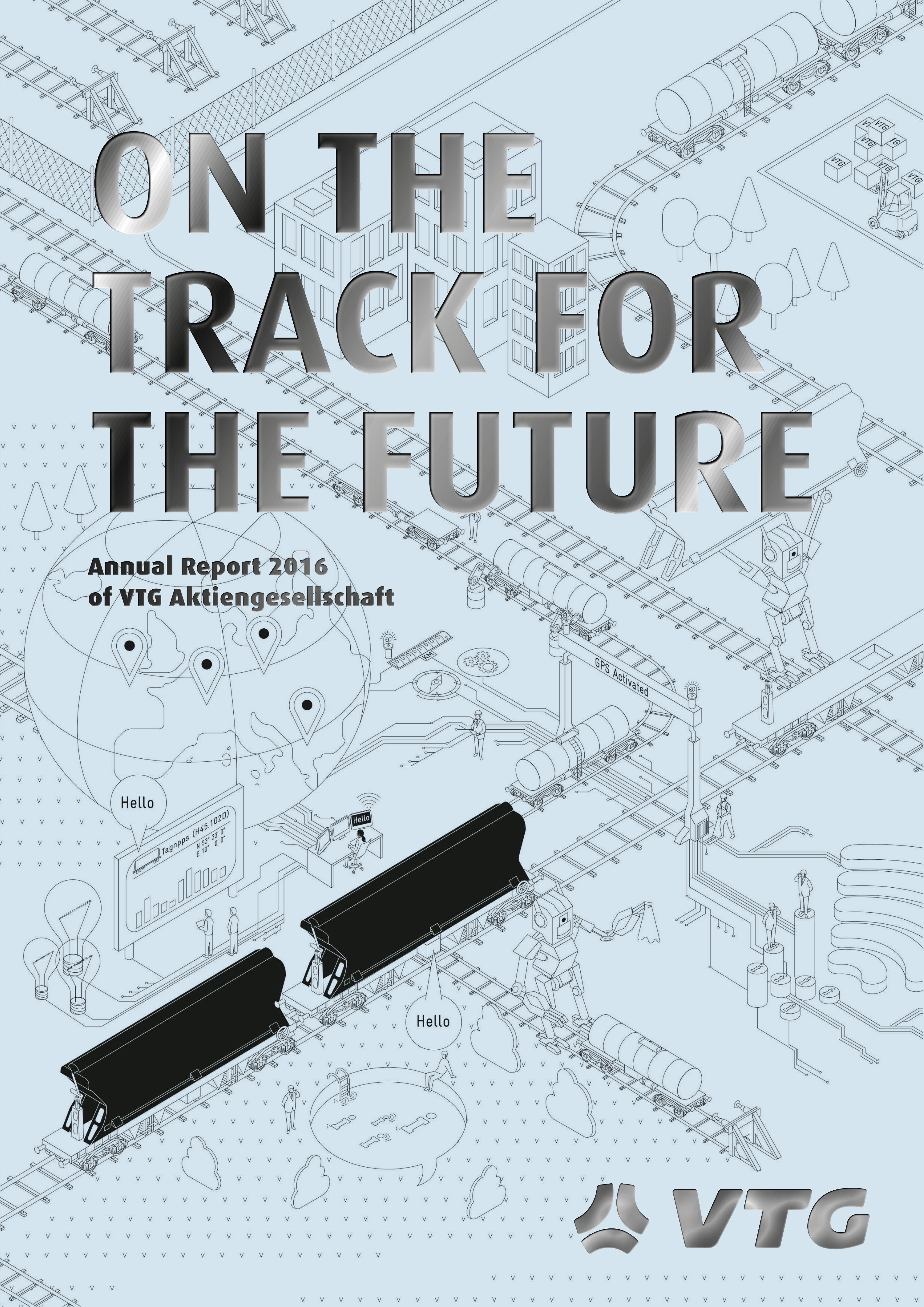
ON THE TRACK FOR THE FUTURE

Annual Report 2016 of VTG Aktiengesellschaft



VTG

ANNUAL REPORT 2016 —

Innovation brings new horizons

For more than 60 years now, wagon hire services and bespoke logistics solutions have formed the core of our business. After strong recent growth, we are now Europe's market leader. We want to maintain and build on this competitive edge – for the benefit of our customers and our shareholders.

We aim to keep streaking ahead on our track to the future. We are therefore focusing on new technology, carefully monitoring the market, and playing an active role in key industry bodies – so that we can keep shaping the transport sector with our creativity and expertise. In doing so, we can draw on our proactive corporate culture and a well-coordinated workforce that is committed to delivering the very best.

STREAKING AHEAD — As the market leader, we are taking the initiative and working systematically towards our goals. We aim to use innovation to strengthen the rail freight sector and make it the backbone of intelligent, sustainable logistics solutions. With our telematics system, we will be able to expand our range of services significantly. →

CONNECTING — The increasingly interconnected global economy is changing the distances being covered and the types of goods being transported. New transport routes are being created to make freight transport faster and more efficient. The railway has an important role to play in this. →

LOOKING AHEAD — Freight volumes will increase, and the railway system is currently showing evidence of saturation. We are therefore already looking at the requirements of tomorrow and developing solutions for our customers. We are also actively participating in various initiatives and industry bodies in order to make improvements. →

ANNUAL REPORT 2016

VTG Group at a Glance

€ MILLION	1/1–12/31/2015	1/1–12/31/2016	CHANGE IN %
Revenue	1,027.5	**986.9**	–4.0
EBITDA	336.5	**345.3**	2.6
EBIT	144.1	**149.7**	3.8
EBT	45.9	**88.2**	92.3
Group profit	29.4	**57.5**	95.5
Depreciation	192.4	**195.6**	1.7
Total investments	195.8	**259.3**	32.5
Operating cash flow	282.9	**326.2**	15.3
Earnings per share in €	0.75	**1.56**	108.0

€ MILLION	12/31/2015	12/31/2016	CHANGE IN %
Balance sheet total	3,047.1	**3,001.5**	–1.5
Non-current assets	2,708.1	**2,726.2**	0.7
Current assets	339.0	**275.3**	–18.8
Shareholders' equity	748.2	**774.0**	3.4
Liabilities	2,298.9	**2,227.5**	–3.1
Equity ratio in %	24.6	**25.8**	
Number of employees	1,445	**1,443**	–0.1
in Germany	942	**958**	1.7
in other countries	503	**485**	–3.6

Railcar Division:

EMPLOYEES: 915 — WAGONS: 81,900 — REVENUE € MILLION: 517.2

Rail Logistics:

EMPLOYEES: 217 — LEASED WAGONS: 5,100 — REVENUE € MILLION: 312.3

Tank Container Logistics:

EMPLOYEES: 146 — TANK CONTAINERS: 8,200 — REVENUE € MILLION: 157.4

ANNUAL REPORT 2016 —

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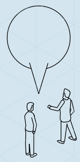
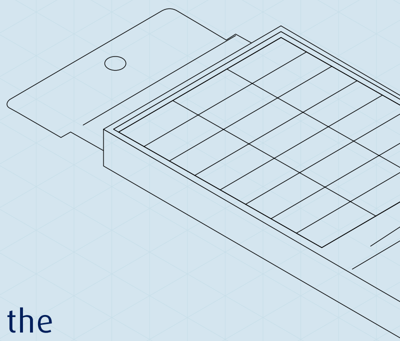


ON THE TRACK FOR THE FUTURE

Innovation at VTG

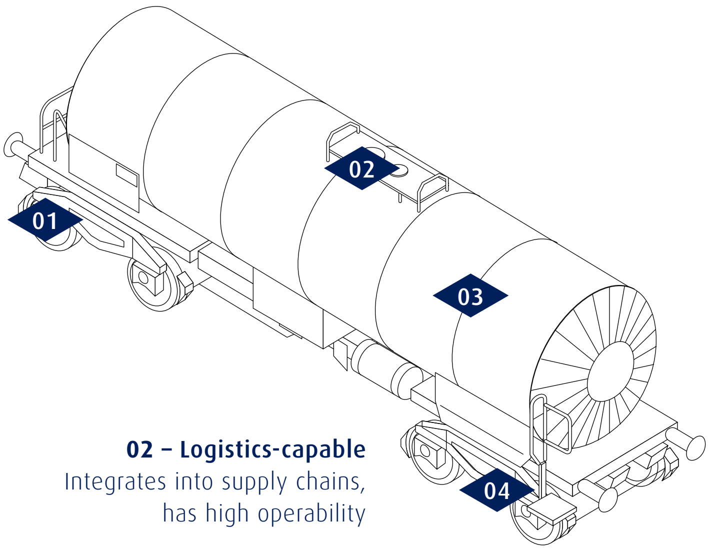
Streaking ahead



As the market leader, we see it as our responsibility to make the railway more attractive compared with other modes of transport. Through innovation, we aim to make the railway the backbone of intelligent, sustainable logistics solutions. As the first company in Europe to do so, we will therefore be fitting our entire fleet with a telematics system that will lay the foundation for digital services in the industry. We are also working on completely new types of wagons – for use in Europe and beyond – that will be much quieter and more efficient on the track.

01 – Lasting the course
Reduces downtime and idle time, increases annual number of kilometers covered

The freight wagon of the future



Together with leading companies in the industry, VTG is conducting research to create the freight wagon of the future. This research focuses on five areas, called the “5 L” factors. These are aimed at developing efficient wagons with low noise and low operating costs. Using new design methods and lighter materials, for example, the wagon’s tare weight can be reduced and the maximum payload increased. This brings considerable cost benefits.

02 – Logistics-capable
Integrates into supply chains, has high operability

03 – Lightweight
Increases payload due to reduced wagon tare weight

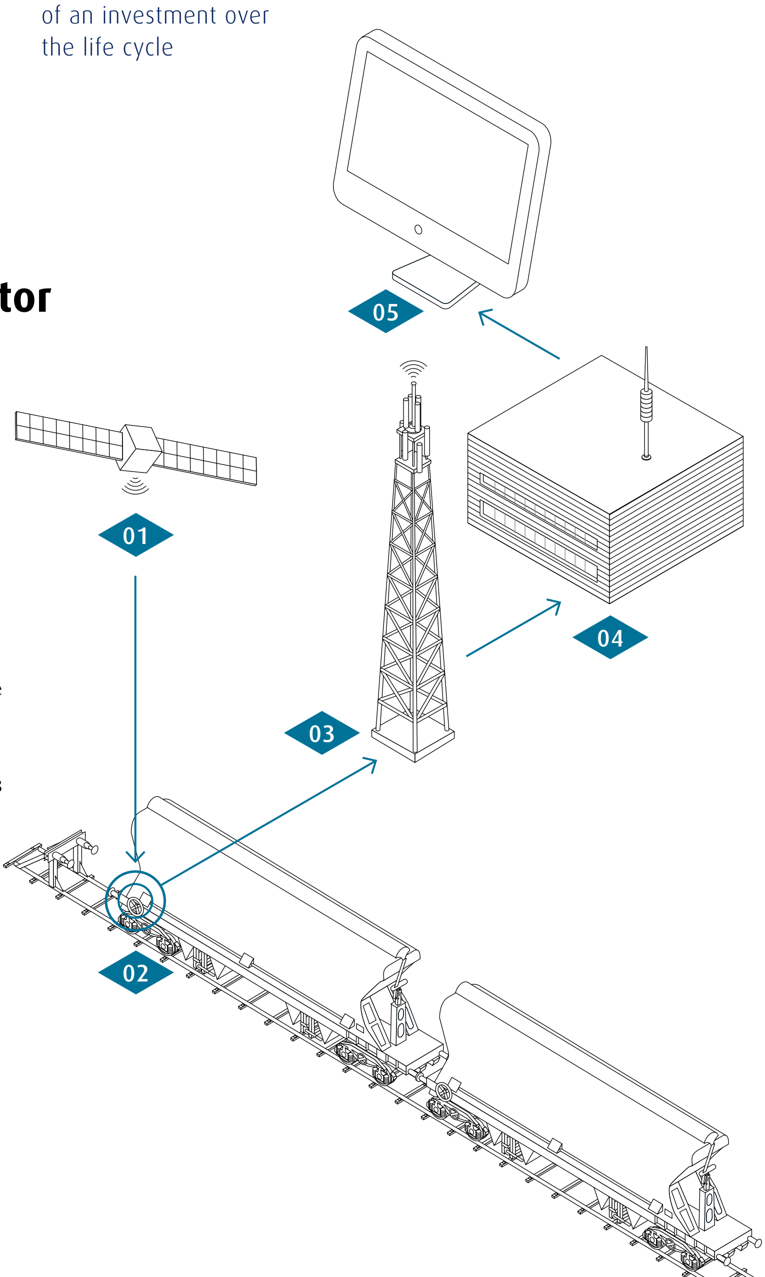
04 – Low-noise
Reduces freight wagon noise significantly

05

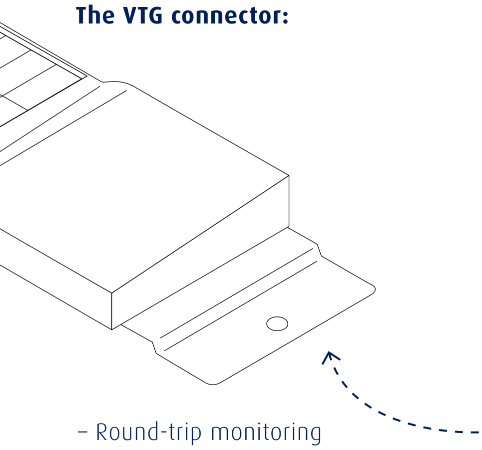
05 – Life-cycle-cost-based
Ensures profitability of an investment over the life cycle

The VTG connector

The digital freight car will provide the foundation for simplifying and speeding up logistics processes. Over the next few years, VTG will therefore be fitting its entire European fleet with the VTG connector, which will provide our customers with valuable information. This will include data not only on the location and the number of kilometers covered but also on the wagon’s condition and its freight.



The VTG connector:



- Round-trip monitoring
- Alarm feature
- Geofencing
- Reports
- Kilometers covered
- Sensors

01 – GPS satellite
02 – VTG connector
03 – Transmission tower
04 – Certified data center
05 – VTG online portal or customer software

Foreword by the Executive Board

FROM LEFT TO RIGHT:

MARK STEVENSON,
CHIEF INVESTMENT OFFICER (CIO)

GÜNTER-FRIEDRICH MAAS,
CHIEF OFFICER LOGISTICS AND SAFETY

DR. HEIKO FISCHER,
CHIEF EXECUTIVE OFFICER (CEO)

DR. KAI KLEEBERG,
CHIEF FINANCIAL OFFICER (CFO)

Dear Shareholders, Business Partners and Employees,

2016 was a good year for VTG. By almost doubling net profit for the Group compared with the previous year, we once again demonstrated what potential the company has. Considering the fact that there was a slightly downward trend in revenue, this is all the more pleasing. With all divisions pulling together to focus even more keenly on increasing margins while abandoning less profitable operations, we managed to push up both operating profit and earnings to record levels for our shareholders. Despite continuing to invest heavily in our wagon fleet, we also managed to maintain a high level of free cash flow.

Revenue for the financial year 2016 amounted to € 986.9 million, a drop of 4.0 % compared with the previous year. Meanwhile, EBITDA, at € 345.3 million, was up 2.6 %. This was achieved through efficiency measures and structural changes, which more than compensated for the decline in revenue. Our increased competitiveness was reflected even more clearly in earnings per share, which more than doubled, increasing from € 0.75 to € 1.56.

The strongest driver of this trend was our Railcar division, which not only saw a marked improvement of operating performance but also significantly reduced its financing costs. The division faced slight headwinds from the sluggish global economy and the low oil price, which intensified the railway's competition with the road. Nevertheless, we still managed to keep capacity utilization of the fleet at around 90 percent and more than make up for the slight fall in revenue with efficiency measures.

The Rail Logistics division saw a similar positive trend. Following extensive reorganization over the past few years, the division has steadily regained its old strength and has held its own very well despite some market downturns. The Tank Container Logistics division, however, could not fully escape the impact of the weak market environment for global trade in chemicals and had to accept a slight drop in earnings.

This year's annual report goes by the tagline "On the Track for the Future". This is because we firmly believe that rail freight traffic will play – and will have to play – a much more significant role in the future transport mix. However, we are still a long way from achieving the European Union's goal of shifting 30 percent of long distance transports from the road to ships and the railway by 2030: the railway's share of the freight transport market has been stuck at around 18 percent for years now. This is why we are continuing to conduct research into innovative wagons that will make rail transport even more efficient. We will also start digitizing our entire fleet this year and thus equip it for the challenges ahead. The automotive industry is currently conducting intensive research into electrified, self-driving trucks – that is, road vehicles with features that have been a reality on the railway for decades now. Some aspects of the regulatory framework still disadvantage the railway, with the result that growth in the volume of freight transport is confined almost exclusively to the road. Any shift of transports to the railway would, however, significantly reduce CO_2 emissions in the transport sector and so help protect the environment. With our innovative solutions, we want to make an important contribution in this area.

The past year has brought many changes and we have managed to make significant strides towards many of our goals. Our ownership structure also changed in 2016. The US investor Wilbur Ross, who held a majority stake in VTG for many years and had supported the company in its growth since 2005, sold his share in the company at the beginning of 2016. With Kühne Holding and the Joachim Herz Stiftung, we acquired two new anchor shareholders whose long-term investment horizon fits very well with our business model. At the end of the year, Morgan Stanley Infrastructure, a strong investor with extensive experience in the infrastructure sector, also acquired all shares of Andreas Goer, the founder of AAE, which we took over from him in 2015.

Over the years, VTG has established itself as a reliable issuer of dividends. Since the IPO in 2007, the dividend has increased by an average of almost 8 percent per year. Having reaped the first benefits of the acquisition of AAE in the past year and seeing earnings per share rise significantly, this should also be reflected in our dividend. The Executive Board therefore proposes to increase the dividend by 50 percent, to 0.75 euros per share. With this increase, we want our shareholders to benefit appropriately from the successful growth of the company.

Last year, VTG overcame many challenges. Although faltering global trade, the low oil price and the reduced truck toll in Germany presented the rail freight transport sector with difficult challenges, the company positioned itself excellently. More than anything else, this was thanks to the great commitment of our employees. Despite adverse circumstances, they succeeded in making 2016 the most successful year in VTG's history. But we do not intend to merely rest on the laurels of this success. We intend to keep growing and continually increase our competitiveness. We have now set the course for this.

The Executive Board

DR. HEIKO FISCHER

DR. KAI KLEEBERG

GÜNTER-FRIEDRICH MAAS

MARK STEVENSON

Executive and Supervisory Board

Members of the Executive Board

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

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

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

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

Members of the Supervisory Board

Dr. Jost A. Massenberg, Meerbusch, CEO of Benteler Distribution International GmbH, Chairman of the Supervisory Board

Dr. Klaus-Jürgen Juhnke, Hamburg, former CEO of VTG Vereinigte Tanklager und Transportmittel GmbH, Vice-Chairman of the Supervisory Board

Karl Gernandt, Hamburg, Chairman of the Board of Directors of Kühne Holding AG

Andreas Goer, Merlischachen, Entrepreneur

Dr. Bernd Malmström, Berlin, Solicitor

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

Report of the Supervisory Board

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

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

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

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

Ongoing consultation with and supervision of the Executive Board

In the year under review, there were four ordinary meetings of the Supervisory Board. Additionally, as required, resolutions were adopted by written procedure or in conference calls. All members of the Supervisory Board attended more than half of the meetings. The issues addressed in all meetings included corporate strategy and the performance of the divisions.

In February 2016, the Supervisory Board adopted a resolution by written procedure. Subject matter of this resolution was the approval of the Corporate Governance Report including the joint declaration of the Executive Board and Supervisory Board in accordance with Section 161 of the German Stock Corporation Act on compliance with the recommendations of the German Corporate Governance Code.

At the accounts review meeting of March 24, 2016, the Executive Board provided us with a summary of the earnings and financial situation and the key business events in the financial year 2015 in the company, the VTG Group and the joint ventures. Subsequently, after detailed discussion with the Executive Board and the auditor, we approved the annual and consolidated financial statements and management reports for 2015. The meeting also included the examination and approval of the 2015 Dependent Company Report and approval of the agenda and proposed resolutions for the 2016 Annual General Meeting. Furthermore, the Executive Board presented us in this meeting the compliance report for the year 2015 and also reported to us on the risk management and the activities of the internal audit department of the VTG Group. Finally, at this meeting, the Supervisory Board approved a proposal by the Executive Board to update its Rules of Procedure.

Another meeting of the Supervisory Board was held directly prior to the Annual General Meeting on May 31, 2016. At this meeting, we approved an open call for tenders for the statutory audit of the annual and consolidated financial statements of VTG Aktiengesellschaft for the financial year 2017, including the applicable selection criteria. Furthermore, we charged the Executive Committee with performing the preparatory tasks that would generally be performed by the Supervisory Board in such a selection process in the absence of an audit committee in accordance with the EU Regulation regarding statutory audit of public-interest entities and the German Statutory Audit Reform Act.

Following the Annual General Meeting the Supervisory Board approved the appointment of the auditor elected by the shareholders for the financial year 2016 by resolution adopted by written procedure.

In a conference call of July 22, 2016, we discussed which of the ten auditing firms that had since responded to the call for tenders for the statutory audit of annual and consolidated financial statements of VTG Aktiengesellschaft for the financial year 2017 should be invited to submit an offer. After detailed discussion, the Supervisory Board passed a resolution to send the five applicants that had best met the preselection criteria the tender documents.

As in previous years, a closed-door session took place ahead of the further meeting on September 15, 2016, at which the Executive Board explained to us the medium- and long-term strategic direction of the company and the measures required for this. These measures were discussed and agreed with us in detail. At the meeting itself, the Executive Board presented and discussed with us its forecast for the development of the business and financial situation for the rest of the financial year based on the results and developments of the first six months. A resolution also had to be passed again as part of the selection process for the statutory auditor for the financial year 2017. After systematic appraisal of the five offers submitted, the Supervisory Board decided to have further talks with three of the applicants. Finally, the Executive Board informed us in this meeting of the available options for hedging the interest rate risk arising from the existing financing arrangements.

Subsequently, in mid-November 2016, the Supervisory Board approved by written procedure several interest rate hedges proposed by the Executive Board.

At the meeting of November 29, 2016, the Executive Board explained to the Supervisory Board the annual budget including the financial and investment plans for the financial year 2017 along with the investment plans for the years ahead. We approved these after detailed discussion. Furthermore, at this meeting, the Executive Committee, which had been charged with the preparatory tasks involved in the preselection process, recommended Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, and KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to the Supervisory Board, for selection as statutory auditor for the financial year 2017. The Executive Committee provided detailed reasons for this and communicated a preference for Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board endorsed this. Finally, at this meeting, the Supervisory Board passed a resolution to appoint Mr. Günter-Friedrich Maas as a member of the Executive Board for another three years from the end of his term of office, with effect from June 1, 2017.

The Executive Committee held a total of four meetings in the year under review. The subjects covered included matters relating to the Executive Board, the remuneration system for the Executive Board, the composition of the Executive Board and the long-term succession planning for the Executive Board and executive management staff. Additionally, approval was given for the taking up of positions requiring the consent of the Supervisory Board in accordance with § 88 of the German Stock Corporation Act as well as the preparatory tasks prior to the Supervisory Board's final selection of the statutory auditor for the financial year 2017. The Executive Committee did not have to address any conflicts of interest of members of the Executive Board or the Supervisory Board in the year under review.

