WE MAKE RAIL EASY

Annual Report 2017
of VTG Aktiengesellschaft

Roundtrip Monitoring
Geofencing
Mileage
Alarm functions
Dashboards
Sensors

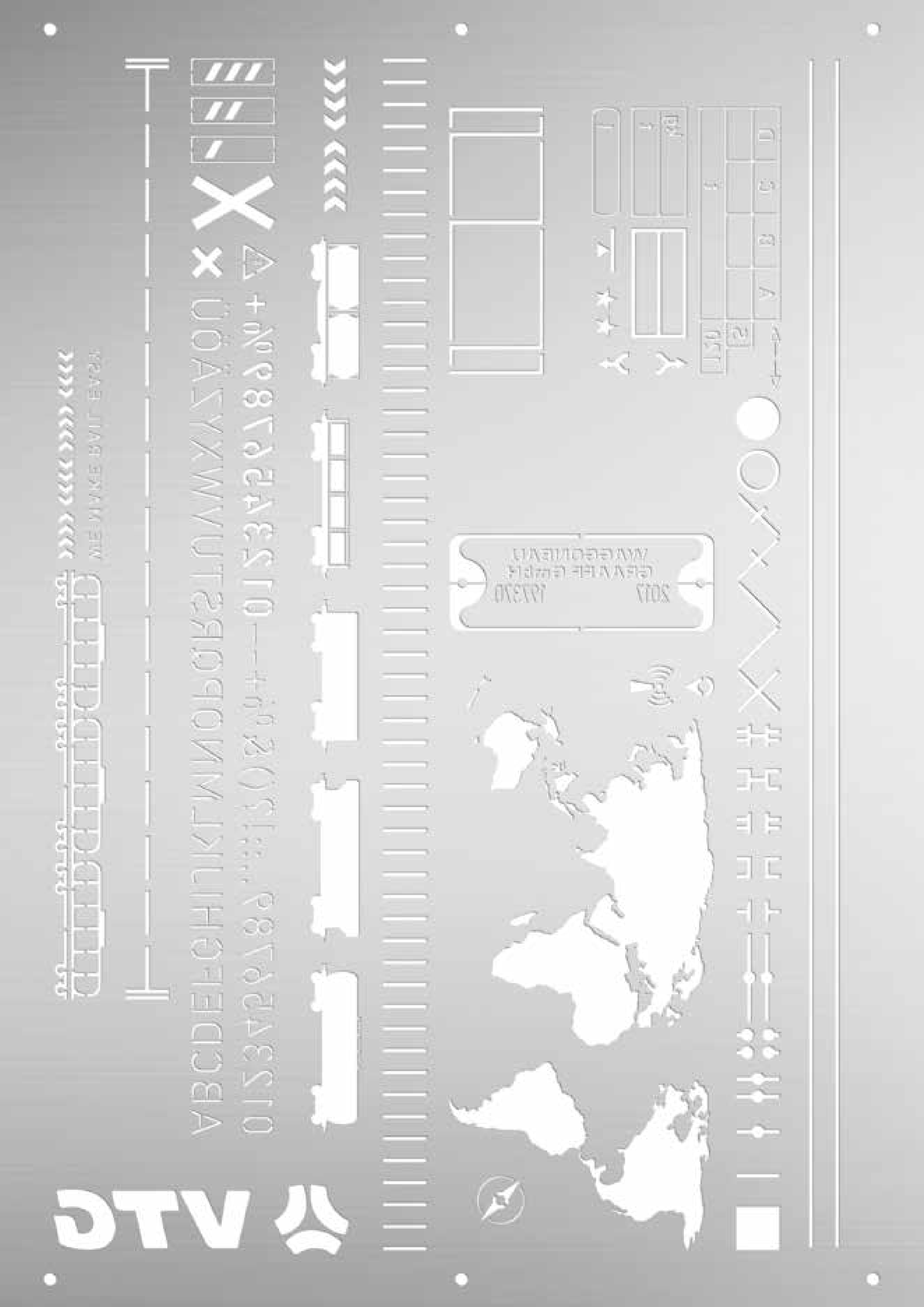
VTG Connector

WAGGONBAU
GRAAFF GmbH
2017 197370
31008 Elze Germany

Container carrier
Flat wagon
Box wagon
Hopper wagon
Rail tank car

WE MAKE RAIL EASY

VTG


VTG
WE MAKE RAIL EASY

TO STRENGTHEN THE RAILWAY, WE NEED TO MAKE IT EASY.

We firmly believe that the railway is the solution to the increasing flows of goods. That's why we want to strengthen the railway as it competes with the road. To achieve this, it must be made more convenient for customers and easier to use. We see the potential for huge advances through digitization, the information this generates and the sharing of the knowledge gained. If we work together on making the railway easier, then it will be easy.
We make rail easy.

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IF WE FULLY DIGITIZE OUR FLEET, IT WILL MAKE RAIL EASY.

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Digitization is enabling us to capture the location and movement of our wagons for the first time. By 2020, we will have fitted some 65,000 wagons with the VTG-Connect telematics system. This is an ambitious goal, as our vehicles are scattered all over Europe – from Spain to Poland, and from Italy to Sweden. To achieve this rapidly, the system must be easy to install.

The VTG-Connector kit

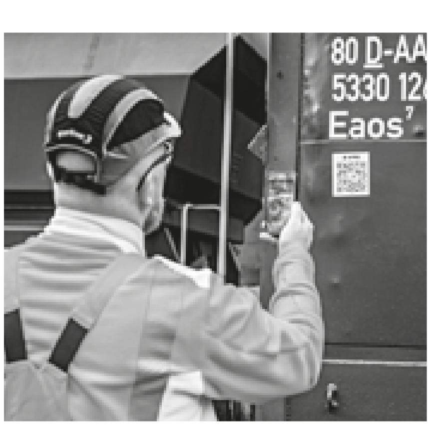
To fit our fleet with the VTG-Connector rapidly and easily, our development team has created an **INSTALLATION KIT.** It contains all the required tools, such as a magnetic drilling jig for flawless hole positioning and a battery-powered riveter for attaching the connector. It also includes a smartphone with a VTG app, which is used to hook up the wagon and the connector and log them onto the VTG system.

The result is that it takes just 10 minutes to install the VTG-Connector and connect the wagon to our IT infrastructure.

The drilling jig makes for easy attachment.

The VTG-Connector provides information about the movements and location of the wagon. This means that customers can locate their freight at any time. The VTG-Connector also records the wagon's mileage for optimum maintenance interval planning.

The wagon is paired with the connector in the VTG system via a QR code on the wagon and a smartphone app.



IF WE KNOW OUR WAGONS' MOVEMENTS, WE CAN EASILY PROVIDE MAINTENANCE AT THE RIGHT TIME.

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Until now, parts have been replaced completely at fixed intervals. This is for safety reasons, because we do not know the movements or the mileage of the individual wagons. Customers lease them and use them for their own purposes. Digitization gives us key information that we can use to provide optimally timed and tailored services.

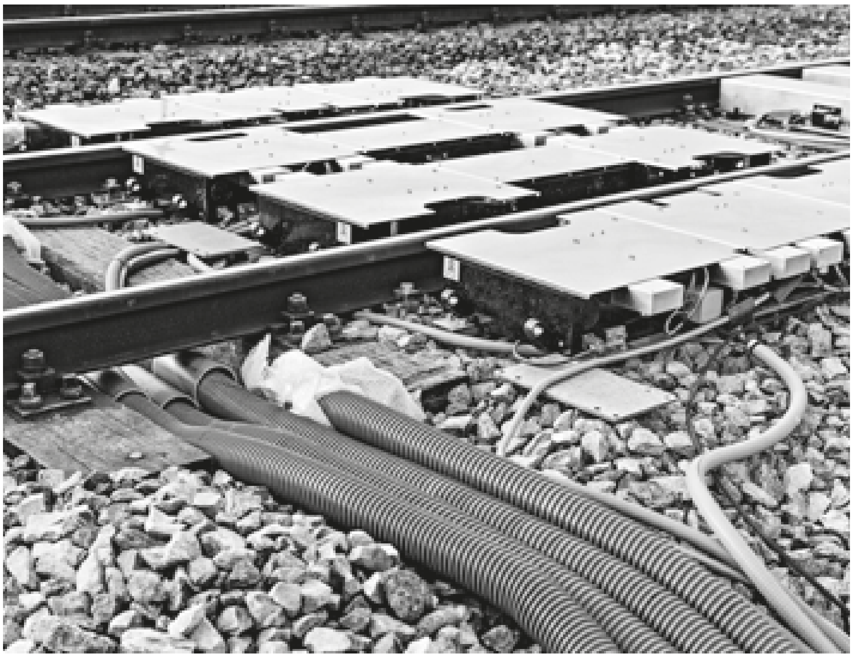
Our digitized fleet provides us, our customers and our partners with large quantities of data. We can analyze this information and use it to make projections and identify relationships between variables. Thanks to **DATA ANALYSIS,** a wagon can, for example, be called in for maintenance and so avoid a repair. Processes can also be planned and the wagon can be used more efficiently.

By the end of the year 2017, 7,000 wagons were already sending us valuable data. Some 2,000 wagons are being added every month.

Mobile maintenance: replacing brake blocks

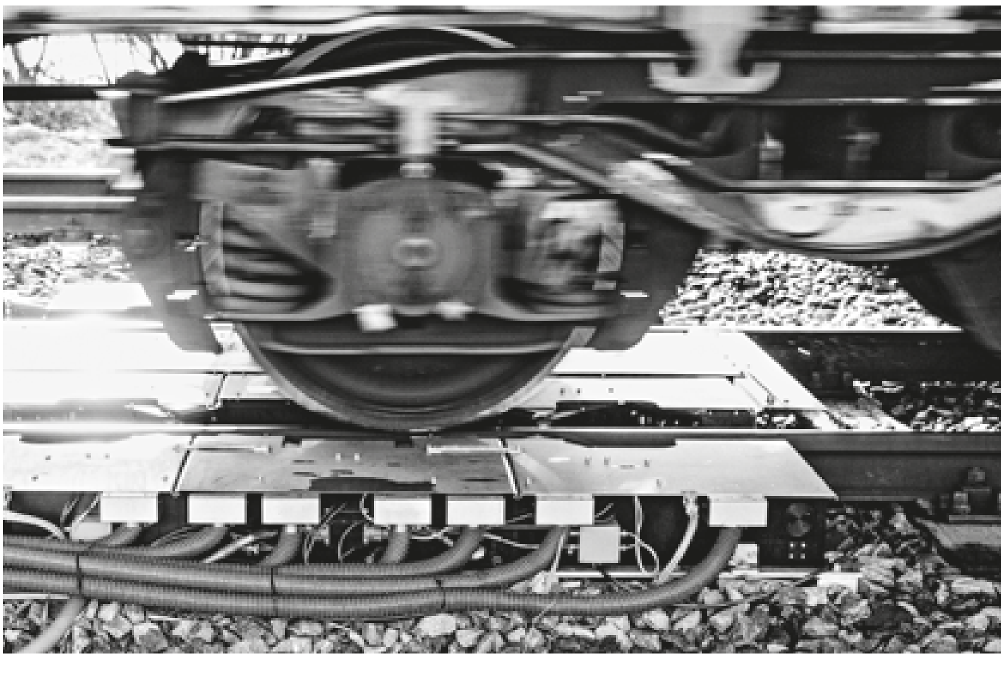
Not all of the required information can be obtained via the telematics system. To determine the state of a wagon's health, it is useful to collect data at the track too.

A RailWatch camera identifies the passing wagon



The RailWatch system scans wheelsets

The modules in the measuring station scan the passing train automatically



VTG is working in partnership with the innovative new company RailWatch, whose monitoring system will enable VTG to take a proactive approach to wagon maintenance in the future. Sensors placed at intervals along the track take many different measurements as freight wagons pass by. In particular, data on wheels and brakes is collected. The RailWatch system automatically calculates the best time for maintenance. With this system, maintenance cycles no longer need to be based on distance covered or time elapsed.

IF WE KNOW MORE ABOUT OUR WAGONS, WE CAN EASILY OFFER SOLUTIONS.

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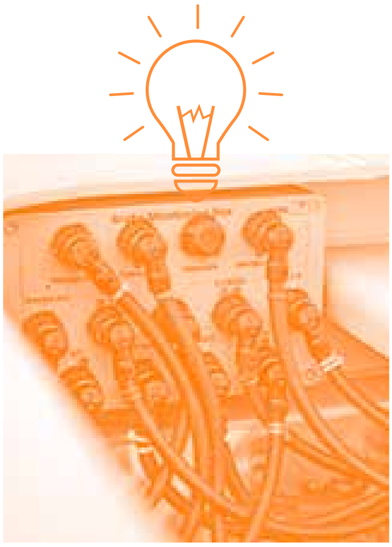
Every day, we are using the knowledge of those who work in closest proximity to the customer to make improvements. Talking about the everyday obstacles encountered enables us to overcome them. We question our processes and think out of the box to find solutions.

Sensors on the wagon mean that a lot of status reports could be sent in the future. We want to utilize this data for customers to improve their transports.

Digitization enables us to collect and process large quantities of data. There are various areas in rail freight transport in which we can make use of these opportunities. For example, in the future, sensors on the wagon will be able to provide us with useful information on the condition of the wagon and the freight. We are working on translating this newly acquired **KNOWLEDGE** into solutions for our customers.



A brake monitoring box checks the brake status

Sensors on valves could be used to monitor the status of openings.

Key sensor data on the status of the braking system is displayed directly on the wagon for railway personnel.

Sensor data will also be able to simplify the currently very time- and cost-intensive train dispatch procedure. In the future, the wagon inspector will access all the required wagon information via an app on a mobile device. This eliminates the need for time-consuming inspection of each individual wagon in a block train. This will make train dispatch faster and easier.

Location and status data can be used in the future to optimize the customer's supply chain.

IF THE RAILWAY IS STRONGER, PROTECTING THE ENVIRONMENT IS EASIER.

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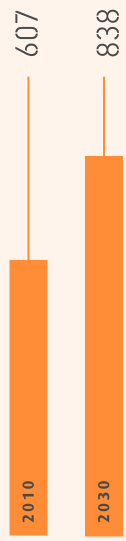
The railway plays a key role in reducing CO_2 emissions in freight traffic. We can see the potential of rail freight transport and are prepared to make a commitment to the environment. With various measures and initiatives, we are helping drive progress to make the railway easier.

The German government's target for CO_2 reduction by 2050

With the Paris climate accord, the international community agreed to limit man-made global warming by reducing emissions of greenhouse gases. In its national **CLIMATE ACTION PLAN,** the German government has therefore specified an 80–95 % reduction of greenhouse gas emissions by 2050 compared to 1990. However, ever-higher levels of freight traffic have meant that, since 1990, greenhouse gases have not been reduced appreciably in the transport sector. The German Federal Environment Agency predicts that freight traffic will increase further. The expected 38 % rise between 2010 and 2030 will also have a negative impact on the environment.

Growth of freight traffic in Germany (in billion tkm)



+38 %

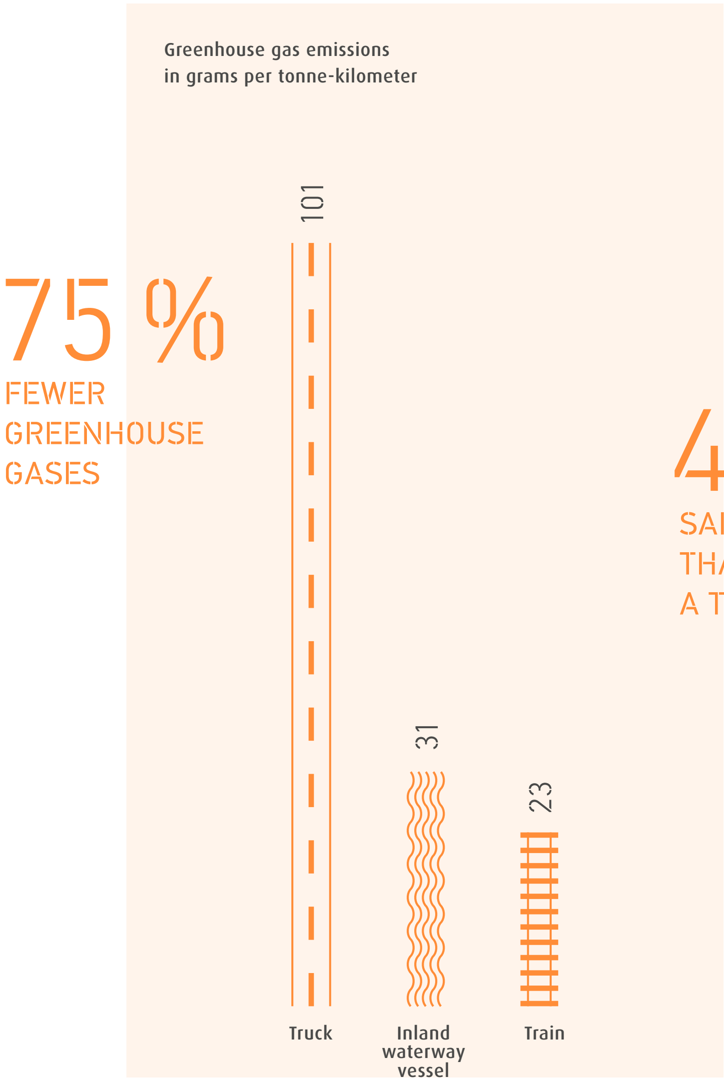
FREIGHT TRAFFIC BY 2030

"RAIL FREIGHT TRANSPORT IS A SUSTAINABLE SOLUTION TO THE STEADY RISE IN TRANSPORT IN A GLOBALIZED WORLD."

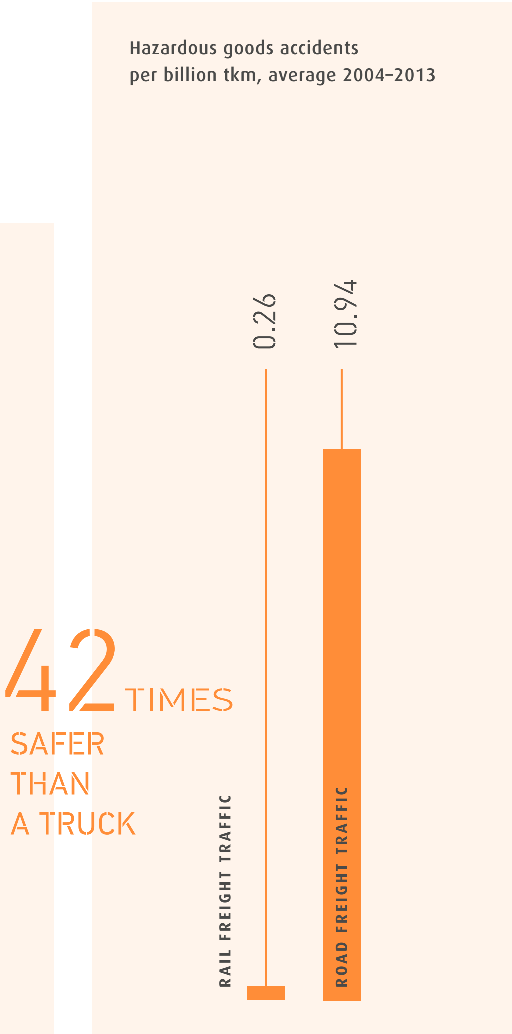
Our aim is to make rail freight traffic more competitive and strengthen it in the future as the backbone for smart, sustainable logistics solutions. As part of our innovation platform and digitization offensive, we are therefore developing new freight wagons that are lighter, quieter and smarter.

Dr. Niko Davids,
Chief Digital Officer at VTG

Freight traffic needs to be kinder to the environment – and this is possible. The levels of harmful gases emitted on the railway are around 75 % lower than on the road. Moreover, the transport of hazardous goods is 95 % safer.



Source: "Allianz pro Schiene"



Source: "Allianz pro Schiene"

630,000 t

OF GREENHOUSE GASES SAVED BY VTG RAIL LOGISTICS COMPARED TO TRUCK TRANSPORT

With the rail-centered services we provide, we are already ensuring that freight transport spares the environment. In the last financial year, our Rail Logistics division alone transported some 8 billion tkm, saving around 630,000 tonnes of greenhouse gases compared to transport by truck.

Retrack is a train system of VTG Rail Logistics. The Retrack network connects Europe’s most important economic centers. It aims to optimize rail freight transport – from small quantities of freight all the way to major solutions.

As part of the “Innovative Freight Wagons” project funded by the German Ministry of Transport, we have developed new tank and intermodal wagons, with test runs taking place this year.

One feature of these wagons is that they are more energy-efficient, which makes transport even kinder to the environment. Innovative braking systems and bogies also make the wagons quieter and reduce the amount of costly maintenance work. Sensors und communication devices provide us and the customer with key wagon and freight information at all times.

Test run of the “innovative freight wagons” in 2018

VTG GROUP AT A GLANCE

€ MILLION	1/1–12/31/2016	1/1/–12/31/2017	CHANGE IN %
Revenue	986.9	**1,014.4**	2.8
EBITDA	345.3	**343.4**	–0.6
EBIT	149.7	**155.1**	3.6
EBT	88.2	**90.2**	2.3
Group profit	57.5	**68.1**	18.5
Depreciation	195.6	**188.3**	–3.8
Total investments	259.3	**341.6**	31.7
Operating cash flow	326.2	**295.9**	–9.3
Earnings per share in €	1.56	**1.93**	23.7

€ MILLION	12/31/2016	12/31/2017	CHANGE IN %
Balance sheet total	3,001.5	**3,085.5**	2.8
Non-current assets	2,726.2	**2,746.4**	0.7
Current assets	275.3	**339.1**	23.2
Shareholders' equity	774.0	**800.1**	3.4
Liabilities	2,227.5	**2,285.4**	2.6
Equity ratio in %	25.8	**25.9**	
Number of employees	1,443	**1,527**	5.8
in Germany	958	**1,048**	9.4
in other countries	485	**479**	–1.2

RAILCAR

978
Employees

83,000
Wagons

520.7
Revenue € million

RAIL LOGISTICS

226
Employees

5,100
Leased wagons

336.4
Revenue € million

TANK CONTAINER LOGISTICS

160
Employees

8,800
Tank containers

157.3
Revenue € million

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01

MANAGEMENT

FOREWORD BY THE EXECUTIVE BOARD

Dear Shareholders, Business Partners and Employees,

We can look back on a successful and eventful financial year in 2017. We managed to push up revenue beyond the billion Euro mark once again. Furthermore, we achieved the highest net profit for the Group since the IPO. All of the divisions contributed to this. Revenue climbed by 2.8 % to € 1,014.4 million. Meanwhile, EBITDA fell just short of its 2016 level, to € 343.4 million (€ 345.3 million). This was due in part to the ongoing Nacco takeover, which reduced EBITDA by € 4 million, following the positive impact in the previous year of one-time income of € 6 million from a compensation payment. Nevertheless, we managed once again to increase earnings per share from € 1.56 in 2016 to € 1.93 in the financial year 2017. This was also helped along by one-time tax items.

The Rail Logistics division made the biggest contribution to revenue growth. Among other things, it managed to further expand its project logistics operations and benefited from stronger agricultural business. Demand in the Railcar division rose steadily over the course of the year. This in turn led to a pleasing trend in capacity utilization of our fleet. At the end of the year, this stood at 92.2 %, its highest level since the end of 2008. This increase was seen in all wagon groups, with a particularly marked rise in demand for intermodal wagons. Just the year before, this division was still feeling the impact of stiff competition from the road due to the low price of oil. The Tank Container Logistics division managed to hold its own well in a challenging market, with lower freight rates offset by a further increase in transport volume. Overall, the fourth quarter of 2017 was the strongest in the last financial year and laid a good foundation for the upcoming quarters. For this reason, we also expect a continued positive trend in revenue and net profit in the financial year 2018.

We again made further advances in expanding our fleet over the past year, and we invested some € 340 million in it. By far the largest share of this went to buying new and used wagons. Here, we concentrated our efforts on expanding our presence in the US market. We not only managed to acquire an attractive fleet of some 1,100 used wagons in the US, but also added around 800 new ones. This again significantly increases the appeal of the fleet as a whole. VTG's North American fleet thereby grew by a good 45 %. In addition, we pushed ahead with modernizing and expanding of our fleets in Russia and Europe, our biggest market.

In recent years, VTG has been actively working on strengthening its wagon hire operations, particularly in the European market. Three years ago, with the takeover of the Swiss AAE Group, we substantially expanded our fleet and significantly increased profits. Last year, we announced another milestone with the takeover of the Nacco group. This French competitor has an extremely attractive fleet which would make an ideal addition to our product portfolio. We had originally expected to finalize the takeover in the financial year 2017. However, due to ongoing discussions with the competition authorities, this process has continued into the current year. Even though we have not yet cleared every hurdle, we are still confident that the transaction will be completed in the second half of 2018. This would significantly extend our range of wagons, which should have a positive impact on profits.

Last year, we also began to roll out another key initiative: the digitization of our European fleet. This will change rail transport operations fundamentally and will greatly increase the railway's appeal as a freight carrier. Until now, no information has been available about the exact distance covered or the specific location of a wagon. Moreover, beyond the information gathered at the standard overhaul intervals, no information can be obtained about the condition of key components. Our digitization drive is set to change that: by the end of 2017, we had already fitted some 7,000 VTG wagons with telematics boxes, and we are adding more every day. With our aim of roughly 500 wagons a week, equipping the entire fleet should take around three years. This will take us a huge step forward in the process of providing ever-easier and smarter transport solutions for the railway. This is not only good for our customers – it also increases the appeal of this carrier. The objective must be to get more goods onto the railway. In Germany, the railway's share of the freight transport market is around 18 %. This has remained relatively constant for years now and is far behind the road's market share of around 70 %. Yet rail transport is much more environmentally friendly. Because of this strength, the railway has the potential to significantly reduce the transport sector's impact on climate change. We intend to make our contribution to this by digitizing the fleet.

FROM LEFT TO RIGHT: MARK STEVENSON, DR. HEIKO FISCHER, DR. KAI KLEEBERG AND GÜNTER-FRIEDRICH MAAS

Over the last year, great demands have been placed on our employees in the course of digitizing our European fleet, strengthening our markets in North America and Russia, and the still-ongoing consolidation of our European market. We wish to take this opportunity to extend a heartfelt thanks to them for their tireless efforts. And all of these efforts have been worth it – VTG achieved very good results last year. This is also to be reflected in the dividend issued to shareholders. The Executive Board therefore intends to propose an increase of 20 % compared to 2016, to € 0.90 per share. This would represent a doubling of the dividend in just three years. This is a marker of great success and demonstrates that we are on the right track with our growth strategy. We intend to keep building on this success in 2018 as well. We aim to keep growing, to expand our fleet internationally and to become even more competitive. The past few years have shown that we have made the right decisions to achieve this. We hope you will continue to accompany us on this demanding path.

The Executive Board

DR. HEIKO FISCHER

DR. KAI KLEEBERG

GÜNTER-FRIEDRICH MAAS

MARK STEVENSON

EXECUTIVE AND SUPERVISORY BOARD

Members of the Executive Board

Dr. Heiko Fischer
Chief Executive Officer (CEO)
Dr. Heiko Fischer (b. 1967) studied in Germany and the US and has a PhD in economics. He began his professional career as office manager for the CEO of VTG Vereinigte Tanklager und Transportmittel GmbH. In 1999, he moved to the Rail Logistics division of the former VTG-Lehnkering AG, where he expanded the TRANSWAGGON business line (break bulk freight wagons). In 2001, in his management capacity in the Rail Logistics division, Dr. Fischer assumed responsibility for Sales, Market Development and Marketing, the TRANSWAGGON business line, and the acquisition and integration of the Brambles European Rail Division. In May 2004, Dr. Fischer was appointed Chairman of the Executive Board of VTG AG.

Dr. Kai Kleeberg
Chief Financial Officer (CFO)
Dr. Kai Kleeberg (b. 1960) studied business administration in Hamburg, gaining his PhD in this field in 1993. In the same year, he joined the Internal & Business Auditing division of Daimler-Benz InterServices AG (Debis). In 1995, he moved to VTG Vereinigte Tanklager und Transportmittel GmbH. In 1998, Dr. Kleeberg assumed leadership of the Corporate Development division for the operations of the French-based Algeco Group. With the sale of Algeco, Dr. Kleeberg moved briefly to Hapag-Lloyd AG in 2000, where he was responsible for integration and change management in respect of Algeco. In 2001, he returned to VTG-Lehnkering AG as head of the central Controlling division. In May 2004, Dr. Kleeberg was appointed to the Executive Board of VTG AG.

Günter-Friedrich Maas
Chief Officer Logistics and Safety
Günter-Friedrich Maas (b. 1970) is a qualified logistics manager and has worked in the logistics sector since 1990. In 1995, he took charge of Friedrich Maas Spedition in Duisburg as managing director and shareholder. From 2002 to 2006, he went on to a management position at Rhenus Road and an appointment as managing director of Rhenus RETrans. In 2007, he joined the Hoyer Group, where he was not only managing director of Hoyer Nederland B.V. but was also responsible for the central region within the Chemilog business unit. In 2010, Mr. Maas became director of this business unit. His appointment to the Executive Board of VTG followed in June 2014.

Mark Stevenson
Chief Investment Officer (CIO)
After studying at Oxford, Mark Stevenson (b. 1963) began his professional career in 1984 at Price Waterhouse in London, where, in 1987, he completed further studies to become a chartered accountant. In 1990, he moved to Revisuisse Price Waterhouse in Switzerland and, in 1992, to strategic consultancy at Leutwiler & Partners. While there, he was a consultant to AAE, which he then moved to in 1994 as CFO. In 2006, he was appointed CEO of AAE. In the wake of the acquisition of AAE by VTG, he was appointed to the Executive Board of VTG in 2015.

Mitglieder des Aufsichtsrats

Dr. Jost A. Massenberg, Meerbusch
Merchant
Chairman

Dr. Klaus-Jürgen Juhnke, Hamburg
Former Managing Director of VTG Vereinigte Tanklager und Transportmittel Gesellschaft mit beschränkter Haftung, Hamburg
Deputy Chairman

Karl Gernandt, Hamburg
(Since January 13, 2017)
Chairman of the Board of Directors
Kühne Holding AG, Schindelleggi, Switzerland

Dr. Markus C. Hottenrott, New York City, USA
(Since June 08, 2017)
Asset Management Employee for infrastructure investments

Andreas Goer, Merlischachen, Schweiz
(until June 08, 2017)
Entrepreneur

Dr. Bernd Malmström, Berlin
Solicitor

Dr. Christian Olearius, Hamburg
Chairman of the Supervisory Board, M.M.Warburg & CO (AG & Co.) Kommanditgesellschaft auf Aktien, Hamburg

REPORT OF THE SUPERVISORY BOARD

DR. JOST A. MASSENBERG,
CHAIRMAN OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board of VTG Aktiengesellschaft met the obligations placed on it by the law, the Articles of Association and the Rules of Procedure. On the basis of detailed verbal and written reports provided to us promptly by the Executive Board, we regularly monitored its work and provided continuous support. Additionally, there was a regular exchange of information between the chair of the Supervisory Board and the chair of the Executive Board. Through this contact, the chair of the Supervisory Board was kept continuously informed about the situation of the company and the Group.

Regular subjects of reporting were the current situation of the Group, the development of business in the individual segments, corporate planning and strategy, the profitability of the company, the risk situation, risk management and compliance management. The Executive Board informed us about and discussed with us important business transactions in the company's divisions. Deviations in the course of business from the agreed plans and targets were explained to us in detail.

The Supervisory Board was also included in all decisions of importance for the company. The Executive Board consulted with us and gained our agreement on the strategic orientation of the company. Before passing resolutions, we discussed in depth all measures requiring the approval of the Supervisory Board under the Rules of Procedure for the Executive Board decided by the Supervisory Board.

Ongoing consultation with and supervision of the Executive Board

In the year under review, there were four ordinary meetings of the Supervisory Board as well as four additional and meetings and two conference calls. Additionally, as required, resolutions were adopted by written procedure. The members of the Supervisory Board who were members of the Supervisory Board for only a part of the year under review each attended more than half of the meetings held during their period of office. All other members of the Supervisory Board attended more than half of all meetings.

In February 2017, the Supervisory Board adopted a resolution by written procedure. The subject of this resolution was the approval of the Corporate Governance Report including the joint declaration of the Executive Board and Supervisory Board under Section 161 of the German Stock Corporation Act on compliance with the recommendations of the German Corporate Governance Code.

To prepare for the accounts review meeting, an additional meeting of the Supervisory Board was held on March 3, 2017, which the auditor also attended. The Executive Board reported first on the course of business in the last quarter of the past financial year and on the earnings and financial situation of the company and the VTG Group as of the balance sheet date. The auditor reported on the course of the audit and submitted his draft report to the Supervisory Board and answered questions on this. We also asked the Executive Board for an explanation of its position on the company's dividend policy and discussed this with the Executive Board in detail.

At the accounts review meeting of March 30, 2017, the Executive Board provided us with a summary of the earnings and financial situation and the key business events in the company, the VTG Group and the joint ventures in the financial year 2016. Subsequently, after detailed discussion with the Executive Board and the auditor, we approved the annual and consolidated financial statements and management reports for 2016. The meeting also included the approval of the agenda and proposed resolutions for the 2017 Annual General Meeting. Furthermore, the Executive Board submitted the compliance report for 2016 to us in this meeting and also reported to us on risk management and the activities of the internal audit department and the analysis of security issues at the VTG Group. The Supervisory Board also approved the measures proposed by the Executive Board relating to a joint venture and additional budgetary measures. Finally, the Executive Board informed us at this meeting of a fundamental interest in acquiring and the prior submission of an indicative offer for the Nacco Group, which was available for sale.

In a conference call on May 3, 2017, the Executive Board informed the Supervisory Board of the status of the negotiations held in the intervening period with the seller of the Nacco Group and about the performance of due diligence. Furthermore, on this occasion, the Executive Board reported to us on the development of earnings and the key business events in the first quarter of the current year.

In an additional meeting held on May 30, 2017, the Executive Board gave the Supervisory Board further information on the status of the negotiations on the purchase of the Nacco Group, the results of due diligence and the proposed financing structure. The Supervisory Board also approved the extension of the term of an existing line of credit to cover general working capital requirements.

Another meeting of the Supervisory Board was held immediately prior to the Annual General Meeting on June 8, 2017. At this meeting, the Executive Board reported on the development of business to date in 2017 and the progress of the negotiations on the sale of the Nacco Group.

Following the Annual General Meeting, the newly elected Supervisory Board was constituted. In addition to the Executive Committee, an Audit Committee was formed for the first time. In respect of the establishment of the Audit Committee, a decision to update the declaration of conformity with the German Corporate Governance Code was also approved. Furthermore, the appointment of the auditor elected by the Annual General Meeting for the financial year 2017 was approved.

In an additional meeting on June 29, 2017, the Executive Board reported to us on the status of the negotiations on the sale of the Nacco Group and informed us of the opportunities and risks at that time from its perspective as well as the planned measures for financing the transaction (credit and hybrid finance and partial refinancing via a capital increase). After detailed discussion, the Supervisory Board gave its approval for the Board to finalize negotiations on the contracts with the seller and the lending bank. It was also decided to delegate the final decision to approve the finalized contracts to the Executive Committee, which then issued this approval directly prior to the signing of the contracts on July 1, 2017. Furthermore, at the meeting on June 29, 2017, the Supervisory Board also approved a financing measure for the Group's North American business.

In another additional meeting on September 1, 2017, the Executive Board discussed with us details of planned financing measures relating to the purchase of the Nacco Group. Furthermore, at this meeting, the Supervisory Board approved the reappointment of Dr. Kai Kleeberg and Mr. Mark Stevenson as members of the Executive Board of the company. As in previous years, a closed-door meeting was held ahead of the further meeting on September 21, 2017, at which the Executive Board explained the medium- and long-term strategic direction of the company and the measures required for this. These measures were discussed with us in detail and agreed upon.

One of the main issues under discussion was the digitization strategy that was at the implementation stage. At the meeting itself, the Executive Board provided an overview of the trend in business in the first eight months of the year as well as a report on the progress of risk reporting in the VTG Group. Furthermore, in respect of the Nacco transaction, the Executive Board informed us about the progress of the merger control proceedings in Germany and Austria. The Executive Board also explained to us that a capital increase was planned to provide part of the finance for the acquisition of the Nacco Group, with the timing and form of this depending, among other things, on the ongoing merger control proceedings and market conditions. To ensure the Supervisory Board's ability to act at any time, the Supervisory Board passed a resolution to establish a capital increase committee that was limited in respect of both time and scope and which, due to the delay in the Nacco transaction, has since become redundant.

On November 23, 2017, in a meeting about the delay in the Nacco transaction, the Executive Board presented and explained to the Supervisory Board the scheduled plan for the year, including the financial and investment plans for the financial year 2018, as well as the investment plan for the coming years. After detailed discussion, we approved these. Furthermore, the Executive Board informed us about the delays that were being experienced in respect of the checks of the Nacco transaction by the competition authorities in Germany and Austria. The IT security measures introduced by the Executive Board were also presented to the Supervisory Board at this meeting. Ultimately, the Supervisory Board passed a resolution to have the very first non-financial report of VTG Aktiengesellschaft for the financial year 2017 reviewed by an independent auditor.

In mid-December 2017, due to further development in the German Federal Cartel Office's main review of the Nacco transaction, the Supervisory Board approved by written procedure a proposal of the Executive Board to submit a voluntary proposal on conditions to the German Federal Cartel Office.

