloh International GmbH: Managing Director
- Vossloh Southern Africa Holdings Pty Ltd.: Managing Director
- Wuhu China Railway Cogifer Track Co. Ltd.: Member of the Administrative Board
- Vossloh Fastening Systems (China) Co. Ltd.: Chairman of the Administrative Board
- Beijing China-Railway Vossloh Technology Co. Ltd.: Member of the Administrative Board
- Beijing CRM-Vossloh Track Maintenance Technology Co. Ltd.: Chairman of the Supervisory Board
- Suzhou Vossloh Track Systems Co. Ltd.: Chairman of the Administrative Board

Oliver Schuster, born 1964, Kierspe
First appointment: 3/1/2014, appointed until: 2/29/2020
External mandates:
- Wohnungsgesellschaft Werdohl GmbH: Member of the Supervisory Board

Group mandates:
- Vossloh Cogifer SA: Member of the Administrative Board (until 6/26/2018)
- Vossloh Cogifer SA: Member of the Supervisory Board (since 6/26/2018)
- Vossloh France SAS: President

Supervisory Board of Vossloh AG

Dr.-Ing. Volker Kefer[2,4], Chairman, Erlangen,
former Deputy CEO of Deutsche Bahn AG
- Bombardier Transportation (Global Holding) UK Limited (Board Member) (until May 31, 2018)

Ulrich M. Harnacke[2,3,4], Deputy Chairman, Mönchengladbach,
Auditor and Tax Advisor
- Member of the Shareholders' Committee of Thüga Holding GmbH & Co. KGaA
- Member of the Supervisory Board and Chairman of the Audit Committee of Brenntag AG
- Member of the Advisory Board of Zentis GmbH & Co. KG, Aachen, Germany (since May 3, 2018)

Prof. Dr. Anne-Christine d'Arcy[3,4], (since 5/9/2018), Vienna, Austria,
University Professor for Corporate Governance and Management Control

Dr. Bernhard Düttmann[4] (since 5/9/2018),
Diplom-Kaufmann (MBA), Meerbusch, independent management consultant and
interim Member of the Executive Board of CECONOMY AG
- Member of the Supervisory Board of CECONOMY AG (mandate suspended due to appointment to the Executive Board)
- Member of the Supervisory Board of alstria office REIT-AG

Andreas Kretschmann[1], Neuenrade, social security employee

Dr.-Ing. Wolfgang Schlosser[4], (until 5/9/2018), Puchheim,
consultant and former Managing Director of Knorr-Bremse Systeme für Schienenfahrzeuge GmbH

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

Ursus Zinsli[3,4], (until 5/9/2018), Saint-Sulpice (Canton of Vaud, Switzerland),
former Managing Director of Scheuchzer SA
- Vice-President of the Administrative Board of FURRER + FREY AG

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

Proposed profit appropriation

In accordance with German GAAP, the financial statements for the 2018 fiscal year show a net loss of €3,549,815.47 and, after including the profit carryforward of €114,202,179.24, net profit retained of €110,652,363.77.

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 €45,325,167.47 and that the remaining amount of €94,684,926.77 be carried forward. The total dividend amount is €15,967,437.00.

Werdohl, Germany, February 28, 2019,

Vossloh AG
The Executive Board

Andreas Busemann, Volker Schenk, Oliver Schuster

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, February 28, 2019,

Vossloh AG
The Executive Board

Andreas Busemann, Volker Schenk, Oliver Schuster

Independent auditor's report

To Vossloh Aktiengesellschaft, Werdohl

Report on the audit of the consolidated financial statements and the Group management report

Auditor's opinion

We have audited the consolidated financial statements of Vossloh AG, Werdohl, and its subsidiaries (the Group) – which comprise the consolidated balance sheet as of December 31, 2018, the income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from January 1 to December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (hereafter: the Group management report) of Vossloh AG for the fiscal year from January 1 to December 31, 2018. In accordance with the requirements of the German commercial code, we have not audited the nonfinancial Group statement, or the Declaration on Corporate Governance presented in the "Nonfinancial Group statement," section and the "Reference to the corporate governance report pursuant to Section 289f HGB" section of the Group Management report.

