Technology that moves

Separate financial statements of Vossloh AG as of December 31, 2011

Combined management report

Vossloh AG

Rail Infrastructure division	Transportation division
Business units: Vossloh Fastening Systems Vossloh Switch Systems Vossloh Rail Services	Business units: Vossloh Transportation Systems Vossloh Electrical Systems

Business and market environment

Strategy, segmentation, and competitive position

Vossloh nowadays is a global player in the rail technology markets. The Group's core businesses comprise rail infrastructure products and services, rail vehicles, and components for rail vehicles and buses.

Under the roof of Vossloh AG as the management and financial holding parent, the Group has organized its business operations into two divisions: Rail Infrastructure and Transportation.

Rail Infrastructure offers the related products and services. The division has three business units: Fastening Systems, Switch Systems, and Rail Services.

International leader in selected rail infrastructure sectors

- Vossloh Fastening Systems is the leading supplier of rail fastening systems. The lineup covers rail fasteners for all types of transport, from light-rail via heavy-haul to high-speed.
- Vossloh Switch Systems supplies, installs and services switches and turnouts as well as control and monitoring systems for rail networks. Here, too, the range reaches from light-rail to high-speed lines.
- Vossloh Rail Services supplies all kinds of services to do with the rails themselves including their welding, transport, maintenance, preventive care, and reconditioning.

The Transportation division covers the operations concerned with rail vehicles and vehicle systems/components including the related services. The division has two business units: Transportation Systems and Electrical Systems.

Diesel locomotives, (sub)urban trains, electrical systems, key components

- With its production locations at Valencia, Spain (Vossloh Rail Vehicles), and Kiel, Germany (Vossloh Locomotives), Vossloh Transportation Systems is Europe's leading manufacturer of diesel locomotives while in addition supplying maintenance services. At its Valencia location it also develops and builds local transport vehicles.
- Vossloh Electrical Systems develops and manufactures key electrical components and systems for local transport rail vehicles and locomotives. The business unit is among the world's foremost suppliers of electrical equipment for trolleybuses and hybrid buses. Besides furnishing complete systems, the unit supplies air conditioners for rail vehicles, individual components, subassemblies plus revamping work, servicing and maintenance.

The Vossloh Group is run according to the following fundamental strategic principles:

Strategic principles

- Focused portfolio: Vossloh offers products and services for the global rail technology market while concentrating on those submarkets in which it aspires to market leadership.
- Value-driven growth: Vossloh intends its business to grow in value at a rate superior to the overall rail technology market. Organic growth is nurtured by expanding into high-potential markets and developing new products.
- High profitability: Vossloh aims to add value by earning a premium on top of the cost of capital.

Organization

Vossloh Group: some 90 companies in almost 30 countries

The Vossloh Group has a broad international base. It patterns its business on local presence and customer proximity. Key European production plants are in Germany, France, Spain, Luxembourg, Scandinavia, Poland, and Austria. Outside of Europe Vossloh produces switch systems chiefly in Australia and the USA. It has major rail fastener plants in China and Turkey. Vossloh operates through sales companies and branches and has in some instances, together with competent partners, entered into local joint ventures and alliances. At the end of 2011, the Group comprised a total of around 90 companies in nearly 30 countries. Major subsidiaries and, at the same time, business unit flagship companies are: Vossloh Fastening Systems GmbH, Werdohl, Germany; Vossloh Cogifer SA, Rueil-Malmaison, France; Vossloh Rail Services GmbH, Seevetal, Germany; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España SA, Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

Controlling system and benchmarks

Vossloh's growth strategy targets the addition of value, measured as value added (VA). Positive VA is generated when a premium on top of the return claimed by investors and lenders (cost of capital) is earned. This premium is the difference between the return on capital employed (ROCE) and WACC, the weighted average cost of capital (debt and equity). Multiplying the premium by average capital employed (CE) produces the value added (VA) in a period in absolute terms. For intragroup controlling purposes, ROCE and value added (VA) are determined before taxes. In line with IFRS 8, VA is disclosed in published reports as the business unit controlling parameter and benchmark.

Cost of equity is composed of a risk-free rate plus a current premium of 5.0 percent, the interest rate being duly adjusted for its pretax application. Cost of debt is calculated on the basis of the Group's average funding terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not from the balance sheet since it is not only predicated on a benchmark for the funding structure but also because equity is here based on fair value and not the carrying amounts of the balance sheet. Intragroup controlling in fiscal 2011 was based on pretax WACC of 10 percent as the yield expected by investors and lenders. The benchmark targeted by Vossloh is a groupwide sustainable ROCE of 15 percent.

Value-driven benchmark: 15 percent sustainable ROCE

In external reports at group or division level, also the posttax value added is communicated, based on the current WACC—6.2 percent posttax for fiscal 2011—in order to disclose the actual value trend of relevance to stockholders.

Additional financial targets

Besides the ROCE and VA benchmarks, Vossloh has defined additional financial targets for the Group in its entirety, basically

- EBIT margin above 10 percent (after nonoperating one-time factors)
- sustainable increase in earnings per share
- commensurate cash dividends
- in the medium term, a conservative net debt ceiling.

For the ongoing analysis and control of subsidiaries, business units and the Group as such, senior management deploys such tools as monthly financial reports in which the financial statements and key indicators of all subsidiaries are consolidated and analyzed according to the same principles as the monthly rolling annual projection. Variances are analyzed for their impact on financial targets and explained in a commentary. The monthly updated annual projection is supplemented by a risk report to identify any drain on or addition to assets. The effectiveness of (counter)actions proposed in order to achieve targets or benchmarks is repeatedly analyzed. Business unit monthly reports are discussed at periodical meetings between the Executive Board and management of each operating unit.

Business report

Business environment

The factors governing the global economy in 2011 were, especially, the escalating sovereign debt crisis in Europe and the constantly towering national debt of the USA. According to the International Monetary Fund, global GNP in 2011 advanced by 3.8 percent albeit short of the 4.4 percent forecast at the start of the year. Global growth the year before had reached 5.2 percent.

Europe, China, and North America are the markets of special significance to Vossloh's business.

GDP in the eurozone, Vossloh's most important sales market, inched up 1.6 percent in 2011; Germany's 3.0-percent growth was better than average. Compared with 2010, GDP in both the eurozone and Germany was down—from 1.9 and 3.6 percent, respectively. The GDP of the Central and Eastern European economies neighboring the eurozone rose from 4.5 to 5.1 percent.

The steepest gains in 2011 were again shown by the emerging nations of Asia, with China surging 9.2 percent (down from 10.4). Economic growth in the USA reached 1.8 percent (down from 3.0).

Relevant rail technology markets dependent on general economic trends only to a limited degree

Vossloh's rail technology markets follow international economic trends only to a limited degree. Instead, pertinent are political policies, the current status of rail sector deregulation, and sovereign debt. The national debts of some Southern European nations were in fiscal 2011 a prime cause for delayed and therefore sharply shrinking order influx from this region.

Generally, Vossloh's relevant sales markets are barely homogeneous in their structure and direction and, moreover, there is very limited generally accessible and reliable data on them. A more detailed description of the key trends is therefore given in the following business unit reports.

There are only a few studies on the global rail technology market and these include the *World Rail Market Study* published by UNIFE, the Association of the European Rail Industry, and the *Worldwide Market for Rail Technology 2010* published by the consultants SCI Verkehr. According to UNIFE, the accessible markets for rail technology between 2007 and 2009 amounted to an average of some €95 million with an expected annual growth of 2.3 percent. The biggest single markets were given as Western Europe and Asia/Pacific, followed by NAFTA.

The total rail technology market is subdivided into four segments: Infrastructure, Rolling Stock, Rail Control, and Services. Rolling Stock has the largest share of the accessible market, followed by Services, Infrastructure ranking #3, and Rail Control. Among these categories, Vossloh with its Rail Infrastructure and Transportation divisions has a footing primarily in the Infrastructure and Rolling Stock segments.

Megatrends governing rail technology markets

The rail technology markets are governed by a number of megatrends. Alongside rising mobility requirements, receding energy resources and enhanced environmental awareness, it is—especially—progressing urbanization that is driving the need for transportation. These considerations combine into a more pronounced political will to promote rail as a mode of mobility. The mushrooming markets—primarily China—are also a driving force yet at the same time, dependence on them, does give rise to additional risk exposure.

M&A

On July 1, 2011, the acquisition of ‘J’ Rail Components & Manufacturing, Inc., Grass Valley, CA, USA, was closed. The acquiree manufactures switch machines and related components and has been assigned to Vossloh Switch Systems.

Results of operations

Group sales down due to unexpected decrease in Rail Infrastructure revenue

For fiscal 2011, the Vossloh Group reports a decrease in sales of 11.4 percent to €1,197.2 million. Revenue reduction at the Rail Infrastructure division was somewhat more pronounced than at Transportation. At the business units, sales slumped especially at Vossloh Fastening Systems and Vossloh Transportation Systems while Vossloh Rail Services raised its. Poor sales at the Transportation Systems business unit were due to Valencia's trickling order inflow in 2010 and hence expected. Sales at the Kiel location were already on the road to recovery in 2011. Vossloh Switch Systems' sales, the highest among the business units, were slightly down because of a weak first six months.

Vossloh Group: sales by business unit

	€ million	%	€ million	%
	2011		2010	
Rail Infrastructure	**778.8**	**65.1**	**891.5**	**66.0**
Fastening Systems	262.8	22.0	369.4	27.3
Switch Systems	433.0	36.2	439.0	32.5
Rail Services	87.7	7.3	84.8	6.3
Consolidation	(4.7)	(0.4)	(1.7)	(0.1)
Transportation	**420.0**	**35.1**	**459.7**	**34.0**
Transportation Systems	279.9	23.4	304.8	22.6
Electrical Systems	146.7	12.3	160.0	11.8
Consolidation	(6.6)	(0.6)	(5.1)	(0.4)
Holding companies and consolidation	**(1.6)**	**(0.2)**	**0.1**	**0.0**
	1,197.2	**100.0**	**1,351.3**	**100.0**

The proportion of total sales by the two divisions hardly changed during the period. Whereas Rail Infrastructure accounted for a total 65 percent (down from 66), Transportation ratcheted up its share from 34 to 35 percent. Fiscal 2010 had been a good year for Rail Infrastructure yet its Fastening Systems business unit reported for 2011 a significant drop in revenue to an extent that was unexpected. The main reason was project postponements in China. What's more, Vossloh Switch Systems' sales were likewise down a trifle because of soft demand in Southern Europe. Vossloh Rail Services once again leveled up its sales. Following a weak H1, business at Vossloh Transportation bottomed out after midyear. Besides weak sales at Vossloh Transportation Systems, sales at Vossloh Electrical Systems were also short of 2010 on account of delays in order placement.

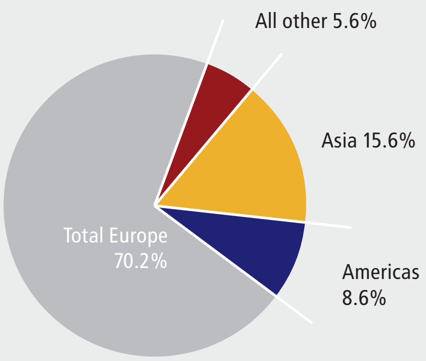
Vossloh Group: sales by region

	€ mill.	%	€ mill.	%
	2011		2010	
Germany	260.3	21.8	267.1	19.8
France	128.1	10.7	121.9	9.0
Other Western Europe	102.0	8.5	151.2	11.2
Northern Europe	86.4	7.2	96.5	7.1
Southern Europe	200.1	16.8	273.0	20.2
Eastern Europe	62.6	5.2	42.8	3.2
Total Europe	**839.5**	**70.2**	**952.5**	**70.5**
Americas	102.6	8.6	106.3	7.9
Asia	188.0	15.6	237.6	17.6
Africa	39.2	3.3	27.6	2.0
Australia	27.9	2.3	27.3	2.0
Total	**1,197.2**	**100.0**	**1,351.3**	**100.0**

Sales shortfall in Southern Europe and Asia

Vossloh generated an unchanged 70 percent of its sales in Europe in 2011, with Eastern Europe's share showing vigorous growth from 3.2 to 5.2 percent, especially in Poland and Azerbaijan. Sales were well down year-on-year in Southern Europe and Asia; in Germany, France, the Americas, and Australia group sales remained almost unchanged over the previous year.

Western Europe contributed 41 percent (up from 40) to group sales. Germany, the most important individual market, was marginally down, France, the second biggest, slightly up. Elsewhere in Western Europe and apart from Belgium, sales receded appreciably.



Sales breakdown by region in 2011

Demand was also soft in Southern Europe, especially Spain and Portugal. Following the completion of major rail infrastructure projects in 2010, expectations for 2011 had been muted; however, further delayed contract awards and tighter competition made the situation even worse. During the period, business in Northern Europe suffered increasingly from price squeeze on rail infrastructure projects.

Outside of Europe and just as in 2010, Vossloh generated 30 percent of total sales. The share inputted by the important region of Asia shrank from around 18 to just under 16 percent, in particular due to various project delays in China. Taiwan, Malaysia, Singapore and Thailand, in contrast, showed a marked increase in revenue. Sales in China were at their lowest ebb since the production plant first started up in 2007. Despite this, a new contract worth around €35 million for rail fasteners for the Hefei–Fuzhou line was concluded in September 2011. This emphasizes that in all probability China will continue with the already started extensive expansion of its railway network.

US sales inched down due to the dollar rate while in South America (Argentina and Brazil) business picked up. Despite the suspension of shipments for the Libyan megaproject, sales in North Africa and the Middle East (MENA) rose significantly.

Higher cost of materials and lower workloads erode gross margin

Cost of sales in 2011 shrank 8.8 percent (from €1,055.9 million to €963.5 million), its rate of decrease being shallower than the sales reduction's, due to lower workloads at several locations, the clearly higher cost of materials and mounting price squeezes in major markets. Therefore, the relative gross margin contracted year-on-year from 21.9 to 19.5 percent.

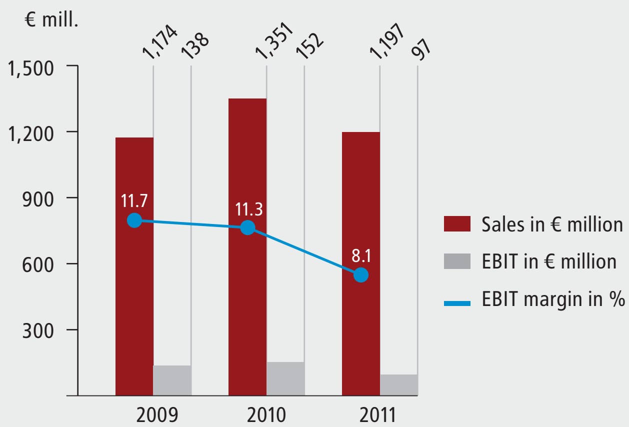
While selling expenses climbed 5.8 percent in 2011, general administrative expenses advanced a mere 1.7 percent, the combined total of both functional expense categories (GAS) rising to €163.6 million (up from €157.7 million): as a share of sales GAS accounted for 13.7 percent (up from 11.7).

Vossloh Group: sales and performance

	€ mill.	%	€ mill.	%
	2011		2010	
Net sales	1,197.2	100.0	1,351.3	100.0
Gross margin	233.7	19.5	295.4	21.9
Operating result	95.8	8.0	151.0	11.2
EBITDA	134.8	11.3	191.9	14.2
EBIT	96.5	8.1	152.1	11.3
EBT	84.2	7.0	140.4	10.4
Net result of discontinued operations	–	–	5.3	0.4
Group earnings	55.7	4.7	97.5	7.2
Earnings per share (€)	4.28		7.32	

The Group's net other operating income showed a hike to €36.4 million (up from €24.2 million). This line includes the gain from the divestment of Delkor Rail Pty. Ltd., a noncore operation of the Vossloh Group in Australia, as well as income from the release of accruals and the collection of bad debts written off, from damages received, forex gains realized and insured losses recovered. On balance, Vossloh's EBIT slumped 36.5 percent from the prior-year €152.1 million while the EBIT margin sank accordingly to 8.1 percent (down from 11.3) and thus, for the first time since 2007, to a level below the internal benchmark of 10 percent.

Group EBIT slumps



Vossloh Group: sales and EBIT trend 2009–2011

Net interest expense crept up in 2011 from €11.7 million to €12.3 million, which was also attributable to the Group's higher net financial debt at year-end. EBT dropped 40.0 percent from €140.4 million a year ago to €84.2 million in the period. The Group's 2011 tax load ratio moved up year-on-year from 25 to around 28 percent, one major driver being the profit slump in China (where in 2011 still a reduced tax rate of 12.5 percent applied). The much lower bottom line of the Chinese subsidiary likewise slashed minority interests in net income, from €13.6 million to €4.8 million. Group earnings plunged 42.8 percent in 2011 to €55.7 million (down from €97.5 million).

Group earnings down

Thanks to the treasury stock repurchase program, commenced in late July 2011 and completed in early December 2011, the average number of shares outstanding declined from the prior period's 13,320,338 to 13,023,516 in the year under review. Now that the stock buyback program has been completed, Vossloh AG holds 1,332,529 treasury shares. Based on the smaller average number of shares outstanding in 2011, earnings per share (EpS) of the Vossloh Group came to €4.28 (down from €7.32).

Dividend to stay unchanged at €2.50 per share

For fiscal 2011, Vossloh AG's Executive and Supervisory Boards will propose to the stockholders an unchanged dividend of €2.50 per share, equivalent to a total payout of €30.0 million (down from €33.3 million).

The Vossloh Group's ROCE contracted from 17.2 percent a year ago to 11.9 in 2011, hence below Vossloh's internal benchmark of 15 percent. The prime reason for the sagging ROCE was the eroded 2011 EBIT, a factor that the downscaled working capital, which also pared capital employed (CE), failed to offset. Given the WACC determined for 2011 at 10 percent (down from 11), Vossloh outearned its cost of capital, the premium being hence 1.9 percent. The value added in 2011 totaled €15.4 million (down from €54.8 million).

Order intake and backlog at record heights

Order intake by the Vossloh Group in 2011 added up to €1,608 million (up from €1,344 million). At December 31, 2011, orders on hand totaled €1,496 million, well above the €1,085 million at year-end 2010. Order intake and backlog scaled to new record heights.

In fiscal 2011, the Rail Infrastructure division booked orders worth €845 million; although this was short of the prior-year €987 million, the €583 million order backlog at year-end 2011 had risen well above the €517 million a year ago. The taller order backlog is particularly due to project delays at Vossloh Fastening Systems in China as well as the megaproject in Libya, booked in 2010 and still included in the order backlog (Switch Systems and Fastening Systems business units). Vossloh Rail Services reported a rise in both order intake and order backlog in 2011.

Marked rise in Transportation's order intake

Transportation showed a marked increase in order intake and order backlog, the former adding up to €765 million, more than double the prior-year €358 million. At year-end 2011, order backlog at the Transportation division totaled €913 million, another all-time high (up from €568 million). Both business units shared in this upturn. The steepest growth resulted from the surge in business at Valencia (Vossloh Transportation Systems) sparked in the spring of 2011.

Vossloh divisions: order backlog

€ million	2011	2010
Rail Infrastructure	583	517
Transportation	913	568
	1,496	**1,085**

Financial position and investing activities

As the Group's management holding company, Vossloh AG is also responsible for managing the Group's finance and funding. Besides the central intragroup control and channeling of cash flows, Corporate Treasury Management is in charge of securing the finances of all subsidiaries as well as of hedging and managing financial risks, which include not only liquidity risks but also and in particular those from interest and exchange rate fluctuations. Hedging instruments comprise financial derivatives, too. The group companies' funding level is largely ensured by Vossloh AG providing the necessary cash resources intragroup. Only in isolated cases where funding outside Germany is either economically preferable or required by law will a subsidiary obtain finance locally.

