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Pioneering the present. Planning the future. Pointing the way.
2018
Annual Report of VTG Aktiengesellschaft
VTG

VTG Aktiengesellschaft is a leading international wagon hire and rail logistics company. The fleet comprises more than 94,000 rail freight wagons and over 9,300 tank containers worldwide. Three interlinked business divisions work closely together for the customer: Railcar, Rail Logistics and Tank Container Logistics. This enables VTG to bring bespoke logistics solutions to the railway.

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Annual Report of VTG Aktiengesellschaft

2018

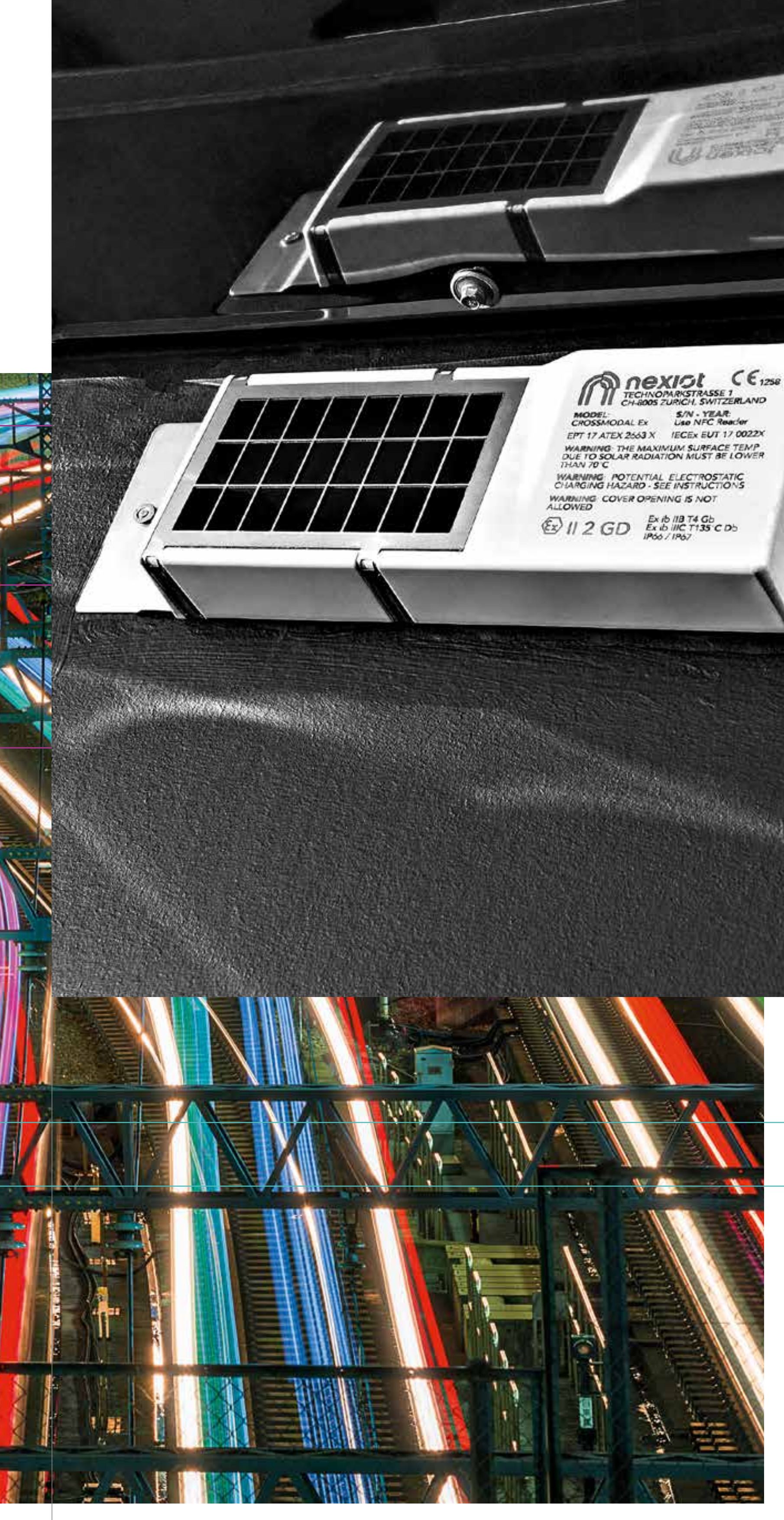
Pioneering the present. Planning the future. Pointing the way.

The railway is a reliable, efficient, environmentally friendly form of transport. Indeed, rail freight services are already making a significant contribution to protecting the environment. Because of this, the German government has drawn up a plan of action to boost rail freight transport over the long term. It is policymakers who decide on both competitive and infrastructure conditions: what we can do is help make it easier for shippers to use rail freight transport services. To this end, we are ushering in new technological advances, challenging convention and creating a new vision of what the future can look like.

We are ushering in technological advances...

by developing new technologies that make it easier for customers to use the railway.

VTG is digitizing its entire European wagon fleet. This will provide the foundation for low-cost, user-friendly rail freight transport services in the future.



VTG's "fleet table" is a touchscreen solution that makes it easier for fleet managers to efficiently monitor, control and plan the fleet's maintenance requirements.

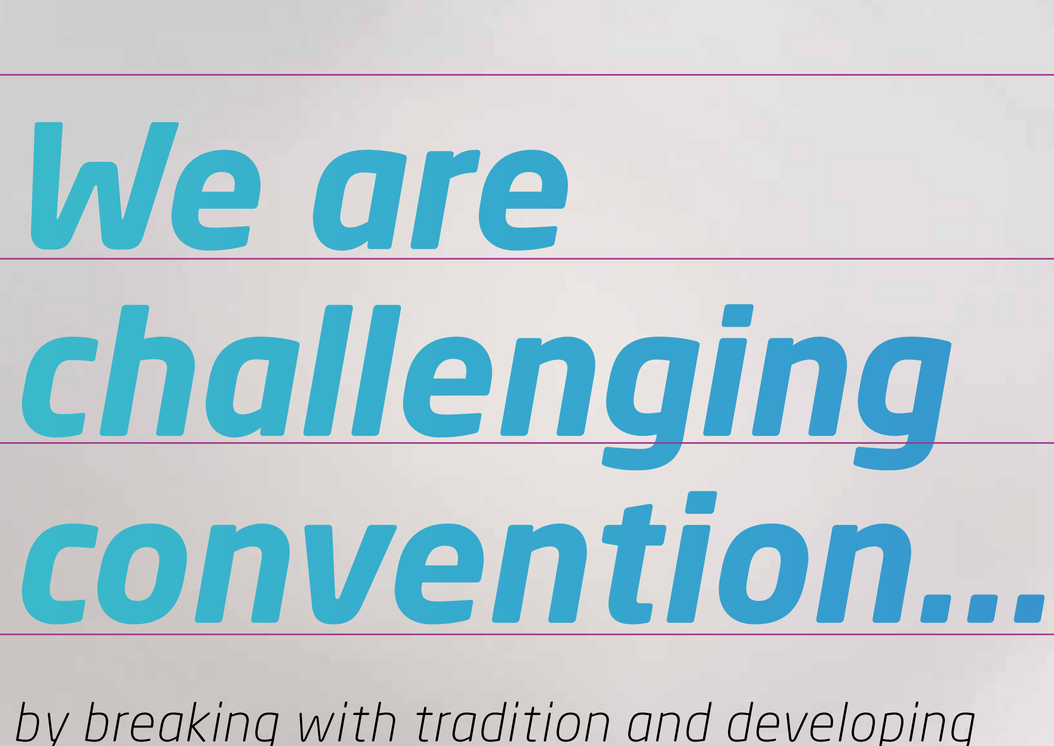
A new app helps with orientation: The leased wagons are situated in expansive factory grounds or freight stations. When it is time for maintenance, the specific location of a wagon must be pinpointed. The Wagon Finder app shows the wagon's location on a map, helping VTG's mobile maintenance team find the wagon.

Tank containers communicate independently

VTG already equips its wagons with digital technology, and now tank containers are following suit. Connectors transmit the location and other information on the tank containers and, in future, will also transmit information on the goods being transported. Information is currently still recorded manually, which is time-consuming. With the connector, this process is much faster and human error is ruled out.

VTG CONNECT

The VTG-Connector ensures an automated flow of data. This data yields information that is then used to inform the development of new applications for both the customer and VTG.



We are challenging convention…

by breaking with tradition and developing new solutions for the rail freight transport system of the future.

VTG aims at shaping rail freight transport to meet the needs of the times. To achieve this, it is currently making an entire container train available at the Port of Hamburg for lease at short notice. For the first time, this gives shippers the option of using the railway to meet sudden transport requirements.

This is made possible by FastTrack, VTG's online tool that shows availability and prices. This user-friendly online portal offers a degree of transparency that is unmatched in the rail freight transport environment.

Targeted data analysis

VTG works with the Swedish company eMaintenance365, using its platform to determine optimal maintenance times. The wagon is analyzed with algorithms based on AI technologies. This yields an estimate of the remaining useful life of the wagon.

Improved planning

At measuring stations along the way, data is collected about the impact of the wheel on the rail. This data can be used to draw conclusions about the condition of the wagon. The aim is to prevent unplanned downtime while en route from A to B.

BIG DATA

Collecting, processing and analyzing large amounts of data is now commonplace in many areas. By embracing digital communication and processing, rail freight transport is now entering a new era. This will improve various workflows, for instance those relating to the maintenance and availability of wagons.

In partnership with DB Cargo, VTG is testing out new features on freight wagons to make freight transport quieter and more energy- and cost-efficient. The Innovative Freight Wagons project is funded by the Federal Ministry of Transport and Digital Infrastructure.

We are creating a new vision of the future...

by testing innovative wagon components and designs for the rail freight market of tomorrow.

Reconceptualized

Freight wagons with disc brakes are quieter and the brakes require less frequent maintenance. In the Innovative Freight Wagon project, the weight of the bogie in its entirety (including the disc brakes) was reduced. Tests were carried out to see whether the lower maintenance costs offset the higher investment costs.

Innovative wagons put to the test

As part of the Innovative Freight Wagons project, VTG has designed a tank wagon and a container wagon. Both have undergone testing under real-life operational conditions, throughout Europe, since 2018. Once testing is complete in 2019, the findings will inform the development of new standard production models.

Lighter, quieter and more economical – this is what the freight wagons of the future must be. VTG is working on many projects to make this vision a reality.

VTG GROUP AT A GLANCE

IN € MILLION	2017	**2018**	CHANGE IN %
Revenue	1,014.4	**1,072.6**	5.7
EBITDA	343.4	**349.3**	1.7
EBIT	155.1	**149.4**	-3.7
EBT	90.2	**64.9**	-28.1
Group profit	68.1	**45.5**	-33.2
Depreciation	188.3	**199.9**	6.2
Total investments	341.6	**362.2**	6.0
Operating cash flow	295.9	**332.8**	12.5
Earnings per share in €	1.93	**1.01**	-47.7

IN € MILLION	12/31/2017	**12/31/2018**	CHANGE IN %
Balance sheet total	3,085.5	**3,905.8**	26.6
Non-current assets	2,746.4	**3,538.9**	28.9
Current assets	339.1	**366.9**	8.2
Shareholders' equity	800.1	**1,055.6**	31.9
Liabilities	2,285.4	**2,850.2**	24.7
Equity ratio in %	25.9	**27.0**	
Number of employees	1,527	**1,626**	6.5
in Germany	1,048	**1,122**	7.1
in other countries	479	**504**	5.2

RAILCAR		RAIL LOGISTICS		TANK CONTAINER LOGISTICS	
Employees	**1,048**	Employees	**232**	Employees	**172**
Wagons	**94,000**	Leased wagons	**4,900**	Tank containers	**9,300**
Revenue € million	**579.9**	Revenue € million	**324.5**	Revenue € million	**168.2**

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MANAGEMENT

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Foreword by the Executive Board

Dear Shareholders, Business Partners and Employees,

We can look back on a generally successful financial year in 2018, with the wagon hire business performing very well. The year was also in many respects exceptional, shaped as it was by extraordinary events.

Due to the high demand seen in the Railcar division in the last financial year, VTG pushed up revenue for the Group by 5.7 % to € 1,072.6 million. At € 349.3 million, operating profit (EBITDA) was 1.7 % higher than the previous year's level of € 343.4 million. This figure includes numerous special charges totaling € 25.6 million, arising from the acquisition of the Nacco Group and the voluntary takeover bid by Warwick Holding (Morgan Stanley Infrastructure). After adjustment to take account of these special charges, EBITDA rose by 7.9 % compared with the previous year, reaching € 374.9 million. These special charges, combined with weaker performance in the two logistics divisions, led to a decline in earnings per share (EPS) to € 1.01 in 2018. Adjusted EPS amounted to € 1.90.

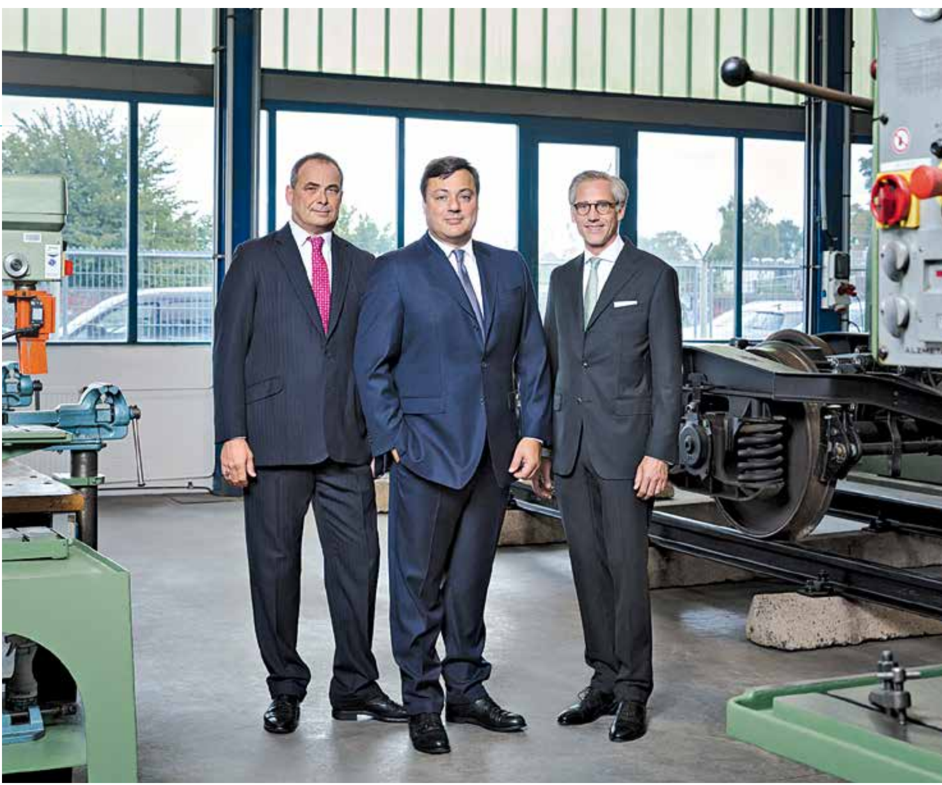
The Railcar division benefited from significant upswing in demand from trade and industry as well as from the takeover of the Nacco fleet on October 4, 2018. Over 2018, fleet capacity utilization improved markedly in all wagon segments, especially in Europe. By the end of the year, it had reached 93.5 %, the highest level seen in more than a decade. During the year, we also invested in 2,400 new wagons and acquired the 11,000-strong Nacco fleet, boosting our global fleet to some 94,000 units.

By contrast, the two logistics divisions saw a more subdued trend. In Rail Logistics, the loss of two major orders from industry and the mineral oil sector, the rail strikes in France and a shortage of locomotive drivers led to a decline in revenue and earnings. Tank Container Logistics again achieved dynamic expansion of transport volume thanks to high capacity utilization by the chemical industry in Europe and the generally positive global economy. However, changes in transport flows on overseas routes and infrastructure bottlenecks led to a significant rise in costs, which in turn led to a fall in earnings. By the end of the year, however, business was recovering in both divisions.

In addition to the operational successes we achieved in our core business, the 2018 financial year was dominated by two more aspects: First, after lengthy negotiations, we were able to finalize the acquisition of our French competitor Nacco. At the end of March 2018, the relevant competition authorities in Germany and Austria approved the takeover on condition that some 30 % of the Nacco fleet was sold to an independent bidder. Once this condition had been met, the takeover of some 11,000 Nacco wagons was finally completed on October 4, 2018. As a result, we have further strengthened our leading market position in Europe and now have a widely diversified fleet of around 94,000 wagons worldwide.

Second, on July 16, 2018, while the Nacco takeover process was still ongoing, VTG's major shareholder Morgan Stanley Infrastructure announced that it was preparing a voluntary takeover bid for VTG. Between August 24, 2018 and December 5, 2018, shareholders were able to tender their shares for a cash payment of € 53.00 per share. Kühne Holding, the second largest shareholder at that time, had already stated previously that it would tender its stake of around 20 %. This takeover bid secured Morgan Stanley Infrastructure more than 70 % of the voting rights.

We had always stated that part of the Nacco purchase price should preferably be refinanced through a rights issue. However, in February 2019, following intensive talks with our largest shareholder Morgan Stanley Infrastructure, it became clear that Morgan Stanley Infrastructure could only support a capital increase within the context of a delisting. Given the low remaining free float and the associated high placement risk for the capital increase without the support of our major shareholder, the Executive Board and Supervisory Board jointly decided to apply for delisting and to remove the company from the stock exchange. In return, Morgan Stanley Infrastructure will submit to shareholders a compensation offer of € 53.00 per VTG share. Furthermore, it has undertaken, following the delisting, to support and secure the planned rights issue from authorized capital of € 290 million by fully exercising its subscription rights and has made a binding commitment to acquiring all unsubscribed shares from the capital increase. This gives VTG the



From left to right:
Mark Stevenson, Chief Financial Officer; **Dr. Heiko Fischer,** Chairman; **Günter-Friedrich Maas,** Chief Officer Logistics and Safety.

opportunity to refinance the Nacco takeover on attractive terms without placement risk and also affords VTG long-term access to further attractive financing opportunities.

Due to the planned withdrawal from the stock exchange, for the foreseeable future, this will be the last annual report published by VTG as a listed company. We would therefore like to take this opportunity to thank our shareholders for their great interest, their many years of loyalty and their good support. We would also like to express our gratitude to our analysts, who have accompanied VTG over many years with great dedication. With their deep understanding of our business model and its drivers, they have also significantly shaped the perception of VTG in the capital market. However, delisting will not change anything in our daily work. Morgan Stanley Infrastructure has guaranteed this by means of numerous assurances, including its commitment to retaining the Hamburg center. Our objectives remain the following: to continue to offer our customers bespoke, innovative logistics solutions, to advance the digitization of the sector and to make rail freight transport in Europe more competitive.

Finally, we would like to thank our employees for their unflagging commitment. The acquisition and integration of Nacco, the upswing in demand and the challenging market environment in the logistics sector have asked much of them. We are now beginning a new chapter in our company's long and successful story and look forward to rising to the challenges ahead with undiminished strength.

The Executive Board

DR. HEIKO FISCHER

GÜNTER-FRIEDRICH MAAS

MARK STEVENSON

Executive and Supervisory Board

Members of the Executive Board

DR. HEIKO FISCHER
CHAIRMAN
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 unit (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.

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 FINANCIAL OFFICER
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. Mr. Stevenson served as Chief Investment Officer (CIO) from 2015 until 2018. He became the Chief Financial Officer (CFO) of VTG AG in January 2019.

Members of the Supervisory Board

DR. JOST A. MASSENBERG, MEERBUSCH
Merchant
Chairman

DR. MARKUS C. HOTTENROTT, NEW YORK CITY, USA
Asset Management Officer for Infrastructure Investment
Deputy Chairman

JENS FIEGE, MÜNSTER
(from June 6, 2018)
Executive Board Member, Fiege Group, Greven

KARL GERNANDT, HAMBURG
Chairman of the Board of Directors
Kühne Holding AG, Schindellegi, Switzerland

ULRICH MÜLLER, HENSTEDT-ULZBURG
(from June 6, 2018)
Executive Board Member, Joachim Herz Stiftung, Hamburg

PROF. FRANCA RUHWEDEL, DUISBURG
(from June 6, 2018)
Professor of Finance and Accounting, Rhine-Waal University of Applied Sciences, Kamp-Lintfort

DR. KLAUS-JÜRGEN JUHNKE, HAMBURG
(to June 6, 2018)
Former Managing Director of VTG Vereinigte Tanklager und Transportmittel Gesellschaft mit beschränkter Haftung, Hamburg

DR. BERND MALMSTRÖM, BERLIN
(to June 6, 2018)
Solicitor

DR. CHRISTIAN OLEARIUS, HAMBURG
(to June 6, 2018)
Chairman of the Supervisory Board, M.M.Warburg & CO (AG & Co.) Kommanditgesellschaft auf Aktien, Hamburg

Report of the Supervisory Board

Dr. Jost A. Massenberg,
Chair of the Supervisory Board

In the financial year 2018, the Supervisory Board of VTG Aktiengesellschaft duly and thoroughly performed its duties under the Law, the Articles of Association and the rules of procedure. We monitored and, in an advisory capacity, accompanied the Executive Board in its management of the company's business.

Cooperation between the Supervisory Board and the Executive Board

In the reporting year, the Executive Board timely and comprehensively provided the Supervisory Board with detailed verbal and written reports on a regular basis. Subjects of the 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 Executive Board also consulted with us and agreed with us on the strategic orientation of the company.

The Supervisory Board was also involved in all decisions of importance for the company. Subjects of the consultations in the reporting year were, in particular, issues regarding the refinancing of the acquisition of the Nacco Group by means of a possible capital increase or alternative financial instruments as well as the takeover offer of Warwick Holding GmbH. With regard to all measures requiring the approval of the Supervisory Board under the rules of procedure for the Executive Board adopted by the Supervisory Board, we discussed in detail before passing a resolution.

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 Supervisory Board was kept at all times informed about the situation of the company and the Group.

Meetings of the Supervisory Board and subjects of the Supervisory Board's work

In the reporting year, there were four ordinary meetings as well as three additional meetings and several conference calls of the Supervisory Board. Additionally, if required, resolutions were adopt-

ed by written procedure. The members of the Supervisory Board who were members of the Supervisory Board for only a part of the reporting year 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.

During the month of January 2018, the Executive Board informed us in a total of three conference calls about the respective progress of the coordination with the competent antitrust authorities in the merger control procedures regarding the acquisition of the Nacco Group.

In February 2018, 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 pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz) on compliance with the recommendations of the German Corporate Governance Code as well as stipulating target values for the quota of women on the Executive Board and the Supervisory Board pursuant to section 111 para. 5 of the German Stock Corporation Act.

At the accounts meeting of 22 March 2018, the Executive Board provided us with a summary of the earnings and financial situation and the key business events of the company, the VTG Group and the joint ventures in the 2017 financial year. Subsequently, after detailed discussion with the Executive Board and the auditor and in accordance with the recommendation of the audit committee (Prüfungsausschuss), we approved the annual and consolidated group financial statements for 2017 along with the management reports. The meeting also included the approval of the agenda and resolution proposals for the 2018 annual general meeting. Furthermore, the Executive Board informed us in the meeting that conditional approval had been granted by the competent antitrust authorities for the acquisition of the Nacco Group.

Another meeting of the Supervisory Board was held immediately prior to the annual general meeting on 6 June 2018. At this meeting, the Executive Board provided additional information on the development of the business to date in 2018 and the progress of the implementation of the conditions imposed by the antitrust authorities in connection with the acquisition of the Nacco Group.

Following the annual general meeting, in an additional meeting, the Supervisory Board held supplementary elections of members of the executive committee (Präsidialausschuss) and the audit committee that were required due to members of the Supervisory Board ceasing to hold office and the election of new Supervisory Board members. Furthermore, the appointment of the auditor elected by the annual general meeting for the financial year 2018 was approved.

In two additional meetings held on 3 July and 13 August 2018, the Executive Board informed us about the progress of the implementation of the conditions imposed by the antitrust authorities in connection with the acquisition of the Nacco Group as well as the progress of the intended refinancing of the acquisition. The meeting also addressed the measures taken by the company in order to monitor compliance with sanctions imposed on Russia in current business operations. In the meeting on 13 August 2018, the Executive Board also informed us about the development of business in the first half of the reporting year.