In our opinion, based on our knowledge obtained in the audit,

– the accompanying consolidated financial statements comply in all material respects with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code [HGB], and give a true and fair view of the net assets and financial position of the Group as of December 31, 2018, as well as the results of operations for the fiscal year from January 1 to December 31, 2018, and

– the attached Group management report, as a whole, provides an accurate view of the Group's position. In all material respects, this Group 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 opinion on the Group management report does not cover the statements made in the nonfinancial Group statement, and the Declaration on Corporate Governance described above.

Pursuant to Section 322 (3) Sent. 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations with respect to the propriety of the consolidated financial statements and the Group management report.

Basis for these opinions

We conducted our audit in accordance with Section 317 HGB and the EU-auditor's regulation [EU-Abschlussprüferverordnung] (No. 537/2014; hereafter: "EU-APrVO") and in compliance with German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Our responsibilities under those standards and additional guidelines are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group companies in accordance with the requirements of European and German commercial law and the rules of professional conduct, and we have fulfilled our other professional responsibilities applicable in Germany in accordance with these requirements. In accordance with Article 10 (2f) EU-APrVO, we declare that we have not provided prohibited nonaudit services as referred to in Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements and the Group management report.

Key audit matters addressed in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance for our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Measurement and presentation of the Locomotives business unit in accordance with IFRS 5

We refer to Note (7) in the notes to the consolidated financial statements for details of the accounting and measurement policies applied.

THE FINANCIAL STATEMENT RISK

Assets held for sale (the Locomotives business unit) totaled €104.5 million (previous year: €137.9 million) as of the balance sheet date. Liabilities held for sale totaled €70.6 million (previous year: €87.0 million) as of the balance sheet date. The result from discontinued operations amounted to €(2.1) million (previous year: €(35.8) million) in the 2018 fiscal year.

The measurements made in accordance with IFRS 5 resulted in an impairment write-down of €2.7 million (previous year: €26.0 million), which is included in the result from discontinued operations. The intention to sell has existed since the 2017 fiscal year.

In order for a business activity to be classified as held for sale, it must be available for sale in its present condition, the sale must be highly probable, and it must be expected that the sale will be completed within one year. If these three conditions are still deemed to be fulfilled as of the balance sheet date of December 31, 2018, the specific presentation and measurement requirements of IFRS 5 are applied. The measurement of assets held for sale is carried out at the lower of their carrying value or fair value less costs to sell.

There is a risk of incorrect reporting and a risk of an unrecorded impairment write-down as of December 31, 2018. In addition, there is also a risk that the disclosures in the notes are not correct.

OUR AUDIT APPROACH

We are satisfied that the conditions for classifying the Locomotives business unit as available for sale remained fulfilled as of the balance sheet date of December 31, 2018. For this purpose, we have interviewed the Executive Board and examined minutes of Executive Board and Supervisory Board meetings. In addition, our audit procedures included examining offers made by potential buyers and assessing the impairment calculation.

We have also performed audit procedures by examining the accounting records and the offers to determine whether the offers only relate to those assets and liabilities which are held for sale. Based on these audit procedures, we have assessed whether the balance sheet and income statement items are appropriately classified as assets and liabilities held for sale and as results from discontinued operations, respectively.

We have made an evaluation of the measurement as of the balance sheet date in accordance with IFRS 5 that the Group’s assessments are appropriate and reasonable. In doing so, we have obtained and critically evaluated information from discussions with the Executive Board and the specialist departments at Vossloh AG. Further, we have verified the further expected selling costs with the relevant contracts and the arithmetic calculation of the resulting impairment write-down and its allocation to the noncurrent assets in the Locomotives business unit.

We have also made an assessment as to whether the disclosures presented in the notes are appropriate.

OUR CONCLUSIONS

The classification of the Locomotives business unit as a discontinued operation in accordance with IFRS 5 is appropriate. The measurement in accordance with IFRS 5 is reasonable and judgments made relevant to the measurement were applied in a reasonable manner. The necessary disclosures in the notes are appropriate.

Recognition and measurement of assets and liabilities included in the consolidated financial statements for the first time resulting from the acquisition of the rail milling division of STRABAG Rail GmbH

Please refer to the section "Consolidation" in the notes to the consolidated financial statements regarding the acquisition of the rail milling division of STRABAG Rail GmbH, Lauda-Königshofen.