In a conference call on December 29, the Executive Board informed us that, due to the unexpectedly long duration of the competition proceedings, amendment of the contract with the seller of the Nacco Group had become necessary to enable the transaction to go ahead. The Supervisory Board accepted and approved this.

Meetings of the committees

The Executive Committee held a total of 6 meetings in the year under review. The subjects covered included matters relating to the Executive Board, the remuneration system for the Executive Board, the composition of the Executive Board and long-term succession planning for the Executive Board and management staff. Additionally, approval was given for the taking up of positions requiring the consent of the Supervisory Board in accordance with Section 88 of the German Stock Corporation Act. Furthermore, the remuneration structure and levels of remuneration for the Supervisory Board were reviewed and discussed. The Executive Committee did not have to address any conflicts of interest of members of the Executive Board or the Supervisory Board in the year under review.

In the year under review, in its capacity as a nominating committee, the Executive Committee also drew up proposals to be put forward to Annual General Meeting for the election of members of the Supervisory Board.

The Audit Committee, which was formed for the first time on June 8, held two meetings during the year under review (one in the form of a conference call). Among other things, it discussed the following in advance with the Executive Board: the half-yearly report, the quarterly report at the end of nine months and the scheduled plan for the financial year 2018 and also specified the key areas for review in the audit for the financial year 2017. It also passed two circular resolutions on non-audit services provided by the auditor.

The Capital Increase Committee, which was formed on September 21, 2017, held a conference call on September 27, 2017. In this call, the Executive Board informed the Capital Increase Committee about the status of the preparations for the planned capital increase relating to the Nacco transaction.

Audit of annual and consolidated financial statements, the management reports and of the non-financial report

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart was appointed by the Annual General Meeting as auditor for the year under review. Ernst & Young examined and gave an unqualified opinion on the annual financial statements of VTG Aktiengesellschaft drawn up in accordance with the principles of the German Commercial Code and on the consolidated financial statements for the financial year 2017 drawn up according to IFRS, including the corresponding management reports. Moreover, the auditor confirmed that the risk management system set up by the Executive Board complies with the legal requirements. The auditor assured the Supervisory Board that no business, financial, personal or other relationships exist between, on the one hand, the auditor and its executive bodies and head auditors, and, on the other hand, the company and the members of its executive bodies that could call its independence into question. The documents relating to the annual and consolidated financial statements and the appropriation of net profit were discussed at the meeting of the Audit Committee on March 2, 2018 in preparation for checking and discussing these documents with the Supervisory Board in the presence of the auditor, who reported on the findings of his audit and the key areas reviewed in the audit as well as discussing and explaining these in depth to the chair. The Audit Committee was satisfied that the audit and the auditor's report had been drawn up correctly and recommended to the Supervisory Board that it accept and approve the auditor's findings and approve the annual financial statements as well as the consolidated financial statements.

The Supervisory Board also itself reviewed the annual financial statements, the consolidated financial statements, the management report and the group management report. The audit reports, including the annual and consolidated financial statements and the management reports, were available to all members of the Supervisory Board in good time and were discussed in depth at today's meeting with the Executive Board and the auditor present at the meeting. The Supervisory Board endorsed the findings of the Ernst & Young audit of the annual financial statements, the consolidated financial statements and the management reports and approved the annual and consolidated financial statements for the financial year 2017 at today's meeting. After completing its review of the annual financial statements, the consolidated financial statements and the management reports, the Supervisory Board has no objections.

Due to the Act to Strengthen Companies' Non-Financial Disclosure in their Management Reports and Group Management Reports of April 11, 2017, (CSR Directive Implementation Act), the Executive Board has drawn up a non-financial report, and not as part of the group management report but as a separate non-financial group report. By resolution of the Supervisory Board at its meeting on November 23, 2017, the content of this report underwent a voluntary external audit to obtain limited assurance. On the basis of this review, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt issued an unqualified opinion.

We endorse the proposal of the Executive Board for the appropriation of net profit, which provides for the payment of a dividend of € 0.90 per share, with the remaining amount to be carried forward.

Code recommendations largely met

On February 15, 2018, the Executive Board issued a declaration of conformity in accordance with Section 161 of the of the German Stock Corporation Act and published it on the company's website. VTG Aktiengesellschaft has largely complied with the German Corporate Governance Code as amended on May 5, 2015, which led to the issue of the last declaration of conformity of February 14, 2016 (updated on June 8, 2017). In the future, VTG Aktiengesellschaft will also largely comply with the German Corporate Governance Code as amended on February 7, 2017, published in the Federal Gazette on April 24, 2017.

Composition of Supervisory Board and Executive Board

After a vacancy was created by the stepping down of the former chair of the Supervisory Board, Dr. Wilhelm Scheider at the end of December 2016, at the request of the Executive Board, Mr. Karl Gernandt was, by an order of the Local Court of Hamburg of January 13, 2017, appointed as a member of the Supervisory Board until the end of the next Annual General Meeting. At the end of the Annual General Meeting held on June 8, 2017, the term of office of the other members of the Supervisory Board also ended. With the exception of Mr. Andreas Goer, who did not stand for election again, all former members of the Supervisory Board were reelected to the Supervisory Board by the Annual General Meeting. In addition, Dr. Markus Hottenrott was elected a member of the Supervisory Board by the Annual General Meeting. We would like to thank Mr. Goer for his commendable contribution over his several years on the Supervisory Board.

At the constitutive meeting of the Supervisory Board on June 8, 2017, I was confirmed as chair of the Supervisory Board and Dr. Klaus-Jürgen Juhnke was confirmed as deputy chair. In addition, the members of the Executive Committee were reelected at this meeting. Along with myself as chair of the Supervisory Board, Dr. Klaus-Jürgen Juhnke and Dr. Christian Olearius are members of the Executive Committee. An Audit Committee was also formed at this constitutive meeting for the first time. Mr. Karl Gernandt was elected chair of the Audit Committee. The other members are Dr. Christian Olearius and myself. At the meeting of the Supervisory Board of September 21, 2017, a Capital Increase Committee comprising three members was also formed, which has since become redundant. I myself was chair of the Capital Increase Committee and the other members were Dr. Klaus-Jürgen Juhnke and Dr. Bernd Malmström.

By resolution of the Supervisory Board of September 1, 2017, Dr. Kai Kleeberg was reappointed to the Executive Board with effect from May 1, 2018 to December 31, 2018 and Mr. Mark Stevenson from February 1, 2018 until December 31, 2019.

We wish to thank the Executive Board and all employees of the Group for their commitment and the success achieved through their efforts in the financial year 2017.

Hamburg, March 22, 2018

The Supervisory Board

DR. JOST A. MASSENBERG
CHAIRMAN OF THE SUPERVISORY BOARD

02

STRATEGY AND SHARE

MARKETS AND STRATEGY

Markets

RELEVANT MARKETS FOR THE VTG GROUP

VTG operates mainly in the European rail freight market. In the US and Russia, the world's two largest rail freight markets, smaller fleets are operated. Global tank container transports are also organized through the subsidiary VTG Tanktainer.

The railway's share of the European transport market as a whole is around 18 %. With increasing distances and transport volumes, along with the transport of hazardous goods, the railway offers considerable advantages over road transport. In this market, the railway is used mainly for forwarding industrial goods (machinery, automotive parts, etc.), mineral oil products, petrochemical and chemical products, steel, raw materials and containers.

As part of the international freight transport market, the railway is playing an active role in the growing internationalization of trade flows and progressive globalization. Given its significant environmental advantages over other carriers, European policymakers are both demanding and promoting the expansion of rail transport. The progressive liberalization of markets that were formerly dominated by state railways is also providing impetus for further growth for private providers of hire and logistics services.

LIBERALIZATION BRINGS SHIFTS IN MARKET SHARES

With the emergence of a unified, open European rail system, former monopolies are being dismantled and rail freight transport is becoming generally more appealing. This process of radical change is enabling VTG to expand into new market segments and further consolidate what is already an extremely good market position. The original tank wagon fleet has therefore been gradually expanded and diversified, with the addition of both standard and sliding wall wagons. With the takeover of AAE at the beginning of 2015, VTG also became Europe's largest provider of intermodal wagons. Suitable growth opportunities will also arise in the future in this market.

Of Europe's 700,000 freight wagons, more than 400,000 are still owned by state railways. Given the advanced age of many fleets, there is a great need for renewal. However, according to experts, a lack of capital and the prioritization of passenger transports means that many state railways show little willingness to invest. This should continue to prove advantageous for the growth of private wagon providers such as VTG in the next few years.

Objectives and Strategy

At the end of the financial year 2015, VTG concluded its five-year phase of development known as VTG 3.0. During this period, the Railcar division strengthened its international presence by expanding into the US and Russia. The European wagon fleet was expanded and further diversified by the intermodal wagon segment, with EBITDA increasing considerably. In September 2015, following the transformative acquisition of AAE, the Executive Board and Supervisory Board approved the next development phase, VTG 4.0. This phase is about achieving selective growth and technical innovation, optimizing processes and improving structures, digitizing the European wagon fleet and harnessing synergies. These measures aim to significantly improve the company's competitiveness and profitability. Against this background, the VTG Group aims to increase earnings per share to € 2.50 by 2019. These medium-term goals are anchored in a long-term group strategy as set out below.

STRENGTHENING VTG'S MARKET POSITION AND EXTENDING ITS GEOGRAPHICAL REACH

Each division within the VTG Group is pursuing its own selective growth strategy. The impact of each individual strategy is also being enhanced by the bundling of products and services from the other divisions, in the spirit of One VTG. In its core market of Europe, the Railcar division is striving to further consolidate its leading position as a provider of both freight wagons for rail transport of liquid and industrial goods and intermodal transport while also aiming to broaden its customer base by diversifying into new segments. This involves acquiring both used fleets and competitors. It also involves ongoing modernization of the European fleet and expansion through the building of new wagons. Another area of emphasis is extending the range of services. This includes entering into and consolidating partnerships with former and current state railways so that VTG can manage their fleets and they can benefit from VTG's considerable expertise in this area.

Beyond Europe, the Railcar division is operational in two other regions: the first, North America, is the world's largest rail freight market, and offers VTG attractive growth opportunities. In this region, the aim is to strengthen VTG's market position in the medium term by continually expanding the fleet through acquisitions and investment. In addition, despite the political tensions in recent years, the broad-gauge rail network of the Russian Federation and its neighbors also offers good long-term prospects for growth. The growing demand for replacement wagons and the ongoing need for development and modernization in the industry will remain the driving forces in the Russian rail sector in the coming years. With its existing business in Russia, VTG is in a good initial position to benefit from the expected rise in demand in this market. Moreover, VTG is carefully scrutinizing new regions in which it is not yet operational and which offer promising opportunities for growth.

At the same time, VTG aims to further expand and strengthen its two logistics divisions. In addition to its core business of liquid goods, industrial goods and agricultural products, VTG's Rail Logistics division has expanded its range of services, for example with the addition of project logistics and the Retrack network.

In 2017, the Tank Container Logistics division continued to pursue its strategy of strengthening partnerships with a select group of strategic customers. It plans to further consolidate its position as a specialist provider of chemical transports. Key growth markets in this regard are North America, China, transport within Asia, and Russia and the Middle East. The division will continue, however, to prioritize good margins over mere expansion of transport volume. To standardize the fleet further, the division is investing in 1,300 tank containers to replace hired equipment from various manufacturers. This increases the division's flexibility in making services available to customers.

OPTIMIZING BUSINESS PROCESSES AND HARNESSING SYNERGIES

The Railcar division's business model is relatively capital-intensive. The growth and maintenance of the wagon fleet is financed both through VTG's strong operating cash flow and debt capital. To ensure that the Group can invest more and grow more in the future, it is very important to have growth in profitability. It is therefore a key strategic aim to continually improve the profitability of the Group. To this end, internal processes and structures are to be regularly reviewed and adapted as required to new market conditions. Closer interconnection of the three divisions will also create valuable synergies.

Optimized organizational structure and business processes

The increasing complexity of business operations is placing even greater importance on VTG's strategic aim of optimizing its organizational structure and workflows. Within the context of its development phase 4.0, VTG has rolled out a large number of development programs to harness synergies and strengthen organizational performance sustainably. This has included updating the company's operational and administrative IT systems and standardizing these as required. In addition, Railcar's European operations were restructured. This brought most of the operations of the separate Continental European companies together under the new VTG Rail Europe GmbH, which now acts as the central point of contact for European customers. VTG intends to further optimize its organizational structure and digitize its processes.

Harnessing synergies in sales – One VTG

With its three divisions, Railcar, Rail Logistics and Tank Container Logistics, VTG is highly diversified, providing a broad range of services to various customer groups. The divisions operate at different levels of value creation. The Railcar division hires out rolling stock for the transport of freight, predominantly with long-term hire contracts. Meanwhile, the two logistics divisions ensure the smooth operation of their customers' chains of transport. Because the VTG Group encompasses different operational divisions, it can reduce complexity by harmonizing its services optimally to provide customers with highly specialized, one-stop solutions. It is therefore VTG's stated aim to link the individual divisions more closely and harness cross-divisional sales synergies for the benefit of the customer.

SAFETY AND THE ENVIRONMENT

The railway is one of the safest and cleanest modes of transport. To ensure that the railway remains a safe and reliable carrier in the future, VTG has a particular responsibility in terms of staff training, workflow organization and the repair, maintenance and development of its fleet. VTG aims to further increase and strengthen the railway's high approval rating. Its employees are therefore working intensively on improving VTG's already high standards of safety. VTG sees itself as a leader in quality and innovation. It is therefore using its longstanding expertise to develop new and enhanced technology to create environmentally friendly products and innovative transport solutions. The aim is to make the railway the preferred carrier for the growing transport market.

DIGITIZATION – MAKING THE RAILWAY EASY

VTG is not only the first European wagon keeper to have put forward a comprehensive strategy for digitization. It is also the first to have initiated a plan to fit the entire fleet with a telematics system. The new VTG-Connect service means that operators and customers are now for the first time able to access the location, mileage and event data for all wagons fitted with the system. The digitization of the fleet will make VTG less interchangeable as a wagon hire company and could open up additional sources of income through new services and customers. Digitization should also reduce maintenance costs and simplify logistics processes in the near future. But VTG-Connect is only the beginning of digitization at VTG: in 2017, a new research and development department was set up to continue to push ahead with developing new digital technologies and services.

VTG PROVES AN ATTRACTIVE EMPLOYER

With VTG's systematic growth in recent years and the rapidly changing economic and technological environment, the demands on staff have increased steadily. Meanwhile, demographic change is leading to ever-tougher competition for qualified staff. For the Group, it is therefore crucial to attract and retain highly qualified staff over the long term. The challenges of the future can be overcome only with a motivated and well-qualified workforce. VTG is therefore investing in staff development and attaching particular importance to the issue of leadership. Our aim is to position VTG firmly and sustainably as an attractive employer.

Values

As part of the process of setting the Group's strategic goals with the aim of enhancing the organizational structure and optimizing business processes, the VTG workforce drew up its own list of values. These corporate values form the basis of our actions. They provide a point of reference for our everyday activities and are included in all decision-making processes.

CORE VALUES

With the experience and innovation of its staff and its extensive wagon and container fleet, VTG has set itself the goal of making the railway the backbone of intelligent, sustainable transport and logistics solutions. It is developing innovative products and bespoke solutions in dialogue with its partners in Europe and around the world. In addition to safety, quality and reliability, it is placing special emphasis on agility and enterprise. It is important to VTG to cultivate a culture of trust, respect and openness, both in-house as well as with customers, suppliers and investors.

VTG IN THE CAPITAL MARKET: THE SHARE AND INVESTOR RELATIONS

EQUITY MARKETS BENEFIT FROM GLOBAL ECONOMIC RECOVERY

With an upturn in leading indicators, the year got off to a friendly start for the global stock exchanges. The DAX saw a rise of 7 % in the first quarter of 2017. The equity markets continued their upward trend in the second quarter. Thereafter, the falling oil price and increasing geopolitical risks such as the escalating nuclear dispute with North Korea led to a price correction in mid-June. By the end of August, the general mood on the stock exchange had improved again. Strong economic data, a rising oil price and the ECB's continued expansionary monetary policy resulted in significant price gains worldwide. At the beginning of November, the DAX reached a record high of 13,479 points before being hit by profit-taking. For the year as a whole, the DAX grew by 12.5 %. The SDAX saw an even bigger rise, achieving an increase of 24.9 %.

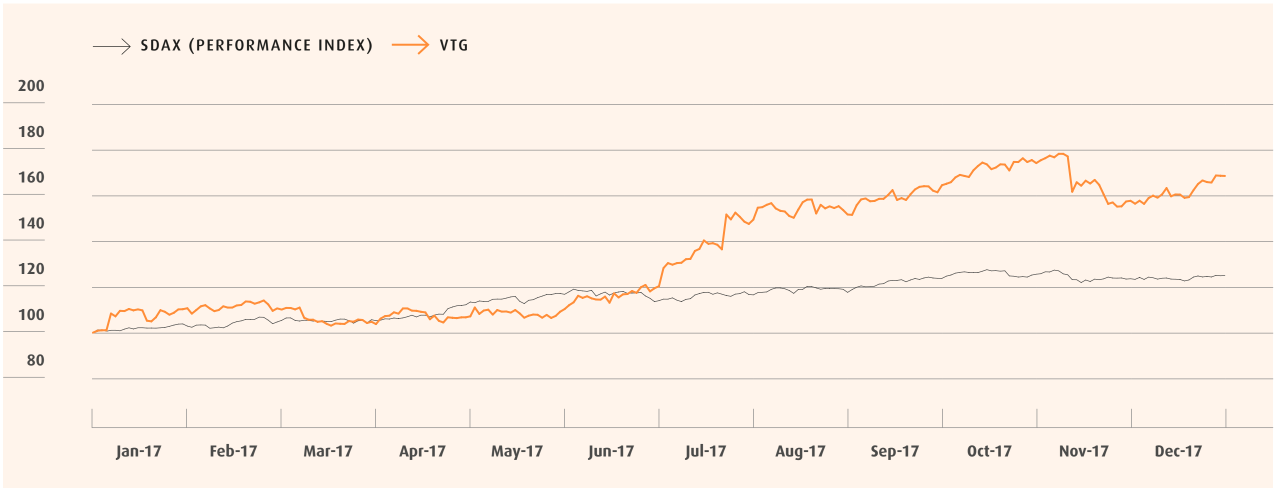
VTG SHARE SEES HISTORIC RISE

In line with the general market trend, the VTG share enjoyed a positive start to the year. Right at the beginning of 2017, it passed the 30-euro mark for the first time. However, the announcement on March 7 of the preliminary figures for 2016 was followed by a brief price correction, with sideways movement until the end of May. Sentiment for the VTG share improved markedly in June. In May, the first reports came out that the German Ministry of Transport had devised a comprehensive package of measures to boost rail freight transport, and this "master plan" was then officially announced in June. It includes a halving of track access charges to make rail freight transport much more attractive compared with other modes of transport. This boosted the VTG share again in June.

On July 1, VTG announced its intended takeover of French competitor Nacco. After the purchase of AAE in 2015, this would represent the second largest acquisition since the IPO in 2007. The equity market welcomed this news, with the share price showing a gain of 24 % in July. The VTG share then saw a steady upward trend until the beginning of November. On November 6, it reached € 50.50, its highest closing price ever on the stock exchange, before being hit by profit-taking in line with the general market trend. At the end of the year, the VTG share closed at € 47.76. This represents a price increase of some 68 %. Including the dividend of € 0.75, the share gained 72 % in the year. This was therefore VTG's strongest year in its history on the stock exchange.

With an average of 42,956 shares traded daily on all German stock exchanges and Tradegate, trading volume was above the 2016 level (35,839). At the end of 2017, the market capitalization of VTG AG was some 1.4 billion euros (previous year: 0.8 billion euros).

PERFORMANCE OF VTG SHARE AND SDAX (FROM JANUARY 1 TO DECEMBER 31, 2017)



SHARE DATA

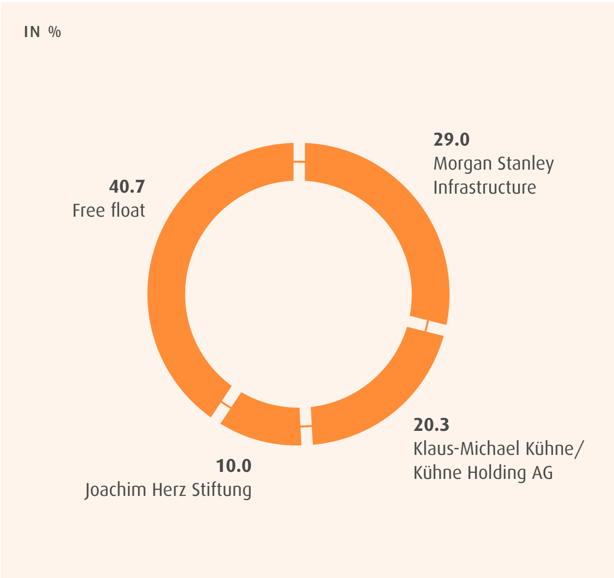
WKN	VTG999
ISIN	DE000VTG9999
Stock exchange abbreviation	VT9
Index	SDAX, CDAX, HASPAX
Share type	No-par-value bearer share
No. of shares (Dec 31)	28,756,219
Market capitalization (Dec 31)	€ 1.4 billion
Stock exchanges	XETRA, Frankfurt, Berlin, Dusseldorf, Hamburg, Hanover, Munich, Stuttgart
Market segment	Prime Standard
Closing price 2017*	€ 47.76
Highest price 2017*	€ 50.50
Lowest price 2017*	€ 28.645
Average daily turnover (XETRA)	32,949 shares

* All share price information are based on XETRA daily closing prices.

SHAREHOLDER STRUCTURE

As of December 31, 2017, the company is aware of three major shareholders with stakes exceeding 10 % of the voting rights in VTG AG. According to information on voting rights received on December 23, 2016, Morgan Stanley Infrastructure holds 29.02 % of the voting rights. According to information on voting rights received on May 20, 2016, Klaus-Michael Kühne holds 20.34 % of the voting rights. According to information on voting rights received on March 15, 2016, the Joachim Herz Stiftung holds 10.00 % of the voting rights. The remaining 40.64 % of the shares are in free float as defined by Deutsche Börse.

SHAREHOLDER STRUCTURE AS OF 12/31/2017

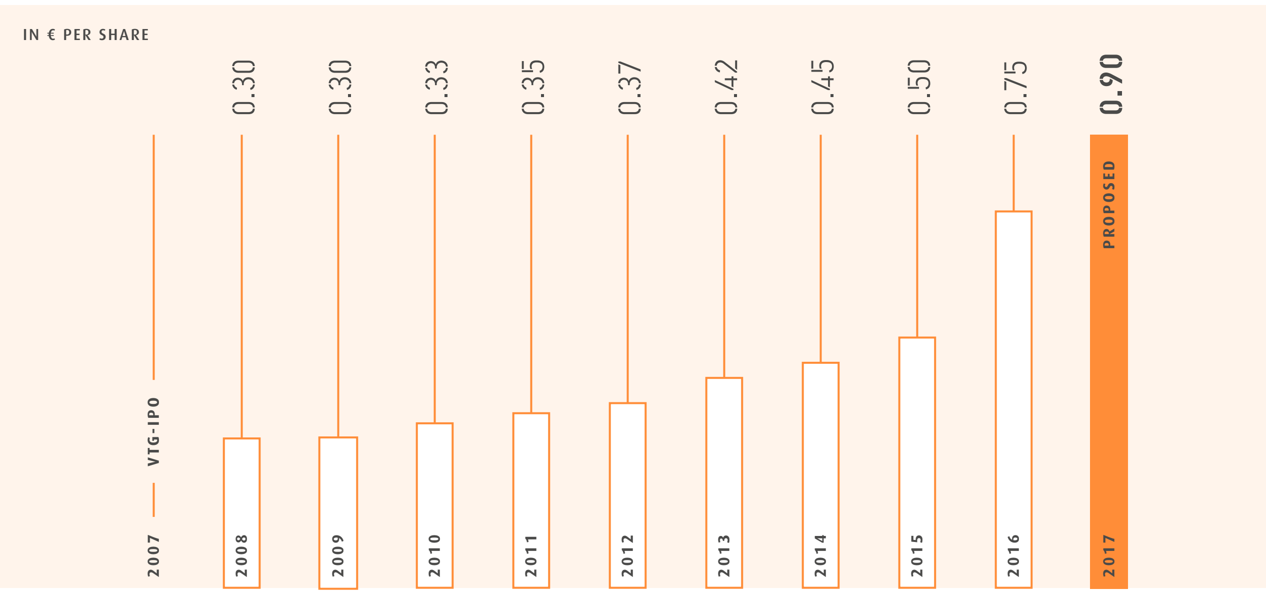


EXECUTIVE BOARD PROPOSES ANOTHER DIVIDEND INCREASE

Since the IPO in 2007, VTG has positioned itself as a reliable issuer of dividends. The Executive Board also aims to increase the dividend as the company's performance improves.

On June 8, 2017, the Annual General Meeting ratified the proposal of the Executive Board and the Supervisory Board to pay a dividend for the ninth consecutive year and issue to shareholders a payment of € 0.75 per share for the financial year 2017 (previous year: € 0.50). This rather marked increase in the dividend reflects the significant increase in profitability resulting from the takeover of AAE. The Executive Board of VTG intends to propose to this year's Annual General Meeting another increase in the dividend, to € 0.90 per share for the financial year 2017.

TREND IN VTG DIVIDEND PAYMENTS

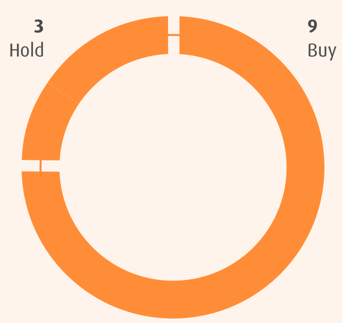


RESEARCH COVERAGE REMAINS AT HIGH LEVEL

VTG places importance on transparency, continuity and clarity in its communications with the capital market. The Executive Board and the Investor Relations team therefore continued to maintain contact with shareholders, potential investors, analysts and the financial press in 2017 through numerous conferences, roadshows and face-to-face meetings. The close contact VTG maintains with the capital market is also reflected in the comparatively large number of financial analysts following VTG who continuously publish commentaries on its performance and make trading recommendations. At the end of the financial year 2017, 12 financial analysts representing a range of domestic and international brokers were providing research coverage on VTG. The majority of these issued a buy recommendation for VTG shares.

INSTITUTION
Baader Bank
Bankhaus Lampe
Berenberg Bank
Commerzbank
Hauck & Aufhäuser
HSBC
Kepler Cheuvreux
Metzler
Montega AG
NordLB
SRH AlsterResearch
Warburg Research

RECOMMENDATION OF ANALYSTS ON THE VTG SHARE AS OF DECEMBER 31, 2017



03

GROUP MANAGEMENT REPORT

BASIC PRINCIPLES OF THE GROUP

Business model of the Group

OPERATIONS

VTG Aktiengesellschaft is one of Europe's leading wagon hire and rail logistics companies. The company has a fleet of some 83,000 rail freight wagons, consisting mainly of tank wagons, intermodal wagons, standard freight wagons and sliding wall wagons. In addition to leasing rail freight wagons, the Group provides a comprehensive range of multimodal logistics services, focusing on rail transport and global tank container transports. The Group has a fleet of nearly 8,800 tank containers for providing these services.

SEGMENTS AND SERVICES

With its three interwoven divisions, Railcar, Rail Logistics and Tank Container Logistics, VTG provides its customers with a high-performance platform for transporting their goods internationally. At the same time, these divisions form the operating segments for the purposes of segment reporting in accordance with the International Financial Reporting Standards (IFRS).

The core business of VTG comprises wagon hire operations. VTG manages and maintains not only its own wagons but also third-party fleets. The VTG fleet comprises a range of different types of wagon. These cover the transport of almost every type of rail freight, meaning the fleet can accommodate various customer needs. Additionally, VTG has its own wagon construction plant and two repair workshops, enabling it to provide customized, exactly tailored solutions. At the construction plant and workshops, new wagons are built and existing ones are maintained or converted to meet special requirements. With these tailor-made wagons, customers are able to transport large volumes of goods, sometimes over long distances. They can, for instance, transport their products by tank wagon or standard freight wagon from one production site to another, thereby integrating these wagons into their production flows as a "mobile pipeline". Additionally, by transporting containers or semitrailer trucks onward into the country from the major seaports and back again, intermodal wagons ensure that the global flow of goods runs smoothly. VTG wagons are also used in a whole range of sectors. These include the chemical, mineral oil and automotive industries as well as uptake by logistics providers and railway companies. Because of their fundamental importance in trade and production flows, customers tend to hire the wagons for periods extending over the medium to long term.

In addition to wagon hire services, VTG provides logistics expertise through its Rail Logistics and Tank Container Logistics divisions. As a forwarder, the Rail Logistics division organizes transports throughout Europe with the focus on the railway as a carrier. The company is experienced in both single-wagon and block train transports. To ensure the smooth flow of goods, VTG collaborates with an extensive network of national and international haulage partners throughout Europe. The Tank Container Logistics division organizes tank container transports of goods worldwide. The goods can thus be forwarded multimodally, by rail, road or sea, without having to load or unload the actual goods themselves. Instead, the containers holding the goods are transferred from one carrier to another. This saves on both time and costs for transfer. Moreover, the transport chain is much safer without having to transfer liquids.

STRUCTURE, ORGANIZATION AND OPERATIONAL CENTERS OF THE GROUP

The VTG Group comprises three operational divisions: Railcar, Rail Logistics and Tank Container Logistics. VTG is represented via subsidiaries and associated companies primarily in Europe, North America, Russia and Asia. Excluding VTG AG, a total of 74 companies belong to the VTG Group. As of December 31, 2017, the VTG Group had 64 fully consolidated companies, excluding VTG AG. Of these, 20 were in Germany and 44 in other countries. Additionally, four foreign companies were consolidated using the equity method. At the end of the period, the number of fully consolidated companies had therefore decreased by 2 since December 31, 2016.

Control parameters

KEY CONTROL PARAMETERS

Key control parameters: Revenue and EBITDA

The key parameters to which the Executive Board refers for operational management of the Group are revenue and EBITDA (earnings before interest, taxes, depreciation and amortization). These key control parameters are used both at Group level and in all three operational divisions. Revenue is of central importance because, particularly with respect to Railcar – the core operational division – it reflects the profitability of the fleet. Moreover, due to its similarity to operating cash flow, EBITDA is a key parameter for the management of the Group. This parameter is especially important because VTG finances its investments largely through its operating cash flow.

AUXILIARY CONTROL PARAMETERS

In addition to the key control parameters of revenue and EBITDA, the Executive Board also utilizes auxiliary control parameters. These include, at divisional level, the EBITDA margin and, in Railcar, fleet capacity utilization. At Group level, EBIT (earnings before interest and taxes) and EBT (earnings before taxes) as well as EPS (earnings per share) are considered along with leverage and the return on capital employed (ROCE).

Auxiliary control parameters at Group level: margins

In all three operational divisions, the EBITDA margin serves as an auxiliary control parameter. In Railcar, the ratio of revenue to EBITDA is examined. By contrast, in Rail Logistics and Tank Container Logistics, the margin is calculated using gross profit, as this is more suitable for the logistics business. Revenue in the logistics divisions includes recharged freight costs that must be subtracted when determining the margin for the individual division. This gross profit is used as the basis for calculating the margin and is viewed in relation to EBITDA.

Railcar division: monitoring capacity utilization

In Railcar, the capacity utilization of the wagon fleet serves as an important auxiliary control parameter. It is calculated by placing the number of hired wagons in relation to the entire fleet and provides an indication of how efficiently the fleet is being used at any given time of review. A high level of capacity utilization thus has a positive impact on the earnings of the Group.

Auxiliary control parameters at Group level: EBIT, EBT, EPS

At Group level, EBIT is also used to judge the profitability of operations after investment in fleet maintenance. Another auxiliary control parameter is EBT, which is used to determine the profitability of VTG after accounting for financing costs. Furthermore, earnings per share (EPS) is also considered, as a measurement of how profitable VTG is on a shareholder basis alone. Unlike the key control parameters, revenue and EBITDA, these indicators are not used for operational management of the Group. As a result, no forecasts are drawn up for these indicators.

Monitoring leverage

VTG relies to a large extent on debt capital to finance its wagon fleet. VTG Board ensures that it keeps the Group's leverage at a level that is both reasonable for its business model and typical for the market. This is measured as the ratio of net financial debt to EBITDA, whereby net financial debt is calculated as financial liabilities plus pension provisions less cash and cash equivalents.

Monitoring return on capital and capital costs

Companies such as VTG have to generate at least the cost of the capital employed. This means that the ROCE (return on capital employed) must be higher than the WACC (weighted average cost of capital). In determining the return on investment, earnings before interest and taxes (EBIT) adjusted to take account of onetime items is placed in relation to the average capital employed. The cost of capital before taxes is calculated at VTG as the weighted average cost of equity capital and external capital. Thus, for VTG, the costs of equity capital result from risk-free interest and a market risk premium, while the costs of external capital are set on the basis of the current financing. A long-term analysis of the relationship between ROCE and WACC is required to provide a reliable indication of the profitability of the business. A short-term analysis based on a period of one year would not do justice to VTG's long-term business model, particularly during and after strong periods of investment.

Monthly reporting as a tool

The Executive Board of VTG has a comprehensive system of monthly reporting at its disposal. Both key and auxiliary control parameters are used in reporting. Additionally, the differences between targets and performance in relation to these parameters are analyzed and their causes determined. VTG then uses these analyses to draw up and implement corrective measures.

CORPORATE MANAGEMENT

GROUP LEVEL

Key control parameters
Revenue — EBITDA

Auxiliary control parameters
EBIT — EBT — EPS — Leverage — ROCE

BUSINESS DIVISIONS

Railcar	Rail Logistics	Tank Container Logistics
EBITDA margin — Utilization	**EBITDA margin***	**EBITDA margin***

* Based on gross profit

Research and development

Principles of research and development

VTG's system of strategic planning includes the estimation of future demand for wagons and wagon types in its markets based on long-term criteria. It then plans the development of the fleet and bases its research, development and procurement policies on these projections. To achieve the Group's overarching aim of making the railway even safer and more competitive compared with other carriers, VTG is focusing its research and development on the following areas: noise reduction, increased safety, modular wagon solutions, reduced logistics costs and the costs of the entire product life cycle (e. g the cutting of operating costs through the use of telematics and disc brakes). Moreover, the development of a new wagon or individual components such as valves can also be initiated by a specific customer request, which is followed up with technical inspections and market and feasibility studies.

VTG innovation platform

Innovation is playing an increasingly important role at VTG, with development taking place via the company's own "innovation platform". This platform has three components: VTG's own Technical Innovations Team, the Newbuild division and the engineers at the VTG-owned Graaff wagon construction plant. Members of staff from other divisions are also involved in these projects. The Graaff plant, which has belonged to the VTG Group since 2008, is a fundamental element of the innovation platform. The company develops and manufactures special-purpose wagons for VTG, in particular high quality chemical tank wagons and powder and compressed gas wagons. Batch production of valves also commenced a few years ago. The entire Group benefits from the high level of technical expertise, quality and reliability Graaff offers in the construction of rail freight wagons. With this platform, ideas can be tested out and brought to market with very short lead times. VTG also works closely with industry, universities and railway companies and plays an active role in the Technical Innovation Committee for Rail Freight Traffic (Technischer Innovationskreis Schienengüterverkehr, TIS). A consortium of railway companies, wagon keepers, suppliers and members of the scientific community is therefore working together to produce innovative freight wagons that are much more operationally efficient.

R&D highlights of 2017

With a comprehensive strategy for digitization, VTG has laid the foundation for digital services in the industry. In the last financial year, VTG set up a new organizational unit to implement this strategy. The emphasis will be on digitizing the entire European wagon fleet and building on this to develop new services and business models.

In the last financial year, around 7,000 wagons were fitted with the company's self-designed VTG-Connector telematics box. VTG also extended the IT back-end infrastructure supporting the system. The rest of VTG's European wagon fleet is set to follow suit in the next two to three years. A Europe-wide digitized freight wagon fleet provides the foundation for the "VTG-Connect" service. This service includes the provision of location and event data, which will make maintenance and logistics processes faster, smoother and more efficient in the future. To achieve this, VTG is also working with innovative start-ups who are developing new tools and models for monitoring and analytics.

Two wagon types have also been developed together with DB Cargo as part of the "Innovative Freight Wagons" project. These are quieter and more energy- and cost-efficient. The newly designed wagons will be tested out this year. This project is funded by the German Ministry of Transport.

Employees

Number of employees slightly increased

As of December 31, 2017, the VTG Group had 1,527 employees (previous year: 1,443). Of these, 1,048 were employed in Germany (previous year: 958) and 479 in other countries (previous year: 485). The number of blue-collar workers stood at 398 (previous year: 370), almost all of whom were employed in the repair and manufacturing facilities. The number of white-collar workers was 1,069 (previous year: 1,024). Additionally, VTG employed 60 trainees as of December 31, 2017 (previous year: 49).

