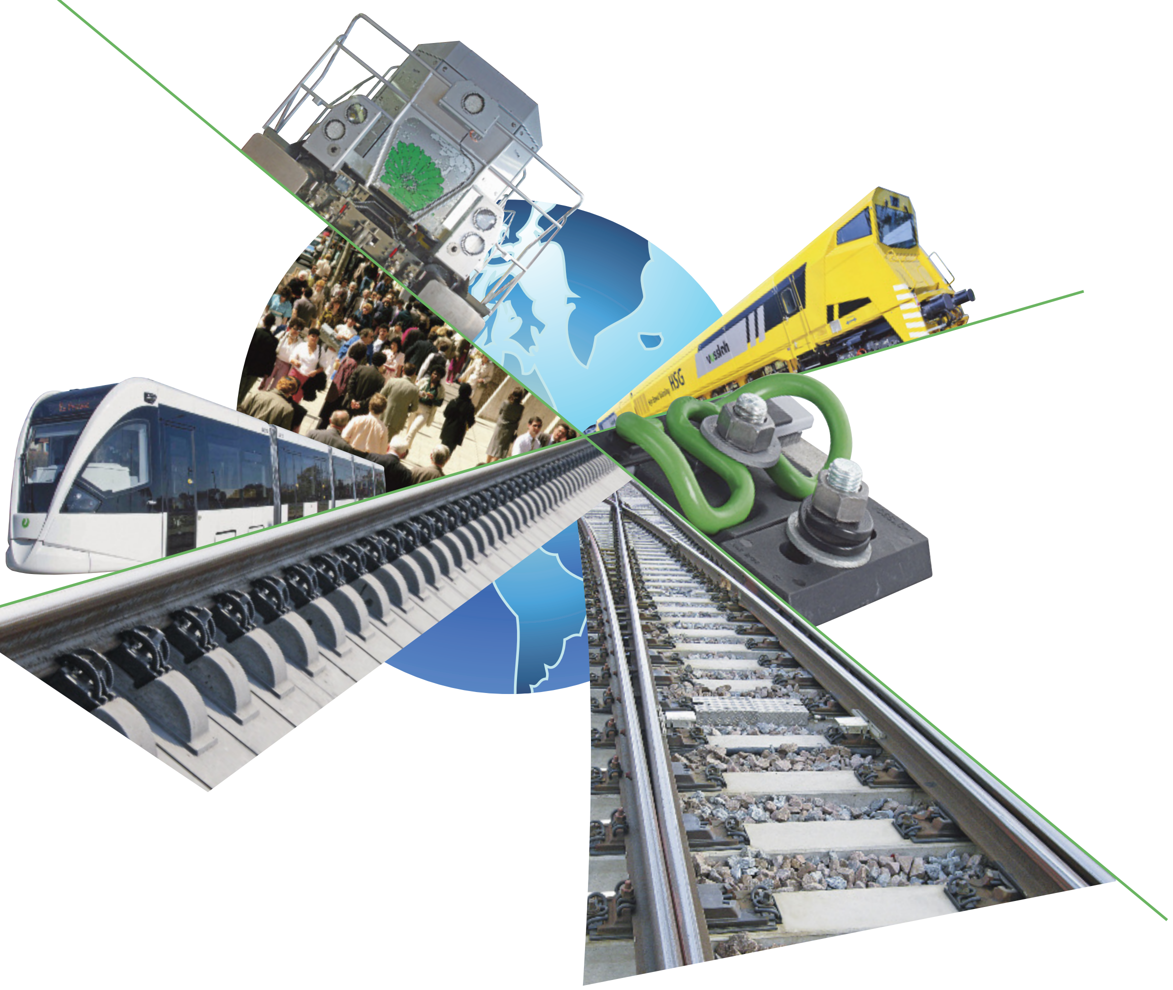
Persevering in our purpose

Separate financial statements of Vossloh AG as of December 31, 2012



Combined management report

Vossloh AG

Rail Infrastructure division

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems
Vossloh Rail Services

Transportation division

Business units:

Vossloh Transportation Systems
Vossloh Electrical Systems

Business and market environment

Strategy, segmentation, and competitive position

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

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

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

International leader in selected rail infrastructure product groups

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

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

Diesel locomotives, light rail vehicles, electrical systems and key components

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

Fundamental strategic principles

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

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

Organization

Vossloh Group: over 100 companies in 30 countries

The Vossloh Group has a broad international base. It patterns its business on local presence and customer proximity. Key European production plants are in Germany, France, Spain, Luxembourg, Scandinavia, Poland, and Austria. Outside of Europe Vossloh produces switch systems mainly in Australia, the USA, and China. It has major rail fastener plants in China and Turkey. Vossloh operates through sales companies and branches and has in some instances, together with competent partners, entered into local joint ventures and alliances. At the end of 2012, the Group comprised over a 100 companies in 30 countries. Major subsidiaries and, at the same time, business unit flagship companies are: Vossloh Fastening Systems GmbH, Werdohl, Germany; Vossloh Cogifer SA, Rueil-Malmaison, France; Vossloh Rail Services GmbH, Seevetal, Germany; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España SA, Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

Controlling system and benchmarks

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

Cost of equity is composed of a risk-free rate plus a current premium of 5.0 percent, the interest rate being duly adjusted for its pretax application. Cost of debt is calculated on the basis of the Group's average funding terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not from the balance sheet since it is not only predicated on a benchmark for the funding structure but also because equity is here based on fair value and not the carrying amounts of the balance sheet. Intragroup controlling in fiscal 2012 was based on pretax WACC of 10 percent as the yield expected by investors and lenders. The slumping interest level implies that the long-term risk-free rate declines, too, and so does the cost of equity. Therefore, Vossloh will as from 2013 downscale the return expected by investors and lenders to 8.5 percent.

In external reports at group or division level, also the posttax value added is communicated, based on the current WACC—5.2 percent posttax for fiscal 2012—in order to disclose the actual value trend of relevance to stockholders.

Financial benchmarks

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

- sustainable profitability improvement (EBIT margin),
- sustainable increase in earnings per share,
- commensurate cash dividends,
- in the medium term, a conservative net debt ceiling.

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

Business report

Business environment

The clouds looming on the economic horizon in 2012 were, chiefly, the ever escalating euro crisis, as well as the debate on the possibility of Greece exiting the EU and on slashing public-sector budgets in major economic regions. According to the International Monetary Fund (IMF), global gross domestic product (GDP) in 2012 rose 3.2 percent; the prior year's gain had been 3.9 percent.

Europe, China, and the United States are the markets of special significance to Vossloh's business and account for around 80 percent of sales.

According to the IMF, GDP growth in 2012 in the eurozone, Vossloh's most important sales market, shrank by 1.8 percentage points to a red 0.4 percent, Germany's remained in the black and advanced 0.9 percent. Compared with 2011, GDP growth in both the eurozone and Germany diminished—from 1.4 and 3.1 percent, respectively. GDP growth in the Central and Eastern European economies neighboring the eurozone slumped year-on-year from 5.3 to 1.8 percent.

The steepest gains in 2012 were again shown by the emerging nations of Asia, with China surging 7.8 percent (down from 9.3). Economic growth in the USA reached 2.3 percent (up from 1.8).

Vossloh's rail technology markets follow international economic trends only to a limited degree. This has meant that, especially since the recession of 2009, the rail technology markets have become even more enticing for many market players. Established players have expanded their capacities. New contenders have joined the market and what used to be mostly local players are branching out internationally. The appeal of the overall rail technology market continues to be driven by several global megatrends: rising mobility requirements, receding energy resources, progressing urbanization and, especially, enhanced environmental awareness. These are all factors in favor of rail as a mode of haulage.

The European Union plans on shifting major portions of transport to the railways. The aim according to its White Paper on Transport is to reduce by 2030 greenhouse gas emissions by around 20 percent (compared with 2008). In order to sustainably lower such emissions, several goals have been formulated.

One of these is for 30 percent of road freight haulage over a distance exceeding 300 km to be relocated to other modes of transport by 2030. Cited in this context alongside transport by ship, are the railways, in particular. Called for is the establishment of an infrastructure for efficient and eco-friendly cargo haulage corridors. Also by 2030, it is planned to triple the overall length of the European high-speed railway networks and to ensure the existence and upkeep of a close-meshed rail system in all EU member states.

Alongside political regulatory policies, the current status of rail transport deregulation plus tight public budgets impinge upon the rail technology sector. In their aggregate, these trends are leading to much fiercer competition within various subsectors of this industry.

Studies on the global rail technology market include the World Rail Market Study published by UNIFE, the Association of the European Rail Industry, and the Worldwide Market for Railway Technology 2012 published by the consultants SCI Verkehr. Says UNIFE, the global markets for rail technology between 2009 and 2011 amounted to an average of some €146 billion annually. According to SCI Verkehr, the market was worth some €143 billion in 2011. UNIFE assesses the accessible European market at €106 billion (i.e., accessible to foreign and not limited to domestic suppliers).

According to UNIFE, the total rail technology market can be subdivided into four segments: Infrastructure, Rolling Stock, Rail Control, and Services. Rolling Stock has the largest share (40 percent) of the accessible market, followed by Services (28 percent), Infrastructure (21 percent), and lastly Rail Control.

The biggest single accessible markets are Western Europe (30 percent) and Asia/Pacific (24 percent), followed by the 20-percent share of the member countries of the North American Free Trade Agreement (NAFTA) and the Commonwealth of Independent States (CIS) at 10 percent. Africa, the Middle East, and South America, hitherto smaller, are expected to show high growth rates.

Vossloh with its Rail Infrastructure and Transportation divisions has a footing primarily in the Infrastructure and Rolling Stock segments. But whereas in its Rail Infrastructure division (excluding Vossloh Rail Services), the Group operates on a global scale and ranks among the leaders, its Transportation division is at present still very closely tied to Europe.

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

Mergers & acquisitions

On May 31, 2012, the share deal to acquire all of the shares in TPL (Midlands) Limited, Birmingham, UK, was closed; the acquiree fully owns Transys Projects Ltd., Birmingham, UK. Meantime the two acquirees have been renamed Vossloh Kiepe Limited and Vossloh Kiepe UK Limited, respectively, their legal headquarters remaining unchanged. Vossloh Kiepe UK Limited is a company specializing in modernizing, refurbishing and enhancing rail vehicles. Both subsidiaries have been assigned to the Electrical Systems business unit.

On December 27, 2012, Vossloh acquired the remaining 50-percent stake in VTS Track Technology Limited, Scunthorpe, UK, previously a 50-percent investee of the Group. Therefore, the subsidiary has since December 31, 2012, been fully consolidated after it had previously been included pro rata. VTS manufactures rail switches and switch components and is a Vossloh Switch Systems company.

Results of operations

For fiscal 2012 and as budgeted, the Vossloh Group reported reviving sales. EBIT inched up by 0.3 percent, from €97.2 to €97.5 million, but because of faster-mounting sales, the EBIT margin slipped from 8.1 percent in 2011 to 7.8. ROCE by the Group was virtually unchanged at 11.9 percent. Despite slumping business in the Rail Services business unit, management expectations for the period were in all close to fulfillment.

Group sales up 3.8 percent; both divisions with higher sales

The Vossloh Group's sales in fiscal 2012 climbed 3.8 percent to €1,243.0 million. Hence, business continued to stabilize in the final quarter of the period. The sharpest gain was recorded by the Transportation division thanks to the healthy situation at the Spanish location of Valencia and to the Electrical Systems business unit. The Rail Infrastructure division likewise showed rising revenue driven by the Switch Systems and Fastening Systems business units, whose sales are top-ranking among the Group's business units.

Vossloh Group: sales by business unit

	€ mill.	%	€ mill.	%
	2012		2011	
Rail Infrastructure	**792.4**	**63.7**	**778.8**	**65.1**
Fastening Systems	291.4	23.4	262.8	22.0
Switch Systems	451.3	36.3	433.0	36.2
Rail Services	54.6	4.4	87.7	7.3
Consolidation	(4.9)	(0.4)	(4.7)	(0.4)
Transportation	**451.1**	**36.3**	**420.0**	**35.1**
Transportation Systems	293.7	23.6	279.9	23.4
Electrical Systems	166.8	13.4	146.7	12.3
Consolidation	(9.4)	(0.7)	(6.6)	(0.6)
Holding companies and consolidation	**(0.5)**	**(0.0)**	**(1.6)**	**(0.2)**
	1,243.0	**100.0**	**1,197.2**	**100.0**

The proportion of division sales hardly changed compared with 2011: the Rail Infrastructure division accounted for 64 percent (down from 65) while the Transportation division's share added up to the remaining 36 percent (up from 35). With the resumption of fastening system shipments in China, the Fastening Systems business unit toward mid-2012 once again contributed the expected significant revenue upswing. The Switch Systems business unit benefited from keener demand in various regions such as the USA and Australia, and likewise boosted its revenue in fiscal 2012.

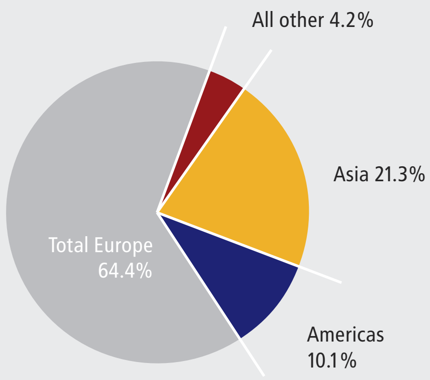
In contrast, the third business unit, Rail Services, suffered from weak demand for rail welding work and logistics and for the full twelve months reported a slump in sales. The Transportation division's two business units, Transportation Systems and Electrical Systems, generated higher sales. Transportation Systems mainly raised its revenue thanks to the successful completion of projects at Vossloh Rail Vehicles in Spain.

Vossloh Group: sales by region

	€ mill.	%	€ mill.	%
	2012		2011	
Germany	260.1	20.9	260.3	21.8
France	138.6	11.2	128.1	10.7
Other Western Europe	125.4	10.1	102.0	8.5
Northern Europe	84.8	6.8	86.4	7.2
Southern Europe	121.9	9.8	200.1	16.8
Eastern Europe	70.2	5.6	62.6	5.2
Total Europe	**801.0**	**64.4**	**839.5**	**70.2**
Americas	125.5	10.1	102.6	8.6
Asia	264.2	21.3	188.0	15.6
Africa	18.3	1.5	39.2	3.3
Australia	34.0	2.7	27.9	2.3
Total	**1,243.0**	**100.0**	**1,197.2**	**100.0**

General business upturn sapped by weak demand in Southern Europe

In 2012, Vossloh generated a good 64 percent of group sales within Europe (down from 70). This downturn reflects the disintegration of demand in Southern Europe. Afflicted by the critical economic and public-sector budget situation was, especially, business in Spain, Italy, Greece, and Portugal; Turkey, in contrast, reported higher sales. In fact, Southern Europe's share of sales slid year-on-year from 16.8 to 9.8 percent. Outside of Europe, Vossloh sales rose inversely, from 30 to 36 percent. Except for Africa, all regions contributed mounting sales.



Sales breakdown by region in 2012

Accounting for 21.3 percent of revenue (up from 15.6), Asia was again the top-selling non-European region, followed by the Americas with a contribution of 10.1 percent (up from 8.6).

In fiscal 2012, Western Europe inputted altogether 42 percent (up from 41) to group sales. Whereas revenue in the most important individual market, Germany, stayed unchanged, growth in the second-biggest West European market, France, continued to advance. Elsewhere in Western Europe, the Group could report a highly commendable sales hike, especially in Great Britain. In contrast, year-on-year sales in the Netherlands, Belgium and Switzerland took a downturn.

Sales in Northern Europe in fiscal 2012 were marginally down. Whereas Vossloh managed to lift sales in Norway, the remaining important countries of this region (Sweden, Denmark, and Finland) suffered from shrinking sales. In Eastern Europe, the Group upped sales in fiscal 2012, particularly because of buoyant business in Poland.

Asia second-biggest market after Europe

Asia, the second biggest foreign market after Europe, showed the steepest growth in sales in 2012. This is largely due to the resumption of shipments of rail fasteners in China in June 2012. Other countries with sales uptrends were Kazakhstan and Thailand.

Vossloh's sales in the Americas were likewise climbing during the period, due above all to solid business in the USA. In Australia, sales went up, too. Because of weak markets in Mauritania, Morocco and Libya, the African region's business receded. In South Africa, in contrast, Vossloh reported a sales increase.

Overall higher capacity utilization steps up gross margin

Fiscal 2012 saw a 6.4-percent improvement in the Vossloh Group's gross margin, from €233.7 million to €248.7 million. Cost of sales in 2012 rose 3.2 percent (from €963.5 million to €994.3 million), its rate of increase being shallower than sales', thanks to an overall higher workload despite the climbing cost of materials and unrelenting price squeezes. Therefore, the relative gross margin was upgraded year-on-year from 19.5 to 20.0 percent.