THE FINANCIAL STATEMENT RISK

With the purchase agreement dated October 31, 2018, Alpha Rail Team GmbH & Co. KG acquired the rail milling division of STRABAG Rail GmbH, Lauda-Königshofen, effective as of December 21, 2018, for a purchase price of €15 million as part of an asset deal. The acquisition encompassed part of a business consisting of tangible and intangible assets as well as employees. In consideration of the acquired net equity of €20.5 million, a negative difference amounting to €5.5 million was incurred which was recognized in profit and loss.

In accordance with IFRS 3, a purchase price allocation is used to recognize the acquired assets and liabilities assumed at their fair values in the consolidated financial statements as of December 31, 2018. Vossloh engaged a third-party evaluator in order to classify and measure the identifiable assets and liabilities assumed.

For the purposes of the presentation of the acquisition in the consolidated financial statements, the acquired assets and liabilities first need to be identified. After identification, the individual assets and liabilities are then measured at their fair values, taking account of planning and other assumptions. Both steps are complex processes and require the Executive Board to make discretionary assumptions.

Since the value of the acquired assets and liabilities and the identified intangible assets exceeded the purchase price, the Company carried out a repeated assessment of the fair values of the acquired assets and liabilities and the identified intangible assets in accordance with the provisions of IFRS 3 and confirmed the previous assessment.

The risk for the financial statements is that the acquired assets and liabilities are not identified correctly or that the values ascribed to them are not correct. In addition, there is a risk that the disclosures made in the notes are not correct.

OUR AUDIT APPROACH

Our audit of the recognition and measurement of the acquired assets and liabilities recognized in the context of the acquisition of the rail milling division of Strabag was supported by our own valuation experts and included, among others, the following procedures:

– Audit of the existence of the transfer of control from December 21, 2018, by examination of the fulfillment of the closing conditions set out in the purchase agreement

– Audit of the existence of a company acquisition in accordance with IFRS 3

– Performing plausibility tests and critical assessment of the assumptions made in the purchase price allocation and the identification and valuation processes, including
  - Plausibility testing of the sales and results planned for the rail milling division, taking into account general and sector-specific market expectations
  - Assessments of whether the acquired assets and liabilities meet the IFRS 3 recognition criteria
  - Assessment of the appropriateness of the valuation methodology and its application in the valuation model
  - Assessment of the significant valuation inputs such as the cost of capital, diminution rates and licensing rates, using external sources

– Audit of the arithmetical accuracy of the fair value models used to determine the fair values

– Assessment of the competence, abilities and objectivity of the third-party evaluator employed by Vossloh AG

– Evaluation of the deferred taxes calculated as a result of the revaluations and the associated differences in the carrying value of the assets and liabilities

– Examination of the accounting entries recorded for the transaction in the consolidated financial statements including the associated disclosures made in the notes

OUR CONCLUSIONS

The acquired assets and liabilities are appropriately identified and valued and comply with the applicable accounting and measurement policies. The significant assumptions and parameters used are appropriate and the presentation in the notes is appropriate.

Recognition of sales revenues in the correct reporting periods

We refer to Note (1) in the notes to the consolidated financial statements for details of the accounting and measurement policies applied.

THE FINANCIAL STATEMENT RISK

Sales revenues totaled €865.0 million in the 2018 fiscal year (previous year: €918.3 million).

Vossloh recognizes sales when they fulfill a service obligation to a customer by transferring a promised asset. An asset is deemed transferred when the customer obtains the power of disposal over this asset. In accordance with the transfer of the power of disposal, IFRS 15 stipulates that sales revenues must be recorded at the amount to which the company is entitled in accordance with expectations, either in relation to a point in time or a period of time. On the basis of the fulfillment of the following indicators, Vossloh has determined that the service obligations are essentially (approx. 90 percent of sales revenues) fulfilled as of the time of transfer of the products to the customer and the sales recognition thus takes place in relation to a point in time:

– Vossloh has a current claim to the receipt of payment for the asset,

– The customer holds a right of ownership to the asset,

– Vossloh has transferred the physical possession of the asset,

– The significant risks and opportunities associated with ownership of the asset have been transferred to the customer,

– The customer has accepted the asset.

As a rule, the contract parties agree to the transfer of risks and, as a result, also the revenue recognition date, by the use of Incoterms. These govern when the significant risks and opportunities are transferred to the customer.