In a conference call on 4 September 2018, the Supervisory Board discussed and adopted the joint reasoned opinion of the Supervisory Board and the Executive Board pursuant to section 27 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz) on the voluntary public takeover offer of Warwick Holding GmbH that had been prepared by a takeover committee (Übernahmeausschuss) of the Supervisory Board, which was formed on the occasion of the proposed acquisition of Warwick Holding GmbH, together with the Executive Board. The Supervisory Board members Dr. Markus Hottenrott and Karl Gernandt did not participate in the discussion and in the resolution with reference to potential conflicts of interest. Karl Gernandt submitted a dissenting opinion (Sondervotum) that was enclosed to the reasoned opinion.

As in the previous years, a closed-door meeting was held ahead of the additional ordinary meeting of the Supervisory Board on 9 September 2018, at which the Executive Board explained to the Supervisory Board the medium- and long-term strategic orientation of the company and the measures required for this. These measures were discussed in detail and agreed upon with us. At the meeting, the Executive Board informed us about the successful final negotiation of the agreements to be concluded in order to comply with the conditions imposed by the antitrust authorities in connection with the acquisition of the Nacco Group and the con-

clusion of the overall transaction that was then foreseeable for the beginning of October 2018, as well as the progress of the preparation of the integration of the parts of the Nacco Group to be acquired by VTG. Further, at this meeting, we approved two financing measures proposed by the Executive Board. Additionally, the Supervisory Board passed a resolution to have the non-financial report of VTG Aktiengesellschaft for the financial year 2018, as in the previous year, reviewed by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.

In an additional conference call on 6 November 2018, the Supervisory Board discussed and adopted the supplementary reasoned opinion of the Supervisory Board and the Executive Board on the takeover offer of Warwick Holding GmbH that had been prepared by the takeover committee of the Supervisory Board together with the Executive Board, and which had become necessary due to an amendment to the takeover offer. The Supervisory Board members Dr. Markus Hottenrott and Karl Gernandt again did not participate in this discussion and in the resolution with reference to potential conflicts of interest.

In the meeting on 21 November 2018, the Executive Board presented and explained to the Supervisory Board the annual planning, including the financial and investment plans for the financial year 2019, as well as the investment plan for the forecast years. After detailed discussion, we approved these. Furthermore, the Executive Board informed us about the commenced integration of the acquired Nacco Group activities as well as the progress and the forthcoming final phase of the takeover offer of Warwick Holding GmbH.

Meetings of the committees and subject of the committees' work

The executive committee held a total of six meetings in the reporting year. The subjects 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 of the company. Additionally, approval was given for the assumption of offices requiring the consent of the Supervisory Board pursuant to section 88 of the German Stock Corporation Act. Except for the potential conflicts of interest communicated by the Supervisory Board members Dr. Markus Hottenrott and Karl Gernandt in connection with the takeover offer of Warwick Holding GmbH, no conflicts of interest of members of the Executive Board or the Supervisory Board had to be disclosed to the executive committee in the reporting year.

The audit committee held five meetings during the reporting year (one in the form of a conference call). Among other things, the subjects of these meetings included the discussion of the annual and consolidated group financial statements with the auditor and of the non-financial report with the auditor appointed by the Supervisory Board for this purpose, the recommendation regarding the appointment of the auditor for the financial year 2018, receipt and discussion of the reports on the risk and compliance management in the VTG Group and the internal audit, the discussion of the quarterly reports and of the half-yearly report as well as of a report on the hedging transactions in the VTG Group. The audit committee acknowledges that the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung, DPR) has completed its audit of the 2017 financial statements without having detected any errors. The committee furthermore discussed in advance with the Executive Board the scheduled plan for the financial year 2019 and also specified the key areas for review in the audit for the financial year 2018. It also passed three resolutions on non-audit services provided by the auditor.

The takeover committee, which was formed on the occasion of the proposed acquisition of Warwick Holding GmbH, held a total of seven meetings, mostly in the form of conference calls. The subjects of the meetings covered, inter alia, the preparation of the joint reasoned opinion of the Supervisory Board and the Executive Board on the takeover offer, the discussion of possible contents of a potential investor agreement, questions regarding the admission of a potential due diligence as well as the discussion of compliance with the conditions imposed under the takeover offer, in particular, regarding potential conflicts with U.S. sanctions

Audit of the annual financial statements, the consolidated group 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 reporting year. 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 (Handelsgesetzbuch) and on the consolidated group financial statements for the financial year 2018 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 audit committee of the Supervisory Board – before the audit committee's resolution on the election proposal to the annual general meeting – 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 which could call its independence into question. The files and records relating to the annual and consolidated group financial statements and the appropriation of net profits were discussed and explained in depth at the meeting of the audit committee on 27 February 2019 in preparation of examining and discussing these files and records with the Supervisory Board and the Executive Board in the presence of the auditor, who reported on the findings of its audit and the key areas reviewed in the audit. The audit committee was convinced of the correctness of the audit and the auditor's report and recommended to the Supervisory Board that it accepts and approves the auditor's findings and approves the annual financial statements as well as the consolidated group financial statements.

The Supervisory Board itself also reviewed the annual financial statements, the consolidated group financial statements, the management report and the group management report. The audit reports, including the annual and consolidated group financial statements and the management reports, were made available to all members of the Supervisory Board in a timely manner and were discussed in detail at today's meeting with the Executive Board and the auditor being present at the meeting. The Supervisory Board endorsed the findings of Ernst & Young's audit of the annual financial statements, the consolidated group financial statements and the management reports and approved the annual and consolidated group financial statements for the financial year 2018 at today's meeting. After completing its review of the annual financial statements, the consolidated group financial statements and the management reports, the Supervisory Board has no objections.

In the reporting year, the Executive Board again drew up a non-financial report as a separate non-financial group report. By resolution of the Supervisory Board at its meeting on 21 November 2018, 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. The Supervisory Board itself also reviewed the separate non-financial group report, and addressed and discussed the findings of the external audit of the content of the report at today's meeting, and the Supervisory Board endorsed the findings of the external auditor and found that no objections have to be raised against the Executive Board's non-financial group report.

We endorse the proposal of the Executive Board for the appropriation of net profits, which provides for the payment of a dividend of € 0.95 per share, with the remaining amount to be carried forward to new account.

Audit of the Executive Board's report on the relations with affiliated companies

The auditor also reviewed the report on the relations with affiliated companies (dependency report) that has to be prepared by the Executive Board pursuant to section 312 of the German Stock Corporation Act for parts of the reporting period and issued the following auditor's opinion:

"On completion of our review and assessment in accordance with professional standards, we confirm that

1. the factual statements contained in the report are accurate

2. the consideration paid or received by the company in the transactions listed in the report was not inappropriately high or that disadvantages, if any, have been compensated

3. with respect to the measures listed in the report, there are no grounds for an assessment substantially different from that of the Executive Board."

In preparation for the Supervisory Board's review and resolution, at first the audit committee addressed the dependency report and the auditor's report in its meeting on 27 February 2019 and dis-

cussed the documents with the Executive Board and the auditor attending the meeting. The audit committee came to the conclusion that the auditor's report – as well as the audit carried out by the auditor itself – complies with the legal requirements.

The Supervisory Board itself also reviewed the dependency report as to its completeness and accuracy, and discussed it with the Executive Board and the auditor at today's meeting. In conclusion, it can be said that the Executive Board exercised due care in identifying the affiliated companies. It has put in place the necessary systems for recording legal transactions that the company has entered into, and other measures that the company has taken or refrained from, with the majority shareholder or with its affiliated companies in the course of the past financial year. According to the findings of the audit, there are no indications that legal transactions or measures have not been recorded completely. The Supervisory Board hence agrees with the results of the audit as presented by the auditor. It has no objections against the Executive Board's declaration at the end of the report.

Code recommendations largely met

On 18 February 2019, the Executive Board and the Supervisory Board issued the declaration of conformity pursuant to section 161 of the German Stock Corporation Act and published it on the company's website. Since the issue of the last declaration of conformity on 15 February 2018, VTG Aktiengesellschaft has continued to comply with the recommendations of the Commission of the German Corporate Governance Code as amended on 7 February 2017 to a great extent and will also comply with these recommendations to a great extent in the future.

Composition of Supervisory Board and Executive Board

The deputy chair of the Supervisory Board, Dr. Klaus-Jürgen Juhnke, and the Supervisory Board members Dr. Bernd Malmström and Dr. Christian Olearius have resigned from their offices with effect from the close of the annual general meeting held on 6 June 2018. We would like to thank them for their laudable contribution during their service on the Supervisory Board. In honor of his service, the Supervisory Board appointed Dr. Juhnke as honorary member of the Supervisory Board. As replacement for the resigning Supervisory Board members, on 6 June 2018, the annual general meeting elected Prof. Dr. Franca Ruhwedel as well as Jens Fiege and Ulrich Müller as members of the Supervisory Board.

At the meeting of the Supervisory Board on 6 June 2018, Dr. Markus Hottenrott was elected as the new deputy chair of the Supervisory Board. Furthermore, at that meeting, supplementary elections were held for the executive committee and the audit committee. Along with myself as the chair of the Supervisory Board, Dr. Markus Hottenrott and Jens Fiege have since been members of the executive committee. Alongside the chair of the audit committee already in office, Karl Gernandt, Prof. Dr. Franca Ruhwedel and Ulrich Müller have since been members of the audit committee as well. Prof. Dr. Franca Ruhwedel, Jens Fiege and I as chair of the Supervisory Board are members of the takeover committee of the Supervisory Board that was temporarily formed in the reporting year with regard to the takeover offer of Warwick Holding GmbH.

As of 31 December 2018, Dr. Kai Kleeberg resigned from the Executive Board. The Supervisory Board would like to thank Dr. Kleeberg for his many years of commendable contribution.

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 2018.

Hamburg, 27 March 2019

The Supervisory Board

DR. JOST A. MASSENBERG
Chair of the Supervisory Board

STRATEGY AND SHARE

02

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Markets and Strategy

MARKETS

Relevant markets for VTG

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 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 another driver of 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 its already very good market position. VTG has therefore gradually expanded and diversified the original tank wagon fleet, adding standard, sliding wall and 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, because of a lack of capital and the priority given to passenger transports, 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. VTG boosted the European wagon fleet and further diversified it by adding intermodal wagons and pushed up EBITDA 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

In its core market of Europe, the Railcar division is striving to further consolidate its leading position as a provider of freight wagons for rail transport of liquid and industrial goods and for intermodal transport. The division is also aiming to broaden its customer base by diversifying into new, related segments. This involves ongoing modernization of the European fleet and expansion by building new wagons. Another area of emphasis is extending the range of services. This includes creating 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 its core market of Europe, the Railcar division is pursuing its strategic growth objectives in two further regions. North America is the world's largest rail freight market, and therefore offers attractive growth opportunities. The company intends to keep expanding its wagon fleet in this region via acquisitions and investment in new and used wagons and to thereby strengthen its market position in the medium term. Over the long term (i.e. once current political tensions have abated) the broad-gauge network of the Russian Federation and its neighbors also offers good prospects for growth. Rising demand for replacement wagons and the ongoing need for development and modernization 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 expanding its core business with liquid goods, industrial goods and agricultural products, VTG's Rail Logistics division is striving to expand its range of services significantly. These include, for example, transports on the New Silk Road between Asia and Europe, expanding project logistics activities in Russia and Asia and expanding the Retrack network. VTG's own Retrack network connects Europe's key economic and industrial centers, allowing for intelligent control and tracking of individual wagons, wagon groups and complete freight trains. The division's aim is to optimize rail freight transport to offer the customer solutions that are, above all else, fast, reliable and cost-efficient, while accounting for all cost factors. Another aim is to offer digitized solutions as well in the future. In addition to conventional rail transports, Rail Logistics will in the future be focusing increasingly on innovative intermodal transport solutions to enable it to execute bulk goods transports more efficiently.

The Tank Container Logistics division is focusing on strengthening partnerships with a select group of strategic customers. It plans to further consolidate its position as a specialist provider of chemical transports. The key growth markets for this are Europe, North America, China, the intra-Asian transport market, and Russia. To increase the availability of the tank container fleet, the division will continue to replace hired equipment with its own tank containers and connect these tank containers digitally. Furthermore, VTG has a good reputation in the chemical sector and already leases wagons to the industry. Meanwhile, the market for tank containers has seen continued high growth. Against this background, VTG plans to also lease tank containers to the industry in the future. Additionally, the division's entry into the complementary flexitank business represents a further step toward ensuring customer loyalty.

To support organic growth, and taking into account competition restrictions, VTG continuously analyzes this market with regard to potential takeover candidates who will support the specified strategic directions in a sustainable manner and thus lead to further growth.

Optimizing business processes and harnessing synergies

VTG's business model is relatively capital-intensive. Therefore, the continuation of the profitable growth course is of decisive importance for VTG's ability to invest and grow in the future. Continually improving VTG's profitability is therefore a key strategic aim. To this end, internal processes and structures are to be regularly reviewed and adapted to changing or new market conditions as required. In addition, VTG has rolled out a large number of development programs to harness synergies and strengthen organizational performance sustainably. The company has also undertaken to keep optimizing its own organizational structures continually and to digitize its assets, workflows and business structure overall. Closer interconnection of Railcar, Rail Logistics and Tank Container Logistics should also create valuable synergies across these three divisions. These operate at different levels of value creation – the Railcar division hires out wagons for the transport of freight, while the two logistics divisions ensure smooth operation of their customers' chains of transport. By offering both wagon hire and logistics services, VTG can offer its customers highly specialized, one-stop solutions. This helps reduce complexity and helps harmonize workflows optimally. It is therefore the company's stated aim, in the spirit of “One VTG”, to link the individual divisions more closely and exploit cross-divisional sales synergies for the customer's benefit.

Remaining a leader in innovation and quality

VTG sees itself as a quality and innovation leader and as setting the standard in these areas for its competitors throughout Europe. 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. Its employees are therefore working hard to improve VTG's already high standards of quality and safety. VTG is also applying its longstanding technological expertise to continue developing new and enhanced freight wagons, wagon components and innovative transport solutions. The aim is to make the railway the preferred carrier for the growing transport market.

Continued digitization of the wagon fleet – making rail easy

As the industry's innovation leader, VTG is pursuing a comprehensive digitization strategy. Back in 2016, VTG began fitting its entire European wagon fleet with a telematics system. With the new digital service VTG-Connect, operators and customers can now for the first time access the location, mileage and event data for all wagons fitted with the system. VTG firmly believes that 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. In addition, digitization should significantly reduce maintenance costs (e.g. through preventive and predictive maintenance) and simplify logistics processes in the near future.

Positioning as 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 in recruiting qualified staff. It is therefore crucial for VTG 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 by providing various education and training programs for all career stages. The company is also attaching particular importance to the issue of leadership. Our aim and mission is to position VTG firmly and sustainably as an attractive employer. The company is supporting a range of measures in this respect. These include measures relating to the visibility and perception of the company on the labor market, the credibility and appeal of the corporate strategy and the company's working conditions and culture. They also encompass the communication of VTG's corporate vision and values as well as its corporate social responsibility and sustainability initiatives.

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 tank 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

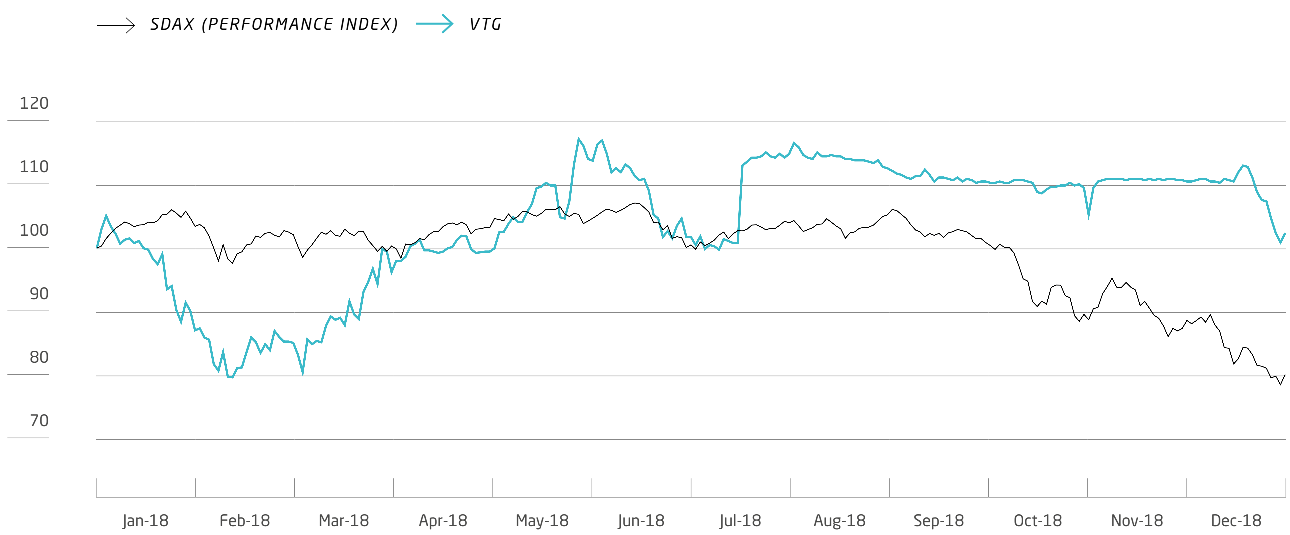
Global equity markets record losses

The financial year 2018 got off to a friendly start on the stock exchanges. Positive economic expectations caused share prices to rise worldwide. In January 2018, the DAX reached a new all-time high of just under 13,600 points. The US markets also reached new highs before concerns about an imminent trade war and expectations of rising inflation led to price corrections at the beginning of February. The second quarter saw prices bounce back temporarily, buoyed partly by good corporate news in the US. In the third quarter, the trends in the European and American markets were very different. While all of the benchmark US indices, driven by continued strong US economic data and corporate earnings, reached new all-time highs, the European indices moved sideways. Increasingly weaker economic data in Europe, a tightening of US monetary policy and an escalating trade dispute between the US and China finally led to heavy losses worldwide at the end of the year. Nearly all European and Asian benchmark indices posted double-digit losses for the year. The US indices also ended the year down, although the losses were smaller. The DAX posted its first year of losses since 2011. It fell by 18.3 %, making it one of the worst performers among the global benchmark indices. The SDAX closed in an even weaker position, with a loss of 20.0 %.

VTG share price up slightly

The VTG share initially benefited from the positive mood on the stock exchange at the beginning of 2018. However, the delays in the acquisition of the French competitor Nacco due to competition concerns led to price losses in mid-January. However, in March and April, after the relevant competition authorities granted conditional approval of the takeover, the share price recovered again. On May 28, 2018, the share reached its highest-ever closing price before subsequently succumbing to profit-taking. On July 16, 2018, VTG's major shareholder Morgan Stanley Infrastructure announced that it was preparing a voluntary takeover bid for VTG AG. On the day of the announcement, the share price then jumped by more than 12 %, to 54.00 euros. During the offer phase until the beginning of December, the share price moved largely sideways, decoupled from general stock exchange activity. However, after the expiration of the acceptance period for the Warwick

TREND IN VTG SHARE AND SDAX (JANUARY 1 TO DECEMBER 31, 2018)

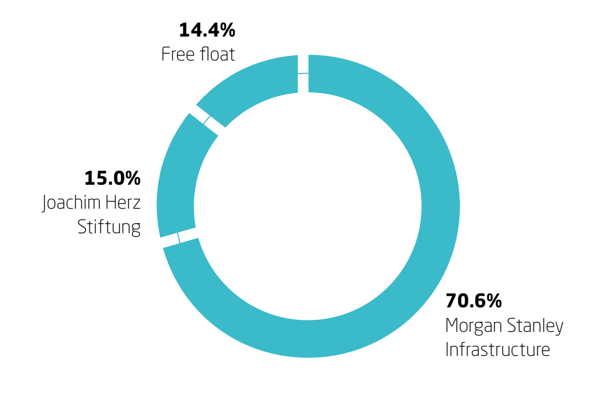


Holding takeover bid, the VTG share came under pressure from mid-December in the wake of global market turbulence, forfeiting many of the price gains thus far achieved. At the end of the year, the VTG share closed with a slight gain of 2.4 %, at € 48.90. Including the dividend of € 0.90, the total shareholder return for the year as a whole was 4.1 %. With an average of 37,394 shares traded per day, the XETRA trading volume exceeded the previous year's figure of 32,949 shares per day. At the end of 2018, the market capitalization of VTG AG was around € 1.4 billion (previous year: € 1.4 billion).

Shareholder structure

As of December 31, 2018, the company is aware of two major shareholders with stakes exceeding 5 % of the voting rights in VTG AG. According to information on voting rights received on December 21, 2018, Morgan Stanley Infrastructure holds 70.63 % of the voting rights. According to information on voting rights received on July 18, 2018, Joachim Herz Stiftung holds 15.00 % of the voting rights. The remaining 14.37 % of the shares are in free float as defined by Deutsche Börse.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2018



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 2018 *	€ 48.90
Highest price 2018 *	€ 56.50
Lowest price 2018 *	€ 38.00
Average daily turnover *	37,394 shares

All share price information is based on XETRA daily closing prices

Dividend to climb to € 0.95 per share

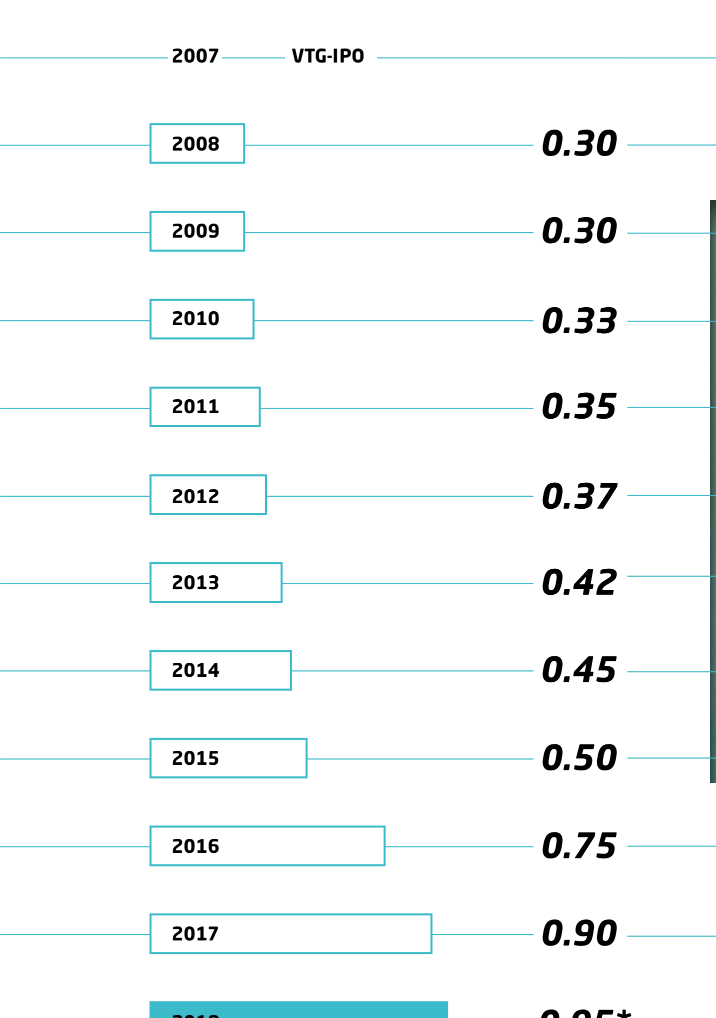
VTG has positioned itself as a reliable issuer of dividends since the IPO in 2007. The Executive Board also aims to increase the dividend as the company's performance improves.

With a resolution of June 6, 2018, the Annual General Meeting approved the proposal of the Executive Board and the Supervisory Board to issue a dividend for the tenth consecutive year and issue to shareholders a payment of € 0.90 per share for the financial year 2017 (previous year: € 0.75). The Executive Board of VTG intends to propose to this year's Annual General Meeting a further increase in the dividend, to € 0.95 per share for the financial year 2018.

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 2018 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 2018, 11 financial analysts representing a range of domestic and international brokers were providing research coverage on VTG.

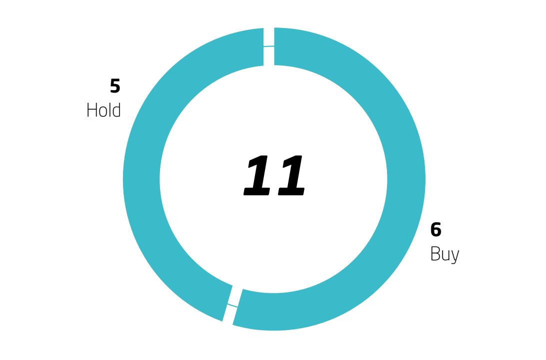
TREND IN VTG DIVIDEND PAYMENTS



* Proposed

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

ANALYST RECOMMENDATIONS FOR THE VTG SHARE / DEC 31, 2018



Delisting of VTG shares

On February 24, 2019, with the approval of the Supervisory Board, the Executive Board of VTG Aktiengesellschaft passed a resolution to apply to revoke the admission to trading of the VTG shares on the regulated market of the Frankfurt Stock Exchange (delisting). Warwick Holding GmbH, the majority shareholder of VTG with around 71 %, has submitted a compensation offer of € 53.00 to the shareholders. Shareholders will be able to tender their shares until April 8, 2019. The admission of the VTG shares to trading on the regulated market of the Frankfurt Stock Exchange is expected to be revoked shortly after the end of the compensation offer.