Audit of annual and consolidated financial statements

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, (PwC) was appointed by the Annual General Meeting as auditor for the year under review. PwC examined and gave an unqualified opinion on the annual financial statements of VTG Aktiengesellschaft drawn up in accordance with the principles of the German Commercial Code and on the consolidated financial statements for the financial year 2016 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 has assured the Supervisory Board that no business, financial, personal or other relationships exist between, on the one hand, the auditor and its executive bodies and head auditors, and, on the other hand, the company and the members of its executive bodies that could call its independence into question. The Supervisory Board has agreed with the auditor that the Chairman of the Supervisory Board shall be informed immediately of any grounds for disqualification or conflicts of interest arising during the audit, unless such grounds are eliminated immediately.

The Supervisory Board itself also checked the annual and consolidated financial statements of the company and the Group, the management report and Group management report. The audit reports were submitted in good time to all members of the Supervisory Board and were discussed in depth first, while still in draft form at an additional meeting of the Supervisory Board of March 3, 2017 and, finally, at today's meeting with the Executive Board and the auditors, who were also present in each case. The Supervisory Board endorsed the findings of the audit by PwC of the annual financial statements, the consolidated financial statements and the management reportsand approved the annual and consolidated financial statements for the financial year 2016 at today's meeting. After completing its examination of the annual financial statements, the consolidated financial statements and the management reports, the Supervisory Board has no objections. We endorse the proposal by the Executive Board for the appropriation of net profit with payment of a dividend of € 0.75 per share and the remainder to be carried forward.

Code recommendations largely met

On February 14, 2017, the Executive Board and Supervisory Board issued a Declaration of Conformity in accordance with § 161 of the German Stock Corporation Act and published it on the company's website. VTG Aktiengesellschaft complies to a great extent with the recommendations of the Commission of the German Corporate Governance Code as amended on May 5, 2015 and has largely complied with these in the past financial year.

Composition of Supervisory Board and Executive Board

Dr. Wilhelm Scheider resigned as a member and chair of the Supervisory Board as of the end of December 31, 2016. The Supervisory Board had already decided at its meeting of November 29, 2016, to appoint Dr. Jost A. Massenberg as the new chair of the Supervisory Board with effect from January 1, 2017. In recognition of Dr. Scheider's service of more than a decade as chair of the Supervisory Board, the Supervisory Board has also decided to appoint him honorary chair of the Supervisory Board with effect from 1 January 2017.

After the end of the year under review, at the request of the Executive Board, Mr. Karl Gernandt was appointed by an order of the Local Court of Hamburg of January 13, 2017 as a further member of the Supervisory Board until the end of the next Annual General Meeting of the company.

Mr. Günter-Friedrich Maas by resolution of the Supervisory Board of November 29, 2016 was once again appointed a member of the Executive Board for the period from June 1, 2017 to May 30, 2020.

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 2016.

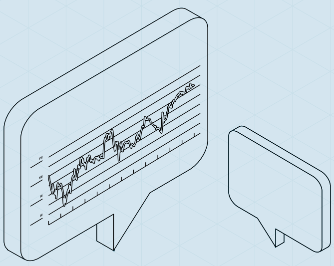
Hamburg, March 30, 2017

The Supervisory Board

DR. JOST A. MASSENBERG
CHAIRMAN OF THE SUPERVISORY BOARD

02 —

Strategy and Share



ON THE TRACK FOR THE FUTURE

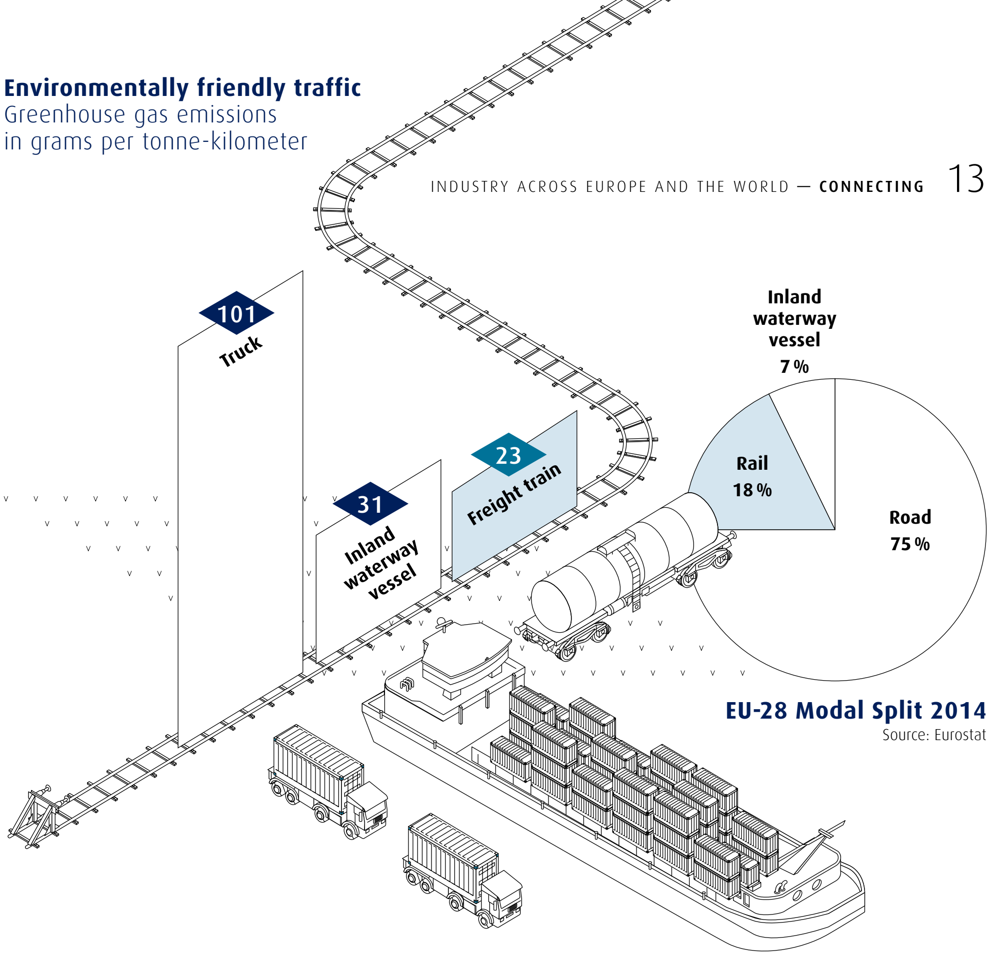
Industry across Europe and the world

Con-necting

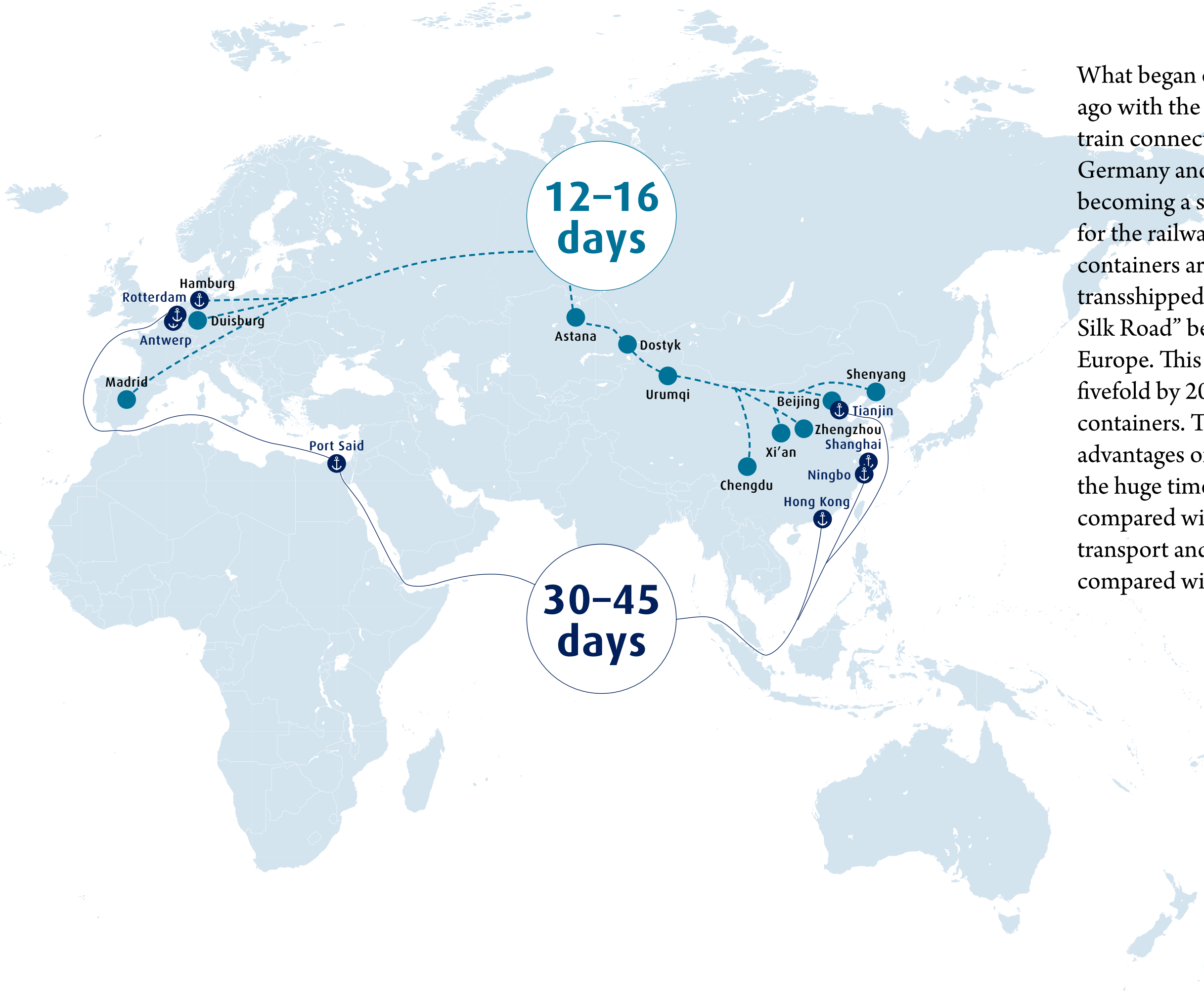
The railway connects industry across Europe and the world. It is the main artery of heavy industry and therefore essential for manufacturing. As the global economy becomes increasingly interconnected, the railway is becoming ever more tightly integrated into international logistics chains. In 2016, some 50 % of Germany's transport volume consisted of cross-border traffic. Instead of bulk goods such as coal or ore, there is increasing demand for climate-friendly transport of car parts, consumer goods, and foodstuffs over long distances. The creation of standardized economic areas is now making it possible to have train routes that run from Madrid or London as far as China.

The importance of the railway

The volume of rail freight traffic in Europe has remained steady for years now, at around 18 %. Rail traffic also produces only around a quarter of the greenhouse gases of road traffic. Moving goods to the railway would also reduce the mass transit burden on the already squeezed highways. The EU has therefore set a target of moving some 30 % of long-distance road freight traffic to the railway by 2030.



Bringing Europe and Asia closer together



What began only a few years ago with the first regular train connections between Germany and China is now becoming a successful model for the railway. Some 100,000 containers are now being transshipped on the “New Silk Road” between Asia and Europe. This is to increase fivefold by 2020, to 500,000 containers. The biggest advantages of the railway are the huge time savings it offers compared with maritime transport and the lower costs compared with air freight.

Markets and Strategy

Markets

Relevant markets for the VTG Group

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

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

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

Liberalization brings shifts in market shares

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

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

Objectives and Strategy

Since leaving the TUI Group in 2005, VTG has gone through several phases of development. The primary goal was to reach the size necessary for alignment with the business model. To achieve this, the fleet was modernized and gradually enlarged and the customer base diversified. These measures enabled VTG to significantly expand its market share in its core market of Europe and broaden its operational base. VTG also gained entry to the world's two largest railway markets, the US and Russia.

The takeover of AAE also enabled VTG to further consolidate its position as European market leader. The company's "VTG 4.0" development phase, which is scheduled to run over the medium term, is therefore focusing on new areas. The aim over the next few years is to make VTG more customer-centered, innovative and efficient, and thereby more competitive. In addition to working on targeted growth, VTG will be focusing on measures that optimize efficiency and workflows to increase profitability. Against this background, in September 2015, the Executive Board set a target of a near-threefold increase in earnings per share by 2018, to € 2.50. In the financial year 2016, VTG already made great strides towards greater profitability, with earnings per share of € 1.56. However, there is currently increased uncertainty about the future global economic trend and a somewhat weakened economic environment. For these reasons, the Executive Board is unable at present to entirely rule out the possibility of the 2018 target being met a year later.

These medium-term goals are anchored in a wider, long-term group strategy as set out below.

Ensuring future investment and growth

The Railcar division's business model is capital-intensive. The expansion and maintenance of the wagon fleet is financed both through VTG's strong operating cash flow and debt capital. To ensure that the Group can invest more and grow more in the future, it is very important to have growth in profitability. It is therefore a key strategic aim to continually improve the profitability of the Group and thereby increase its room for maneuver in implementing its targeted growth strategy.

One VTG – three interlinked operational divisions

With its three divisions, Railcar, Rail Logistics and Tank Container Logistics, VTG is highly diversified, providing a broad range of services to various customer groups. The Railcar division hires out rolling stock for the transport of freight, predominantly with long-term hire contracts. Meanwhile, the two logistics divisions ensure the smooth operation of their customers' chains of transport. The divisions thereby operate at different levels of value creation yet have much in common. Ever-more-complex logistics chains increase customer demand for specialized services. VTG can provide these by combining wagon hire and logistics services. Because the VTG Group encompasses different operational divisions, it can reduce complexity by harmonizing its services optimally to provide customers with highly specialized, one-stop solutions. It is therefore VTG's stated aim to link the individual divisions more closely and exploit cross-divisional synergies for the benefit of the customer. This applies in particular to VTG's current markets. With a stronger, unified market presence, VTG can also open up attractive new markets.

Profitable growth in existing markets – exploiting potential

The Railcar, Rail Logistics and Tank Logistics divisions are each pursuing their own specific market cultivation strategies. However, when combined with those of the other divisions in the Group, these have an even greater impact. In its core market of Europe, the Railcar division is striving to further consolidate its leading position as a provider of both freight wagons for rail transport of liquid and industrial goods and intermodal transport while also aiming to broaden its customer base by diversifying into new segments. This includes, on the one hand, acquiring used fleets. On the other, the European fleet is being modernized and continually expanded by building new wagons. There is also an emphasis on broadening the range of services. This includes creating and strengthening partnerships with former and current state railway operators who allow VTG to manage their fleets while they benefit from VTG's fleet management expertise. VTG is also the first fleet operator in Europe to have taken the decision to fit its entire fleet with a telematics system (known as VTG-Connect). The provision of location and event data will make maintenance and logistics processes faster and more efficient in future. Furthermore, VTG has the support of its own maintenance workshops and its own innovation platform, the Graaff wagon construction plant, in achieving its strategic objectives.

Beyond Europe, the Railcar division is also looking to two other regions. The first, North America, is the world's largest rail freight market, and offers VTG attractive growth opportunities. The aim is to continually expand the fleet in this region. The broad-gauge rail network of the second region, covering the Russian Federation and its neighbors, also offers good long-term growth prospects. Moreover, VTG is carefully scrutinizing new regions in which it is not yet operational and which offer promising opportunities for growth.

In addition to growing the Railcar business, VTG also aims to further expand and strengthen its two logistics divisions. Rail Logistics used the year 2016 to implement its new strategy. In addition to its core business of liquid goods, industrial goods and agricultural products, VTG has been opening up further segments. The expansion of project logistics services – developing bespoke transport solutions for major industrial projects – and the expansion of the Retrack network will also play an increasingly important role in achieving this.

In 2016, the Tank Container Logistics division continued to pursue its strategy of strengthening partnerships with a select group of strategic customers. It plans to further consolidate its position as a specialist provider of chemical transports. The key growth markets for this expansion are North America, the Middle East and China. The division will continue to prioritize good margins over mere expansion of transport volume. To standardize the fleet further, the division recently invested in 1,300 tank containers, which replace hired equipment from various manufacturers. This is increasing the division's flexibility in making services available to customers.

Optimized organizational structure and business processes

The increasing complexity of business operations is placing even greater importance on VTG's strategic aim of optimizing its organizational structure and workflows. VTG has rolled out a large number of development programs to exploit synergies and strengthen organizational performance sustainably. This has included updating the company's operational and administrative IT systems and standardizing these as required. In addition, Railcar's European operations were reorganized in 2016. This brought most of the operations of the separate regional companies together under the new VTG Rail Europe GmbH, which now acts as the central point of contact for European customers.

A person-centered approach

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

Safety and the environment

The railway is one of the safest and cleanest modes of transport. Statistically, for example, in the transport of hazardous goods, there are more than 95 % fewer accidents on the railway per tonne-kilometer than on the road. The railway also generates only a quarter of the CO_2 of truck transports. To ensure that the railway remains a safe and reliable carrier in the future, VTG has a particular responsibility in terms of staff training, workflow organization and the repair, maintenance and development of its fleet. VTG aims to further increase and strengthen the railway's high approval rating. Its employees are therefore working intensively on improving VTG's already high standards of safety. VTG sees itself as a leader in quality and innovation. It is therefore bringing its longstanding expertise to developing new and enhanced technology to create environmentally friendly products and innovative transport solutions. The aim is to make the railway the preferred carrier for the growing transport market.

Values

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

Core values

With the experience and innovation of its staff and its extensive wagon and container fleet, VTG has set itself the goal of making the railway the backbone of intelligent, sustainable transport and logistics solutions. It is developing innovative products and bespoke solutions in dialogue with its partners in Europe and around the world. In addition to safety, quality and reliability, it is placing special emphasis on agility and entrepreneurial thought and action. 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

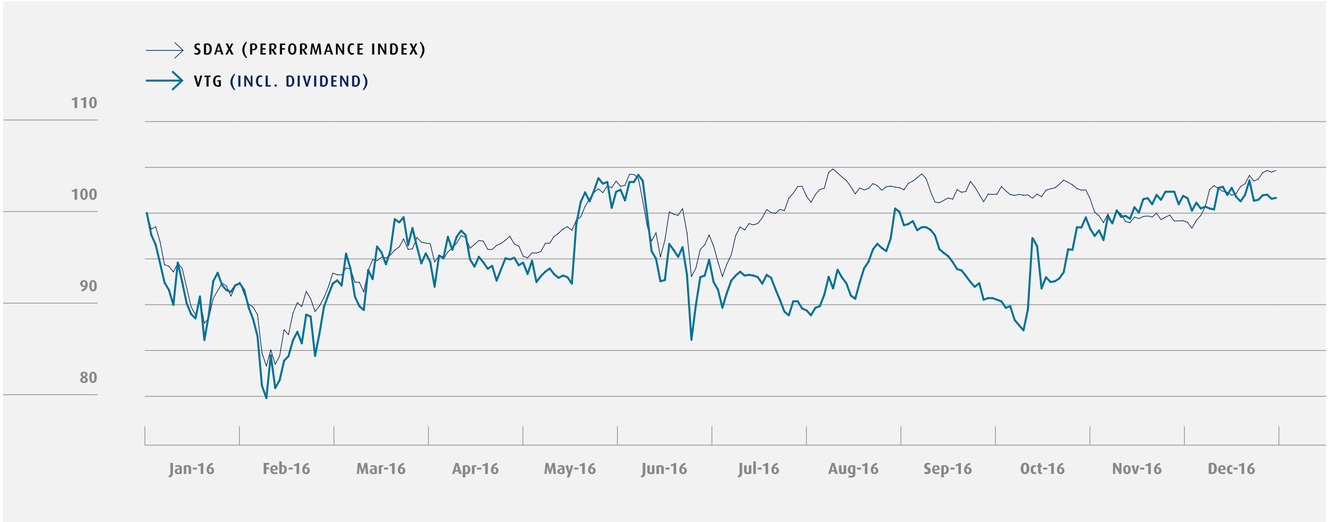
Year-end rally rescues financial year 2016

Disappointing global economic data and a lower oil price led to a weak start to 2016 on the German equity market. At times, the DAX lost 20 % before entering a phase of recovery in mid-February. At the end of the second quarter of 2016, the British vote to exit the EU created severe turbulence again on the stock exchanges. However, the markets managed to recover quickly from the Brexit shock. Good economic data from the US and improving economic indicators in China led to a positive price trend. In mid-August, the DAX managed to make up for almost all of its losses from the first half of the year and, at 10,739 points, was level with the end of 2015. At the end of the year, stock exchanges around the world benefited from more positive leading indicators, the extension of the ECB's bond-buying program until the end of 2017 and the "Trump effect", with market participants counting on the new presidency bringing a business-friendly environment. Thanks to the year-end rally, the DAX closed at 11,481 points, ending the financial year 2016 up 6.9 %.

VTG share takes a breather

After a very strong performance in 2015, with a gain of over 58 % (including dividends), the VTG share took a breather in 2016. In the wake of the turbulence on the stock exchanges at the beginning of the year, the VTG share saw double-digit losses until mid-February, after which the trend began to reverse. When Kühne Holding acquired an equity stake of 20 % in VTG at the end of May, the share price rose again significantly, reaching an annual high of 29.52 euros on May 27. However, the emerging Brexit concerns completely wiped out these gains again in June. A period of recovery in August was then followed by another weak phase in September. With the purchase of a 29 % equity stake in VTG by an infrastructure fund of the US bank Morgan Stanley, the share entered a sustained period of recovery in October. At the end of the year, the VTG share closed at 28.41 euros. This represents a slight decrease of 0.1 %. Including the dividend of 0.50 euros, the share gained just 1.7 % in the year, however. The DAX and SDAX showed increases of 6.9 % and 4.6 % respectively during the same period.

PERFORMANCE OF VTG SHARE AND SDAX (FROM JANUARY 1 TO DECEMBER 31, 2016)



Free float increased

Trading volume was below the 2015 level, with an average of 35,839 shares traded daily. Due to the negligible change in the share price, the market capitalization of VTG AG remained unchanged at the end of the year, at some 800 million euros. However, the key variable for calculating the index weighting, free-float market capitalization, rose to 335 million euros (previous year: 268 million euros), as the withdrawal of the former major shareholder Wilbur L. Ross increased the free float by some 8 percentage points to around 41 %.

Major changes in shareholder structure

The financial year 2016 brought major changes in the shareholder structure. Wilbur L. Ross, who had been a major shareholder for more than a decade, sold his portfolio of shares in VTG in several transactions. The buyers included the Joachim Herz Stiftung, which acquired an equity stake of some 10 %. In October, the former owner of AAE and member of the VTG Supervisory Board, Andreas Goer, also sold his entire equity stake, amounting to 29 %, to an infrastructure fund of the US bank Morgan Stanley. The sale first required antitrust clearance and came into effect at the end of December.

As of December 31, 2016, the company is aware of three major shareholders with stakes exceeding 10 % of the voting rights in VTG AG. According to information on voting rights received on December 23, 2016, Morgan Stanley Infrastructure holds 29.00 % of the voting rights. According to information on voting rights received on 20 May, 2016, Klaus-Michael Kühne holds 20.34 % of the voting rights. According to information provided for registration for the 2016 Annual General Meeting, the Joachim Herz Stiftung holds 10.00 % of the voting rights. The remaining 40.66 % of the shares are in free float.

