Annual report 2005

On track for the future

Highlights 2005

Vossloh Locomotives hands over in Munich the 100th diesel locomotive to Angel Trains, Europe's leader in rail vehicle leasing.

In the face of competition from internationally renowned rivals, Vossloh Kiepe wins an order to equip with new traction systems 127 metro railcars operated by the Southeastern Pennsylvania Transportation Authority.

With effect as of April 1, 2005, Vossloh acquires Alstom's Valencia-based diesel locomotive plant, a milestone since Vossloh now has the products to cover the complete diesel locomotive market.

In Vancouver, Vossloh Kiepe hands over the first of 228 eco-friendly trolleybuses to their owner Translink.

The Dortmund municipal utility contracts Vossloh Kiepe and Bombardier Transportation to supply 47 low-floor trams with an option for another five. Vossloh Kiepe's share of the deal is worth just under €35 million.

The fiscal year at a glance

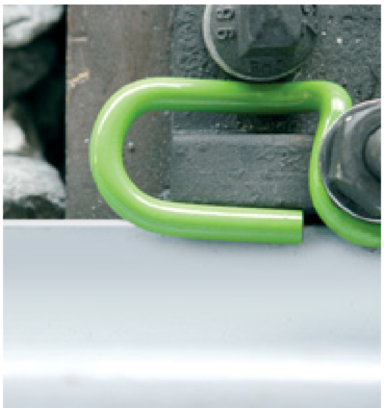
Group

Group		2005	2004[1]
Income statement data			
Net sales	€ mill.	996.4	917.8
thereof: Rail Infrastructure	€ mill.	579.5	514.1
Motive Power	€ mill.	365.2	340.9
Information Technologies	€ mill.	53.8	64.6
EBIT	€ mill.	90.8	105.6
Net interest result	€ mill.	(19.6)	(16.0)
EBT	€ mill.	71.2	89.6
Group earnings (total)	€ mill.	45.1	57.2
Earnings per share (EpS)	€	3.07	3.91
EBIT margin	%	9.1	11.5
Pretax return on equity (ROE)	%	19.7	27.1
Return on capital employed (ROCE)	%	12.0	15.3
Balance sheet data			
Fixed assets	€ mill.	453.3	387.0
capital expenditures[2]	€ mill.	34.5	39.4
amortization/depreciation[2]	€ mill.	23.9	25.2
Working capital	€ mill.	303.3	303.2
Working capital ratio	%	30.4	33.1
Capital employed	€ mill.	756.6	690.2
Total equity	€ mill.	361.0	331.1
thereof: minority interests	€ mill.	6.1	5.8
Net financial debt	€ mill.	220.5	171.1
Net leverage	%	61.1	51.7
Total assets	€ mill.	1,091.2	1,016.7
Equity ratio	%	33.1	32.6
Cash flow statement data			
Cash flow from operating activities	€ mill.	54.6	32.9
Cash flow from investing activities	€ mill.	(65.5)	(27.5)
Cash flow from financing activities	€ mill.	(78.9)	110.5
Change in cash & cash equivalents	€ mill.	(89.8)	115.9
Workforce			
Annual average headcount		4,732	4,513
thereof: Germany		1,494	1,547
abroad		3,238	2,966
thereof: Rail Infrastructure		2,966	3,050
Motive Power		1,455	1,148
Information Technologies		280	283
Vossloh AG		31	32
Payroll-to-added value ratio	%	70.8	66.2
Personnel expenses	€ mill.	234.5	217.5
Personnel expenses per capita	€’000	49.6	48.2

Vossloh AG

Vossloh AG		2005	2004
Capital stock	€ mill.	37.7	37.4
Dividend per share	€	1.30[3]	1.30
Stock price at Dec. 31	€	41.10	36.35
Market capitalization at Dec. 31	€ mill.	605.6	530.9

[1] The 2004 comparatives have been adjusted for the Services business unit (vehicle M&R).
[2] Excl. financial assets
[3] If approved by the stockholders’ meeting



Rail Infrastructure

- Switch Systems
- Rail Fastening Systems
- Services

Rail fasteners from Vossloh are used in over 65 countries for their inherent safety and efficiency. And, when it comes to sophisticated track switches, the Group is again a foremost international supplier. In the construction of new trackage and the maintenance of existing, Vossloh likewise commands a leading position.

Motive Power

- Locomotives
- Electrical Systems

Ultramodern Vossloh diesel locomotives have for years now been leading the way throughout Europe. Cost efficiency, flexibility and intelligent financing arrangements—these are some of the ingredients keeping this market leader on the success track. The lineup of products and services is extended with key technologies used on trams, streetcars, and trolleybuses.

Information Technologies

- Operations Control
- Passenger Information
- Signaling Systems
- Simulation/Planning Systems

Engineering systems sourced from Vossloh ensure cost-effective and customer-friendly operations management for transport operators. Vossloh is also a leading supplier of passenger information systems used in trains, railway stations, and at airport terminals. Signaling components and electronic interlocks are other specialty markets with vast growth potential.

Vossloh is a specialist in applied transport technology

Products bearing the Vossloh brand extensively enjoy preferred status in many parts of the world. As a specialist, Vossloh possesses extensive expertise and a particular proximity to its customers. The Group concentrates on selected market segments—rail fasteners, switches and switch systems, trackage construction and maintenance, diesel locomotives, electrical systems in trams and trolleybuses, control and safety systems for rail lines, as well as passenger information systems. In many of these segments, Vossloh is technology and market leader.

Dear Stockholders:

Fiscal 2005 proved a very trying period for the rail industry as such. As in preceding years, major state and municipal customers either further reduced or diluted their expenditure budgets. Even if this did of course impact on the Vossloh Group's operations, Vossloh nonetheless succeeded in closing the year with very respectable results, despite the manifold one-off burdens. The latter included, alongside the strained market situation, the dramatic rise in steel prices (only partly transferable to the customer), and the absence of invitations to bid for diesel locomotives, specifically German Rail's.
The market-related problems are most noticeable at the Kiel location where we have had to adjust to halving locomotive production. Through a variety of one-off measures aimed at cost reduction and productivity improvements we have, nonetheless, succeeded in bringing down our breakeven to such a level that even with the much lower production figures we remain in the black. To achieve this goal, we also required a far-reaching contribution from the workforce in order to shrink personnel expenses. This was agreed on between company management, works council and the union in April 2005. The measures we have initiated are time and cost consuming. Even though this year's earnings have been burdened by the associated costs and expenses, the resulting rewards will in the long run be disproportionately high. And you, our stockholders, likewise stand to benefit.
Effective as of April 1, 2005, Vossloh further strengthened its diesel locomotive business through the acquisition of Alstom's locomotive plant in Valencia. Kiel builds diesel-hydraulic and Valencia diesel-electric locomotives. As a consequence we now have products to cover the entire diesel locomotive market. Hence, the vast importance this acquisition signifies for us. Valencia has an order book to keep it busy for the years ahead.
Looking ahead to the probability of a resurgence in demand for diesel locomotives in the coming years, Vossloh sees a good opportunity to deepen its market inroads and, through its Kiel and Valencia locations, evolve into easily the most successful, flexible and productive player in the European market. We are convinced we will exploit this opportunity.
In the summer of 2005 we had announced our intention to acquire Pfleiderer Track Systems, a worldwide's leading supplier of innovative track systems for mainline and urban rail traffic. In December 2005, however, the German Cartel Office stated that it would prohibit the takeover. As a consequence, Pfleiderer AG decided in March 2006 to sell these operations to another investor. Nonetheless, concrete sleepers remain a highly attractive

Dr. Gerhard Eschenröder

CEO, born 1954,
joined Vossloh in 2006

Executive Board member since 2006
Appointed until February 28, 2009

In charge of Corporate Development and Strategic Planning, Internal Auditing, PR

Werner Andree

Born 1951,
joined Vossloh in 2001

Executive Board member since 2001
Appointed until Aug. 31, 2009

In charge of Corporate Finance, Investor Relations, Controlling, Group Accounting, Taxes

Milagros Caiña-Lindemann

Born 1962,
joined Vossloh in 1982

Executive Board member since 1999
Appointed until Jan. 31, 2007

In charge of Human Resources Management/Development, Organization, Insurance product for Vossloh, and therefore we continue to aim at extending our range of permanent-way solutions. This notwithstanding, we are confident as to fiscal 2006. Mutating markets are opening up numerous opportunities for Vossloh. The deregulation of cargo haulage and the accompanying increase in competition especially in India, China, and Russia, are encouraging factors. In no way are we any less upbeat as to the sustained buoyancy of the rail business.

Europe continues to be our business base yet we will increasingly operate on the markets of Asia where our companies have already proved to be remarkably successful. Given the dynamic growth of these markets and Vossloh's even closer international focus we are naturally looking forward to the promising opportunities offered by Asia. We also identify additional opportunities in North and South America where again we have booked notable contracts.

Our strategy will stay directed at organic and external growth. Our aims: a significant enhancement of sales and shareholder value. In working toward these goals we count on the sustained support of our staff, their representatives and the trust and confidence of our customers and associates. Our thanks go to all of you for once again working so closely with us during the past fiscal period.

Vossloh AG

The Executive Board

Supervisory Board:

Dr. Hans Vossloh,
Honorary Chairman,
retired manager, Werdohl

Dr.-Ing. Wilfried Kaiser,
Chairman, former executive board member of
Asea Brown Boveri AG, Munich

Peter Langenbach,
Vice-Chairman, lawyer, Wuppertal

Dr. Jürgen Blume,
Vice-Chairman, sworn public auditor and tax adviser, Bad Bentheim

Dr. Christoph Kirsch,
CFO of Südzucker AG, Weinheim

Wolfgang Klein,
galvanizer, Werdohl

Wilfried Köpke,
engineering designer, Kiel

Advisory Board

Dr. Hans Vossloh,
Chairman, retired manager, Werdohl

Dr. Gerd Weber,
Vice-Chairman, lawyer, Wuppertal

Ernst Schimke,
management consultant, Gummersbach

The world of rail, Vossloh's world

Product and system solutions

A global network with local specialties

Economic and environmental sustainability

1

2

3

4

Page 8

Vossloh has evolved into a European specialist in applied transport technology although its prospects extend well beyond Europe.

Page 12

Coherent systems instead of individual product components: throughout its business units Vossloh offers its customers high-quality, safe and reliable single-source solutions.

Page 15

Vossloh is a global player with a manageably sized corporate structure, enabling it to respond quickly and flexibly to mutating markets.

Page 18

Railways facilitate the mass movement of goods as well as mobility for millions of people in tune with the environment, to which Vossloh products make a major contribution.

On track for the future

From its strong European base, Vossloh is building up a global "Alliance in Excellence." In Europe, rail sector deregulation is opening up interesting prospects. In addition, the Group was quick to embark on a "Go East" strategy and has long been operating in the highly promising rail markets of India and China. In these countries, as well as increasingly on the American and African continents, traffic overflows are bringing about a shift toward rail networks as a sustainable and environment-compatible mode of movement.

Railways form the backbone of freight transport in Europe: the EU is aiming for efficient rail networks and the deregulation of rail freight transport.

1 The world of rail, Vossloh's world

Vossloh maintains a presence in all key European railway markets

Exciting opportunities also in India, China, Russia

The objective: a global "Alliance in Excellence"

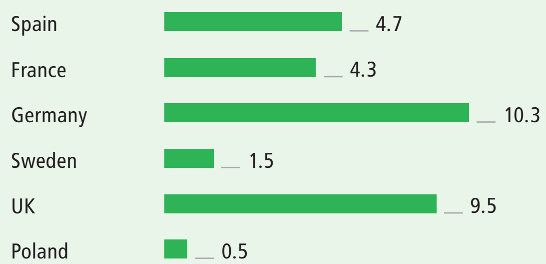
The striking green logo symbolizes the "go" signal for good reason. Vossloh has gradually graduated over recent years from a diversified largely German group into a European specialist in applied transport technology. Reichshoffen, France; Valencia, Spain; Nowe Skalmierzyce, Poland; Niš, Serbia; or Ystad, Sweden—just to name a few examples—now stand for Vossloh quality as much as the longstanding Werdohl, Kiel or Karlsfeld locations. Vossloh is successfully focusing on selected market segments, with strategic acquisitions enriching the attractive product and services portfolio and strengthening its competitive position. In the fiercely competitive rail market Vossloh is steering a fast-track growth-driven course.

The Vossloh Group now has production plants in all the key European countries with a longstanding railway tradition, its employees again contributing to the expansion and upgrading of Europe's rail infrastructure in 2005: from such projects as the Lausanne metro in Switzerland or the Marseille tram system in France, via high-speed rail links such as Hogesnelheidslijn-Zuid (HSL Zuid) in the Netherlands, TGV Est in France or Torino–Novara in Italy, through to new railway lines including the Ankara–Istanbul link in Turkey or the Botnia line in Sweden—in all, remarkable new contracts in 2005.

The fact that the European Union is coalescing into a single economic and social area is opening up further growth prospects for well-positioned companies such as Vossloh—especially in the rail sector with its formerly strongly national structure. In particular, the EU decision to completely deregulate rail freight transport offers Vossloh companies the medium-term prospect of steady and sustained growth. In the enlarged European Union of 25 member states, it is intended, after all, that national borders will no longer form an obstacle to rail freight transportation. With its New Opera program, the EU is currently working out how it is to achieve its ambitious goal of establishing an efficient 15,000-km freight traffic network right across Europe by 2020, capable of handling 100 trains a day on 300 days of the year.

The project is already well advanced on some sections of the network. For example, commissioning tests on the Betuwe line in the Netherlands got under

Expenditures from which Vossloh can benefit



Total public funds annually available for promoting rail transport (in € billion)
Source: estimates by SCI/Verkehr

The national rail budgets of the 25 EU states add up to €50.9 billion of which some 60 percent is set to be spent in countries in which Vossloh has a production base.

way in mid-2005. Many new sections still have to be built, however, with numerous existing links requiring further upgrading for added efficiency, such as with the installation of modern control and safety systems. A uniform pan-European network also requires the harmonization of technical standards—as well as rolling stock meeting these requirements. Locomotives, for instance, need to gain approval in the many countries in which they operate. International freight car exchange and replacement rules were revised in 2005. The EU-wide legal harmonization of rail transport is a procedure that is “making progress.”

Clearly, the creation of a single European rail network is a mammoth task. It is also clear, however, that the prospects—including for Vossloh—extend far beyond Europe. The Far Eastern economy is booming above all. Rail networks are Asia's most important mode of freight transportation. With heavy and bulky goods such as coal, steel and iron, as well as agricultural products, having to be hauled over long distances, the railway system offers a clear advantage in most countries over freight transportation by road or air. Asia also offers considerable growth potential in public transport, with more and more people increasingly on the move for both business and pleasure.

The first “natural” stop on the journey from Europe to Asia is Russia. Three of the nine pan-European transport corridors include Russia. Cross-border cooperation with the EU as well as with other neighboring CIS states is under way and beginning to bear fruit. For example, Russia is seeking to establish a new “Silk Road” with other CIS states for the carriage of goods by rail from China to Europe. In March 2005, a test train carrying over 2,000 tonnes of coke covered the almost 10,000-kilometer-long journey from Hohhot in China through Mongolia, Russia, Belarus, Poland, to the German city of Essen in 16 days—much quicker than any sea route.

Cross-border cooperation between the EU, Russia, and the other CIS states is beginning to bear fruit.

Russia and the other CIS states, India, and China: thanks to its early “Go east” strategy, Vossloh is already at home in many attractive future markets through its own companies, holdings, and joint ventures. In India, for example, Vossloh has established together with the local Patil Group a number of joint ventures and acquired a switch manufacturing plant as well as a foundry for manganese crossings. This move has been impeccably timed because the state-run Indian Railways (IR) plans to invest some €122 billion in the nation’s rail infrastructure by 2020—projects that will include public funds running into

India, China, and Russia have switched to green and multi-billion expenditures are to be applied for building more lines, improving safety, and stepping up speeds.

billions being made available for speedy consumption in construction projects so as to rapidly enhance the rail network's efficiency.

The objectives have been clearly defined, after all: more lines, greater safety, and higher speeds. The plans to modernize freight transport alone envisage expenditures totaling some €8.6 billion over the next five years. This includes making about 10,000 kilometers of the rail network suitable for handling heavy-load freight traffic. A freight corridor which is unique in India to date is planned between the metropolises of Delhi and Mumbai, on which trains with up to 200 freight cars and axle loads of up to 30 tonnes could reach maximum speeds of 150 kilometers per hour. The background is as follows: the lines of the so-called Golden Quadrilateral, linking Delhi, Kolkata, Mumbai and Chennai, cover only 16 percent of the Indian rail network yet they account for 65 percent of total freight and 55 percent of passenger transport.

The rail networks in Russia and China also require major expansion, improvement and upgrading. Over 80 percent of the investment planned by the Russian Railways (RZD) up to 2008 at a total €15.9 billion has been earmarked for developing and renewing the railway infrastructure. RZD must also invest heavily in rolling stock. According to its own figures, over the next five years, 4,100 new mainline diesel and 3,900 shunting locomotives will be needed.

Finally, China intends to build 28,000 kilometers of new railway lines by 2020, costing some €200 billion. At the heart of these plans is a 12,000-kilometer network of high-speed lines to be used for passenger transportation exclusively. In booming Guangdong province, for example, this will bring the cities of the Pearl River delta closer together. The provincial government is expecting the 1,800 kilometers of new railways to cost about €14.4 billion. The bill for additional planned projects such as the construction of a new major railway station in Shenzhen is likely to run to an extra €3 billion. Virtually completed is a 34-km-long rail link between the ports of Dalian and Yantai, part of an almost 140-km-long rail-ferry project designed to alleviate transport congestion in the Beijing and Tianjin conurbations. A rail container network linking the ports of Shanghai, Shenzhen, Qingdao, Dalian, and Tianjin for an estimated €2.1 billion is still at the planning stage.

The rail networks of Russia and China are critically in need of expansion, improvement, and upgrading.

In spite of the far-from-easy environment for midsize companies, Vossloh's efforts to step up its involvement in China are progressing well. The Group is in

€122 billion

is the amount that Indian Railways is planning to invest in the rail infrastructure by 2020. Vossloh has a foothold in India through its own companies, investees and joint ventures.

negotiations with several potential local partners in order to explore joint venture options aimed at sound and mutually beneficial cooperation. Vossloh is also keeping a close eye on the Russian market so as to exploit opportunities to cooperate with local partners when the time is ripe for action. These activities reach out to other CIS states, such as Ukraine, which again offer possibilities and a good launching pad for investment.

Several projects in the Near and Middle East developed promisingly for Vossloh during 2005, with the rail sector also experiencing a revival in North Africa and the Persian Gulf region. Additionally, the Group is pinning great hopes to its initial steps in the direction of establishing a stronger presence in the rail markets of North and South America, where the railway sector offers enormous potential, chiefly in freight haulage. There are plans, for example, for an around 1,900-kilometer-long railway line between the state of Alaska and the Canadian province of British Columbia (costing over €1.8 billion), and a 100-kilometer link between Texas and Mexico is due to be completed at a cost of €120 million by 2007. Brazil is also relying on rail, with the construction of the 1,500-km-long Trans-Northeastern railway, linking together the major soya and gypsum production plants near Fortaleza and Recife, already under way at an estimated cost of €2.1 billion. In order to double transport capacity, several rail operators are seeking to invest some €2.5 billion in new locomotives, freight cars and improved trackage by 2008. The Brazilian government is planning to contribute a further €1.5 billion to the upgrading of the network.

The rail sectors in North and South America offer enormous potential, chiefly in freight haulage.

Building up a global “Alliance in Excellence” from a strong European base: Vossloh is implementing this strategy step by step. Comprehensive knowledge of global markets and of the competition forms the key foundation of a targeted search for partners who can help further strengthen the Group and build on its foremost position in specialty markets. “Made by Vossloh” has become a hallmark of quality—representing both the Group's success and the challenges ahead.

Vossloh is a world leader in the manufacture of rail switches and fastening systems, its constant advancements meeting the ever rising safety and traveling comfort requirements.

2 Product and system solutions

Vossloh offers single-source high-quality, safe and reliable solutions

Components and systems to address the toughest requirements

Modular diesel locomotives to match individual needs

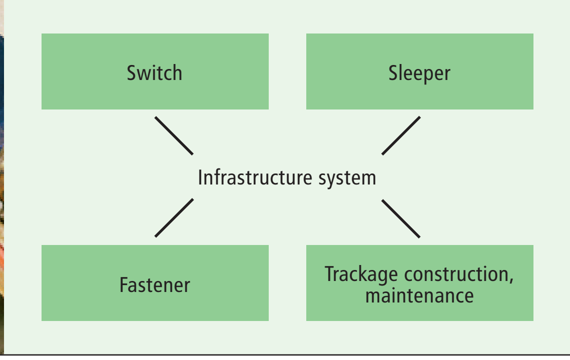
In many of its specialty markets Vossloh holds—and intends to sustain—a position of market and technological supremacy. Acquisitions and alliances therefore have the clear aim of consistently complementing and building on Vossloh's lineup of products and services. Individual product components are developed into coherent systems, the benefits of which add up on interaction. The ultimate result is a high-quality, safe and reliable solution from one source, with a single contact answering to the customer. In addition, Vossloh offers extensive logistics services related to every aspect of purchasing, stocking and delivery—for many customers a further argument in favor of a long-term and reciprocally successful relationship.

As a world leader in the manufacture of rail fastening systems, Vossloh offers solutions covering a broad spectrum of requirements, especially in the economically promising segment of new rail line construction—for both long and short distances. The product range encompasses fasteners for ballast-bed and rigid tracks and for all load profiles from heavy-load to high-speed lines. The individual elements of the fastening systems can be captively preassembled onto the sleeper at the factory, thus later enabling mechanized and fully automatic installation into the track—and saving a lot of time and money in the customer's interests.

The fastening system elements fit in perfectly with each other and meet the rising safety and traveling comfort requirements. For example, the outstanding technical properties of the W 25 system designed for high-speed lines result from the geometrically redesigned tension clamp and angular plate guide, enabling the track to be laid with greater elasticity. In practice, this reduces loading and thus wear on the ballast, culminating in less noise and a more comfortable ride. Even greater noise absorption can be achieved by mating the W 25 system from Werdohl with the highly resilient rail base plates produced by Delkor, Vossloh's Australian company.

Vossloh Fastening Systems products mate most readily with switches and crossover tracks, turnouts and exits built by Vossloh Switch Systems. Here, too, Vossloh has long been supplying not only individual components to construction

Infrastructure system components



All the key rail infrastructure elements match closely, with pre-assembled component families steadily displacing an accumulation of discrete parts.

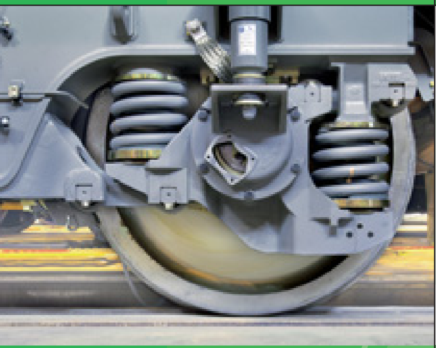
sites but already largely preassembled components, which match into the track simply, quickly, and exactly. Vossloh's specialists are continually working on advancements in this segment. Vossloh Cogifer, for example, has developed a new technique for transporting high-speed switches on freight cars. Intelligent simplification of the loading processes has had the very rewarding effect of cutting transport costs by some 45 percent.

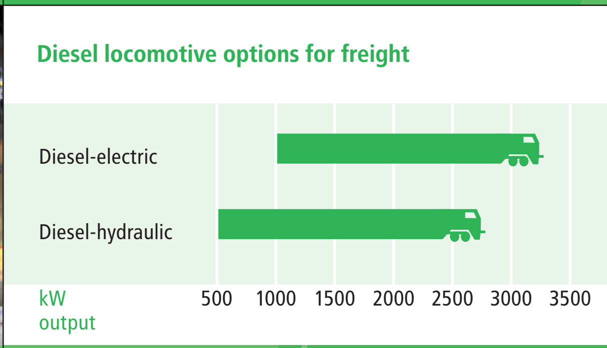
The track control and condition-monitoring devices produced by Vossloh are also designed as systems, offering greater safety coupled with lower maintenance. The newest switch control systems are modular in design, consisting of three “plug-and-play” units—the actuator, the circuit breaker and the position detector—all of which replace easily. A remote-diagnosis system provides maintenance support, with special analyses whose findings are relayed to the control room, making it possible to detect substandard effectiveness in switches and crossings early on.

Vossloh is among the leading European manufacturers of diesel locomotives. Its diesel-hydraulic type are produced by the long-established Maschinenfabrik Kiel (MaK). Since the takeover of the Albuixech plant near Valencia in Spain, Vossloh also offers diesel-electrics, thus covering the whole range of capacity categories in Europe from the shunter to the high-duty locomotive on regular passenger and freight services. Against the background of scarce public funding, diesel locomotives are likely to experience a renaissance, many countries having shelved already adopted plans to electrify their rail networks. Experts estimate that diesel locomotives will remain in long-term use on about half of Europe's railway lines.

Vossloh now builds diesel locomotives for every capacity category in Europe.

In locomotive building Vossloh again relies on system solutions to address a broad array of applications. On the basis of several platforms, vehicles of modular design can be constructed precisely in line with customer requirements. The two- or three-axle power bogies conform with the relevant operating conditions, meeting the highest requirements on operability. Moreover, versatility is the trump card. The 334 locomotive from Valencia, for example, with cruising speeds of up to 200 kilometers per hour, features a bogie which is suitable both for the broader gauge of the Spanish RENFE network (1,676 mm) and for the internationally most common gauge (1,435 mm). The braking, cooling and ventilation systems of Vossloh locomotives are also of modular design and can





Together, Vossloh diesel-electric and diesel-hydraulic locomotives address every capacity.

be upgraded to meet the relevant needs. When the vehicle is at the design stage, all the components are optimized using state-of-the-art computer programs, development “under one roof” guaranteeing an efficiency match between the electrical and mechanical interfaces.

