

# *Declaration on Corporate Governance/ Corporate Governance Report*

The following Declaration on Corporate Governance in accordance with Sections 289f (1) and 315d of the German Commercial Code in conjunction with the transitional provision of Article 83 (1) of the Introductory Act to the German Commercial Code also includes the corporate governance report pursuant to number 3.10 of the German Corporate Governance Code as per February 7, 2017.

## **Management and control structure**

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

## **Executive Board**

The two members of the Executive Board are responsible for jointly running the Company. Since October 1, 2019, CEO Oliver Schuster, besides coordinating the work of the Executive Board, has been responsible for the areas of Accounting, Controlling, Treasury, Taxes, Internal Audit, Legal, Compliance, Investor and Media Relations, Strategy, M&A, Digital Business, IT, Research and Development and Innovation. Dr.-Ing. Karl Martin Runge is responsible for Sales, Technology, Marketing Communication, HSE/Sustainability and HR. More information on the members of the Executive Board of Vossloh AG can be found on page 158 of this annual report.

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

The Supervisory Board is responsible for the appointment and dismissal of the Executive Board members. In this regard, the Supervisory Board observes specific target figures stipulated by the German Act on Equal Participation of Men and Women in

Executive Positions in the Public and Private Sectors and also the age limit stipulated for members of the Supervisory Board in the Rules of Procedure (i.e., the statutory retirement age). Mainly because of the size of Vossloh AG's Executive Board, a more extensive diversity concept stipulating requirements regarding career paths and education is not in place for the Executive Board. Executive Board members are selected on the basis of a systematic search, which focuses in particular on expertise and personality, and numerous other features.

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

## **Supervisory Board**

The Supervisory Board, which comprises six members in accordance with Article 10 (1) sentence 1 of the Articles of Incorporation, is composed subject to the provisions of Germany's One-Third Participation Act (DrittelbG) and the Stock Corporation Act (AktG). Two thirds of its members are shareholder representatives and one third is made up of employee representatives. In accordance with the recommendations of the German Corporate Governance Code, the shareholder representatives were elected individually. The terms in office of all the current Supervisory Board members (with the exception of Dr. Grube, who is legally appointed until the next Annual General Meeting) end on conclusion of the Annual General Meeting in 2023, at which a resolution will be passed to formally approve the actions of the Supervisory Board members in the 2022 fiscal year. More information on the members of the Supervisory Board of Vossloh AG, including how long they have been on the Board, can be found on page 159 of this annual report.

The Supervisory Board oversees and advises the Executive Board on its management of business and discusses business development, planning, the strategy and its implementation, risk management, and compliance issues with the Executive Board at regular intervals. It approves the annual budget and decides on the adoption of the annual financial statements of Vossloh AG and approval of the consolidated financial statements. Certain material transactions and measures regulated by the Executive Board's Rules of Procedure are subject to the approval of the Supervisory Board. The work methods of the Supervisory Board are regulated by the Rules of Procedure, which are published on the Company's website.

The Supervisory Board most recently stipulated concrete targets for its composition at its meeting on September 28, 2017, and developed a competency profile for the body as a whole. The "Requirements and Objectives for the Composition of the Vossloh Aktiengesellschaft Supervisory Board" are published on the Company's website and also include the diversity concept. With regard to diversity, the Supervisory Board is setting its sights on a composition within the parameters of the Company-specific situation that takes into account a varied career and international experience and, in particular, the appropriate involvement of all genders. Based on the German Act on Equal Participation of Men and Women in Executive Positions in the Public and Private Sectors, the Supervisory Board set itself a target of at least 16.67 percent (one member) for the target period up to June 30, 2022. This target has been met as the Supervisory Board currently has two female members (33.34 percent).

The Supervisory Board's other requirements and objectives regarding its composition relate, in addition to other factors, to the full board's expertise, the independence of its members, potential conflicts of interest, availability, an age limit (usually 70 years) and the duration of board tenures (usually no longer than three terms). The Supervisory Board meets these requirements and objectives with its current composition. Specifically, the Supervisory Board members have the necessary professional and personal qualifications. Regarding independence, the Supervisory Board determined that, taking into account the Vossloh owner structure, at least half of the Supervisory Board should comprise independent members within the meaning of number 5.4.2 of the German Corporate Governance Code. The Supervisory Board concludes that as of December 31, 2019, all the Supervisory Board members were deemed independent within the meaning of number 5.4.2 of the Code. The election proposals put to the Annual General Meeting by the Supervisory Board are to accommodate the "Requirements and Objectives for the Composition of the Vossloh Aktiengesellschaft Supervisory Board" as adopted by the Supervisory Board.