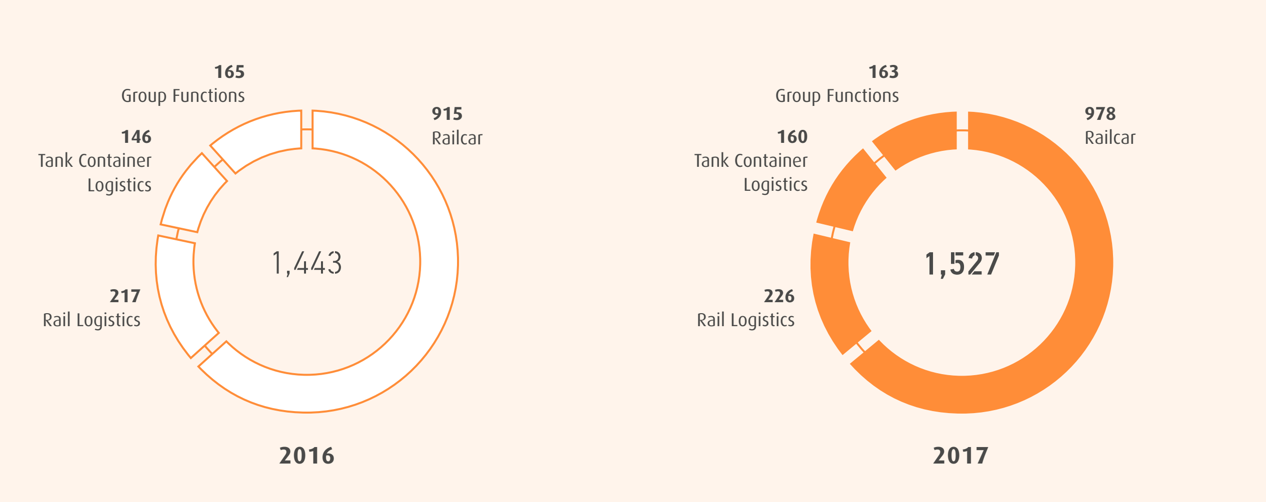
VTG remains an attractive employer

Demographic and economic developments have tended to increase the cost of recruiting new staff. This applies both to the use of the communication channels required to reach candidates and the interval until posts are actually filled, particularly in segments where demand for candidates is very high. All in all, VTG has continued to attract and retain suitable candidates due to its good positioning and reputation in the market along with the professional image the company puts forward to candidates at interview. VTG can benefit not only from its professional recruitment methods but also its sound economic profile and the appeal of its business model within the rail and international logistics setting.

VTG continues to emphasize training

VTG continues to place importance on fostering the talents of young people. It therefore offers a range of traditional traineeships to qualify for such occupations as construction mechanic, plant mechanic, forwarding and logistics agent, industrial sales manager or IT specialist. VTG also collaborates with two universities, educating and training new employees via work-and-study programs in business administration, industrial engineering, business informatics and design engineering. VTG also maintains contact with other universities, with VTG staff giving lectures, overseeing bachelor and master's theses as well as student placements. Graduates enter either via trainee programs in sales or technology or via the traditional direct entry route. In the year under review, VTG did not simply maintain its high level of training input but in fact stepped it up slightly.

EMPLOYEES BY DIVISIONS



Thinking ahead in HR development

In terms of human resources, VTG sees a strategic approach to the development of employees and managers as key. The measures being implemented in this area center on strengthening organizational performance and employee commitment and further heightening our appeal as an employer. In essence, this means ensuring that VTG remains competitive in the face of an increasing shortage of skilled workers. This is to be achieved with targeted career development measures that are appropriate in terms of type and level of qualification and appointment of staff in accordance with requirements. To this end, VTG uses appropriate tools to evaluate performance and identify and nurture the existing potential of specialist and management staff. After evaluation, the findings are used to draw up individually tailored measures to foster and develop this potential. These measures can be in-house – in the form of project assignments, additional responsibilities and assignments abroad – and external, in the form of training seminars, e-learning or coaching. Furthermore, VTG put in place a strategic succession plan. As part of VTG's intended development of its talent management strategy in 2018, its succession planning system will require a certain amount of realignment and adjustment. In 2017, managers undergoing professional development within senior roles or newly appointed to such roles were familiarized with the requirements set out in VTG's principles of leadership. These requirements are in line with the competency model for managers as elaborated in 2016.

Pre-emptive rights

As previously, there are no pre-emptive rights or stock options for either directors or members of staff.

Quality, safety and the environment

Since 2015, the Quality, Occupational Health and Safety, Hazardous Goods, Energy and Safety & Environment (QSHE) divisions of the VTG Group have been centralized in one location. With employees from these different divisions now within one central division, expertise is now pooled and synergies are being harnessed. This enables staff to provide more targeted, flexible support to all business divisions and means that staff can also be assigned to implementing further systems.

QUALITY AND SAFETY

Merging of quality and safety management systems

In 2017, VTG successfully completed the process of merging the quality and safety management systems of the European Railcar, Rail Logistics and Tank Container Logistics divisions. In a combined audit, the authorized certification body checked all existing management systems (ISO 9001, ISO 50001:2011, ECM EU G445/2011, GMP+B4 and waste disposal) and certified these as complying with the requirements.

The merging of these management systems unifies and streamlines them and greatly strengthens the learning organization approach. By significantly reducing audit expenses, it has also brought financial savings and has of course also spared resources.

Safety certification for VTG railway company Retrack

In an audit of several days' duration conducted by the German Federal Railway Authority, the safety management system of Retrack, the railway company of VTG Rail Logistics, was reviewed in accordance with the requirements of Directive 2004/49/EU. As a result, Retrack received safety certification in accordance with Section 7a (2) of the German General Railway Act and is entitled to participate in international rail traffic. This safety certification replaces the previous railway operator permit.

Data protection and information security

The protection of information and data is becoming increasingly important. For this reason, VTG launched a cross-divisional project in 2017 to make the availability, confidentiality and integrity of IT-supported information even more secure. The aim is to identify weaknesses in a targeted manner and to then take appropriate steps to eliminate these. The plan is for the project to end in 2018 with ISO 27001 certification and for it to then be incorporated into VTG's integrated management system.

Furthermore, to comply with and implement the new General Data Protection Regulation (GDPR), measures have been taken to ensure that VTG will continue to handle sensitive data of employees, customers and other stakeholders in accordance with regulations.

Audits – identifying potential for improvement

In the last financial year, as in the years before, the Group had audits and assessments carried out systematically in all divisions. These were performed by the authorized certification bodies in accordance with a range of specifications, for example ISO 9001:2008, EU 445/2011, ISO 50001:2011, GMP+B4, SQAS CDI-IMPCAS and CTPAT. The findings again confirm the very high quality and safety of the equipment in use and the accompanying processes and services.

Safety, technology and hazardous goods – training in expert skills

Demand for practical training in the areas of hazardous goods, safety and technology was high again in 2017. In the reporting period, some 200 employees of VTG customers received training in these areas, along with fire service and rescue staff. This shows once again that VTG is not only using its expertise to address the right issues but is also imparting urgently needed practical knowledge and skills to ensure even safer transport of goods on all modes of transport.

Further advances in occupational health and safety

Health and safety at work has long been a priority at VTG and therefore occupies a central position in the Group's corporate policy and values. Last year, we succeeded in significantly reducing downtime resulting from accidents at work. This is another important step toward increasing awareness of this issue and further reducing the severity of accidents at work.

THE ENVIRONMENT

Action to reduce energy consumption

Protecting the environment is a key element of VTG's corporate policy. VTG is ensuring and supporting full compliance with environmental regulations by using resources sparingly and implementing specific education and training initiatives. These initiatives raise employees' awareness about these issues and enhance their professional and personal skills.

The VTG Group has a Europe-wide, ISO 50001-certified energy management system in place for measuring and reducing its energy consumption. The information yielded by this system was used in the financial year 2017 to implement a series of energy efficiency measures. For example, the compression system at the Graaff wagon construction plant was upgraded and fitted with a central control system. Additionally, the data center at the Hamburg site was fully modernized, leading to VTG being made an official environmental partner of the Hanseatic City of Hamburg.

REPORT ON THE ECONOMIC POSITION

General environment

MACROECONOMIC ENVIRONMENT

Broad-based upturn in global economy
The global economy picked up considerable speed again in the last financial year. The IMF estimated that growth in 2017 has reached 3.7 %, following 3.2 % in 2016. As this growth is being driven by almost every major economy, the IMF has spoken of the broadest upsurge since 2010. Powered by greater investment in industrialized countries and the growth of production, particularly in Asia, there was also a marked increase in global trade volume in 2017.

Increased investment in Europe
According to the European statistical agency Eurostat, the EU grew at a rate of 2.5 % in 2017, the fastest in ten years. With a 2.5 % rise, Germany remained the engine of growth. France and Italy, with expected growth of 1.8 % and 1.6 % respectively, also grew significantly faster than in the previous year. Driven by the continued loose monetary policy of the European Central Bank (ECB), private investment in particular contributed to growth. There was also a sharp rise in exports but consumption rose only moderately despite falling unemployment.

The trend in the UK's economic data contrasted starkly with the recovery seen in the eurozone. For 2017, economic growth is expected to be just 1.7 %, despite the country having the highest growth rates in the EU in recent years. The political uncertainty surrounding the planned exit from the EU led to a noticeable slowdown in the property sector. The value of the British pound also continued to fall.

Consumer spending drives US economy – Russia overcomes recession
In the US, the economy also gained greater momentum. Due to the now very low unemployment rate, private consumption was a major factor in the expected economic growth of 2.3 %. Higher corporate earnings and increased private investment also had a positive impact on growth. However, despite rising interest rates and positive economic data, the dollar fell significantly against the euro.

China managed by a small margin to outperform its high rate of growth of recent years. The IMF forecasts growth of 6.8 % for the world's second-largest economy after the US. This global economic recovery led to rising exports, and China also benefited from continued strong domestic demand.

Despite ongoing trade sanctions, Russia managed to come out of the recession of the prior two years. Slight growth of 1.8 % is expected for 2017, in part also due to rising oil prices.

SECTOR-SPECIFIC ENVIRONMENT

In the period January-November 2017, the German rail freight transport sector saw a drop of 3.2 % in the volume of transported goods (323.2 million tonnes) and a drop of 2.5 % in transport volume (104.4 billion tkm). A slight decline in transport volume was already in evidence in the first half of 2017 and this was worsened in August and September by the closure of the Rhine Valley rail freight corridor via Rastatt. As a result, in September 2017, transport volume fell by 8.1 % compared with September of the previous year. Fuels such as coal and mineral oil products were particularly affected by reduced transport volumes. However, the volume of transport of agricultural and forestry products and metal products increased.

At the time of preparation of the annual report, the figures for the entire financial year 2017 were not yet available.

Business development and situation

SIGNIFICANT EVENTS AND TRANSACTIONS

VTG Aktiengesellschaft signs agreement to acquire Nacco Group
On July 1, 2017, VTG AG signed an agreement to purchase all shares in CIT Rail Holdings (Europe) SAS, Paris, France (CIT Rail Holdings). CIT Rail Holdings is the owner of the Nacco Group, a lessor of rail freight wagons in Europe, with a fleet of 14,000 freight wagons. The transaction is subject to approval and authorization and in particular requires clearance by the relevant competition authorities. Further information on this takeover can be found in the Management Report under "Report on Expected Developments" and "Report on Opportunities and Risks" and in the Notes to the Consolidated Financial Statements under "Material events after the balance sheet date (supplemental report)".

Results of operations

CONSOLIDATED RESULTS OF OPERATIONS

Group revenue rises slightly

In the last financial year, the VTG Group recorded an increase in revenue of 2.8 %, to € 1,014.4 million (previous year: € 986.9 million). This increase came mainly from the Rail Logistics division, which expanded its business considerably, particularly in project logistics. The Railcar division saw slight growth. It had a subdued start to the year, but thereafter steadily increased the capacity utilization of its fleet. The Tank Container Logistics division again managed to increase its transport volume. However, any positive impact on the division's revenue was neutralized by falling freight rates, so that revenue remained at the 2016 level. Overall, the trend in revenue for the Group was in line with the forecast issued in February 2017 (a slight increase).

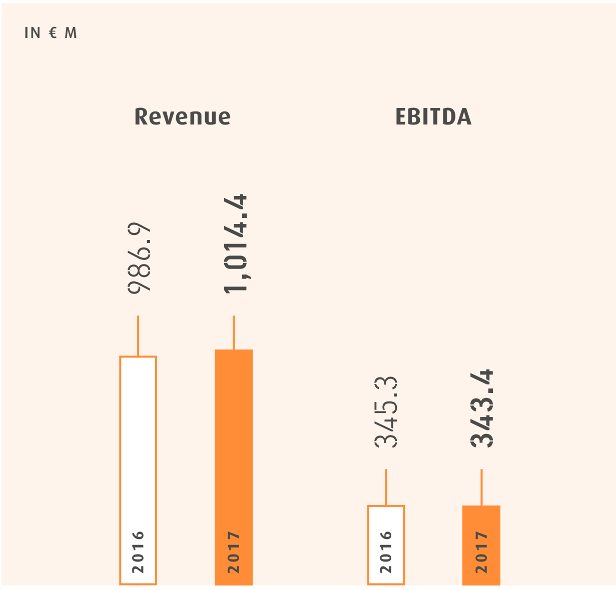
Of total revenue for the Group, € 378.2 million came from customers based in Germany (previous year: € 382.7 million). This represents a share of 37.3 % (previous year: 38.8 %). Accordingly, business from customers abroad generated revenue of € 636.2 million (previous year: € 604.2 million), giving a share of 62.7 % (previous year: 61.2 %).

Slight increase in EBITDA before one-time items

At € 343.4 million, EBITDA (earnings before interest, taxes, depreciation and amortization) stood at roughly the same level as in 2016 (previous year: € 345.3 million). It should be noted that the 2016 figure was positively impacted by one-time income of € 6.0 million from a compensation payment, while, in 2017, the planned acquisition of the Nacco Group reduced EBITDA for the Group by € 4.0 million. After adjustment to take account of these two one-time items, EBITDA saw an increase of 2.4 % .

There were pleasing trends in all divisions. Rail Logistics managed to achieve double-digit EBITDA growth. Meanwhile, Tank Container Logistics saw EBITDA rise slightly as a result of higher transport volumes. The Railcar division also showed steady improvement, with increased capacity utilization. However, the putting into operation of previously unleased wagons and the overhauling of braking systems affected the division's earnings. Overall, EBITDA for the VTG Group reached the middle of the range of € 330–360 million anticipated in the updated forecast issued in August 2017.

REVENUE AND EBITDA DEVELOPMENT



2017 FORECAST: TARGET-PERFORMANCE COMPARISON

GROUP

KEY FIGURE	FORECAST FEBRUARY 2017	FORECAST AUGUST 2017	PERFORMANCE 2017
Revenue	Slightly over previous year (2016: € 987 million)	Unchanged	€ 1,014 million
EBITDA	Slightly over previous year (2016: € 345 million)*	€ 330 – 360 million**	€ 343 million

* Nacco excluded ** Nacco included

Earnings per share see double-digit growth again

EBIT (earnings before interest and taxes) improved in the year under review, increasing by 3.6 % to € 155.1 million (previous year: € 149.7 million). Due to lower finance result, however, EBT (earnings before taxes) saw a smaller rise, growing by 2.3 % to € 90.2 million (previous year: € 88.2 million). The financial result includes in particular finance costs relating to the Nacco takeover amounting to € 6.5 million. The tax rate fell from 34.9 % in 2016 to 24.5 % in 2017. Two factors were central to this significant drop: one was the positive outcome of a tax audit, which led to a temporary reduction in the tax rate. The other was the recently adopted US tax reform, which resulted in a positive revaluation of tax liabilities in the US, recognized through profit or loss. The resulting fall in the overall tax rate led to a disproportionately large increase in net profit for the Group, which reached € 68.1 million (previous year: € 57.5 million). Earnings per share (EPS) grew by 23.7 % to € 1.93 (previous year: € 1.56).

RESULTS OF OPERATIONS: RAILCAR

The Railcar division hires out its rail freight wagons in its core market of Europe, in the US and in the Russian broad-gauge market. Thereby, the VTG Group owns the largest private wagon fleet in Europe. The fleet has nearly every type of freight wagon, from tank wagons to modern high-capacity wagons all the way to intermodal wagons. This versatility means that VTG can provide solutions for customers from almost every branch of industry. The business model of the Railcar division is very stable due to the fact that its wagons form an integral part of the customer's industrial infrastructure.

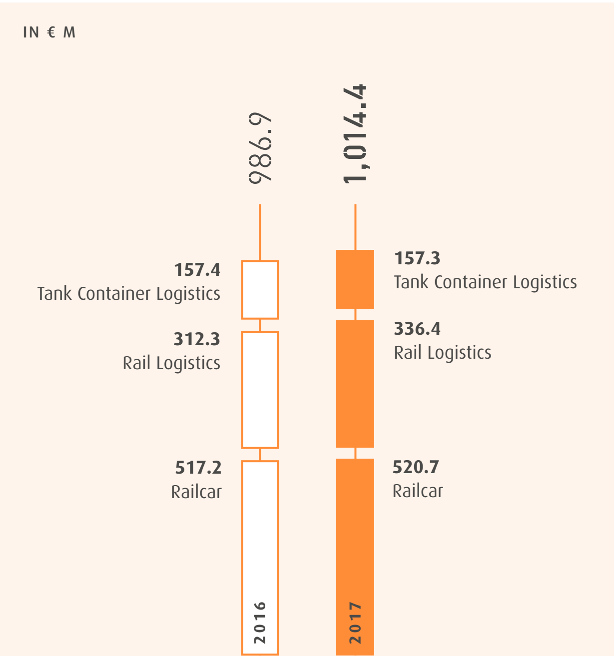
Noticeable recovery in demand in second half of year

In the financial year 2017, the Railcar division pushed up revenue by 0.7 % to € 520.7 million (previous year: € 517.2 million). After a subdued start to 2017, demand for freight wagons picked up noticeably in the second half of the year. Leasing of not only intermodal wagons but also of tank and standard wagons increased from July onward. In line with this, capacity utilization of the global fleet increased steadily from the second quarter of 2017. On December 31, 2017, it reached its highest point for the year of 92.2 %, which was also the highest level since 2008.

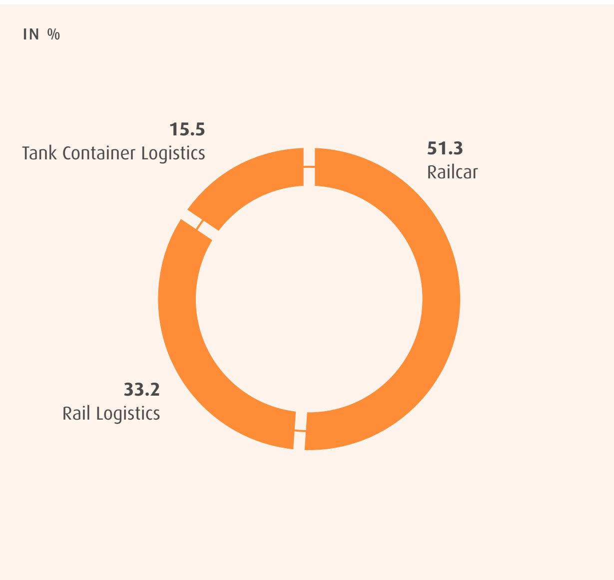
At € 343.6 million, EBITDA for the 2017 financial year stood at roughly the same level as in 2016 (previous year: € 344.3 million). It should be noted that, in the previous year, one-time income was received from a compensation payment of € 6 million. After adjustment to take account of this one-time item, EBITDA increased by 1.6 %. Along with capacity utilization, EBITDA increased steadily over the year, reaching its highest point in the fourth quarter of 2017. However, the unexpectedly high demand for wagons in the second half of the year led to higher costs from preparing previously unleased wagons for service. In addition, the overhauling of braking systems to accommodate changes in European safety requirements negatively impacted EBITDA. Together, these two factors incurred additional expenses of € 6.9 million in the financial year 2017. This caused the EBITDA margin to shrink slightly, by 0.6 percentage points, to 66.0 %.

The forecast issued at the beginning of 2017 anticipated a stable trend in revenue and EBITDA for Railcar, and this was achieved.

BREAKDOWN OF REVENUE BY BUSINESS DIVISION



BREAKDOWN OF REVENUE BY BUSINESS DIVISION



RESULTS OF OPERATIONS: RAIL LOGISTICS

In the Rail Logistics division, VTG primarily organizes the transport of goods by rail throughout Europe, in the form of block train, single-wagon and wagon group transports. The division operates independently and leases wagons from the Railcar division as well as from third parties. It also carries out its own transport operations. The industry focus is on transports of mineral oil and chemical products, liquid gases, and industrial and agricultural goods. With its project logistics service, the division offers transports of products for the machinery and plant engineering sector, including special transports using all carriers. With its provision of cross-border transport operations and its particular expertise in the transport of sensitive goods, VTG's Rail Logistics is one of the leading providers in Europe. The division also offers additional services tailored to customer requirements.

Rail Logistics again sees significant rise in revenue and earnings

In the financial year 2017, VTG Rail Logistics achieved a 7.7 % increase in revenue, which reached € 336.4 million (previous year: € 312.3 million). The drivers of this increase were project logistics operations, good agricultural business and orders in the metalworking industry in Western Europe. The growth in revenue and lower transport costs led to a significant increase in gross profit, which rose to € 31.8 million (previous year: € 27.7 million). EBITDA increased by 42.9 %, reaching € 8.3 million (previous year: € 5.8 million). Accordingly, the EBITDA margin rose to 26.1 % (previous year: 20.9 %). The forecast issued at the beginning of 2017 anticipated a slight increase in revenue and EBITDA for Rail Logistics, and this was exceeded by a substantial margin, particularly for EBITDA.

RESULTS OF OPERATIONS: TANK CONTAINER LOGISTICS

The Tank Container Logistics division offers transport and logistics services for tank containers. Tank containers are primarily used for the safe carriage of liquid and temperature sensitive products in the chemical, mineral oil, and compressed gas industries. The containers can be used in combined transport operations and transported by rail, truck or ship. The products remain in the tank container during transshipment. This enables safe transport in door-to-door traffic. VTG is one of the world's largest providers of logistics services for liquid chemical products. The Company's fleet comprises some 8,800 tank containers.

Revenue trend stable – slight increase in EBITDA
In the last financial year, revenue for Tank Container Logistics remained stable, with the division recording a level of € 157.3 million (previous year: € 157.4 million). The lower freight rates were offset by a further increase in transport volume. Lower transport and rental costs for tank containers nevertheless led to an increase in gross profit, which grew to € 30.1 million (previous year: € 28.5 million). EBITDA stood at € 11.3 million. However, due to an increase of € 1.2 million in administrative costs, this was only slightly above the previous year's level (€ 11.2 million). The EBITDA margin on gross profit shrank accordingly, to 37.5 % (previous year: 39.4 %). The forecast issued at the beginning of 2017 anticipated a slight increase in revenue and EBITDA, and Tank Container Logistics fell just short of achieving this, despite the fall in freight rates.

Financial position

FINANCIAL MANAGEMENT OF THE VTG GROUP

Due to the capital-intensive nature of its business model, particular importance is attached to the VTG Group's system of financial management. The key elements of this are the management of the capital structure of the Group and the management of the Group's liquidity. On the whole, VTG's system of financial management is based on market data, taking into account various scenarios. VTG's head office in Hamburg oversees the financial management of all companies in the Group. It is also responsible for group-wide management of financial market risks and ensuring and managing the liquidity of the Group. For further information on management of the financial risks to which the company is exposed and the extent of these risks, please refer to the Report on Opportunities and Risks and to the section "Reporting of financial instruments" in the Notes to the Consolidated Financial Statements.

MANAGEMENT OF THE CAPITAL STRUCTURE

In December 2015, the VTG Group entered into an agreement for a syndicated loan, comprising both medium- and long-term finance amounting to € 1.2 billion. The syndicated loan consists of a tranche of € 400 million payable on the maturity date, whose term was extended by two years in October 2017 to run until December 2020, an amortizing loan currently amounting to € 425 million with a term of seven years, a guaranteed line of credit of € 80 million with a term of five years and a revolving credit line of € 200 million with a term of three years, of which € 10 million had been drawn down as of the end of the year. To ensure liquidity, the VTG Group also has a revolving credit line running over the short term amounting to € 50 million.

Private placement bonds serve as the main source of long-term finance for the VTG Group. In May 2011, a US private placement (USPP) bond was issued comprising € 450 million and US$ 40 million and with terms of 7, 10, 12 and 15 years, with the last tranche thus running until 2026. Another bond of € 180 million was issued in November 2012, with terms of 6 and 10 years.

In October 2017, an independent bank loan of US$ 172 million was agreed for the US wagon hire business with no right of recourse in respect of the VTG Group. This is to be used to finance the existing wagon fleet and 1,000 newbuild wagons, most of which were delivered in 2017. The amortizing loan is still in the disbursement phase, with US$ 111.5 million currently drawn down. The term is four years.

In addition, there are various short- and medium-term project financing arrangements for designated wagon fleets, with a current volume of € 65,8 million. The amortizing loans have residual terms of between one and four years. Additionally, there is an amortizing loan for a Russian company, with a current volume of US$ 32.9 million, which is due for repayment in 2018.

Furthermore, through the former AAE owner and VTG shareholder Andreas Goer, there is a long-term loan of € 70 million from the takeover of AAE, with maturity in 2020.

In 2015, VTG placed a hybrid bond on the capital market, with a volume of € 250 million. The bond has been admitted to trading on the unregulated market of the Luxembourg Stock Exchange. The quasi-equity, subordinated bond ranks after other financial liabilities and can be called by VTG only after a period of five years.

VTG thus has an open funding platform, enabling it to combine various financing instruments. As part of the refinancing process in 2015, VTG consolidated and further extended the maturity profile of its finance, which, given the long maturities, had a positive effect on the refinancing risk.

The financing arrangements of the VTG Group expose the company to a certain interest rate risk. While there is no interest rate risk from the bonds due to their fixed interest coupons, there is an interest rate risk mainly from the syndicated loan, whose variable interest can change depending on the market interest rate. To cover the interest rate risk, there are interest rate hedges (interest rate derivatives) that were taken over in connection with the AAE transaction in January 2015. Due to the lack of a hedging relationship, the interest rate hedges are measured at market value and this is recognized in profit or loss. Depending on the current interest rate, market values can change and accordingly have a positive or negative impact on EBT and net profit for the Group. Over the course of 2017, the interest rate fluctuated within a certain range and ended the year at a slightly higher level. This in turn led to a slightly positive market valuation of the interest rate derivatives.

For additional hedging, in November 2016, the VTG Group entered into agreements with various financial institutions involving medium- and long-term interest rate derivatives with a total volume of € 1.2 billion. In addition to hedging existing variable-rate loans, these interest rate hedges are for hedging highly probable follow-up financing. With these interest rate derivatives, the VTG Group has hedged the interest rate risk for some portions of the variable-rate finance until 2025. As the transactions are in a hedging relationship, their measurements at market value are recognized only to a small extent in profit and loss.

In connection with US financing arrangement, VTG also entered into an interest rate derivative agreement in November 2017 to hedge the variable interest rate, which is also in a hedging relationship.

MANAGEMENT OF FINANCING AGREEMENTS

The VTG Group has entered into a number of credit agreements containing obligations and requirements in relation to specific financial ratios (financial covenants). To ensure constant compliance with these conditions, the Executive Board continually monitors these financial covenants in a forward-thinking manner, subjecting them to careful scrutiny. In the year under review, all covenants were complied with.

LIQUIDITY MANAGEMENT

The Group's liquidity requirements are managed through liquidity planning. The companies in the Group report their liquidity requirement or surplus to the Group's head office daily and liquidity requirements are then planned on the basis of these reports. The companies in the Group cover their requirements for funds for operations through cash pooling arrangements, intercompany loans, funds from VTG through bank loans, and shareholders' equity.

As of December 31, 2017, cash and cash equivalents recorded in the balance sheet for the VTG Group amounted to € 78.2 million (previous year: € 63.5 million). Moreover, the stable cash flow from operating activities continues to provide a good basis for investment financing. By means of the flexible credit lines available to the Group, the ability of VTG AG and its subsidiaries to meet their payment obligations can also be ensured at all times.

ANALYSIS OF THE CASH FLOW STATEMENT

Cash flows from operating activities fell by € 30.3 million in the financial year 2017, to a level of € 295.9 million (previous year: € 326.2 million). This decrease was mainly attributable to the purchase of rail freight wagons that are soon to be resold to leasing companies (purchases in 2017: - € 8.0 million; disposals in previous year: +€ 27.0 million).

Cash flows used in investing activities stood at € 207.5 million for the financial year 2017, almost unchanged compared with the previous year (2016: € 207.2 million). Payments for investments in intangible and tangible fixed assets increased to € 241.2 million (previous year: € 220.4 million). This was offset by higher proceeds from the disposal of intangible and tangible fixed assets amounting to € 41.6 million (previous year: € 11.9 million). These proceeds came mainly from the sale of wagons from fixed assets to leasing companies.

Cash flows used in financing activities halved in the year under review, falling to € 73.0 million (previous year: € 152.2 million). In addition to borrowing and the repayment of financial liabilities, this item includes dividend payments to shareholders and hybrid capital investors as well as interest payments. The outflow of funds in the year under review was lower because, in contrast to the previous year, more financial liabilities were assumed than were repaid.

CAPITAL EXPENDITURE

In the financial year 2017, VTG invested a total of € 341.6 million (2016: € 259.3 million). Of this sum, € 262.4 million was spent on fixed assets (2016: € 220.8 million), € 79,2 million was financed off-balance through operating lease agreements (2016: € 38.5 million). By far the largest share of the funds invested went to the Railcar division (96.1 %). These were used in particular for renewing and expanding the global wagon fleet. The remaining 3.9 % was invested in the two logistics divisions and the holding company (2016: 4.7 %).

At the end of the reporting period, some 2,600 wagons were on order and awaiting delivery (2016: 4,000). The significant drop compared with the previous year was due to the delivery of 800 newbuild wagons to the US and some 1,600 to recipients in Europe.

Net assets

BALANCE SHEET STRUCTURE

As of December 31, 2017, total assets for the VTG Group were € 3,085.5 million (previous year: € 3,001.5 million), almost unchanged against the previous year.

As of December 31, 2017, non-current assets amounted to € 2,746.4 million (previous year: € 2,726.2 million). The slight rise was due mainly to an increase in tangible fixed assets to € 2,235.9 million (previous year: € 2,216.8 million). Current assets grew to € 339.1 million (previous year: € 275.3 million), mainly as a result of an increase in trade receivables.

As of the end of the year under review, equity increased to € 800.1 million (previous year: € 774.0 million). As of December 31, 2017, the equity ratio had improved slightly, increasing by 0.1 percentage points to 25.9 % (previous year: 25.8 %).

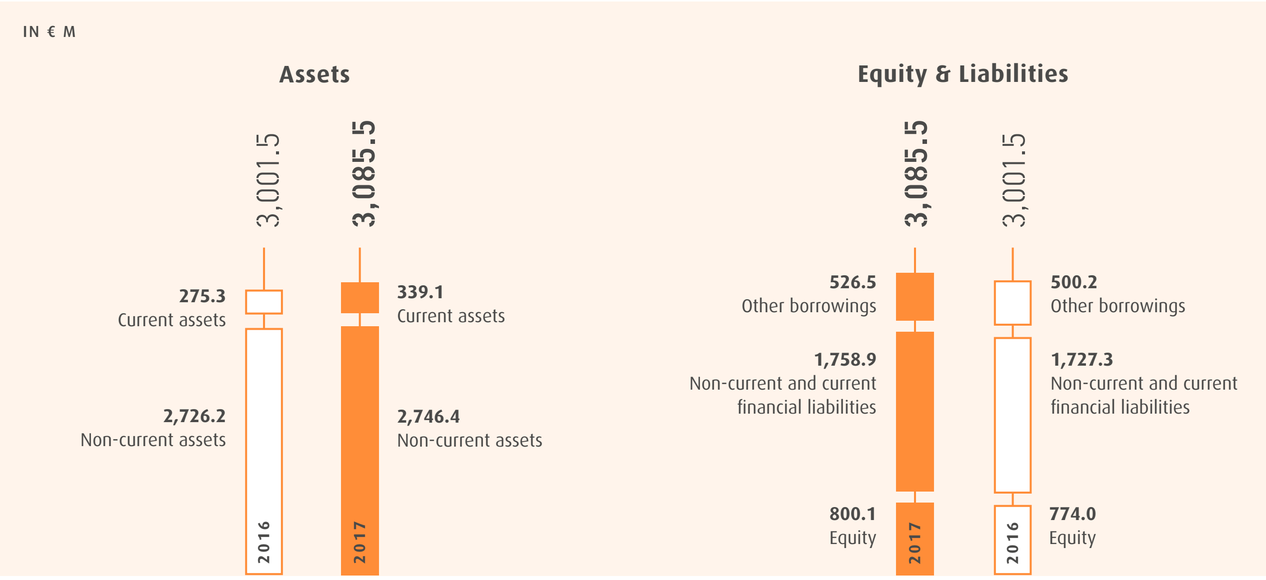
As of December 31, 2017, non-current debt stood at € 1,767.2 million, a drop of € 145.6 million on the previous year (€ 1,912.8 million). Non-current debt remains covered by non-current assets.

Current debt, by contrast, increased by € 203.5 million to € 518.2 million (previous year: € 314.7 million). This shift from non-current debt to current debt is partly attributable to formerly non-current financial liabilities becoming due in 2018. There was also an increase in trade payables.

UNRECOGNIZED ASSETS

To finance its wagons, in addition to funding requiring balance sheet recognition, VTG takes advantage of off-balance-sheet financing strategies such as operating lease agreements.

BALANCE SHEET STRUCTURE



Overall assessment of the economic situation by the Executive Board

The Executive Board of the VTG Group can look back on a satisfactory financial year 2017. After a subdued start to the year, the results of operations for the Group gradually improved in the wake of rising demand in Europe. Once again, it was clear that the VTG business model is such that it responds to economic ups and downs only after a delay. There was also a delay in the planned takeover of the Nacco Group, which, due to antitrust concerns and contrary to the expectations of the Executive Board, could not go ahead in 2017. This had a negative impact on the results of operations for the Group.

In terms of operations, the Railcar division saw an unexpectedly strong upward trend in the second half of the year. There was, for example, unusually high demand for rail freight wagons in Europe during this period. At the end of the year, fleet capacity utilization stood at 92.2 %, the highest level since the financial and economic crisis of 2008. However, to meet this high demand, previously unleased wagons had to be put into operation, and this initially brought earnings down in 2017 before rental income was received in subsequent quarters. After streamlining the range and bolstering the agricultural business again, Rail Logistics operations grew significantly. Despite difficult market conditions, Tank Container Logistics achieved stable levels of revenue and earnings. Overall, operating profit (EBITDA) for the Group fell very slightly short of the 2016 level due to the aforementioned one-time items, including one-time income of € 6 million recorded in 2016. After adjustment to take account of these items, EBITDA was slightly above the previous year's level.

The delay in the takeover of the Nacco Group also impacted the financial result, as commitment interest was charged on the acquisition financing. However, a significant improvement in the tax rate, particularly as a result of the US tax reform, pushed up net profit for the Group as well as earnings per share (EPS).

The financial position and assets of the VTG Group remain solid. Due to its consistently strong operating cash flow, its long-term financing agreements including its lines of credit, and the quality and creditworthiness of its diverse customer base, the VTG Group is in a very good position to push ahead successfully with its growth strategy.

REPORT ON OPPORTUNITIES AND RISKS

Definitions of terms and elements of the VTG Group's internal control and risk management system

INTERNAL CONTROL SYSTEM

The VTG Group's internal control system encompasses all of the principles, processes and measures for ensuring the accuracy, reliability and cost-effectiveness of business processes. In the VTG Group, the internal control system comprises both process-integrated and process-independent monitoring measures.

The process-integrated monitoring measures include manual process controls (e.g. the two-man rule) and IT-based process controls. In addition, special committees (such as the Risk Committee) and bodies of staff are charged with the specific task of process-integrated monitoring within the Group. Moreover, Group guidelines, directives and accounting rules provide the basis for a uniform approach in the VTG Group.

The Supervisory Board, the Internal Audit department (Group Audit) and the Compliance Committee of VTG AG, and other auditing bodies (e.g., auditors) carry out process-independent auditing activities and as such constitute a part of the VTG Group's internal monitoring system. Statutory auditors also help monitor the system.

SPECIFIC RISKS RELATED TO GROUP ACCOUNTING

Specific risks related to Group accounting can arise if, for instance, the Group enters into unusual or complex transactions, especially at the end of the financial year. Furthermore, business transactions that are not routinely processed are exposed to a potential risk. The powers of discretion that have to be granted to employees for recognizing and valuing assets and liabilities can result in additional accounting-related risks. These risks are countered by working very closely, at an early stage, with Group Controlling, Finance & Accounting, the Group's Internal Auditing department and, as required, external auditors.

KEY CONTROL AND MONITORING ACTIVITIES FOR ENSURING ACCURACY AND RELIABILITY OF GROUP ACCOUNTING

The VTG Group's control and monitoring activities are designed to ensure the accuracy and reliability of accounting. An essential element of this is the systematic separation of different functions in the accounting processes, for instance the administrative, fulfillment, invoicing and approval functions. Furthermore, all available resources are used to carry out inventories according to the standards customarily applied. The same applies to the proper recognition, valuation and disclosure of assets and liabilities in the consolidated financial statements. The control and monitoring activities are also aimed at providing reliable, transparent and traceable information that is based on the accounting records.

By means of appropriate organizational measures, company-wide and Group-wide restructuring measures and changes in the business activities of specific divisions are recorded promptly and correctly in the Group accounting system. The internal control system also ensures that changes in the VTG Group's economic or legal situation are reflected and that new or amended legal requirements concerning Group accounting are applied.