At the same time, Warwick Holding GmbH has pledged its support for a rights issue of € 290 million in the second quarter of 2019 to partially refinance the hybrid capital. In this connection, it has announced that it will fully exercise its subscription rights in terms of the capital increase and will purchase the shares to which it is entitled at the subscription price to be determined. In addition, it will acquire all unsubscribed shares from the capital increase. The majority shareholder had previously announced that it would be able to support a rights issue only within the context of a delisting.

GROUP MANAGEMENT REPORT

03

03	CHAPTER	Group Managment Report
PAGE	TOPIC	

Page	Topic
034	Basic Principles of the Group
040	Report on the Economic Position
049	Report on Opportunities and Risks
058	Report on Expected Developments
060	Required Disclosures

Basic Principles of the Group

BUSINESS MODEL OF THE GROUP

Operations

VTG Aktiengesellschaft, Hamburg, is one of Europe's leading wagon hire and rail logistics companies. The company has a fleet of more than 94,000 rail freight wagons, comprising mainly 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 more than 9,300 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 diverse 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 bespoke wagons, customers can transport large volumes, often 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 semi-trailer 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 diverse 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 key role in trade and production flows, customers tend to hire the wagons 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, which are mainly shipped for the chemical and petrochemical industries, can thus be forwarded multimodally, by rail, road or sea, without having to load or unload the actual goods themselves. Instead, the tank 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 operation 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. In addition to VTG AG, a total of 73 companies belong to the VTG Group. As of December 31, 2018, the VTG Group had 65 fully consolidated companies in addition to VTG AG. Of these, 20 were in Germany and 45 in other countries. Additionally, four foreign companies were consolidated using the equity method. Compared with December 31, 2017, the number of fully consolidated companies had therefore increased by one.

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 connection 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 of VTG AG 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), EBT (earnings before taxes) and 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 considered. 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 considered 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 leased 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 and 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 to shareholders. 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. The Executive 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 cost of capital

Companies such as VTG must 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 one-time items is placed in relation to the average capital employed. At VTG, the cost of capital before taxes is calculated 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 determined on the basis of 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: digitization, 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.

Technical innovation

In recent years, VTG has continuously expanded its research and development activities and is now one of the industry's innovation leaders. Research on innovative wagons and components takes place via the company's own "innovation platform". This platform comprises the Technical Innovations team, the Digitization team, the Newbuild division and the engineers at the VTG-owned Graaff wagon construction plant in Elze. 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, 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.

Since the end of 2016, the Technical Innovation Team and DB Cargo have collaborated in the "Innovative Freight Wagons" project, each developing two wagon types. VTG oversaw the design and development of an innovative tank wagon and container wagon. Real-life testing of these wagons has been ongoing throughout Europe since 2018. Initial indications are that these are quieter and more energy- and cost-efficient than those currently in use. These trials will be completed in 2019 and their findings will inform the development of new standard production models. This project is funded by the German Ministry of Transport. Improvements were also made to a container wagon for the Swiss Federal Office for the Environment (FOEN) to achieve better noise behavior, running dynamics, weight and maintenance costs. This project will also be completed in 2019 with measurement tests.

Digitization

With a comprehensive strategy for digitization, VTG has laid the foundation for digital services in the industry. The Digitization department is responsible for implementing this strategy. The emphasis is on digitizing the entire European wagon fleet and building on this to develop new services and business models. The digitized freight wagons support the new VTG-Connect service. This service includes the provision of location and event data for the wagons fitted with the system. This will make logistics and maintenance 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. Additional sensors that provide readings on the condi-

tion of the wagon and the goods are being developed jointly with suppliers. These are to be integrated into the existing system in the next few years.

In the last financial year, a further 12,000 wagons were fitted with the VTG-Connector telematics system, taking the number of digitized wagons to 20,000 at year-end 2018. The rest of VTG's European wagon fleet is set to follow suit in the next two years. The telematics modules and the IT back-end infrastructure that supports the system are being continuously developed. Numerous proof-of-concept projects were also carried out in 2018. These involved data networking and the design of innovative processes to explore new pathways for digital business. One area of exploration was the prediction of optimum wagon maintenance times based on fleet status readings from IoT sensors. There was also a continued focus on smartphone applications and digital tools for fleet management.

Employees

Number of employees rises slightly

As of December 31, 2018, the VTG Group had 1,626 employees (previous year: 1,527). Of these, 1,122 were employed in Germany (previous year: 1,048) and 504 in other countries (previous year: 479). The number of blue-collar workers stood at 407 (previous year: 398), almost all of whom were employed in the repair and manufacturing facilities. The number of white-collar workers was 1,144 (previous year: 1,069). Additionally, VTG employed 75 trainees as of December 31, 2018 (previous year: 60). This increase in the number of employees in the Group is attributable to the acquisition of the Nacco Group and the expansion of the mobile maintenance service as scheduled.

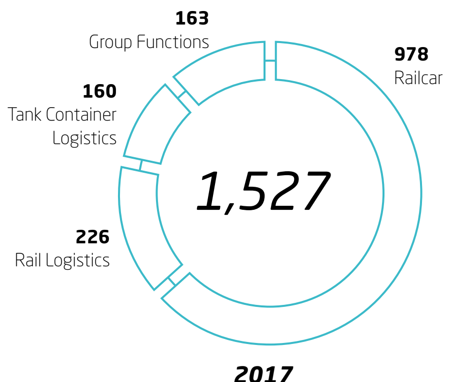
VTG remains an attractive employer

Demographic and economic trends have increased 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. Overall, VTG has continued to attract and retain suitable candidates due to its good positioning and reputation in the market along with the professional image it puts forward to candidates at interview. VTG benefits from its professional recruitment methods, its sound economic profile and the appeal of its business model within the rail and international logistics setting.

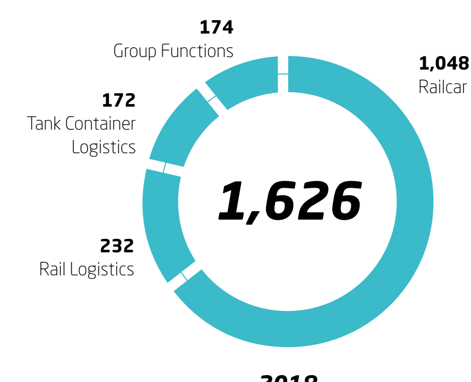
VTG continues to emphasize training

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 three universities, educating and training new employees via work-and-study programs in business administration, industrial engineering, logistics management, business informatics and design engineering. VTG also maintains contact with other universities, with VTG staff giving lectures and 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



2017



2018

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, in 2018, VTG established a new, fully revised strategic succession plan. In 2018, HR also concentrated its efforts on managers as a group. In addition to the annual Leadership Excellence program for mid-level managers, there was also a program for upper management. For the first time, those making the transition to management had additional e-learning support for the first 100 days in their new role.

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 2018, VTG successfully continued the process of merging the quality and safety management systems of the European Railcar, Rail Logistics and Tank Container Logistics divisions. By means of audits, the authorized certification body checked all existing management systems (ISO 9001:2015, ISO 27001:2013, ISO 50001:2011, ECM EU 445/2011, 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 as a matter 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 again reviewed in accordance with the requirements of EU Directive 2016/798. As a result, Retrack received safety certification in accordance with Section 7a (2) of the German General Railway Act. Retrack thus continues to be entitled to participate in international rail traffic. In a further step, on May 8, 2018, Retrack also received safety certification for Austria from the Austrian Ministry of Transport, Innovation and Technology.

Data protection and information security

The protection of information and data is becoming increasingly important. The issuing of ISO 27001:2013 certification by the certification body serves as confirmation of the availability, confidentiality and integrity not only of IT-supported information but of information beyond this.

To comply with and implement the new General Data Protection Regulation (GDPR), around 1,000 processing directories were created and operationalized 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 previous years, the Group was subject to systematic audits and assessments in all divisions. These were performed by the authorized certification bodies in accordance with a range of specifications, for example ISO 9001:2015 Quality Management, ISO 27001:2013 Information Security, ISO 50001:2011 Energy Management, EU 445/2011 ECM and GMP+ B4 Animal Feed and Waste Disposal. The findings again confirm the very high quality and safety of the equipment in use and the accompanying processes and services.

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. For this reason, VTG has introduced a safety initiative for all divisions to further reduce the number of accidents at work and the associated downtime. 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 for measuring and reducing its energy consumption. The information this system delivers is used to monitor key energy parameters and to determine any further action that can be taken to save energy.

Report on the Economic Position

GENERAL ENVIRONMENT

Macroeconomic environment

Political uncertainty impacts global economy

The year got off to a good start for the global economy. Over the course of the year, however, the mood became increasingly gloomy. The escalating trade conflict between the US and China and uncertainty surrounding the UK's exit from the EU led to a slowing of economic momentum. The IMF therefore made slight revisions to its initially optimistic growth forecasts for 2018. The global economy is expected to have grown by 3.7 % in 2018, following higher growth of 3.8 % in the previous year. In Europe and Asia in particular, the economy cooled noticeably. Meanwhile, the US economy saw even stronger growth in 2018 than in the previous year.

Growth in Europe weakens

Economic output in the eurozone rose again in 2018. This was the fifth consecutive year of growth in the eurozone, although the pace slowed increasingly in 2018. In Germany, the automotive industry had problems with registering vehicles as a result of the new WLPT emissions test and faced supply bottlenecks because of low river levels. These factors led to stagnation in economic output in the second half of the year. Nevertheless, for the year as a whole, Germany recorded economic growth of 1.5 %, following growth of 2.5 % in the previous year. Despite the continued loose monetary policy of the European Central Bank (ECB), the other major European economies all grew more slowly than in the previous year. France saw economic growth of 1.5 %, following 2.3 % in 2017. In Italy, economic growth was 1.0 % (previous year: 1.6 %) and in Spain 2.5 % (previous year: 3.0 %). In the face of political uncertainty surrounding its still unresolved exit from the EU, the UK also saw a decline in growth, which fell to 1.4 % (previous year: 1.8 %).

US economy sees strong growth, while China weakens slightly

Driven by tax relief and deregulation, the US economy grew by 2.9 % in 2018 (previous year: 2.2 %). Private consumption once again provided impetus for growth, aided by the very positive labor market. Unemployment is now at its lowest level for 50 years and the number of people in work at a record high. Due to the good economic data, the US Federal Reserve raised key interest rates several times in 2018.

In 2018, the Chinese economy grew by 6.6 %, the slowest growth seen in almost three decades (previous year: 6.9 %). The worsening trade dispute with the US, falling global demand and the high debt burden of domestic companies had a negative impact. Due in part to the rise in oil prices in the last financial year, the Russian economy grew by 1.7 % (previous year: 1.5 %).

Sector-specific environment

The "Ongoing Medium-Term Forecast for Freight and Passenger Transport – Short-Term Forecast Summer 2018" drawn up for the German Ministry of Transport and Digital Infrastructure expects a slight increase in growth in the German rail freight transport market in 2018*. Transport volume is expected to increase by 0.7 %, to 403.8 million tonnes. Transport performance is expected to increase by 1.6 %, to 132.0 billion tkm. The railways' share of the total freight transport market thus remains at around 18 % of transport performance. The driver of growth was again combined transport, which is expected to increase in 2018 by 3.8 %, to 53.8 billion tkm. This now accounts for 41 % of transport performance in rail freight traffic. Combined transport is the transport of goods using multiple modes of transport, with the goods remaining in their containers when modes are changed. In rail freight transport, containers, trailers and swap bodies are transported using intermodal wagons. As in previous years, however, there were significant losses in coal transports, as this fuel is increasingly being replaced by renewable energies.

* At the time of preparation of the annual report, the actual figures for the entire financial year 2018 were not yet available.

BUSINESS DEVELOPMENT AND SITUATION

Significant events and transactions

VTG Aktiengesellschaft completes acquisition of Nacco Group

On July 1, 2017, VTG announced its intention to purchase from the US-based CIT Group all shares in the Paris-based CIT Rail Holdings (Europe) SAS, owner of the Nacco Group and a lessor of rail freight wagons in Europe. The relevant competition authorities approved the takeover at the end of March 2018 on condition that some 4,000 wagons in the Nacco fleet were sold to an independent bidder. Once this condition had been met, the takeover was completed on October 4, 2018. As a result, VTG acquired around 11,000 wagons of various types to boost its existing fleet.

Morgan Stanley Infrastructure makes voluntary takeover bid

On July 16, 2018, VTG's major shareholder Morgan Stanley Infrastructure announced that it was preparing to make a voluntary takeover bid for VTG AG. From August 24, 2018 to December 5, 2018, shareholders were able to tender their shares to Warwick Holding, a subsidiary of Morgan Stanley Infrastructure, for a cash payment of € 53.00 per share. Kühne Holding, the second largest shareholder to date, had already declared in advance that it would tender its stake of around 20 %. Following the takeover bid, Morgan Stanley Infrastructure's share of voting rights rose from 29.01 % to 70.63 % according to the voting rights announcement of December 21, 2018.

RESULTS OF OPERATIONS

Consolidated results of operations

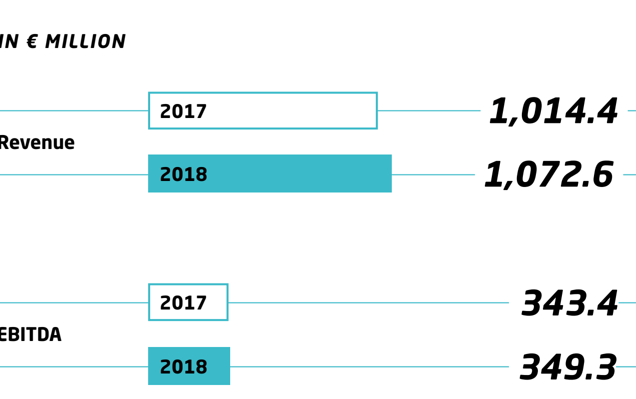
Group revenue increases significantly

In the last financial year, revenue for the VTG Group increased by 5.7 %, reaching € 1,072.6 million (previous year: € 1,014.4 million). This significant growth is primarily due to increased demand in the Railcar division, which, over the year, took fleet capacity utilization to its highest level in over a decade. Furthermore, the acquisition of the Nacco fleet on October 4, 2018, with first-time consolidation in the fourth quarter of 2018, led to additional revenue of € 22.3 million. Overall, the contribution of the two logistics divisions to Group sales remained largely stable. While Tank Container Logistics managed to push up revenue significantly due to increased transport volume, Rail Logistics saw a decline in revenue due to the loss of major orders, the rail strikes in France and a shortage of locomotive drivers.

Of total revenue for the Group, € 346.1 million came from customers based in Germany (previous year: € 378.2 million). This represents a share of 32.3 % (previous year: 37.3 %). Customers in the EU (excluding Germany) generated revenue of € 523.6 million (previous year: € 459.6 million). Outside the EU, revenue of € 149.5 million was generated (previous year: € 124,4 million).

REVENUE AND EBITDA DEVELOPMENT

IN € MILLION



EBITDA impacted by numerous one-time items

At € 349.3 million, EBITDA (earnings before interest, taxes, depreciation and amortization) was up 1.7 % on the 2017 level of € 343.4 million. This figure includes numerous special charges totaling € 25.6 million (previous year: € 4.0 million), of which € 18.8 million was attributable to the acquisition of the Nacco Group and € 6.8 million to the voluntary takeover bid by Warwick Holding (Morgan Stanley Infrastructure). After adjustment to take account of these special charges, EBITDA would have risen year-on-year by 7.9 %, to € 374.9 million. This increase is largely due to the much-improved performance in the Railcar division, which benefited both from increased capacity utilization and from the takeover of the Nacco fleet. By contrast, however, a decline in earnings was seen in both the Rail Logistics and Tank Container Logistics divisions.

RECONCILIATION TO ADJUST FOR ONE-TIME ITEMS

IN € MILLION	2018	2017	Change in %
EBITDA reported	**349.3**	**343.4**	**+1.7%**
+Transaction and integration costs for Nacco	+18.8	4.0	
+Takeover bid by Warwick Holding	+6.8	-	
= Special charges (EBITDA level)	**+25.6**	**4.0**	
EBITDA adjusted	**374.9**	**347.4**	**+7.9%**
EBIT reported	**149.4**	**155.1**	**-3.7%**
+Total special charges (EBITDA level)	25.6	4.0	
+Nacco special depreciation	0.6	-	
= Special charges (EBIT level)	**26.2**	**4.0**	
EBIT adjusted	**175.6**	**159.1**	**+10.4%**
EBT unadjusted	**64.9**	**90.2**	**-28.1%**
+Total special charges (EBIT level)	26.2	4.0	
+ Special charges from Nacco financing	10.5	6.5	
= Special charges (EBT level)	**36.7**	**10.5**	
EBT adjusted	**101.6**	**100.7**	**+0.9%**
Tax rate	*30%*	*30%**	
-Adjusted taxes	30.5	30.2	
Group net profit adjusted	**71.1**	**70.5**	**+0.9**
Thereof relating to			
Shareholders of VTG Aktiengesellschaft	**54.8**	**58.0**	**-5.6%**
Hybrid capital investors	**16.3**	**12.5**	**+30.7%**
EPS adjusted (in €)	**1.90**	**2.02**	**-5.6%**
EPS unadjusted (in €)	**1.01**	**1.93**	**-47.7%**

** adjusted (previous year reported: 24.5%)*

Adjusted earnings per share down on previous year

EBIT (earnings before interest and taxes) fell by 3.7 % in the year under review, to € 149.4 million (previous year: € 155.1 million). This is mainly due to the aforementioned special charges of € 26.2 million and lower earnings contributions from the two logistics divisions. After adjustment to take account of the one-time items from the Nacco acquisition and the takeover bid by Warwick Holding, EBIT was 10.4 % higher than in the previous year.

EBT (earnings before taxes) saw a drop of 28.1 %, falling to € 64.9 million (previous year: € 90.2 million). EBT was affected not only by the aforementioned special charges but also by commitment interest and other one-time financing costs for the Nacco acquisition amounting to € 10.5 million (previous year: € 6.5 million). After adjustment to take account of these expenses totaling € 36.7 million, EBT was € 101.6 million, representing a slight increase on the previous year (€ 100.7 million). The EBT figure also includes currency losses of € 3.9 million on unsecured USD finance in Russia (unadjusted expense). At the end of the 2018 financial year, this finance was replaced as planned by a new loan in local currency.

Due to the various special charges and a normalized tax rate of 30 % (in the previous year, the rate fell to 24.5 % as a result of two positive one-time items), net profit for the Group shrank by 33.2 % to € 45.5 million (previous year: € 68.1 million). After adjustment to take account of these special charges, net profit for the Group amounted to € 71.1 million, up 0.9 % on the adjusted 2017 figure of € 70.5 million. After deduction of the hybrid capital investors' share of € 16.3 million, the unadjusted figure for net profit for the Group attributable to shareholders of VTG AG was € 29.1 million (previous year: € 55.6 million) and the adjusted figure was € 54.8 million (previous year: € 58.0 million). Earnings per share (EPS) fell accordingly, from € 1.93 in the financial year 2017 to € 1.01 in 2018. The adjusted EPS figure for 2018 was € 1.90, compared with € 2.02 in the previous year, also adjusted for Nacco expenses.

Impact of Nacco takeover

The forecast for the Group for the financial year 2018 published in the 2017 Annual Report anticipated a slight rise in revenue compared with the previous year (2017: € 1,014.4 million) and EBITDA in the range € 340–370 million. However, the impact of the Nacco transaction on revenue and net profit were not explicitly considered, as the outcome of the process could not be reliably estimated, either in respect of the timing or the impact on net profit in the financial year 2018.

The completion of the acquisition of the Nacco Group on October 4, 2018 invalidated the forecast for revenue and EBITDA. Since the impact on revenue and net profit of the first-time consolidation of the Nacco Group in early October 2018 could not be reliably quantified in the short period to the end of the year, VTG refrained from updating its forecast for the financial year 2018. The Executive Board did, however, point out that, without the impact of the Nacco transaction, the original Group forecast would have remained valid.

REVENUE AND EBITDA EXCLUDING NACCO ITEMS

IN € MILLION	2018	2017	Change in %
Revenue reported	**1,072.6**	**1,014.4**	**+5.7 %**
Nacco revenue	- 22.3	-	
Revenue without Nacco items	**1,050,3**	**1,014.4**	**+3.5 %**
EBITDA reported	**349.3**	**343.4**	**+1.7 %**
Transaction and integration costs for Nacco	+18.8	4,0	
Nacco EBITDA contribution	-15.6	-	
EBITDA without Nacco items	**352.6**	**347.4**	**+1.5 %**

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. The VTG Group thus 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.

Railcar sees marked increase in revenue and net profit

In the financial year 2018, the Railcar division pushed up revenue by 11.4 %, to € 579.9 million (previous year: € 520.7 million). This dynamic increase is attributable both to significant recovery in demand from trade and industry and the acquisition of the Nacco fleet on October 4, 2018. Over 2018, fleet capacity utilization improved markedly in all wagon segments, especially in Europe. By the end of the year, it had reached 93.5 %, the highest level seen at VTG in more than a decade. In 2018, VTG also invested in 2,400 new wagons and acquired the 11,000-strong Nacco fleet, boosting its global fleet to over 94,000 units. In the last three months of 2018, Nacco contributed € 22.3 million to revenue.

The increased fleet size and improved capacity utilization are also reflected in the division's earnings performance. Railcar saw EBITDA rise proportionally against revenue by 11.0 %, reaching € 381.4 million (previous year: € 343.6 million). The Nacco fleet contributed € 15.6 million to EBITDA. The EBITDA margin stood at 65.8 %, almost equaling the level of the previous year (66.0 %).

This outstrips the forecast issued at the beginning of 2018, which had predicted a slight increase in revenue and EBITDA in the Railcar 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, for example, 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.

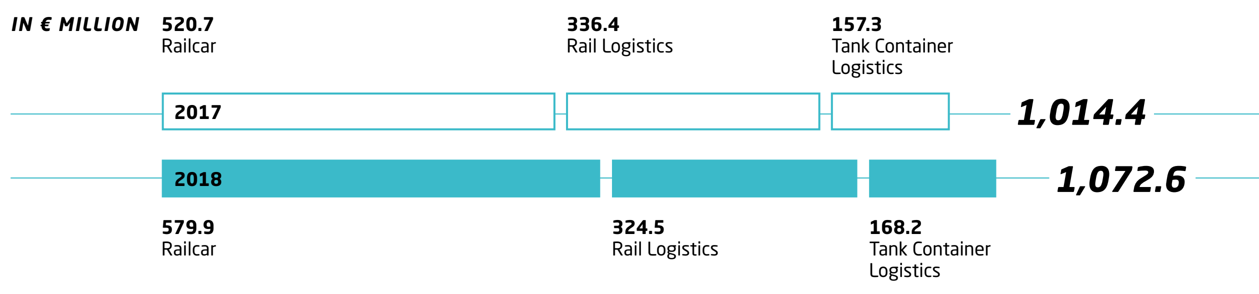
Year-on-year drop in earnings in Rail Logistics

The loss of two major orders from industry and the mineral oil sector, the rail strikes in France and a shortage of locomotive drivers had a negative impact on the performance of Rail Logistics in 2018. Despite a noticeable increase in revenue in the fourth quarter of 2018 (+9.5 % compared with the previous quarter), over the year as a whole, the division's revenue fell by 3.6 %, to € 324.5 million (previous year: € 336.4 million). As a result of this decline in revenue, EBITDA fell too, dropping 22.0 % to a level of € 6.5 million (previous year: € 8.3 million). Consequently, the EBITDA margin on gross profit reached 20.9 % in the last financial year (previous year: 26.1 %). Rail Logistics did not, therefore, manage to achieve the slight increase in revenue and EBITDA anticipated in the forecast issued at the beginning of 2018.

Results of operations: Tank Container Logistics

The Tank Container Logistics division offers transport and logistics services with 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 more than 9,300 tank containers.