Stock buyback program raises net financial debt

The Vossloh Group's net financial debt as of December 31, 2011, rose to €238.8 million (up €102.2 million from €136.6 million a year ago), basically as funds of altogether €100.9 million were required for the July–December 2011 stock buyback program. At year-end 2011, financial debts of €327.0 million (up from €212.5 million) contrasted with cash and cash equivalents of €88.2 million (up from €75.9 million). The net leverage (i.e., the ratio of net financial debt to equity) in 2011 was 49.5 percent (up from 23.5).

Vossloh Group: net leverage

		2011	2010
Total equity	€ mill.	482.8	580.0
Net financial debt	€ mill.	238.8	136.6
Net leverage	%	49.5	23.5

In fiscal 2011, financial debts swelled primarily as the treasury stock was repurchased and mainly represented the long-term debt of (translated) €185.1 million raised by Vossloh in 2004 by a two-loan private placement from the US capital market. The first and second fixed-rate US-dollar loans (at $140 million and $100 million) fall due in 2014 and 2016, respectively. Since the funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and cross-currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively.

The remaining financial debts of around €142 million as of the balance sheet date largely comprised short-term borrowings, primarily for the reacquired treasury stock but also for funding the H2/2011 rise in working capital.

Vossloh Group: cash flow analysis

€ million	2011	2010
Cash flow from operating activities	138.5	137.1
Cash flow from investing activities	(90.6)	(151.1)
Cash flow from financing activities	(47.3)	(71.8)
Net cash inflow/(outflow)	**0.6**	**(85.8)**

The net cash provided in 2011 by the Group's operating activities came to €138.5 million. A major part of the EBIT reduction was offset by the lower cash outflow for working capital during the year.

The net cash of €90.6 million used in investing activities in 2011 slumped from €151.1 million a year ago. However, the cash outflow in 2010 had included substantial funds for M&A transactions—in 2011, in contrast, to a lesser extent—particularly for the acquisition of the Rail Services business unit. The cash outflow for newly added intangible and tangible assets again outgrew the prior period, mounting year-on-year from €57.9 million to €65.6 million.

Most of the cash outflow for financing activities went into the buyback program for 10 percent of the capital stock: the treasury shares were repurchased in the period from late July to early December 2011 and were largely funded through short-term borrowings. The (gross) cash inflow from short-term borrowings totaled €100+ million. Fiscal 2011 saw the payout of €44.2 million as dividends (up from €36.5 million), including €33.3 million to Vossloh AG stockholders (up from €26.6 million).

The operating leases existing at December 31, 2011, will require future cash outflows of €24.6 million, including €7.7 million in 2012. In 2010, future cash outflows had totaled €40.5 million.

As of December 31, 2011, unutilized cash credit facilities of €195.7 million were available to the Vossloh Group (down from €252.3 million). For details, see the chapter on *risk and reward management* starting from page 57. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

Vossloh Group: capital expenditures and amortization/depreciation, by division

€ million	2011		2010	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	38.9	24.1	29.3	25.5
Transportation	23.7	13.5	25.2	13.3
Holding companies	3.0	0.6	3.4	0.7
	65.6	**38.2**	**57.9**	**39.5**

Another clear rise in capital outlays

The Group's capital outlays in 2011 of €65.6 million (up from €57.9 million) for intangible and tangible assets, up by €7.7 million, again outstripped by far amortization and depreciation of €38.2 million, substantially the prior-year magnitude of €39.5 million.

Capital expenditure by Rail Infrastructure in 2011 mounted steeply from €29.3 million to €38.9 million. Transportation's at €23.7 million fell short of the prior-year €25.2 million.

Vossloh Group: breakdown of capital expenditures

€ million	2011		2010	
	Capex	%	Capex	%
Development costs	14.5	22.1	18.1	31.2
Other intangibles	1.3	2.0	1.7	2.9
Land and buildings	9.1	13.8	2.5	4.3
Production plant and machinery	12.0	18.3	14.0	24.2
Other plant, factory and office equipment	7.4	11.3	7.4	12.8
Prepayments made, construction in progress	21.3	32.5	14.2	24.6
	65.6	**100.0**	**57.9**	**100.0**

Within the Rail Infrastructure division, capital spending rose at Vossloh Switch Systems and Vossloh Rail Services. At Vossloh Fastening Systems, capex in 2011 slipped from €12.1 million to €10.9 million. The amount included in particular the ongoing expansion and conversion of production capacities at the German location. Vossloh Switch Systems spent €17.9 million, up from €14.2 million. A focal point of spending at this business unit was the setting-up of a switch plant in China. The strongest surge in capital expenditures was reported by Vossloh Rail Services which in 2011 invested €10.1 million, far more than the €3.0 million a year ago. Most of the money went, as planned, into the construction of new high-speed rail grinding trains.

At the Transportation division, Vossloh Electrical Systems raised its capital expenditure significantly while at Vossloh Transportation Systems (both Kiel and Valencia), spending receded. The expenditures by Vossloh Transportation Systems amounted to €15.8 million (down from €22.4 million) and were shared almost equally by the two locations. The emphasis was again on developing new models of locomotives. Vossloh Electrical Systems invested in office and production facilities at the Düsseldorf location in fiscal 2011.

Asset and capital structure

The Group's higher total assets—climbing €106.5 million from €1,405.8 million at the close of 2010 to €1,512.3 million as of December 31, 2011—primarily reflect both divisions' inventory buildup. Moreover, capital expenditures beyond the level of amortization and depreciation drove up fixed assets.

Vossloh Group: asset and capital structure

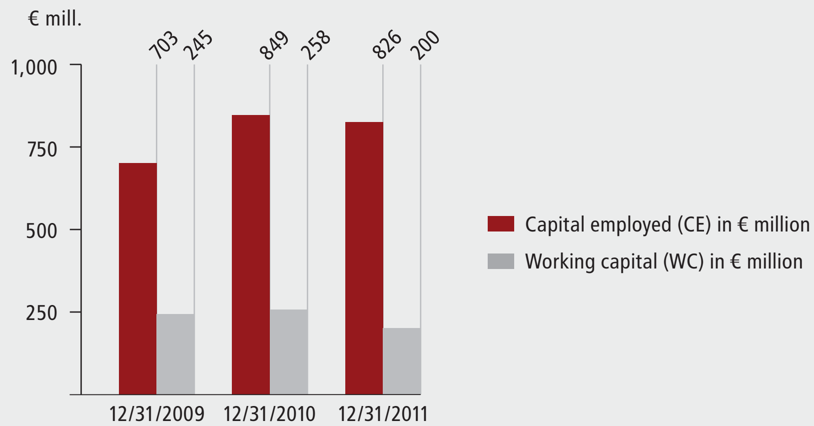
		2011	2010
Total assets	€ mill.	1,512.3	1,405.8
Total equity	€ mill.	482.8	580.0
Equity ratio	%	31.9	41.3
Closing working capital (WC)	€ mill.	200.3	258.0
Closing capital employed	€ mill.	825.9	848.6
Year-end working capital intensity	%	16.7	19.1
Fixed assets	€ mill.	625.6	590.7
Return on equity (ROE)	%	17.4	24.2

Equity ratio at 31.9 percent

Vossloh's equity ratio shrank significantly to 31.9 percent (down from 41.3 at December 31, 2010), a key factor being the €97.3 million downsizing of equity to €482.8 million in 2011 after 10 percent of the capital stock had been repurchased as treasury stock.

In a year-on-year comparison, the Vossloh Group's closing working capital diminished by €57.7 million to €200.3 million. Related to sales, the working capital intensity as of December 31, 2011, was upgraded to 16.7 percent (down from 19.1). Vossloh's average working capital amounted to €211.2 million (down from €309.0 million). Due to the €97.8 million lower average WC, working capital intensity improved on average, too (down from 22.9 percent to 17.6). A bulging trade payables portfolio and rising prepayments received by the Transportation division were the key reasons for the Group's average working capital shrinkage.

The Vossloh Group's capital employed as of December 31, 2011, edged €22.7 million down from €848.6 million to €825.9 million. The reduction reflected the decrease in working capital, however, which was largely offset by an increase in fixed assets. Capital employed in 2011 averaged €811.4 million (down from €884.5 million).



Vossloh Group: CE and WC trend 2009–2011

Shareholder value management

The Vossloh Group's ROCE slipped in 2011, from 17.2 to 11.9 percent, the slumping EBIT basically downscaling ROCE to a level below the internal 15-percent benchmark. Only part of this EBIT downturn could be cushioned by the lower working capital and hence a slimmer capital employed. Based on a 10-percent WACC (down from 11) for the Group in 2011, Vossloh earned a premium of 1.9 percent.

The Rail Infrastructure division with an ROCE of 12.6 percent achieved a premium of 2.6 percent. Key reason for the axed return was this division's EBIT of €86.2 million, which plummeted 39.3 percent from the prior year's €141.9 million.

In stark contrast, the Transportation division with its ROCE of 22.3 percent earned a premium of 12.3 percent in 2011: the pared working capital and capital employed in combination with a better EBIT boosted ROCE.

Transportation's ROCE up

Vossloh Group: shareholder value management

		2011	2010
Average capital employed	€ mill.	811.4	884.5
ROCE	%	11.9	17.2
Value added (VA)*	€ mill.	15.4	54.8

*Based on 10-percent WACC

The value added (VA) by the Vossloh Group in 2011 came to €15.4 million before taxes and after WACC of 10 percent (down from a pretax VA in 2010 of €54.8 million). Rail Infrastructure added value of €17.9 million to the Group's, again the lion's share—albeit far below the prior-year €66.1 million. The Transportation division contributed €15.3 million to Vossloh's VA, well above the prior year's €6.6 million.

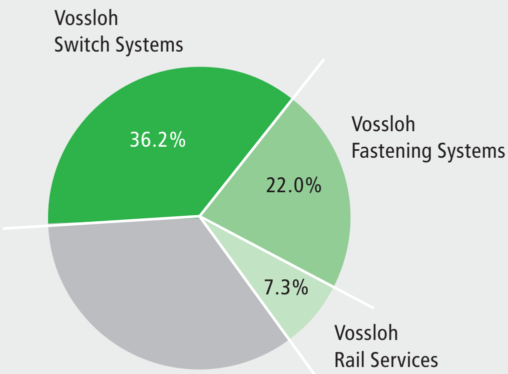
Group adding value of €15.4 million in 2011

Based on the current WACC, the Vossloh Group's posttax value added in 2011 totaled €17.1 million, breaking down into Rail Infrastructure's of €17.9 million and Transportation's of €11.7 million.

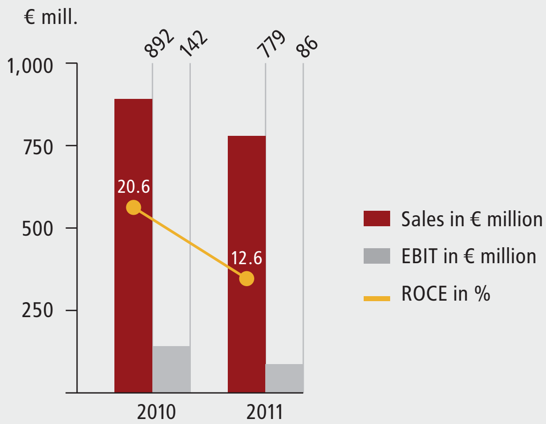
Project delays erode sales at Vossloh Fastening Systems

Vossloh Switch Systems' sales short of expectations due to megaproject suspension and competitive pressure

Vossloh Rail Services added sales in line with budget



Shares of business units in group sales



Rail Infrastructure division: sales, EBIT and ROCE trends

Business trend Rail Infrastructure

As the name suggests, the Rail Infrastructure division's business comprises all kinds of rail infrastructure products and services. The division has three business units: Fastening Systems, Switch Systems, and Rail Services. Vossloh operates both in the rail fastening and rail switch markets on an international scale and ranks among the foremost suppliers of these products worldwide. On conventional, heavy-haul and high-speed lines—Vossloh Fastening Systems and Vossloh Switch Systems set benchmarks in terms of innovative solutions acquired through decades of comprehensive expertise. With the new business unit Rail Services, a member of the Group since 2010, Vossloh provides preventive care and safety services for the rails themselves. This business unit is a leader in high-speed grinding (HSG), a preventive rail grinding technology.

Rail Infrastructure's sales and EBIT down

In fiscal 2011, Rail Infrastructure sales fell by 12.6 percent and amounted to €778.8 million (down from €891.5 million). The steepest plunge was shown by Vossloh Fastening Systems. After a very good 2010 (€369.4 million) sales at €262.8 million were down by 28.9 percent. Switch Systems, the business unit with the highest sales, posted revenue of €433.0 million for 2011, a slight decline of 1.4 percent. The Rail Services business unit reported a 3.5-percent growth, from €84.8 million to €87.7 million. Generally, shrinking sales at Rail Infrastructure in 2011 were mainly due to project postponements as well as rising competitive and price pressure.

Value added by Rail Infrastructure slumped from €66.1 million to €17.9 million. Whereas Vossloh Fastening Systems and Vossloh Rail Services again generated positive value added, that of Vossloh Switch Systems was negative.

Rail Infrastructure's ROCE in 2011 amounted to 12.6 percent, likewise well below the prior year's 20.6 percent and short of the Group's required minimum of 15 percent. The reduction was primarily due to the division's poorer EBIT. In fiscal 2011, average CE fell slightly from €688.7 million to €683.1 million. Average working capital slipped from €269.4 million to €249.3 million.

Because of collapsing sales, average working capital intensity rose from 30.2 to 32.0 percent in fiscal 2011.

Rail Infrastructure

		2011	2010
Sales	€ mill.	778.8	891.5
EBITDA	€ mill.	110.3	167.8
EBIT	€ mill.	86.2	141.9
EBIT margin	%	11.1	15.9
Average working capital	€ mill.	249.3	269.4
Average working capital intensity	%	32.0	30.2
Fixed assets	€ mill.	455.0	431.9
Capital expenditures	€ mill.	38.9	29.3
Amortization/depreciation	€ mill.	24.1	25.5
Closing capital employed	€ mill.	704.2	666.5
Average capital employed	€ mill.	683.1	688.7
ROCE	%	12.6	20.6
Value added	€ mill.	17.9	66.1

Following a very good performance in 2010, Rail Infrastructure's EBIT slumped from €141.9 million to €86.2 million (down 39.3 percent). This is mainly due to tumbling sales in China as well as to a general increase in price and cost pressure in the Fastening Systems and Switch Systems business units. Accordingly, the EBIT margin at Rail Infrastructure dropped from 15.9 to 11.1 percent during the period under review.

Vossloh Fastening Systems

Vossloh Fastening Systems is a well-established and foremost manufacturer of rail fastening systems which it ships out to over 65 countries. The business unit reported receding sales in 2011, from €369.4 million to €262.8 million (down 28.9 percent). This was mainly due to project delays in China where, following a tragic railway accident, the sleeper plants have since the end of July suspended work on the high-speed lines of relevance to Vossloh. From today's vantage point, work is not expected to resume before April 2012. Likewise failing to generate sales on the scale expected was business in Libya and Russia. In February 2011 and as a consequence of the armed conflicts in Libya, a megaproject worth around €37 million for Vossloh Fastening Systems and around €78 million for Vossloh Switch Systems had to be put on hold. The contract comprises the shipment of rail fasteners and switches for the new line between Ras Adjer and Sirt. Shipments are not expected to restart before 2013. Sales in Russia were also affected by project delays albeit by mid-2011 a new agreement was signed on the shipment of rail fastening systems. The repair and maintenance required by the Russian rail network still represent attractive market potential.

Project delays in China burden Vossloh Fastening Systems

Among the countries with revenue above expectations in 2011 were Germany, Mauretania, Poland, and Saudi Arabia. For the first time in 2011, Vossloh Fastening Systems succeeded in generating sales in Indonesia and expanding its business in North America. The award of the first high-speed project in Morocco is an added, strategic, success.

Order intake by Vossloh Fastening Systems in 2011 came to €323.0 million (down from €421.4 million). At year-end 2011, order backlog totaled €266.1 million, above the year-end 2010 total of €206.0 million—primarily due to various project postponements.

Capital expenditures by Vossloh Fastening Systems reached €10.9 million (just short of the prior-year €12.1 million). Most of the spending concerned the German location where, in particular, production capacities at Werdohl were again extended. Another item of expenditure was a continuous pickling line for Turkey.

Vossloh Fastening Systems added in fiscal 2011 value of €23.4 million, due to the reduced EBIT well short of the prior-year €54.3 million.

Vossloh Switch Systems

Vossloh Switch Systems' sales down due to weak H1

Vossloh Switch Systems equips rail networks with both switches and control/monitoring systems and has an internationally foremost position in the market for advanced-technology rail switches. In fiscal 2011, sales added up to €433.0 million, year-on-year only 1.4 percent down. It was especially in the first quarters that sales and EBIT earmarked for the year suffered from the suspension of shipments to Libya and the weak demand in Southern Europe. Sales were also down in Turkey, Portugal, and Spain. In contrast, Malaysia, Poland, Germany and Sweden contributed higher sales.

Order intake at €434.7 million was below the €482.8 million in 2010. The higher prior-year figure had been largely due to the megaproject in Libya. In 2011, and besides numerous orders from a wide variety of regions, Vossloh Switch Systems also booked a megacontract from Iraq as part of the reconstruction of the nation's railway network. At December 31, 2011, order backlog at this business unit amounted to €312.5 million, slightly above the €310.9 million twelve months before.

Capital expenditure by Vossloh Switch Systems during the year under review reached €17.9 million (up from €14.2 million). A large portion was incurred for the construction of a switch plant in China, a project which will also be the object of outlays in 2012. As planned, 2012 will also see a continuation of modernization and selective expansions at various locations.

Value added by Vossloh Switch Systems was a negative €13.0 million (versus a positive €5.2 million in 2010). The poor EBIT was the decisive factor in this turnaround.

Vossloh Rail Services

A member of the Group since 2010, the Rail Services business unit offers comprehensive rail services: from the manufacture and transport of long rails to rail maintenance and preventive care. Sales by this business unit in 2011 were strong and increased by 3.5 percent. In 2011, Vossloh Rail Services reported revenue of €87.7 million (up from €84.8 million).

During the period, the business unit booked orders worth €92.6 million, well above the €85.7 million in fiscal 2010. This increase reflects the growing demand for comprehensive services especially with regard to rail maintenance. Orders on hand at the end of December 2011 were likewise up and totaled €5.8 million (up from €0.9 million). Since this unit's operations are mainly of a service nature, its business is generally characterized by short delivery and execution periods.

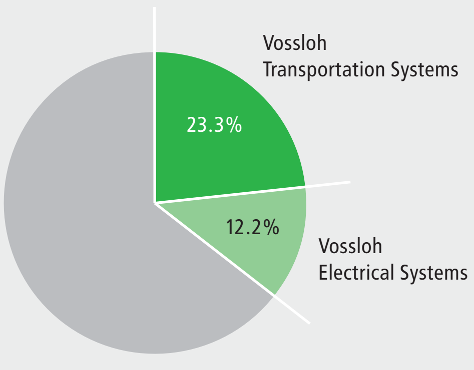
Capex at Vossloh Rail Services rose to €10.1 million (up from €3.0 million). Implemented according to plan were especially expenditures on the construction of a new train for high-speed rail grinding. In the course of 2011, Vossloh Rail Services acquired further orders for this service in Germany, Denmark, and Switzerland.