At Group level, specific monitoring activities designed to ensure the accuracy and reliability of Group accounting include analyzing and, if necessary, correcting the separate financial statements submitted by the individual Group companies. For this purpose, automatic monitoring mechanisms and plausibility checks have already been put in place in the reporting tools and the consolidation system.

RISK MANAGEMENT SYSTEM

Objectives and strategies

The nature of the VTG Group's operations exposes it to numerous risks that could negatively impact the company's performance. The aim is to detect these risks as early as possible and then limit their impact as much as possible. The VTG Group's risk management policy is also aimed at achieving sustainable growth and increasing VTG's enterprise value. This policy underpins the group-wide risk management system and is determined by the Executive Board. It comprises the following process-dependent and process-independent elements:

Process-dependent elements

- VTG group guidelines and advanced standard operating procedures (SOPs)
- VTG Group Code of Conduct, which sets out conduct guidelines for all governing bodies, managers and employees of the companies in the VTG Group
- Risk Committee, which identifies, analyzes and monitors potential risks and reports regularly to the Executive Board on the ascertained risks and counter-measures. Within the risk management system control loop, these managers are responsible for limiting risks
- Compliance Committee

Process-independent elements

- the Group's Internal Auditing department
- external auditors

The risk management system is being continually and systematically improved. This means that risks can be properly ascertained and monitored and counter-measures introduced in good time. The objective of the system is to minimize, avoid, transfer, or accept risks as appropriate. Any quantifiable risk remaining (residual risk) is reflected in the accounting system. In this manner, VTG ensures that it can present a true and accurate picture at all times of the situation of the VTG Group.

Structures and processes

Risks are identified by means of a standard procedure that applies uniformly throughout the Group. Risks are identified and analyzed at regular intervals from a bottom-up perspective by both the operational divisions and central departments and the individual companies. The Group's risk management system is overseen by Group Controlling, which ensures close connection with planning, budgetary and forecasting processes. The relevant areas of risk are defined in the implementation regulations.

The risk assessment includes classification of the known risks by the various managers, with the risks grouped by degree and probability. The probability is categorized as "low" (< 33 %), "medium" (33–66 %) or "high" (> 66 %). Once any counter-measures have been taken, the risks are quantified (net risk) and placed in the categories "less than € 3 million", " € 3 million to € 15 million" and "more than € 15 million". If individual risks exceed the specified thresholds, the Group's risk management center is notified. The risk managers of both the operational and central divisions and the companies in the Group are responsible for risk-limiting measures. Both the risk manager of VTG AG and the Risk Committee then examine the individual risks and the agreed measures to limit risk for completeness and effectiveness. The operational and central divisions and the individual companies are also responsible for managing and monitoring the measures introduced.

In the VTG Group, the following risk definition applies: a major risk is a risk with an estimated impact on net profit amounting to more than € 15 million and a high probability rating.

Risks are reported on a quarterly basis to all members of the Executive Board and Supervisory Board in a risk report. Moreover, the chief financial officer is also actively involved in the system of risk management via the Risk Committee. In addition to these quarterly reports, VTG's risk manager and the Risk Committee are notified immediately if risks are identified at other times. This system ensures full and prompt analysis of the risk situation at all times.

With its risk management system, VTG monitors the various risks and limits their potential impact with appropriate measures as required. There is no active system of opportunity management outside that which takes place in ordinary operations.

Specific opportunities and risks

MARKET OPPORTUNITIES AND RISKS

General market opportunities and risks

The Railcar and Rail Logistics divisions of the VTG Group operate in the European market for rail freight transport. The markets for freight transport by rail and road are submarkets within the market for the transport of goods. Because most goods can be transported by both rail and road, providers in the rail freight transport market compete against those in the road freight transport market for or customers.

European Union regulations are both promoting and requiring further liberalization of rail freight traffic in Europe. The aim is to enable new companies to enter the market and thereby intensify competition on the railway. Also, by strengthening the railway as a carrier, the intention is to ensure that the EU can meet its environmental protection targets, particularly the reduction of CO_2 emissions. However, due to the great organizational demands of this, progress in liberalizing the market is halting. Moreover, to some extent, regulations and other requirements, such as those relating to safety and noise control, and their implementation, have proved counterproductive, creating an obstacle to further growth in rail freight traffic. One clear example of this is the controversial and enduring debate about the advantages and disadvantages of separating rail network and operator. To counter this risk generally, VTG has members of staff working in many national and European bodies, associations and working groups to ensure that regulations are implemented in a moderate and, above all, practicable manner. Work has already begun on urgently needed revisions: however, it is clear that the transition from the old world of state-owned railways to a liberalized railway market will take longer than was originally thought. As of the end of the year 2016, no risks could be ascertained from the worsening of the regulatory framework. On the other hand, increasing environmental awareness, greater safety requirements for freight transports and a rising volume of transport could positively impact demand for rail transports. In these respects, the railway has clear advantages over other carriers. An improved market environment could therefore have a positive effect on demand and thus on the growth of the VTG Group.

Railcar market

In recent years, VTG has invested continually in the construction of new wagons. It has also expanded its existing fleet by acquiring fleets of used wagons. With regard to the evaluation of potential acquisitions, in all markets, VTG is always concerned with ensuring that acquisition prices are in line with the return VTG expects. VTG also ensures that the underlying cash flows are hedged by long term leasing agreements.

In Europe, VTG sees continued good prospects for growth in Railcar. Accordingly, one area of focus for the division is the expansion and modernization of the existing fleet with new-build wagons. By penetrating new customer segments in the industrial goods sector, the division also succeeded in broadening its customer base in recent years, reducing its dependence on individual customers. With the takeover of AAE in January 2015, VTG enhanced its range of wagons and services in Europe, closing a key gap in its product portfolio with the newly acquired intermodal wagons. Overall, in the view of the VTG Group and within the meaning of its risk definition, there is therefore at present no major, quantifiable market risk for Railcar in Europe.

In North America, VTG is aiming for continued growth and expansion of its operations to include a fleet of wagons running into five figures. However, because of the subdued market environment in North America and the build-up of overcapacities in some wagon segments, expansion has proved difficult in recent years. At the same time, the high availability of low-interest finance has led to sale prices for existing fleets being driven up by financially strong players such as banks from the US but also from the Pacific region. The fleets currently available on the market often offer only low returns, which is why the process of expanding the fleet through acquisitions is difficult at present. The risk to the VTG Group as a whole in North America can be considered to be minor due to the current size of the fleet in this market. As of the balance sheet date, there were no major, quantifiable risks within the meaning of VTG's risk definition.

The VTG Group is active in the wagon hire market of the Russian Federation, with its own fleet of some 3,200 units (previous year: 3,100). The political tensions between the countries of the West and the Russian Federation regarding the situation in Ukraine have led to economic sanctions on both sides, which still have negative impact on the Russian economy. Nevertheless, VTG sees good opportunities for growth in the Russian wagon hire market. The growing demand for replacement wagons and the continuing need for industrial development and modernization will remain driving forces in the Russian railway sector over the next few years. In the last financial year, further recovery was in evidence in the Russian wagon hire market. At VTG, this was seen in higher rental rates as well as the continuously high level of capacity utilization. VTG Rail Russia also successfully broke into the lucrative chemical wagon segment and agreed long-term leases with major chemical customers, thereby further diversifying the customer base. As of the balance sheet date, there were no major, quantifiable risks within the meaning of VTG's risk definition.

The Railcar division is well equipped to take up new operations in existing markets in the future. VTG is also exploring new industries and new geographical markets with attractive growth prospects. Prior to any expansion of business operations, the market is always monitored and examined thoroughly and the relevant features of the market appraised carefully. For the reasons stated above, the VTG Group generally considers the market risks to be controllable.

Rail Logistics market

The path of growth of VTG's rail logistics activities could be affected by an economic downturn, market instability, or a lack of availability of locomotive drivers or wagons. There is currently increased price and margin pressure due to intense competition both within the rail market and with other modes of transport, while customers are also placing greater price pressure on their suppliers. On the one hand, state railways and their successor companies as well as private railway companies and freight forwarding companies are increasingly penetrating the market by offering their services to the customer either directly or through subsidiaries. In the tenders that are standard for this market, they can use their dominant position to make low-price offers, which intensifies the price pressure. On the other hand, this process of market consolidation has increased the market power of the chemical and mineral oil industries – the key consumers of forwarding services – and therefore also their bargaining power in respect of rail forwarders. The Rail Logistics division is tackling the challenging market environment by focusing on more complex (and thus higher-margin) operations such as the expansion of liquid and hazardous goods transports and project logistics. The strong competition in the industry is also giving VTG the opportunity to make savings when purchasing traction services.

A further risk is the potential downturn of individual wagon transports due to the shrinking offering from the state railways and/or further rate increases. To provide customers with added value and to counter the risk of a reduction in single wagonload traffic, the Rail Logistics division is building up networks of wagon groups using its own traction, private railway companies and state railways. Via its own networks, the division can therefore offer the customer a competitively priced, quality alternative to the solutions already on the market. The digitization of the VTG fleet also opens up additional opportunities for Rail Logistics. Digital integration of customers will make internal processes more efficient and create more benefits for the customer. At the same time, closer interconnection with customers reduces the risk of interchangeability.

As of the balance sheet date, there were no major, quantifiable market risks for Rail Logistics within the meaning of VTG's risk definition.

Tank Container Logistics market

The Tank Container Logistics division is moving in a fast-paced market where the level of demand depends mainly on the cyclic trend in the chemical sector. Following years of weakness, the European chemical industry is now back on a clear path of growth. However, the increasing demand in Europe is exacerbating the existing infrastructural bottlenecks that have the capacity to negatively impact developments in Tank Container Logistics. Moreover, the shortage of drivers, particularly in chemical logistics in the road freight transport market, is leading to capacity bottlenecks that may pose a risk to the division.

At the same time, the trend toward moving global production capacity closer to sales markets (nearshoring) continues unabated – and is having a direct impact on the ordering behavior of customers and thus on demand for freight space from Tank Container Logistics. This trend is creating an imbalance in flows of transport and, with it, greater complexity, and this carries the risk of higher unproductive costs. Furthermore, the continuing overcapacity in the global fleet is negatively impacting the achievable margins.

The Tank Container Logistics division is countering these risks by optimizing its IT-based processes and working more closely with global partners. The tank container fleet is reviewed regularly to identify flexible and market-oriented uses to ensure that swift, corrective action can be taken in the event of overcapacity.

Tank Container Logistics is also utilizing its established market position, particularly in Europe, America and Asia, and its detailed knowledge of these markets to optimize transport structures. It is also pushing ahead with expanding operations in the growth regions of Eastern Europe, Asia and South America. Similarly, the fact that Tank Container Logistics offers such a quality service and tailors the transport process to individual customer requirements means that it has the opportunity to both strengthen the loyalty of existing customers and gain new customers. Another factor favoring the use of tank containers is customers' already high – and continually increasing – awareness of safety.

Overall, there was no known major, quantifiable market risk for Tank Container Logistics within the meaning of VTG's risk definition.

OPERATIONAL OPPORTUNITIES AND RISKS

Opportunities and risks related to capacity utilization

The core operational division of VTG is the Railcar division. Its customers include companies from the industrial sector, railway companies and logistics companies. VTG's industrial customers integrate the wagons into their logistics processes to secure the flow of materials between various sites of production. The wagons thus represent a fundamental element in supporting the production process. VTG's industrial customers include a large number of well-known companies from many different branches of industry and different countries. This range of customers thus enables VTG to avoid risk concentration. Because of their mobility, the wagons can also be used in various industries and countries. With the takeover of AAE, the division's customer base has expanded to include railways and logistics providers, who had previously played only a subordinate role. The company has a higher concentration of customers in this market segment, particularly in intermodal operations.

In times of economic weakness, there is a risk of a decline in fleet utilization. A change in capacity utilization directly impacts the level of rental income. For VTG, the impact of economic fluctuations is generally milder and also delayed, as the wagons are usually leased over the medium to long term. Good evidence of this is provided by the capacity utilization levels of recent years, which, even during a period of economic cooling, were much less volatile than, for example, transport volumes. The intermodal wagon operations taken over from AAE are more reliant on the actual transport volumes in the markets concerned. This applies in particular to usage-based hire contracts where customers pay only for the time period in which they actually use a wagon.

Since the international wagon fleet is highly diversified and VTG has access to a broad range of customer groups, the VTG Group considers the capacity utilization risk to be controllable. Experience has also shown that, in periods of economic upturn, demand for wagons increases and thus also the level of capacity utilization. This has a direct, positive impact on consolidated earnings. As of the balance sheet date, there was no known capacity utilization risk that was major and quantifiable within the meaning of VTG's risk definition.

Investment risk from new wagon orders

The Railcar division, with a current fleet of some 83,000 rail freight wagons as of the reporting date, is VTG's core operational division (previous year: 81,900). To stay competitive and successful in the market over the long term, VTG invests large sums in maintaining, expanding and renewing its wagon fleet. At the beginning of 2017, VTG had orders for some 4,000 newbuild wagons. Over the course of the year under review, around 1,000 wagons were added to the order book, all for customers in Europe. Meanwhile, some 1,600 were delivered to customers in Europe and 800 to customers in the US. At the end of 2017, the order book contained a total of 2,600 wagons on order and awaiting delivery.

This growth in orders demonstrates VTG's ability to plan marketable new construction projects in a forward-looking manner and implement them on schedule for the customers. Waggonbau Graaff plays a key role in providing key production capacity for the construction of special wagons. Additionally, Graaff serves as a design and innovation platform within the VTG Group. This ensures that valuable design know-how for wagon development remains in the VTG Group, giving VTG an innovative edge.

The risks involved for VTG include the possibility that the suppliers do not fulfil their obligations and either fail to deliver the wagons or do so late or that customers would no longer be able to accept the wagons. VTG has many long-term partnerships with its customers and suppliers. It pays great attention to strengthening these relationships and ensuring close co-operation. It has therefore been able to limit this risk to manageable time delays. As of the balance sheet date and within the meaning of VTG's risk definition, there were no known major, quantifiable investment risks arising from new wagon orders.

Opportunities and risks related to price changes

The VTG Group faces a general price change risk. However, in the past few years, which have included some difficult periods for the economy as a whole, prices have either remained stable or risen. This has particularly been the case in the core operational division, Railcar. In the Railcar division, fluctuations in demand are not generally reflected in price reduction but in returns of wagons when the contractual term of hire expires. VTG not only provides high-quality wagons but also offers customers advisory and maintenance services. VTG is striving to continually increase prices to absorb the impact of, for instance, rising maintenance costs. These cost increases are largely the result of additional regulatory requirements. VTG also pays great attention to nurturing and fostering its relationships with customers and monitors the markets very closely. Consequently, it regards this risk as controllable. As of the balance sheet date, there were no known major, quantifiable risks within the meaning of VTG's risk definition.

The Railcar division has a high fixed cost structure. Should there be a significant rise in inflation within the eurozone in the future, this would result in higher rental income without costs increasing to the same extent. This would then have a positive impact on the division's earnings and thus on the Group as a whole. Conversely, any deflation would affect the Group's net profit. Such developments would, however, not affect VTG's logistics divisions to the same extent due to their high proportion of variable costs.

FINANCIAL OPPORTUNITIES AND RISKS

Default risk

On the one hand, the default risk involves the danger that outstanding receivables will be paid late or not at all. On the other hand, it entails the risk that suppliers fail to meet their obligations from advance payments. The maximum default risk corresponds to the carrying amount of the financial assets. VTG controls and minimizes its default risk with an accounts receivable management system covering all companies in the Group. However, although the Group's customer base comprises mainly established industrial clients with a high credit rating, there is still a risk in terms of actual payment practices and the ability to pay. In logistics, both divisions often pay customers' freight costs in advance. Consequently, they make use of all the available methods for securing payment of receivables, for example bank guarantees and advance payment. Furthermore, recognized default risks relating to individual receivables and general credit and collection risks are covered by appropriate specific reserves and global write-downs based on experience. In addition, the VTG Group has concluded credit risk insurance contracts. As of the reporting date, there were no major, quantifiable risks from debtor default within the meaning of VTG's risk definition.

Liquidity risk

The liquidity risk is the risk that there are not enough funds to meet financial obligations in full or by a due date. The VTG Group manages this risk by planning all liquidity requirements for the short, medium and long term in terms of cash outflows and inflows. These requirements are mainly covered by, on the one hand, operating cash flow and, on the other, guaranteed, available lines of credit. Due to successful cash management, there was no major, quantifiable liquidity risk within the meaning of VTG's risk definition at any time during the reporting period.

Opportunities and risks related to interest rates

The VTG Group is exposed to an interest rate risk arising from the sensitivity of payments relating to variable-interest-bearing financial liabilities and financial assets and to the measurement of interest rate derivatives as a consequence of a change in the market interest rate. The VTG Group limits risks from the sensitivity of payments relating to variable-interest financial liabilities by using interest derivatives such as interest swaps.

The VTG Group has a financing arrangement agreed in 2015, amounting to € 1.2 billion. Due to the variable-interest financial liabilities to banks resulting from the syndicated loan, VTG is exposed to an interest rate risk that can change depending on the underlying market interest rate. Moreover, as of the reporting date, there were interest rate risks for the Group from certain portions of the promissory note loan, the project financing and the bank loans. In most cases, the fixed interest period was up to six months as of the balance sheet date. To hedge the interest rate risk for the entire VTG Group, there are interest rate hedges that were taken over with the acquisition of the AAE Group in 2015. However, under IAS 39, these interest rate hedges are not in a hedging relationship. Future changes in the value of these interest rate derivatives are therefore recognized in profit or loss. For additional hedging, in November 2016, the VTG Group entered into agreements involving medium- and long-term interest rate hedges with a total volume of € 1.2 billion. These transactions are used to hedge the interest rate risk from both current debt and highly probable follow-up financing of the VTG Group. In connection with the US financing arrangement finalized in October 2017, the variable interest payment cash flows were hedged with an interest rate derivative. The above interest rate hedges are in a hedging relationship in accordance with IAS 39. In order to assess the risk of changes in interest rates for financial liabilities and interest rate derivatives, a change in the market interest rate of 50 basis points was simulated. For this purpose, the actual interest rates for the financial year 2017 were each changed by 50 basis points. An increase in the interest rate of 50 basis points would decrease the group profit after taxes by € 2.7 million (previous year: € 0.3 million) and increase the revaluation reserve by € 15.5 million (previous year: € 9.9 million). A decrease in the interest rate of 50 basis points would also decrease the group profit after taxes by € 0.3 million (previous year: € 1.1 million) and decrease the revaluation reserve by € 11.9 million (previous year: € 8.4 million). This measurement takes account of the new interest rate derivatives.

As of the reporting date, interest rate risks from variable-interest-bearing financial assets apply to cash deposited with banks over the short term. Any change in the interest rate would have no significant impact.

Financial risks related to financial covenants

In addition to the syndicated loan agreed in December 2015, the Group also has two private placement bonds and a liquidity facility. The contractual agreements relating to these contain specific conditions of credit known as financial covenants. The main conditions are:

- a certain ratio of consolidated net financial liabilities to consolidated EBITDA
- a certain ratio of consolidated EBITDA to consolidated net interest income
- a certain ratio of consolidated, secured net financial liabilities to the value of the actual collateralized tangible fixed assets

Depending on the wording of the covenant, these ratios must not be exceeded or fallen short of. Failure to comply with these covenants can have far-reaching consequences for VTG, going as far as termination of specific loan agreements. For this reason, VTG monitors these financial covenants proactively, continuously and with the utmost care to ensure that measures can be taken early to ensure compliance. Compliance with the above covenants was again ensured at all times during the last financial year. Thus, as of the balance sheet date, there were no major, quantifiable, financial risks in this respect within the meaning of VTG's risk definition.

Additionally, there are some individual project financing arrangements in the VTG Group that allow no recourse to the VTG Group. These financing arrangements include self-contained financial covenants such as a debt service coverage ratio and a certain ratio of secured financial liabilities to the value of the tangible fixed assets provided as collateral. Non-compliance with these financial covenants would lead to a risk under the particular financing arrangement but would have no effect on the other financing arrangements of the VTG Group.

Opportunities and risks related to foreign currencies

Due to the international nature of its business activities, the VTG Group has to deal with exchange rate fluctuations on the currency markets. The companies in the Group in particular are exposed to both opportunities and risks from exchange rate fluctuations as a result of transactions in currencies other than their functional currency.

Exchange rate fluctuations arise primarily from US dollar transactions with customers and suppliers of Tank Container Logistics, from financing agreements with banks that are denominated in US dollars, and from pension obligations denominated in Swiss francs. There are also financial agreements between some companies in the Group that are also subject to exchange rate fluctuations.

VTG's system of financial risk management ensures that the Group has extensive coverage against the risk of exchange rate fluctuations.

In order to assess the exchange risk, a change of 10 % in the various exchange rates was simulated. The exchange rates as of December 31, 2017 were each increased and decreased by 10 % to determine the impact on after-tax profit:

	APPRECIATION		DEPRECIATION	
€ MILLION	12/31/2017	12/31/2016	12/31/2017	12/31/2016
British pound	−0.1	–	+0.1	–
Swiss franc	−0.3	−0.6	+0.3	+0.6
US dollar	−1.6	−1.5	+1.6	+1.5

The effect on the revaluation reserve was as follows:

	APPRECIATION		DEPRECIATION	
€ MILLION	12/31/2017	12/31/2016	12/31/2017	12/31/2016
British pound	+0.4	–	−0.5	–
US dollar	−0.2	−0.6	+0.3	+0.7

In respect of a loan relating to the Russian operations, there is an unsecured liability in US dollars that is subject to currency fluctuations. Significant depreciation of the Russian ruble could result in the US dollar payment obligations to the lending institution at times exceeding the financial means of the Russian company. In such an event, the VTG Group could feel compelled to place additional financial resources at the disposal of the subsidiary. As of the end of the financial year, there were no further known major, quantifiable risks arising from currency changes within the meaning of VTG's risk definition that could have a significant, negative impact on net profit for the VTG Group.

LEGAL, REGULATORY AND OTHER RISKS

General liability risks

The main type of risk affecting all divisions is liability claims, particularly those concerning culpable violation of maintenance obligations, serial loss with resulting loss of capacity and the steadily increasing number of environmental requirements to be met. These regulations apply in particular to the storage and transportation of hazardous materials, the recycling, treatment and disposal of waste and occupational safety. The specific traffic, operational and environmental liability risks arising from operating activities are countered by the risk management system, which also includes the coverage of risks through insurance. As of the balance sheet date, there were no known major, quantifiable liability risks within the meaning of VTG's risk definition.

Regulatory and technological risks

The VTG Group's operations are focused on the rail freight traffic sector, which is subject to numerous sets of rules (laws, regulations, standards, etc.). This means that the VTG Group is obliged to respond to changes or new requirements imposed by legislators and safety and regulatory bodies. Implementing these requirements can entail substantial costs in terms of investment or maintenance. Such requirements can affect the plant and workshops in particular. They can also affect wagons and tank containers, either as a whole or in terms of components only. VTG counters this risk through its engagement in various working groups. In these groups, members of staff work towards drawing up technically and commercially viable solutions that can then be implemented in practice.

Although the authorities have not specified binding requirements, VTG is continuously developing its maintenance management system for rail freight wagons in order to minimize technological risks. For instance, VTG has systematically implemented its program, launched in late 2009, to fit a large part of the fleet with stronger wheelsets. Meanwhile, all new rail freight wagons are being fitted exclusively with these stronger wheelsets. These measures not only increase axle safety in general, they also lower the risk of disc breakage considerably. The VTG Group intends to continue to build upon its already strong safety record in the operation of rail freight wagons.

Noise control is one of the key environmental issues in European rail freight traffic. To adapt VTG's European wagon fleet appropriately, the brake systems of new wagons have been fitted with the noise-reducing composite (K) brake block since 2005. Policymakers also regularly discuss refitting existing freight wagons with quieter brake blocks. In 2017, as the first EU country to do so, Germany passed a law prohibiting the operation of noisy freight wagons. This requires that existing, non-noise-reduced freight wagons be retrofitted with quieter brake blocks by the end of 2020, with non-retrofitted wagons then being subject to significant operational restrictions. The German government will provide financial support for the conversion work. Independently of this statutory requirement, VTG has taken its own decision to retrofit all wagons operating in Germany cars with quiet brake blocks by the end 2020.

In other European countries, similar moves are being made toward reducing noise in rail freight traffic and in Switzerland these measures have already been implemented. As of the balance sheet date, it could not be reliably determined whether refitting will become mandatory at EU level, what form this might take, or whether wagon keepers will have to bear the additional costs of this.

Consequently, as of the end of the reporting period, and within the meaning of VTG's risk definition, no known major, quantifiable risks could be determined that may arise from changes to regulatory or technical requirements.

Information technology risks

Information systems are becoming ever more closely interconnected and must be permanently accessible. Information technology is also becoming increasingly important in the execution of business processes. As an international company, VTG requires access to information that is up to date, complete and accurate. VTG applies security measures that are standard in the industry to counter risks to the confidentiality, availability and reliability of data and systems. These measures include firewalls, virus scanners and the backup provided by a second data center. To further reduce risk and keep business processes efficient and secure, VTG also regularly checks and continually develops its IT systems. In addition, the Group is continually improving and expanding the range of measures in place for monitoring external and internal IT security. VTG is minimizing the risks posed by advancing industrial digitization by promptly specifying and implementing pre-emptive safeguards. No major, quantifiable information technology risks within the meaning of VTG's risk definition could be ascertained at the end of the year under review.

Opportunities and risks related to personnel

A highly qualified workforce is a key element in the success of VTG's business. The company operates in an industry with an ever-increasing number of regulations and technical requirements. This makes both experience and expertise very important. Additionally, detailed, specialist knowledge is required, particularly when it comes to the transport of hazardous goods. To date, most employees of the Group have remained with VTG for a long time. An extended average period of employment with the Group remains VTG's objective.

VTG also has to compete with other companies for new, highly qualified members of staff. VTG has applied a range of measures to ensure it will continue to attract qualified applicants and keep existing members of staff. These measures include various educational and professional advancement programs as well as a socially equitable policy of salary development. The staff development programs are based on the VTG competency model, which is continually being adapted to new requirements. The competency model sets out the key competencies for staff development. Within these areas of competency, VTG enables members of staff to develop their professional skills via a broad range of training opportunities. VTG has also developed special programs for managers, potential managers and staff with special skills – the LEX Leadership Excellence program and the PEP! program for fostering talent. Together with its corporate values, VTG's newly introduced principles of leadership provide a uniform understanding of leadership within the Group. This now forms part of the content of modular programs for upper management.

In addition to staff development, succession planning is important, ensuring cover for absent staff and replacement of departing members of staff. The objective of this is to avoid gaps in knowledge or decision-making that could negatively impact VTG's business when top performers or members of staff who perform key functions are absent or are leaving the company. Thus, for the purposes of succession planning, candidates from throughout the Group are assessed regularly for potential and performance. The VTG Group already has a strategic succession planning system in place.

Generally, the VTG Group expects competition for highly qualified staff to become even tougher. The measures described above also had an impact in the reporting period, ensuring access to qualified staff. With additional measures, the VTG Group could become more attractive to well-qualified candidates, further improving its access to key expertise. As of the reporting date, there were no known major, quantifiable personnel risks within the meaning of VTG's risk definition.

Risks related to the implementation of the Nacco acquisition

At the beginning of the year, as part of the planned takeover of CIT Rail Holdings (Europe) SAS, Paris, France (owner of the Nacco Group), and following preliminary discussions, VTG submitted a proposal on conditions to the competition authorities in Germany and Austria. This provides for the sale of part of the fleet (around 30 % of the wagons to be acquired from the Nacco Group) to other providers. If the competition authorities approve the proposal, it is not guaranteed that the recoverable sale amount for the wagons will be equivalent to their pro-rata purchase price. The difference between the pro-rata purchase price and the sale proceeds for this part of the fleet could be favorable or unfavorable for VTG. It is also a possibility that VTG will find no suitable buyers for this part of the fleet or that it cannot agree on a sale price with potential buyers. If the sale is unsuccessful, the planned takeover of CIT Rail Holdings (Europe) SAS cannot be finalized and VTG could become liable to the CIT Group for damages. The aforementioned risks could adversely affect the results of operations, net assets and financial position of the Group to a considerable extent.

Risks from the integration of the Nacco Group into the VTG Group

VTG expects the integration of the Nacco Group to last several years and that it will require significant resources in terms of both staff and finance. To ensure success, the integration process will also require, among other things, the merging of two complete workforces and different corporate cultures, the harmonization of IT systems, and the introduction of standardized processes. This will create a new, larger company that is an integrated whole. Moreover, the acquisition of the Nacco Group and its integration could have negative contractual and legal consequences for the companies in the VTG Group. For example, contracting parties could end their business relationships with the VTG Group after the acquisition of the Nacco group, or banks and other current providers of external capital to the VTG Group or Nacco could decide to reduce their level of involvement in the integrated VTG Group. If one or a combination of several of these risks materializes, this could have a substantial negative impact on the net assets of the VTG Group, its financial position and its results of operations. However, at the end of the year under review, and within the meaning of VTG's risk definition, no major, quantifiable risks could be determined in relation to the integration of the Nacco Group.

Risks related to the UK exit from the EU

The United Kingdom is currently planning to leave the European Union in the year 2019 (Brexit). As a result, there could be restrictions on foreign trade and a general economic downturn in the country. The VTG Group's operations in the UK wagon hire market involve only a relatively small fleet of around 2,300 wagons (previous year: 2,300). Any economic risks are therefore minor. Due to the UK's special geographical location, the wagons are used almost exclusively for national rail freight transport, with no significant cross-border transports. The only appreciable risks the VTG Group is therefore exposed to are those arising from currency changes. However, as almost all revenue and costs in this business area are generated in the local currency, the British pound, this risk is of very limited significance. As of the balance sheet date, therefore, VTG was not aware of any major, quantifiable risks associated with the UK's planned exit from the EU within the meaning of VTG's risk definition that go beyond the circumstances set out in the section "Opportunities and risks related to foreign currencies."

Overview of opportunities and risks

VTG's long-term business model is both stable and robust, even in an economic environment with little momentum. Short-term economic downturns have only a minor impact on VTG's performance. Only a permanent economic slowdown would negatively impact operational performance indicators. In such an event, the VTG Group would have to take measures to stabilize earnings. Independently of the economic trend, VTG is continually and actively managing its fleet and optimizing costs and processes to ensure increased efficiency.

VTG is also in a very good position with regard to liquidity. This is due to its consistently strong operating cash flow, its long-term financing agreements including its lines of credit, and the quality and creditworthiness of its diverse customer base.

As of the balance sheet date, there were no known major, quantifiable risks within the meaning of VTG's risk definition, that endangered the Group as a going concern or that could be expected to have any significant negative impact on its net assets, financial position, or results of operations.

REPORT ON EXPECTED DEVELOPMENTS

GENERAL ECONOMIC CONDITIONS

Economic conditions have recently improved markedly. Almost every major economy saw stronger growth in 2017 than in the previous years. The International Monetary Fund (IMF) expects the pace of growth to accelerate again this year. Following an increase of 3.7 % in 2017, the global economy is expected to grow by 3.9 % this year.

For the eurozone, the IMF forecasts a slight slowdown in growth from 2.4 % in 2017 to 2.2 % in 2018. However, this figure still outstrips the growth rates of recent years. The same applies to the EU's biggest economy, Germany (from 2.5 % to 2.3 %). In Spain and the United Kingdom, the political uncertainty surrounding the Catalan aspirations for independence and the UK's planned exit from the EU are likely to put a brake on growth.

In the US, the IMF anticipates that the recently adopted tax reform will add greater momentum to the already well-performing economy. Growth is expected to increase from 2.3 % in the previous year to 2.7 % in 2018. Following Russia's emergence from recession in 2017, a steady growth rate of 1.7 % is expected for 2018. The well-performing global economy should support the export-heavy Chinese economy. The IMF expects China's economy to grow by 6.6 % in 2018, following growth of 6.8 % in 2017.

Overall assessment by the Executive Board

Given the generally positive global economic situation and economic forecasts, the Executive Board anticipates that the VTG Group will see a positive trend in revenue and EBITDA in 2018. Following a slight increase in revenue in 2017, the positive trend should continue in the financial year 2018, with revenue for the Group expected to be slightly higher than in 2017.

Based on the slightly higher expectations of revenue, the planned investment and the absence of a large proportion of the negative one-time items from 2017, the Executive Board expects EBITDA (earnings before interest, taxes, depreciation and amortization) to fall within the range € 340–370 million.

On July 1, 2017, VTG announced its intention to purchase all shares in CIT Rail Holdings (Europe) SAS from the US-based CIT Group, owner of the Nacco Group. The completion of the purchase is subject to clearance by the merger control authorities in Germany and Austria. Since the outcome of this process cannot be reliably estimated either in terms of timing or any impact on earnings in the financial year 2018, all statements on expected trends in business exclude any impact from the planned takeover of the Nacco Group.

After achieving a slight increase in revenue in 2017, the Railcar division should see a sustained upward trend in 2018. The investment that took place last year coupled with that planned for 2018 should have a positive impact on revenue. As of December 31, 2017, the order book showed 2,600 newbuild wagons, almost all of which were intended for the European market.

In the fourth quarter of 2017, capacity utilization of the VTG fleet climbed to its highest point in around ten years. This broad-based upturn, covering all wagon types, was the result of the positive economic conditions described above, along with the good marketability of the VTG wagon fleet. Capacity utilization should also remain at this high level in 2018, with slight fluctuation. Overall, the Executive Board therefore expects both revenue and EBITDA in the Railcar division to increase slightly compared with the previous year.

The Rail Logistics division continued its positive earnings trend in the last financial year. It managed to significantly outperform the forecast made at the beginning of 2017, which anticipated only a slight increase in revenue and earnings. Due to the good business outlook, the Executive Board expects a pleasing trend once again in 2018, with slight growth in revenue and EBITDA.

Following a challenging year in 2017, with another increase in transport volume but declining freight rates, the Tank Container Logistics division is also expected to see slight growth in revenue and EBITDA. The division is also expected to gradually replace leased equipment with around 500 of the Group's own newbuild tank containers. This, together with a further increase in transport volume, should have a positive impact on earnings.

MEDIUM-TERM GOALS FOR GROWTH AND PROFITABILITY

In September 2015, the Executive Board and Supervisory Board of VTG set targets for medium-term growth and profitability. Following the successful completion of the development phase of 2010–2015, VTG is now working on strengthening its competitiveness over the long term. VTG has already introduced a range of measures to achieve this, covering growth, digitization and efficiency drives. In the financial year 2017, VTG already made great strides towards greater profitability, with earnings per share (EPS) of € 1.93. The VTG Group aims to increase earnings per share to € 2.50 by 2019. Unlike the key control parameters for operations, revenue and EBITDA, this is a medium-term growth target set by the Executive Board for the coming years.

DIVIDEND TO CLIMB TO € 0.90 PER SHARE

VTG has positioned itself as a reliable issuer of dividends since the IPO in 2007. The Executive Board also aims to increase the dividend as the company's performance improves.

On June 08, 2017, the Annual General Meeting ratified the proposal of the Executive Board and the Supervisory Board to pay a dividend for the ninth consecutive year and issue to shareholders a payment of € 0.75 per share for the financial year 2016 (previous year: € 0.50). This rather marked increase in the dividend reflects the significant increase in profitability resulting from the takeover of AAE. The Executive Board of VTG intends to propose to this year's Annual General Meeting a further increase in the dividend, to € 0.90 per share for the financial year 2017.

REQUIRED DISCLOSURES

Required disclosures pursuant to § 315a (1) of the German Commercial Code and explanatory report

The required disclosures pursuant to § 315a (1) of the German Commercial Code are listed and detailed below:

Composition of the subscribed capital

On December 31, 2017, the share capital of VTG AG amounted to € 28,756,219 and comprised 28,756,219 no-par value bearer shares. Every share carries a voting right.

Restrictions concerning the voting rights or the transfer of shares

As at December 31, 2017, the Executive Board of VTG AG is not aware of any restrictions affecting voting rights or the transfer of shares.

Shareholdings in the capital exceeding 10 % of the voting rights

As at December 31, 2017, VTG AG was aware of the following direct and indirect shareholdings with a share in the capital of VTG AG of more than 10 % of the voting rights:

According to a voting rights announcement dated December 22, 2016, Morgan Stanley, Delaware, USA, Morgan Stanley Capital Management LLC, Morgan Stanley Domestic Holdings, Inc., Morgan Stanley & Co. LLC, MS Holdings Incorporated, Morgan Stanley Infrastructure II Inc., Morgan Stanley Infrastructure II GP LP, North Haven Infrastructure Partners II LP / North Haven Infrastructure II-AIV II LP, North Haven Infrastructure Partners II International Holdings C.V., NHIP II Holdings Cooperatief U.A. and Deodoro Holding B.V. have an indirect shareholding of 29.00 % of the voting rights through Warwick Holding GmbH and Warwick Holding GmbH has a direct shareholding of 29.00 % of the voting rights.

According to a voting rights announcement dated May 17, 2016, Mr. Klaus-Michael Kühne has an indirect shareholding of 20.34 % of the voting rights through Kühne Holding AG and Kühne Holding AG has a direct shareholding of 20.34 % of the voting rights.

According to a voting rights announcement dated March 14, 2016, Joachim Herz Foundation (Joachim Herz Stiftung) has a direct shareholding of 10.0000003 % of the voting rights.