The Supervisory Board performs its duties both as a plenary body and through its three current committees, which it established to improve the efficiency of its activities. The committee chairs report on relevant issues and the results of discussions in the plenary Supervisory Board meeting following each committee meeting. The Personnel Committee currently has four members: Prof. Dr. Grube, Dr. Nikutta, Mr. Harnacke and Mr. Ulrich. The Personnel Committee is mainly responsible for Executive Board matters. It prepares personnel decisions, resolutions and the reviews of the full Supervisory Board regarding the remuneration system and the total remuneration of the individual Executive Board members. The Chairman of the Supervisory Board is also Chairman of the Personnel Committee.

The Audit Committee is first and foremost responsible for monitoring accounting, the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system, the financial statement audits and compliance. Its members are Mr. Harnacke, Prof. Dr. d'Arcy and Mr. Ulrich. The Audit Committee prepares the Supervisory Board's auditing of the annual and consolidated financial statements, the combined management report and the audit reports of Vossloh AG and the Group. The quarterly statements and half-year report are discussed jointly by the Audit Committee and the Executive Board prior to publication. The Audit Committee also obtains regular reports directly from the Internal Audit department and the Chief Compliance Officer. The Chairman of the Audit Committee is Mr. Harnacke. Mr. Harnacke is a tax adviser and auditor and the former managing director of Deloitte & Touche GmbH. As a financial expert, he meets the requirements stipulated in Section 100 (5) AktG.

The Nomination Committee is responsible for long-term succession planning for the Supervisory Board and for preparing candidate proposals for the Supervisory Board. Its four members are Prof. Dr. Grube, Dr. Nikutta, Dr. d'Arcy and Mr. Harnacke. The Supervisory Board then selects the election proposals that will be presented to the Annual General Meeting for an appointment decision. The Chairman of the Nomination Committee is Prof. Dr. Grube.

The Supervisory Board assesses the efficiency of its activities on a regular basis. The Supervisory Board does this by alternating between using external assistance and performing internal evaluations. The most recent assessment was an internal evaluation. The positive results were discussed in March 2018.

Every Supervisory Board member is obligated to act in the Company's best interests. Potential conflicts of interest must be reported to the Chairman of the Supervisory Board immediately. Supervisory Board members must abstain from voting on any business that affects themselves or related parties or companies. No member of the Supervisory Board received remuneration or benefits for personally rendered services in addition to their emoluments for their Supervisory Board activities. There are no former members of the Executive Board on the Supervisory Board of Vossloh AG.

## Compliance

Vossloh considers compliance to be conduct in line with all the applicable laws and internal guidelines. As a global enterprise with a history of over 130 years, Vossloh has a social responsibility toward its customers, partners, employees, investors and the public. This social responsibility involves Vossloh and all its employees adhering to the applicable laws, respecting basic ethical values and acting in an exemplary fashion at all times and in all situations in the course of their work.

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

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

To implement and monitor compliance, the Executive Board established the Compliance Organization, stipulating its structure, the responsibilities and tasks of the individual compliance positions, and their reporting channels in the *“Rules of Procedure of the Compliance Organization.”* The Vossloh Compliance Organization comprises the Chief Compliance Officer (supported by a Compliance Office), the Group Compliance Committee at Vossloh AG, Compliance Officers and Compliance Committees within the business units and Local Compliance Officers within the operating companies. The Chief Compliance Officer regularly reports to the Executive Board and Supervisory Board. Vossloh set up a whistleblower hotline in partnership with an international law firm in order to uncover potential compliance violations. The whistleblower hotline allows company employees and external whistleblowers to report possible misconduct to an independent external contact (ombudsperson). The whistleblower hotline has so far been set up for 24 countries. As such, the main regions and the languages spoken within the Vossloh Group are essentially covered. The Chief Compliance Officer follows up all reports and implements appropriate measures where necessary.

The Chief Compliance Officer and the Group Compliance Committee continually review the effectiveness of the Compliance Management System throughout the Group. In the 2017 fiscal year, the Vossloh Group’s Compliance Management System was subjected to a comprehensive audit in accordance with Assurance Standard 980 of the Institute of Public Auditors in Germany (IDW AsS 980) by KPMG AG Wirtschaftsprüfungsgesellschaft regarding the subsections of antitrust law and anticorruption. The audit was performed as an effectiveness assessment and was concluded in February 2018. KPMG confirmed that the Vossloh Group’s Compliance Management System is implemented appropriately and was effective in the period under review. Insofar as findings and recommendations were stated regarding compliance work, they have been and will be implemented in the course of the ongoing development and improvement of the Compliance Management System. Vossloh has published the audit report on the Company website under *“Corporate Governance” > “Compliance”* in the *“Investor Relations”* section.

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

## Risk and control management

The principles of good corporate governance include responsible business risk management. The Vossloh AG Executive Board and the management teams of Vossloh Group companies have Group-wide and company-specific reporting and control systems at their disposal that ensure that such risks are recorded, assessed and managed. The systems are continually checked for their effectiveness, adapted to changing parameters if applicable and examined by the auditor as part of the statutory auditing requirements. As described above, the Supervisory Board and Audit Committee are regularly briefed on and involved in the risk management process. Details of risk management within the Vossloh Group can be found in the risk report (from page 68). This also includes the report on the accounting-related internal control and risk management system.