Vossloh Rail Services wins new orders for high-speed grinding

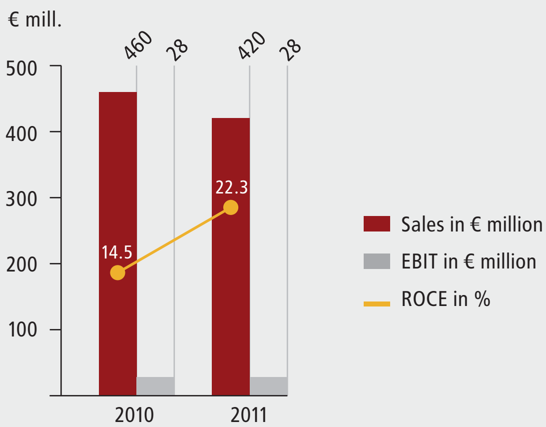
Value added by Vossloh Rail Services during the period rose slightly from €6.7 million to €7.3 million.

Vossloh Transportation Systems bottoms out and doubles order intake

Vossloh Electrical Systems wins big rail orders



Shares of business units in group sales



Transportation division: sales, EBIT and ROCE trends

Transportation business trend

The Transportation division includes the Group's rail vehicle and vehicle component business along with the related services. It has two business units: Transportation Systems and Electrical Systems. Vossloh Transportation Systems comprises the two locations Valencia (Vossloh Rail Vehicles) and Kiel (Vossloh Locomotives) and is Europe's foremost manufacturer of diesel locomotives besides providing the corresponding maintenance work. The Valencia location in Spain also develops and produces local transport rail vehicles and trams. The Electrical Systems business unit offers advanced-technology electrical systems for light rail vehicles and buses.

Lower sales by both business units

Given the poor performance of the first half of 2011, twelve-month sales at Transportation were, as expected, short of the prior year's level. Revenue receded by 8.6 percent, from €459.7 million to €420.0 million. In all, Vossloh Transportation Systems reported a drop in sales for 2011. Whereas sales at Kiel picked up again, the Spanish location at Valencia, as expected because of the lower order inflow in 2010, showed a sharp decline. Sales at Vossloh Electrical Systems in 2011 were likewise down. Project delays as well as an order backlog taking effect only as from 2013 are the reasons for the reduction.

Much improved ROCE

Transportation's ROCE hiked up from 14.5 to 22.3 percent; value added by the division surged from €6.6 million a year ago to €15.3 million in 2011. This was foremost due to a plunge in average capital employed, which greatly improved from €189.5 million in 2010 to €124.6 million a year later. This is where a significantly whittled-down working capital took effect—chiefly on account of rising order intake, especially in locomotive business, and the accompanying high volume of downpayments. In 2011, the average working capital in Transportation was a negative €31.3 million, the previous period it had been a positive €45.9 million.

Transportation's EBIT improved marginally by 1.1 percent to reach €27.8 million (up from €27.5 million). The EBIT margin climbed from 6.0 to 6.6 percent. Whereas Vossloh Transportation Systems improved its profit contribution, Vossloh Electrical Systems failed to quite repeat the prior year's performance.

Transportation

		2011	2010
Sales	€ mill.	420.0	459.7
EBITDA	€ mill.	41.3	40.7
EBIT	€ mill.	27.8	27.5
EBIT margin	%	6.6	6.0
Average working capital	€ mill.	(31.3)	45.9
Average working capital intensity	%	(7.5)	10.0
Fixed assets	€ mill.	159.2	149.1
Capital expenditures	€ mill.	23.7	25.2
Amortization/depreciation	€ mill.	13.5	13.3
Closing capital employed	€ mill.	117.8	180.3
Average capital employed	€ mill.	124.6	189.5
ROCE	%	22.3	14.5
Value added	€ mill.	15.3	6.6

Vossloh Transportation Systems

Valencia's sales, as expected, down; Kiel's again recovering

The Transportation Systems business unit recorded for fiscal 2011 an 8.2-percent sales drop to €279.9 million (down from €304.8 million). Whereas the Kiel location showed rising revenue thanks to resurgence in demand for new locomotives, sales at the Valencia plant fell short of the prior year's. This was expected on account of the weak order influx of 2010. Vossloh Locomotives in Kiel contributed €123.5 million or 44 percent to sales at Vossloh Transportation Systems. Accordingly, Vossloh Rail Vehicles in Valencia accounted for 56 percent, equivalent to sales of €156.4 million.

Vossloh Transportation Systems posted an order inflow of €444.8 million in 2011 (up from €195.9 million). Both locations reported surging orders, especially Vossloh Rail Vehicles in Valencia. This location now has a backlog of big orders which, in some cases, will be handled jointly with the Electrical Systems business unit.

They include a contract for 25 low-floor light rail vehicles for Verkehrsbetriebe Karlsruhe and Albtal-Verkehrs-Gesellschaft with the option for another 50 vehicles (total contract volume: €75 million), a contract for 13 light rail vehicles for Rostocker Strassenbahn AG (total value: €38 million) and another for 31 suspension railcars to be shipped to Wuppertaler Stadtwerke (worth €122 million in all). Additionally, Vossloh Rail Vehicles won a number of sizable projects for supplying various models of the EURO locomotive family. The Kiel location booked orders from several industrial customers including for more than forty G 6 and seven diesel-electric locomotives. Among these is a contract for 22 modular center-cab locomotives destined for BASF. As of December 31, 2011, the order backlog of this business unit added up to €504.1 million, well above the €339.2 million twelve months previously.

Megaorders for light rail vehicles with Vossloh traction systems and for new locomotives

Capital expenditures by Vossloh Transportation Systems amounted to €15.8 million in 2011 (down from €22.4 million). The outlays were shared almost equally between both locations and concern, in particular, the development of new models of locomotives. At Kiel, the emphasis was once again on the new family of center-cab locomotives, especially with diesel-electric traction. Valencia, moreover, spent on the development of new local transport vehicles.

Value added by Vossloh Transportation Systems in 2011 was still a slightly negative €0.4 million; this compares with a negative €9.0 million the previous year.

Valencia location

At its Valencia plant, Vossloh Rail Vehicles develops diesel locomotives as well as local transport vehicles. The lineup also includes maintenance work.

Sales by Vossloh Rail Vehicles in 2011 amounted to €156.4 million, down 22.7 percent from the previous year's €202.5 million. The difference is largely due to sluggish order intake in 2010. Given the typically long lead times, the vigorous resurgence in order intake since the spring of 2011 is not yet reflected in same-year sales. Vossloh Rail Vehicles has a significant number of large contracts which will be handled together with the Electrical Systems business unit (for the Karlsruhe, Rostock, Wuppertal local transport operators). In addition, there is a contract for altogether 29 locomotives (EURO 3000 and EURO 4000) for Israel Railways. In all, order intake in 2011 was a multiple of the previous year's.

EURO 4000 and 3000 in strong demand

The Spanish location of Valencia accounted for capital expenditures of €7.7 million (down from €11.1 million) in 2011. The emphasis was on the development of the locomotive models EURO*LIGHT* and EURO 3000 as well as on new types of vehicles for local public transport.

Kiel location

At its Kiel location, Vossloh develops and builds center-cab locomotives. In fiscal 2011, Vossloh Locomotives generated sales of €123.5 million, up 20.5 percent over the prior year's €102.5 million. Germany and France were once again the most important sales markets. Altogether, 2011 saw the shipment from Kiel of 30 locomotives. Additionally, the plant is carrying out high-quality routine repair and revamping jobs for diesel locomotives.

Kiel books big orders for new G 6 and DE locomotives

Order intake in 2011 rose clearly and thus continued to recover. Highlights were two megaorders from German industry for altogether 40+ locomotives. Most of the orders concerned the successful industrial and port locomotive G 6 and the new locomotive generation with diesel-electric traction (DE). Besides its success in the traditional markets of Western Europe, the G 6 shunter awaits further potential in Eastern Europe.

Capital expenditures by Vossloh Locomotives in fiscal 2011 added up to €8.1 million, thus short of the prior-year €11.3 million. At Kiel, capex emphasis was again on the development of new locomotive models. The first seven vehicles of the new generation of diesel-electrics were already sold during the period.

Vossloh Electrical Systems

Vossloh Electrical Systems develops and manufactures key electrical components as well as systems for local public transport rail vehicles and locomotives. The lineup of this business unit comprises traction units, on-board power supply, vehicle control, heating and air-conditioning systems. It ranks among the world's foremost suppliers of electrical equipment for trolleybuses and hybrid buses. Most of its sales is generated in Germany and neighboring countries.

Project delays depressed sales in fiscal 2011 by 8.4 percent to €146.7 million (down from €160.0 million). Revenue from both rail and bus business was down. Sales in 2011 mainly accrued from revamping projects. After midyear, the first new trams for Bielefeld were shipped out. The contract had been placed in 2009.

Soaring order intake

Order intake at Vossloh Electrical Systems again mounted in 2011, from €170.1 million to €346.2 million. As a consequence, order backlog at December 31, 2011, had risen year-on-year from €232.2 million to €431.7 million. Besides the various projects being shared with Vossloh Rail Vehicles (Karlsruhe, Rostock, Wuppertal), Vossloh Electrical Systems has other megadeals including, in particular, one for 50 light rail vehicles ordered by Üstra Hannoversche Verkehrsbetriebe AG worth around €102 million. The business unit was further awarded contracts for nine hybrid trolleybuses for the northern Italian transport operator TEP, for 15 hybrid trolleybuses destined for ATM (Milan transport operator) and twelve battery trolleybuses for Verkehrsbetriebe Zürich, as well as an order for electrical and air-conditioning equipment on 100 double-decker railcars of German Rail, with the option of equipping a further 100 vehicles.

Capital expenditures by Vossloh Electrical Systems in 2011 added up to €7.9 million, well above the prior-year €2.8 million. Among the focal points was the purchase of office and workshop buildings in Düsseldorf. In 2012, the business unit will again mainly invest in the Düsseldorf location.

Value added by Vossloh Electrical Systems in fiscal 2011 amounted to €14.0 million, down from the €15.7 million in 2010.

Vossloh AG

As management and financial holding company, Vossloh AG parents the Vossloh Group, controls and oversees all major operations and activities within the Group. Besides determining corporate strategy and controlling corporate development, Vossloh AG allocates the financial resources, such as for capital expenditures, investments and M&A, is responsible for corporate accounting and controlling, groupwide treasury management, risk and reward management, internal auditing, as well as for IT, investor relations, and corporate communications. It oversees sales and marketing communication activities and coordinates or pools sourcing processes of its subsidiaries, besides being in charge of human resources policy, HR development and top management issues.

Vossloh AG prepares its annual financial statements in accordance with German GAAP (Commercial Code provisions). The explanations below refer to these separate financial statements. In isolated cases, certain transactions are represented differently according to IFRS.

Analysis of the separate financial statements

As nonoperating holding company, Vossloh AG's revenue—€1.3 million (up from €1.2 million) for 2011—consists of rental income and intercompany allocations. The operating expenses are mainly incurred in connection with the Company's management and financing functions. Therefore, EBT is substantially influenced by general administrative expenses, other operating income/expenses and the net financial result.

In fiscal 2011, the administrative expenses of €23.2 million were €2.5 million above the prior year's. The rise was caused not only by the expenses for the 2011 stock buyback program but also by the increased cost of consultancy services, adult and advanced training, and workforce events. Personnel expenses shrank by €1.0 million to €7.2 million; the annual average headcount moved down by 2 employees to 44. Year-on-year, the Company's other operating income plunged €6.6 million to €10.1 million and includes mainly income from the apportionment to subsidiaries of taxes, marketing fees and IT expenses.

In addition to the administrative expenses and the net other operating income or expense, the net financial result, which surged from €40.9 million a year ago to €58.6 million in 2011, impacts materially on Vossloh AG's EBT since the Company is also the financial holding company of the Group and therefore owns its major subsidiaries. Key components of the net financial result for 2011 were the €20.0 million dividend income from Vossloh France SAS, as well as the profits transferred by Vossloh-Werke GmbH, Vossloh Kiepe GmbH, and Vossloh Rail Services GmbH, together accounting for €55.0 million (up from €49.4 million).

In contrast, the €9.8 million loss (down from €11.6 million) absorbed from Vossloh Locomotives GmbH burdened investment income.

Interest expense of €15.0 million (up from €14.8 million)—primarily for refinancing the Group's capital requirements—contrasted in 2011 with interest income of €8.1 million (up from €7.7 million) from granting short-term credit or medium-term loans to consolidated subsidiaries.

Income taxes of €0.6 million (up from €0.5 million) weighed on Vossloh AG's EBT. No extraordinary expenses were incurred in 2011 (down from €3.8 million). Vossloh AG's net income of €44.1 million for 2011 was €12.0 million above the prior year's, thanks primarily to the upgraded net financial result.

Total assets climbed €59.9 million to €794.7 million, mainly as intercompany receivables grew and cash in bank mounted.

On the liabilities side, the stock buyback program impacted on total capital. Treasury stock of a notional par value of €3.8 million was offset against the capital stock. On balance, the repurchase of 1,332,529 treasury shares (commenced July 27 and completed December 2, 2011) whittled down equity by €100.9 million (excluding incidentals), meaning a net €90.2 million decrease in equity to €303.9 million. The equity ratio sagged from 53.6 to 38.2 percent.

Vossloh AG's financial position depends on the funds needed by subsidiaries and the borrowings made by the Company to refinance such requirements. The debt raised in 2004 from the US capital market by way of private placement, carried within *sundry liabilities*, amounted to an unchanged €203.9 million. The other borrowings soared from €0.1 million a year ago to €95.0 million as of December 31, 2011; intercompany payables hiked up by €57.5 million. The key drivers of the steep rise in liabilities were the treasury stock reacquisition and the swelling intercompany receivables.

Board compensation report

This report summarizes the principles underlying remuneration of Vossloh AG's Executive Board members and specifies the details of structure and amount of income of each such officer. In addition, the report describes principles and level of Supervisory Board fees.

Remuneration of Executive Board members

The compensation of Executive Board members ("executive officers") breaks down into a fixed annual basic salary and an annual profit share, the fixed portion being paid out in monthly installments. The profit share is payable when the annual financial statements have been adopted. As confirmed in fiscal 2010 by an outside consultant specializing in compensation issues, the overall compensation of the Executive Board represents fair and reasonable remuneration for each member's functions, duties, and personal performance, as well as for Vossloh's economic situation, successful performance and future prospects, besides being in line with industry peers and in proportion to Vossloh's general pay system.

The variable compensation (profit share) is linked to group earnings.

For fiscal 2011, the compensation of Vossloh AG's executive officers totals €1,981,895 (down from €2,839,517), including €774,326 of fixed, and €1,170,456 variable, remuneration. In addition, they received in 2011 noncash fringes as payments in kind (PIK), basically in the form of private company car use at the tax base of €37,113. PIK income is taxable income of each executive officer.

Vossloh AG's Executive Board members received no compensation for services performed on behalf of subsidiaries.

Moreover, they have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 15 (Dr.-Ing. Norbert Schiedeck) or 35 percent (Werner Andree), and are stepped up by 4 percent annually (as from April 1, 2010, or Jan. 1, 2005, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2011, a total €330,031 was provided for accrued pension obligations to Executive Board members (down from €1,182,489). Current retirement pensions are adjusted annually in line with the collective pay trend of white-collar employees.

The table below itemizes the remuneration of each executive officer:

€	Short-term benefits				Retirement benefits	
	Fixed salary	PIK	Profit share	Total	Provision in 2011	Total accrued
CEO Werner Andree	461,767	15,316	713,693	1,190,776	320,848	2,924,968
COO Dr.-Ing. Norbert Schiedeck	312,559	21,797	456,763	791,119	9,138	390,685
Total	**774,326**	**37,113**	**1,170,456**	**1,981,895**	**330,031**	**3,315,653**

Upon an active or former executive officer's death, a reduced pension is paid to their surviving dependants, spouses receiving a maximum 60 percent of the most recently paid pension, children a maximum 20 percent up to a certain age and while articled or undergoing other education.

No contractual arrangements with Executive Board members exist for any change of control.

No loans or advances were granted in 2011 to any Executive Board member.

The compensation paid as current pensions to former executive officers and their surviving dependants totaled €606,512 (down from €612,274).

Pension obligations to former executive officers and their surviving dependants amounted to €11,576,318 (up from €11,411,253); this amount includes employer pension liability insurance policies totaling €11,446,261 pledged in each beneficiary's favor, the balance being covered by accruals.

The option introduced in 2008 by the Supervisory Board to grant Executive Board members a discretionary bonus was not exercised in 2011.

Remuneration of Supervisory Board members

The compensation of members of the Supervisory Board and its committees is fixed by the general meeting and governed by Art. 17 of the Company's bylaws. These fees hinge on each Supervisory Board member's tasks and responsibilities, as well as on the Group's business performance.

Besides being reimbursed for their out-of-pocket expenses and costs advanced, Supervisory Board members receive a fixed annual fee of €20,000 each. In addition, they are paid a variable annual fee of €1,000 for each €0.10 in excess of the Group's earnings per share over €2.00 (based on the number of shares issued).

The Supervisory Board Chairman receives 300 percent, the vice-chairman 150 percent and each committee member 125 percent of the above fee. The Audit Committee Chairman receives three times the additional Audit Committee membership fee. Membership in the Slate Submittal Committee is remunerated by paying only an additional 25 percent of the fixed annual fee, provided that the Committee convened in the fiscal year. If the Supervisory Board Chairman is also committee member, no additional fee is paid to him.

In accordance with the bylaws, Supervisory Board members received for fiscal 2011 total €440,375 (down from €689,375), including €222,500 fixed and €217,875 variable, performance-related fees. The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Dr.-Ing. Wilfried Kaiser, Chairman	60,000	63,000	123,000
Peter Langenbach, Vice-Chairman	42,500	39,375	81,875
Dr. Jürgen Blume	30,000	26,250	56,250
Dr. Christoph Kirsch	40,000	36,750	76,750
Wolfgang Klein	30,000	31,500	61,500
Michael Ulrich	20,000	21,000	41,000
Total	**222,500**	**217,875**	**440,375**

In addition to these fees, no Supervisory Board member received in 2011 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2011 to any Supervisory Board member.

Statutory takeover-related disclosures under the terms of Arts. 289(4) and 315(4) HGB

The provisions of Arts. 289(4) and 315(4) HGB require that the following takeover-related disclosures as of December 31, 2011, be made.

Capital stock breakdown
Vossloh AG's capital stock of €37,825,168.86 is divided into 13,325,290 no-par bearer shares of common stock entitling to one vote each.

Restraints on voting rights or share transfer
One share entitles to one vote at the general meeting, the same rights attaching to all Vossloh AG shares. Share transfer or assignment is not subject to any restraint.

According to the Executive Board's knowledge, voting right exercise and share transfer by members of the Vossloh Family Pool ("Familiengemeinschaft Vossloh GbR") have been pooled by contractual agreement.

Direct or indirect shareholdings of 10+ percent
The Executive Board is aware that two direct voting interests above 10 percent in the Company's capital stock exist: The Vossloh Family Pool notified Vossloh AG that, as of May 2011, its members had owned a stake of some 30.24 percent in the Company's capital stock. This stake increased to around 33.60 percent after treasury stock of a total 10 percent had been redeemed and withdrawn in July 2011. Mr. Heinz Hermann Thiele notified the Company in July 2011 that he owns a 15.29-percent interest in Vossloh AG (after the treasury stock withdrawal up to about 16.99 percent).

Shares with controlling rights, etc.
No such shares exist at Vossloh AG.

Voting control of employee shareholdings
Vossloh-shareholding employees exercise their control rights like any other stockholder, too, in accordance with the law and Vossloh's bylaws.