In anticipation of the progressive opening-up of rail markets in Europe and the plans for cross-border rail haulage beyond Europe, Vossloh has in recent years pressed on with its efforts to obtain approval for its locomotives to be used in several countries outside of Germany. This depends on the machines being suitably equipped to operate on various networks, with the necessary traction and signaling systems, for example. The G 1000 and the G 2000 have passed the relevant national tests in several countries with style. The G 2000, the top product in the standard range of Vossloh locomotives, has gained approval in Germany, the Netherlands, and Italy. Approval in Belgium, Poland, Austria, and Scandinavia is now in the pipeline.

Following the acquisition of the plant in Valencia, Vossloh Locomotives subjected its portfolio to a thorough review aimed at systematically streamlining the product range and gearing it to future requirements. The development of new design series is governed by a “road map,” with the Kiel and Valencia plants pooling their experience intensively and pursuing a joint research program. The Euro 4000, a six-axle giant outputting more than 4,000 HP DIN (3,178 kW), is currently being developed in close cooperation with the US company Electro-Motive Diesel (EMD) based in LaGrange as the first of the new Vossloh diesel-electric vehicles. It is intended for use in freight and passenger transportation in Europe and should also be able to haul very heavy load trains at higher speeds than have been possible to date.

The Kiel and Valencia plants pooling their experience and pursuing a concerted research program.

Close to the customer, familiar with regional markets: thanks to flat hierarchies and short chains of command, Vossloh's business units can respond quickly and flexibly.

3 A global network with local specialties

Some 4,500 people worldwide work for the Vossloh Group, which now has a presence in more than 70 countries—a global player with a manageable midsize company structure, its business units taking responsibility for developing their markets independently. Flat hierarchies, short chains of command, a particular proximity to its customers, and close collaboration with competent partners are hallmarks of the Vossloh Group. These attributes also represent vital ingredients in Vossloh's success recipe in its selected market segments of applied transport technology. The units can respond quickly and flexibly to changing market requirements thanks to their manageable size. Vossloh employees possess a profound understanding of their customers, markets and technologies. This is combined with the Group's vast innovative resources—and increasingly the favorable impact of acquisitions aimed at strengthening Vossloh's competitive position.

Under the Vossloh umbrella, specialists create synergies through the intelligent pooling of their expertise. The business units are working together increasingly closely in marketing, for example, as exemplified by close collaboration between the Kiel and Valencia locomotive-building plants aimed at achieving the most intensive and efficient country and customer support possible. Engineers from Fastening Systems and Switch Systems are also working together both routinely and successfully so as to attract new orders in Asia, North Africa, and the Persian Gulf region. Moreover, Vossloh is employing its own multinational teams increasingly to carry out interesting new projects. When Beekay Engineering & Casting Ltd., based in the Indian city of Bhilai, was acquired, for example, experts from French, Spanish and Indian Vossloh companies contributed their accumulated specialized knowledge.

Cooperation between the business units extends to the pooling of technologies, an example being the building of the first of two Transvilles tram routes in the Northern French town of Valenciennes, on which Vossloh Infrastructure Services und Vossloh Cogifer have been working hand in hand in a project-related joint venture. The Vossloh companies took charge of supplying and laying the track, built the overhead lines, installed the power supply, and are responsible

A global player yet of manageable midsize proportions

Working hand in glove generates synergies

In close touch with the customers and the marketplace

Innovation partner

Exploiting extensive specialized knowledge and long-standing experience in the marketplace: with its technological supremacy Vossloh takes foreseeable developments into account early on.

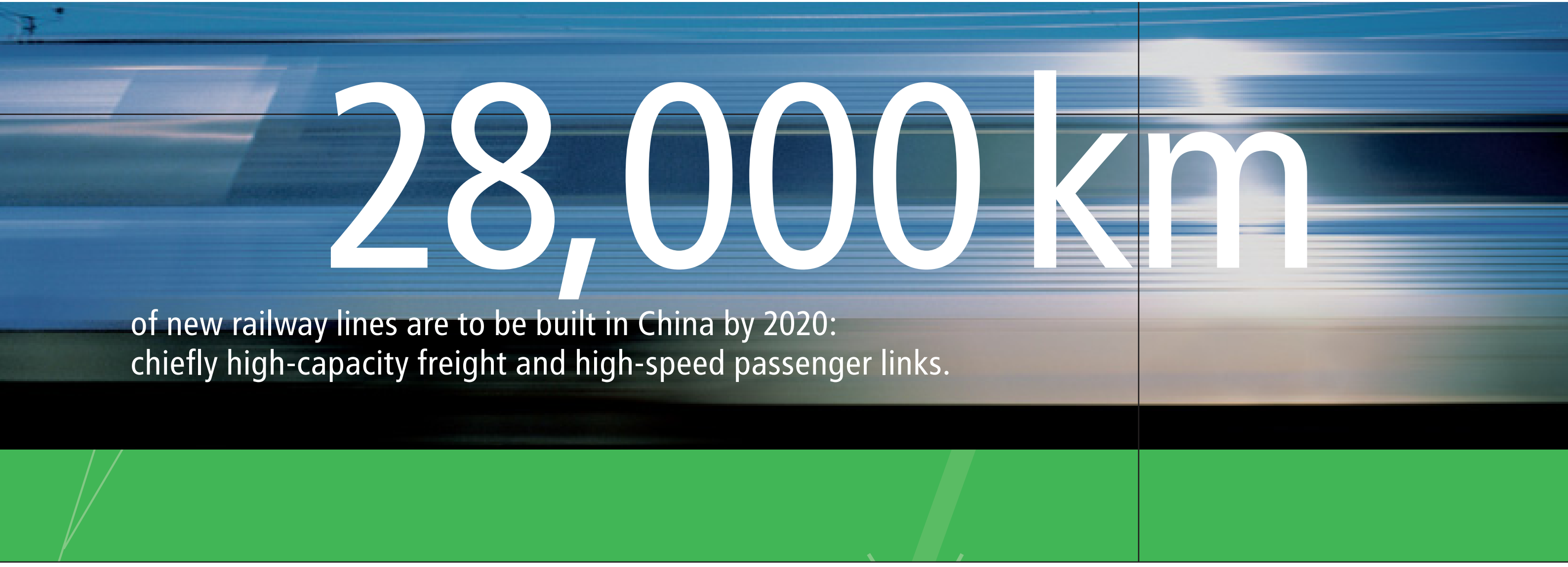
for the signaling systems. The almost ten-kilometer line comprising 19 stations is due to be opened in June 2006 following a two-year construction period.

Proximity to the customer and the market enables Vossloh to allow for foreseeable developments early on. The locomotive market, for instance, has seen the emergence of a steadily rising number of leasing firms that are offering traction services to private operators as part of the rail sector deregulation process—an interesting target group with special requirements on the vehicles to be supplied. Vossloh is also seeking to broaden its range of maintenance and repair (M&R) services for diesel locomotives. In addition to the extensive services offered by the modernized and expanded service center based in the German town of Moers, there are plans to establish a Europe-wide service network.

Vossloh Information Technologies is member of a consortium of industrial companies which, under the direction of Deutsche Post World Net and several research institutes, is developing a new kind of identification system with which the routes of the around 13 million letter containers used by Deutsche Post can be continuously tracked and documented. The so-called DRFID chips combine radio frequency tags (RFID = radio frequency identification) with a rewritable flexible display component (= D). The Vossloh company has taken on the task of developing a low-energy and flexible display unit which can also show the data received at zero current as high-contrast text or graphic. This would make the data legible without additional auxiliary equipment or a power supply. The new-generation data medium is being developed for Deutsche Post's mail centers initially. It could also open up new market potential in the rail sector, however, because RFID constitutes an alternative to satellite-assisted tracking by means of GPS, for example. Indian Railways (IR) is planning to use parcels transport on the Kolkata–Delhi route to experiment with the innovative RFID technology. The Swiss state railways (SBB) tested an older version of RFID technology back in the 1990s. Incidentally, SBB has commissioned the IT system suppliers CSC and Vossloh Information Technologies to develop a new scheduling system for rail traffic in Switzerland.

New fields of activity can also sprout from the Vossloh companies' extensive specialized expertise.

In some instances, new fields of activity may also emerge from Vossloh companies' extensive specialized expertise. Since December 2005, Vossloh Information Technologies GmbH has been accredited by the German Federal



Railway Office (EBA) as a developer qualified to test rail safety and security systems. This company is thus entitled to test and verify according to EBA standards the safety approval documents for its own systems such as the electronic interlocks. There are only three other companies accredited as safety assessment centers within Germany.

Vossloh was quick to get to grips with the issue of public-private partnerships, which are financing models designed to stimulate private investment in rail systems when public funding is scarce—a possible way of helping countries chiefly in Central & Eastern Europe to modernize their railways. In a basic study commissioned by Vossloh in 2004, the possibilities and limits of PPP financing models were highlighted. The Vossloh transport conference devoted to this matter triggered a lively debate in the industry. There are still, however, few specific examples in the rail sector and therefore little empirical data. Nevertheless, Vossloh is following closely the progress of the PPP-financed construction of a standard-gauge light rail network for the Spanish city of Málaga as well as the first build-operate-transfer (BOT) projects for local public transport in Southeast Asia.

Public-private partnerships (PPPs) remain very relevant to the rail sector and to Vossloh.

4 Economic and environmental sustainability

Big cities are increasingly relying on rail

A partner for efficient (sub)urban networks

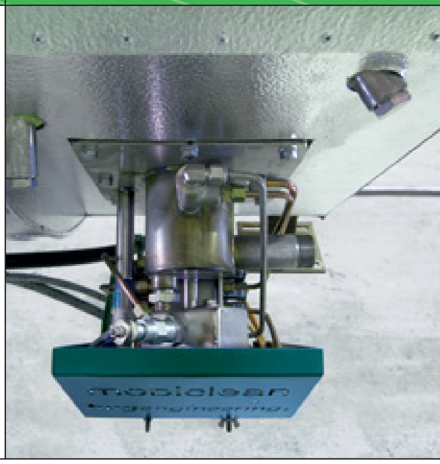
Solutions for environment-friendly vehicles

As a mode of mass transportation, railways need not fear comparison—in freight, passenger, local or long-distance transport—with road or air either economically or environmentally. The wheel-rail system, correctly deployed among interacting modes, is a suitable means of catering for the rising mobility of people and goods, the growing awareness of environmental issues and ever stricter statutory regulations. In 2005, the German debate about particulate matter served to illustrate the dissatisfaction of many people with the quality of life in cities suffering from high levels of road traffic pollution.

Tram, (sub)urban and metro systems are currently experiencing a boom worldwide. Congested cities in particular view them as an opportunity to tackle the traffic congestion problems created by burgeoning urbanization. In Asia especially, along with the rapidly growing flow of goods, an increasing number of people have to be transported to their jobs and to the downtown shopping streets. The Chinese government is now even giving local public transport in urban centers official priority and is urging the local authorities to encourage the population to resort to public transit more frequently.

In the Middle Kingdom alone, 30 cities with a population of over a million are planning rapid-transit railway systems or have already started to build them as part of projects worth some €50.5 billion in all. Substantial expansion of the urban transport networks is planned in Beijing (for the 2008 Olympics), Shanghai (for the World Expo in 2010), Guangzhou, and Shenzhen. The situation is much the same in India, where the construction of another three feeder lines, with a total length of 62.5 kilometers, for Delhi's new metro is to be put out to tender in 2006. They are intended to link the capital with the satellite cities. In Asia's huge conurbations there is no strict distinction between local, regional and interregional transport. In the southern Indian city of Kochi, work has already started on building a metro, while in Hyderabad and Secunderabad, mass rapid transit systems (MRTS) are still at the planning stage. In early August 2005, Bangalore also opted for a metro rail project, which is expected to take five years to build at a cost of €1.2 billion.

Modes of mass transportation that are easier on the environment: Vossloh offers a broad array of options. The green locomotive comes with a soot particle filter, setting the standard worldwide.



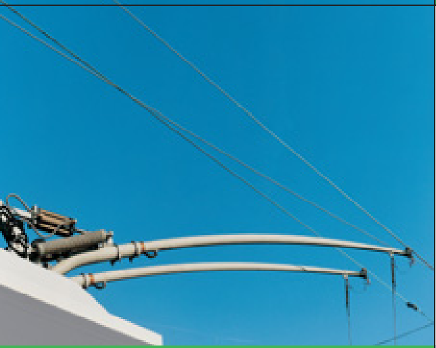
Taipei in Taiwan, Ho Chi Minh City in Vietnam, São Paulo in Brazil, Buenos Aires in Argentina, Dubai in the United Arab Emirates: right around the globe major cities are relying on rail. Even the “home of the car,” the USA, is investing heavily in (sub)urban transit systems. San Diego is among the cities expanding its network, as are Los Angeles and New Jersey. From 1978 to 2004, some 80 new tram and light rail transit systems were opened worldwide and these are in addition to the preexisting lines (which in some cases are of historical interest).

Vossloh is contributing to the creation of the infrastructure for reliable and efficient rail-based local transport networks in many places. For example, by mid-2006, the construction work to expand the Santiago de Chile metro should have been completed, for which Vossloh Cogifer has supplied various types of switches and crossings. The new line 4, including the 4A branch line, is over 32 kilometers long and serves 28 stations. Each of the 30 planned 135-meter-long trains can carry about 1,400 passengers. This will mark the start of a new era for the Chilean capital. Up to now the around 40-km-long network has had a ridership of over 800,000 passengers daily. Line 4 is intended not only to relieve congestion but also to encourage drivers to leave their cars at home and use public transport.

Beyond rail infrastructure products, Vossloh offers a broad range of solutions for environment-friendly vehicles. As a transport technology group, Vossloh set new standards internationally with the first soot particle filters fitted as series production components on diesel engine locomotives outputting more than 2,000 HP (DIN). Vossloh's green machine also received a very favorable assessment in the first rail transport environmental study carried out by the German “Allianz pro Schiene,” an alliance advocating rail transport. Thanks to the innovative filter system, the machine already undercuts emission limits which in the view of experts are likely to be the standard in five to ten years' time.

From Vossloh; the very first diesel locomotive outputting more than 2,000 HP with soot particle filter fitted as standard.

Trams and metros used in local public transport services are equipped with electrical traction systems from Vossloh Kiepe that guarantee the smoothest possible ride—in Cologne, Düsseldorf, Dortmund, and Leipzig, as well as in Vienna. The product lineup also includes components for passenger information and vehicle protection, control and warning systems as well as air-conditioning



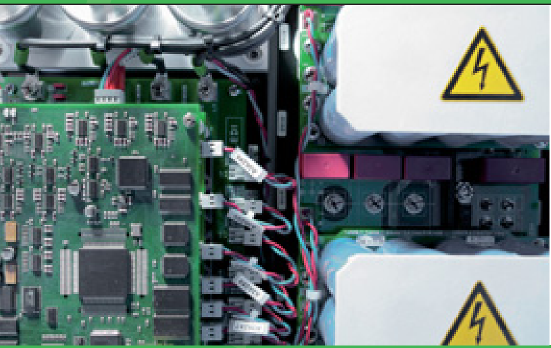
Zero emission: a new type of traction system for emission-free trolleybuses. Vossloh also uses regenerative braking for fuel savings.

Vossloh know-how: 25-percent trolleybus power savings for the same performance.

and ventilation systems for the driver and passengers. In Philadelphia, the company is fitting a total of 127 streetcars operating on the legendary Orange Line with the newest traction systems over a period until 2008.

A Vossloh Kiepe specialty is electrical equipment for trolleybuses based on its in-house developed zero emission technology. In addition to Genoa and Zurich, Lecce in Italy, for example, is now also relying on these alternative vehicles to provide emission-free local transport in its inner city area. The three new lines in Lecce will feature a dozen modern low-floor buses which in addition to zero emission technology possess a 95-kW auxiliary drive, enabling them even on sections without an overhead wire to travel at speeds of up to 60 kilometers per hour. A particular feature of the traction equipment developed by Vossloh Kiepe is that, for the first time, regenerative braking is used not only into the overhead wire but also in special energy storage systems on board the trolleybus, meaning that this recovered energy can be recycled into the traction system when starting up. This makes the buses are up to 25 percent more economical to run without any compromise in performance. Trolleybuses are nowadays available in several versions, including double-articulated vehicles with a 35 percent higher passenger capacity, as well as with a hybrid drive and independent traction on each wheel for negotiating hilly terrain. These products are marketed by Vossloh Kiepe internationally.

Vossloh Kiepe is actively committed to protecting the environment, as demonstrated by its signing of the UITP Charter on Sustainable Development. The International Union of Public Transport (UITP) is a worldwide network of public transport operators. All the other Vossloh companies also comply with environment-compatible methods and processes in production and invest in the development of eco-friendly products and components. Vossloh paint shops have been using low-solvent paints for many years, for example.



Managing mobility: correctly deployed among interacting modes of transportation, the railway can display its advantages and help to tackle global traffic problems sustainably.

As a midsize company of manageable proportions, Vossloh possesses extensive specialized expertise and a particular proximity to its customers. Its global presence and technological and market leadership in selected specialty markets provide Vossloh with the best possible platform for benefiting on a sustained basis from rail sector deregulation. The markets of the up-and-coming economies of Asia, especially India and China, are presently offering special opportunities for Vossloh.

Management report

Business trend and situation

Despite exorbitant oil prices, the world economy in 2005 proved highly robust, however, when compared with the previous year, shedding some of its dynamism. At 4.3 percent, the GDP gain failed to re-achieve the very high 2004 level. The global economic growth was mainly fueled by the very strong economies of China and the United States, whereas particularly Europe and Japan only generated substandard momentum.

The year 2005 saw seriously adverse global economic fallout due to the dramatic rise in crude oil prices. Whereas at the start of the year Brent crude oil was sold at under $40 per barrel, the price was listed above $55 in March 2005, a decisive factor not least of all being the rapidly growing demand in China, India and other emerging nations.

The still favorable financing conditions had a favorable impact on the global economy. Although the key lending rates in the United States were ratcheted up, the long-term rates remained at a very low level historically.

The Eurozone economies (GDP growth: 1.4 percent) tended to be tepid due to little spending inclination of the part of private households and a wait-and-see attitude on the part of the business community. However, growth rates in the individual EU member states differed largely. Whereas Ireland, Spain and Luxembourg recorded the highest growth rates, Italy, the Netherlands, Portugal and Germany stayed at the bottom end of the scale.

In the non-€ states of the European Union the economy in 2005 was again better than among the EMU members. However, here, too, growth rates were in some cases sharply down from the previous year. Great Britain only achieved a GDP growth of 1.7 percent (down from 3.2). The EU newcomers likewise lost from of their 2004 accession-year dynamism. Still, aggregate growth rates of these countries was as high as 4.2 percent (down from 5.1).

The rail technology markets of significance to Vossloh were just as mixed as the entire global economy. More or less stagnating markets in Europe contrasted with much more pronounced dynamic pace elsewhere. This is especially true of Asia, where the rail networks are presently being extended annually by more than 4,000 kilometers of new lines—the globally biggest growth market for track expenditures.

Analysis of the consolidated financial statements

Sales and earnings 2005

In fiscal 2005, the Vossloh Group generated sales of €996.4 million, up by €78.6 million or 8.6 percent in like-for-like terms.

Vossloh Group: sales breakdown by division

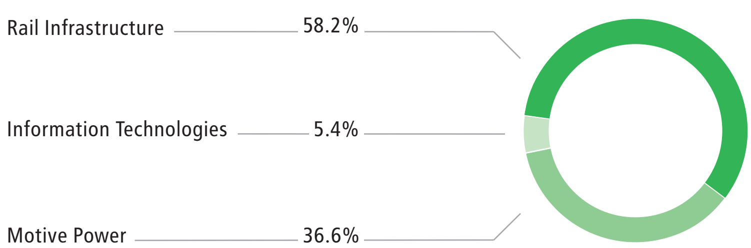
	€ million	%	€ million	%
	2005		2004	
Rail Infrastructure	579.5	58.2	514.1	56.0
Motive Power[1]	365.2	36.6	340.9	37.1
Information Technologies	53.8	5.4	64.6	7.0
H.O. and consolidation	(2.1)	(0.2)	(1.8)	(0.1)
	996.4	**100.0**	**917.8**	**100.0**

[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

Significantly higher business volumes at Vossloh Infrastructure Services and Vossloh Switch Systems raised sales at Rail Infrastructure. An infrastructure program on the part of the public sector for promoting suburban rail traffic in France boosted demand and fueled business quite considerably, especially at Infrastructure Services. The construction of tram lines in various large French cities, prompted by this program, played a major role in the sales increase from €150.4 million in 2004 to €196.3 million in the year under review. Besides the higher sales in the home market of France, added sales by Switch Systems also resulted from the delivery of switches for new high-speed lines in Italy and France and added exports to Turkey and the Near East. Sales by Switch Systems rose €31.3 million to €258.3 million. At €147.0 million, Fastening Systems failed to quite match the year-earlier €150.2 million. The completion of deliveries for the new Nürnberg–Ingolstadt line in Germany also meant a reduction in domestic demand, only partly offset by incremental exports (for further information refer to Rail Infrastructure, page 32 onward).

At Motive Power, the acquisition from Alstom of the Valencia-based diesel locomotive plant effective and consolidated as from April 1, 2005, contributed sales of €98.8 million. Even though the takeover was not closed, as originally planned in January of 2005, the Spanish plant still completely compensated for the lower sales at Vossloh Locomotives GmbH, Kiel, this being attributable to a lack of invitations to bid for diesel locomotives.

Breakdown of 2005 sales within the Vossloh Group



In all, Locomotives generated sales of €276.3 million in 2005 (up from €257.6 million). At €88.9 million, Electrical Systems surpassed the year-earlier level of €83.4 million by €5.5 million. This increase is chiefly due to the unit’s core activities: the supply of electrical equipment for both trolleybuses and trams. (For further information on Motive Power, page 38 onward.)

Information Technologies saw the phaseout in 2005 of two megaprojects: UIC-Zugbus and German Rail’s operations centers. This fact combined with still meager domestic demand meant that Vossloh Information Technologies' sales of €53.8 million fell short of the year-earlier €64.6 million. (For more information on Information Technologies, page 42 onward.)

Vossloh Group: sales breakdown by region

	€ million	%	€ million	%
	2005		2004	
Germany[1]	205.2	20.6	290.8	31.7
France	238.8	24.0	178.7	19.5
Other Euroland	317.3	31.8	187.4	20.4
Other Europe	141.8	14.2	200.3	21.8
Total Europe	**903.1**	**90.6**	**857.2**	**93.4**
North America	22.6	2.3	18.5	2.0
Latin America	6.8	0.7	0.2	0.0
Total America	**29.4**	**3.0**	**18.7**	**2.0**
Asia	**49.6**	**5.0**	**33.7**	**3.7**
Other regions	**14.3**	**1.4**	**8.2**	**0.9**
Total	**996.4**	**100.0**	**917.8**	**100.0**

[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

French market delivers highest sales

The still critical situation in the rail industry, especially in Germany, affected alongside Information Technologies, in particular Locomotives, Electrical Systems, and Fastening Systems. For the Group as a whole, domestic sales in 2005 shrank almost 30 percent versus 2004 and, compared with 2003, as much as over 38 percent. Reductions were made both in municipal and state expenditures, in rail infrastructure, and in new vehicles. However, since Vossloh has in recent years broadened its international operations increasingly, the Group succeeded again in 2005 in offsetting declining domestic sales by growth elsewhere in the world.

During the period, the Switch Systems, Infrastructure Services and Locomotives (Valencia) units strengthened their activities, especially on the French rail market. At 24.0 percent, almost one-quarter of group sales (up from 19.5 percent) was generated in France. Hence and for the first time in the Group's history, sales in one country outside of Germany exceeded domestic sales. The higher sales in the remaining Euroland countries are attributable to the first-time consolidation of Vossloh España. In 2005 and in Spain alone, this company showed sales of €77.6 million. The advance in group sales in South America and Asia is particularly due to the supply of parts for significant infrastructure projects in Chile, India, Taiwan, etc.

Back at the end of 2004, Vossloh had responded to the generally difficult market situation in the rail industry, particular in Germany, to the steep rise in raw material prices, and to the lack of invitations to bid for diesel locomotives. The problems were most conspicuous at Vossloh Locomotives in Kiel, where in the wake of the necessary restructuring of this location, alongside temporary workers, 179 of the company’s regular workforce quit the company during 2005 and at the start of 2006.

The costs for restructuring Kiel, almost €7 million, eroded group earnings in 2005 just as did the sharp rise in commodity prices, only partly transferable to customers. By modifying its purchasing procedures, Vossloh succeeded, however, in absorbing a part of this sharp gain in costs. Alongside these burdens is also the fact that most of the growth is due to lower-margin businesses, hence the relatively modest increase in gross margin compared with sales.

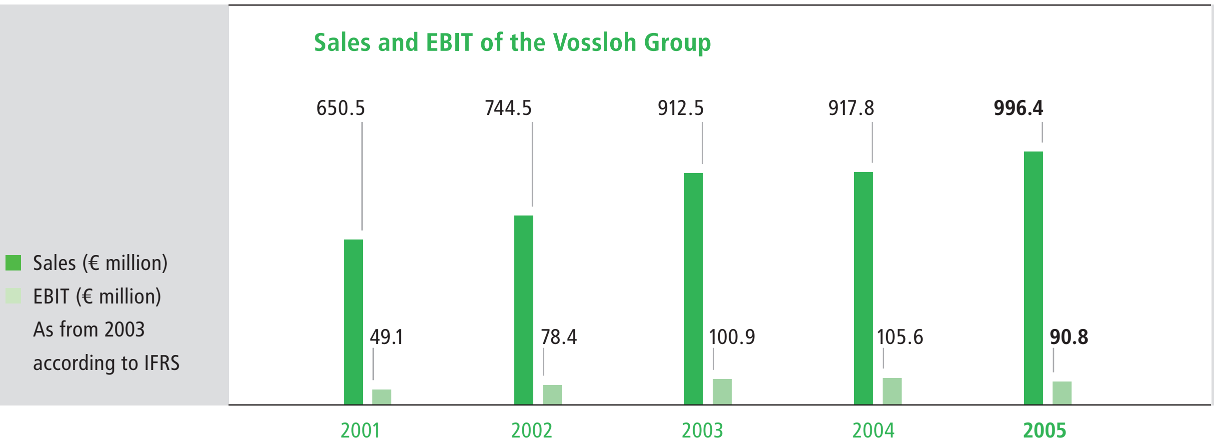
Vossloh Group: sales and earnings

	€ million	%	€ million	%
	2005		2004	
Net sales[1]	996.4	100.0	917.8	100.0
Gross margin[1]	193.6	19.4	191.9	20.9
Operating result[1]	93.8	9.4	102.5	11.2
EBITDA[1]	114.7	11.5	130.9	14.3
EBIT[1]	90.8	9.1	105.6	11.5
EBT[1]	71.2	7.1	89.6	9.8
Group earnings	45.1	4.5	57.2	6.2
EpS (€)	3.07		3.91	

[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

EBIT down

One-time factors affecting general administrative expenses and the other financial results, combined with a lower net of other operating income/expenses, depressed EBIT despite the higher gross margin. The €8.0 million rise in general administrative expenses to €73.2 million was mainly attributable to one-off burdens from restructuring Vossloh Locomotives, besides the first-time consolidation of Vossloh España.