SHARE DATA

WKN	VTG999
ISIN	DE000VTG9999
Stock exchange abbreviation	VT9
Index	SDAX, CDAX, HASPAX
Share type	No-par-value bearer share
No. of shares (12/31)	28,756,219
Market capitalization (12/31)	€ 817 million
Stock exchanges	XETRA, Frankfurt, Berlin, Dusseldorf, Hamburg, Hanover, Munich, Stuttgart
Market segment	Prime Standard
Year-end-rate*	€ 28.41
Annual high*	€ 29.52
Annual low*	€ 22.70
Average daily turnover	35,839 shares

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

Plans for significant dividend increase

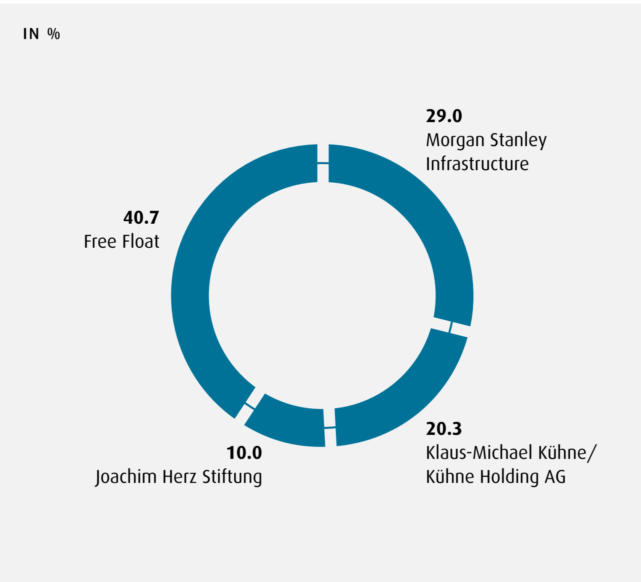
VTG has positioned itself as a reliable issuer of dividends since the IPO in 2007. The Executive Board also aims to increase the dividend as the company's performance improves.

On May 31, 2016, the Annual General Meeting ratified the proposal of the Executive Board and the Supervisory Board to pay a dividend for the eighth consecutive year and issue to shareholders a payment of € 0.50 per share for the financial year 2015. Since the first payment of a dividend in 2009, the amount paid out has grown by around 8 % per year. The takeover of AAE has, however, pushed up profitability significantly, and the Executive Board takes the view that this should be reflected in an equally marked increase in the dividend. The Executive Board therefore intends to propose to the Annual General Meeting an increase in the dividend from € 0.50 in the previous year to € 0.75 per share this year.

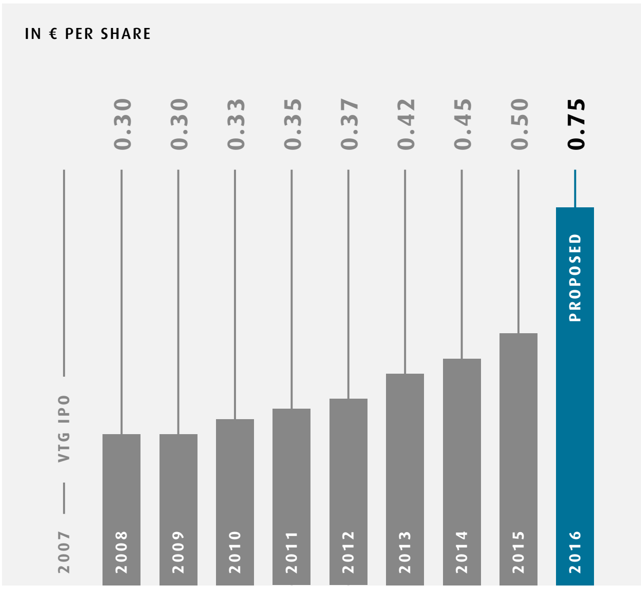
Award-winning investor relations work

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 2016 through numerous conferences, roadshows and face-to-face meetings. VTG received recognition for this proactive approach in no less than two categories at the 2016 German Investor Relations Awards. VTG received one of these awards for the best investor relations work in the SDAX in the annual survey of numerous capital market participants. Additionally, VTG's head of Investor Relations, Christoph Marx, was named best IR professional in the SDAX. The German Investor Relations Awards are issued by Thomson Reuters Extel, WirtschaftsWoche magazine and the German Investor Relations Association. VTG's 2015 annual report, titled "Moving Potential Towards Success", also won several awards. The report received a Gold Award at each of the prestigious LACP and ARC Awards as well as the ARC Grand Award.

SHAREHOLDER STRUCTURE AS OF 12/31/2016



TREND IN VTG DIVIDEND PAYMENTS



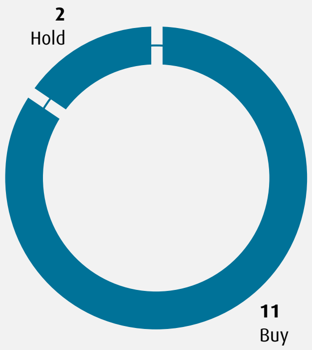
Research coverage remains at high level

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 2016, 13 financial analysts representing a range of domestic and international brokers were providing research coverage on VTG. The majority of these issued a buy recommendation for VTG shares.

INSTITUTION

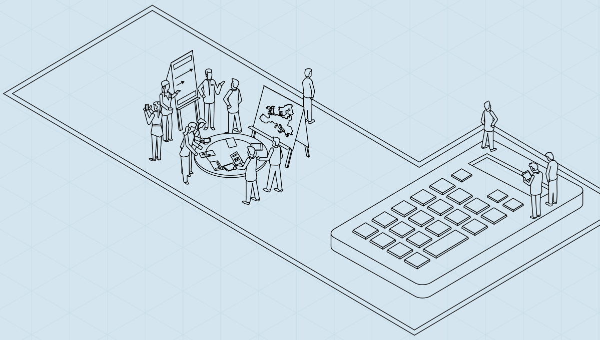
Baader Bank
Bankhaus Lampe
Berenberg Bank
Commerzbank
Hamburger Sparkasse
Hauck & Aufhäuser
HSBC
M.M.Warburg Research
Metzler
Montega
NORD/LB
Quirin
SRH Alsterresearch

RECOMMENDATION OF ANALYSTS ON THE VTG SHARE AS OF DECEMBER 31, 2016



03 —

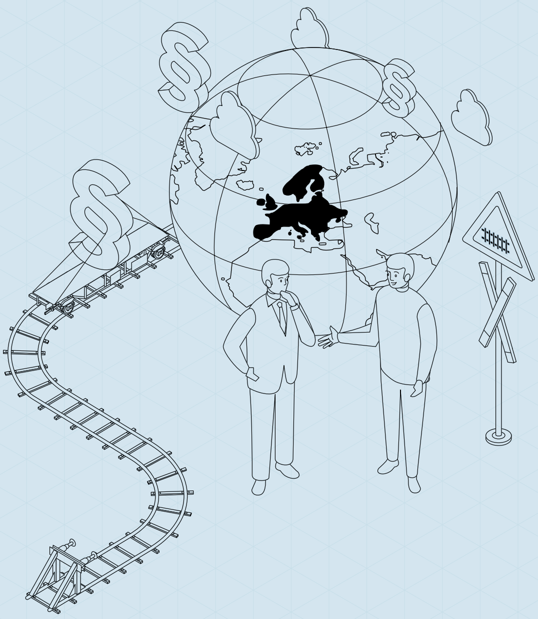
Financial Report



ON THE TRACK FOR THE FUTURE

An interview with Dr. Heiko Fischer

Looking ahead



A well-functioning infrastructure is vital for our economic area. VTG's Executive Board is taking a clear stance on the adjustments required to strengthen rail freight traffic as the backbone of intelligent, sustainable logistics solutions.

"The railway is the solution to the seeming irreconcilability of the increasing flow of goods with environmental targets."

DR. HEIKO FISCHER —

The volume of transport is increasing steadily in Europe, and freight transport also accounts for a large proportion of CO_2 emissions. What role does the railway have in this, in your view?

→

I am certain that the railway will be one of the modes of transport of the future. Given the environmental targets of the German government and the EU, the increase in transport volume in the coming years supports no other conclusion. Currently, only the railway offers realistic potential for increasing transport capacity in an environmentally friendly way. If one looks at the CO_2 emissions per tonne-kilometer, it is the most sustainable mode of transport by a wide margin. Countries like Switzerland are showing what potential rail freight has. Some 40 percent of goods are now being transported on the railway there, whereas, Europe-wide, the average is only around 18 percent. There is therefore a lot of room for improvement. The railway is the solution to the seeming irreconcilability of the increasing flow of goods with environmental targets.

Within this context, what will rail freight traffic look like in the future?

→

I see the railway as the backbone of intelligent, sustainable logistics. This means that rail freight will fit seamlessly into the supply chain, and goods will be transported quickly, efficiently, and cost-effectively on the railway. The key to this lies in a triad of smart, modern technology, high-performance infrastructure, and a uniform regulatory framework throughout Europe. With this foundation, the full energy-saving benefits of the railway will be reaped – for the benefit of society.

What is VTG doing to move rail freight traffic in this direction?

→

As the first company in the industry to do so, we will be rolling out digital freight wagons across the board. Since the beginning of the year, we have been fitting our entire European car fleet with a telematics system and, with our new VTG-Connect service, we will be able to provide our customers with detailed location and event data in the future. In this way, the wagons can be much better integrated into the logistics processes. This will optimize the scheduling of wagons and thus of freight for the customer, which will have a direct and positive impact on the customer's internal workflows. We will also be able to plan maintenance intervals more accurately in the future using the collected data and so further increase the availability of our wagons to our customers. We are thereby taking a big step in the direction of predictive maintenance, which will bring time and cost savings for both the customer and ourselves. With the launch of VTG-Connect, we will be moving the entire rail freight sector forward and closing the gap compared with other modes of transport. The huge response to our new offering shows just how much the industry has been waiting for this innovation.

Will that be it, then, with the digitization of the wagons?

→

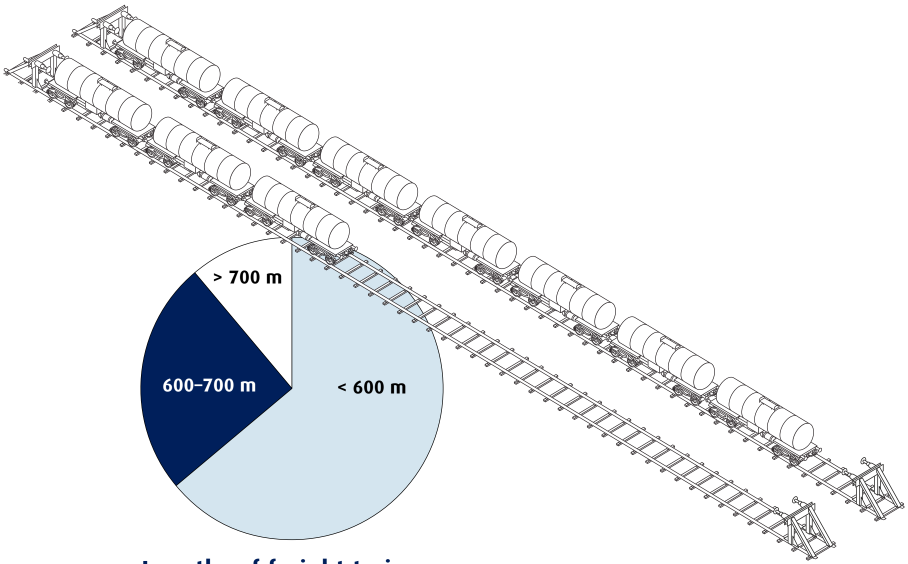
Digitization is crucial – but is, of course, not the only step towards the rail freight transport of the future. In total, we will be investing 1.2 billion euros in innovation in the coming years. For years now, VTG has been actively involved in the Technical Innovation Committee for Rail Freight Traffic (TIS), collaborating with researchers and industry to build the foundations for a quieter, lighter, more energy-efficient freight wagon: one that also has lower operating costs and can be better integrated into the logistics chain. We are now putting this into practice: in the next few years, members of the TIS will be testing these wagons in standard operations. We are also collaborating with DB Cargo on a research project for the Ministry of Transport to develop an innovative freight wagon. This will soon be tested out in practice too. As VTG, we are continually working on expanding and improving our offering for our customers regarding optimal availability. One example is the successful rollout of mobile maintenance inspections and repairs. We are thus bringing the workshop directly to the wagon and doing on-the-spot repairs and maintenance as well as regular checks. This is making the entire logistics process more efficient.

Why does rail freight traffic not have a much higher share of the market, then? Especially compared to less environmentally friendly modes of transport?

→

The competition between the different modes of transport is currently imbalanced. This applies, on the one hand, to direct costs: lately, the road has benefited greatly from some developments, such as the reduction of the truck toll and the low price of diesel. On the other hand, rail transport is being disadvantaged by train path prices and electricity tax. This is making the road look initially cheaper by comparison – which is, of course, a deciding factor for businesses. In addition, the railway has to cope with other structural factors that mean a

“Given the right impetus, the strengths of the railway can be fully exploited – with everyone benefiting in the end.”



Lengths of freight trains
in Germany

break in the supply chain, including, for example, the lack of uniform regulations across Europe. A truck, for instance, can currently travel with the same driver from Portugal to Poland without encountering any significant hurdles. In the rail freight sector, however, the locomotive and the driver must be changed at each national border, because such things as signaling systems, loading gauges, or the lingua franca for transport operations differ from country to country.

What, in your view, has to change to improve the railway's position?

→

Simply being subject to similar rules would suffice. Just like on the road, we need a uniform regulatory framework for the railway too throughout Europe. Policymakers also have a key role to play in maintaining and expanding the rail network. By getting the railway lines in shape for long freight trains, for example, rail capacity could be expanded significantly. At present, only 11 percent of trains in Germany are over 700 meters long, as the lines are not designed to take more than this due to a lack of passing sidings and turnouts.

However, the length of the trains has a major impact on transport costs and thus on the cost-effectiveness of the railway. Sometimes, just one wagon can be the deciding factor in whether the freight ends up on the road or the railway. With the right investment in infrastructure, therefore, enormous progress could be made. In a car-loving country like Germany, this of course takes a certain amount of courage, perhaps even something like audacity, to get the railway on an equal footing again. But we believe it is possible. Given the right impetus, the strengths of the railway can be fully exploited – with everyone benefiting in the end.

Group management report

Basic principles of the Group

Business model of the Group

Operations

VTG Aktiengesellschaft is one of Europe's leading wagon hire and rail logistics companies. The company has a fleet of some 82,000 rail freight wagons, consisting mainly of tank wagons, intermodal wagons, standard freight wagons and sliding wall wagons. In addition to leasing rail freight wagons, the Group provides a comprehensive range of multimodal logistics services, focusing on rail transport and global tank container transports. The Group has a fleet of nearly 8,200 tank containers for providing these services.

Segments and services

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

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

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

Structure, organization and operational centers of the Group

The VTG Group comprises three operational divisions: Railcar, Rail Logistics and Tank Container Logistics. VTG is represented via subsidiaries and associated companies primarily in Europe, North America, Russia and Asia. Excluding VTG AG, a total of 77 companies belong to the VTG Group. As of December 31, 2016, the VTG Group had 66 fully consolidated companies, excluding VTG AG. Of these, 19 were in Germany and 47 in other countries. Additionally, four foreign companies were consolidated using the equity method. At the end of the period, the number of fully consolidated companies had therefore decreased by four since December 31, 2015.

Control parameters

Key control parameters

Key control parameters: Revenue and EBITDA

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

Auxiliary control parameters

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

Auxiliary control parameters at Group level: margins

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

Railcar division: monitoring capacity utilization

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

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

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

Monitoring leverage

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

Monitoring return on capital and capital costs

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

Monthly reporting as a tool

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

CORPORATE MANAGEMENT

Group level

Key control parameters

Revenue — EBITDA

Auxiliary control parameters

EBIT — EBT — EPS — Leverage — ROCE

Business Divisions

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

* Based on gross profit

Research and development

Principles of research and development

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

VTG innovation platform

Innovation is playing an increasingly important role at VTG, with development taking place via the company's own "innovation platform". This platform has three components: VTG's own Technical Innovations Team, the Newbuild division and the engineers at the VTG-owned Graaff wagon construction plant. Members of staff from other divisions are also involved in these projects. The Graaff plant, which has belonged to the VTG Group since 2008, is a fundamental element of the innovation platform. The company develops and manufactures special-purpose wagons for VTG, in particular high quality chemical tank wagons and powder and compressed gas wagons. Batch production of valves also commenced a few years ago. The entire Group benefits from the high level of technical expertise, quality and reliability Graaff offers in the construction of rail freight wagons. With this platform, new 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.

New expertise through AAE takeover

With the takeover of AAE, VTG has been able to gain new expertise in the area of intermodal wagons. Equally important is the company's breadth of experience regarding the issues of noise on the railway and noise reduction. AAE is one of the few companies in the world that has actual experience of using disc brakes in freight transports: one feature of these is that they are much quieter than conventional train brakes. While this brake technology is now standard in passenger traffic, it is still in the early stages when it comes to freight traffic.

R&D highlights of 2016

In the past financial year, VTG laid the foundation for digital services in the industry with a comprehensive digital strategy. Over the next three to four years, VTG's entire European wagon fleet will be fitted with a telematics system. These digitized freight wagons will provide the basis for a new service known as VTG-Connect. This will include providing operators with location and event data for all wagons, making maintenance and logistics processes faster, smoother and more efficient.

In addition, VTG and DB Cargo have together won a tender from the Federal Ministry of Transport and Digital Infrastructure for the development of innovative freight wagons. This involves the development of two types of wagons that are quieter as well as more energy- and cost-efficient.

Employees

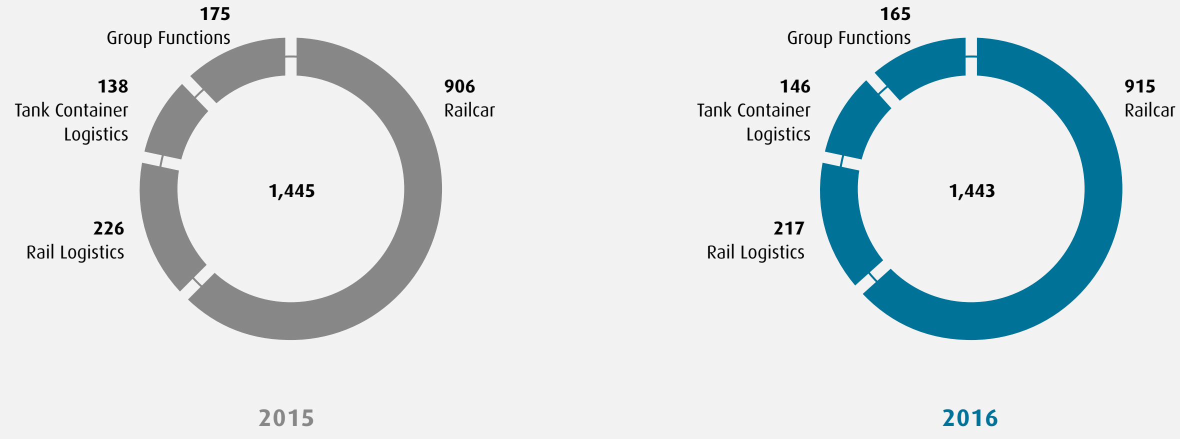
Number of employees remains constant

As of December 31, 2016, the VTG Group had 1,443 employees (previous year: 1,445). Of these, 958 were employed in Germany (previous year: 942) and 485 in other countries (previous year: 503). The number of blue-collar workers stood at 370 (previous year: 378), almost all of whom were employed in the repair and manufacturing facilities. The number of white-collar workers was 1,024 (previous year: 1,018). Additionally, VTG employed 49 trainees in the year under review (previous year: 49).

VTG proves an attractive employer

Due to demographic and economic trends, the labor market situation did not ease for employers by comparison with 2015, with the trend instead becoming more acute. Despite this, in 2016, VTG once again succeeded in covering its personnel requirements promptly with well-qualified candidates. Nevertheless, in terms of time and expense, the search and selection process remained just as costly, particularly in segments where demand for candidates is high. All in all, however, VTG continued to benefit from its reputation and brand strength in the rail and international logistics markets.

EMPLOYEES BY DIVISIONS



VTG continues to emphasize training

VTG continues to place importance on fostering the talents of young people. It therefore offers a range of traditional traineeships to qualify for such occupations as construction mechanic, plant mechanic, forwarding and logistics agent, industrial sales manager or IT specialist. VTG also collaborates with two universities, educating and training new employees via work-and-study programs in business administration, industrial engineering, business informatics and design engineering. VTG also maintains contact with other universities, with VTG staff giving lectures, overseeing bachelor and master's theses as well as student placements. Graduates enter either via trainee programs in sales or technology or via the traditional direct entry route. During the year under review, VTG maintained its high level of commitment to training.

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 the year under review, VTG put in place a strategic succession plan. In 2016, one focal point was the further development of the VTG competency model for managers. VTG's competency model is a transparent measure of what the company wants from an employee and provides all employees with a guiding framework as to what is expected from them and what they themselves can expect from their managers. The competency model thus not only provides the basis for employee appraisal and management guidelines throughout the Group but also serves as the point of reference when filling specialist and management positions.

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.

The next step will be to bring together the key quality and safety systems of the European Railcar and Rail Logistics divisions to form a single system. This will strengthen VTG as a learning organization and streamline systems. It will also reduce the input required for external audits, resulting in further efficiency gains.

Quality

Further improvement of quality and safety management systems

After the takeover of AAE, one of the key tasks for the Railcar division was to firmly embed AAE operations in the existing management system for maintenance, safety and quality. This process was completed successfully in the course of the financial year, ensuring that all services relating to the European wagon fleet meet uniform standards of quality and safety.

In the Rail Logistics division, a further step was taken to improve services in the last financial year. In addition to ISO 9001 certification of the quality management system, the certification process was carried out in Austria for the transport of animal feed in accordance with GMP+ B4 and, in Bitterfeld, for waste disposal. Tank Container Logistics also maintained its high quality standards in the past financial year, with ISO 9001 and GMP+ B4 certification. These certifications confirm that VTG is also meeting the very high standards required for the transport of animal feed and waste.

Audits – identifying potential for improvement

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

Safety

Safety, technology and hazardous goods – training in expert skills

Demand was high again in 2016 for the practical training offered by VTG in the areas of hazardous goods, safety and technology. In the reporting period, more than 1,500 employees of VTG customers received training in these areas, along with fire service and rescue staff. This shows once again that VTG is not only using its expertise to address the right issues but is also imparting urgently needed practical knowledge and skills to ensure even safer transport of goods on all modes of transport.

Further advancement in occupational health and safety

For a long time now, great importance has been placed on occupational health and safety within the VTG Group. Health and safety concerns occupy a central position within our corporate policy and values. To keep pushing ahead with our goal of zero accidents at work, VTG continually developed its system for recording the number of “near misses” in the last financial year.

At VTG’s wagon construction plant, Waggonbau Graaff, the new production line for tank wagons was tested for occupational safety. This ensures that the new production processes are also meeting safety standards.

The environment

Rollout of energy management system

The protection of the environment is a cornerstone of corporate governance. 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 enhances their professional and personal skills.

By providing energy-efficient rail freight transport, VTG is making an indispensable contribution to the environment. Moreover, by introducing an energy management system with ISO 50001 certification, VTG is demonstrating its commitment to its responsibilities. The VTG Group has ISO 50001 certification throughout Europe.

Report on the economic position

General environment

Macroeconomic environment

Global economy gathers pace again in second half of year

Last year, growth in the global economy fell to 3.1 %, its lowest level since the global financial and economic crisis of 2008 and 2009. Both industrialized and emerging economies had to contend with declining rates of growth. The growth of the volume of global trade also slowed down again. After a weak start to the year, the global economy nevertheless managed to regain some momentum in the second half of the year. Rising oil prices, good employment data in the US and Europe and the expansionary monetary policy of the ECB provided the necessary tailwind. The International Monetary Fund (IMF) therefore expects improvement, with the lowest point having already been reached in 2016.