Appointment/removal of Executive Board members; bylaw amendments

Vossloh AG's Executive Board members are appointed or removed in accordance with the provisions of Arts. 84, 85 AktG in conjunction with Art. 7 of the bylaws. Pursuant to Art. 84(1) AktG, Executive Board members are appointed by the Supervisory Board for a maximum term of five years, their reappointment or the renewal of their term of office being permitted. The appointment of an Executive Board member may be revoked in the cases set out in Art. 84(3) AktG.

While, according to Art. 179(1) AktG, the bylaws may be amended by vote of the general meeting, any wording-only amendment may also be delegated to the Supervisory Board. In conformity with Art. 21(2) of the bylaws but subject to overriding statutory provisions to the contrary, the general meeting shall pass its resolutions with the simple majority of votes cast. Where the law prescribes a stock ownership majority in addition to a voting majority, the simple majority of the capital stock represented at the vote shall suffice unless the provisions of the law or Vossloh AG's bylaws prescribe otherwise. Art. 27 of the bylaws authorizes the Supervisory Board to amend the bylaws where only their wording is involved. Art. 4(8) of the bylaws further entitles the Supervisory Board to update the bylaws accordingly after the capital stock has been increased by utilizing authorized or contingent capital.

Stock issuance or repurchase authority of the Executive Board

Art. 4 of the bylaws specify the Executive Board's powers to issue new stock while the authority to repurchase treasury stock, based on the AGM resolution of May 19, 2010, was used by the Executive Board in 2011 between July 27 and December 2 to buy back 1,332,529 treasury shares (10 percent of the capital stock).

(a) Authorized capital

The provisions of Art. 4(2) of the bylaws authorize the Executive Board, subject to the Supervisory Board's approval, to increase the capital stock on or before May 19, 2014, by an aggregate maximum of €7,500,000 by issuing once or several times new no-par bearer shares of common stock against cash and/or noncash contributions ("Authorized Capital") while duly granting stockholders their statutory subscription right. However, after first obtaining approval from the Supervisory Board, the Executive Board may exclude this subscription right:

(i) for fractions entailed by the subscription ratio;

(ii) in order to (a) grant to holders of conversion rights, options and/or warrants which are outstanding when the Authorized Capital is utilized or (b) satisfy conversion obligations ensuing from convertible and/or warrant bonds previously floated or issuable by the Company or any of its wholly-owned subsidiaries, the right to subscribe for new shares to the extent which they would be entitled to as stockholders upon exercise of their conversion rights and/or options or upon satisfaction of their conversion obligations;

(iii) if (a) new stock is issued against cash contributions at a price that is not significantly below the stock market price current for same-class Vossloh stock at the time at which the final issuance price is fixed, and (b) the newly issued stock exceeds an aggregate ten percent of the capital stock neither at the effective date nor at the date of exercise of this authority. Any such shares are counted toward this capital ceiling as are disposed of ex rights (i.e., without granting a subscription right to stockholders) during the validity period of this authority by applying the provisions of Art. 186(3) Clause 4 AktG. Shares issued or issuable to service convertible and/or warrant bonds or satisfy conversion obligations shall also be counted toward said 10-percent ceiling provided that the bonds are issued ex rights during the validity period of this authority in application of the provisions of Art. 186(3) Clause 4 AktG;

(iv) for any capital increase against noncash contributions.

The Executive Board is authorized, subject to the Supervisory Board’s approval, to stipulate all further details of the capital increase, as well as all stock issuance terms and conditions.

(b) Contingent/conditional capital

(i) Pursuant to Art. 4(3) of the bylaws, the Company’s capital stock has been conditionally raised by €6,979,134.18 by issuing 2,730,000 bearer shares of common stock. This contingent capital increase will be implemented only to the extent that, under the warrant bond issues floated by Vossloh AG and/or its (directly or indirectly) wholly owned non-German subsidiaries on or before June 28, 1999, the warrant holders exercise their right to subscribe for common stock. The new common stock ranks for dividend as from the fiscal year in which it is created by option exercise.

(ii) Pursuant to Art. 4(4) of the bylaws, the Company’s capital stock has been conditionally increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to employees under an SOP authorized by the annual stockholders’ meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year’s AGM votes.

(iii) Pursuant to Art. 4(5) of the bylaws, the Company's capital stock has been conditionally raised by €1,468,225.77 by issuing 574,320 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to officers, executives and other management staff under a long-term incentive plan (LTIP) authorized by the annual general meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year's AGM votes.

(iv) Pursuant to Art. 4(6) of the bylaws, the Company's capital stock has been conditionally raised by an aggregate €3,782,500 by issuing up to 1,479,585 no-par bearer shares of stock in order to grant new no-par bearer shares to the holders or creditors of such convertible bonds, warrant bonds, participating rights and/or income bonds (or any combination of such instruments) as are issued or floated by Vossloh AG or any of its (directly or indirectly) wholly-owned subsidiaries by dint of the authority conferred by the AGM of May 19, 2010, according to Agenda Item 8. The new no-par bearer shares will be issued at a conversion or option price to be determined in accordance with the aforesaid AGM resolution. The conditional capital increase shall be implemented only to the extent that (i) conversion rights or equity warrant options are exercised, (ii) the bondholders, warrant owners or creditors subject to a conversion obligation actually meet their conversion obligations, (iii) no cash compensation is paid in lieu, or (iv) treasury shares or new shares issued by utilizing authorized capital are used. The newly issued no-par bearer shares rank for dividend as from the beginning of the fiscal year in which they are created by conversion or option exercise or by satisfaction of conversion obligations. The Executive Board is authorized to specify all further details of the conditional capital increase and its implementation.

(c) Repurchase of treasury stock

According to the AGM resolution of May 19, 2010, and pursuant to Art. 71(1) No. 8 AktG, the Company is authorized on or before May 18, 2015, to acquire treasury stock equivalent to an aggregate maximum of ten percent of Vossloh AG's then capital stock. The Executive Board exercised this authority in 2011 to repurchase 1,332,529 treasury shares (equivalent to 10 percent of the capital stock) between July 27 and December 2. No further authority of Vossloh AG to buy back treasury shares exists.

At December 31, 2011, the Company held 1,332,529 treasury shares. The Executive Board is authorized, subject to prior Supervisory Board approval, to use such treasury stock for any lawful purposes, including by disposing of the treasury shares ex rights in a form other than through a stock market or by offering them to all Vossloh stockholders, however, provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the stock market price then current for same-class Vossloh stock. The Executive Board is further authorized, after first obtaining Supervisory Board approval, to sell treasury stock ex rights to third parties in return for noncash contributions, including (without limitation) in connection with mergers or other business combinations or when acquiring other enterprises or equity interests therein. The treasury stock may further be used to settle obligations under convertible and/or warrant bonds issued by the Company and/or any of its wholly-owned subsidiaries. Moreover, the Executive Board is authorized to redeem and effectively withdraw treasury stock with the Supervisory Board's approval, however, without requiring another vote by the general meeting.

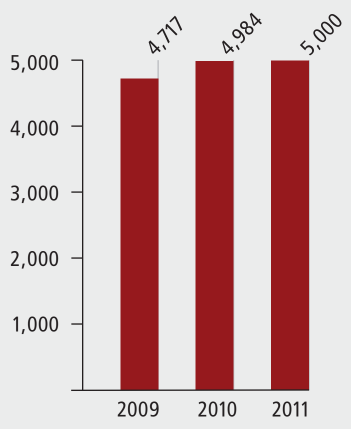
Agreements upon any change of control, etc.
No agreements have been made with third parties that are contingent on a change of control in the wake of a takeover bid.

Compensation agreements upon change of control
No arrangements for post-takeover indemnification or other compensation of Executive Board members or Vossloh employees upon a change of control have been made either.

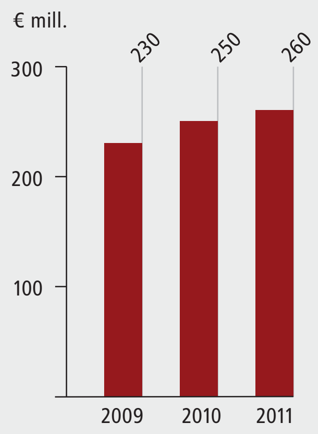
Another slight rise in headcount; 18 percent outside of Europe

Vossloh Academy: in-house training curriculum

Program laid out for improved Occupational Safety & Health



Average group headcount



Personnel expenses in € million

Workforce

At December 31, 2011, the Vossloh Group employed a workforce worldwide of 5,011, up 2.1 percent or 105 compared with the 4,906 at year-end 2010.

Employee-related indicators

		2011	2010	2009
Payroll per capita	k€	51.9	50.1	48.7
Sales per capita	k€	239.4	271.1	248.8
Payroll intensity	%	72.1	61.5	61.9
Value created per capita	k€	72.1	81.4	78.7

Altogether 82.1 percent work at the Group's European locations; outside of Europe 42.3 percent (down from 42.4) in North America and a total 47.8 percent (up from 44.0) at the Asian production locations in China, India, and Malaysia. Australia is another continent with Vossloh employees.

There were only marginal changes in the age structure and average length of service compared with 2010. The proportion of employees aged between 35 and 50 slipped slightly to 39 percent; the percentage of those over 50 rose to 30 percent. The proportion of employees working for Vossloh for up to ten years inched up to 57 percent.

Personnel expenses (payroll)

€ million	2011	2010	% change
Pay	211.2	202.1	4.5
Social Security	43.8	43.3	1.2
Pension expense	4.7	4.1	14.6
Total	**259.7**	**249.5**	**4.1**

The average headcount just climbed marginally in 2011. The year before, Vossloh had had an average workforce of 4,984; this crept up by 0.3 percent to 5,000 during the period.

Average group headcount of 5,000

Because of wage cost increases, personnel expenses in 2011 advanced 4.1 percent to €259.7 million (up from €249.5 million). The average payroll per capita increased by 3.6 percent, from k€50.1 to k€51.9.

Value created—defined as the excess of total operating performance over cost input and amortization/depreciation—per capita slipped from k€81.4 to k€72.1.

Payroll intensity, calculated as the ratio of payroll to value created, worsened from 61.5 to 72.1 percent. Sales per capita in 2011 fell by 11.7 percent, from k€271.1 to k€239.4.

Rail Infrastructure

The average workforce in the Rail Infrastructure division climbed 1.6 percent from 3,155 to 3,206.

Average payroll per capita rose 2.1 percent from k€43.3 to k€44.2. Value created per capita dropped from k€89.5 to k€72.2. Payroll intensity totaled 61.3 percent (up 12.9 percentage points). Sales per capita fell 14.0 percent from k€282.6 to k€242.9.

Transportation

The average number of Transportation employees declined 1.9 percent year-on-year from 1,781 to 1,748.

Sales per capita slid 6.9 percent from k€258.1 to k€240.3, value created per capita grew from k€74.3 to k€79.1. Payroll per capita mounted 7.3 percent from k€58.7 to k€63.0. Payroll intensity rose marginally from 79.0 to 79.6 percent.

Employees 2011

	Annual average*			Year-end		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Rail Infrastructure	717	2,489	3,206	726	2,477	3,203
Transportation	984	764	1,748	991	772	1,763
Vossloh AG	46	0	46	45	0	45
Total	**1,747**	**3,253**	**5,000**	**1,762**	**3,249**	**5,011**

*Annual average based on monthly data

Recruiting and developing employees

Talented, dedicated employees are essential to success and so HR development programs and training courses enjoy high priority at Vossloh.

A broad range of in-house and external courses forms the framework for the business units' HR development efforts tailored to actual needs. Included are seminars on subjects such as quality, project management, communication, and leadership as well as advanced commercial, technical and language courses. The blue-collar courses embrace such subjects as welding, load securing/hazardous goods, and fork lift truck operation.

Vossloh Academy for employee further education

The Vossloh Academy is an intercompany institute; at its web portal, employees in Germany can register online for seminars dealing with topics of relevance to Vossloh. In small, manageable groups, subjects are dealt with that assist the participants in their daily work to ensure that future challenges are successfully handled.

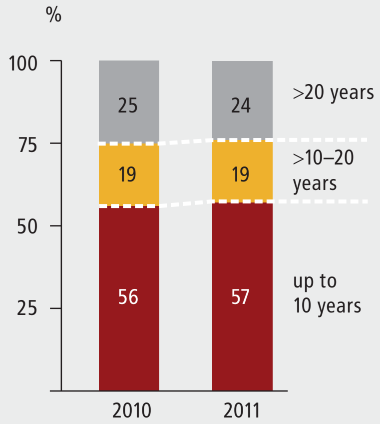
Launched in 2009, the program under the title *We lead Vossloh* is meanwhile a firm fixture of groupwide HR development and acts as a platform for key staff to exchange ideas across all business units. Concurrently, the program serves as a basis for the ongoing personal development of these employees and also for developing the groupwide corporate culture.

To draw the attention of well-trained and qualified persons to Vossloh in good time, the Group has numerous cooperation arrangements with schools and universities. Besides the contacts with schools at the various Vossloh locations, we are also in touch throughout Europe with universities of relevance to our business. Some of these contacts take the form of research and other project work.

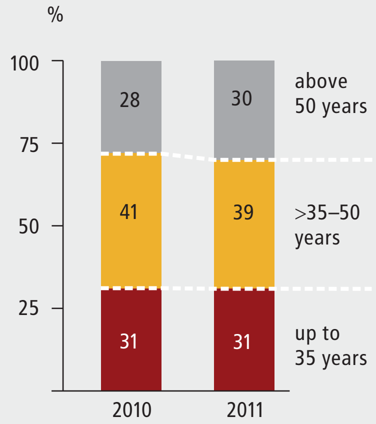
A first taste of job experience can be obtained by undergraduates in the course of internships and other forms of practical training as well as when working on their diploma, B.A. and M.A. theses.

82 apprentices in Germany

Besides the recruitment of well-trained talent, Vossloh's own in-house apprenticeship courses play a major role in vocational training. At the German locations, altogether 23 youngsters commenced blue-, white- and gray-collar courses in 2011. At year-end, the Bützow, Düsseldorf, Kiel, Moers, Nürnberg, Seevetal, Trier und Werdohl locations together employed 82 apprentices, equivalent to around 5.9 percent of the workforce at these German locations with apprenticeship opportunities.



Service years in %



Age structure in %

Occupational Safety & Health project

As part of their workforce responsibilities, the Group's Executive Board and its European Works Council have assigned the subject of occupational safety and health (OSH) top action priority. The first step was a joint initiative to form a project group to analyze the overall situation regarding occupational safety and health.

Occupational safety a top action priority

Together with a consulting firm, extensive assessments regarding job safety were conducted at several locations of Vossloh Cogifer and at each of the biggest locations of Vossloh Fastening Systems, Vossloh Rail Services, Vossloh Transportation Systems, and Vossloh Electrical Systems. The identified improvement potentials are already serving as an itinerary for corresponding action at these locations.

Thanks to the employees

Our thanks go to all our employees whose efforts, enthusiasm and loyalty have largely contributed to Vossloh's success. We also thank the employee representatives for constructively working together with us in an atmosphere of mutual trust and confidence.

Research and development

The Vossloh Group's companies are among the technology leaders in their respective markets and as such constantly investing in product and service improvements. One of their prime aims is to satisfy the specific requirements of customers in the various market regions. In addition, Vossloh repeatedly works on pioneering new solutions. Since a large share of R&D takes place in connection with specific contracts, the associated costs are reflected in the cost of sales and not in R&D expenses.

Inauguration of Technology Center in Werdohl

The past fiscal year again saw broadly ranging R&D activities for widening the product portfolio and aligning it to emerging trends. This was and is being reflected in construction work, too. On July 1, 2011, Vossloh Fastening Systems' new Technology Center in Werdohl was inaugurated; Vossloh Switch Systems is planning a Technology Center for Reichshoffen. Moreover, the companies of the Vossloh Group are successfully focusing on intragroup cooperation in the area of research and development. Current examples are the train-tram and Tramlink vehicles, a joint effort between Vossloh Rail Vehicles and Vossloh Electrical Systems; the new-generation high-speed grinding train (HSG-2) built by Vossloh Locomotives according to a blueprint of Vossloh Rail Services; as well as various teamwork projects between Vossloh Fastening Systems and Vossloh Switch Systems successfully installed and tested to deliver initial visible results under the working title Joint Technologies.

Europe-wide partnerships with universities and research institutes

On certain research projects, the Vossloh companies revert to the specific know-how of external parties. Partnerships with universities and research institutes were again systematically expanded in 2011. Involved in several pan-European megaprojects such as ERI (Eco Rail Innovation, Vossloh Locomotives), CleanER-D (Clean European Rail-Diesel, Vossloh Rail Vehicles), MARATHON (Make Rail The Hope for protecting Nature, Vossloh Rail Vehicles) or RAILENIUM (Vossloh Cogifer), Vossloh is helping to shape the future of rail transport. The aim is a further reduction of emissions and noise, the efficient use of resources, the utilization of alternative energy sources, as well as enhanced rail safety and efficiency.

In 2011, Vossloh Fastening Systems merged its R&D activities under one roof, with additionally Quality Management, Project Management and parts of the Sales department all housed in the new Technology Center. Additional dynamic testing machines were commissioned which increase testing capacities in track load simulations and offer additional research potential in the area of higher-frequency loads at various temperatures. In 2011, the development of a new heavy-haul rail fastening system was completed.

The focus was on two-dimensional rail movements as occurring in very tight track bends. For the first time, an Skl 40 tension clamp was developed with a fatigue strength well above 3 mm amplitude with, at the same time, a high toe load of up to 15 kN as well as higher lateral fatigue strength of more than 100 percent. A patent has been applied for this tension clamp. This project also aimed at looking into the effects of various surface treatments on the tension clamp. For China's local and long-distance transport infrastructure, new rail fasteners for ballast and slab tracks were engineered. With the approval tests passed, the development of the new DFF Metro fastening system made further progress. A major share of R&D activities in 2011 was again the short-notice addressing of individual customer requirements.

Rail fasteners for new applications

At Vossloh Switch Systems, engineers continued refinements on an environment-friendly zero-lubrication switch. Examined was the influence of various coatings on the friction resistance of the rail chair. Several prototypes of switch systems and system components were successfully track-tested, among these a rail chair with spring roller for actuating very long and high-speed switches with less effort, as well as bainitic frog points intended to help minimize rolling-contact fatigue. Innovative switch solutions for extremely arid and sandy regions were field-tested in Mauretania. A new electrohydraulic switch actuator from Vossloh Switch Systems passed its acid test at several types of installation in Sweden; approval is expected for mid-2012. As in the previous years, most of the work on switch monitoring, locking as well as signaling devices addressed concrete customer requirements and was carried out with close customer cooperation.

Innercity high-speed rail grinding

In 2011, Vossloh Rail Services' R&D activities concentrated on the development of a side car for the new HSG-2 high-speed grinding train as well as on the design of a dust collector at the grinding units. With the presentation of a production-ready set of drawings for the grinding and side cars, the development of the HSG-2 is completed for the time being. In the fall, preparations began on the HSG-City, an autonomous high-speed grinder for innercity tracks and, together with an external partner, on a mobile track miller.

In 2011, Vossloh Transportation Systems again expanded its product portfolio with programs launched the previous years. At the German Kiel location, the development of the new modular family of center-cab locomotives progressed further. Apart from power rating, weight and software, the customer can choose between drive systems (diesel-hydraulic or diesel-electric) on all models.