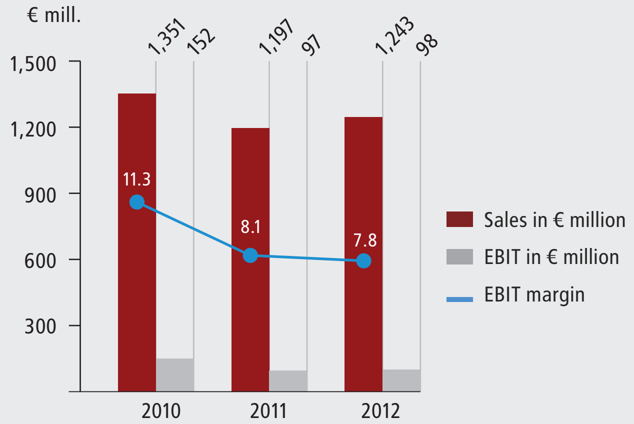
While selling expenses inched up 3.3 percent in 2012 and hence less than sales, general administrative expenses hiked up 8.6 percent, the combined total of both functional expense categories (GAS) rising to €172.4 million (up from €162.9 million): as a share of sales GAS accounted for 13.9 percent (up from 13.6).

Vossloh Group: sales and performance

	€ mill.	%	€ mill.	%
	2012		2011	
Net sales	1,243.0	100.0	1,197.2	100.0
Gross margin	248.7	20.0	233.7	19.5
Operating result	96.9	7.8	96.5	8.1
EBITDA	138.9	11.2	135.5	11.3
EBIT	97.5	7.8	97.2	8.1
EBT	76.1	6.1	84.9	7.1
Net result from discontinued operations	9.5	0.8	–	–
Group earnings	59.2	4.8	56.2	4.7
Earnings per share (€)	4.94		4.32	

Group EBIT essentially unchanged year-on-year

The Group's net other operating income showed a drop to €30.3 million, down from a high €36.4 million. This line included in 2012 primarily income from the release of accruals and state research subsidies whereas in 2011, it was mainly income from accruals reversed, the gain from the divestment of an Australian company and the higher net forex gain that heightened this item. Vossloh's EBIT amounted to €97.5 million (up 0.3 percent from €97.2 million) while the EBIT margin sank in the wake of mounting sales to 7.8 percent (down from 8.1).



Vossloh Group: sales and EBIT trend 2010–2012

Net interest expense surged in 2012 from €12.3 million to €21.4 million, which was chiefly attributable to the Group's reduced interest income. EBT shrank 10.4 percent from €84.9 million a year ago to €76.1 million in the period. The Group's 2012 tax load ratio crept down year-on-year from 28 to 27 percent. Including the €9.5 million from discontinued operations, group earnings picked up 4.9 percent in 2012 to €59.2 million (up from €56.2 million).

The number of shares outstanding in 2012 averaged 11,993,491, down from 13,023,516 thanks to the treasury stock repurchase program in H2/2011. Based on the average number of shares outstanding in 2012, earnings per share (EpS) of the Vossloh Group came to €4.94 (up from €4.32).

Dividend proposed at €2.00 per share

For fiscal 2012, Vossloh AG's Executive and Supervisory Boards will propose to the stockholders a cash dividend of €2.00 per share (down from €2.50), equivalent to a total payout of €24.0 million (down from €30.0 million) or 41 percent of group earnings. Vossloh pursues a performance-oriented long-term dividend policy linked to the trend of group earnings. Given the ever fiercer rail technology market competition, Vossloh will in the years ahead further cement and develop its solid position in the Group's core markets. With this in mind, a payout ratio of about one-third of group earnings and the appropriation of the other two-thirds to safeguarding and selectively promoting the Group's further growth are considered a reasonable strategy.

The Vossloh Group's ROCE edged down from 12.0 percent a year ago to 11.9 in 2012 and was hence substantially constant, the reason being a barely changed 2012 EBIT combined with a slightly higher average capital employed.

Given the WACC determined for 2012 at a year-on-year unchanged 10 percent, Vossloh earned a small premium over its cost of capital. The value added in 2012 totaled €15.4 million, a trifle below the prior-year magnitude. As from fiscal 2013, WACC has been downscaled to 8.5 percent.

Order books still bulging at €1,548 million

Orders received by the Vossloh Group in fiscal 2012 added up to €1,294 million—expectedly short of the extremely high €1,608 million the year before. At December 31, 2012, the Group's order backlog accumulated to €1,548 million (up from €1,496 million)—again ample.

In the course of 2012, the Rail Infrastructure division booked orders worth €809 million (down from €845 million). At year-end, the division's order backlog had risen from €583 million, a year ago, to €600 million. Although order influx at the Fastening Systems business unit was more sluggish than in 2011, year-end order backlog was still taller. Sizable new contracts in 2012 were received, in particular, from Kazakhstan, China, France, and Germany. The volume of order intake at the Switch Systems business unit mounted; order backlog compared with twelve months before, was unchanged. Both in terms of order intake and order backlog, Vossloh Rail Services had a poor period.

In fiscal 2011, the Transportation division had reported surging order inflow; during the period under review and as expected, this subsided and dropped to €487 million (down from €765 million). The division's order backlog at December 31, 2012, was at €949 million up over the very high prior year's €913 million. Both business units, Transportation Systems and Electrical Systems, booked less new business; orders on hand at Vossloh Transportation Systems rose; at Vossloh Electrical Systems, they were unchanged.

Vossloh divisions: order backlog

€ million	2012	2011
Rail Infrastructure	600	583
Transportation	949	913
Consolidation	(1)	–
	1,548	**1,496**

Original EBIT and ROCE forecast for 2012 just missed

With sales of €1,243 million, the forecast 2012 published in late 2011 materialized, albeit at the lower end of the predicted bandwidth of €1.25 to €1.3 billion. EBIT, then expected to be within a range from €100 million to €110 million, came in 2012 to €97.5 million, a narrow miss ascribable to the hostile environment and relentless competitive squeeze that both Vossloh divisions had to contend with. In particular, sluggish demand for the Rail Services business unit's rail welding services within Rail Infrastructure proved persistent. ROCE, forecast in early 2012 at 12.5 to 14.0 percent, was likewise slightly off target and came in fact to 11.9 percent, a trend compounded by the contracting EBIT and notched-up capital employed.

Financial position and investing activities

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

Net financial debt scaled back

The Vossloh Group's net financial debt as of December 31, 2012, shriveled to €200.8 million (down from €238.8 million a year ago). At year-end 2012, financial debts were whittled down from €327.0 million to €270.7 million. It was mainly current financial debts that were slashed after they had swelled in 2011. Financial debts contrasted with cash and cash equivalents (including securities readily convertible into cash) of €69.9 million (down from €88.2 million). The net leverage (i.e., the ratio of net financial debt to equity) in 2012 was upgraded to 39.7 percent (down from 49.7).

Vossloh Group: net leverage

		2012	2011
Total equity	€ mill.	505.7	480.1
Net financial debt	€ mill.	200.8	238.8
Net leverage	%	39.7	49.7

In fiscal 2012, financial debts again largely represented the long-term debt of (translated) €181.8 million raised by Vossloh in 2004 by a two-loan private placement from the US capital market. The first and second fixed-rate US-dollar loans (at $140 million and $100 million) will fall due in 2014 and 2016, respectively. Since the funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and cross-currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively. The remaining financial debts of €88.9 million essentially comprised short-term bank loans.

Net cash of €162.6 million from operating activities outperforming 2011

The net cash provided in 2012 by the Group's operating activities came to €162.6 million (up from €138.5 million). A favorable effect on EBIT was attributable to the lower cash outflow for income taxes paid during the year.

Vossloh Group: cash flow analysis

€ million	2012	2011
Cash flow from operating activities	162.6	138.5
Cash flow from investing activities	(72.9)	(90.6)
Cash flow from financing activities	(109.9)	(47.3)
Net cash (outflow)/inflow	**(20.2)**	**0.6**

The net cash used in investing activities in 2012 again slipped, from €90.6 million to €72.9 million year-on-year. The cash outflow for newly added intangible and tangible assets receded from €65.6 million to €61.1 million.

After most of the 2011 cash outflow for financing activities had gone into the buyback program for 10 percent of the capital stock, implemented in the period from late July to early December 2011, fiscal 2012 primarily saw the repayment of over €60 million of short-term borrowings. The 2012 dividend payout came to €33.5 million (down from €44.2 million).

Vossloh Group: capex and amortization/depreciation, by division

€ million	2012		2011	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	34.4	24.0	38.9	24.1
Transportation	24.0	16.5	23.7	13.5
Holding companies	2.7	0.8	3.0	0.6
	61.1	**41.3**	**65.6**	**38.2**

Capex at €61.1 million again outstripping amortization and depreciation

The Group's capital outlays in 2012 of €61.1 million for intangible and tangible assets were down €4.5 million from €65.6 million, thus again outnumbering amortization and depreciation, which totaled €41.3 million in 2012 (up from €38.2 million).

Capital expenditures by Rail Infrastructure during the period slimmed down from €38.9 million to €34.4 million. Transportation's at €24.0 million were virtually unchanged from the prior year's €23.7 million.

Within the Rail Infrastructure division, capital spending by Vossloh Fastening Systems and Vossloh Rail Services was down, that by Vossloh Switch Systems rose. By business unit, Fastening Systems spent €4.5 million (down from €10.9 million), Switch Systems €20.8 million (up from €17.9 million), and Rail Services €9.1 million (down from €10.1 million). Focal points were a production line for switch points in the USA, the setting-up of a Chinese production plant (Switch Systems) and further work on developing and building new high-speed grinding trains (Vossloh Rail Services).

Outlays mainly target new products and access into new regional markets

At the Transportation division, capital spending during the period by the Transportation Systems business unit amounted to €15.8 million, at the prior-year level. Whereas capex at the Kiel location was slightly lower, the Valencia plant upped its expenditures. At Vossloh Rail Vehicles, most of the funds were directed at pursuing the Tramlink, EURO*LIGHT* and EURO 3000 projects.

Vossloh Group: breakdown of capital expenditures

€ million	2012		2011	
	Capex	%	Capex	%
Development costs	15.1	24.7	14.5	22.1
Other intangibles	2.3	3.8	1.3	2.0
Land and buildings	8.9	14.6	9.1	13.8
Production plant and machinery	16.0	26.2	12.0	18.3
Other plant, factory and office equipment	7.3	11.9	7.4	11.3
Prepayments made, construction in progress	11.5	18.8	21.3	32.5
	61.1	**100.0**	**65.6**	**100.0**

Asset and capital structure

The Group's total assets climbed insignificantly from €1,513.4 million at the close of 2011 to €1,523.1 million as of December 31, 2012, primarily as capital expenditures above amortization/depreciation stepped up fixed assets. Inventories inched up, too.

Vossloh's equity ratio of 33.2 percent outnumbered the prior-year 31.7 percent, equity as of December 31, 2012, rising year-on-year from €480.1 million to €505.7 million.

Equity ratio edging up to 33 percent

The Vossloh Group's 2012 closing working capital improved to €139.6 million (down from €200.3 million). Related to sales, the working capital intensity as of December 31, 2012, was upgraded to 11.2 percent (down from 16.7).

Vossloh's average working capital amounted to €180.3 million, a year-on-year slump from €211.2 million. Working capital intensity on average was upgraded, too (down from 17.6 to 14.5 percent). A bulging trade payables portfolio was the key reason for the Group's average working capital shrinkage.

The Vossloh Group's capital employed as of December 31, 2012, moved €23.6 million down from €825.9 million to €802.3 million. Capital employed in 2012 averaged €821.0 million (up from €811.4 million).

Vossloh Group: asset and capital structure

		2012	2011
Total assets	€ mill.	1,523.1	1,513.4
Total equity	€ mill.	505.7	480.1
Equity ratio	%	33.2	31.7
Closing working capital (WC)	€ mill.	139.6	200.3
Closing capital employed	€ mill.	802.3	825.9
Year-end working capital intensity	%	11.2	16.7
Fixed assets	€ mill.	662.7	625.6
Return on equity (ROE)	%	15.1	17.6

Shareholder value management

ROCE at 11.9 percent

The Vossloh Group earned an ROCE of 11.9 percent in 2012 (down from 12.0), essentially the same magnitude. With EBIT basically unchanged, average capital employed was slightly above the prior-year level. Based on an identical 10-percent WACC for the Group in 2012, Vossloh consequently earned a 1.9-percent premium over its cost of capital.

The Rail Infrastructure division with an ROCE of 11.8 percent achieved a premium of 1.8 percent. The main reason for the wilting return was this division's lower EBIT of €81.7 million (down from €86.2 million).

The Transportation division with its ROCE of 29.2 percent earned once again a highly satisfactory premium of 19.2 percent in 2012, the EBIT surge to €35.5 million (up from €27.8 million) boosting ROCE.

Vossloh Group: shareholder value management

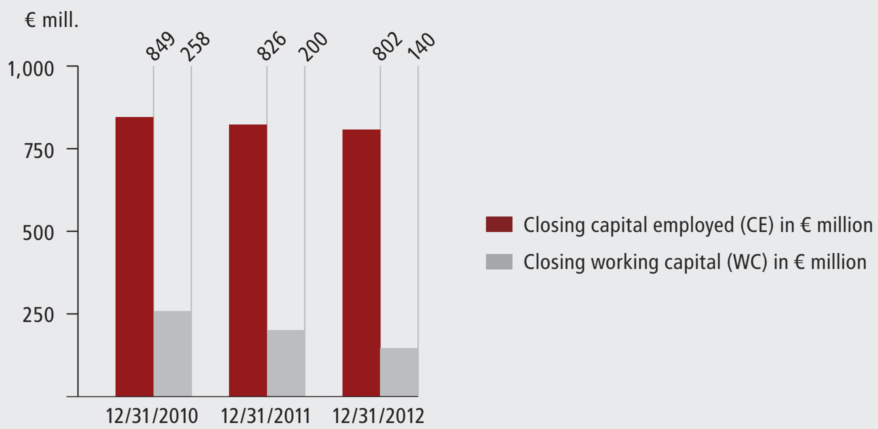
		2012	2011
Average capital employed	€ mill.	821.0	811.4
ROCE	%	11.9	12.0
Value added (VA)*	€ mill.	15.4	16.1

*Based on 10-percent WACC

Group adding value of €15.4 million

The value added (VA) by the Vossloh Group in 2012 came to €15.4 million (down from €16.1 million) before taxes and after WACC of an unchanged 10 percent. Rail Infrastructure added value of €12.5 million to the Group's, below the prior-year €17.9 million. In contrast, the Transportation division contributed €23.3 million to Vossloh's VA, well above the prior year's €15.3 million.

Based on the current WACC, the Vossloh Group's posttax value added in 2012 totaled €25.6 million, breaking down into Rail Infrastructure's of €21.2 million and Transportation's of €18.5 million.

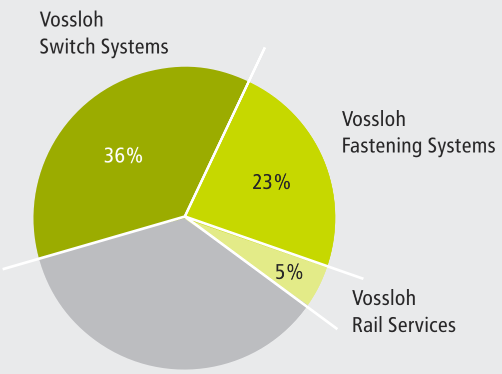


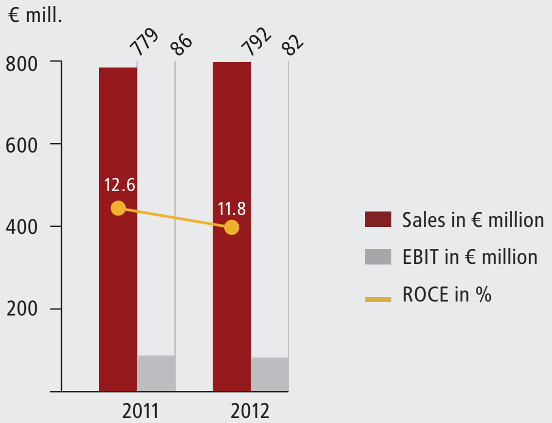
Vossloh Group: CE and WC trend 2010–2012

Vossloh Fastening Systems benefiting from resumed shipments in China

Vossloh Switch Systems' business altogether steady

Vossloh Rail Services badly hurt by weak demand for rail-related services





Shares of business units in group sales

Rail Infrastructure division: sales, EBIT and ROCE trends

Rail Infrastructure business trend

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

Sales drivers: Fastening Systems and Switch Systems business units

In fiscal 2012, the Rail Infrastructure division's sales edged up by 1.7 percent, from €778.8 million to €792.4 million. The most conspicuous advance was reported by the Fastening Systems business unit as a consequence of the resumption of rail fastener shipments in China toward mid-2012. This business unit's revenue rose 10.9 percent, from €262.8 million to €291.4 million. Switch Systems, the business unit with the highest sales, boosted its revenue by 4.2 percent, from €433.0 million to €451.3 million. In terms of sales the smallest business unit, Rail Services reported a slump, from €87.7 million to €54.6 million. The poor performance was due to ongoing weak demand for rail welding and rail logistics work.