The net other operating income declined by €2.4 million as the cash inflow from the disposal of noncurrent assets shrank by €6.8 million. The write-down of long-term loans meant that the financial results for 2005 (€4.2 million) were far in the red.

As budgeted, the net interest expense of €19.6 million exceeded the prior year's by €3.6 million, largely for financing the purchase price for the Valencia diesel locomotive plant as well as for interest rate derivatives after the hedging relationship terminated.

At 34.7 percent, the tax load ratio inched down from the previous period's 35.5 percent.

The lower EBIT and the higher interest expenses clipped group earnings by €12.1 million.

The structural reorganization costs and soaring commodity prices had a significant impact on accounting input. Despite the improved total operating performance, the value added in 2005 crept up a mere 0.8 percent.

Vossloh Group: value added

	€ million	%	€ million	%
	2005		2004	
Created				
Net sales[1]	996.4	99.9	917.8	97.1
Net inventory movement/other work and material capitalized[1]	0.6	0.1	27.8	2.9
Total operating performance[1]	**997.0**	**100.0**	**945.6**	**100.0**
– less input[1]	641.9	64.4	591.9	62.6
– less amortization/depreciation/write-down[1]	23.9	2.4	25.2	2.7
Value added[1]	**331.2**	**33.2**	**328.5**	**34.7**
Distributed				
Employees[1]	234.5	70.9	217.5	66.2
Lenders	19.6	5.9	16.0	4.9
Stockholders	19.2	5.8	19.0	5.8
Treasury	30.6	9.2	37.2	11.3
Remaining in the Group	27.3	8.2	38.8	11.8
Value added[1]	**331.2**	**100.0**	**328.5**	**100.0**

[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

The value-added percentage distribution changed in comparison to 2004. The shares allocable to payroll and interest rose (chiefly due to the first-time consolidation and the funding of Vossloh España), while in contrast, the lower group earnings proportionately downscaled the 2005 shares in value added which were paid to the Treasury and retained as earnings.

Medium- to long-term contract manufacture constitutes the foundation of business at Motive Power and Information Technologies as well as Infrastructure Services. In contrast, sales at Vossloh Fastening Systems and Vossloh Switch Systems mainly result from short-term contracts, in some cases on a call-off basis.

In those business units working under longer-term contracts, orders on hand at the end of 2005 cover forecasted sales for 2006 by over 70 percent. At Electrical Systems and the Valencia-based locomotive manufacturing plant, the order backlog is well in excess of sales predicted for 2006. Less than satisfactory, on the other hand, is the present order situation at the Kiel locomotive plant. Because of this and the lack of invitations to bid for diesel locomotives due to a significant reduction in demand, this company responded by sharply downscaling its production capacities in 2005.

Order backlog of the Vossloh divisions

	€ million	%	€ million	%
	2005		2004	
Rail Infrastructure	313	28.8	372	48.9
Motive Power[1]	739	68.1	339	44.5
Information Technologies	34	3.1	50	6.6
	1,086	**100.0**	**761**	**100.0**

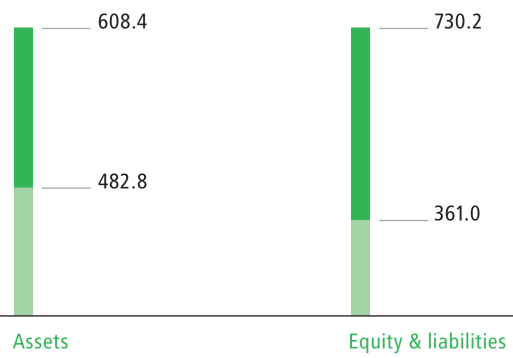
[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

Finance management and financial position

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, Group Treasury is in charge of securing the finances of all subsidiaries as well as of hedging and managing financial risks, which includes not only liquidity risk but also risks from interest and exchange rate fluctuations. Typical hedging instruments are financial derivatives. The group companies' funding level is largely ensured by Vossloh AG providing the necessary cash resources intragroup. For refinancing purposes, Vossloh resorts to the capital markets.

The Vossloh Group's net financial debt as of December 31, 2005, amounted to €220.5 million, up by €49.8 million from the prior year's €171.1 million, substantially as the acquisition of the Valencia locomotive plant required financing. As of December 31, 2005, financial debts of €275.8 million contrasted with cash and cash equivalents of €55.3 million; part of the financial debts will be used to fund future M&A transactions.

Asset and capital structure of the Vossloh Group as of December 31, 2005



Current assets/debt (€ million)
Noncurrent assets/equity (€ million)

Most of the financial debts represent the long-term debt of around €200 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 (due in 2014 and 2016, respectively) have a bullet maturity. Since the principal and interest payments have entirely been hedged on a euro basis through interest rate and currency swaps, both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively. The remaining financial debts as of the balance sheet date substantially included a short-term floating-rate loan of €26.0 million and a 5.93-percent note loan whose balance totaled €15 million at year-end 2005 and which is redeemable in annual installments of €5.0 million by mid-2008.

As of December 31, 2005, open cash credit facilities of about €200 million were available to the Vossloh Group. For details, see the chapter on risk management starting from page 55. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

The number of shares outstanding was increased in 2005 by 94,588 as options under the SOPs were exercised and totaled 14,734,811 as of December 31, 2005.

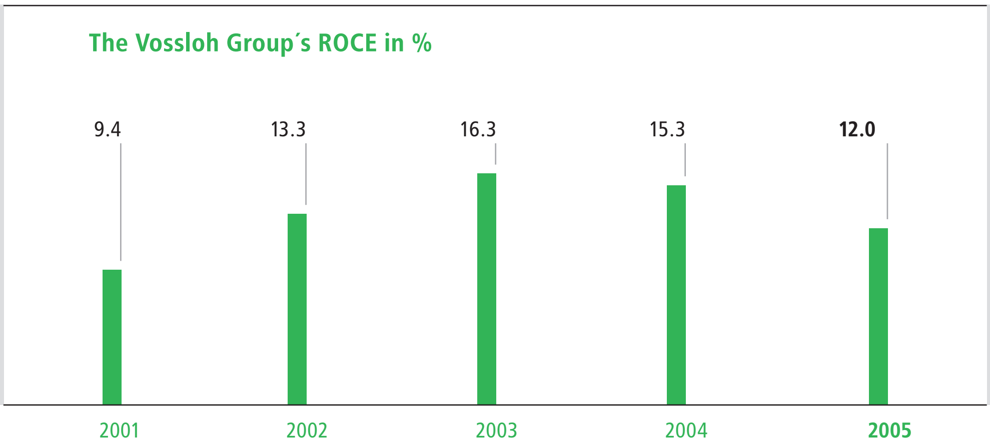
Net leverage of the Vossloh Group

		2005	2004
Equity	€ million	361.0	331.1
Net financial debt	€ million	220.5	171.1
Net leverage	%	61.1	51.7

Since net financial debt grew, net leverage (as the ratio of net financial debt to equity) rose from 51.7 percent in 2004 to 61.1 percent in the year under review, despite the higher equity of the Group.

Cash flow trend of the Vossloh Group

€ million	2005	2004
Cash flow from operating activities	54.6	32.9
Cash flow from investing activities	(65.5)	(27.5)
Cash flow from financing activities	(78.9)	110.5
Net change in cash and cash equivalents	(89.8)	115.9



As from 2003 acc. to IFRS

The net cash of €65.5 million used in investing activities 2005 increased considerably from the prior year's €27.5 million since—although the cash outflow for added tangible and intangible assets sank from €39.4 million a year ago to €34.5 million in 2005—the acquisition price for the Valencia locomotive plant had to be financed at a net €24.0 million and the cash inflow from the disposal of fixed assets was significantly lower.

Vossloh Group: capital expenditures vs. amortization/depreciation[1] of intangibles and tangibles

	2005		2004	
€ million	Cap. expend.	Amort./deprec.	Cap. expend.	Amort./deprec.
Rail Infrastructure	15.4	14.1	19.6	13.1
Motive Power[1]	12.9	7.8	14.4	9.5
Information Technologies	4.1	1.2	4.3	1.3
H.O./consolidation	2.1	0.8	1.1	1.3
	34.5	**23.9**	**39.4**	**25.2**

[1] The 2004 amortization/depreciation/write-down have been adjusted for the charges allocable to the Services business unit (vehicle M&R).

Expenditures by Rail Infrastructure concerned, in particular, the upkeep and extension of production plant and machinery. At Motive Power and Information Technologies, €6.4 million and €1.7 million of capitalized development costs accounted for large proportions of the expenditures, respectively. Meriting particular mention at Motive Power is the development of a new diesel-hydraulic center-platform cab locomotive as well as large diesel-electric locomotives.

Vossloh Group: breakdown of capital expenditures for intangibles and tangibles

	2005		2004	
€ million	Cap. expend.	%	Cap. expend.	%
Development costs	8.4	24.3	5.3	13.5
Other intangible assets	1.6	4.6	5.3	13.5
Land and buildings	2.0	5.8	3.3	8.4
Production plant and machinery	14.8	42.9	10.6	26.9
Other plant, factory and office equipment	6.5	18.9	5.3	13.4
Prepayments on tangibles, construction in progress	1.2	3.5	9.6	24.3
	34.5	**100.0**	**39.4**	**100.0**

The future cash outflows under the operating leases existing at December 31, 2005, total €38.2 million (up from €15.5 million), including €6.3 million in 2006.

The change is substantially due to a sale & leaseback transaction for locomotives destined for lease-out. The existing property leases entail cash outflows of a total €15.5 million (down from €21.9 million), including €2.1 million in 2006. Future cash outflows under capital leases came to €1.8 million as of December 31, 2005.

Asset and capital structure

The increase by 17+ percent of the Group's fixed assets to €453.3 million, which was the main reason for total assets climbing around 7 percent to €1,091.2 million, was not only caused by the excess of capital expenditures over amortization, depreciation and write-down but also due to the initial consolidation of Vossloh España. The net earnings for 2005 of €45.1 million contrasted with a total dividend payout of €19.0 million for 2004, which raised total equity by 9.0 percent to €361.0 million and thus again upgraded the Group's equity ratio (33.1 percent in 2005).

Vossloh Group: asset and capital structure

		2005	2004
Total assets	€ million	1,091.2	1,016.7
Equity	€ million	361.0	331.1
Equity ratio	%	33.1	32.6
Working capital	€ million	303.3	303.2
Working capital ratio[1]	%	30.4	33.1
Capital employed	€ million	756.6	690.2
Fixed assets	€ million	453.3	387.0
ROCE[1]	%	12.0	15.3
Return on equity (ROE)[1]	%	19.7	27.1

[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

While the Group's working capital as of December 31, 2005, changed to a marginal extent only, the significantly heavier capital expenditures for fixed assets drove up capital employed (CE) by 9.6 percent. Consequently, the higher CE and lower EBIT slashed ROCE from 15.3 percent a year ago to 12.0 in 2005.

As part of its value-driven growth strategy, the Vossloh Group aims not only at fulfilling the yield or ROI expectations of its stockholders and lenders but, also, achieving a premium on the capital employed. In order to satisfy the ROI aspirations of its investors and lenders, the Group must at present achieve an ROCE of around 10 percent. As value-targeted benchmark, an ROCE of at least 15 percent has been defined groupwide, from which a 5-percent CE premium is then derived. In the two previous years, this benchmark had been attained but in 2005, due to the one-off burdens on earnings and the simultaneous increase in capital employed, the return of 2.0 percent attained—while mirroring the addition of some value—fell short of the internal benchmark.

Overall statement on the economic position

By the cutoff date for the consolidated financial statements, no material subsequent events had occurred that conflict with statements on the Group's future as concluded from the situation presented herein.

Greater mobility in the Indian capital on rail fasteners supplied by Vossloh: the Delhi metro put line 2 into operation in the summer of 2005 and the first section of line 3 in December 2005. The network is being further expanded.

Rail Infrastructure division

With its track fastening and switch systems as well as trackage construction and maintenance operations, Rail Infrastructure offers core components and services for rail-bound traffic on a worldwide scale. Vossloh track fasteners plus switches and crossings from Vossloh Cogifer have held positions of world market leadership for many years. State, municipal and private rail operators place their trust in the competence of this division when it comes to building, maintaining and electrifying rail infrastructures. By jointly pursuing projects and developing products, this division's business units enhance customer benefits and strengthen the division's position as such.

		2005	2004
Net sales	€ million	579.5	514.1
EBITDA	€ million	101.9	103.8
EBIT	€ million	87.8	90.7
EBIT margin	%	15.1	17.6
Working capital	€ million	172.7	164.6
Working capital ratio	%	29.8	32.0
Fixed assets	€ million	296.1	294.9
Capital expenditures*	€ million	15.4	19.6
Depreciation/amortization	€ million	14.1	13.1
Capital employed	€ million	468.8	459.5
ROCE	%	18.7	19.7

* excl. financial assets

Rail Infrastructure's sales increase by €65.4 million or around 12.7 percent is exclusively the outcome of growth in the Switch Systems and Infrastructure Services units and especially in the French domestic market where in 2005 both were involved in building the new high-speed Paris–Strasbourg line. Urban public transit projects in numerous large French cities also contributed to the sales gain, especially at Infrastructure Services. Since 2004 many municipal infrastructure projects have been partly subsidized by the Agence de Financement des Infrastructures de Transport de France (AFITF) and by 2012 this agency will assist to the tune of around €7.5 billion in the funding of numerous infrastructure projects worth a total of about €38 billion. The rest of the funds is being provided by municipal and private operators.

Despite the sales growth, EBIT dropped by 3.3 percent to €87.8 million. Since the sales gain was mainly generated by Infrastructure Services, the least profitable of the three business units, the EBIT margin slipped from 17.6 percent to 15.1 percent. Apart from this, a drop in Fastening Systems' margins was attributable to this development. Besides the fewer high-margin mega-projects and a reduction in business volume, price concessions to customers (internally absorbed material price increases) also eroded the EBIT margin.

Working capital rose by €8.1 million or almost 5.0 percent. Whereas inventories and trade payables remained at the level of 2004, trade receivables from long-term PoC contracts increased at Vossloh Infrastructure Services. This rise was only partly compensated for by higher customer prepayments. Accordingly, capital employed rose by 2.0 percent to €468.8 million.

At 18.7 percent, ROCE in 2005 was around one percentage point below that of 2004 of 19.7 percent. Rail Infrastructure again clearly topped the Vossloh Group's ROCE benchmark of 15 percent in 2005.

Fastening Systems business unit

The Fastening Systems business unit is among the worldwide leading producers of track fastening systems which are employed in more than 65 countries and ensure safety and efficiency in rail traffic. Apart from elastic fasteners for ballast and slab tracks on mainline and urban lines, the product range comprises bolted fastening systems for all load profiles—from heavy-load to high-speed tracks. The business unit's global market share amounts to some 35 percent, in Europe around 65 percent.

The basis for the BU's business remains the track fastening system W 14 for concrete sleepers and the system 300 for slab tracks. In 2005, too, regional focal points of activities were Europe and Asia. Products were also shipped out for projects in Africa and South America.

In 2005, Fastening Systems generated sales amounting to €147.0 million. Although the fiscal year turned out better than originally envisaged, the high sales level of 2004 (€150.2 million) was not repeated.

In the domestic market, sales at €51.1 million did outpace original expectations, dropped, however, by another 11 percent when compared with the previous year's €57.3 million. Whereas more of the W 14 system for modernizing the rail network of Deutsche Bahn AG was delivered, shipments for new trackage dropped sharply in number. While back in 2004, deliveries for building a high-speed line from Nürnberg to Ingolstadt had still meant significant activities in constructing new tracks, in 2005, this business virtually ground to a halt.

Outside of Germany, sales at €95.9 million again exceeded the year-earlier high level by around 3 percent. Exports to the Netherlands alone amounted to over €23 million, especially for equipping the new high-speed (HSL Zuid) line from the Belgian border to Amsterdam.

Fastening Systems in Turkey equipped the high-speed line Ankara–Istanbul with rail fasteners working together with Vossloh Switch Systems. The sales volume amounted to roughly €9 million for the first construction phase in 2005.

Following Vossloh's delivery of fasteners for the Italian high-speed line Torino–Novara in 2004, sales of more than €5 million were posted in 2005, again for the further construction of the line.

Outside of Europe, Vossloh Fastening Systems was involved in numerous megaprojects as well. Rail fasteners were dispatched to Société Nationale Industrielle et Minière (SNIM) in Mauritania, where SNIM operates a rail line with a length of 700 kilometers which mostly leads through stormy desert regions. This is where four times a day the world's probably longest freight train operates. Vossloh's rail fasteners are exposed to the most punishing climatic conditions as well as an extreme weight of up to 22,000 t per train.

Vossloh delivered rail fasteners to Romania for the building of the Bucharest–Constanţa line, part of the European Transport Corridor IV.

The surge in raw materials prices of recent years continued unabated in 2005. In both 2004 and 2005, purchase prices for steel products rose by 25 percent annually. Vossloh managed to channel the price increases down to customers only partly.

Although action taken on the procurement side of the business did absorb some of the effects of these drastic price increases, they failed to fully compensate for them. Vossloh piled up its inventories prior to announced price increases to secure a somewhat lower price level for itself. By identifying new purchase sources at home and abroad, price differences between various suppliers were better exploited. When choosing new suppliers, reliability and product quality remained focal points to ensure the high and lasting quality of the safety-relevant Vossloh products.

In 2005, expenditures by the Fastening Systems business unit of €0.9 million (down from €1.8 million) mainly concerned the purchase of tools for manufacturing plastic components.

In 2005, Vossloh Fastening Systems booked orders valued at €137.3 million. For the first time, this included a contract from the Vietnam state railway amounting to more than around €1.5 million for the delivery of the W14 rail fastening system for 2-track sleepers. The first deliveries for this project are to take place in 2006.

Switch Systems business unit

In 2005, Switch Systems posted sales of €258.3 million (up from €227.0 million), this being the most successful year in its corporate history. Hence, the business unit further broadened its position as the world’s second largest supplier of switches and switch systems.

Business in the home market of France branched out vigorously in 2005. Supported by public subsidies, many large French cities such as Bordeaux, Marseille or Strasbourg further extended their public (sub)urban rail infrastructures. To this end, Switch Systems supplied switches, crossings and signaling products. On many of these projects Vossloh Infrastructure Services is at the same time responsible for the track construction including the installation of switches and signaling technology.

In 2005, SNCF received switches for building the new high-speed line TGV East. This will reduce travel time from Paris to Strasbourg to 2 h and 20 min. For the first time the TGV will achieve a travel speed of up to 320 km/h. This line, too, is partly being built by Vossloh Infrastructure Services.

Outside of France, business developed favorably overall. The Balkan market is showing revival, where the Serbian subsidiary achieved initial sales growth—though still from a low baseline.

The market was also congenial in Italy, where Switch Systems supplied switches for building the high-speed line from Bologna to Milan as well as in Turkey, where track fasteners were supplied for the new rail link between Ankara and Istanbul.

In Asia, switches were delivered for projects in Taiwan and Hong Kong. With the acquisition of two further companies in India in 2005, Switch Systems is very well positioned in this future market, too. The strong economic growth forecasted for India in the years to come is also expected to stimulate demand for building and upgrading Indian railway lines.

At Switch Systems, surging steel prices were felt on the purchase side of the business. Similarly to the Fastening Systems business unit, the price increase could only partly be funneled down the customers. Hence, in this business unit, too, margins fell slightly short of those in 2004.

The record sales in 2005 led to almost full capacity utilization at the French production locations. Anticipative production planning, the expenditures of 2004 and a carefully calculated inventory management, on the one hand, ensured smooth production processes and prevented a rise in working capital, on the other hand.

At €6.1 million, expenditures in 2005 fell clearly short of the previous year's €8.4 million and mainly concerned production optimization and modernization at the French plants and the merger of the two Swedish production locations in Ystad and Örebro. As part of the environmental protection measures, a modern sand recovery plant was installed at the Spanish foundry.

At €147 million, Switch Systems did not quite achieve the previous year's record high of €167 million. Conventional switches for Morocco as well as switches and crossings for various (sub)urban transit projects in France are among the main orders for 2006. The signing of multi-year basic agreements with customers in northern Europe and the Middle East offers Vossloh Switch Systems good employment perspectives in the long term, too.

Infrastructure Services business unit

Products and services for every aspect of trackage form the core sector of the Infrastructure Services business unit. The focal point is track maintenance. Apart from this, the unit's activities comprise the building of new state, municipal and private track systems, the link-up of industrial railways as well as overhead wire construction. Backed by its leading position in France, Belgium and Luxembourg, the unit is also forging ahead in other countries in the project business with track systems for trams and urban rail systems—in 2005, for instance, in Italy and Venezuela. Among its prime international contracts is the maintenance of the Eurotunnel trackage.

In fiscal 2005, Infrastructure Services generated a sales volume of €196.3 million, up around 30 percent from the previous year's €150.4 million.

The higher sales are mainly ascribable to the record volume within France, where in 2005, sales of around €166 million were generated, a share of almost 85 percent of the business unit's total sales. The activities in France were thus expanded by around 25 percent over 2004.
Sales from megaprojects in the (sub)urban transit sector and for overhead wire construction rose overproportionately.

In France, revenues from megaprojects increased from €13.3 million in 2004 to €49.0 million in the year under review. Fiscal 2005 saw the parallel processing of in some cases seven different tram projects. The boom resulted also from the postponement of projects originally planned for 2004. In overhead wire construction, sales in France climbed around 38 percent to €19.0 million. Track maintenance work for the French state railway SNCF as well as the share in building the high-speed line TGV East from Paris to Strasbourg together contributed around €55.0 million to total 2005 sales at Vossloh Infrastructure Services. Compared with 2004, this is an increase of some 3 percent. The unit's industrial customer business was maintained at the prior year's level.

Belgium and Luxembourg form Infrastructure Services' second main market. In 2005, sales in these two countries surged by 21.6 percent or €5.2 million to €29.3 million, a decisive factor being that the Vossloh companies in Belgium and Luxembourg in 2005 restructured their sales organizations to enhance their competitiveness.

Despite a weather-related weak first half of the year, Luxembourg still managed to show significant growth rates in business activity in 2005. Sales soared over the prior year by around 9 percent to €18.4 million. For 2005, the Belgian company reported a surge in sales of around 50 percent over 2004.

Significant business outside the core markets comprised the building of various metro lines in Caracas, Venezuela—a project conducted in cooperation with Amec and Alstom.

The postponement of projects from 2004, weather-related project delays at the beginning of 2005, as well as the high order backlog confronted Infrastructure Services with significant logistic challenges in the second half of 2005. Still, the municipal tram projects were completed according to schedule and cost budget.

In 2005, Vossloh Infrastructure Services spent €8.8 million versus €9.4 million one year before. Most of the spending affected the replacement and modernization of existing equipment. Worth mentioning are the purchase of modern lift trucks for overhead wire construction as well as the intragroup purchase of four locomotives from Kiel for track-laying trains.

Vossloh Infrastructure Services also purchases rail infrastructure components for building and servicing track systems. Among these are in particular rails, switches, mainly from Vossloh Cogifer, as well as sleepers. Possible procurement price increases are generally countered by escalator clauses in existing contracts so that most of the price increases were passed down to the customers in 2005.

Order backlog at December 31, 2005, amounted to around €150 million (down from €180 million). Major orders for 2006 involve tram projects as well as new high-speed lines being built in France. One reason for the higher order backlog in 2004 was the postponement of various tram projects to 2005.

A newcomer to the product range: the Albuixech locomotive plant near Valencia was assimilated into the Vossloh Group in 2005. Diesel-electric units are built in Spain, while in Germany Vossloh concentrates on diesel-hydraulic.

Motive Power division

For the Motive Power division, 2005 was characterized by incisive changes in the Locomotives business unit. On the one hand, the acquisition of the Alstom diesel locomotive plant in Valencia, Spain, was successfully closed on April 1, 2005. On the other, locomotive production at the Kiel location was restructured.

By acquiring the Valencia plant (now Vossloh España), Vossloh strengthened its leadership as a manufacturer of diesel locomotives in Europe. The product range to date with a focus on diesel-hydraulic locomotives was extended by diesel-electric units. Whereas Kiel builds two- and four-axle diesel-hydraulic locomotives in the low- and medium-output range, diesel-electric locomotives for passenger transportation, freight haulage, and shunting operations are produced in Valencia. In future, one emphasis will be on six-axle locomotives in the upper output category. The plant also produces bogies and handles suburban transport projects in the Valencia region. In terms of order backlog, Vossloh España's order books are presently full but Kiel's declining. In the year under review, sluggish spending propensity on the part of various state railways inevitably required a capacity reduction and a streamlining of operating processes in order to secure the tradition-rich locomotive location in Kiel in the long term. In the wake of the restructuring program and in addition to the temporary employees, 179 of the regular workforce left in 2005 and at the start of 2006.