Consumer spending drives economic recovery in Europe

The economic recovery in the eurozone continued in 2016, albeit at a slower pace. Germany remained the engine of growth, with a gain of 1.7 %, while growth in France and Italy was less strong. This tentative upturn was driven mainly by increased government spending and private consumption. The expansionary monetary policy of the ECB and better employment data had a positive impact. The contribution of foreign trade was, however, slightly negative. Overall economic growth in the eurozone was 1.7 %. It thus remained below the 2.0 % level of 2015, mainly as a result of a very weak first six months.

Despite the decision of the British to withdraw from the EU and the increasing uncertainty arising from this, the UK saw robust growth of 2.0 % in 2016. Private consumption, business investment and exports also increased sharply. However, the Brexit vote led to a significant fall in the pound against the euro.

A mixed global picture

For the US economy, the year also got off to a weak start before gaining momentum in the second half of the year. This continued to be driven by private consumption and exports. Business investment remained weak, however. In 2016, there was also strong growth in the Chinese economy as a result of a major stimulus package: at 6.7 %, it outstripped IMF forecasts. However, this is the lowest growth rate since 1990. Exports in yuan terms fell by 2 % compared with the previous year. Russia's economy remained stuck in a recession, although growth slowed much less than in 2015. At the same time, the rise in oil prices at the end of the year and the prospect of better political relations with the US – and thus of an end to trade sanctions – led to a significant appreciation of the Russian ruble.

Sector-specific environment

In the first half of 2016, the German rail freight market recorded growth of 2.0 % in the volume of transported goods (182.0 million tonnes) as well as growth of 4.8 % in transport volume (58.5 billion tkm). This was partly due to a base effect, as the first half of 2015 saw major transport losses from strikes. In cross-border transports, some double-digit growth rates were achieved, while the volume of domestic transports shrank slightly.

At the time of preparation of the annual report, the figures for the year as a whole were not yet available.

Business development and situation

Significant events and transactions

VTG begins digitizing entire European wagon fleet

On November 10, 2016, VTG unveiled a comprehensive digital strategy and new digital services. Over the next three to four years, VTG's entire European wagon fleet will be fitted with a telematics system. These digitized freight wagons will provide the basis for a new service known as VTG-Connect. This will include providing operators with location and event data for all wagons, making maintenance and logistics processes faster, smoother and more efficient.

Results of operations

Consolidated results of operations

Revenue for the Group slightly below previous year

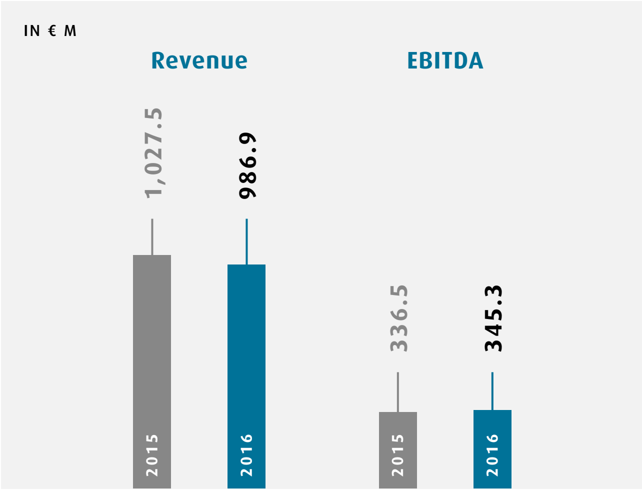
In the last financial year, the VTG Group recorded a slight drop in revenue of 4.0 %, to € 986.9 million (2015: € 1,027.5 million). This shortfall came largely from the Railcar division failing to match its 2015 revenue. One factor influencing this was the tougher competition with road transport providers because of the reduction in both diesel prices and the German truck toll. In addition, the Rail Logistics division continually divested itself of low-margin operations over the year. Interruptions in production at customer facilities also negatively impacted revenue. In Tank Container Logistics, the global decline in freight rates led to a fall in revenue. Overall, however, the trend in revenue for the Group corresponded to the adjusted forecast of August 2016 (a slight drop in revenue).

Of total revenue for the Group, € 382.7 million came from customers based in Germany (2015: € 413.8 million). This represents a share of 38.8 % (2015: 40.3 %). Accordingly, business from customers abroad generated revenue of € 604.2 million (2015: € 613.7 million), giving a share of 61.2 % (2015: 59.7 %).

Slight increase in EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortization) improved in the last financial year despite a drop in revenue of 2.6 % to € 345.3 million (2015: € 336.5 million). Since revenue losses were seen mainly in the low-margin operations, much of the decline had little to no impact on earnings. The Group also benefited from the increase in synergies from the takeover of AAE as well as the efficiency measures introduced during the VTG 4.0 development phase. Additionally, EBITDA includes one-time income of € 6 million from a compensation payment for potential damage. The EBITDA target of € 345–355 million forecast at the beginning of the year was met.

REVENUE AND EBITDA DEVELOPMENT



2016 FORECAST: TARGET-PERFORMANCE COMPARISON

Group

KEY FIGURE	FORECAST FEBRUARY 2016	FORECAST AUGUST 2016	PERFORMANCE 2016
Revenue	€ 1.03–1.07 billion	Slightly below previous year (2015: € 1.03 billion)	€ 987 million
EBITDA	€ 345–355 million	Lower end of range € 345–355 million	€ 345 million

Earnings per share doubled

EBIT (earnings before interest and taxes) improved in the year under review, increasing by 3.8 % to € 149.7 million (2015: € 144.1 million). EBT (earnings before taxes) almost doubled, reaching € 88.2 million (2015: € 45.9 million). This increase was largely attributable to the marked improvement in the financial result, with the refinancing carried out at the end of 2015 resulting in interest savings of around € 10 million in the financial year 2016. The 2015 result also included several one-time items with a total negative effect of € 15.5 million (predominantly costs for the integration of AAE, refinancing costs and currency losses) which no longer applied in 2016. Net profit for the Group therefore rose to € 57.5 million (2015: € 29.4 million). Earnings per share (EPS) doubled to € 1.56 (2015: € 0.75).

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

Railcar achieves slight increase in earnings

In the financial year 2016, the Railcar division generated revenue of € 517.2 million (2015: € 537.2 million). This represents a fall of 3.7 % compared with the previous year. Around a quarter of this revenue shortfall was due to greater capacity utilization of VTG's own workshops and plant as a result of internal orders. This led to a shift from external to internal revenue (€ –5.8 million). This had no impact on earnings, however. Additionally, the previous year included revenue of € 1.2 million from the sale of a wagon fleet to an investor in the second quarter of 2015. Furthermore, there was weaker demand in some wagon segments of the European hire business. In particular, weaker trade in Europe, low diesel prices and the reduction in the German truck toll negatively impacted the intermodal business. Capacity utilization of the global fleet fell from 90.6 % at the end of 2015 to 89.8 % as of December 31, 2016.

The division countered the downward sales trend by harnessing synergies from the takeover of AAE and implementing an efficiency drive during the VTG 4.0 development phase. Additionally, one-time income of € 6 million was received from a compensation payment for potential damage. Overall, despite declining revenue, operating profit (EBITDA) grew by 2.6 %, reaching € 344.3 million (2015: € 335.4 million). The EBITDA margin increased by 4.2 percentage points to 66.6 %.

The forecast issued at the beginning of 2016, which anticipated a slight increase in revenue and EBITDA, was therefore only partially met: while EBITDA rose as expected, revenue fell short of the forecast for the reasons given above.

Results of operations: Rail Logistics

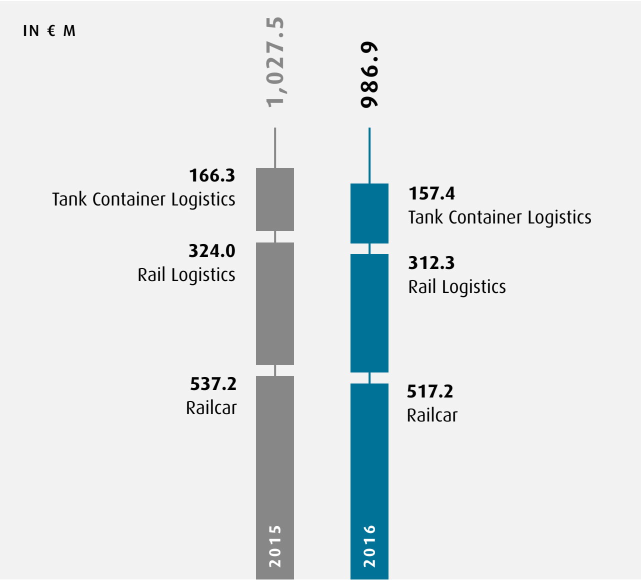
In the Rail Logistics division, VTG primarily organizes the transport of goods by rail throughout Europe, in the form of block train, single-wagon and wagon group transports. The division operates independently and leases wagons from the Railcar division as well as from third parties. It also carries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

Rail Logistics continues positive earnings trend

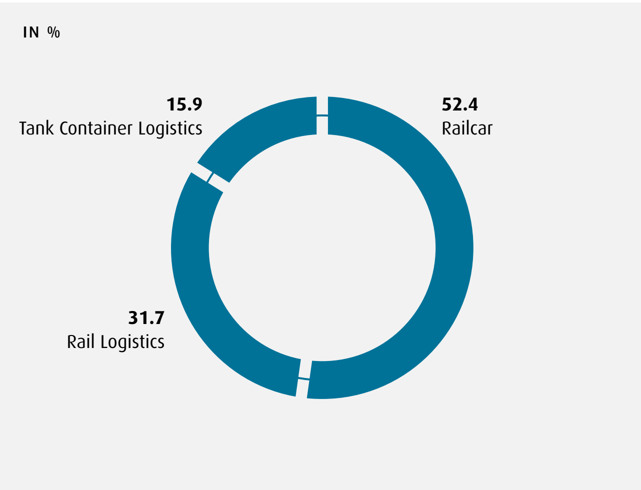
In the financial year 2016, VTG Rail Logistics saw revenue fall by 3.6 % to € 312.3 million (2015: € 324.0 million). Interruptions in production at customer facilities and lower demand for transports in the agricultural sector were responsible for this. Low-margin operations were also dropped and the emphasis placed on higher-margin orders, with the result that gross profit matched the level of the previous year, at € 27.7 million. Through the measures taken back in 2015 to optimize processes, the division once again pushed up operating profit (EBITDA) significantly. EBITDA increased by 71.2 % to € 5.8 million (2015: € 3.4 million).

While revenue did not reach the level of the forecast issued at the beginning of 2016, which anticipated a slight increase in both revenue and EBITDA for Rail Logistics, EBITDA, however, significantly outperformed expectations.

BREAKDOWN OF REVENUE BY BUSINESS DIVISION



BREAKDOWN OF REVENUE BY BUSINESS DIVISION



Results of operations: Tank Container Logistics

The Tank Container Logistics division offers transport and logistics services for tank containers. Tank containers are primarily used for the safe carriage of liquid and temperature sensitive products in the chemical, mineral oil and compressed gas industries. The containers can be used in combined transport operations and transported by rail, truck or ship. The products remain in the tank container during transshipment. This enables safe transport in door-to-door traffic. VTG is one of the world's largest providers of logistics services for liquid chemical products. The Company's fleet comprises some 8,200 tank containers.

Tank Container Logistics affected by tougher market conditions

While the number of worldwide transports in the financial year 2016 remained stable compared with the previous year, reduced freight rates led to a 5.3 % decline in revenue in Tank Container Logistics, to € 157.4 million (2015: € 166.3 million). However, because these losses were largely offset by a simultaneous reduction in transport costs, gross profit, at € 28.5 million, still almost matched the level of the previous year (2015: € 28.7 million). EBITDA fell by 17.5 % to € 11.2 million (2015: € 13.6 million). The main reason for this fall was one-time income of € 1.5 million received in the financial year 2015 in connection with the sale of an associated company. The remaining shortfall was attributable to a slight increase in structural costs. The EBITDA margin on gross profit shrank accordingly, by 8 percentage points to 39.4 %. After adjustment to take account of this one-time item, the decrease was only 2.8 percentage points. The forecast issued at the beginning of 2016 had anticipated a slight increase in revenue and stable EBITDA. However, this could not be achieved in the face of stagnating demand from industry and declining freight rates.

Financial position

Financial management of the VTG Group

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

Management of the capital structure

In December 2015, the VTG Group entered into an agreement for a syndicated loan, comprising both medium- and long-term finance amounting to € 1.2 billion. The syndicated loan consists of a tranche of € 400 million payable on the maturity date with a term of three years including the option of extension by a further two years, an amortizing loan currently amounting to € 462.5 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 with a term of 3 years, of which € 10 million had been utilized as of the end of the year. To ensure liquidity, the VTG Group also has a revolving credit line running over the short term amounting to € 50 million.

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

In addition, there are various short- and medium-term project financing arrangements for designated wagon fleets, with a current volume of € 84.7 million. The amortizing loans have residual terms of between one and five years. Additionally, there is an amortizing loan for a Russian company with a current volume of US$ 34.2 million and a residual term of just under 2 years.

Furthermore, through the former shareholder Andreas Goer, there is a long-term loan of € 70 million 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 this is recognized in profit or loss. Depending on the current interest rate, market values can change and accordingly have a positive or negative impact on EBT and net profit for the Group. In 2016, the interest rate level initially continued to fall. By the end of the year, however, it had increased again slightly. This in turn led to a negative market evaluation of the interest rate derivatives and thus slightly higher financing expenses.

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

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, 2016, cash and cash equivalents recorded in the balance sheet for the VTG Group amounted to € 63.5 million (2015: € 97.8 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 2016, cash flows from operating activities increased by € 43.3 million from € 282.9 million to € 326.2 million. The increase in operating cash flow came primarily from the sale to leasing companies of rail freight wagons that had been included in current assets in the previous year.

In the year under review, cash flows used in investing activities amounted to € 207.2 million (previous year: € 81.5 million). Investment cash flows were positively influenced in the previous year by both the sale of a wagon fleet and the takeover of AAE (effect: € 52.8 million). In addition, investments in intangible assets and tangible fixed assets increased by some € 50 million in the year under review, reaching € 220.4 million.

In the year under review, cash flows used in financing activities amounted to € 152.2 million (previous year: € 186.2 million). This cash outflow comprised the payment of dividends to shareholders and hybrid capital investors and repayments and interest payments to lenders. New borrowing was, however, very limited.

Capital expenditure

In the financial year 2016, VTG invested a total of € 259.3 million (2015: € 195.8 million). Of this sum, € 220.8 million was spent on fixed assets (2015: € 185,2 million). € 38.5 million was financed off-balance through operating lease agreements (2015: € 10.6 million). The increase in operating lease investments was due mainly to the financing of new freight wagons in the UK. By far the largest share of the funds invested went to the Railcar division (95.3 %). These were used in particular for renewing and expanding the global wagon fleet. The remaining 4.7 % was invested in the two logistics divisions and the holding company (2015: 3.0 %).

At the end of the reporting period, the number of wagons on order and awaiting delivery had climbed to some 4,000 (2015: 2,300). This sharp increase was due to VTG's "2020 Initiative". This has involved VTG concentrating some of the maintenance investment scheduled from now until 2020 in Europe and thereby taking advantage of economies of scale and the low price of steel. The orders include new standard freight and tank wagons. Around 1,000 wagons were already ordered in 2014 for the US market. Due to the long lead times, delivery of these will not be before 2017.

Net assets

Balance sheet structure

As of December 31, 2016, total assets for the VTG Group stood at € 3,001.5 million, almost unchanged against the previous year (December 31, 2015: € 3,047.1 million).

As of December 31, 2016, non-current assets amounted to € 2,726.2 million (December 31, 2015: € 2,708.1 million). The slight rise was due mainly to an increase in tangible fixed assets to € 2,216.8 million (December 31, 2015: € 2,197.4 million). Current assets decreased to € 275.3 million (December 31, 2015: € 339.0 million).

At the end of the year under review, equity had risen to € 774.0 million (previous year: € 748.2 million). As of December 31, 2016, the equity ratio had increased accordingly, by 1.2 percentage points, to 25.8 % (December 31, 2015: 24.6 %).

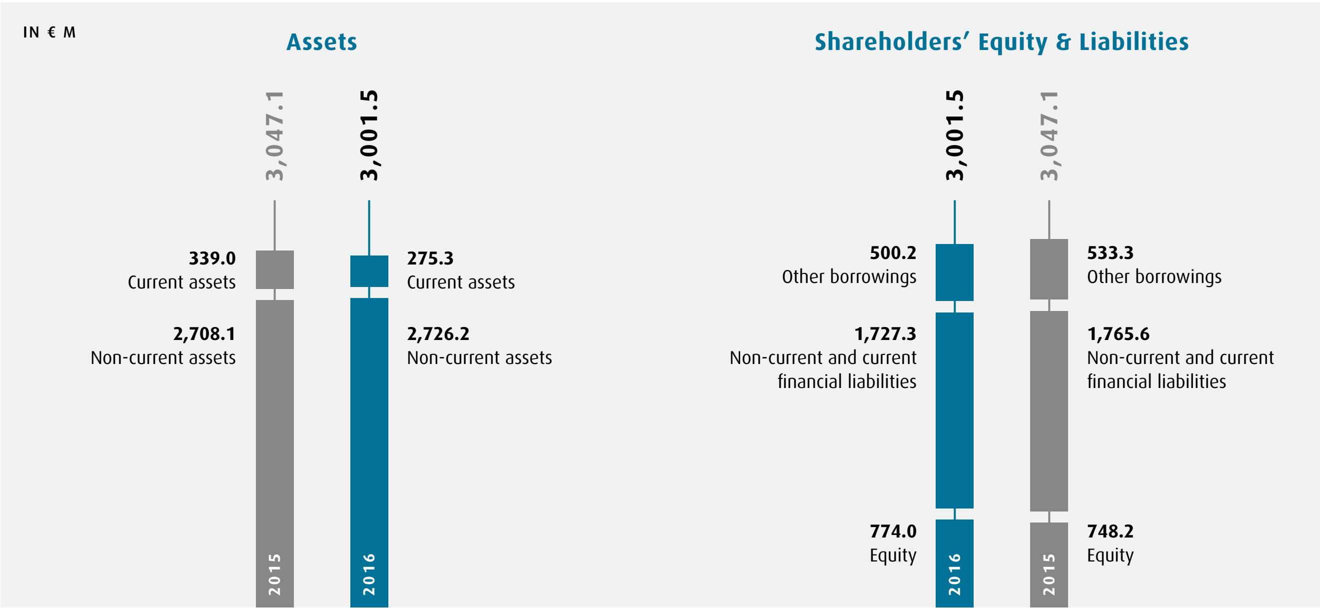
As of December 31, 2016, non-current debt stood at € 1,912.8 million, a very slight drop compared with the previous year (December 31, 2015: € 1,934.7 million). Non-current debt remains covered by non-current assets.

Current debt decreased by some € 50 million to € 314.7 million (December 31, 2015: € 364.2 million).

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 the financial year 2016 as essentially satisfactory. While the trend in revenue was slightly downward due to somewhat difficult market conditions, the Group was able to increase profit significantly through its own efforts.

In the Railcar division, the intermodal business in particular was affected by increased competition from road transport providers, who benefited from the low diesel prices and the reduction in the German truck toll. Nevertheless, synergies from the takeover of AAE, efficiency gains and a one-time compensation payment led to an increase in operating profit (EBITDA). The Rail Logistics division also recorded a decline in revenue as a result of interruptions in production at customer facilities, weak agricultural sales and the withdrawal from low-margin operations. However, the last of these, combined with successful measures for optimizing processes, once again led to a marked increase in EBITDA. In the Tank Container Logistics division, the low freight rates and weaker demand in the second half of the year affected revenue. The significant drop in earnings was, however, due mainly to the elimination of a one-time income item that applied in the previous year.

The financial result for the Group was improved significantly by the elimination of negative one-time that applied in the previous year as well as by the refinancing that took place at the end of 2015. These factors, together with a slight reduction in the tax ratio enabled VTG to achieve the highest net profit for the Group since the IPO of 2007.

In view of the fact that profitability once again increased in the financial year 2016, the VTG Group's financial and asset position remains solid. Due to its consistently strong operating cash flow, its long-term financing agreements including its lines of credit, and the quality and creditworthiness of its diverse customer base, the VTG Group is in a very good position to push ahead successfully with its corporate strategy.

Report on opportunities and risks

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

Internal control system

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

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

The Supervisory Board, the Internal Audit department (Group Audit) and the Compliance Committee of VTG AG, and other auditing bodies (e. g., tax authority 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 external auditors.

Key control and monitoring activities for ensuring accuracy and reliability of Group accounting

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

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

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

Risk management system

Objectives and strategies

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

Process-dependent elements

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

Process-independent elements

- the Group's Internal Auditing department
- external auditors.

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

Structures and processes

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

The risk assessment includes classification of the known risks by the various managers, with the risks grouped by degree and probability. The probability is categorized as "low" (< 33 %), "medium" (33–66 %) or "high" (> 66 %). Once any counter-measures have been taken, the risks are quantified (net risk) and placed in the categories "less than € 1 million", "€ 1 million to € 5 million" and "more than € 5 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 € 5 million and a high probability rating.

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

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

Specific opportunities and risks

Market opportunities and risks

General market opportunities and risks

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

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

Railcar market

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

In Europe, VTG sees continued good prospects for growth in Railcar. Accordingly, one area of focus for the division is the expansion and modernization of the existing fleet with 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 overcapacity in some wagon segments, expansion has proved difficult in recent years. At the same time, the high availability of low-interest finance has led to sale prices for existing fleets being driven up by financially strong players such as banks. The fleets currently available on the market often offer only low returns, which is why the process of expanding the fleet through acquisitions is going very slowly at present. The risk to the VTG Group as a whole in North America can be considered 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 3,100 units. 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. The scope and duration of these sanctions were extended over the last year and this has curbed economic relations between the Russian Federation and the countries of the West. Moreover, not least as a result of these sanctions, Russia's economy has recently undergone a severe economic downturn. Nevertheless, VTG continues to see good opportunities for growth in the medium term in the Russian wagon hire market. The growing demand for replacement wagons and the continuing need for industrial development and modernization will remain driving forces in the Russian railway sector over the next few years. The wagon hire market showed the first signs of a slight recovery at the end of 2016 when rental rates began to rise again. The complete takeover of the Vagonpark Group in 2015 diversified the fleet structure and customer base and with this the dependency on the leasing of tank wagons, which up until this point had made up most of VTG's Russian fleet. As of the balance sheet date, there were no major, quantifiable risks within the meaning of VTG's risk definition.

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

Rail Logistics market

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

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

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

Tank Container Logistics market

The flattening of growth in global trade flows and the shifting of production capacity nearer to sales markets ("nearshoring") could have a future impact on the ordering behavior of customers and thus on demand for the transport capacity of Tank Container Logistics. Continuing fleet overcapacity could keep placing pressure on the achievable margins. Additionally, there is a danger that the increasing complexity and imbalance of transport flows will lead to higher non-productive costs due to empty runs.

Tank Container Logistics is tackling these issues by regularly investigating possible ways of using tank container fleet flexibly and according to opportunities in the market – with the aim of taking swift, corrective action in the event of overcapacity. Such action could entail, for example, returning leased tank containers. Despite the introduction of measures including prompt transfer of capacity to regions with more acute demand, one outcome of this risk was a shrinking margin for the division in the reporting period.