VTG AG has not received any other voting rights announcements or other information on shareholdings corresponding to a share in the voting rights of more than 10 % since the expiry of the registration period for the 2017 Annual General Meeting.

Shares with special rights that confer powers of control

There are no shares with special rights that confer powers of control.

Exercise of voting rights control if employees have shareholdings in the capital and do not exercise their control rights directly

Employees holding shares of VTG AG may exercise their control rights in the same way as other shareholders in accordance with the statutory provisions and the Articles of Association.

Provisions on the nomination and dismissal of members of the Executive Board and on the amendment of the Articles of Association

The provisions on the nomination, dismissal and composition of the Executive Board are based on § 84, 85 of the German Stock Corporation Act and § 6 of the Articles of Association of VTG AG as well as § 9 of the Rules of Procedure of the Supervisory Board of VTG AG.

In accordance with § 179 of the German Stock Corporation Act, the Articles of Association may be amended only by a resolution of the Annual General Meeting. Where there are no mandatory legal provisions to the contrary, resolutions on changing the Articles of Association are passed by a simple majority of the votes cast and, where the law requires a capital majority beyond a majority vote (§ 179 (2) German Stock Corporation Act), by a simple majority of the share capital represented at the time of the passing of the resolution. Amendments of the Articles of Association that concern merely the wording may be resolved by the Supervisory Board in accordance with § 10 (2) of the Articles of Association. Pursuant to § 181 (3) of the German Stock Corporation Act, amendments to the Articles of Association will take effect upon registration with the commercial register.

Authorization to issue and redeem shares

With its resolution of May 29, 2015, the Annual General Meeting, revoking the authorization granted by the Annual General Meeting of June 5, 2014, authorized the Executive Board of VTG AG to increase, with the approval of the Supervisory Board, the share capital of VTG AG for the period up to May 28, 2020 up to a total amount of € 14,378,109.00 by issuing on one or more occasions up to 14,378,109 new no-par value bearer shares in total with a proportionate interest in the share capital of EUR 1.00 each against contributions in cash and/or kind (Authorized Capital). In this context, the shareholders are generally to be granted a subscription right. Subscription rights can also be granted indirectly, in that shares are taken over by one or more credit institutions appointed by the Executive Board or entities operating under § 53 (1) sentence 1 or § 53 b (1) sentence 1 or § 53 b (7) of the German Banking Act with the obligation of offering these to shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized, with the consent of the Supervisory Board, to exclude subscription rights of shareholders in the following cases: (i) capital increases in exchange for a non-cash contribution granting shares for the purpose of acquiring companies, parts of companies, shareholdings in companies or other assets, including rights and receivables, or within the context of business combinations, (ii) to the extent necessary to grant subscription rights for new shares to holders of the warrants and convertible bonds issued by VTG AG or its subsidiaries in the amount to which they would be entitled after exercising the option or conversion rights or after fulfillment of the option or conversion obligations, (iii) to exclude any fractional amounts from subscription rights, and (iv) in the case of capital increases in return for cash contributions, if the issue price of the new shares, which is to be determined as close to their placement date as possible, is not substantially lower, within the meaning of § 203 (1) and (2) and § 186 (3) sentence 4 of the German Stock Corporation Act, than that of already listed shares of the same class and with the same terms at the time the final issue price is determined by the Executive Board and if the proportion of the share capital represented by the new shares for which subscriptions rights are excluded does not exceed 10 % of the share capital at the time of the coming into force of the resolution or – if this figure is lower – of the share capital at the time of the exercise of this authorization. Shares that are sold during the term of the authorized capital with the exclusion of shareholders' subscription rights in accordance with § 71 (1) no. 8 sentence 5 and § 186 (3) sentence 4 of the German Stock Corporation Act as well as shares that are to be issued to service warrants or convertible bonds with option or conversion rights (provided that the bonds are issued during the term of the authorized capital with the exclusion of subscription rights in accordance with § 221 (4) and § 186 (3) sentence 4 of the German Stock Corporation Act) are counted towards the maximum limit of 10 % of the share capital. The Executive Board is authorized, with the approval of the Supervisory Board, to specify the further particulars of the capital increase and its execution, including the rights accruing to the shares and the terms of issue.

VTG AG has not exercised this authorization so far. Further details can be found in § 4 (5) of the Articles of Association.

By way of its resolution of June 5, 2014, the Annual General Meeting, partially revoking the authorization granted by the Annual General Meeting of June 18, 2010, also authorized the Executive Board of VTG AG to acquire, in accordance with § 71 (1) no. 8 of the German Stock Corporation Act and with the approval of the Supervisory Board, treasury shares equaling up to 10 % of the share capital in the period up until June 4, 2019. These can be acquired via the stock exchange or by means of a public offer to buy to all shareholders or a public invitation to all shareholders to submit offers for sale, provided that the price paid by the Company must be close to the stock market price (upward or downward deviations from the relevant average market price of the share of VTG AG should – depending on the type of purchase – amount to a maximum of between 5 – 10 %). The Executive Board is authorized to do the following with the treasury shares so acquired, in each case with the approval of the Supervisory Board: (i) sell these via the stock exchange or by means of an offer to all shareholders, (ii) sell these in another way, provided that the shares are sold for cash and at a price that is not substantially lower than the stock market price of shares of the Company of the same class at the time of sale and the proportion of the share capital represented by these shares does not exceed 10 % (provided that the 10 % limit must take into account shares with conversion or option rights or obligations from bonds with warrants or convertible bonds), (iii) offer and assign these to third parties for the purpose of direct or indirect acquisition of companies, parts of companies, or shareholdings in companies and within the context of business combinations, (iv) settle option and/or convertible bonds issued by VTG AG or an indirect or direct subsidiary of VTG AG, or (v) call in these shares, in which case the Executive Board will be authorized, with the approval of the Supervisory Board, to decrease the share capital of VTG AG by the respective amount which is represented by the redeemed shares or, with the approval of the Supervisory Board, to stipulate, in derogation hereof, that the share capital shall remain unchanged at redemption and that instead the proportion of the remaining shares in the share capital is increased through the redemption in accordance with § 8 (3) of the German Stock Corporation Act.

Where the Executive Board uses the treasury shares, based on the above powers, as set out in (ii) to (iv), the subscription rights of the shareholders to treasury shares shall be excluded. Furthermore, the Executive Board may, with the approval of the Supervisory Board, exclude the subscription rights of shareholders for fractional amounts if treasury shares are sold by means of an offer made to all shareholders in accordance with (i).

The authorization granted by the resolution of the Annual General Meeting of June 18, 2010 to use shares which are repurchased based on such resolution remained unaffected by the abovementioned resolution of the Annual General Meeting of June 5, 2014, but has been rendered irrelevant since the authorization to repurchase treasury shares due to the resolution of the Annual General Meeting of June 18, 2010 was not used.

So far, VTG AG has not used the authorization to purchase treasury shares on the basis of the resolution of the Annual General Meeting of June 5, 2014, either.

By resolution of May 29, 2015, the Annual General Meeting, cancelling the authorization granted by the Annual General Meeting of June 5, 2014, authorized the Executive Board of VTG AG, with the approval of the Supervisory Board, in the period up until May 28, 2020, to issue on one or more occasions bonds with warrants and/or convertible bonds in registered or bearer form (together referred to as "bonds") with a total nominal value of up to € 500,000,000 with or without a limited term and to grant or impose on the holders and/or creditors of bonds with warrants option rights or obligations or on the holders and/or creditors of convertible bonds conversion rights or obligations in respect of no-par value bearer shares of VTG AG representing a proportionate amount of up to € 14,378,109.00 of the share capital. The bonds can also be issued by a subordinate group company of VTG AG. In such a case, the Executive Board is authorized, with the consent of the Supervisory Board, to guarantee the bonds on behalf of VTG AG. The bonds are, as a general rule, to be offered to the shareholders for subscription. The Executive Board is, however, authorized, with the approval of the Supervisory Board, to exclude from the subscription rights of shareholders fractional amounts resulting from the subscription ratio. Furthermore, the Executive Board is authorized, with the approval of the Supervisory Board, to completely exclude the subscription rights of shareholders if the bonds with option or conversion rights or obligations are issued for cash at a price that is not substantially lower than the market value of these bonds and the proportion of the share capital represented by these bonds does not exceed 10 % (provided that for the 10 % limit, treasury shares that are sold with the exclusion of subscription rights and shares issued from Authorized Capital without subscription rights are also to be taken into account). The option or conversion price to be set in each case for a no-par value share of VTG AG must, as a rule, amount to at least 80 % of the volume-weighted average price of the no-par value shares of VTG AG in the electronic trading system of the Frankfurt Stock Exchange in the last ten days of trading prior to the day on which the Executive Board passes the resolution on the issue of the bond. If subscription rights are granted, the price must amount to at least 80 % of the volume-weighted average price of the shares of VTG AG in the electronic trading system of the Frankfurt Stock Exchange during the subscription period (with the exception of the days of the subscription period that are required for the option or conversion price to be announced in time in accordance with § 186 (2) sentence 2 of the German Stock Corporation Act). The Executive Board is authorized, with the approval of the Supervisory Board, to specify all further details of the issue and terms of the bonds. VTG AG has as yet not exercised these powers.

Furthermore, on May 29, 2015, the Annual General Meeting approved a conditional increase in share capital by up to € 14,378,109.00 through the issue of up to 14,378,109 new, no-par value bearer shares (Conditional Capital). The conditional capital increase serves the purpose of granting no-par value bearer shares upon exercise of conversion or option rights. Further details can be found in § 4 (4) of the Articles of Association. VTG AG has as yet not exercised these powers.

Material agreements subject to a change of control clause

In December 2015, VTG AG agreed a syndicated loan with a consortium of banks. The syndicated loan agreement grants the lenders a right of early termination of these financing agreements under certain conditions in the event of a change in control at VTG AG. According to the syndicated loan agreement, a change of control requires the acquisition of more than 50 % of the voting rights in VTG AG by a person or a group of persons acting in concert.

The terms and conditions of a US bond placed with a group of institutional investors by way of private placement in April 2011 also provide for the bondholders' right to request early repayment of the bond under certain circumstances in case of a change of control. Besides requiring the acquisition of more than 50 % of the voting rights in VTG AG by a person or a group of persons acting in concert (other than the former majority shareholder, W. L. Ross, and the companies affiliated with him), according to the terms and conditions of the US bond a change of control is deemed to have taken place if, as a consequence of such change in the voting rights majority, the former majority shareholder, W.L. Ross, and affiliated persons directly or indirectly hold less than 5 % of the voting rights in VTG AG and moreover are no longer represented in the governing body of the party taking control. Another precondition for a termination right of the bondholders under the US bond agreement is that the US bond issue either no longer receives a rating which corresponds to an investment grade rating within 90 days from the change in the voting rights majority, or VTG AG, VTG Deutschland GmbH or another company in the VTG Group acting as guarantor under the US bond agreement has to pay back at least € 20 million of credit before repayment is due because of the change in the voting rights majority. W.L. Ross notified VTG AG by voting rights announcement dated May 18, 2016 that he no longer has any shareholding in VTG AG.

The terms and conditions of the registered notes issued to certain institutional investors by AAE RaiLease S.à r.l., a subsidiary of VTG AG, in November 2012 also provide for a right of the bondholders to request early repayment of the registered notes under certain circumstances in case of a change of control. According to the terms and conditions of these registered notes updated in 2015, a change of control means the acquisition of more than 50 % of the voting rights in VTG AG by a person or a group of persons acting in concert.

The terms and conditions of the hybrid bond issued by VTG Finance S. A., a subsidiary of VTG AG, in January 2015 and guaranteed by VTG AG provide that the interest rate of the hybrid bond otherwise applicable is increased by 5.00 % per annum if a change of control event occurs and the issuer does not call the notes for redemption in whole (and not in part). According to the terms and conditions of the hybrid bond, a change of control event is deemed to occur if any third party person or a group of third party persons acting in concert acquires more than 50 % of the voting shares of VTG AG and VTG AG is not rated investment grade or equivalent within 180 days after the acquisition of the shareholding.

In order to secure the financing of the purchase price for acquiring the shares in CIT Rail Holdings (Europe) S.A.S. and its subsidiaries, in June 2017, VTG AG entered into an agreement with a credit institution on a financial commitment with respect to the conclusion of a credit agreement on a credit facility in the amount of up to € 500 million as well as an agreement on the issuance of a hybrid bond in the amount of up to € 300 million by VTG AG and the underwriting of such bond by that credit institution. Since then, both the commitment letter for the provision of the credit as well as the underwriting agreement regarding the hybrid bond have been amended with respect to the respective financing amount, inter alia. The commitment letter for the provision of the credit can be cancelled by the lending credit institution if one person or multiple persons acting jointly acquire more than 50 % of the voting rights in VTG AG. Pursuant to the underwriting agreement, it is a condition for the issuance of the hybrid bond and the underwriting of such bond by the relevant credit institution that no change of control event with respect to VTG AG has occurred.

Compensation agreements with the members of the Executive Board or with employees covering the eventuality of a takeover bid

No compensation agreements have been concluded with the members of the Executive Board or with employees covering the eventuality of a takeover bid.

Remuneration of the Executive Board and Supervisory Board

EXECUTIVE BOARD

The appropriate level of remuneration of the members of the Executive Board is determined by the Supervisory Board at the proposal of the Executive Committee on the basis of a performance appraisal. The total remuneration of the Executive Board comprises several components: a non-performance-related element, a performance-related bonus, pension benefits and additional benefits.

For all members of the Executive Board, the non-performance-related remuneration element consists of a fixed amount and various additional benefits.

The additional benefits include the reimbursement of expenses, coverage of the costs of regular medical checkups and health and long-term care insurance benefits equivalent to the employer’s contribution to statutory health and long-term care insurance. Furthermore, the Company also pays the premiums for the occupational accident insurance taken out for the Executive Board members covering life and disability in addition to the premiums on travel insurance and directors and officers insurance.

Each member of the Executive Board also receives a company car as a benefit in kind, with private use also allowed. Furthermore, the costs of measures for averting risks arising from the exposed economic and social position of the members of the Executive Board are covered by the Company.

The performance-related remuneration component is determined in accordance with the personal and economic goals laid down by the Supervisory Board. This is calculated for the Executive Board members on the basis of a target matrix that takes into account, among other things, certain performance-related factors that are agreed upon each year. All contracts with members of the Executive Board stipulate a system of variable remuneration that contains short- and long-term components having a multiple-year assessment basis and that is focussed on the sustainable growth of the Company. Furthermore, the performance-related remuneration component is limited to a set percentage of the fixed remuneration amount, even in the event of extraordinary developments.

Additionally, in individual cases, an exceptional bonus can be paid for special requirements or projects. In this event, objectives and content are specified before the commencement of the project and a maximum bonus amount decided.

The Company has granted all members of the Executive Board vested pension rights. As a result of this pension commitment, each member of the Executive Board is entitled to the payment of pension benefits when certain pension situations arise. These situations include not only the payment of pension benefits upon reaching the retirement age of 65, but also flexible retirement from the age of 60 on, occupational disability, death (pension for widows and orphans) and, in respect of the CEO, the termination of the contract of employment by the Company before he reaches the age of 65. Newly appointed members of the Executive Board have for some time now had defined contribution plans. As of the balance sheet date December 31, 2017, the Company has set up provisions for post-employment benefits for members of the Executive Board amounting to approximately € 9.6 million. Apart from the employment contracts, with the exception of clauses contained therein prohibiting competition for consideration, there are no further service agreements between the Company, its subsidiaries and the respective members of the Executive Board under which any member of the Executive Board is entitled to benefits from the Company or its subsidiaries in the event of the termination of his service.

As a general rule, the German Commercial Code and the German Corporate Governance Code stipulate that the remuneration of executive board members be published with a separate entry for each member, broken down into non-performance-related and performance-related components as well as into components with a long-term incentive effect. Under German commercial law and in accordance with the German Corporate Governance Code, the required information may, however, be withheld when the annual general meeting passes a resolution to this effect by a three-quarters majority of the share capital represented at the passing of the resolution. Accordingly, on June 5, 2014, the Annual General Meeting of VTG AG, revoking the resolution of June 18, 2010, decided with 90.546 % of the votes present and entitled to be exercised that the information required under § 285 no. 9a sentences 5 to 8, § 315e (1) and § 314 (1) no. 6a sentences 5 to 8 of the German Commercial Code is not to be published in the consolidated annual financial statements of the Company for the financial years 2014 up to and including 2018.

The total costs of the Executive Board's remuneration are given in the notes to the consolidated financial statements of VTG AG as of December 31, 2017.

SUPERVISORY BOARD

The remuneration system of the Supervisory Board members consists solely of non-performance-related remuneration. In addition, the members of the Supervisory Board are reimbursed the expenses incurred in connection with performing their Supervisory Board duties.

In accordance with a resolution of the Annual General Meeting of the Company, held on June 18, 2010, the Chairman of the Supervisory Board receives a fixed amount of annual remuneration, payable after the end of each financial year, of € 60,000, while the Deputy Chairman receives € 45,000 and the other members of the Supervisory Board each receive € 30,000. Additionally, chairs of committees receive € 6,000 for each committee chaired for each full financial year. Deputy chairs of committees receive € 4,500 for each committee for which they act as deputy chair and ordinary committee members receive € 3,000 for each committee of which they are a member. The Supervisory Board has formed an Executive Committee (which also operates as the Nomination Committee) and an

Audit Committee. Each Committee comprises three members, including the respective chair. In the 2017 financial year, the Chairman of the Supervisory Board, Dr. Jost A. Massenberg, the Deputy Chairman of the Supervisory Board, Dr. Klaus-Jürgen Juhnke, and Dr. Christian Olearius, who is also a member of the Supervisory Board, were on the Executive Committee. Karl Gernandt (chairman), Dr. Jost A. Massenberg and Dr. Christian Olearius served on the Audit Committee in the 2017 financial year.

The total costs of the Supervisory Board's remuneration are given in the notes to the consolidated financial statements of VTG AG as of December 31, 2017.

Corporate Governance Statement pursuant to §§ 289f and 315d of the German Commercial Code

Under §§ 289f and 315d of the German Commercial Code, listed stock corporations (Aktiengesellschaften) must either include a corporate governance statement in their management report or make such a statement publicly accessible on their website. The corporate governance statement of VTG AG must include (1) the Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act, (2) relevant information on corporate governance practices, (3) a description of the procedures of the Executive Board and Supervisory Board as well as of the composition and procedures of their committees, (4) information on the targets set by the Executive Board and Supervisory Board pursuant to § 76 (4) and § 111 (5) of the German Stock Corporation Act and the status of their implementation and (5) a description of the diversity concept, the manner of its implementation and the results achieved in the financial year or, as the case may be, an explanation why no diversity concept is pursued. The Company has published this statement on its website: **www.vtg.com** (under Investor Relations – Corporate Governance).

Hamburg, March 2, 2018

The Executive Board

DR. HEIKO FISCHER

DR. KAI KLEEBERG   GÜNTER-FRIEDRICH MAAS   MARK STEVENSON

Non-financial statement

Under Sections 289b and 315b of the German Commercial Code, the VTG Group is obliged to include a non-financial statement for the Group in the management report or to make a separate non-financial report publicly available on its website. The company will be publishing this report on its website at **www.vtg.com** (under Investor Relations – Corporate Governance – Separate Non-Financial Report).

04

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

€ MILLION	NOTES	1/1/ TO 12/31/ 2017	1/1/ TO 12/31/ 2016
Revenue	(1)	1,014.4	986.9
Changes in inventories	(2)	2.1	1.6
Other operating income	(3)	27.4	31.0
Cost of materials	(4)	–449.4	–435.6
Personnel expenses	(5)	–98.5	–97.8
Other operating expenses	(6)	–157.8	–146.0
Earnings from companies accounted for using the equity method		5.2	5.2
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**343.4**	**345.3**
Impairment, amortization and depreciation	(7)	–188.3	–195.6
Earnings before interest and taxes (EBIT)		**155.1**	**149.7**
Financing income		6.1	3.0
Financing expenses		–71.0	–64.5
Financial result (net)	(8)	**–64.9**	**–61.5**
Earnings before taxes (EBT)		**90.2**	**88.2**
Taxes on income and earnings	(9)	–22.1	–30.7
Group net profit		**68.1**	**57.5**
Thereof relating to			
Shareholders of VTG Aktiengesellschaft		55.6	45.0
Hybrid capital investors		12.5	12.5
		68.1	57.5
Earnings per share (in €, undiluted and diluted)	(10)	**1.93**	**1.56**

The explanatory notes on pages 80 to 128 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ MILLION	NOTES	1/1/ TO 12/31/ 2017	1/1/ TO 12/31/ 2016
Group net profit		**68.1**	**57.5**
Changes in items that will not be reclassified to profit or loss in future periods:			
Revaluation of pension provisions	(26)	1.3	1.0
Thereof deferred taxes		−0.3	−0.3
Changes in items that will possibly be reclassified to profit or loss in future periods:			
Currency translation		−11.4	−7.4
Changes in cash flow hedge reserve		1.7	−1.8
Thereof deferred taxes		−0.5	0.4
Other comprehensive income		**−8.4**	−8.2
Comprehensive income		**59.7**	49.3
Thereof relating to			
Shareholders of VTG Aktiengesellschaft		47.2	36.8
Hybrid capital investors		12.5	12.5
		59.7	**49.3**

The explanatory notes on pages 80 to 128 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

ASSETS

€ MILLION	NOTES	12/31/2017	12/31/2016
Goodwill	(11)	340.5	340.5
Other intangible assets	(12)	85.2	92.4
Tangible fixed assets	(13)	2,235.9	2,216.8
Companies accounted for using the equity method	(14)	36.5	32.3
Other investments	(15)	1.3	1.5
Derivative financial instruments	(30)	6.9	6.1
Other financial assets	(18)	22.4	13.9
Other assets	(19)	0.3	0.1
Deferred income tax assets	(20)	17.4	22.6
Non-current assets		**2,746.4**	**2,726.2**
Inventories	(16)	42.4	32.4
Trade receivables	(17)	168.6	140.8
Derivative financial instruments	(30)	0.5	1.4
Other financial assets	(18)	19.6	18.3
Other assets	(19)	23.4	11.6
Current income tax assets	(20)	6.4	7.3
Cash and cash equivalents	(21)	78.2	63.5
Current assets		**339.1**	**275.3**
		3,085.5	**3,001.5**

The explanatory notes on pages 80 to 128 form an integral part of these consolidated financial statements.

EQUITY AND LIABILITIES

€ MILLION	NOTES	12/31/2017	12/31/2016
Subscribed capital	(22)	28.8	28.8
Additional paid-in capital		323.7	323.7
Retained earnings	(23)	188.5	164.1
Revaluation reserve	(24)	–0.3	–2.0
Equity attributable to shareholders of VTG AG		**540.7**	514.6
Equity attributable to hybrid capital investors of VTG AG	(25)	**259.4**	259.4
Equity		**800.1**	774.0
Provisions for pensions and similar obligations	(26)	64.4	67.6
Deferred income tax liabilities	(27)	154.5	151.5
Other provisions	(28)	6.0	9.1
Financial liabilities	(29)	1,527.8	1,652.2
Derivative financial instruments	(30)	13.4	29.9
Other financial liabilities		1.1	2.5
Non-current debt		**1,767.2**	1,912.8
Provisions for pensions and similar obligations	(26)	3.3	3.4
Current income tax liabilities	(27)	22.2	25.4
Other provisions	(28)	45.3	49.2
Financial liabilities	(29)	231.1	75.1
Trade payables		169.0	119.6
Derivative financial instruments	(30)	16.6	20.0
Other financial liabilities		8.8	10.3
Other liabilities		21.9	11.7
Current debt		**518.2**	314.7
		3,085.5	3,001.5

The explanatory notes on pages 80 to 128 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ MILLION	SUB-SCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	(THEREOF DIFFERENCES FROM CURRENCY TRANS-LATION)	EVALUATION RESERVE*	EQUITY ATTRIBUTABLE TO SHARE-HOLDERS OF VTG AG-	EQUITY ATTRIBUTABLE TO HYBRID CAPITAL INVESTORS	TOTAL
NOTES	(22)		(23)		(24)		(25)	
As of 12/31/2015	**28.8**	**323.7**	**136.5**	**(13.4)**	**−0.2**	**488.8**	**259.4**	**748.2**
Group net profit			45.0			45.0	12.5	**57.5**
Revaluation of pension provisions			1.0			1.0		1.0
Currency translation			−7.4	(−7.4)		−7.4		−7.4
Changes in cash flow hedge reserve					−1.8	−1.8		−1.8
Other comprehensive income	**0.0**	**0.0**	**−6.4**	**(−7.4)**	**−1.8**	**−8.2**	**0.0**	**−8.2**
Comprehensive income	**0.0**	**0.0**	**38.6**	**(−7.4)**	**−1.8**	**36.8**	**12.5**	**49.3**
Dividend payment			−14.4			−14.4	−12.5	−26.9
Miscellaneous changes			3.4			3.4		3.4
Total changes	**0.0**	**0.0**	**27.6**	**(−7.4)**	**−1.8**	**25.8**	**0.0**	**25.8**
As of 12/31/2016	**28.8**	**323.7**	**164.1**	**(6.0)**	**−2.0**	**514.6**	**259.4**	**774.0**
Group net profit			55.6			55.6	12.5	**68.1**
Revaluation of pension provisions			1.3			1.3		1.3
Currency translation			−11.4	(−11.4)		−11.4		−11.4
Changes in cash flow hedge reserve					1.7	1.7		1.7
Other comprehensive income	**0.0**	**0.0**	**−10.1**	**(−11.4)**	**1.7**	**−8.4**	**0.0**	**−8.4**
Comprehensive income	**0.0**	**0.0**	**45.5**	**(−11.4)**	**1.7**	**47.2**	**12.5**	**59.7**
Dividend payment			−21.6			−21.6	−12.5	−34.1
Miscellaneous changes			0.5			0.5		0.5
Total changes	**0.0**	**0.0**	**24.4**	**(−11.4)**	**1.7**	**26.1**	**0.0**	**26.1**
As of 12/31/2017	**28.8**	**323.7**	**188.5**	**(−5.4)**	**−0.3**	**540.7**	**259.4**	**800.1**

* The revaluation reserve includes the reserve for cash flow hedges.

The explanatory notes on pages 80 to 128 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

€ MILLION	NOTES	1/1 TO 12/31/2017	1/1 TO 12/31/2016
Operating activities			
Group net profit		68.1	57.5
Impairment, amortization and depreciation		188.3	195.6
Financing income		–6.1	–3.0
Financing expenses		71.0	64.5
Taxes on income and earnings		22.1	30.7
EBITDA		**343.4**	**345.3**
Other non-cash expenses and income		–3.7	–4.5
Dividend from companies accounted for using the equity method		1.5	1.8
Income taxes paid		–18.6	–17.5
Income taxes reimbursed		4.5	2.6
Profit/loss on disposals of fixed asset items		–9.3	–6.8
Changes in:			
Inventories		–10.0	–4.9
Trade receivables		–27.1	9.9
Trade payables		25.6	–14.5
Other assets and liabilities		–10.4	14.8
Cash flows from operating activities		**295.9**	**326.2**
Investing activities			
Payments for investments in intangible and tangible fixed assets		–241.2	–220.4
Proceeds from disposal of intangible and tangible fixed assets		41.6	11.9
Proceeds from investments in financial assets and company acquisitions (less cash and cash equivalents received)		–	0.7
Proceeds from disposal of financial assets		–	0.2
Financial receivables (incoming payments)		3.0	4.4
Financial receivables (outgoing payments)		–11.6	–4.8
Receipts from interest		0.7	0.8
Cash flows used in investing activities		**–207.5**	**–207.2**
Financing activities			
Payment of VTG Aktiengesellschaft dividend		–21.6	–14.4
Payments for acquisition of non-controlling interests		–	–5.5
Payment to non-controlling interests		–	–0.7
Dividend payments to hybrid capital investors		–12.5	–12.5
Costs of raising equity capital		–4.8	–
Borrowing costs		–1.4	–
Receipts from the taking up of (financial) loans	(29)	278.7	33.3
Repayment of financial debt and other financial liabilities	(29)	–239.9	–76.0
Interest payments		–71.5	–76.4
Cash outflow from financing activities		**–73.0**	**–152.2**
Change in cash and cash equivalents		**15.4**	**–33.2**
Effect of changes in exchange rates		–0.7	–1.1
Balance at beginning of period	(21)	63.5	97.8
Balance of cash and cash equivalents at end of period	(21)	**78.2**	**63.5**
of which freely available funds		76.4	60.7

The explanatory notes on pages 80 to 128 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanation of accounting principles and methods used in the consolidated financial statements

1. GENERAL INFORMATION

VTG Aktiengesellschaft (VTG AG), registered in Hamburg, Nagelsweg 34, is the parent company of the VTG Group. The company is registered in the commercial register of the Local Court of Hamburg (HRB 98591). VTG AG and its subsidiaries operate in the business divisions of Railcar, Rail Logistics and Tank Container Logistics.

The financial year of VTG AG and its consolidated subsidiaries corresponds to the calendar year.

VTG AG prepares its consolidated financial statements in accordance with IFRS pursuant to Section 315 (e) (1) of the German Commercial Code. The consolidated financial statements and group management report are published in the electronic Federal Gazette (Federal Gazette).

The consolidated financial statements comprise the consolidated income statement, the consolidated statements of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes to the consolidated financial statements.

The consolidated financial statements are prepared in euros, which represent the functional and reporting currency of VTG AG. For better presentation, all amounts are given in millions of euros (€ million). Due to rounding, individual figures may not add up exactly to the totals given and the percentages provided may not correspond exactly to the associated absolute values.

These consolidated financial statements were approved for publication by the Executive Board of VTG AG on March 2, 2018.

2. PRINCIPLES OF ACCOUNTING

The consolidated financial statements of VTG AG were prepared in accordance with the International Financial Reporting Standards (IFRS) effective at the balance sheet date and as applicable in the EU and in accordance with the interpretations of the International Financial Reporting Standards Interpretations Committee (IFR IC). The commercial law regulations under Section 315 (e) (1) of the German Commercial Code were also observed.

The consolidated financial statements were prepared in accordance with the historical cost convention, with the exception of: financial assets available for sale; financial assets and financial liabilities (including derivative financial instruments) carried at fair value through profit or loss; plan assets associated with defined benefit commitments; and non-current assets held for sale.

Principles of consolidation

The consolidated financial statements include all entities over which VTG AG exercises control. VTG controls an investee when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. These entities are included in the consolidated financial statements from the date on which the VTG Group gains such potential for control. If this potential for control ceases, the companies in question withdraw from the group of consolidated companies.

All consolidated subsidiaries are included with their individual financial statements prepared for use in the consolidated financial statements of VTG AG. These were prepared using uniform accounting, measurement and consolidation methods.

Subsidiaries not included in the consolidated financial statements are insignificant for the presentation of the net assets, financial position and results of operations due to dormant operations or a low level of operations. Non-consolidated companies are recognized in the consolidated balance sheet at acquisition cost if their fair values cannot be determined reliably.

The Group's investments in companies accounted for using the equity method include investments in joint ventures. A joint operation is an arrangement whereby the parties exercising joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. The most recent financial statements of these entities serve as the basis for consolidation under the equity method. As of December 31, 2017, four companies are accounted for using the equity method. The complete list of equity investments is presented on pages 119 to 121.

Subsidiaries acquired are accounted for in accordance with the acquisition method. The acquisition costs equal the fair value of the assets acquired, the equity instruments issued and the liabilities arising or assumed as of the date of exchange. In addition, the consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value on the acquisition date of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired are recorded as goodwill. If these acquisition costs are less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Goodwill is amortized exclusively in accordance with the impairment-only approach, under which it is subject to an impairment test at least once a year and is subsequently measured at its original acquisition cost less any accumulated impairment losses.

Intra-group receivables and payables and provisions as well as contingent liabilities between the consolidated companies are eliminated. Intra-group revenue and other intra-group income, as well as the corresponding expenses, are also eliminated. Interim profits resulting from intra-group transactions are eliminated in full, including their impact on deferred taxes, except for insignificant transactions. Intra-group transactions are normally arm's-length transactions.

Transactions involving non-controlling interests are treated as transactions with owners of equity of the Group. If there is a difference between the payment made to acquire non-controlling interests and the relevant proportion of the carrying amount of the net assets of the minority interests, this is recognized in equity. Gains and losses arising from the sale of a shareholding of non-controlling interests are also recognized in equity.

Currency translation

The annual financial statements of companies included in the scope of consolidation with a functional currency other than the euro are translated into euros as follows:

- Assets and liabilities are translated at the middle rate as of the balance sheet date.
- The items in the income statement are translated at the weighted average rate for the year.

Any differences that arise are recognized in other comprehensive income under currency translation, with no impact on net income. These differences are recognized in profit or loss only in the year of deconsolidation.

The functional currencies of the companies included in the scope of consolidation are not hyperinflationary currencies.

Transactions in a currency other than the functional currency of a consolidated company (foreign currency transactions) are translated into the functional currency at the exchange rates at the time of the transaction. Monetary assets and liabilities denominated in a foreign currency are subsequently measured at the exchange rate on the closing date. Any differences that arise are immediately recognized in profit or loss.

Foreign currency gains and losses arising from the measurement of assets and liabilities relating to operations are neither recognized in other operating income or other operating expenses nor shown in revenue or cost of materials.

Foreign currency gains and losses arising from the measurement of assets and liabilities relating to financial assets and borrowings are netted in the financial result.

The key exchange rates used for currency translation are as follows:

1 EURO =	RATE AT BALANCE SHEET DATE 12/31/2017	12/31/2016	AVERAGE RATE 2017	2016
British pound	0.8872	0.8581	0.8762	0.8190
Swiss franc	1.1702	1.0754	1.1116	1.0903
US dollar	1.1993	1.0568	1.1293	1.1069

Measurement of fair value

On the first level, fair value is measured using prices quoted in an active market for identical assets or debts. If market prices are unavailable, on the second level, fair value is measured on the basis of other inputs which are observable directly or indirectly. If these are also unavailable, on the third level, other input factors appropriate for measurement are used. If multiple inputs are used, the measurement is based on the input on the lowest level and this determines the valuation. Any reclassification from one level to another takes place at the end of the reporting period in which the change occurs.

Structure of balance sheet and income statement

Assets and liabilities are shown in the balance sheet as non-current assets where the residual term is more than a year. Residual terms of less than a year are thus shown as current assets and liabilities. Liabilities are generally deemed non-current as long as there is no unqualified right to avoid performance in the next year. Deferred tax assets and liabilities are generally shown as non-current assets and liabilities. Conversely, current income tax assets and liabilities are shown as current assets and liabilities. If the assets and liabilities have non-current and current components, these are shown in accordance with the balance street structure as current/non-current assets and liabilities.

The subtotals in the income statement now relate to the capital-market-oriented indicators EBITDA (earnings before interest, taxes, depreciation and amortization), EBIT (earnings before interest and taxes) and EBT (earnings before taxes). These are determined without deviation from the IFRS applied and are intended to make communication with the capital market easier.

Income from investments held only to expand operating divisions and not classified as pure investments is shown under other operating income.

Recognition of revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services within ordinary activities. Furthermore, revenue includes the currency differences from foreign currency receivables that have arisen from normal trading. Revenue is recorded without value added tax, discounts or price reductions and after the elimination of intragroup sales. Revenue from the leasing of wagons is recognized on a prorated, straight-line basis over the term of the contracts. Revenue from services is not realized until the service has been fully rendered. There is no recognition in accordance with stage of completion due to the nature of the business. Income from the sale of goods is recognized if these have been delivered and the risk has been transferred.

Dividends are recorded as income when the claim is legally effective. Interest expenses and interest income are recognized proportionally, applying the effective interest method. Expenses and income from compensation for use are allocated to periods and recorded according to the economic substance of the relevant agreements.

Unplanned impairment losses

Assets that have an indefinite useful life are not subject to scheduled depreciation or amortization. They are subject to an at least annual impairment test. Assets that are subject to scheduled amortization or depreciation are subject to an impairment test when relevant events or changes in circumstances indicate that the carrying value may no longer be recoverable. An impairment loss is recorded in the amount of the difference between the carrying value and recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and value in use. The fair value less costs of disposal corresponds to the present value of the estimated future cash flows. For the impairment test, assets are combined at the lowest level for which cash flows can be identified separately (cash-generating units). The cash-generating units are set out under Note (11) Goodwill. With the exception of goodwill, non-monetary assets that have been subject to an impairment adjustment in the past are reviewed at each balance sheet date to determine if a reversal of impairment is required. If the reasons for impairment losses recognized in previous years cease to apply, corresponding impairment reversals are made, with the exception of goodwill.

Goodwill

Goodwill is the amount by which the acquisition costs of the enterprise exceed the fair value of the shares held by the Group in the net assets of the acquired enterprise at the time of acquisition. Goodwill arising on acquisition of an enterprise is classified under intangible assets. Capitalized goodwill is not subject to scheduled amortization but is instead subject to an impairment test at least once a year and when appropriate on the basis of the cash-generating unit to which it is allocated. As part of the impairment test, it is tested whether the recoverable amounts exceed the carrying values of the units tested, including the goodwill allocated. In total, there are the cash-generating units Railcar, Railcar North America, Rail Logistics, and Tank Container Logistics, three of which carry goodwill.

Segmental goodwill is tested for impairment regularly as part of the annual budgeting process. This is based on the fair values less costs of disposal. These are determined using the discounted cash flow method (DCF method), whereby forecast cash flows derived from the multi-year plan approved by management are discounted with a market-specific capital cost rate. This plan extends over a period of up to five years, followed by the terminal value. Overall, the management expects moderate growth of the terminal value. The third-level method for measuring fair value is to be used for the above forecast.