BREAKDOWN OF REVENUE BY DIVISION



Changes in transport flows and infrastructure bottlenecks impact Tank Container Logistics

Tank Container Logistics again achieved dynamic expansion of transport volume thanks to good capacity utilization by the chemical industry in Europe and the generally positive global economy. Revenue for the division rose by 6.9 %, to € 168.2 million (previous year: € 157.3 million). For net profit, however, the picture was different. Changes in transport flows on overseas routes led to increased costs, including higher demurrage and relocation charges. Rising demand in Europe also exacerbated existing infrastructure bottlenecks in rail and road freight traffic, which also resulted in higher demurrage and freight costs. Consequently, EBITDA for the division shrank in 2018 by 42.3 %, to € 6.5 million (previous year: € 11.3 million). The EBITDA margin on gross profit stood at 27.3 % (previous year: 37.5 %). The forecast of a slight increase in revenue and EBITDA anticipated at the beginning of 2018 could therefore not be achieved for EBITDA.

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 € 387.5 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, whose term was extended by two years in October 2018 to run until December 2020, of which € 160 million had been drawn down as of the end of the year. To ensure liquidity, the VTG Group also has at its disposal a short-term revolving credit line of € 50 million and a current account credit line of € 20 million. At the end of the year, € 15 million had been drawn down on these credit lines.

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 2018, two tranches of bonds were repaid due to their maturity, so that at the end of the year bonds totaling € 550 million were still outstanding.

For the acquisition of the Nacco Group on October 4, 2018, the VTG Group took out a syndicated loan amounting to € 373.3 million. As of the balance sheet date, this amortizing loan with a term of three years, secured with Nacco's wagon fleet, had a value of € 369.6 million. Furthermore, a private hybrid bond amounting to € 275 million was placed, the full amount of which is classified as equity in the VTG Group. The term is indefinite and VTG may repay the bond in whole or in part subject to certain deadlines. Claims of holders of the hybrid bond are subordinate to the creditors of the company's financial debt.

In connection with the acquisition of Nacco, an amortizing loan was also taken up, of which GBP 47.7 million was outstanding at the end of the year. The loan is secured with the Nacco fleet in the UK and runs until December 2023.

In October 2018, a separate bank loan of RUB 2.6 billion was agreed for the railcar business in Russia, without recourse to the VTG Group, to repay the existing amortizing loan of USD 32.5 million. This separate bank loan is for financing the existing wagon fleet. At the end of the year, the loan outstanding was € 31.7 million (RUB 2.6 billion). The term is 5 years.

There are also various short and medium-term project financing arrangements for designated wagon fleets (some without recourse to the VTG Group), with a current volume of € 33.7 million and USD 160.7 million. The amortizing loans have residual terms of between one and four years.

Additionally, the takeover of the AAE Group in 2015 resulted in a long-term loan of € 70 million from the community of heirs of the former AAE owner and VTG shareholder Andreas Goer, with maturity in 2020.

In 2015, VTG placed its first ever 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 changes in value are 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 2018, interest rates fluctuated within a certain range and ended the year at a somewhat more subdued level, particularly in respect of long-term items. This in turn led to a negative market valuation of the interest rate derivatives.

In addition to the interest rate hedge of November 2016, involving some € 1.2 billion of interest rate derivatives, in October 2018, the VTG Group made further, comprehensive, long-term interest rate hedge arrangements with various financial institutions totaling some € 1.5 billion. As well as hedging existing variable-interest loans, these interest rate hedges are for future, 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 2038 at the latest. As the transactions are in a hedging relationship, only a small portion of the changes in their market value are in profit and loss. At the end of 2018, two swaptions due to be exercised in September 2019 totaling € 280 million were removed from the hedging relationship, as their exercise was considered highly unlikely due to the persistently low interest rate.

In connection with the financing of operating activities in Russia, an interest rate derivative agreement was also entered into in November 2018 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, 2018, cash and cash equivalents recorded in the balance sheet for the VTG Group amounted to € 84.1 million (previous year: € 78.2 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

In the financial year 2018, cash flows from operating activities grew by € 36.9 million to € 332.8 million (previous year: € 295.9 million). This increase resulted primarily from the sale of rail freight wagons (which, in the previous year, were still included in current assets) to leasing companies (sales in 2018: € + 6.8 million; purchases in the previous year: € – 8.0 million).

In the financial year 2018, cash flows used in investing activities stood at € 862.6 million, a significant increase on the previous year's figure of € 207.5 million. This increase is mainly due to the takeover of the Nacco Group, with other items in investing activities showing only minor changes.

Cash flows from financing activities amounted to € 536.2 million in the year under review (previous year: cash outflow of € 73.0 million). This increased cash inflow is attributable to the raising of hybrid capital and additional financial loans to finance the Nacco acquisition.

Capital expenditure

In the financial year 2018, VTG invested a total of € 362.2 million (previous year: € 341.6 million). Of this sum, € 206.0 million was spent on fixed assets (previous year: € 262.4 million). € 156.2 million was financed off-balance through operating lease agreements (previous year: €79.2 million). By far the largest share of the funds invested went to the Railcar division (96.8 %). These were used in particular for renewing and expanding the global wagon fleet. The remaining 3.2 % was invested in the two logistics divisions and the holding company (previous year: 3.9 %).

At the end of the reporting period, some 2,400 wagons were on order and awaiting delivery (previous year: 2,600).

NET ASSETS

Balance sheet structure

As of December 31, 2018, total assets for the VTG Group were € 3,905.8 million (previous year: € 3,085.5 million). This represents an increase of € 820.3 million compared with the previous year, largely as a result of the Nacco takeover.

As of December 31, 2018, non-current assets amounted to € 3,538.9 million and were significantly higher than in 2017 as a result of the Nacco takeover (previous year: € 2,746.4 million). Tangible fixed assets amounted to € 2,819.3 million (previous year € 2,235.9 million). This increase was also due to the takeover of Nacco. In addition, goodwill increased from € 340.5 million to € 487.3 million as a result of the takeover. Current assets increased to € 366.9 million due to an increase in trade receivables (previous year: € 339.1 million).

As of the end of the year under review, equity had increased to € 1,055.6 million (previous year: € 800.1 million). This increase is largely attributable to the issue of a hybrid bond to finance the Nacco acquisition. As of December 31, 2018, the equity ratio had improved, reaching 27.0 % (previous year: 25.9 %).

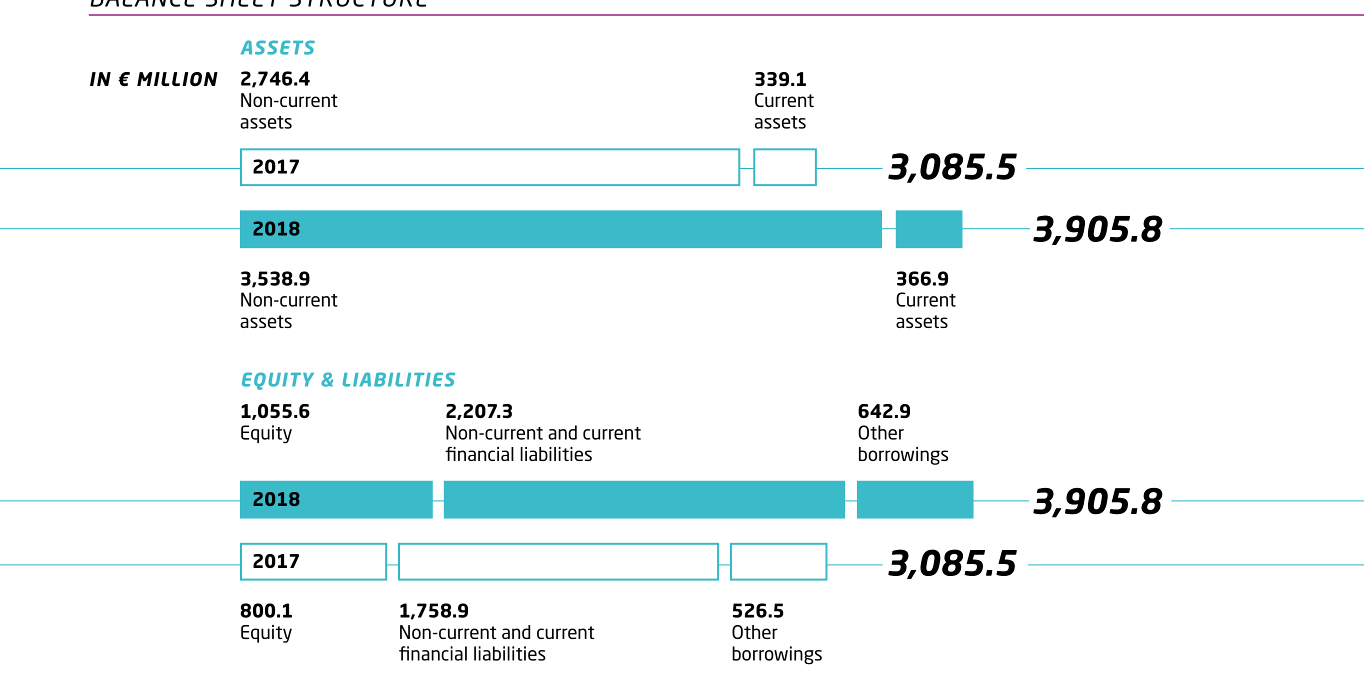
As of December 31, 2018, non-current debt had increased to € 2,484.8 million (previous year: € 1,767.2 million). This increase is due to the acquisition of Nacco in October 2018. Non-current debt continues to be covered by non-current assets.

Current debt decreased, falling to € 365.4 million compared with € 518.2 million at the end of 2017. This change is mainly due to the reclassification of current debt that was refinanced in 2018 and is now again reported as non-current debt.

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 2018 as a successful financial year overall. The year was characterized by a strong upturn in the wagon hire business but also by the impact of numerous one-time items. With the takeover of the Nacco Group in October 2018, VTG reached a major milestone in its history: by acquiring 11,000 freight wagons, the Group is now further consolidating its competitive position in the European wagon hire market. However, both the Rail Logistics division and the Tank Container Logistics division had to contend with worsening market environments in the past financial year.

In operational terms, the Railcar division recorded rising demand throughout the year, reflected in its highest level of fleet capacity utilization in more than a decade. Meanwhile, investment in new wagons and the takeover of the Nacco Group expanded the fleet, which grew to more than 94,000 wagons in the financial year. However, due to changes in transport flows and rising costs in Tank Container Logistics along with the loss of major orders, a shortage of locomotive drivers and strikes in France, the two logistics divisions were unable to build on their 2017 performance.

The results of operations for the Group were also significantly impacted by transaction and integration costs from the delayed takeover of the Nacco Group along with legal and consulting costs from the voluntary takeover by Warwick Holding, a subsidiary of Morgan Stanley Infrastructure. Net profit for the Group and earnings per share were therefore significantly lower than in the previous year.

The financial position and assets of the VTG Group remain solid following the acquisition of the Nacco Group. 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 continues to be in a very good position.

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 entire Supervisory Board and the Audit Committee in particular, 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 presentation 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 adequately reflected in the accounts. In this manner, VTG ensures that it can present a true and fair view 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 beyond 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 custom. The market share of rail freight in total freight transport in Europe is around 17 %.

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 improve 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 2018, 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.

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 newbuild 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 very 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 3,500 units (previous year: 3,200). 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 continuous 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, the Russian wagon hire market saw ongoing increases in rental rates in all wagon segments, and this was positively reflected in VTG's performance in Russia. 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

VTG's rail logistics operations are dependent on the economy and the availability of operating resources such as wagons and locomo-

tives. There is generally high cost pressure on railway companies due to intense competition with other modes of transport. 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 and intransparent cost structures to make low-price offers, which intensifies the price pressure. On the other hand, this process of market consolidation increases 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.

There is currently high demand for locomotive drivers from all providers of rail logistics services. Due to a significant shortage of qualified drivers, it is not possible to provide rail transport services for the quantities industry is asking for.

A further risk is the potential downturn of single-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. A 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 cyclical trend in the chemical sector. Following years of weakness, the European chemical industry was back on a clear path of growth in 2018, before slowing somewhat in the final quarter of the year. The rising demand in Europe is exacerbating the existing infrastructure bottlenecks (i. e. railway and storage capacity bottlenecks). Meanwhile, in road freight transport, the current shortage of drivers, particularly in chemical logistics, is leading to capacity bottlenecks. 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. This trend had a clear impact in the financial year. Furthermore, the trade conflicts between the US and China and the US and Europe are impacting traffic flows and volumes. Additionally, 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 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 and southern Europe 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. A further step toward ensuring greater customer loyalty is the division's entry into the complementary flexitank market.

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 and end markets. 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 the last ten years, which, even during a period of economic cooling, were much less volatile than, for example, transport volumes. The intermodal wagon business taken over from AAE in 2015 is, by contrast, affected more by economic fluctuations and global trading conditions and is therefore more cyclical than the other wagon segments.

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 the results of operations. 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

VTG's core operational division is the Railcar division. As of December 31, 2018, the division had a fleet of more than 94,000 rail freight wagons (previous year: approx. 83,000). To stay competitive and successful in the market over the long term, VTG must continually invest in maintaining, expanding and renewing its wagon fleet. These investment activities also tie up considerable capital. At the beginning of 2019, VTG had orders for some 2,400 new wagons.

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 ensuring important 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 expertise 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 fulfill 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 cooperation. It has therefore been able to limit this risk to manageable time delays. As of the balance sheet date, there were no known major, quantifiable investment risks arising from new wagon orders within the meaning of VTG's risk definition.

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 basically 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 results and thus on the Group as a whole. Conversely, any deflation would affect the Group's results. 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. The Group's customer base comprises mainly established industrial clients with a high credit rating. 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 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, 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 and October 2018, the VTG Group entered into further agreements involving medium- and long-term interest rate hedges with a total volume of € 2.7 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. With these interest rate derivatives, the interest rate risk for some portions of the variable-rate finance is hedged until 2038 at the latest. 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 aforementioned interest rate hedges are in a hedging relationship in accordance with IFRS 9. In order to assess the risk of changes in interest rates for financial debts 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 2018 were each changed by 50 basis points. An increase in the interest rate of 50 basis points would increase the Group's net profit after taxes by € 0.3 million (previous year: decrease of € 2.7 million) and increase the revaluation reserve by € 60.6 million (previous year: € 15.5 million). A reduction in the interest rate of 50 basis points would also increase the Group's net profit after taxes by € 0.1 million (previous year: decrease of € 0.3 million) and reduce the revaluation reserve by € 60.6 million (previous year: € 11.9 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. A change in the interest rate would not have any significant effects.

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 consolidated net debt to consolidated EBITDA ratio,
- a certain ratio of consolidated EBITDA to consolidated net interest income
- a certain ratio of consolidated, secured net debt to the value of the tangible fixed assets provided as security

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-mentioned financial covenants was ensured at all times during the past financial year. Thus, as of the balance sheet date, there were no major, quantifiable 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 do not allow 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, 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, 2018 were each increased and decreased by 10 % to determine the impact on after-tax profit:

	Appreciation		Depreciation	
IN € MILLION	**12/31/2018**	12/31/2017	**12/31/2018**	12/31/2017
British pound	-	-0.1	-	+0.1
Swiss franc	-0.1	-0.3	+0.1	+0.3
US dollar	+0.8	-1.6	-0.8	+1.6

The effect on the revaluation reserve was as follows:

	Appreciation		Depreciation	
IN € MILLION	**12/31/2018**	12/31/2017	**12/31/2018**	12/31/2017
British pound	+1.0	+0.4	-1.2	-0.5
US dollar	+0.1	-0.2	-0.1	+0.3

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 in respect of VTG equipment and vehicles:

– (serial) damage in respect of vehicles manufactured by VTG or procured by third parties and the resulting loss of capacity
– breaches of rules and regulations, particularly concerning the storage and transportation of hazardous materials, the operation of rail freight wagons, 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 toward 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 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 is providing financial support for the conversion work. Independently of this statutory requirement, VTG has made its own decision to retrofit all wagons operating in Germany 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 has therefore appointed a CISO (chief information security officer) with Group-wide responsibility and has an ISMS (information security management system) in place which received ISO 27001 certification in 2018. 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 digitalization 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 Upper Management Program UMP, the LEX Leadership Excellence program and the PEP! program for fostering talent. Together with its corporate values, VTG's 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, deputization and 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 key personnel 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 be-

come 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 in the integration of the Nacco Group into the VTG Group

VTG expects that the integration of the Nacco Group will last several years and will require significant resources in terms of both staff and finance. Successful integration also depends, among other things, on the merger of two complete employee lines and different corporate cultures, the harmonisation of IT systems and the introduction of uniform processes for the new, larger company as a whole. It can therefore not be guaranteed that the contributions to revenue and earnings expected from the acquisition of the Nacco Group or that the planned synergies will be fully achieved.

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 following the acquisition of the Nacco 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 operating income. 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 Nacco Group.

Risks related to the UK's exit from the EU

The United Kingdom is currently planning to leave the European Union in 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 3,600 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 appreciable cross-border transports. At most, the only 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 only 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 outlined 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

After a strong start to the year, the momentum seen in the global economy slowed at the end of 2018. The political uncertainties due to Brexit and the US trade conflict with China and Europe are having an increasingly negative impact on the mood of business and private households. For 2019, the International Monetary Fund (IMF) is therefore expecting somewhat weaker global economic growth of 3.5 %, following growth of 3.7 % in the previous year.

After 9 years of upswing, the German economy is now working close to capacity. The IMF therefore expects only moderate growth of 1.3 % in 2019, compared with 1.5 % in the previous year. For France, as in the previous year, the forecast is for growth of 1.5 %, while, for Italy, just 0.6 % growth is expected due to weak domestic demand and the difficult budget situation (previous year: 1.0 %). For the eurozone overall, the IMF expects growth of 1.6 % in 2019, following 1.8 % in the previous year. Growth of 1.5 % is anticipated for the United Kingdom. However, given the unresolved nature of Brexit at the time of approval of this annual report in early March, there is a high degree of uncertainty attached to the forecast for the United Kingdom.

In the US, the positive effects of the tax reform measures adopted at the end of 2017, resulting in higher-than-average growth in 2018, are likely to wear off somewhat in 2019. The US Federal Reserve is also expected to raise interest rates further to protect the economy against overheating. As a result, economic growth should slow from 2.9 % in 2018 to 2.5 % in 2019. The trade conflict between the US and China is likely to continue to afflict the Chinese economy. In response, China has announced fiscal measures. The IMF does not, however, expect these to be entirely sufficient to bolster the economy and is therefore predicting another slowdown in growth, from 6.6 % in 2018 to 6.2 % in 2019. A slight slowdown in growth is expected for Russia too, from 1.7 % in 2018 to 1.6 % in 2019.

GLOBAL ECONOMIC GROWTH FORECAST (IMF)

	2017	2018*	2019**
World	3.8 %	3.7 %	3.5 %
Eurozone	2.4 %	1.8 %	1.6 %
Germany	2.5 %	1.5 %	1.3 %
France	2.3 %	1.5 %	1.5 %
Italy	1.6 %	1.0 %	0.6 %
Spain	3.0 %	2.5 %	2.2 %
UK	1.8 %	1.4 %	1.5 %
US	2.2 %	2.9 %	2.5 %
China	6.9 %	6.6 %	6.2 %
Russia	1.5 %	1.7 %	1.6 %

Source: International Monetary Fund – World Economic Outlook (Update January 2019)
** Estimate ** Forecast*

Overall assessment by the executive board

The Executive Board anticipates that the VTG Group will see positive trends in revenue and EBITDA in 2019. Even though economic momentum has slowed somewhat recently, the general economic conditions in all relevant VTG markets remain solid. In Germany, the reduction in track access charges for rail freight traffic is expected to boost the industry. Both of these factors should keep demand for wagons and logistics solutions at a high level. The acquisition of the Nacco Group on October 4, 2018, which will be consolidated for the first time for the full financial year in 2019, is expected to have a further positive impact on revenue and earnings. The transaction and integration costs relating to the takeover should also be much lower in 2019 than in 2018.

Based on these expectations, the Executive Board anticipates a marked increase in revenue for the financial year 2019, to between € 1.15 billion and € 1.25 billion. EBITDA (earnings before interest, taxes, depreciation and amortization) is expected to be in the range € 480-510 million. The EBITDA forecast includes a positive earnings contribution of € 50 million from the first-time adoption of the new IFRS 16 reporting standard for operating leases.

Due to the acquisition of the Nacco Group and the boost to the industry from the reduction in track access charges for rail freight in Germany, the Railcar division is expected to see a significant increase in revenue and EBITDA.

The Rail Logistics division was again able to secure major transport orders for 2019. Moreover, it should also benefit from a reduction in track access charges for rail freight traffic in Germany. However, the general market situation remains challenging due to the intensity of competition. The division is therefore expected to see slight growth in revenue and EBITDA.

For Tank Container Logistics, the 2018 financial year was characterized by changes in transport flows, increasing complexity and higher costs. The difficult market situation is likely to continue in 2019. By increasing productivity and developing new sources of income, a slight increase in revenue and EBITDA is expected.

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 now aims to strengthen its competitiveness over the long term, with a focus on selective growth, digitization and efficiency drives. Financially, the VTG Group aims to increase earnings per share to € 2.50 by 2019. The acquisition of the Nacco Group in 2018 was an important step towards this goal.

Dividend to climb to € 0.95 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 6, 2018, the Annual General Meeting ratified the proposal of the Executive Board and the Supervisory Board to pay a dividend for the tenth consecutive year and issue to shareholders a payment of € 0.90 per share for the financial year 2017 (previous year: € 0.75). The Executive Board of VTG intends to propose to this year's Annual General Meeting a further increase in the dividend, to € 0.95 per share for the financial year 2018.

Required Disclosures

REQUIRED DISCLOSURES PURSUANT TO SECTION 315A (1) OF THE GERMAN COMMERCIAL CODE

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

Composition of the subscribed capital

On December 31, 2018, 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 voting rights or the transfer of shares

As at December 31, 2018, 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, 2018, 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 of December 21, 2018, Morgan Stanley, Delaware, USA, 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 70.63 % of the voting rights through Warwick Holding GmbH and Warwick Holding GmbH has a direct shareholding of 70.63 % of the voting rights.

According to a voting rights announcement of July 18, 2018, Joachim Herz Foundation (Joachim Herz Stiftung) has a direct shareholding of 15.0000005 % of the voting rights.

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 Section 84, 85 of the German Stock Corporation Act and Section 6 of the Articles of Association of VTG AG as well as Section 9 of the Rules of Procedure of the Supervisory Board of VTG AG.

In accordance with Section 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 in addition to a majority of voting rights (Section 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 Section 10 (2) of the Articles of Association. Pursuant to Section 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 in the period up to May 28, 2020 by up to a total 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 pro-rata share in the share capital of € 1.00 each against contributions

in cash and/or kind (authorized capital). Shareholders are generally to be granted subscription rights. 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 under Section 53 (1) sentence 1 or Section 53 b (1) sentence 1 or Section 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 is not substantially lower, within the meaning of Section 203 1 and 2, and Section 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 adoption of the resolution by the Annual General Meeting 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 Section 71 (1) no. 8 sentence 5 and Section 186 (3) sentence 4 of the German Stock Corporation Act as well as shares that are 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 Section 221 (4) and Section 186 (3) sentence 4 of the German Stock Corporation Act are counted toward the maximum limit of 10 % of 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.

To date, VTG AG has not exercised these powers. Further details can be found in Section 4 (4) of the Articles of Association.

With its resolution of June 6, 2018, the Annual General Meeting, revoking the authorization granted by the Annual General Meeting of June 5, 2014, also authorized the Executive Board of VTG AG to acquire, in accordance with Section 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 5, 2023. 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, whereby the price paid by the company must be close to the listed 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 % (whereby, shares with conversion or option rights or obligations from bonds with warrants or convertible bonds are to be taken into account), (iii) offer or 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 reduce the share capital of VTG AG by the respective amount 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 be increased through the redemption in accordance with Section 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).

On June 6, 2018, VTG AG declared to Warwick Holding GmbH that VTG AG will, at least four weeks prior to the redemption of treasury shares and subject to conflicting statutory provisions, inform Warwick Holding GmbH of this redemption if VTG AG has received notification at this point in time from Warwick Holding GmbH that more than 25 % of the voting rights of VTG AG are held by or are attributable to Warwick Holding GmbH. In addi-

tion, VTG AG declared that it will redeem the shares only if Warwick Holding GmbH has been exempted by the German Federal Financial Supervisory Authority (BaFin) from the duty to publish a mandatory offer pursuant to Section 37 of the German Securities Acquisition and Takeover Act (WpÜG) or if the imminent redemption for other reasons will not trigger an obligation pursuant to Section 35 of the German Securities Acquisition and Takeover Act (WpÜG) to publish a mandatory offer.

To date, VTG AG has not exercised the powers to acquire treasury shares granted by the resolution of the Annual General Meeting of June 6, 2018.