The Electrical Systems unit rounds off Motive Power's activities. On the world market, Vossloh Kiepe is positioned as a systems and components supplier for electrified (sub)urban public transport systems. This traction equipment specialist leads the Western European and North American markets for trolleybus systems. Vossloh Kiepe also produces and assembles electrical equipment for trams and urban rail vehicles and, at the Vienna location, heating, air-conditioning and ventilation systems.

Through its Services BU, Motive Power had been involved in vehicle maintenance and repair (M&R) until the start of 2005. The unit (sales 2004: €4.6 million) was sold with economic effect as of January 1, 2005. For reasons of comparability, Vossloh Services' contributions have been eliminated from the prior year's income statement.

		2005	2004
Net sales[1]	€ million	365.2	340.9
EBITDA[1]	€ million	23.1	28.1
EBIT[1]	€ million	15.3	18.6
EBIT margin[1]	%	4.2	5.5
Working capital	€ million	102.7	121.6
Working capital ratio[1]	%	28.1	35.7
Fixed assets	€ million	123.0	64.0
Capital expenditures*	€ million	12.9	14.4
Depreciation/amortization[1]	€ million	7.8	9.5
Capital employed	€ million	225.7	185.6
ROCE[1]	%	6.8	10.0

[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

* Excl. financial assets

Of the €24.3 million or nigh 7-percent rise in Motive Power sales, €18.7 million was contributed by Vossloh Locomotives while Vossloh Electrical Systems inputted €5.5 million to the increase. At the Kiel location, sales in 2005 amounted to €177.5 million, almost one-third below the previous year's €257.6 million.

The number of locomotives shipped out from Kiel dropped from 126 in 2004 to 87. The lower business volume in Kiel was fully compensated for by the first-time inclusion of Vossloh España, although the closing of the deal failed to take place in January 2005, as originally planned—but on April 1, instead. Between then and December 2005, Vossloh España generated 9-month sales of €98.8 million. In the Electrical Systems division, sales at €88.9 million were 6.6 percent above the previous year's €83.4 million. Sales in the tram and urban rail vehicle segment increased 3.9 percent over the previous year while trolleybus sales climbed 22.3 percent.

Despite broadening sales, the division's EBIT dropped €3.3 million to €15.3 million, the reason being the full inclusion of costs for the restructuring measures at the Kiel location, amounting to €6.8 million. Despite the first-time inclusion of Vossloh España, at €102.7 million, working capital fell 15.5 percent short of the prior year's figure, mainly due to significantly reduced trade receivables at Kiel.

As a consequence of the acquisition of the locomotive plant in Valencia, the division's fixed assets rose by €59.0 million to €123.0 million in 2005. At €49.1 million, the new location's goodwill made up most of the rise. Since the advance in fixed assets clearly outpaced the decline in working capital, capital employed rose by €40.1 million to €225.7 million. The acquisition-related climb in capital employed and the one-off EBIT burdens due to restructuring costs depressed ROCE by 3.2 percentage points to 6.8 percent.

Locomotives business unit

Due to the acquisition of the diesel locomotive plant in Valencia, which compensated for the steep sales loss by the Kiel-based company, the unit's sales ascended to €276.3 million (up from €257.6 million). The last 14 of the locomotives for the Belgian state railway (SNCB) were delivered in 2005. This completed the delivery of altogether 170 HLD 77 locomotives, a special development on the basis of the G 1206 series of standard locomotives. And in the summer of 2005, the last universal locomotives of the first batch for SBB AG were completed and delivered according to schedule. The Am 843 locomotives with soot filter as standard equipment are remarkable for their environment friendliness and high reliability. SBB AG then exercised an option for 14 additional units some of which were delivered as early as 2005. On completion of the order in 2006, SBB AG will operate more than 73 environment-friendly Am 843 locomotives.

In 2005, Vossloh España generated around 70 percent of sales with diesel locomotives, including orders from the French state railway (SNCF) and the Spanish state railway company (RENFE). Around 28 percent of sales was accounted for by bogie production and suburban transit projects in Valencia. Expenditures by the Locomotives unit mounted to a total of €11,1 million (up from €9.3), Vossloh España's share being €3.9 million. At €6.4 million, the lion's share consisted of capitalized development costs, also for the new diesel-hydraulic center-cab platform, and the large diesel-electric, locomotives. Other procurements were mainly machinery and production plant at Valencia and the extension of IT systems at both locations.

Input prices developed at mixed rates in 2005. Whereas moderate price increases for transmissions and engines had to be accepted, lower purchase prices were negotiable for mechanical and electrical components. The optimization program at the Kiel location also impacted on procurement and stocking processes. Due to improved production process control and the introduction of a just-in-time supply system, the space set aside for production was considerably reduced.

At the end of 2005 the order situations at the two locomotive locations were in sharp contrast. Order intake clearly failed to meet expectations in Kiel in 2005, since several European state railways again postponed sizeable projects. As of December 31, 2005, order backlog amounted to around €100 million, down from around €184 million. In contrast, Vossloh España's order backlog was €430 million. A large share of the new orders in 2005 came from RENFE and the local transit authority. Among the major orders in Kiel were the exercise of the SBB option as well as orders from Angel Trains Cargo, Mitsui Rail Capital Europe and BLS Lötschbergbahn.

Electrical Systems business unit

In the year under review, Vossloh Electrical Systems generated sales of €88.9 million (up from €83.4 million). 36 percent was accounted for by equipment for trams and urban rail vehicles while equipment for trolleybuses contributed around 26 percent. The remaining sales were sourced from partly equipping and modernizing urban and other rail-bound vehicles as well as from business in components such as heating, air-conditioning and ventilation systems.

In 2005, electrical equipment for trams and urban rail vehicles was shipped out for projects in Bremen, Leipzig and Cologne. The latter started in April 2005 with the public presentation of the first of a total of 69 new low-floor urban rail vehicles to be handed over by the end of 2007. The largest current trolleybus project is the equipping of 188 single and 40 articulated trolleybuses for the municipality of Vancouver with a total value of €70 million. Further significant projects involve several cities in Switzerland, such as Geneva, where the first series-produced double-articulated bus was delivered in December 2005. The quality of the air-conditioning and ventilation systems is of gaining significance in terms of competitiveness of (sub)urban transport facilities. As a market leader in this segment, Vossloh Kiepe is presently fitting out 188 trams and urban rail vehicles of the city of Vienna with advanced technology.

Most of the business unit's capital expenditures of around €1.8 million (down from €5.1 million) concerned replacement of computer, factory and office equipment including for the new building in Vienna moved into in 2005. As of December 31, 2005, Vossloh Electrical Systems' order backlog came to around €209 million, following €201.0 million a year before. In 2005, order intake reached €97 million, this figure including orders for the electrical equipment of a total of 50 trolleybuses for Genoa and Zurich. Moreover, Vossloh Electrical Systems was awarded the contract for equipping 127 subway vehicles of Southeastern Pennsylvania Transportation Authority (SEPTA), Philadelphia, with new traction systems by 2008. Vossloh managed to prevail against international competitors and further strengthen its position in North America. In 2005, the German city of Dortmund ordered 47 low-floor trams with an option on five further vehicles from the Vossloh Kiepe and Bombardier Transportation consortium. Deliveries will start in October 2007 and continue until December 2010. As systems supplier, Vossloh Kiepe is responsible for developing, delivering and assembling the entire electrical system. Wiener Linien, Vienna, too, ordered from the consortium 38 urban rail vehicles for delivery between the end of 2006 and mid-2008, this contract including an option for 42 additional vehicles.

Upgrade: Vossloh is fitting a new passenger information system, including electronic seat reservation, in 708 ICE1 railcars operated by Deutsche Bahn AG. A prototype was tested during the summer of 2005.

Information Technologies division

Vossloh Information Technologies is an IT specialist in process automation for railway transport. With a product lineup extending from passenger information and operations control via planning and simulation to electronic interlock systems, Vossloh Information Technologies offers solutions which further enhance the rail system's competitiveness.

		2005	2004
Net sales	€ million	53.8	64.6
EBITDA	€ million	4.4	8.9
EBIT	€ million	3.2	7.6
EBI margin	%	6.0	11.8
Working capital	€ million	28.0	16.6
Working capital ratio	%	52.1	25.7
Fixed assets	€ million	18.8	15.9
Capital expenditures*	€ million	4.1	4.3
Depreciation/amortization	€ million	1.2	1.3
Capital employed	€ million	46.8	32.5
ROCE	%	6.8	23.4

* Excl. financial assets

Sales by this division in 2005 added up to €53.8 million, representing a fall of almost 17 percent or €10.8 million from the prior-year level. The often substantial sales growth of previous years therefore halted for the time being. At €45.8 million (down from €52.2 million), business volume in Germany again accounted for the lion's share of sales.

The reason for the sales decline compared with the record performance in 2004 was the continued reluctance to invest on the part of railways, especially in the key markets of Germany and the UK. The freeze on investment by the privatized British rail operator Network Rail, for example, again resulted in a year-on-year drop in sales. Sales to Deutsche Bahn AG (German Rail)—the division's biggest single customer—were also down in 2005 not least because two major contracts had come to an end. In 2003 and 2004, Vossloh, firstly, equipped some 1,200 Intercity railcars and 145 locomotives with new information and communication technology under the UIC Zugbus project. Secondly, a substantial proportion of the project to implement operations centers based on the most innovative rail traffic management system currently available in Europe had also been completed the year before. These two projects alone contributed almost €30 million to prior-year sales (compared with the €4.8 million generated in 2005).

In the passenger information systems unit, the Information Technologies division’s activities are increasingly focusing on solutions which combine passenger information and operations management systems. An example of this trend is the DEFAS (universal electronic passenger information and connection system) project, initiated and subsidized by the state of Bavaria, which interlinks all the operations control and passenger information systems belonging to the whole local transport network. Vossloh is currently implementing with the Munich transit authority a project under which more than 150 (sub)urban rail stations are being supplied with automatic announcements and displays from a central control room.

In interlocking and signaling technology, the Information Technologies division continues to count on the Alister electronic interlock system, based on open standardized industrial components, for shunting stations and secondary lines. This innovative system is arousing great interest among experts. Even though the German federal railway authority has not yet granted the system its approval, further bids were submitted internationally in 2005 and new orders secured.

Based on the lower business volume, the division's EBIT slumped from the year-earlier €7.6 million to €3.2 million.

Owing to the EBIT fall in 2005 coupled with a clear increase in capital employed, ROCE plunged from 23.4 percent in 2004 to 6.8 percent in 2005. The rise in capital employed was chiefly attributable to higher trade receivables, which raised working capital by €11.4 million. At €1.7 million, capitalized development costs accounted for the bulk of capital expenditures in 2005.

The weak demand in key markets was also reflected in the division's order backlog, which as of December 31, 2005, came to some €33 million, falling well short of the prior-year €41.6 million. Especially significant among the orders booked in 2005 was the conclusion of a general agreement with SBB AG on the Rail Control Center (RCS) project in cooperation with the Swiss company CSC. The contract to implement the new operations control and management system in Switzerland will run until the end of 2008. In the contract award process Vossloh Information Technologies prevailed over ten renowned competitors.

In order to overcome the dip in demand, Vossloh Information Technologies is planning to expand its marketing activities. Further efforts to expand business activities internationally are required to reduce dependence on individual markets and customers. The division's six major customers accounted for more than 75 percent of sales in 2005. Its sales network was therefore expanded during the period, with the formation of a subsidiary in Warsaw, Poland, which is intended to boost sales activities in Central & Eastern Europe substantially. At the same time, the establishment of a software development organization in Poland should reduce the cost of these services markedly.

The cooperation with other Vossloh business units started in previous years was successfully continued in 2005. The Information Technologies division has been collaborating with Vossloh Switch Systems in the field of control and safety systems for three years, an initial success being the joint contract to renew signaling and control systems on Corsica's rail network. Vossloh Kiepe sources mobile passenger information systems from Vossloh Information Technologies, for its projects Bremen and Vienna, for example. Especially in these market segments, the bundling of capabilities boosts the market profile of the Vossloh companies concerned.

Analysis of the separate financial statements of Vossloh AG

As management and financial holding company, Vossloh AG parents the Vossloh Group, determines corporate strategy and planning, is responsible for human resources policy, HR development and top management issues, as well as group accounting and controlling, groupwide treasury management, risk management and internal auditing, besides being in charge of investor and public relations. In addition, Vossloh AG centrally controls and defines the Group's corporate identity, corporate design, and IT systems.

As nonoperating holding company, Vossloh AG generated sales in 2005 of €1.9 million (virtually unchanged). Its net income of €39.6 million (up from €36.0 million) is the bottom line after accounting for administrative expenses, the net other operating income, the net financial result, and income taxes. The 2005 net other operating income of €8.1 million (down from €17.2 million) includes income from intragroup fee allocations and the release of unutilized accruals.
The €9.1 million decrease was attributable to shrinking income from intragroup fee allocations, as well as to the prior-year gain from the disposal of the stake in Niles Simmons Hegenscheidt GmbH and the 2004 income from the write-up of the investment book value of Vossloh Australia PTY Ltd. Thanks to the higher profit transferred by Vossloh Rail Technology GmbH (VRT), the net financial result hiked up from €42.5 million the year before to €52.4 million in 2005. The net interest income (including income from long-term loans) eased off to €7.1 million (down from €8.1 million). Despite the higher EBT of €47.0 million (up from €43.2 million), income tax expense dropped to €3.9 million (down from €7.2 million), largely due to considerably mounting tax-exempt portions in the profits transferred and the intragroup sale and transfer at market value of the investment in Vossloh Information Technologies GmbH, Kiel. As Vossloh Beteiligungsgesellschaft mbH & Co. KG accrued to Vossloh AG, extraordinary losses of €3.5 million were incurred.

It will be proposed to distribute an unchanged cash dividend of €1.30 per share—corresponding to a total €19.2 million—from the net income for 2005, as well as to retain most of the remaining net earnings of €20.4 million as equity and carry forward the balance.

As of December 31, 2005, Vossloh AG's fixed assets climbed €63.7 million to €318.6 million, primarily as a result of the stepped-up investment book value of, after transferring 94.9 percent of the shares in Vossloh Kiepe GmbH, Düsseldorf, to, Vossloh Rail Technology GmbH, Werdohl. In addition, the long-term loans to subsidiaries mounted by €24.0 million to €179.0 million. As part of the group-funding program, further long-term loans were granted in 2005 to Vossloh España S.A. and Vossloh Locomotives GmbH.

The stockholders' equity of Vossloh AG grew to €510.4 million (up by €22.8 million) and accounts for 62.8 percent of the total assets of €813.0 million. This improvement of the equity ratio (up from 55.5 percent) is the result of the pruned accounts due to banks, which as of year-end 2005 were slashed by €63.9 million to €41.1 million. The long-term debt raised in 2004 from the US capital market by way of private placement is carried within sundry liabilities and amounted to an unchanged €203.9 million as of December 31, 2005.

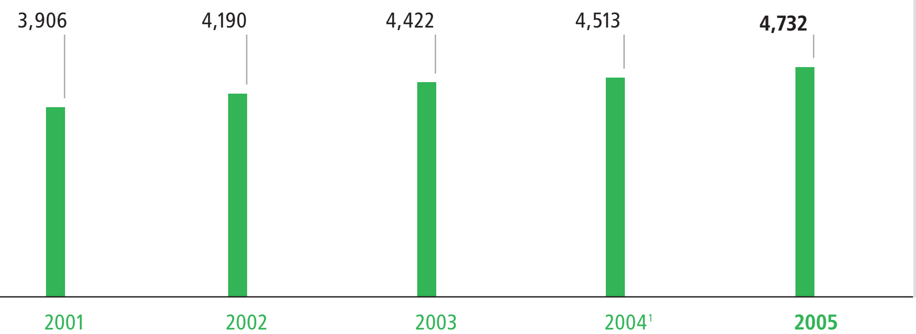
Workforce

At December 31, 2005, the Vossloh Group employed 4,729 people, hence 6.2 percent or 276 more than at the end of 2004 (4,453 employees). The larger workforce was mainly due to Vossloh España joining the consolidation group. The decline in workforce caused by the restructuring of Vossloh Locomotives, Kiel, was thus outcompensated. Especially due to the first-time inclusion of Vossloh España, restructuring burdens at Vossloh Locomotives as well as collectively agreed pay raises, personnel expenses climbed 7.8 percent from €217.5 million in 2004 to €234.5 million in the year under review. In 2005, the average expenses per capita (rounded) rose mainly due to increases in the Rail Infrastructure division versus the previous year from €48,200 to €49,600 (up 2.9 percent). At around €210,600, sales per capita within the Group in 2005 were 3.1 percent above the previous year's €203,400. Alongside steep rises in the Rail Infrastructure division, this is mainly ascribable to sales per capita at Vossloh España being well above group average.

Value added (i.e., the sum total of EBIT, personnel expenses and non-income taxes) improved further from €328.5 million to €331.2 million in 2005. The ratio of payroll to value added climbed in 2005 due to the higher personnel expenses by 4.6 percentage points to 70.8 percent (up from 66.2 percent).

The workforce in the Rail Infrastructure division had dropped at year-end 2005 by 3.6 percent from 3,005 to 2,896 employees. Due to growth in all the three business units, sales per capita (rounded) mounted sharply by 15.9 percent to €195,400 in 2005 (up from €168,600). At the same time, the average personnel expenses also moved up by 6.1 percent from €41,000 to €43,500. Apart from collective pay increases, the main cause was changes in the employee mix (reduction in the number of employees in low-wage countries) at the Fastening Systems and Switch Systems business units.

Group headcount on annual average



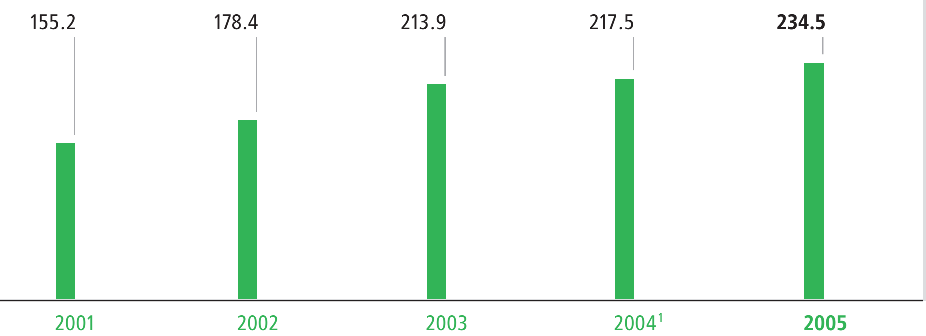
[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

The value added by Vossloh Rail Infrastructure inched up from €221.1 million to €222.4 million, personnel expenses climbing 3.1 percent, from €125.1 million to €129.0 million. This resulted in a payroll-to-VA ratio of 58.0 percent (up by 1.4 percentage points).

Due to the first-time inclusion of Vossloh España and despite the workforce reduction within the framework of the Kiel restructuring program, the number of employees climbed in the Motive Power division by 35.1 percent from 1,131 to 1,528. Sales per capita (rounded) fell due to the definite decline at Vossloh Locomotives in Kiel by 15.4 percent from €296,800 to €251,000. Notwithstanding the inclusion of the restructuring burdens at Kiel, personnel expenses per capita (rounded) slipped by 5.5 percent from €57,800 in the previous year to €54,600. The value added mainly increased due to the addition of Vossloh España by 11.2 percent from €85.2 million to €94.7 million. At the same time, personnel expenses advanced by 19.8 percent to €79.4 million (up from €66.3 million). Accordingly, the ratio of payroll to value added surged by 5.9 percentage points from 77.9 to 83.8 percent in 2005.

At Vossloh Information Technologies, the headcount shrank by 3.5 percent to 273 in 2005 (down from 283). Due to the division's sales decline, at around €192,100, average sales per capita were 15.9 percent below the previous year's €228,400. Average personnel expenses (rounded) rose by 2.5 percent to €69,600 (up from €67,900). The value added by Vossloh Information Technologies dropped by 14.9 percent from €26.8 million to €22.8 million because personnel expenses edged up from €19.2 million to 19.5 million, and EBIT was much lower. Hence, the ratio of payroll to value added soared from 71.6 to 85.5 percent in 2005.

Group personnel expenses in € million



[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

As from 2003 acc. to IFRS

Workforce-related indicators

		2005	2004[1]	2003[2]	2002	2001
Personnel expenses per capita	€ '000	49.6	48.2	48.4	42.6	39.7
Sales per capita	€ '000	210.6	203.4	206.4	177.7	166.5
Payroll to value added	%	70.8	66.2	66.9	69.0	76.0
Value added per capita	€ '000	70.0	72.8	72.3	61.7	52.3

[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

[2] 2003 figures differ from previous reports due to the transition from US GAAP to IFRS

Personnel expenses

€ million	2005	2004[1]	Change in %
Pay	182.1	168.2	8.3
Social security	50.2	47.8	5.0
Pension expense	2.2	1.5	46.7
Total personnel expenses	**234.5**	**217.5**	**7.8**

[1] The prior-year comparatives have been adjusted for the Services business unit (vehicle M&R).

Headcount 2005

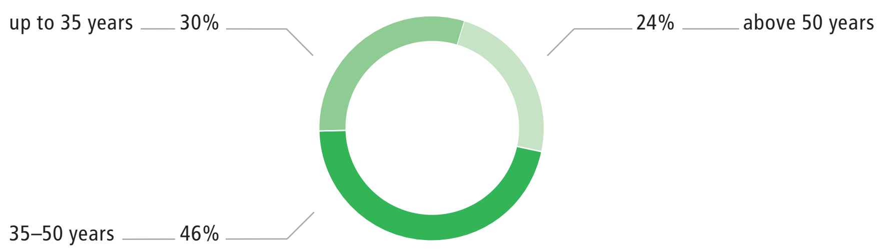
	Annual average			**Year-end**		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Rail Technology	1,463	3,238	4,701	1,386	3,310	4,696
Vossloh AG	31	–	31	33	–	33
Total	**1,494**	**3,238**	**4,732**	**1,419**	**3,310**	**4,729**

Employee numbers have been translated into FTE (full-time equivalents).

Restructuring in Kiel

Because already announced invitations to bid for diesel locomotives were then retracted, the situation of Vossloh Locomotives at Kiel has further worsened. As a consequence, the number of locomotives built in 2005 plunged from the level a year ago. In order to meet the stronger demand fluctuations more flexibly and to break even with much lower unit numbers, Vossloh Locomotives carried out a restructuring program which also included personnel cutbacks. On April 18, 2005, and after thorough negotiations with the works council and the local trade union, a reconciliation of interests, an exit plan and a supplementary agreement for securing the Kiel location were signed. The agreements also included a loss of 184 jobs, of which most (179) took effect as early January 1, 2006.

Age structure within the Vossloh Group



The workforce largely contributed toward cutting personnel expenses, also by temporarily waiving collective pay raises and Christmas bonuses, by extending the weekly working hours without wage compensation as well as by an increased working time flexibility. Thus, the basis was created for successful restructuring measures, mostly implemented by the end of 2005. For the employees still working at the location, Vossloh promised secure jobs, a move that clearly reflects its commitment to the location.

Vocational training and further education

Our employees form the basis of our success. Only if Vossloh repeatedly succeeds in recruiting qualified employees and tying them to the Group in the long run can the international growth course be successfully continued. Vossloh sets standards as early as at the vocational training stage. This is continued from the advancing of youngsters to the further development of management staff.

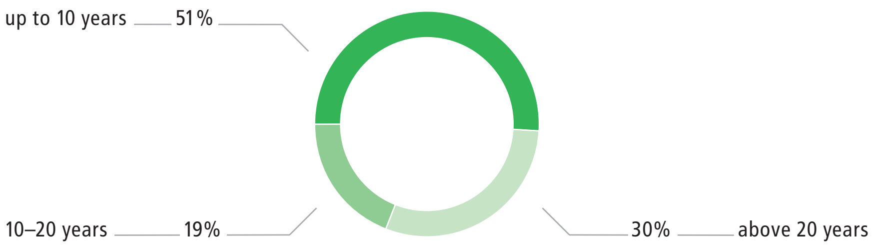
Apprenticeship training

At the end of 2005, Vossloh employed 59 apprentices at its German locations, instructing them in 12 different blue- and white-collar skills. Regarding vocational training, our exemplary commitment also becomes evident through an award by the Federal Labor Agency conferred on Vossloh in 2005 for the regularly high proportion of apprentices being trained at the Werdohl location. For Vossloh, the advantages of this commitment are clear: in this way the Group secures for itself skilled youngsters from its own ranks and avoids high expenses for recruiting external specialists.

We recruit possible candidates for the coveted apprenticeships in close collaboration with schools as well as through advertising campaigns in print and through the electronic media (Vossloh's homepage).

A newly developed multistage screening process helps us to spot the best applicants. Vossloh regards the training of youngsters characteristic for their exceptional motivation and readiness to work hard, as an investment in the future. The many years of service with Vossloh and loyalty of former apprentices shows that this commitment pays in the long run.

Service years with the Vossloh Group



Vocus on Talents

In 2005, once again the junior staff "Vocus on Talents" program was broadened and further developed. Giving young talents at Vossloh a future perspective and tying them to the Group is becoming an increasingly important challenge due to demographic developments. In the year under review, selected young employees again underwent a two-day workshop designed to assess their potentials. After a feedback and an extensive result report, personal development targets and measures were agreed upon during interviews.

Vocus on Management

Since 2000, Vossloh has been successfully pushing ahead with management development at the individual companies. The program "Vocus on Management" aims at identifying management potentials in the individual companies and their systematic development. The basis for this is a competence catalog in which the requirements to be satisfied by management are itemized. Within the framework of a multistage potential analysis process, the strong and weak points of management staff are determined. Then, measures are agreed upon for supporting them in their development.

The Vossloh Leadership Curriculum is one of these measures. It comprises several modules and contains various subjects (such as leadership in integration processes, consensus formation, leadership), which are continuously adapted to the new challenges of management.
All development measures aim at further developing the management culture at Vossloh and ensuring a swift integration of any newly acquired units.

Personnel controlling

The basis for an ongoing productivity boost is efficient HR management. To this end, Vossloh introduced in 2004 an innovative personnel controlling system combining productivity indicators with the relevant financial control parameters. In the year under review, the preconditions were created to arrive automatically and more quickly at the key figures which meanwhile have been established at the operating level as an important control instrument.