Overall, the management expects moderate growth of the terminal value. The capitalization interest rate plus a growth surplus of 1.0 % per year has been applied. Other significant planning assumptions and the opportunities and risks of future development can be found in the relevant sections of the Group Management Report. In order to determine the fair value less costs of disposal, risk-oriented interest rates appropriate to the market were applied. The after-tax interest rate (WACC) amounts to 3.9 % (previous year: 2.8 %).

The key assumptions made here take account of, in particular, the estimated development of the Return on Capital Employed (ROCE) and the resulting earnings before interest and taxes (EBIT) and the assumed cost of capital (WACC). For the cash-generating unit Railcar, the key planning parameters on which ROCE is based are fleet capacity utilization and leasing rates. The assumed development of ROCE is based on slight rates of growth in capacity utilization and stable leasing rates, which in turn are based on past trends and the expectations of management regarding the market trend as supported by market studies (SCI study, European Rail Freight Transport Market) and the IMF's appraisal of the economic trend. The cash-generating unit Rail Logistics and Tank Container Logistics segments have freight rates as the key planning parameter. A change to these key planning parameters has a significant effect on the calculation of the fair value less costs of disposal and, ultimately, on the level of any necessary impairment of goodwill or brands with indefinite useful lives.

Management uses internal analyses and forecasts to project the earnings trend and external information sources for the other parameters used. In accordance with the requirements of DRS 20, the company is publishing a one-year forecast of its business development. Since multiple-year scenarios are being discussed internally, there are differences between the internal and external information sources.

Based on the existing models for the cash-generating units Rail Logistics and Tank Container Logistics, impairment losses are possible only in the case of scenarios that are currently improbable because they would result from changes to key assumptions.

With regard to the cash-generating unit Railcar, with attributed goodwill of € 327.2 million, unforeseeable changes to key planning assumptions could lead to impairment of goodwill. This applies in particular to the assumptions made regarding EBIT, ROCE and the estimated cost of capital (WACC), where the other parameters of the impairment test are assumed to be constant. The goodwill attributed to the cash-generating unit Railcar would remain unimpaired in the case of a fall in future EBITs of up to 12.6 % or a decrease in ROCE regarding the terminal value of up to 0.6 percentage points or an increase in WACC after tax of up to 0.52 percentage points compared with the parameters currently used. Currently, the coverage surplus amounts to around 1.4 times the attributable goodwill.

Other intangible assets

Other intangible assets comprise brand values and customer relationships as well as purchased intangible assets as well as internally generated capitalized development costs.

Due to their indefinite useful life, brand values are not amortized, rather they are subject to an annual impairment test based on the cash-generating units, in which the carrying amount of the cash-generating units, including brands is compared with the fair value. As for the goodwill impairment test described above, the recoverable amount is calculated as fair value less costs of disposal, which are in turn calculated on the basis of the discounted forecast cash flows.

Customer relationships are initially recognized at fair value measured on the basis of residual profit and are normally amortized on a straight-line basis in the subsequent periods up to 22 years.

Development costs which are directly attributable to the development and review of identifiable, individual designs for rail freight cars controlled by the Group are recognized as intangible assets if they meet the following criteria:

- Completion is technically feasible
- The management intends to complete the asset and to use or sell it
- There is an ability to use or sell the asset
- It can be demonstrated that the asset is likely to yield future economic benefits
- Adequate technical, financial and other resources are available to complete the development process and use or sell the asset
- The expenditure attributable to the asset during its development can be measured reliably.

The costs directly attributable to the asset, in addition to external costs, mainly comprise personnel costs for the employees involved in development and an appropriate share of the relevant overheads.

Capitalized development costs for designs are subject to scheduled straight-line depreciation over their estimated useful lives of up to seven years.

Research costs are not capitalized but are expensed as incurred.

Other intangible assets with finite useful lives acquired against payment are generally stated at acquisition cost and for the most part amortized on a straight-line basis over three to ten years.

Tangible fixed assets

Tangible fixed assets are measured at acquisition or manufacturing cost less scheduled depreciation on a straight-line basis to reflect use and, in individual cases, impairment. Impairment of the wagon fleet is monitored and identified by the Group by means of marketability analyses over the course of the year. Land is not subject to depreciation or amortization.

Acquisition costs comprise all consideration given to purchase an asset and to bring it to an operational state. Manufacturing costs are determined on the basis of direct costs as well as directly allocable overheads and depreciation. Finance costs for the purchase and for the period of manufacture are capitalized if qualifying assets are present.

Assets with a limited useful life are depreciated on a straight-line basis. This is based on a recoverable residual value that takes regional differences into account.

The Group reviews the useful lives applied at least once a year. Should expectations deviate from estimates made until now, the required adjustments are appropriately accounted for as changes in estimates. The determination of the useful lives is made on the basis of market observations and experience values.

Tangible fixed assets are subject to scheduled depreciation over their expected useful lives, as follows:

TANGIBLE FIXED ASSETS	USEFUL LIFE
Buildings	up to 50 years
Technical plant and machinery	up to 15 years
Containers	up to 12 years
Rail freight cars[1]	
Grain silo wagons	up to 42 years
LPG wagons, mineral oil wagons	up to 40 years
Intermodal wagons, standard freight wagons, bulk freight wagons	up to 36 years
Chemical wagons, powder wagons, compressed gas wagons	up to 32 years
Operating and office equipment	up to 13 years

[1] Some wagon types in the US have longer useful lives than those stated above.

Costs for maintenance and repair of items within tangible fixed assets are recorded as expenses. Expenses for renewal are capitalized as subsequent manufacturing costs if they result in a substantial extension of the useful life, a significant improvement or a meaningful change in the use of the asset. The costs of overhaul of the rail freight cars are capitalized as a separate component and depreciated over the term of the overhaul intervals. The term of the overhaul intervals is four to six years. Where replacement parts or maintenance equipment can be used only in relation to a tangible fixed asset, these are included under tangible fixed assets.

Lease agreements

Lease agreements that transfer all the significant risks and rewards related to ownership are classified as finance leases. All other lease agreements are classified as operating leases.

a) The Group as lessee

Assets held within the context of a finance lease are capitalized at the beginning of the lease agreement at the fair value of the asset or, if lower, the present value of the minimum lease payments. Depreciation is recorded normally over the economic life or, if shorter, the term of the lease, using the depreciation method that applies for comparable purchased or manufactured fixed assets. The payment obligations that arise for future lease installments are recorded as liabilities, disregarding the interest component. The interest portion of the lease installment is recorded as an expense in the consolidated income statement. In the case of operating leases, the lease/hire payments are recorded on a straight-line basis over the period of the lease in the income statement.

b) The Group as lessor
Receivables from finance leases are initially recognized at an amount equal to the net investment in the lease. The lease payments are to be divided into interest and principal payments of the lease receivable so as to produce a constant periodic rate of return on the receivable.

c) Sale-and-leaseback transactions
With sale-and-leaseback transactions, rail freight wagons are sold to leasing companies then hired back from them via leasing agreements.

Financial instruments

IAS 32 defines a financial instrument as a contractually agreed right or obligation which gives rise to the inflow or outflow of financial assets or the issue of equity rights. Financial instruments include financial assets and financial liabilities such as trade receivables and payables, financial receivables and liabilities and derivative financial instruments, which are used to hedge against interest rate and currency risks. Financial instruments are entered in the balance sheet where an obligation has been undertaken (trading date) to buy or sell an asset.

Financial assets are divided into the following categories: (a) at fair value through profit or loss (b) loans and receivables (c) held to maturity and (d) available for sale. Initial classification into these categories affects how they are subsequently measured. The itemization as current or non-current has no influence on measurement but is itself influenced by classification within one of these categories. Financial assets are derecognized where the rights to payments from the financial asset have expired or the Group has transferred all risks and opportunities associated with the asset. At each balance sheet date, a review is undertaken as to whether there are any objective indications in respect of impairment of a financial asset or of a group of financial assets.

a. Financial assets measured at fair value through profit or loss
There are no assets in the VTG Group that fall into this category except for derivative financial instruments.

b. Loans and receivables
Loans and receivables comprise non-derivative financial assets with fixed definable payments and are not quoted on an active market. They arise where the Group provides money or services directly to a debtor without the intention of trading with this receivable. They qualify as current assets as long as they are not due twelve months or more after the balance sheet date. All other loans and receivables are shown as non-current assets. Loans and receivables are included in the balance sheet under other financial assets (loans), trade receivables and other receivables and assets. Loans and receivables are recognized at fair value less transaction costs when incurred and recognized in the balance sheet at amortized cost. With these items, account is taken of all identifiable specific risks and the general risk of default based on experience using appropriate provisions.

c. Financial assets held to maturity
There are no assets in the VTG Group that fall into this category.

d. Financial assets available for sale
Financial assets available for sale have been either directly classified under this category or could not be classified under one of the other three given categories. The financial assets presented in the VTG Group are mainly investments in affiliated companies, which have not been consolidated because of their minor importance, and investments. They are classified as non-current assets, provided that management does not intend to sell them within twelve months of the balance sheet date. Financial assets held for sale are initially recognized at their fair value plus transaction costs (acquisition costs) and are recognized on subsequent balance sheet dates at their fair values to the extent that their market value can be determined reliably. In this case, the unrealized gains and losses arising from the change in the fair value are recognized in the revaluation reserve after accounting for tax effects. If the assets that are classified as available for sale are sold or have been subject to impairment, then the cumulative changes to fair value previously recognized in equity (revaluation reserve) are recognized through profit and loss. The shareholdings and investments

are not traded and there are no market prices listed on an active market. These shares and other investments are recognized at amortized cost since it is not possible to determine their fair values reliably. VTG does not intend to sell the assets classified as available for sale and shown under the balance sheet item Other investments.

Liabilities for financial instruments can be measured either at amortized cost or at fair value through profit or loss. As a rule, the VTG Group measures financial liabilities at amortized cost. Financial liabilities are stated at their fair value on initial recognition, net of transaction costs. Transaction costs arising from the refinancing of the Group for the setting up of as-yet-unused lines of credit are capitalized and distributed over the term of the credit agreement using the effective interest method. Differences between the disbursement amount and repayment amount are charged like transaction costs to income over the term of the borrowing, applying the effective interest method. Loan liabilities are classified as current if the Group does not have an unconditional right to repay the liability at a time later than twelve months after the balance sheet date. In the balance sheet current account overdrafts, credits used are shown as current financial liabilities. Financial liabilities are derecognized once the contractual obligations have been fully met, have been removed or have expired.

Derivative financial instruments

Derivative financial instruments are recognized initially at their fair values, which are allocated on the day the contract is concluded. Subsequent valuation is also at the relevant fair value at each balance sheet date. To the extent that derivative financial instruments are not part of a hedging relationship (hedge accounting), these have to be classified as held for trading in accordance with IAS 39. The method for recording profits and losses depends on whether the derivative financial instrument was classified as a hedging instrument and, if so, on the nature of the hedged item. The Group classifies derivative financial instruments that have been designated as hedging instruments as hedges against the risks of fluctuating cash flows from assets or liabilities or from future transactions with a high probability of occurring (cash flow hedge).

Derivative financial instruments are only concluded by the Group's head office within the framework of the valid guidelines and provisions. If a company independently concludes derivative financial instruments within the valid guidelines and provisions, this is done only with the prior approval of the Group's head office.

On concluding a transaction, the Group documents the hedging relationship between the hedging instrument and the underlying transaction, the objective of risk management and the underlying strategy when entering into hedging transactions. The effectiveness of the hedging relationship is examined at the outset and on each balance sheet date.

The fair value of the derivative financial instrument is presented as a non-current asset or non-current liability to the extent that the residual term of the underlying transaction covered by the hedge is longer than twelve months after the balance sheet date or as a current asset or current liability if the residual term is shorter.

The effective portion of the market value changes of derivative financial instruments, which is deemed a cash flow hedge, is recognized in other comprehensive income after accounting for deferred taxes, without affecting income. The non-effective portion is recorded to the income statement. The amounts recorded to equity are reclassified to the income statement in the financial years in which the underlying transaction affects the income statement or if the forecast transaction is no longer expected to occur. Hedging relationships categorized as financing activities are reclassified to the financial result. Hedging relationships categorized as operating activities are reclassified to revenue and income/expenses.
The market value changes of financial derivatives not in a hedging relationship are recognized through profit of loss in the income statement within the financial result.

Derivative financial instruments are used within the framework of managing interest rate and currency risks.

Inventories

Inventories are recognized at the lower of acquisition/manufacturing costs and net realizable value. The net realizable value is defined as the estimated ordinary selling price less necessary variable selling expenses. Similar items of inventory are measured applying the average method. The measurement of raw materials, supplies and consumables is at acquisition cost. The costs of work in progress comprise the costs for raw materials, supplies and consumables, direct personnel expenses, other direct costs and overheads attributable to production. For qualifying assets, borrowing costs are included in the manufacturing costs.

Provisions for pensions and similar obligations

There are both defined contribution plans and defined benefit plans in place for employee retirement benefit. The structuring depends on the legal, tax and economic conditions in the country concerned and are generally related to the service period and level of remuneration of the employees.

Under the defined contribution plans, the company pays contributions to state pension schemes and private pension bodies on the basis of statutory or contractual regulations. Once the contributions have been paid, the company does not have any further obligations to provide benefits.

For defined benefit pension commitments, whereby the company guarantees employees a specific level of payment, the company creates provisions. These provisions cover payment commitments for retirement, disability and survivors. Under IAS 19, these obligations are determined by an independent actuary using the projected unit credit method, taking into account the discount rate, the expected future development of salaries and pensions and additional actuarial assumptions. They are entered in the balance sheet after the deduction of the fair value of plan assets. The remeasurements of the net defined benefit liability are recognized in other comprehensive income without affecting income and result in a change without affecting income in the present value of the pension obligations as well as the fair value of plan assets. The net interest approach has been used. For the return on plan assets, the interest rate is adopted that applies to the net pension obligations. Expenses from increases in pension obligations that reflect the passage of time (unwinding of the discount) are shown as net interest under the financial result after offsetting income from the interest yielded by plan assets. Both the current and the past service cost are recognized immediately and are shown under personnel expenses.

There are various pension arrangements in Germany, based on both collective and individual rights under the law. The vast majority of these provision arrangements are defined benefit pension plans. In this respect, for the majority of employees that are currently still active, provision is within a range based on final salary with fixed increments for each year of service for each pension group. Additionally, there are employees who have active entitlement, with income-dependent pension components for each year of service and those with active entitlement with other pension plans that are partially dependent on final salary. Besides the actual pension plans, there are also accident pensions and provisions for retirees upon payment of an additional contribution to a private health insurer. These provisions are subject to longevity risk and inflation due to the statutory obligation to review current pension payments with regard to adjustment. The beneficiaries are mostly retirees.

There is additional pension insurance for certain employees in Germany through the Federal and State Government Employees' Retirement Fund Agency (Versorgungsanstalt des Bundes und der Länder, VBL). This plan is a multi-employer plan that is essentially to be recognized as a defined benefit plan. Due to the absence of available calculations of the share of the provisions for VTG, the plan is shown as a defined contribution plan.

The VBL benefits operate via a pay-as-you-go system (modified partial reserve pay-as-you-go system). The calculation is made according to actuarial principles. The contribution rate amounts to a total of 8.26 % of the salary for which there is a supplementary pension from July 2017 onward. As an employer, VTG is responsible for 6.45 %. There may be an adjustment to the supplementary pension in 2018. Additionally, a reorganization charge is to be paid. The scope of VTG's participation in the VBL pension plan compared with other companies is negligibly small.

With pension commitments and plan assets outside Germany, provision is made in the form typical for each country. Plan assets are invested in insurance policies and are not traded on an active market and a fund. The insurance companies bear sole responsibility for the proper structuring and management of the portfolios itemized as plan assets. The top-up contributions for future obligations relating to part-time employment for older members of staff are introduced in gradual steps until the end of the active stage.

The discount rate calculation takes into account the development of high quality corporate bonds with a corresponding date of maturity. The discount rate was determined using the Willis Towers Watson Global Rate: Link methodology, based on data recorded by Bloomberg on corporate bonds with an AA rating.

Taxes on income

The tax expense for the period is made up of both current and deferred taxes. Taxes are recognized in the income statement unless they relate to items that have been recognized directly in equity or in other comprehensive income. In this event, the taxes are also recognized in equity or in other comprehensive income.

The current tax expense is calculated using the tax regulations applicable on the balance sheet date for the countries in which the company and its subsidiaries operate and generate taxable income.

Deferred taxes are recognized for all temporary differences between the tax base of assets and liabilities and their carrying values under the applicable IFRS. However, if, as part of a transaction which does not represent a business combination, deferred tax arises on the first-time recognition of an asset or a liability which, at the time of the transaction, has neither an effect on the balance sheet nor on the tax profit or loss, then there is no deferred tax either on initial recognition or later. Deferred taxes are measured by applying tax rates (and tax laws) that are valid at the balance sheet date or which have been substantially enacted and are expected to apply to the period when the tax asset is realized or the liability settled.

Deferred tax assets are recognized to the extent that it is probable that a taxable profit will be available against which the temporary differences can be used. Deferred tax assets and liabilities are generally netted where they are levied by the same tax authority and as long as the running periods correspond.

Other provisions

Other provisions are set up for uncertain legal and constructive obligations to third parties, the occurrence of which will probably lead to an outflow of funds. They are formed taking into consideration all identifiable risks at the probable settlement amount and are not offset against any claims of recourse. Measurement is at the best estimate of the current obligation at the balance sheet date, discounting long-term obligations.

Government grants

Government grants are measured at fair value where it can be assumed with great certainty that the grant will be made and the Group meets the necessary requirements for receipt of the grant.

Government grants for costs are recognized as income over the period in which the costs to be covered by the grants are incurred.

Government grants related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset. The grant is recognized as income over the life of depreciable asset by way of a reduced depreciation charge.

Estimates and discretionary judgements

In the preparation of the consolidated financial statements, assumptions have been made and estimates applied that have an impact on the level and the disclosure of the assets and liabilities, income and expenses and also on contingent liabilities. All estimates and related assumptions are continually reevaluated and are based on historical experience and other factors, including expectations with regard to future events that appear reasonable under the applicable circumstances. The amounts that actually materialize in the future may differ from the amounts determined on the basis of estimates and assumptions. Such differences will be taken to income when better estimates are available.

The following estimates and related assumptions may have a major effect on the consolidated financial statements.

With the context of the hedging of interest rate risks through cash flow hedges, borrowing that is expected to take place in the future is also designated as a hedged item. Both the likelihood of occurrence and the amount of the expected future borrowing are decided in consultation with those responsible for corporate planning. If these events do not occur, this has an effect on the financial result. The key factor in deciding the level of this effect is the measurement of the interest derivatives used as hedging instruments (see information on interest rate risk under "Reporting of financial instruments").

3. NEW FINANCIAL REPORTING STANDARDS

New standards, amendments to existing standards, and interpretations whose implementation first became mandatory for financial years beginning on January 1, 2017 or thereafter have no significant impact on the reporting of the VTG Group.

The following new standards and interpretations and amendments to existing standards and interpretations to be implemented in financial years after the year under review are expected to impact the reporting of the VTG Group:

The new **IFRS 9 "Financial Instruments"** contains simplified accounting rules for financial instruments. Its objective is to have only two categories for measuring financial instruments – amortized cost and fair value. The more differentiated classification and measurement system of IAS 39 is discarded. Furthermore, IFRS 9 contains a revised impairment model and new rules on hedge accounting. With the changes to IFRS 9, IFRS 7 was also amended in respect of additional disclosures for comparative periods on transition to IFRS 9. Application of the new IFRS 9 and IFRS 7 regulations is mandatory for financial years beginning on and after January 1, 2018.

Based on an analysis of the financial assets and existing hedging relationships as of December 31, 2017, and the facts and circumstances at that time, the VTG Group has assessed the impact of IFRS 9 on the consolidated financial statements. The main effects expected are:

Classification and measurement:
No substantial measurement effects will result from the transfer of financial assets from debt instruments under IFRS 9. These financial assets are held in a business model geared towards the collection of contractual cash flows, and these cash flows represent only interest and repayment on the outstanding nominal amount. Accordingly, in the application of IFRS 9, these financial assets will continue to be measured at amortized cost. Investments in unquoted equity instruments are currently recognized at amortized cost. In the case of first-time adoption of IFRS 9, these are to be measured at fair value. Differences between the earlier carrying amount and the fair value are recognized in the opening balance of retained earnings. For the shares in affiliated, non-consolidated companies and other investments shown under other financial assets, an increase in the balance sheet amount of approx. € 16 million is expected due to the fair value measurement. Accordingly, retained earnings will increase by approximately € 11 million and deferred income tax liabilities by around € 5 million. These shares are assigned to this category at fair value, with changes in value in other comprehensive income. As a result of this, all changes in fair value are shown in other comprehensive income and no changes in value are reclassified to profit or loss.

Impairment:
Trade receivables measured at amortized cost, other financial assets and cash and cash equivalents fall under the new impairment rules of IFRS 9. The VTG Group will likely use the simplified impairment model for trade receivables, which requires a provision for expected losses over the remaining term to be recognized for all receivables, irrespective of their credit quality. It is not expected that the application of the impairment rules on January 1, 2018 will result in any significant change in the recognized impairment losses. In the case of other financial assets and cash and cash equivalents, the VTG Group does not expect any increase in the risk of default between initial recognition and the point of first-time adoption of IFRS 9.

Hedge accounting:

All existing hedging relationships under IAS 39 will be continued under IFRS 9. Under IAS 39, the fair value of options and the forward components of forward exchange transactions are already accounted for outside of hedging relationships and value changes are recognized directly in the income statement. Under IFRS 9, the changes in the fair value of options can no longer be recognized directly in profit or loss in the income statement but must be recognized in equity through the creation of a special reserve. This reserve is then amortized through the income statement either on a period or transaction basis. This approach can also be selected for the forward component of forward exchange transactions. To reduce the volatility of the profit and loss statement from swaptions and forward exchange transactions entered into for hedging purposes, the VTG Group will in the future recognize these hedging costs in equity by creating a reserve and amortize these on a period or transaction basis via the income statement. As a result of the mandatory requirement that the fair values of options are adjusted retroactively, reclassification from retained earnings to the special reserve in the amount of € 0.3 million is expected at the time of the changeover. For the forward components of forward exchange transactions, the new approach will be applied only to hedging relationships designated from January 1, 2018.

The new **IFRS 15 "Revenue from Contracts with Customers"** brings together the many rules contained in a range of different standards and interpretations. It establishes uniform, basic principles for all categories of revenue transactions. These principles are applicable across all industries. For this purpose, a 5-step model is being introduced, which requires, among other things, the identification of the separate performance obligations, the determination of the transaction price, the allocation of this price to the performance obligations and the revenue recognition method. Application of these new regulations is mandatory for financial years beginning on and after January 1, 2018. The VTG Group has assessed the impact of IFRS 15 on the key transactions with customers for the Railcar, Rail Logistics and Tank Container Logistics divisions.

Railcar

The core business of VTG comprises wagon hire operations. VTG manages and maintains not only its own wagons but also third-party fleets. Each of these services represents a separate performance obligation. Revenue is recognized over time. In addition, new wagons are manufactured in our own wagon construction plant. In this case, revenue is recognized at a point in time. Because rental income is a focus of IAS 17 "Leases" (in the future, IFRS 16), the IFRS 15 perspective only considers the service aspect of this revenue. The outcome is that there are no differences compared with the former approach.

Rail Logistics

As a forwarder, the Rail Logistics division organizes freight transports throughout Europe with the focus on the railway as a carrier. It operates in this capacity as an independent provider of block train, single-wagon and wagon group transports, forwarding a range of freight, including sensitive goods. The division also offers project logistics services. Each transport represents a separate performance obligation and is invoiced to the customer separately. The revenue is to be recognized over time. The outcome is that there are no differences compared with the former approach.

Tank Container Logistics

The Tank Container Logistics division organizes tank container transports of goods worldwide. A single transport operation generally combines various modes of transport. Each transport represents a separate performance obligation. A charge is agreed with the customer for each transport. The revenue is to be recognized over time. The outcome is that there are no differences compared with the former approach.

For transactions between the Group and its customers, there will be no significant changes to the previous rules with regard to the amount of revenue or its recognition over time. For the explanations in the Notes to the consolidated financial statements, more comprehensive rules apply which require more detailed descriptions.

IFRS 16 "Leases" obliges lessees to recognize all leases as financing transactions and show them as a right-to-use asset and a corresponding lease liability (right-of-use model). Application of IFRS 16 regulations is mandatory for financial years beginning on and after January 01, 2019. The VTG Group has various assets at its disposal for whose use it is charged for, such as rail freight wagons, tank containers and office buildings. A large proportion of these assets will be recognized in the balance sheet when IFRS 16 is applied. The Group plans to apply the changes from 1 January 2019 in the form of the modified retrospective approach. In the year under review, VTG created a changeover concept, selected a software solution for creating contracts and generating the required information and began to implement these. The information on obligations from rental, leasehold and leasing agreements in the section "Other disclosures" provides an indication of the impact on assets and the financial position. While IFRS 16 will positively impact EBITDA and EBIT, a slightly negative impact on EBT is expected in the first few years after the changeover due to the planned modified retrospective approach.

4. SCOPE OF CONSOLIDATION IN THE FINANCIAL YEAR 2017

In addition to VTG AG, a total of 20 (previous year: 19) domestic and 44 (previous year: 47) foreign subsidiaries are included in the consolidated financial statements for the financial year 2017.

In the fourth quarter of 2017, VTG Rail Assets GmbH, Hamburg, was included in the consolidated financial statements for the first time, as the Executive Board expects the company to grow in importance in the future. There was no assumption of significant assets or liabilities at the time of inclusion in the group of companies.

A list of equity investments is contained in the section "Other disclosures" in the Notes to the Consolidated Financial Statements, pages 119–121.

Segment reporting

EXPLANATIONS OF THE SEGMENTS

The Group is segmented on the basis of internal company control. The individual companies and company divisions are allocated to the segments solely on the basis of economic criteria, independently of their legal corporate structure. The segments apply the same accounting and measurement principles.

In addition to hiring out the freight cars in its own fleet, the Railcar division segment covers the management of and provision of technical support to external wagon fleets. Through its own wagon repair workshops, VTG provides the companies in the Group as well as third parties with maintenance services for rail freight cars and their components. The Group's wagon construction plant also manufactures tank wagons – a key focus of its operations – for internal and external customers.

The Rail Logistics segment covers the rail forwarding services of the Group. In this segment, the VTG Group operates as an international provider of rail-related logistics solutions.

The Tank Container Logistics segment comprises operations for the transport of chemical, mineral oil and compressed gas products using tank containers.

The operations of the company VTG Deutschland GmbH (VTG Deutschland) are assigned to several segments.

VTG AG, VTG Vereinigte Tanklager und Transportmittel Gesellschaft mit beschränkter Haftung (VTG GmbH) and the non-operational parts of VTG Deutschland are active across the entire Group and are therefore grouped together with the consolidation entries in a Group reconciliation item.

EXPLANATIONS OF THE SEGMENT DATA

As a rule, expenses and income between the segments is generated according to the arm's length principle, just as is the case with transactions with external third parties.

In segment reporting, the key performance indicator for the segment gross profit (segment revenue and changes in inventories less cost of materials of the segments) is shown. This key performance indicator serves as a basis for the calculation of the EBITDA margin in the segments Rail Logistics and Tank Container Logistics.

Based on internal reporting, the figures for the segments in the consolidated financial statements as of December 31, 2017 and for the previous year are as follows:

	RAILCAR		RAIL LOGISTICS		TANK CONTAINER LOGISTICS		RECONCILIATION		GROUP	
€ MILLION	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
External revenue	520.7	517.2	336.4	312.3	157.3	157.4	–	–	1,014.4	986.9
Internal revenue	31.8	30.0	8.0	3.8	0.1	0.1	–39.9	–33.9	0.0	0.0
Changes in inventories	2.1	1.6	–	–	–	–	–	–	2.1	1.6
Segment revenue	**554.6**	**548.8**	**344.4**	**316.1**	**157.4**	**157.5**	**–39.9**	**–33.9**	**1,016.5**	**988.5**
Segment cost of materials	–26.4	–29.3	–312.6	–288.4	–127.3	–129.0	39.0	33.2	–427.3	–413.5
Segment gross profit	**528.2**	**519.5**	**31.8**	**27.7**	**30.1**	**28.5**	**–0.9**	**–0.7**	**589.2**	**575.0**
Other segment income and expenditure	–184.6	–175.2	–23.5	–21.9	–18.8	–17.3	–18.9	–15.3	–245.8	–229.7
Segment earnings before interest, taxes, depreciation, amortization and impairment (EBITDA)	**343.6**	**344.3**	**8.3**	**5.8**	**11.3**	**11.2**	**–19.8**	**–16.0**	**343.4**	**345.3**
Impairment, amortization of intangible and depreciation of tangible fixed assets	–181.0	–188.4	–1.3	–1.4	–5.4	–5.4	–0.6	–0.4	–188.3	–195.6
Segment earnings before interest and taxes (EBIT)	**162.6**	**155.9**	**7.0**	**4.4**	**5.9**	**5.8**	**–20.4**	**–16.4**	**155.1**	**149.7**
thereof earnings from companies accounted for using the equity method	4.9	4.9	–	–	0.3	0.3	–	–	5.2	5.2
Financial result	–56.1	–58.5	–0.3	–0.4	–0.6	–0.6	–7.9	–2.0	–64.9	–61.5
Earnings before taxes (EBT)	**106.5**	**97.4**	**6.7**	**4.0**	**5.3**	**5.2**	**–28.3**	**–18.4**	**90.2**	**88.2**
Taxes on income and earnings									–22.1	–30.7
Group net profit									**68.1**	**57.5**

In accordance with management reporting, in addition to eliminations not affecting income of expenses and income between the segments, in particular between the Railcar and Rail Logistics segments, the Reconciliation column contains expenses of the holding company of € 28.3 million that are not allocated to the segments (previous year: € 18.4 million). This increase was due mainly to costs of € 10.5 million associated with the Nacco transaction.

Capital expenditure for each segment as of the 2017 and 2016 reporting dates is shown in the following table:

€ MILLION	RAILCAR 2017	RAILCAR 2016	RAIL LOGISTICS 2017	RAIL LOGISTICS 2016	TANK CONTAINER-LOGISTICS 2017	TANK CONTAINER-LOGISTICS 2016	RECONCILIATION 2017	RECONCILIATION 2016	GROUP 2017	GROUP 2016
Investments in intangible assets	1.8	2.1	0.4	0.3	0.1	0.1	0.4	0.2	2.7	2.7
Investments in tangible fixed assets	247.3	206.2	0.2	0.2	11.5	11.1	0.6	0.3	259.6	217.8
Total	**249.1**	**208.3**	**0.6**	**0.5**	**11.6**	**11.2**	**1.0**	**0.5**	**262.3**	**220.5**

Key figures across all segments

€ MILLION	GERMANY 2017	GERMANY 2016	OTHER COUNTRIES 2017	OTHER COUNTRIES 2016	GROUP 2017	GROUP 2016
External revenue by location of customers	378.2	382.7	636.2	604.2	1,014.4	986.9

Notes to the consolidated income statement

(1) Revenue

€ MILLION	2017	2016
Railcar	520.7	517.2
Rail Logistics	336.4	312.3
Tank Container Logistics	157.3	157.4
Total	**1,014.4**	**986.9**

The business of the VTG Group is affected to only a minor degree by seasonal fluctuations. Of the revenue in the financial year 2017 and 2016 shown under the Railcar segment, less than 2 % was from the sale of goods. The rental agreements in the Railcar division have an average term of approximately 3 years.

Foreign currency gains of € 1.5 million are included under revenue (previous year: € 2.4 million).

(2) Changes in inventories

€ MILLION	2017	2016
Changes in inventories	**2.1**	**1.6**

The changes in inventories are attributable to the wagon repair workshops and wagon construction plant.

(3) Other operating income

€ MILLION	2017	2016
Book profit from the sale of fixed assets	10.5	7.6
Income from sales of materials	3.7	1.5
Recharged services	3.2	3.0
Exchange gains	2.1	3.7
Income from investments	1.6	1.9
Other income	6.3	13.3
Total	**27.4**	**31.0**

Other income comprises mainly income from receivables written off in previous years, from cost reimbursements and from the sale of current assets.

(4) Cost of materials

€ MILLION	2017	2016
Raw materials, consumables and Supplies	19.0	15.3
Cost of purchased services	430.4	420.3
thereof		
freight cost	366.5	355.7
rental cost	48.5	49.3
Total	**449.4**	**435.6**

Cost of purchased services includes leasing expenses for operating lease contracts amounting to € 16.0 million (previous year: € 16.4 million) as well as exchange rate losses amounting to € 2.4 million (previous year: € 2.3 million).

(5) Personnel expenses

€ MILLION	2017	2016
Wages and salaries	79.7	79.5
Social security, post-employment and other employee benefit costs	18.8	18.3
thereof for pensions	10.4	8.2
from current contributions to defined contribution plans (excluding VBL)	1.0	0.9
VBL: Versorgungsanstalt des Bundes und der Länder /Federal and State Government Employees' Retirement Fund Agency	0.5	0.3
from contributions to defined benefit plans	1.5	0.8
from payments to statutory pension insurance schemes	6.5	5.3
from other payments	0.9	0.9
Total	**98.5**	**97.8**

There is a detailed presentation of defined benefit commitments under Note (26).

(6) Other operating expenses

€ MILLION	2017	2016
Repairs and working capital requirements	99.8	83.6
Selling expenses	12.1	11.8
Charges, fees, consultancy costs	7.6	3.6
Rents/lease	6.8	6.8
Other costs of materials and personnel expenses	5.7	4.9
IT costs	4.5	5.3
Travel costs	3.7	4.1
Insurance	2.7	3.2
Donations and contributions	2.3	2.6
Exchange rate losses	2.0	3.9
Other taxes	1.8	1.7
Advertising	1.5	1.2
Audit fees	1.3	1.6
Administrative expenses	1.3	1.4
Other expenses	4.7	10.3
Total	**157.8**	**146.0**

(7) Impairment, amortization and depreciation

€ MILLION	2017	2016
Impairment, amortization and depreciation of intangible assets, tangible fixed assets and financial assets	**188.3**	**195.6**
Thereof impairments	–	8.2

In the previous year, there were impairments of financial assets of € 1.4 million.

(8) Financial loss (net)

€ MILLION	2017	2016
Income from other investment securities and loans	0.2	0.1
Interest and similar income	5.9	2.9
Interest and similar expenses	–72.9	–68.5
thereof to pensions	(–1.2)	(–1.3)
Foreign currency loss (net)	1.9	4.0
Total	**–64.9**	**–61.5**

Interest and similar income includes income arising from the measurement of derivative financial instruments amounting to € 4.9 million (previous year: € 1.9 million). Interest and similar expenses includes expenses arising from the measurement of derivative financial instruments amounting to € 5.4 million (previous year: € 7.6 million) and commitment interest for the Nacco transaction amounting to € 6.5 million.

(9) Taxes on income and earnings

€ MILLION	2017	2016
Current taxes	12.8	23.7
thereof relating to other periods	(–8.0)	(–0.1)
Deferred tax expense	9.3	7.0
Total	**22.1**	**30.7**

The actual tax result of € 22.1 million differs by € 7.7 million from the expected expense for taxes on income of € 29.8 million which would arise if the domestic tax rate were applied to the annual result of the Group before taxes on income.

The reconciliation of the expected income tax expense to the actual income tax expense can be seen in the following table:

€ MILLION	2017	2016
Net group profit before taxes on income	**90.2**	**88.2**
Income tax rate of VTG AG	33 %	33 %
Expected income tax expense (tax rate of VTG AG)	29.8	29.1
Tax effect of non-deductible expenses and tax-free income	5.2	6.9
Tax effect on tax-free investment income	−0.2	−0.1
Tax effect from the adjustment of tax assets to tax loss carryforwards	0.6	−0.3
Tax effect on taxable loss carryforwards	1.0	1.1
Tax income from other periods	−8.0	−0.2
Tax effect due to changes in the income tax rate on effects of the prior year	−3.4	−1.2
Tax effects due to differences between the local tax rate and income tax rate of VTG AG	−3.8	−4.8
Other deviations	0.9	0.2
Actual income tax expense	**22.1**	**30.7**
Tax charge	**24.5 %**	**34.9 %**

For the German companies in the VTG Group, the following tax rates were used for measuring deferred taxes:

IN %	2017	2016
Expected future corporate tax rate	15.00	15.00
Solidarity surcharge	0.83	0.83
Expected future trade tax rate	17.17	17.17
Anticipated future tax rate	**33.00**	**33.00**

Taxes on income represent an expense in the period under review and equal 24.5 % (previous year: 34.9 %) of the result before tax.

Further explanations of taxes on income can be found under Note (27).

(10) Earnings per share

The undiluted earnings per share are calculated in accordance with IAS 33 based on the Group profit attributable to the shareholders of VTG AG divided by the weighted average number of shares in issue during the period under review.

	1/1–12/31/2017	1/1–12/31/2016
Group net income attributable to VTG AG shareholders (€ million)	55.6	45.0
Weighted average number of shares	28,756,219	28,756,219
Earnings per share (in €)	**1.93**	**1.56**

Earnings per share are diluted if the average number of shares is increased by the issue of potential shares from option or conversion rights. There have been no dilution effects during the reporting period.