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

The division is moving in a very fast market environment. Traffic flows can fluctuate sharply, while global market structures are becoming ever more complex. Tank Container Logistics is addressing this by continuously analyzing its processes in order to improve the division's efficiency sustainably. Moreover, strategic partnerships with transport service providers offer the option to secure transport capacities and stabilize revenues. Overall, there was no known major, quantifiable market risk for Tank Container Logistics within the meaning of VTG's risk definition.

Operational opportunities and risks

Opportunities and risks related to capacity utilization

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

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

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

Investment risk from new wagon orders

The Railcar division, with a current fleet of some 82,000 rail freight wagons as of the reporting date, is VTG's core operational division. To stay competitive and successful in the market over the long term, VTG invests large sums in maintaining, expanding and renewing its wagon fleet. At the beginning of 2016, VTG had orders for some 1,300 newbuild wagons in Europe. Over the course of the year under review, approx. 3,100 wagons were added to the order book. During the period, around 1,400 of these wagons were delivered to VTG customers. At the end of 2016, VTG thus had outstanding orders for some 3,000 wagons for the European market. These are to be delivered in stages over the next few years. In addition, at the end of 2014, VTG already had 1,000 wagons on order for the North American market. Due to the long lead times, it is anticipated that delivery of these will be in 2017. Thus, at the end of 2016, the number of wagons in the order book totaled 4,000.

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 customer. Waggonbau Graaff (Graaff) plays a key role in providing key production capacity for the construction of special wagons. Additionally, Graaff serves as a design and innovation platform within the VTG Group. This ensures that valuable design know-how for wagon development remains in the VTG Group, giving VTG an innovative edge.

The risks involved for VTG include the possibility that the suppliers do not fulfil their obligations and either fail to deliver the wagons or do so late or that customers are no longer 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 and within the meaning of VTG's risk definition, there were no known major, quantifiable investment risks arising from new wagon orders.

Opportunities and risks related to price changes

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

Due to its streamlined cost structure, the earnings level in the Railcar division is more dependent on the level of inflation and thus of revenue. If inflation rises significantly in future in the eurozone, this could have a positive impact on earnings for this division and thus for the VTG Group as a whole. Conversely, any deflation would affect the Group's earnings. 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

VTG controls and minimizes its default risk with an accounts receivable management system covering all companies in the Group. However, although the Group's customer base comprises mainly established industrial clients with a high credit rating, there is still always a risk in terms of actual payment practices and the ability to pay. In logistics, both divisions often pay customers' freight costs in advance. Consequently, they make use of all the available methods for securing payment of receivables, for example bank guarantees and advance payment. Furthermore, recognized default risks relating to individual receivables and general credit and collection risks are covered by appropriate specific reserves and global write-downs based on experience. In addition, the VTG Group has concluded credit risk insurance contracts. As of the reporting date, there were no major, quantifiable risks from debtor default within the meaning of VTG's risk definition.

Liquidity risk

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

Opportunities and risks relating 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, under IAS 39, these interest rate hedges are not in a hedging relationship. Future changes in the value of these interest rate derivatives are therefore recognized in profit or loss. For further hedging, in November 2016, the VTG Group entered into agreements for more medium- and long-term interest rate hedges, with a total volume of € 1.2 billion. These transactions are used to hedge the interest rate risk from both current debt and highly probable follow-up financing of the VTG Group. The newly agreed interest rate hedging transactions are in a hedging relationship according to IAS 39. In order to assess the risk of changes in interest rates for financial liabilities and interest rate derivatives, a change in the market interest rate of 50 basis points was simulated. For this purpose, the actual interest rates for the financial year 2016 were each changed by 50 basis points. An increase in the interest rate of 50 basis points would decrease the group profit after taxes by € 0.3 million (previous year: increase of € 1.0 million) and increase the revaluation reserve by € 9.9 million (previous year: no change). A decrease in the interest rate of 50 basis points would also decrease the group profit after taxes by € 1.1 million (previous year: increase of € 0.4 million) and decrease the revaluation reserve by € 8.4 million (previous year: no change). This measurement takes account of the new interest rate derivatives.

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

Financial risks related to financial covenants

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

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

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

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

Opportunities and risks relating to foreign currencies

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

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

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

In order to assess the exchange risk, a change of 10 % in the various exchange rates was simulated. The exchange rates as of December 31, 2016 were each increased and decreased by 10 % to determine the impact on after-tax profit:

	APPRECIATION		DEPRECIATION	
€ MILLION	12/31/2016	12/31/2015	12/31/2016	12/31/2015
British pound	–	−1.5	–	+1.5
Swiss franc	−0.6	−0.4	+0.6	+0.4
US dollar	−1.5	−1.4	+1.5	+1.4

The effect on the revaluation reserve was as follows:

	APPRECIATION		DEPRECIATION	
€ MILLION	12/31/2016	12/31/2015	12/31/2016	12/31/2015
US dollar	−0.6	−0.3	+0.7	+0.3

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

Legal, regulatory and other risks

General liability risks

The main type of risk affecting all divisions is liability claims, particularly those concerning culpable violation of maintenance obligations, serial loss with resulting loss of capacity and the steadily increasing number of environmental requirements to be met. These regulations apply in particular to the storage and transportation of hazardous materials, the recycling, treatment and disposal of waste and occupational safety.

The specific traffic, operational and environmental liability risks arising from operating activities are countered by the risk management system, which also includes the coverage of risks through insurance. As of the balance sheet date, there were no known major, quantifiable liability risks within the meaning of VTG's risk definition.

Regulatory and technological risks

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

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

Noise control is one of the key environmental issues in European rail freight traffic. To adapt VTG's European wagon fleet appropriately, the brake systems of new wagons have been fitted with the noise-reducing composite (K) brake block since 2005. Policymakers regularly discuss refitting existing freight wagons with quieter brake blocks (so-called LL brake blocks) without any binding regulation having yet come into force. However, the federal government plans to bring such a regulation into force. This will require existing high-noise freight wagons to be refitted with LL brake blocks by the end of 2020. Those without will then be subject to significant operational constraints. Independently of any statutory requirement, VTG has taken its own decision to refit all wagons operating in Germany with low-noise brake blocks by the end of 2020. As of the balance sheet date, it could not be reliably determined whether refitting will become mandatory at EU level, what form this might take, or whether wagon keepers will have to bear the additional costs of this.

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

Information technology risks

Information systems are becoming ever more closely interconnected and must be permanently accessible. Information technology is also becoming increasingly important in the execution of business processes. As an international company, VTG requires access to information that is up to date, complete and accurate. VTG applies security measures that are standard in the industry to counter risks to the confidentiality, availability and reliability of data and systems. These measures include firewalls, virus scanners and the backup provided by a second data center. To further reduce risk and keep business processes efficient and secure, VTG also regularly checks and continually develops its IT systems. In addition, the Group is continually improving and expanding the range of measures in place for monitoring external and internal IT security. VTG is minimizing the risks posed by advancing industrial 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 relating to personnel

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

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

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

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

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 several years of declining economic growth, the International Monetary Fund (IMF) expects improvement, with the lowest point having already been reached in 2016. It anticipates that global growth will speed up again, from 3.1 % in 2016 to 3.4 % in 2017. The emerging and developing countries, which benefit from rising commodity prices, are expected to be the main drivers of this. Growth in most industrialized countries, especially in the EU member states, is likely, however, to remain subdued.

For the eurozone, the IMF once again forecasts a slight slowdown, from 1.7 % in 2016 to 1.6 % in 2017. The same applies to the EU's largest economy, Germany (from 1.7 % to 1.6 %). The British economy is expected to see a significant decline in growth, from 2.0 % to 1.5 %. The IMF sees the growing uncertainty arising from the planned EU exit as acting as a brake on future growth.

While the outlook remains subdued for most major industrialized countries, the US is expected to see significant growth, from 1.6 % in 2016 to 2.3 % in 2017. Russia should overcome its recession in 2017 and return to a path of growth. The IMF expects GDP to grow slightly, by 1.1 %. China should see only a minor slowdown in the rapid pace of growth. Following a gain of 6.7 % in 2016, the Chinese economy is expected to grow by 6.5 % in 2017. However, this growth is largely driven by extensive state investment in infrastructure. At the same time, China's heavily indebted state-owned enterprises are increasingly posing a risk to the economy.

Overall assessment by the Executive Board

The Executive Board of VTG anticipates a slight improvement in performance in 2017. In line with the moderate growth prospects, particularly for Europe, revenue is expected to increase slightly, and, despite the elimination of a one-time income item that applied in 2016, EBITDA is also expected to increase slightly.

The Wagon Hire division should continue to see stable demand and capacity utilization should therefore remain at around the 2016 level, with slight fluctuations. The Executive Board therefore anticipates a stable revenue trend in 2017. It also expects further efficiency gains and investment in the wagon fleet to have a positive impact on earnings. As the 2016 result was positively impacted by a one-time item of € 6 million, this should lead to a generally stable EBITDA in 2017.

In the last financial year, the Rail Logistics division continued its positive earnings trend as a result of structural and organizational change. In 2017, the focus will be on strengthening sales operations. Further efficiency measures will also be implemented. For the current year, the Executive Board therefore expects a slight increase in revenue and EBITDA in this division.

For Tank Container Logistics, the global market environment remains challenging. However, the division should see particular benefit in 2017 from expansion of the value chain. In the last financial year, 1,300 new tank containers were ordered, which will gradually replace hired equipment and so boost earnings. Based on the expectation of a modest increase in business volume, the Executive Board anticipates that the Tank Container Logistics division will see slight increases in both revenue and EBITDA.

Medium-term goals for growth and profitability

At their strategy meeting in September 2015, the Executive Board and Supervisory Board of VTG set targets for medium-term growth and profitability. Following the successful completion of the development phase of 2010–2015, VTG is now working on strengthening VTG's competitiveness over the long term and has already introduced a range of measures to this end. In the financial year 2016, VTG already made great strides towards greater profitability, with earnings per share (EPS) of € 1.56. In September 2015, the Executive Board has specified the objective of increasing earnings per share (EPS) to € 2.50 by 2018 through these measures. Unlike the key control parameters for operations, revenue and EBITDA, this is a medium-term growth target set by the Executive Board for the coming years.

There is currently increased uncertainty about the future global economic trend and a somewhat weakened economic environment. For these reasons, the Executive Board is unable at present to rule out the possibility of the 2018 target being met a year later.

Plans for significant dividend increase

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 May 31, 2016, the Annual General Meeting ratified the proposal of the Executive Board and the Supervisory Board to pay a dividend for the eighth consecutive year and issue to shareholders a payment of € 0.50 per share for the financial year 2015. Since the first payment of a dividend in 2009, the amount paid out has grown by around 8 % per year. The takeover of AAE has, however, pushed up profitability significantly, and the Executive Board takes the view that this should be reflected in an equally marked increase in the dividend. The Executive Board therefore intends to propose to the Annual General Meeting an increase in the dividend from € 0.50 in the previous year to € 0.75 per share this year.

Required disclosures

Required disclosures pursuant to § 315 (4) of the German Commercial Code and explanatory report

The required disclosures pursuant to § 315 (4) of the German Commercial Code are listed and detailed below:

Composition of the subscribed capital

On December 31, 2016, the share capital of VTG AG amounted to € 28,756,219 and comprised 28,756,219 no-par value bearer shares. Every share carries a voting right.

Restrictions concerning the voting rights or the transfer of shares

As at December 31, 2016, 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, 2016, VTG AG was aware of the following direct and indirect shareholdings with a share in the capital of VTG AG of more than 10 % of the voting rights:

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

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

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

VTG AG has not received any other voting rights announcements or other information on shareholdings corresponding to a share in the voting rights of more than 10 % since the expiry of the registration period for the 2016 Annual General Meeting.

Shares with special rights that confer powers of control

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

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

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

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

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

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

Authorization to issue and redeem shares

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

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

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

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

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

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

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

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

Material agreements subject to a change of control clause

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

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

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

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

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

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

Remuneration of the Executive Board and Supervisory Board

Executive Board

The appropriate level of remuneration of the members of the Executive Board is determined by the Supervisory Board at the proposal of the Executive Committee on the basis of a performance 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 towards 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 departure 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, 2016, the company had set up provisions for post-employment benefits for members of the Executive Board amounting to approximately 9.6 million. Beyond the employment contracts, 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) sentence 5 to 8 and Section 315a (1) and Section 314 (1) number 6a sentence 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 fi-nancial statements of VTG AG as of December 31, 2016.

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.

In accordance with a resolution of the Annual General Meeting of the company, held on June 18, 2010, the Chairman of the Supervisory Board receives a fixed amount of annual remuneration, paya-ble after the end of each financial year, of € 60,000, while the Deputy Chairman receives € 45,000 and the other members of the Supervisory Board each receive € 30,000. Additionally, chairs of com-mittees receive € 6,000 for each committee chaired for each full financial year. Deputy chairs of com-mittees 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. As a single committee, the Executive Committee also constitutes and is assigned the tasks of a Nomination Committee. In the financial year 2016, the Chairman of the Supervisory Board, Dr. Scheider, the Deputy Chairman of the Supervisory Board, Dr. Juhnke, and Dr. Olearius, who is also a member of the Supervisory Board, were on this committee.

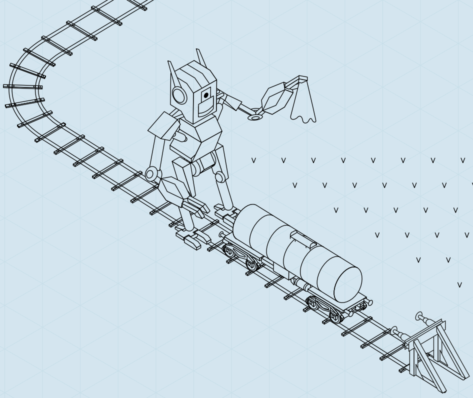
The total costs of remuneration of the Supervisory Board are given in the notes to the consolidated financial statements of VTG AG as of December 31, 2016.

Corporate Governance Statement pursuant to Section 289a and Section 315 no. 5 of the German Commercial Code

According to Section 289a and Section 315 no. 5 of the German Commercial Code, companies listed on the stock exchange are obliged to make a public statement on corporate governance either in their management report or on the company website. The statement on corporate governance must provide a declaration of conformity in accordance with Section 161 of the German Stock Corporation Act and contain relevant information in corporate governance practices and a description of the modus operandi of the Executive Board and Supervisory Board and the composition and modus operandi of its committees. The company has published the declaration on its website: www.vtg.de (under Company – Investor Relations – Corporate Governance – Declaration of Conformity).

Hamburg, March 10, 2017

The Executive Board



Consolidated financial statements

Consolidated income statement

€ MILLION	NOTES	1/1 TO 12/31/2016	1/1 TO 12/31/2015
Revenue	(1)	986.9	1,027.5
Changes in inventories	(2)	1.6	–1.0
Other operating income	(3)	31.0	29.7
Cost of materials	(4)	–435.6	–467.3
Personnel expenses	(5)	–97.8	–100.7
Other operating expenses	(6)	–146.0	–154.5
Earnings from companies accounted for using the equity method		5.2	2.8
Earnings before interest, taxes, depreciation, amortization (EBITDA)		**345.3**	**336.5**
Impairment, amortization and depreciation	(7)	–195.6	–192.4
Earnings before interest and taxes (EBIT)		**149.7**	**144.1**
Financing income		3.0	3.6
Financing expenses		–64.5	–101.8
Financial loss (net)	(8)	**–61.5**	**–98.2**
Net group profit before taxes on income (EBT)		**88.2**	**45.9**
Taxes on income and earnings	(9)	–30.7	–16.5
Group net profit		**57.5**	**29.4**
Thereof relating to:			
Shareholders of VTG Aktiengesellschaft		45.0	21.6
Vendor loan note		–	0.8
Hybrid capital investors		12.5	11.6
Non-controlling interests		–	–4.6
		57.5	29.4
Earnings per share (in €, undiluted and diluted)	(10)	**1.56**	**0.75**

The explanatory notes on pages 62 to 104 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

€ MILLION	NOTES	1/1 TO 12/31/2016	1/1 TO 12/31/2015
Group net profit		**57.5**	**29.4**
Changes in items that will not be reclassified to profit or loss in future periods:			
Revaluation of pension provisions	(25)	1.0	–0.8
thereof deferred taxes		–0.3	0.2
Changes in items that will possibly be reclassified to profit or loss in future periods:			
Currency translation		–7.4	10.9
Changes in cash flow hedge reserve		–1.8	2.0
thereof deferred taxes		0.4	–1.0
Other comprehensive income		**–8.2**	**12.1**
Comprehensive income		**49.3**	**41.5**
Thereof relating to:			
Shareholders of VTG Aktiengesellschaft		36.8	32.1
Vendor loan note		–	0.8
Hybrid capital investors		12.5	11.6
Non-controlling interests		–	–3.0
		49.3	**41.5**

The explanatory notes on pages 62 to 104 form an integral part of these consolidated financial statements.

Consolidated balance sheet

Assets

€ MILLION	NOTES	12/31/2016	12/31/2015
Goodwill	(11)	340.5	340.5
Other intangible assets	(12)	92.4	99.2
Tangible fixed assets	(13)	2,216.8	2,197.4
Companies accounted for using the equity method		32.3	29.9
Other investments	(14)	1.5	2.9
Derivative financial instruments		6.1	0.5
Other financial assets	(17)	13.9	10.9
Other assets	(18)	0.1	0.2
Deferred income tax assets	(19)	22.6	26.6
Non-current assets		**2,726.2**	**2,708.1**
Inventories	(15)	32.4	24.1
Trade receivables	(16)	140.8	148.2
Derivative financial instruments		1.4	0.2
Other financial assets	(17)	18.3	18.8
Other assets	(18)	11.6	47.6
Current income tax assets	(19)	7.3	2.3
Cash and cash equivalents	(20)	63.5	97.8
Current assets		**275.3**	**339.0**
		3,001.5	**3,047.1**

The explanatory notes on pages 62 to 104 form an integral part of these consolidated financial statements.

Equity and liabilities

€ MILLION	NOTES	12/31/2016	12/31/2015
Subscribed capital	(21)	28.8	28.8
Additional paid-in capital		323.7	323.7
Retained earnings	(22)	164.1	136.5
Revaluation reserve	(23)	–2.0	–0.2
Equity attributable to shareholders of VTG AG		**514.6**	**488.8**
Equity attributable to hybrid capital investors of VTG AG	(24)	**259.4**	**259.4**
Equity		**774.0**	**748.2**
Provisions for pensions and similar obligations	(25)	67.6	71.1
Deferred income tax liabilities	(26)	151.5	148.6
Other provisions	(27)	9.1	10.6
Financial liabilities	(28)	1,652.2	1,663.9
Derivative financial instruments		29.9	40.5
Other financial liabilities		2.5	–
Non-current debt		**1,912.8**	**1,934.7**
Provisions for pensions and similar obligations	(25)	3.4	3.4
Current income tax liabilities	(26)	25.4	21.5
Other provisions	(27)	49.2	59.0
Financial liabilities	(28)	75.1	101.7
Trade payables		119.6	131.6
Derivative financial instruments		20.0	20.6
Other financial liabilities		10.3	16.5
Other liabilities		11.7	9.9
Current debt		**314.7**	**364.2**
		3,001.5	**3,047.1**

The explanatory notes on pages 62 to 104 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

€ 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 VENDOR LOAN INVESTOR	EQUITY ATTRIBUTABLE TO HYBRID CAPITAL INVESTORS	NON CONTROLLING INTERESTS	TOTAL
NOTES	(21)		(22)		(23)			(24)		
As of 12/31/2014	**21.4**	**193.7**	**120.6**	**(4.1)**	**−2.2**	**333.5**	**0.0**	**0.0**	**7.0**	**340.5**
Group net profit			21.6			21.6	0.8	11.6	−4.6	29.4
Revaluation of pension provisions			−0.8			−0.8				−0.8
Currency translation			9.3	(9.3)		9.3			1.6	10.9
Changes in cash flow hedge reserve					2.0	2.0				2.0
Comprehensive income	**0.0**	**0.0**	**30.1**	**(9.3)**	**2.0**	**32.1**	**0.8**	**11.6**	**−3.0**	**41.5**
Acquisition of AAE										
Issue of ordinary shares	7.4	130.8				138.2				**138.2**
Settlement of transaction costs		−0.8				−0.8				−0.8
Issue of vendor loan note						0.0	229.4			229.4
Acquisition of non-controlling interests						0.0			4.9	4.9
Issue of hybrid bond										
Issue of bond						0.0		250.0		**250.0**
Settlement of transaction costs						0.0		−2.2		**−2.2**
Repayment of vendor loan						0.0	−229.4			**−229.4**
Acquisition of non-controlling interests			−1.3			−1.3			−8.2	**−9.5**
Dividend payments			−12.9			−12.9	−0.8		−0.7	**−14.4**
Total changes	**7.4**	**130.0**	**15.9**	**(9.3)**	**2.0**	**155.3**	**0.0**	**259.4**	**−7.0**	**407.7**
As of 12/31/2015	**28.8**	**323.7**	**136.5**	**(13.4)**	**−0.2**	**488.8**	**0.0**	**259.4**	**0.0**	**748.2**
Group net profit			45.0			45.0		12.5		**57.5**
Revaluation of Pension provisions			1.0			1.0				**1.0**
Currency translation			−7.4	(−7.4)		−7.4				**−7.4**
Changes in cash flow hedge reserve					−1.8	−1.8				**−1.8**
Comprehensive income	**0.0**	**0.0**	**38.6**	**(−7.4)**	**−1.8**	**36.8**	**0.0**	**12.5**	**0.0**	**49.3**
Dividend payments			−14.4			−14.4		−12.5		**−26.9**
Other changes			3.4			3.4				**3.4**
Total changes	**0.0**	**0.0**	**27.6**	**(−7.4)**	**−1.8**	**25.8**	**0.0**	**0.0**	**0.0**	**25.8**
As of 12/31/2016	**28.8**	**323.7**	**164.1**	**(6.0)**	**−2.0**	**514.6**	**0.0**	**259.4**	**0.0**	**774.0**

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

The explanatory notes on pages 62 to 104 form an integral part of these consolidated financial statements.

Consolidated cash flow statement

€ MILLION	NOTES	1/1 TO 12/31/2016	1/1 TO 12/31/2015
Operating activities			
Group net profit		57.5	29.4
Impairment, amortization and depreciation		195.6	192.4
Financing income		–3.0	–3.6
Financing expenses		64.5	101.8
Taxes on income and earnings		30.7	16.5
EBITDA		**345.3**	**336.5**
Other non-cash expenses and income		–4.5	2.4
Dividend from companies accounted for using the equity method		1.8	1.5
Income taxes paid		–17.5	–16.5
Income taxes reimbursed		2.6	4.6
Profit/loss on disposals of fixed asset items		–6.8	–11.2
Changes in:			
Inventories		–4.9	4.1
Trade receivables		9.9	2.0
Trade payables		–14.5	–5.0
Other assets and liabilities		14.8	–35.5
Cash flows from operating activities		**326.2**	**282.9**
Investing activities			
Payments for investments in intangible and tangible fixed assets		–220.4	–170.5
Proceeds from disposal of intangible and tangible fixed assets		11.9	76.0
Proceeds from disposal of non-current assets held for sale		–	1.3
Proceeds from/payments for investments in financial assets and company acquisitions (less cash and cash equivalents received)		0.7	11.1
Proceeds from disposal of financial assets		0.2	0.1
Financial receivables (incoming payments)		4.4	2.8
Financial receivables (outgoing payments)		–4.8	–3.6
Receipts from interest		0.8	1.3
Cash flows used in investing activities		**–207.2**	**–81.5**
Financing activities			
Payment of VTG Aktiengesellschaft dividend		–14.4	–12.9
Payments for acquisition of non-controlling interests		–5.5	–4.0
Payment to non-controlling interests		–0.7	–
Costs of raising equity capital		–	–1.1
Raising of hybrid capital		–	172.9
Dividend payments to hybrid capital investors		–12.5	–
Repayment of vendor loan note		–	–86.2
Receipts from the taking up of (financial) loans		33.3	973.6
Borrowing costs		–	–9.3
Repayments of bank loans and other financial liabilities		–76.0	–1,120.2
Interest payments		–76.4	–99.0
Cash outflow from financing activities		**–152.2**	**–186.2**
Change in cash and cash equivalents		**–33.2**	**15.2**
Effect of changes in exchange rates		–1.1	2.2
Balance at beginning of period	(20)	97.8	80.4
Balance of cash and cash equivalents at end of period	(20)	**63.5**	**97.8**
of which freely available funds		60.7	95.0

The explanatory notes on pages 62 to 104 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

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

1. General Information

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

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

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

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

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

These consolidated financial statements were approved for publication by the Executive Board of VTG AG on March 10, 2017.