With a 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 pro rata amount of up to € 14,378,109.00 of the share capital. The bonds can also be issued by a subsidiary company of the VTG Group. 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 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 such bonds do not exceed 10 % as a proportion of the share capital (whereby with 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 Aktiengesellschaft must as a rule amount to at least 80 % of the volume-weighted average price of the no-par value shares of VTG AG that are in the electronic trading system of the Frankfurt Stock Exchange in the last 10 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 Section 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. To date, VTG AG has not exercised these powers.

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

Material agreements subject to a change of control clause

For the purpose of general group financing, in December 2015, VTG AG agreed with a consortium of banks a syndicated loan amounting to € 1,180 million. In connection with the acquisition of the shares in CIT Rail Holdings (Europe) S.A.S., CIT Rail Holdings (Europe) S.A.S. agreed a syndicated loan of € 373.3 million with a consortium of banks in October 2018, guaranteed by VTG AG. Both syndicated loan agreements grant 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 both syndicated loan agreements, 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. In connection with the acquisition by Warwick Holding GmbH of the majority of the voting rights in VTG AG, the banks waived their termination rights in respect of the acquisition by Warwick Holding GmbH.

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 the event of a change of control. In addition to the acquisition of more than 50 % of the voting rights in VTG AG by a person or a group of persons acting jointly (with the exception of the previous majority shareholder W.L. Ross and the companies affiliated to him), a change of control under the conditions of the US loan requires that the previous majority shareholder of VTG AG, W. L. Ross, and persons affiliated to him as a consequence of such a change in the voting rights majority, hold, directly or indirectly, less than 5 % of the voting rights

in VTG AG and, moreover, that they are not represented in the management body of the party taking control W.L. Ross notified VTG AG in a voting rights announcement of May 18, 2016, that he no longer has any shareholding in VTG AG. 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 must pay back at least € 20 million of credit before repayment is due because of the change in the voting rights majority. Due to the acquisition of the majority of voting rights in VTG AG by Warwick Holding GmbH, VTG Deutschland GmbH as the issuer is obliged to offer early repayment of the US bond to the bondholders if the US bond does not receive the required rating within 90 days of the acquisition of the voting rights majority by Warwick Holding GmbH. However, VTG AG has received written confirmation from bondholders holding some € 400 million of the US bond that these bondholders will not accept the offer to repay the US bond early.

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 the event 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. Due to the acquisition of the majority of voting rights in VTG AG by Warwick Holding GmbH, AAE RaiLease S.à r.l. would have been obliged to offer early repayment to the holders of the registered bonds. However, all holders of the registered bonds have waived this right.

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). Under the terms and conditions of the hybrid bond, a change of control event occurs if a person or a group of persons acting in concert acquires more than 50 % of the voting rights in VTG AG and VTG AG does not receive a rating corresponding to BBB – (S&P and Fitch) or Baa3 (Moody's) or an equivalent rating from another rating agency within 180 days of acquiring this shareholding.

To finance the cost of purchasing the shares in CIT Rail Holdings (Europe) S.A.S., VTG AG has entered into an agreement for the issue of a hybrid bond of € 275 million; this issue was underwritten by a bank. The hybrid bond was issued in October 2018. The terms of the hybrid bond stipulate that VTG AG has a right of early repayment of the hybrid bond if a change of control event occurs. A change of control event occurs if one person or a group of persons acting in concert acquires more than 50 % of the voting rights in VTG AG. According to the terms and conditions of the hybrid bond, last updated in January 2019, VTG AG must inform the bondholders within 15 days of the occurrence of the change of control event whether it intends to exercise the right of early repayment of the hybrid bond. If no such notification is made to the bondholders within the said period or if VTG AG decides not to exercise its right to early repayment after the occurrence of a change of control event, the otherwise applicable interest rate of the hybrid bond increases by 5.00 % p. a. In respect of the acquisition of control by Warwick Holding GmbH, the bondholders waived such an increase in interest and the bond terms were amended accordingly.

In June 2018, VTG Finance S.A. agreed a current account credit line of € 20 million with DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main. If a person or group of persons acting in concert, directly or indirectly, acquires more than 50 % of the capital shares and/or voting rights in VTG AG, VTG Finance S.A. must notify the lender of this and negotiate a continuation of the credit relationship with the lender. If an agreement on the continuation of the credit relationship (possibly with modified terms) is not reached within one month of the occurrence of the change of control, the lender is entitled to terminate the credit agreement without notice for good cause.

Compensation agreements with 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 assessment. Overall, the remuneration of the Executive Board comprises several components: a non-performance-related element, a performance-related bonus, pension benefits and additional benefits.

The non-performance-related remuneration element consists of a fixed amount and various additional benefits.

The additional benefits include the expenses incurred by members of the Executive Board in connection with their work and include 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 bears the cost of insurance for the event of death or invalidity of members of the Executive Board, in addition to travel insurance and directors' and officers' liability insurance.

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

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 all 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, which contains short- and long-term components determined on the basis of several years and oriented toward sustainable company performance. Furthermore, the performance-related remuneration component is confined to a fixed proportion of the fixed 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 certain pension benefits when certain pension situations arise. These situations include not only the payment of pension benefits upon reaching the upper age limit of 65 but also flexible conditions of retirement from the age of 60, cases of incapacity or death (pensions 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. Members of the Executive Board who are newly appointed to the company have for some time now had defined contribution plans As of December 31, 2018, the company had set up provisions for post-employment benefits for members of the Executive Board amounting to approximately € 10.3 million. Beyond the employment contracts, other than the non-compete provisions providing for compensation contained therein, 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 eligible for 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 fixed and performance-related components as well as into components with a long-term incentive effect. According to both German commercial law and the German Corporate Governance Code, the required disclosures can be dispensed with if 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 required disclosures as set out in Section 285 9 (a) sentences 5 to 8 and Section 315e (1), and Section 314 (1) number 6a sentences 5 to 8 of the German Commercial Code are not to be published in the consolidated annual financial statements of the company for the financial years 2014 to 2018 inclusive.

The total costs of remuneration of the Executive Board are given in the notes to the consolidated financial statements of VTG AG as of December 31, 2018.

Supervisory board

The remuneration of the Supervisory Board consists of a fixed amount only. In addition, the members of the Supervisory Board are reimbursed for expenses incurred in the course of their work.

For the period up to and including June 6, 2018 the following applied to the remuneration of the Supervisory Board in accordance with the resolution of the company's Annual General Meeting on June 18, 2010: The chairman of the Supervisory Board receives a fixed annual remuneration amount of € 60,000 payable at the end of each financial year, the deputy chairman € 45,000 and the other members of the Supervisory Board € 30,000 each. 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.

For the period from June 7, 2018, the following applies to the remuneration of the Supervisory Board in accordance with the resolution of the company's Annual General Meeting on June 6, 2018: The chairman of the Supervisory Board receives a fixed annual remuneration amount of € 100,000 payable at the end of each financial year, the deputy chairman € 75,000 and the other members of the Supervisory Board € 50,000 each. Additionally, chairs of committees receive € 10,000 for each committee chaired for each full financial year. Deputy chairs of committees receive € 7,500 for each committee for which they act as deputy chair and ordinary committee members receive € 5,000 for each committee of which they are a member

The members of the Supervisory Board are: Dr. Jost A. Massenberg (chair), Dr. Markus C. Hottenrott (deputy chair from June 6, 2018), Jens Fiege (from June 6, 2018), Karl Gernandt, Ulrich Müller (from June 6, 2018) and Prof. Franca Ruhwedel (from June 6, 2018). Dr. Klaus-Jürgen Juhnke (deputy chair to June 6, 2018), Dr. Bernd Malmström and Dr. Christian Olearius stepped down as members of the Supervisory Board with effect from June 6, 2018.

The Supervisory Board has formed an Executive Committee (which also operates as the Nomination Committee), an Audit Committee and a Takeover Committee. Each committee comprises three members, including the respective chair.

In the financial year 2018, the members of the Executive Committee were: Dr. Jost A. Massenberg (chair), Klaus-Jürgen Juhnke (to June 6, 2018), Dr. Markus Hottenrott (from June 6, 2018), Dr. Christian Olearius (to June 6, 2018) and Jens Fiege (from June 6, 2018). In the financial year 2018, the members of the Audit Committee were: Karl Gernandt (chair), Dr. Jost A. Massenberg (to June 6, 2018), Ulrich Müller (from June 6, 2018), Dr. Christian Olearius (to June 6, 2018) and Prof. Franka Ruhwedel (from June 6, 2018). In the financial year 2018, the members of the Takeover Committee were: Dr. Jost A. Massenberg (chair), Jens Fiege and Prof. Franca Ruhwedel.

The total costs of remuneration of the Supervisory Board are given in the notes to the consolidated financial statements of VTG AG as of December 31, 2018.

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 289F AND SECTION 315D OF THE GERMAN COMMERCIAL CODE

Under Sections 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 Section 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 Section 76 (4) and Section 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, February 28, 2019

The Executive Board

DR. HEIKO FISCHER

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).

CONSOLIDATED FINANCIAL STATEMENTS

04

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Consolidated Income Statement

IN € MILLION	Notes	1/1/ to 12/31/2018	1/1/ to 12/31/ 2017
Revenue	(1)	1,072.6	1,014.4
Changes in inventories	(2)	-3.4	2.1
Other operating income	(3)	36.1	27.4
Cost of materials	(4)	-464.4	-449.4
Personnel expenses	(5)	-112.3	-98.5
Other operating expenses	(6)	-183.7	-157.8
Earnings from companies accounted for using the equity method		4.4	5.2
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**349.3**	**343.4**
Impairment, amortization and depreciation	(7)	-199.9	-188.3
Earnings before interest and taxes (EBIT)		**149.4**	**155.1**
Financing income		3.5	6.1
Financing expenses		-88.0	-71.0
Financial result (net)	(8)	**-84.5**	**-64.9**
Earnings before taxes (EBT)		**64.9**	**90.2**
Taxes on income and earnings	(9)	-19.4	-22.1
Group net profit		**45.5**	**68.1**
Thereof relating to			
Shareholders of VTG Aktiengesellschaft		29.1	55.6
Hybrid capital investors		16.4	12.5
		45.5	68.1
Earnings per share (in €, undiluted and diluted)	(10)	**1.01**	**1.93**

The explanatory notes on pages 74 to 120 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

IN € MILLION	Notes	1/1/ to 12/31/2018	1/1/ to 12/31/ 2017
Group net profit		**45.5**	**68.1**
Changes in items that will not be reclassified to profit or loss in future periods:			
Revaluation of pension provisions	(26)	-0.3	1.3
thereof deferred taxes		0.4	-0.3
Changes in items that will possibly be reclassified to profit or loss in future periods:			
Currency translation		1.3	-11.4
Changes in cash flow hedge reserve		-41.6	1.7
thereof deferred taxes		15.1	-0.5
Other comprehensive income		**-40.6**	**-8.4**
Comprehensive income		**4.9**	**59.7**
Thereof relating to			
Shareholders of VTG Aktiengesellschaft		-11.5	47.2
Hybrid capital investors		16.4	12.5
		4.9	**59.7**

The explanatory notes on pages 74 to 120 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

ASSETS

IN € MILLION	Notes	12/31/2018	12/31/2017
Goodwill	(11)	487.3	340.5
Other intangible assets	(12)	102.0	85.2
Tangible fixed assets	(13)	2,819.3	2,235.9
Companies accounted for using the equity method	(14)	39.2	36.5
Other investments	(15)	17.5	1.3
Derivative financial instruments	(30)	4.3	6.9
Other financial assets	(18)	30.4	22.4
Other assets	(19)	0.2	0.3
Deferred income tax assets	(20)	38.7	17.4
Non-current assets		**3,538.9**	**2,746.4**
Inventories	(16)	46.5	42.4
Trade receivables	(17)	189.9	168.6
Derivative financial instruments	(30)	0.8	0.5
Other financial assets	(18)	23.6	19.6
Other assets	(19)	18.8	23.4
Current income tax assets	(20)	3.2	6.4
Cash and cash equivalents	(21)	84.1	78.2
Current assets		**366.9**	**339.1**
		3,905.8	**3,085.5**

The explanatory notes on pages 74 to 120 form an integral part of these consolidated financial statements.

EQUITY AND LIABILITIES

IN € MILLION	Notes	12/31/2018	12/31/2017
Subscribed capital	(22)	28.8	28.8
Additional paid-in capital		323.7	323.7
Retained earnings	(23)	209.1	188.5
Revaluation reserve	(24)	-42.2	-0.3
Equity attributable to shareholders of VTG AG		**519.4**	**540.7**
Equity attributable to hybrid capital investors of VTG AG	(25)	**536.2**	**259.4**
Equity		**1,055.6**	**800.1**
Provisions for pensions and similar obligations	(26)	59.0	64.4
Deferred income tax liabilities	(27)	217.1	154.5
Other provisions	(28)	8.2	6.0
Financial liabilities	(29)	2,141.7	1,527.8
Derivative financial instruments	(30)	58.8	13.4
Other financial liabilities		-	1.1
Non-current debt		**2,484.8**	**1,767.2**
Provisions for pensions and similar obligations	(26)	3.8	3.3
Current income tax liabilities	(27)	36.6	22.2
Other provisions	(28)	55.2	45.3
Financial liabilities	(29)	65.6	231.1
Trade payables		153.9	169.0
Derivative financial instruments	(30)	14.4	16.6
Other financial liabilities		14.9	8.8
Other liabilities		21.0	21.9
Current debt		**365.4**	**518.2**
		3,905.8	**3,085.5**

The explanatory notes on pages 74 to 120 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

IN € MILLION	Subscribed capital	Additional paid-in capital	Retained earnings	(thereof differences from currency translation)	Revaluation reserve*	Equity attributable to shareholders of VTG AG	Equity attributable to hybrid capital investors	TOTAL
Notes	(22)		(23)		(24)		(25)	
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**
Effects of first-time adoption of IFRS 9			16.2		-0.3	15.9		**15.9**
As of 1/1/2018 adjusted	**28.8**	**323.7**	**204.7**	**(-5.4)**	**-0.6**	**556.6**	**259.4**	**816.0**
Group net profit			29.1			29.1	16.4	**45.5**
Revaluation of pension provisions			-0.3			-0.3		**-0.3**
Currency translation			1.3	(1.3)		1.3		**1.3**
Change in reserves for cash flow hedges/cost of hedging					-41.6	-41.6		**-41.6**
Other comprehensive income	**0.0**	**0.0**	**1.0**	**(1.3)**	**-41.6**	**-40.6**	**0.0**	**-40.6**
Comprehensive income	**0.0**	**0.0**	**30.1**	**(1.3)**	**-41.6**	**-11.5**	**16.4**	**4.9**
Issue of hybrid bond								
Issue of bonds						0.0	275.0	**275.0**
Settlement of transaction costs						0.0	-2.1	**-2.1**
Dividend payment			-25.9			-25.9	-12.5	**-38.4**
Miscellaneous changes			0.2			0.2		**0.2**
Total changes	**0.0**	**0.0**	**4.4**	**(1.3)**	**-41.6**	**-37.2**	**276.8**	**239.6**
As of 12/31/2018	**28.8**	**323.7**	**209.1**	**(-4.1)**	**-42.2**	**519.4**	**536.2**	**1,055.6**

*) The revaluation reserve includes the cash flow hedge reserve and the cost of hedging reserve

The explanatory notes on pages 74 to 120 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

IN € MILLION	Notes	1/1/ to 12/31/2018	1/1 to 12/31/2017
Operating activities			
Group net profit		45.5	68.1
Impairment, amortization and depreciation		199.9	188.3
Financing income		-3.5	-6.1
Financing expenses		88.0	71.0
Taxes on income and earnings		19.4	22.1
EBITDA		**349.3**	**343.4**
Other non-cash expenses and income		-5.4	-3.7
Dividend from companies accounted for using the equity method		2.0	1.5
Income taxes paid		-19.8	-18.6
Income taxes reimbursed		8.4	4.5
Profit/loss on disposals of fixed asset items		-13.6	-9.3
Changes in:			
Inventories		-4.1	-10.0
Trade receivables		-8.4	-27.1
Trade payables		15.9	25.6
Other assets and liabilities		8.5	-10.4
Cash flows from operating activities		**332.8**	**295.9**
Investing activities			
Payments for investments in intangible and tangible fixed assets		-240.6	-241.2
Proceeds from disposal of intangible and tangible fixed assets		34.9	41.6
Payments for investments in financial assets and company acquisitions (less cash and cash equivalents received)		-667.6	-
Financial receivables (incoming payments)		12.7	3.0
Financial receivables (outgoing payments)		-3.1	-11.6
Receipts from interest		1.1	0.7
Cash flows used in investing activities		**-862.6**	**-207.5**
Financing activities			
Payment of VTG Aktiengesellschaft dividend		-25.9	-21.6
Raising of hybrid capital		275.0	-
Dividend payments to hybrid capital investors		-12.5	-12.5
Costs of raising equity capital		-	-4.8
Borrowing costs		-5.0	-1.4
Receipts from the taking up of (financial) loans	(29)	713.4	278.7
Repayments of financial debts and other financial liabilities	(29)	-315.3	-239.9
Interest payments		-93.5	-71.5
Cash flows from/used in financing activities		**536.2**	**-73.0**
Change in cash and cash equivalents		6.4	15.4
Effect of changes in exchange rates		-0.5	-0.7
Balance at beginning of period	(21)	78.2	63.5
Balance of cash and cash equivalents at end of period	(21)	**84.1**	**78.2**
of which freely available funds		81.2	76.4

The explanatory notes on pages 74 to 120 form an integral part of these consolidated financial statements.

FURTHER INFORMATION

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 315e (1) of the German Commercial Code. The consolidated financial statements and group management report are published in the electronic Federal Gazette (Bundesanzeiger).

The consolidated financial statements comprise the consolidated income statement, the consolidated statement 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 February 28, 2019.

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 315e (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, 2018, four companies are accounted for using the equity method. The complete list of equity investments is presented on pages 111 to 113.

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 transaction date. In addition, it 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 acquisition cost, 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 is 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:

	Rate at balance sheet date		*Average rate*	
1 EURO =	**12/31/2018**	*12/31/2017*	**2018**	*2017*
British pound	0.8945	0.8872	0.8848	0.8762
Swiss franc	1.1269	1.1702	1.1549	1.1116
US dollar	1.1450	1.1993	1.1815	1.1293

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 which are not to be classified as pure financial 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 when 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 pro rata temporis, 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.

Impairment

Assets that have an indefinite useful life are not subject to scheduled depreciation or amortization. They are subject to an impairment test that take place at least annually. 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 aggregated 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 also 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 as of September 30 of each year. 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. 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 rate less a growth rate of 1.0 % per year has been applied. The cash flows were determined on the basis of past experience from previous financial years, taking into account future developments. In order to determine the fair value less costs of disposal, risk-oriented interest rates appropriate to the market were applied. The post-tax interest rate (WACC) is 4.0 % (previous year: 3.9 %).

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 would only be required in scenarios that are currently improbable in terms of the related changes to key assumptions.

With regard to the cash-generating unit Railcar, which, as of September 30, 2018, prior to the acquisition of the Nacco Group, had 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 16.8 % (previous year: 12.6 %) or a decrease in ROCE regarding the terminal value of up to 0.9 percentage points (previous year: 0.6 percentage points) or an increase in WACC after tax of up to 0.76 percentage points (previous year: 0.52 percentage points) compared with the parameters currently used. Currently, the coverage surplus amounts to around 2.2 times the attributable goodwill (previous year: 1.4 times).

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 27 years.

Development costs which are directly attributable to the development and review of identifiable, individual designs for rail freight wagons 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 20 years
Rail freight wagons [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 wagons 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 recorded as an expense or an asset.

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

Financial assets

Sales or purchases of financial assets are recognized on the day on which the Group undertakes to sell or purchase the asset (the day of trading). Financial assets are derecognized where the rights to payments from the financial asset have expired or been transferred and the Group has essentially transferred all risks and rewards arising from ownership.

From January 1, 2018, the Group has divided financial assets into the following categories:

a) those subsequently measured at fair value through profit or loss (FVPL),
b) those subsequently measured at fair value through other comprehensive income (FVOCI),
c) those subsequently measured at amortized cost (AC).

As a rule, debt instruments whose cash flows consist solely of interest and principal payments are held by the Group exclusively for the purpose of collecting contractual cash flows. These financial assets are subsequently measured at amortized cost using the effective interest method.

Debt instruments whose cash flows do not consist solely of interest and principal payments are subsequently measured at fair value through profit or loss. Within the Group, this applies exclusively to derivatives that are not designated as hedges. The principles of accounting that are applied to derivatives are explained in a separate section.

All equity instruments are subsequently measured at fair value. The Group elects whether to recognize the changes in fair value immediately in profit or loss (FVPL) or permanently through other comprehensive income (FVOCI without reclass). For equity instruments classified as FVOCI (no recycling), upon later disposal, there is no reclassification of gains from equity to profit or loss. Dividends from these instruments continue to be recognized in profit or loss as soon as the right to receive payments has been established.

From January 1, 2018, the Group has evaluated the credit losses associated with debt instruments in a forward-looking manner. The impairment loss is mainly attributable to trade receivables.

For trade receivables, the Group applies the simplified approach allowed under IFRS 9 for measuring expected credit losses. Trade receivables are derecognized if it can be reasonably concluded that the receivable can no longer be realized.

Financial liabilities

Financial liabilities are recognized at fair value and subsequently at amortized cost (AC) using the effective interest method.

Transaction costs arising from the assumption of financial liabilities are deducted from the fair value and subsequently also accounted for using the effective interest method. Transaction costs for credit lines that will foreseeably be utilized only later are deferred until utilization. If utilization of the credit facility is not foreseeable or fluctuates, the relevant portion of the transaction costs is capitalized as a prepayment for financial services and amortized over the term of the credit facility.

Financial liabilities are classified as current if the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Financial liabilities are derecognized as soon as the contractual obligation is discharged or cancelled or expires.

The 2017 figures shown for financial instruments remain subject to the principles of accounting that continued to apply after December 31, 2017. The key differences that apply to the Group are listed below:

Financial assets were divided into the following categories until December 31, 2017:

a) at fair value through profit or loss
b) loans and receivables
c) available for sale

Only derivatives that were not designated as hedges were assigned to the categories “financial liabilities measured at fair value through profit or loss” and “financial assets held for trading”. Fair value changes were recognized directly in profit or loss.

All financial assets for which there was no intention to trade, whose payments were fixed and determinable and which were not quoted on an active market were assigned to the “loans and receivables” category. Assets in this category were subsequently accounted for at amortized cost using the effective interest method.

Financial assets were intentionally assigned to the category “financial assets available for sale” or were automatically assigned to this category if no other category was suitable. Investments in affiliated companies that are not consolidated due to their minor significance, as well as shareholdings, were included in this category. Subsequently, these assets were to be accounted for at fair value through other comprehensive income if a fair value could be reli-

ably determined. Only in the event of disposal or impairment was there a reclassification from other comprehensive income to profit or loss. Since the fair value could not be reliably determined, the investments and shareholdings were recognized at amortized cost.

At each balance sheet date, a review is undertaken as to whether there are any objective indications of impairment of a financial asset or of a group of financial assets.

Derivative financial instruments and hedge accounting

When entered into, derivatives are recognized at their fair value and are subsequently measured at their fair value. If the derivative is not designated as a hedge, fair value changes are recognized immediately in profit or loss.

As part of the Group's approach to financial risk management, derivatives entered into are generally designated as hedges. Only a specific risk associated with the cash flows of recognized assets and liabilities or highly probable transactions is hedged ("cash flow hedges").

In following its hedging strategy and objectives, the Group documents the economic relationship between the hedging instrument and the hedged item at the inception of the hedging relationship. Hedging instruments are used that best reflect the conditions, such as payment dates and maturities or benchmark interest rates and repricing dates of the hedged items.

The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognized in the cash flow hedge reserve as part of the revaluation reserve. The ineffective portion of the changes is recognized directly in profit or loss.

For option contracts that form part of a hedging relationship, the Group designates only the changes in the intrinsic value as the hedging instrument. From January 1, 2018, changes in the time value of the option are recognized in the cost of hedging reserve as part of the revaluation reserve. Until December 31, 2017, changes in the time value of the option were recognized directly in profit or loss.

For forward contracts that are part of a hedging relationship, the Group designates only changes in the fair value in the spot element as the hedging instrument. For forward contracts entered into on or after January 1, 2018 onwards, changes in the fair value of the forward element are recognized in the cost of hedging reserve as part of the revaluation reserve. For forward contracts entered into up until December 31, 2017, changes in the fair value in the forward element are recognized directly in profit or loss.

The amounts recognized in the revaluation reserve are always reclassified to profit or loss in the periods in which the hedged item impacts profit or loss.