Regionally, Europe is the most important region for this division and accounts for sales of around 52 percent. Within Europe, Germany is the biggest individual market, followed by the Northern European region. In fiscal 2012, the division generated just under 14 percent of its sales in Germany (down from almost 17 percent). This shortfall in Germany in 2012 is mainly due to the Rail Services business unit. Discounting this loss, sales in Germany would have advanced and the decline in Europe would have been much lower. Northern Europe accounted for just less than 11 percent of sales. Outside of Europe, the biggest markets are Asia (27 percent) and the Americas (nigh 16). Whereas division sales in Europe contracted, the regions of Asia, the Americas and Australia reported clear improvements.

Value added by Rail Infrastructure amounts at €12.5 million

Value added in 2012 by Rail Infrastructure sagged from €17.9 million to €12.5 million. Whereas Vossloh Fastening Systems again improved the positive value added, that of Vossloh Switch Systems and Vossloh Rail Services was negative.

ROCE at 11.8 percent

Rail Infrastructure's ROCE in 2012 notched down year-on-year from 12.6 to 11.8 percent. The reduction was due to the division's dipping EBIT and climbing capital employed. In fiscal 2012, CE averaged €692.3 million (up from €683.1 million).

Average working capital improved from €249.3 million to €233.1 million and its average intensity did, too, inching down from 32.0 to 29.4 percent in fiscal 2012, favored by growing sales.

Rail Infrastructure's EBIT contracted from €86.2 million to €81.7 million (down 5.2 percent), mainly due to the revenue downtrend at the Rail Services business unit. Accordingly, the EBIT margin at the Rail Infrastructure division ratcheted down year-on-year from 11.1 to 10.3 percent.

Rail Infrastructure

		2012	2011
Sales	€ mill.	792.4	778.8
EBITDA	€ mill.	105.7	110.3
EBIT	€ mill.	81.7	86.2
EBIT margin	%	10.3	11.1
Average working capital	€ mill.	233.1	249.3
Average working capital intensity	%	29.4	32.0
Fixed assets	€ mill.	469.2	455.0
Capital expenditures	€ mill.	34.4	38.9
Amortization/depreciation	€ mill.	24.0	24.1
Closing capital employed	€ mill.	668.1	704.2
Average capital employed	€ mill.	692.3	683.1
ROCE	%	11.8	12.6
Value added	€ mill.	12.5	17.9

Vossloh Fastening Systems

Vossloh Fastening Systems is a well-established and foremost manufacturer of rail fastening systems which it ships out to over 65 countries. The business unit reported a sharp upswing in sales in 2012, by 10.9 percent from €262.8 million to €291.4 million. The improvement is largely due to the resumption of shipments of rail fasteners in China in June 2012; from the of summer of 2011 through May 2012, there had been project delays. Notable additional sales were also generated in Kazakhstan, Germany, and the USA. Revenue receded especially in Taiwan and Africa.

Resumed shipments in China propelling sales at Vossloh Fastening Systems

In fiscal 2012, Vossloh Fastening Systems received orders worth €309.5 million (down from €323.0 million). Sizable contracts were booked from Germany, Kazakhstan, China, and France. At December 31, 2012, the business unit's order backlog amounted to €284.2 million (up from €266.1 million).

In fiscal 2012, Vossloh Fastening Systems incurred capital expenditures of €4.5 million, well below the prior year's €10.9 million since a number of projects were rescheduled into 2013. The emphasis was again on Germany, followed by China and Turkey. In Germany, a large capex share went toward the procurement of new injection molding tooling.

Vossloh Fastening Systems added in fiscal 2012 value of €29.9 million, thanks to the better EBIT well above the prior-year €23.4 million.

Vossloh Switch Systems

As expected, Vossloh Switch Systems performing well

Vossloh Switch Systems equips rail networks with both switches and control/monitoring systems and has an internationally foremost position in the market for advanced-technology rail switches. In fiscal 2012, Vossloh Switch Systems' sales ascended 4.2 percent, from €433.0 million to €451.3 million. Incremental sales were generated especially in the USA and Iraq as well as in Australia, Norway, and the UK. In contrast, business in Spain was again frail, as expected due to the economic and budgetary crises. Sales were also down in Italy, the Netherlands, and Malaysia.

Order intake by the Switch Systems business unit came to €451.0 million in 2012 (up from €434.7 million). Sizable orders flowed in from France, the USA, Sweden, and Morocco. At year-end 2012, orders on hand amounted to €312.3 million (virtually at the prior year's level of €312.5 million).

Capital expenditures by this business unit in 2012 added up to €20.8 million (up from €17.9 million). Among the year's most important projects were a production line for switch points in the USA and ongoing work on setting up switch production in China.

Value added by Vossloh Switch Systems, albeit again a negative €9.6 million, significantly narrowed from the prior-year red €13.0 million. The EBIT upswing in 2012 was the decisive factor in this favorable trend.

Vossloh Rail Services

Vossloh Rail Services offers all kinds of services to do with the rails themselves. In fiscal 2012, this business unit generated sales of €54.6 million, a painful 37.7-percent plunge from the prior year's €87.7 million. Soft demand for rail welding and logistics work persisted throughout the fiscal year and is still being felt.

Business at Vossloh Rail Services marred by still weak demand

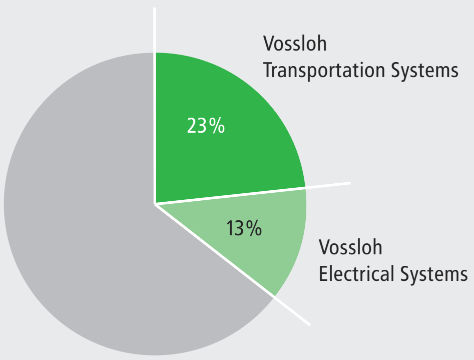
Orders booked by the Rail Services business unit in fiscal 2012 slumped from the prior year's €92.6 million to €52.9 million because of the tough market environment. At year-end 2012, order backlog added up to €4.1 million (down from €5.8 million).

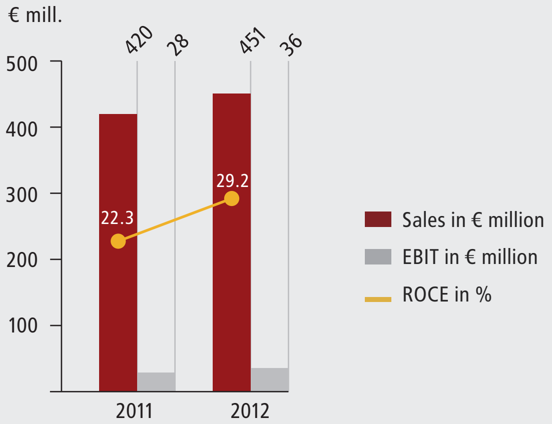
The business unit's capital expenditures for the period of €9.1 million (down from €10.1 million) again chiefly went toward the planned further development and the building of high-speed grinding trains. Another item was a mobile rail welder.

Value added by Vossloh Rail Services was a negative €7.8 million (down from a positive €7.3 million) due to the lower EBIT.

Tall order backlog propelling sales at Vossloh Transportation Systems

Vossloh Electrical Systems’ rail vehicle business developing well





Shares of business units in group sales

Transportation division: sales, EBIT and ROCE trends

Transportation business trend

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

Transportation: sales boosted by both business units

Thanks to the tall order backlog at the start of the year, the Transportation division's sales climbed 7.4 percent, from €420.0 million to €451.1 million. Both business units, Transportation Systems and Electrical Systems, shared in the growth rate. Whereas revenue inched down at the German location of Kiel, it was the Spanish Valencia plant that propelled growth for the Transportation Systems business unit. Most was derived from orders received from the Israeli state railways and Europorte for EURO 4000 locomotives.

Regionally, Germany and France are still the biggest individual markets of the Transportation division which in fiscal 2012 produced 34 percent of its sales in Germany and 17 in France. In Europe, altogether 87 percent of division sales were generated, with non-European regions accordingly contributing 13 percent. The biggest individual market outside of Europe was again Asia including the countries of the Middle East.

It was in Western Europe that this division generated the biggest growth during the period whereas sales in many countries of Southern Europe, especially Spain, drooped because of the critical economic situation.

ROCE jumping to 29.2 percent

Thanks to the upgraded EBIT, the Transportation division's ROCE picked up from 22.3 to 29.2 percent. Capital employed in 2012 averaged €121.6 million, a minor upgrade from the prior-year €124.6 million. Average working capital was again characterized by an excess of assets and hence remained negative, improving from €31.3 million to €47.9 million, both in the red. Value added by Transportation was once more boosted, from €15.3 million a year ago to €23.3 million in 2012.

EBIT hiking up to €35.5 million

Transportation's EBIT mounted by 27.7 percent to reach €35.5 million (up from €27.8 million). The EBIT margin climbed from 6.6 to 7.9 percent. The Transportation Systems business unit particularly drove up its profit contribution.

Transportation

		2012	2011
Sales	€ mill.	451.1	420.0
EBITDA	€ mill.	52.0	41.3
EBIT	€ mill.	35.5	27.8
EBIT margin	%	7.9	6.6
Average working capital	€ mill.	(47.9)	(31.3)
Average working capital intensity	%	(10.6)	(7.5)
Fixed assets	€ mill.	180.6	159.2
Capital expenditures	€ mill.	24.0	23.7
Amortization/depreciation	€ mill.	16.5	13.5
Closing capital employed	€ mill.	127.7	117.8
Average capital employed	€ mill.	121.6	124.6
ROCE	%	29.2	22.3
Value added	€ mill.	23.3	15.3

Vossloh Transportation Systems

As expected, Valencia reporting sales leap, Kiel below 2011 level

In fiscal 2012, the Transportation Systems business unit showed a sales gain of 4.9 percent, from €279.9 million to €293.7 million. As expected, the Spanish location of Valencia reported a much improved performance compared with the weak prior year's. In contrast, the German location at Kiel failed to quite repeat the 2011 sales volume. Vossloh Locomotives in Kiel generated sales of €119.2 million, 41 percent of the Transportation Systems business unit's total. Accordingly, Vossloh Rail Vehicles in Valencia, with sales of €174.6 million, accounted for 59 percent of the aggregate.

In fiscal 2012, the Transportation Systems business unit booked new orders worth altogether €329.3 million, as expected short of the €444.8 million in 2011, a period containing several big contracts. Year-on-year, both locations registered declining order influx. Major new orders were awarded, in particular, to Vossloh Rail Vehicles and included one for 15 UK*LIGHT* locomotives for the British market and a contract won in a consortium together with the Brazilian company T'TRANS for 22 trams destined for Brazil. The shipments will be executed in 2014 and 2015.

Partly together with the Electrical Systems business unit, Vossloh Transportation Systems is processing a number of new contracts, such as one awarded by the city of Chemnitz in 2012 for eight diesel-electric light rail vehicles worth a total of €42 million. Shipments are due to commence in 2014. At December 31, 2012, orders on hand at the Transportation Systems business unit amounted to €539.7 million (up from €504.1 million).

In fiscal 2012, Vossloh Transportation Systems' capital expenditures totaled €15.8 million, substantially at the prior year's level. The largest share was accounted for by the Spanish location of Valencia, specifically the Tramlink modular tram and four-axle diesel-electric EURO 3000 locomotive projects.

Value added by Vossloh Transportation Systems in 2012 showed a great turnaround, from a red €0.4 million a year ago to a black €10.0 million.

Valencia location
At its Valencia plant Vossloh Rail Vehicles develops and builds diesel locomotives as well as light rail vehicles. The lineup also includes maintenance work.

Vossloh Rail Vehicles lifted its sales in fiscal 2012 by 11.6 percent, from €156.4 million to €174.6 million. Most of the growth was generated through higher sales of EURO 4000 locomotives in projects with the Israeli state railways as well as with Europorte. After order intake had been ramped up in fiscal 2011, numerous projects were only invoiced a year later due to the typically long lead times. Currently, Vossloh Rail Vehicles has numerous new contracts in its books (e.g. the UK*LIGHT* locomotives for the British market, trams for Brazil) which, in some cases are jointly handled with the Electrical Systems business unit (e.g. light rail vehicles for the city of Chemnitz). As expected, orders booked in fiscal 2012 were below the high level of 2011. At year-end 2012, orderbacklog outstripped the prior-year volume.

Capital expenditures at the Spanish location of Valencia in fiscal 2012 added up to €10.2 million, a rise of €2.5 million from €7.7 million. Most of the expenditures concerned the Tramlink and EURO 3000 locomotive development projects.

Kiel location

At its Kiel location, Vossloh develops and builds center-cab locomotives. Despite still keen demand for new locomotives, Vossloh Locomotives failed to quite repeat the prior year's sales. In fiscal 2012, revenue added up to €119.2 million (down 3.5 percent from €123.5 million). During the period, altogether 47 locomotives of the proven G 1000, G 1206, and G 6 were shipped out. Once again, the Kiel location carried out high-quality routine repair and revamping jobs on diesel locomotives.

Kiel winning attractive orders

Vossloh Locomotives, too, reported lower order intake compared with the high volume of 2011. Altogether, the location booked orders for over 35 new locomotives, in particular for the G 6 series, a triple-axle diesel-hydraulic shunter, and the G 1206, a four-axle again diesel-hydraulic model for mainline and shunting services with heavy loads.

In fiscal 2012, Vossloh Locomotives spent altogether €5.6 million, down from €8.1 million. The emphasis was on further developing the diesel-hydraulic and diesel-electric models with a view to completing the new locomotive family.

Vossloh Electrical Systems

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

Vossloh Electrical Systems boosted sales in fiscal 2012 by 13.8 percent, from €146.7 million to €166.8 million. Rail vehicle business was especially buoyant whereas bus was weaker. In 2012, regional focal points were once more Germany and elsewhere in Europe. As of June 1, 2012, Vossloh acquired the Birmingham-based company Transys Project Ltd. (TPL) and has since then been operating on the British market. With the takeover, Vossloh is successfully supplementing its capabilities in the Electrical Systems business unit.

Orders awarded to Vossloh Electrical Systems in fiscal 2012 amounted to €166.7 million, well short of the high prior-year €346.2 million. At December 31, 2012, order backlog totaled €431.5 million, more or less equal to the €431.7 volume at December 31, 2011. Besides the contracts to be jointly performed with Vossloh Rail Vehicles, Vossloh Electrical Systems booked a number of important projects including equipment for light rail vehicles in Braunschweig, Germany, and Manchester, UK, as well as one for air-conditioning units for PRASA in South Africa.

In fiscal 2012, capital expenditures by the Electrical Systems business unit fell from €7.9 million to €5.7 million. The emphasis of expenditure in fiscal 2012, was, as planned, on the Düsseldorf location and the construction of a test bay here.

Value added by Vossloh Electrical Systems in fiscal 2012 amounted to €7.5 million (down from €14.0 million).

Vossloh AG

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

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

Analysis of the separate financial statements

As nonoperating holding company, Vossloh AG's revenue—€1.5 million (up from €1.3 million) for 2012—consists of rental income and intercompany allocations. The operating expenses are mainly incurred in connection with the Company's management and financing functions. Therefore, EBT is substantially influenced by general administrative expenses, other operating income/expenses and the net financial result.

In fiscal 2012, the administrative expenses of €23.3 million were virtually a repeat of the prior year's €23.2 million. The increase in expenses for personnel, consultancy and trade fairs was almost offset by the non-incurrence of expenses for the 2011 stock buyback program and a decrease in adult and advanced training and workforce events. Personnel expenses rose by €1.0 million to €8.2 million; the annual average headcount moved slightly up to 46. Year-on-year, the Company's other operating income contracted by €1.2 million to €8.9 million and includes mainly income from the apportionment to subsidiaries of taxes, marketing fees and IT expenses.

In addition to the administrative expenses and the net other operating income or expense, the net financial result—which crept down from €58.6 million a year ago to €58.0 million in 2012—impacts materially on Vossloh AG's EBT since the Company is also the financial holding company of the Group and therefore owns its major subsidiaries. Key components of the net financial result for 2012 were the €50.0 million dividend income from Vossloh France SAS, as well as the profits transferred by Vossloh-Werke GmbH and Vossloh Kiepe GmbH, together accounting for €19.1 million (down from €55.0 million). In contrast, the aggregate €5.3 million loss (down from €9.8 million) absorbed from Vossloh Locomotives GmbH and Vossloh Rail Services GmbH burdened investment income.

Interest expense of €15.1 million (up from €15.0 million)—primarily for refinancing the Group's capital requirements—contrasted in 2012 with interest income of €8.3 million (up from €8.1 million) from granting short-term credit or medium-term loans to consolidated subsidiaries. Income taxes of €1.1 million (up from €0.6 million) weighed on Vossloh AG's EBT. Vossloh AG's net income of €41.2 million for 2012 was €2.9 million below the prior year's.