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 Interpretations Committee (IFRIC). The commercial law regulations under Section 315 (a) (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 venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement instead of 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, 2016, four companies are accounted for using the equity method. The complete list of equity investments is presented on pages 95 to 97.

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

Currency translation

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

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

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

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

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

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

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

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

1 EURO =	RATE AT BALANCE SHEET DATE 12/31/2016	12/31/2015	AVERAGE RATE 2016	2015
British pound	0.8581	0.7350	0.8190	0.7259
Swiss franc	1.0754	1.0822	1.0903	1.0677
US dollar	1.0568	1.0892	1.1069	1.1098

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.

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 intra-group sales. Revenue from the leasing of wagons is recognized on a prorated, straight-line basis over the term of the contracts. Revenue from services is not realized until the service has been fully rendered. There is no recognition in accordance with stage of completion due to the nature of the business. Income from the sale of goods is recognized if these have been delivered and the risk has been transferred.

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

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.

Unplanned impairment losses

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

Goodwill

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

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

Overall, the management expects moderate growth of the terminal value. The capitalization interest rate plus a growth surplus of 1.0 % per year has been applied. Other significant planning assumptions and the opportunities and risks of future development can be found in the relevant sections of the Group Management Report. In order to determine the fair value less costs of disposal, risk-oriented interest rates appropriate to the market were applied. The post-tax interest rates (WACC) are between 2.8 % and 4.5 %, while in the previous year they were between 3.7 % and 5.2 %.

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 but 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 recoverable amount. As for the goodwill impairment test described above, the recoverable amount is calculated as fair value less costs of disposal, which are in turn calculated on the basis of the discounted forecast cash flows.

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

Development costs which are directly attributable to the development and review of identifiable, individual designs for rail freight 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 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. 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.

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

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

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

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

Lease agreements

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

a. The Group as lessee

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

b. The Group as lessor

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

Financial instruments

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

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

a. Financial assets measured at fair value through profit or loss

There are no assets in the VTG Group that fall into this category except for derivative financial instruments.

b. Loans and Receivables

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

c. Financial assets held to maturity

There are no assets in the VTG Group that fall into this category.

d. Financial assets available for sale

Financial assets available for sale have been either directly classified under this category or could not be classified under one of the other three given categories. The financial assets presented in the VTG Group are mainly investments in affiliated companies, which have not been consolidated because of their minor importance, and investments. They are classified as non-current assets, provided that management does not intend to sell them within twelve months of the balance sheet date. Financial assets held for sale are initially recognized at their fair value plus transaction costs (acquisition costs) and are recognized on subsequent balance sheet dates at their fair values to the extent that their market value can be determined reliably. In this case, the unrealized gains and losses arising from the change in the fair value are recognized in the revaluation reserve after accounting for tax effects. If the assets that are classified as available for sale are sold or have been subject to impairment, then the cumulative changes to fair value previously recognized in equity (revaluation reserve) are recognized through profit and loss. The shareholdings and investments are not traded and there are no market prices listed on an active market. These shares and other investments are recognized at amortized cost since it is not possible to determine their fair values reliably. VTG does not intend to sell the assets classified as available for sale and shown under the balance sheet item Other investments.

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

Derivative financial instruments

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

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

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

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

The effective portion of market value changes of derivative financial instruments, which is deemed cash flow hedge, is recorded after accounting for deferred taxes to the other parts of equity without affecting income. The non-effective portion is recorded to the income statement. The amounts recorded to equity are reclassified to the income statement in the financial years in which the underlying transaction affects the income statement or if the forecast transaction is no longer expected to occur. Hedging relationships categorized as financing activities are reclassified to the financial result. Hedging relationships categorized as operating activities are reclassified to revenue and income/expenses.

The market value changes of financial derivatives not in a hedging relationship are recognized through profit of loss in the income statement within the financial result.

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

Inventories

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

Provisions for pensions and similar obligations

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

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

For defined benefit pension commitments, whereby the company guarantees employees a specific level of payment, the company creates provisions. These provisions cover payment commitments for retirement, disability and survivors. Under IAS 19, these obligations are determined by an independent actuary using the projected unit credit method, taking into account the discount rate, the expected future development of salaries and pensions and additional actuarial assumptions. They are entered in the balance sheet after the deduction of the fair value of plan assets. The 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. The net interest approach has been used. For the return on plan assets, the interest rate is adopted that applies to the net pension obligations. Expenses from increases in pension obligations that reflect the passage of time (unwinding of the discount) are shown as net interest under the financial result after offsetting income from the interest yielded by plan assets. Both the current and the past service cost are recognized immediately and are shown under personnel expenses.

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

With pension commitments and plan assets outside Germany, provision is made in the form typical for each country. Plan assets are invested both in insurance policies and in a 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 introduced in gradual steps until the end of the active stage.

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

The VBL benefits operate via a pay-as-you-go system (modified partial reserve pay-as-you-go system). The calculation is made according to actuarial principles. Since July 2016, the contribution rate has amounted to a total of 8.16 % of the salary for which there is a supplementary pension. As an employer, VTG is responsible for 6.45 %. There may be an adjustment to the supplementary pension in 2017. 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 discount rate calculation takes into account the development of high quality corporate bonds with a corresponding date of maturity. The discount rate was determined using the Willis Towers Watson Global Rate: Link methodology, based on data from Bloomberg on corporate bonds with an AA rating.

Taxes on income

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

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

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

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

Other provisions

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

Government grants

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

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

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

There were no material government grants in the financial year 2016.

Estimates and discretionary judgements

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

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

At least once a year and when appropriate, the Group carries out an impairment test of capitalized goodwill and brand values with indefinite useful lives based on the cash-generating units to which they are allocated. In total, there are the cash-generating units Railcar Division, Railcar North America, Rail Logistics and Tank Container Logistics, three of which carry goodwill.

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 units Railcar Division and Railcar North America, 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 units Rail Logistics and Tank Container Logistics 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 figures. Since multiple-year scenarios are being discussed internally, there are differences between the internal and external information sources.

The third-level method for measuring fair value is to be used for the above forecast.

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

With regard to the cash-generating unit Railcar, with attributed goodwill of € 327.2 million, unforeseeable changes to key planning assumptions could lead to impairment of goodwill. This applies in particular to the assumptions made regarding EBIT, ROCE and the estimated cost of capital (WACC), where the other parameters of the impairment test are assumed to be constant. The goodwill attributed to the cash-generating unit Railcar would remain unimpaired in the case of a fall in future EBITs of up to 44.1 % or a decrease in ROCE regarding the terminal value of up to 2.18 percentage points or an increase in WACC after tax of up to 1.86 percentage points compared with the parameters currently used. Currently, the coverage surplus amounts to around nine times the attributable goodwill.

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

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.

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

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

€ MILLION	2016	2015
Increase in discount rate of 100 basis points (previous year 25 basis points)	−7.5	−2.1
Decrease in discount rate of 100 basis points (previous year 25 basis points)	+9.5	+2.2
Increase of pension trend by 25 basis points	+1.5	+1.6
Decrease of pension trend by 25 basis points	−1.5	−3.1
Increase of life expectancy by 1 year	+3.0	+3.1

The Group has a duty to pay income taxes in various countries. For each tax subject, the expected effective income tax amount is to be determined and the temporary differences from the different treatment of certain balance sheet items in the IFRS financial statements and in the statutory tax financial statements are to be assessed. Where there are temporary differences, these lead to the capitalization or provision of deferred tax assets and liabilities. When calculating current and deferred taxation, the management has to make judgements, for example with regard to the probability of the future utilization of deferred tax assets. If the actual results differ from these assessments, then this can have an impact on the Group financial statements.

Country-specific legislation is taken into account for tax estimates.

The Group has set up provisions for various risks. However, in accordance with the accounting and measurement methods stated, such provisions are set up only if it is probable that they will be utilized. Naturally, various scenarios exist here. The assessment with regard to probability is based on past experience and on evaluations of specific business transactions. Facts already in existence at the balance sheet date which come to light later are accounted for.

Fair values of financial instruments not traded in an active market are determined using appropriate valuation techniques which are selected from numerous methods. The assumptions applied here are predominantly based on the market conditions existing at the balance sheet date.

3. New financial reporting standards

In 2016, VTG AG used the clarifications in the amendments to **IAS 1 "Presentation of Financial Statements"** through the disclosure initiative to examine the content of the information presented in the consolidated financial statements in terms of net assets, financial position and results of operations of the VTG Group. The level of detail of the information presented was increased as required to provide greater clarity in the consolidated financial statements. Where other sections of the annual report contain equivalent information, the reader has been referred to these where possible to avoid unnecessary repetitions.

Other new standards, amendments to existing standards, and interpretations whose implementation first became mandatory for financial years beginning on January 1, 2016 or thereafter have no significant impact on the reporting of the VTG Group.

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

The new **IFRS 9 "Financial Instruments"** contains simplified accounting rules for financial instruments. Its objective is to have only two categories for measuring financial instruments – amortized cost and fair value. The more differentiated classification and measurement system of IAS 39 is discarded. Furthermore, IFRS 9 contains a revised impairment model and new rules on hedge accounting. With the changes to IFRS 9, IFRS 7 was also amended in respect of additional disclosures for comparative periods on transition to IFRS 9. Application of the new IFRS 9 and IFRS 7 regulations is mandatory for financial years beginning on and after January 1, 2018. The VTG Group expects that adjustments will have to be made, particularly as a result of the revised impairment model in respect of trade receivables and the new provisions relating to the current category of available-for-sale financial assets. The amendment allowing certain components relating to hedging transactions to be recognized separately in other comprehensive income will also lead to adjustments having to be made. These are not currently expected to have any significant impact on the net assets, financial position or results of operations of the VTG Group.

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 and revenue transactions. These principles are applicable across all industries. Application of these new regulations is mandatory for financial years beginning on and after January 1, 2018. For transactions between the Group and its customers, there will be no significant changes to the previous rules with regard to the amount of revenue or its recognition over time. For the explanations in the Notes, more comprehensive rules apply which require more detailed descriptions.

The new **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 the new IFRS 16 regulations is mandatory for financial years beginning on and after January 1, 2019 (still subject to EU endorsement). The VTG Group has various assets at its disposal for whose use it is charged for, such as rail freight wagons, tank containers and office buildings. A large proportion of these assets will be recognized in the balance sheet when IFRS 16 takes effect. The Group plans to apply these amendments from January 1, 2019. The information on obligations from rental, leasehold and leasing agreements contained in the section "Other Disclosures" provides some indication of the impact on net assets and financial position. While IFRS 16 will have a positive impact on the control parameters EBITDA and EBIT, a slightly negative effect is expected for EBT in the first few years following implementation.

4. Scope of consolidation in the financial year 2016

In addition to VTG AG, a total of 19 (previous year: 20) domestic and 47 (prior year 50) foreign subsidiaries are included in the consolidated financial statements for the financial year 2016.

A list of equity investments can be found in the notes to the consolidated financial statements, under "Other Disclosures" on pages 95 to 97.

Joint ventures

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

€ MILLION	WAGGON HOLDING 2016	WAGGON HOLDING 2015	AAE WAGON 2016*	AAE WAGON 2015	OTHERS 2016	OTHERS 2015	TOTAL 2016	TOTAL 2015
Balance at beginning of period 1/1	**16.1**	**15.6**	**–0.1**	**–**	**13.9**	**2.2**	**29.9**	**17.8**
Net profit for the year	1.6	1.8	2.4	–0.1	1.2	1.1	5.2	2.8
Changes to scope of consolidation	–	–	–	–	–	10.5	0.0	10.5
Currency translation	–	0.2	–	–	–0.1	0.1	–0.1	0.3
Changes in cash flow hedge reserve	–	–	–0.9	–	–	–	–0.9	0.0
Dividend	–1.8	–1.5	–	–	–	–	–1.8	–1.5
Closing balance 12/31	**15.9**	**16.1**	**1.4**	**–0.1**	**15.0**	**13.9**	**32.3**	**29.9**
Thereof goodwill	13.8	13.8	–	–	5.7	5.2	19.5	19.0

* from 2016 AAE Wagon-Gruppe

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. Cargo Wagon is included in the consolidated financial statements of AAE Wagon.

The Joint Ventures show the following key financial information in their financial statements as of December 31, 2016:

€ MILLION	WAGGON HOLDING 12/31 2016	WAGGON HOLDING 12/31 2015	SHANGHAI COSCO 12/31 2016	SHANGHAI COSCO 12/31 2015	AXBENET 12/31 2016	AXBENET 12/31 2015	AAE WAGON 12/31 2016*	AAE WAGON 12/31 2015
Assets	4.4	4.6	7.4	6.9	80.1	83.3	182.4	27.6
Liabilities	–	–	2.5	2.6	66.7	71.6	174.5	27.8
Net profit/loss for the year	**3.2**	**3.7**	**0.7**	**0.6**	**1.8**	**1.5**	**4.8**	**–0.2**
Total	**3.2**	**3.7**	**0.7**	**0.6**	**1.8**	**1.5**	**3.0**	**–0.2**

* from 2016 AAE Wagon-Gruppe

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

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 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 brings together tank container transport operations for products from the chemical, petroleum and compressed gas industries. It also covers the leasing of tank containers.

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

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

Explanations of the segment data

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

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

Based on internal reporting, the figures for the segments in the consolidated financial statements as of December 31, 2016 and for the previous year are as follows:

€ MILLION	RAILCAR		RAIL LOGISTICS		TANK CONTAINER LOGISTICS		RECONCILIATION		GROUP	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
External revenue	517.2	537.2	312.3	324.0	157.4	166.3	–	–	986.9	1,027.5
Internal revenue	30.0	27.3	3.8	1.7	0.1	0.3	–33.9	–29.2	0.0	0.0
Changes in inventories	1.6	–1.0	–	–	–	–	–	–	1.6	–1.0
Segment revenue	**548.8**	**563.4**	**316.1**	**325.8**	**157.5**	**166.6**	**–33.9**	**–29.2**	**988.5**	**1,026.5**
Segment cost of materials*	–29.3	–43.9	–288.4	–297.9	–129.0	–137.9	33.2	28.1	–413.5	–451.6
Segment gross profit	**519.5**	**519.5**	**27.7**	**27.8**	**28.5**	**28.7**	**–0.7**	**–1.1**	**575.0**	**574.9**
Other segment income and expenditure	–175.2	–184.0	–21.9	–24.4	–17.3	–15.1	–15.3	–14.8	–229.7	–238.4
Segment earnings before interest, taxes, depreciation, amortization and impairment (EBITDA)	**344.3**	**335.4**	**5.8**	**3.4**	**11.2**	**13.6**	**–16.0**	**–15.9**	**345.3**	**336.5**
Impairment, amortization of intangible and depreciation of tangible fixed assets	–188.4	–183.6	–1.4	–1.9	–5.4	–6.3	–0.4	–0.6	–195.6	–192.4
thereof impairments**	–8.2	–0.1	–	–	–	–1.3	–	–	–8.2	–1.4
Segment earnings before interest and taxes (EBIT)	**155.9**	**151.9**	**4.4**	**1.5**	**5.8**	**7.3**	**–16.4**	**–16.6**	**149.7**	**144.1**
thereof earnings from companies accounted for using the equity method	4.9	2.5	–	–	0.3	0.3	–	–	5.2	2.8
Financial result	–58.5	–94.0	–0.4	–0.8	–0.6	–0.8	–2.0	–2.7	–61.5	–98.3
Earnings before taxes (EBT)	**97.4**	**57.9**	**4.0**	**0.7**	**5.2**	**6.5**	**–18.4**	**–19.2**	**88.2**	**45.9**
Taxes on income and earnings									–30.7	–16.5
Group net profit									**57.5**	**29.4**

* To a minor extent, income has been offset against the cost of materials of the segments.
** The impairments relate to tangible fixed assets and financial assets.

In accordance with management reporting, in addition to eliminations not affecting income of expenses and income between the segments, the “Reconciliation” column contains expenses of € 18.4 million (previous year: € 19.2 million) not allocated to the segments.

Capital expenditure for each segment as of the 2016 and 2015 reporting dates is shown in the following table:

€ MILLION	RAILCAR		RAIL LOGISTICS		TANK CONTAINER LOGISTICS		RECONCILIATION		GROUP	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Investments in intangible assets	2.1	2.6	0.3	0.3	0.1	0.3	0.2	–	2.7	3.2
Investments in tangible fixed assets	206.2	163.1	0.2	0.1	11.1	0.9	0.3	0.2	217.8	164.3
Total	**208.3**	**165.7**	**0.5**	**0.4**	**11.2**	**1.2**	**0.5**	**0.2**	**220.5**	**167.5**

Key figures across all segments

€ MILLION	GERMANY 2016	GERMANY 2015	OTHER COUNTRIES 2016	OTHER COUNTRIES 2015	GROUP 2016	GROUP 2015
External revenue by location of customers	382.7	413.8	604.2	613.7	986.9	1,027.5

Notes to the consolidated income statement

(1) Revenue

€ MILLION	2016	2015
Railcar	517.2	537.2
Rail Logistics	312.3	324.0
Tank Container Logistics	157.4	166.3
Total	**986.9**	**1,027.5**

The business of the VTG Group is affected to only a minor degree by seasonal fluctuations. Of the revenue in the financial year 2016 and 2015 shown under the Railcar segment, less than 4 % was from the sale of goods. The rental agreements in the Railcar division have an average term of approximately 3 years.

Foreign currency gains of € 2.4 million are included under revenue (previous year: € 4.2 million).

(2) Changes in inventories

€ MILLION	2016	2015
Changes in inventories	**1.6**	**–1.0**

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

(3) Other operating income

€ MILLION	2016	2015
Book profit from the sale of fixed assets	7.6	11.6
Exchange gains	3.7	2.4
Recharged services	3.0	4.0
Income from investments	1.9	2.6
Income from sales of materials	1.5	2.0
Other income	13.3	7.1
Total	**31.0**	**29.7**

Other income consists mainly of a compensation payment for potential damage, rebates, cost reimbursements and book profits from the sale of wagons to investors.

(4) Cost of materials

€ MILLION	2016	2015
Raw materials, consumables and supplies	15.3	20.7
Cost of purchased services	420.3	446.6
Total	**435.6**	**467.3**

Cost of purchased services includes leasing expenses for operating lease contracts amounting to € 16.4 million (previous year: € 16.5 million).

Cost of purchased services includes exchange rate losses amounting to € 2.3 million (previous year: € 4.0 million).

(5) Personnel expenses

€ MILLION	2016	2015
Wages and salaries	79.5	81.4
Social security, post-employment and other employee benefit costs	18.3	19.3
thereof for pensions	8.2	9.8
from current contributions to defined contribution plans (excluding VBL*)	0.9	0.9
VBL: Versorgungsanstalt des Bundes und der Länder/Federal and State Government Employees' Retirement Fund Agency	0.3	–2.8
from contributions to defined benefit plans	0.8	5.2
from payments to statutory pension insurance schemes	5.3	6.1
from other payments	0.9	0.4
Total	**97.8**	**100.7**

* Includes reimbursements amounting to € 3.1 million.

There is a detailed presentation of defined benefit commitments under Note (25).

(6) Other operating expenses

€ MILLION	2016	2015
Repairs and working capital requirements	83.6	86.5
Selling expenses	11.8	10.5
Rents/lease	6.8	6.9
IT costs	5.3	4.8
Other costs of materials and personnel expenses	4.9	6.1
Travel costs	4.1	4.1
Exchange rate losses	3.9	2.2
Charges, fees, consultancy costs	3.6	10.7
Insurance	3.2	3.5
Donations and contributions	2.6	2.2
Other taxes	1.7	1.5
Audit fees	1.6	1.8
Administrative expenses	1.4	1.5
Advertising	1.2	1.9
Other expenses	10.3	10.3
Total	**146.0**	**154.5**

(7) Impairment, amortization and depreciation

€ MILLION	2016	2015
Impairment, amortization of intangible and depreciation of tangible fixed assets	**195.6**	**192.4**
thereof impairments	8.2	1.4

In the year under review, there were impairments of financial assets of € 1.4 million (previous year: € 1.3 million).

(8) Financial loss (net)

€ MILLION	2016	2015
Income from other investment securities and loans	0.1	0.1
Interest and similar income	2.9	3.5
Interest and similar expenses	–68.5	–89.6
thereof to pensions	(–1.3)	(–1.3)
Impairment of other financial assets	–	–0.4
Foreign currency gain/loss (net)	4.0	–11.8
Total	**–61.5**	**–98.2**

Interest and similar income includes income arising from the measurement of derivative financial instruments amounting to € 1.9 million (previous year: € 2.2 million). Interest and similar expenses includes expenses arising from the measurement of derivative financial instruments amounting to € 7.6 million (previous year: € 8.3 million).

(9) Taxes on income and earnings

€ MILLION	2016	2015
Current taxes	23.7	16.6
thereof relating to other periods	(–0.1)	(0.2)
Deferred tax expense (previous year: income)	7.0	–0.1
Total	**30.7**	**16.5**

The actual tax result of € 30.7 million differs by € 1.6 million from the expected expense for taxes on income of € 29.1 million which would arise if the domestic tax rate were applied to the annual result of the Group before taxes on income.

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

€ MILLION	2016	2015
Net group profit before taxes on income	**88.2**	**45.9**
Income tax rate of VTG AG	33 %	33 %
Expected income tax expense (tax rate of VTG AG)	29.1	15.1
Tax effect of non-deductible expenses and tax-free income	6.9	3.6
Tax effect on tax-free investment income	−0.1	–
Tax effect from the adjustment of tax assets to tax loss carryforwards	−0.3	0.2
Tax effect on taxable loss carryforwards	1.1	−0.2
Tax income and expense relating to other periods	−0.2	0.2
Tax effect due to changes in the income tax rate on effects of the prior year	−1.2	−0.5
Tax effects due to differences between the local tax rate and income tax rate of VTG AG	−4.8	−2.4
Other deviations	0.2	0.5
Actual income tax expense	**30.7**	**16.5**
Tax charge	**34.9 %**	**35.9 %**

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

IN %	2016	2015
Expected future corporate tax rate	15.00	15.00
Solidarity surcharge	0.83	0.83
Expected future trade tax rate	17.17	17.17
Anticipated future tax rate	**33.00**	**33.00**

Taxes on income represent an expense in the period under review and equal 34.9 % of the result before tax (previous year: 35.9 %).

Further explanations of taxes on income can be found under Note (26).

(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.

	1/1–12/31/2016	1/1–12/31/2015
Group net income attributable to VTG AG shareholders (€ million)	45.0	21.6
Weighted average number of shares	28,756,219	28,635,112
Earnings per share (in €)	**1.56**	**0.75**

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 2016 was € 0.50 (previous year: € 0.45).