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. The revaluations of the net debt from defined benefit plans 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. They are entered in the balance sheet after the deduction of 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 gross 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 active employees who are entitled to pensions, with income-dependent pension components for each year of service and those 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 predominantly pensioners.

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. In the absence of calculations of the share of the provisions for VTG, the plan is accounted for 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. As an employer, VTG pays 6.45 %. There may be an adjustment to the supplementary pension in 2019. 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.

The pension commitments and plan assets outside Germany relate to commitments granted in the form typical for each country. Plan assets are invested in insurance policies and in an investment fund, and are not traded on an active market. 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 allocated pro rata until the end of the active working period.

The discount rate calculation takes into account the development of high quality corporate bonds with a corresponding maturity. The discount rate was determined using the WillisTowers 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 no deferred taxes are recognized either on initial recognition or in subsequent periods. 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, taking into acount 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 amount and the presentation 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 will have 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, 2018 or thereafter have the following impact on the reporting of the VTG Group.

Standards applied for the first time

The new **IFRS 9 "Financial Instruments"** contains simplified accounting rules for financial instruments. The effects on categorization and measurement, impairment and hedge accounting are outlined below:

Categorization and measurement:

Under the categorization rules in IFRS 9, the same measurement standards will continue to apply for the great majority of the financial instruments of the VTG Group. The measurement standard for financial assets (investments) in unquoted equity instruments, which were recognized at amortized cost under IAS 39, has changed. These are now assigned to the category "at fair value through other comprehensive income" to measure at fair value. Amounts recognized in other comprehensive income are not subsequently reclassified to profit or loss. Differences between the earlier carrying amount and the fair value are recognized in the opening balance of retained earnings.

Impairment:

Trade receivables, other financial assets and cash and cash equivalents measured at amortized cost fall under the new impairment rules of IFRS 9. The VTG Group uses the simplified impairment model for trade receivables, which requires the recognition of a risk provision for the amount of the expected losses over the remaining term for all receivables, irrespective of their credit quality. For other financial assets and cash and cash equivalents, there was no increase in the credit risk between initial recognition and the date 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 time value of options and the forward elements of forward exchange transactions are already accounted for outside of hedging relationships and value changes are recognized directly in profit or loss. Under IFRS 9, the changes in the time value of options can no longer be recognized directly in profit or loss but must be recognized in equity via the creation of a special reserve. This reserve is then amortized through profit or loss on either a period or transaction basis. This approach can also be selected for the forward element of forward transactions.

Under IFRS 9, certain parts of hedging transactions – the costs of hedging – can be recognized in equity by creating a reserve and subsequently reclassifying this to profit or loss. As a result of the mandatory requirement that the time values of options are adjusted retroactively, reclassification from retained earnings to the revaluation reserve took place at the time of the transition. For forward elements of forward exchange transactions, the new approach was applied only to hedging relationships designated on or after January 1, 2018.

The VTG Group has opted for simplified first-time adoption. The cumulative effect of the transition is recognized in equity. Comparative figures for prior-year periods have not been adjusted.

ADJUSTED OPENING BALANCE ITEMS AS OF JANUARY 1, 2018

IN € MILLION	12/31/2017	Adjustment	1/1/2018
Assets			
Other investments	1.3	16.3	17.6
Trade receivables	168.6	-0.2	168.4
Equity and liabilities			
Retained earnings	188.5	16.2	204.7
Revaluation reserve	-0.3	-0.3	-0.6
Deferred tax liabilities	154.5	0.2	154.7

RECONCILIATION TO IFRS 9 MEASUREMENT CATEGORY

IN € MILLION

Balance sheet item	Measurement category		Carrying amount	Change in carrying amounts		Carrying amount
	IAS 39 (12/31/2017)	IFRS 9 (1/1/2018)	12/31/2017	Due to revaluation	Due to impairment	**1/1/2018**
Assets						
Other investments	AfsFA[1]	FVOCI n.r.[5]	1.3	16.3		17.6
Receivables from finance leases	LaR[2]	AC[6]	0.1			0.1
Trade receivables	LaR[2]	AC[6]	168.6		-0.2	168.4
Derivative financial instruments, thereof			7.4			7.4
relating to effective hedging relationships	n/a[8]	n/a[8]	7.3			7.3
without hedging relationships	FaHft[3]	FVPL[7]	0.1			0.1
Other financial assets	LaR[2]	AC[6]	41.9			41.9
Cash and cash equivalents	LaR[2]	AC[6]	78.2			78.2
Liabilities						
Financial liabilities	FLAC[4]	AC[6]	1,758.9			1,758.9
Trade payables	FLAC[4]	AC[6]	169.0			169.0
Derivative financial instruments, thereof			30.0			30.0
relating to effective hedging relationships	n/a[8]	n/a[8]	2.8			2.8
without hedging relationship	FaHft[3]	FVPL[7]	27.2			27.2
Other financial liabilities	FLAC[4]	AC[6]	9.9			9.9

[1] Available-for-sale financial assets (AfsFA)
[2] Loans and receivables (LaR)
[3] Financial assets held for trading (FaHft)
[4] Financial liabilities measured at amortized cost (FLAC)
[5] At fair value through other comprehensive income, no reclass (FVOCI n.r.)
[6] At amortized cost (AC)
[7] At fair value through profit or loss (FVPL)
[8] Balance sheet items not attributable to any measurement category (n/a)

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 VTG's 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), IFRS 15 only considers the service part 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, focusing 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 provides project logistics services. Each transport operation 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 division organizes worldwide transports with tank containers. A single transport operation generally combines various modes of transport. Each transport operation 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 the VTG Group's transactions with customers, the simplified first-time adoption does not result in any significant changes to the previous rules with regard to the amount of revenue or its recognition over time. In the Notes, external revenue is shown by geographical location of customers for all segments. Revenue from the leasing of rail freight wagons in the Railcar segment comprises a leasing and a service component. These revenue items are identical in terms of amount, period of accrual and uncertainty of occurrence and are only meaningful when considered together.

Standards to be applied in the future

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:

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 1, 2019. The VTG Group has various assets at its disposal for whose use it is charged, such as rail freight wagons, locomotives, tank containers and office space. A large proportion of these leased items will be recognized in the balance sheet through the application of IFRS 16 and will subsequently result in depreciation and interest expenses. The Group will apply the changes from January 1, 2019 using the modified retrospective approach. Contracts involving the leasing of low-value assets are excluded. On the basis of the leasing agreements in existence at the time of reporting, VTG expects EBITDA for the Group to increase by € 51 million in 2019. In order to avoid IFRS 16 influencing gross profit as the starting point for the margin analysis at divisional level for Rail Logistics and Tank Container Logistics, leasing agreements for rail freight wagons, locomotives and tank containers continue to be recognized in these segments as before. In order to ensure that business segments that either rent their office space from third parties or use it via internal Group agreements are presented in a comparable manner, the leasing of office space is also reported as before. Only in the reconciliation to the Group view is accounting carried out in accordance with IFRS 16. The increase is therefore not distributed across all segments. For the Railcar segment, the VTG Group expects an increase in EBITDA of € 26 million. For the Rail Logistics and Tank Container Logistics segments, EBITDA is expected to be almost unchanged by IFRS 16. EBIT for the Group is expected to increase by € 12 million in 2019, with € 11 million thereof attributable to the Railcar segment. For the Rail Logistics and Tank Container Logistics segments, again, EBIT is expected to be almost unchanged by IFRS 16. Due to the low interest rate environment and the useful lives of rail freight wagons financed under operating leases exceeding the lease term, the VTG Group expects EBT to increase by € 4 million. VTG expects net financial debt to increase by € 521 million at the time of the transition to IFRS 16. Due to the future inclusion of lease payments in cash flows from financing activities, VTG expects cash flows from operating activities to increase by € 51 million. This does not affect compliance with the financial covenants agreed under the financing agreements.

4. SCOPE OF CONSOLIDATION IN THE FINANCIAL YEAR 2018

In addition to VTG AG, a total of 20 (previous year: 20) domestic and 45 (prior year 44) foreign subsidiaries are included in the consolidated financial statements for the financial year 2018.

On October 4, 2018, VTG AG acquired all shares in the Paris-based CIT Rail Holdings (Europe) SAS, thereby acquiring the CIT-owned Nacco Group. Prior to this, parts of the Nacco Group had been sold to a consortium of bidders in accordance with the requirements of the German and Austrian competition authorities.

The Nacco fleet acquired by VTG comprises a differentiated portfolio of around 11,000 rail freight wagons from all established segments, taking VTG's fleet of rail freight wagons to more than 94,000 units. This diversifies and completes the existing fleet portfolio and VTG expects this to have a sustained strengthening impact on its market position in Europe.

VTG is financing the transaction via a senior loan of € 373.3 million, a privately placed hybrid bond of € 275 million and the continuation of an existing senior loan of some € 54.3 million.

Due to the proximity of the company acquisition to the balance sheet date, the allocation of the purchase price to the identified assets and liabilities was provisional. Under IFRS, adjustments to the fair value of the acquired assets and liabilities can be made up to 12 months from the acquisition date.

The net assets acquired and the provisional goodwill are as follows:

IN € MILLION

Purchase price	**687.8**
Fair value of acquired assets	541.0
Goodwill	**146.8**

As part of the provisional purchase price allocation, budget planning for the Nacco Group was assumed. This continued to apply on December 31, 2018. Thus no impairment of the provisional goodwill from the acquisition of the Nacco Group was identified.

In connection with the acquisition of the Nacco Group, expenses of € 12.2 million were recognized in other operating expenses, € 10.5 million under interest expense, € 6.6 million under personnel expenses and € 0.6 million under depreciation and amortization in the financial year 2018.

The provisional fair values of assets and liabilities are as follows:

IN € MILLION

Other intangible assets	23.8
thereof brand	0.3
thereof customer relationships	23.5
Tangible fixed assets	589.8
Fixed assets	**613.6**
Other financial assets	22.4
Other assets	1.2
Deferred income tax assets	4.3
Trade receivables	13.0
Receivables	**40.9**
Cash and cash equivalents	**20.2**
Assets	**674.7**
Provisions for pensions and similar obligations	0.4
Deferred income tax liabilities	54.7
Other provisions	0.6
Financial liabilities	54.0
Current income tax liabilities	18.4
Trade payables	3.7
Other liabilities	1.9
Liabilities	**133.7**
Fair value of acquired assets	**541.0**

For purchase price allocation, the brand was measured using the multi-period excess relief-from-royalty method and customer relationships using multi-period excess earnings method. An external expert opinion was available for the wagon fleet, which values it on the basis of the replacement value and the fair value, weighted according to the age of the wagons. The Nacco brand is based on a useful life of four years and the customer relationships on a useful life of 26 years.

The fair value of the receivables shown is equal to the carrying amount. The gross value of trade receivables amounts to € 16.2 million.

The following companies were acquired through the business acquisition on October 4, 2018:

NAME AND REGISTERED OFFICE OF COMPANY	Shareholding in %
CIT Rail Holdings (Europe) SAS, Paris (France)	100.0
NACCO SAS, Paris (France)	100.0
NACCO (UK) Limited, Crewe (UK)	100.0
NACCO Rail Ireland Limited, Dublin (Ireland)	100.0

This acquisition contributed € 22.3 million to revenue and € -0.7 million to net profit of the Group in the period from October 1 to December 31, 2018. Had the acquisition already taken place on January 1, 2018, revenue would have amounted to € 89.2 million and the contribution to annual net profit would have been € 8.1 million.

A list of equity investments is contained in the section "Other disclosures" in the Notes to the Consolidated Financial Statements, pages 111–113.

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 wagons 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 wagons 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.

The figures for the segments for the equivalent period from January 1 to December 31, 2018 and the previous year, as derived from the internal reporting, are as follows:

	Railcar		Rail Logistics		Tank Container Logistics		Reconciliation		Group	
IN € MILLION	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
External revenue	579.9	520.7	324.5	336.4	168.2	157.3	-	-	1,072.6	1,014.4
Internal revenue	31.4	31.8	7.6	8.0	-	0.1	-39.0	-39.9	0.0	0.0
Changes in inventories	-3.4	2.1	-	-	-	-	-	-	-3.4	2.1
Segment revenue	**607.9**	**554.6**	**332.1**	**344.4**	**168.2**	**157.4**	**-39.0**	**-39.9**	**1,069.2**	**1,016.5**
Segment cost of materials	-26.5	-26.4	-301.2	-312.6	-144.4	-127.3	38.0	39.0	-434.1	-427.3
Segment gross profit	**581.4**	**528.2**	**30.9**	**31.8**	**23.8**	**30.1**	**-1.0**	**-0.9**	**635.1**	**589.2**
Other segment income and expenditure	-200.0	-184.6	-24.4	-23.5	-17.3	-18.8	-44.1	-18.9	-285.8	-245.8
Segment earnings before interest, taxes, depreciation, amortization and impairment (EBITDA)	**381.4**	**343.6**	**6.5**	**8.3**	**6.5**	**11.3**	**-45.1**	**-19.8**	**349.3**	**343.4**
Impairment, amortization of intangible and depreciation of tangible fixed assets	-192.0	-181.0	-1.2	-1.3	-5.4	-5.4	-1.3	-0.6	-199.9	-188.3
thereof impairments *	-2.1	-	-	-	-	-	-	-	-2.1	0.0
Segment earnings before interest and taxes (EBIT)	**189.4**	**162.6**	**5.3**	**7.0**	**1.1**	**5.9**	**-46.4**	**-20.4**	**149.4**	**155.1**
thereof earnings from companies accounted for using the equity method	4.0	4.9	-	-	0.4	0.3	-	-	4.4	5.2
Financial result	-72.2	-56.1	-0.5	-0.3	-0.9	-0.6	-10.9	-7.9	-84.5	-64.9
Earnings before taxes (EBT)	**117.2**	**106.5**	**4.8**	**6.7**	**0.2**	**5.3**	**-57.3**	**-28.3**	**64.9**	**90.2**
Taxes on income and earnings									**-19.4**	-22.1
Group net profit									**45.5**	**68.1**

** The impairments relate to tangible fixed assets.*

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 € 57.3 million that are not allocated to the segments (previous year: € 28.3 million). This increase is due to costs of € 29.9 million (previous year: € 10.5 million) in connection with the Nacco transaction and the takeover bid by Morgan Stanley Infrastructure, amounting to further € 6.8 million.

External revenue by customer location and other revenue are as follows:

IN € MILLION	Railcar		Rail Logistics		Tank Container Logistics		Group	
	2018	2017	2018	2017	2018	2017	2018	2017
External revenue	**579.9**	**520.7**	**324.5**	**336.4**	**168.2**	**157.3**	**1,072.6**	**1,014.4**
Thereof from customers	526.5	468.5	324.5	336.4	168.2	157.3	1,019.2	962.2
Germany	142.0	163.7	119.2	137.2	84.9	77.3	346.1	378.2
EU except Germany	299.5	268.5	181.0	150.9	43.1	40.2	523.6	459.6
Other regions	85.0	36.3	24.3	48.3	40.2	39.8	149.5	124.4
Thereof other revenue	53.4	52.2	-	-	-	-	53.4	52.2

Capital expenditure for each segment as of the 2018 and 2017 reporting dates is shown in the following table:

IN € MILLION	Railcar		Rail Logistics		Tank Container Logistics		Reconciliation		Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Investments in intangible assets	1.8	1.8	0.4	0.4	0.1	0.1	0.1	0.4	2.4	2.7
Investments in tangible fixed assets	192.6	247.3	0.1	0.2	10.3	11.5	0.6	0.6	203.6	259.6
Total	**194.4**	**249.1**	**0.5**	**0.6**	**10.4**	**11.6**	**0.7**	**1.0**	**206.0**	**262.3**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Revenue

IN € MILLION	2018	2017
Railcar	579.9	520.7
Rail Logistics	324.5	336.4
Tank Container Logistics	168.2	157.3
Total	**1,072.6**	**1,014.4**

The business of the VTG Group is affected to only a minor degree by seasonal fluctuations. Of the revenue in the financial year 2018 shown under the Railcar segment, less than 3 % was from the sale of goods (previous year: less than 2 %). The rental agreements in the Railcar division have an unchanged average term of approximately 3 years. Future payments from rental agreements can be calculated from the average term.

Foreign currency gains of € 1.6 million are included under revenue (previous year: € 1.5 million).

(2) Changes in inventories

IN € MILLION	2018	2017
Changes in inventories	**-3.4**	**2.1**

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

FURTHER INFORMATION

(3) Other operating income

IN € MILLION	2018	2017
Book profit from the sale of fixed assets	14.2	10.5
Income from sales of materials	4.6	3.7
Recharged services	3.4	3.2
Exchange gains	3.1	2.1
Income from disposal of current assets	3.0	1.1
Income from operating investments	1.5	1.6
Other income	6.3	5.2
Total	**36.1**	**27.4**

Other income comprises mainly payments from receivables written off in previous years, from cost reimbursements and government grants.

(4) Cost of materials

IN € MILLION	2018	2017
Raw materials, consumables and supplies	14.8	19.0
Cost of purchased services	449.6	430.4
thereof		
freight cost	376.7	366.5
rental cost	56.2	48.5
Total	**464.4**	**449.4**

Cost of purchased services includes leasing expenses for operating lease contracts amounting to € 21.7 million (previous year: € 16.0 million) as well as exchange rate losses amounting to € 1.5 million (previous year: € 2.4 million).

(5) Personnel expenses

IN € MILLION	2018	2017
Wages and salaries	94.2	79.7
Social security, post-employment and other employee benefit costs	18.1	18.8
thereof for pensions	8.3	10.4
Total	**112.3**	**98.5**

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

(6) Other operating expenses

IN € MILLION	2018	2017
Repairs and working capital requirements	96.4	99.8
Charges, fees, consultancy costs	20.6	7.6
Selling expenses	12.0	12.1
Rents/leases	7.7	6.8
Other costs of materials and personnel expenses	6.3	5.7
IT costs	6.0	4.5
Travel costs	3.4	3.7
Insurance	3.4	2.7
Exchange rate losses	3.4	2.0
Donations and contributions	3.0	2.3
Other taxes	2.5	1.8
Advertising	1.4	1.5
Administrative expenses	1.4	1.3
Audit fees	1.3	1.3
Other expenses	14.9	4.7
Total	**183.7**	**157.8**

The increase in charges, fees and consultancy costs resulted primarily from amounts related to the Nacco transaction and the takeover bid by Morgan Stanley Infrastructure.

(7) Impairment, amortization and depreciation

IN € MILLION	2018	2017
Impairment, amortization of intangible and intangible assets, tangible fixed assets and financial assets	**199.9**	**188.3**
Thereof impairments	2.1	-

(8) Financial loss (net)

IN € MILLION	2018	2017
Income from other investment securities and loans	0.2	0.2
Interest and similar income	3.3	5.9
Interest and similar expenses	-83.5	-72.9
thereof for pensions	(-1.1)	(-1.2)
Foreign currency loss/gains (net)	-4.5	1.9
Total	**-84.5**	**-64.9**

Interest and similar income includes income arising from the measurement of derivative financial instruments amounting to

€ 1.5 million (previous year: € 4.9 million). Interest and similar expenses includes expenses arising from the measurement of derivative financial instruments amounting to € 2.5 million (previous year: € 5.4 million) as well as commitment interest of € 7.2 million (previous year: € 6.5 million) and other one-time financing costs of € 3.3 million for the Nacco transaction.

(9) Taxes on income and earnings

IN € MILLION	2018	2017
Current taxes	13.8	12.8
thereof relating to other periods	(-)	(-8.0)
Deferred tax expense	5.6	9.3
Total	**19.4**	**22.1**

The actual tax result of € 19.4 million differs by € 2.0 million from the expected expense for taxes on income of € 21.4 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:

IN € MILLION	2018	2017
Net group profit before taxes	**64.9**	**90.2**
Income tax rate of VTG AG	33 %	33 %
Expected income tax expense (tax rate of VTG AG)	21.4	29.8
Tax effect of non-deductible expenses and tax-free income	5.7	5.2
Tax effect on tax-free investment income	-0.2	-0.2
Tax effect from the adjustment of deferred tax assets on tax loss carryforwards	-1.2	0.6
Tax effect on tax loss carryforwards	-1.3	1.0
Tax income from other periods	-	-8.0
Tax effect due to changes in the income tax rate on effects of the prior year	-	-3.4
Tax effects due to differences between the local tax rate and income tax rate of VTG AG	-4.8	-3.8
Other deviations	-0.2	0.9
Actual income tax expense	**19.4**	**22.1**
Tax charge	**30.0 %**	**24.5 %**

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

IN %	2018	2017
Expected future corporate tax rate	15.00	15.00
Solidarity surcharge	0.83	0.83
Expected future trade tax rate	17.17	17.17
Expected future tax rate	**33.00**	**33.00**

Taxes on income represent an expense in the period under review and equal 30.0 % (previous year: 24.5 %) 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 - 12/31/2018	1/1 - 12/31/2017
Group net profit attributable to VTG AG shareholders (€ million)	29.1	55.6
Weighted average number of shares	28,756,219	28,756,219
Earnings per share (in €)	**1.01**	**1.93**

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 2018 was € 0.90 (previous year: € 0.75).

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 116 and 119.

(11) Goodwill

IN € MILLION	12/31/2018	12/31/2017
Railcar segment	474.0	327.2
Rail Logistics segment	11.6	11.6
Tank Container Logistics segment	1.7	1.7
Total	**487.3**	**340.5**

The increase in goodwill in the segment Railcar is due to the acquisition of the Nacco Group.

(12) Other intangible assets

IN € MILLION	12/31/2018	12/31/2017
"VTG" brand (Railcar)	9.5	9.5
"NACCO" brand (Railcar)	0.3	-
Customer relationships, Railcar	77.3	59.7
Customer relationships, Rail Logistics	2.1	2.8
Concessions, industrial trademarks and licenses	11.8	12.4
Capitalized development costs	0.4	0.3
Payments on account	0.6	0.5
Total	**102.0**	**85.2**

The brands represent only a small part of the total carrying amount of each cash-generating unit. The increase in the asset value of customer relationships in the Railcar segment is attributable to the acquisition of the Nacco Group.

(13) Tangible fixed assets

The increase in tangible fixed assets is mainly due to the acquisition of the Nacco Group and investment in the construction of new rail freight wagons.

(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:

	Wagon Holding*		Shanghai Cosco		AXBENET		AAE Wagon		TOTAL	
IN € MILLION	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Balance at beginning of period 1/1	**16.0**	**15.9**	**3.0**	**2.9**	**13.2**	**12.1**	**4.3**	**1.4**	**36.5**	**32.3**
Net profit for the year	1.8	1.8	0.4	0.3	0.3	1.1	1.9	2.0	4.4	5.2
Conversion of shareholder loan to equity	-	-	-	-	-	-	0.2	0.7	0.2	0.7
Currency translation	0.1	-0.2	-0.1	-0.2	-	-	-	-	0.0	-0.4
Changes in cash flow hedge reserve	-	-	-	-	-	-	0.1	0.2	0.1	0.2
Dividend	-1.7	-1.5	-	-	-0.3	-	-	-	-2.0	-1.5
Closing balance 12/31	**16.2**	**16.0**	**3.3**	**3.0**	**13.2**	**13.2**	**6.5**	**4.3**	**39.2**	**36.5**
Thereof goodwill	13.8	13.8	0.4	0.4	5.3	5.3	-	-	19.5	19.5

*Individual financial statements

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.

The Joint Ventures show the following key financial information in their preliminary financial statements as of December 31, 2018:

	*Waggon Holding**		*Shanghai Cosco*		*AXBENET*		*AAE Wagon*	
IN € MILLION	**12/31/2018**	12/31/2017	**12/31/2018**	12/31/2017	**12/31/2018**	12/31/2017	**12/31/2018**	12/31/2017
Assets	4.8	4.4	8.5	7.7	70.5	77.4	20.5	16.7
Liabilities	-	-	2.6	2.7	54.6	61.6	7.5	7.7
Income	3.7	3.6	13.4	12.1	22.6	20.8	3.7	5.3
Net profit for the year	3.7	3.5	0.7	0.6	0.6	2.4	3.4	4.9
Total	**3.7**	**3.5**	**0.7**	**0.6**	**0.6**	**2.4**	**3.5**	**5.7**

** Individual financial statements*

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

(15) Other investments

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

(16) Inventories

IN € MILLION	**12/31/2018**	12/31/2017
Raw materials, consumables and supplies	44.3	36.9
Work in progress and finished products and services	2.2	5.5
Total	**46.5**	**42.4**

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

IN € MILLION	**12/31/2018**	12/31/2017
Gross carrying amount trade receivables	200.8	179.2
Impairment	-10.9	-10.6
Total	**189.9**	**168.6**

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

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

IN € MILLION	**2018**	2017
Balance at beginning of period 1/1	10.6	11.8
Adjustment IFRS 9	0.2	-
Currency differences	-0.2	-0.1
Reversals	0.6	1.7
Additions	0.9	0.6
Closing balance 12/31	**10.9**	**10.6**

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

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 generally used in the receivables management system of the VTG Group.

