VOSSLOH
AKTIENGESELLSCHAFT

Annual Report 2001

The Vossloh Group at a glance

as from 1998, data based on US GAAP

			2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Group												
Income statement data												
Net sales		€ million	903.0	854.4	790.1	578.4	428.7	394.9	381.3	305.9	286.7	281.3
thereof:	Railway & Transport	€ million	649.7	579.8	561.9	357.3	159.3	123.3	112.3	48.6	57.3	54.5
	Lighting	€ million	252.8	274.1	227.7	220.5	208.5	186.2	175.0	167.1	144.8	145.0
	Decoration	€ million	—	—	—	—	60.6	85.0	93.7	89.9	84.3	81.6
EBIT		€ million	60.0	77.9	48.4	61.8	50.9	28.8	24.0	24.8	22.6	28.3
Net interest result (pre-1998: net financial result)		€ million	(17.2)	(13.6)	(7.0)	(6.4)	(2.2)	(3.4)	(3.5)	(2.1)	(2.8)	(4.1)
EBT		€ million	42.8	64.3	41.4	55.4	48.7	25.4	20.5	22.7	19.8	24.2
Earnings (total)		€ million	17.2	27.8	17.7	31.2	28.9	15.9	16.7	13.3	11.6	14.1
Earnings per share[1,2] (EpS)		€	1.20	1.93	1.23	2.16	1.73	1.24	1.03	0.96	0.87	1.14
Pretax return on sales (EBT margin)		%	4.7	7.5	5.2	9.6	11.4	6.4	5.4	7.4	6.9	8.6
Pretax return on equity (ROE)		%	13.6	20.0	14.1	20.2	34.8	21.7	19.9	21.9	20.7	38.7
Return on capital employed (ROCE)		%	9.4	11.9	8.4	12.7	29.0	14.7	13.8	14.7	15.5	21.0
Balance sheet data												
Fixed assets		€ million	322.0	311.4	286.9	269.2	63.7	68.7	70.7	75.1	67.2	68.1
Capital expenditure[4]		€ million	48.2	43.6	35.6	24.5	16.4	9.5	11.8	16.3	21.2	23.2
Amortization/depreciation[4]		€ million	38.1	37.4	34.2	24.9	14.2	13.4	15.6	16.0	15.9	15.0
Working capital		€ million	316.3	341.4	292.2	217.4	112.1	127.4	103.1	93.2	78.8	62.8
Net working capital ratio		%	35.0	40.0	37.0	37.6	26.1	32.3	27.0	30.5	27.5	22.3
Capital employed		€ million	638.3	652.8	579.1	486.6	175.8	196.1	173.8	168.3	146.0	130.9
Equity		€ million	314.4	321.0	293.9	274.7	140.1	117.2	103.4	103.5	95.6	62.5
thereof:	minority interests	€ million	121.2	116.7	106.0	99.4	0.9	1.5	1.2	0.7	0.7	0.4
Net financial debt		€ million	231.2	209.5	181.8	108.7	(4.1)	32.1	32.2	33.6	20.3	44.8
Total assets		€ million	899.0	896.3	785.5	679.3	255.4	248.8	236.1	204.5	194.9	172.5
Equity ratio		%	35.0	35.8	37.4	40.4	54.9	47.1	43.8	50.6	49.0	36.3
Cash flow statement data												
Cash flow from operating activities		€ million	50.6	35.1	(18.8)	20.5	45.7	18.3	17.0	15.3	9.7	—
Cash flow from investing activities		€ million	(45.8)	(49.3)	(42.4)	(128.3)	(9.3)	(12.4)	6.8	(22.3)	(6.5)	—
Cash flow from financing activities		€ million	(9.3)	23.2	55.2	139.6	(24.3)	(7.7)	(20.6)	(3.4)	7.8	—
Change in cash & cash equivalents		€ million	(4.5)	8.0	(7.3)	32.4	12.1	(1.8)	3.2	(10.4)	11.0	—
Workforce												
Annual average headcount		Employees	5,370	5,583	5,575	4,001	2,411	2,608	2,959	2,488	2,318	2,480
thereof:	Germany	Employees	2,494	2,824	2,674	1,915	1,689	1,839	2,146	1,772	1,727	1,916
	abroad	Employees	2,876	2,759	2,901	2,086	722	769	813	716	591	564
	Railway & Transport	Employees	3,884	4,001	4,174	2,624	589	508	627	191	232	255
	Lighting	Employees	1,464	1,566	1,385	1,361	1,288	1,290	1,409	1,380	1,252	1,250
	Decoration	Employees	—	—	—	—	518	794	910	904	823	961
	Vossloh AG	Employees	22	16	16	16	16	16	13	13	11	14
Payroll ratio		%	77.0	74.2	81.7	69.3	67.0	77.6	81.1	76.3	77.5	72.5
Personnel expenses		€ million	208.1	228.2	222.8	143.6	106.5	107.2	111.2	85.3	82.0	77.9
Personnel expenses per capita		€1,000	38.7	40.9	40.0	35.9	44.2	41.1	37.6	34.3	35.4	31.4
Vossloh AG												
Capital stock		€ million	36.8	36.8	36.8	36.8	18.4	18.4	18.4	18.4	18.4	15.3
Dividend per share[1]		€	0.75[3]	0.75	0.60	0.59	0.38	0.33	0.33	0.31	0.31	0.27
Stock price at Dec. 31[1]		€	22.53	14.95	14.90	25.05	25.95	14.11	12.09	14.32	14.67	11.75
Market capitalization at Dec. 31		€ million	310.4	215.3	214.6	360.7	373.7	203.2	174.1	206.2	211.3	145.7

1 Share-related indicators and stock price rebased according to DVFA standard (basis: 14.400,000 shares) to allow for the 1996 relisting of DM 50 shares as DM 5 shares, the 1992 (1-for-5) and 1998 (1-for-1) stock splits, and the 1993 capital increase (1-for-5) against cash contributions.

2 Pre-1998 data determined according to DVFA/SG

3 Subject to the stockholders' approval

4 Excl. financial assets

Vossloh AG, Werdohl

Railway & Transport

Vossloh Eisenbahn & Verkehr GmbH, Werdohl

Track

Rail Fastening Systems

Vossloh Werke GmbH, Werdohl
Vossloh-Delitzsch GmbH, Delitzsch
Vossloh Rail Systems GmbH, Werdohl
Vossloh Werdohl GmbH, Werdohl
BV Oberflächentechnik GmbH, Werdohl

Special Trackwork

VAE Holding GmbH, Vienna, Austria
VAE Eisenbahnsysteme Beteiligungsges. mbH, Vienna, Austria
VAE Aktiengesellschaft, Vienna, Austria
VAE Eisenbahnsysteme GmbH, Zeltweg, Austria
Weichenwerk Wörth GmbH, St. Georgen am Steinfeld, Austria
VAE Holding (Deutschland) GmbH, Butzbach
VAE Geschäftsführung (Deutschland) GmbH, Frankfurt/Main
Butzbacher Weichenbau GmbH & Co. KG, Butzbach
Weichenwerk Brandenburg GmbH, Brandenburg-Kirchmöser
VAE Nortrak America Inc., Cheyenne, USA
VAE Nortrak Ltd., Vancouver, Canada
VAE Nortrak Cheyenne Inc., Cheyenne, USA
VAE Nortrak Inc., Birmingham, USA
VAE U.K. Ltd., Edinburgh, UK
VAE Railway Systems Pty. Ltd., Mackay, Australia
VAE Africa Pty. Ltd., Isando, South Africa
VAE Riga SIA, Riga, Latvia
VAE Apcarom S.A., Buzau, Romania
VAE Legetecha UAB, Vilnius, Lithuania
VAE Sofia OOD, Sofia, Bulgaria
JEZ Sistemas Ferroviaros S.L., Llodio, Spain
VAMAV Vasúti Berendezések Kft., Gyöngyös, Hungary
VAE Italia S.r.l., Rome, Italy
VAE Transwerk Perway Ltd., Bloemfontein, South Africa

Railbound Vehicles & Maintenance

Locomotives

Vossloh Schienenfahrzeugtechnik GmbH, Kiel
Locomotion Service GmbH, Kiel

Vehicle Maintenance

EuroTrac GmbH Verkehrstechnik, Kiel

Engineering Systems

Vossloh System-Technik GmbH, Kiel
Vossloh Systemelektronik GmbH, Karlsfeld
VST Comreco Rail Ltd., York, UK

Lighting

Vossloh Elektro GmbH, Werdohl

Production companies

Lampholders

Vossloh-Schwabe GmbH, Urbach (Lüdenscheid plant)
Vossloh-Schwabe Italia S.p.A., Sarsina, Italy

Magnetic Ballasts

Vossloh-Schwabe GmbH, Urbach (Urbach plant)
Vossloh-Schwabe France S.a.r.l., Colmar, France
Vossloh-Schwabe Thailand Ltd., Bangkok, Thailand
Vossloh-Schwabe Tunisie S.A., Tunis, Tunisia

Electronic Ballasts

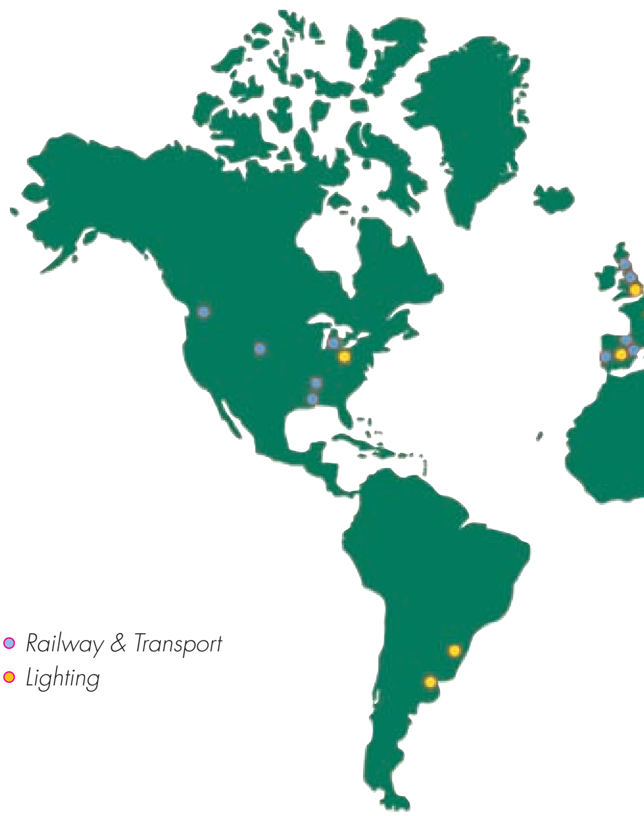
Vossloh-Schwabe Elektronik GmbH, Urbach
Elektrobau Oschatz GmbH & Co. KG, Oschatz
Elektrobau Oschatz Verwaltungs-GmbH, Werdohl

LED

Vossloh-Wustlich Opto GmbH & Co. KG, Kamp-Lintfort

Sales companies

Vossloh-Schwabe Skandinavien AB, Billdal, Sweden
Vossloh-Schwabe India Pvt., Ahmedabad, India
Vossloh-Schwabe Pte. Ltd., Singapore
Vossloh-Schwabe Española S.L., Barcelona, Spain
Vossloh-Schwabe, Inc., Pittsburgh, USA
Vossloh-Schwabe UK Ltd., Milton Keynes, UK
Vossloh-Schwabe Trading Ltd., Bangkok, Thailand
Vossloh-Schwabe Latinoamérica S.r.l., Buenos Aires, Argentina
Vossloh-Schwabe Brasil Ltda., São Paulo, Brazil
Vossloh-Schwabe EH Limited, Ein Hashofet, Israel



Railway & Transport
Lighting

The Vossloh Group

The Vossloh Group is a global player in its two divisions of Railway & Transport and Lighting. As management and financial holding company, Vossloh AG exercises parental functions of financial control and risk management. The local units are largely responsible for the success of their operations through a policy of devolved decision-making powers. Stock option plans allow management and staff to participate in the Group's rising shareholder value which they have achieved through their own entrepreneurial efforts. The Group has set itself a success benchmark of at least 15 percent sustained Return on Capital Employed (ROCE).

Around 5,400 employees generated consolidated sales of €903.0 million in 2001, the highest ever in the history of the Group. Within five years, the Group's volume of business has more than doubled. Group earnings in fiscal 2001 totaled €17.2 million.

Railway & Transport

Almost three-fourths of Group sales is accounted for by the Railway & Transport division, which manufactures rail fastening systems and technologically advanced switches used especially in high-speed and heavy-load rail transport throughout the world. Foremost in Europe, the division develops and builds diesel locomotives and, as an IT specialist, supplies railbound transport operators with individual and integrated process optimization systems. In the course of the year under review, Vossloh shed its mechanical engineering unit including the wheel-set and crankshaft machining equipment operations.

Lighting

With production locations in five countries, the Lighting division is one of the world's leading manufacturers of electrical and electronic components for luminaires. It is the sole producer of complete product systems for all modern forms of lighting equipment.

The division specializes in low-energy and cost-efficient solutions for intelligent and highly functional light management. By enhancing the luminous intensity of LEDs and using standardized modules, the division succeeded during the year under review in deploying LED systems for indoor lighting.

Contents

Düsseldorf in the evening glow.
The Vossloh Group's Lighting division produces components for all modern indoor and outdoor lighting systems.

Supervisory, Executive and Advisory Boards

Honorary Chairman of the Supervisory Board	Dr. Hans Vossloh, Werdohl
Supervisory Board	Dr. rer. pol. Karl Josef Neukirchen, executive board chairman of mg technologies ag, Bad Homburg, Chairman Frank Teichmüller*, district head of the German Metalworkers Union, Hamburg, Vice-Chairman Dr. Jürgen Blume, sworn public auditor and tax advisor, Bad Bentheim Holger Hoffmann*, senior financial officer, Lüdenscheid Dr.-Ing. Wilfried Kaiser, consultant, Munich Wolfgang Klein*, galvanizer, Werdohl Wilfried Köpke*, engineering designer, Kiel Peter Langenbach, lawyer, Wuppertal Dr. Anselm Raddatz, lawyer, Düsseldorf Michael Rohe*, mechanic, Lüdenscheid Günter Schlüchting*, 1st delegate of the German Metalworkers Union's administrative office, Lüdenscheid Karl Rudolf Vins, executive board member of Deutscher Herold Lebensversicherungs-AG der Deutschen Bank, Bonn *employee representatives
Executive Board	Burkhard Schuchmann, Chairman Werner Andree Milagros Caiña-Lindemann
Advisory Board	Dr. Hans Vossloh, retired general manager, Werdohl, Chairman Dr. Gerd Weber, lawyer, Wuppertal, Vice-Chairman Ernst Schimke, management consultant, Gummersbach

As of March 2002

Vossloh AG's Executive Board (l. to r.): Burkhard Schuchmann (CEO), Milagros Caiña-Lindemann (Human Resources) und Werner Andree (CFO)

Dear Stockholders:

For investors, 2001 was an outstanding year for Vossloh stock, which despite plunging prices, achieved a 50.7-percent rise compared with the 2000 closing price. This performance ranked Vossloh in sixth position among all 70 MDAX equities for 2001, with none of the major DAX-listed companies managing to emulate anything like such a heartening performance. Indeed, the MDAX even showed an overall year-on-year loss of 8.1 percent.

Vossloh stock therefore proved to be not only one of the most attractive investments during the past year but also a share in which you, our stockholders, have confidence. The capital market obviously shares our conviction that Vossloh remains a healthy and promising company in which it is well worth investing.

This is also underlined by our company's stockholder-friendly dividend policy, one based on continuity. With this in mind, the Executive and Supervisory Boards have decided to propose, despite the much lower profit in 2001, to keep the cash dividend payout at the prior-year level.

Fiscal 2001 was marked by weak economic activity, which in the second half of the year moved toward recession in some of Vossloh's key markets, leading to a severe sales and earnings slump for the Lighting division. The Railway & Transport division also recorded extraordinary charges, most notably the bankruptcy of the British rail-infrastructure company Railtrack.

Despite the disposal of the mechanical engineering unit, Group sales advanced by a good 5 percent to €903.0 million, while Group earnings, at €17.2 million, fell a good €10 million behind the prior-year level. In view of the extremely harsh environment and taking into account a number of one-time factors to be contended with, we regard a Group EBIT margin of 6.6 percent nonetheless as quite some achievement.

Especially in critical times, as we are experiencing at present, the Vossloh Group's strategic focus on attractive niche markets in which we hold leading positions with sustained growth perspectives has proved to be on target.

Our prospects for the current fiscal year are therefore quite encouraging. Although we do not expect an economic upturn worldwide, we are nevertheless budgeting sales growth of some 1.2 percent, to be generated by railway business which is by nature less cyclic. We plan to raise EBIT by some 23 percent groupwide compared with the past fiscal year. In order to reach this goal we intend to further improve our structures and operations, enhance productivity and consistently continue our cost-cutting programs already under way. This means a great effort for all of us. Yet we are convinced that we can achieve this and expect the capital market to once again reward our endeavors.

We thank you, our stockholders, for the confidence shown in Vossloh stock and in our Company's strategy and prospects. We would be only too pleased if you continued to escort us on our ambitious growth path. For 2004, again through internal and external gains we are striving for a sales volume of some €2 billion, with earnings rising proportionately. The Vossloh stock price should also increase appreciably.

We would like to thank our employees and their representatives throughout the world that have served our Company with great dedication. Our thanks also to our customers who despite many difficulties arising from the restructuring process maintained their faith in us.

We are confident that we can continue to do justice to the trust of our stockholders, employees and customers because our growth strategy remains fundamentally on track and our financial strength is unbroken. Success is the name of our course, one that we shall keep to, not just in the current fiscal year.

Vossloh AG
The Executive Board Chairman

Burkhard Schuchmann

The state-of-the-art driver's cab of a diesel-hydraulic locomotive built at Vossloh Schienenfahrzeugtechnik's production plant in Kiel.

Vossloh stock

Bearish trends in 2001

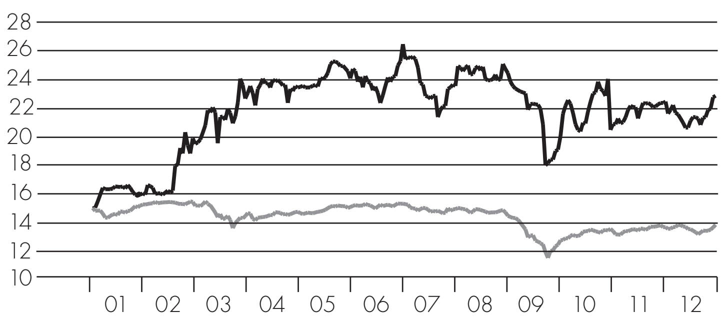
The 2001 growth rates predicted for the German economy early in the period still ranged from 2.5 to 3.0 percent. However, the increase in German GDP by a scant 0.6 percent in real terms was far below expectations. On the stock markets, investors sustained price losses virtually across the board. The German midcap index MDAX opened the year at 4,709 points to reach its annual peak at 4,865 points on February 27, 2001, up 3.3 percent. After some slight ups and downs, the MDAX swung back by August 2001 to the year's opening level. The general uncertainty on the markets in the wake of the devastating September 11 terrorist attacks combined with poorer corporate performance data to send the MDAX by September 21, 2001, tumbling to its annual low of 3,569 points. Although the index did recover by year-end to close 2001 at 4,326 points, the annual loss still came to 8.1 percent.

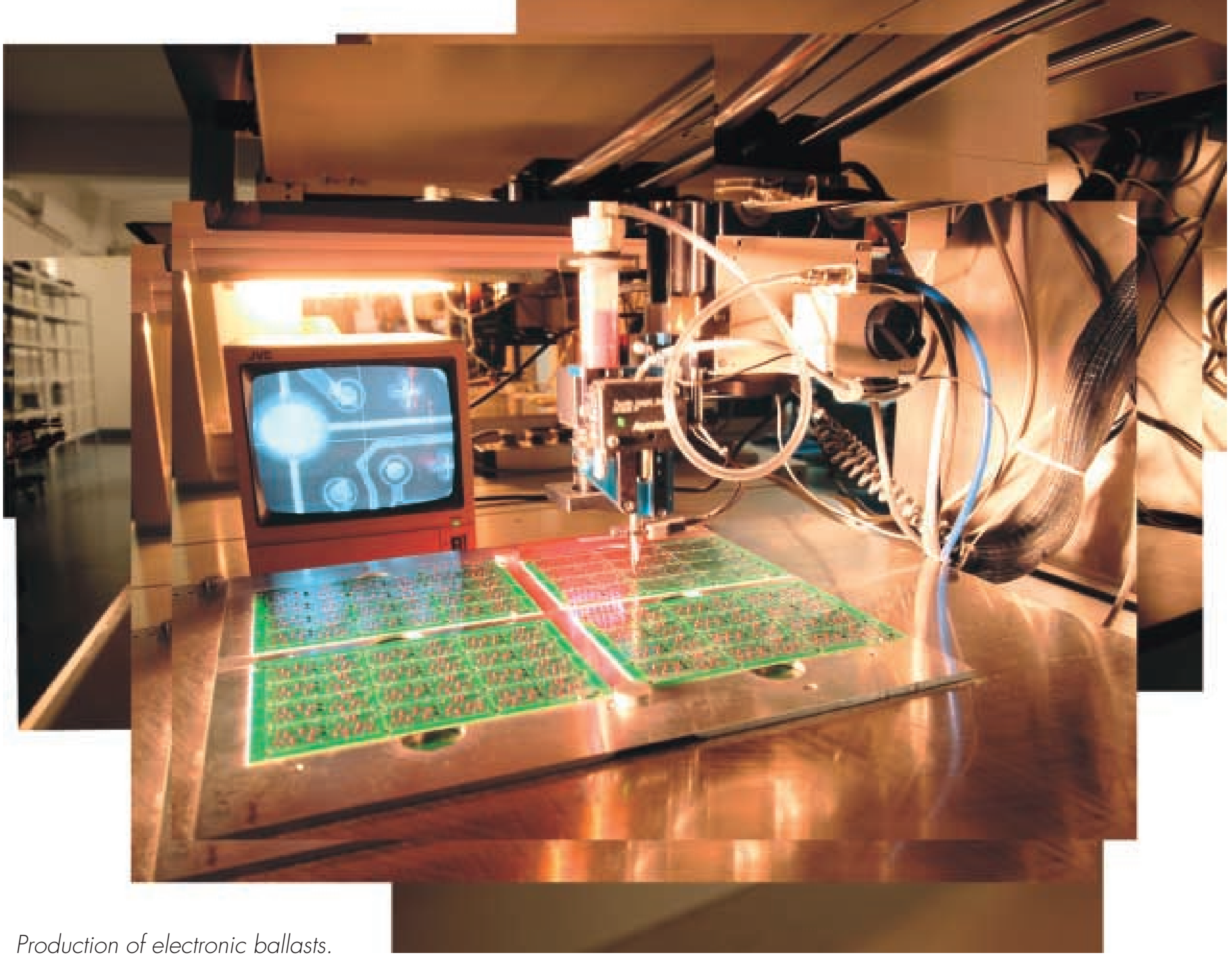
Vossloh riding the bull in 2001

Vossloh stock prices showed an encouraging uptrend in the period. In the 2001 performance analysis of the 70 MDAX companies, Vossloh stock ranked sixth. The opening price of €14.50 was at the same time the annual low. Mid-February 2001 saw the beginning of a bull ride—Vossloh stock turnover started to rally and so did its price to peak at €27.00 by July 3, 2001. However, this 85-percent surge from the year's opening quotation was short-lived since investors seized the opportunity for profit-taking at this high level. In mid-September 2001, Vossloh stock was also engulfed in the aftermath of the nine-eleven events and suffered another price decline by about €4.00, however, from which it swiftly recovered. When the Q3 data was published on October 26, 2001, and the all-year forecast adjusted downwards, Vossloh stock quotations eased off and remained for some time at a slightly lower level. The annual closing price quoted by Xetra steadied at €22.53, Vossloh stock thus recording a 50.7-percent gain from the year-earlier price.

Price trend of Vossloh stock in 2001

Vossloh stock price in €
MDAX (rebased)





Production of electronic ballasts. Vossloh-Schwabe is increasingly using the reliable and compact SMD cards.