Vossloh Locomotives commissioned a rig for testing diesel-electric drivelines in a realistic environment and worked out the adequate analytic procedures for efficient traction applications conforming to the market for the new locomotive family. Various projects, partly already started, for saving fuel, reducing emissions and the use of energy storage systems over the years ahead are set to lead to the development of a "green" locomotive. The Kiel experts invested plenty of time and work in 2011 to meet the ever higher vehicle safety requirements. At the Valencia location in Spain, work on further developing the EURO*LIGHT* continued in 2011. Due to its low weight (below 20 t per axle), this locomotive developed from the EURO 4000, is also able to operate on limited axle-load lines. It can be employed for passenger transport as well as freight haulage and meets the new IIIA/B emission standard. Also, Vossloh's own integrated analysis, control and regulating systems EFITREN, DAS and TWC for optimizing the efficiency of Vossloh vehicles were specifically adapted to this type of locomotive within the course of developing the EURO*LIGHT*. For 2012, the engineers in Valencia have planned direct data exchange via GPS between these systems and again to cut the locomotive's fuel consumption by more closely reconciling haulage performance to track conditions.

Train-tram for in and outside cities

In local public transport vehicles, the diesel-electric version of a train-tram developed together with Vossloh Kiepe, was a focal point in 2011. The vehicle is proving a success story which is arousing more and more interest on the part of transit operators, since this maneuverable LRV will also travel at mainline speeds of up to 100 km/h. So, it can operate on downtown tracks as well as outside the city and there is no need for commuters to change vehicles.

Improved traction control efficiency for local transport

In 2011, Vossloh Electrical Systems started work on the first all-Vossloh tram, initial orders already being on hand. The vehicles built at Vossloh Rail Vehicles in Valencia, will have their electrics assembled by Vossloh Electrical Systems. For compiling various equipment packages to customer specifications and vehicle characteristics in diverse performance and voltage ranges, traction control and on-board power supply modules were developed. This was also the development start of an energy storage system that, on the one hand, permits operation of this tram without overhead wire along a defined distance and, on the other, contributes toward better energy utilization. Electric buses, too, were on the agenda of R&D work in terms of efficiency enhancement.

For hybrid buses, important steps with respect to vehicle fuel consumption were taken through optimizing the energy management system—an important advantage when competing with other manufacturers. On its way to an all-electric bus, Vossloh Electrical Systems has laid the conceptual groundwork with its own in-house hybrid technology. On a currently ordered trolleybus, a modern lithium-ion battery replaces the customary diesel-powered standby unit. A merger of these two developments will lead to a future battery-powered electric bus. The modifications and refinements still required are already elements of this business unit's long-term R&D strategy.

Environmental protection

Vossloh products contribute toward greener public transport

Passenger and freight haulage by rail is by nature one of the greenest modes of transportation. Products and services from Vossloh make an important contribution so that the eco-friendly movement of people and goods is both cost efficient and safe. The Group is working in all its business units on making rail transport even greener and thus emphasizing it as an attractive means of conveyance. Modern vehicles fitted out with Vossloh hybrid technology and, most especially, the (trolley)buses equipped with Vossloh systems command a leading edge in terms of ecological benefits compared with private cars.

Of course, the developers of diesel locomotives from Vossloh ensure that their vehicles consume as little fuel as possible—thus emitting minimum CO_2. This is even truer, when in 2012 with the enactment of the European Non-Road Mobile Machinery Directive (NRMM), generally stricter exhaust gas limits (Stage IIIB) must be met. For years now, Vossloh Locomotives in Kiel and Vossloh Rail Vehicles in Valencia have been involved in research projects with a focus on reducing emissions. In 2011, Vossloh for the first time compiled a complete Environmental Product Declaration for the EURO*LIGHT* from Valencia, this reflecting the locomotive's resources consumption throughout its lifespan.

Zero emissions with traction systems from Vossloh Kiepe

“Zero emissions” is a benchmark that applies to trams and electric buses with traction technology from Vossloh Kiepe. Another advantage of the electric buses: they are comparatively quiet in operation—a fact appreciated by passengers and pedestrians alike. Even conventional buses can become more eco-friendly with Vossloh technology, with hybrid drive reducing exhaust and noise emissions dramatically. The first results of field tests on buses with an even more environment-friendly fuel-cell hydrogen drive are positive. Vossloh is continuously widening its competency in the area of eco-friendly electric mobility; in 2011, work was carried out especially on innovative energy storage systems for our local transport vehicles.

Vossloh generates a significant share of its sales with products and services contributing toward environment-friendly and sustainable solutions. Therefore, the Company is listed in the Global Challenges share index of the Hannover stock exchange and in the sustainability rankings of oekom research, Inrate, Sarasin, and Kempen/SNS, which recommend Vossloh stock as an investment in sustainability funds.

In production, all Vossloh Group companies attach great importance to a sparing and efficient use of resources. In order to analyze the deployment of resources such as energy, water and raw materials in their entirety and derive measures for minimizing consumption, the Fastening Systems business unit, for instance, has set itself environmental protection targets which are regularly reviewed and analyzed. Generally speaking, emissions from production have been cut to a minimum. Regular audits by the responsible environmental authorities prove that all statutory and regulatory requirements are consistently adhered to and the permitted limits are undercut, in some instances significantly. Residuals are consistently reused or recycled as far as possible; waste is systematically sorted.

Improved energy efficiency at Werdohl and at Vossloh Electrical Systems in Düsseldorf

At its Werdohl headquarters, Vossloh is implementing a multistage energy concept for systematically enhancing energy efficiency. Since 2010, process steam is no longer produced by a big central boiler but where needed by small, highly efficient local units. The temperature in the production shops is provided by radiant heaters that exploit the heat discharged by the hardening and tempering equipment. The Technology Center of Vossloh Fastening Systems, inaugurated in 2011, completely dispenses with fossil fuels and utilizes waste heat from hydraulic testing rigs and machines. Any surplus energy will be transferred to other buildings.

In 2011, Vossloh Electrical Systems, too, invested additional funds in improving the energy efficiency at the Düsseldorf location. Alongside comprehensive insulating measures on buildings, a powerful photovoltaic system was installed. By modernizing the extraction unit in a coating shop for printed circuit boards, emissions were significantly abated.

In both Kiel and Valencia Vossloh uses exclusively low-solvent paints for the finishes on its locomotives. “Green IT” is the name of a program intended to cut paper and electricity consumption in Kiel. Vossloh Fastening Systems has also been using waterborne paints for the surface coating of its tension clamps for years now. By resorting to a special map, it conducts targeted searches for green production materials.

The Vossloh Group consumed the following amounts of electricity, gas, district heat, water and heating oil in 2011: Electricity consumption totaled some 70 million kWh, including 85 percent at Rail Infrastructure. Gas consumption was about 160 million kWh, about one-half at Vossloh Fastening Systems which operates the gas furnaces for hardening and tempering its tension clamps.

Consumption of district heating was around 20 million kWh; a large share was used at the Kiel production plant for center-cab locomotives. The Vossloh Group consumed about 120,000 m³ of water and approximately 650,000 liters of heating oil. Almost all of this latter was used by Rail Infrastructure. Total energy costs amounted to €14.1 million, equivalent to 1.2 percent of sales.

DIN EN ISO 14001 certification at all large locations

The large Vossloh locations have all been approved and certified to the DIN EN ISO 14001 environmental management system or comparable systems and undergo regular audits by external, independent bodies. Vossloh Rail Vehicles, Valencia, readied itself in 2011 also for the EU's EMAS (Eco-Management and Audit Scheme). In Germany, Vossloh Kiepe has been additionally certified to the OHSAS 18001 occupational health & safety standard since 2001. Vossloh Kiepe Austria, Vienna, Vossloh Rail Vehicles, Valencia, and Vossloh Kiepe Main Line Technology, Düsseldorf, have since 2010 held certificates of approval according to IRIS (International Railway Industry Standard). Vossloh Cogifer's Fère-en-Tardenois location has been complying with the even stricter ILO OSH 2001 safety and health standard since the end of 2007.

Risk and reward management

Organization

Risks and rewards are systematically identified, analyzed, assessed, reported, monitored, controlled and managed at all levels of the Vossloh Group. To this end, Vossloh has set up a groupwide risk and reward management system. This ensures that the impact of possible adverse changes is avoided or contained and that any opportunities arising are indicated and seized.

The risk and reward management system is part of the business, planning and controlling mechanisms. The system's setup is defined and described in groupwide principles, policies and procedures. The organizational setup is based on the structure of the operating processes and procedures of the respective unit. Risk owners, risk officers and risk controllers are appointed at all group levels. The identification of risks and rewards is ensured by a perpetual risk inventory in which relevant risks are identified effectively, timely, and systematically.

Perceived risks and rewards are analyzed and assessed at Vossloh for their possible impact on earnings. For this purpose, not only the most probable impact on earnings but also the worst case and the best case are determined. These are supplemented by an assessment of loss probability. For the best and worse case scenarios, a value-at-risk approach with a minimum probability of 5 percent is assumed.

All the (direct or indirect) Vossloh subsidiaries, both in Germany and abroad, are integrated into the risk and reward management system irrespective of their consolidation. Newcomers are integrated with the system in good time.

Risks and rewards are documented and communicated at Vossloh in standardized reports. These contain detailed information on the type of risk and reward and on the assessment parameters, as well as on the action for controlling risks and reaping rewards. Periodic reporting is quarterly and serves as a supplement to the rolling annual projection and allows risks and rewards possibly occurring in future periods to be profiled, too. Ad-hoc reports additionally facilitate at all times an updated evaluation of the current situation.

These reports are addressed to Vossloh AG's Executive Board as well as the senior management of each company and business unit. It is they that control and monitor risks and rewards. At the level of Vossloh AG, the current risk situation is regularly discussed between business unit management and the Executive Board. The system is regularly reviewed by Internal Auditing and the statutory auditor for adequacy, efficiency and compliance with legal requirements.

The report below accounts for those risks and rewards which were of relevance at the time the consolidated financial statements were prepared and which are material to the Vossloh Group's future development. Risks whose impact has already been recognized in the balance sheet in the form of write-down, allowances, haircuts and/or provisions or which have been shifted by contract, e.g. to insurers, are not covered by the following report unless deemed essential for the overall evaluation of the risk situation, such as if a material residual risk is retained. Rewards and opportunities result primarily from operating business (e.g., by generating incremental revenue).

General economic and sector risks and rewards

General economic risks and rewards are essentially related to economic cycles, sociopolitical events, exchange and interest rate trends, as well as changes to legal and fiscal parameters. Sector risks and rewards are tied to the competitive situation and the characteristics of the relevant markets.

Rail business is normally less volatile than the economy in general. Given the economic clouds presently in evidence there is the risk that here and there state and/or private customers will shelve or even cancel contracts. Austerity measures in the maintenance market, one of significance to Vossloh, are of only limited duration and restricted scope due to the expanding volume of rail haulage overall.

Apart from the general economic situation as such, political policies, the status of rail sector deregulation and public-sector debts are among the factors impacting on the market. The ability of the public sector to spend is limited by its debts. And hence restricted funds may well impact on future business trends. The sovereign debts of some Southern European nations were in fiscal 2011 a prime cause for delayed and therefore shrinking order influx from this region. In the case of new projects, alternative funding options such as public-private partnerships continue to receive considerable attention as possible approaches.

With its two divisions, Rail Infrastructure and Transportation, Vossloh ranks among the foremost suppliers on selected rail industry markets. The markets of relevance to Vossloh are oligopolistic by nature both on the demand and supply sides. Most of the customers are rail and network operators, as a rule still under public-sector control. This implies dependence on public-spending patterns which Vossloh attempts to abate by expanding its international presence. Exploiting market opportunities as they surface, especially in the Rail Infrastructure division, brings about a balancing effect. At the focus of Vossloh's internationalization drive are presently the growth markets China, Russia, other Eastern European countries, the MENA states, the United States, and South America. In recent years the Group has much reduced its reliance on individual European markets. In 2011, non-European sales amounted to 29.8 percent. The share in 2010 had been 29.5 percent.

Rail markets in Western Europe and North America are more or less stable in terms of their political and economic environments and hence as far as these core markets are concerned, there are no major risks confronting the Group. Accessing new markets elsewhere, especially Asian and African, does expose Vossloh not only to opportunities but also risks possibly arising from political and social instability, exchange rate fluctuations and legal uncertainties. As the percentage of sales in these markets grows, both opportunities and risk exposure rise. A case in point is Libya where in 2010 Vossloh had booked two big contracts. Then, in the course of the violent clashes after January 2011, shipments were suspended at the insistence of the general contractor. For last year, Vossloh had planned sales of around €70 million from Libya. China is another country with appreciable project delays in 2011, one reason being the sharp reduction in shipments for equipping the nation's high-speed lines following a change at the head of China's Railway Ministry in early 2011.

The oligopolistic nature of the supply side of the market also harbors risks for Vossloh. The high level of market transparency may lead to fiercer price competition with adverse effects on margins. There is also the risk of products being replaced by newly engineered ones and that new competitors enter the market. Vossloh avoids or contains such risks by repeatedly refining its products and services and cultivating close contacts with existing customers. One particular trend observable at present is the mounting pressure on profit margins, especially in Northern and Southern Europe.

The aforementioned factors impacted to a considerable degree on the Group's results for 2011 and were the decisive factor in the revised sales and EBIT forecasts announced on July 7 and September 29, 2011.

Operating risks and rewards

This category includes operations-related activities such as sourcing, production, and contract performance.

Vossloh attempts to counteract purchase price (input market) risks especially by long-term procurement contracts or price escalator clauses through agreements with customers. Exchange rate risks from purchasing are normally managed by currency forwards. With commodities (especially steel and oil) becoming scanter, this will lead in the medium term to higher production costs, especially for Rail Infrastructure. Component prices at Transportation impact on earnings. Cost hikes of materials in 2011 could not be wholly downloaded onto customers. The medium-term planning assumptions of increases in the cost of materials and components are based on such factors as supplier information and market analyses. Any rises significantly above these assumptions may drain profitability as forecast by the divisions. Rewards may accrue from material and component prices that turn out to be lower than budgeted.

Procurement chain risks may also result from supplier dropouts, poor quality or delivery delays. Vossloh attempts to minimize these risks by working with longstanding local vendors. Despite a careful screening of suppliers, ongoing monitoring and setting-up alternative sources, future procurement chain risks may be contained but never fully ruled out.

Along the value-adding chain, Vossloh subsidiaries are exposed to work interruption, quality problems, as well as occupational safety and environmental risks. These risks are either altogether avoided or at least diluted through a comprehensive set of guidelines and standard procedures or policies that govern project and quality management, product and occupational safety, as well as environmental protection. The essential Vossloh locations have been certified to the DIN ISO 9001 quality management system and moreover the large ones such as the Chinese rail fastener facility fulfill the criteria of the ISO 14001 environmental management standard.

Project complexity is another source of risks and includes unexpected technical or engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors, logistic challenges, and acceptance and invoicing delays.

These are factors possibly leading to unbudgeted expenses or financial penalties. Contractual provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. Especially exposed to risks of this nature is Transportation. Rewards may arise when risk provisions are not fully utilized.

Project risks arising in 2011 and still existing have been provided for as required by the IFRS.

Financial risks and rewards

Financial risks are monitored and managed, and the Group's finances precision-engineered, by Corporate Treasury. The goals, principles, responsibilities and accountabilities are defined in policy statements. The overriding aim is to contain financial risks that might affect the survival and profitability of the Vossloh Group. Moreover, intragroup synergies and economies of scale must be harnessed wherever considered expedient. In the management of its capital structure, Vossloh targets the benchmarks of an investment-graded company.

Vossloh uses financial derivatives solely to hedge against specific risks from current underlyings or forecast transactions. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, turn to the notes to the consolidated financial statements starting on page 163 of the Group's annual report. The following financial risks are controlled: liquidity risks, cash flow risks, price risks, as well as default and similar counterparty risks.

Liquidity risks

Liquidity risks may arise if the Group is potentially unable to provide the funds required to meet its obligations in due course and fully. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies and the necessary latitude for translating corporate strategies into practice) through a rolling cash management system. An intragroup financial netting concept through cash pooling and intercompany loans ensures the best possible application of any surplus cash at certain subsidiaries to meet the liquidity requirements at other group companies. As of December 31, 2011, the Vossloh Group had cash and cash equivalents (including short-term securities) of a total €88.2 million. In addition, bilaterally committed, unutilized credit facilities of another €195.7 million were at Vossloh's disposal, including €109.2 million due within, and another €37.6 million due after, one year while an additional €48.9 million was committed with no maturity.

The two major long-term borrowings raised need not be refinanced before 2014 and 2016. While the stock buyback program carried out in 2011 did step up net leverage, the still conservative net debt level ensures that no financial or cash bottlenecks occur.

Cash flow risks

Changes in future interest rates may cause cash flow ups and downs where variable-rate assets and liabilities are involved. Vossloh contains this risk by means of interest rate swaps and regularly analyzes the impact of a changed interest rate level on cash flows. Presently, the Vossloh Group is not exposed to any significant interest rate risks.

Price risks

Price risks arise from the possibility that the value of a financial instrument is changed by higher or lower market interest or exchange rates. With a view to benefiting for a long term from the low interest rates, the Group restructured its finances in 2004 by raising one ten-year and one twelve-year loan under a US private placement of a total $240.0 million (around €200 million). As part of its proactive risk management concept, Vossloh has fully hedged future principal and interest payments through interest rate and cross-currency swaps on a euro basis. For details, see the notes to the consolidated financial statements, starting from page 171 of the Group's annual report.

Current or expected currency receivables and payables represent an unmatched position which is generally closed by contracting currency forwards. Risks from translating currency positions in the financial statements are subject to ongoing monitoring.

Default risks
Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to Vossloh. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies. As of December 31, 2011, cash investments and financial derivatives with a positive fair value were allocable at 8 percent to counterparties rated (according to Standard & Poor's) between AA+ and AA–, at 77 percent to those rated from A+ to A–, at 8 percent to counterparties rated BBB+ to BBB–, and at 7 percent to BB-rated or non-rated counterparties. In fiscal 2011, the rating of most banks essentially remained unchanged. However, the credit standing of two Spanish banks was downrated from excellent to very good. Moreover, risks are spread by distributing the Group's cash and other financial assets among a plurality of banks. No dependence on specific banks has existed or does exist.

Many of our customers are government agencies, and the risk of their default is regarded as very low. Nonetheless, balances outstanding are throughout monitored and partly covered by credit insurance. In export business, the risk of customer default is usually counteracted by using documentary credits.

On balance, the Vossloh Group's net earnings were in 2011 not affected to any significant degree by financial risks.

Legal risks and rewards

Legal risks for Vossloh comprise basically those arising from complaints, warranty claims, claims for damages or indemnification, and litigation. Identifiable legal risks are either covered by insurance or, if the applicable criteria are met, adequately provided for in the balance sheet. Nevertheless, losses may occur that are uninsured or underinsured, or outweigh accruals by far. In contrast, rewards may in some cases be reaped if risk provisions remain underutilized.

Two cartel authorities are investigating into the suspected collusion for anticompetitive quotas and prices in the field of rail and switch marketing. This investigation involves three Vossloh companies.

No further information about potential risks or exposures from antitrust proceedings against Vossloh companies can at present be disclosed. Vossloh refrains from giving details in this report on the related exposure to obligations or contingent liabilities in cases of any serious potential impact on its interests.

None of these legal risks influenced the Group’s earnings in 2011 to any substantial degree.

Other risks and rewards

These are mainly of an HR or IT nature. The Group's economic situation may well suffer as a result of substandard staffing such as shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, poor training, mistakes or theft committed by employees. Vossloh has a whole menu of measures to abate such risks: in particular, a reputation as an attractive company to work for, a reputation that strengthens its position in the competition for highly qualified employees. In-house courses allow employees to regularly upgrade their skills while very competitive pay structures tie the employees long-term to the Group. The control of operational and strategic business processes largely relies on complex and powerful IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability, confidentiality and security. Such mechanisms and instruments also ensure efficient information processing.