Recognition of sales revenues in relation to a time period (approx. 10 percent of sales revenues) is carried out in accordance with the provisions of IFRS 15.35(c) at the Vossloh Group in terms of performance.

As sales revenues are an important key performance indicator for the Group and given the direct and indirect importance of sales revenues for other primary key performance indicators used by the Group (for example EBIT), we have, in performing our audit, identified the correct appropriation of revenue between reporting periods as a significant error risk.

The Group has a focus on markets in China, North America, Western Europe and Russia. Worldwide deliveries of rail fastening systems and switch systems are made by the Group's companies based on a number of different Incoterms. Vossloh AG has an accounting guideline that describes the approach to be followed by Group companies when recognizing sales revenues. The different Incoterms, various transport routes and transport times result in the risk to the financial statements that sales revenues recognized in relation to a certain point in time may inadvertently be incorrectly allocated between reporting periods at the balance sheet date.

OUR AUDIT APPROACH

We evaluated the Group-wide provisions of the accounting guideline and the corresponding adjustments to this which have become necessary as a consequence of the application of IFRS 15 for the first time. In order to audit the correct appropriation of revenue between reporting periods, we have made assessments of the internal control covering order acceptance, delivery of goods and invoicing in order to determine whether they are appropriately designed and effective. We are satisfied concerning the appropriateness of the correct appropriation (cut-off) at the balance sheet date. For this purpose, we examined documentation for the companies of relevance to the consolidated financial statements – particularly invoices, delivery documents and payment

receipts – based on sales procedures selected on a risk-oriented basis which were selected for a specified period of time around the balance sheet date. The correct allocation between periods was verified by reference to the transfer of risk as defined in the Incoterms, using the invoices selected in this way together with evidence of external delivery. In addition, we obtained third-party confirmations from debtors or – as an alternative audit procedure – verified the selected invoices against delivery documents and payment receipts.

OUR CONCLUSIONS

Vossloh AG has an appropriate accounting policy guideline governing the process of recognizing sales revenues, which is applied by the companies in the Group. The process used by Vossloh AG to recognize sales revenues in the correct periods is appropriate.

Other information

The legal representatives are responsible for the other information. The other information consists of the following:

– The nonfinancial Group statement, the Declaration on Corporate Governance, and

– the other components of the annual report, with the exception of the audited consolidated financial statements, the Group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the Group management report do not cover the other information, and we consequently do not express an opinion or provide any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the Group management report or our knowledge obtained in the audit or

– appears to be otherwise materially misstated.

Responsibilities of the legal representatives and the Supervisory Board for the consolidated financial statements and the Group management report

The legal representatives are responsible for the preparation of the consolidated financial statements which are in compliance, in all material aspects, with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315e (1) HGB, and which give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for such internal control as it determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether intentional or otherwise.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are 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.

The legal representatives are responsible for preparation of the Group management's 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 legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group 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 Group 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 Group management report.

Auditor’s responsibilities for the audit of the consolidated financial statements and the Group management report

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether intentional or otherwise – and whether the Group 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 opinions on the consolidated financial statements and on the Group 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 EU-APrVO and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW) will always detect a material misstatement when it exists. 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.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report – whether intentional or otherwise – and design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the legal representatives.

– Conclude on the appropriateness of the legal representatives’ 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 Group management report or, if such disclosures are inadequate, to modify our respective 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 the additional requirements of German commercial law pursuant to Section 315e (1) HGB and full IFRS.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We have sole responsibility for our opinions.

– Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with law, and the view of the Group’s position it provides.

– Perform audit procedures on the prospective information presented by the legal representatives in the Group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the legal representatives 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 opinion on the prospective information or on the assumptions used as a basis. There is a substantial unavoidable risk that future results will differ substantially from the disclosures regarding future events.

We communicate with those responsible for supervision 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 responsible for supervision 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.

Of the matters communicated with those responsible for supervision, we determine the 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 our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 EU-APrVO

We were elected as the Group's auditor by the annual general meeting on May 09, 2018. We were commissioned by the Supervisory Board on November 15, 2018. We have been the Group auditor of Vossloh AG without interruption since the 2015 fiscal year.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 EU-APrVO (long-form audit report).

Responsible auditor

The auditor responsible for the audit is Michael Jessen.

Düsseldorf, 28 February 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

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