Further growth potential despite present high yield

The total return on an investment in Vossloh stock (including tax credit on the dividend) came to 57.9 percent in 2001. But even for long-term investors, Vossloh stock continues to be an attractive investment. For an investor who has held our stock for five or ten years, the annual return averaged 13.3 percent and 10.8 percent, respectively, while the MDAX returned an average 8.0 and 8.2 percent inside five or ten years, respectively.

Despite the stock price upswing, Vossloh AG's Executive Board considers further increases to be possible. Based on the Vossloh stock price of €22.53 quoted at December 31, 2001, a price-earnings ratio (PER) of 12.9 would result for the budgeted 2002 earnings. Our stock was thus priced at year-end 2001 clearly below the comparable MDAX average PER of 15.9.

What financial analysts believe

The ever-rising number of listed companies offers investors a plethora of investment alternatives on capital markets. Therefore, the reports of equity research analysts play an important part. In the year under review, too, Vossloh AG was on the agenda of several research institutes for analysis and rating. Among others, ING Barings Group, Baden-Württembergische Bank AG, and Deutsche Bank AG recommended in the course of 2001 buying Vossloh stock. Bankhaus Lampe analysts rated Vossloh stock as market performer. According to financial analysts, our stock's fundamental data suggests a fair value above €28.

Stock turnover slightly down

The volume of Vossloh stock turned over in 2001 inched down by 6 percent. While in 2000, altogether 6.3 million shares were traded, it was 5.9 million in the year under review. Besides the Frankfurt/Main stock market, which accounted for one-half of the turnover, the significance of the electronic trading system Xetra continues to rise, almost 45 percent of the total volume having been traded there.

Vossloh stock indicators		2001	2000	1999
Cash dividend	€	0.75[2]	0.75	0.60
Tax credit	€	–	0.32	0.25
Group earnings per share	€	1.20	1.93	1.23
Equity per share (excl. minority interests)	€	14.02	14.19	13.05
Number of shares[3]	1,000	14,355	14,400	14,400
Stock price[1]	€	22.53	14.95	14.90
Market capitalization[1]	€ mill.	310.4	215.3	214.6
Total dividend distribution	€ mill.	10.3	10.8	8.6
PER		18.8	7.7	12.1

[1] as of year-end

[2] proposed

[3] in fiscal 2001, an average 14,355,309 shares were issued and outstanding, at year-end 13,777,248

Stable dividend policy

The Executive and Supervisory Boards will propose to the annual stockholders' meeting to vote in favor of the distribution of an unchanged cash dividend of €0.75 per share for fiscal 2001. If resolved as proposed, around 60 percent of earnings will be distributed (up from 39 percent).

New German tax legislation/ split-income taxation

After the Tax Reduction Act had been enacted in Germany on October 23, 2000, the former tax credit system was abolished as from January 1, 2001, and replaced by the split-income taxation method. After a one-year transition period, only half of the dividends paid to individuals as direct stockholders are subject to income taxation in Germany. However, the option of offsetting the corporate income tax of the distributing company against a stockholder's personal income tax debt has been abandoned. Corporate income tax has since been a final levy imposed on and paid by the distributing company. While dividend distributors continue to be required to withhold German capital yields tax at 20 percent (down from 25) plus the 5.5-percent solidarity surtax thereon, these taxes remain creditable against a stockholder's personal income tax debts. The new regulations apply for the first time to dividends received in 2002.

Stock repurchase started

Vossloh AG's authority to repurchase its own stock was renewed by the annual stockholders' meeting of May 31, 2001. Vossloh AG is thus authorized on or before November 30, 2002, to acquire up to an aggregate 10 percent of the stock issued and outstanding, and subsequently redeem and withdraw or sell such treasury shares. In October 2001, Vossloh AG's Executive Board decided to exercise this authority. The repurchased stock will be used for the Company's growth strategy in M&A transactions.
By year-end 2001, altogether 622,752 treasury shares were acquired by Vossloh AG, equivalent to 4.3 percent of its capital stock.

Ownership structure

Vossloh AG's ownership structure has remained stable. The Vossloh family and Deutscher Herold, a major German insurance group, together continue to hold around 35 and 11 percent of Vossloh AG's capital stock, respectively, the remaining 54 percent being free-floating and largely owned by private stockholders. One-fourth of the free float is held by institutional investors, based mainly in Germany or the USA.

Investor Relations

Besides addressing financial analysts and institutional investors, Vossloh's Investor Relations activities target primarily private investors. Supplementing such regular corporate publications as annual and quarterly reports were ad hoc notifications and press releases in 2001 to brief the investor community on present performance and expectations. All this information was concurrently made available on the Internet at www.vossloh.com. The April and December 2001 presentations to DVFA, the German Association for Financial Analysis and Investment Consultancy, as well as further road shows detailed current trends at the Group, division and subdivision levels to financial analysts and institutional investors. In addition, we offered analysts, investors and others interested in Vossloh the opportunity to obtain answers to their queries in one-on-one discussions, in writing and by phone.

Corporate governance continues to be a focal point of investor interest. The chief elements of modern corporate governance are protecting stockholder rights, equal treatment of stockholders, the greatest possible transparency, and disclosing corporate information. Good and responsible corporate governance helps to promote and strengthen the confidence of present and future stockholders, lenders, employees, customers and suppliers alike.

Internationally, codes of best practice setting out the principles of modern corporate governance have been drawn up increasingly in recent years. In Germany, the Government Commission on Corporate Governance called for a German Corporate Governance Code in its report published in July 2001. The Code Commission set up as a result by the Federal Minister of Justice on September 6, 2001, submitted the German Corporate Governance Code on February 26, 2002, which contains internationally and nationally recognized standards for good and responsible corporate management.

The Vossloh Group has long been committed to the principles of modern corporate governance. The Executive Board of Vossloh AG therefore welcomes the submittal of the German Corporate Governance Code and intends to gear the standards of corporate management within the Vossloh Group to these principles now available.

Maintenance of a diesel locomotive of Kiel port authority. The Railway & Transport division offers customers full-service maintenance plans.

Economic growth well below expectations

The forecasted growth rates on which also the Vossloh Group's budgeting for 2001 had been based were not achieved worldwide. Instead of the expected 4.2-percent growth in the world economy, estimates at year-end showed merely a 1.4-percent rise in real GDP on a worldwide average. Especially in the markets of relevance to Vossloh in Europe, America and Asia, economic performance fell well below expectations.

In Euroland, which accounts for some two-thirds of Vossloh's total business, gross domestic product rose by a mere 1.5 percent on average, far short of the projected 2.7 percent on which our budgets were based. At only 0.6 percent, growth in Germany was well below all forecasts. The situation in the German building and construction business, important in supplying momentum to the lighting sector, deteriorated further in 2001.

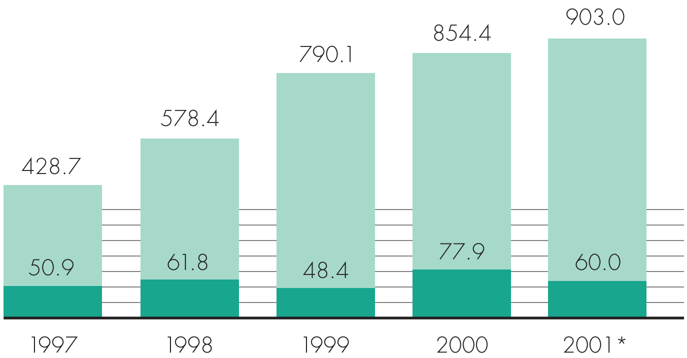
In the countries of Central and Eastern Europe which are not part of Euroland and accounted for some 13 percent of Group sales in 2001, growth slowed down considerably during the year under review. According to current estimates, average GDP in these countries came to 4 percent compared with the prior-year 6.3 percent. The USA recorded growth of just 1.0 percent (down from 5.0 percent) and in Asia the rate of expansion declined from 7.2 percent in 2000 to 3.7 percent in the period under review.

Sales stepped up in a hostile environment

Despite flagging economic activity worldwide, the Vossloh Group again managed to step up its sales by a significant 5.7 percent versus 2000 to €903.0 million. Discounting the mechanical engineering unit disposed of in 2001, which had inputted revenues of €61.7 million the year before, like-for-like growth was as much as 13.9 percent.

Group
Sales and earnings before interest and taxes

Net sales in € million
EBIT in € million

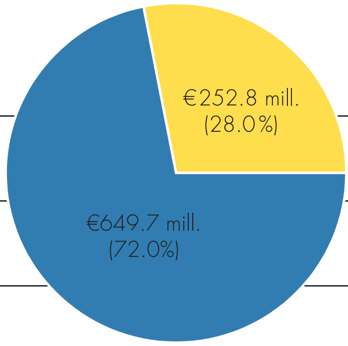


* excl. mechanical engineering unit

Business trend and business situation
Analysis of consolidated financial statements

Group
Sales breakdown by division
(excl. Vossloh AG)
Railway & Transport
Lighting

2001



In 2001, the Railway & Transport division generated net sales of €649.7 million, a rise of 12.1 percent compared with the prior-year €579.8 million, which had included revenues from the Mechanical Engineering unit. Like-for-like sales growth was therefore as much as 25.4 percent, mainly thanks to flourishing locomotive business. The Track subdivision also saw its sales surge by 15.9 percent to €433.1 million.

The Lighting division's business was badly battered by the recession, net sales tumbling during the period by 7.8 percent to €252.8 million (down from €274.1 million). Whereas our expectations were largely fulfilled during the first six months of 2001, sales slumped dramatically in the second half of the year.

Owing to the divisions' very divergent sales trends, Railway & Transport's share in Group sales moved up from 67.9 percent in 2000 to 72.0 percent in 2001.

Economic situation and one-off factors eroding profit

Despite strong sales, Group earnings before interest and taxes (EBIT) sagged by 23.0 percent to €60.0 million (down from €77.9 million), both Group divisions contributing for varying reasons. At Lighting, declining sales above all eroded profit, whereas Railway & Transport's reduced EBIT was attributable to one-time factors. The Group's EBIT margin receded from 9.1 percent in 2000 to 6.6 percent.

The Vossloh Group's net interest expense climbed in 2001 by €3.6 million to €17.2 million, the income tax load ratio declining from 44.6 percent in the preceding year to 41.4 percent in 2001.

Earnings before minority interests/net income for the year under review came to €25.1 million, down by 29.5 percent or €10.5 million from the prior-year level. Minority interests in net income amounted to €7.9 million (down marginally from €7.8 million). During the year under review, Group earnings totaled €17.2 million (down from €27.8 million).

		2001*	2000
Group			
Net sales	€ mill.	903.0	854.4
EBITDA	€ mill.	98.1	115.3
EBIT	€ mill.	60.0	77.9
EBIT margin	%	6.6	9.1
EBT	€ mill.	42.8	64.3
Earnings	€ mill.	17.2	27.8

*excl. mechanical engineering unit

The G1206—a European success story. The freight division of the French railway operator SNCF also recently started using Vossloh locomotives for its cross-border operations.

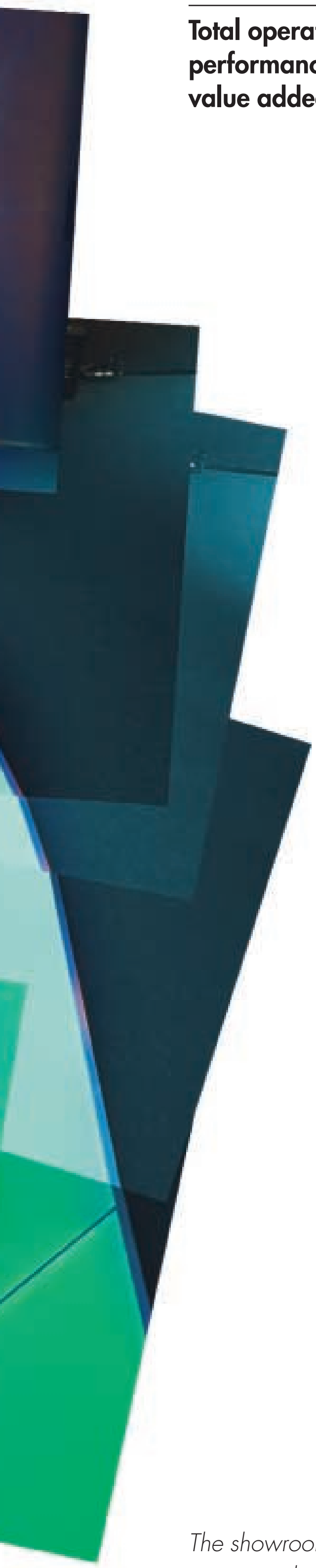
Total operating performance up yet net value added down

The Vossloh Group's total operating performance climbed 4.1 percent to €922.7 million (up from €886.6 million). The out-of-line increase of input costs (i.e., the cost of materials) by 13.5 percent from the prior-year level slimmed down the net value added by 12.2 percent to €270.1 million.

Out of the net value added, employees received 77.0 percent (up from 74.2), lenders 6.4 percent (up from 4.4), and the Treasury 7.3 percent (down from 9.8). With the proposed cash dividend, the Vossloh stockholders' portion moves up from the year-earlier 3.5 to 3.8 percent. Consequently, 5.5 percent (down from 8.1) of the net value added remains within the Group.

	2001*		2000	
Group				
	€ mill.	**%**	**€ mill.**	**%**
Created				
Net sales	903.0	97.9	854.4	96.4
Net inventory movement/ other work & material capitalized	19.7	2.1	32.2	3.6
Total operating performance	**922.7**	**100.0**	**886.6**	**100.0**
–Input	614.5	66.6	541.6	61.1
–Amortization/depreciation	38.1	4.1	37.4	4.2
Value added	**270.1**	**29.3**	**307.6**	**34.7**
Distributed				
Employees	208.1	77.0	228.2	74.2
Lenders	17.2	6.4	13.6	4.4
Stockholders	10.3	3.8	10.8	3.5
Treasury	19.7	7.3	30.2	9.8
Remaining in the Group	14.8	5.5	24.8	8.1
Value added	**270.1**	**100.0**	**307.6**	**100.0**

*excl. mechanical engineering unit



The showroom of Dula, a leading shop-fitting company throughout Europe.
Numerous lighting applications—ranging from luminous flooring to illuminated furnishings—are based on LED lighting technology from Vossloh-Wustlich Opto.

Total assets of the Group virtually unchanged

The Group's total assets of €899.0 million as of December 31, 2001, exceeded the prior year's €896.3 million to insignificant a degree only. While current assets crept down 1.4 percent to €567.3 million, capitalized noncurrent assets inched up 3.3 percent, chiefly due to a rise in financial assets (up €22.0 million) and in property, plant & equipment (up €5.3 million), however, which contrasts with a decrease in intangible assets by €16.7 million.

On the liabilities side, debt rose by a total €9.3 million while Group equity declined by €6.6 million, mainly due to the offset of the treasury stock repurchased (€13.2 million). In fiscal 2001, a considerable amount of the current liabilities due to banks was rescheduled as long-term debt.

		2001*	2000
Group			
Total assets	€ mill.	899.0	896.3
Equity	€ mill.	314.4	321.0
Equity ratio	%	35.0	35.8
Working capital	€ mill.	316.3	341.4
Net working capital ratio	%	35.0	40.0
Capital employed	€ mill.	638.3	652.8
Fixed assets	€ mill.	322.0	311.4
Capital expenditures **	€ mill.	48.2	43.6
Amortization/depreciation	€ mill.	38.1	37.4
ROCE	%	9.4	11.9
ROE	%	13.6	20.0
Net financial debt	€ mill.	231.2	209.5
Net leverage	%	73.5	65.3

*excl. mechanical engineering unit

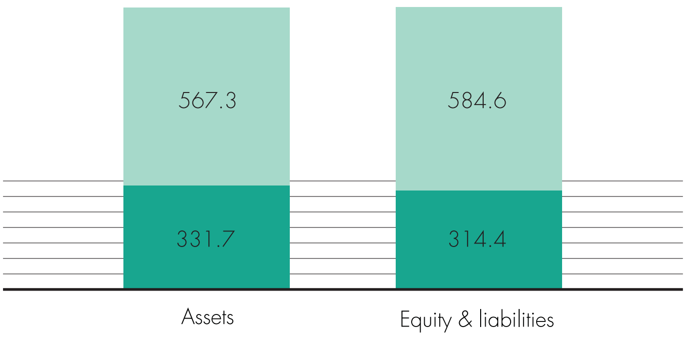
**excl. financial assets

Due to the lower EBT, the return on equity (ROE, ratio of EBT to equity) dropped from 20.0 to 13.6 percent. The equity ratio moved down from 35.8 to 35.0 percent.

Net financial debt mounted by 10.4 percent to €231.2 million as of December 31, 2001. Net leverage, i.e. the ratio of net financial indebtedness to equity (*aka* net gearing), edged up 8.2 percentage points to 73.5 percent.

Asset and capital structure of the Vossloh Group

current assets/debt in € mill.
noncurrent assets/equity in € mill.



ROCE down despite reduced working capital ratio

As of December 31, 2001, the Group's working capital shrank by 7.3 percent from €341.4 million to €316.3 million. Since the working capital was scaled down while sales rose, we managed to pare the net working capital ratio (i.e., the ratio of working capital to sales) from 40.0 to 35.0 percent.

The Vossloh Group's capital employed was ratcheted down by 2.2 percent to €638.3 million since the working capital decline outcompensated the increase in Group's fixed assets by 3.4 percent.

Nonetheless, the clearly lower EBIT lessened the return on capital employed (ROCE) from 11.9 percent the year before to 9.4 percent in 2001.

Cash flow and earnings per share

Owing to the reduced working capital and despite the lower EBT, the cash flow from operating activities mounted to €50.6 million (up from €35.1 million). EpS based on a US GAAP basis came to €1.20 (down from €1.93).

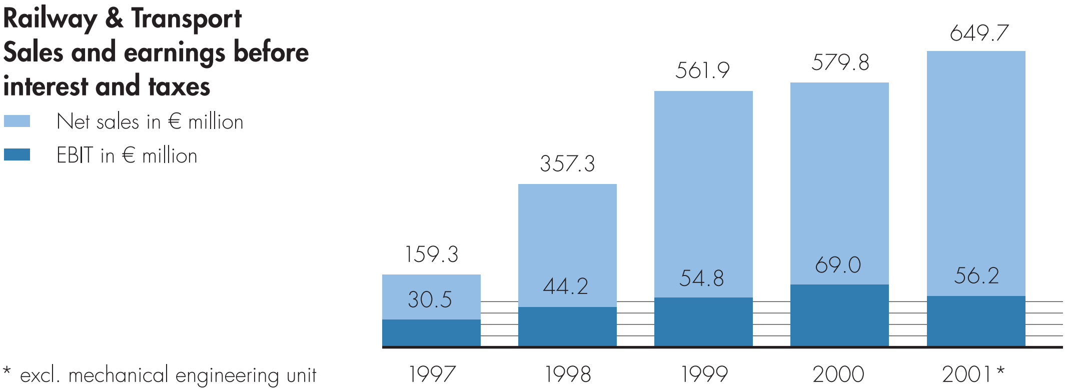
Business trend and situation
Railway & Transport division
Key figures of division accounts

Vossloh set to continue along its growth course

The three subdivisions of Railway & Transport—Track, Railbound Vehicles & Maintenance, and Engineering Systems—are the market leaders in their respective niche segments, most notably railway technology. The division concentrates its activities on the growth areas of rail transport technology with great earnings potential. By offering innovative products and services with high customer benefits in these market segments, Vossloh has through its Railway & Transport division reached a unique position in just a few years.

A change in strategic focus resulted in the withdrawal from mechanical engineering activities, which was effected during the year under review. Engineering Systems acquired a majority stake in the Swedish company NovoSignal AB, and so did the Special Trackwork business unit in Transwerk Perway Pty. Ltd., a company based in South Africa.

Railway & Transport
Sales and earnings before interest and taxes



* excl. mechanical engineering unit

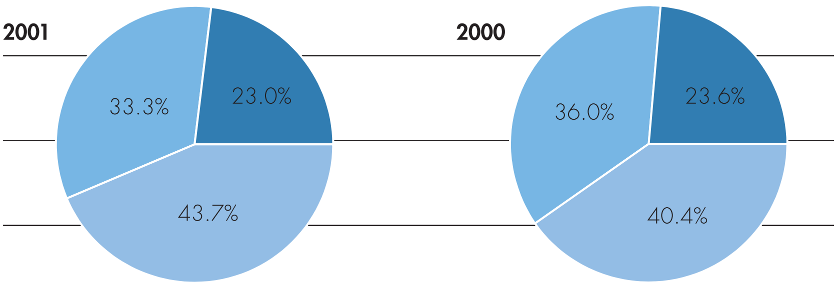
Rail switch loading at BWG. Preassembled switches vastly reduce track disruption by cutting installation time.

Sales up by 12.1 percent

In spite of Railway & Transport's disposal of its Mechanical Engineering unit, sales climbed 12.1 percent to €649.7 million during the period thanks to significant gains in locomotive manufacture, switch, and rail fastener business. Since orders from foreign customers largely accounted for this growth, the share of sales generated outside of Germany moved up from 64.0 to 66.7 percent, further reducing dependence on the German railway market during the year under review.

Railway & Transport
Sales by regions

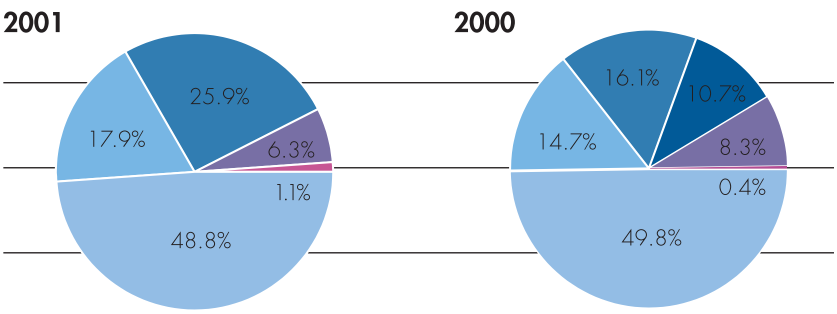
- Germany
- other Europe
- other, worldwide



The Track subdivision, which saw its sales grow by 15.9 percent in 2001, continues to make the biggest contribution to total division sales with a share of 66.7 percent (up from 64.5). Railbound Vehicles & Maintenance more than compensated for the disposal of the mechanical engineering unit, recording an 11.4-percent jump in sales. This subdivision's slice of total division business remained virtually unchanged at 27.0 percent (down from 27.2). Owing to nonrecurrent factors, Engineering Systems' sales revenues shrank by 14.9 percent, its share of division sales receding to 6.3 percent (down from 8.3).

Railway & Transport
Sales breakdown

- Special Trackwork
- Rail Fastening Systems
- Locomotives
- Mechanical Engineering
- Engineering Systems
- Vehicle Maintenance



Business trend and situation
Railway & Transport division
Key figures of division accounts

Division EBIT burdened by one-time factors

Despite strong sales growth, the Railway & Transport division's EBIT decreased by 18.6 percent to €56.2 million (down from €69.0 million). There were three one-time factors behind this drop in earnings. Firstly, owing to the abundance of orders for locomotives, the capacity expansion originally planned for 2002 had to be implemented ahead of schedule. Secondly, the insolvency of the British rail-infrastructure company Railtrack required some €4 million of inventories and receivables to be written down at Engineering Systems and, thirdly, the deconsolidation of the mechanical engineering unit resulted in a loss of €1.3 million, which also eroded EBIT. Excluding these factors, the year-earlier earnings level would have been reached despite the sale of the mechanical engineering operations.

For these reasons, only the Track subdivision contributed a profit in 2001, amounting to €65.5 million (up from €58.5 million), to division EBIT, which totaled €56.2 million (down from €69.0 million). The Railbound Vehicles & Maintenance EBIT came to a negative €4.3 million (down from a positive €10.6 million), Engineering Systems ending the year under review with a red EBIT of €1.7 million (down from a black €3.3 million). The difference between the sum of these amounts and the consolidated division EBIT was mainly attributable to goodwill amortization, which was charged at division level.