			Of which overdue in the following time bands at the year-end date			
DECEMBER 31, 2018 IN € MILLION	**TOTAL**	Not due	Less than 30 days	30 to 60 days	61 to 90 days	More than 90 days
Expected loss rate			0.4 %	1.0 %	4.1 %	43.2 %
Gross carrying amount trade receivables	200.8	135.8	26.2	9.8	4.9	24.1
Allowances	10.9	0.1	0.1	0.1	0.2	10.4
JANUARY 1, 2018 IN € MILLION						
Expected loss rate		-	0.2 %	1.8 %	2.7 %	54.8 %
Gross carrying amount trade receivables	179.4	120.2	27.2	9.3	3.7	19.0
Allowances	10.8	-	0.1	0.2	0.1	10.4

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.

(18) Other financial assets

IN € MILLION	12/31/2018	12/31/2017
Financial receivables	11.8	22.1
Receivables from finance leases	23.3	0.1
Other financial receivables	18.9	19.8
Total	**54.0**	**42.0**

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 € 11.8 million (previous year: € 22.1 million) were impaired or overdue. They include interest-bearing receivables.

The increase in receivables from finance leases is due to the acquisition of the Nacco Group. Receivables from finance leases have a term of up to 6 years.

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.

(20) Income tax assets

IN € MILLION	12/31/2018	12/31/2017
Deferred income tax assets	38.7	17.4
Current income tax assets	3.2	6.4
Total	**41.9**	**23.8**

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.

Bank balances include an amount of € 2.9 million that is not freely accessible (previous year: € 1.8 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, 2018, 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 the cash flow hedge reserve and the cost of hedging reserve. The development of these reserves is set out in the section "Additional Information on Financial Instruments".

(25) Shares of hybrid capital investors

VTG's balance sheet include two hybrid bonds totaling € 525 million. The hybrid bonds, the full amount of which was classified as equity, have an indefinite term. Claims by holders of hybrid bonds for repayment of capital are subordinate to those of creditors of financial debt. Costs of raising equity have been offset against the hybrid bond under equity. 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).

On January 26, 2015, a hybrid bond for € 250 million was issued. It can be repaid by VTG on January 26, 2020 at the earliest. Interest is chargeable at 5 % p.a. and, like the bond, is fully recognized directly in equity and paid out annually. The interest rate is to be amended as of 2020.

On October 4, 2018, a privately placed hybrid bond for € 275 million was issued. It may be repaid by VTG in full or in part, on certain dates and subject to a time limit. The interest rate is variable and was initially the 3 M Euribor rate (at least 0 %) plus a margin of 5.7 % p.a. The margin increases to 10 % p.a. six months after issue and to 12 % p.a. after a further six months.

(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.	2018	2017
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 2018G	Heubeck RT 2005G

In the rest of Europe, the key actuarial assumptions applied were interest rates of between 0.9 % and 1.75 % (previous year: 0.7 % and 1.75 %).

The pension provisions calculations are as follows:

IN € MILLION	2018	2017
Present value of funded benefit obligations	27.2	24.2
Fair value of the plan assets	-19.2	-18.4
Provision for funded benefit obligations	**8.1**	**5.8**
Present value of unfunded benefit obligations	54.7	61.9
Total provision	**62.8**	**67.7**

The pension provisions were set up primarily for German pension plans totaling € 56.4 million (previous year € 59.0 million).

Plan assets exist mainly to finance projected benefit obligations from pensions in countries other than Germany.

The development of the projected benefit obligation, plan assets and net pension obligations is as follows:

IN € MILLION	Projected benefit obligation		Fair value of plan asset		Net pension obligations	
	2018	2017	2018	2017	2018	2017
Balance at beginning of period	**86.1**	**91.9**	**18.4**	**20.9**	**67.7**	**71.0**
Changes to scope of consolidation	0.4	-	-	-	0.4	-
Current service cost	1.4	1.5	-	-	1.4	1.5
Past service cost	-2.5	-	-	-	-2.5	-
Net interest expense (Interest expense/income)	1.2	1.3	0.1	0.1	1.1	1.2
Employer contributions	-	-	0.5	0.6	-0.5	-0.6
Employee contributions	0.2	0.3	0.2	0.3	-	-
Pension payments made	-3.6	-5.8	-0.1	-2.5	-3.5	-3.3
Settlements	-3.0	-	-3.0	-	-	-
Reclassification	**-**	**-**	**2.0**	**-**	**-2.0**	**-**
Revaluations	1.0	-1.1	0.4	0.5	0.6	-1.6
Actuarial gains/losses from demographic assumptions	0.8	-	-	-	0.8	-
Actuarial gains/losses from changes in financial assumptions	-0.7	-0.2	0.4	0.5	-1.1	-0.7
Actuarial gains/losses from experience adjustments	0.9	-0.9	-	-	0.9	-0.9
Currency effect	0.7	-2.0	0.6	-1.5	0.1	-0.5
Balance at end of period	**81.9**	**86.1**	**19.1**	**18.4**	**62.8**	**67.7**

The portfolio of the fund in which the Swiss subsidiary invests its plan assets comprises shares (17 %, previous year: 19 %), debentures (27 %, previous year: 58 %), property (13 %, previous year: 14 %), cash and cash equivalents (1 %, previous year: 3 %) and others (42 %, previous year: 7 %). 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 subsidiary into euros amounts to € 0.1 million (previous year: € -0.5 million).

Expected payments to beneficiaries in the next period amount to € 4.2 million (previous year: € 4.0 million). In addition, contributions to the plan assets are expected to total € 0.8 million (previous year: € 0.7 million).

As of December 31, 2018, the average term of the obligation for the German companies is 14.8 years (previous year: 14.9 years). The average term of the obligation for the Swiss subsidiary is 16.1 years (previous year: 17.5 years).

The level of defined benefit pension obligations 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:

IN € MILLION	2018	2017
Increase in discount rate by 100 basis points	-7.1	-7.1
Decrease in discount rate by 100 basis points	+8.9	+9.0
Increase in pension trend by 25 basis points	+1.4	+1.5
Decrease in pension trend by 25 basis points	-1.4	-1.4
Increase in life expectancy by 1 year	+4.1	+4.0

(27) Income tax liabilities

IN € MILLION	12/31/2018	12/31/2017
Current income tax liabilities	36.6	22.2
Deferred income tax liabilities	217.1	154.5
Total	**253.7**	**176.7**

Current income tax liabilities developed as follows:

IN € MILLION	Opening balance 1/1/2018	Changes to scope of consolidtion	Utilization	Reversals	Additions	Closing balance 12/31/2018
Current income tax liabilities	**22.2**	**18.4**	**5.1**	**1.8**	**2.9**	**36.6**

IN € MILLION	Opening balance 1/1/2017	Currency difference	Reclassifi-cations	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 € 15.4 million (previous year: € 14.8 million). In accordance with IAS 12.81 (f), the resulting non-recognized tax liabilities amounted to € 3.4 million (previous year: € 3.4 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:

	12/31/2018		12/31/2017	
IN € MILLION	Assets	Liabilities	Assets	Liabilities
Intangible assets	1.0	17.5	1.2	13.4
Tangible fixed assets	9.0	238.9	5.8	162.6
Financial assets	0.3	2.2	0.2	1.6
Other assets	3.1	8.1	2.7	3.2
Liabilities	45.7	7.8	20.6	4.0
Tax loss carryforwards	37.0	-	17.2	-
Subtotal	**96.1**	**274.5**	**47.7**	**184.8**
Offsetting	-57.4	-57.4	-30.3	-30.3
Total	**38.7**	**217.1**	**17.4**	**154.5**
thereof with a term of up to 1 year	4.7	16.8	5.5	5.5

FURTHER INFORMATION

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:

IN € MILLION	2018	2017
Unused tax loss carryforwards	10.0	21.0
Related non-capitalized deferred tax savings	2.1	3.8
thereof with no expiration date	2.1	3.2

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

IN € MILLION	Opening balance 1/1/2018	Changes to scope of consolidation	Reclassification	Utilization	Reversals	Additions	Closing balance 12/31/2018
Provisions for personnel expenses	19.6	0.6	-2.1	13.3	0.5	21.9	26.2
Provisions for typical operational risks	8.4	-	-	2.3	2.7	2.9	6.3
Miscellaneous provisions	23.3	-	-1.5	2.5	1.4	13.0	30.9
Other provisions	51.3	0.6	-3.6	18.1	4.6	37.8	63.4

The additions include the unwinding of the discount 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.

The additions include provisions for restructuring amounting to € 6.6 million, provisions for losses amounting to € 4.0 million and provisions in connection with the wagon fleet amounting to € 2.0 million.

The maturities of the other provisions are as follows:

IN € MILLION	TOTAL		thereof with a term of up to 1 year	
	2018	2017	2018	2017
Provisions for personnel expenses	26.2	19.6	21.4	18.2
Provisions for typical operational risks	6.3	8.4	5.7	5.2
Miscellaneous provisions	30.9	23.3	28.1	21.9
Other provisions	**63.4**	**51.3**	**55.2**	**45.3**

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

The provisions for personnel expenses mainly comprise obligations for social security plans (€ 6.3 million; previous year € 0.5 million), from outstanding vacations (€ 3.6 million; previous year € 3.6 million), for contributions to the Federal and State

Government Employees' Retirement Fund (VBL) ((€ 1.7 million; previous year € 1.6 million), for anniversaries (€ 1.4 million; previous year € 1.4 million) and for long-term phased retirement (€ 0.4 million; previous year € 0.4 million).

The provisions for typical operational risks relate primarily to repair obligations for leased tank containers and wagons (€ 2.6 million; previous year € 5.2 million).

The miscellaneous provisions comprise mainly obligations relating to contract processing amounting to € 9.7 million (previous year: € 9.7 million), for losses (€ 6.0 million; previous year € 2.3 million), for the wagon fleet (€ 4.8 million; previous year € 2.8 million) and for interest rate risks (€ 0.3 million; previous year: € 0.3 million).

(29) Financial liabilities

In the year under review, project financing was repaid and the due private placements denominated in EUR and USD were repaid. A due loan denominated in USD was refinanced as project financing denominated in RUB. Financial liabilities increased as a result of a syndicated loan denominated in EUR and GBP in connection with the Nacco transaction.

Financial liabilities on the reporting date are as follows:

IN € MILLION	Currency	Original amount	As of 12/31/2018	Carrying amount 12/31/2018	Carrying amount 12/31/2017
Private placements	EUR	550.0	550.0	553.0	632.8
Private placements	USD	-	-	-	33.6
Syndicated loans	EUR	1,553.3[1]	1,317.1	1,308.4	828.9
Syndicated loans	GBP	53.0	47.7	53.0	-
Project financing	EUR	84.2	33.8	33.7	65.6
Project financing	USD	164.6	160.7	139.2	91.6
Project financing	RUB	2,600.0	2,554.5	31.7	-
Bank loans	EUR	50.0	15.0	15.0	-
Bank loans	USD	-	-	-	27.1
Liabilities from finance leases		-	-	-	0.1
Other financial liabilities		-	-	73.3	79.2
Total				**2,207.3**	**1,758.9**

1) The original syndicated loan amount includes a guaranteed line of credit of € 80.0 million, € 70.0 million of which had been utilized as of December 31, 2018 (previous year: € 69.9 million).

As of the balance sheet date, the syndicated loans include unused credit lines of € 40.0 million (previous year: € 190.0 million), with a term ending in December 2020. There are unutilized credit lines totaling € 35.0 million (previous year € 50.0 million) with a term ending in September 2020.

In the financial year 2018, there were the following changes in financial liabilities:

IN € MILLION	OPENING BALANCE 1/1/2018	Changes to scope of consolidation	Affecting cash		Not affecting cash			CLOSING BALANCE 12/31/2018
			Borrowing	Repayment	Fair value measurement	Foreign currency effects	Other effects	
Financial liabilities	1,758.9	54.0	713.4	-315.3	-	3.6	-7.3	2,207.3
Interest rate derivatives	24.5	-	-	-15.8	61.1	-	-	69.8

IN € MILLION	OPENING BALANCE 1/1/2018	Affecting cash		Not affecting cash			CLOSING BALANCE 12/31/2017
		Borrowing	Repayment	Fair value measurement	Foreign currency effects	Other effects	
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:

IN € MILLION	AS OF 12/31/2018	Cash flows 2019			Cash flows 2020		
		Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
Financial liabilities							
Syndicated loans	1,370.4	-	19.1	55.4	-	17.8	615.4
Private placements	550.0	30.7	-	-	30.7	-	-
Project financing	206.1	0.5	10.3	23.2	0.4	9.6	9.3
Bank loans	15.0	-	0.3	-	-	0.2	15.0
Other financial liabilities	72.4	3.5	-	2.4	0.1	-	70.0

IN € MILLION	Cash flows 2021-2023			Cash flows 2024-2026			Cash flows 2027 onw.		
	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
Financial liabilities									
Syndicated loans	-	15.3	699.6	-	-	-	-	-	-
Private placements	58.8	-	420.0	19.0	-	130.0	-	-	-
Project financing	0.4	12.5	173.6	-	-	-	-	-	-
Bank loans	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-

In the previous year, there were the following payments:

IN € MILLION	AS OF 12/31/2017	Cash flows 2018			Cash flows 2019		
		Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
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 finance leases	0.1	-	-	-	-	-	0.1
Other financial liabilities	79.3	3.5	-	9.3	3.5	-	-

IN € MILLION	Cash flows 2020-2022			Cash flows 2023-2025			Cash flows 2026 onw.		
	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
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	-	-	-	-	-	-

(30) Derivative financial instruments

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

IN € MILLION	12/31/2018		12/31/2017	
	Assets	Liabilities	Assets	Liabilities
Currency hedging transactions	3.6	2.1	3.4	1.5
Interest rate hedges	1.5	71.2	4.0	28.5
Total	**5.1**	**73.3**	**7.4**	**30.0**

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

12/31/2018

IN € MILLION	2019	2020	2021-2023	2024-2026	2027 onw.
Derivative financial instruments					
Assets with gross settlement					
Outgoing payments	-31.0	-57.6	-	-	-
Incoming payments	31.0	58.7	-	-	-
Assets with net settlement	0.6	0.4	0.2	-	-
Liabilities with gross settlement					
Outgoing payments	-22.8	-	-32.8	-	-
Incoming payments	22.9	-	28.7	-	-
Liabilities with net settlement	-16.9	-11.7	-36.4	-19.8	8.6

12/31/2017

IN € MILLION	2018	2019	2020-2022	2023-2025	2026 onw.
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	-	-

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:

IN € MILLION	Carrying amount 12/31/2018	Carrying amount 12/31/2017
Measured at amortized cost	328.0	288.8
Measured at fair value through other comprehensive income, no reclass	17.5	1.3
Derivatives that meet the requirements for hedge accounting	4.7	7.3
Measured at fair value through profit or loss	0.4	0.1
Financial assets	**350.6**	**297.5**
Measured at amortized cost	2,376.1	1,937.8
Derivatives that meet the requirements for hedge accounting	60.9	2.8
Measured at fair value through profit or loss	12.3	27.2
Financial liabilities	**2,449.3**	**1,967.8**

All equity instruments shown under other financial assets were placed in the category "measured at fair value through other comprehensive income, no reclass." A long-term investment horizon exists for these investments and shareholdings. This mainly relates to a 20 % shareholding in Mitteldeutsche Eisenbahn GmbH (MEG) with a carrying amount of € 16.5 million (previous year € 0.2 million).

Net result by valuation category

IN € MILLION	Net result 2018	Net result 2017
Financial assets measured at amortized cost	1.8	0.5
Financial assets measured at fair value through other comprehensive income, no reclass	1.5	1.6
Financial liabilities measured at amortized cost	-80.6	-63.8
Financial assets and liabilities measured at fair value through profit or loss	-1.0	-0.5

The net results for financial assets and liabilities measured at amortized cost mainly comprise interest income and interest expense and effects of foreign currency translation.

The net result "for financial assets and liabilities measured at fair value through profit or loss" reflects the changes in the fair value of derivative financial instruments not in a hedging relationship.

The 2018 net result for financial instruments in the category "financial assets measured at fair value through other comprehensive income, no reclass" comprises dividends of € 1.5 million (of which € 1.4 million relate to Mitteldeutsche Eisenbahn GmbH) which were distributed for financial instruments held at year-end.

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

IN € MILLION	2018	2017
Interest income	2.0	1.1
Interest expense	-76.2	-66.1

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.

				Related amounts that are not offset		
IN € MILLION	Gross amount	Offsetting	**Balance sheet amount**	Financial instruments	Securities	Net amount
12/31/2018						
Derivative financial instruments						
Assets	5.1	-	**5.1**	-4.0	-	1.1
Liabilities	73.2	-	**73.2**	-4.0	-	69.2
12/31/2017						
Derivative financial instruments						
Assets	7.4	-	**7.4**	-2.1	-	5.3
Liabilities	30.0	-	**30.0**	-2.1	-	27.9

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:

	12/31/2018			12/31/2017		
IN € MILLION	Quoted prices (Level 1)	Other relevant observable inputs (Level 2)	Other relevant Inputs (Level 3)	Quoted prices (Level 1)	Other relevant observable inputs (Level 2)	Other relevant Inputs (Level 3)
Assets						
Other investments	-	17.5	-	-	-	-
Derivative financial instruments	-	5.1	-	-	7.4	-
Liabilities						
Derivative financial instruments	-	70.0	3.2	-	23.3	6.7

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

The other financial assets shown at Level 2 include equity instruments that are not listed on a stock exchange. These financial instruments are valued using a multiplier method.

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 € 0.4 million (previous year: € 1.6 million), while a 1 % reduction would increase it just slightly (previous year: € 0.3 million).

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

	Derivative financial instruments Liabilities	
IN € MILLION	**2018**	*2017*
Balance at beginning of period 1/1	6.7	12.4
Net changes in fair value (unrealized)	0.8	-1.5
Settlement	-4.3	-4.2
Closing balance 12/31	**3.2**	**6.7**

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:

	Carrying amount		*Fair value*	
IN € MILLION	**12/31/2018**	*12/31/2017*	**12/31/2018**	*12/31/2017*
Financial liabilities	2,207.3	1,758.9	2,284.7	1,840.1

Where financial liabilities bear 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 the following types of derivative financial instruments exclusively in connection with hedging activities. As a rule, hedging relationships that have been formed are shown as cash flow hedges.

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. Cross-currency swaps are used to hedge balance sheet items. The cash flow hedge reserve and the cost of hedging reserve (for hedging relationships designated on or after January 1, 2018) are reclassified to the income statement on a period or transaction basis.

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. As soon as the interest expense from hedged items is recognized, the relevant parts of the changes in the fair values of the hedging instruments are reclassified from the cash flow hedge reserve to interest expense. The hedging relationship in which the swaptions were designated was terminated in the reporting period because any exercise at the exercise date (September 30, 2019) was foreseeably unfavorable due to the lack of intrinsic value. The reserve for the cost of hedging that existed at the time of termination was reclassified to profit or loss.

The interest rate swaps designated as of the balance sheet date have start dates up to December 31, 2023, and terms of up to 19 years:

	Total nominal volume	Average fixed rate [%]	Pro rata nominal volume for the years				
IN € MILLION	**12/31/2018**	**12/31/2018**	2019	2020	2021	2022	2023
Interest rate swaps	2,725.9	1.55	855.9	1,269.6	1,346.3	1,514.0	1,465.0

The designated hedging instruments and hedged items and their interaction as a hedging relationship had the following effects on the consolidated balance sheet and consolidated income statement in the reporting period:

EFFECTS OF HEDGING INSTRUMENTS

	12/31/2018		
IN € MILLION	Carrying amount	Nominal volume	Changes in fair value for determining ineffectiveness
Derivative financial instruments – assets			
Interest rate swaps	1.2	118.3	+1.2
Derivative financial instruments – liabilities			
Interest rate swaps	58.9	2,607.6	–58.5

EFFECTS OF HEDGED ITEMS

IN € MILLION	**2018**
Changes in fair value in the current period for determining ineffectiveness	+62.6
Balance of reserve for current cash flow hedges	–42.2
Balance of reserve for terminated cash flow hedges	–

EFFECTS OF HEDGING RELATIONSHIPS

IN € MILLION	2018
Changes in value from hedges	
recognized in the cash flow hedge reserve	-57.4
recognized in profit or loss (ineffectiveness)	-0.7
Reclassifications from cash flow hedge reserve to profit or loss	
due to premature termination of hedging relationship	-
due to realization of hedged item	-0.8

Hedge ineffectiveness and reclassified items are reported under financing expenses. Ineffectiveness results from adjustments for the default risk of the parties to the interest rate swaps which are not offset by changes in the value of the hedged financial liabilities.

Development of the revaluation reserve

The development of the cash flow hedge reserve is as follows:

DEVELOPMENT OF CASH FLOW HEDGE RESERVE

IN € MILLION	Interest rate risk	Currency risk
Opening balance 1/1/2018	**0.2**	**0.0**
Changes in value arising from effective hedging relationships recognized in cash flow hedge reserve	-43.1	-0.3
Reclassification to profit or loss due to realization of hedged item	0.6	0.6
Reclassification to profit or loss due to termination of hedging relationships	-	-
Currency effect	0.1	-
Closing balance 12/31/2018	**-42.2**	**0.3**

The development of the cost of hedging is as follows:

DEVELOPMENT OF COST OF HEDGING RESERVE

	Interest rate risk	Currency risk
IN € MILLION	Time value of options	Forward element
Opening balance 1/1/2018	**-0.3**	**0.0**
Changes in value recognized in cost of hedging reserve	-1.4	-0.2
Reclassification to profit or loss related to transaction-related hedged items	-	-
Reclassification to profit or loss related to period-related hedged items	1.1	0.4
Reclassification to profit or loss due to termination of hedging relationships	0.6	-
Closing balance 12/31/2018	**0.0**	**0.2**

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 in determining net financial debt (see also Note 29 under "Financial liabilities").

The (adjusted) financial debt is determined as follows:

IN € MILLION	12/31/2018	12/31/2017
Financial liabilities	2,207.3	1,758.9
Adjustment for Correction, deduction of transaction costs	12.3	9.8
Cash and cash equivalents	-84.1	-78.2
Investment securities	-0.4	-0.4
Financial receivables	-35.1	-22.2
Net financial debt	**2,100.0**	**1,667.9**
pension provisions	62.8	67.7
Adjusted net financial debt	**2,162.8**	**1,735.6**
EBITDA	397.3[1)]	343.4
Ratio of adjusted net financial debt/EBITDA	**5.4**	**5.1**

1) adjusted to include the Nacco Group result not contained in Group EBITDA from 1/1/2018 to 9/30/2018

OTHER DISCLOSURES

Collateral

The following are subject to third-party property rights: rail freight wagons with a carrying amount of € 2,633.4 million (previous year: € 2,108.3 million), tank containers with a carrying amount of € 42.9 million (previous year: € 37.6 million), accounts with a carrying amount of € 2.9 million (previous year: € 1.8 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 the beneficial owners of the leased assets (largely rail freight wagons, locomotives 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 2018 was € 63.9 million (previous year: € 55.3 million).

Nominal values of the other financial commitments are as follows as of December 31, 2018 and for the previous year:

IN € MILLION	up to 1 year		between 1 and 5 years		more than 5 years		TOTAL	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Obligations from rental, leasehold and leasing agreements	54.6	49.9	138.1	117.1	70.5	56.6	263.2	223.6
Purchase commitments	113.2	156.8	5.4	15.2	-	-	118.6	172.0
Total	**167.8**	**206.7**	**143.5**	**132.3**	**70.5**	**56.6**	**381.8**	**395.6**

Auditors' fees

For the services rendered by the auditor of the consolidated financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, the following fees were recorded:

IN € MILLION	2018	2017
Audit Services	0.5	0.4
Audit-related services	0.4	0.7

The fees for audit-related services comprise services rendered by the auditor in relation to the auditor's review of the condensed interim financial statements for the Group and interim management report for the Group as of June 30, 2018, the performance of voluntary audits of the annual financial statements as of December 31, 2018, and services in relation to the issue of a comfort letter in the financial year 2018. The external auditor responsible for the audit by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, is Carl-Heinz Klimmer.