Total assets remained essentially unchanged at €795.8 million (up from €794.7 million), mainly as intercompany receivables receded, while long-term loans to subsidiaries climbed. On the liabilities side, bank debts diminished considerably, bank loans (excluding the US private placement) plummeting from the prior-year €95.0 million to €40.6 million as of December 31, 2012. In contrast, both intercompany payables and equity augmented. The equity ratio was raised from 38.2 to 39.7 percent.

Vossloh AG's financial position depends on the funds needed by subsidiaries and the borrowings made by the Company to refinance such requirements. The debt raised in 2004 from the US capital market by way of private placement, carried within *sundry liabilities*, amounted to an unchanged €203.9 million.

Board compensation report

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

Remuneration of Executive Board members

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

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

For fiscal 2012, the compensation of Vossloh AG's executive officers totals €2,086,056 (up from €1,981,895), including €805,576 of fixed, and €1,242,874 variable, remuneration. In addition, they received in 2012 noncash fringes as payments in kind (PIK), basically in the form of private company car use at the tax base of €37,606. PIK income is taxable income of each executive officer.

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

Moreover, they have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 15 (Dr.-Ing. Norbert Schiedeck) or 35 percent (Werner Andree), and are stepped up by 4 percentage points annually (as from April 1, 2010, or January 1, 2005, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2012, a total €700,659 was provided for accrued pension obligations to Executive Board members (up from €330,031). Current retirement pensions are adjusted annually in line with the collective pay trend of white-collar employees.

The table below itemizes the remuneration of each executive officer:

€	Short-term benefits				Retirement benefits	
	Fixed salary	PIK	Profit share	Total	Provision in 2012	Total accrued
CEO Werner Andree	481,767	15,809	757,850	1,255,426	551,054	3,476,022
COO Dr.-Ing. Norbert Schiedeck	323,809	21,797	485,024	830,630	149,605	540,290
Total	**805,576**	**37,606**	**1,242,874**	**2,086,056**	**700,659**	**4,016,312**

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

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

No loans or advances were granted in 2012 to any Executive Board member.

The compensation paid as current pensions to former executive officers and their surviving dependants totaled €643,477 (up from €606,512).

Pension obligations to former executive officers and their surviving dependants amounted to €11,899,772 (up from €11,576,318); this amount includes employer pension liability insurance policies totaling €11,522,718 pledged in each beneficiary's favor, the balance being covered by accruals.

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

Remuneration of Supervisory Board members

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

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

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

In accordance with the bylaws, Supervisory Board members received for fiscal 2012 a total €451,500 (up from €440,375), including €212,500 fixed and €239,000 variable, performance-related fees. The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Dr.-Ing. Wilfried Kaiser, Chairman	60,000	72,000	132,000
Peter Langenbach, Vice-Chairman	42,500	45,000	87,500
Dr. Jürgen Blume (up to Aug. 31, 2012)	20,000	20,000	40,000
Dr. Christoph Kirsch	40,000	42,000	82,000
Wolfgang Klein	30,000	36,000	66,000
Michael Ulrich	20,000	24,000	44,000
Total	212,500	239,000	451,500

In addition to these fees, no Supervisory Board member received in 2012 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2012 to any Supervisory Board member.

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

The provisions of Arts. 289(4) and 315(4) HGB require that the following takeover-related disclosures as of December 31, 2012, be made.

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

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

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

Direct or indirect shareholdings of 10+ percent
The Executive Board is aware that two direct voting interests above 10 percent in the Company's capital stock exist: The Vossloh Family Pool notified Vossloh AG that, in February 2013, its members owned a voting stake of some 31.77 percent in the Company. Mr. Heinz Hermann Thiele notified the Company in October 2012 that he owns a 25.14-percent voting interest in Vossloh AG.

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

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

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

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

Stock issuance or repurchase authority of the Executive Board

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

(a) Authorized capital

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

(i) for fractions entailed by the subscription ratio;

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

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

(iv) for any capital increase against noncash contributions.

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

(b) Contingent/conditional capital

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

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

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

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

(c) Repurchase of treasury stock

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

At December 31, 2012, the Company held 1,326,721 treasury shares. The Executive Board is authorized, subject to prior Supervisory Board approval, to use such treasury stock for any lawful purposes, including by disposing of the treasury shares ex rights in a form other than through a stock market or by offering them to all Vossloh stockholders, however, provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the stock market price then current for same-class Vossloh stock. The Executive Board is further authorized, after first obtaining Supervisory Board approval, to sell treasury stock ex rights to third parties in return for noncash contributions, including (without limitation) in connection with mergers or other business combinations or when acquiring other enterprises or equity interests therein. The treasury stock may further be used to settle obligations under convertible and/or warrant bonds issued by the Company and/or any of its wholly-owned subsidiaries. Moreover, the Executive Board is authorized to redeem and effectively withdraw treasury stock with the Supervisory Board's approval, however, without requiring another vote by the general meeting.

Agreements upon any change of control

Two material agreements the Company has made exist that could be enforced upon any change of control. On the one hand, the US private placement covenants obligate the Company upon a change of control to offer the investors the early repayment of the principal balance plus accrued interest thereon. On the other, the current credit facility master agreement with Landesbank Baden-Württemberg offers this lending bank upon a change of control the option of calling in balances outstanding for immediate repayment.

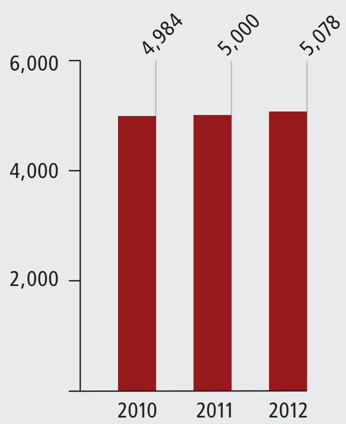
Compensation agreements upon change of control

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

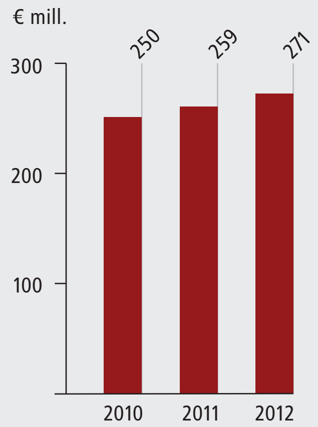
Headcount again slightly up

Sales per capita rising

Higher payroll costs driving up personnel expenses



Average group headcount



Personnel expenses in € million

Workforce

At December 31, 2012, the Vossloh Group employed a workforce worldwide of 5,022 (up 0.2 percent or 11 compared with the 5,011 at year-end 2011).

Employee-related indicators

		2012	2011	2010
Payroll per capita	k€	53.4	51.8	50.1
Sales per capita	k€	244.8	239.4	271.1
Payroll intensity	%	72.6	71.9	61.5
Value created per capita	k€	73.5	72.1	81.4

Altogether 83.1 percent work at the Group's European locations; outside of Europe 41.2 percent (down from 42.3) in North America and a total 48.2 percent (up from 47.8) at the Asian production locations in China, India, and Malaysia. Australia is another continent with Vossloh employees.

There were only marginal changes in the age structure and average length of service compared with 2011. The proportion of employees aged between 35 and 50 crept up to 40 percent; the percentage of those over 50 stayed unchanged at 30 percent. The proportion of employees working for Vossloh for up to ten years slipped to 54 percent.

Personnel expenses (payroll)

€ million	2012	2011	% change
Pay	221.1	211.2	+4.7
Social Security	45.6	43.8	+4.1
Pension expense	4.3	4.0	+7.5
Total	**271.0**	**259.0**	**+4.6**

The average headcount mounted from 5,000 to 5,078 (up by 1.6 percent).

Average group headcount of 5,078

Because of wage cost increases, personnel expenses in 2012 advanced 4.6 percent from €259.0 million to €271.0 million. The average payroll per capita increased by 3.0 percent from k€51.8 in 2011 to k€53.4 in 2012.

Value created—defined as the excess of total operating performance over cost input and amortization/depreciation—per capita rose from k€72.1 in 2011 to k€73.5 in 2012.

Payroll intensity, calculated as the ratio of payroll to value created, inched up from 71.9 to 72.6 percent. Sales per capita in 2012 increased by 2.26 percent, from k€239.4 to k€244.8.

Rail Infrastructure

In fiscal 2012, the average workforce in the Rail Infrastructure division fell 0.4 percent from 3,206 to 3,193.

Payroll per capita rose 2.9 percent from k€44.2 to k€45.5. Value created per capita inched up from k€72.2 to k€72.3. Payroll intensity came to 62.9 percent (up 1.6 percentage points). Sales per capita advanced 2.2 percent to k€248.2 (up from k€242.9).

Transportation

The average number of Transportation employees rose 5.15 percent year-on-year from 1,748 to 1,838.

Sales per capita mounted 2.12 percent from k€240.3 to k€245.4; value created per capita grew from k€79.1 to k€83.9. Payroll per capita was up 2.2 percent from k€63.0 to k€64.4. Payroll intensity fell slightly from 79.6 to 76.7 percent.

Employees 2012

	Annual average*			Year-end		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Rail Infrastructure	693	2,500	3,193	651	2,483	3,134
Transportation	1,016	822	1,838	1,035	807	1,842
Vossloh AG	47	0	47	46	0	46
Total	**1,756**	**3,322**	**5,078**	**1,732**	**3,290**	**5,022**

*Annual average based on monthly data

Recruiting and developing employees

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

A broad range of in-house and external courses forms the framework for the business units' HR development efforts tailored to actual needs. For the first time, specific courses were organized for female technical and management employees. Besides advanced courses on commercial and technical subjects plus foreign languages we also provide further training on the subjects of quality, project management, communication, and leadership. The blue-collar courses embrace such subjects as welding, load securing/hazardous goods, and fork lift truck operation.

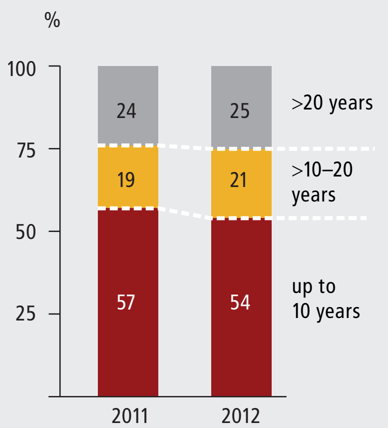
The Vossloh Academy is an intercompany facility; at its web portal, employees in Germany can register online for seminars dealing with topics of relevance to Vossloh. In small, manageable groups, subjects are dealt with that assist the participants in their daily work and ready them for future challenges. The learners also have the opportunity to establish networks among themselves and share valuable knowledge with each other.

Launched in 2009, the program under the title We lead Vossloh is meanwhile a firm fixture of groupwide management and organizational development. It serves as the basis for the regular exchange of ideas among holders of key positions across all business units. At the same time the program acts as the corporate platform for identifying new cooperation projects within the Group and nurturing the groupwide corporate culture.

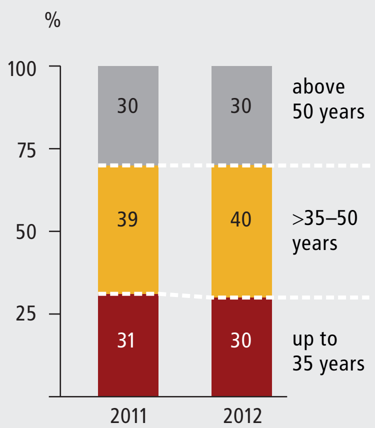
To draw the attention of well-trained and qualified people to Vossloh in good time, the Group has numerous cooperation arrangements with schools and universities. Besides the contacts with schools at the various Vossloh locations, contact is also forged throughout Europe with universities of relevance to the industry. Some of these liaisons take the form of research and other project work.

A first taste of job experience can be obtained by undergraduates in the course of internships and other forms of practical training as well as when working on their diploma, BA and MA theses. Vossloh supports the Fair Company initiative.

Besides the recruitment of well-trained talent from outside, in-house apprenticeship training enjoys high priority at Vossloh. At the German locations, altogether 24 youngsters commenced blue-, white- and gray-collar courses in 2012. At year-end 2012, the Düsseldorf, Hamburg, Kiel, Moers, Seevetal, Trier und Werdohl locations together employed 84 apprentices, equivalent to around 6.1 percent of the workforce at these German locations with apprenticeship opportunities.



Service years in %



Age structure in %

Occupational Safety & Health

The Occupational Safety & Health (OSH) project has matured into a regular institution. As part of their workforce responsibilities, Vossloh's Executive Board and European Works Council have assigned the subject of OSH even more significance as a top action priority. The period saw the setting-up of the Work Safety Committee with representatives drawn from all the business units. The main mission of the committee is to draft a definition of groupwide Vossloh safety principles based on the preceding project work deliverables and to assume responsibility for having the Vossloh Group's locations certified to OHSAS 18001.

Thanks to the employees

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

Research and development

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

The developments costs of a marketable product are capitalized wherever the IAS 38 capitalization criteria are met; where not, they are recognized in the income statement either as cost of sales or R&D expenses, as appropriate.

Vossloh Group: R&D expenditures

€ million	2012	2011
Total R&D expenditures	24.8	25.2
thereof capitalized	15.1	14.5
R&D expenses	**9.7**	**10.7**
Amortization (of capitalized development costs)	8.1	5.7

The R&D expenditures before other work and material capitalized amounted in 2012 to €24.8 million (down from €25.2 million), equivalent to 2.0 percent of sales (down from 2.1). The R&D expenses recognized in the income statement accounted for 0.8 percent of sales (down from 0.9). Amortization of capitalized development costs came in 2012 to €8.1 million (up from €5.7 million).

In fiscal 2012, the R&D departments were again very busy in widening the product portfolio and matching it to emerging trends in the marketplace. This was and is being reflected in construction work, too. Similar to Vossloh Fastening Systems in Werdohl, Vossloh Switch Systems is currently building its own technology center at Reichshoffen. The groundbreaking ceremony was held in September 2012, completion is planned for August 2013. Successful intragroup R&D cooperation was continued: Vossloh Fastening Systems and Vossloh Switch Systems are teaming up in a joint project for developing for the first time the test conditions for rail fastening systems engineered for axle loads of 42 t and more. On the train-tram and Tramlink projects, Vossloh Rail Vehicles and Vossloh Electrical Systems are cooperating; on the HSG-2 high-speed grinding train, the partners are Vossloh Locomotives and Vossloh Rail Services.

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

In 2012, Vossloh Fastening Systems assigned high priority to the development of a new screw/dowel combination; this was first presented to the general public at the InnoTrans trade fair. On this occasion, Vossloh also acted as pioneer and developer of new testing methods for individual components and complete systems. Another priority was the cost-effective and functional fine-tuning of the individual components making up the various fastening systems. On the basis of extensive field information and the results of laboratory tests, it was possible to achieve a whole series of working improvements while reducing the weight of the parts. Devised in 2011, the W 40 HH fastening system for heavy-haul tracks went into series production in 2012 and was installed on a busy freight line in North America. For the local transport market in China, various metro and tramway fastening systems were developed, tested, and homologated. In joint projects with system suppliers for slab tracks, a number of individual fastening systems underwent improvement. A major share of R&D activities in 2012 was again to address at short notice individual customer requirements.

R&D engineers at Vossloh Switch Systems completed a number of medium-term projects in 2012. Patents were filed for two proprietary developments: a special-composite sleeper for track sections with turnouts and crossings and a method for welding turnout parts made from manganese steel. Several prototypes of switch systems and system components were successfully track-tested, among these a rail chair with spring roller for actuating very long and high-speed switches with less effort. This is scheduled for market launch in 2013 just as the fine-tuned elements of an eco-friendly zero-lubricant switch. The first rails and switches manufactured from new kinds of steels underwent field testing; the development of a switch with reduced rigidity was advanced to the stage that in the latter half of 2013 the first field tests can probably be carried out. The prototypes of the multi-motor high-speed Easyswitch were optimized following the results of tests conducted under extreme weather conditions in Sweden. As in the previous years, most of the work on switch monitoring, locking as well as signaling devices addressed concrete customer requirements and was performed with close customer cooperation. This was also true of signaling R&D where Vossloh Switch Systems develops several species of products and systems precisely tailored to certain markets or customers.

In 2012, Vossloh Rail Services' R&D activities concentrated, on the one hand, on further developing the HSG-2 high-speed grinding train—the new generation will also be used in Denmark and Switzerland—and on developing the HSG-city, an autonomous high-speed grinder for innercity tracks; together with an external partner, efforts were directed at an innovative high-performance track miller. Removing more material per cycle at much higher speeds, this machine achieves very superior rail processing compared with traditional milling techniques.