		2001*	2000
Railway & Transport			
Sales	€ mill.	649.7	579.8
EBITDA	€ mill.	78.5	91.4
EBIT	€ mill.	56.2	69.0
EBIT margin	%	8.7	11.9
Working capital	€ mill.	207.8	238.9
Net working capital ratio	%	32.0	41.2
Capital employed	€ mill.	426.6	458.4
Fixed assets	€ mill.	218.8	219.5
Capital expenditures **	€ mill.	33.6	21.7
Amortization/depreciation	€ mill.	22.3	22.4
ROCE	%	13.2	15.0

*excl. mechanical engineering unit

**excl. financial assets

The commissioning of the new production shop was for Vossloh Schienenfahrzeugtechnik the most significant step within the ahead-of-schedule capacity expansion in 2001.

Capital employed downsized by 6.9 percent

In the year under review, the division managed to downscale its working capital by 13.0 percent to €207.8 million. Since locomotive construction capacities were expanded and majority stakes acquired in the Swedish NovoSignal AB (by Engineering Systems) and in Transwerk Perway Pty. Ltd. (by Special Trackwork), the division's capital outlays substantially exceeded amortization and depreciation and, therefore, at €218.8 million, fixed assets remained virtually at the prior-year level (down from €219.5 million) despite the deconsolidation of the mechanical engineering unit. As of December 31, 2001, the division's capital employed had shrunk by 6.9 percent to €426.6 million. The ratio of sales to capital employed thus significantly improved from just under 1.3 the year before to a good 1.5 in 2001.

ROCE down despite lower CE

The reduction in the division's capital employed failed to make up for the decline in EBIT, causing division ROCE to slip from 15.0 percent in 2000 to 13.2 percent in the year under review. The Track subdivision again surpassed the Vossloh Group's internal minimum ROCE whereas Railbound Vehicles & Maintenance and Engineering Systems did not contribute any profit as their performance was overshadowed by one-time burdens.

Track subdivision

With its two business units—Rail Fastening Systems and Special Trackwork—Track already has a very broad international presence. With its high-quality products, which meantime enjoy standard status in many countries, this subdivision is ideally poised for gaining a major share of expected future investment in expanding and maintaining railway networks at home and abroad. Furthermore, constant improvements to existing products aimed at reducing the user's lifecycle costs form a sound basis for boosting market share.

Track		2001	2000
Sales	€ mill.	433.1	373.8
EBITDA	€ mill.	79.0	71.7
EBIT	€ mill.	65.5	58.5
EBIT margin	%	15.1	15.7
Working capital	€ mill.	117.9	118.9
Net working capital ratio	%	27.2	31.8
Capital employed	€ mill.	315.6	307.4
Fixed assets	€ mill.	197.6	188.5
Capital expenditures*	€ mill.	18.7	12.3
Amortization/depreciation	€ mill.	13.5	13.2
ROCE	%	20.8	19.0

*excl. financial assets

Following a 6.3-percent drop in sales during the previous year, Track posted double-digit growth rates for sales and EBIT in 2001, business volume climbing 15.9 percent to €433.1 million.

Growth in EBT did not quite keep pace with increased sales because the profit contribution from switch business failed to match the high prior-year level.

EBIT advanced by 12.0 percent to €65.5 million (up from €58.5 million), the EBIT margin therefore dipping slightly from 15.7 percent in 2000 to 15.1 percent during the year under review.

Despite substantial sales growth, working capital was reduced only by a marginal €1 million to €117.9 million during the period. The net working capital ratio dropped from 31.8 percent in the preceding year to 27.2 percent. Nonetheless, the subdivision's capital employed inched up 2.7 percent to €315.6 million owing to much higher capital expenditure for switch production than a year before.

During the period, the Track subdivision's ROCE increased from 19.0 percent to 20.8 percent because EBIT growth far outweighed the rise in capital employed.

Rail Fastening Systems business unit

The Rail Fastening Systems business unit is among the world's leading suppliers of rail fastening systems, which are used by railway and local transport companies in more than 65 countries. The product range covers fasteners for both ballast-bed and slab substructures compatible with all climatic zones and load profiles ranging from heavy-load to high-speed lines. This unit has reached a market share of over 35 percent worldwide.

During the year under review, Rail Fastening Systems boosted its sales by 33.8 percent to €115.6 million, its business continuing to focus on Europe and Asia. Resurgent business with Deutsche Bahn AG, especially the equipping of the new Cologne-Frankfurt line, boosted domestic sales by 26.9 percent to €54.8 million (up from €43.2 million).

Export sales soared by 41.1 percent to €60.8 million (up from €43.1 million), with strong growth registered in Western Europe, Eastern Europe and Asia. In the UK, the first high-speed rail link between the Channel Tunnel and London was equipped with Vossloh rail fasteners. In the Netherlands, large sections of the rail network were upgraded from boltless fasteners to Vossloh's rail fastening systems. In Malaysia, the high-speed line connecting Kuala Lumpur airport to the new central station in the city center was supplied with fasteners. In South Korea, Vossloh rail fasteners were used on bridge and tunnel sections of the high-speed railway network currently being built. In addition, noise-reducing elastic fastening systems were provided for the first section of Bangkok's new subway.

Most of the projects mentioned will also lead to follow-up shipments and thus revenues in 2002 as well.

Line modernization close to Eindhoven, Netherlands. During the period, Vossloh Rail Systems raised non-German sales by 41.1 percent to €60.8 million.

Business trend and situation
Railway & Transport division
Track subdivision

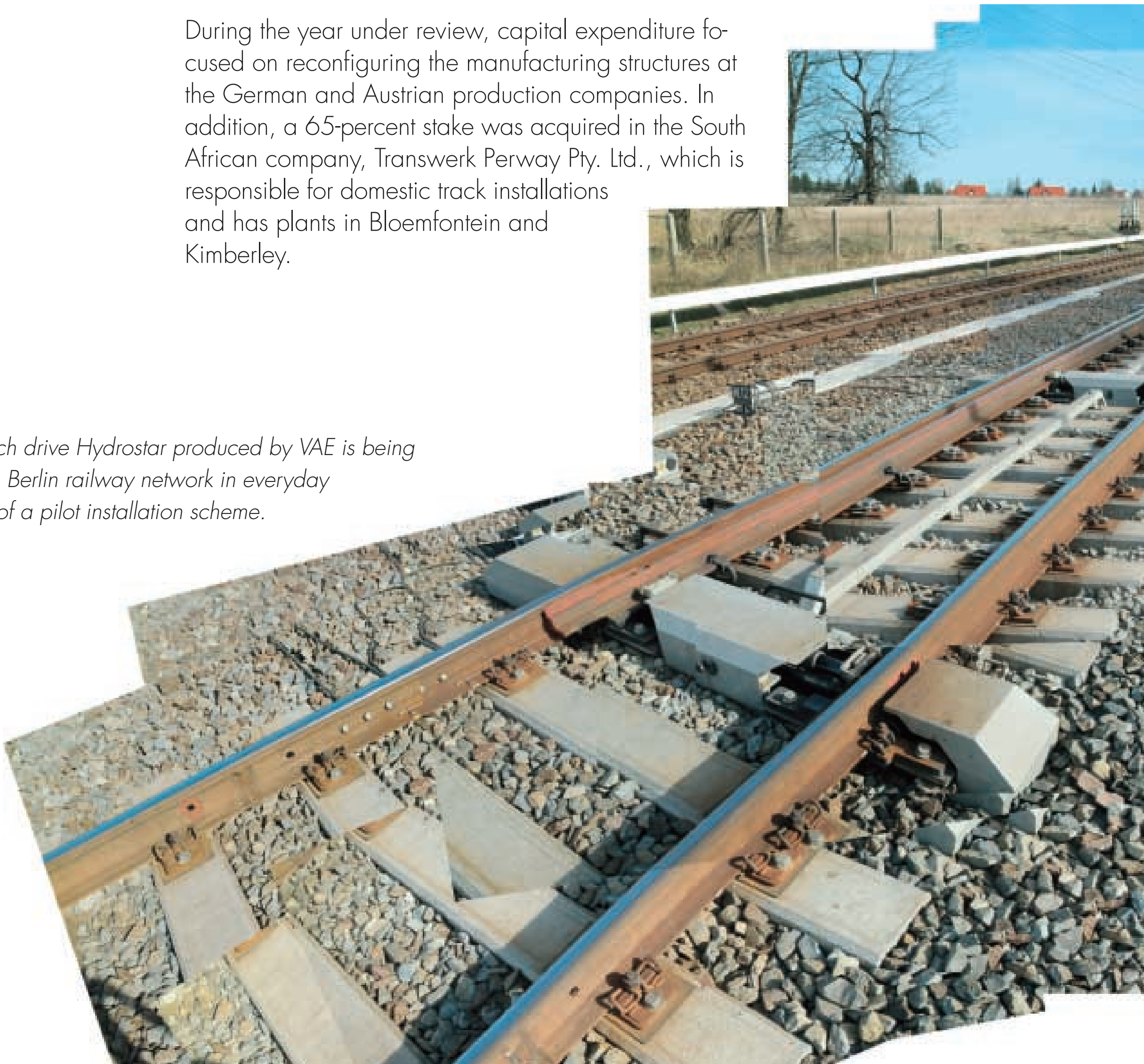
Special Trackwork business unit

The worldwide market-leading VAE Group, which represents this business unit, produces switches, switch components and hydraulic switch drives as well as electronic safety and monitoring systems for switches. The production plants of its international subsidiaries and affiliates manufacture their output for commuter and long-distance lines, high-speed and heavy-load transport as well as trams and subway systems.

During the period, sales were raised by 10.4 percent to €320.9 million (up from €290.6 million), albeit with regionally varying market trends. The VAE Group is involved in the biggest high-speed projects currently under way in Germany and Spain as a supplier of high-performance switches. In Eastern Europe, the companies in Lithuania, Hungary and Romania boosted their sales as part of the EU-sponsored program to expand mainline transport services. In North America, on the other hand, the fiscal year was adversely affected by both the economic environment and the trend toward less high-quality switch system solutions.

With the exception of the North American plants, the VAE Group's production facilities are working at full capacity owing to the major expansion projects embarked on by many railway companies. The VAE Group's current order backlog promises continued dynamic growth for 2002.

During the year under review, capital expenditure focused on reconfiguring the manufacturing structures at the German and Austrian production companies. In addition, a 65-percent stake was acquired in the South African company, Transwerk Perway Pty. Ltd., which is responsible for domestic track installations and has plants in Bloemfontein and Kimberley.



The hydraulic switch drive Hydrostar produced by VAE is being tested on DB AG's Berlin railway network in everyday operation as part of a pilot installation scheme.

Railbound Vehicles & Maintenance subdivision

The Railbound Vehicles & Maintenance subdivision operates in the locomotives and vehicle maintenance segments. The Mechanical Engineering unit, which had still been part of the subdivision and inputted sales revenues of €61.7 million in the preceding year, was contributed in 2001 to a joint venture with Maschinenfabrik Niles-Simmons Industrieanlagen GmbH, in which Vossloh holds 20 percent.

Vossloh Schienenfahrzeugtechnik GmbH is the European market leader for diesel locomotives, offering the maintenance and upkeep of railbound vehicles, besides the manufacture of locomotives.

The Vehicle Maintenance business unit specializes in technical services for railbound vehicles running on commuter services.

		2001*	2000
Railbound Vehicles & Maintenance			
Sales	€ mill.	175.8	157.8
EBITDA	€ mill.	(0.4)	14.8
EBIT	€ mill.	(4.3)	10.6
EBIT margin	%	(2.4)	6.7
Working capital	€ mill.	109.8	114.4
Net working capital ratio	%	62.5	72.5
Capital employed	€ mill.	130.6	144.4
Fixed assets	€ mill.	20.8	30.0
Capital expenditures	€ mill.	13.4	6.7
Amortization/depreciation	€ mill.	3.9	4.2
ROCE	%	(3.3)	7.3

*excl. mechanical engineering unit

Despite the lack of mechanical engineering sales during the period, the subdivision managed to boost its revenues by 11.4 percent to €175.8 million (up from €157.8 million), a rise which is almost completely attributable to the Locomotives unit's dynamic growth. During the year under review, the number of vehicles delivered more than doubled from 46 in 2000 to 100 locomotives. Owing to the tall order backlog, the capacity expansion originally planned for 2002 was carried out in 2001, resulting in significant profit erosion for the Railbound Vehicles & Maintenance subdivision. Moreover, the mechanical engineering unit's deconsolidation produced a loss of €1.3 million, which also lowered EBIT. The subdivision's EBIT fell from €5.7 million in the previous year (excluding the mechanical engineering unit) to a negative €4.3 million during the period under review.

In 2001, the subdivision's working capital was reduced by 4.0 percent to €109.8 million. The net working capital ratio improved correspondingly by 10 percentage points from 72.5 percent in 2000 to 62.5 percent. Capital employed contracted owing to reduced working capital and as a consequence of the mechanical engineering unit's deconsolidation by 9.5 percent to €130.6 million (down from €144.4 million). The red EBIT led to a negative ROCE of 3.3 percent (down from a black 7.3 percent).

Locomotives business unit

Following 22 locomotives in 1999 and 46 in 2000, Vossloh Schienenfahrzeugtechnik (VSFT) built and delivered a total of 100 locomotives in the year under review. The Locomotives unit generated sales of €172.3 million in fiscal 2001, outstripping the prior-year level by 82.9 percent.

Whereas incoming standard locomotive orders from privately owned railways failed to reach the year-earlier level, demand from other countries within Europe was very encouraging. In 2001, VSFT secured a follow-up contract from the Belgian state railway for another 80 locomotives and sees opportunities arising from the various invitations to bid by European state railways to be decided in 2002. The G2000, the flagship of the standard locomotive family, has proved its suitability for everyday use, meeting with interest from numerous railways. A major order was booked from Italy for this locomotive type. In 2001, twenty locomotives in total were supplied to Locomotion Capital Ltd., a joint venture with the UK-based company Angel Trains Ltd. in which Vossloh holds a 10-percent stake.

With the aim of consistently gearing organization to customer requirements, sales, product management and R&D activities were successfully realigned as required. The establishment of new regional agencies for the markets of Scandinavia, France, Italy and Spain/Portugal expanded the sales network while improving proximity to customers.

VSFT's commissioning shop in Kiel. Twenty G2000 locomotives were supplied to Locomotion Capital Ltd. alone in 2001.

The innovative workshop. With intelligent maintenance concepts and efficient workshop organization, EuroTrac is setting the standard in this service sector.

Maintenance business unit

By establishing the Kiel-based EuroTrac GmbH, Vossloh adapted at an early stage to the changed requirements on engineering services in the wake of deregulation and regionalization of European commuter railway transport. The company has developed a portfolio of services comprising the whole range of tasks required for ensuring that railbound vehicles are ready to operate from the platform. This covers maintenance, repairs, refueling, cleaning, supplies, waste disposal, and vehicle transfer services. The whole range has been designed so that the services can be flexibly integrated into vehicle operating schedules, thus ensuring maximum vehicle fleet availability.

In fiscal 2001, Maintenance generated sales of €7.4 million (up from €2.3 million). Earnings did improve but were again eroded by the expenditure related to R&D efforts and building up resources, and remained negative as expected.

Apart from the ongoing support services contract with the Nord-Ostsee-Bahn railway, which has been in force since 2000, the trains of DB Regionalbahn Schleswig-Holstein were also maintained in 2001. The full-service contract represents the first outsourcing of systems maintenance by DB Regionalverkehr nationwide.

Demand for the maintenance of railbound vehicles by private companies is also increasing in other European countries. In the Netherlands, EuroTrac has already been licensed as an officially approved railway workshop by the RailNed regulatory authority.

Engineering Systems

In recent years, Engineering Systems has developed into a leading specialist for automated processes in railway transport with a product range that includes planning, management, control, passenger information, and simulation systems. Fiscal 2001 was marked by steady expansion of the product portfolio and market position as well as concentration on core capabilities.

In mid-November 2001, Kiel-based Vossloh System-Technik GmbH (VST) acquired a majority stake in the Swedish company NovoSignal AB, now operating under the name Vossloh System-Technik Malmö AB. It develops control systems as well as electronic signal boxes for secondary lines. For Engineering Systems this takeover marked its planned entry into the safety systems segment as well as strategically closing the gap between control and instrumentation equipment. The background to this move is growing demand in Europe for more efficient operation of branch lines coupled with rising cost pressure on regional railways. This new business segment opens up an additional growth market which complements the existing range of services. Several thousand interlocks throughout Europe will have to be modernized in the next ten years. For this very application, NovoSignal AB had developed a new type of interlock based on the European standard on behalf of and involving the Swedish state railway.

In fiscal 2001, the passenger information systems unit acquired the Passenger Information and Entertainment (PIE) operations from Berlin-based Bombardier Transportation. This step adds passenger information systems used in local railway transport to Engineering Systems' product spectrum, allowing it now to offer innovative information systems for all train categories from long-distance to commuter services.

As part of the continued focus on its core business, VST shed its industrial (Kiel) and lifting platform (Karlsfeld) operations in 2001.

During the period, Engineering Systems stabilized and expanded its favorable market position, registering incoming orders amounting to €82 million, compared with €40.5 million in the preceding year. An order backlog of €108 million (up from €67 million) therefore forms a sound basis for further encouraging growth.

Worth special mention is an order from DB AG, the German rail corporation, to equip 1,200 intercity railcars and 145 locomotives with new information and communications technology, a project worth some €50 million.

In March 2001, Hamburger Hochbahn AG successfully commissioned the first section of the control and management system on subway line 1. Apart from monitoring train traffic, this integrated automatic system developed by VST also checks and controls the technical equipment. The benefits are a greatly improved service for passengers, optimized control processes, and reduced operating and payroll expenses.

Passenger information systems undergo testing. In a test setup, all the communications devices of an intercity railcar fitted out with the actual line lengths are checked at VST.

Owing to the sale of its lifting platform and industrial operations coupled with the insolvency of the British rail-infrastructure company Railtrack, Engineering Systems' sales in 2001, at €41.0 million, fell 14.9 percent short of the prior-year €48.2 million. In particular, York-based VST Comreco Rail Ltd. failed to reach its sales targets owing to the situation in the UK railway market.

Engineering Systems		2001	2000
Sales	€ mill.	41.0	48.2
EBITDA	€ mill.	(0.2)	5.0
EBIT	€ mill.	(1.7)	3.3
EBIT margin	%	(4.1)	6.8
Working capital	€ mill.	(20.0)	5.7
Net working capital ratio	%	(48.7)	11.8
Capital employed	€ mill.	(8.0)	15.0
Fixed assets	€ mill.	12.0	9.3
Capital expenditure	€ mill.	1.5	2.7
Amortization/depreciation	€ mill.	1.5	1.7
ROCE	%	n.a.	22.0

The division's negative 2001 EBIT of €1.7 million (down from a black €3.3 million) is attributable to the write-down of inventories and receivables amounting to €4 million in the third quarter linked to the bankruptcy of the British rail-infrastructure company Railtrack. These one-off factors directly impacted on the profit of VST Comreco Rail Ltd., whereas the German companies matched year-earlier earnings levels.

During fiscal 2000, an integration process had been started, aimed at merging the VST companies into a market unit and focusing on expanding the European presence and developing a joint sales and marketing organization for all companies. In 2001, the business integration process concentrated on standardizing organizational structures and work flows and on introducing a standard quality management system. Confirmation of successful initial implementation came in December 2001 when Vossloh System-Technik GmbH and VST Comreco Rail Ltd. were awarded ISO 9001 matrix approval.

The Vossloh-Schwabe Group, which represents the Lighting division within the Vossloh Group, is a leading worldwide producer and supplier for the lighting industry. The product spectrum extends from high-grade electronic and electromagnetic ballasts and transformers via ignitors and capacitors to lampholders. With this range, Vossloh-Schwabe offers the lighting industry all the luminaires' essential electric and electronic components—except for the lamps.

In 2000, Lighting had added LED lighting systems and LED components to its product range. LED lamp technology is gaining increasing importance, with advances in semiconductor design and LED housings and optics opening up new and varied dimensions in lighting design. Light-emitting diodes are especially appealing thanks to their compact dimensions, long life, low power consumption, and ever-improving color reproduction as well as the fact that they do not emit ultraviolet or infrared radiation.

The Lighting division is meeting growing demand for lighting control systems through the establishment of its separate Lighting & Building Systems Management subdivision.

During the period, the restructuring measures at Lighting initiated in 2000 were continued according to plan and completed in key areas. Following the relocation of small-batch manufacture to our Tunisian plant and optimization of our lampholder production facilities in Lüdenscheid and Sarsina in 2000, restructuring of our Urbach plant was completed in 2001. An additional focus during the period was the streamlining of logistics processes.

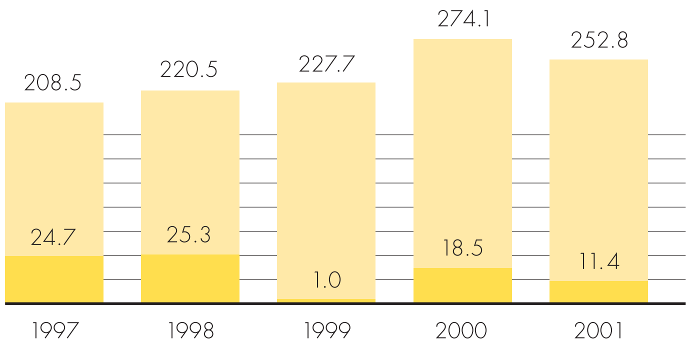
Gloomy background for Lighting

During fiscal 2001, Lighting's key luminaire markets in Europe were characterized by a pronounced recession, which led to a significant drop in production especially of room luminaires, with production of industrial luminaires generally in decline, too. In North America, the luminaire industry saw sales drop by some 5 percent compared with 2000. However, this market is of importance to Vossloh-Schwabe only in respect of lampholders, which held their own well in North America during the period with clear sales growth. The Asian market for industrial luminaires in the high-quality segment of interest to Vossloh-Schwabe stagnated during 2001 owing to waning demand from Europe and the USA.

Lighting
Sales and earnings before interest and taxes

Net sales in € million

EBIT in € million

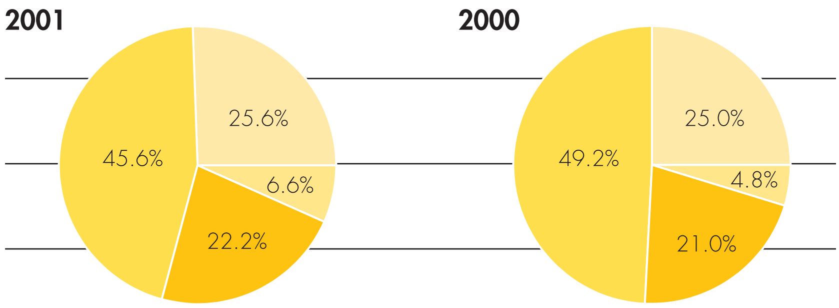


Sales decline due to economic factors

Owing to the unfavorable worldwide economic environment, we failed to realize our growth expectations during the period under review. In 2001, Lighting's sales receded from the prior-year €274.1 million by 7.8 percent to €252.8 million. Magnetic operating devices registered an especially severe slump (down 14.6 percent), although the high year-earlier level was partially due to a competitor's lengthy loss of production. Sales shortfalls posted by lampholders (down 5.5 percent) and electronic operating devices (down 2.4 percent) were much more moderate. LED business grew by 27.8 percent despite an unfavorable general setting.

Lighting
Sales breakdown

- Electromagnetic Operating Components
- Electronic Operating Components
- Lampholders
- Light Emitting Diodes (LED)



Business trend and business situation
Lighting division
Key figures of division accounts

During the period, the economic situation coupled with the resulting capacity glut amplified the already high price pressure, especially on operating devices. Lighting's EBIT slumped by 38.4 percent from the prior-year €18.5 million to €11.4 million.

		2001	2000
Lighting			
Sales	€ mill.	252.8	274.1
EBITDA	€ mill.	25.7	31.9
EBIT	€ mill.	11.4	18.5
EBIT margin	%	4.5	6.7
Working capital	€ mill.	109.0	103.1
Net working capital ratio	%	43.1	37.6
Capital employed	€ mill.	176.5	175.6
Fixed assets	€ mill.	67.5	72.4
Capital expenditures*	€ mill.	13.2	21.6
Amortization/depreciation	€ mill.	14.3	13.4
ROCE	%	6.5	10.5

*excl. financial assets

Capital employed and ROCE

In 2001, Lighting's working capital rose by 5.7 percent to €109.0 million, its net working capital ratio increasing from the prior-year 37.6 percent to 43.1 percent. The division's capital expenditure came to €13.2 million, representing a 38.9-percent fall from the comparable year-earlier level. At €176.5 million, capital employed remained virtually unchanged versus 2000, with ROCE falling in line with EBIT by 4.0 percentage points to 6.5 percent.