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 100 and 104.

(11) Goodwill

€ MILLION	12/31/2016	12/31/2015
Railcar segment	327.2	327.2
Rail Logistics segment	11.6	11.6
Tank Container Logistics segment	1.7	1.7
Total	**340.5**	**340.5**

(12) Other intangible assets

€ MILLION	12/31/2016	12/31/2015
"VTG" brand (Railcar)	9.5	9.5
"AAE" brand (Railcar)	0.5	1.0
Customer relationships, Railcar	65.3	70.9
Customer relationships, Rail Logistics	3.5	4.2
Concessions, industrial trademarks and licenses	11.3	11.0
Capitalized development costs	0.8	1.0
Payments on account	1.5	1.6
Total	**92.4**	**99.2**

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

(13) Tangible fixed assets

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

In respect of finance leases, as of the balance sheet date, fixed assets with a book value of € 7.4 million (previous year: € 7.8 million) were recognized under fleet.

(14) Other financial assets

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

(15) Inventories

€ MILLION	12/31/2016	12/31/2015
Raw materials, consumables and supplies	28.9	22.2
Unfinished and finished products and services	3.5	1.9
Total	**32.4**	**24.1**

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.

(16) Trade receivables

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

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

	CARRYING AMOUNT AS OF 12/31		OF WHICH NEITHER IMPAIRED NOR OVERDUE AT THE YEAR-END DATE		OF WHICH NOT IMPAIRED AT THE YEAR-END DATE AND OVERDUE IN THE FOLLOWING TIME BANDS							
					LESS THAN 30 DAYS		30 TO 60 DAYS		61 TO 90 DAYS		MORE THAN 90 DAYS	
€ MILLION	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Total	**140.8**	**148.2**	**96.7**	**98.9**	**30.0**	**25.6**	**6.5**	**8.0**	**2.4**	**6.6**	**5.2**	**9.1**
thereof due from third parties	138.8	143.9	94.8	95.9	30.0	24.6	6.5	7.8	2.4	6.6	5.1	9.0

The trade receivables overdue after more than 90 days were mainly settled in the middle of February 2017.

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

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

€ MILLION	OPENING BALANCE 1/1/2016	CURRENCY DIFFERENCES	UTILIZATION	REVERSALS	ADDITIONS	CLOSING BALANCE 12/31/2016
Allowances	**7.5**	**−0.5**	**0.2**	**1.8**	**6.8**	**11.8**

The total amount of additions, amounting to € 6.8 million (previous year: € 2.7 million) comprise the increase due to specific allowances amounting to € 6.7 million (previous year € 2.2 million) and allowances on a portfolio basis amounting to € 0.1 million (previous year: € 0.5 million). Specific allowance reversals amounted to € 0.8 million (previous year: € 0.7 million) and allowances on a portfolio basis amounted to € 1.0 million (previous year: € 0.2 million).

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

(17) Other financial assets

€ MILLION	12/31/2016	12/31/2015
Financial receivables	12.1	9.5
Receivables from finance leases	1.7	3.6
Other financial receivables	18.4	16.6
Other financial assets	**32.2**	**29.7**

As of the reporting date, none of the financial receivables amounting to € 12.1 million (previous year: € 9.5 million) were impaired or overdue. They include interest receivables.

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

(18) Other assets

Other assets comprise mainly receivables from other taxes and prepaid expenses. The decrease in other current assets is largely due to the sale to leasing companies of rail freight cars that were included in 2015.

(19) Income tax assets

€ MILLION	12/31/2016	12/31/2015
Deferred income tax assets	22.6	26.6
Current income tax assets	7.3	2.3
Total	**29.9**	**28.9**

Further explanations of deferred taxes can be found under Note (26).

(20) Cash and cash equivalents

Bank balances mainly relate to cash deposits accessible at short notice and which attract variable interest.

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

Equity

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

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

(21) 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, 2016, the subscribed capital amounted to € 28.8 million.

(22) 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.

(23) Revaluation reserve

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

In the financial year, expenses from the revaluation of the hedging relationship of € 1.8 million (previous year: € 2.0 million) was recognized in equity without affecting income and taking into account deferred tax effects.

(24) Shares of hybrid investors

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

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

(25) 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.	2016	2015
Discount rate	1.75	2.0
Salary trend	2.25	2.5
Pension trend	1.75 or 1.0 confirmed	2.0 or 1.0 confirmed
Mortality etc	Heubeck RT 2005G	Heubeck RT 2005G

In the rest of Europe, the key actuarial assumptions applied were interest rates of between 0.6 % and 1.75 % (previous year: 0.7 % and 2.25 %).

The pension provisions are derived as follows:

€ MILLION	2016	2015
Present value of funded benefit obligations	28.3	28.7
Fair value of the plan assets	–20.9	–19.5
Provision for funded benefit obligations	**7.4**	**9.2**
Present value of unfunded benefit obligations	63.6	65.3
Total provision	**71.0**	**74.5**

The pension provisions were set up primarily for German pension plans totaling € 60.7 million € (previous year € 65.2 million).

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

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

€ MILLION	DEFINED BENEFIT OBLIGATION		FAIR VALUE OF PLAN ASSET		NET PENSION OBLIGATIONS	
	2016	2015	2016	2015	2016	2015
Balance at beginning of period	**94.0**	**66.5**	**19.5**	**1.9**	**74.5**	**64.6**
Current service cost	1.8	1.8	–	–	1.8	1.8
Past service cost	–0.9	3.4	–	–	–0.9	3.4
Net interest expense (Interest expense/income)	1.4	1.5	0.1	0.2	1.3	1.3
Employer contributions	–	–	1.0	0.8	–1.0	–0.8
Employee contributions	0.3	0.4	0.3	0.4	–	–
Pension payments made	–5.4	–6.9	–2.0	–3.5	–3.4	–3.4
Transfers	0.7	–	0.7	–	–	–
Settlements	–1.3	–	–1.3	–	–	–
Revaluations	1.2	1.0	2.5	–	–1.3	1.0
Actuarial gains/losses from demographic assumptions	0.9	–	–	–	0.9	–
Actuarial gains/losses from changes in financial assumptions	0.8	1.4	2.5	–	–1.7	1.4
Actuarial gains/losses from experience adjustments	–0.5	–0.4	–	–	–0.5	–0.4
Changes due to consolidation	–	23.7	–	17.7	–	6.0
Currency effect	0.1	2.6	0.1	2.0	–	0.6
Balance at end of period	**91.9**	**94.0**	**20.9**	**19.5**	**71.0**	**74.5**

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

The effect of translation of the pension provisions of the Swiss permanent establishment into euros amounts to € 0 million (previous year: € 0.6 million).

Expected payments to beneficiaries in the next period amount to € 4.3 million (previous year: € 4.2 million). In addition, contributions to the plan assets are expected to total € 1.0 million (previous year: € 1.3 million).

As of December 31, 2016, the average term of the obligation for the German companies is 14.3 years (previous year: 14.0 years). The average term of the obligation for the Swiss permanent establishment is 20.4 years (previous year: 19.0 years). Reporting is based on sensitivity analyses. These in turn are reported under Principles of Accounting – Estimates and discretionary judgements.

(26) Income tax liabilities

€ MILLION	12/31/2016	12/31/2015
Current income tax liabilities	25.4	21.5
Deferred income tax liabilities	151.5	148.6
Total	**176.9**	**170.1**

Current income tax liabilities developed as follows:

€ MILLION	OPENING BALANCE 1/1/2016	CURRENCY DIFFERENCE	RECLASSIFI-CATIONS	UTILIZATION	REVERSALS	ADDITIONS	CLOSING BALANCE 12/31/2016
Current income tax liabilities	**21.5**	**0.1**	**-0.1**	**6.4**	**1.3**	**11.6**	**25.4**

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 € 12.5 million (previous year: € 11.1 million). In accordance with IAS 12.81 (f), the resulting non-recognized tax liabilities amounted to € 4.3 million (previous year: € 3.8 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:

	12/31/2016		12/31/2015	
€ MILLION	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Intangible assets	1.0	14.7	0.6	16.4
Tangible fixed assets	4.2	160.9	5.3	159.2
Financial assets	0.4	0.9	0.5	0.9
Other assets	1.9	1.2	1.7	0.7
Liabilities	25.4	2.7	27.8	1.9
Tax loss carryforwards	18.6	–	21.2	–
Subtotal	**51.5**	**180.4**	**57.1**	**179.1**
Offsetting	–28.9	–28.9	–30.5	–30.5
Total	**22.6**	**151.5**	**26.6**	**148.6**
thereof with a term of up to 1 year	8.2	6.3	11.2	5.3

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

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

€ MILLION	2016	2015
Unused tax loss carryforwards	17.6	14.6
Related non-capitalized deferred tax savings	3.2	3.2
thereof with no expiration date	2.0	1.8

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 35.88 %. The tax rates of the deferred taxes correspond to those of the current taxes.

(27) Other provisions

€ MILLION	OPENING BALANCE 1/1/2016	CURRENCY DIFFERENCES	UTILIZATION	REVERSALS	ADDITIONS	CLOSING BALANCE 12/31/2016
Provisions for personnel expenses	22.5	–	14.0	2.0	13.7	20.2
Provisions for typical operational risks	9.2	−0.4	4.3	–	2.9	7.4
Miscellaneous provisions	37.9	–	8.7	7.0	8.5	30.7
Other provisions	**69.6**	**−0.4**	**27.0**	**9.0**	**25.1**	**58.3**

The additions include the interest of € 0.1 million (previous year: € 0.3 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 maturities of the other provisions are as follows:

	TOTAL		THEREOF WITH A TERM OF UP TO 1 YEAR	
€ MILLION	2016	2015	2016	2015
Provisions for personnel expenses	20.2	22.5	15.0	17.5
Provisions for typical operational risks	7.4	9.2	4.3	6.0
Miscellaneous provisions	30.7	37.9	29.9	35.5
Other provisions	**58.3**	**69.6**	**49.2**	**59.0**

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

The provisions for personnel expenses mainly comprise obligations for outstanding vacations (€ 3.5 million; previous year: € 3.5 million), contributions to VBL (€ 1.6; previous year: € 1.6 million), for anniversaries (€ 1.5 million, previous year: € 1.4 million), for social plans (€ 0.9 million (previous year: € 1.9 million) and for long-term phased retirement (€ 0.6 million; previous year: € 0.6 million).

The provisions for typical operational risks relate primarily to repair obligations for leased tank containers (€ 3.8 million; previous year € 4.0 million).

The miscellaneous provisions comprise mainly provisions relating to the wagon fleet (€ 2.7 million; previous year: € 3.5 million), provisions for damage (€ 5.0 million; previous year € 4.7 million) and provisions for interest rate risks (€ 2.7 million; previous year € 2.7 million).

(28) Financial liabilities

	IN MILLIONS: CURRENCY	IN MILLIONS: ORIGINAL AMOUNT	IN MILLIONS: AS OF 12/31/2016	IN € MILLION: CARRYING AMOUNT 12/31/2016	IN € MILLION: CARRYING AMOUNT 12/31/2015
Private placements	EUR	630.0	630.0	632.5	632.2
Private placements	USD	40.0	40.0	38.1	36.9
Syndicated loans	EUR	1,180[1]	872.5	864.9	872.9
Project financing	EUR	169.5	84.7	84.3	100.5
Bank loans	EUR	50.0	–	–	15.1
Bank loans	USD	56.0	34.2	31.8	31.5
Shareholder loans	EUR	70.0	–	–	70.0
Liabilities from finance leases	–	–	–	3.2	4.4
Other financial liabilities	–	–	–	72.5	2.1
Total				**1,727.3**	**1,765.6**

[1] The original syndicated loan amount includes a guaranteed line of credit of € 80.0 million, € 67.6 million of which had been utilized as of December 31, 2016 (previous year: € 51.5 million).

Due to the sale of shares, the € 70.0 million shown as shareholder loans in the previous year is shown in the year under review as other financial liabilities.

As of the balance sheet date, the syndicated loans include unused credit lines of € 190.0 million (previous year: € 200.0 million), with a term ending in December 2018. There are unutilized credit lines totaling € 50.0 million (previous year € 60.0 million) with a term ending in August 2017.

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

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

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

In the previous year, there were the following payments:

€ MILLION	AS OF 12/31/2015	CASH FLOWS 2016			CASH FLOWS 2017		
		FIXED INTEREST	VARIABLE INTEREST	REPAYMENT	FIXED INTEREST	VARIABLE INTEREST	REPAYMENT
Financial liabilities							
Syndicated loans	881.7	–	11.9	37.5	–	12.2	37.5
Private placements	666.7	32.5	2.2	–	32.5	2.2	–
Project financing	101.1	0.8	1.0	10.4	0.8	0.9	17.9
Shareholder loans	70.0	2.6	–	–	3.5	–	–
Bank loans	47.1	–	1.0	32.1	–	0.3	15.0
Liabilities from finance leases	4.4	0.2	–	1.3	–	–	3.1
Other financial liabilities	2.1	–	–	2.0	–	–	0.1

€ MILLION	CASH FLOWS 2018–2020			CASH FLOWS 2021–2023			CASH FLOWS 2024 ff.		
	FIXED INTEREST	VARIABLE INTEREST	REPAYMENT	FIXED INTEREST	VARIABLE INTEREST	REPAYMENT	FIXED INTEREST	VARIABLE INTEREST	REPAYMENT
Financial liabilities									
Syndicated loans	–	30.7	494.2	–	16.3	312.5	–	–	–
Private placements	93.1	2.4	116.7	58.8	–	420.0	19.0	–	130.0
Project financing	1.6	1.5	52.8	0.4	0.2	20.0	–	–	–
Shareholder loans	7.9	–	70.0	–	–	–	–	–	–
Bank loans	–	–	–	–	–	–	–	–	–
Liabilities from finance leases	–	–	–	–	–	–	–	–	–
Other financial liabilities	–	–	–	–	–	–		–	–

Additional information on financial instruments

Carrying amounts by valuation category

The following table shows the carrying amounts for all categories of financial assets and liabilities:

€ MILLION	CARRYING AMOUNT 12/31/2016	12/31/2015
Loans and receivables	236.5	275.7*
Available-for-sale financial assets[1]	1.5	2.9
Derivatives that meet the requirements for hedge accounting	7.4	0.7
Financial assets held for trading[2]	0.1	0.0
Financial assets	**245.5**	**279.3**
Financial liabilities measured at amortized cost	1,859.7	1,913.7*
Derivatives that meet the requirements for hedge accounting	4.2	0.1
Financial liabilities held for trading[2]	45.7	61.0
Financial liabilities	**1,909.6**	**1,975.5**

[1] Includes investments whose fair value cannot be reliably determined and which are therefore measured at cost.
[2] Includes only derivatives that do not meet the requirements for hedge accounting.
* Unlike in the previous year, receivables and liabilities from finance leases and the corresponding income and expenses are assigned to the categories „loans and receivables“ and „financial liabilities measured at amortized cost“.

Net result by valuation category

€ MILLION	NET RESULT 2016	2015
Loans and receivables	−4.5	0.6*
Available-for-sale financial assets	0.5	1.0
Financial liabilities measured at amortized cost	−54.7	−86.3*
Financial assets and liabilities held for trading	−5.7	−6.2

* Unlike in the previous year, receivables and liabilities from finance leases and the corresponding income and expenses are assigned to the categories „loans and receivables“ and „financial liabilities measured at amortized cost“.

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

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

€ MILLION	2016	2015
Interest income from loans and receivables	1.1	1.5*
Interest expense from financial liabilities measured at amortized cost	–59.7	–76.1*

* Unlike in the previous year, receivables and liabilities from finance leases and the corresponding income and expenses are assigned to the categories „loans and receivables“ and „financial liabilities measured at amortized cost“.

Offsetting financial assets and financial liabilities

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

€ MILLION	GROSS AMOUNT	OFFSETTING	BALANCE SHEET AMOUNT	RELATED AMOUNTS THAT ARE NOT OFFSET: FINANCIAL INSTRUMENTS	RELATED AMOUNTS THAT ARE NOT OFFSET: SECURITIES	NET AMOUNT
						12/31/2016
Derivative financial instruments						
Assets	7.5	–	**7.5**	–2.5	–	5.0
Liabilities	49.9	–	**49.9**	–2.5	–	47.4
						12/31/2015
Derivative financial instruments						
Assets	0.7	–	**0.7**	–0.7	–	0.0
Liabilities	61.1	–	**61.1**	–0.7	–	60.4

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

Measurement of fair value

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

€ MILLION	12/31/2016 QUOTED PRICES (LEVEL 1)	12/31/2016 OTHER RELEVANT OBSERVABLE INPUTS (LEVEL 2)	12/31/2016 OTHER RELEVANT INPUTS (LEVEL 3)	12/31/2015 QUOTED PRICES (LEVEL 1)	12/31/2015 OTHER RELEVANT OBSERVABLE INPUTS (LEVEL 2)	12/31/2015 OTHER RELEVANT INPUTS (LEVEL 3)
Derivative financial instruments						
Assets	–	7.5	–	–	0.7	–
Liabilities	–	37.5	12.4	–	44.3	16.8

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

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

The derivative financial instruments shown on level 3 comprise interest rate swaps that exchange a Euribor-based payment for a payment based on a consumer price index. The index used is the French consumer price index excluding tobacco, as published by France's National Institute for Statistics, INSEE. As no future-oriented transactions can be observed for this consumer price index, the items concerned are grouped under level 3. Fair value is based on discounted cash flow. Indications regarding future development are used for non-observable input factors. These are provided by suppliers of financial data and are adopted without changes. An increase of 1 % in the consumer price index would reduce after-tax profit by € 2.0 million (previous year: € 1.1 million), while a 1 % reduction would increase it by € 0.4 million (previous year: € 0.5 million).

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

€ MILLION	DERIVATIVE FINANCIAL INSTRUMENTS LIABILITIES 2016	2015
Balance at beginning of period 1/1	16.8	–
Addition to scope of consolidation	–	21.2
Net changes in fair value (unrealized)	0.3	0.9
Equalization	–4.7	–5.3
Closing balance 12/31	**12.4**	**16.8**

Net changes in fair value are included in the financial result.

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

€ MILLION	CARRYING AMOUNT		FAIR VALUE	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Financial liabilities	1,727.3	1,765.6	1,845.1	1,888.9

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

Derivative financial instruments and hedging activities

The VTG Group uses the following types of derivative financial instruments exclusively in connection with hedging activities:

€ MILLION	12/31/2016		12/31/2015	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Currency derivatives	3.8	1.8	0.7	0.1
Interest rate derivatives	3.7	48.1	–	61.0
	7.5	**49.9**	**0.7**	**61.1**

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

Interest rate risk management

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

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

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

€ MILLION	2016	2017	2018–2020	2021–2023	2024 ff.
					12/31/2015
Derivative financial instruments					
Assets with gross settlement					
Outgoing payments	–10.4	–0.7	–18.0	–	–
Incoming payments	10.8	0.9	18.8	–	–
Assets with net settlement	–	–	–	–	–
Liabilities with gross settlement					
Outgoing payments	–3.0	–	–	–	–
Incoming payments	2.9	–	–	–	–
Liabilities with net settlement	–20.5	–16.1	–24.7	–	–

Management of financial risks

The nature of the VTG Group's operations exposes it to various 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 and hybrid capital.

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

Net financial debt is defined as the balance of cash and cash equivalents, investment securities and financial receivables less financial debt. Moreover, there is no deduction of transaction costs within the meaning of IAS 39 in determining net financial debt (see also Note 28 under "Financial liabilities").

The (adjusted) financial debt is determined as follows:

€ MILLION	12/31/2016	12/31/2015
Financial liabilities	1,727.3	1,765.7
Correction, deduction of transaction costs	10.8	13.0
Cash and cash equivalents	–63.5	–97.8
Investment securities	–0.4	–0.3
Financial receivables	–13.8	–13.1
Net financial debt	**1,660.4**	**1,667.5**
Provisions for pensions	71.0	74.5
Adjusted net financial debt	**1,731.4**	**1,742.0**
EBITDA	345.3	336.5
Ratio of adjusted net financial debt/EBITDA	**5.0**	**5.2**

Other disclosures

Collaterals

The following are subject to third-party property rights: rail freight wagons with a carrying amount of € 1,982.1 million (previous year: € 2,034.6 million), tank containers with a carrying amount of € 31.7 million (previous year: € 25.8 million), accounts with a carrying amount of € 2.8 million (previous year: € 2.8 million) and receivables relating to the lease of rail freight wagons and tank containers.

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

Other financial commitments

The obligations from rental, leasehold and leasing agreements relate exclusively to rental agreements where the companies of the VTG Group are not considered the economic owners of the leased assets (largely rail freight wagons and tank containers). The operating leases shown under this item have an average term of eleven 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 2016 was € 56.1 million (previous year: € 59.4 million).

Nominal values of the other financial commitments are as follows as of December 31, 2016 and for the previous year:

€ MILLION	DUE WITHIN 1 YEAR		BETWEEN 1 AND 5 YEARS		MORE THAN 5 YEARS		TOTAL	
	12/31 2016	12/31 2015	12/31 2016	12/31 2015	12/31 2016	12/31 2015	12/31 2016	12/31 2015
Obligations from rental, leasehold and leasing agreements	44.9	43.1	104.1	96.8	45.6	44.0	194.6	183.9
Purchase commitments	134.8	58.9	144.4	129.9	–	–	279.2	188.8
Total	**179.7**	**102.0**	**248.5**	**226.7**	**45.6**	**44.0**	**473.8**	**372.7**

Auditors’ fees

In the financial year 2016, the following fees, recorded in other operating expenses, were incurred in relation to the auditors of the annual and consolidated financial statements (disclosure in accordance with Section 314 (1) Para. 9 in conjunction with Section 315a (1) of the German Commercial Code).

€ MILLION	2016	2015
Fees for auditing the annual report and consolidated financial statements	0.6	0.5
Fees for other services related to the audit opinion	–	0.7
Other services	–	0.1

Employees

	12/31/2016	ANNUAL AVERAGE 2016	12/31/2015	ANNUAL AVERAGE 2015
Salaried employees	1,024	1,014	1,018	1,023
Wage-earning staff	370	372	378	374
Trainees	49	44	49	45
Total	**1,443**	**1,430**	**1,445**	**1,442**
thereof abroad	485	486	503	516

Material events after the balance sheet date (Supplemental Report)

There were no events of special significance after the end of the financial year.

Related party disclosures

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

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

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

€ MILLION	2016	2015
Income and expenses from affiliated, non-consolidated companies		
Revenue and other operating income	–	3.7
Expenses	3.7	3.5
Income and expenses from other equity investments and other related companies		
Revenue and other operating income	17.4	11.6
Expenses	3.6	2.4
Interest income	0.3	0.1
Income and expenses from related persons		
Interest expense	3.5	3.2

€ MILLION	12/31/2016	12/31/2015
Receivables from affiliated, non-consolidated companies		
trade payables	0.4	0.8
other receivables	0.2	0.2
Receivables from companies accounted for using the equity method, other equity investments and other related companies		
trade payables	2.0	3.6
other receivables	11.3	8.7
Liabilities to affiliated, non-consolidated companies		
trade payables	0.2	0.2
financial liabilities	0.3	0.4
Liabilities to companies accounted for using the equity method, other equity investments and other related companies		
trade payables	0.6	0.1
from finance leases	1.7	2.5
Liabilities to related persons		
Loans	70.0	70.0

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

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

€ MILLION	2016	2015
Short-term employee benefits	8.8	7.8
thereof Executive Board	(4.1)	(3.4)
thereof Supervisory Board	(0.2)	(0.3)
Post-employment Benefits	0.3	0.4
thereof Executive Board	(0.1)	(0.3)
Total	**9.1**	**8.2**

Pension provisions for members of the Executive Board amounted to € 9.6 million as of the balance sheet date (previous year: 9.4 million). Provisions for other key management personnel amounted to € 1.8 million on the balance sheet date (previous year: € 1.5).