None of these “other risks” influenced the Group’s earnings in 2011 to any substantial degree.

Overall assessment of the risk and reward situation

The potential impact of any or all risks described above and which Vossloh is exposed to on its results of operations, asset and capital structure or financial position, is monitored and controlled at all times. As required by IFRS, provisions have been made for all risks identified to date. The updated annual forecasts duly reflect any additional potential risks and rewards, where reliably identifiable. From today's vantage point, neither any specific risks nor all currently known risks in their aggregate are potentially ruinous or likely to jeopardize the Vossloh Group's or any subsidiary's continued existence as a going concern in terms of either assets or liquidity. The Group's equity shrank in the year under review largely in the wake of the treasury repurchase program and the dividend payout. Vossloh's total equity lies well above the risk-adjusted capital, i.e., the statutory minimum equity portion that is earmarked exclusively for the cover of potential losses.

This risk and reward report refers to the situation of the Group at the time the group management report was prepared.

Key criteria of the accounting-related internal control and risk management systems (ICS/RMS) pursuant to Arts. 289(5) and 315(2) No. 5 HGB

As stated above in the report on risks and rewards, Vossloh has installed a comprehensive monitoring system for the groupwide methodical early identification of going-concern risks as required by Art. 91(2) AktG, with a view to identifying early on, managing and monitoring not only risks jeopardizing Vossloh's survivability but also other risks, including those beyond the statutory scope. According to Art. 317(4) HGB, the statutory group auditor assesses the existence and effectiveness of the early risk identification system (ERIS). The Vossloh Group's ICS described below encompasses all principles, methods, processes and procedures designed to ensure not only the accounting system's effectiveness, efficiency and propriety but also compliance with applicable legal and statutory regulations.

Responsible at group level for the ICS are substantially Vossloh AG's corporate departments of Internal Auditing, Controlling, Accounting, Treasury, and Legal Affairs.

In-process and process-independent monitoring procedures and routines are ICS components. Besides manual process controls (such as peer reviews) IT processes, too, are a key element of in-process steps. Further, Corporate Legal Affairs ensures that certain in-process monitoring routines are implemented.

Process-independent tests and/or audit procedures are the responsibility of Vossloh AG's Supervisory Board (specifically its Audit Committee) and Internal Auditing, as well as of staff locally assigned at the level of the business unit flagship company. The statutory (group) auditor is also involved by performing process-independent tests and audit procedures. Particularly the annual audit of the consolidated financial statements, as well as the focal interim audit procedures upstream of the annual audit of the separate financial statements are essential process-unrelated monitoring procedures that center on the corporate accounting system.

IT

For their separate financial statements, subsidiaries record accounting transactions locally by using presently still heterogeneous accounting software.

However, for the purposes of Vossloh AG's consolidated financial statements, all Vossloh companies complement their separate financial statements with additional information and disclosures which thus constitute standardized reporting packages. The subsidiaries included in the consolidation group then enter these into the Cognos Controller system for processing into the required consolidated format and providing additional management information.

A multiyear SAP project is currently being implemented within the Vossloh Group in order to roll out a standardized SAP system at all entities involved in accounting and reporting processes. The new software will enable centralized access to data and centrally triggered control routines. The SAP rollout has so far been completed for Vossloh AG and major companies of the Fastening Systems, Switch Systems, Electrical Systems and Rail Services business units.

Accounting-related risks

Preparing financial statements requires management to make certain assumptions and estimates. These estimates affect the reported values of recognized assets and liabilities and of current balances of contingent liabilities, as well as the recognition of income and expenses in the period. The use or misuse of the necessary discretion may entail accounting-related risks for the Group.

Major safeguards for a valid and reliable accounting system

Based on the rules of those International Financial Reporting Standards (IFRS) which have been endorsed by the EU, the Vossloh Group's Corporate Reporting Manual governs the groupwide uniform accounting policies and principles to be applied by all German and foreign Vossloh companies included in the consolidated financial statements, essentially by describing the EU-conforming methods to be used for preparing balance sheet, income statement, and the notes. Furthermore, the Manual provides specific guidance for the official format of consolidated financial statements, and details the determination of the consolidation group and the reporting package elements to be submitted by the subsidiaries.

The format requirements also specify all details of the obligatory, standardized set of reporting package forms. The Manual is periodically revised and updated and then placed in due course at the disposal of all those involved in the Group's accounting process.

After transactions have been recorded in the local accounting system of each subsidiary, the monthly accounts are reviewed at the level of the business unit flagship company. Besides random-sampled cases, tests would focus primarily on high-amount or unusual transactions. Corporate guidelines exist, for instance, for capital expenditures, bidding, and risk management. Vossloh companies and business units are, moreover, obligated to issue local guidelines for material areas. Corporate Internal Auditing reviews all such guidelines and causes amendments to be enacted wherever deemed necessary.

In addition, further data is compiled and aggregated at group level in order to publish certain external information in the notes and the management report (including about significant subsequent events).

Through the organizational, controlling and monitoring structures established within the Group, Vossloh's ICS and RMS substantially ensure (i) the complete accounting for, as well as the processing and assessment of, Vossloh-related transactions and events, and (ii) the faithful representation thereof in the consolidated financial statements.

Specifically individual discretionary or arbitrary decisions, faulty controls, fraud, or other factors can naturally not be fully ruled out and, therefore, even the groupwide installation of such systems cannot provide absolute protection.

Limitations

The statements herein refer only to subsidiaries which have been consolidated by Vossloh AG and whose financial and business policies can directly or indirectly be controlled by Vossloh AG, as well as to Vossloh AG.

Reference to the corporate governance report acc. to Art. 289a HGB

For the corporate governance report (which is an integral part of the combined management report) see page 36 of the Group's annual report. The annual report is also available long term on Vossloh AG's website at www.vossloh.com

Subsequent events

No events have occurred up to the date of preparation of the consolidated financial statements that would suggest that the Group's future cannot be inferred from the Group's current situation (as described above).

Order backlog at record level

Sales and earnings to rebound in 2012 and 2013

ROCE and EBIT margin to recover

Debts stay conservatively scaled

Organic growth and judicious acquisitions firm components of strategic targets

Prospects

For 2012, the International Monetary Fund (IMF) expects a weakening of global growth, from 3.8 percent in 2011 to 3.3 percent. A recovery to 3.9 percent is then expected for 2013. In those markets of particular relevance to Vossloh, the eurozone, China, and the United States, the IMF likewise expects for 2012 temporarily softer expansion. From today's vantage point, the nations of the eurozone are likely to show a negative growth rate of 0.5 percent in 2012 then reversing into a positive 0.8 percent in 2013. A mainstay will be Germany for which above-average growth rates are anticipated—0.3 percent in 2012 and 1.5 in 2013. The figures for the USA amount to 1.8 and 2.2 percent, respectively; for China, 8.2 and 8.8 percent, respectively.

Global growth forecasts down for 2012

Global trading volumes are likewise predicted to advance over the years ahead in the wake of the general economic situation. For 2012 and 2013, the IMF predicts growth rates of 3.8 and 5.4 percent, respectively. Trading volumes and the related demand for haulage services rank among the key drivers in the rail technology market. Moreover, these markets may also benefit from the ongoing urbanization trend as well as the growing significance of ecological considerations.

The Association of the European Rail Industry (UNIFE) published its Worldwide Rail Market Study 2010 in 2010. At the time, it predicted annual growth rates in order intake averaging 2.3 percent up to 2015/16 until the market accessible for rail technology arrives at around €112 billion in 2016. The study also stated that in the period 2007 to 2009, the accessible rail technology market had had an average volume of about €95 billion annually.

UNIFE forecasts 2.3-percent annual growth until 2015/2016

The study assessed the global rail infrastructure market for the period 2007 to 2009 at an average of around €20 billion. On a regional breakdown, the largest markets for rail infrastructure and services were Western Europe (€6.6 billion), North America (Canada, USA, and Mexico) with €5.6 billion and Asia/Pacific with €4.9 billion. The average annual growth rate for the years ahead was forecast at 0.7 percent. According to the study, certain imponderabilities could result from the possibility of reduced capital expenditures in China's rail infrastructure market.

According to the same study, the accessible market for rail vehicles amounted to just under €37 billion, with the biggest shares contributed by Asia/Pacific at 40 percent and Western Europe at 28 percent. The prediction for market growth in the years ahead averaged 2.5 percent. Above-average growth rates would be shown, in particular, by Eastern Europe and the CIS nations due to their high replacement requirements as well as the Americas on account of rising haulage volumes.

Accessible rail market to grow especially in Eastern Europe, CIS, and the Americas

Besides general economic and industry-related parameters, Vossloh's sales forecasts take into consideration, in particular, assumptions specific to the business units. These concern such things as product perspectives, expected competitive strategies, project probabilities, and market risks and rewards in the individual regions. Compared with other industries, the rail sector has a more reliable window when compiling its own forecasts. Vossloh customers are public and private local and long-distance transport operators who carry out capital expenditures after long-term decision-making processes and within the framework of relatively long-range financing setups. As their partner, Vossloh accompanies its customers over many years. Together with them, it develops and designs specific solutions for individual product requirements. As a rule, this results in lengthy delivery and project lead times. Accordingly, order backlogs cover several months, more and more contracts even extending over several years.

Risks may emerge, moreover, from the cyclic spending patterns of public and private customers in the individual markets. In 2011, for example, the compulsion to consolidate public-sector budgets in individual regions did bruise the rail technology markets. In past years the business units were able to offset fluctuations in individual regions by, at least, their global presence. This was consistently expanded in recent years by entering new markets, especially in Asia, North America, and Eastern Europe. Over the past years, the Rail Infrastructure division has carried out substantial acquisitions and the establishment of locations in these regions; further such projects are planned for the years ahead. However, entering new markets not only offers opportunities but is also tied to incremental risks which may emerge, in particular, from political and social instability or legal uncertainties.

The year 2011 saw simultaneously several such risks whose concurrence prevented any compensation during the fiscal period. In particular, delays in the construction of high-speed lines in China resulted in the shelving of shipments of rail fastening systems. Product delays also occurred in Russia. In addition, the suspension of construction work in Libya's planned project also hurt business. Aggravating the situation was the increasing delay and associated shrinkage of order placements in Southern Europe as well as Scandinavia, regions with growing price pressure specifically for the Rail Infrastructure division. These factors meant that on July 7, 2011, and again on September 29, 2011, Vossloh had to revise its forecasts. Regarding further risks and rewards that might affect the medium-term plans as outlined, refer to the comments in the chapter on Risk & Rewards (page 57).

Order intake and order backlog, in contrast, made good progress in 2011, a period in which numerous megacontracts were won, especially by Transportation.

Vossloh Group: sales and performance trends

		2011	2012p
Sales	€ bill.	1.2	1.25 – 1.3
EBIT	€ mill.	96.5	approx. 100 – 110
EBIT margin	%	8.1	8.0 – 8.5
ROCE	%	11.9	12.5 – 14.0
Value added	€ mill.	15.4	>20
Earnings per share	€	4.28	4.50 – 5.00

p = plan

Group order backlog at all-time high

At the end of 2011, order backlog at €1.5 billion has reached a new all-time high and constitutes a solid basis for business expectations over the coming years. For 2012 and 2013, Vossloh AG forecasts a rise in sales and earnings: sales of between €1.25 billion and €1.3 billion for 2012 (2011: €1.2 billion) and for 2013, sales of between €1.3 billion and €1.35 billion. According to present estimates, EBIT in 2012 will range between €100 million and €110 million. For 2013, Vossloh expects an EBIT of between €120 million and €130 million. Accordingly, the EBIT margin will mount to 8.0–8.5 percent in 2012 and 9.0–10.0 percent in 2013. Group earnings in 2012 should total between €55 million and €60 million. In 2013, they are expected to again climb to between €70 million and €75 million. EpS in 2012 will then range between €4.50 and €5.00 and in 2013, between €5.80 and €6.20. Value added, as a key controlling parameter of the Group, should rise in 2012 to over €20 million and in 2013, to over €40 million. From today's vantage point, ROCE will come to 12.5–14.0 percent and in 2013 at 14.5–16.0 percent will have regained the self-set benchmark of 15 percent.

Sales, earnings and profitability to rebound in 2012 and 2013

Rising sales expected for both divisions in 2012

From today's viewpoint, the Rail Infrastructure division will over the next two years recover through ongoing internationalization and expand its market position, one factor being an optimization of cost structures. Vossloh expects rising sales in 2012 and likewise a solid performance in 2013. Cost of materials has been budgeted at the high level of 2011. The Transportation division has bottomed out and is benefiting increasingly from strong order intake for new locomotive models and local transport rail vehicles. Vossloh has booked various megacontracts for locomotives including one from Israel. In addition it has won a large contract for 50 light rail vehicles for Hannoversche Verkehrsbetriebe, 25 low-floor light rail vehicles for Verkehrsbetriebe Karlsruhe and Albtal-Verkehrsgesellschaft, 13 light rail vehicles for Rostocker Strassenbahn AG, and 31 suspension railcars for Wuppertaler Stadtwerke.

According to present forecasts, Vossloh expects both sales and EBIT at its two divisions, Rail Infrastructure and Transportation, to continuously improve over the planning period.

Vossloh Group: indicators

		2011	2012p
Average working capital	€ mill.	211.2	>175
Average working capital intensity	%	17.6	>13
Capital expenditures*	€ mill.	65.6	approx. 79
Average capital employed	€ mill.	811.4	approx. 800
Net financial debt	€ mill.	238.8	>170
Net leverage	%	49.5	>2

p = plan
*excl. M&A

Working capital can again be cut back

The Group's average working capital in 2012 is set to fall further to over €175 million, this trend continuing in 2013. Given the rising sales predictions, average working capital intensity should likewise shrink. For its average capital employed, Vossloh in 2012 expects to continue at the present level of around €800 million, with a slight increase in capital employed in 2013. Vossloh's capex program will be completed in the next two years. In 2012, capital expenditures are set at about €79 million and in 2013, around €65 million. The funds will go into the revamping and selective expansion of individual locations as well as in setting up a rail fastener manufacturing facility in Russia. In addition, Vossloh is continuing its work on building new trains for high-speed rail grinding. The two locations of Kiel and Valencia are also developing new models of locomotives. Despite the heavy expenditures, the Group's debts will remain on a conservative scale in 2012 and 2013.

Financial debts stay conservative

Net leverage is likely to droop to 32+ percent. Net financial debt in the next two years is then expected to amount to at least €170 million.

The bottom line of Vossloh AG as a pure management and financial holding company is primarily affected by administrative expenses and net financial results. General administrative expenses are set to remain at their current level in 2012 and 2013.

Organic growth will continue to be the focus of Vossloh's objectives in the years ahead, as will the search for judicious acquisitions which strategically complement the existing portfolio of shareholdings. This concerns possible expansion geographically as well as additional rail infrastructure and vehicle products and services. The aim of such acquisitions is firstly to optimize the Group's vertical production integration and secondly to open up additional growth opportunities. Sizable M&A transactions are intended to meaningfully supplement the Group's core competencies in mobility and transport. Acquirees should always meet group requirements from the outset while adding value. The medium-term plan figures in the form represented refer to the envisaged organic growth alone. They allow neither for any possible one-off effects (such as from antitrust proceedings) nor for any major acquisitions.

Focus on organic growth and judicious M&A

Separate financial statements of Vossloh AG as of December 31, 2011

Income statement for the year ended December 31, 2011

€ million	2011	2010
Net sales	1.3	1.2
Cost of sales	(1.2)	(0.6)
Gross margin	**0.1**	**0.6**
General administrative expenses	(23.2)	(20.7)
Other operating income	10.1	16.7
Other operating expenses	(0.9)	(1.1)
Operating result	**(13.9)**	**(4.5)**
Income from investments	20.0	10.0
thereof from subsidiaries: €20.0 million (up from €10.0 million)		
Income from P&L transfer agreements	55.0	49.4
thereof from subsidiaries: €55.0 million (up from €49.4 million)		
Income from other long-term securities/loans	0.4	0.3
thereof from subsidiaries: €0.1 million (up from €0.0 million)		
Other interest and similar income	8.1	7.7
thereof from subsidiaries: €7.9 million (up from €7.5 million)		
Write-down of financial assets and short-term securities	(0.1)	(0.1)
Expenses for loss absorption	(9.8)	(11.6)
thereof for subsidiaries: €9.8 million (down from €11.6 million)		
Interest and similar expenses	(15.0)	(14.8)
thereof to subsidiaries: €2.0 million (up from €0.5 million)		
Net financial result	**58.6**	**40.9**
Result from ordinary operations (EBT)	**44.7**	**36.4**
Extraordinary result	–	(3.8)
Income taxes	(0.6)	(0.5)
Net income	**44.1**	**32.1**

Balance sheet

Assets in € million	12/31/2011	12/31/2010
Purchased franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	0.3	0.4
Total intangible assets	**0.3**	**0.4**
Land, equivalent titles, and buildings (including on leased land)	8.9	3.8
Sundry plant, business and office equipment	0.4	0.3
Prepayments on tangibles, construction in progress	0.0	2.7
Total tangible assets	**9.3**	**6.8**
Shares in subsidiaries	497.0	496.9
Loans to subsidiaries	1.7	1.7
Other investments	0.1	0.1
Other long-term securities	0.1	0.1
Other long-term loans	0.0	0.0
Total financial assets	**498.9**	**498.8**
Total fixed assets	**508.5**	**506.0**
Trade receivables	0.0	0.0
Due from subsidiaries	265.5	225.3
Due from investees	0.0	–
Sundry assets	5.6	2.7
Total receivables and sundry assets	**271.1**	**228.0**
Cash on hand and in bank	15.0	0.7
Total current assets	**286.1**	**228.7**
Prepaid expenses and deferred charges	**0.1**	**0.1**
	794.7	**734.8**

Stockholders' equity & liabilities in € million	12/31/2011	12/31/2010
Capital stock	37.8	37.8
Treasury shares at notional par	(3.8)	(3.7)
	34.0	34.1
Additional paid-in capital	37.6	37.6
Reserves retained from earnings	182.4	283.3
Net earnings	49.9	39.1
Total stockholders' equity	**303.9**	**394.1**
Accruals for pensions and similar obligations	5.8	5.6
Tax accruals	0.2	3.0
Other accruals	11.2	12.0
Total accruals	**17.2**	**20.6**
Due to banks	95.0	0.1
Trade payables	2.2	1.1
Due to subsidiaries	171.7	114.2
Due to investees	0.0	0.5
Sundry liabilities	204.7	204.2
thereof for taxes: €0.4 million (up from €0.1 million)		
Total liabilities	**472.6**	**320.1**
	794.7	**734.8**

Fixed-asset analysis

€ million	Cost					Accumulated amortization/ depreciation/write-down				Book values	
	Balance at 1/1/2011	Addi- tions	Dis- posals	Book transfers	Balance at 12/31/2011	Balance at 12/31/2011	Additions	Dis- posals	Write- up	Balance at 12/31/2011	Balance at 12/31/2010
Intangible assets											
Purchased franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	8.1	0.1	(0.0)	–	8.2	7.9	0.2	(0.0)	–	0.3	0.4
	8.1	**0.1**	**(0.0)**	**–**	**8.2**	**7.9**	**0.2**	**(0.0)**	**–**	**0.3**	**0.4**
Tangible assets											
Land, equivalent titles, and buildings (incl. on leased land)	11.9	2.8	(0.4)	2.7	17.0	8.1	0.3	(0.4)	–	8.9	3.8
Sundry plant, business and office equipment	1.1	0.2	(0.0)	–	1.3	0.9	0.1	(0.0)	–	0.4	0.3
Prepayments on tangibles, construction in progress	2.7	0.0	–	(2.7)	0.0	–	–	–	–	0.0	2.7
	15.7	**3.0**	**(0.4)**	**0.0**	**18.3**	**9.0**	**0.4**	**(0.4)**	**–**	**9.3**	**6.8**
Financial assets											
Shares in subsidiaries	515.4	0.0	–	–	515.5	18.5	–	–	–	497.0	496.9
Loans to subsidiaries	1.7	0.0	–	–	1.7	–	–	–	–	1.7	1.7
Other investments	0.1	–	–	–	0.1	–	–	–	–	0.1	0.1
Other long-term securities	0.1	–	–	–	0.1	0.0	–	–	–	0.1	0.1
Other long-term loans	6.3	0.1	(0.0)	–	6.3	6.3	0.1	–	0.0	0.0	0.0
	523.6	**0.1**	**(0.0)**	**–**	**523.7**	**24.8**	**0.1**	**–**	**–**	**498.9**	**498.8**
Total	**547.4**	**3.2**	**(0.4)**	**0.0**	**550.2**	**41.7**	**0.7**	**(0.4)**	**0.0**	**508.5**	**506.0**

Notes

The separate annual financial statements of Vossloh AG for the fiscal year ended December 31, 2011, were prepared in accordance with German GAAP, i.e., the provisions of the German Commercial Code ("HGB") as amended up to May 29, 2009, by BilMoG, the German Accounting Law Modernization Act.