Quality assurance at Lighting. In addition to ongoing monitoring of production, individual electronic ignitors undergo a special test cycle.

Lampholders business unit

In 2001, lampholder sales declined by 5.5 percent, almost exclusively due to weak demand in Europe. In America, Asia and Australia, on the other hand, sales climbed often considerably compared with the previous year. The Lampholders unit adapted in 2001 to the recognizable demand trend toward high-voltage halogen lamps. Vossloh-Schwabe developed the relevant lampholder and component systems, unveiling them at INTEL 2001 held in Milan. Additional new products were developed for energy-saving lamps and in the form of components for automatic luminaire wiring. During the period, use of highly heat-resistant thermoplastics was stepped up, with special focus on applications in the household appliance industry and related to luminaires with discharge lamps.

Magnetic Operating Devices business unit

The lackluster luminaire market and resulting surplus capacity among manufacturers of operating devices severely hampered business in 2001. The Magnetic Operating Devices unit saw its sales decline by 14.6 percent. This segment's situation in Europe is defined by the EU Directive on Ballasts, leading to a shift in demand toward low-energy magnetic ballasts. Vossloh-Schwabe is well prepared for this trend thanks to the development of its energy-conserving operating devices. In future, magnetic ballasts for discharge lamps will have to be fitted with temperature switches to enhance operating safety. The relevant devices were developed and introduced on the market in 2001. Further new developments concerned supply units for discharge lamps that demonstrate the technical and economic synergies of Vossloh-Schwabe's component systems.

Electronic Operating Devices business unit

Despite sluggish economic activity, electronic ballast sales reached the budgeted target, thus matching the prior-year level. Demand for electronic ballasts is set to rise significantly in the years ahead. The very price- and capacity-sensitive procurement market for electronic components at the start of 2001 eased in the second half of the year, a trend which brought substantial cost benefits and is expected to continue in 2002.

During the period, the regional markets relevant to Vossloh-Schwabe's electronic ignitors suffered from a pronouned squeeze on margins. However, Vossloh-Schwabe did manage in the technologically more advanced markets of Germany and Scandinavia to assume the pioneering role in modifying ignitors by providing a switch-off function to prevent overheating, thus bucking the general trend. Owing to increased use of lamps with ceramic burners and the legally required integration of temperature switches, demand in Europe for ignitors with automatic switch-off is set to continue to rise.

LED business unit

The Vossloh-Wustlich Opto company, acquired in 2000, assembles light-emitting diodes and LED chips of all light intensity groups, shades and shapes into complete modules and lamps. They are used in building systems management, the furniture industry and signal manufacture and, as light fixtures, in bus, railway and vehicle construction.

During fiscal 2001, Vossloh-Wustlich Opto raised its sales by 27.8 percent from the prior-year €13.3 million to €17.0 million, again posting double-digit growth. This encouraging performance was achieved despite the severe drop in incoming orders for assembled LEDs due to plummeting market demand for electronic components. Germany and France were the LED subdivision's strongest sales regions (together accounting for 89 percent of sales). The remaining 11-percent share of non-German sales came chiefly through distributors.

Sales activities related to microlight business, comprising the sale of inhouse developed chip-on-board (COB) technology, were stepped up in 2001, including attendance at the leading European lighting trade fair, INTEL 2001, held in Milan. With COB technology offering wide-ranging and as yet untapped application possibilities, the aim is to grow this business further through more intensive marketing activities and efforts to attract new customers and produce tailored developments.

LED lighting technology for the aircraft industry.
The LED subdivision produces compact lighting displays
—as used on the Airbus.

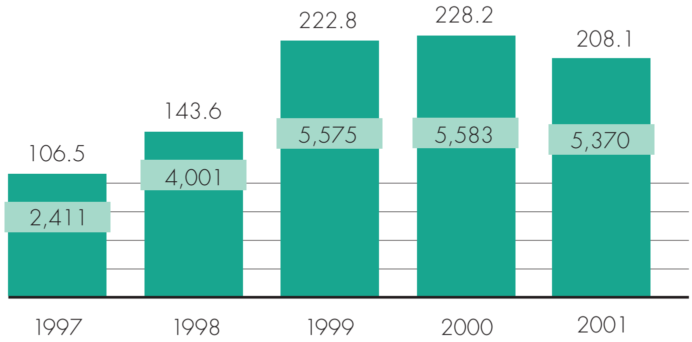
The number of employees in the Vossloh Group came to 5,470 at year-end, representing a fall of some two percent from 5,564 as of December 31, 2000.

Railway & Transport's headcount was reduced by 324 initially owing to the sale of the majority stake in Hegenscheidt-MFD GmbH with effect as of January 1, 2001. In particular, the first-time inclusion of the switch manufacturing company Transwerk Perway (Pty.) Ltd. acquired by VAE AG as well as expanded production capacity at Vossloh Schienenfahrzeugtechnik GmbH in Kiel increased the workforce at year-end to 3,996 (up from 3,963).

The Lighting division's payroll came to 1,451 at year-end, down from 1,581 by some 8 percent, due to the restructuring measures implemented during fiscal 2000 and continued rationalization in the year under review.

Group
Workforce trend and personnel expenses

Personnel expenses in € million
Annual average workforce



While sales per capita within the Vossloh Group climbed almost 10 percent to around €168,200 (up from approx. €153,000), the value added per capita dropped by 9 percent from €55,100 to €50,300 (both figures rounded). A major cause for the lower share of value added in total operating performance was the soaring input market prices. Lighting, in particular, was unable to charge the price increases fully to its customers. Consequently, productivity expressed as the personnel expense percentage of value added rose from 74.2 to 77.0 percent.

Personnel expenses in 2001 totaled €208.1 million, corresponding to approx. €38,700 per capita (down from a rounded €40,900). This decrease in per-employee expenses was to some extent due to the higher percentage of the non-German workforce, rising to 53.5 percent of the total (up from 49.9), as well as to the lower total of variable incentive pay.

Within the Railway & Transport division, sales per capita climbed 15.6 percent, from about €144,900 to some €167,300. Personnel expenses per capita sank from €40,500 to €38,900 (both figures rounded). The ratio of payroll to value added nonetheless went up from 70.1 to 72.9 percent, due to division EBIT being burdened by nonrecurrent factors.

In the Lighting division, which operated in a rough economic climate, sales per capita receded by 1.3 percent from €175,000 to €172,700 (approximate figures). Although payroll per capita moved down 10 percent from €40,000 to €36,200 (rounded), the ratio of payroll to value added increased from 76.1 to 79.9 percent since the value added remained below expectations.

		2001	**2000**	**1999**	**1998**	**1997**
Workforce-related indicators						
Personnel expenses per capita	€1,000	38.7	40.9	40.0	35.9	44.2
Sales per capita	€1,000	168.2	153.0	141.7	144.6	177.8
Payroll ratio	%	77.0	74.2	81.7	69.3	67.0
Value added per capita	€1,000	50.3	55.1	48.9	51.8	66.0

		2001	**2000**	**Change**
Personnel expenses				
Pay	€ mill.	167.4	204.2	–18.0%
Social security taxes	€ mill.	37.6	22.0	70.9%
Pension expense	€ mill.	3.1	2.0	55.0%
Total	€ mill.	208.1	228.2	–8.8%

	Average 2001			**Year-end 2001**		
Employees	**Germany**	**Abroad**	**Total**	**Germany**	**Abroad**	**Total**
Railway & Transport	1,702	2,182	3,884	1,762	2,234	3,996
Lighting	770	694	1,464	756	695	1,451
Parent*	22	—	22	23	—	23
Total	2,494	2,876	5,370	2,541	2,929	5,470

* including officers

Entrepreneurship as a key managerial skill

The Vossloh management culture is based on the principle of direct empowerment at all managerial levels, requiring from executive and managerial staff the ability to draw up plans of action based on strategies and implement them successfully together with their staff. We call this leadership ability. An essential ingredient in the staff development program launched in 2000 is to further improve this skill.

Managerial staff who initially as part of this program undergo a systematic potential analysis process get to grips with Vossloh's corporate culture and with realizing their own managerial role through a multipart leadership curriculum in interdisciplinary teams. The interchange across company and divisional boundaries leads to the formation of companywide networks. As a result, alongside coaching and mentoring of managerial staff, peer-to-peer consulting is established as an integral part of HR and organizational development while providing a communication platform for the participants.

During the period, more than half of the managerial staff who had completed the Vossloh executive/managerial staff development program embarked on their next career move within the Group. We therefore succeeded in filling a large proportion of the vacant managerial positions at the Group from within our own ranks and in retaining the loyalty of key employees in the long term.

HR development stepped up

In an environment characterized by increasingly rapid change, the demands on our employees' willingness to study and change are continually rising. In order to advance their ongoing development, numerous HR development measures were initiated and supported, aimed at promoting their specialized, methodical and interpersonal skills. During the period, personnel and organizational development was placed on a broader footing, enabling Vossloh AG to draw up and control more intensively than previously companywide human resources and organizational development projects.

This includes the working-out of a groupwide systematic junior executive development program and assistance in change management processes at individual company units.

A modern workplace in the Lighting division.
Consistent investment in manufacturing technology at the Oschatz facility, Saxony, has further enhanced production flexibility and quality.

Recruitment via new media

Increasing competition for skilled employees means that staff recruitment must be geared to the new media while existing job ads need to be reviewed. Alongside conventional methods, we now use the Internet services of well-known job exchanges as well as our own homepage (www.vossloh.com) for all job vacancies. On the advertising side, we implemented a new universal employment ad concept.

In-company vocational training remains one of the cornerstones of our personnel policy. As of December 31, 2001, the Group had 138 apprentices. It is essential to attract young people with potential in good time by working with schools and offering intelligent training concepts.

Stock option plans

For the first tranche of the 5-year stock option plans introduced in 1998 for executive and managerial staff and employees, the three-year qualifying period expired in November 2001. Although the Vossloh stock price performed encouragingly during the period under review, the options granted have not yet been drawn on owing to the demanding exercise hurdles in the first trading window.

In 2001, R&D expenditure climbed groupwide almost 7 percent from the prior-year €9.2 million to €9.8 million, of which Railway & Transport accounted for €6.0 million (up from €5.7 million). Lighting's R&D spending totaled €3.8 million (up from €3.5 million). During the period, 108 employees were engaged in research and development—of these 72 in the Railway & Transport division and 36 at Lighting.

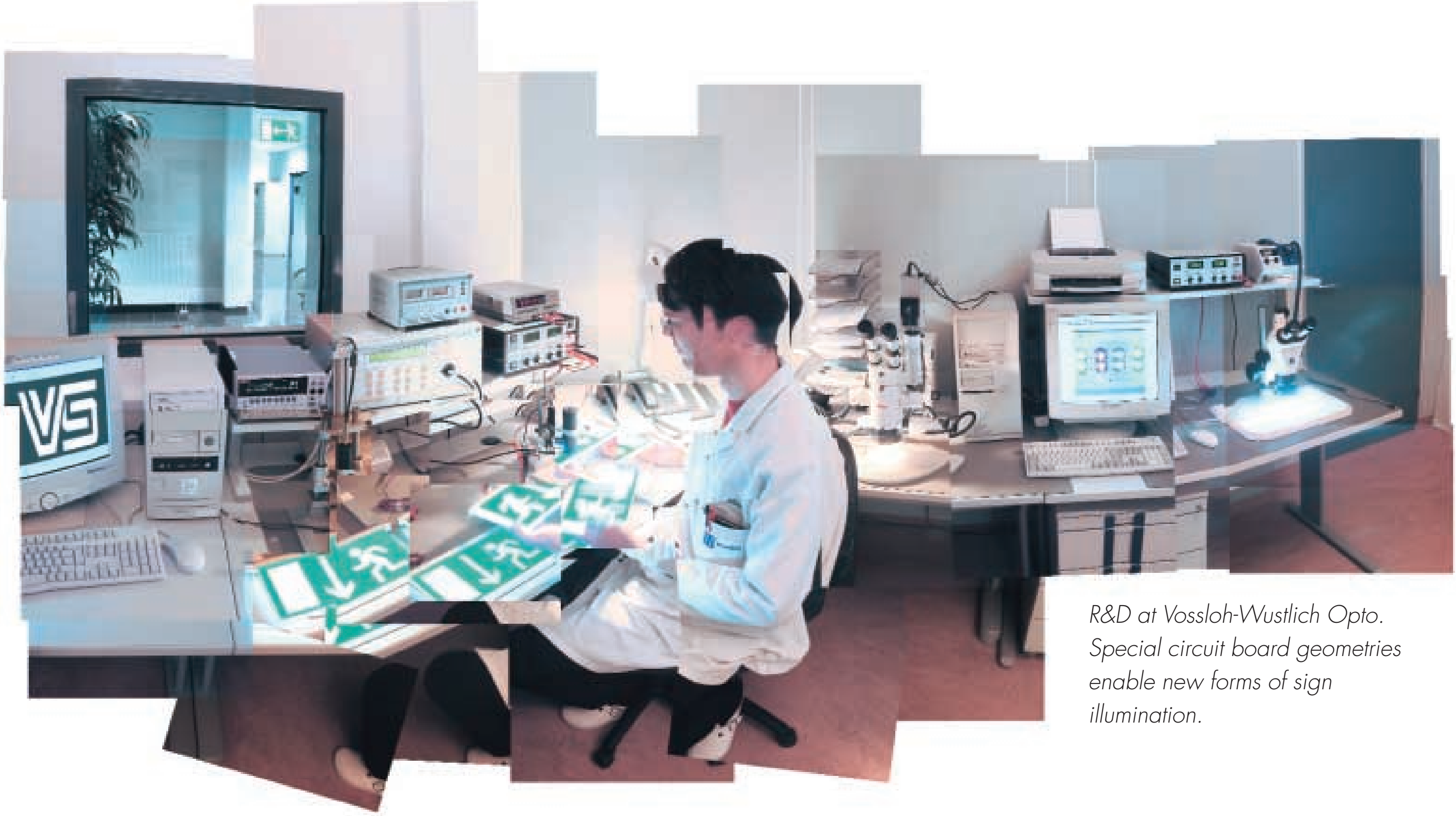
Railway & Transport division

During the year under review, the Rail Fastening Systems unit advanced the development of new-generation tension clamps to the initial patent application stage. The first prototypes were produced for tests conducted in collaboration with renowned universities and research institutions. Once the relevant approvals have been obtained, the new fasteners will undergo track testing. Additional new developments, such as products for reducing structure- and airborne noise in the track, have started and will be further pursued during fiscal 2002.

In 2001, Special Trackwork's R&D efforts focused on further improving the system of plug-in switches. Hydraulic drive innovations and developments in locking technology brought the unit a good deal closer to the goal of more efficient installation for switches and reduced ongoing maintenance costs. For customers this means substantially reduced life cycle costs.

In the Locomotives unit, development of two new diesel-hydraulic locomotives marked the start of an extended product portfolio. The G1700 and G1000 are intended to add locomotives which meet increased customer requirements for further reduced fuel consumption and emissions to Vossloh Schienenfahrzeugtechnik's standard range.

In order to supplement the FlexTime® system introduced in 2000, which as a workshop concept enables the maintenance of railbound vehicles during rotation-related idle times, the Maintenance unit developed a concept called FlexKit® during the period. This system further increases vehicle availability because the wear and aging process of a railbound vehicle's individual components is taken into account when the maintenance work is assigned. The FlexBridge® track system was another new development in workshop technology during 2001. The patented track system consists of raised flexible modules and is thus also suited to the upkeeping of long, one-piece trains. For these innovations, Kiel-based EuroTrac was awarded third prize in the Public Local Passenger Transport's Innovations Competition, which was organized by the trade publication "Nahverkehrszeitung" together with the Federal Ministry of Transport during the year under review.



R&D at Vossloh-Wustlich Opto. Special circuit board geometries enable new forms of sign illumination.

R&D activities at Engineering Systems in 2001 centered on standardizing and automating the software development process as well as on further developing passenger information systems into fully automatic applications. In addition, the U3T (Unified Topology & Timetable) development project was launched during fiscal 2001. Its aim is to combine the core capabilities of scheduling control systems and timetable planning, thus tapping the relevant synergistic potential. U3T is therefore hugely important in Engineering Systems' operational integration process and in integrating planning and scheduling into operations management at railway companies.

Lighting division

During the period, the Lighting division's R&D efforts concentrated on the development of electronic ballasts in line with the Digital Addressable Lighting Interface (DALI) international standard, offering intelligent and functional light management that is energy-saving and cost-efficient. In 2001, Vossloh-Schwabe also developed electronic ballasts for halogen metal-vapor discharge lamps, which are used primarily in modern display window lighting. The product range of conventional magnetic ballasts for discharge lamps was prepared for the general fitting of a temperature switch in line with a new EU standard.

Vossloh-Wustlich Opto KG's developments in 2001 concentrated chiefly on creating components and systems for new lighting technology using LEDs and concerned, firstly, new operating devices for supplying power to LED applications and, secondly, modules for the digital control of lamp modules with which through the mixing of red, green and cyan, light can be produced in all colors. With the development of special PCB geometries, such as line conductors and panel lights, various lamp modules were also made available to the lighting market which are used in recessed floor lighting, display case lighting, decorative luminous tiles, color light beams and contoured luminaires.

Vossloh attaches great importance not only to taking account of economic and environmental factors but also to interlinking them. Consequently, the Group is committed to both developing environment-friendly products and investing in the introduction of new eco-compatible production techniques.

Eco-compatible production methods

During the period, work started at the Kiel-based locomotive production shop on coating series produced locomotives such as the G2000 completely with zero-solvent aqueous paints. The Kiel maintenance workshop is making a further contribution to improving wastewater by using an external cleaning system for locomotives which recycles 85 percent of the water used. At the Werdohl production plant for rail fastening systems, a new eco-compatible and fully automated pickling plant was commissioned in 2001, which clearly reduces energy and water consumption as well as steam emissions.

Approval in accordance with the international standard for environmental management systems DIN EN ISO 14001 will be granted to both the Werdohl production facility for rail fasteners and the Italian production plant for lampholders during the current fiscal year, all the required preparations having been completed during 2001.

The plant in Zeltweg has already been approved in accordance with the EU Eco-Management and Audit Scheme Regulation (EMAS) and ISO standard 14001, besides being a member of the industrial companies' climate alliance

Environment-friendly products

Through its activities in the Railway & Transport division the Vossloh Group is promoting one of the most environment-friendly modes of transportation. This is borne out by low energy consumption and CO_2 emissions as well as moderate land use, a high level of safety and low environmental pollution caused by rail transport. In order to safeguard these environmental advantages Vossloh is working on the design of low-consumption diesel locomotives and on ways of reducing noise in railway tracks. With a new-generation switch based on hydraulic technology, the Austrian switch production plant at Zeltweg has developed a product which—unlike mechanical switches—completely eliminates the need for lubricants in the switch drive and locking device.

With its Lighting division Vossloh is a leading producer of energy-saving magnetic and electronic operating devices. The components, which make automatic lighting management possible, are of special importance from an environmental angle. During the period, the range of ballasts for fluorescent lamps was expanded. Thanks to the modern electronics of these digitally addressable components the brightness of complex lighting systems can be controlled according to need.

The LED has formed part of the Vossloh-Schwabe product range since 2000, its main feature being extremely low power consumption. The steadily improved luminous efficiency of this miniature luminaire has enabled the development of circuit boards on which LED chips are bundled in such a way that even now they represent an alternative to conventional spotlights or spread-beam lamps.

An exhibition at the Stilwerk outlets: designer lighting from emdelight GmbH. Many of the objects are fitted with compact LED circuit boards supplied by Vossloh-Wustlich Opto, featuring high luminous efficiency coupled with extremely low power consumption.

Responsible corporate management involves careful handling of the wide-ranging opportunities on offer and of the risks inextricably linked to them. In order to ensure Vossloh's commercial success, risks are identified, assessed and contained as far as possible using the tools of risk management.

The economic risks posed by ongoing business operations are monitored by a meaningful, comprehensive and up-to-date controlling and reporting system designed to ensure that the Executive Board obtains all the relevant information for detecting at an early stage developments which can adversely affect the Group's financial position, net assets or results of operations. This is supplemented by periodic investigations aimed at targeted risk identification and assessment. During the period, training courses were held throughout Vossloh, as in the previous year, aimed at improving the system's efficiency. The quality of the risk management system also forms an integral part of the standard checks carried out through internal auditing and by the statutory auditors.

Market risks

With Railway & Transport and Lighting the Vossloh Group combines two divisions which are subject to completely varying demand and innovation cycles, thus achieving with regard to market trends at least partial risk sharing.

In the Railway & Transport division, there is a strong dependence on the major European state railways. Apart from the effects of the bankruptcy of the British rail-infrastructure company Railtrack, no further related risks have come to light within the Group in 2001. In contrast, considerable opportunities are arising from advancing privatization in domestic railway markets and from increasing demand for railway technology in export markets. Due to the Vossloh Group's sound equity base the growth targets set can be realized without major risks. We are countering the fluctuations in demand with a highly flexible cost structure, especially with the purchase of manufacturing capacity, and with early adjustment of the product range.

In the Lighting division, the risks come mainly from the foreseeable and partial substitution of conventional lamp ballasts with electronic ones. We are confining these risks by expanding our market position in the electronic ballasts segment speedily and stepping up sales of improved magnetic ballasts with high energy efficiency.

Performance risks

Our high requirements related to project and quality management, and product and occupational safety, as well as environmental protection are generally safeguarded through comprehensive standards, procedural rules as well as in-process and operational checks groupwide. In addition, production and logistics processes are being constantly further developed and improved. In this context, Lighting devoted special attention to logistics in 2001, to which we attach central importance in ensuring the quality of our customer service.

On the procurement side, we safeguard our requirements in terms of both volume and price through the relevant long-term standard agreements—especially with our copper and plastics suppliers. In the procurement markets, such as that for electronic components, in which Vossloh possesses relatively little purchasing muscle, disadvantages are offset by pooling arrangements. To minimize quality risks among suppliers quality audits are conducted on a regular basis.

Even the most stringent quality management cannot exclude losses and liability risks. For these risks we haven taken out adequate insurance policies and recognized provisions where required. The scope of these insurances and accruals is regularly reviewed. Losses (if any) are therefore not believed to have any potentially ruinous consequences for the Vossloh Group's financial position, cash flows or its result of operations.

The development of lampholders for fluorescent lamps. At Vossloh-Schwabe's design office numerous lampholder options are developed for new lamps.

Financial risks

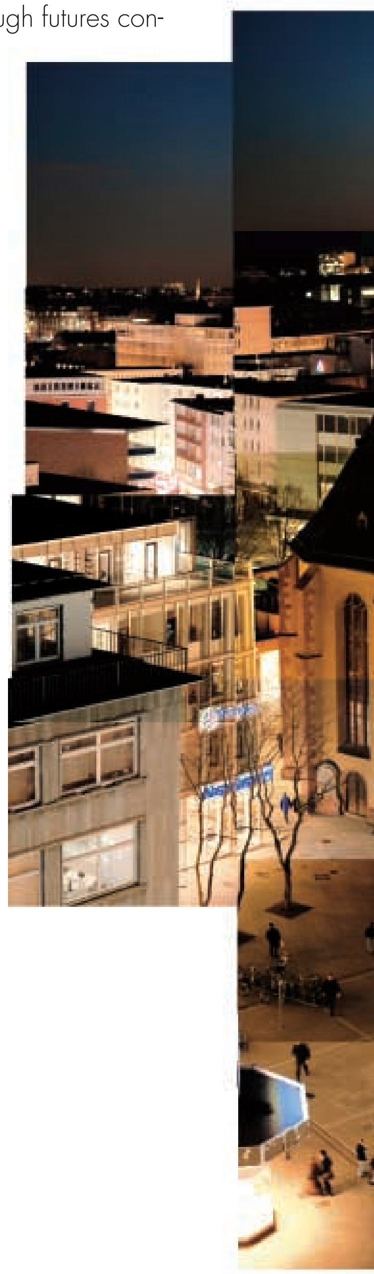
Financial risks are avoided and managed through an annual finance budget with a rolling analysis of budget variances. The foreseeable need for financial resources is covered by a sufficient volume of unutilized credit facilities. Since we work with several lenders, we do not depend on any specific bank or credit institute. Currency, interest rate and purchase price risks are hedged against through suitable derivatives. At year-end 2001, currency futures and forwards totaled €44.5 million, their terms not exceeding 12 months. The 2001 closing volume of interest rate hedges came to €127.8 million, €76.7 million of which comprised caps whose remaining terms ranged from 6 to 8 years, another €51.1 million consisted of interest rate swaps with residual terms of 4 to 9 years. The copper supplies, an important raw material in our production, are hedged through futures contracted at a total volume of €15.3 million and terms ranging from 1 to 24 months.