Offering management and staff a share in group earnings has become something of a tradition at Vossloh. The stock option programs Vossloh launched back in 1998 for management (long-term incentive program, or LTIP) and the workforce (employee stock option plan, or ESOP) have meanwhile run through four tranches. The present stock option programs were approved by the 2004 stockholders' meeting. Turn to page 94 for details.

Stock option programs

Corporate Social Responsibility is a key subject for Vossloh, not only since becoming an issue for public discussion. Social commitment has been part of our corporate culture for many years now. Our group companies are closely committed to their local communities, where they—as good corporate citizens—support schools, kindergartens, sports clubs for youngsters, as well as charity and cultural institutions. Likewise, responsibility for its employees is something the Group shoulders as a matter of course.

Corporate social responsibility

Our thanks go to our employees for their commitment and flexibility, allowing Vossloh again to succeed against competition, despite the still very difficult scenario in 2005. We also thank the workforce representatives for their constructive input in an atmosphere of mutual trust and understanding.

Our thanks to our workforce

Exemplary apprenticeship commitment: for its unwaveringly high proportion of apprentices Vossloh received an award from Germany's Federal Labor Agency in 2005, too.

Research and development

The Vossloh companies are technology leaders in several specialty markets of applied transport technology. They continuously invest in improving their products and services as well as developing innovative and advanced solutions. The companies interact within the Group as well as work in partnership with customers and experienced specialists from the industry. A major share of Vossloh's research and development work is carried out within the framework of contracted product or project developments, and is accounted for accordingly in the books.

New developments in rail fastening

In 2005, Vossloh Fastening Systems developed a new fastening system on the basis of W-Tram, one which is used for switches and presently already employed for projects on the Spanish island of Tenerife and in Turkey. Moreover, a new innovatively shaped rail pad has been developed, which is especially suitable for steeply inclined high-speed stretches of rail.

The independent measuring station for continuously logging track data (e.g., subsidence, rail head deflection or tilt response when a train crosses) remained at the prototyping stage in 2005. Due to a decisive change in the specifications (additional sensors), further developments were delayed. The next stage in 2006 is to allow for the higher requirements in terms of voltage supply, especially for the data transfer. To this end, a prototype is to be built into the network of Deutsche Bahn AG.

In 2005, the large-scale test rig for simulating close-to-life load situations on rail fastening systems operated 6,800 hours in all, equivalent to a workload of around 80 percent. In fact, this rig is meanwhile indispensable for daily testing. In anticipation of the changes to the EN standard planned for 2007, trial runs with innovative structures and programs were carried out. In 2006, basic research into shock loads will start, especially against the background of the validation of this testing process necessary as from 2007.

Together with German Rail (DB AG), Vossloh is further developing the research project "A quiet train on real rails": The project, which is supported by public funds, aims at minimum-noise fastening systems. In collaboration with various research institutes, Vossloh is also involved in enhancing safety and guide rail devices.

Product optimization for switch systems

In 2005, Vossloh Switch Systems concentrated its R&D activities on expanding its product portfolio of signal systems for tram switches, and on a new communication technology on the basis of GSM compatible switch telephony. In the high-speed sector, new lubrication-free sliding blocks were tested. A new high-speed switch for permanent-way plates was designed in cooperation with partners. In 2006, work will continue on fine-tuning switch systems and track crossings, with a special focus on tram switch signal systems, switch control and track monitoring.

Several large-scale projects in locomotive construction

In 2005, Vossloh Locomotives' Kiel location worked on strategic additions to the standard locomotive range; at the same time, several locomotive types were modified to obtain approvals for operation in further European countries. Within the framework of a project promoted by the German Ministry of Research for adapting a performance-upgraded G 2000 for cross-border traffic into Scandinavia, the world's most powerful four-axle diesel-hydraulic regular service locomotive was built at Kiel. The project was completed with a winter test in early 2006.

In 2005, the R&D employees at Kiel started on the development of a center-cab platform locomotive—a focal point for the future, too. Moreover, European Train Control Systems (ETCS) were prepared for the G 1206, G 2000 and Am 834 series. A vehicle diagnosis system was further developed to enable the logging of important locomotive maintenance and monitoring data as well as its remote transmission to the VSMS database in Kiel. R&D activities at the Valencia plant in 2005 addressed the design and production of the high-performance Euro 4000 locomotive, a vehicle having to meet stringent technical requirements. This machine will be employed on freight haulage and passenger transportation services over various European rail networks; despite their vast operational flexibility, all models are to be built from the same proven common components.

1500-volt traction technology enhanced

With the handover of the vehicle to the customer, Vossloh Kiepe (Vossloh Electrical Systems) successfully completed in 2005 a pilot project for testing 1500-volt traction technology. With the official approval in Switzerland, the prerequisites are given for further marketing and widening the product spectrum in the regional vehicles sector. The objective is to share in the market not only for traction technology, but also for the heating, air conditioning and ventilation systems which are part of our offering, and to introduce a prototype in 2006.

For 2006, Vossloh Kiepe has agreed with a bus builder to convert a double-articulated trolleybus to hybrid diesel-electric energy supply with special emphasis on optimized power consumption by implementing the most modern energy regeneration techniques. Another focal point in development is to work out an energy management system for low-consumption energy flows.

New public address system for (sub)urban trains

At Vossloh Information Technologies, R&D work concentrated on passenger information systems. Apart from customer-specific developments, the creation of success potentials through system software and product developments is an essential aspect of R&D efforts. A case in point: with the new public-address and communication technology for (sub)urban trains and trams, the product portfolio is to be widened to embrace all sorts of rail-bound vehicles. 2005 also saw the industrialization of E-Ink, a development project publicly funded and developed in cooperation with the Fraunhofer-Institut IZM in Berlin. In addition to the first pilot installations in Berlin and Baar, Switzerland, further pilot applications have been agreed with Hamburger Hochbahn AG and Österreichische Bundesbahnen (ÖBB).

Installed simply, quickly, and exactly: switches and crossings from Vossloh arrive on site largely preassembled. The Group has also developed railcar solutions for transporting these gigantic parts.

Environmental protection

Vossloh is committed to protecting the environment. In production, this transport technology group insists on environment-compatible methods and processes and invests in the development of eco-friendly products and components. The Vossloh Group companies attach importance to the sparing use of resources; the production lines feature environmental management systems.
In 2005, a number of smallish individual investments aimed at further reducing dust and odor, noise emissions and preventing possible pollution through wastewater. At Werdohl, the Group completed an extensive revamping of its sewerage system. Vossloh meets all statutory regulations at all its production locations, in most cases doing far more than required by law.

Now that the Kiel and Valencia locomotive locations had completed the switchover to low-solvent top coats, Vossloh Fastening Systems in 2005 changed to a water-soluble coating for the surfaces of the tension clamps built at the Werdohl and Nowe Skalmierzyce plants. In this way the Group more than meets the statutory requirements for reducing volatile organic compound (VOC) emissions.

All Vossloh products and services directly or indirectly aim at relocating more traffic onto the rail. In widely differing fields, Vossloh thus contributes toward more safety, more reliability and more ride comfort in rail traffic.

Pro environment: for the top coat of its locomotives Vossloh uses nothing but low-solvent paints while for the tension clamps, the coatings are water soluble.

Risk and reward management

Organization of risk management

In doing business, the Vossloh Group is confronted with a multitude of potential rewards accompanied in some cases by quite substantial risks. The Group's proactive and systematic risk management system is designed to enhance the transparency of increasingly complex transactions and make sure that risks and rewards are identified as early as possible. The aim is to avoid or contain possible damage, jeopardizing the survival of the Group and its individual companies. The potential rewards that arise should be rigorously seized and optimized. In this way, risk and reward management plays a key role in achieving the financial targets and sustained added value of the Vossloh Group.

Groupwide principles and procedures describe and prescribe the organizational structure of the risk and reward management system. The organization of the system as integrated in the business, planning and control processes is patterned on the multitier group structure: the technical and staff departments in the group companies are responsible for identifying, analyzing, assessing and documenting risks and rewards. Where possible, early warning indicators are defined for identification purposes while checklists and risk workshops ensure a complete coverage of risks and rewards and a simplification of their surveillance. Alongside this ongoing identification of risks and rewards, the Vossloh companies prepare an annual risk inventory.

This assessment procedure encompasses the evaluation of possible effects in the event of risk or reward materialization; the most probable effects are ascertained besides the maximum and minimum likely variances. Such evaluation is supplemented by an appraisal of loss probabilities and a statement of the precautions already undertaken. Risks and rewards are documented in standardized risk reports which detail the relevant facts and, in addition, the probability of occurrence and the status of any containment measures undertaken.

Periodic risk reporting is a quarterly process that supplements groupwide financial reporting, annual forecasting and the annual mid-range three-year budgets. The risk reporting complements the annual forecasts and planning reports which take into account anticipated future developments and their potential impact on asset reductions/increases. Besides the periodic reports which encompass the entire risk catalog, any material changes and an identification of new risks are immediately followed by an ad-hoc report. Such reports are addressed to the management of the group subsidiaries and business units, plus Vossloh AG at whose level the local risk reports are then assembled, aggregated and submitted to the Executive Board.

The performance of control and monitoring functions with regard to risks and rewards is the responsibility of the managements of the group companies and business units and, especially, the Executive Board of Vossloh AG. Commensurate action, efficiency and compliance with the statutory provisions are the subject of regular review by Internal Auditing and the statutory auditors. The ensuing reports take into account those risks that were evident at the time the annual accounts were compiled and which are of major significance for the future development of the Vossloh Group. Such risks for which, for example, allowance has been made in the annual accounts through write-down or provisions or contractually (by insurance cover), are accounted for in the following years only to the extent in which they are deemed to impact on the assessment of the overall risk situation, e.g. in the event of substantial residual risks.
The report on the rewards of future developments is made according to GAS 15 as part of the Prospects report on page 63.

General economic and sector risks

With its three divisions—Rail Infrastructure, Motive Power, Information Technologies—the Vossloh Group is a foremost supplier in selected specialty rail industry markets. Its regional focus is Western Europe where the Group generates 85+ percent of its sales. Most of the customers are rail and network operators, as a rule still under public-sector control. As a consequence the number of potential customers is limited. One hallmark of these specialty markets is their oligopolistic pattern both on the demand and supply sides. Such structures lead to high market transparency in demand and supply and, in turn, fiercer price competition with its fallout on selling prices. Risks also surface through product obsolescence as a result of new technical developments and new competitors entering the market. Vossloh addresses these risks by continuously developing its products and services in the interests of maximum customer benefits. Another aspect of risk reduction is the intensive cultivation of customer relationships.

In Vossloh's relevant markets, general economic conditions are of subordinate significance. Instead, sales and earnings hinge on the investment propensity of the private rail and network operators, and especially of the public-sector spenders, at both state and municipal level. Budgetary constraints on the part of the public sector may therefore impact on business in the Vossloh Group. On the other hand, Vossloh benefits from the availability of public-sector funds, particularly for expanding and upgrading rail infrastructure. The 5-percent annual growth predicted for the worldwide rail market is subject to substantial regional and periodic fluctuations, for reasons of budgetary and infrastructural considerations.

The Vossloh Group counteracts its dependence on the budgets of certain governments and customers through a strategy of selective and consistent globalization, emphasizing in particular the EU accession nations and Asian countries. By pursuing this strategy, Vossloh has succeeded in recent years in significantly reducing its reliance on specific national railway markets and offsetting slumps in individual markets by growth elsewhere—at least in broad areas.

The markets in Western Europe are characterized by considerably stabilized political and economic factors, the result being that these home markets do not harbor any essential risks for the Vossloh Group. Accessing new markets—particularly the growth markets of Asia—is accompanied by both potential rewards and substantial risks. The risks result from the lack of political stability in some of these nations, exchange rate fluctuations and a still nascent legal system. However, since these countries presently account for a relatively small share of total group sales, the risks they present are limited. These countries account for some 5 percent of the aggregate group sales budgeted for 2006.

Should the measures indicated prove insufficient for balancing fluctuations in demand, Vossloh can respond by adjusting capacities in the respective business unit or company. In 2005, the current lack of invitations to bid for locomotives led to a significant reduction in capacities at Vossloh Locomotives in Kiel. The consequent lowering of the break-even threshold ensured that, despite the sustained decline in demand, the operation still proved profitable.

Operational risks

This category includes risks from operations-related activities, such as sourcing, production, and contract performance. For most of Vossloh's business units, the present commodity price trend constitutes the major operational risk. In particular, oil and steel prices have in the past two years surged worldwide, thus burdening earnings to an equivalent degree.

The fallout of commodity price surges can be partly offset by channeling these down to the customer or by concluding long-term procurement contracts. However, significant raw material price increases cannot at present be fully offset. The price increases assumed for materials in the medium-term plan are based on information provided by suppliers and market analyses. Any price hikes significantly in excess of these forecasts may have negative repercussions on the Vossloh Group's earnings and profitability.

Project complexities also result in risks. The major risks accompanying such projects are unexpected engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors along with the accompanying logistics disruptions. Difficulties in executing a project may severely impact on the costed profits, with unbudgeted costs and noncompliance with defined milestones and deadlines normally penalized. Contractual provisions or holistic project and quality management may mitigate such risks but never totally exclude them. Moreover, long-term contracts entail the risk that acceptance and invoicing may be delayed.

Along the value-adding chain, Vossloh subsidiaries are exposed to the risk of business interruptions or quality-related, occupational safety and health or environmental problems. These risks are either altogether avoided or at least diluted through a comprehensive set of guidelines and standard procedures that govern project and quality management, product and occupational safety, as well as environmental protection.

Sourcing risks may arise from supplier failures and/or quality problems. A procurement management system, which also includes the ongoing identification of alternative sources of supply, as well as close contacts with suppliers effectively contain the risks to which Vossloh companies are exposed. Exchange rate risks on the input side are, as a rule, covered by currency hedges. The scope is, however, limited since most supplies are sourced from within Euroland.

Financial risks

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. In the management of its capital structure, Vossloh ensures compliance with the benchmarks of a company rated as investment grade.

Financial derivatives are used solely for hedging purposes, i.e., to hedge against specific risks from current or forecasted underlyings. 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 pages 104 and 105.

The following financial risks are controlled:
- price change risks,
- default risks,
- liquidity risks, and
- cash flow risks.

Risks of changing prices

Price change risks arise from the possibility that the value of a financial instrument might be influenced by changes in market interest or exchange rates. With a view to benefiting long term from the current low interest rates, the Group restructured its finances in 2004 by raising long-term debt under a US private placement of a total $240 million (around €200 million), the two loans maturing in ten and twelve years, respectively. As part of its active risk management concept, future principal and interest payments have been hedged through interest rate and currency swaps. Current or future currency receivables and payables represent an unmatched position which is generally closed by contracting currency forwards..

Default risks

Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by non- or late performance, thus causing a financial loss to the Vossloh Group. 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, 2005, cash investments and financial derivatives with a positive fair value were allocable at 70.9 percent to counterparties rated between AA+ and AA– and at 29.1 percent to those rated from A+ to A–. No dependence on specific banks has existed, whether in the past or at present.

Liquidity risks

Such risks arise if the Group is potentially unable to provide the funds required to meet the obligations which have been incurred in connection with financial instruments. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies) through a permanent cash management system. An intragroup financial equalization concept through cash pooling and intercompany loans ensures the best possible application of any cash surplus at certain subsidiaries to meet the liquidity requirements at other group companies. The long-term debt raised in the form of loans through the US private placement in 2004 was used to settle repayable liabilities to banks, thereby making bilateral credit facilities available for future utilization. In 2005, adequate and sufficient credit lines ensured that no financial or cash bottlenecks occurred. The unutilized balances from cash credit facilities at year-end totaled €197.6 million, including €32 million due after one year. Furthermore, Vossloh had unutilized guaranty bond facilities of €211.1 million at its disposal.

Cash flow risks

Changes in future rates may cause cash flow ups and downs where variable-rate assets and liabilities are involved. This risk has been contained by means of interest rate swaps and caps.

The effects of changes in the interest rate level on cash flows are regularly controlled. Presently, the Vossloh Group is not exposed to any significant interest rate risks. On balance, the Vossloh Group’s net earnings were in 2005 not affected to any significant degree by financial risks.

Legal risks

Legal risks encountered by a company comprise basically those arising from complaints, warranty claims, claims for damages or indemnification, litigation, and pending lawsuits. Identifiable legal risks are either covered by insurance or adequately provided for in the balance sheet to the extent to which such an obligation is deemed probable and the amount may be reliably estimated. Nonetheless, losses may occur, which are either not or insufficiently insured, or which are considerably in excess of the amounts provided for or accrued.

The legal risks known at the time the annual accounts were prepared, have been either covered by insurance or provided for at the amounts of the most probable loss.

Other risks

In particular, these include IT risks and those emanating from inadequate staffing, as well as environmental risks.

Like any other business, the Vossloh Group is largely dependent on complex information technology. Security risks due to substandard information technology equipment or faulty data are not identifiable at present. Data loss is prevented by backing up the files. Unauthorized access on the part of third parties and the threat of viruses are regularly counteracted by reviewing and updating the corresponding technical security measures.

Possible risks through inadequate staffing are countered by Vossloh through a large number of measures which are suitable for positioning the Group as an attractive employer and for holding on to its employees in the long term.

No environmental risks are presently identifiable.

The original 2006 and 2007 forecasts had already accounted for the acquisition of Pfleiderer Track Systems. The sale and transfer agreement was signed in mid-2005. On December 21, 2005, the German Cartel Office announced the prohibition of the acquisition and, on January 17, 2006, officially warned Vossloh to this effect. If the deal is closed either not at all or not in the intended structure, the 2006 and 2007 EBITs will each be up to €15 million below the forecasted values. The outlook in the Prospects section for 2006 and 2007 is based on the Vossloh Group's current structure.

Overall risk assessment

The potential impact of any and all risks the Vossloh is exposed to on its results of operations, net assets or financial position is monitored and controlled at all times. The updated annual forecasts (see Prospects, page 63) duly reflect any potential losses, where reliably identifiable. From today’s vantage point, neither any specific risks nor all currently known risks in the aggregate are potentially ruinous or likely to jeopardize the Vossloh Group’s or any subgroup's continued existence as a going concern in terms of either assets or liquidity. The risk-adjusted capital—i.e., the statutory minimum equity portion that is earmarked exclusively for the cover of potential losses—lies well below the Group’s current equity. This risk report refers to the situation of the Group at the time the group management report was prepared.

Vossloh stock

German stock markets bullish

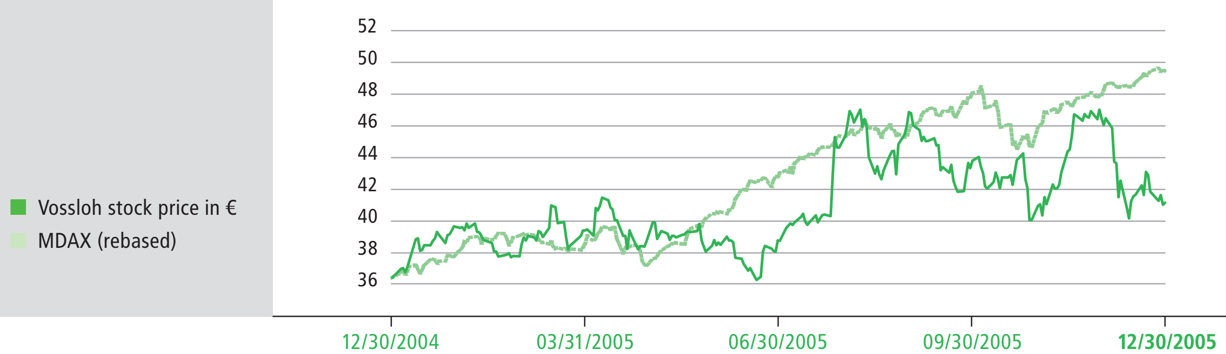
Driven by strong exports, the German economy showed moderate growth in 2005. After allowance for price increases, real GDP advanced 0.9 percent (down from 1.6 percent in 2004). This meant that on an international comparison, Germany was still short of the average growth of 1.4 percent achieved by the Euroland countries. It is generally predicted that rising domestic demand will lift growth in 2006 to between 1.5 and 2.0 percent.

This is a trend the stock market has already anticipated and so 2005 was the third bullish year in succession. The MDAX, the stock index which includes Germany's midsize companies and which lists Vossloh, posted its annual low of 5,383 on January 3, 2005. Then, from May to September and despite surging oil prices and temporary uncertainty due to early Bundestag elections, the MDAX raced from one peak to the next. After a slight consolidation phase in October, solid corporate results and bright prospects pushed the index to an annual high of 7,342 points on December 27, 2005. At year-end the index stood at 7,312 points, an annual gain of 36.0 percent.

Vossloh stock at new all-time high

Vossloh stock prices in 2005 were largely influenced by the planned acquisition of Pfleiderer AG's Track Systems. The price started the year at €36.67 and during the early months patterned its performance on the general market trend. Then, at the end of May, uncertainty on the part of a number of market players due to speculations by the press prompted profit-taking whereupon the price plunged to its year low of €36.11 on June 17, 2005. The sharp price gain as an immediate response to the announcement of exclusive contractual negotiations followed by the signing of a contract for the transfer of Track Systems, reflected the market's approval of this transaction. In the course of December 1, 2005, the stock climbed to the new all-time high of €48.58. Then in the course of the final month, the possibility of the Federal Cartel Office prohibiting the acquisition caused the price to descend; at year-end it was €41.10 (Xetra), a gain of 13.1 percent versus the close of 2004.

Vossloh stock price trend in 2005



Vossloh stock—a paying investment

The total return on an investment in Vossloh stock reached 17.0 percent in 2005. Even for long-term investors, Vossloh stock is extremely rewarding: for an investor who has held Vossloh stock for five or ten years, the annual returns averaged 26.8 and 16.7 percent, respectively. This compares with the MDAX return of 9.4 and 11.1 for the same periods of time.

The price-earnings ratio (PER), too, suggests further upward price potential. Based on the Vossloh stock price of €41.10 quoted at December 31, 2005, a price-earnings ratio of 12.8 would result from the budgeted 2006 earnings. Vossloh stock is thus still below the average MDAX PER of 14.8 at year-end 2005.

Vossloh stock indicators

		2005	2004
Earnings per share (EpS)	€	3.07	3.91
Cash flow per share	€	3.71	2.25
Dividend per share	€	1.30[1]	1.30
Total dividend payout	€ million	19.2	19.0
Book value per share (excl. minority interests)	€	24.09	22.28
Number of shares outstanding [2]	1,000	14,688	14,605
Number of shares outstanding [3]	1,000	14,735	14,606
Stock price [3]	€	41.10	36.35
Market capitalization [3]	€ million	605.6	530.9
Annual high/low	€	48.58/36.11	47.68/27.45
Price-earnings ratio (PER)		13.4	9.3
Price-cash flow ratio		11.1	16.1
Trading volume (shares)	1,000	10,453	10,828

[1] proposed

[2] on annual average

[3] at year-end

Trading volumes at 2004 level

The volume of Vossloh stock turned over in 2005 totaled around 10.5 million shares, almost the level of the year-earlier 10.8 million. This is equivalent to an average daily trading volume of around 41,000. The electronic system Xetra accounted for around 90 percent of the volume of Vossloh stock turnover.

Dividend remaining stable

Vossloh's Executive and Supervisory Boards will propose to the annual stockholders' meeting to vote in favor of the distribution of an unchanged cash dividend of €1.30 per share. This would mean that around 42 percent of net earnings will be distributed (up from about 33). Based on the year-end Vossloh stock price of €41.10, this represents a yield of 3.2 percent. With this proposal, the Executive and Supervisory Boards are confirming a dividend policy based on the principle of continuity.

Capital stock

Due to the increase in Vossloh AG's authorized but unissued capital (which had been resolved and approved by the June 25, 1998 stockholders' meeting), 94,588 new no-par bearer shares of common stock corresponding to an arithmetic portion of €241,810.38 of the Company's capital stock were issued in exchange for the same number of stock options when these were exercised. The capital stock has thus risen to €37,668,946.18, divided into 14,734,811 no-par bearer shares of common stock.

Treasury stock

The May 25, 2005 annual stockholders' meeting renewed Vossloh AG's authority to repurchase treasury stock. Consequently, the Company may on or before December 24, 2006, reacquire up to 10 percent of its issued stock and subsequently redeem and withdraw or sell such treasury shares. As of December 31, 2005, no treasury stock was held; at year-end 2004, altogether 34,649 treasury shares (or 0.2 percent of the capital stock) had been held by the Company.

Ownership structure

At the end of 2005, the Vossloh family owned around 30 percent of Vossloh AG's capital stock (down from around 33 percent a year before). Since March 29, 2005, Arnold and S. Bleichroeder Advisers LLC, New York, has held 5 percent of Vossloh AG's voting rights. The free-floating shares thus account for 65 percent, almost one-half of which is held by institutional investors based mainly in Germany, the UK, and the USA, the other half by private stockholders.

Investor relations

A regular dialog with private and institutional investors and financial analysts is the platform for Vossloh's investor relations work. At the annual stockholders' meeting, at analysts conferences, and at numerous presentations and road shows in and outside Germany, the Executive Board provided information about current trends. All relevant information such as annual and interim reports, press releases and the corporate presentations made at meetings with financial analysts are available on the Internet at www.vossloh.com, added information on current subjects being also provided in the quarterly company magazine Inside.

Research reports as decision-making tools

The reports of equity research analysts offer an objective analysis of investments and thus another opportunity to find out more about the price potential of Vossloh stock, which is on the agenda of currently 10 institutes for regular observation, evaluation and assessment. On the basis of the fundamental data presented to the December 2005 financial analysts conference, there were five recommendations to buy and five recommendations to hold the stock. The share's upward price potential is seen by the analysts to range between €41 and €50. A regularly updated summary of the opinions of financial analysts, as well as further information about Vossloh stock are also available at www.vossloh.com

Prospects

The figures originally budgeted for 2006 had envisaged a sharp rise in group sales to around €1.14 billion including the acquired Pfleiderer Track Systems' 12-month contribution of €135 million (prior to consolidation effects of around €30 million). Then on December 21, 2005, the German Cartel Office announced that it would prohibit the takeover and on January 17, 2006, it sent an official warning to Vossloh, the outcome being that the deal could no longer be expected to materialize in the originally intended form. Nonetheless, Vossloh still regards concrete sleepers as a highly desirable product since the convergence of sleepers, fasteners, and switches into a standardized system allows scope for substantial synergies. Vossloh is therefore continuing its efforts to extend in some modified form its rail infrastructure lineup.