In future, there may be dilution effects from the issue of shares in terms of the utilization of capital (contingent capital, authorized capital as decided by the Annual General Meeting).

The dividend paid for each share in the financial year 2017 was € 0.75 (previous year: € 0.50).

Notes to the Consolidated Balance Sheet

Fixed assets

The trends in the individual items in intangible assets and tangible fixed assets for the reporting period and the previous year are shown on pages 124 to 127.

(11) Goodwill

€ MILLION	12/31/2017	12/31/2016
Railcar segment	327.2	327.2
Rail Logistics segment	11.6	11.6
Tank Container Logistics segment	1.7	1.7
Total	**340.5**	**340.5**

(12) Other intangible assets

€ MILLION	12/31/2017	12/31/2016
"VTG" brand (Railcar)	9.5	9.5
"AAE" brand (Railcar)	–	0.5
Customer relationships, Railcar	59.7	65.3
Customer relationships, Rail Logistics	2.8	3.5
Concessions, industrial trademarks and licenses	12.4	11.3
Capitalized development costs	0.3	0.8
Payments on account	0.5	1.5
Total	**85.2**	**92.4**

The brands represent only a small part of the total carrying amount of each cash-generating unit.

(13) Tangible fixed assets

The increase in tangible fixed assets was due mainly to investment in the construction of new rail freight wagons.

In respect of finance leases, as of the balance sheet date, fixed assets with a carrying amount of € 0.0 million (previous year: € 7.4 million) were recognized under the item wagon fleet.

(14) Companies accounted for using the equity method

Joint ventures

The development in the carrying amounts of companies accounted for using the equity method is as follows:

€ MILLION	WAGGON HOLDING 2017	WAGGON HOLDING 2016	SHANGHAI COSCO 2017	SHANGHAI COSCO 2016	AXBENET 2017	AXBENET 2016	AAE WAGON 2017	AAE WAGON 2016	TOTAL 2017	TOTAL 2016
Balance at beginning of period 1/1	**15.9**	**16.1**	**2.9**	**2.7**	**12.1**	**11.2**	**1.4**	**−0.1**	**32.3**	**29.9**
Net profit for the year	1.8	1.6	0.3	0.3	1.1	0.9	2.0	2.4	5.2	5.2
Conversion of shareholder loan to equity	–	–	–	–	–	–	0.7	–	0.7	0.0
Currency translation	−0.2	–	−0.2	−0.1	–	–	–	–	−0.4	−0.1
Changes in cash flow hedge reserve	–	–	–	–	–	–	0.2	−0.9	0.2	−0.9
Dividend	−1.5	−1.8	–	–	–	–	–	–	−1.5	−1.8
Closing balance 12/31	**16.0**	**15.9**	**3.0**	**2.9**	**13.2**	**12.1**	**4.3**	**1.4**	**36.5**	**32.3**
Thereof Goodwill	13.8	13.8	0.4	0.4	5.3	5.3	–	–	19.5	19.5

Four companies in the VTG Group are classified as joint ventures. They are recognized using the equity method.

Waggon Holding AG, Zug, (Waggon Holding) has interests in investments that operate in the management, leasing and supply of rail freight wagons in the dry goods market throughout Europe. The expenses and income relating to these rail freight wagons are accounted for via pooling systems.

Shanghai COSCO VTG Tanktainer Co., Ltd., Shanghai, (Shanghai Cosco) specializes in China in logistics services for the transport of chemicals for the chemical and petrochemical industries as well as the transport of foodstuffs. As a Chinese partner, Shanghai Tanktainer is helping VTG develop China's domestic market and plays a central role as an agent for the execution of tank container orders both from and to China.

AXBENET s.r.o., Trnava (AXBENET) has its own fleet of some 3,500 wagons and its core business comprises the rental of freight wagons in eastern Europe along with related services.

The holding company AAE Wagon a.s., Bratislava (AAE Wagon) holds 66 % of the shares in Cargo Wagon a.s., Bratislava, (Cargo Wagon), which has acquired the freight wagon fleet of the Slovakian state rail operator ZSSK CARGO. On December 31, 2015 Cargo Wagon was included for the first time as a fully consolidated company in the consolidated financial statements of AAE. Following examination of the contractual agreements of the shareholders, it was determined that Cargo Wagon was to be accounted for as a joint venture using the equity method. Therefore, the financial information in the notes to the consolidated financial statements as of December 31, 2016, was adjusted after this change in the accounting method.

The joint ventures show the following key financial information in their provisional annual financial statements as of December 31, 2017:

€ MILLION	WAGGON HOLDING 12/31 2017	WAGGON HOLDING 12/31 2016	SHANGHAI - COSCO 12/31 2017	SHANGHAI - COSCO 12/31 2016	AXBENET 12/31 2017	AXBENET 12/31 2016	AAE WAGON 12/31 2017	AAE WAGON 12/31 2016*
Assets	4.4	4.4	7.7	7.5	77.4	80.0	16.4	10.7
Liabilities	–	–	2.5	2.6	61.6	66.5	7.7	8.8
Income	3.6	3.3	11.9	12.4	20.8	20.3	4.9	4.7
Net profit for the year	3.5	3.2	0.6	0.7	2.4	1.9	4.6	4.4
Comprehensive Income	3.5	3.2	0.6	0.7	2.4	1.9	5.3	3.9

* final annual financial statement for 2016 after adjustment

This information includes both the group share and minority share of assets, liabilities and income statement items.

(15) Other financial assets

Within the Group, other financial assets involve primarily shares in affiliated, non-consolidated companies and equity investments.

(16) Inventories

€ MILLION	12/31/2017	12/31/2016
Raw materials, consumables and supplies	36.9	28.9
Unfinished and finished products and services	5.5	3.5
Total	**42.4**	**32.4**

Work in progress relates to the wagon repair workshops and the wagon construction plant and includes orders begun but not yet completed as of the balance sheet date.

(17) Trade receivables

Trade receivables are all due within one year, as in the previous year.

For an analysis of the default risk of trade receivables, please refer to the due dates in the table below. The selected time bands correspond with the time bands usually used in the receivables management system of the VTG Group.

€ MILLION	Carrying amount as of 12/31		Of which neither impaired nor overdue at the year-end date		Of which not impaired at the year-end date and overdue in the following time bands: Less than 30 days		30 to 60 days		61 to 90 days		More than 90 days	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Total	**168.6**	**140.8**	**120.2**	**96.7**	**27.1**	**30.0**	**9.1**	**6.5**	**3.6**	**2.4**	**8.6**	**5.2**
Thereof due from third parties	165.7	138.8	117.3	94.8	27.1	30.0	9.1	6.5	3.6	2.4	8.6	5.1

With regard to the trade receivables that are neither impaired nor overdue, there were no indications at the balance sheet date that the debtors would not honor their payment obligations.

The allowances for trade receivables developed as follows in the period under review:

€ MILLION	Opening balance 1/1/2017	Currency differences	Utilization	Reversals	Additions	Closing balance 12/31/2017
Allowances	**11.8**	**–0.1**	**–**	**1.7**	**0.6**	**10.6**

The allowances for trade receivables were as follows in the previous year:

€ MILLION	Opening balance 1/1/2016	Currency differences	Utilization	Reversals	Additions	Closing balance 12/31/2016
Allowances	**7.5**	**-0.5**	**0.2**	**1.8**	**6.8**	**11.8**

The total amount of additions, amounting to € 0.6 million (previous year: € 6.8 million) comprise the increase to specific allowances amounting to € 0.2 million (previous year € 6.7 million) and allowances on a portfolio basis amounting to € 0.4 million (previous year: € 0.1 million). Specific allowance reversals amounted to € 1.5 million (previous year: € 0.8 million) and allowances on a portfolio basis amounted to € 0.2 million (previous year: € 1.0 million).

All expenses and receipts from the write-off of trade receivables are shown under other expenses and other income.

(18) Other financial assets

€ MILLION	12/31/2017	12/31/2016
Financial receivables	22.1	12.1
Receivables from finance leases	0.1	1.7
Other financial receivables	19.8	18.4
Total	**42.0**	**32.2**

The fair values of other financial assets are roughly equivalent to their carrying amounts.

As of the reporting date, none of the financial receivables amounting to € 22.1 million (previous year: € 12.1 million) were impaired or overdue. They include interest receivables.

As of the balance sheet date, there were no indications that the debtors would not honor their payment obligations.

(19) Other assets

Other assets comprise mainly receivables from other taxes as well as rail freight wagons held for resale to leasing companies amounting to € 8.0 million (previous year: € 0.0 million)

(20) Income tax assets

€ MILLION	12/31/2017	12/31/2016
Deferred income tax assets	17.4	22.6
Current income tax assets	6.4	7.3
Total	**23.8**	**29.9**

Further explanations of deferred taxes can be found under Note (27).

(21) Cash and cash equivalents

Bank balances mainly relate to non-interest-bearing cash deposits accessible at short notice.

The bank balances sum includes an amount of € 1.8 million that is not freely accessible (previous year: € 2.8 million).

Equity

The development of equity is shown in the following statement of changes in equity.

The income and expenses not affecting income included in shareholders' equity are shown separately in the consolidated statement of comprehensive income. In this statement, the tax effects on the items in question are already taken account of.

(22) Subscribed capital

The subscribed capital of VTG AG consists of no-par bearer shares, each with an equal participation in the share capital. The amount of subscribed capital attributable to each share equals € 1. As of December 31, 2017, the subscribed capital amounted to € 28.8 million.

(23) Retained earnings

These are exclusively other retained earnings. They include contributions and withdrawals related to the results for the financial year and earlier years and differences on currency translation with no income impact from the financial statements of foreign subsidiaries. Additionally, retained earnings also include the gains and losses accounted for with no income impact from the change in actuarial parameters in connection with the measurement of pension obligations in accordance with IAS 19.

(24) Revaluation reserve

The revaluation reserve includes measurement differences from currency hedging transactions, net of deferred taxes, as of the balance sheet date. These are cash flow hedges.

In the financial year, income from the revaluation of the hedging relationship of € 1.7 million (previous year: expenses of € 1.8 million) was recognized in equity without affecting income and taking into account deferred tax effects.

(25) Shares of hybrid investors

On January 26, 2015, hybrid bond for € 250 million was issued. The hybrid bond, the full amount of which was classified as equity, has an indefinite term. It can be repaid by VTG on January 26, 2020 at the earliest. Claims by holders of hybrid bonds for repayment of capital are subordinate to those of creditors of financial debt. Costs of equity capital have been offset against the hybrid bond under equity capital.

Interest is chargeable at 5 % p. a. and, like the loan, is fully recognized in equity and paid out annually. The interest rate is to be amended as of 2020. The company can suspend interest payments but the backdated interest has to be paid under certain conditions (e.g. payment of a dividend by VTG AG).

(26) Provisions for pensions and similar obligations

To calculate the level of obligation for defined benefit commitments, the following actuarial assumptions were applied in Germany:

% p. a.	2017	2016
Discount rate	1.75	1.75
Salary trend	2.25	2.25
Pension trend	1.75 or 1.0 confirmed	1.75 or 1.0 confirmed
Mortality etc.	Heubeck RT 2005G	Heubeck RT 2005G

In the rest of Europe, the key actuarial assumptions applied were interest rates of between 0.7 % and 1.75 % (previous year: 0.6 % and 1.75 %).

The pension provisions are derived as follows:

€ MILLION	2017	2016
Present value of funded benefit obligations	24.2	28.3
Fair value of the plan assets	−18.4	−20.9
Provision for funded benefit obligations	**5.8**	**7.4**
Present value of unfunded benefit obligations	61.9	63.6
Total provision	**67.7**	**71.0**

The pension provisions were set up primarily for German pension plans totaling € 59.0 million € (previous year € 60.7 million).

Plan assets exist mainly to finance defined benefit obligations from retirement and severance obligations in countries other than Germany.

The trends in the defined benefit obligation, plan assets and net pension commitments were as follows:

€ MILLION	DEFINED BENEFIT OBLIGATION 2017	DEFINED BENEFIT OBLIGATION 2016	FAIR VALUE OF PLAN ASSET 2017	FAIR VALUE OF PLAN ASSET 2016	NET PENSION OBLIGATIONS 2017	NET PENSION OBLIGATIONS 2016
Balance at beginning of period	**91.9**	**94.0**	**20.9**	**19.5**	**71.0**	**74.5**
Current service cost	1.5	1.8	–	–	1.5	1.8
Past service cost	–	–0.9	–	–	–	–0.9
Net interest expense (Interest expense/income)	1.3	1.4	0.1	0.1	1.2	1.3
Employer contributions	–	–	0.6	1.0	–0.6	–1.0
Employee contributions	0.3	0.3	0.3	0.3	–	–
Pension payments made	–5.8	–5.4	–2.5	–2.0	–3.3	–3.4
Transfers	–	0.7	–	0.7	–	–
Settlements	–	–1.3	–	–1.3	–	–
Revaluations	–1.1	1.2	0.5	2.5	–1.6	–1.3
Actuarial gains/losses from demographic assumptions	*–*	*0.9*	*–*	*–*	*–*	*0.9*
Actuarial gains/losses from changes in financial assumptions	*–0.2*	*0.8*	*0.5*	*2.5*	*–0.7*	*–1.7*
Actuarial gains/losses from experience adjustments	*–0.9*	*–0.5*	*–*	*–*	*–0.9*	*–0.5*
Currency effect	–2.0	0.1	–1.5	0.1	–0.5	–
Balance at end of period	**86.1**	**91.9**	**18.4**	**20.9**	**67.7**	**71.0**

The portfolio of the fund in which the Swiss permanent establishment invests its plan assets comprises shares (19 %, previous year: 18 %), debentures (58 %, previous year: 56 %), property (14 %, previous year: 13 %), cash and cash equivalents (3 %, previous year: 3 %) and others (7 %, previous year: 10 %). This does not include any property used by VTG itself or any of VTG's own financial instruments.

The effect of translation of the pension provisions of the Swiss permanent establishment into euros amounts to € -0.5 million (previous year: € 0.0 million).

Expected payments to beneficiaries in the next period amount to € 4.0 million (previous year: € 4.3 million). In addition, contributions to the plan assets are expected to total € 0.7 million (previous year: € 1.0 million).

As of December 31, 2017, the average term of the obligation for the German companies is 14.9 years (previous year: 14.3 years). The average term of the obligation for the Swiss permanent establishment is 17.5 years (previous year: 20.4 years).

The level of defined benefit pension provision is calculated on the basis of actuarial assumptions. The assumed discount rate has a major impact on the level of obligation. In the sensitivity analysis below, the parameters are treated separately from other developments. This isolated development is in reality improbable. There were no changes made to the methods or assumptions for performing the sensitivity analyses.

If the parameters below are adjusted, the obligation changes as follows:

€ MILLION	2017	2016
Increase of discount rate by 100 basis points	−7.1	−7.5
Decrease of discount rate by 100 basis points	+9.0	+9.5
Increase of pension trend by 25 basis points	+1.5	+1.5
Decrease of pension trend by 25 basis points	−1.4	−1.5
Increase of life expectancy by 1 year	+4.0	+3.0

(27) Income tax liabilities

€ MILLION	12/31/2017	12/31/2016
Current income tax liabilities	22.2	25.4
Deferred income tax liabilities	154.5	151.5
Total	**176.7**	**176.9**

Current income tax liabilities developed as follows:

€ MILLION	OPENING BALANCE 1/1/2017	CURRENCY DIFFERENCE	RECLASSIFICATIONS	UTILIZATION	REVERSALS	ADDITIONS	CLOSING BALANCE 12/31/2017
Current income tax liabilities	**25.4**	**−0.1**	**−0.1**	**4.9**	**7.9**	**9.8**	**22.2**

The current income tax liabilities shown are due within a year.

The changes to deferred tax assets and deferred tax liabilities not affecting income relate to actuarial gains and losses for pension provisions that are offset against equity with no impact on income and deferred taxes on derivative financial instruments not affecting income (see Consolidated Statement of Comprehensive Income).

The amount from temporary differences relating to shares in subsidiaries and companies accounted for using the equity method, for which, in accordance with IAS 12.39, no deferred tax liabilities were recognized in the year under review, amounted to € 14.8 million (previous year: € 12.5 million). In accordance with IAS 12.81 (f), the resulting non-recognized tax liabilities amounted to € 3.4 million (previous year: € 4.3 million).

The following deferred tax assets and liabilities reported in the balance sheet relate to recognition and measurement differences in the individual balance sheet items:

€ MILLION	12/31/2017		12/31/2016	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Intangible assets	1.2	13.4	1.0	14.7
Tangible fixed assets	5.8	162.6	4.2	160.9
Financial assets	0.2	1.6	0.4	0.9
Other assets	2.7	3.2	1.9	1.2
Liabilities	20.6	4.0	25.4	2.7
Tax loss carryforwards	17.2	–	18.6	–
Subtotal	**47.7**	**184.8**	**51.5**	**180.4**
Offsetting	–30.3	–30.3	–28.9	–28.9
Total	**17.4**	**154.5**	**22.6**	**151.5**
thereof with a term of up to 1 year	5.5	5.5	8.2	6.3

Deferred tax assets are recognized on tax loss carryforwards at the amount at which it is probable that there will be future taxable profits against which the tax loss carryforwards can be offset.

The following deferred tax savings were not capitalized because utilization of the relevant loss carryforwards is unlikely:

€ MILLION	2017	2016
Unused tax loss carryforwards	21.0	17.6
Related non-capitalized deferred tax savings	3.8	3.2
thereof with no expiration date	3.2	2.0

Current taxes for domestic companies were calculated using an effective corporate tax rate of 15 % plus a solidarity surcharge of 5.5 %. The trade tax rate for VTG AG amounts to 17.17 % of trade income. For the other German companies in the Group, trade tax rates of between 11.90 % and 17.17 % are applied. The income tax rates specific to each country that are applied to the foreign companies are between 7.84 % and 33.99 %. The tax rates of the deferred taxes correspond to those of the current taxes.

(28) Other provisions

€ MILLION	OPENING BALANCE 1/1/2017	CURRENCY DIFFERENCES	RECLASSIFI-CATION	UTILIZATION	REVERSALS	ADDITIONS	CLOSING BALANCE 12/31/2017
Provisions for personnel expenses	20.2	–0.1	–	12.3	1.7	13.5	19.6
Provisions for typical operational risks	7.4	–0.1	3.0	3.9	2.4	4.4	8.4
Miscellaneous provisions	30.7	–	–1.9	4.0	9.8	8.3	23.3
Other provisions	58.3	–0.2	1.1	20.2	13.9	26.2	**51.3**

The additions include the interest of € 0.1 million (previous year: € 0.1 million) for the other non-current provisions and the non-current provisions for typical operational risks. This sum is recognized under financial loss in the income statement.

Reversals of the miscellaneous provisions include mainly provisions for damage of € 3.0 million, provisions for interest rate risks of € 2.4 million and provisions for credit notes of € 2.3 million.

The maturities of the other provisions are as follows:

€ MILLION	TOTAL 2017	TOTAL 2016	THEREOF WITH A TERM OF UP TO 1 YEAR 2017	THEREOF WITH A TERM OF UP TO 1 YEAR 2016
Provisions for personnel expenses	19.6	20.2	18.2	15.0
Provisions for typical operational risks	8.4	7.4	5.2	4.3
Miscellaneous provisions	23.3	30.7	21.9	29.9
Other provisions	**51.3**	**58.3**	**45.3**	**49.2**

The expected cash outflows are in line with the residual terms of the provisions.

The provisions for personnel expenses mainly comprise obligations for outstanding vacations (€ 3.6 million; previous year: € 3.5 million), contributions to VBL (€ 1.6; previous year: € 1.6 million), for anniversaries (€ 1.4 million, previous year: € 1.5 million), for social plans (€ 0.5 million (previous year: € 0.9 million) and for long-term phased retirement (€ 0.4 million; previous year: € 0.6 million).

The provisions for typical operational risks relate primarily to repair obligations for leased tank containers and wagons (€ 5.2 million; previous year € 3.8 million).

The miscellaneous provisions comprise mainly provisions relating to contract processing amounting to (€ 9.7 million; previous year: € 10.3 million), the wagon fleet (€ 2.8 million; previous year: € 2.7 million), provisions for damage (€ 2.3 million; previous year € 5.0 million) and provisions for interest rate risks (€ 0.3 million; previous year € 2.7 million).

(29) Financial liabilities

Financial liabilities on the reporting date are as follows:

	CURRENCY	ORIGINAL AMOUNT (MILLION)	AS OF 12/31/2017 (MILLION)	CARRYING AMOUNT 12/31/2017 (€ MILLION)	CARRYING AMOUNT 12/31/2016 (€ MILLION)
Private placements	EUR	630.0	630.0	632.8	632.5
Private placements	USD	40.0	40.0	33.6	38.1
Syndicated loans	EUR	1,180.0[1]	835.0	828.9	864.9
Project financing	EUR	123.3	65.8	65.6	84.3
Project financing	USD	172.0	111.5	91.6	–
Bank loans	USD	56.0	32.9	27.1	31.8
Liabilities from financial leases	–	–	–	0.1	3.2
Other financial liabilities	–	–	–	79.2	72.5
Total				**1,758.9**	**1,727.3**

[1] The original syndicated loan amount includes a guaranteed line of credit of € 80.0 million, € 69.9 million of which had been utilized as of December 31, 2017 (previous year: € 67.6 million).

As of the balance sheet date, the syndicated loans include unused credit lines of € 190.0 million (previous year: € 190.0 million), with a term ending in December 2018. There are unutilized credit lines totaling € 50.0 million (previous year € 50.0 million) with a term ending in September 2018. $ 60.5 million of a new project loan had not been utilized as of the balance sheet date.

In the financial year 2017, there were the following changes in financial liabilities:

€ MILLION	OPENING BALANCE 1/1/2017	AFFECTING CASH: BORROWING	AFFECTING CASH: REPAYMENT	NOT AFFECTING CASH: FAIR VALUE MEASURE-MENT	NOT AFFECTING CASH: FOREIGN CURRENCY EFFECTS	NOT AFFECTING CASH: OTHER EFFECTS	CLOSING BALANCE 12/31/2017
Financial liabilities	1,727.3	278.7	−239.9	–	−14.1	6.9	1,758.9
Interest rate derivatives	44.4	–	−16.1	−1.9	–	−1.8	24.5

The financial liabilities resulted in the following contractually stipulated payments as of the balance sheet date (with agreed fixed interest rates) and payments calculated on the basis of current yield curves (with agreed variable interest rates), as follows:

€ MILLION	AS OF 12/31/2017	CASH FLOWS 2018			CASH FLOWS 2019		
		FIXED INTEREST	VARIABLE INTEREST	REPAYMENT	FIXED INTEREST	VARIABLE INTEREST	REPAYMENT
Financial liabilities							
Syndicated loans	835.0	–	10.5	47.5	–	10.6	37.5
Private placements	663.4	33.5	–	113.4	30.7	–	–
Project financing	158.8	0.6	3.4	34.0	0.5	3.0	19.5
Bank loans	27.3	–	1.5	27.3	–	–	–
Liabilities from financial leases	0.1	–	–	–	–	–	0.1
Other financial liabilities	79.3	3.5	–	9.3	3.5	–	–

€ MILLION	2020–2022			2023–2025			CASH FLOWS 2026 ff.		
	FIXED INTEREST	VARIABLE INTEREST	REPAYMENT	FIXED INTEREST	VARIABLE INTEREST	REPAYMENT	FIXED INTEREST	VARIABLE INTEREST	REPAYMENT
Financial liabilities									
Syndicated loans	–	17.7	750.0	–	–	–	–	–	–
Private placements	77.6	–	270.0	27.1	–	150.0	3.8	–	130.0
Project financing	0.8	4.7	105.3	–	–	–	–	–	–
Bank loans	–	–	–	–	–	–	–	–	–
Liabilities from financial leases	–	–	–	–	–	–	–	–	–
Other financial liabilities	0.1	–	70.0	–	–	–	–	–	–

In the previous year, there were the following payments:

€ MILLION	AS OF 12/31/2016	CASH FLOWS 2017 FIXED INTEREST	CASH FLOWS 2017 VARIABLE INTEREST	CASH FLOWS 2017 REPAYMENT	CASH FLOWS 2018 FIXED INTEREST	CASH FLOWS 2018 VARIABLE INTEREST	CASH FLOWS 2018 REPAYMENT
Financial liabilities							
Syndicated loans	872.5	–	10.9	47.5	–	10.2	437.5
Private placements	667.9	32.5	2.2	–	31.7	2.1	117.9
Project financing	84.7	0.7	0.8	18.8	0.6	0.5	31.6
Bank loans	32.4	–	1.8	0.8	–	1.6	31.6
Liabilities from financial leases	3.1	–	–	3.1	–	–	–
Other financial liabilities	72.5	2.7	–	2.5	4.4	–	–

€ MILLION	2019–2021 FIXED INTEREST	2019–2021 VARIABLE INTEREST	2019–2021 REPAYMENT	2022–2024 FIXED INTEREST	2022–2024 VARIABLE INTEREST	2022–2024 REPAYMENT	CASHFLOWS 2025 ff. FIXED INTEREST	CASHFLOWS 2025 ff. VARIABLE INTEREST	CASHFLOWS 2025 ff. REPAYMENT
Financial liabilities									
Syndicated loans	–	15.6	112.5	–	5.5	275.0	–	–	–
Private placements	77.7	–	170.0	40.4	–	250.0	11.4	–	130.0
Project financing	1.3	0.5	34.3	–	–	–	–	–	–
Bank loans	–	–	–	–	–	–	–	–	–
Liabilities from financial leases	–	–	–	–	–	–	–	–	–
Other financial liabilities	3.6	–	70.0	–	–	–	–	–	–

(30) Derivative financial instruments

The portfolio of derivative financial instruments on the reporting date is as follows:

€ MILLION	12/31/2017 ASSETS	12/31/2017 LIABILITIES	12/31/2016 ASSETS	12/31/2016 LIABILITIES
Currency derivatives	3.4	1.5	3.8	1.8
Interest rate derivatives	4.0	28.5	3.7	48.1
Total	**7.4**	**30.0**	**7.5**	**49.9**

Additional information on financial instruments

Carrying amounts by valuation category

Classes of financial instruments within the definition of IFRS 7 were formed on the basis of balance sheet items. The following table shows the carrying amounts for all categories of financial assets and liabilities:

€ MILLION	CARRYING AMOUNT 12/31/2017	12/31/2016
Loans and receivables	288.8	236.5
Available-for-sale financial assets[1]	1.3	1.5
Derivatives that meet the requirements for hedge accounting	7.3	7.4
Financial assets held for trading[2]	0.1	0.1
Financial assets	**297.5**	**245.5**
Financial liabilities measured at amortized cost	1,937.8	1,859.7
Derivatives that meet the requirements for hedge accounting	2.8	4.2
Financial liabilities held for trading[2]	27.2	45.7
Financial liabilities	**1,967.8**	**1,909.6**

[1] Includes investments whose fair value cannot be reliably determined and which are therefore measured at cost.
[2] Includes only derivatives that do not meet the requirements for hedge accounting.

Net result by valuation category

€ MILLION	NET RESULT 2017	2016
Loans and receivables	0.5	–4.5
Available-for-sale financial assets	1.6	0.5
Financial liabilities measured at amortized cost	–63.8	–54.7
Financial assets and liabilities held for trading	–0.5	–5.7

The net results for loans and receivables and available-for-sale financial assets comprise mainly interest income, dividends and impairment costs. The net result for financial liabilities measured at amortized cost includes interest expense. The net result for held-for-trading financial assets and liabilities includes changes in the fair values. The amounts shown also include foreign currency gains and losses from the realization and the measurement of the above financial assets and liabilities.

For financial assets and liabilities not measured at fair value through profit or loss, interest income and expense is as follows:

€ MILLION	2017	2016
Interest income from loans and receivables	1.1	1.1
Interest expenses for financial liabilities measured at amortized cost	–66.1	–59.7

Offsetting financial assets and financial liabilities

For the financial assets and financial liabilities shown below, there is an impact from offsetting in the balance sheet and a potential impact from netting in the case of instruments that are subject to a legally enforceable master netting agreement or a similar arrangement.

€ MILLION	GROSS AMOUNT	OFFSETTING	BALANCE SHEET AMOUNT	RELATED AMOUNTS THAT ARE NOT OFFSET: FINANCIAL INSTRUMENTS	RELATED AMOUNTS THAT ARE NOT OFFSET: SECURITIES	NET AMOUNT
12/31/2017						
Derivative financial instruments						
Assets	7.4	–	**7.4**	−2.1	–	5.3
Liabilities	30.0	–	**30.0**	−2.1	–	27.9
12/31/2016						
Derivative financial instruments						
Assets	7.5	–	**7.5**	−2.5	–	5.0
Liabilities	49.9	–	**49.9**	−2.5	–	47.4

The “Financial instruments” column shows amounts that are subject to a master netting agreement but have not been netted because they do not meet the criteria for offsetting in the balance sheet.

Measurement of fair value

The following table shows financial instruments measured at fair value, analyzed on a regular basis according to the measurement method:

€ MILLION	12/31/2017 QUOTED PRICES (LEVEL 1)	12/31/2017 OTHER RELEVANT OBSERVABLE INPUTS (LEVEL 2)	12/31/2017 OTHER RELEVANT INPUTS (LEVEL 3)	12/31/2016 QUOTED PRICES (LEVEL 1)	12/31/2016 OTHER RELEVANT OBSERVABLE INPUTS (LEVEL 2)	12/31/2016 OTHER RELEVANT INPUTS (LEVEL 3)
Derivative financial instruments						
Assets	–	7.4	–	–	7.5	–
Liabilities	–	23.3	6.7	–	37.5	12.4

There were no transfers between the levels in the year under review.

The derivative financial instruments shown on level 2 comprise interest rate swaps, swaptions, forward exchange contracts and cross-currency swaps. Interest swaps and cross-currency swaps are valued on the basis of observable yield curves. An option pricing model is used for valuing swaptions. Forward exchange contracts are valued using the spot rate and current interest rates of the corresponding currencies to determine the forward rate.

The derivative financial instruments shown on level 3 comprise interest rate swaps that exchange a Euribor-based payment for a payment based on a consumer price index. The index used is the French consumer price index excluding tobacco, as published by France’s National Institute for Statistics, INSEE. As no future oriented transactions can be observed for this consumer price index, the items concerned are grouped under level 3. Fair value is based on discounted cash flow. Indications regarding future development are used for non-observable input factors. These are provided by suppliers of financial data and are adopted without changes. An increase of 1 % in the consumer price index would reduce after-tax profit by € 1.6 million (previous year: € 2.0 million), while a 1 % reduction would increase it by € 0.3 million (previous year: € 0.4 million).

The derivative financial instruments grouped under level 3 developed as follows during the reporting period:

€ MILLION	DERIVATIVE FINANCIAL INSTRUMENTS LIABILITIES 2017	2016
Balance at beginning of period 1/1	12.4	16.8
Net changes in fair value (unrealized)	−1.5	0.3
Equalization	−4.2	−4.7
Closing balance 12/31	**6.7**	**12.4**

Changes in fair value (net) are included in the financial result.

The following table shows the fair values and carrying amounts of the financial assets and liabilities that have been measured at cost or at amortized cost and whose carrying amounts fell far short of their fair values:

€ MILLION	CARRYING AMOUNT 12/31/2017	CARRYING AMOUNT 12/31/2016	FAIR VALUE 12/31/2017	FAIR VALUE 12/31/2016
Financial liabilities	1,758.9	1,727.3	1,840.1	1,845.1

Where financial liabilities are fixed-interest, the fair value shown in the table has been determined by discounting the expected future cash flows at current interest rates for similar financial liabilities with comparable residual terms (level 2). For variable-interest financial liabilities, the carrying amount has been used as an approximation of the fair value.

Derivative financial instruments and hedging activities

The VTG Group uses derivative financial instruments exclusively in connection with hedging activities. As a rule, hedging relationships that have been formed are shown as cash flow hedges. In the financial year 2017, € 7.4 million was allocated to the cash flow hedge reserve, thereby increasing equity: (previous year: € 2.1 million) and € 5.7 million was reclassified, reducing equity (previous year: € 3.9 million).

Foreign currency risk management

Forward exchange contracts and cross-currency swaps are used in the management of foreign currency risk.

Forward exchange contracts are used to hedge balance sheet items and highly probable future transactions. The underlying transaction and the spot element of the forward exchange contract are designated as a hedging relationship. Changes in the value of the forward element are recognized in profit or loss. Cross-currency swaps are used to hedge balance sheet items and are designated as being in a hedging relationship.

Interest rate risk management

Interest rate swaps and swaptions are used in the management of interest rate risks. Generally, interest rate swaps are used to hedge existing variable-rate financial liabilities and planned, highly probable variable-rate refinancing. The underlying transaction and interest rate swaps are designated as a hedging relationship. Changes in the value of interest rate swaps that do not meet the requirements for hedge accounting are immediately recognized in profit or loss. The swaptions are used to hedge planned, highly probably variable-rate refinancing. On designation, the time value of the option is separated and only the intrinsic value of the option together with the underlying transaction is deemed to constitute a hedging relationship. Changes in the time value of options are recognized in profit or loss.

The derivative financial instruments result in the following payments, determined using the market rates on the balance sheet date:

€ MILLION	2018	2019	2020–2022	2023–2025	2026 ff.
					12/31/2017
Derivative financial instruments					
Assets with gross settlement					
Outgoing payments	–22.4	–6.4	–26.4	–	–
Incoming payments	22.9	6.8	27.2	–	–
Assets with net settlement	–0.2	–	–1.8	3.1	
Liabilities with gross settlement					
Outgoing payments	–29.7	–0.2	–16.3	–	–
Incoming payments	28.1	0.1	15.5	–	–
Liabilities with net settlement	–16.7	–13.3	1.2	–	–

€ MILLION	2017	2018	2019–2021	2022–2024	2025 ff.
					12/31/2016
Derivative financial instruments					
Assets with gross settlement					
Outgoing payments	–38.1	–27.4	–33.8	–	–
Incoming payments	39.0	29.1	34.0	–	–
Assets with net settlement	–	–	–	–	
Liabilities with gross settlement					
Outgoing payments	–27.8	–	–	–	–
Incoming payments	25.7	–	–	–	–
Liabilities with net settlement	–19.0	–17.6	–15.2	0.9	–

Management of financial risks

The nature of the VTG Group's operations exposes it to several financial risks. Specifically, these are default risks, liquidity risks and financial market risks. The VTG Group controls these risks with its risk management system. For further information on the risk management system, please refer to the explanations in the Report on Opportunities and Risks within the Group Management Report.

Management of the capital structure

The Group manages its capital with the objective of maximizing the income of those with an investment in the company by optimizing the relationship between equity and debt and securing the long-term profitability and future of the company. This ensures that all Group companies can operate under the going-concern assumption.

The Group's capital structure consists of debts, cash and cash equivalents, and equity attributable to shareholders of the parent company. Equity comprises shares issued, additional paid-in capital, retained earnings, the revaluation reserve and hybrid capital.

One control parameter used in capital structure management is the ratio of adjusted net financial debt to EBITDA. Adjusted net financial debt is calculated as net financial debt plus pension provisions.

Net financial debt is defined as the balance of cash and cash equivalents, investment securities and financial receivables less financial debt. Moreover, there is no deduction of transaction costs within the meaning of IAS 39 in determining net financial debt (see also Note 29 under "Financial liabilities").

The (adjusted) financial debt is determined as follows:

€ MILLION	12/31/2017	12/31/2016
Financial liabilities	1,758.9	1,727.3
Correction, deduction of transaction costs	9.8	10.8
Cash and cash equivalents	–78.2	–63.5
Investment securities	–0.4	–0.4
Financial receivables	–22.2	–13.8
Net financial debt	**1,667.9**	**1,660.4**
Pension provisions	67.7	71.0
Adjusted net financial debt	**1,735.6**	**1,731.4**
EBITDA	343.4	345.3
Ratio of adjusted net financial debt/EBITDA	**5.1**	**5.0**

Other disclosures

Collaterals

The following are subject to third-party property rights: rail freight wagons with a carrying amount of € 2,108.3 million (previous year: € 1,982.1 million), tank containers with a carrying amount of € 37.6 million (previous year: € 31.7 million), accounts with a carrying amount of € 1.8 million (previous year: € 2.8 million) and receivables relating to the lease of rail freight wagons and tank containers.

For further information on the conditions of credit (financial covenants), please refer to the management report.

Other financial commitments

The obligations from rental, leasehold and leasing agreements relate exclusively to rental agreements where the companies of the VTG Group are not considered the economic owners of the leased assets (largely rail freight cars and tank containers). The operating leases shown under this item have an average term of 8 years and include purchase options at maturity that correspond to the fair value.

Purchase commitments relate exclusively to investments in tangible fixed assets.

The total rental, leasehold and leasing expense for the financial year 2017 was € 55.3 million (previous year: € 56.1 million).