In the year under review, Vossloh Transportation Systems pushed ahead with programs initiated the previous years for enhancing its product portfolio. At the German Kiel location, efforts focused on the new modular family of center-cab locomotives. The four-axle G 12 and G 18 (diesel-hydraulic) and the DE 12 and DE 18 (diesel-electric) were again improved. The triple-axle G 6 will soon be series-manufactured with diesel-electric traction; the multi-engine diesel-electric G 6 ME introduced at InnoTrans, elicited considerable interest on the part of the trade. For its new vehicles, Vossloh Locomotives has also devised option packages enabling customers to identify the mission profiles of individual locomotives and hence save fuel. The Valencia location in Spain saw the emergence of a new type of vehicle which is presently undergoing rigorous field testing. The locomotive, designed for passenger haulage, combines European design with a powerful traction system (2,250 kW) as prevalent in the USA. The locomotive complies with all new emission norms, operates fuel effectively and is extremely reliable. Vossloh's proprietary assistance, analysis, control and regulating systems EFITREN, DAS and TWC for optimizing the efficiency of Vossloh vehicles were again refined. A newcomer is a system for precisely measuring fuel in the diesel tank and hence calculating the mileage still remaining. This avoids any superfluous refueling stops. The R&D department in Valencia also worked on preparing the EU project REFRESCO (toward a REgulatory FRamework for the usE of Structural new materials in railway passenger and freight CarbOdyshells). It will be launched in October 2013. Vossloh's share in the project will, in particular, be the development of an assistance system for locomotives for further improving the safety and security of rail haulage. In the case of light rail vehicles, the focus in 2012 was on the diesel-electric version of the train-tram, a joint effort with Vossloh Electrical Systems.

At Vossloh Electrical Systems, tram development work in 2012 concentrated on the orders booked from Rostock, Karlsruhe and Chemnitz, all in Germany. The equipment for the Tramlink and train-tram vehicles which are being built by Vossloh Rail Vehicles in Valencia, must be adapted to the special homologation and customer requirements. For the Rostock vehicles, an energy storage system with dual-layer capacitors is required and the energy management system will be specially adapted to the local overhead wire network. In Karlsruhe and Chemnitz, the trams will also be sharing the mainline network of German Rail and this calls for a modification of their control system. For the revamping of the Bonn trams, a new power inverter system for electronically controlling DC traction motors was developed. In the case of buses, battery technology is a key subject at Vossloh Kiepe. A long-term project is the development of an all-electric bus. On the double-articulated LighTram buses delivered to Zurich in late 2012, lithium-ion batteries with very high energy density were used for the first time. The engineers also further developed during the period their own modular traction battery for trams and shunting locomotives. A completely new traction control system was further developed whose higher control dynamics lead to a much improved slide and skid protection—for Vossloh Electrical Systems, this is a milestone in sustaining its traction system expertise.

Environmental protection

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

The developers of diesel locomotives from Vossloh have for years attached great importance to making sure their vehicles consume as little fuel as possible—thus emitting minimum CO_2. For years now, Vossloh Locomotives in Kiel and Vossloh Rail Vehicles in Valencia have been involved in research projects with a focus on reducing emissions. In Valencia, Vossloh has meantime compiled an Environmental Product Declaration (EDP) for the EURO locomotives, this reflecting their resources consumption throughout their lifespan.

“Zero emissions” is a benchmark that applies to electric buses with traction technology from Vossloh Kiepe. Another advantage of these local transport vehicles: they are very quiet in operation—a fact appreciated by passengers and pedestrians alike. Even conventional buses can become more eco-friendly with Vossloh technology, with hybrid drive reducing exhaust and noise emissions significantly. Field tests on buses with an even more environment-friendly fuel-cell hydrogen drive are underway and proving successful. Vossloh is continuously widening its competency in the area of eco-friendly electric mobility; in 2012, the first electric buses with high-duty lithium-ion batteries were shipped out.

Vossloh generates a significant share of its sales with products and services contributing toward environment-friendly and sustainable solutions. Therefore, the Company has for years been listed in the Global Challenges share index of the Hannover stock exchange and since February 2012 in the Dutch Kempen/SNS SRI index. It is also included in the sustainability rankings of oekom research, Inrate, and Sarasin, which recommend Vossloh stock as an investment in sustainability funds.

In production, all Vossloh companies attach great importance to a sparing and efficient use of resources. Generally speaking, emissions from production have been cut to a minimum. Regular audits by the local environmental authorities prove that all statutory and regulatory requirements are adhered to and the permitted limits are undercut, in some instances significantly. Residuals are consistently reused or recycled as far as possible; solid waste is systematically sorted.

With a view to even more efficiently managing its energy and water consumption, Vossloh has gradually been installing a groupwide standardized consumption logging system. The figures for 2012 were as follows: Electricity consumption totaled around 71 million kWh (up from around 70 million kWh). Of this, the Rail Infrastructure division accounted for around 85 percent. Gas consumption in 2012 amounted to around 150 million kWh (down from 160 million kWh). Some 90 percent was consumed by the Fastening Systems and Switch Systems business units. Consumption of district heating in 2012 as in 2011 was in the region of 20 million kWh. A large share was used by the Kiel location. In the year under review, the Vossloh Group consumed around 110,000 m^3 of water (down from around 120,000 m^3) and some 540,000 liters of heating oil (down from about 650,000 liters). Most of the heating oil consumption was allocable to Rail Infrastructure. Altogether, group costs for energy and water added up to €14.5 million (up from €14.1 million). This is equivalent to 1.1 percent (down from 1.2) of sales.

Vossloh Fastening Systems is installing a comprehensive and target-driven energy management system. At Werdohl and parallel to the restructuring of this location, a multistage concept is being applied for systematically improving energy efficiency. Ever since 2010, process steam has no longer been generated by one large central boiler but with small, local units directly placed at the points of consumption. The Technology Center inaugurated in 2011 is heated with the waste heat from the hydraulic testing rigs and machinery; any surplus energy is transferred to other buildings. The furnace shop built in 2012, likewise has a system of heat recovery; the energy from the heat treatment process is used, among other things, for operating the upstream machines. Great value was attached moreover to keeping noise emissions as low as possible.

Vossloh Switch Systems is also increasingly downsizing its ecological footprint. To this end, various measures were enacted in 2012 in order to lower consumption of raw materials, water, and energy. Several locations revamped their heating systems for greater energy efficiency and reduced emissions. Even higher priority was, in general, assigned to protecting groundwater.

At the locomotive plants in both Kiel and Valencia, Vossloh employs exclusively low-solvent paints for the finish of its vehicles. Vossloh Fastening Systems has also been using water-borne paints for the surface coating of its tension clamps for years now. Vossloh Kiepe in Düsseldorf records all eco-relevant plants and processes in a registry which serves as a firm fixture of environmental management.

The large Vossloh locations have all been approved and certified to the DIN EN ISO 14001 environmental management system or comparable systems and undergo regular audits by external, independent bodies. Vossloh Rail Vehicles, Valencia, is preparing itself additionally for the EU's EMAS (Eco-Management and Audit Scheme) in 2013. In Germany, Vossloh Kiepe has, moreover, been certified to the OHSAS 18001 occupational health & safety standard since 2001; another five companies (Vossloh Cogifer locations) have meantime also obtained this certification and in future will be joined by all the Vossloh Group's locations and companies. Vossloh Kiepe Austria, Vienna, Vossloh Rail Vehicles, Valencia, and Vossloh Kiepe Main Line Technology, Düsseldorf, have since 2010 held certificates of approval according to IRIS (International Railway Industry Standard). Vossloh Cogifer's Fère-en-Tardenois location has been complying with the even stricter ILO OSH 2001 safety and health standard since the end of 2007.

Risk and reward management

Organization

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

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

Perceived risks and rewards are analyzed and assessed at Vossloh for their possible impact on earnings. For this purpose, the worst-case and best-case scenarios and the most probable impact on earnings are determined. These are supplemented by an assessment of loss probability. For the best/worse-case scenarios, a value-at-risk approach with a minimum probability of 5 percent is assumed.

All the (direct or indirect) Vossloh subsidiaries, both in Germany and abroad, are covered by the RMS irrespective of their consolidation. New acquirees are integrated into the system in good time.

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

These reports are addressed to Vossloh AG's Executive Board as well as to each company's and business unit's senior management. It is they that control and monitor risks and rewards. At the level of Vossloh AG, the current risk situation is regularly discussed between business unit management and the Executive Board.

The system is regularly reviewed by Corporate Internal Auditing and the statutory auditor for adequacy, efficiency and compliance with legal requirements.

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

General economic and sector risks and rewards

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

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

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

With its two divisions, Rail Infrastructure and Transportation, Vossloh ranks among the foremost suppliers on selected rail industry markets. The markets of relevance to Vossloh are oligopolistic by nature both on the demand and supply sides. Most of the customers are rail and network operators, as a rule still under public-sector control. This implies dependence on public-spending patterns which Vossloh attempts to abate by expanding its international presence. Exploiting market opportunities as they surface, especially in the Rail Infrastructure division, brings about a balancing effect. At the focus of Vossloh's internationalization drive are presently the growth markets China, Russia, other Eastern European countries, the MENA states, the United States, and South America. In recent years the Group has much reduced its reliance on individual European markets. In 2012, non-European sales amounted to 36 percent. The share in 2011 had been just under 30 percent.

Rail markets in Western Europe and North America are more or less stable in terms of their political and economic environments and hence as far as these core markets are concerned, there are no major risks confronting the Group. Accessing new markets elsewhere, especially Asian and African, does expose Vossloh not only to opportunities but also risks possibly arising from political and social instability, exchange rate fluctuations and legal uncertainties. As the percentage of group sales in these markets grows, both opportunities and risk exposure rise.

The oligopolistic nature of the supply side of the market also harbors risks for Vossloh. The high level of market transparency may lead to fiercer price competition with adverse effects on margins. There is also the risk of products being replaced by newly engineered ones and that new competitors enter the market. Vossloh contains such risks by repeatedly refining its products and services and focusing on customer needs. One particular trend observable at present is the mounting competitive pressure.

Operating risks and rewards

This category includes operations-related activities such as sourcing, production, and contract performance.
Vossloh attempts to counteract purchase price (input market) risks especially by long-term procurement contracts or price escalator clauses through agreements with customers. Exchange rate risks from purchasing are normally managed by currency forwards. With commodities becoming scanter, this will lead in the medium to long term to higher production costs, especially for Rail Infrastructure. The medium-term planning assumptions of increases in the cost of materials and components are based on such factors as supplier information and market analyses.

No significant variances from the 2012 input market prices are presently expected in general. Any rises appreciably above these assumptions may drain profitability as forecast by the business units. Rewards may accrue from material and component prices that turn out to be lower than budgeted.

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

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

Project complexity is another source of risks and includes unexpected technical or engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors, logistic challenges, and acceptance and invoicing delays. These are factors possibly leading to unbudgeted expenses or contractual penalties. Contract provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. Especially exposed to risks of this nature is Transportation. Rewards may arise when risk provisions are not fully utilized.

Project risks arising in 2012 and still existing have been provided for as required by the IFRS.

Financial risks and rewards

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

Vossloh uses financial derivatives solely to hedge against specific risks from current underlyings or forecast transactions. These economic hedging relationships are also treated as hedges in financial accounting. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, turn to the notes to the consolidated financial statements starting on page 167 of the Group's annual report. The following financial risks are controlled: liquidity risks, cash flow risks, price risks, as well as default and similar counterparty risks.

Liquidity risks

Liquidity risks may arise if the Group is potentially unable to provide the funds required to meet its obligations in due course and fully. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies and the necessary latitude for translating corporate strategies into practice) through a rolling cash management system. An intragroup financial netting concept through cash pooling and intercompany loans ensures the best possible application of any surplus cash at certain subsidiaries to meet the liquidity requirements at other group companies.

As of December 31, 2012, the Vossloh Group had cash and cash equivalents (including short-term securities) of a total €69.9 million. In addition, bilaterally committed, unutilized credit facilities of another €273.7 million were at Vossloh's disposal, including €173.5 million due within, and another €56.4 million due after, one year while an additional €43.8 million was committed with no maturity.

The two major long-term borrowings raised need not be refinanced before 2014 and 2016. The still conservative net debt level ensures that no financial or cash bottlenecks occur.

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

Price risks
Price risks arise from the possibility that the value of a financial instrument is changed by higher or lower market interest or exchange rates. With a view to benefiting for a long term from the low interest rates, the Group restructured its finances in 2004 by raising one ten-year and one twelve-year loan under a US private placement of a total $240.0 million (around €204 million). As part of its proactive risk management concept, Vossloh has fully hedged future principal and interest payments through interest rate and cross-currency swaps on a euro basis. For details, see the notes to the consolidated financial statements, starting from page 175 of the Group's annual report.

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

Default risks
Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to Vossloh. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies. As of December 31, 2012, cash investments and financial derivatives with a positive fair value were allocable at 6 percent to counterparties rated (according to Standard & Poor's) between AA+ and AA–, at 66 percent to those rated from A+ to A–, at 22 percent to counterparties rated BBB+ to BBB–, and at 6 percent to BB-rated or non-rated counterparties. In fiscal 2012, the rating of some banks was slightly downgraded. Moreover, risks are spread by distributing the Group's cash and other financial assets among a plurality of banks. No dependence on specific banks has existed or does exist.

Many of Vossloh's customers are government agencies, and the risk of their default is regarded as very low. Nonetheless, balances outstanding are throughout monitored and partly covered by credit insurance.

In export business, the risk of customer default is usually counteracted by using documentary credits.

On balance, the Vossloh Group’s net earnings were in 2012 not affected to any significant degree by financial risks.

Legal risks and rewards

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

In July 2012, the German Federal Cartel Office (FCO) in its first ruling imposed penalties on producers and suppliers of standard rails, heat-treated rails and switch blades, on account of anticompetitive agreements and collusion to the debit of Deutsche Bahn AG (German Rail). Among those concerned are the Vossloh subsidiaries Stahlberg Roensch GmbH, Seevetal, and Kihn SA, Luxembourg. By far most of the €13 million penalty imposed on the Vossloh subsidiaries is borne by the previous owners of Stahlberg Roensch. The Federal Cartel Office has announced that it will now redirect its probes to other areas including rails and switches supplied for regional and local users. In connection with the pending antitrust proceedings, certain customers have stated that they will claim damages. Wherever the enforcement of specific customer claims appears reasonably likely and the resulting loss can be reliably estimated, such potential damages are duly provided for.

Legal risks weighed on group earnings for 2012.

Other risks and rewards

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

None of these “other risks” influenced the Group’s earnings in 2012 to any substantial degree.

Overall assessment of the risk and reward situation

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

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

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

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

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

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

IT

For their separate financial statements, subsidiaries record accounting transactions locally by using presently still heterogeneous accounting software.
However, for the purposes of Vossloh AG's consolidated financial statements, all Vossloh companies complement their separate financial statements with additional information and disclosures which thus constitute standardized reporting packages. The subsidiaries included in the consolidation group then enter these into the Cognos Controller system for processing into the required consolidated format and providing additional management information.
A multiyear SAP project is currently being implemented within the Vossloh Group in order to roll out a standardized SAP system at all entities involved in accounting and reporting processes. The new software will enable centralized access to data and centrally triggered control routines. The SAP rollout has so far been completed for Vossloh AG and major companies of the Fastening Systems, Switch Systems, Electrical Systems and Rail Services business units.

Accounting-related risks

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

Major safeguards for a valid and reliable accounting system

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

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

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

The separate financial statements reported by the subsidiaries are then consolidated in several steps at the level of Vossloh AG after they have been adjusted to conform to groupwide accounting policies. The correct offset of intercompany receivables/payables, income/expenses and shareholdings as well as the proper elimination of profits from intragroup transfers are generally ensured by adopting peer review principles and running appropriate validation routines in check files.

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

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

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

Limitations

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

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

For the corporate governance report (which is an integral part of the combined management report) see page 40 of the Group's annual report. The annual report is also available long term on Vossloh AG's website at www.vossloh.com

Subsequent events

Dr.-Ing. Kay Mayland, Rösrath, former CEO of SMS Siemag AG, has been appointed a member of the Supervisory Board of Vossloh AG with effect as from January 9, 2013, the date at which the Iserlohn Local Court order was served on Vossloh AG. He succeeds Dr. Jürgen Blume who stepped down from the Board as of August 31, 2012.

As of January 18, 2013, Vossloh acquired a 100-percent stake in Brazil's rail switch manufacturer Metalúrgica Barros Monteiro Ltda. (MBM, "Barros Monteiro"). Headquartered in Sorocaba in the State of São Paulo, the acquiree makes switches, turnouts and their components as well as manganese frogs for switches and crossings. Barros Monteiro is among the three leading rail switch manufacturers in Brazil.

Global economic growth predicted to inch up

Studies anticipate ongoing upturn in rail technology market

For 2013, the Vossloh Group expects to raise sales between 5 and 10 percent

EBIT foreseen at level of 2012

Value added again expected to be positive

Prospects

This management report contains future-related statements based on estimates by management of future trends of the Vossloh Group. The *Prospects* chapter is predicated on statements and forecasts representing management's assessment of the as-is situation, and on all the information presently available. Taken into account have been, in particular, assumptions on future trends of the global economy and the international rail market, as well as the specific business expectations of Vossloh's business units. All these assumptions are subject to risks (and offer opportunities) not entirely within Vossloh's control. For greater details, reference is made to the *Risks and Rewards* chapter herein. If the assumptions underlying the statements and forecasts in the *Prospects* fail to, or the risks and/or rewards depicted do, materialize actual results may differ from current expectations. Vossloh does not assume any obligation to update its statements in this group management report outside statutory publication dates.