There are provisions totaling € 5.9 million for obligations to former members of the Executive Board and their survivors (previous year: € 6.1 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:

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

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 UNIT	RESULT IN THOUS. OF CURRENCY UNIT
A. Consolidated affiliated companies					
AAE Ahaus Alstätter Eisenbahn Capital AG, Baar/Switzerland	CHF		100.00	−6,519	−26
AAE Ahaus Alstätter Eisenbahn Holding AG, Baar/Switzerland	CHF		100.00	60,187	−6,218
AAE Freightcar S.à r.l., Luxembourg/Luxembourg	EUR		100.00	1,966	313
AAE Railcar S.à r.l., Luxembourg/Luxembourg	EUR		100.00	2,737	2,722
AAE RaiLease S.à r.l., Luxembourg/Luxembourg	EUR		100.00	3,951	731
AAE RailFleet S.à r.l., Luxembourg/Luxembourg	EUR		100.00	668	195
AAE Slovensko s.r.o., Bratislava/Slovakia	EUR		100.00	7,439	813
AAE Wagon Finance S.A., Luxembourg/Luxembourg	EUR		100.00	3,684	394
AAE Wagon S.à r.l., Luxembourg/Luxembourg	EUR		100.00	13	0
Alstertor Rail UK Limited, Birmingham/United Kingdom	GBP		100.00	20,166	598
Ateliers de Joigny S.A.S., Joigny/France	EUR		100.00	4,239	1,364
Bräunert Eisenbahnverkehr GmbH und Co KG, Hamburg	EUR		100.00	132	6
Bräunert Verwaltungs GmbH, Hamburg	EUR		100.00	32	0
CAIB Rail Holdings Limited, Birmingham/United Kingdom	GBP		100.00	7,434	233
CAIB UK Limited, Birmingham/United Kingdom	GBP		100.00	0	0
Deichtor Rail GmbH, Garlstorf	EUR	100.00		399	1,139
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	−2,078	−26
Euro Freight Car Finance S.A., Luxembourg/Luxembourg	EUR		100.00	3,944	1,922
E.V.S. S.A., Paris/France	EUR		100.00	439	116
Ferdinandstor Rail GmbH, Garlstorf	EUR		100.00	2,774	460
Galbanum Trade & Invest Limited, Limassol/Cyprus	USD		100.00	10	0
Klostertor Rail GmbH, Garlstorf	EUR	100.00		−1,067	−311
Mitrag AG, Paradiso/Switzerland	CHF		100.00	2,657	934
OOO AAE, Moscow/Russia	RUB		100.00	−79,339	22,307
OOO Railcraft Service, Moscow/Russia	RUB		100.00	1,248,097	16,113
OOO Rental Company Vagonpark, Moscow/Russia	RUB		100.00	−2,617,700	0
OOO Transport Company Vagonpark, Saransk/Russia	RUB		100.00	928,043	94,048
OOO Vagonpark, Moscow/Russia	RUB		99.99	10,000	0
OOO VTG, Moscow/Russia	RUB		100.00	39,770	7,023
Ortanio Holdings Ltd., Tortola/British Virgin Islands	USD		100.00	2,880	−279
Rail Holdings Nederland C.V., Rotterdam/Netherlands	EUR	99.99	0.01	359,900	−9
Sturgess Holdings Ltd., Nicosia/Cyprus	USD		100.00	2,514	−85
Suvaltra SA, Paradiso/Switzerland	CHF		100.00	1,216	76
Transpetrol Sp.z o.o., Chorzów/Poland	PLN		100.00	11,474	9,335
Vostok Beteiligungs GmbH, Hamburg	EUR	99.60	0.40	126	−24
Vostok 2 GmbH, Hamburg	EUR	99.60	0.40	26,542	57

NAME AND REGISTERED OFFICE OF COMPANY	CURRENCY	SHARE CAPITAL IN % DIRECT	SHARE CAPITAL IN % INDIRECT	EQUITY CAPITAL IN THOUS. OF CURRENCY UNIT	RESULT IN THOUS. OF CURRENCY UNIT
VTG Austria Ges.m.b.H, Vienna/Austria	EUR		100.00	28,134	3,240
VTG Benelux B.V., Rotterdam/Netherlands	EUR		100.00	357,806	–17
VTG Cargo AG, Baar/Switzerland	CHF		100.00	152,469	3,529
VTG Deutschland GmbH, Hamburg	EUR		100.00	54,680	0 [1, 2]
VTG Finance S.A., Luxembourg/Luxembourg	EUR		100.00	2,257	135
VTG France S.A.S., Paris/France	EUR		100.00	44,853	3,383
VTG Nederland B.V., Rotterdam/Netherlands	EUR	100.00		–3	–9
VTG North America, Inc., Hinsdale, Illinois/USA	USD	100.00		36,365	1,222
VTG Rail Europe GmbH, Hamburg	EUR		100.00	34,658	0 [1]
VTG Rail, Inc., Edwardsville, Illinois/USA	USD		100.00	9,035	1,333
VTG Rail Logistics Austria GmbH, Vienna/Austria	EUR		100.00	–2,364	–215
VTG Rail Logistics Benelux N.V., Gent/Belgium	EUR		100.00	425	39
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	4,090	–540
VTG Rail Logistics GmbH, Hamburg	EUR	100.00		55,783	3,356
VTG Rail Logistics Hellas EPE, Thessaloniki/Greece	EUR		100.00	182	–368
VTG Rail Logistics Hungaria Kft., Budapest/Hungary	HUF		100.00	152,499	96,476
"VTG Rail Logistics" LLC, Moscow/Russia	RUB		100.00	15,791	–8,631
VTG Rail Logistics s.r.o., Prague/Czech Republic	CZK		100.00	30,740	8,440
LLC "VTG Rail Logistics Ukraine", Kiev/Ukraine	UAH		100.00	–7,384	–2,973
VTG Rail UK Limited, Birmingham/United Kingdom	GBP		100.00	32,160	3,343
VTG Schweiz GmbH, Baar/Switzerland	CHF		100.00	19,651	3,683
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		3,852	967
Waggonwerk Brühl GmbH, Wesseling	EUR		100.00	6,567	2,422
Wagon & Warehousing Service GmbH, Ahaus	EUR		100.00	25	0 [1]
B. Companies consolidated at equity					
AAE Wagon a.s., Bratislava/Slovakia	EUR		50.00	–426	–276
AXBENET s.r.o., Trnava/Slovakia	EUR		50.00	13,398	1,851
Shanghai COSCO VTG Tanktainer Co., Ltd., Shanghai/China	RMB		50.00	35,734	4,976
Waggon Holding AG, Zug/Switzerland	CHF	50.00		4,750	3,530

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

NAME AND REGISTERED OFFICE OF COMPANY	CURRENCY	SHARE CAPITAL IN % DIRECT	SHARE CAPITAL IN % INDIRECT	EQUITY CAPITAL IN THOUS. OF CURRENCY UNIT	RESULT IN THOUS. OF CURRENCY UNIT
C. Affiliated, non-consolidated companies					
ITG Transportmittel-Gesellschaft mit beschränkter Haftung, Syke	EUR	100.00		58	7
Millerntor Rail GmbH, Garlstorf	EUR		100.00	25	0 [2]
VTG Nakliyat Lojistik Kiralama Limited Sirketi, Istanbul/Turkey	TRY	100.00		1,618	–1,835
VTG Rail Assets GmbH, Hamburg	EUR		100.00	25	0 [2]
VTG Tanktainer Asia Pte Ltd., Singapore/Singapore	USD		100.00	272	206 [1]
VTG Tanktainer Finland Oy, Tuusula/Finland	EUR		100.00	345	45 [1]
VTG Tanktainer North America, Inc., West Chester, Pennsylvania/USA	USD		100.00	333	–32 [1]
D. Other companies					
AWILOG Transport GmbH, Oberriexingen	EUR		20.00	525	3 [1]
Log4Chem GmbH, Pulheim	EUR		25.10	30	5 [1]
Mitteldeutsche Eisenbahn GmbH, Schkopau	EUR		20.00	1,578	0 [1, 2]
SILEX Mobilien-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	EUR		95.00	–1,438	293 [1]
Steeltrack S.A., Saint Denis/France	EUR		33.30	714	161 [1]

[1] Information as of 12/31/2015
[2] Profit and loss transfer agreement with corresponding parent company

Members of boards and their appointments

Members of the Supervisory Board

Dr. sc. pol. Jost A. Massenberg, Meerbusch
(Chairman since January 1, 2017)
CEO of Benteler Distribution International GmbH, Dusseldorf
Chairman

Dr. rer. pol. Wilhelm Scheider, Basel, Switzerland
(until December 31, 2016)
Consultant
Chairman

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

Karl Gernandt, Hamburg
(since January 13, 2017)
Chair of Board of Directors
Kühne Holding AG, Schindelleggi, Switzerland

Andreas Goer, Merlischachen, Switzerland
Entrepreneur

Dr. jur. Bernd Malmström, Berlin
Solicitor

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

Members of the Executive Board

Dr. rer. pol. Heiko Fischer, Hamburg
MBA
Chairman

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

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

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

Other appointments of Supervisory Board members*

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

Dr. rer. pol. Wilhelm Scheider, Basel, Switzerland
b) Hydac Electronic GmbH
Hydac Technology GmbH[1]

Karl Gernandt, Hamburg
a) Hapag-Lloyd AG[2]
HSV Fußball AG

b) Kühne Holding AG, Switzerland[1]
Kühne Logistics University[1]
Kühne + Nagel International AG, Switzerland[2]

Andreas Goer, Merlischachen, Switzerland
b) Akasa AG, Switzerland[1]
BLS Cargo AG, Switzerland
Immobiliengesellschaft Walwag AG, Switzerland[1]

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

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

b) Private Client Partners AG, Switzerland[1]

Other appointments of Executive Board members*

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

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

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

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

* Unless stated otherwise, all information on appointments relates to December 31, 2016
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 January 1 to December 31, 2016

€ MILLION	ACQUISITION AND MANUFACTURING COSTS					
	BALANCE AS OF 1/1/2016	CURRENCY ADJUSTMENT	ADDITIONS	DISPOSALS	RECLASSIFI-CATIONS	AS OF 12/31/2016
Intangible assets						
Concessions, industrial trademarks and similar rights and assets as well as licences in such rights and assets	23.5	–0.1	1.8	0.6	1.0	25.6
Brand values	11.6	–	–	–	–	11.6
Customer relationships	120.9	–	–	–	–	120.9
Goodwill	342.5	–	–	–	–	342.5
Capitalized development costs	1.9	–0.1	–	–	–	1.8
Payments on account	1.6	–	0.9	–	–1.0	1.5
	502.0	**–0.2**	**2.7**	**0.6**	**0.0**	**503.9**
Tangible fixed assets						
Wagon fleet	2,804.3	–7.1	182.7	37.0	–8.7	2,934.2
Containers and Chassis	64.3	–	11.0	0.5	–	74.8
Land and buildings including on third party land	14.8	–	–	–	0.9	15.7
Technical plant and machinery	19.3	–	0.8	0.1	0.7	20.7
Other equipment, operating and office equipment	13.8	–	1.4	0.5	0.5	15.2
Payments on account, assets under construction	13.1	–0.1	21.9	3.3	3.2	34.8
	2,929.6	**–7.2**	**217.8**	**41.4**	**–3.4**	**3,095.4**
Total	**3,431.6**	**–7.4**	**220.5**	**42.0**	**–3.4**	**3,599.3**

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

Development of intangible assets and tangible fixed assets

from January 1 to December 31, 2015

	ACQUISITION AND MANUFACTURING COSTS						
€ MILLION	BALANCE AS OF 1/1/2015	CHANGE SCOPE OF CONSOLI-DATION	CURRENCY ADJUSTMENT	ADDITIONS	DISPOSALS	RECLASSIFI-CATIONS	AS OF 12/31/2015
Intangible assets							
Concessions, industrial trademarks and similar rights and assets as well as licences in such rights and assets	20.9	0.2	–	1.7	–	0.7	23.5
Brand values	10.1	1.5	–	–	–	–	11.6
Customer relationships	66.4	54.5	–	–	–	–	120.9
Goodwill	165.8	176.7	–	–	–	–	342.5
Capitalized development costs	1.4	–	–	0.2	–	0.3	1.9
Payments on account	1.0	–	–	1.3	–	–0.7	1.6
	265.6	**232.9**	**0.0**	**3.2**	**0.0**	**0.3**	**502.0**
Tangible fixed assets							
Wagon fleet	1,608.6	1,106.8	16.5	98.9	88.4	61.9	2,804.3
Containers and Chassis	64.0	–	–	0.8	0.7	0.2	64.3
Land and buildings including on third party land	13.6	0.4	–	0.1	–	0.7	14.8
Technical plant and machinery	16.9	–	–	1.0	–	1.4	19.3
Other equipment, operating and office equipment	12.4	0.5	–	1.1	0.5	0.3	13.8
Payments on account, assets under construction	58.8	4.7	–	62.4	48.0	–64.8	13.1
	1,774.3	**1,112.4**	**16.5**	**164.3**	**137.6**	**–0.3**	**2,929.6**
Total	**2,039.9**	**1,345.3**	**16.5**	**167.5**	**137.6**	**0.0**	**3,431.6**

IMPAIRMENT, AMORTIZATION AND DEPRECIATION							CARRYING AMOUNTS	
BALANCE AS OF 1/1/2015	CURRENCY ADJUSTMENT	DEPRECIATION/ AMORTIZATION FOR FINANCIAL YEAR	IMPAIRMENT	DISPOSALS	RECLASSIFI-CATIONS	AS OF 12/31/2015	**12/31/2015**	**12/31/2014**
10.1	–	2.4	–	–	–	12.5	11.0	10.8
0.5	–	0.5	0.1	–	–	1.1	10.5	9.6
39.2	–	6.6	–	–	–	45.8	75.1	27.2
2.0	–	–	–	–	–	2.0	340.5	163.8
0.6	–	0.3	–	–	–	0.9	1.0	0.8
–	–	–	–	–	–	0.0	1.6	1.0
52.4	**0.0**	**9.8**	**0.1**	**0.0**	**0.0**	**62.3**	**439.7**	**213.2**
559.6	7.2	171.6	–	65.8	0.2	672.8	2,131.5	1,049.0
33.3	–	4.9	–	0.7	0.2	37.7	26.6	30.7
4.1	–	0.5	–	–	–	4.6	10.2	9.5
5.6	–	1.4	–	–	–	7.0	12.3	11.3
8.0	–	1.8	–	0.5	–	9.3	4.5	4.4
1.2	–	1.0	–	1.0	–0.4	0.8	12.3	57.6
611.8	**7.2**	**181.2**	**0.0**	**68.0**	**0.0**	**732.2**	**2,197.4**	**1,162.5**
664.2	**7.2**	**191.0**	**0.1**	**68.0**	**0.0**	**794.5**	**2,637.1**	**1,375.7**

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.de.

Hamburg, March 10, 2017

The Executive Board

DR. HEIKO FISCHER

DR. KAI KLEEBERG

GÜNTER-FRIEDRICH MAAS

MARK STEVENSON

Responsibility statement

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

Hamburg, March 10, 2017

The Executive Board

DR. HEIKO FISCHER

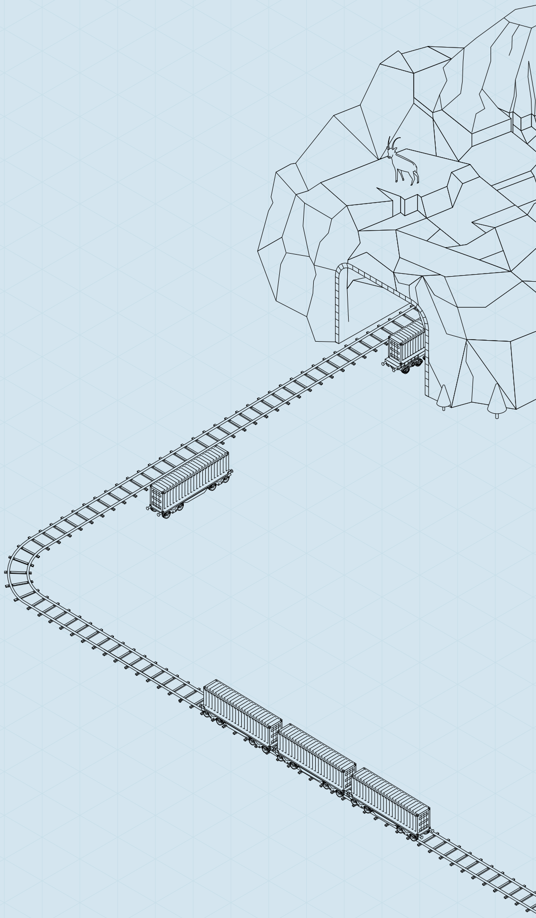
DR. KAI KLEEBERG

GÜNTER-FRIEDRICH MAAS

MARK STEVENSON

04 —

Further information



Auditor's report

We have audited the consolidated financial statements prepared by the VTG Aktiengesellschaft, Hamburg, comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1st to December 31st, 2016. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB („Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, March 10, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Claus Brandt	pp Martin Kleinfeldt
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

5-year overview for the group

€ MILLION	2012	2013	2014	2015	2016
Revenue	**767.0**	**783.7**	**818.3**	**1,027.5**	**986.9**
Railcar Division	314.6	332.9	345.4	537.2	517.2
Rail logistics	296.8	298.4	322.0	324.0	312.3
Tank container logistics	155.5	152.3	150.9	166.3	157.4
Group EBITDA	**173.8**	**183.8**	**191.0**	**336.5**	**345.3**
Railcar Division	167.4	181.1	194.4	335.4	344.3
Rail logistics	7.7	3.8	−0.2	3.4	5.8
Tank container logistics	11.9	9.2	12.8	13.6	11.2
EBIT	68.8	77.7	83.5	144.1	149.7
Group net profit (comparable)	10.3	17.2	18.8	29.4	57.5
Depreciation	105.0	106.0	107.6	192.4	195.6
Total investments	220.5	166.0	219.2	195.8	259.3
Operating cash flow	136.0	149.8	159.9	282.9	326.2
Earning per share (comparable) in €	0.41	0.71	0.93	0.75	1.56
Dividend per share in €	0.37	0.42	0.45	0.50	0.75*
Balance sheet total	1,527.9	1,550.8	1,673.4	3,047.1	3,001.5
Non-current assets	1,309.4	1,332.2	1,418.2	2,708.1	2,726.2
Current assets	218.5	218.6	252.4**	339	275.3
Equity	311.7	321.3	340.5	748.2	774.0
Liabilities	1,216.2	1,229.5	1,332.9	2,298.9	2,227.5
Number of employees	1,188	1,191	1,312	1,445	1,443
in Germany	838	846	909	942	958
in other countries	350	345	403	503	485

* Intended proposal to Annual General Meeting (AGM)
** incl. non-current assets held for sale

Financial calendar 2017

FINANCIAL CALENDAR 2017

March 7	Preliminary results for 2016
April 6	Publication of the results 2016
April 6	Financial Statements Press Conference, Hamburg
April 6	Analyst Conference, Hamburg
May 4	Interim Disclosure for the 1st Quarter 2017
June 8	Annual General Meeting, Hamburg
August 29	Half-yearly Financial Report 2017
November 9	Interim Disclosure for the 3rd Quarter 2017

Glossary

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

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

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

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

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

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

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

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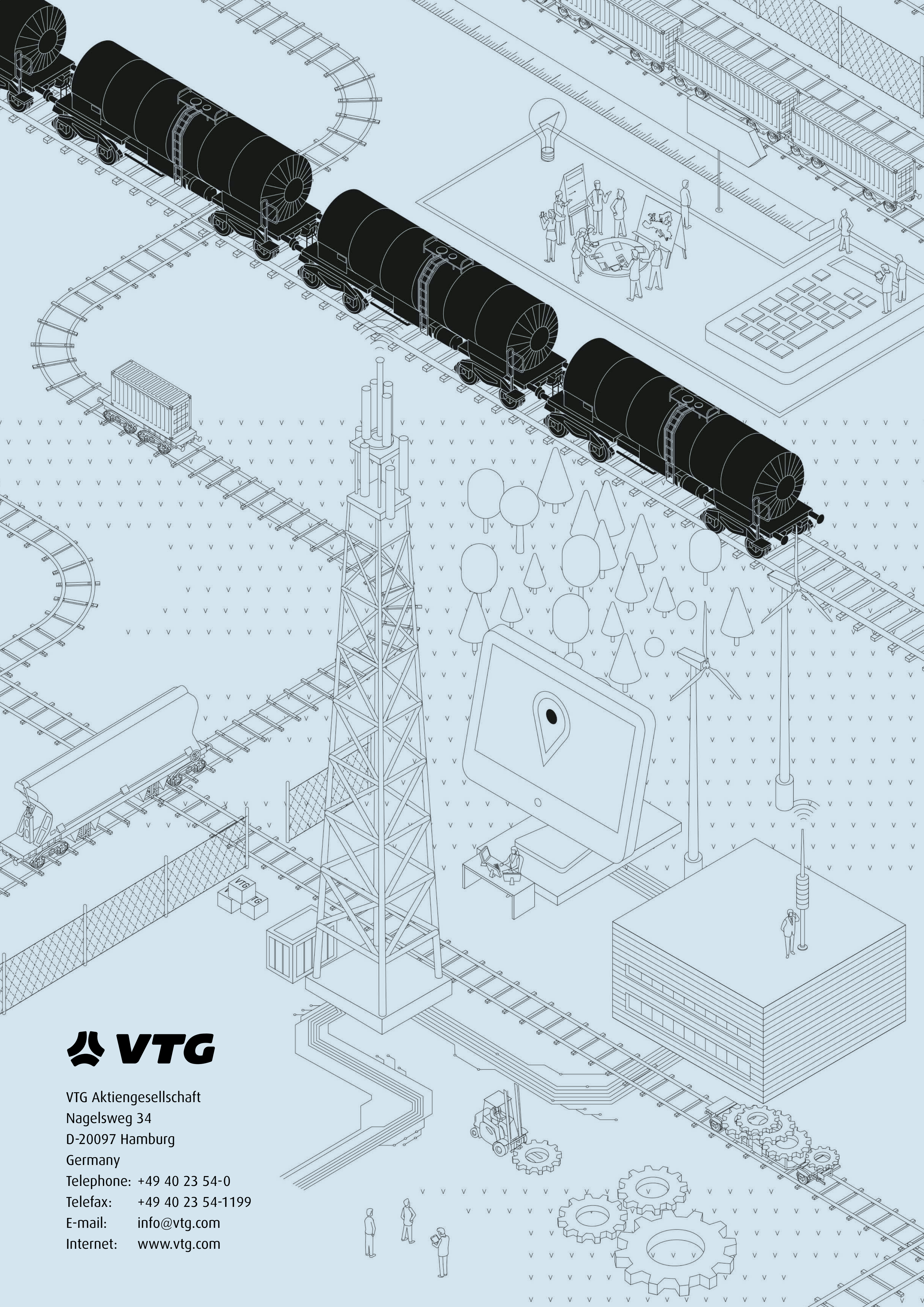
Imprint

Concept and Design
Berichtsmanufaktur GmbH, Hamburg

Images
Matthias Haslauer, Hamburg (p. 5); M. Paul Schimweg, Hamburg (p. 23–25)

Reservation regarding statements relating to the future



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