Monitoring of liquidity, interest rate and currency risks has been regulated in guidelines. The contracting, settlement and control functions are clearly segregated in all work flows. In line with our risk policy, currency and interest rate hedges are solely contracted to cover specific risks from existing or planned underlying transactions.

Overall risk position

We have not identified any significant, potentially ruinous overall risks in our divisions. Vossloh's continued existence as a going concern is not jeopardized, whether in terms of assets or liquidity. The present equity capitalization is a sound basis for translating our corporate development plans into practice.

The specific risks identified in 2001 have not impacted on the Group's equity base. The equity ratio of 35 percent (down from 35.8) remains high in comparison to the average of other listed companies in Germany.



Frankfurt/Main, a bustling financial center. Starting with rail fasteners deep down in the subway network to lighting components high up in the office blocks—Vossloh's lighting and transport products are omnipresent in every major city.

Much better performance expected for 2002

For 2002, we are not expecting a major change in the overall economic scenario. According to macroeconomic forecasts, Germany and industrialized nations as a whole are set to grow by 0.8 percent in 2002. There are currently no signs of any sustained economic recovery in the regions of importance to Vossloh. The budgeting for 2002 is therefore based primarily on the trends in the second half of 2001. Against this background, we are not anticipating any appreciable expansion in business volume during 2002.

A change to any significant degree in currency parities of importance to us is not likely in 2002 from today's vantage point. We have hedged against major exchange rate fluctuations in the US dollar, as the Vossloh Group's key foreign currency. No substantial impact on the results of operations is therefore to be expected from changes in currency relations. For personnel expenses per capita we are predicting an average rise of 2.5 percent. With regard to the raw materials used by Vossloh, we are anticipating no cost rises in 2002.

Under these conditions, we are expecting Group sales in the current fiscal year to match the 2001 level. Whereas it is assumed that Lighting's sales will again fall by some €10 million in 2002 owing to general market trends, we are convinced on the other hand that this will be offset by the Railway & Transport division's forecasted growth.

From today's perspective, EBIT should be raised in 2002 by some 23 percent to €73.7 million. With the goodwill amortization and unbudgeted profit erosion of 2001 discontinued, the results of the diverse restructuring measures at Lighting combined with much improved productivity in locomotive manufacture will help contribute to the planned improvement in EBIT. Railway & Transport should boost its EBIT margin from 8.7 percent to 10.6 percent, while Lighting is likely to see its EBIT margin rise from 4.5 to 5.6 percent. This would mean a 45-percent increase in Group earnings to €25 million.

Due to uncertainties with regard to economic trends and the invoicing of project business by the Railway & Transport division, these profit forecasts include both risks and returns whose effects on Group earnings are estimated at some €5 million either way.

Capital expenditure totaling €51.5 million is planned for 2002, some 10 percent more than in the previous year.

The Vossloh Group's joint stand at rail#tec 2001 in Dortmund. All Railway & Transport's business units took the opportunity to strengthen their customer ties.

Group sales set to reach €2 billion by 2004

We still expect to achieve Group sales of some €2 billion in 2004. In order to reach this target, we are seeking especially to expand our activities in the Railway & Transport division. Apart from internal growth in the two existing divisions, company acquisitions will essentially contribute to realizing this objective.

In addition to expanding business volume, the Group is endeavoring above all to generate a sustained ROCE of some 15 percent throughout its operations. Consistent cost management, the optimizing of working capital and a swift response to changes in the marketplace should put us in a position to achieve this ambitious goal at Group level by 2004.

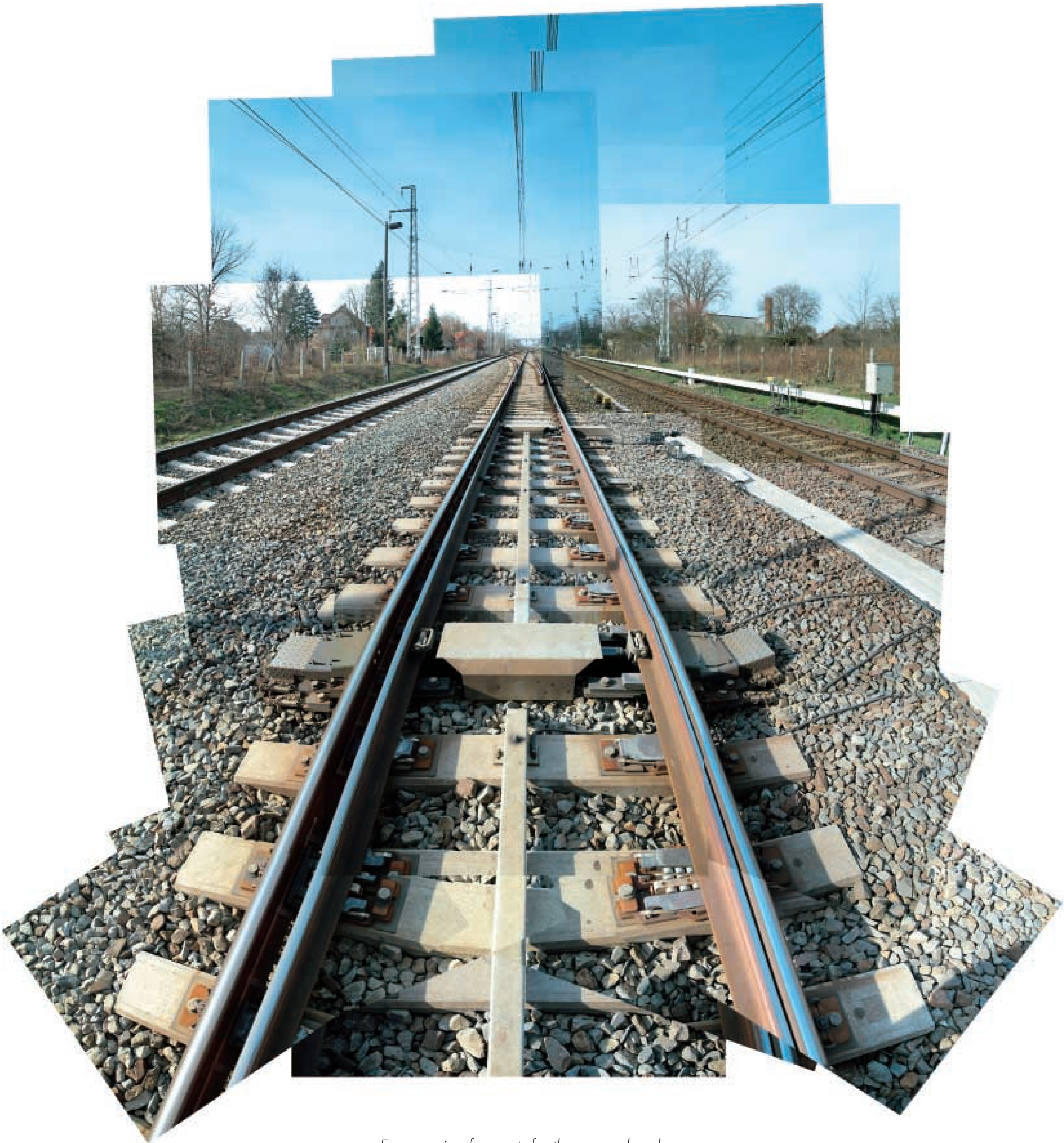
Combined management report

Vossloh AG's position is almost fully determined by the Group's, which is why management again presents a combined report on the Group and the Company, as in previous years.

Werdohl, March 8, 2002

Vossloh AG
The Executive Board

Schuchmann, Andree, Caiña-Lindemann



Encouraging forecasts for the years ahead.
The Vossloh Group on track for further growth.

During the year 2001, Vossloh AG's Supervisory Board performed the functions and duties incumbent on it under law and the Company's memorandum & articles of association. The Supervisory Board obtained detailed regular written and oral reports on the business trend of Vossloh AG and its subsidiaries, the strategic alignment of the Group's two divisions, and the progress of corporate policy implementation. At four Supervisory Board meetings (March 19, May 31, September 28, and December 13, 2001), all joined by the Executive Board, day-to-day business as well as the strategic concepts, short- and medium-term corporate plans, capital expenditure projects, the current income and cash trends, as well as significant organizational and personnel changes were dealt with.

Moreover, the Supervisory Board Chairman regularly deliberated on and discussed with the Executive Board—mostly with the latter's Chairman–strategic aspects, the business trend, major human resources issues, and risk management matters. The Supervisory Board Chairman was throughout promptly informed by the Executive Board Chairman about any extraordinary events of major significance to the assessment of the Vossloh Group's current position and development. All transactions requiring the Supervisory Board's consent were duly submitted to, and authorized by, this Board. This applies, in particular, to the acquisition of companies and major structural changes initiated and/or completed in fiscal 2001.

In addition, the Supervisory Board dealt with the ongoing profit improvement measures, as well as the strategies—and their translation into practice—aimed at further expanding the divisions and subdivisions.

The statutory slate submittal committee under the terms of Art. 27(3) German Codetermination Act ("MitbestG") had no reason for convening, while the Supervisory Board's management committee met once on March 19, 2001.

The separate and the consolidated financial statements of Vossloh AG (incl. the accounting) and the combined management report on Vossloh AG and the Group for fiscal 2001, all as prepared by the Executive Board, were examined by the statutory auditors, BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the May 31, 2001 stockholders' meeting and who issued their unqualified opinion thereon. The statutory auditors confirmed that the risks of future development existing at the subsidiaries and within the Group were recognized, mapped and profiled through the early risk identification system established pursuant to Art. 91(2) AktG and that the combined management report on the Company and the Group presents such risks fairly.

The resolution to issue the audit engagement letter had been passed at the Supervisory Board meeting of September 28, 2001. In due course prior to the Supervisory Board's annual accounts meeting of March 19, 2002, at which the annual financial statements were adopted, all members of this Board were provided with copies of the separate and the consolidated financial statements of Vossloh AG, the combined management report on the Company and the Group, the annual report, the Executive Board's profit appropriation proposal, and the reports on the annual audit.

The Supervisory Board members discussed on March 19, 2002, in detail all issues arising in connection with the Company's separate and consolidated financial statements and the management report. The statutory auditors attended the Supervisory Board's annual accounts meeting, briefed the participants on all material results of their audit and were available to answer queries. In this context, the statutory auditors also reported on the risk management system within the Vossloh Group.

The Supervisory Board, too, examined Vossloh AG's separate and consolidated financial statements and the combined management report for the fiscal year 2001 as submitted by the Executive Board, as well as the proposed appropriation of profit. According to the final result of its own examination, the Supervisory Board raised no objections and therefore consented to the results of the examination by the statutory auditors. The Supervisory Board approved Vossloh AG's separate financial statements as of December 31, 2001, which are thus adopted. The Supervisory Board agrees to the profit appropriation as proposed by the Executive Board, i.e., to distribute an unchanged cash dividend of €0.75 per share.

The employee representatives on the Supervisory Board who stepped down during the period were Mr. Hermann Engling (as of September 3, 2001) and Mr. Friedel Coenen (as of December 31, 2001). This Board thanks both gentlemen for their meritorious assistance. The Local Court of Altena ordered that they be succeeded as Supervisory Board members by Mr. Michael Rohe (on September 18, 2001) and Mr. Günter Schlüchting (on January 11, 2002).

Effective as from September 1, 2001, Mr. Werner Andree was appointed Chief Financial Officer on Vossloh AG's Executive Board for a term of three years and thus succeeded Mr. Hans-Christian Semmler who, on June 30, 2001, had stepped down from the Executive Board for personal reasons.

Ms. Milagros Caiña-Lindemann, since February 1, 1999, deputy member of Vossloh AG's Executive Board, was appointed for a 5-year term as from February 1, 2002, full member of Vossloh AG's Executive Board, responsible for Human Resources and concurrently Director of Industrial Relations.

At its meeting on December 13, 2001, the Supervisory Board resolved—concurrently with the mutually agreed revocation of the previous appointment as member and Chairman of the Executive Board with an original term expiring December 31, 2004—to reappoint Mr. Burkhard Schuchmann with effect as from January 1, 2002, for a term of five years as member and Chairman of the Executive Board. The reason for this early reappointment was to ensure Vossloh Mr. Schuchmann's long-term services with a view to maintaining continuity in top management beyond the year 2004.

The Supervisory Board thanks the Executive Board, the Management Boards, the Works Councils, and all the employees for their successful contributions to the Vossloh Group's performance.

Werdohl, March 19, 2002

The Supervisory Board

Dr. Karl Josef Neukirchen
Chairman

Dr. Karl Josef Neukirchen, Vossloh AG's Supervisory Board Chairman

Consolidated income statement for the year ended December 31, 2001

	Note #	2001	2000
		€ million	€ million
Net sales	(4.1)	903.0	854.4
Cost of goods sold	(4.2)	(714.3)	(644.3)
General administrative and selling expenses	(4.2)	(119.6)	(125.0)
R&D expenses	(4.2)	(9.8)	(9.2)
Operating result		**59.3**	**75.9**
Nonoperating result	(4.3)	5.0	5.9
Income from investments	(4.4)	0.3	1.4
Goodwill amortization		(4.6)	(5.3)
Earnings before interest and taxes (EBIT)		**60.0**	**77.9**
Net interest result	(4.5)	(17.2)	(13.6)
Earnings before taxes (EBT)		**42.8**	**64.3**
Income taxes	(4.6)	(17.7)	(28.7)
Earnings before minority interests/net income		**25.1**	**35.6**
Minority interests			(7.9) (7
Group earnings		**17.2**	**27.8**
Earnings per share*			
Basic EpS		1.20	
1.93			
Diluted EpS		1.20	—

*During fiscal 2000 and 2001, altogether 14,400,000 and 14,355,309 no-par shares of stock, respectively, were issued and outstanding.

Consolidated statement of cash flows according to FAS 95

	2001	2001	2000	2000
	€ million	€ million	€ million	€ million
Cash inflow/outflow from operating activities*				
Group earnings		17.2		27.8
Adjustments to reconcile Group earnings with cash inflow/outflow from operating activities				
Minority interests in net income	7.9		7.8	
Amortization/depreciation/write-down	38.5		37.4	
Change in deferred taxes	2.0		4.2	
Book gains/losses (net) from the disposal of intangible assets and property, plant & equipment	(1.9)		(7.1)	
Undistributed profits of Group companies	(0.8)		(0.7)	
Other noncash expenses/income, net	1.1		0.0	
Change in deferred income	0.8		(0.1)	
Increase in receivables	(31.7)		(25.1)	
Increase in inventories	(13.7)		(56.4)	
Decrease in prepaid expenses & deferred charges	0.6		0.5	
Increase in liabilities and accruals	30.6		46.8	
Total adjustments		33.4		7.3
Net cash provided by operating activities		50.6		35.1
Cash outflow from investing activities*				
Cash from the disposal of intangible assets and property, plant & equipment	8.8		15.9	
Cash from the disposal of financial assets	1.8		1.4	
Capital expenditures for intangible assets and property, plant & equipment	(50.9)		(45.8)	
Capital expenditures for financial assets, less cash & cash equivalents from acquisitions	(4.5)		(20.8)	
Cash & cash equivalents of investments sold	(1.0)		–	
Net cash used in investing activities		(45.8)		(49.3)
Cash inflow from financing activities*				
Net borrowings through note-based finance	(0.5)		0.3	
Net financing from short-term credits	(62.5)		111.4	
Net financing from medium- and long-term loans	81.5		(77.6)	
Purchase of treasury stock	(13.2)		0.0	
Cash dividend payments	(10.8)		(8.6)	
Change in minority interests due to dividend payout	(3.8)		(2.3)	
Net cash (used in)/provided by financing activities		(9.3)		23.2
Net inflow/outflow of cash & cash equivalents		(4.5)		9.0
Effect of exchange rate changes on cash & cash equivalents		0.0		(1.0)
Cash & cash equivalents at beginning of period		58.0		50.0
Cash & cash equivalents at end of period		53.5		58.0

*Positive amounts correspond to an inflow, negative ones to an outflow of funds.

For details of interest and tax payments, see Note (5).

Assets

	Note #	12–31–2001	12–31–2000
		€ million	€ million
Total current assets		**567.3**	**575.2**
Cash & cash equivalents	(6.1)	53.5	58.0
Trade receivables	(6.2)	202.6	200.5
Due from subsidiaries and investees		5.7	9.1
Inventories	(6.3)	264.6	268.0
Sundry current assets	(6.4)	40.9	39.6
Total noncurrent assets		**331.7**	**321.1**
Financial assets	(6.6)	33.2	11.2
Shares in unconsolidated Group companies		5.7	3.0
Other investments and long-term securities		14.0	7.8
Sundry long-term loans		13.5	0.4
Property, plant and equipment		192.0	186.7
Intangible assets	(6.7)	96.8	113.5
Total fixed assets		322.0	311.4
Sundry noncurrent assets	(6.8)	9.7	9.7
		899.0	**896.3**

Stockholders' equity & liabilities

	Note #	12–31–2001 € million	12–31–2000 € million
Total liabilities and accruals		**584.6**	**575.3**
Current liabilities and accruals		**382.6**	**464.1**
Trade payables	(6.11)	89.8	80.1
Due to subsidiaries and investees	(6.11)	3.7	7.2
Sundry current liabilities	(6.9)	241.8	305.7
Current accruals	(6.10)	47.3	71.1
Noncurrent liabilities and accruals		**202.0**	**111.2**
Financial debts		117.4	35.9
Pension accruals and similar obligations	(6.12)	26.5	31.6
Sundry noncurrent liabilities	(6.11)	26.7	10.6
Sundry noncurrent accruals	(6.11)	31.4	33.1
Group equity		**314.4**	**321.0**
Capital stock		36.8	36.8
Additional paid-in capital		29.5	29.5
Treasury stock		(13.2)	0.0
Reserves retained from earnings		128.0	114.2
Undistributed Group profit		0.2	0.2
Group earnings		17.2	27.8
Accumulated other comprehensive income		(5.3)	(4.2)
Minority interests		121.2	116.7
		899.0	**896.3**

Equity analysis		Capital stock	Additional paid-in capital	Treasury stock	Reserves retained from earnings	Undistributed Group profit	Group earnings	Accumulated OCI	Minority interests	Total
Balance at 12–31–1999	**€ mill.**	**36.8**	**29.5**	**0.0**	**105.4**	**0.1**	**17.7**	**(1.6)**	**106.0**	**293.9**
Dividends distributed	€ mill.						(8.6)		(2.3)	(10.9)
Transfer to reserves retained from earnings	€ mill.				10.0		(9.0)			1.0
Carryover						0.1	(0.1)			0.0
Change through initial consolidation	€ mill.				(1.2)				5.7	4.5
Net income for 2000	€ mill.						27.8		7.8	
Accumulated other comprehensive income (OCI)										
currency translation differences	€ mill.							(0.7)	(0.5)	
pension accruals	€ mill.							(0.4)		
fair value of financial derivatives and securities	€ mill.							(1.5)		
Comprehensive income	€ mill.						27.8	(2.6)		25.2
Minority interests	€ mill.								7.3	7.3
Balance at 12–31–2000	**€ mill.**	**36.8**	**29.5**	**0.0**	**114.2**	**0.2**	**27.8**	**(4.2)**	**116.7**	**321.0**
Dividends distributed	€ mill.						(10.8)		(3.8)	(14.6)
Transfer to reserves retained from earnings	€ mill.				17.0		(17.0)			0.0
Carryover						0.0	0.0			0.0
Change through initial consolidation/deconsolidation	€ mill.								5.0	5.0
Sundry changes	€ mill.			(13.2)	(3.2)			0.4	(4.5)	(20.5)
Net income for 2001	€ mill.						17.2		7.9	
Accumulated OCI										
currency translation differences	€ mill.							(1.6)	(0.1)	
pension accruals	€ mill.							0.1		
fair value of financial derivatives and securities	€ mill.							0.0		
Comprehensive income	€ mill.						17.2	(1.5)		15.7
Minority interests	€ mill.								7.8	7.8
Balance at 12–31–2001	**€ mill.**	**36.8**	**29.5**	**(13.2)**	**128.0**	**0.2**	**17.2**	**(5.3)**	**121.2**	**314.4**

(1) Introduction

Vossloh AG, Werdohl, and its subsidiaries develop, manufacture and market products and services in the fields of railway and related transport technologies and of lighting.

Since December 31, 1999, the consolidated financial statements of Vossloh AG have been prepared in accordance with US generally accepted accounting principles (US GAAP). Vossloh AG is thus exempted from formulating consolidated annual accounts according to the German Commercial Code ("HGB").

Also since 1999, the consolidated financial statements have been prepared in euro (€).

The consolidated financial statements comprise the consolidated income statement, consolidated balance sheet, consolidated statement of cash flows, the statement of changes in equity, and the notes to the financial statements, and are consistent with the Seventh EC Directive in the interpretation of the Liaison Committee for Accounting Directives of the European Commission.

For Vossloh AG's separate annual accounts (abridged), see pages 87 to 95.

(2) Group of consolidated companies

Besides Vossloh AG, the Group accounts generally include all those fully consolidated companies inside and outside of Germany over which Vossloh AG can exercise control at balance sheet date through its directly or indirectly held voting rights.

The shares held together with Voest-Alpine Schienen Ges.m.b.H. & Co. KG, Donawitz, Austria, via a 50:50 joint venture in VAE AG, Vienna, Austria, are fully consolidated in Vossloh AG's Group accounts, due to the material significance to the Vossloh Group's net assets, financial position and results of operations and in order to permit a true and fair view of the Group's economic position.

As in the previous year, the 50-percent interest in BV Oberflächentechnik GmbH, Werdohl, has been stated at equity in the consolidated financial statements as an associated affiliate.

Owing to their minor significance to the Group's net assets, financial position and results of operations, an unchanged 16 subsidiaries were not included in the consolidation group.

The shares in such companies are disclosed within financial assets at the lower of cost or fair market value.

The group of fully consolidated subsidiaries developed in 2001 as follows:

Fully consolidated companies	2001	2000
January 1	61	55
newly consolidated	2	8
deconsolidated	(7)	(2)
December 31	56	61

The initial consolidation of companies has not materially affected the Group's net assets, financial position or results of operations. The deconsolidation of companies produced a loss of €1.3 million, which is shown within the nonoperating result. The deconsolidated companies had in 2000 contributed €6.8 million to the Group's EBT.

The companies not included in consolidation due to their minor significance, as well as those fully consolidated for the first time are all marked accordingly in the list of Vossloh AG's shareholdings (see pages 84 and 85).

(3) Accounting principles

Vossloh AG's consolidated financial statements as of December 31, 2001, were prepared in accordance with the consolidation, accounting and valuation methods described below and in conformity with US GAAP. These methods and principles have substantially been consistently applied in comparison to the year before.

(3.1) Consolidation methods

The consolidated financial statements comprise Vossloh AG and the companies directly or indirectly related to this top-tier parent. The separate financial statements of all companies included were prepared in accordance with groupwide uniform accounting principles and examined by independent auditors.

Principally the book value method (virtually equivalent to the purchase method under US GAAP) is used for capital consolidation. Accordingly, the purchase cost of the investments is offset against the equity proratable to the Group at the date of initial consolidation. The resulting difference is allocated to the identifiable assets and liabilities to the extent that their full fair values exceed their book values.

Besides consolidating all intragroup receivables and payables, all income and expenses as well as all profits or losses realized among group companies are mutually offset, duly accounting for any resultant deferred taxes.

(3.2) Currency translation

Non-euro annual financial statements of subsidiaries are translated according to the functional-currency concept, i.e. for balance sheet lines, the current (closing-date) exchange rate is used while for income statement translation, the annual average rate is applied. Currency translation differences are recognized in equity only, the total change for the year being shown within the accumulated OCI.