At present, a closing of the Pfleiderer Track Systems deal—either in part or in its entirety—is not foreseeable and so any preview of the Vossloh Group's probable progress in 2006 must be confined to its present format. The following figures take neither account of Track Systems nor any other possible acquisitions. The forecasts below are predicated not only on the assessment of the overall economic trends in markets of relevance to the Group but also, in particular, on the studies commissioned by Vossloh and dealing with the development of the overall rail market, as well as with the trends expected for rail technology markets in Central & Eastern Europe and Asia. The studies are available on the Internet at www.vossloh.com

Excluding Pfleiderer Tracks Systems, Vossloh is looking to sales of around €1,037 million for 2006. Despite the still strained situation in the rail industry, especially Germany's, and continuing high commodity prices, EBIT is seen to inch up from the 2005 level of €90.8 million to around €92 million. Group earnings in 2006 should amount to a good €47 million, equivalent to earnings per eligible share of some €3.20.

Fiscal 2007 is predicted to see another almost 5-percent rise in sales to about €1.09 billion. Expanded business at Motive Power, in particular, will mean that, with an EBIT of about €107 million, Vossloh would re-achieve the 2004 magnitude (€105.7 million). The EBIT margin should in this case also return to the Group's benchmark of around 10 percent. Based on the budgeted group earnings of €57+ million for 2007, EpS would then again outstrip €3.90.

Capital employed in 2006 is expected to edge down to €708 million. Assuming no further acquisitions, net financial debt would then shrink to around €140 million and hence net leverage to around 36 percent. A return on equity of a good 19 percent and an equity ratio of just under 37 percent are still quite presentable.

As to workforce numbers, 2006 is expected to show an average headcount of 5,114 (up from 4,732 in 2005), the surge being chiefly due to the first full-year inclusion of the Switch Systems business unit's investees in India.

Capital expenditures will in 2006 again rise, by €8.3 million to €42.8 million, of which around €12 million will be due to the capitalization of the costs incurred substantially for two key developments, the large diesel-electric locomotive Euro 4000 and the center-cab platform diesel-hydraulic locomotive.

Rail Infrastructure division

The Rail Infrastructure division, which is made up of the Fastening Systems, Switch Systems and Infrastructure Services business units, is budgeted to report 2006 sales of €576.7 million (down from €579.5 in 2005). Whereas Fastening Systems and Switch Systems are likely to remain slightly below the 2005 figures, sales by the lowest-margin Infrastructure Services unit are budgeted at around €199 million, the level of 2005.

Sales at Vossloh Fastening Systems will be governed, on the one hand, by a further decline in demand by Deutsche Bahn AG (German Rail), and on the other, by the phaseout of major projects in the Netherlands and Turkey. Incremental exports will offset only part of this downturn.

Sales at Vossloh Switch Systems in 2006 are also expected to contract chiefly due to lower revenues from tram and high-speed rail projects in France and the completion of the Turkey project jointly handled with the Fastening Systems business unit. Added sales are expected in India where the investees included for the first time, are likely to contribute around €11 million.

The Infrastructure Services unit's high sales volume in 2006 will mostly be generated by tram projects in France—construction work in the cities of Marseille, Nice, Saint-Etienne, and Montpellier.

The Rail Infrastructure division's EBIT should amount to a good €75 million (down from €87.8 million in 2005). The shrinking EBIT margin results from the changed sales mix, discounted prices to key accounts, and the higher cost of materials which cannot been channeled down to the customers.

For 2007, Vossloh expects its Rail Infrastructure division to slightly outperform fiscal 2006, with sales at almost €570 million and an EBIT around €76 million. At Vossloh Fastening Systems and Vossloh Switch Systems, the new focal markets in Asia and North America are forecasted to make higher contributions to sales while the Infrastructure Services unit anticipates less business than in 2006 after the various tram contracts in France have been completed.

Motive Power division

The Motive Power division has budgeted sales of some €404 million for 2006 (up from €365.2 million in 2005), most of the growth coming from Vossloh España. The latter will for the first time be consolidated for the full 12 months during which it will also build more vehicles than in 2005. In contrast, locomotive manufacture at Kiel will descend further, from 87 units in 2005 to an estimated 51 in 2006.

At €107 million, budgeted sales at Vossloh Electrical Systems are around €18 million up over 2005. As a consequence, the shortfall due to the loss of the Budapest contract would be overcome.

In all, this division is predicting for 2006 an EBIT of over €26 million (up from €15.3 million, albeit the 2005 figure suffered from the one-off burdens resulting from the restructuring of the Kiel location).

For 2007 Vossloh expects the division's two business units to again step up sales, to just under €445 million, with EBIT climbing to €37+ million. Besides the higher sales, also the structural improvements achieved at the Kiel locomotive plant should have a favorable impact on EBIT.

Information Technologies division

According to its 2006 budget, the Information Technologies division will ratchet up its sales to €57 million (from €53.8 million in 2005), although the still troubled German market is for the foreseeable future not expected to show any sustained recovery. Despite appreciable improvements, this division is not yet international enough for domestic shortfalls to be offset by extra business abroad. EBIT is budgeted to reach €5.6 million (up from €3.2 million). In 2007, the broadened international base should translate into a sales growth to €75+ million, EBIT then surging to around €9 million.

Promising prospects on changing markets

Evolving markets are opening up numerous opportunities and options for Vossloh. The deregulation of cargo haulage accompanied by growing rail market competition is just as encouraging as the emergence of new regional markets, especially in India, China, and Russia. In no way is Vossloh any less upbeat as to the sustained long-term worldwide buoyancy of the rail business.

A study of the development of the rail technology market in Asia, commissioned by Vossloh and completed in early November 2005, estimates the present market volume in this part of the world at around €10 billion. Easily the biggest market region and accounting for just under one-half of the total volume (€4.6 billion) is central Asia, a large part of which belongs to the People's Republic of China.

Such remarkable potential is naturally most inviting for a group such as Vossloh. In fact, a number of Vossloh subsidiaries have already begun to make their mark on the Asian markets without thereby neglecting their home turf in Europe.

Top of the agenda in Vossloh's Far Eastern efforts is India prompted by this nation's dynamic growth plus the aim of its government to reach out by rail into the outlying regions. The modernization of the rail network and, above all, the desire to enhance rail traffic safety and speed will bring about extensive expenditures. Vossloh identified this trend early on and has entered into several joint ventures with Indian companies. Our rail fastener business is highly successful in metro projects, although we are still awaiting the breakthrough with Indian Railways. In 2005, Vossloh Switch Systems acquired majority stakes in three companies which in 2006 will be contributing more than €10 million to group sales.

China, too, is being moved up on Vossloh's agenda. A number of major invitations to bid for rail infrastructure projects are in the pipeline and to succeed we would need local production facilities, options we are examining—either in the form of our own companies or as joint ventures.

Asia is a market in which Vossloh identifies vast potentials and where it will apply every effort to exploit these successfully and with a lasting effect. Solid foundations have been laid in both India and China. Other promising markets are South Korea, and North and South America.

Corporate governance

Vossloh believes that successful corporate governance is the basis that nurtures and perpetuates the trust that its stakeholders place in it. These include, besides our present stockholders, also future investors and lenders, as well as our staff and business associates.

In Germany, the rules of good corporate governance are summarized in the German Corporate Governance Code (the "Code"), which was approved on February 26, 2002, by the ad hoc commission appointed in September 2001 by the Federal Minister of Justice. The Code includes internationally and nationally accepted standards of sound and responsible corporate governance. The Code has been well received by most German listed corporations and therefore raises the confidence placed by domestic and foreign investors in the German capital market. At least once annually, the government commission reviews the Code for updating requirements in light of recent legislative and practice developments. Therefore, at the government commission's plenary session of June 2, 2005, the latest amendments of the Code were adopted and published on July 20, 2004, in the digital version of the German Federal Gazette.

Vossloh's governance structure

Characteristic of German stock corporations is their two-tier board structure, both mandatory bodies required to act in the company's best interests and perform management or monitoring functions, respectively. The general meeting as the stockholders' statutory body makes pivotal decisions of fundamental interest to the corporation. In addition, Vossloh AG has installed an Advisory Board.

Executive Board

Vossloh AG's Executive Board is the senior management body within the Vossloh Group and currently has three members. After Burkhard Schuchmann resigned from his offices as Chairman and member of the Executive Board as of December 31, 2005, the Supervisory Board appointed Dr. Gerhard Eschenröder with effect as from March 1, 2006, as both Executive Board member and CEO. The Executive Board is responsible for running Vossloh; this includes defining the purposes, objectives and strategy of the entire Vossloh Group, acquiring and disposing of shareholdings and other financial investments, focusing R&D activities, deciding on major issues of HR policy, public relations, corporate identity, marketing, promotion and advertising wherever the overall interests of the Vossloh Group are affected or involved, but always with a sustained increase in shareholder value in mind. The Executive Board closely cooperates with the Supervisory Board whose consent is required for certain major transactions and Executive Board actions specified in the Executive Board Rules of Procedure. Based on an agreed plan, each Executive Board member is assigned the responsibility for certain operating and corporate activities. Executive Board members work together on a peer basis and brief each other on significant actions, transactions and events within their respective responsibilities. Certain issues require a decision by the plenary Executive Board. Any conflict of interests of an Executive Board member would immediately be disclosed to other members and the Supervisory Board. At present, no Executive Board member holds any supervisory board office at a nongroup listed company. For detailed information on Vossloh AG's Executive Board members, turn to page 121 of this annual report.

Supervisory Board

In accordance with Art. 10(1) first clause of the Company's bylaws, Vossloh AG's Supervisory Board consists of six members (see also page 124). Consequently, the composition of the Supervisory Board is governed by the provisions of the Stock Corporation Act and the Supervisory Board Composition Act, according to which the Supervisory Board must be composed of one-third of employee representatives and two-thirds of stockholder representatives. The stockholder representatives on the Supervisory Board are elected by the stockholders' meeting, the employee representatives by the workforce. The Supervisory Board constitutes a quorum if not less than three members participate in voting. Supervisory Board resolutions require the simple majority of votes cast unless statutory or legislative regulations provide otherwise. If a vote results in a tie, any Supervisory Board member has the right to require that the voting be immediately repeated on the same agenda item. The Supervisory Board Chairman has two votes in this second voting process on the same item if it again results in an equality of votes.

The Supervisory Board oversees and advises the Executive Board's management and conduct of business. Certain material transactions and Executive Board actions (specified in the Executive Board Rules of Procedure) are subject to prior Supervisory Board approval. The Supervisory Board periodically discusses with the Executive Board the trends of Vossloh's business, as well as the corporate plan and strategy and their implementation. Moreover, the Supervisory Board approves the annual budget and financial statements of Vossloh AG and the Group with due regard to the reports of the internal and the statutory auditors, apart from being responsible for the appointment and removal of Executive Board members.

Vossloh AG's Supervisory Board has currently two committees, the Staff Committee and the Audit Committee each comprising three members (see also page 122 of the annual report). The Supervisory Board may establish additional committees if and when needed. The Staff Committee is also responsible for Executive Board matters and decides on the rules governing the relations between the Company and the various Executive Board members (in particular, the execution, amendment, renewal, rescission or termination of the employment contracts with Executive Board members), the regulation of the legal relationship between the Company and former Executive Board members, the approval of contracts or agreements with Supervisory Board members, as well as on the grant of loans to Supervisory Board members. The Staff Committee is chaired by the Supervisory Board Chairman.

The Audit Committee is, inter alia, responsible for proposing to the Supervisory Board the statutory auditors for the Company and the Group for election by the general meeting, and deals in particular with issues of the statutory auditors' prescribed independence and with issuing the audit engagement letter, determining focal audit areas, and fixing the auditor fees. Where required and subject to the Executive Board's consent, the Audit Committee may also obtain information from the statutory auditor during the audit about the program and focal areas.

Moreover, the Audit Committee prepares the review and adoption by the Supervisory Board of the Company's annual financial statements, management report and audit report, as well as the review and approval by the Supervisory Board of the consolidated financial statements, group management report and group audit report, besides dealing with issues of accounting, annual auditing, risk management and supervision of management. Dr. Christoph Kirsch chairs the Audit Committee.

When selecting the Supervisory Board candidates to be proposed to, for election by, the general meeting, the Supervisory Board is responsible for seeing that these candidates have the necessary knowledge, capabilities, technical experience, international background, independence and sufficient time for their designated office.

None of Vossloh AG's Supervisory Board members are former Executive Board members, nor are any on the board of, or render advisory services to, a major competitor. In principle, no Supervisory Board member holds more than five further supervisory board offices at other listed companies. Supervisory Board member Dr. Christoph Kirsch is also an executive board member of another listed corporation.

Supervisory Board members are not bound by orders or instructions and are obligated to keep secret and confidential any business transacted at meetings, confidential information, as well as business and trade secrets, even beyond their period of office on the Supervisory Board. Every Supervisory Board member is committed to the Company's interests. Any conflict of interests must immediately be reported to the Supervisory Board Chairman, as must the termination of any position or function which was material to such member's appointment. Supervisory Board members must abstain from voting on any business that affects themselves or related parties. The Supervisory Board report to the general meeting informs about the occurrence (if any) of conflicts of interests of Supervisory Board members and how they have been dealt with. The same report will also disclose if a member failed to attend in the fiscal year more than half of the regular Supervisory Board meetings, either personally or through electronic media.

For details of Vossloh AG's Supervisory Board members, see page 122 of this annual report.

Effective at the close of the annual stockholders' meeting on May 25, 2005, Dr. Anselm Raddatz stepped down from the Supervisory Board and was succeeded by Dr.-Ing. Wilfried Kaiser, who had been appointed by the Local Court of Iserlohn on May 20, 2005. With effect as of September 23, 2005, Dr. Karl Josef Neukirchen resigned as both Chairman and member of the Supervisory Board. Dr. Wilfried Kaiser was elected to succeed him as Supervisory Board Chairman. By order of Iserlohn Local Court dated November 17, 2005, Dr. Christoph Kirsch was appointed Supervisory Board member up to May 24, 2006.

Stockholders' meeting

The stockholders' meeting is the corporate body of a stock corporation's owners and as such in charge of fundamental decisions made by Vossloh AG. Within the first eight months of a fiscal year, stockholders convene at an annual general meeting to resolve, with binding effect on the Company and themselves, on all matters assigned or subjected by the law to its vote, including on profit appropriation, the official approval of the acts and omissions of Executive and Supervisory Board members in the fiscal year, the election of the statutory auditors, as well as on intercompany agreements, equity moves and other amendments to the bylaws. At the stockholders' meeting, one share of (common) stock entitles to one vote. For the stockholders' convenience, the Executive Board appoints a general proxy who ensures the exercise of the voting rights of, in accordance with instructions issued by, stockholders at the meeting. The Supervisory Board Chairman presides over the stockholders' meeting.

In anticipation of the enactment as of November 1, 2005, of the German Act on Corporate Integrity and the Modernization of Minority Stockholder Claims Legislation ("UMAG"), the general meeting of May 25, 2005, had already passed certain resolutions which now facilitate stockholder registration and authentication.

Therefore, the upcoming annual stockholders' meeting on May 24, 2006, no longer requires stock to be deposited but instead a physical written document as proof of stock ownership, issued by the depositary, referring to the beginning of the twenty-first day prior to the general meeting, and to be submitted to the Company on or before the seventh day before the AGM. This simplified rule is in line with international usage and represents an additional incentive for our stockholders to attend the annual general meeting and vote there.

Advisory Board

Vossloh AG's Advisory Board has three members who are appointed by the Executive Board with the Supervisory Board's prior approval. The Advisory Board's functions include counseling the Executive Board at the latter's request regarding any business matters involving Vossloh AG and its related companies. Page 5 of this annual report provides details of the Advisory Board members.

Accounting and annual audit

In 2004, the Vossloh Group's primary accounting basis was changed to International Financial Reporting Standards (IFRS), while the annual financial statements of Vossloh AG are prepared according to the accounting regulations of the Commercial Code ("HGB"), as prescribed by German law. Both the consolidated financial statements based on the IFRS and the separate financial statements according to German GAAP were audited by BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft (the statutory auditors elected by the annual stockholders' meeting as proposed by the Supervisory Board), in accordance with German audit regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. The audit engagement letter was issued by the Supervisory Board's Audit Committee in conformity with the recommendations of the German Corporate Governance Code and after due verification of the statutory auditors' independence. The Supervisory Board has agreed with the statutory auditors that it will be promptly informed of any significant findings, conclusions and circumstances which are established during the annual audit and may be of relevance to the Supervisory Board's duties. While the statutory auditors have further agreed to notify the Supervisory Board if they find any facts substantiating that the declaration of conformity issued by the Executive and Supervisory Board is incorrect, no such indications were found during the audit 2005.

Informing the stockholders

High priority is attached by Vossloh to transparency and to having the same information communicated efficiently at the same time to all stockholders. Therefore, any information about Vossloh which is published by other media is also displayed on the corporate website at www.vossloh.com. This applies specifically to quarterly and annual reports, invitations to, and information on, stockholders' meetings, press releases, as well as the financial diary with all dates of significant periodic publications. The consolidated financial statements and the quarterly reports are publicly available within 90 and 45 days after closing date, respectively.

Remuneration of the Executive and Supervisory Boards

The remuneration of Vossloh AG's Executive Board members includes a fixed and a variable component (i.e., a profit share). In addition, Executive Board members are granted stock options under the Company's long-term incentive plan (LTIP).

Criteria for determining the fair compensation of Executive Board members are not only their responsibilities and performance but also the economic position and sustained success of Vossloh when measured against comparable companies.

In the year under review, the cash remuneration of Vossloh AG's active Executive Board members totaled €3,105,184 and included besides a fixed portion of €812,270, a variable profit share of €2,292,914.

Stock options under the LTIP are granted in so-called tranches. In the scope of the LTIP approved for officers and other executives by the AGM of June 25, 1998, three tranches were issued in 1998, 2000, and 2002. In the scope of the LTIP renewed by the annual general meeting of June 3, 2004, one tranche was issued in 2005. The grant of stock options under an LTIP is conditional on participants first making a personal investment in Vossloh stock using their own funds when an LTIP tranche is issued. For each Vossloh share so purchased, a participating Executive Board member is granted ten options for acquiring one Vossloh share each. The strike (exercise) price is fixed at the date of stock option grant and corresponds to the average of the single cash prices as quoted for Vossloh stock at the Xetra closing auction during the five trading days preceding the option issuance date. An Executive Board may participate in a tranche under the LTIP 2004 if personally investing a minimum of €25,500 and a maximum of €51,100.

The subscription rights under the LTIP 2004 may be exercised after a 2-year qualifying period within the succeeding three years in so-called opportunity windows; therefore, an LTIP's total term covers five years. Under the LTIP, two performance benchmarks must have been achieved cumulatively before any option exercise: the Vossloh stock price must have risen 25 percent above the strike price when any stock option is exercised, and Vossloh stock must have shown at exercise date the same performance as, or outperformed, the MDAX since option issuance.

In fiscal 2005, Executive Board members exercised 48,220 options from the third LTIP 1998 tranche (2002) at a strike price of €24.01. The resultant taxable gain totaled €694,119 for all Executive Board members. No stock options were issued in 2005 under the LTIP 2004 to Executive Board members. Consequently, no Executive Board member held any option under the LTIPs 1998 or 2004 as of the date of this report.

For further details of the 1998 and 2004 LTIPs, see the notes to the consolidated financial statements, pages 94–96 below.

In addition, Executive Board received payments in kind of €49,867, representing the use of company cars as assessed for tax purposes. Each Executive Board member pays their own private income taxes on such payments in kind.

No loans or advances were granted to Executive or Supervisory Board members in 2005.

Current payments to former Executive and Management members and their surviving dependants amounted to €239,265, another €2,145,661 having been provided for accrued pension obligations to these persons.

In line with the Company's bylaws, Supervisory Board members received a total fee of €289,500, of which €89,000 and €200,500 were allocable to the fixed and variable, performance-related, portions, respectively.

LTIP and ESOP

As long-term incentive program for management and staff, Vossloh has since 1998 issued certain stock option programs (relaunched in 2004). Besides the Executive Board, the LTIP also benefits other officers or executives of the Group. An employee stock option plan (ESOP) is available to the staff. Under both programs, the grant of options to acquire further shares is subject to first purchasing Vossloh AG stock as personal investment at program tranche inception. Depending on management tier, the personal investment under the LTIP must range between €5,100 and €51,000, under the ESOP between €500 and €1,000.

The strike (exercise) price is fixed at the date of stock option grant and corresponds to the average of the single cash prices as quoted for Vossloh stock at the Xetra closing auction during the five trading days preceding the option issuance date. The program term is five years, and first option exercise is possible after two years. For option exercise, certain absolute and relative benchmarks must have been achieved: under the ESOP, the Vossloh stock price must have risen at least 4 percent above the strike price or, alternatively, the stock price trend must match or outgrow that of the MDAX; under the LTIP, the Vossloh stock price must have shown at exercise date the same performance as the MDAX and, as cumulative condition, outgrown the strike price by not less than 12.5 or 25 percent, this absolute benchmark depending on the participants group.

Excluding the Executive Board, managerial staff participating in the LTIP 1998 were in 2005 granted 42,030 stock options, and ESOP participants altogether 4,338 options under the tranches 2000 and 2002. Option exercise (excluding the Executive Board) produced taxable income for LTIP and ESOP participants of a total €679,763.

For further details, turn to pages 94–96 of this annual report.

Implementation of Code recommendations in 2005

The Executive and Supervisory Boards saw no reason for any adjustments to the Vossloh Group's governance in spite of the amendments in 2005 of the German Corporate Governance Code and concluded that Vossloh's corporate governance practices in 2005 fully conformed to Code recommendations, subject to four exceptions detailed below in the declaration of conformity.

Declaration of conformity pursuant to Art. 161 AktG

Pursuant to Art. 161 German Stock Corporation Act ("AktG"), the executive and supervisory boards of an exchange-listed stock corporation are required to issue an annual declaration on the extent to which the recommendations of the German Corporate Governance Code Government Commission (as published by the Federal Ministry of Justice in the official section of the digital Federal Gazette) have been complied with. Pursuant to the provisions of Art. 15 German Stock Corporation Implementing Act ("EGAktG") in conjunction with Art. 161 AktG, the first such declaration of conformity was issued in December 2002, the second, third and fourth being published in December 2003, 2004 and 2005 on the Company's website:

“Statement made by the Executive and Supervisory Boards of Vossloh AG on the recommendations of the German Corporate Governance Code Government Commission pursuant to Art. 161 AktG

The recommendations of the German Corporate Governance Code Government Commission, which have been published by the Federal Ministry of Justice in the official part of the digital Federal Gazette, have been and are fully implemented, except for the recommendations indicated hereinbelow, which have not been and will not be applied (whether in full or in part):

(a) Pursuant to Clause 4.2.4, the compensation of Executive Board members should be disclosed as individualized figures in the notes to the consolidated financial statements, broken down into fixed, performance-related and long-term incentive components. However, since Vossloh AG's Executive Board comprises only three members, the Executive and Supervisory Boards believe that the disclosure of individual compensation data will not add any significant transparence to the report and therefore not justify the disclosure-related impairment of the Executive Board members' privacy. Consequently, the Executive and Supervisory Boards have decided not to carry out the recommendation of Clause 4.2.4.

(b) According to the recommendation of Clause 5.4.7, 3rd paragraph, 1st sentence, the compensation of the Supervisory Board members should be broken down into its components and disclosed on an individualized basis in the Corporate Governance Report. In this case, too, the Executive and Supervisory Boards feel that these disclosures would add no significant transparence to the report and have therefore decided not to follow this recommendation, either in the past or the future.

(c) In accordance with Clause 5.4.3, 3rd sentence, candidates proposed to chair the Supervisory Board should be disclosed to the stockholders. When the new Supervisory Board Chairman was elected in September 2005, this disclosure was waived since (i) it was found impracticable and (ii) the election was unrelated to the appointment of Supervisory Board members by the stockholders' meeting.

(d) Under the terms of Clause 6.6, 2nd paragraph, of the Code, the total ownership of the company's stock or related financial instruments by Executive Board and Supervisory Board members should be reported if directly or indirectly in excess of 1% of the stock issued by the company. If (only) the entire holdings of all Executive and Supervisory Board members exceed such 1% threshold, the total ownership each of the Executive and Supervisory Board should be reported separately (without any individualization by members). According to Clause 6.6, 3rd paragraph, all the disclosures required by Clause 6.6 (including the aforementioned stock ownership, as well as the purchasing and selling transactions of certain board members) should be included in the Corporate Governance Report. Lest the rights of personality of the board members affected (part of Vossloh stock being tied up in a family pool) should be impaired, it has been decided not to implement the aforesaid recommendations of the Code.

Werdohl, December 2005

The Executive and Supervisory Boards

Report of the Supervisory Board

During the year 2005, Vossloh AG's Supervisory Board performed the functions and duties incumbent on it under law and the Company's memorandum & articles of association, and oversaw the conduct of business and provided advice to management. The Supervisory Board obtained timely detailed regular written and oral reports on the business trend of Vossloh AG and its subsidiaries, the strategic alignment of the Group, and the progress of planned M&A transactions and corporate policy implementation. The Executive and Supervisory Boards were therefore in an in-depth dialog throughout.