Accounting and valuation principles

Accounting and valuation are governed by the following principles:

Purchased intangible assets, as well as tangible assets are carried at cost, if finite-lived less accumulated amortization or depreciation according to the declining-balance or straight-line method. Finite-lived fixed assets added on or after January 1, 2001, are depreciated on a straight-line basis only. Fixed assets are written down to any lower current value wherever so required. Intangible assets are amortized over their useful lives of 1 to 5 years, the depreciation range of tangible assets being 1 to 57 years. Financial assets are recognized at cost or any lower current value.

Receivables and sundry assets as well as cash on hand and in bank are shown at par or principal, or at the lower of cost or market. The corporation income tax credit distributable in the period from 2011 to 2017 was discounted at 4 percent annually and shown at present value.

Non-euro receivables/payables are translated at the historical mean forex rate as of first recognition date or any more unfavorable mean current forex rate; this latter rate is always applied to non-euro receivables/payables with a remaining term of one year or less but if hedged, the rate so covered is used for their translation.

In the balance sheet, the differences between book values and tax bases of pension accruals and other accruals produce, when applying a tax rate of 30 percent, net deferred tax assets. However, exercising the option of Art. 274(1) Clause 2 HGB, Vossloh AG does not capitalize any (net) deferred tax assets.

The repurchased treasury shares at their notional par value are openly offset against the capital stock, the difference between the treasury stock at notional par and at cost being recognized within the free reserves.

The projected unit credit (PUC) method has been used to accrue pensions and similar obligations, based on the 2005G mortality tables of Prof. Dr. Klaus Heubeck and an imputed discount rate of 5.13 percent. This rate—which was published by Deutsche Bundesbank as of December 31, 2011, for obligations with an average 15 years to maturity—was applied in due accordance with German Accruals Discounting Regulations. Further actuarial parameters entering into consideration for pension accruals included a pay rise of 3 percent, an expected pension rise of 2 percent, and an average employee turnover rate of 6 percent.

So-called plan assets (assets beyond the reach of any creditors and earmarked exclusively for the settlement of pension obligations) are netted against such obligations. Pension accruals were thus reduced by €11.4 million (virtually unchanged).

Income from and expenses for these assets are offset against the interest added back to the related obligations and recognized in the net financial result.

Tax and other accruals are shown at the settlement amounts required in sound business practice and judgment. Accruals with a remaining term of more than one year are discounted at a 7-year average market rate for matching maturities (as determined and published by Deutsche Bundesbank).

Liabilities are stated at their current settlement amounts.

Hedge accounting is used for financial derivatives (mainly cross-currency swaps) by combining the derivatives with the underlying into one valuation unit wherever a direct hedging relationship exists between hedge and underlying. In these cases, the result from the currency hedge contracted is not recognized before maturity or due date.

Fixed assets

Classification and movements of fixed assets are detailed in the above fixed-asset analysis.

Within financial assets, write-down of k€83 was charged to the other long-term loans; write-up was credited at k€12.

List of shareholdings

	€ million	Footnote	Shareholding in %	through ( )	Consoli-dation[1]	Equity[2]	Net income/(loss)[2]
(1)	**Vossloh AG, Werdohl**				(c)	303.9	44.1
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(c)	23.2	0.0
(3)	Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	(c)	19.1	(0.4)
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(c)	6.3	1.6
(5)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(c)	(7.1)	(0.7)
	Rail Infrastructure division						
(6)	Vossloh France SAS, Paris, France		100.00	(1)	(c)	231.3	14.2
	Fastening Systems business unit						
(7)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(c)	4.3	26.3
(8)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(7)	(c)	4.9	4.4
(9)	Vossloh Werdohl GmbH, Werdohl	3	100.00	(7)	(c)	5.1	0.4
(10)	Vossloh Tehnică Feroviară SRL, Bucharest, Romania	4	100.00	(7)	(u)	0.0	0.0
(11)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100.00	(7)	(u)	1.2	0.1
(12)	Vossloh Sistemi Srl, Sarsina, Italy		100.00	(7)	(c)	5.1	0.6
(13)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4, 6	51.00	(7)	(u)	0.1	0.1
(14)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	(e)	0.6	1.1
(15)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	(u)	0.0	0.0
(16)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl	4	100.00	(7)	(u)	1.3	(0.1)
(17)	Vossloh Skamo Sp. z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	(c)	5.3	3.2
(18)	Vossloh Rail Technologies Ltd. Şti., Istanbul, Turkey		99.5/0.50	(7/8)	(c)	5.7	1.1
(19)	Feder-7 Kft., Székesféheryár, Hungary	4	96.67/3.33	(7/8)	(u)	0.4	0.1
(20)	Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(7)	(c)	1.1	0.2
(21)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	(c)	19.8	5.8
(22)	Vossloh-Werke China Investment GmbH, Werdohl		100.00	(7)	(c)	10.7	0.1
(23)	Beijing China Railways Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	(u)	1.3	0.3
	Switch Systems business unit						
(24)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	(c)	121.6	17.8
(25)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(24)	(c)	2.7	0.4
(26)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(27)	(c)	1.7	0.8
(27)	Vossloh Nordic Switch Systems AB, Örebro, Sweden		100.00	(24)	(c)	14.1	(1.5)
(28)	KIHN SA, Rumelange, Luxembourg		89.21	(24)	(c)	10.2	(2.4)
(29)	DDL SA, Rodange, Luxembourg		100.00	(28)	(c)	0.1	0.0
(30)	Vossloh Laeis GmbH & Co. KG, Trier		100.00	(28)	(c)	1.7	0.6
(31)	Vossloh Laeis Verwaltungs GmbH, Trier		100.00	(28)	(c)	0.0	0.0
(32)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(24)	(c)	2.4	0.5
(33)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(24)	(p)	31.1	2.9
(34)	Montajes Ferroviarios srl, Amurrio, Spain	4	100.00	(33)	(u)	0.4	0.0
(35)	Burbiola SA, Amurrio, Spain		50.00	(33)	(u)	1.5	0.0
(36)	VTS Track Technology Ltd., Scunthorpe, UK		50.00	(24)	(p)	8.8	1.8
(37)	Vossloh Cogifer Italia Srl, Pomezia, Italy		100.00	(24)	(c)	0.8	(3.5)
(38)	Cogifer Polska Sp. z o.o., Bydgoszcz, Poland		92.90	(24)	(c)	13.3	2.0
(39)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(24)	(c)	1.2	0.2
(40)	Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(24)	(c)	1.0	0.4
(41)	Cogifer Americas, Inc., Cincinnati, USA	4	100.00	(24)	(u)	0.1	0.0
(42)	Siema Applications SAS, Villeurbanne, France		100.00	(24)	(c)	3.1	0.8
(43)	Vossloh Min Skretnice AD, Niš, Serbia		100.00	(24)	(c)	2.8	0.7
(44)	J.S. Industries Pvt. Ltd., Secunderabad, India	4, 6	100.00	(24)	(u)	0.8	(0.6)
(45)	Vossloh Beekay Castings Ltd., Bhilai, India	6	60.00	(24)	(c)	7.4	0.7
(46)	Dakshin Transtek Pvt. Ltd., Bangalore, India	4, 6	100.00	(44)	(u)	0.0	(0.1)
(47)	Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(c)	13.1	2.0

[1] Fully consolidated companies are labeled (c), those included at equity (e), ventures consolidated pro rata (p), and unconsolidated companies (u).
[2] For non-German fully consolidated subsidiaries, according to the consolidated financial statements. The mean current rate or the annual average rate has been used to translate foreign-currency equity and net income/(loss), respectively.
[3] Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.
[4] Not included in the consolidation group for lack of materiality to the asset and capital structure, financial position, and results of operations
[5] Newly consolidated in 2011
[6] Fiscal year from April 1 to March 31

The full list of shareholdings is filed with the Commercial Register of the Iserlohn Local Court under C/R No. HRB 5292.

€ million		Footnote	Shareholding in %	through ( )	Consoli-dation[1]	Equity[2]	Net income/(loss)[2]
(48)	Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	(c)	13.5	(1.4)
(49)	Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(c)	9.3	1.7
(50)	Vossloh Sportek A/S, Horsens, Denmark		100.00	(27)	(c)	0.4	(0.4)
(51)	Vossloh Cogifer Kloos BV, Rotterdam, Netherlands		100.00	(24)	(c)	5.2	1.9
(52)	Global Rail Systems, Inc., Marlin, USA		84.20	(3)	(c)	4.2	(0.4)
(53)	Vossloh France International, Rueil-Malmaison, France	4	100.00	(6)	(u)	0.0	0.0
(54)	Wuhu China Railway Cogifer Track Co., Huo Long Gang Town, China	5	50.00	(24)	(p)	14.9	(0.5)
(55)	'J' Rail Components & Manufacturing, Inc., Grass Valley, USA	5	100.00	(3)	(c)	1.6	(0.1)
(56)	Vossloh Cogifer Argentina, Buenos Aires, Argentina	4	90.00/10.00	(24/25)	(u)	0.0	0.0
(57)	Entreprise d'Études de Signalisation Ferroviaire EESF, Aubagne, France	4	100.00	(24)	(u)	0.5	0.1
	Rail Services business unit						
(58)	Vossloh Rail Services GmbH, Seevetal	3	100.00	(1)	(c)	23.0	3.4
(59)	Stahlberg Roensch GmbH, Seevetal	3	100.00	(58)	(c)	17.6	9.3
(60)	Vossloh Rail Center Nürnberg GmbH, Nürnberg	3	100.00	(59)	(c)	1.0	3.4
(61)	Vossloh Rail Center Bützow GmbH, Bützow	3	100.00	(59)	(c)	1.2	0.9
(62)	Vossloh Rail Center Leipzig GmbH, Seevetal	3	100.00	(59)	(c)	0.9	0.9
(63)	GTS Gesellschaft für Gleistechnik Süd mbH, Seevetal	3	100.00	(59)	(c)	0.1	0.3
(64)	Vossloh Rail Center Hamburg GmbH, Hamburg	3	100.00	(59)	(c)	0.8	0.0
(65)	Alpha Rail Team GmbH & Co. KG, Berlin		50.00	(59)	(p)	7.8	3.9
(66)	Alpha Rail Team Verwaltungs GmbH, Berlin		50.00	(59)	(u)	0.0	0.0
(67)	LOG Logistikgesellschaft Gleisbau mbH, Hannover	3	100.00	(58)	(c)	3.5	2.2
(68)	Vossloh Ray Hizmetleri Limited Şirketi, Istanbul, Turkey	5	99.5/0.5	(59/58)	(c)	0.0	(0.1)
(69)	Vossloh High Speed Grinding GmbH, Seevetal	3	100.00	(58)	(c)	(0.2)	(0.3)
(70)	Vossloh Mobile Rail Services GmbH, Seevetal	3	100.00	(59)	(c)	0.1	1.6
	Transportation division						
	Transportation Systems business unit						
(71)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(c)	22.0	(9.9)
(72)	Locomotion Service GmbH, Kiel	3	100.00	(71)	(c)	0.2	0.0
(73)	Vossloh España SA, Valencia, Spain		100.00	(1)	(c)	98.6	8.6
(74)	Erion Mantenimiento Ferroviario SA, Madrid, Spain		51.00	(73)	(c)	1.8	0.9
(75)	Vossloh Locomotives France SAS, Antony, France		100.00	(71)	(c)	0.0	0.0
	Electrical Systems business unit						
(76)	Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(c)	28.4	11.0
(77)	Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(76)	(c)	1.4	1.0
(78)	Vossloh Kiepe Ges.mbH, Vienna, Austria		100.00	(77)	(c)	14.3	1.5
(79)	Vossloh Kiepe Corporation, Vancouver, Canada	4	100.00	(77)	(u)	0.5	0.1
(80)	Vossloh Kiepe Srl, Cernusco sul Naviglio, Italy	4	100.00	(77)	(u)	0.1	0.0
(81)	Vossloh Kiepe Sp. z o.o., Kraków, Poland	4	99.00/1.00	(76/77)	(u)	0.0	0.0
(82)	Vossloh Kiepe Main Line Technology GmbH, Düsseldorf	3	100.00	(77)	(c)	3.0	(1.3)
(83)	APS electronic AG, Niederbuchsiten, Switzerland		100.00	(77)	(c)	1.8	0.1
(84)	Vossloh Kiepe Inc., Alpharetta, USA	4	100.00	(3)	(u)	(0.1)	(0.4)
(85)	Heiterblick Projektgesellschaft mbH, Leipzig		49.00	(77)	(u)	0.0	0.0
	Other companies						
(86)	Vossloh-Schwabe Australia Pty. Ltd., Sydney, Australia	4	100.00	(4)	(u)	1.1	0.0
(87)	Vossloh Track Systems GmbH, Werdohl	4	100.00	(1)	(u)	0.0	0.0
(88)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia	4	1.00/99.00	(5/87)	(u)	0.0	0.1
(89)	Vossloh Middle East Business Rail LLC, Abu Dhabi, UAE		49.00	(87)	(u)	0.0	0.0
(90)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl	4	100.00	(1)	(u)	0.0	0.0
(91)	Vossloh Dritte Beteiligungs-Aktiengesellschaft, Düsseldorf	4	100.00	(1)	(u)	0.1	0.0

[1]Fully consolidated companies are labeled (c), those included at equity (e), ventures consolidated pro rata (p), and unconsolidated companies (u).
[2]For non-German fully consolidated subsidiaries, according to the consolidated financial statements. The mean current rate or the annual average rate has been used to translate foreign-currency equity and net income/(loss), respectively.
[3]Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.
[4]Not included in the consolidation group for lack of materiality to the asset and capital structure, financial position, and results of operations
[5]Newly consolidated in 2011
[6]Fiscal year from April 1 to March 31

The full list of shareholdings is filed with the Commercial Register of the Iserlohn Local Court under C/R No. HRB 5292.

Receivables and sundry assets

Except for k€339, all receivables and sundry assets fall due within one year. The accounts due from subsidiaries are nontrade receivables only.

Stockholders' equity

Buyback and redemption/withdrawal of treasury stock

On the strength of the May 21, 2008 AGM vote (which expired November 20, 2009), Vossloh AG's Executive Board had decided on October 15, 2008, after duly obtaining Supervisory Board approval to repurchase up to 1,479,582 treasury shares (tantamount to 10 percent of the capital stock).

The stock buyback program started in 2008 and was completed on March 20, 2009, after 1,479,582 treasury shares had been reacquired. The Executive Board resolved on October 26, 2009, to reclassify 3,352 shares of this treasury stock and then, on October 25, 2010, another 5,600 shares, to offer them for purchase to such employees of Vossloh AG or its subsidiaries as had applied and registered for participation in the 2010 employee bonus program (EBP). Once these 8,952 shares had been earmarked for the EBP, Vossloh AG held 1,470,630 treasury shares (9.94 percent of the capital stock) out of a total 14,795,920 shares of common stock.

On July 26, 2011, Vossloh AG's Executive Board resolved with the Supervisory Board's approval to redeem and withdraw the 1,470,630 treasury shares repurchased by Vossloh AG in 2008/2009, without decreasing the capital stock but by accordingly raising pro rata the notional par value of each of the remaining no-par shares in the unchanged carrying amount of Vossloh AG's capital stock. The stock redemption and withdrawal were entered in the Commercial Register on November 15, 2011, and Vossloh AG has since had an unchanged capital stock of €37,825,168.86 now divided into 13,325,290 no-par shares of common stock.

The AGM vote of May 19, 2010, reauthorized Vossloh AG's Executive Board to launch, on or before May 18, 2015, a share buyback program covering up to 10 percent of the current capital stock in accordance with Art. 71(1) No. 8 German Stock Corporation Act ("AktG").

Likewise on July 26, 2011, Vossloh AG's Executive Board further decided to exercise the authority conferred upon on it by the May 19, 2010 AGM and repurchase via the stock market up to 1,332,529 treasury shares (equivalent to 10 percent of the capital stock).

The treasury stock reacquired under the share buyback program 2011 may be used for any of the purposes authorized by the AGM of May 19, 2010.

This program was launched on July 27 and completed on December 2, 2011. Out of a total 13,325,290 no-par shares, Vossloh AG now holds 1,332,529 treasury shares (10 percent of its capital stock), repurchased at an average €75.76 per share and totaling about €100.9 million. Pursuant to Art. 71b AktG, the treasury stock does not entitle Vossloh AG to any rights or interests.

Stock repurchase

	Shares purchased	Total price (€)*	Capital stock (€)	Capital stock (shares)	% of capital stock
October 2008	182,000	10,722,541.40	37,824,979.68	14,795,846	1.23
November 2008	293,000	20,056,694.22	37,824,979.68	14,795,846	1.98
December 2008	432,000	31,890,659.87	37,824,979.68	14,795,846	2.92
Total 2008	**907,000**		**37,824,979.68**	**14,795,846**	**6.13**
January 2009	230,000	17,555,206.81	37,824,979.68	14,795,846	1.55
February 2009	181,500	13,972,774.45	37,824,979.68	14,795,846	1.23
March 2009	161,082	12,119,195.03	37,824,979.68	14,795,846	1.09
Total 2009	**572,582**		**37,824,979.68**	**14,795,846**	**3.87**
As of March 31, 2009	**1,479,582**		**37,824,979.68**	**14,795,846**	**10.00**
November 2009	(3,352)	(241,075.84)	37,825,041.04	14,795,870	(0.02)
As of Dec. 31, 2009	**1,476,230**		**37,825,041.04**	**14,795,870**	**9.98**
November 2010	(5,600)	(428,519.48)	37,825,168.86	14,795,920	(0.04)
As of Dec. 31, 2010	**1,470,630**		**37,825,168.86**	**14,795,920**	**9.94**
Redeemed/ withdrawn	(1,470,630)		37,825,168.86	13,325,290	(9.94)
As of July 27, 2011	**0**		**37,825,168.86**	**13,325,290**	**0.00**
July 2011	11,690	1,025,563.96	37,825,168.86	13,325,290	0.09
August 2011	222,725	17,861,660.50	37,825,168.86	13,325,290	1.67
September 2011	187,431	15,225,554.33	37,825,168.86	13,325,290	1.41
October 2011	536,786	39,368,948.29	37,825,168.86	13,325,290	4.03
November 2011	350,473	25,672,731.54	37,825,168.86	13,325,290	2.63
December 2011	23,424	1,793,815.01	37,825,168.86	13,325,290	0.18
As of Dec. 31, 2011	**1,332,529**	**100,948,273.63**	**37,825,168.86**	**13,325,290**	**10.00**

*Excl. bank commissions

Capital stock

Vossloh AG's capital stock of an unchanged €37,825,168.86 is divided into 13,325,290 (down from 14,795,920) no-par bearer shares of common stock only.