Parity changes entail unrealized gains or losses in transactions conducted in any currency other than euro. Such gains/losses are recognized in net income. The exchange rates of countries other than members of European Economic and Monetary Union (EMU) and where the Vossloh Group transacts business through consolidated subsidiaries changed as follows:

Country	Currency		Current rate		Average rate	
	ISO code		2001	2000	2001	2000
Argentina	ARS	€1	0.88	0.93	0.90	0.92
Australia	AUD	€1	1.73	1.68	1.73	1.59
Brazil	BRL	€1	2.06	1.81	2.10	1.68
Bulgaria	BGN	€1	1.95	1.95	1.95	1.88
Canada	CAD	€1	1.41	1.41	1.38	1.37
Hungary	HUF	€1	245.96	265.25	256.08	259.82
India	INR	€1	42.59	43.44	42.26	41.46
Latvia	LVL	€1	0.56	0.57	0.56	0.56
Lithuania	LTL	€1	3.53	3.71	3.58	3.68
Romania	ROL ('000)	€1	27.77	24.04	27.22	21.07
Singapore	SGD	€1	1.63	1.61	1.60	1.59
South Africa	ZAR	€1	10.42	7.03	7.60	6.38
Sweden	SEK	€1	9.33	8.84	9.25	8.44
Thailand	THB	€1	38.99	40.32	39.86	37.04
Tunisia	TND	€1	1.30	1.29	1.29	1.26
UK	GBP	€1	0.61	0.62	0.62	0.61
USA	USD	€1	0.88	0.93	0.90	0.92

Based on a relationship of values of US$1.00 = 1.40 pesos (as of early January 2002), €1.1 million was provided for accrued currency risks in Argentina.

(3.3) Recognition of sales

Sales revenues are recognized net of sales deductions and price allowances (such as cash and other discounts, bonuses, rebates, purchases or returns credited). Sales are realized once goods have been delivered (physically or de jure) or services rendered. Where milestone invoices have been agreed in advance, sales are recognized after the customer has finally and formally accepted the milestone delivery. Revenues from long-term construction contracts are recognized according to their percentage of completion (PoC). Construction contracts are deemed long-term if their value and scheduled completion time exceed €1.0 million and one year, respectively. By contrasting contract-related costs and revenues, profits are realized in accordance with the percentage of completion.

The PoC-related profit shown for 2001 totaled €0.9 million (down from €1.5 million). An accrual generally provides for onerous contracts.

(3.4) Product-related expenses

Pursuant to FAS 2, *Accounting for Research and Development Costs*, R&D costs are principally expensed in the period of their incurrence. The costs of advertising and other marketing costs are charged to net income when incurred. Warranty expenses are generally determined on a sales-related basis. In fiscal 2001, these product-related expenses developed as follows in comparison to the prior year:

	2001	2000
	€ million	€ million
R&D costs	9.8	9.2
Advertising costs	1.4	2.0
Warranty expenses	3.4	2.1

(3.5) Earnings per share

Earnings per share (EpS) were determined according to FAS 128, *Earnings per Share*. FAS 128 provides that basic EpS and diluted EpS be computed. Basic EpS is Group earnings divided by the weighted-average number of shares outstanding during the period, while diluted EpS additionally accounts for the dilutive potential ensuing from stock options issued. Whether or not the options were exercisable at the balance sheet date, diluted EpS is only determined if the annual closing price of the stock exceeded the exercise price. In 2000, the closing price had been below the exercise price.

(3.6) Cash & cash equivalents

Cash & cash equivalents comprise cash on hand, checks, cash in bank, as well as the portfolio of fungible securities destined to be held for not more than three months. Cash & cash equivalents are principally valued at par.

Category breakdown of marketable securities pursuant to FAS 115, *Accounting for Certain Investments in Debt and Equity Securities*:

Trading securities: debt or equity securities held for the short-term investment of surplus cash.

Held-to-maturity securities: debt securities held by the company until maturing.

Available-for-sale securities: debt or equity securities allocable to neither of the aforesaid categories and that are generally considered available for sale.

Trading and available-for-sale securities are measured at fair values as of balance sheet date.

While unrealized price gains or losses from trading securities are recognized in income, unrealized price gains or losses from available-for-sale securities are, pending their final realization, recognized in equity only.

(3.7) Inventories

Inventories are stated at the lower of purchase/production cost or net realizable value (NRV). Besides direct materials and direct labor, production cost also includes reasonable portions of manufacturing overheads and special direct manufacturing costs. Administrative overheads are not included in production cost for lack of any direct relationship with production.

Valuation is based on the average-price method unless material inventories are valued itemwise. Long-term contracts are accounted for according to the percentage-of-completion (PoC) method, realizing prorated profits. Any contracts of a planned duration in excess of one year are deemed long-term but are not considered for PoC accounting purposes unless material (contract value >€1 million). The profit share of each period is determined on a cost-to-cost basis. The costs incurred are based on production cost, but such WIP excludes any administrative expenses.

(3.8) Receivables and sundry assets

Receivables and sundry current assets are generally stated at fair market values. Sundry noncurrent assets are valued at the lower of cost or market. Non-interest receivables and those carrying interest below fair market rates are discounted if their term exceeds one year. Adequate allowances based on experience provide for bad debts and doubtful accounts.

(3.9) Other investments

Since the investments in associated affiliates included in the consolidated financial statements do not materially impact on the Group's net assets, financial position or results of operations, no further disclosures are made.

(3.10) Property, plant & equipment

Property, plant & equipment are stated at depreciated cost. Depreciable property, plant & equipment are depreciated on a straight-line basis unless other techniques produce more meaningful results and present a better view of the actual loss in value. Any long-term impairment is adequately recognized. Maintenance and repair (M&R) costs were principally expensed. Where M&R costs result in any material improvement in asset substance, they are capitalized and depreciated.

(3.11) Intangible assets

Purchased intangible assets are valued at cost less accumulated amortization. Goodwill from capital consolidation and acquired goodwill are amortized over a maximum of twenty years, depending on their estimated period of benefit. The book values of long-term assets, such as goodwill and other intangibles, are regularly tested for impairment. If the carrying value of an asset exceeds its fair value, it is written down accordingly. No write-down was charged for impairment in the year under review.

(3.12) Deferred taxes

Accounting for deferred taxes conforms to FAS 109, *Accounting for Income Taxes*. In accordance with the liability method, the temporary differences resulting from the different values stated in the consolidated balance sheet and the tax return are accounted for by recognizing deferred tax assets and liabilities, thus ensuring the fair disclosure of the Group's assets and liabilities. Future reductions in regular tax expenses due to available tax loss carryovers are also taken into account provided that the availability of future taxable income for offset against such loss carryovers is believed reasonably probable.

When determining deferred taxes outside of Germany, the applicable national tax rate is used, while for deferred taxes in Germany, an unchanged flat tax rate of 40 percent has been applied throughout.

(3.13) Liabilities and non-pension accruals

Current liabilities are stated at their settlement amounts, noncurrent ones principally at their present values; if applying fair market discount rates to noncurrent liabilities, the amounts repayable are deemed to be the best estimate of their present values. Non- and low-interest liabilities are discounted. Provisions for accrued liabilities are based on the most probable present value of utilization.

(3.14) Pension accruals

In conformity with US GAAP, the projected unit credit (PUC) method, based on current capital market rates and with due regard to likely future pay and pension raises, underlies the provision for accrued pension liabilities.

(3.15) Financial derivatives

Derivative financial instruments are solely used to hedge against liquidity, currency and/or interest rate risks from operations. The derivatives used basically include currency futures, FRAs, currency options, as well as interest rate hedges, swaps and caps.

Financial derivatives are principally carried at their fair values in accordance with FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, and FAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. Gains and losses on hedging instruments in fair value hedges (i.e., where a hedged item is an entire recognized asset or liability) are recognized currently in earnings.

If derivatives are used to hedge against the exposure to variability in expected future cash flows from a recognized asset or liability or a forecasted transaction (cash flow hedges), unrealized gains and losses are reported in accumulated OCI only.

(3.16) Stock options

The stock options granted to executive and other staff under the SOPs (which were introduced in 1998) are accounted for in accordance with APB Opinion No. 25. No expenses are thus incurred since upon option exercise, the strike price payable had been predetermined on the basis of the stock prices current at incentive plan issuance. If the rules of FAS 123 were applied, the value of all options granted within one year would have required to be recognized in personnel expenses.

(3.17) Use of estimates

Preparing the consolidated financial statements requires management to make certain assumptions and estimates. Actual values may differ from those estimates and hence from the amounts disclosed in the annual financial statements.

(3.18) Financial Accounting Standards published in 2001

In the course of 2001, the Financial Accounting Standards Board published FAS 141, Business Combinations, FAS 142, *Goodwill and Other Intangible Assets*, and FAS 143, *Accounting for Obligations Associated with Retirement of Long-Lived Assets*.

For fiscal 2001, the new FAS rules do not affect earnings. As from 2002, especially the application of FAS 142 will impact on earnings since goodwill amortization will no longer be charged, the impact level, however, presently not being predictable.

(3.19) Differences between US and German GAAP

Since the consolidated financial statements were prepared in accordance with US GAAP, some consolidation, accounting and valuation methods differ from the regulations laid down in German law. Those differences which have a material impact on the Group's net assets, financial position or results of operations are detailed below:

Balance sheet classification

US GAAP require that the balance sheet be classified according to the lives of assets and liabilities, which results in a format different from that prescribed in Art. 266 HGB.

Securities

German Commercial Code regulations generally require that securities be carried at the lower of cost or market while, according to US GAAP, trading and available-for-sale securities are stated at their fair values.

Tax claims from loss carryovers

Deferred tax assets originating from loss carryovers are capitalized according to US GAAP if their future realization is reasonably probable (i.e., more likely than not). German GAAP prohibit the recognition of such tax assets.

Non-pension accruals

According to US GAAP, accrued liabilities may not be provided for unless owed to third parties and are measured in line with their probability. Contrary to HGB regulations, accrued expenses may not be provided for.

Accrued employment anniversary allowances and pensions

In line with US GAAP, the PUC method is used to provide for pension obligations, whereas German commercial legislation requires pension accruals to be stated at the actuarial present value. The same applies to the provision for accrued employment anniversary allowances.

Financial derivatives

The German Commercial Code regards derivatives as pending (uncompleted) transactions and permits their recognition only if a loss on financial derivatives is impending. In contrast, derivative instruments according to US GAAP are throughout stated at their fair values as of balance sheet date.

(4) Comments on the income statement

(4.1) Net sales

For the breakdown of net sales by divisions and geographical markets (regions), see the segment reports, Note (7).

(4.2) Expense types

The use of the cost-of-sales format for the income statement implies that expenses are allocated to functional categories. The expenses included in the cost of sales (CoS), general administrative and selling expenses (GAS), as well as R&D expenses break down into the following expense types:

Expense type		CoS 2001	GAS 2001	R&D 2001	Total 2001	Total 2000
Cost of materials	€ million	505.0	3.2	4.6	512.8	446.5
Personnel expenses	€ million	155.6	49.7	2.8	208.1	228.2
Amortization/ depreciation/write-down	€ million	28.3	5.0	0.2	33.5	32.1
Remaining expenses	€ million	25.4	61.7	2.2	89.3	71.7
Total	€ million	**714.3**	**119.6**	**9.8**	**843.7**	**778.5**

Cost of materials

The cost of materials incurred in 2001 at €512.8 million includes the cost of raw materials and supplies of €450.0 million (up from €389.7 million) and the cost of services purchased of €62.8 million (up from €56.8 million).

Personnel expenses

€167.4 million (down from €204.2 million) of the personnel expenses incurred in 2001 at €208.1 million refers to wages and salaries, another €40.7 million (up from €24.0 million) to social security taxes, pension expense and related employee benefits. Pension expense alone accounts for €3.0 million (up from €2.0 million).

Remaining expenses and income

The remaining expenses and income (a total net expense of €89.3 million) included in the cost of sales, general administrative and selling expenses as well as in the R&D expenses largely refer to changes in inventories of finished products and WIP, other work and material capitalized, as well as expenses incurred for outsourced work, M&R, travel, outbound freight, commissions, and rents.

(4.3) Nonoperating result

This caption is the net balance of nonoperating income of €10.6 million (down from €15.1 million) and nonoperating expenses of €5.6 million (down from €9.2 million).

The nonoperating income includes foreign-exchange gains of €2.7 million (down from €2.9 million), gains from fixed-asset disposal of €2.3 million (down from €7.3 million), and income from insurance indemnities and benefits of €0.2 million (down from €0.4 million). The nonoperating expenses cover foreign-exchange losses of €1.8 million (down from €4.5 million) and losses on fixed-asset disposal of €0.4 million (up from €0.2 million).

(4.4) Income from investments

The 2001 income from investments came to €0.3 million (down from €1.4 million) and comprises income from securities, financial assets and investments, as well as any write-down charged thereto.

€0.8 million of the income from financial assets refers to income from BV Oberflächentechnik GmbH, a company stated at equity.

(4.5) Net interest result

The net interest expense of €17.2 million (up from €13.6 million) is the balance of interest and related income of €3.6 million (down from €4.2 million) and interest and related expenses of €20.8 million (up from €17.8 million). Interest expense includes €0.4 million from discounting (at 6 percent) a partly non-interest loan to state the latter at its present value.

(4.6) Income taxes

The expenses incurred in 2001 for income taxes totaled €17.7 million (down from €28.7 million).

Income tax computation was predicated on an unchanged tax rate of 40 percent. Based on an EBT of €42.8 million (down from €64.3 million), the 2001 income tax load ratio came to 41.4 percent (down from 44.6).

The variances between the underlying tax rate of 40 percent and the higher income tax load ratio for the Group are attributable to the following:

Deferred taxes		**2001**	**2000**
Earnings before taxes (EBT)	€ million	42.8	64.3
Income taxes at a uniform 40 percent	€ million	17.1	25.7
Elimination of tax effects on goodwill amortization	€ million	1.8	2.1
Other adjustments	€ million	(1.2)	0.9
		17.7	28.7
Thereof allocable to assessed taxes	€ million	15.7	24.5
Deferred taxes	€ million	2.0	4.2
		17.7	**28.7**

The other adjustments substantially reflect (i) the income tax load of non-German companies where differing from the German 40-percent burden, (ii) tax-exempt income, and (iii) nondeductible business expenses.

Deferred taxes resulted from valuation differences in the following balance sheet captions:

Deferred taxes		**2001**	**2000**
Inventories	€ million	1.7	1.7
Receivables	€ million	(0.8)	2.7
Property, plant & equipment and intangibles	€ million	(9.5)	(9.1)
Loss carryovers	€ million	5.2	1.6
Pension accruals	€ million	1.1	2.1
Other accruals	€ million	1.9	6.6
Sundry	€ million	1.4	(0.1)
Total	**€ million**	**1.0**	**5.5**

The loss carryovers are not subject to expiration.

The net of deferred tax assets and liabilities was computed as follows:

Deferred taxes	**December 31, 2001**		**December 31, 2000**	
€ mill.	total	thereof short-term	total	thereof short-term
Deferred tax assets	13.3	7.0	13.1	8.5
Deferred tax liabilities	(12.3)	(2.6)	(7.6)	
(1.2)				
Net deferred tax assets	**1.0**	**4.4**	**5.5**	**7.3**

(5) Comments on the cash flow statement

The cash & cash equivalents shown in the cash flow statement equal the homonymous balance sheet line.

The cash flow from operating activities includes interest paid at €17.1 million (up from €11.5 million) and income taxes paid at €18.5 million (down from €22.8 million).

(6) Comments on the balance sheet

(6.1) Cash & cash equivalents

The cash & cash equivalents stated as of December 31, 2001, include €39.4 million (down from €40.9 million) of cash on hand, checks and cash in bank, as well as €14.1 million (down from €17.1 million) of quick securities; these short-term securities break down as follows:

Short-term securities		Cost	Fair value	Unrealized loss	Cost	Fair value	Unrealized loss
		December 31, 2001			**December 31, 2000**		
Held for trading							
mutual fund shares	€ million	7.6	7.3	(0.3)	12.9	12.6	(0.3)
other	€ million	6.9	6.8	(0.1)	4.0	4.5	0.5
Total	€ million	**14.5**	**14.1**	**(0.4)**	**16.9**	**17.1**	**0.2**

In the year under review, an unrealized loss of €0.4 million from holding short-term securities has been included in the net interest result.

(6.2) Trade receivables

The bad-debt allowances offset in 2001 against trade receivables amounted to €7.8 million (up from €7.3 million).

(6.3) Inventories

Breakdown:

Inventories		**2001**	**2000**
Raw materials and supplies	€ million	90.7	90.2
Work in process	€ million	97.0	111.3
Long-term manufacturing contracts (PoC)	€ million	1.4	2.9
Finished products	€ million	64.1	47.4
Merchandise (MFR)	€ million	7.6	10.9
Prepayments made on orders	€ million	3.8	5.3
Total	**€ million**	**264.6**	**268.0**

Write-down charged to inventories totaled €10.4 million in 2001 (down from €14.3 million).

Long-term manufacturing contracts break down as follows:

Long-term manufacturing contracts		2001	2000
Cost of long-term manufacture	€ million	7.8	13.9
Estimated income shares	€ million	0.9	1.5
less prepayments received	€ million	(7.3)	(12.5)
Total	**€ million**	**1.4**	**2.9**

(6.4) Sundry current assets

This caption totaled €40.9 million (up from €39.6 million) as of December 31, 2001, and mainly comprises tax refunds receivable at €22.5 million (up from €16.2 million), as well as short-term deferred tax assets of €7.0 million (down from €8.5 million).

(6.5) Noncurrent assets

For the movement details of noncurrent assets, see the fixed-asset analysis on pages 82 and 83.

(6.6) Financial assets

Financial assets include the following long-term marketable securities:

Long-term marketable securities		Cost	Fair value	Unrealized loss	Cost	Fair value	Unrealized loss
		December 31, 2001			December 31, 2000		
Available for sale							
mutual fund shares	€ million	5.6	5.4	(0.2)	5.8	5.5	(0.3)
other equity instruments	€ million	0.2	0.2	–	0.2	0.2	–
Total	**€ million**	**5.8**	**5.6**	**(0.2)**	**6.0**	**5.7**	**(0.3)**

The investment in BV Oberflächentechnik is included at equity in the consolidated financial statements. There is no difference between amortized cost (book value) and the proratable share in equity. In view of the investee's size, this company is not regarded as material in relation to the overall Group.

(6.7) Intangible assets

The €13.7 million of goodwill retired refers to goodwill from the deconsolidation of the mechanical engineering unit via Vossloh Verkehrsservice GmbH.

(6.8) Sundry noncurrent assets

As of December 31, 2001, this caption totaled an unchanged €9.7 million and included €6.3 million of long-term deferred tax assets (up from €4.6 million).

(6.9) Sundry current liabilities

At December 31, 2001, this line totaled €241.8 million (down from €305.7 million), including accounts due to banks of €167.3 million (down from €230.9 million) and prepayments received of €45.8 million (up from €43.5 million). As of balance sheet date, the Group had unutilized credit facilities of around €135 million (up from €100 million).

(6.10) Current accruals

The current accruals of €47.3 million (down from €71.1 million) mainly provide for personnel-related commitments, taxes and unbilled costs.

(6.11) Breakdown of liabilities and noncurrent accruals

Liabilities analysis according to remaining terms:

Liabilities		Due			Total	
		<1 year	1–5 years	>5 years	2001	2000
Due to banks	€ million	167.3	103.7	13.7	284.7	266.8
Prepayments received on orders	€ million	45.8	15.4	–	61.2	43.5
Trade payables	€ million	89.8	–	–	89.8	83.6
Notes payable	€ million	0.1	–	–	0.1	0.6
Due to subsidiaries and investees	€ million	3.7	—	—	3.7	7.2
Sundry liabilities	€ million	28.6	11.3	–	39.9	37.8
Total	€ million	**335.3**	**130.4**	**13.7**	**479.4**	**439.5**

Aged breakdown of accounts due to banks:

Due to banks	2002	2003	2004	2005	2006	thereafter	Total
€ million	167.3	34.0	29.3	35.1	5.3	13.7	284.7

No long-term accounts due to officers or employees exist.

€26.5 million (down from €31.6 million) of noncurrent accruals is allocable to pension accruals. The other noncurrent accruals of €31.4 million (down from €33.1 million) basically include €14.4 million (up from €14.0 million) of other accrued liabilities to personnel (accumulated termination indemnities, employment anniversary allowances) and €7.2 million (up from €7.1 million) of obligations under warranties.

(6.12) Pension obligations

Vossloh AG and certain Group companies entered into pension obligations to their employees. Within the VAE AG subgroup, these are covered by long-term mutual fund shares while for other subsidiaries, no assets have been earmarked for this purpose.

Analysis of pension accruals					
		2001		**2000**	
Balance at January 1	**€ million**		**31.6**		**29.6**
Service cost	€ million	0.5		0.6	
Accumulated interest	€ million	1.5		1.9	
Unrecognized prior service cost	€ million	0.2		0.0	
Actuarial gains and losses	€ million	0.5		0.8	
	€ million		2.7		3.3
Amortization of unrecognized prior service cost	€ million	(0.2)		(0.2)	
Transfer to pension funds	€ million	0.0		0.0	
Adjustment to 1998 mortality tables	€ million	0.4		0.5	
	€ million		0.2		0.3
Current pension payments	€ million		(1.4)		(1.6)
Retirement due to deconsolidation	€ million		(6.6)		0.0
Balance at December 31	**€ million**		**26.5**		**31.6**
Reconciliation of projected benefit obligation (PBO) to financial accounting value					
Projected benefit obligation	€ million		26.7		31.7
Unrecognized prior service cost	€ million		(0.8)		(1.0)
Unrecognized actuarial gains and losses	€ million		(1.7)		(1.2)
Additional minimum liability	€ million		2.3		2.1
Accounting value at December 31	**€ million**		**26.5**		**31.6**
Future periodic expenses					
Service cost	€ million	0.4		0.5	
Accumulated interest	€ million	1.5		1.2	
	€ million		1.9		1.7
Amortization of unrecognized prior service cost	€ million	0.2		0.2	
Amortization of actuarial gains and losses	€ million	0.2		0.0	
	€ million		0.4		0.2
Periodic expenses in each future year	**€ million**		**2.3**		**1.9**

The following assumptions underlie the determination of pension obligations:

Weighted average discount rate	6.0%
Expected increase in pension payments	2.0%
Expected increase in employee income levels	2.0%
Expected increase in cost of living	2.0%
Anticipated employee turnover rate	6.0%

(6.13) Comprehensive income

The comprehensive income (as defined by US GAAP) includes all changes in equity that do not result from contributions by, or dividends distributed to, stockholders. Besides the transactions recognized in the income statement, further components had to be reflected herein that resulted in a change in equity which was not recognized in income. This accumulated OCI together with the Group's earnings represents comprehensive income:

Development of accumulated OCI		Currency translation differences	Pension accruals	Fair values of derivative instruments and securities	**Total**
Balance at Dec. 31, 1999	**€ million**	**(0.3)**	**(1.3)**	**0.0**	**(1.6)**
Change	€ million	(0.7)	(0.4)	(1.5)	(2.6)
Balance at Dec. 31, 2000	**€ million**	**(1.0)**	**(1.7)**	**(1.5)**	**(4.2)**
Change	€ million	(1.4)	0.3	0.0	(1.1)
Balance at Dec. 31, 2001	**€ million**	**(2.4)**	**(1.4)**	**(1.5)**	**(5.3)**

(6.14) Long-term incentive program and employee stock option plan

In 1998 and 2000, the Vossloh Group launched stock option plans under which certain executive and managerial staff of subsidiaries (LTIP) and German Group company employees (ESOP) were granted options to acquire further shares after purchasing Vossloh AG stock. Neither plan was repeated in 2001. The strike (exercise) price and number of options were fixed at plan commencement. The term of either plan is five years. When purchasing shares of Vossloh stock, eligible participants received bonus options, granting them the privilege after expiration of the 3-year qualifying period to acquire Vossloh AG stock at the market price which had been quoted at plan commencement (strike price).

The subscription rights may only be exercised in so-called opportunity windows; Vossloh will shortly before window opening inform the participants about the Group's current position. Option exercise is subject to certain benchmarks being achieved. Under the LTIP for instance, the Vossloh stock price must have outperformed the MDAX and, as cumulative condition, outgrown the strike price by not less than 15 or 30 percent (depending on participants group).