At five scheduled meetings (March 17, May 25, June 30, October 5, December 7/8, 2005), the Supervisory Board discussed with the Executive Board day-to-day business and the strategic concepts, short- and medium-term corporate plans, capital expenditure projects, the current income and cash trends, risk position and management, as well as significant organizational and personnel changes, along with Vossloh's corporate governance issues and the possibility of transforming Vossloh AG into a Societas Europeae (SE), a European Corporation. In addition, the Supervisory Board held extraordinary meetings on May 10, August 26, September 26, October 20, and December 20, 2005. All Supervisory Board members attended all regular meetings. At three extraordinary meetings, each time a different Supervisory Board member excused himself.

Projects of key importance or urgency were also communicated by the Executive Board to the Supervisory Board between scheduled meetings. Moreover, the Supervisory Board Chairman regularly deliberated on and discussed with the Executive Board—mainly with the latter's Chairman (CEO)—strategic aspects, the business trend, major HR issues, and risk management matters. The Supervisory Board Chairman was throughout promptly informed by the CEO about any extraordinary events of major significance to the assessment of the Vossloh Group's current position and development. All transactions requiring the Supervisory Board's consent were duly submitted to, and mostly authorized by, this Board; however, the Supervisory Board did not agree to Vossloh AG's transformation into a European Corporation (SE). In addition, the Supervisory Board dealt with the ongoing profit improvement measures, as well as the strategies—and their translation into practice—aimed at further expanding the divisions.

Dr.-Ing. Wilfried Kaiser
Supervisory Board Chairman
of Vossloh AG

Changes in Executive and Supervisory Board membership

Executive Board membership changed when former CEO Burkhard Schuchmann stepped down from his office as of December 31, 2005. Effective March 1, 2006, the Supervisory Board appointed Dr. Gerhard Eschenröder member and concurrently Chairman of the Executive Board.

Supervisory Board membership changed, too. Effective at the close of the annual stockholders' meeting on May 25, 2005, Dr. Anselm Raddatz stepped down from the Supervisory Board and was succeeded by Dr.-Ing. Wilfried Kaiser, who had been appointed by the Local Court of Iserlohn on May 20, 2005. With effect as of September 23, 2005, Dr. Karl Josef Neukirchen resigned as both chairman and member of the Supervisory Board. To reinstate a plenary Supervisory Board and by order of the Iserlohn Local Court dated November 17, 2005, Dr. Christoph Kirsch was appointed Supervisory Board member, up to May 24, 2006, the date of the next annual general meeting according to a recommendation of the German Corporate Governance Code in effect since July 20, 2005. Dr. Wilfried Kaiser was elected as Supervisory Board Chairman, and Mr. Peter Langenbach new Vice-Chairman since January 1, 2006.

Focal Supervisory Board agenda items

Focal points on the Supervisory Board's agenda of the March 17, 2005 meeting were the review of the efficiency of Supervisory Board work, review and adoption of Vossloh AG's separate and consolidated financial statements and the combined management report on Vossloh AG and the Group, all as submitted by the Executive Board for the fiscal year 2004, as well as the statutory audit report and the AGM agenda 2005. Moreover, the Supervisory Board took note of the Executive Board report on business to date in 2005 and the current position of the Kiel location's structural reorganization of Vossloh Locomotives GmbH. In addition, the Supervisory Board deliberated on matters of strategy, strategy implementation, and corporate structure.

At its extraordinary meeting on May 10, 2005, the Supervisory Board primarily dealt with the situation at the Kiel location, the current position and goals in connection with the Valencia plant acquisition, and the Vossloh Group's M&A strategy in general. The meeting of May 25, 2005, centered on the preparation of the succeeding annual general meeting, as well as on the Executive Board report on business in 2005 to date. The meeting on June 30, 2005, focused on the Executive Board's current business progress report, as well as on the expectations for 2005, the restructuring of Vossloh Locomotives, the development of the new heavy mainline locomotive Euro 4000, and the progress to date of M&A projects.

The agenda of the August 26, 2005 meeting included the envisaged acquisition of Pfleiderer Track Systems and the current status of other M&A projects. By telecommunicated resolution, the Supervisory Board elected on September 24, 2005, Dr.-Ing. Wilfried Kaiser as its Chairman. At the September 26, 2005 extraordinary meeting, mainly the appointment of a new Supervisory Board member to succeed Dr. Neukirchen was discussed.

High on the agenda of the October 5, 2005 meeting was the Executive Board's report on business to date and on expectations for 2005, the Kiel restructuring progress, the Valencia plant's integration, and the latest on M&A projects. Furthermore, the former combined Staff & Audit Committee was dissolved and succeeded by one three-member Staff Committee and Audit Committee each.

Elected as Staff Committee members were Mr. Peter Langenbach, Mr. Wolfgang Klein and Dr.-Ing. Wilfried Kaiser as Chairman. Dr. Jürgen Blume and Mr. Wolfgang Klein were elected Audit Committee members. The October 20, 2005 extraordinary meeting dealt with the potential appointment of Dr. Christoph Kirsch as further Supervisory Board member of Vossloh AG.

The December 7/8, 2005 meeting concentrated on the election of Mr. Peter Langenbach as new Supervisory Board Vice-Chairman and of Dr. Christoph Kirsch as the Audit Committee's third member, on the Vossloh Group's strategy, the Executive Board report on business in 2005 to date, the budget 2006, M&A transactions, the Kiel restructuring, and the Valencia integration, as well as the amendment of Vossloh AG's bylaws to reflect the partial utilization of authorized but unissued capital for the stock option programs, and the declaration of conformity pursuant to Art. 161 AktG for 2005. The extraordinary Supervisory Board meeting on December 20, 2005, dealt with Executive Board personnel issues.

Staff and Audit Committees now separate bodies

Vossloh AG's Supervisory Board has two committees, the Staff Committee and the Audit Committee; the previous combined Staff & Audit Committee was dissolved at the Supervisory Board meeting of October 5, 2005, and split into the aforesaid two separate bodies. Each committee has three members. The duties of the Staff Committee and the Audit Committee include the preparation of business to be transacted before the plenary Supervisory Board. Furthermore, the Supervisory Board has delegated certain defined powers, such as the execution, amendment and termination of the employment contracts with Executive Board members, however, not the latter's appointment and removal as these are subject to the plenary Supervisory Board's approval (for further information about the activities of the two committees, see page 67). For Staff Committee and Audit Committee membership, see above. Prior to its dissolution on October 5, 2005, the combined Staff & Audit Committee had convened on March 17, 2005. The Audit Committee members conferred on December 8, 2005.

At its March 17, 2005 meeting, the (combined) Staff & Audit Committee dealt with risk management issues, the separate and the consolidated financial statements and the combined management report on Vossloh AG and the Group for fiscal 2004, the statutory auditors' declaration of independence, the proposal for the election of the statutory auditors for Vossloh AG and the Group for fiscal 2005, as well as the approval of the LTIP for the Executive Board.

On the Audit Committee's agenda for its December 8, 2005 meeting were primarily the election of Dr. Christoph Kirsch as Audit Committee Chairman, the determination of focal areas of the 2005 annual audit, as well as the fees proposed for the audits to be performed by BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, Essen branch, and the formal engagement of BDO.

Separate and consolidated financial statements

The separate financial statements of Vossloh AG according to German GAAP, the consolidated financial statements according to the IFRS, and the combined management report on Vossloh AG and the Group for fiscal 2005 (including the accounting), all as prepared by the Executive Board, were examined by the statutory auditors, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the May 25, 2005 stockholders' meeting and who issued their unqualified opinion thereon.

The statutory auditors confirmed that (i) the risks of future development existing at the subsidiaries and within the Group were recognized, mapped and profiled through the early risk identification system established pursuant to Art. 91(2) AktG, (ii) the combined management report on the Company and the Group presented such risks fairly, and (iii) Vossloh AG's Executive and Supervisory Boards, in connection with the recommendations of the German Corporate Governance Code, fully complied with their obligation to publish the declaration of conformity pursuant to Art. 161 AktG. The Supervisory Board continually followed up on the further development of corporate governance standards. In December 2005, the Executive and Supervisory Boards issued, and made available to the stockholders long term on the Company's website, a declaration of conformity pursuant to Art. 161 AktG. For details, see the section on Vossloh AG's corporate governance and the corporate governance report on page 66.

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

The Supervisory Board members discussed on March 23, 2006, in detail all issues arising in connection with the above-mentioned documents and discussed beforehand by the Audit Committee, after the Audit Committee's report thereon. The statutory auditors attended the Supervisory Board's annual accounts meeting, briefed the participants on all material results of their audit and were available to answer queries. In this context, the statutory auditors also reported on the risk management system within the Vossloh Group. No facts suggesting that the declaration of conformity issued in 2005 by the Executive and Supervisory Boards in connection with the Code was incorrect were found during the audit.

The Supervisory Board, too, examined Vossloh AG's separate and consolidated financial statements and the combined management report for the fiscal year 2005 as submitted by the Executive Board, as well as the proposed appropriation of profit. According to the final result of its own review, the Supervisory Board raised no objections and therefore consented to the results of the examination by the statutory auditors. The Supervisory Board approved Vossloh AG's separate and consolidated financial statements as of December 31, 2005; the separate financial statements as of December 31, 2005, are thus adopted. The Supervisory Board agrees to the profit appropriation as proposed by the Executive Board, i.e., to distribute a cash dividend of €1.30 per no-par share.

The Supervisory Board thanks the Executive Board (particularly Mr. Burkhard Schuchmann who, after almost 20 years of successful work for Vossloh, had resigned as CEO), the Management Boards, the Works Councils, and all the employees for their successful contributions to the Vossloh Group's performance. Special thanks also go to Dr. Karl Josef Neukirchen, for many years Vossloh AG's Supervisory Board Chairman.

Werdohl, March 23, 2006

The Supervisory Board
Dr.-Ing. Wilfried Kaiser
Chairman

Consolidated and separate financial statements 2005

Consolidated financial statements of Vossloh AG as of December 31, 2005

Consolidated income statement for the year ended December 31, 2005

€ million	Note	2005	2004[1]
Net sales	(1)	996.4	917.8
Cost of sales	(2.1)	(802.8)	(725.9)
General administrative and selling expenses	(2.2)	(119.4)	(109.2)
R&D expenses	(2.3)	(6.4)	(8.6)
Other operating income/expenses, net	(3)	26.0	28.4
Operating result		**93.8**	**102.5**
Income from associated affiliates	(4)	0.7	1.1
Income from other investees	(4)	0.2	0.5
Income from securities and financial assets		0.3	0.1
Other financial results	(5)	(4.2)	1.4
Earnings before interest and taxes (EBIT)		**90.8**	**105.6**
Net interest expense	(6)	(19.6)	(16.0)
Earnings before taxes (EBT)		**71.2**	**89.6**
Income taxes	(7)	(24.7)	(31.8)
Net income		**46.5**	**57.8**
Minority interests	(8)	(0.8)	(0.6)
Net result of discontinued operations	(9)	(0.6)	0.0
Group earnings		**45.1**	**57.2**
Undiluted earnings per share* (€)	(10)	3.07	3.91
Fully diluted earnings per share (€)	(10)	3.07	3.91

*During fiscal 2004 and 2005, altogether 14,604,813 and 14,687,641 no-par shares of stock, respectively, were issued.

[1]The 2004 comparatives have been restated according to IFRS 5; see also the notes to the income statement.

Consolidated statement of cash flows for the year ended December 31, 2005

€ million	2005		2004	
Cash inflow from operating activities				
Group earnings (before net result of discontinued operations)	45.9		57.8	
Amortization/depreciation/write-down less write-up of fixed assets	28.3		24.6	
Other noncash income/expenses, net	6.8		9.9	
Book gains/losses (net) from the disposal of fixed assets	(0.1)		(6.7)	
Increase in inventories, trade receivables and other assets for operating activities	(41.6)		(3.9)	
Increase/(decrease) in trade payables and other liabilities from operating activities	15.3		(48.8)	
Net cash provided by operating activities		54.6		32.9
Cash outflow for investing activities				
Cash inflow from the disposal of intangible and tangible assets	0.9		6.4	
Cash outflow for intangible and tangible assets added	(34.5)		(37.3)	
Cash inflow from the disposal of financial assets	0.4		2.7	
Cash outflow for financial assets added	(4.0)		(1.9)	
Cash (outflow for)/inflow from short-term securities (acquired)/sold	(4.3)		1.1	
Cash inflow from the disposal of consolidated subsidiaries and other units	0.0		8.0	
Cash outflow for the acquisition of consolidated subsidiaries and other units	(24.0)		(6.5)	
Net cash used in investing activities		(65.5)		(27.5)
Cash (outflow for)/inflow from financing activities				
Cash inflow from equity increases	2.4		0.2	
Cash outflow for Vossloh stockholders and for minority interests	(19.8)		(19.9)	
Change in treasury stock	1.3		0.0	
Net financing from short-term credits	(60.4)		49.1	
Net financing from medium- and long-term loans	(2.4)		81.8	
Net cash (used in)/provided by financing activities		**(78.9)**		**110.5**
Net inflow/(outflow) of cash & cash equivalents		(89.8)		115.9
Cash & cash equivalents at beginning of period		140.0		24.1
Cash & cash equivalents at end of period		50.2		140.0

Consolidated balance sheet

Assets

€ million	Note	12/31/2005	12/31/2004
Total noncurrent assets		**482.8**	**408.7**
Intangible assets	(11)	334.0	276.0
Tangible assets	(12)	102.7	97.4
Investment properties	(13)	7.4	6.9
Financial assets	(14)	9.2	6.7
Shares in unconsolidated subsidiaries		4.6	3.6
Shares in associated affiliates		1.0	1.4
Other investments and long-term securities		1.4	1.6
Long-term loans		2.2	0.1
Fixed assets		453.3	387.0
Sundry noncurrent assets	(15)	0.9	0.9
Deferred tax assets	(16)	28.6	20.8
Total current assets		**608.4**	**608.0**
Inventories	(17)	174.2	169.0
Trade receivables	(18)	319.2	250.9
Due from unconsolidated subsidiaries and investees	(19)	4.7	3.8
Income tax assets	(20)	16.8	17.7
Sundry current assets	(20)	38.2	25.9
Short-term securities	(21)	5.1	0.7
Cash & cash equivalents	(22)	50.2	140.0
		1,091.2	**1,016.7**

Equity & liabilities

€ million	Note	12/31/2005	12/31/2004
Total group equity	(23)	**361.0**	**331.1**
Capital stock	(23.1)	37.7	37.4
Additional paid-in capital	(23.2)	40.2	37.8
Treasury stock	(23.3)	–	(1.1)
Reserves retained from earnings	(23.4)	241.5	203.2
Undistributed group profit		0.0	0.1
Group earnings		45.1	57.2
Accumulated other comprehensive income	(23.5)	(9.6)	(9.3)
Minority interests	(23.6)	6.1	5.8
Noncurrent liabilities and accruals		**310.3**	**305.3**
Noncurrent financial debts	(24.1)	215.8	191.4
Other noncurrent liabilities	(24.2)	22.7	44.4
Pension accruals	(25)	14.9	15.6
Other noncurrent accruals	(26)	29.7	36.6
Deferred tax liabilities	(15)	27.2	17.3
Current liabilities and accruals		**419.9**	**380.3**
Current financial debts	(24.1)	60.0	120.4
Trade payables	(24.3)	153.5	101.3
Due to unconsolidated subsidiaries and investees		3.5	4.3
Income tax liabilities	(24.2)	6.5	11.0
Sundry current liabilities	(24.2)	97.5	85.1
Current accruals	(26)	98.9	58.2
		1,091.2	**1,016.7**

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital	Treasury stock	Reserves retained from earnings	Undistributed group profit	Group earnings	Accumulated OCI	Minority interests	**Total**
Balance at 1/1/2004	**37.4**	**37.8**	**(1.1)**	**167.6**	**0.0**	**55.5**	**(5.2)**	**5.6**	**297.6**
Stockholder-unrelated changes in equity									
Carryforward to new account					55.5	(55.5)			0.0
Transfer to reserves retained from earnings				36.4	(36.4)				0.0
Change through initial consolidation				(0.2)				(0.2)	(0.4)
Other changes				(0.6)				0.0	(0.6)
Net income for 2004						57.2		0.6	
Accumulated OCI									
currency translation differences							1.7	0.5	
statement at fair value of financial instruments							(5.8)		
Comprehensive income						57.2	(4.1)		53.1
Minority interests								1.1	1.1
Stockholder-related changes in equity									
Capital increases									
from SOPs	0.0	0.0							0.0
other								0.2	0.2
Dividend payout					(19.0)			(0.9)	(19.9)
Balance at 12/31/2004	**37.4**	**37.8**	**(1.1)**	**203.2**	**0.1**	**57.2**	**(9.3)**	**5.8**	**331.1**
Stockholder-unrelated changes in equity									
Carryforward to new account					57.2	(57.2)			0.0
Transfer to reserves retained from earnings				38.3	(38.3)				0.0
Sale of treasury stock		0.2	1.1						1.3
Net income for 2005						45.1		0.8	
Accumulated OCI									
currency translation differences							0.4	0.1	
statement at fair value of financial instruments							(0.7)		
Comprehensive income						45.1	(0.3)		44.8
Minority interests								0.9	0.9
Stockholder-related changes in equity									
Capital increases									
from SOPs	0.3	2.2							2.5
other								0.1	0.1
Dividend payout					(19.0)			(0.7)	(19.7)
Balance at 12/31/2005	**37.7**	**40.2**	**0.0**	**241.5**	**0.0**	**45.1**	**(9.6)**	**6.1**	**361.0**

Segment information by divisions

		Rail Infrastructure	Motive Power	Information Technologies	Intermediate holding company/ consolidation	Rail Technology (RT)	H.O./ consolidation	Group
Net external sales								
2005	€ million	571.5	360.9	53.4	2.1	987.9	0.3	988.2
2004	€ million	507.7	336.9	64.2	2.0	910.8	0.3	911.1
Intersegment transfers								
2005	€ million	8.0	4.3	0.4	(4.5)	8.2	0.0	8.2
2004	€ million	6.4	4.0	0.4	(4.1)	6.7	0.0	6.7
Amortization/depreciation/write-down[1]								
2005	€ million	14.1	7.8	1.2	0.0	23.1	0.8	23.9
2004	€ million	13.1	9.5	1.3	0.0	23.9	1.3	25.2
Net interest result								
2005	€ million	(7.4)	(5.6)	(1.0)	(10.9)	(24.9)	5.3	(19.6)
2004	€ million	(7.3)	(5.2)	(0.7)	(10.7)	(23.9)	7.9	(16.0)
EBIT								
2005	€ million	87.8	15.3	3.2	(7.0)	99.3	(8.5)	90.8
2004	€ million	90.7	18.6	7.6	0.4	117.3	(11.7)	105.6
EBT								
2005	€ million	80.4	9.7	2.2	(17.9)	74.4	(3.2)	71.2
2004	€ million	83.4	13.4	6.9	(10.3)	93.4	(3.8)	89.6
Net earnings[2]								
2005	€ million	53.3	6.3	0.7	(12.1)	48.2	(3.1)	45.1
2004	€ million	52.8	7.2	4.0	(4.9)	59.1	(1.9)	57.2
Net profit from associated affiliates								
2005	€ million	0.7	0.0	0.0	0.0	0.7	0.0	0.7
2004	€ million	1.1	0.0	0.0	0.0	1.1	0.0	1.1
Other major noncash segment expenses								
2005	€ million	30.7	38.6	3.6	0.7	73.6	7.3	80.8
2004	€ million	16.1	20.0	4.9	0.9	41.9	5.3	47.2
Capital expenditures for tangible assets								
2005	€ million	15.4	12.9	4.1	1.1	33.5	1.0	34.5
2004	€ million	19.6	14.4	4.3	(0.6)	37.7	1.7	39.4
Total operating assets								
2005	€ million	564.3	326.0	88.6	3.0	981.9	(29.2)	952.7
2004	€ million	539.2	228.3	37.2	0.5	805.2	4.9	810.1
Total operating liabilities								
2005	€ million	158.0	228.4	14.0	(40.6)	359.8	28.8	388.6
2004	€ million	145.5	95.1	13.9	3.2	257.7	59.8	317.5
Shares in associated affiliates								
2005	€ million	1.0	0.0	0.0	0.0	1.0	0.0	1.0
2004	€ million	1.4	0.0	0.0	0.0	1.4	0.0	1.4
Capital employed								
2005	€ million	468.8	225.7	46.8	247.0	988.3	(231.7)	756.6
2004	€ million	459.5	185.6	32.5	244.4	922.0	(231.8)	690.2
Total assets								
2005	€ million	639.1	382.5	91.1	248.0	1,360.7	(269.5)	1,091.2
2004	€ million	601.0	270.8	39.0	252.5	1,163.3	(146.6)	1,016.7

[1] Excluding financial assets

[2] Before profit/loss transfer

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2005

Bases of the consolidated financial statements

Vossloh AG, Werdohl, and its subsidiaries develop, manufacture and market transport technology products and services.

The consolidated financial statements of Vossloh AG have been prepared in due accordance with all current International Financial Reporting Standards (IFRS) whose application in the European Union (EU) was obligatory at the balance sheet date, as well as with the supplementary regulations of Art. 315a(1) German Commercial Code ("HGB").

The financial statements of all companies included in Vossloh's consolidated financial statements are prepared as of December 31 in accordance with groupwide uniform accounting and valuation methods; they were audited by independent statutory accountants. The consolidated financial statements are expressed in euro (€). The income statement has been presented in the cost-of-sales format.

Preparing the consolidated financial statements requires management to make certain assumptions and estimates. The actual values subsequently determined may differ from those estimates and hence from the amounts disclosed in the consolidated financial statements.

Consolidation principles

The purchase method of accounting is used for capital consolidation. Accordingly, the purchase cost of the acquired shares is offset against the revalued equity. The acquiree's assets and liabilities are stated at fair value. Any residual net assets over cost are recognized as goodwill according to IFRS 3 and tested for impairment once annually. Any resulting badwill is directly expensed.

Where in the separate financial statements of consolidated subsidiaries, write-down had been charged to shares in consolidated subsidiaries or intragroup receivables, such write-down is reversed in consolidation.

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

Joint ventures are consolidated pro rata and included in accordance with the same principles pro rata of Vossloh AG's shareholding.

Consolidation group

Vossloh's consolidated financial statements comprise the financial statements of Vossloh AG and principally all its subsidiaries. Subsidiaries where Vossloh AG can exercise control through its directly or indirectly held voting majority are generally fully consolidated in the Vossloh Group's accounts. Due to their minor significance to the Group's net assets, financial position and results of operations, 27 subsidiaries (up from 24) were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights at the balance sheet date.

Companies in which Vossloh owns an equity interest of between 20 and 50 percent and where Vossloh can exercise a significant influence on their business and financial policies (so-called associated affiliates) are carried at equity. This applies to BV Oberflächentechnik GmbH & Co. KG, Werdohl.

Major joint ventures are—due to their significance to the Vossloh Group's net assets, financial position and results of operations—consolidated pro rata. The consolidated financial statements as of December 31, 2005, include pro rata a total 28 companies and joint ventures.

The remaining investees and the shares in entities in which Vossloh holds less than 20 percent of the voting rights are disclosed at the lower of cost or market within financial assets.

The group of fully consolidated subsidiaries developed in 2005 as follows:

Fully consolidated companies	2005	2004
January 1	44	41
newly consolidated	1	3
merged intragroup	(2)	0
deconsolidated	(1)	0
December 31	42	44

The initial consolidation refers to Vossloh Verwaltungsgesellschaft mbH, which was newly included in the consolidated accounts in the wake of an intragroup reassignment of shareholdings. Since the assets and liabilities of Vossloh Beteiligungsgesellschaft mbH & Co. KG accrued to Vossloh AG as of December 31, 2005, as well as due to merger of Vossloh Delitzsch GmbH into Vossloh-Werke GmbH (all entities herein mentioned being based in Werdohl), these two enterprises retired from the consolidation group.

EuroTrac GmbH Verkehrstechnik, Kiel, was sold and transferred to a nongroup investor with economic effect as of January 1, 2005, and therefore deconsolidated.

Vossloh España S.A., Valencia, a company incorporated and newly consolidated in 2004 in Spain, acquired from Alstom Transporte S.A. the assets and liabilities of a diesel-electric locomotive manufacturing plant in Valencia as of April 1, 2005.

The acquired manufacturing plant's assets and liabilities added as of the acquisition date are listed below:

€ million	
Fixed assets	60.1
+current assets	67.5
– liabilities	(52.2)
– accruals	(31.8)
=total purchase price	**43.6**
– cash and cash equivalents taken over	(19.6)
=cash outflow for the acquisition	**24.0**

The fixed assets include acquisition-related goodwill of €49.1 million. The pre-acquisition carrying amounts of fixed assets and accruals were each €5.6 million below the values reported here. The book values of the remaining balance sheet lines equaled the values recognized at the acquisition date. In fiscal 2005, Vossloh España S.A. contributed €5.6 million to the Group's EBT. If acquired as of January 1, 2005, the subsidiary would have contributed sales of €122.2 million and an EBT of €6.5 million to the Group's.

Currency translation

Non-euro financial statements of subsidiaries are translated into € as the group currency according to the functional-currency concept. Since these subsidiaries are *foreign operations* (as defined by the IFRS), their functional currency corresponds to their local currency. For balance sheet lines, the mean exchange rate as of December 31, 2005, is used while for income statement translation, the annual average rate is applied. Currency translation differences, whether from the interperiod differences in assets and liabilities or those between income statement and balance sheet, are recognized in, and only in, equity, the total change for the year being shown in a separate line within accumulated other comprehensive income (OCI).

In the separate financial statements, foreign-currency transactions are translated at the historical rate as of accounting entry date. Any unrealized exchange gains or losses as of the balance sheet date from the valuation of monetary assets and liabilities are recognized in the income statement.