IMF's economic forecasts for 2013

Global economic growth likely to inch up

For 2013, the International Monetary Fund (IMF) expects a slight improvement in global economic growth, from 3.2 percent in 2012 to 3.5. This trend also applies to the eurozone and China, markets of particular relevance to Vossloh. Although Euroland is expected to once again report a decline, this time of 0.2 percent, it is anticipated to be less severe than the shrinkage of 0.4 percent in 2012. Germany, in contrast, is forecast to show a slightly weaker growth of 0.6 percent in 2013; this contrasts with the 0.9 percent in 2012. For China, the IMF is looking to a surge of 8.2 percent (up from 7.8 in 2012). According to the IMF, the US market, likewise of particular importance to Vossloh, will advance by 2.0 percent. Analogously to the situation in Germany, this is a slight weakening in growth rate compared with the 2.3 percent of 2012.

Global trading volumes are likewise predicted to rise more steeply in 2013 as a consequence of the general economic development. Following a growth of 2.8 percent in 2012, the IMF is looking to a hike of 3.8 percent in 2013. Trading volumes and the related demand for haulage services rank among the drivers in the rail technology market which may also benefit from the ongoing urbanization trend as well as the growing significance of ecological considerations when grappling with transport and traffic problems.

Rail Industry Association forecast for the rail technology market

UNIFE forecasts 2.6 percent annual growth up to 2015/2017

According to a study of the Association of the European Rail Industry (UNIFE), the rail technology market will continue to expand over the years ahead with an average annual growth rate of 2.6 percent. For the period 2015 to 2017, the total market volume is set to climb to an annual average of €170 billion. UNIFE estimates the actually accessible market at a total €124 billion. "Accessible" markets are those open to foreign suppliers and whose demand is not exclusively covered by domestic capacities. For the period 2009 to 2011, the total annual market volume had averaged €146 billion, of which €106 billion was considered accessible. A study by the SCI Verkehr consultants confirms the assessments made by the industry association. Say these consultants, the total market volume in 2016 will approximate €168 billion, based on a 2011 market volume of €143 billion. This then results in an annual growth rate of 3.3 percent.

Surging markets in South America, Middle East, and Africa

In some cases, the regional differences in expected growth rates are wide. According to UNIFE estimates, Asia/Pacific and Western Europe as well as the CIS nations will show a clear growth of around two percent in the period 2015 to 2017. Demand in the NAFTA countries and Eastern Europe is expected to be in line with the overall market for rail technology. Exceptionally high rates are predicted by UNIFE for South America, the Middle East, and Africa.

The European industry association subdivides the rail technology market into four segments: Infrastructure, Rolling Stock, Rail Control, and Services. Rolling Stock has the largest share of the accessible market (40 percent) followed by Services (28 percent), Infrastructure (21 percent), and finally Rail Control. With its Rail Infrastructure and Transportation divisions, Vossloh is primarily engaged in the Infrastructure and Rolling Stock segments.

The accessible market for Rolling Stock in the period 2009 to 2011 averaged €42 billion. The growth forecast is an annual 2.3 percent. For the period 2015 to 2017, this will lead to an average accessible market volume of €48 billion. According to the UNIFE study, the global accessible rail infrastructure market for the period 2009 to 2011 averaged €23 billion. The annual growth rate is expected to reach 2.3 percent. This results in an average market volume of €26 billion for 2015 to 2017. Regionally, growth rates vary very widely in both segments.

In Western Europe, the Rolling Stock segment is forecast to have an average growth rate of 3.0 percent. Increase will be especially pronounced in France and Great Britain. In Germany and because of the high contract awards in recent years, the pundits are predicting a decline. In the Infrastructure segment, an annual decrease of 0.5 percent is forecast. Here, too, market shrinkage is expected in Germany; France and Great Britain, in contrast, are likely to continue to expand.

Exceptionally high rates for Rolling Stock in Western Europe

According to the UNIFE study, the Asia/Pacific region will show a declining market for rolling stock. The market is expected to subside by an average 2.5 percent annually. China, especially, due to the already heavy expenditures on high-speed trains is likely to prune its outlays. For the Infrastructure market, in contrast, the experts are predicting a clear annual growth of 3.0 percent. Even though China again will report slacker demand, this will be more than offset by momentum in India, South Korea, Taiwan, and Indonesia.

Infrastructure market with better-than-average growth in Asia/Pacific

In the NAFTA countries, the Rolling Stock segment is forecast to show a steep rise in market volume of annually 4.5 percent, chiefly driven by surging demand in the United States. The reasons for this are more acute environmental awareness and high gasoline prices. In this region, the Infrastructure market is also expected to grow annually, by 1.0 percent.

The market volume for Rolling Stock among the CIS members will, according to the UNIFE study, mount by an annual average of 4.0 percent. This trend will be primarily propelled by Russia. In the Infrastructure market, the experts expect, analogously to Western Europe, a slight downturn in volume. The upswing in Russia will be outweighed by a collapse in the Ukraine market.

As to the Africa and Middle East region, South Africa will over the years ahead particularly contribute to an expansion in Rolling Stock volumes (rail vehicles). In Eastern Europe, the growth driver is Turkey; in South America, it is Brazil. In the Infrastructure segment, growth in the Africa and Middle East region will primarily be triggered by steep demand in the United Arab Emirates (UAE) and in Qatar. As to Eastern Europe, Poland and Turkey are likely to report a sharp upturn in demand. In the South American Infrastructure market, Brazil is the lead player.

Vossloh's outlook for 2013

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

The following table forecasts Vossloh's sales for 2013 from today's vantage point:

Vossloh Group: regional sales breakdown

€ million	2012	2013		
Germany	260.1	+10%	up to	+25%
France	138.6	+5%	up to	+10%
Other Western Europe	125.4	+10%	up to	+25%
Northern Europe	84.8	–5%	up to	+5%
Southern Europe	121.9	–10%	up to	–25%
Eastern Europe	70.2	–5%	up to	+5%
Total Europe	**801.0**	+10%	up to	+25%
Americas	125.5	+10%	up to	+25%
Asia	264.2	–5%	up to	–10%
Africa	18.3		over	+25%
Australia	34.0	+5%	up to	+10%
Total	**1,243.0**	+5%	up to	+10%

5 to 10 percent sales growth expected for 2013

From today's viewpoint, Vossloh is expecting for 2013 a sales growth ranging between 5 and 10 percent, thus clearly outpacing the overall rail technology market.

For 2013, Vossloh is budgeting sales to surge over 20 percent on account of the bulging order books, especially in the Transportation division (around two-thirds of sales in Germany). Major factors in this growth are the tram projects in Rostock, as well as the light rail vehicles ordered in Hannover and Karlsruhe, besides the locomotive contracts for German industry.

Surging sales in Germany

Sales in France in 2013 will mount marginally. Vossloh Switch Systems and Vossloh Fastening Systems are expecting higher sales thanks to the order for fitting out the French high-speed line between Tours and Bordeaux. From today's vantage point, sales by the Transportation Systems business unit will stay steady in France.

In other parts of Western Europe, Vossloh is looking to a steep sales rise in fiscal 2013, especially in Great Britain. At the start of 2012, an order was won for 15 UK*LIGHT* locomotives for this market. In the Electrical Systems business unit, the British company TPL Ltd. was acquired; there are also several British tram projects on the agenda. As to Northern Europe, sales are likely to stay stable.

Business in Britain blossoming

In Southern Europe, sales will continue downhill in 2013. This is, above all, due to slumping sales in Spain. In the Transportation Systems business unit, the Valencia location is making very good progress at branching out internationally in order to outweigh the plunging sales on the domestic market.

In Eastern Europe, Vossloh is also expecting business to remain steady in 2013. Despite higher sales expected from Russia, total revenue is likely to remain unchanged at the volume of 2012, especially as the Polish market is likely to suffer a significant shortfall. Besides the poorer sales in the Switch Systems business unit, project phaseouts are expected to also erode revenue for the Electrical Systems business unit.

Eastern Europe business subdued in 2013

From today's vantage point, the Americas will continue to report rising sales, driven by uptrends in switch business. Brazil is also predicted to register higher sales, with newly acquired Metalúrgica Barros Monteiro (MBM) in the Switch Systems business unit joining in.

Sales in China likely to rise

Business in Asia is generally expected to recede. Revenue hikes in China, both from rail fasteners and switches, will contrast with reduced sales by the Switch Systems business unit as a consequence of the phaseout of projects in Iraq and Malaysia.

A major share of African business comprises the switch contracts won in Morocco. In Australia, Vossloh is looking to mounting sales, especially by the Fastening Systems business unit.

Competition still fierce throughout the business units

Substantiating these sales forecasts for the Vossloh Group are the still towering order backlogs adding up to €1,548 million at the close of 2012. However, the rising attraction being radiated by the rail technology market is breeding more ferocious competition. All the Vossloh Group's business units are anticipating an ongoing price squeeze while the Group's Rail Services business unit reckons that demand for its rail welding work will stay frail in 2013.

EBIT expected at 2012 level

Notwithstanding the added sales, the Group's present forecasts for 2013 envisage an EBIT more or less unchanged from 2012. This will then lead to a further EBIT margin shrinkage to around 7 percent—despite recent action packages. As seen from today's viewpoint, major influencing factors for a 6–8 percent EBIT margin range will be further shipments of rail fasteners in China (Fastening Systems business unit) and the performance of major contracts as scheduled by the Transportation division.

Higher capital employed weighs on ROCE

Positive VA expected for 2013

From today's vantage point, capital employed is set to rise by another 10 percent: on the one hand, capital expenditures will continue to outnumber amortization and depreciation. On the other, average working capital, also forecast to grow by more than 10 percent, will contribute to this trend and swell in the wake of higher trade receivables thanks to the expected sales hike. Any increase in capital employed in combination with a virtually unchanged EBIT will further depress Vossloh's ROCE, which is predicted to inch down to about 10.5 percent in 2013 and probably remain within a bandwidth of 9 to 12 percent. Assuming WACC downscaled to 8.5 percent as from 2013, Vossloh's business is believed to add positive value.

Risks may emerge for Vossloh from the, in some cases, cyclic spending patterns of public and private customers in the individual markets. The compulsion to consolidate public-sector budgets in certain regions might impact more forcefully than anticipated on the rail technology markets. In past years, the business units were mostly able to offset fluctuations in individual regions by their global presence. In recent years, the Rail Infrastructure division has acquired businesses and set up locations to internationalize its presence; further such projects are planned. However, entering new markets not only offers opportunities but is also tied to incremental risks which may emerge, in particular, from political and social instability or legal uncertainties. Regarding other risks possibly impinging on medium-term plans, refer to the report on risks and rewards (starting page 57).

Vossloh AG forecast

The bottom line of Vossloh AG as a pure management and financial holding company is primarily affected by administrative expenses and the net financial result. General administrative expenses are forecast to show a shallow downturn in 2013, and so will the net financial result, given the high cash dividend distributed by Vossloh France SAS in 2012.

Focus on organic growth and judicious M&A

Organic growth will continue to be the focus of Vossloh's objectives in the years ahead, as will the search for judicious acquisitions which strategically complement the existing portfolio of shareholdings. This concerns possible expansion geographically as well as additional rail infrastructure and vehicle products and services. The aim of such M&A deals is firstly to optimize the Group's vertical production integration and secondly to open up additional growth opportunities. Sizable M&A transactions are intended to meaningfully supplement the Group’s core competencies in mobility and transport. Acquirees should always meet group requirements from the outset while adding value. Except for the newly acquired Brazilian company, the figures for fiscal 2013 refer to the envisaged organic growth alone.

Separate financial statements of Vossloh AG as of December 31, 2012

Income statement for the year ended December 31, 2012

€ million	2012	2011
Net sales	1.5	1.3
Cost of sales	(1.8)	(1.2)
Gross margin	**(0.3)**	**0.1**
General administrative expenses	(23.3)	(23.2)
Other operating income	8.9	10.1
Other operating expenses	(1.0)	(0.9)
Operating result	**(15.7)**	**(13.9)**
Income from investments	50.0	20.0
thereof from subsidiaries: €50.0 million (up from €20.0 million)		
Income from P&L transfer agreements	19.1	55.0
thereof from subsidiaries: €19.1 million (down from €55.0 million)		
Income from other long-term securities/loans	1.1	0.4
thereof from subsidiaries: €0.8 million (up from €0.1 million)		
Other interest and similar income	8.3	8.1
thereof from subsidiaries: €7.6 million (down from €7.9 million)		
Write-down of financial assets and short-term securities	(0.1)	(0.1)
Expenses for loss absorption	(5.3)	(9.8)
thereof for subsidiaries: €5.3 million (down from €9.8 million)		
Interest and similar expenses	(15.1)	(15.0)
thereof to subsidiaries: €1.1 million (down from €2.0 million)		
Net financial result	**58.0**	**58.6**
Result from ordinary operations (EBT)	**42.3**	**44.7**
Income taxes	(1.1)	(0.6)
Net income	**41.2**	**44.1**

Balance sheet

Assets in € million	12/31/2012	12/31/2011
Purchased franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	0.4	0.3
Total intangible assets	**0.4**	**0.3**
Land, equivalents titles, and buildings (including on leased land)	10.1	8.9
Sundry plant, business and office equipment	0.5	0.4
Prepayments on tangibles, construction in progress	0.0	0.0
Total tangible assets	**10.6**	**9.3**
Shares in subsidiaries	497.0	497.0
Loans to subsidiaries	33.1	1.7
Other investments	0.1	0.1
Other long-term securities	0.1	0.1
Other long-term loans	0.0	0.0
Total financial assets	**530.3**	**498.9**
Total fixed assets	**541.3**	**508.5**
Trade receivables	0.6	0.0
Due from subsidiaries	247.8	265.5
Due from investees	1.0	0.0
Sundry assets	5.0	5.6
Total receivables and sundry assets	**254.4**	**271.1**
Cash on hand and in bank	0.0	15.0
Total current assets	**254.4**	**286.1**
Prepaid expenses and deferred charges	**0.1**	**0.1**
	795.8	**794.7**

Stockholders' equity & liabilities in € million	12/31/2012	12/31/2011
Capital stock issued	37.8	37.8
less treasury shares at notional par	(3.8)	(3.8)
Capital stock issued and outstanding	34.0	34.0
Additional paid-in capital	37.6	37.6
Reserves retained from earnings		
Net earnings	61.1	49.9
Total stockholders' equity	**315.6**	**303.9**
Accruals for pensions and similar obligations	6.7	5.8
Tax accruals	–	0.2
Other accruals	10.4	11.2
Total accruals	**17.1**	**17.2**
Due to banks	40.6	95.0
Trade payables	0.8	2.2
Due to subsidiaries	217.2	171.7
Due to investees	–	0.0
Sundry liabilities	204.5	204.7
thereof for taxes: €0.4 million (virtually unchanged)		
Total liabilities	**463.1**	**473.6**
	795.8	**794.7**

Fixed-asset analysis

€ million	Cost					Accumulated amortization/ depreciation/write-down				Book values	
	Balance at 1/1/2012	Additions	Disposals	Book transfers	Balance at 12/31/2012	Balance at 12/31/2012	Additions	Disposals	Write-up	Balance at 12/31/2012	Balance at 12/31/2011
Intangible assets											
Purchased franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	8.2	0.4	(0.0)	–	8.6	8.2	0.3	(0.0)	–	0.4	0.3
	8.2	**0.4**	**(0.0)**	**–**	**8.6**	**8.2**	**0.3**	**(0.0)**	**–**	**0.4**	**0.3**
Tangible assets											
Land, equivalent titles, and buildings (incl. on leased land)	17.0	2.2	(1.9)	0.0	17.3	7.2	0.4	(1.4)	–	10.1	8.9
Sundry plant, business and office equipment	1.3	0.2	(0.1)	–	1.4	0.9	0.1	(0.1)	–	0.5	0.4
Prepayments on tangibles, construction in progress	0.0	0.0	–	0.0	0.0	0.0	–	–	–	0.0	0.0
	18.3	**2.4**	**(2.0)**	**0.0**	**18.7**	**8.1**	**0.5**	**(1.5)**	**–**	**10.6**	**9.3**
Financial assets											
Shares in subsidiaries	515.5	0.1	(0.1)	–	515.5	18.5	–	–	–	497.0	497.0
Loans to subsidiaries	1.7	33.1	(1.7)	–	33.1		–	–	–	33.1	1.7
Other investments	0.1	–	–	–	0.1		–	–	–	0.1	0.1
Other long-term securities	0.1	–	–	–	0.1	0.0	–	–	–	0.1	0.1
Other long-term loans	6.3	0.1	(0.0)	–	6.4	6.4	0.1	–	0.0	0.0	0.0
	523.7	**33.3**	**(1.8)**	**–**	**555.2**	**24.9**	**0.1**	**–**	**0.0**	**530.3**	**498.9**
Total	**550.2**	**36.1**	**(3.8)**	**0.0**	**582.5**	**41.2**	**0.9**	**(1.5)**	**0.0**	**541.3**	**508.5**

Notes

The separate annual financial statements of Vossloh AG for the fiscal year ended December 31, 2012, were prepared in accordance with German GAAP, i.e., the provisions of the German Commercial Code ("HGB") and the German Stock Corporation Act (“AktG”).