Under the LTIP, the executive/managerial staff's own investment ranges (depending on the participants group) between €5,000 and €50,000, for the ESOP, eligible employees have to invest a good €500. Both stock option plans are accounted for in the consolidated financial statements in accordance with APB Opinion No. 25. The portfolio of stock options developed as follows:

	Number of options	Option strike price (€)	Average strike price (€)
Jan. 1, 2000	**271,796**	**26.51**	**26.51**
Options			
granted	413,306	15.81	15.81
exercised	0	–	–
lapsed *	(35,858)	15.81–26.51	22.16
Dec. 31, 2000	**649,244**	**15.81–26.51**	**19.93**
Options			
granted	0	–	–
exercised	0	–	–
lapsed *	(225,114)	15.81–26.51	19.03
Dec. 31, 2001	**424,130**	**15.81–26.51**	**20.41**
Number of exercisable options			
at Dec. 31, 2000 and 2001	0	–	–

* due to separation of staff

The residual term up to option exercise averaged 2.8 (as of Dec. 31, 2001) and 3.9 years (Dec. 31, 2000).

As mentioned above, the data is based on APB 25, *Accounting for Stock Issued to Employees*. Applying FAS 123 would have meant that the value of all options granted within one year had to be recognized in personnel expenses, option valuation being based on the Black/Scholes method. Valuation for 1998 and 2000, respectively, was based on the following assumptions:

		2000	1998
Strike price to purchase one share	€	15.81	26.57
Intrinsic value of one option	€	4.37	2.84
Basic assumptions			
riskless interest rate at option grant	%	3.0	3.0
expected volatility of stock price	%	37.0	29.5
expected mean option life	years	0.9	0.9
Group earnings			
acc. to financial statements	€ million	27.8	31.2
intrinsic value of all options	€ million	(0.6)	(0.9)
acc. to FAS 123 (pro forma disclosure)	**€ million**	**27.2**	**30.3**
Earnings per share			
acc. to financial statements	€	1.93	2.16
acc. to FAS 123 (pro forma disclosure)	€	1.89	2.10

(6.15) Intercompany transactions (nonconsolidated subsidiaries)

		2001	2000
Net sales	€ million	4.3	3.9
Cost of sales	€ million	0.4	0.3
GAS expenses	€ million	0.8	0.9
Receivables	€ million	1.8	8.8
Payables	€ million	1.3	4.0

6.16 Leases

At balance sheet date, both operating and capital leases existed within the Vossloh Group.

The book value of assets used under capital leases amounted to an aggregate total of €0.3 million at the end of 2001 (down from €0.4 million). The corresponding annual depreciation in 2001 and 2000 came to €0.1 million. In each future year, rents totaling approximately €0.1 million will be payable.

Expenses for rents under operating leases amounted to €3.0 million in the year under review (up from €1.5 million). Longer-term leases will result in the following rents to be paid in the years ahead:

Rents under operating leases		
2002	€ million	2.5
2003	€ million	2.5
2004	€ million	2.5
2005	€ million	2.1
2006	€ million	1.0
after 2006	€ million	12.5

The biggest asset leased is the Lighting division's Lüdenscheid production facility, moved into in 2001. The plot of land of a good 40,000 m^2, its development and the turnkey building have a project value of approx. €14 million. The Lighting division leases the property from a special-purpose enterprise under an operating lease, whose fixed term is 18.5 years and commenced in 2000. Around €9 million of interest-subsidized funds is used for financing. Rents have been fixed throughout the lease term, a special clause permitting adjustment to changed refinancing terms after ten years.

(7) Segment information

The Vossloh Group comprises the two Railway & Transport and Lighting divisions which under the control of Vossloh AG as parent, operate in different markets:

(7.1) Railway & Transport

This division's operations involve the production of switches and rail fastening systems (combined in the Track subdivision), while the locomotives and vehicle maintenance units form the Railbound Vehicles & Maintenance subdivision. Another subdivision, Engineering Systems, engages primarily in developing and marketing transport operations management, scheduling and simulation systems, as well as passenger information and communication systems. The production companies' geographical focus is on Germany and Austria; in addition, the division has manufacturing and sales companies in 19 other countries.

(7.2) Lighting

Up to the end of 1999, this division mainly manufactured lampholders, as well as electromagnetic and electronic components (ballasts, transformers, igniters) for lighting equipment. The division's active companies are parented by Vossloh Elektro GmbH. Production companies exist in Germany, France, Italy, Thailand, and Tunisia; moreover, the division has sales companies in another 10 countries. The Wustlich Group, acquired at the beginning of 2000 and representing the LED subdivision, had been initially consolidated in fiscal 2000.

The accounting methods of both segments are identical with those detailed in the introductory part of these notes. Control of groupwide operations and assessment of segment performance are based on EBIT (earnings before interest and taxes), EBIT margin (ratio of EBIT to net sales), and ROCE (return on capital employed, viz. the EBIT-to-CE ratio). Segment financial information is shown in the table on page 77:

Segment information		Railway & Transport	Track	Railbound Vehicles & Maintenance	Engineering Systems	Consoli-dation	Lighting	H.O./consolidation	Group
Net sales									
2001	€ million	**649.7**	433.1	175.8	41.0	(0.2)	**252.8**	0.5	**903.0**
2000	€ million	**579.8**	373.8	157.8	48.2	0.0	**274.1**	0.5	**854.4**
Amortization/depreciation/write-down*									
2001	€ million	**22.3**	13.6	3.9	1.5	3.3	**14.3**	1.5	**38.1**
2000	€ million	**22.4**	13.2	4.2	1.7	3.3	**13.4**	1.6	**37.4**
Net interest result									
2001	€ million	**(7.3)**	(2.8)	(4.5)	0.0	0.0	**(7.2)**	(2.7)	**(17.2)**
2000	€ million	**(7.8)**	(2.1)	(5.6)	(0.1)	0.0	**(4.6)**	(1.2)	**(13.6)**
EBIT									
2001	€ million	**56.2**	65.5	(4.3)	(1.7)	(3.3)	**11.4**	(7.6)	**60.0**
2000	€ million	**69.0**	58.5	10.6	3.3	(3.4)	**18.5**	(9.6)	**77.9**
EBT									
2001	€ million	**49.0**	62.7	(8.8)	(1.6)	(3.3)	**4.2**	(10.4)	**42.8**
2000	€ million	**61.2**	56.4	5.1	3.1	(3.4)	**13.8**	(10.7)	**64.3**
Net earnings									
2001	€ million	**3.1**	18.6	(6.1)	(1.6)	(7.8)	**0.8**	13.3	**17.2**
2000	€ million	**11.8**	16.8	2.4	1.5	(8.9)	**(9.9)**	25.9	**27.8**
Capital expenditures (PP&E)									
2001	€ million	**31.2**	17.2	13.4	0.6	—	**13.5**	0.1	**44.8**
2000	€ million	**19.8**	11.8	6.5	1.5	—	**21.1**	0.2	**41.1**
Capital employed									
2001	€ million	**426.6**	315.6	130.6	(8.0)	(11.6)	**176.5**	35.2	**638.3**
2000	€ million	**458.4**	307.4	144.4	15.0	(8.4)	**175.6**	18.8	**652.8**
Total assets									
2001	€ million	**678.5**	475.1	176.0	57.1	(11.7)	**222.2**	(1.7)	**899.0**
2000	€ million	**658.1**	427.5	198.2	42.0	(9.6)	**229.6**	8.6	**896.3**
Annual average headcount									
2001	Employees	**3,884**	3,027	582	275	—	**1,464**	22	**5,370**
2000	Employees	**4,001**	2,943	777	281	—	**1,566**	16	**5,583**

*of fixed assets

Breakdown of sales by geographical markets (regions):

Sales by region		**2001**	**2000**
Germany	€ million	285.6	288.1
Other Euroland	€ million	303.2	265.8
Other Europe	€ million	115.2	103.7
Total Europe	**€ million**	**704.0**	**657.6**
North America	€ million	98.5	101.5
Latin America	€ million	7.7	11.8
Total Americas	**€ million**	**106.2**	**113.3**
Asia	**€ million**	**55.9**	**47.4**
All other	**€ million**	**36.9**	**36.1**
Total	**€ million**	**903.0**	**854.4**

(8) Contingent liabilities and other financial obligations

Contingent liabilities totaled €24.3 million as of December 31, 2001 (up from €11.7 million), including those from notes endorsed and discounted (€0.2 million; down from €0.3 million), under suretyships and guaranties (€21.7 million; up from €8.8 million), and for the collateralization of third-party debts (€2.4 million; down from €2.6 million).

Breakdown of other financial obligations:

Other financial obligations		**2001**	**2000**
under leases			
due 2002	€ million	8.1	6.9
due 2003–2006	€ million	19.2	14.3
due after 2006	€ million	18.5	13.7
Purchase commitments	€ million	149.4	100.6
All other	€ million	12.4	13.7

(9) Financial instruments

Those business risk components (mainly liquidity, exchange and interest rate risks) which can be covered by tradable financial market instruments are managed by treasury management. Liquidity is controlled by rolling liquidity planning and cash management. These include (without being limited to) borrowings from, and deposits with, banks as well as investments in fixed-income securities and in equities. In addition, credit facilities have been agreed with several banks. For containing financial risks, derivative instruments are deployed, too, but their use is confined to hedge against risks affecting operative business.

Financial transactions are based on the strict segregation of responsibilities for closing, settlement and control, and coordinated groupwide through a Treasury Guideline. Risks from changing interest rates are hedged through interest rate futures, interest rate swaps and interest rate options (caps, floors, collars). To manage exchange rate risks, transactions with a third party which are conducted in a currency other than the Group parent's are hedged throughout. For these purposes, foreign-currency investments and borrowings, cash bargains and spot deals, as well as exchange futures (outright forward and swap transactions, options) are permissible. An essential element required to manufacture magnetic ballasts and transformers is coated copper wire. In an effort to contain the price volatility risk posed by raw copper as the primary processing material, this metal is purchased on the basis of long-term copper futures.

(10) Business risk aspects

Being an expanding, internationally operating group that offers a wide range of railway and electric engineering products and services, Vossloh is exposed to many different risks. Major market risks ensue from changing technological requirements and possibilities, as well as from customer mix and competition structure. Vossloh contains such market risks, inter alia, by centering on niche markets where it is market leader, and through technological innovations. Performance risks are substantially reduced by the comprehensive quality management system of all major Vossloh companies, which has been certificated according to DIN EN ISO 9001. As risks from changing interest and exchange rates are subject to regular surveillance, they never reach a critical level of relevance. The same is true of the use of derivatives which is confined to hedging. Potential effects of risks are limited by Vossloh officers through strict cost management and well-developed risk management (including a full-fledged insurance strategy). Moreover, the sound equity capitalization is sufficient proof of the Company's ability to cover risks.

The Group does not present any potentially ruinous risks which are reasonably probable to occur. A risk aggregation model integrated into corporate planning processes contains the Group's overall exposure and matches it regularly against the equity base as risk potential cover. For further details, see Risk Management, pp. 44–46.

(11) Further disclosures

(11.1) Earnings per share

EpS analysis:

Earnings per share	2001		2000	
	Total	EpS	Total	EpS
	€ million	€	€ million	€
Earnings before minority interests/net income	25.1	1.75	35.6	2.47
Group earnings	**17.2**	**1.20**	**27.8**	**1.93**
Number of common shares	14,400.000		14,400,000	
Repurchased shares (weighted)	44,691		0	
Weighted average number of shares	14,355,309		14,400,000	

(11.2) Board member remuneration and workforce trend

The fees of the Supervisory Board for the year under review amounted to a fully accrued €0.246 million (up from €0.216 million), those of Advisory Board members to an also fully accrued €0.015 million (virtually unchanged).

The remuneration of Vossloh AG's Executive Board members totaled €1.157 million (down from €1.734 million) and includes besides a fixed portion of €0.602 million (down from €0.609 million), a variable profit share of €0.555 million (down from €1.125 million).

In the year under review, no stock options were granted to the Executive Board (down from 113,610). As of December 31, 2001, Executive Board members held a total 110,450 stock options (down from 159,890).

A total €2.254 million (up from €2.200 million) was provided for accrued pension obligations to former management members and their surviving dependants; current pension payments amounted to €0.609 million (up from €0.222 million).

For details of the headcount of each division, see the segment reports in Note (7).

(11.3) Exemption from preparing separate consolidated accounts

Vossloh subsidiaries which claim the optional exemption from preparing their own consolidated financial statements under the terms of Art. 264(3) or 264b HGB are marked accordingly in the list of Vossloh AG's shareholdings (published on pages 84 and 85).

Werdohl, March 8, 2002

Vossloh AG
The Executive Board

Schuchmann, Andree, Caiña-Lindemann

Fixed-asset analyses

Group	Cost					
	Balance at 1–1–2001	Additions from initial consolidation	Additions	Disposals	Changes from de-consolidation	Book transfers
	€ million	€ million	€ million	€ million	€ million	€ million
Intangible assets						
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	34.7	–	3.4	3.8	(4.3)	0.4
Goodwill	105.0	0.7	–	1.7	(12.0)	–
Caps/collars/floors	4.0	–	–	0.5	–	–
Prepayments made	0.1	–	0.0	–	–	(0.1)
	143.8	0.7	3.4	6.0	(16.3)	0.3
Property, plant and equipment						
Land, equivalent titles, and buildings (including on leased land)	159.7	–	3.7	2.9	(12.1)	0.3
Production plant and machinery	219.1	2.2	20.7	5.3	(9.1)	2.2
Other plant, factory and office equipment	95.0	0.1	10.3	8.1	(5.1)	1.4
Prepayments made, construction in progress	5.8	–	10.1	0.9	0.0	(4.2)
	479.6	2.3	44.8	17.2	(26.3)	(0.3)
Financial assets						
Shares in unconsolidated subsidiaries	3.1	–	3.0	0.4	0.5	–
Investments in associated affiliates	1.0	–	1.7	0.7		–
Other investments	1.1	–	0.2	0.1	5.1	–
Loans to investees	–	–	–	0.4	13.6	–
Other long-term securities	6.0	–	0.0	0.0	–	0.0
Other long-term loans	0.4	–	0.1	0.2	0.0	0.0
	11.6	0.0	5.0	1.8	19.2	0.0
Total	**635.0**	**3.0**	**53.2**	**25.0**	**(23.4)**	**0.0**

Vossloh AG						
Intangible assets						
Franchises, concessions, industrial-property and similar rights and assets	1.6	–	0.0	0.0	–	–
Caps/collars/floors	4.0	–	–	1.7	–	–
	5.6	–	0.0	1.7	–	–
Property, plant and equipment						
Land and buildings	22.7	–	–	0.0	–	–
Sundry plant, business and office equipment	1.4	–	0.0	0.1	–	–
	24.1	–	0.0	0.1	–	–
Financial assets						
Shares in subsidiaries	113.6	–	0.0	–	–	(0.4)
Loans to subsidiaries	12.0	–	58.0	7.7	–	(1.2)
Other investments	–	–	–	–	–	0.4
Loans to investees	–	–	12.4	0.4	–	1.2
Other long-term securities	0.1	–	–	–	–	–
Other long-term loans	0.1	–	–	0.1	–	–
	125.8	–	70.4	8.2	–	0.0
Total	**155.5**	**–**	**70.4**	**10.0**	**–**	**0.0**

		Amortization/depreciation/write-down accumulated	in fiscal 2001	Additions from initial consolidation	Disposals from deconsolidation	Book values	Book values
Currency translation differences	Balance at 12–31–2001	Balance at 12–31–2001				Balance at 12–31–2001	Balance at 12–31–2000
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
(0.1)	30.3	13.4	2.8	–	4.2	16.9	19.0
0.0	92.0	15.6	4.6	–	3.6	76.4	90.4
–	3.5	0.0	–	–	0.0	3.5	4.0
0.0	0.0	–	–	–	0.0	0.0	0.1
(0.1)	125.8	29.0	7.4	0.0	7.8	96.8	113.5
4.7	153.4	56.4	4.7	–	6.0	97.0	103.9
8.4	238.2	175.2	17.1	0.2	6.7	63.0	57.8
4.1	97.7	76.5	8.9	0.0	4.3	21.2	19.2
0.0	10.8	–	–	–	0.0	10.8	5.8
17.2	500.1	308.1	30.7	0.2	17.0	192.0	186.7
–	6.2	0.5	0.4	–	0.0	5.7	3.0
–	2.0	–	–	–	0.0	2.0	1.0
–	6.3	–	–	–	0.0	6.3	1.1
–	13.2	–	–	–	0.0	13.2	–
0.0	6.0	0.3	0.0	–	0.0	5.7	5.7
0.0	0.3	–	–	–	0.0	0.3	0.4
0.0	34.0	0.8	0.4	0.0	0.0	33.2	11.2
17.1	**659.9**	**337.9**	**38.5**	**0.2**	**24.8**	**322.0**	**311.4**
–	1.6	1.4	0.3	–	–	0.2	0.4
–	2.3	0.0	–	–	–	2.3	4.0
–	3.9	1.4	0.3	–	–	2.5	4.4
–	22.7	14.8	0.5	–	–	7.9	8.3
–	1.3	1.1	0.1	–	–	0.2	0.3
–	24.0	15.9	0.6	–	–	8.1	8.6
–	113.2	–	–	–	–	113.2	113.6
–	61.1	–	–	–	–	61.1	12.0
–	0.4	–	–	–	–	0.4	0.0
–	13.2	–	–	–	–	13.2	0.0
–	0.1	0.0	–	–	–	0.1	0.1
–	0.0	–	–	–	–	0.0	0.1
–	188.0	0.0	–	–	–	188.0	125.8
–	**215.9**	**17.3**	**0.9**	**–**	**–**	**198.6**	**138.8**

		Foot-note	Interest held	Consol-idation	Equity [2]	Sales [2]	P/L after taxes
			in % through ( )		€ million	€ million	€ million
(1)	**Vossloh AG, Werdohl**			(c)	122.3	1.4	16.9
Railway & Transport division							
(2)	Vossloh Eisenbahn & Verkehr GmbH, Werdohl		100 (1)	(c)	10.5	0.0	(5.5)
	Track subdivision						
	Rail Fasteners unit						
(3)	Vossloh-Werke GmbH, Werdohl	3,6	100 (1)	(c)	4.3	2.4	0.0
(4)	Vossloh-Delitzsch GmbH, Delitzsch		100 (3)	(c)	8.4	7.2	1.6
(5)	Vossloh Rail Systems GmbH, Werdohl		100 (3)	(c)	4.9	114.1	0.0
(6)	Vossloh Werdohl GmbH, Werdohl		100 (3)	(c)	6.1	22.1	4.3
(7)	Vossloh Tehnica Feroviara S.R.L., Bucharest, Romania	7	100 (3)	(u)	0.0	0.0	0.0
(8)	Vossloh Drázni Technica s.r.o., Prague, Czech Republic	7	100 (3)	(u)	0.1	3.6	0.1
(9)	Vossloh Sistemi S.r.l., Sarsina, Italy	7	100 (3)	(u)	0.1	1.8	0.0
(10)	Patil Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	7	51 (3)	(u)	0.0	0.0	0.0
(11)	Rail Eurofix S.A., Reichshoffen, France	7	99.8 (3)	(u)	0.0	0.1	0.0
(12)	BeNT-Vossloh T.O.O., Almaty, Kazakhstan		25 (3)	(u)	2.6	6.1	1.1
(13)	BV Oberflächentechnik GmbH, Werdohl		50 (3)	(e)	2.3	9.5	1.7
(14)	Vossloh-MFD GmbH, Erkelenz	7	100 (3)	(u)	0.0	0.0	0.0
(15)	Utenzilija d.d., Zagreb, Croatia	7	81.6 (3)	(u)	1.4	1.6	0.2
(16)	Vossloh Sp.z.o.o., Nowe Skalmierzvce, Poland	7	99 (3), 1 (5)	(u)	0.0	0.0	0.0
	Special Trackwork unit						
(17)	VAE Holding GmbH, Vienna, Austria		50 (1)	(c)	0.0	0.0	0.0
(18)	VAE Eisenbahnsysteme Beteiligungsges. mbH, Vienna, Austria		100 (17)	(c)	158.9	0.0	5.1
(19)	VAE Aktiengesellschaft, Vienna, Austria		90.6 (18)	(c)	87.0	39.8	9.1
(20)	VAE Eisenbahnsysteme GmbH, Zeltweg, Austria		100 (19)	(c)	21.3	70.3	6.0
(21)	Weichenwerk Wörth GmbH, St. Georgen am Steinfeld, Austria		70 (20)	(c)	6.3	15.1	0.9
(22)	VAE Holding (Deutschland) GmbH, Butzbach		100 (19)	(c)	25.7	94.0	3.1
(23)	VAE Geschäftsführung (Deutschland) GmbH, Frankfurt/Main		100 (19)	(c)	0.0	0.0	0.0
(24)	Butzbacher Weichenbau GmbH & Co. KG, Butzbach		0.1 (21), 99.9 (22)	(c)	24.4	68.8	7.6
(25)	Weichenwerk Brandenburg GmbH, Brandenburg-Kirchmöser		100 (24)	(c)	11.5	39.3	0.4
(26)	VAE Nortrak America Inc., Cheyenne, USA		73.5 (19)	(c)	5.1	31.5	(1.0)
(27)	VAE Nortrak Ltd., Vancouver, Canada		100 (26)	(c)	4.6	18.9	(0.4)
(28)	VAE Nortrak Cheyenne Inc., Cheyenne, USA		100 (26)	(c)	20.8	2.1	0.0
(29)	VAE Nortrak Inc., Birmingham, USA		100 (26)	(c)	9.6	23.9	1.7
(30)	VAE U.K. Ltd., Edinburgh, UK		100 (19)	(c)	2.8	10.3	0.2
(31)	VAE Railway Systems Pty. Ltd., Mackay, Australia		100 (19)	(c)	4.0	6.3	0.4
(32)	VAE Africa Pty. Ltd., Isando, South Africa		100 (19)	(c)	1.9	8.0	0.4
(33)	VAE Riga SIA, Riga, Latvia		93.4 (19)	(c)	1.9	4.6	0.1
(34)	VAE Apcarom S.A., Buzau, Romania		79.7 (19)	(c)	10.4	9.4	(0.6)
(35)	VAE Legetecha UAB, Vilnius,Lithuania		66 (19)	(c)	3.6	5.2	0.2
(36)	VAE Sofia OOD, Sofia, Bulgaria		51 (19)	(c)	2.2	1.5	0.1
(37)	JEZ Sistemas Ferroviaros S.L., Llodio, Spain		50 (19)	(c)	7.4	21.3	1.1
(38)	VAMAV Vasúti Berendezések Kft., Gyöngyös, Hungary		50 (19)	(c)	9.6	10.7	0.8
(39)	VAE Italia S.r.l., Rome, Italy		5 (29), 95 (19)	(c)	0.0	1.5	0.0
(40)	Burbiola S.A., Amurrio, Spain		50 (37)	(u)	1.5	0.4	0.0
(41)	Gerfer Lda., Lisbon, Portugal	7	60 (20)	(u)	0.0	0.0	0.0
(42)	VAE Polska SP. z.o.o., Gdansk, Poland	7	60 (20)	(u)	0.1	0.3	0.0

1 Fully consolidated companies are labeled (c), those stated at equity (e), and unconsolidated companies (u)
2 Derived from the consolidated financial statements, non-euro equity being translated at the mean current rate and non-euro sales and net income at the annual average rate.
3 Data reflects the direct-control and P&L transfer agreements concluded with Vossloh AG.
4 Data reflects the direct-control and P&L transfer agreements concluded with Vossloh Elektro GmbH.