Nominal values of the other financial commitments are as follows as of December 31, 2017 and for the previous year:

€ MILLION	UP TO 1 YEAR 12/31 2017	UP TO 1 YEAR 12/31 2016	BETWEEN 1 AND 5 YEARS 12/31 2017	BETWEEN 1 AND 5 YEARS 12/31 2016	MORE THAN 5 YEARS 12/31 2017	MORE THAN 5 YEARS 12/31 2016	TOTAL 12/31 2017	TOTAL 12/31 2016
Obligations from rental, leasehold and leasing agreements	49.9	44.9	117.1	104.1	56.6	45.6	223.6	194.6
Purchase commitments	156.8	134.8	15.2	144.4	–	–	172.0	279.2
Total	**206.7**	**179.7**	**132.3**	**248.5**	**56.6**	**45.6**	**395.6**	**473.8**

Auditors' fees

For the services provided by the group auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg (in 2016, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hamburg) the following fees are recorded:

€ MILLION	2017	2016
Fees for auditing the annual report and consolidated financial statements	0.4	0.6
Fees for other services related to the audit opinion	0.7	–

The fees for other services related to the audit opinion comprise services provided by the auditor in relation to the auditor's review of the condensed interim financial statements for the Goup and interim management report for the Group as of June 30, 2017, to the performance of voluntary audits of the year-end accounts as of December 31, 2017 and services in relation to the issue of a comfort letter in the financial year 2017.

The external auditor responsible for the audit by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg is Carl-Heinz Klimmer.

Employees

	12/31/2017	ANNUAL AVERAGE 2017	12/31/2016	ANNUAL AVERAGE 2016
Salaried employees	1,069	1,046	1,024	1,014
Wage-earning staff	398	388	370	372
Trainees	60	48	49	44
Total	**1,527**	**1,482**	**1,443**	**1,430**
thereof abroad	479	487	485	486

Material events after the balance sheet date (Supplemental Report)

On July 1, 2017 VTG AG announced that it will buy all shares in CIT Rail Holdings (Europe) SAS, Paris, from the CIT Group Inc, New York City, USA. CIT Rail Holdings (Europe) SAS is the owner of the Nacco Group, a lessor of rail freight wagons in Europe, with a fleet of 14,000 freight wagons. The completion of the acquisition process is subject to clearance by the merger control authorities in Germany and Austria.

At the time of preparation of the annual financial statements, the Executive Board of VTG anticipates that approval of the transaction by the competition authorities can be achieved on condition that some 30 % of the freight wagon fleet of the

Nacco Group be sold to third parties prior to completion of the transaction.

If approval is given subject to this condition, this must be implemented prior to completion of the transaction but VTG must bear the prior economic impact, whether favorable or unfavorable. The Executive Board of VTG therefore does not expect the Nacco transaction to go ahead before the second half of 2018. If the sale is unsuccessful, the planned takeover of CIT Rail Holdings (Europe) SAS cannot be completed and VTG could become liable to the CIT Group for damages.

Related party disclosures

Besides the subsidiaries included in the consolidated financial statements, in the course of its business activities, VTG AG is related directly or indirectly with affiliated, non-consolidated companies, companies accounted for using the equity method and with other equity investments.

The following transactions were made with related parties and all were conducted on arm's length terms.

Income/expenses and receivables/payables from and to affiliated, non-consolidated companies, companies accounted for using the equity method, other equity investments and other related companies and persons

€ MILLION	2017	2016
Income and expenses from affiliated, non-consolidated companies		
Expenses	4.0	3.7
Income and expenses from companies accounted for using the equity method, other equity investments and other related companies		
Revenue and other operating income	15.8	17.4
Expenses	10.2	3.6
Interest income	0.2	0.3
Income and expenses from related persons		
Interest expense	–	3.5

€ MILLION	12/31/2017	12/31/2016
Receivables from affiliated, non-consolidated companies		
trade payables	0.3	0.4
other receivables	0.2	0.2
Receivables from companies accounted for using the equity method, other equity investments and other related companies		
trade payables	2.6	2.0
other receivables	21.2	11.3
Liabilities to affiliated, non-consolidated companies		
trade payables	0.2	0.2
financial liabilities	0.3	0.3
Liabilities to companies accounted for using the equity method, other equity investments and other related companies		
trade payables	–	0.6
finance lease	–	1.7
Liabilities to related persons		
Loans	–	70.0

Remuneration of the Executive Board, Supervisory Board and persons in key management positions

The Executive Board, Supervisory Board and those in key management positions in the Group and their close family members represent related parties within the meaning of IAS 24 whose remuneration is to be disclosed separately.

€ MILLION	2017	2016
Short-term employee benefits	7.6	8.8
thereof Executive Board	(3.4)	(4.1)
thereof Supervisory Board	(0.2)	(0.2)
Post-employment benefits	0.3	0.3
thereof Executive Board	0.1	0.1
Total	**7.9**	**9.1**

Pension provisions for members of the Executive Board amounted to € 9.6 million as of the balance sheet date (previous year: € 9.6 million). Provisions for other key management personnel amounted to € 2.1 million on the balance sheet date (previous year: € 1.8).

There are provisions totaling € 5.1 million for obligations to former members of the Executive Board and their survivors (previous year: € 5.9 million). Allowances paid to former members of the Executive Board and their survivors amounted to € 0.5 million (previous year: € 0.5 million).

The members of the Supervisory Board and of the Executive Board of VTG AG are listed separately.

Other information

In addition, the following companies and persons were identified in particular as related parties in accordance with IAS 24. No transactions were conducted with these parties:

NAME AND REGISTERED OFFICE OF COMPANY
Morgan Stanley, Wilmington, Delaware/USA
Morgan Stanley Capital Management
Morgan Stanley Domestic Holdings, Inc.
Morgan Stanley & Co. LLC
MS Holdings Incorporated
Morgan Stanley Infrastructure II Inc.
Morgan Stanley Infrastructure II GP LP
North Haven Infrastructure Partners II LP/ North Haven Infrastructure Partners II-AIV II LP
North Haven Infrastructure Partners II International Holdings C. V.
NHIP II Holdings Cooperatief U. A.
Deodoro Holding B. V.
Warwick Holding GmbH
Klaus-Michael Kühne
Kühne Holding AG

List of equity investments

NAME AND REGISTERED OFFICE OF COMPANY	CURRENCY	SHARE CAPITAL IN % DIRECT	SHARE CAPITAL IN % INDIRECT	EQUITY CAPITAL IN THOUS. OF CURRENCY UNITS	RESULTS IN THOUS. OF CURRENCY UNITS
A. Consolidated affiliated companies					
AAE Ahaus Alstätter Eisenbahn Capital AG, Baar/Switzerland	CHF		100.00	–6,574	–55
AAE Ahaus Alstätter Eisenbahn Holding AG, Baar/Switzerland	CHF		100.00	54,343	–5,844
AAE Freightcar S.à r.l., Luxembourg/Luxembourg	EUR		100.00	2,278	312
AAE Railcar S.à r.l., Luxembourg/Luxembourg	EUR		100.00	6,581	6,566
AAE RaiLease S.à r.l., Luxembourg/Luxembourg	EUR		100.00	4,466	514
AAE RailFleet S.à r.l., Luxembourg/Luxembourg	EUR		100.00	847	179
AAE Slovensko s.r.o. (In liquidation), Bratislava/Slovakia	EUR		100.00	7,150	83
AAE Wagon Finance S. A., Luxembourg/Luxembourg	EUR		100.00	4,096	412
AAE Wagon S.à r.l., Luxembourg/Luxembourg	EUR		100.00	13	0
Alstertor Rail UK Limited, Birmingham/United Kingdom	GBP		100.00	20,768	602
Ateliers de Joigny S.A.S., Joigny/France	EUR		100.00	6,016	1,777
CAIB Rail Holdings Limited, Birmingham/United Kingdom	GBP		100.00	7,733	299
CAIB UK Limited, Birmingham/United Kingdom	GBP		100.00	0	0
Deichtor Rail GmbH, Garlstorf	EUR	100.00		1,145	746
Eisenbahn-Verkehrsmittel GmbH & Co. KG für Transport und Lagerung, Hamburg	EUR		98.57	32,470	0 [1]
Etablissements Henri Loyez S.A.S., Libercourt/France	EUR		100.00	–2,094	–16
Euro Freight Car Finance S. A., Luxembourg/Luxembourg	EUR		100.00	2,700	3,059
E.V.S. S.A., Paris/France	EUR		100.00	726	287
Ferdinandstor Rail GmbH, Garlstorf	EUR		100.00	2,881	107
Klostertor Rail GmbH, Garlstorf	EUR	100.00		–603	464
Mitrag AG, Baar/Switzerland	CHF		100.00	3,491	902
OOO AAE, Moscow/Russia	RUB		100.00	–85,253	–5,914
OOO Railcraft Service, Moscow/Russia	RUB		100.00	1,305,067	56,681
OOO Transportation Company Vagonpark, Saransk/Russia	RUB		100.00	1,292,716	–19,258
OOO VTG, Moscow/Russia	RUB		100.00	39,906	1,027
Ortanio Holdings Ltd., Tortola/British Virgin Islands	USD		100.00	2,137	–742
Rail Holdings Nederland C. V., Rotterdam/Netherlands	EUR	99.99	0.01	365,492	–8
Retrack Eisenbahnverkehr GmbH und Co. KG, Hamburg (formerly: Bräunert Eisenbahnverkehr GmbH und Co. KG)	EUR		100.00	154	23
Retrack Verwaltungs GmbH, Hamburg (formerly Bräunert Verwaltungs GmbH)	EUR		100.00	32	0
Sturgess Holdings Ltd., Nicosia/Cyprus	USD		100.00	7,449	4,936
Suvaltra SA, Baar/Switzerland	CHF		100.00	1,312	95
Transpetrol Sp. z o.o., Chorzów/Poland	PLN		100.00	9,421	7,293
Vostok Beteiligungs GmbH, Hamburg	EUR	99.60	0.40	108	–18
Vostok 2 GmbH, Hamburg	EUR	99.60	0.40	33,722	–19

NAME AND REGISTERED OFFICE OF COMPANY	CURRENCY	SHARE CAPITAL IN % DIRECT	SHARE CAPITAL IN % INDIRECT	EQUITY CAPITAL IN THOUS. OF CURRENCY UNITS	RESULTS IN THOUS. OF CURRENCY UNITS
VTG Austria Ges.m.b.H., Vienna/Austria	EUR		100.00	18,978	2,043
VTG Benelux B.V., Rotterdam/Netherlands	EUR		100.00	357,771	–35
VTG Cargo AG, Baar/Switzerland	CHF		100.00	155,846	–3,170
VTG Deutschland GmbH, Hamburg	EUR		100.00	54,680	0 [1 2]
VTG Finance S.A., Luxembourg/Luxembourg	EUR		100.00	8,405	547
VTG France S.A.S., Paris/France	EUR		100.00	37,499	3,646
VTG Nederland B.V., Rotterdam/Netherlands	EUR	100.00		–16	–13
VTG North America, Inc., Hinsdale, Illinois/USA	USD	100.00		39,593	3,228
VTG Rail Assets GmbH, Hamburg	EUR		100.00	25	0 [1]
VTG Rail Europe GmbH, Hamburg	EUR		100.00	34,658	0 [1 2]
VTG Rail, Inc., Edwardsville, Illinois/USA	USD		100.00	14,184	5,130
VTG Rail Logistics Austria GmbH, Vienna/Austria	EUR		100.00	–2,243	122
VTG Rail Logistics Benelux N.V., Gent/Belgium	EUR		100.00	938	513
VTG Rail Logistics Deutschland GmbH, Hamburg	EUR		100.00	1,000	0 [1]
VTG Rail Logistics France S.A.S., Paris/France	EUR		100.00	4,333	243
VTG Rail Logistics GmbH, Hamburg	EUR	100.00		61,648	5,865
VTG Rail Logistics Hellas EPE, Thessaloniki/Greece	EUR		100.00	17	–189
VTG Rail Logistics Hungaria Kft., Budapest/Hungary	HUF		100.00	–79,339	–268,500
“VTG Rail Logistics” LLC, Moscow/Russia	RUB		100.00	4,550	–11,241
VTG Rail Logistics s.r.o., Prague/Czech Republic	CZK		100.00	28,046	5,746
LLC “VTG Rail Logistics Ukraine”, Kiev/Ukraine	UAH		100.00	480	8,000
VTG Rail UK Limited, Birmingham/United Kingdom	GBP		100.00	33,321	4,504
VTG Schweiz GmbH, Baar/Switzerland	CHF		100.00	18,974	3,124
VTG Tanktainer Assets GmbH, Hamburg	EUR		100.00	4,028	0 [1 2]
VTG Tanktainer Gesellschaft mit beschränkter Haftung, Hamburg	EUR		100.00	306	0 [1 2]
Tanktainer Logistics GmbH, Hamburg	EUR		100.00	17,020	0 [1 2]
VTG Vereinigte Tanklager und Transportmittel Gesellschaft mit beschränkter Haftung, Hamburg	EUR	100.00		115,776	0 [1 2]
Waggonbau Graaff GmbH, Elze	EUR	100.00		4,466	614
Waggonwerk Brühl GmbH, Wesseling	EUR		100.00	7,844	1,276
Wagon & Warehousing Service GmbH, Ahaus	EUR		100.00	25	0 [1]

[1] Profit and loss transfer agreement with corresponding parent company
[2] Companies partiallly make use of exemption granted under §264 (3) of the German Commercial Code

NAME AND REGISTERED OFFICE OF COMPANY	CURRENCY	SHARE CAPITAL IN % DIRECT	SHARE CAPITAL IN % INDIRECT	EQUITY CAPITAL IN THOUS. OF CURRENCY UNITS	RESULTS IN THOUS. OF CURRENCY UNITS
B. Companies consolidated at equity					
AAE Wagon a. s., Bratislava/Slovakia	EUR		50.00	504	−345
AXBENET s.r.o., Trnava/Slovakia	EUR		50.00	15,808	2,356
Shanghai COSCO VTG Tanktainer Co., Ltd., Shanghai/China	RMB		50.00	40,768	4,855
Waggon Holding AG, Zug/Switzerland	CHF	50.00		5,165	3,915
C. Affiliated, non-consolidated companies					
ITG Transportmittel-Gesellschaft mit beschränkter Haftung, Syke	EUR	100.00		40	−18
Millerntor Rail GmbH, Garlstorf	EUR		100.00	25	0 [2]
VTG Nakliyat Lojistik Kiralama Limited Sirketi, Istanbul/Turkey	TRY	100.00		1,618	−1,835 [1]
VTG Tanktainer Asia Pte Ltd., Singapore/Singapore	USD		100.00	170	33 [1]
VTG Tanktainer Finland Oy, Tuusula/Finland	EUR		100.00	282	46 [1]
VTG Tanktainer North America, Inc., West Chester, Pennsylvania/USA	USD		100.00	271	74 [1]
D. Other companies					
AWILOG Transport GmbH, Oberriexingen	EUR		20.00	701	176 [1]
Log4Chem GmbH, Pulheim	EUR		25.10	300	270 [1]
Mitteldeutsche Eisenbahn GmbH, Schkopau	EUR		20.00	1,578	0 [1] [2]
SILEX Mobilien-Verwaltungsgesellschaft mbH & Co. oHG (in liquidation), Grünwald	EUR		95.00	−1,139	288 [1]
Steeltrack S. A., Saint Denis/France	EUR		33.30	772	97 [1]

[1] Information as of 12/31/2016
[2] Profit and loss transfer agreement with corresponding parent company

Members of boards and their appointments

MEMBERS OF THE SUPERVISORY BOARD

Dr. Jost A. Massenberg, Meerbusch
Merchant
Chairman

Dr. Klaus-Jürgen Juhnke, Hamburg
Former Managing Director of VTG Vereinigte Tanklager und Transportmittel Gesellschaft mit beschränkter Haftung, Hamburg
Deputy Chairman

Karl Gernandt, Hamburg
(Since January 13, 2017)
Chairman of the Board of Directors
Kühne Holding AG, Schindelleggi, Switzerland

Dr. Markus C. Hottenrott, New York City, USA
(Since June 08, 2017)
Asset Management Employee for infrastructure investments

Andreas Goer, Merlischachen, Switzerland
(until June 08, 2017)
Entrepreneur

Dr. Bernd Malmström, Berlin
Solicitor

Dr. Christian Olearius, Hamburg
Chairman of the Supervisory Board, M.M.Warburg & CO (AG & Co.) Kommanditgesellschaft auf Aktien, Hamburg

MEMBERS OF THE EXECUTIVE BOARD

Dr. Heiko Fischer, Hamburg
MBA
Chairman

Dr. Kai Kleeberg, Hamburg
Dipl.-Kaufmann (Degree in Business Administration)
Chief Financial Officer

Günter-Friedrich Maas, Hamburg
Logistics Manager
Chief Officer Logistics and Safety

Mark Stevenson, Zug, Switzerland
Chartered Accountant
Chief Officer Treasury, Finance and Tax

APPOINTMENTS OF THE SUPERVISORY BOARD*

Dr. Jost A. Massenberg, Meerbusch
b) Felix Schoeller Holding GmbH & Co. KG

Karl Gernandt, Hamburg
a) Hapag-Lloyd AG
HSV Fußball AG

b) Kühne Holding AG, Switzerland[1]
Kühne Holding (Management) AG, Switzerland[1]
Kühne + Nagel International AG, Switzerland[2]
Kühne + Nagel (AG & Co.) KG[1]
Kühne & Nagel A. G., Luxembourg[1]
Kühne Logistics University[1]
Kühne Real Estate AG, Switzerland[1]
LogIndex AG, Switzerland

Dr. Bernd Malmström, Berlin
b) DAL Deutsche Afrika Linien GmbH & Co. KG

Dr. Christian Olearius, Hamburg
a) Degussa Bank AG[1]
Marcard, Stein & CO AG[1]
M.M.Warburg & CO (AG & Co.) Kommanditgesellschaft auf Aktien[1]
M.M.Warburg & CO Geschäftsführungs-Aktiengesellschaft[1]
M.M.Warburg & CO Hypothekenbank Aktiengesellschaft[1]

b) Private Client Partners AG, Switzerland[1]

APPOINTMENTS OF THE EXECUTIVE BOARD*

Dr. Heiko Fischer, Hamburg
b) AAE Ahaus Alstätter Eisenbahn Capital AG, Switzerland[1]
AAE Ahaus Alstätter Eisenbahn Holding AG, Switzerland[1]
“Brückenhaus” Grundstücksgesellschaft mbH
KG “Brückenhaus” Grundstücksgesellschaft mbH & Co
Navigator Holdings Ltd., Marshall Islands
TRANSWAGGON AG, Switzerland[2]
TRANSWAGGON-Gruppe, Switzerland[2]
VTG Cargo AG, Switzerland[1]
Waggon Holding AG, Switzerland[2]

Dr. Kai Kleeberg, Hamburg
b) TRANSWAGGON AG, Switzerland
Waggon Holding AG, Switzerland

Günter-Friedrich Maas, Hamburg
b) Shanghai COSCO VTG Tanktainer Co., Ltd., China

Mark Stevenson, Zug, Switzerland
b) AAE Ahaus Alstätter Eisenbahn Holding AG, Switzerland
AAE Wagon a. s., Slovakia
AAE Wagon Finance S. A., Luxembourg
Cargo Wagon, a. s., Slovakia
Euro Freight Car Finance S. A., Luxembourg
Ortanio Holdings Ltd., British Virgin Islands
VTG Finance S. A., Luxembourg

* Unless stated otherwise, all information on appointments relates to 12/31/2017
a) Membership of statutory supervisory boards
b) Membership of comparable controlling bodies of business enterprises in Germany and abroad
[1] Chairman
[2] Deputy chairman

Development of intangible assets and tangible fixed assets

from 1/1/2017 until 12/31/2017

€ MILLION	ACQUISITION AND MANUFACTURING COSTS					
	BALANCE AS OF 1/1/2017	CURRENCY ADJUSTMENT	ADDITIONS	DISPOSALS	RECLASSIFI-CATIONS	AS OF 12/31/2017
Intangible assets						
Concessions, industrial trademarks and similar rights and assets as well as licences in such rights and assets	25.6	–	2.2	–	1.5	29.3
Brand values	11.6	–	–	–	–	11.6
Customer relationships	120.9	–	–	–	–	120.9
Goodwill	342.5	–	–	–	–	342.5
Capitalized development costs	1.8	–	–	–	–	1.8
Payments on account	1.5	–	0.5	–	–1.5	0.5
	503.9	**0.0**	**2.7**	**0.0**	**0.0**	**506.6**
Tangible fixed assets						
Wagon fleet	2,934.2	–36.8	222.6	70.8	18.9	3,068.1
Containers and chassis	74.8	–0.1	10.9	2.2	–	83.4
Land and buildings including on third party land	15.7	–	–	–	0.4	16.1
Technical plant and machinery	20.7	–	0.5	–	0.7	21.9
Other equipment, operating and office equipment	15.2	0.1	2.3	0.4	–	17.2
Payments on account, assets under construction	34.8	–0.1	23.3	7.9	–20.3	29.8
	3,095.4	**–36.9**	**259.6**	**81.3**	**–0.3**	**3,236.5**
Total	**3,599.3**	**–36.9**	**262.3**	**81.3**	**–0.3**	**3,743.1**

IMPAIRMENT, AMORTIZATION AND DEPRECIATION					CARRYING AMOUNTS	
BALANCE AS OF 1/1/2017	CURRENCY ADJUSTMENT	DEPRECIATION/ AMORTIZATION FOR FINANCIAL YEAR	DISPOSALS	AS OF 12/31/2017	12/31/2017	12/31/2016
14.3	–	2.6	–	16.9	12.4	11.3
1.6	–	0.5	–	2.1	9.5	10.0
52.1	–	6.3	–	58.4	62.5	68.8
2.0	–	–	–	2.0	340.5	340.5
1.0	–	0.5	–	1.5	0.3	0.8
0.0	–	–	–	0.0	0.5	1.5
71.0	**0.0**	**9.9**	**0.0**	**80.9**	**425.7**	**432.9**
812.1	–8.7	169.6	45.2	927.8	2,140.3	2,122.1
42.4	–	5.1	2.2	45.3	38.1	32.4
5.1	–	0.5	–	5.6	10.5	10.6
8.3	–	1.4	–	9.7	12.2	12.4
10.6	–	1.7	0.3	12.0	5.2	4.6
0.1	–	0.1	–	0.2	29.6	34.7
878.6	**–8.7**	**178.4**	**47.7**	**1,000.6**	**2,235.9**	**2,216.8**
949.6	**–8.7**	**188.3**	**47.7**	**1,081.5**	**2,661.6**	**2,649.7**

Development of intangible assets and tangible fixed assets

from 1/1/2016 until 12/31/2016

€ million	Acquisition and manufacturing costs					
	Balance as of 1/1/2016	Currency adjustment	Additions	Disposals	Reclassifications	As of 12/31/2016
Intangible assets						
Concessions, industrial trademarks and similar rights and assets as well as licences in such rights and assets	23.5	–0.1	1.8	0.6	1.0	25.6
Brand values	11.6	–	–	–	–	11.6
Customer relationships	120.9	–	–	–	–	120.9
Goodwill	342.5	–	–	–	–	342.5
Capitalized development costs	1.9	–0.1	–	–	–	1.8
Payments on account	1.6	–	0.9	–	–1.0	1.5
	502.0	**–0.2**	**2.7**	**0.6**	**0.0**	**503.9**
Tangible fixed assets						
Wagon fleet	2,804.3	–7.1	182.7	37.0	–8.7	2,934.2
Containers and chassis	64.3	–	11.0	0.5	–	74.8
Land and buildings including on third party land	14.8	–	–	–	0.9	15.7
Technical plant and machinery	19.3	–	0.8	0.1	0.7	20.7
Other equipment, operating and office equipment	13.8	–	1.4	0.5	0.5	15.2
Payments on account, assets under construction	13.1	–0.1	21.9	3.3	3.2	34.8
	2,929.6	**–7.2**	**217.8**	**41.4**	**–3.4**	**3,095.4**
Total	**3,431.6**	**–7.4**	**220.5**	**42.0**	**–3.4**	**3,599.3**

IMPAIRMENT, AMORTIZATION AND DEPRECIATION							CARRYING AMOUNTS	
BALANCE AS OF 1/1/2016	CURRENCY ADJUSTMENT	DEPRECIATION/ AMORTIZATION FOR FINANCIAL YEAR	IMPAIRMENT	DISPOSALS	RECLASSIFI-CATIONS	AS OF 12/31/2016	12/31/2016	12/31/2015
12.5	–	2.4	–	0.6	–	14.3	11.3	11.0
1.1	–	0.5	–	–	–	1.6	10.0	10.5
45.8	–	6.3	–	–	–	52.1	68.8	75.1
2.0	–	–	–	–	–	2.0	340.5	340.5
0.9	−0.1	0.2	–	–	–	1.0	0.8	1.0
0.0	–	–	–	–	–	0.0	1.5	1.6
62.3	**−0.1**	**9.4**	**0.0**	**0.6**	**0.0**	**71.0**	**432.9**	**439.7**
672.8	−2.7	169.2	6.8	34.7	0.7	812.1	2,122.1	2,131.5
37.7	−0.1	5.2	–	0.4	–	42.4	32.4	26.6
4.6	–	0.5	–	–	–	5.1	10.6	10.2
7.0	–	1.4	–	0.1	–	8.3	12.4	12.3
9.3	–	1.7	–	0.4	–	10.6	4.6	4.5
0.8	–	–	–	–	−0.7	0.1	34.7	12.3
732.2	**−2.8**	**178.0**	**6.8**	**35.6**	**0.0**	**878.6**	**2,216.8**	**2,197.4**
794.5	**−2.9**	**187.4**	**6.8**	**36.2**	**0.0**	**949.6**	**2,649.7**	**2,637.1**

Declaration on the Corporate Governance Code

The Supervisory Board and Executive Board have issued a declaration of conformity in accordance with Section 161 of the German Stock Corporation Act and made it permanently accessible to shareholders on the VTG website at **www.vtg.com**.

Hamburg, March 2, 2018

The Executive Board

DR. HEIKO FISCHER

DR. KAI KLEEBERG

GÜNTER-FRIEDRICH MAAS

MARK STEVENSON

Responsibility Statement

According to the best of our knowledge we declare that, in accordance with the accounting principles to be applied as well as in accordance with the principles of proper accounting, the consolidated financial statements present a true and fair view of the net assets, financial position and results of operations of the Group and that the Group Management Report presents the business development including the business results and position of the Group such that a true and fair view of the Group is reflected and that the significant opportunities and risks of the expected development of the Group are described.

Hamburg, March 2, 2018

The Executive Board

DR. HEIKO FISCHER

DR. KAI KLEEBERG

GÜNTER-FRIEDRICH MAAS

MARK STEVENSON

05 FURTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

To VTG Aktiengesellschaft

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

OPINIONS

We have audited the consolidated financial statements of VTG Aktiengesellschaft, Hamburg, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of VTG Aktiengesellschaft for the fiscal year from 1 January to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the fiscal year from 1 January to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate 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 management report does not cover the content of the statement on corporate governance or the non-financial statement referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. IMPAIRMENT OF CASH-GENERATING UNITS WITH GOODWILL

Reasons why the matter was determined to be a key audit matter

Goodwill is presented as "goodwill" in the balance sheet of the consolidated financial statements of VTG Aktiengesellschaft.

The executive directors of VTG Aktiengesellschaft determine the fair value of the cash-generating units each year as of 30 September or ad hoc to test the impairment of goodwill. The executive directors determine fair value using valuation models according to the discounted cash flow method on the basis of the corporate planning for multiple years approved by the Supervisory Board. The assumptions underlying the valuation model (especially the discount rates, forecast cash inflows, growth rates and return on capital employed) are determined by the executive directors of VTG Aktiengesellschaft and are subject to judgment.

The fair values have a significant effect on the recognition of goodwill in the consolidated financial statements as of 31 December 2017. In light of its materiality, the complexity of the valuation models and the executive directors' use of judgment in making assumptions, we consider the determination of fair values to be a key audit matter.

Auditor's response

As part of our audit, we analyzed the process implemented by VTG Aktiengesellschaft's executive directors and the recognition and measurement policies applied to determine the fair values of business units and obtained an understanding of the process steps and the internal controls in place.

We assessed whether the internal valuation policies were consistent with the relevant IFRSs and examined their implementation by the executive directors of VTG Aktiengesellschaft.

We analyzed the planning by comparing it with the results actually achieved in the past and the current development of business figures. We obtained an understanding of the significant assumptions underlying the growth and business performance forecasts through detailed discussions with the executive directors of VTG Aktiengesellschaft and assessed their adequacy on this basis.

The adequacy of other significant valuation assumptions, such as the discount and growth rates, were analyzed with the support of internal valuation specialists on the basis of an analysis of market indicators. As even minor changes in the discount rate can have a significant effect on the fair value, we performed sensitivity analyses to assess the risk of impairment in the event of changes in significant valuation assumptions. We also checked the clerical accuracy of the valuation models.

Our procedures did not lead to any reservations relating to the determination of the fair values.

Reference to related disclosures

The Company provides information on goodwill in the notes to the financial statements in the section "Notes to the consolidated balance sheet" in Note "(11) Goodwill," further explanatory notes on recognition and measurement policies are contained in the notes to the financial statements in section "2. Principles of accounting" in the paragraph on "Goodwill."

2. VALUATION OF THE WAGON FLEET

Reasons why the matter was determined to be a key audit matter

The wagon fleet is presented under "Tangible fixed assets" in the balance sheet of the consolidated financial statements of VTG Aktiengesellschaft.

The Group reviews the useful lives applied at least once a year. If the long-term expectations deviate from estimates previously made, the required adjustments are accounted for accordingly as changes in estimates. The useful lives are determined on the basis of market observations and experience values. Furthermore, at fiscal year-end the wagons in the fleet which are not leased are analyzed for impairment. In this analysis, criteria such as idle time, technical condition, date of next inspection and year of construction are used and assessed by the Company in the context of the current market situation and development. The result of the analyses to assess the adequacy of the useful lives applied, marketability and the technical condition of the wagon types is thus dependent on the executive directors' judgment. In the light of its materiality and the underlying complexity of the analyses, this matter was a key audit matter.

Auditor's response

As part of our audit, we analyzed the process implemented by VTG Aktiengesellschaft's executive directors and the recognition and measurement policies applied to value the wagon fleet and obtained an understanding of the process steps and the internal controls in place.

We assessed whether the internal valuation policies relating to the decommissioning and scrapping of rail freight cars were consistent with the relevant IFRSs and examined their implementation by the executive directors of VTG Aktiengesellschaft.

We obtained an understanding of the adequacy of the other significant valuation assumptions, e. g., the economic useful lives and criteria such as idle time, technical condition, date of next inspection and year of construction, to identify impairment risks by discussing them in depth with the executive directors of VTG Aktiengesellschaft and employees with operational responsibility from the Railcar segment. We also examined the actual average useful lives of the last ten years at wagon segment level and compared them with the expected useful lives for each wagon segment. We also checked the clerical accuracy of the annual and monthly inspection planning.

Our procedures did not lead to any reservations relating to the valuation of the wagon fleet.

Reference to related disclosures

The Company provides information on wagon fleet in the notes to the financial statements in the section "Notes to the consolidated balance sheet" in Note "(13) Tangible fixed assets," further explanatory notes on recognition and measurement policies are contained in the notes to the financial statements in section "2. Principles of accounting" in the paragraph on "Tangible fixed assets."

3. HEDGE ACCOUNTING

Reasons why the matter was determined to be a key audit matter

Derivative financial instruments are used to manage interest rate and currency risks.

In October 2017 VTG Aktiengesellschaft concluded a syndicated loan agreement and a related forward starting swap to finance the wagon fleet of VTG Rail Inc., Edwardsville, USA. The interest rate swap was concluded in November 2017, with the first exchange of payment taking place on 1 April 2018. The Company's calculation of effectiveness using a regression analysis indicates the hedge is 100% effective. On this basis the Company accounts for the loan agreement and the forward starting swap as a hedge.

In light of its materiality, the complex contractual clauses of the loan agreement for project finance and the fact that the parameters used to test effectiveness require the use of judgment by the executive directors of VTG Aktiengesellschaft, we consider hedge accounting to be a key audit matter.

Auditor's response

As part of our audit, we analyzed the process implemented by VTG Aktiengesellschaft's executive directors and the recognition and measurement policies applied to account for hedges and obtained an understanding of the process steps and the internal controls in place. We assessed whether the internal valuation policies were consistent with the relevant IFRSs and examined their implementation by the executive directors of VTG Aktiengesellschaft.

We analyzed the forecasts used to test the effectiveness of the hedge by comparing them with the results actually achieved in the past and the current development of business figures. We obtained an understanding of the significant assumptions underlying the growth and business performance forecasts through detailed discussions with the executive directors of

VTG Aktiengesellschaft and assessed their adequacy on this basis. We also checked the clerical accuracy of the valuation models.

Our procedures did not lead to any reservations relating to hedge accounting.

Reference to related disclosures
The Company provides information on derivative financial instruments in the notes to the financial statements in the section "Notes to the consolidated balance sheet" in Note "(30) Derivative financial instruments," further explanatory notes on recognition and measurement policies are contained in the notes to the financial statements in section "2. Principles of accounting" in the paragraph on "Derivative financial instruments."

OTHER INFORMATION

The Supervisory Board is responsible for the Report of the Supervisory Board; the executive directors are responsible for all other information. The other information comprises

– the corporate governance statement pursuant to Sec. 289f and Sec. 315d HGB, which is published outside the group management report,

– the declaration on the Corporate Governance Code in accordance with Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act], which is published outside the group management report,

– the non-financial report pursuant to Sec. 289f, Sec. 315b and Sec. 315c HGB, which is published outside the group management report, and the

– responsibility statement pursuant to Sec. 297 (2) Sentence 4 HGB and Sec. 315 (1) Sentence 6 HGB.

The other information also includes the information obtained from the other parts of the 2017 annual report, except for the consolidated financial statements, the group management report and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or 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

– otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors 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.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors 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 OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the 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 Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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 due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 control.

– 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 by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

– Conclude on the appropriateness of the executive directors' 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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- 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 group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors 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 and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on 8 June 2017. We were engaged by the Supervisory Board on 29 June 2017. Since this date, we have been the group auditor of VTG Aktiengesellschaft.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Carl-Heinz Klimmer.

Hamburg, March 7, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Klimmer	Gloßmann
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

5-YEAR OVERVIEW FOR THE GROUP

€ MILLION	2013	2014	2015	2016	2017
Revenue	**783.7**	**818.3**	**1,027.5**	**986.9**	**1,014.4**
Railcar	332.9	345.4	537.2	517.2	520.7
Rail Logistics	298.4	322.0	324.0	312.3	336.4
Tank Container Logistics	152.3	150.9	166.3	157.4	157.3
Group EBITDA	**183.8**	**191.0**	**336.5**	**345.3**	**343.4**
Railcar	181.1	194.4	335.4	344.3	343.6
Rail Logistics	3.8	−0.2	3.4	5.8	8.3
Tank Container Logistics	9.2	12.8	13.6	11.2	11.3
EBIT	77.7	83.5	144.1	149.7	155.1
Group net profit (comparable)	17.2	18.8	29.4	57.5	68.1
Depreciation	106.0	107.6	192.4	195.6	188.3
Total investments	166.0	219.2	195.8	259.3	341.6
Operating cash flow	149.8	159.9	282.9	326.2	295.9
Earning per share in €	0.71	0.93	0.75	1.56	1.93
Dividend per share in €	0.42	0.45	0.50	0.75	0.90*
Balance sheet total	1,550.8	1,673.4	3,047.1	3,001.5	3,085.5
Non-current assets	1,332.2	1,418.2	2,708.1	2,726.2	2,746.4
Current assets	218.6	252.4	339.0	275.3	339.1
Equity	321.3	340.5	748.2	774.0	800.1
Liabilities	1,229.5	1,332.9	2,298.9	2,227.5	2,285.4
Number of employees	1,191	1,312	1,445	1,443	1,527
in Germany	846	909	942	958	1,048
in other countries	345	403	503	485	479

* Intended proposal to Annual General Meeting (AGM).

GLOSSARY

Bulk freight wagon
Freight wagon fitted with a container with discharge chutes. Bulk freight wagons are used for rail transport of powdered and finely granulated goods.

Flat wagon
Open rail freight wagon with different types of special equipment for transporting large-scale agricultural machinery, commercial vehicles, forest products, and large-volume individual items.

High-capacity freight wagon
Covered rail freight wagon with high load capacity for transporting a wide range of goods, particularly break bulk goods.

Intermodal wagon
Also called a container wagon. A special type of flat wagon for transporting containers.

Liberalization of rail-borne freight traffic
Comprehensive set of regulations, at European and national level, with the aim of gradually opening up the railway markets for competition.

Tank container
Container in a wide range of designs with a tank for door-to-door transport of liquids by road, railway, inland waterway and sea.

Tank wagon
Freight wagon fitted with a tank for rail-borne transport of liquids (particularly hazardous goods).

FINANCIAL CALENDAR 2018

FINANCIAL CALENDAR 2018

February 22	Preliminary results for 2017
March 27	Publication of the results 2017
March 27	Financial Statements Press Conference, Hamburg
May 17	Quarterly Statement as of March 31, 2018
May 17	Analyst Conference, Elze
June 6	Annual General Meeting, Hamburg
August 14	Half-yearly Financial Report 2018
November 13	Quarterly Statement as of September 30, 2018

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Concept and Design
Berichtsmanufaktur GmbH, Hamburg

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Reservation regarding statements relating to the future
This annual report contains a number of statements relating to the future development of VTG. These statements are based on assumptions and estimates. Although we are confident that these anticipatory statements are realistic, we cannot guarantee them, for our assumptions involve risks and uncertainties which may give rise to situations in which the actual results differ substantially from the expected ones. The potential reasons for such differences include market fluctuations, the development of world market commodity prices, the development of exchange rates or fundamental changes in the economic environment. VTG neither intends to nor assumes any separate obligation to update any statement concerning the future to reflect events or circumstances after the date of this report.

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