Accounting and valuation principles

Accounting and valuation are governed by the following principles:
Purchased intangible assets, as well as tangible assets are carried at cost, if finite-lived less amortization or depreciation according to the declining-balance or straight-line method. Finite-lived fixed assets added on or after January 1, 2001, are depreciated on a straight-line basis only. Fixed assets are written down to any lower current value wherever so required. Intangible assets are amortized over their useful lives of 1 to 5 years, the depreciation range of buildings extends from 5 to 50 years, that of business and office equipment from 1 to 20 years. Financial assets are recognized at cost or any lower current value.

Receivables and sundry assets as well as cash on hand and in bank are shown at par or principal, or at the lower of cost or market. The corporation income tax credit distributable in the period from 2012 to 2017 was discounted at 4 percent annually and shown at present value.

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

Taxes are deferred for (i) the differences between book values and tax bases of assets, liabilities and prepaid expenses/deferred charges wherever future tax credits or burdens arise from such differences, and (ii) loss and interest carryforwards whose offset is expected within the succeeding five years. In the balance sheet, deferred tax assets/liabilities are netted, only the net balance being recognized. The differences between book values and tax bases of pension accruals and other accruals, as well as the loss and interest carryforwards produce, when applying a tax rate of 30 percent, net deferred tax assets. However, exercising the option of Art. 274(1) Clause 2 HGB, Vossloh AG does not capitalize any (net) deferred tax assets.

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

The projected unit credit (PUC) method has been used to accrue pensions and similar obligations, based on the 2005G mortality tables of Prof. Dr. Klaus Heubeck and an imputed discount rate of 5.06 percent. This rate—which was published by Deutsche Bundesbank for obligations with an average 15 years to maturity—was applied in due accordance with German Accruals Discounting Regulations. Further actuarial parameters entering into consideration for pension accruals included a pay rise of 3 percent, an expected pension increase of 2 percent, and an average employee turnover rate of 6 percent.

So-called plan assets (assets beyond the reach of any creditors and earmarked exclusively for the settlement of pension obligations) are stated at fair value and netted against such obligations. Pension accruals were thus reduced by €11.5 million (up from €11.4 million).

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

Further risks or obligations to personnel (such as for annual leave outstanding) are accrued in line with financial-accounting policies.

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

Liabilities are stated at their settlement amounts.

Financial derivatives (mainly cross-currency swaps) are solely used for hedging purposes and, where the hedge accounting criteria are met, combined with the underlying into one valuation unit. To the extent that the hedge formed by the valuation unit is effective, the mutually balancing changes in the values of derivative and underlying are not recognized since in these cases, the result from the currency hedge contracted is recognized at maturity or due date only.

To the extent that a hedge is ineffective, the total remaining loss is directly recognized in the income statement while any gain is never.

Notes to the balance sheet

Fixed assets

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

The additions to land and buildings refer to the new furnace shop in Werdohl.

The total of shares in subsidiaries rose with respect to Vossloh Track Systems GmbH as the shareholder resolution of December 19, 2012, required a transfer to the subsidiary’s additional paid-in capital.

The loans to subsidiaries increased basically as loans were granted to Vossloh US Holding Inc. (at €15.5 million), Cleveland Track Material, Inc. (at €12.7 million), and Vossloh Rail Technologies Ltd. Şti. (at €4.8 million).

Within financial assets, write-down of k€85 was charged to the other long-term loans; write-up was credited at k€12.

List of shareholdings

€ million		Footnote	Shareholding in %	through ( )	Consolidation[1]	Equity[2]	Net income/(loss)[2]
(1)	**Vossloh AG, Werdohl**				(c)	315.9	42.8
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(c)	23.2	0.0
(3)	Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	(c)	19.0	(0.6)
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(c)	8.7	2.5
(5)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(c)	(7.3)	(0.1)
	Rail Infrastructure division						
(6)	Vossloh France SAS, Paris, France		100.00	(1)	(c)	194.9	13.6
	Fastening Systems business unit						
(7)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(c)	4.1	0.2
(8)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(7)	(c)	5.4	0.0
(9)	Vossloh Werdohl GmbH, Werdohl	3	100.00	(7)	(c)	5.9	0.1
(10)	Vossloh Tehnică Feroviară SRL, Bucharest, Romania	4	100.00	(7)	(u)	0.1	0.0
(11)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100.00	(7)	(u)	1.3	0.1
(12)	Vossloh Sistemi Srl, Sarsina, Italy		100.00	(7)	(c)	5.4	0.3
(13)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4,6	51.00	(7)	(u)	0.1	0.1
(14)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	(e)	0.6	0.5
(15)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	(u)	0.0	0.0
(16)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl	4	100.00	(7)	(u)	1.4	0.1
(17)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	(c)	6.7	3.3
(18)	Vossloh Rail Technologies Ltd. Şti., Istanbul, Turkey		99.5/0.50	(7/8)	(c)	6.4	0.5
(19)	Feder-7 Kft., Székesféheryár, Hungary	4	96.67/3.33	(7/8)	(u)	0.4	0.1
(20)	Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(7)	(c)	2.1	1.0
(21)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	(c)	24.6	12.9
(22)	Vossloh-Werke International GmbH, Werdohl		100.00	(7)	(c)	10.8	0.1
(23)	Beijing China Railways Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	(u)	1.4	0.4
(24)	Vossloh Fastening Systems Southern Africa Pty. Ltd., Johannesburg, South Africa	4,7	100.00	(99)	(u)	0.0	0.0
	Switch Systems business unit						
(25)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	(c)	123.4	15.8
(26)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(25)	(c)	2.8	0.3
(27)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(28)	(c)	1.6	0.7
(28)	Vossloh Nordic Switch Systems AB, Örebro, Sweden		100.00	(25)	(c)	16.1	6.0
(29)	KIHN SA, Rumelange, Luxembourg		89.21	(25)	(c)	11.0	0.8
(30)	DDL SA, Rodange, Luxembourg		100.00	(29)	(c)	0.1	0.0
(31)	Vossloh Laeis GmbH, Trier		100.00	(29)	(c)	1.3	(1.2)
(32)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(25)	(c)	2.2	0.2
(33)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(25)	(p)	30.5	0.9
(34)	Montajes Ferroviarios srl, Amurrio, Spain	4	100.00	(33)	(u)	0.5	0.0
(35)	Burbiola SA, Amurrio, Spain		50.00	(33)	(u)	1.2	(0.2)
(36)	VTS Track Technology Ltd., Scunthorpe, UK		100.00	(25)	(c)	9.0	1.2
(37)	Vossloh Cogifer Italia Srl, Pomezia, Italy		100.00	(25)	(c)	0.2	(0.6)
(38)	Cogifer Polska Sp. z o.o., Bydgoszcz, Poland		92.90	(25)	(c)	14.0	1.8
(39)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(25)	(c)	1.3	0.1
(40)	Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(25)	(c)	1.6	1.3
(41)	Cogifer Americas, Inc., Cincinnati, USA	4	100.00	(25)	(u)	0.0	0.0
(42)	Siema Applications SAS, Villeurbanne, France		100.00	(25)	(c)	3.2	0.6
(43)	Vossloh Min Skretnice AD, Niš, Serbia		100.00	(25)	(c)	2.8	0.2
(44)	J.S. Industries Pvt. Ltd., Secunderabad, India	4,6	100.00	(25)	(u)	0.9	0.1
(45)	Vossloh Beekay Castings Ltd., Bhilai, India	6	60.00	(25)	(c)	7.2	1.0
(46)	Dakshin Transtek Pvt. Ltd., Bangalore, India	4,6	100.00	(44)	(u)	–0.1	0.0
(47)	Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(c)	13.9	1.1
(48)	Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	(c)	13.8	0.5
(49)	Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(c)	11.5	2.3
(50)	Vossloh Sportek A/S, Århus, Denmark		100.00	(28)	(c)	0.4	0.0
(51)	Vossloh Cogifer Kloos BV, Rotterdam, Netherlands		100.00	(25)	(c)	4.7	1.0
(52)	Global Rail Systems, Inc., Marlin, USA		84.20	(3)	(c)	4.2	0.1
(53)	Vossloh France International SAS, Rueil-Malmaison, France	4	100.00	(6)	(u)	0.0	0.1
(54)	Wuhu China Railway Cogifer Track Co., Huo Long Gang Town, China		50.00	(25)	(p)	18.9	(2.5)
(55)	'J' Rail Components & Manufacturing, Inc., Grass Valley, USA		100.00	(3)	(c)	1.2	(0.3)
(56)	Vossloh Signaling USA Inc., Cleveland, USA	5	100.00	(3)	(c)	0.0	0.0
(57)	Vossloh Cogifer Argentina SA, Buenos Aires, Argentina	4	90.00/10.00	(25/26)	(u)	0.1	(0.1)
(58)	ADIF SE – Vossloh Cogifer Argentina SA Consorcio de Cooperación, Buenos Aires, Argentina	4	51.00	(57)	(u)	0.5	0.0
(59)	Vossloh Cogifer SP Technologies BV, Amsterdam, Netherlands	4	50.00	(25)	(u)	0.0	0.0
(60)	Vossloh Cogifer Southern Africa Pty. Ltd., Johannesburg, South Africa	4,7	100.00	(99)	(u)	0.0	0.0

€ million		Footnote	Shareholding in %	through ( )	Consolida-tion[1]	Equity[2]	Net income/(loss)[2]
	Rail Services business unit						
(61)	Vossloh Rail Services GmbH, Seevetal	3	100.00	(1)	(c)	22.8	0.0
(62)	Stahlberg Roensch GmbH, Seevetal	3	100.00	(61)	(c)	21.8	0.1
(63)	Vossloh Rail Center Nürnberg GmbH, Nürnberg	3	100.00	(62)	(c)	0.7	(0.7)
(64)	Vossloh Rail Center Bützow GmbH, Bützow	3	100.00	(62)	(c)	0.3	(0.9)
(65)	Vossloh Rail Center Leipzig GmbH, Seevetal	3	100.00	(62)	(c)	1.2	0.0
(66)	GTS Gesellschaft für Gleistechnik Süd mbH, Seevetal	3	100.00	(62)	(c)	0.1	0.0
(67)	Vossloh Rail Center Hamburg GmbH, Hamburg	3	100.00	(62)	(c)	0.9	0.0
(68)	Alpha Rail Team GmbH & Co. KG, Berlin		50.00	(62)	(p)	8.0	3.2
(69)	Alpha Rail Team Verwaltungs GmbH, Berlin		50.00	(62)	(u)	0.0	0.0
(70)	LOG Logistikgesellschaft Gleisbau mbH, Hannover	3	100.00	(61)	(c)	5.3	(1.3)
(71)	Vossloh Ray Hizmetleri Limited Şirketi, Istanbul, Turkey		99.5/0.5	(62/61)	(c)	0.0	0.0
(72)	Vossloh High Speed Grinding GmbH, Seevetal	3	100.00	(61)	(c)	(0.7)	(0.2)
(73)	Vossloh Mobile Rail Services GmbH, Seevetal	3	100.00	(62)	(c)	0.8	0.4
(74)	Vossloh Rail Services International GmbH, Seevetal	5	100.00	(61)	(c)	0.1	0.0
(75)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(74)	(e)	(0.2)	(0.3)
(76)	Vossloh Rail Services Scandinavia AB, Helsingborg, Sweden	5	100.00	(74)	(c)	0.0	0.0
(77)	Vossloh Rail Services North America Corporation, Dover, USA	5	100.00	(3)	(u)	0.0	0.0
	Transportation division						
	Transportation Systems business unit						
(78)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(c)	50.5	0.9
(79)	Locomotion Service GmbH, Kiel	3	100.00	(78)	(c)	0.2	0.0
(80)	Vossloh España SA, Valencia, Spain		100.00	(1)	(c)	112.3	13.7
(81)	Erion Mantenimiento Ferroviario SA, Madrid, Spain		51.00	(80)	(c)	1.7	0.8
(82)	Vossloh Locomotives France SAS, Antony, France		100.00	(78)	(c)	0.1	0.2
(83)	Erion France SA, Arc-lès-Gray, France	5	100.00	(81)	(c)	0.2	0.0
	Electrical Systems business unit						
(84)	Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(c)	56.5	(0.7)
(85)	Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(84)	(c)	1.0	(0.4)
(86)	Vossloh Kiepe Ges.mbH, Vienna, Austria		100.00	(85)	(c)	19.7	3.0
(87)	Vossloh Kiepe Corporation, Vancouver, Canada	4	100.00	(85)	(u)	0.7	0.2
(88)	Vossloh Kiepe Srl, Cernusco sul Naviglio, Italy	4	100.00	(85)	(u)	0.1	0.0
(89)	Vossloh Kiepe Sp. z o.o., Kraków, Poland	4	99.00/1.00	(84/85)	(u)	0.0	0.0
(90)	Vossloh Kiepe Main Line Technology GmbH, Düsseldorf	3	100.00	(85)	(c)	4.1	1.1
(91)	APS electronic AG, Niederbuchsiten, Switzerland		100.00	(85)	(c)	1.5	0.1
(92)	Vossloh Kiepe Inc., Alpharetta, USA	4	100.00	(3)	(u)	(1.0)	(0.2)
(93)	Vossloh Kiepe Limited, Birmingham, UK	5	100.00	(85)	(c)	0.8	0.3
(94)	Vossloh Kiepe UK Limited, Birmingham, UK	5	100.00	(93)	(c)	3.4	(0.3)
(95)	Vossloh Kiepe Southern Africa Pty. Ltd., Johannesburg, South Africa	4,7	100.00	(99)	(u)	0.0	0.0
(96)	Heiterblick Projektgesellschaft mbH, Leipzig		49.00	(85)	(u)	0.0	0.0
	Other companies						
(97)	Vossloh-Schwabe Australia Pty. Ltd., Sydney, Australia	4	100.00	(4)	(u)	1.1	0.0
(98)	Vossloh Track Systems GmbH, Werdohl	4	100.00	(1)	(u)	0.0	(0.1)
(99)	Vossloh Southern Africa Holdings Pty. Ltd., Johannesburg, South Africa	4,7	100.00	(98)	(u)	0.2	0.0
(100)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia	4	99.00/1.00	(98/5)	(u)	0.3	0.0
(101)	Vossloh Middle East Business Rail LLC, Abu Dhabi, UAE		49.00	(98)	(u)	0.0	0.0
(102)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl	4	100.00	(1)	(u)	0.0	0.0
(103)	Vossloh Dritte Beteiligungs-Aktiengesellschaft, Düsseldorf	4	100.00	(102)	(u)	0.0	0.0

[1]Fully consolidated companies are labeled (c), those included at equity (e), ventures consolidated pro rata (p), and unconsolidated companies (u).
[2]The mean current rate or the annual average rate has been used to translate foreign-currency equity and net income/(loss), respectively.
[3]Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.
[4]Not included in the consolidation group for lack of materiality to the asset and capital structure, financial position, and results of operations
[5]Newly consolidated in 2012
[6]Fiscal year from April 1 to March 31
[7]Fiscal year from March 1 to February 28

Receivables and sundry assets

Except for k€267, all receivables and sundry assets fall due within one year. The accounts due from subsidiaries are nontrade receivables only.

Stockholders' equity

Capital stock

Vossloh AG's capital stock of an unchanged €37,825,168.86 is divided into 13,325,290 (unchanged) no-par bearer shares of common stock only. One no-par share represents a notional interest of €2.84 in the capital stock.

Treasury stock

The treasury stock was repurchased in prior years by virtue of previous AGM authorizations according to Art. 71(1) No. 8 AktG.

At December 31, 2012, altogether 1,326,721 treasury shares were held by Vossloh AG (down from 1,332,529), equivalent to a stake of 9.96 percent (down from 10) in the capital stock, after 5,808 no-par shares had been appropriated to the employee bonus program.

The treasury stock represents a notional stake of €3,766,030.27 in the capital stock (down from €3,782,516.86); the remaining acquisition cost is offset against the reserves retained from earnings.

The treasury stock does not entitle Vossloh AG to any rights (to dividends or otherwise) or interests.