	Foot-note	Interest held	Consol-idation	Equity [2]	Sales [2]	P/L after taxes
		% bei ( )		€ million	€ million	€ million
(43) VAE Transwerk Perway Ltd., Bloemfontein, South Africa	8	65 (20)	(c)	4.0	13.3	0.6
(44) WBG Tehnica Feroviara SRL, Buzau, Romania		50 (24), 50 (25)	(u)	0.0	0.0	0.0
Railbound Vehicles & Maintenance subdivision						
Locomotives unit						
(45) Vossloh Schienenfahrzeugtechnik GmbH, Kiel	5,6	100 (2)	(c)	22.4	171.4	(0.3)
(46) Vossloh Railway Technology Inc., New Orleans, LA, USA	7	100 (45)	(u)	0.1	0.2	0.5
(47) Locomotion Service GmbH, Kiel	8	90 (45)	(c)	0.0	2.4	(0.1)
(48) Friedrichsorter Grossmechanik GmbH, Kiel	7	50 (45)	(u)	1.8	0.5	0.0
Vehicle Maintenance unit						
(49) EuroTrac GmbH Verkehrstechnik, Kiel	5,7	100 (2)	(c)	0.1	7.4	0.0
Engineering Systems subdivision						
(50) Vossloh System-Technik GmbH, Kiel		100 (2)	(c)	7.4	14.7	1.3
(51) Vossloh Systemelektronik GmbH, Karlsfeld		100 (50)	(c)	3.8	23.6	0.8
(52) VST Comreco Rail Ltd., York, UK		100 (50)	(c)	(3.3)	3.2	(3.5)
(53) NovoSignal AB, Malmö, Sweden	7	55 (50)	(u)	0.3	0.8	(1.0)
Lighting division						
(54) Vossloh Elektro GmbH, Lüdenscheid	3,6	100 (1)	(c)	13.8	2.5	0.0
(55) Vossloh-Schwabe GmbH, Urbach	4,6	100 (54)	(c)	12.8	165.7	0.0
(56) Vossloh-Schwabe France S.a.r.l., Colmar, France		100 (54)	(c)	19.8	63.1	2.3
(57) Vossloh-Schwabe Italia S.p.A., Sarsina, Italy		100 (54)	(c)	12.6	46.8	2.1
(58) Vossloh-Schwabe Australia Pty. Ltd., Sydney, Australia	7	100 (54)	(u)	2.0	0.1	0.0
(59) Vossloh-Schwabe Thailand Ltd., Bangkok, Thailand		100 (54)	(c)	1.5	3.0	0.3
(60) Elektrobau Oschatz GmbH & Co. KG, Oschatz	6	70 (54)	(c)	3.1	15.0	2.2
(61) Xylon Holdings Pvt. Ltd., Ahmedabad, India		24 (54)	(u)	0.0	0.0	0.0
(62) Vossloh-Schwabe UK Ltd., Milton Keynes, UK		20 (57), 80 (54)	(c)	4.2	12.8	0.7
(63) Vossloh-Schwabe Pte. Ltd., Singapore		100 (54)	(c)	1.5	10.1	0.2
(64) Vossloh-Schwabe, Inc., Pittsburgh, PA, USA		20 (57), 80 (54)	(c)	4.5	7.4	1.1
(65) Vossloh-Schwabe Skandinavien AB, Billdal, Sweden		100 (54)	(c)	1.8	10.5	0.4
(66) Vossloh-Schwabe Española S.L., Barcelona, Spain		90 (54)	(c)	4.3	14.9	0.5
(67) Vossloh-Schwabe Trading Ltd., Bangkok, Thailand		49 (55)	(c)	0.1	1.0	0.0
(68) Vossloh Hong Kong Ltd., Hong Kong, China	7	100 (58)	(u)	0.0	0.0	0.0
(69) Vossloh-Schwabe Tunisie S.A., Tunis, Tunisia		52 (54)	(c)	0.1	6.8	0.0
(70) Vossloh-Schwabe India Pvt., Ahmedabad, India		51 (54)	(c)	(1.8)	3.8	(1.2)
(71) Vossloh-Schwabe EH Limited, Ein Hashofet, Israel		50 (54)	(c)	0.4	2.4	0.1
(72) Vossloh-Schwabe Brasil Ltda., São Paulo, Brazil		100 (54)	(c)	(0.7)	1.3	(0.4)
(73) Vossloh-Schwabe Latinoamérica S.r.l., Buenos Aires, Argentina		100 (54)	(c)	(1.6)	4.2	(1.7)
(74) Elektrobau Oschatz Verwaltungs-GmbH, Werdohl		70 (54)	(c)	0.0	0.0	0.0
(75) Vossloh-Schwabe Elektronik GmbH, Urbach	4,6	100 (54)	(c)	2.1	29.3	0.0
(76) Vossloh-Wustlich Opto GmbH & Co. KG, Kamp-Lintfort	6	80 (54)	(c)	4.2	17.0	0.2
(77) Vossloh-Wustlich Opto Komplementär GmbH, Kamp-Lintfort	7	80 (54)	(u)	0.0	0.0	0.0
(78) Vossloh-Schwabe China, Tianjin, China	7	100 (54)	(u)	0.2	0.0	0.0
Other companies						
(79) Vossloh Verwaltungsgesellschaft mbH, Düsseldorf		100 (1)	(u)	0.0	0.0	0.0
(80) Vossloh Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf		100 (79)	(u)	0.0	0.0	0.0
(81) Vossloh Communication GmbH, Werdohl	7	100 (1)	(u)	0.3	1.7	0.1
(82) Vossloh Verkehrsservice GmbH, Werdohl		20 (1)	(u)	28.0	0.0	4.0

5 Data reflects the direct-control and P&L transfer agreements concluded with Vossloh Verkehrsservice GmbH.
6 Company claims exemption from preparing separate consolidated financial statements pursuant to Art. 264(3) or 264b HGB.
7 Not included in consolidation group due to minor significance for the net assets, financial position and results of operations.
8 Newly consolidated in 2001.

Independent auditor's report and opinion on the consolidated financial statements

We audited the consolidated financial statements prepared by Vossloh AG, Werdohl, which comprise balance sheet, income statement, statement of changes in equity, cash flow statement and the notes, for the fiscal year ended December 31, 2001. The preparation of and disclosures in the consolidated financial statements are the responsibility and assertions of the Company's Executive Board. Our responsibility is, based on our audit, to express an opinion on whether the consolidated financial statements conform with US GAAP.

We conducted our group audit in accordance with German auditing regulations 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 about whether the consolidated financial statements are free from material misstatement. When planning the audit procedures, knowledge and understanding of the Group's business, its economic and legal environment as well as sources of potential errors are given due consideration. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

It is our opinion that the consolidated financial statements, which are in conformity with US GAAP, present a true and fair view of the Group's net assets, financial po-sition and results of operations and of the cash flows for the year then ended. Our audit, which also covered the management report on the Company and the Group as prepared by the Executive Board for the fiscal year ended December 31, 2001, has not resulted in any objections or exceptions. It is our opinion that the management report on the Company and the Group presents fairly, in all material respects, both the Company's and the Group's overall position and the risks inherent in their future development. In addition, we confirm that the consolidated financial statements and the management report on the Company and the Group for the fiscal year ended December 31, 2001, satisfy the requirements to exempt the Company from preparing consolidated financial statements and a group management report in accordance with German law.

Essen, March 11, 2002

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

Schumacher Wirtschaftsprüfer	pp. Friedrich Wirtschaftsprüfer

Income statement for the year ended December 31, 2001

	2001 € million	2000 € million
Net sales	2.0	1.8
Cost of sales	(1.2)	(1.3)
Gross profit on sales	**0.8**	**0.5**
General administrative expenses	(11.2)	(13.8)
Other operating income	10.8	9.7
Other operating expenses	(0.1)	(0.1)
Operating result	**0.3**	**(3.7)**
Income from investments	3.6	0.1
thereof from Group companies: €3.6 mill. (up from €0.1 mill.)		
Income from P&L transfer agreements	20.4	30.4
Income from other long-term securities/loans	1.3	0.9
thereof from Group companies: €0.9 mill. (up from €0.6 mill.)		
Other interest and similar income	9.3	8.6
thereof from Group companies: €8.8 mill. (up from €8.3 mill.)		
Interest and similar expenses	(13.6)	(10.9)
thereof to Group companies: €1.6 mill. (up from €1.4 mill.)		
Net financial result	**21.0**	**29.1**
Result from ordinary operations (EBT)	**21.3**	**25.4**
Income taxes	(4.5)	1.0
Net income	**16.8**	**26.4**

Assets

	12–31–2001	12–31–2000
	€ million	€ million
Intangible assets		
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	0.2	0.4
Caps/collars/floors	2.3	4.0
	2.5	**4.4**
Property, plant and equipment		
Land, equivalent titles, and buildings (including on leased land)	7.9	8.3
Sundry plant, business and office equipment	0.2	0.3
	8.1	**8.6**
Financial assets		
Shares in Group companies	113.2	113.6
Loans to Group companies	61.1	12.0
Other investments	0.4	–
Loans to investees	13.2	–
Other long-term securities	0.1	0.1
Other long-term loans	0.0	0.1
	188.0	**125.8**
Fixed assets	**198.6**	**138.8**
Receivables and sundry current assets		
Trade receivables	0.0	0.0
Due from Group companies	167.9	187.5
Due from investees	3.6	0.0
Sundry current assets	12.5	11.7
	184.0	**199.2**
Short-term securities		
Treasury stock	13.2	–
Other	0.0	–
	13.2	**–**
Cash on hand and in bank	0.2	0.0
Current assets	**197.4**	**199.2**
Prepaid expenses & deferred charges	**0.1**	**0.1**
	396.1	**338.1**

Stockholders' equity & liabilities

	12–31–2001 € million	12–31–2000 € million
Capital stock	36.8	36.8
Additional paid-in capital	29.5	29.5
Reserves retained from earnings		
Reserve for treasury stock	13.2	–
Other	39.1	36.7
Net earnings	17.0	26.5
Stockholders' equity	**135.6**	**129.5**
Special reserve for investment grants	**—**	**0.3**
Accruals for pensions and similar obligations	8.0	7.8
Tax accruals	0.9	0.0
Other accruals	2.5	3.8
Accruals	**11.4**	**11.6**
Due to banks	197.1	173.6
Trade payables	0.5	0.7
Due to Group companies	47.8	16.2
Due to investees	2.4	3.1
Sundry liabilities	1.3	3.1
thereof for taxes: €0.1670 million (down from €1.7224 million)		
thereof for social security: €0.0235 million (up from €0.0224 million)		
Liabilities	**249.1**	**196.7**
	396.1	**338.1**

The annual accounts of Vossloh AG as of December 31, 2001, were prepared in accordance with the provisions of the German Commercial Code ("HGB") and the German Stock Corporation Act ("AktG").

(1) Accounting and valuation principles

Accounting and valuation are governed by the following principles:

Purchased intangible assets, as well as property, plant & equipment are stated at cost, less amortization or depreciation according to the declining-balance or straight-line method. With a view to aligning this method to that adopted at Group level, depreciable fixed assets added on or after January 1, 2001, are depreciated on a straight-line basis. Low-value assets, defined as assets at net cost of €410 or less, are fully written off in the year of their addition. Write-down for tax purposes is charged wherever this option is offered, whether for ACR or otherwise. Financial assets are recognized at cost or any lower current value. Receivables and sundry current assets as well as cash on hand and in bank are shown at par or face value. Treasury stock is valued at the lower of cost or market. Accruals provide for pensions and similar obligations at actuarial present values, based on an annual interest rate of 6 percent and on the 1998 mortality tables. Tax and other accruals are shown at the amounts in future required in sound business practice and judgment. Liabilities are generally stated at their settlement amounts. Non-euro items are translated at the mean current rate or the hedged rate, as appropriate.

(2) Fixed assets

Classification and development of fixed assets are explained in greater detail in the fixed assets analyses on pages 82 and 83. The caps/collars/floors line refers to capitalized premiums for long-term cap agreements. For a full list of shareholdings, see pages 84 and 85

(3) Stockholders' equity

Vossloh AG's capital stock amounted to an unchanged €36,813,015.45 and is divided into 14,400,000 no-par bearer shares of common stock.

Authorized capital of €18,406,507.72 existed at December 31, 2001. The annual stockholders' meeting of June 25, 1998, authorized the Executive Board to increase the Company's capital stock, after first obtaining the Supervisory Board's consent, on or before June 24, 2003, by an aggregate total of €18,406,507.72 through one or several issues of new shares of common stock and/or nonvoting preferred stock in exchange for contributions in cash or in kind. The stockholders' meeting further authorized the Executive Board to exclude, when exercising the authority to raise the capital stock with the Supervisory Board's prior approval, the stockholders' statutory subscription right once or several times for an aggregate maximum of €3,579,043.17 provided that (i) the new stock is issued against cash contributions and (ii) the new stock's issue price is not significantly below that of already listed same-class stock. Moreover, the Executive Board is authorized, when exercising the authority to raise the capital stock with the Supervisory Board's prior approval, to decide on whether to exclude the stockholders' statutory subscription right once or several times for an aggregate maximum of €3,579,043.17 if new stock is issued against contributions in kind.

Further potential capital of an aggregate €2,224,119.68 existed at December 31, 2001. The annual stockholders' meeting of June 25, 1998, voted to conditionally raise the capital stock by an aggregate maximum of €1,840,650.77 by issuing up to 720,000 bearer shares of common stock in order to grant stock options to Vossloh AG officers and executives, as well as to management board members and executives of Group companies (as defined in Arts. 15 et seq. AktG). Furthermore, the capital stock was conditionally increased by an aggregate maximum of €383,468.91 by issuing up to 150,000 bearer shares of common stock in order to grant stock options to employees of Vossloh AG and its German Group companies (as defined in Arts. 15 et seq. AktG). Such stocks will be issued at the strike price determined from time to time as the average of the single cash prices for Vossloh stock as quoted at the Frankfurt Stock Exchange during the five trading days preceding the option issuance date. Implementation of the potential capital increase is contingent on the extent to which stock options are granted and exercised.

Pursuant to Art. 71(1)(8) AktG, the annual stockholders' meeting of May 31, 2001, authorized the Company after expiration of the existing authority on December 7, 2001, to acquire on or before November 30, 2002, treasury stock equivalent to an aggregate maximum of 10 percent of Vossloh AG's capital stock. The price paid for acquiring such shares may neither be 5 percent below, nor more than 5 percent above, the average of the single cash prices for Vossloh stock as quoted at the Frankfurt Stock Exchange during the five trading days preceding the treasury stock acquisition date. In addition, the Executive Board was authorized, after first obtaining the Supervisory Board's approval, to dispose of such treasury shares in a form other than (i) through a stock market or (ii) by offering them to all Vossloh stockholders, however, always provided that the previously acquired treasury stock is sold at a price that is not significantly below the stock market price then current for same-class Vossloh stock. Said authority is confined, including the existing authority under the terms of Art. 4(2)(c) of the Company's memorandum & articles of association, to an aggregate maximum of 10 percent of Vossloh AG's capital stock. The applicable stock purchase price for the purposes of the preceding clause shall be the average of the single cash prices for Vossloh stock as quoted during the closing auction of the XETRA trade at the Frankfurt Stock Exchange during the five trading days preceding the sale of such shares. Furthermore, the Executive Board was authorized to redeem and withdraw treasury stock with the Supervisory Board's approval, however, without requiring another vote by the stockholders' meeting. At December 31, 2001, altogether 622,752 shares (€1,592,040.21 or 4.32 percent of the capital stock) were held as treasury stock and purchased at a total price of €13,186,542.87, equivalent to an average price of €21.17 per share. The repurchased stock will be used for future M&A transactions.

The additional paid-in capital includes the premium earned from stock issued by Vossloh AG. The reserves retained from earnings comprise the reserve for treasury stock (at €13,186,542.87) and other reserves retained from earnings.

(4) Accruals

The other accruals of €2.5 million include €1.3 million for payroll and €1.2 million for sundry administrative purposes.

(5) Liabilities (above-the-line and contingent)

Except for one account of €74.3 million due to banks within one to five years and another of €10.0 million due after more than five years, the liabilities disclosed in the balance sheet mature throughout within one year.

€72.1 million of the contingent liabilities under suretyships and guaranties (which total €92.0 million) was incurred for obligations of subsidiaries. The fixed-liability guaranties in favor of subsidiaries total €121.0 million. Seven guaranties do not have a stipulated ceiling. The other financial obligations refer at €35.0 million to currency hedges which Vossloh AG has committed itself to contract.

(6) Results of operations

€1.4 million of net sales, generated in 2001 solely in Germany, refers to revenues from rents, including €0.6 million charged to Group companies. €10.8 million of the other operating income is mainly allocable to taxes and other charges apportioned to Group companies. The special reserve for investment grants of €0.3 million was fully released in the year under review.

(7) 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 €4.0 million, of which €3.5 million is allocable to wages and salaries, another €0.5 million to social security taxes, pension expense and related employee benefits (including €0.3 million pension expense).

Vossloh AG executed direct-control and P&L transfer agreements with Vossloh Elektro GmbH and Vossloh-Werke GmbH (both in Werdohl), resulting in the formation of a so-called tax group (taxation of all its members as one entity).

The income taxes shown already account for the profit appropriation as proposed by the Executive Board and are exclusively allocable to the result from ordinary operations.

In fiscal 2001, Vossloh AG employed an average workforce of 22.

The fees of the Supervisory Board for the year under review totaled €0.246 million, those of Advisory Board members €0.015 million.

The remuneration of Vossloh AG's Executive Board members totaled €1.157 million (down from €1.734 million) and includes besides a fixed portion of €0.602 million (down from €0.609 million), a variable profit share of €0.555 million (down from €1.125 million).

In the year under review, no stock options were granted to the Executive Board (down from 113,610). As of December 31, 2001, Executive Board members held a total 110,450 stock options.

A total €2.254 million (up from €2.200 million) was provided for accrued pension obligations to former management members and their surviving dependants; current pension payments amounted to €0.609 million (up from €0.222 million).

(8) Vossloh AG board members

Executive Board:

Dipl.-Kfm. Burkhard Schuchmann, Chairman
– AS Création Tapeten AG: supervisory board chairman (up to June 28, 2001)
– Spinnrad GmbH: supervisory board chairman (up to Oct. 9, 2001)
– VAE AG [1]: supervisory board vice-chairman
– Vossloh-Schwabe GmbH [1]: supervisory board chairman

Milagros Caiña-Lindemann
– VAE AG [1], supervisory board member
– Vossloh-Schwabe GmbH [1]: supervisory board member

Hans-Christian Semmler, deputy member (up to June 30, 2001)
– VAE AG [1]: supervisory board member

Werner Andree (as from Sep. 1, 2001)

Supervisory Board:

Dipl.-Kfm. Dr. Hans Vossloh, Werdohl, retired manager, Honorary Chairman

Dipl.-Vwt. Dr. rer. pol. Karl Josef Neukirchen, Chairman
Executive board chairman of mg technologies ag
– Allianz Versicherungs-AG: supervisory board member
– Deutz AG: supervisory board member (up to June 28, 2001)
– Dynamit Nobel AG [1]: supervisory board chairman
– FAG Kugelfischer Georg Schäfer AG: supervisory board chairman (up to Dec. 5, 2001)
– GEA AG [1]: supervisory board chairman
– Lurgi AG [1]: supervisory board chairman (up to May 30, 2001)
– Sixt AG: supervisory board chairman (as from Sep. 2, 2001)
– Sixt Leasing KGaA: supervisory board chairman (as from Sep. 2, 2001)

Frank Teichmüller [2], Vice-Chairman, Coastal District head of the German Metalworkers Union
– Airbus Deutschland GmbH, supervisory board member

Dipl.-Kfm. Dr. Jürgen Blume, sworn public auditor and tax adviser

Friedel Coenen [2], 1st delegate of the German Metalworkers Union Mönchengladbach office (up to Dec. 31, 2001)
– Alcatel Kabel Beteiligungs-AG: supervisory board member
– elexis AG: supervisory board member

Hermann Engling [2], shaper (up to Sep. 3, 2001)

Dipl.-Bwt. Holger Hoffmann [2], senior financial officer

Dr.-Ing. Dipl.-Ing. Wilfried Kaiser, consultant
– EvoBus GmbH: supervisory board member
– Heizkraftwerke-Pool GmbH & Co., Beteiligungs KG: advisory board chairman
– Hugo Kern und Liebers GmbH & Co.: director
– Intensiv-Filter GmbH & Co KG: supervisory board chairman (up to June 30, 2001)
– PE Frankfurt Private Equity Management AG: supervisory board member
– schenck.de AG: supervisory board chairman
– Konrad Hornschuch AG: supervisory board member (as from July 4, 2001)
– Single Holding GmbH: advisory board chairman (as from July 1, 2001)

Wolfgang Klein [2], galvanizer

Wilfried Köpke [2], engineering designer

Peter Langenbach, lawyer
– Credit- und Volksbank eG, Wuppertal: supervisory board member (as from June 28, 2001)

Dr. Anselm Raddatz, lawyer

Michael Rohe [2], mechanic (as from Sep. 18, 2001)

Dipl.-Kfm. Karl Rudolf Vins, executive board member of Versicherungsholding der Deutschen Bank AG, executive board member of Deutscher Herold Lebensversicherungs-AG der Deutschen Bank, executive board member of Deutscher Herold Allgemeine Versicherungs-AG der Deutschen Bank
– Westfälische Hypothekenbank AG: supervisory board member
– Bonnservice Gesellschaft für Serviceleistungen mbH: director
– Bonner Akademie Gesellschaft für DV- und Management-Training, Bildung und Beratung mbH: director

[1] Office held within the respective group pursuant to Art. 100(2)(2) AktG
[2] Employee representative

(9) Proposed profit appropriation

The 2001 annual accounts show a net income of €16,771,136.55. When including the undistributed profit of €191,839.95 carried over from 2000, the net earnings available for distribution come to €16,962,976.50.

The Executive Board will propose to the annual stockholders' meeting (i) to distribute a cash dividend of €0.75 for each share of the common stock of €35,220,975.24 ranking for dividend, hence a total cash distribution of €10,332,936, (ii) to transfer €6,500,000 to the other reserves retained from earnings, and (iii) to carry over the undistributed profit of €130,040.50.

		2001
Undistributed profit as of January 1, 2001	€	191,839.95
Net income for 2001	€	16,771,136.55
Net earnings as of December 31, 2001	**€**	**16,962,976.50**
Proposed:	€	
total cash dividend	€	10,332,936.00
transfer to the other reserves retained from earnings	€	6,500,000.00
carryover	€	130,040.50

Werdohl, March 8, 2002

Vossloh AG
The Executive Board

Schuchmann, Andree, Caiña-Lindemann

Independent auditor's report and opinion on the separate annual accounts

We audited the annual accounts (including the records and books of account) and the combined management report on the Company and the Group of Vossloh AG for the fiscal year ended December 31, 2001. The accounting and the preparation of the annual accounts and management report on the Company and the Group in accordance with the German Commercial Code and the supplementary provisions of the memorandum & articles of association 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 accounts (including the accounting) and management report on the Company and the Group.

We 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 net assets, financial position and results of operations as presented by the annual accounts in accordance with accounting principles generally accepted in Germany and by the management report on the Company and the Group 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 accounts, and the management report on the Company and the Group. 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 accounts and management report on the Company and the Group. 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 the annual accounts, with due regard to accounting principles generally accepted in Germany, present a true and fair view of the Company's net assets, financial position and results of operations. The management report on the Company and the Group presents fairly, in all material respects, both the Company's overall position and the risks inherent in its future development.

Essen, March 11, 2002

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

Schumacher Wirtschaftsprüfer	pp. Friedrich Wirtschaftsprüfer

Financial diary 2002

Annual accounts conference:	April 24, 2002
DVFA presentation:	April 24, 2002
Annual stockholders' meeting:	May 28, 2002
Payment of cash dividends:	May 29, 2002
Publication of interim report	
as of March 31:	April 24, 2002
as of June 30:	July 29, 2002
as of September 30:	October 28, 2002
Meeting with DVFA analysts:	December 2002

Financial diary 2003

Publication of 2002 financial data:	March 2003
Annual accounts conference:	April 2003
DVFA presentation:	April 2003
Annual stockholders' meeting:	May 27, 2003

Investor Relations

Contact:	Andreas Bunse
Email:	investor.relations@ag.vossloh.de
Phone:	(+49-23 92) 52-2 49
Fax:	(+49-23 92) 52-2 64

Vossloh stock details

ISIN:	DE 000 766 710 7
Traded at:	Xetra, Düsseldorf, Frankfurt, Berlin
	Bremen, Hamburg, Hannover,
	Stuttgart, Munich
Index:	MDAX
No. of shares (12–31–2001):	14,400,000
Stock price (12–31–2001):	€22.53
2001 high/low:	€27.00/€14.50
Reuters code:	VOSG.F
Bloomberg code:	VOS GF
Dividend proposed:	€0.75

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Vossloh AG
P.O. Box 18 60
58778 Werdohl, Germany
Phone: (+49-23 92) 52-0
Fax: (+49-23 92) 52-2 19
http://www.vossloh.com