## Declaration of Conformity

Once again in 2019, the Executive Board and Supervisory Board of Vossloh AG dealt extensively with the recommendations of the German Corporate Governance Code. Vossloh's corporate governance practices are regularly reviewed accordingly.

The Executive Board and Supervisory Board issued the following Declaration of Conformity in November 2019:

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

*Vossloh Aktiengesellschaft has complied with all the recommendations of the German Corporate Governance Code ("the Code") published by the Federal Ministry of Justice in the Official Section of the Federal Gazette as per February 7, 2017, and will continue to do so in the future.*

## Shareholders and Annual General Meeting

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

## Investor Relations

Vossloh ensures that its shareholders and other capital market participants all receive the same information in a timely and efficient manner. All the information published by Vossloh regarding the Company is immediately made accessible on the Company website [www.vossloh.com](http://www.vossloh.com) in English and German. This applies in particular to the annual report, the half-year report, the interim quarterly statements and the invitation to the Annual General Meeting. The scheduled dates of major recurring events and publications, specifically the Annual General Meeting, annual reports and interim reports and statements, are listed in a financial calendar that is published in good time

on the Vossloh AG website. The consolidated financial statements are published within 90 days of the end of the fiscal year, and the half-year report and interim statements are made public at the latest within 45 days of the end of the reporting period. If circumstances arise at Vossloh outside of the regular reporting that directly affect Vossloh and have the potential to significantly influence the stock market price of the Vossloh share, these are immediately made known by means of ad hoc disclosures (Section 17 of the Market Abuse Regulation). In addition, the website [www.vossloh.com](http://www.vossloh.com) provides extensive and up-to-date information on the Vossloh Group and the Vossloh share.

## Accounting and auditing

Vossloh Group accounting is based on the International Financial Reporting Standards (IFRS) as applicable in the EU. The annual financial statements of Vossloh AG, on the other hand, are prepared in accordance with the German Commercial Code (HGB) as stipulated by law. Both the consolidated financial statements in accordance with IFRS and the individual financial statements pursuant to German accounting regulations were audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft in accordance with the German regulations and taking into account the generally accepted German auditing principles promulgated by the Institute of Public Auditors in Germany (IDW), this audit firm having been elected by the 2019 Annual General Meeting at the Supervisory Board's proposal. The audit work was contracted by the Supervisory Board's Audit Committee in accordance with the recommendations of the German Corporate Governance Code following verification beyond doubt of the auditor's independence. An agreement was reached with the auditor that the auditor would notify the Supervisory Board without delay of any findings or events of significance to the Supervisory Board's duties that came to light in the course of its audit and would notify the Supervisory Board of any facts identified that would make its Declaration of Conformity with the German Corporate Governance Code incorrect. However, no indications of any such facts were identified in the course of the audit. The condensed interim consolidated financial statements and the interim Group management report as of June 30, 2019, were subjected to an auditor's review.

## Involvement of women and men in executive positions

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

On May 23, 2017, the Supervisory Board set a target of 0 percent for the Executive Board of Vossloh AG, which currently comprises two male members, for the next target period up to June 30, 2022. Following the change in October 2019, there are no current plans to make any changes or additions to the Executive Board.

On May 19, 2017, the Executive Board set targets of 25 percent for both the first and second management levels below the Executive Board, to be achieved by June 30, 2022. The first management level achieved 16.7 percent in 2019 (previous year: 25.0 percent) following the implementation of the performance program and the reorganization of areas of responsibility. The second management level achieved 25.0 percent (previous year: 28.6 percent).

## Executive Board and Supervisory Board remuneration

The Supervisory Board approves and regularly reviews the Executive Board's remuneration system. The remuneration structure is geared toward sustainable corporate development. A multi-year assessment basis has been agreed for the majority of the variable remuneration. The total remuneration of the individual Executive Board members is determined by the Supervisory Board. This takes into account the individual members' duties, their personal performance, the economic situation, the Company's success and future prospects and how customary the remuneration is when compared horizontally and vertically, as well as the development of these individual criteria. The system for the remuneration of Executive Board members, which was revised in the 2017 fiscal year, was approved by the Annual General Meeting on May 9, 2018. This remuneration system was revised due to changes in personnel and the Executive Board being reduced in size in October 2019. In particular, the variable remuneration was made more dependent on the share price performance. Since 2014, Supervisory Board remuneration has been purely fixed remuneration; this is regulated in the Articles of Incorporation of Vossloh AG. More information on Executive Board and Supervisory Board remuneration can be found in the remuneration report starting on page 55, which is part of both the combined management report and this Declaration on Corporate Governance.