The notional par value of €3,782,516.86 (up from €3,759,605.90) of the treasury stock is openly offset against the capital stock.

Authorized capital

The annual general meeting of May 20, 2009, authorized new capital of €7,500,000, the authority expiring May 19, 2014.

Contingent capital

The contingent capital—totaling €12,586,846.49 as of December 31, 2011—breaks down as follows:

The Company's capital stock has been conditionally raised by €6,979,134.18 by issuing 2,730,000 bearer shares of common stock. This contingent capital increase will be implemented only to the extent that, under the warrant bond issues floated by Vossloh AG and/or its (directly or indirectly) wholly owned non-German subsidiaries on or before June 28, 1999, the warrant holders exercise their right to subscribe for common stock. The new common stock ranks for dividend as from the beginning of the fiscal year in which it is created by option exercise.

The Company's capital stock has been conditionally increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to employees under an SOP authorized by the annual general meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock ranks for dividend as from the beginning of the fiscal year in which it is created by option exercise.

The Company's capital stock has been conditionally raised by €1,468,225.77 by issuing 574,320 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to officers, executives and other management staff under a long-term incentive plan (LTIP) authorized by the annual general meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the beginning of the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year's AGM votes.

The Company's capital stock has been conditionally raised by an aggregate €3,782,500.00 by issuing up to 1,479,585 no-par bearer shares of stock in order to grant new no-par bearer shares to the holders or creditors of such convertible bonds, warrant bonds, participating rights and/or income bonds (or any combination of such instruments) as are issued or floated by dint of the authority conferred by the AGM of May 19, 2010, according to Agenda Item 8. The new no-par bearer shares will be issued at a conversion or option price to be determined in accordance with the aforesaid AGM resolution. The conditional capital increase shall be implemented only to the extent that (i) conversion rights or equity warrant options are exercised, (ii) the bondholders, warrant owners or creditors subject to a conversion obligation actually meet their conversion obligations, (iii) no cash compensation is paid in lieu, or (iv) treasury shares or new shares issued by utilizing authorized capital are used. The newly issued no-par bearer shares rank for dividend as from the beginning of the fiscal year in which they are created by conversion or option exercise or by fulfillment of conversion obligations. The authority will expire May 18, 2015.

Additional paid-in capital

This equity reserve includes the premiums from issuing Vossloh AG stock. As the capital stock was raised from contingent capital, a premium of €1,809.68 was transferred to additional paid-in capital.

Reserves retained from earnings

The reserves retained from earnings totaled €182,429,112.57 as of December 31, 2011 (down from €283,354,476.07). The 2011 opening balance of €283,354,476.07 was reduced by offsetting the treasury stock's notional par value of €3,759,605.90, taking the simplified approach without decreasing the Company's capital stock. In 2011, the €97,165,757.60 premium, i.e., the net cost (excluding incidentals) of the treasury stock above notional par, was offset against the reserves retained from earnings.

The closing treasury stock portfolio as of December 31, 2011, comprised 1,332,529 shares, carried at a total cost of €100,948,274.46 (excluding incidentals).

Accruals

Within the accruals for pensions and similar obligations, certain plan assets (assets beyond the reach of any other creditors and earmarked exclusively for the settlement of pension obligations) were netted against such obligations, their amortized cost and fair value amounting to k€11,411, while the settlement amount of obligations offset came to k€17,191.

In the income statement, expenses of k€303 were netted against income of k€83.

The plan assets' amortized cost (which equals their fair value) corresponds to the budgeted unearned premium reserve from the employer's pension liability insurance contract, plus the credit balance from premiums refundable (so-called irrevocable capital bonus). This value, moreover, equals the asset value for tax purposes.

The other accruals of k€11,162 (down from k€12,042) include k€2,117 for personnel (down from k€3,165) and k€9,045 for sundry administrative purposes (up from k€8,877).

Liabilities (above-the-line and contingent)

k€269,711 of the liabilities recognized in the balance sheet falls due within one year (up from k€116,273), another k€203,908 after one but within five years (up from k€118,946) and k€0 after more than five years (down from k€84,962). The noncurrent liabilities (due >1 year) are all *sundry liabilities*. The accounts due to subsidiaries are throughout nontrade.

The contingent liabilities under suretyships and guaranties of k€613,396 (up from k€414,038) were incurred at k€611,385 for obligations of subsidiaries (up from k€414,038).

The limited-amount guaranties in favor of subsidiaries total k€796,081. Sixteen guaranties do not have a stipulated ceiling.

Since the subsidiaries are believed to be able to settle the liabilities covered by such guaranties, no liabilities were recognized.

The other financial obligations (exclusively to third parties) total k€446 (down from k€509) and break down into k€220 falling due within one (down from k€314) and another k€226 between one and five years (up from k€195).

No evidence exists that would suggest that a guaranty might be enforced, a conclusion we have arrived at primarily given the many years in which not a single guaranty has been called upon. The circumstances prevailing at the balance sheet and the situation up to financial statement preparation do not indicate any such enforcement either.

Results of operations

k€1,344 million (up from k€1,225) of net sales, generated in 2011 solely in Germany, basically referred to rental income, including k€1,005 charged to subsidiaries (up from k€881).

The functional expenses break down into cost of sales and general administrative expenses.

Cost of sales mainly includes amortization, depreciation, and M&R expenses, while general administrative expenses essentially cover expenses for personnel, legal and management consultancy, as well as those incurred in connection with the share buyback program.

The other operating income came to k€10,107 (down from k€16,730) and mainly resulted from apportioned taxes of k€6,502 (down from k€11,892) plus allocated marketing fees of k€1,591 and IT costs of k€1,222 (down from k€2,413 and k€1,223, respectively). Moreover, financial assets were written up at k€12 (down from k€34).

The other operating expenses of k€876 (down from k€1,186) basically comprised forex losses of k€693 (down from k€1,010).

The net financial result includes write-down of k€83 charged to other long-term loans.

Income taxes refer to EBT of the current and prior periods.

Other disclosures

The income statement has been presented in the cost-of-sales format pursuant to Art. 275(3) HGB.

In the year under review, personnel expenses totaled k€7,163 (down from k€8,193), of which k€6,596 million (down from k€7,705) is allocable to wages and salaries, another k€567 (up from k€488) to Social Security, pension expense and related employee benefits, pension expense alone accounting for k€66 (comparing with a prior-year credit of k€53). The k€853 interest portion (down from k€1,045) in the addition to pension accruals was recognized as *interest and similar expenses*.

In fiscal 2011, Vossloh AG employed an average white-collar workforce of 45 (down from 46).

The employee bonus program 2011 (on terms unchanged versus 2010) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares free or eight shares at a discount of 50 percent of the issue price of €68.23 per share, determined at market as of the share transfer date. Under this program, Vossloh employees were granted in 2011 altogether 3,286 free shares (up from 3,148) at an expense to the Company of k€249.3 (up from k€218.8).

Remuneration of Executive Board members for 2011 totaled k€1,982, including k€774 of fixed and k€1,170 of variable compensation plus k€37 payments in kind (PIK). Former Executive Board members received a total k€607 in 2011. k€11,576 was accrued for the pension obligations to former Executive and Management Board members and their surviving dependants; this amount includes employer pension liability insurance policies totaling k€11,446 pledged in each beneficiary’s favor, the balance being covered by accruals.

Total Supervisory Board fees for 2011 came to k€440, including fixed and variable components of k€223 and k€217, respectively.

For the detailed disclosure of board member remuneration required under the terms of Art. 285 Clause 1 No. 9 HGB, see the Board Compensation Report (an integral part of the combined management report).

Financial derivatives and hedge accounting

Vossloh AG's business operations are exposed to exchange and interest rate risks which are contained or eliminated by contracting financial derivatives. The Company's Treasury Management controls and manages groupwide all exchange and interest rate risks.

In order to fully hedge the risks originating from the financial debts of $240.0 million raised by US private placement (USPP), as well as from the related future US dollar interest payments, cross-currency swaps of matching maturities and amounts were contracted.

Vossloh AG contracts currency forwards with banks to cover currency risks from the operations of subsidiaries and hedge currency loans extended to subsidiaries.

All hedged underlyings are accounted for at the hedged rate. Since the so-called net method is used, neither any expected loss or gain, nor any decrease/increase in the hedging instrument's value is recognized.

The notional volumes and fair market values of these hedges are listed below:

Financial derivatives

€ million	2011		2010	
	Market value	Notional volume	Market value	Notional volume
Currency hedges				
Cross-currency swaps	(20.3)	203.9	(25.5)	203.9
Currency forwards	(5.3)	119.9	(1.5)	75.4
	(25.6)	**323.8**	**(27.0)**	**279.3**

The method of determining fair values to measure (mark to market) derivatives depends on the type of instrument.

The market value of cross-currency swaps is calculated by using a DCF method with the market discount rate appropriate for the remaining term of the derivative and a foreign exchange rate applicable to the currency of the expected future cash flows. Interest rate hedges are marked to market on the basis of bank opinions.

The fair market values of currency forwards are calculated internally by determining the current value at the hedged rate, i.e., on the basis of the forex spot rate quoted at the closing date, with due regard to forward markup or markdown for the remaining contract term in relation to the contracted forward rate.

Currency risk hedge accounting

Where the criteria are met, hedge accounting is used for financial derivatives by combining the derivative with the underlying into one valuation unit. Where not, negative market values are accrued while positive market values are not capitalized at all. In 2011, all financial derivatives were combined as hedging instruments with the related underlyings to form microhedges whose future effectiveness is assessed in terms of matching maturities and volumes, i.e., on the basis of a critical term match.

The cross-currency swaps contracted by Vossloh AG at matching maturities and amounts to hedge its forex obligations from the USPP of $240.0 million represent a valuation unit together with the related debts and, therefore, they are recognized according to hedge accounting rules. At December 31, 2011, the hedged sum of €203.9 million exceeded the current value of €185.5 million at the closing rate by €18.4 million. The hedged future interest expense of €36.5 million was €0.3 million below the current value at the closing rate.

Due to matching maturities and volumes in each currency, Vossloh AG's forex hedging is 100 percent effective.

Underlyings include firmly contracted purchase orders or shipments at fixed dates, as well as currency loans. The contracted cash flow is hedged by buying or selling forex forwards, thus also closing the currency positions of subsidiaries for the latter's account. As of December 31, 2011, positions in UAE dirhem (AED), Australian dollar (AUD), Swiss franc (CHF), Czech koruna (CZK), Danish krone, Swedish krona (SEK), and US dollar (USD) were hedged.

Declaration of conformity

In December 2011, the Executive and Supervisory Boards issued, and made available long term to the stockholders on the Company's website, the declaration of conformity as required by Art. 161 AktG.

Vossloh AG received the following notifications of attributable voting rights in 2011 under the terms of Sec. 21 German Securities Trading Act ("WpHG"):

Notifications acc. to Sec. 21 WpHG

Notifying party	Date	Threshold	Voting interest
BlackRock, Inc., New York, USA	3/01/2011	crossed above 3%	3.02
Mr. Heinz Hermann Thiele, Germany	3/24/2011	crossed above 3%	3.14
KB Holding GmbH, Grünwald, Germany	3/28/2011	crossed above 3%	3.51
Stella Vermögensverwaltungs GmbH, Grünwald, Germany	3/28/2011	crossed above 3%	3.51
Mr. Heinz Hermann Thiele, Germany	3/31/2011	crossed above 5%	5.01
BlackRock, Inc., New York, USA	4/05/2011	crossed below 3%	2.99
DWS Investment GmbH, Frankfurt, Germany	6/06/2011	crossed above 3%	3.265
KB Holding GmbH, Grünwald, Germany	7/14/2011	crossed above 5%	6.24
Stella Vermögensverwaltungs GmbH, Grünwald, Germany	7/14/2011	crossed above 5%	6.24
Mr. Heinz Hermann Thiele, Germany	7/14/2011	crossed above 10%	11.23
KB Holding GmbH, Grünwald, Germany	7/20/2011	crossed above 10%	10.24
Stella Vermögensverwaltungs GmbH, Grünwald, Germany	7/20/2011	crossed above 10%	10.24
Mr. Heinz Hermann Thiele, Germany	7/20/2011	crossed above 15%	15.29
Vossloh AG, Werdohl, Germany	8/04/2011	crossed below 5% and 3%	0.00
Vossloh AG, Werdohl, Germany	9/30/2011	crossed above 3%	3.016
Vossloh AG, Werdohl, Germany	10/14/2011	crossed above 5%	5.005
Vossloh Family Pool, Werdohl, Germany	11/24/2011	"portfolio update"	33.60
Vossloh AG, Werdohl, Germany	12/05/2011	reached 10%	10.00
DWS Investment GmbH, Frankfurt, Germany	12/14/2011	crossed below 3%	2.886

Pursuant to Sec. 22(1) Clause 1 No. 1 WpHG, voting rights held by KB Holding GmbH are attributable to Stella Vermögensverwaltungs GmbH.

Pursuant to Sec. 22(1) Clause 1 No. 1 WpHG, voting rights held by KB Holding GmbH or Stella Vermögensverwaltungs GmbH as companies controlled by, are attributable to, Mr. Heinz Hermann Thiele.

On July 29, 2011, Vossloh AG notified that the total of its voting rights under the terms of Sec. 26a WpHG as of the end of July 2011 changed (with effect as of July 27, 2011) to 13,325,290 votes.

Notification acc. to Sec. 26a WpHG

Statutory auditor's fees

The following fees for services rendered by the statutory auditor, BDO AG Wirtschaftsprüfungsgesellschaft ("BDO"), were recognized as expense:

€ million	2011	2010
Statutory audits	0.1	0.1
Other certification/verification services	0.4	0.2
Tax consultancy	0.3	0.3
Other services	0.0	0.0
	0.8	**0.6**

The fees for statutory audits mainly include those paid for the statutory annual audits by BDO of Vossloh AG's separate and consolidated financial statements where such fees are borne directly by Vossloh AG. The fees include €0.1 million (up from €0.0 million) for other certification or verification services and €0.0 million (virtually unchanged) for tax consultancy provided by non-German BDO firms but invoiced through BDO AG. The fees for other certification or verification services chiefly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, for due diligence work relating to planned M&A deals, as well as for quarterly report reviews.

The tax consultancy fees substantially cover advisory services rendered for the formulation of tax returns, the review of tax assessment notices, as well as for other national and international tax matters.

Werner Andree, born 1951, Neuenrade
CEO
(since Aug. 9, 2007; Executive Board member since Sep. 1, 2001,
appointed up to Aug. 31, 2014)
– Vossloh Cogifer SA: Director
– Vossloh France SAS: President
– Vossloh Australia Pty. Ltd.: Director
– Vossloh Schwabe Australia Pty. Ltd.: Director
– Vossloh España SA: Director

Vossloh AG's Executive Board

Dr.-Ing. Norbert Schiedeck, born 1965, Arnsberg
COO
(Executive Board member since Apr. 1, 2007, appointed up to Mar. 31, 2015)
– Vossloh Cogifer SA: Director
– Amurrio Ferrocarril y Equipos SA: Director
– Vossloh España SA: Director
– Wohnungsgesellschaft Werdohl GmbH: supervisory board member

Vossloh AG's Supervisory Board

Dr.-Ing. Dipl.-Ing. Wilfried Kaiser, Chairman[2, 4], Munich, degreed engineer, former executive board member of Asea Brown Boveri AG
– EvoBus GmbH: supervisory board member
– ACTech GmbH: advisory board member[5]
– schenck.de AG: supervisory board chairman
– Hugo Kern und Liebers GmbH & Co. KG: director[5]
– VAG Holding GmbH: advisory board chairman[5] (up to Sep. 30, 2011)

Peter Langenbach[2, 4], Vice-Chairman, Wuppertal, lawyer

Dr. Jürgen Blume[3, 4], Bad Bentheim, sworn public auditor and tax accountant

Dr. Christoph Kirsch[3, 4], Weinheim, former CFO of Südzucker AG
– GELITA AG: supervisory board member
– HELIKOS SE: member of the board (up to Aug. 31, 2011)

Wolfgang Klein[1, 2, 3], Werdohl, galvanizer, European and Group Works Council Chairman

Michael Ulrich[1], Kiel, mechanic

[1]Employee representative
[2]Staff Committee member
[3]Audit Committee member
[4]Slate Submittal Committee member
[5]Optional board

The annual financial statements 2011 close with net income of €44,117,694.19. Including the profit carryover of €5,769,086.94, net earnings amount to €49,886,781.13.

Proposed profit appropriation

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €2.50 for each eligible no-par share of the common stock of €34,042,652.00 and carry forward the balance of €19,904,878.63.
When determining the eligible capital stock, the total number of treasury shares (1,332,529) was deducted.

Proposed profit appropriation

in €	
Net income for 2011	44,117,694.19
Undistributed profit as of January 1, 2011	5,769,086.94
Net earnings as of December 31, 2011	**49,886,781.13**
Proposed:	
Total dividend payout	29,981,902.50
Carryforward to new account	19,904,878.63

Werdohl, March 9, 2012

Vossloh AG
The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

Management representation

"We represent that, to the best of our knowledge and in accordance with applicable accounting principles, the separate financial statements present a true and fair view of Vossloh AG's asset and capital structure, financial position, and results of operations, as well as that the management report describes fairly, in all material respects, the Company's business trend and performance, its position, and the significant risks and rewards of the Company's future development."

Werdohl, March 9, 2012
Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

Independent auditor’s report and opinion on the separate financial statements

We have audited the annual financial statements (consisting of balance sheet, income statement, and notes) including the records and books of account and the combined management report (on the Company and the Group) of Vossloh AG, Werdohl, for the fiscal year ended December 31, 2011. The accounting and the preparation of the annual financial statements and combined management report in accordance with the German Commercial Code and the supplementary provisions of the bylaws are the responsibility and assertions of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and combined management report.

We have conducted our annual audit in accordance with the provisions of Art. 317 HGB and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. Those standards require that we plan and perform the audit to obtain reasonable assurance that any misstatement or fraud which has a material impact on the view of the asset and capital structure, financial position and results of operations as presented by the annual financial statements in accordance with accounting principles generally accepted in Germany and by the combined management report is identified. When planning the audit procedures, knowledge and understanding of the Company's business, its economic and legal environment as well as sources of potential errors are given due consideration. An audit includes examining, largely on a test basis, the accounting-related internal control system's effectiveness and the evidence supporting the amounts and disclosures in the accounting, the annual financial statements, and the combined management report. An audit also includes assessing the accounting principles used, and significant estimates made, by the Company’s legal representatives, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any objections or exceptions.

It is our opinion that, based on our audit conclusions, the annual financial statements, with due regard to accounting principles generally accepted in Germany, comply with the law and the supplementary provisions of the Company’s bylaws, and present a true and fair view of the Company’s asset and capital structure, financial position and results of operations. The combined management report is consistent with the annual financial statements and presents fairly, in all material respects, the Company’s overall position and the risks and rewards inherent in its future development.

Essen, March 9, 2012

BDO AG
Wirtschaftsprüfungsgesellschaft

Fritz	Barhold
Wirtschaftsprüfer	Wirtschaftsprüfer

www.vossloh.com

Vossloh AG · Vosslohstr. 4 · 58791 Werdohl · Germany · Mail: Postfach 1860 · 58778 Werdohl · Germany · Phone (+49-2392) 52-0 · Fax (+49-2392) 52-219