Employees

	12/31/2018	Annual average 2018	12/31/2017	Annual average 2017
Salaried employees	1,144	1,102	1,069	1,046
Wage-earning staff	407	399	398	388
Trainees	75	61	60	48
Total	**1,626**	**1,562**	**1,527**	**1,482**
thereof abroad	504	474	479	487

Material events after the balance sheet date (Supplemental Report)

On February 24, 2019, with the approval of the Supervisory Board, the Executive Board of VTG Aktiengesellschaft passed a resolution to apply to revoke the admission to trading of the VTG shares on the regulated market of the Frankfurt Stock Exchange (delisting). Warwick Holding GmbH, the majority shareholder of VTG with around 71 percent, will submit a compensation offer of € 53.00 to the shareholders. At the same time, Warwick Holding GmbH has pledged its support for the rights issue of € 290 million in the second quarter of 2019 to partially refinance the hybrid capital. In this connection, it has announced that it will fully exercise its subscription rights in terms of the capital increase and will purchase the shares to which it is entitled at the subscription price to be determined. In addition, it will acquire all unsubscribed shares from the capital increase. The majority shareholder had previously announced that it would be able to support a rights issue only within the context of a delisting.

Related party disclosures

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

The following transactions were entered into with related parties and 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

	Affiliated, non-consolidated companies		Companies accounted forusing the equity method		Other equity investments		Other related companies and persons	
IN € MILLION	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenue and other operating income	-	-	2.7	2.6	12.5	11.8	-	1.4
Expenses	3.8	4.0	10.0	9.8	0.4	0.4	-	-
Interest income	-	-	0.2	0.2	-	-	-	-
	12/31/2018	12/31/2017	**12/31/2018**	12/31/2017	**12/31/2018**	12/31/2017	**12/31/2018**	12/31/2017
Trade receivables	0.4	0.3	0.6	0.1	1.6	2.5	-	-
Other receivables	-	0.2	9.8	20.0	-	1.2	-	-
Trade payables	0.2	0.2	-	-	-	-	-	-
from financial liabilities	-	0.3	-	-	-	-	-	-

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.

IN € MILLION	**2018**	2017
Short-term employee benefits	8.8	7.6
thereof Executive Board	(4.6)	(3.4)
thereof Supervisory Board	(0.3)	(0.2)
Post-employment benefits	1.2	0.3
thereof Executive Board	1.0	0.1
Total	**10.0**	**7.9**

Pension provisions for members of the Executive Board amounted to € 10.3 million as of the balance sheet date (previous year: € 9.6 million). Provisions for other key management personnel amounted to € 2.3 million on the balance sheet date (previous year: € 2.1 million).

There are provisions totaling € 5.1 million for obligations to former members of the Executive Board and their survivors (previous year: € 5.1 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:

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

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	-6,882	-308
AAE Freightcar S.à r.l., Luxembourg/Luxembourg	EUR		100.00	642	515
AAE Railcar S.à r.l., Luxembourg/Luxembourg	EUR		100.00	7,073	7,052
AAE RaiLease S.à r.l., Luxembourg/Luxembourg	EUR		100.00	738	513
AAE RailFleet S.à r.l., Luxembourg/Luxembourg	EUR		100.00	320	263
AAE Wagon Finance S.A., Luxembourg/Luxembourg	EUR		100.00	2,405	110
AAE Wagon S.à r.l., Luxembourg/Luxembourg	EUR		100.00	1,124	1,111
Alstertor Rail UK Limited, Birmingham/United Kingdom	GBP		100.00	21,378	610
Ateliers de Joigny S.A.S., Joigny/France	EUR		100.00	6,857	841
CAIB Rail Holdings Limited, Birmingham/United Kingdom	GBP		100.00	8,032	299
CAIB UK Limited, Birmingham/United Kingdom	GBP		100.00	0	0
CIT Rail Holdings (Europe) S.A.S., Paris/France	EUR		100.00	19,050	6,369
Deichtor Rail GmbH, Garlstorf	EUR	100.00		1,315	170
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	-2,108	-14
Euro Freight Car Finance S.A., Luxembourg/Luxembourg	EUR		100.00	2,397	6,657

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
E.V.S. S.A., Paris/France	EUR		100.00	1,044	318
Ferdinandstor Rail GmbH, Garlstorf	EUR		100.00	3,100	219
Klostertor Rail GmbH, Garlstorf	EUR	100.00		-6,704	-6,101
Mitrag AG, Baar/Switzerland	CHF		100.00	2,743	952
NACCO Rail Ireland Limited, Dublin/Ireland	EUR		100.00	1,115	42
NACCO S.A.S., Paris/France	EUR		100.00	-21,701	75,618
NACCO (U.K.) Limited, London/United Kingdom	GBP		100.00	2,761	-216
OOO AAE, Moskau/Russia	RUB		100.00	-97,898	-12,645
OOO Railcraft Service, Moskau/Russia	RUB		100.00	1,482,487	178,178
OOO Transportation Company Vagonpark, Saransk/Russia	RUB		100.00	1,014,874	-256,912
OOO VTG, Moskau/Russia	RUB		100.00	79,368	36,970
Ortanio Holdings Ltd., Tortola/British Virgin Islands	USD		100.00	1,873	-264
Rail Holdings Nederland C.V., Rotterdam/Netherlands	EUR	99.99	0.01	365,509	484
Retrack Eisenbahnverkehr GmbH und Co. KG, Hamburg	EUR		100.00	154	0
Retrack Verwaltungs GmbH, Hamburg	EUR		100.00	31	-1 [3]
Sturgess Holdings Ltd. (in Liquidation), Nicosia/Cyprus	USD		100.00	7,423	-28
Suvaltra SA, Baar/Switzerland	CHF		100.00	2,221	909
Transpetrol Sp.z o.o., Chorzów/Poland	PLN		100.00	8,694	6,555
Vostok 2 GmbH, Hamburg	EUR	99.60	0.40	33,704	-18
Vostok Beteiligungs GmbH, Hamburg	EUR	99.60	0.40	93	-15
VTG Austria Ges.m.b.H, Wien/Austria	EUR		100.00	4,265	1,795
VTG Benelux B.V., Rotterdam/Netherlands	EUR		100.00	357,750	-21
VTG Cargo AG, Baar/Switzerland	CHF		100.00	48,551	31,741
VTG Deutschland GmbH, Hamburg	EUR		100.00	54,680	0 [1] [2]
VTG Finance S.A., Luxembourg/Luxembourg	EUR		100.00	7,415	-500
VTG France S.A.S., Paris/France	EUR		100.00	36,763	6,764
VTG Nederland B.V., Rotterdam/Netherlands	EUR	100.00		-22	-6
VTG North America, Inc., Hinsdale, Illinois/USA	USD	100.00		40,751	1,158
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	15,904	785
VTG Rail Logistics Austria GmbH, Wien/Austria	EUR		100.00	-2,699	-456
VTG Rail Logistics Benelux N.V., Gent/Belgium	EUR		100.00	1,553	614
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	4,858	525
VTG Rail Logistics GmbH, Hamburg	EUR	100.00		58,908	2,260
VTG Rail Logistics Hellas EPE, Thessaloniki/Greece	EUR		100.00	51	-165
VTG Rail Logistics Hungaria Kft., Budapest/Hungary	HUF		100.00	-434,136	-354,796
VTG Rail Logistics s.r.o., Prag/Czechia	CZK		100.00	28,337	6,037

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
LLC "VTG Rail Logistics Ukraine", Kiew/Ukraine	UAH		100.00	443	-38
VTG Rail UK Limited, Birmingham/United Kingdom	GBP		100.00	33,618	4,801
VTG Switzerland GmbH, Baar/Switzerland	CHF		100.00	18,463	2,588
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)]
VTG 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		1,109	-457
Waggonwerk Brühl GmbH, Wesseling	EUR		100.00	9,401	1,557
Wagon & Warehousing Service GmbH, Ahaus	EUR		100.00	25	0 [1)]

1) Profit and loss transfer agreement with the parent company
2) Companies partially make use of the exemption granted under Section 264 (3) HGB.
3) Retrack Verwaltungs GmbH is a personally liable shareholder in Retrack Eisenbahnverkehr GmbH & Co. KG.

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	649	-301
AXBENET s.r.o., Trnava/Slovakia	EUR		50.00	16,879	1,649
Shanghai COSCO VTG Tanktainer Co., Ltd., Shanghai/China	RMB		50.00	46,212	5,448
Waggon Holding AG, Zug/Switzerland	CHF	50.00		5,455	4,240
C. Affiliated, non-consolidated companies					
VTG Nakliyat Lojistik Kiralama Limited Sirketi, Istanbul/Turkey	TRY	100.00		1,213	-405 [1)]
VTG Tanktainer Asia Pte Ltd., Singapur/Singapore	USD		100.00	174	4 [1)]
VTG Tanktainer Finland Oy, Tuusula/Finland	EUR		100.00	232	51 [1)]
VTG Tanktainer North America, Inc., West Chester, Pennsylvania/USA	USD		100.00	192	36 [1)]
D. Other companies					
AWILOG Transport GmbH, Oberriexingen	EUR		20.00	851	150 [1)]
Log4Chem GmbH, Pulheim	EUR		25.10	323	23 [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	39	1,121 [1)]
Steeltrack S.A., Saint Denis/France	EUR		33.30	1,042	311 [1)]

1) Information as of 12/31/2017
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. MARKUS C. HOTTENROTT, NEW YORK CITY, USA
Asset Management Officer for Infrastructure Investment
Deputy Chairman

JENS FIEGE, MÜNSTER
(from June 6, 2018)
Executive Board Member, Fiege Group, Greven

KARL GERNANDT, HAMBURG
Chairman of the Board of Directors
Kühne Holding AG, Schindelleggi, Switzerland

ULRICH MÜLLER, HENSTEDT-ULZBURG
(from June 6, 2018)
Executive Board Member, Joachim Herz Stiftung, Hamburg

PROF. FRANCA RUHWEDEL, DUISBURG
(from June 6, 2018)
Professor of Finance and Accounting, Rhine-Waal University of Applied Sciences, Kamp-Lintfort

DR. KLAUS-JÜRGEN JUHNKE, HAMBURG
(to June 6, 2018)
Former Managing Director of VTG Vereinigte Tanklager und Transportmittel Gesellschaft mit beschränkter Haftung, Hamburg

DR. BERND MALMSTRÖM, BERLIN
(to June 6, 2018)
Solicitor

DR. CHRISTIAN OLEARIUS, HAMBURG
(to June 6, 2018)
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
(to December 31, 2018)
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
(from January 2019 Chief Financial Officer)

Appointments of the supervisory board *)

DR. JOST A. MASSENBERG, MEERBUSCH
b) Felix Schoeller Holding GmbH & Co. KG
Kingspan Group plc, Ireland

DR. MARKUS C. HOTTENROTT, NEW YORK CITY

JENS FIEGE, MÜNSTER
b) Fiege Logistik (Switzerland) AG, Switzerland
KUBIKx GmbH
Magazino GmbH

KARL GERNANDT, HAMBURG
a) Hapag-Lloyd AG [2)]

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 Invest AG, Switzerland
Kühne Logistics University [1)]
Kühne Real Estate AG, Switzerland [1)]
LogIndex AG, Switzerland

ULRICH MÜLLER, HENSTEDT-ULZBURG
b) BBG Beteiligungsgesellschaft mbH
JH Holdings Inc., U.S.A.
JH Title Holding Inc., U.S.A.

PROF. FRANCA RUHWEDEL, DUISBURG
a) NATIONAL-BANK AG

Appointments of the executive board *)

DR. HEIKO FISCHER, HAMBURG
b) AAE Ahaus Alstätter Eisenbahn Capital AG, Switzerland [1)]
„Brückenhaus“ Grundstücksgesellschaft mbH
KG „Brückenhaus“ Grundstücksgesellschaft mbH & Co
Mitrag AG, Switzerland [1)]
Navigator Holdings Ltd., Marshall Islands
Suvaltra AG, Switzerland [1)]
TRANSWAGGON AG, Switzerland [2)]
TRANSWAGGON-Gruppe, Switzerland [1)]
VTG Cargo AG, Switzerland [1)]
VTG North America, Inc., U.S.A. [1)]
Waggon Holding AG, Switzerland [2)]

DR. KAI KLEEBERG, HAMBURG
(to December 31, 2018)
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 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 Cargo AG, Switzerland
VTG Finance S.A., Luxembourg

**) Unless stated otherwise, all information on appointments relates to 12/31/2018*

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 1/1/2018 until 12/31/2018

	Acquisition and Manufacturing Costs						
IN € MILLION	Balance as of 1/1/2018	Change Scope of Consolidation	Currency Adjustment	Additions	Disposals	Reclassifi-cations	as of 12/31/2018
Intangible assets							
Concessions, industrial trademarks and similar rights and assets as well as licences in such rights and assets	29.3	-	-	1.9	0.3	0.7	31.6
Brand values	11.6	0.3	-	-	-	-	11.9
Customer relationships	120.9	23.5	-	-	-	-	144.4
Goodwill	342.5	146.8	-	-	-	-	489.3
Capitalized development costs	1.8	-	-	-	-	0.2	2.0
Payments on account	0.5	-	-	0.5	-	-0.5	0.5
	506.6	**170.6**	**0.0**	**2.4**	**0.3**	**0.4**	**679.7**
Tangible fixed assets							
Wagon fleet	3,068.1	585.3	2.3	149.3	63.9	17.1	3,758.2
Containers and chassis	83.4	-	-	10.0	0.4	0.3	93.3
Land and buildings including on third party land	16.1	0.4	-	0.1	-	0.2	16.8
Technical plant and machinery	21.9	-	-	0.5	3.1	0.6	19.9
Other equipment, operating and office equipment	17.2	0.1	-	2.2	0.7	0.3	19.1
Payments on account, assets under construction	29.8	4.0	-0.2	41.5	1.6	-19.0	54.5
	3,236.5	**589.8**	**2.1**	**203.6**	**69.7**	**-0.5**	**3,961.8**
Total	**3,743.1**	**760.4**	**2.1**	**206.0**	**70.0**	**-0.1**	**4,641.5**

	Impairment, Amortization and Depreciation						Carrying Amounts	
	Balance as of 1/1/2018	Currency Adjustmen	Depreciation/ Amortization For Financial Year	Impairment	Disposals	as of 12/31/2018	**12/31/2018**	12/31/2017
	16.9	-	3.2	-	0.3	19.8	**11.8**	12.4
	2.1	-	-	-	-	2.1	**9.8**	9.5
	58.4	-	6.4	-	-	64.8	**79.6**	62.5
	2.0	-	-	-	-	2.0	**487.3**	340.5
	1.5	-	0.2	-	-	1.7	**0.3**	0.3
	-	-	-	-	-	-	**0.5**	0.5
	80.9	**0.0**	**9.8**	**0.0**	**0.3**	**90.4**	**589.3**	**425.7**
	927.8	-0.1	179.0	2.1	46.0	1,062.8	**2,695.4**	2,140.3
	45.3	-	5.1	-	0.3	50.1	**43.2**	38.1
	5.6	-	0.6	-	-	6.2	**10.6**	10.5
	9.7	-	1.4	-	1.1	10.0	**9.9**	12.2
	12.0	-	1.9	-	0.7	13.2	**5.9**	5.2
	0.2	-	-	-	-	0.2	**54.3**	29.6
	1,000.6	**-0.1**	**188.0**	**2.1**	**48.1**	**1,142.5**	**2,819.3**	**2,235.9**
	1,081.5	**-0.1**	**197.8**	**2.1**	**48.4**	**1,232.9**	**3,408.6**	**2,661.6**

FURTHER INFORMATION

DEVELOPMENT OF INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS

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

IN € 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 Adjustmen*	*Depreciation/ Amortization For Financial Year*	*Impairment*	*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
-	-	-	-	-	-	**0.5**	1.5
71.0	**0.0**	**9.9**	**0.0**	**0.0**	**80.9**	**425.7**	**432.9**
812.1	-8.7	169.6	0.0	45.2	927.8	**2,140.3**	2,122.1
42.4	-	5.1	0.0	2.2	45.3	**38.1**	32.4
5.1	-	0.5	0.0	-	5.6	**10.5**	10.6
8.3	-	1.4	0.0	-	9.7	**12.2**	12.4
10.6	-	1.7	0.0	0.3	12.0	**5.2**	4.6
0.1	-	0.1	0.0	-	0.2	**29.6**	34.7
878.6	**-8.7**	**178.4**	**0.0**	**47.7**	**1,000.6**	**2,235.9**	**2,216.8**
949.6	**-8.7**	**188.3**	**0.0**	**47.7**	**1,081.5**	**2,661.6**	**2,649.7**

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, February 28, 2019

The Executive Board

DR. HEIKO FISCHER

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, February 28, 2019

The Executive Board

DR. HEIKO FISCHER

GÜNTER-FRIEDRICH MAAS

MARK STEVENSON

FURTHER INFORMATION

05

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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 2018, 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 2018, 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 2018.

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 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018, 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 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; 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 2018. 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 the cash-generating unit and gained an understanding of the process steps.

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

The other significant valuation assumptions, such as the discount and growth rates, were assessed 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 consolidated 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 consolidated 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, the valuation of the wagon fleet 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 gained an understanding of the process steps.

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 gained an understanding 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 10 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 consolidated 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. Acquisition of CIT Rail Holdings (Europe) S.A.S.

The acquisition of all of the shares in CIT Rail Holdings (Europe) S.A.S., Paris, France (the Nacco Group), on 4 October 2018 had a significant impact on the consolidated financial statements of VTG Aktiengesellschaft. We consider the presentation of this acquisition to be a key audit matter due to the identification of assets and liabilities, whose recognition and measurement is based to a large extent on estimates and assumptions by the executive directors.

Auditor's response
We gained an understanding of the underlying processes applied to ensure the complete recognition and measurement of the purchase price allocations. To assess the executive directors' allocation of the purchase price to the acquired assets and liabilities, we checked the clerical accuracy of the valuation model used with the aid of our internal specialists for accounting for business acquisitions. We analyzed the assumptions made by the executive directors when identifying and measuring the assets and liabilities and compared them with external market data where available. We checked both the method and the arithmetic involved in calculating the cost of capital, tested the plausibility of the peer companies used and compared the parameters used by the executive directors with current interest rates and market risk premiums.

Our procedures did not lead to any reservations relating to the accounting for the acquisition.

Reference to related disclosures
The Company provides information on the acquisition of the Nacco Group in the notes to the consolidated financial statements in Note "(4) Basis of consolidation in fiscal year 2018."

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board. In all other respects, the executive directors are responsible for the 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 2018 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 6 June 2018. We were engaged by the Supervisory Board on 20 November 2018. We have been the group auditor of VTG Aktiengesellschaft since fiscal year 2017.

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, 28 February 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

5-Year Overview for the Group

IN € MILLION	2014	2015	2016	2017	2018
Revenue	**818.3**	**1,027.5**	**986.9**	**1,014.4**	**1,072.6**
Railcar	345.4	537.2	517.2	520.7	579.9
Rail Logistics	322.0	324.0	312.3	336.4	324.5
Tank Container Logistics	150.9	166.3	157.4	157.3	168.2
Group EBITDA	**191.0**	**336.5**	**345.3**	**343.4**	**349.3**
Railcar	194.4	335.4	344.3	343.6	381.4
Rail Logistics	-0.2	3.4	5.8	8.3	6.5
Tank Container Logistics	12.8	13.6	11.2	11.3	6.5
EBIT	83.5	144.1	149.7	155.1	149.4
Group net profit (comparable)	18.8	29.4	57.5	68.1	45.5
Depreciation	107.6	192.4	195.6	188.3	199.9
Total investments	219.2	195.8	259.3	341.6	362.2
Operating cash flow	159.9	282.9	326.2	295.9	332.8
Earning per share in €	0.93	0.75	1.56	1.93	1.01
Dividend per share in €	0.45	0.50	0.75	0.90	0.95*
Balance sheet total	1,673.4	3,047.1	3,001.5	3,085.5	3,905.8
Non-current assets	1,418.2	2,708.1	2,726.2	2,746.4	3,538.9
Current assets	252.4	339.0	275.3	339.1	366.9
Equity	340.5	748.2	774.0	800.1	1,055.6
Liabilities	1,332.9	2,298.9	2,227.5	2,285.4	2,850.2
Number of employees	1,312	1,445	1,443	1,527	1,626
in Germany	909	942	958	1,048	1,122
in other countries	403	503	485	479	504

* 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-todoor 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).

Contact

Contact

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Disclaimer and Imprint

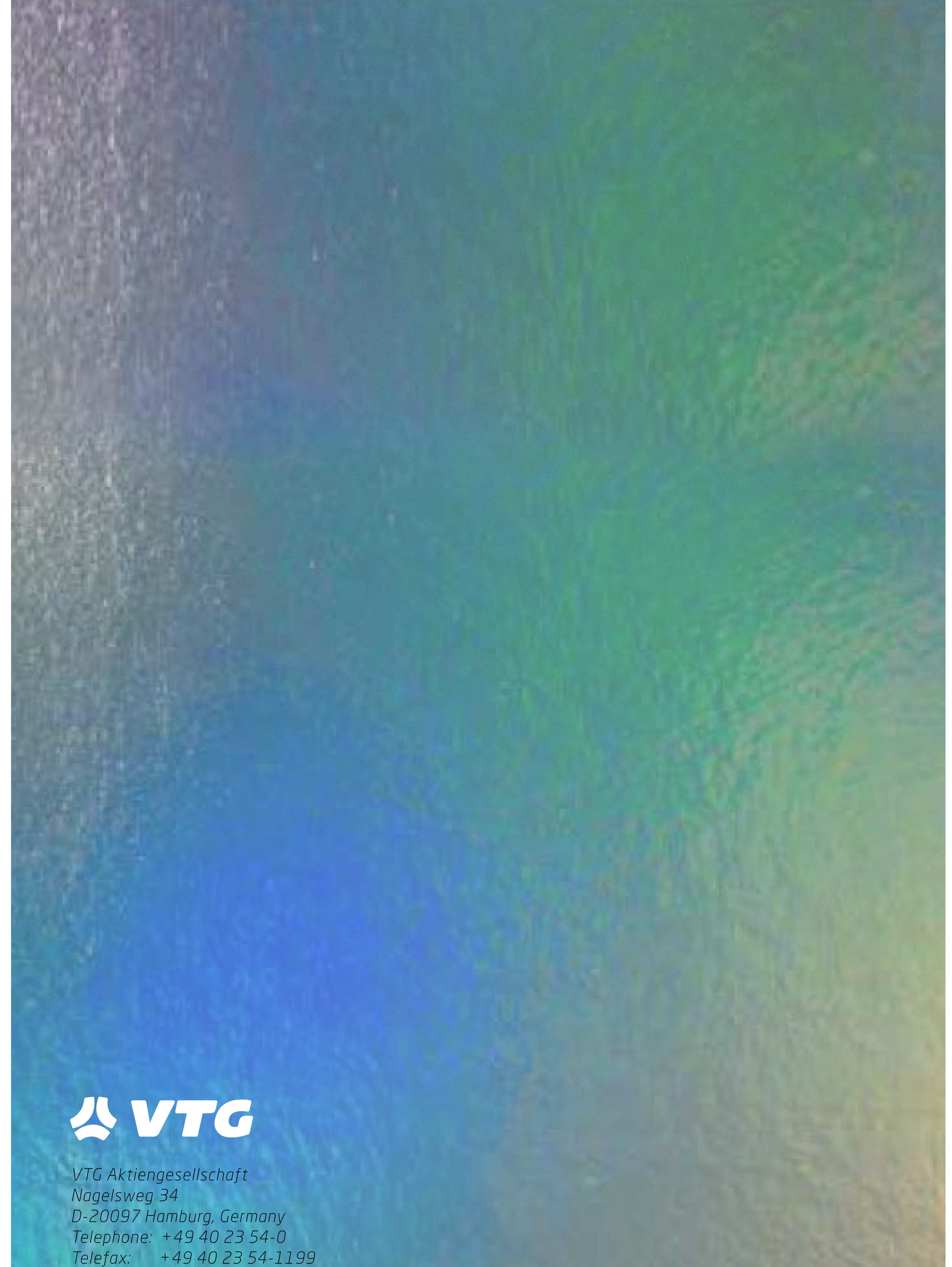
Imprint

Concept and Design
Berichtsmanufaktur GmbH, Hamburg

Images
Getty Images (page 3 bottom, 7 bottom), iStock (page 4 middle, 4/5 bottom, 8 top, 10 top, 13 top), Unsplash (page 7 top, 10 middle), VTG (page 3 top, 4 top, 4 middle [Screen], 5 top, 7 middle, 8 top [Screen], middle and bottom, 9, 10 bottom, 12, 13 top [Screen] and bottom)

Disclaimer
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.

No liability is assumed for the correctness or completeness of the English translation of this annual report. Only the German version is authoritative.



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