Stock repurchase

	Shares purchased	Total price (€)*	Capital stock (€)	Capital stock (shares)	% of capital stock
July 2011	11,690	1,025,563.96	37,825,168.86	13,325,290	0.09
August 2011	222,725	17,861,660.50	37,825,168.86	13,325,290	1.67
September 2011	187,431	15,225,554.33	37,825,168.86	13,325,290	1.41
October 2011	536,786	39,368,948.29	37,825,168.86	13,325,290	4.03
November 2011	350,473	25,672,731.54	37,825,168.86	13,325,290	2.63
December 2011	23,424	1,793,815.01	37,825,168.86	13,325,290	0.18
As of Dec. 31, 2011	**1,332,529**	**100,948,273.63**	**37,825,168.86**	**13,325,290**	**10.00**
November 2012	(5,808)	(440,014.08)	37,825,168.86	13,325,290	(0.04)
As of Dec. 31, 2012	**1,326,721**	**100,508,259.55**	**37,825,168.86**	**13,325,290**	**9.96**

*Excl. bank commissions

The AGM of May 20, 2009, authorized new capital of €7,500,000; the authority expires May 19, 2014.

Authorized capital

The contingent capital—totaling €12,586,846.49 as of December 31, 2012—breaks down as follows:

Contingent capital

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

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

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

The Company's capital has been conditionally raised by an aggregate €3,782,500 by issuing up to 1,479,585 no-par bearer shares of stock in order to grant new no-par bearer shares to the holders or creditors of such convertible bonds, warrant bonds, participating rights and/or income bonds (or any combination of such instruments) as are issued or floated by dint of the authority conferred by the AGM of May 19, 2010, according to Agenda Item 8. The new no-par bearer shares will be issued at a conversion or option price to be determined in accordance with the aforesaid AGM resolution. The conditional capital increase shall be implemented only to the extent that (i) conversion rights or equity warrant options are exercised, (ii) the bondholders, warrant owners or creditors subject to a conversion obligation actually meet their conversion obligations, (iii) no cash compensation is paid in lieu, or (iv) treasury shares or new shares issued by utilizing authorized capital are used. The newly issued no-par bearer shares rank for dividend as from the beginning of the fiscal year in which they are created by conversion or option exercise or by fulfillment of conversion obligations. The authority will expire May 18, 2015.

Additional paid-in capital

This equity reserve includes the premiums from issuing Vossloh AG stock.

Reserves retained from earnings

The reserves retained from earnings totaled €182,852,640.06 as of December 31, 2012 (up from €182,429,112.57), net after offset of the €96,742,230.11 premium (down from €97,165,757.60), i.e., the net cost (excluding incidentals) of the treasury stock above notional par.

Accruals

As of December 31, 2012, the amount required to settle pension obligations came to k€18,218 (up from k€17,191), the fair value of plan assets offset against this settlement amount being k€11,523 (up from k€11,411).

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

In the income statement, expenses of k€987 (up from k€303) were netted against income of k€76 (down from k€83).

The other accruals of k€10,384 (down from k€11,162) include k€2,466 for personnel (up from k€2,117) and k€7,918 for sundry administrative purposes (down from k€9,045).

Liabilities (above-the-line and contingent)

k€259,246 of the liabilities recognized in the balance sheet falls due within one year (down from k€269,711), another k€203,908 after one but within five years (virtually unchanged). The noncurrent liabilities (due >1 year) are all *sundry liabilities*. The accounts due to subsidiaries are throughout nontrade.

The contingent liabilities under suretyships and guaranties of k€682,179 (up from k€613,396) were incurred at k€680,339 for obligations of subsidiaries (up from k€611,385).

The limited-amount guaranties in favor of subsidiaries total k€910,255. Twenty-six guaranties do not have a stipulated ceiling.

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

The other financial obligations (exclusively to third parties) total k€431 (down from k€446) and break down into k€232 falling due within one (up from k€220) and another k€199 between one and five years (down from k€226).

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

Notes to the income statement

The income statement is presented according to the cost-of-sales format in accordance with Art. 275(3) HGB.

k€1,540 million (up from k€1,344) of net sales, generated in 2012 solely in Germany, basically referred to rental income, including k€1,198 charged to subsidiaries (up from k€1,005).

The functional expenses break down into cost of sales and general administrative expenses. Cost of sales mainly includes amortization, depreciation, and M&R expenses.

Vossloh AG's personnel expenses are shown within general administrative expenses.

In the year under review, personnel expenses totaled k€8,174 (up from k€7,163), of which k€7,109 (up from k€6,596) is allocable to wages and salaries, another k€1,065 (up from k€567) to Social Security, pension expense and related employee benefits, pension expense alone accounting for k€610 (up from k€66). The k€965 interest portion (up from k€853) in the addition to pension accruals was recognized as interest and similar expenses.

In addition, general administrative expenses cover expenses for legal and management consultancy, as well as for trade fairs and exhibitions.

The other operating income came to k€8,854 (down from k€10,107) and mainly resulted from apportioned taxes of k€4,130 (down from k€6,502) and allocated marketing fees of k€2,629 and IT costs of k€1,269 (up from k€1,591 and k€1,222, respectively). Moreover, financial assets were written up at k€12 (virtually unchanged).

The other operating expenses of k€992 (up from k€876) basically comprised forex losses of k€827 (up from k€693).

The net financial result includes write-down of k€85 charged to other long-term loans (up from k€83).

The net interest expense includes income of k€589 (up from k€0) from discounting, and expenses of k€181 (up from k€0) from adding back interest to, *other accruals*.

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

Other disclosures

In fiscal 2012, Vossloh AG employed an average white-collar workforce of 46 (up from 45).

The employee bonus program 2012 (on terms unchanged versus 2011) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares free or eight shares at a discount of 50 percent of the issue price of €74.19 per share (up from €68.23), determined at market as of the share transfer date. Under this program, Vossloh employees were granted in 2012 altogether 3,392 free shares (up from 3,286) at an expense to the Company of k€257.0 (up from k€249.3).

Remuneration of Executive Board members for 2012 totaled k€2,086, including k€806 of fixed and k€1,243 of variable compensation plus k€38 payments in kind (PIK). Former Executive Board members received a total k€643 in 2012. k€11,900 was accrued for the pension obligations to former Executive and Management Board members and their surviving dependants; this amount includes employer pension liability insurance policies totaling k€11,523 pledged in each beneficiary’s favor, the balance being covered by accruals.

Total Supervisory Board fees for 2012 came to k€452, including fixed and variable components of k€213 and k€239, respectively.

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

Financial derivatives and hedge accounting

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

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

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

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

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

Financial derivatives

€ million	2012		2011	
	Market value	Notional volume	Market value	Notional volume
Currency hedges				
Cross-currency swaps	(23.8)	203.9	(20.3)	203.9
Currency forwards	0.2	93.9	(5.3)	119.9
	(23.6)	**297.8**	**(25.6)**	**323.8**

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

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

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

Currency risk hedge accounting

Where the criteria are met, hedge accounting is used for financial derivatives by combining the derivative with the underlying into one valuation unit. Where not, negative market values are accrued while positive market values are not capitalized at all. In 2012, all financial derivatives were combined as hedging instruments with the related underlyings to form microhedges whose future effectiveness is assessed in terms of matching maturities and volumes, i.e., on the basis of a critical term match.

The cross-currency swaps contracted by Vossloh AG at matching maturities and amounts to hedge its forex obligations from the USPP of $240.0 million represent a valuation unit together with the related debts and, therefore, they are recognized according to hedge accounting rules. At December 31, 2012, the hedged sum of €203.9 million exceeded the current value of €182.0 million at the closing rate by €21.9 million. The hedged future interest expense of €25.5 million was €0.2 million above the current value at the closing rate.

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

Underlyings include firmly contracted purchase orders or shipments at fixed dates, as well as currency loans. The contracted cash flow is hedged by buying or selling forex forwards, thus also closing the currency positions of subsidiaries for the latter's account. As of December 31, 2012, positions in UAE dirhem (AED), Australian dollar (AUD), Swiss franc (CHF), Czech koruna (CZK), Swedish krona (SEK), and US dollar (USD) were hedged.

Declaration of conformity

In December 2012, the Executive and Supervisory Boards issued, and made available long term to the stockholders on the Company's website, the declaration of conformity as required by Art. 161 AktG.

Notifications acc. to Sec. 21 WpHG

The German Securities Trading Act ("WpHG") obligates investors whose voting interests in listed corporations cross certain thresholds to notify the issuer accordingly. Vossloh AG received the following voting-interest notifications in 2012 under the terms of Sec. 21 WpHG:

Notifying party	Date (notification)	Date (change)	Threshold	New voting interest		thereof attributable	
				in %	shares	in %	shares
Mr. Heinz Hermann Thiele, Germany	7/12/2012	7/11/2012	crossed above 20%	20.22	2,694,588	14.61	1,947,431
KB Holding GmbH, Grünwald, Germany	7/12/2012	7/12/2012	crossed above 15%	15.01	2,000,431		
Stella Vermögensverwaltungs GmbH, Grünwald, Germany	7/12/2012	7/12/2012	crossed above 15%	15.01	2,000,431	15.01	2,000,431
Mr. Heinz Hermann Thiele, Germany	10/29/2012	10/25/2012	crossed above 25%	25.14	3,349,888	19.53	2,602,731
KB Holding GmbH, Grünwald, Germany	11/21/2012	11/19/2012	crossed above 25%	25.14	3,349,888		
Stella Vermögensverwaltungs GmbH, Grünwald, Germany	11/21/2012	11/19/2012	crossed above 25%	25.14	3,349,888	25.14	3,349,888

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

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

In the context of the voting-interest notifications of July 11 and 12, 2012, pursuant to Sec. 27a(1) WpHG, Mr. Heinz Hermann Thiele and KB Holding GmbH informed us as follows:

"(I) Acquisition purposes:

(1) With their stakes, the notifying parties aim at a long-term strategic investment in Vossloh AG.

(2) Within the 12 months ahead, the notifying parties intend to purchase or otherwise acquire further voting interests in Vossloh AG.

(3) For the time being, the notifying parties do not seek to exert any influence on the staffing of the Company's executive, management or supervisory boards.

(4) The notifying parties do not aspire to any significant change in the Company's capital structure, particularly regarding the Company's leverage (debt-equity ratio) and dividend policy.

(II.) The acquisition of the voting interests was exclusively funded through internal resources."

On August 13, 2012, the aforesaid notifying parties informed us as follows:

"The notifying parties have reconsidered their then indicated purposes under the terms of Sec. 27a(1) Clause 1 in conjunction with Clause 3 WpHG and now aim to influence the issuer's executive, management and/or supervisory board membership, the remaining purposes then stated remaining unchanged."

By letter dated October 29, 2012, Mr. Heinz Hermann Thiele informed Vossloh AG in connection with the voting-interest change of October 25, 2012, pursuant to Sec. 27a(1) WpHG as follows:

"(I) Acquisition purposes:
- (1) With his stake, the notifying party aims at a long-term strategic investment in Vossloh AG.
- (2) Within the 12 months ahead, the notifying party intends to purchase or otherwise acquire further voting interests in Vossloh AG.
- (3) The notifying party seeks to exert influence on the staffing of the issuer's executive, management and/or supervisory boards.
- (4) At present, the notifying party does not aspire to any significant change in the issuer's capital structure, particularly regarding leverage (debt-equity ratio) and dividend policy.

(II) The acquisition of the voting interests was exclusively funded through internal resources."

By letter dated November 21, 2012, KB Holding GmbH and Stella Vermögens-verwaltungs GmbH informed us in connection with the voting-interest change of November 19, 2012, pursuant to Sec. 27a(1) WpHG as follows:

"(I) Acquisition purposes:
- (1) With their stake, the notifying parties aim at a long-term strategic investment in Vossloh AG.
- (2) Within the 12 months ahead, the notifying parties intend to purchase or otherwise acquire further voting interests in Vossloh AG.

(3) The notifying parties seek to exert influence on the staffing of the issuer's executive, management and/or supervisory boards.
(4) At present, the notifying parties do not aspire to any significant change in the issuer's capital structure, particularly regarding leverage (debt-equity ratio) and dividend policy.

(II) The acquisition of the voting interests was exclusively funded through internal resources."

Familiengemeinschaft Vossloh GbR ("Vossloh Family Pool"), Werdohl, Germany, notified us on February 15, 2012, in a portfolio update of its voting-interest notification dated November 22, 2011, that its voting interest totaled 32.31 percent.

Vossloh Family Pool members sent us in 2012 the following notifications:

Notifying party	Date (notification)	Date (change)	Threshold	New voting interest	
				in %	absolute
Ms. Damaris Seidel, Germany	3/05/2012	1/19/2012	crossed below 3%	0.00	0
Heidrun Bohn GbR, Osnabrück, Germany	5/22/2012	5/22/2012	crossed below 3%	0.00	0
Ms. Petra Berning, Germany	5/22/2012	5/18/2012	crossed below 3%	0.00	0
Ms. Anita Botzen, Germany	7/31/2012	7/27/2012	crossed below 3%	0.00	0
VVB Berning GmbH & Co. KG, Schwelm, Germany	10/08/2012	9/14/2012	crossed below 3%	0.00	0
VVB Verwaltungs GmbH, Schwelm, Germany	10/08/2012	9/14/2012	crossed below 3%	0.00	0
Berning GmbH & Co. OHG, Wuppertal, Germany	12/20/2012	12/17/2012	crossed below 3%	0.00	0
Berning Verwaltungs-GmbH, Wuppertal, Germany	12/20/2012	12/17/2012	crossed below 3%	0.00	0
Etox GmbH, Wuppertal, Germany	12/20/2012	12/17/2012	crossed below 3%	0.00	0

On February 15, 2012, Mr. Burkhard Schuchmann sent us a portfolio update under the terms of Sec. 41(2) Clause 1 in conjunction with Sec. 22(2) WpHG to the effect that as of April 1, 2002, Mr. Schuchmann was entitled to 45.29 percent of the voting interest in Vossloh AG, out of which 43.99 percent (equivalent to 6,334,762 votes) was attributable to him pursuant to Sec. 22(2) Clause 1 WpHG. Voting rights of the following Germany-based stockholders were attributed to him: Deutscher Herold Lebensversicherung AG, Bonn; Ms. Anni Vossloh; Dr. Hans Vossloh; and Ms. Reinhild Vossloh.

On January 1, 2006, Mr. Schuchmann's voting interest crossed below the threshold of 3 percent and amounted at such date to 0.43 percent (corresponding to 63,595 votes).

Statutory auditor's fees

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

€ million	2012	2011
Statutory audits	0.1	0.1
Other certification/verification services	0.9	0.4
Tax consultancy	0.3	0.3
Other services	0.0	0.0
	1.3	**0.8**

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

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

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

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

Vossloh AG's Supervisory Board

Dr.-Ing. Dipl.-Ing. Wilfried Kaiser, Chairman [2,4], Munich,
degreed engineer, former executive board member of Asea Brown Boveri AG
– EvoBus GmbH: supervisory board member
– ACTech GmbH: advisory board member[5] (up to June 18, 2012)
– schenck.de AG: supervisory board chairman
– Hugo Kern und Liebers GmbH & Co. KG: director[5]

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

Dr. Jürgen Blume[3,4], Bad Bentheim, sworn public auditor and tax accountant (retired as of August 31, 2012)

Dr. Christoph Kirsch[3,4], Weinheim, former CFO of Südzucker AG
– GELITA AG: supervisory board member

Wolfgang Klein[1,2,3], Werdohl, galvanizer, Chairman of the European and Group Works Councils

Dr.-Ing. Dipl.-Ing. Kay Mayland, Rösrath, degreed engineer (as from January 9, 2013), former CEO of SMS Siemag AG
– SMS Siemag AG: supervisory board member
– Elexis AG: supervisory board member
– Demag Cranes & Components GmbH: supervisory board member

Michael Ulrich[1], Kiel, mechanic

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

The separate financial statements 2012 close with net income of €41,211,900.86 and, after including the profit carryforward of €19,904,878.63, net earnings of €61,116,779.49.

Proposed profit appropriation

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €2.00 for each no-par share of the eligible common stock of €34,059,138.59 and to carry forward the balance of €37,119,641.49. When determining the capital stock ranking for dividend, a total of 1,326,721 treasury shares was deducted.

Proposed profit appropriation

in €	
Net income for 2012	41,211,900.86
Undistributed profit as of January 1, 2012	19,904,878.63
Net earnings as of December 31, 2012	61,116,779.49
Proposed:	
Total dividend payout	23,997,138.00
Carryforward to new account	37,119,641.49

Werdohl, March 4, 2013

Vossloh AG
The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

Management representation

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

Werdohl, March 4, 2013

Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

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

We have audited the annual financial statements (consisting of balance sheet, income statement, and notes) including the records and books of account and the combined management report (on the Company and the Group) of Vossloh AG, Werdohl, for the fiscal year ended December 31, 2012. The accounting and the preparation of the annual financial statements and combined management report in accordance with the German Commercial Code and the supplementary provisions of the Company's articles of incorporation are the responsibility and assertions of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and combined management report.

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

Our audit has not resulted in any objections or exceptions.

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

Essen, March 4, 2013

BDO AG
Wirtschaftsprüfungsgesellschaft

Fritz	pp. Barhold
Wirtschaftsprüfer	Wirtschaftsprüfer

www.vossloh.com

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