The exchange rates of non-Euroland countries where the Vossloh Group transacts major business through consolidated subsidiaries are listed below:

Exchange rates

Country	Currency	€	Current rate at Dec. 31		Average rate in	
	(ISO code)		2005	2004	2005	2004
Mexico	MXN	€1	12.61	15.24	13.58	14.03
Norway	NOK	€1	8.00	8.24	8.01	8.37
Poland	PLN	€1	3.87	4.09	4.03	4.54
Serbia	CSD	€1	85.65	78.65	83.31	72.54
Sweden	SEK	€1	9.39	9.02	9.28	9.13
Thailand	THB	€1	48.62	53.08	50.09	50.06
UK	GBP	€1	0.69	0.71	0.68	0.68

Notes to the consolidated income statement

According to IFRS 5, the sale and transfer of EuroTrac GmbH Verkehrstechnik, Kiel, and the ensuing discontinuation of the Services operations meant that all contributions by this divestee have been reclassified in the income statement into the net result of discontinued operations, the prior-year comparatives having been restated accordingly.

(1) Net sales

Sales are recognized net of sales deductions and price allowances (such as cash and other discounts, bonuses, rebates, purchases or returns credited). In line with IAS 18, sales are generally realized once goods have been delivered or services rendered, provided that the price has been fixed or can be determined and that realization of the underlying receivable is reasonably probable. Where milestone invoices have been agreed in advance, sales are recognized after the customer has finally and formally accepted the milestone delivery. Revenues from specific manufacturing or construction contracts with customers ("PoC contracts") are recognized according to their percentage of completion (PoC) in accordance with IAS 11.

By adopting the cost-to-cost method, i.e. relating costs incurred in the period to estimated total contract costs, the percentage of completion is determined and applied to the contracts, these being recognized at production cost, plus a profit pro rata of the percentage of completion provided that contract results can be reliably determined.

Net sales

€ million	2005	2004
Revenues from the sale of products and services	800.0	711.4
Revenues from PoC contracts	196.4	206.4
Total	**996.4**	**917.8**

Pages 83 and 101 include a breakdown of net sales according to primary and secondary segments (i.e., by divisions and geographical markets/regions).

(2) Functional expenses

According to the cost-of-sales format of income statement presentation, expenses are allocated to functional categories. The following expense types are included in cost of sales, selling, general administrative and R&D expenses, as well as in the other operating expenses at the following amounts:

Expense types

€ million	2005	2004
Cost of materials	494.8	470.8
Personnel expenses	234.5	217.5
Amortization/depreciation/write-down	23.9	25.2

The cost of materials includes the cost of raw materials and supplies at €404.5 million (down from €412.5 million) and the cost of services purchased at €90.3 million (up from €58.3 million). €182.1 million of personnel expenses (up from €168.2 million) is allocable to wages and salaries, another €50.2 million to social security taxes and related employee benefits (up from €47.8 million), and €2.2 million to pension expense (up from €1.5 million). The functional expenses include rental expenses from operating leases of €8.4 million (up from €4.6 million).

The Vossloh Group's annual average headcount in 2005 came to 4,693 (up from 4.600).

(2.1) Cost of sales

Cost of sales covers the cost of goods and services sold in the period. Besides such direct costs as materials, labor and energy, cost of sales also comprises indirect costs including amortization/depreciation, as well as any write-down or allowances charged in the period to inventories.

(2.2) General administrative and selling (GAS) expenses

GAS expenses in 2005 broke down into €46.2 million of selling expenses (up from €44.0 million) and general administrative expenses of €73.2 million (up from €65.2 million). Besides payroll, selling expenses mainly consist of outbound freight and commissions. In the year under review, the allowances recognized as selling expenses for bad trade receivables and sundry assets totaled €0.1 million (down from €0.3 million). The general administrative expenses cover the payroll and impersonal expenses of administration, including the related amortization/depreciation.

(2.3) R&D expenses

In accordance with IAS 38, all research costs were directly expensed in this line. The costs incurred for developing a marketable product are capitalized where meeting the capitalization criteria. Noncapitalizable development costs are expensed in this line, too. R&D expenses before capitalized other work and material in 2005 came to €13.9 million (down from €15.1 million).

(3) Other operating income/expenses (net)

The major components of this line are:

Other operating income/expenses (net)

€ million	2005	2004
Gains from the disposal of fixed assets	0.2	7.0
Income from the release of accruals	15.1	14.3
Insurance claims/indemnities	1.6	1.8
Rental income	1.3	0.6
Foreign exchange gains	1.5	1.1
Losses on the disposal of fixed assets	(0.1)	(0.4)
Foreign exchange losses	(1.2)	(1.3)
All other income	10.8	6.8
All other expenses	(3.2)	(1.5)
	26.0	**28.4**

(4) Income from investments

The €0.7 million income from associated affiliates (down from €1.1 million) reflects the profit share allocable to the Vossloh Group and earned from the investment in BV Oberflächentechnik GmbH & Co. KG, Werdohl.

The income from other investees refers at €0.2 million (down from €0.5 million) to companies in which the Vossloh Group holds less than one-fifth of the voting rights and on which Vossloh does not exert any significant influence, as well as to the income from unconsolidated subsidiaries.

(5) Other financial results

This line mirrors the write-down of financial assets at €4.4 million (up from €0.6 million) and, for 2004, the write-up of financial assets at €2.0 million, as well as gains of €0.2 million realized from the statement at fair value of currency hedges (up from €0.0 million).

(6) Net interest expense

The net interest expense of €19.6 million (up from €16.0 million) is the balance of interest and similar income of €1.6 million (down from €1.8 million) and interest and similar expenses of €21.2 million (up from €17.8 million).

(7) Income taxes

Total income taxes, which break down as shown below, include the income taxes paid and owed by the subsidiaries, as well as deferred taxes:

Income taxes

Income taxes	2005	2004
Current income taxes	22.5	22.2
Deferred taxes	2.2	9.6
	24.7	**31.8**

The Vossloh Group's actual tax expense of €24.7 million (down from €31.8 million) is €3.8 million (down from €4.0 million) below the calculated (expected) tax expense resulting from applying a groupwide uniform rate of 40 percent to EBT. This (unchanged) tax rate of 40 percent combines the corporate income tax and municipal trade tax load.

Reconciliation of the expected to the recognized tax expense:

Income taxes

		2005	2004
Earnings before taxes (EBT)	€ mill.	71.2	89.6
Tax rate incl. municipal trade tax	%	40.0	40.0
Expected tax expense at a single rate	€ mill.	28.5	35.8
Tax reduction due to lower rates abroad	€ mill.	(5.6)	(2.8)
Tax effects of the write-down/write-up of deferred taxes	€ mill.	(0.9)	(0.4)
Tax reduction from tax-exempt investment income and gains from the tax-free disposal of investments	€ mill.	0.0	(3.0)
Tax increase for nondeductible business expenses	€ mill.	2.2	0.9
Taxes for prior years	€ mill.	0.5	1.1
Other differences	€ mill.	0.0	0.2
Recognized income tax burden	€ mill.	24.7	31.8
Actual income tax rate	%	34.7	35.5

(8) Minority interests

The Group's net income includes minority interests in profit of €1.2 million (up from €1.0 million) and in loss of €0.4 million (virtually unchanged).

(9) Net result of discontinued operations

This line reflects all income and expenses of EuroTrac GmbH Verkehrstechnik, Kiel, which was disposed of as of January 1, 2005. The operations of EuroTrac GmbH represented the Services business unit within Motive Power. According to IFRS 5, the income and expenses allocable to this divestee are shown in this separate line, net result of discontinued operations, which breaks down as follows:

Analysis of the net result of discontinued operations

€ million	2005	2004
Income	0.0	6.9
Current expenses	(0.9)	(6.9)
Loss on disposal	(0.1)	0.0
EBT	(1.0)	0.0
Tax credit	0.4	0.0
Posttax result	(0.6)	0.0

(10) Earnings per share

EpS is calculated as follows:

Earnings per share

		2005	2004
Weighted average number of common shares		14,692,008	14,639,462
Number of repurchased shares		(4,367)	(34,649)
Weighted average number of shares issued		14,687,641	14,604,813
Dilutive effects of LTIP/ESOP options	shares	24,620	34,580
Weighted average number of shares issued (diluted)		14,712,261	14,639,393
Group earnings	€ mill.	45.1	57.2
Basic (undiluted) EpS	€	3.07	3.91
Fully diluted EpS	€	3.07	3.91

Notes to the consolidated statement of cash flows

The cash flow statement depicts the changes in cash and cash equivalents within the Vossloh Group. The term cash and cash equivalents corresponds to the equivalent balance sheet line, which is defined below. The cash flow statement was prepared in conformity with IAS 7 and breaks down cash flows into the cash inflows from, and outflows for, operating, investing and financing activities. The cash flow from operating activities is presented according to the indirect method.

The cash outflow for tax payments and interest, and the cash inflow from interest and dividends, are fully assigned to the cash flow from operating activities, which included in 2005 interest received at €1.6 million (down from €1.8 million), interest paid at €23.0 million (up from €17.8 million), dividends received at €0.8 million (down from €1.2 million), and income taxes paid after offsetting tax credits at a net €27.5 million (up from €26.3 million).

Notes to the consolidated balance sheet

In accordance with IAS 1, the balance sheet breaks down into noncurrent and current assets and liabilities. Assets and liabilities maturing or due within one year are deemed current. Notwithstanding their maturity pattern, inventories and trade receivables/payables are always considered current even if sold, used, consumed or due after one year but within one normal business cycle. In line with IAS 12, deferred taxes (assets/liabilities) are throughout shown as noncurrent.

For the analysis of fixed assets as part of noncurrent assets, see pages 108 and 109.

(11) Intangible assets

Intangible assets comprise software, concessions, franchises, licenses, property rights and similar rights, as well as goodwill and capitalized development costs, including the prepayments made on account of such rights and assets.

Intangibles are carried at amortized cost; concessions, franchises, licenses, property rights and software are as a rule amortized by straight-line charges over 3 to 5 years.

Pursuant to IFRS 3 in conjunction with IAS 36 (revised 2004) and IAS 38 (revised 2004), goodwill from acquisitions (business combinations) is not amortized but its value tested once annually for impairment. To this end, the net book value of goodwill is contrasted to the discounted cash flows (applying a rate of 10.8 percent) expected from the pertinent cash-generating units (CGUs) in line with medium-term plans. Since the discounted cash flows exceed goodwill book values, no goodwill was written down.

Development costs are capitalized at cost wherever (i) the latter is clearly allocable, (ii) the developed product's technical feasibility and future marketability are ensured, and (iii) the development work is reasonably certain to produce future cash inflows. Cost includes all costs directly and indirectly assignable to the development process. Straight-line amortization of capitalized development costs is based on useful lives of 2 to 7 years.

In the year under review, the results of impairment tests entailed write-down of €0.2 million (up from €0.0 million).

(12) Tangible assets

Tangible assets are recognized at (purchase or production) cost and depreciated over the estimated economic lives, mainly based on the following ranges:

Useful lives of tangibles

Buildings	20-50 years
Production plant and machinery	3-21 years
Other plant, factory and office equipment	3-20 years

Where the value of tangibles is found impaired, appropriate write-down is charged, which in 2005 was recognized at €0.2 million (up from €0.1 million).

(13) Investment properties

These include land and buildings not used for operational purposes and partly leased to nongroup lessees. According to IAS 40, Investment Properties, any land owned for investment purposes is carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years. Rental income derived in the period came to €0.5 million (up from €0.4 million). Expenses (including depreciation, M&R and incidentals) incurred in 2005 for properties leased out totaled €0.3 million (up from €0.2 million), those for other properties amounting to €0.2 million (down from €0.3 million). The fair value of investment properties was €7.8 million at December 31, 2005 (up from €7.2 million) and is derived from the market prices of comparable real estate.

(14) Financial assets

The shares in unconsolidated subsidiaries and in other investees are capitalized at cost.
The shares in associated affiliates, over which a significant influence is exercised, are carried at equity. The long-term loans are stated at amortized cost. In accordance with IAS 39, the other long-term securities were classified at €0.1 million as held for trading and at €0.6 million (down from €0.7 million) as available for sale. In line with this classification, these securities are carried at fair value. Since the fair value of securities available for sale exceeded their book value by just €19,000 (up from €17,000, both figures rounded), valuation at cost has been maintained. Where signs of long-term impairment are identified, financial assets are tested and written down as appropriate. Where the reasons for such write-down cease to exist, the charge is reversed and the assets are written up accordingly. Expenses for the write-down, and income from the write-up, of financial assets other than equity instruments are shown within the other financial results.

(15) Sundry noncurrent assets

This line includes currency forwards (carried as cash flow hedges) of €0.6 million (up from €0.2 million) and miscellaneous noncurrent assets of €0.3 million (up from €0.1 million), the latter being carried at amortized cost. The assets from an employer's pension liability insurance, stated in 2004 at €4.6 million in this balance sheet line, have now been reassigned to plan assets, see Note (25) to pension accruals. The prior-year comparative has been adjusted accordingly.

(16) Deferred taxes

In conformity with IAS 12, deferred taxes are recognized for temporary differences between tax bases and IFRS values. The rate applied to deferred taxation corresponds to that expected at the balance sheet date (given the then current legislation) for the future realization period.

Temporary differences gave rise to deferred taxes on the following balance sheet lines:

Deferred taxes

	2005		2004	
€ million	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible and tangible assets	3.7	6.7	0.3	4.3
Receivables	0.3	14.8	1.2	8.7
Inventories	2.7	0.4	2.2	0.6
Other asset lines	0.1	0.0	0.0	0.1
Liabilities	8.1	0.5	6.3	0.4
Pension accruals	1.3	0.0	2.0	0.0
Other accruals	6.1	3.7	6.0	2.1
Other liability lines	1.1	1.1	0.1	1.1
	23.4	**27.2**	**18.1**	**17.3**
Loss carryforwards	5.2	–	2.7	–
	28.6	**27.2**	**20.8**	**17.3**

Deferred tax assets are adjusted by write-down wherever their realization is unlikely. In 2005, deferred taxes were written down at €0.6 million (down from €1.5 million). Loss carryforwards of €13.5 million (up from €10.0 million), which are not subject to expiration, underlie the unadjusted deferred tax assets.

(17) Inventories

Breakdown of inventories:

Inventories

€ million	2005	2004
Raw materials and supplies	74.5	72.8
Work in process	61.5	64.2
Merchandise	2.7	5.2
Finished products	18.2	16.5
Prepayments made	17.3	10.3
Total	**174.2**	**169.0**

Inventories are stated at the lower of purchase/production cost or net realizable value (NRV). Besides full direct costs, production cost also includes all fixed and variable manufacturing overheads systematically allocable to the production process, as well as special direct manufacturing costs, borrowing (interest) costs not being capitalized. To the extent that inventories are valued groupwise, the average-price method is used. Risks from obsolescence or slow-moving items are appropriately allowed for. In the year under review, inventories were written down at €21.7 million (down from €22.6 million). The book value of inventories stated at NRV totaled €35.4 million (up from €32.2 million). As the reasons for previous write-down existed no longer, inventories were written up by €0.1 million (virtually unchanged).

(18) Trade receivables

Breakdown of trade receivables::

Trade receivables

€ million	2005	2004
Receivables from PoC contracts	112.8	41.2
Other trade receivables	206.4	209.7
	319.2	**250.9**

The other trade receivables are carried at principal, specific risks being duly and reasonably allowed for. A general allowance for doubtful accounts provides for the standard collection risk. As of December 31, 2005, allowances of €5.8 million (down from €6.0 million) were charged to the other trade receivables.

In accounting for the receivables from PoC contracts, the contract costs incurred, including a profit share according to the percentage of completion, are capitalized as total contract progress from such customized manufacturing contracts. Accounts due under PoC contracts are shown as trade receivables if the total contract progress by the balance sheet date outstrips customer prepayments received. In the opposite case, payables from PoC contracts are recognized within trade payables.

Receivables and payables from PoC contracts

	2005			2004		
€ million	receivables	payables	total	receivables	payables	total
Total contract progress	148.8	42.9	191.7	85.6	37.1	122.7
Prepayments received	(36.0)	(89.6)	(125.6)	(44.4)	(52.3)	(96.7)
PoC receivables	**112.8**		112.8	**41.2**		41.2
PoC payables		**46.7**	46.7		**15.2**	15.2

The total PoC contract progress of €191.7 million (up from €122.7 million) includes contract costs of €150.9 million accumulated by December 31, 2005 (up from €99.1 million) as well as the profits prorated to such costs at €41.6 million (up from €24.1 million) and prorated losses of €0.8 million (up from €0.5 million).

(19) Due from unconsolidated subsidiaries and investees

These accounts are carried at principal and refer to receivables from unconsolidated subsidiaries at €4.7 million (up from €3.6 million) and from investees at €0.0 million (down from €0.2 million).

(20) Income tax assets and sundry current assets

The sundry current assets mainly account for non-income tax assets at €16.5 million (up from €10.1 million), accounts due from employees at €1.4 million (up from €0.4 million), suppliers with credit balances at €1.0 million (down from €1.8 million), positive fair values of current cash flow hedges (currency forwards) at €1.5 million (up from €0.3 million), as well as for prepaid expenses and deferred charges at €1.3 million (down from €1.5 million).

The sundry current assets are carried at principal or amortized cost, in 2005 less reasonable allowances for impairment at €0.8 million (up from €0.1 million). The financial derivatives included in this line are stated at fair value.

(21) Short-term securities

These securities are short-range interest-bearing cash investments, their book value equaling their fair value. Due to their short-term nature, there were no significant differences between the historical cost and fair value of such securities, which are classified as financial instruments held for trading.

(22) Cash and cash equivalents

This line encompasses checks and other cash on hand and in bank. The accounts due from banks are exclusively maintained with banks of prime standing and carry interest at fair market rates.

(23) Total equity

For the statement of changes in equity, see page 82.

(23.1) Capital stock

Vossloh AG's capital stock totals €37,668,946.18 (up from €37,427,135.80) and is divided into 14,734,811 no-par bearer shares of common stock only (up from 14,640,223).

As of December 31, 2005, authorized capital existed at €18,406,507.72.

Stock option programs

In 1998, 2000, 2002 and 2005, the Vossloh Group launched stock option programs (a specific year's SOP launch being called tranche) under which certain executive and managerial staff of subsidiaries (LTIP) and employees of German subsidiaries (ESOP) have been granted options to acquire further shares after first purchasing Vossloh AG stock as personal investment at program tranche inception. For each Vossloh share acquired, LTIP and ESOP participants received ten or three stock options, respectively. The strike (exercise) price and total number of options were fixed at program tranche inception. The strike price corresponds to the average of the single cash prices as quoted for Vossloh stock at the Frankfurt/Main stock exchange during the five trading days preceding the option issuance date.

The term of the programs is five years each. When purchasing shares of Vossloh stock, eligible participants received free options, granting them the privilege after expiration of the 3-year qualifying period (2 years for the 2005 tranche) to acquire Vossloh AG stock at the market price which had been quoted at program inception (strike price). The subscription rights may only be exercised in so-called opportunity windows; in due course before window opening, Vossloh would inform the participants about the Group's current position. Option exercise is subject to certain benchmarks being achieved. Under the LTIP for instance, the Vossloh stock price must have outperformed (or, for the 2005 LTIP, shown at exercise date the same performance as) the MDAX and, as cumulative condition, outgrown the strike price by not less than 15 or 30 percent, depending on the participants group (12.5 or 25 percent for the 2005 tranche). Under the ESOP, the Vossloh stock price must have risen at least 5 percent (4 for the 2005 ESOP) above the strike price or, alternatively, the stock price trend must match or outgrow that of the MDAX.

Under the LTIP, the executive/managerial staff's personal investment ranges (depending on the participants group) between €5,000 and €51,000, for the ESOP, the personal investment of eligible employees is capped at €1,000.

The number of stock options issued developed as follows:

Analysis of stock options issued

	Number of options	Average strike price
Jan. 1, 2004	**101,524**	**23.79**
Options exercised	1,887	15.81
expired	3,129	23.67
Dec. 31, 2004	**96,508**	**23.95**
thereof exercisable	683	15.81
Options granted	82,777	38.75
exercised	94,588	23.99
expired	9,451	37.05
Dec. 31, 2005	**75,246**	**38.54**
thereof exercisable	1,081	24.01

The table below lists the stock options issued and outstanding at December 31, 2005:

Options outstanding

	Strike price (€)	Number of unexercised options	Average time to option exercise (years)	Number of exercisable options at 12/31/2005
Tranche 2005	38.75	74,165	4.25	0
Tranche 2002	24.01	1,081	1.3	1,081

Since the SOP tranches 2000 and 2002 were launched prior to November 8, 2002, IFRS 2 has not been applied, in accordance with the Standard's transitional provisions. The stock options granted under these programs have been valued at their intrinsic value (i.e., the amount by which the option is in the money) as of the granting date and, therefore, are accounted for without recognition in the income statement. The capital stock and additional paid-in capital will not be affected unless and until the options are exercised, in which case the capital stock is increased as new shares are issued.

The SOPs launched in 2005 have been valued in accordance with IFRS 2. For the determination of the granted stock options' fair value, Rubinstein's binomial formula has been used, based on a dividend yield of 3.32 percent and a risk-free interest rate of 3.14 percent, and assuming an empirical volatility of 11.64 percent for the MDAX and 25.33 percent for Vossloh stock. The strike price fixed for the 2005 stock options at issuance is €38.75. Accounting for stock options in accordance with IFRS 2 produced additional personnel expenses of €0.2 million in 2005.

With a view to ensuring the issuance of new shares under the SOPs, the annual stockholders' meetings of June 25, 1998, and June 3, 2004, had approved €2,224,119.68 of authorized but unissued capital, corresponding to a maximum of 870,000 bearer shares of common stock. Up to December 31, 2005, a total 94,930 shares were issued to employees and executive staff, thus raising the capital stock by altogether €242,684.69.

(23.2) Additional paid-in capital

This equity line includes the stock premium from shares issued by Vossloh AG.

(23.3) Treasury stock

Pursuant to Art. 71(1)(8) German Stock Corporation Act ("AktG"), the Company had been authorized by the annual stockholders' meeting on June 3, 2004, after expiration on November 26, 2004, of the previous authority, to repurchase on or before December 2, 2005, treasury shares equivalent to ten percent of the capital stock.

As of December 31, 2005, no shares (down from 34,649) and hence €0.00 (down from €88,578.76) were held as treasury stock.

(23.4) Reserves retained from earnings

This equity line includes the—from the Group's vantage point—undistributed earnings of prior years retained by consolidated subsidiaries.

(23.5) Accumulated other comprehensive income

The accumulated OCI reflects those differences from the currency translation of the financial statements of foreign subsidiaries as well as from the valuation of (i) derivatives used in cash flow hedges and (ii) financial instruments available for sale which were recognized in equity only.

(23.6) Minority interests

These mainly refer to shares held by nongroup owners in Vossloh Switch Systems companies.

(24) Liabilities

Financial debts are carried at amortized cost. The hedged risks inherent in financial debts included as fair value-hedged underlyings are stated at fair value. Payables under capital leases are recognized at the present value of the lease payments. All other liabilities are stated at principal or settlement amount. The financial derivatives included in the sundry liabilities are stated at fair value.

Below follows an aged breakdown of the remaining term of:

Liabilities

	Remaining term						Total	
€ million	≤ 1 year		> 1–5 year		> 5 year			
	2005	2004	2005	2004	2005	2004	2005	2004
Financial debts	60.0	120.4	13.8	16.4	202.0	175.0	275.8	311.8
Income tax liabilities	6.5	10.3	–	–	–	–	6.5	10.3
Sundry liabilities	97.5	85.8	5.8	13.0	16.8	31.4	120.1	130.2
Trade payables	153.5	101.3	0.1	–	0.0	–	153.6	101.3
Due to unconsolidated subsidiaries	1.4	1.6	–	–	–	–	1.4	1.6
Due to investees	2.1	2.7	–	–	–	–	2.1	2.7
Total	**321.0**	**322.1**	**19.7**	**29.4**	**218.8**	**206.4**	**559.5**	**557.9**

(24.1) Financial debts

Breakdown of:

Financial debts

€ million	2005	2004
Note loans	15.0	105.0
US private placement	202.8	175.1
Other accounts due to banks	39.5	16.4
Notes payable	16.8	13.4
Payables under capital leases	1.7	1.9
	275.8	**311.8**

€5.0 million of the note loans is repayable within 2006. Another €10 million of the loans must be redeemed in 2 installments by mid-2008. The note loans carry interest at 5.93 percent.

Under a US private placement agreement, debt of a total $240 million was raised from the capital market, comprising one 10-year loan of $140 million and another 12-year loan of $100 million and both having a bullet maturity. Payment of principal and interest has entirely be hedged by euro-denominated interest rate and currency swaps, thus ensuring that both loans carry interest at fixed euro rates of 5.325 and 5.455 percent, respectively. The €202.0 million debt disclosed as of December 31, 2005, corresponds to the dollar debt translated at the year-end rate. Including the currency hedge shown at €1.1 million within sundry liabilities and the cost of €0.8 million to be amortized over the residual term, the hedged repayment sum totals €203.9 million. The hedge of future interest payments, also carried as a sundry liability, showed a negative market value of €15.7 million at December 31, 2005.

The remaining bank debts refer to chiefly short-term, floating-rate credits.

The payables under capital leases are owed for capital goods leased within the Rail Infrastructure division. The net book value of the leased assets capitalized within tangibles came to €1.6 million (down from €1.8 million). The minimum capital lease payments fall due as follows:

Capital leases

€ million	Principal	Discount	Present value	Principal	Discount	Present value
	12/31/2005			12/31/2004		
Due within 1 year	0.6	0.0	0.6	0.7	0.1	0.6
Due > 1-5 years	1.2	0.1	1.1	1.4	0.1	1.3
Due after 5 years	–	–	–	–	–	–
	1.8	**0.1**	**1.7**	**2.1**	**0.2**	**1.9**

(24.2) Income tax liabilities and sundry liabilities

The sundry current liabilities basically include prepayments received at €36.4 million (up from €16.1 million) other than under PoC contracts, non-income tax liabilities of €25.1 million (up from €18.8 million), social security and health insurance payables of €7.4 million (virtually unchanged), as well as accounts of €6.6 million (down from €9.6 million) due to employees.

The largest single item within the sundry noncurrent liabilities is the fair value of financial derivatives, stated at €19.8 million (down from €41.9 million) and used as currency and interest rate hedges.

Also included in this caption is deferred income from public investment grants of €0.9 million (down from €1.2 million), which is released to income in proportion to the depreciation charged to the subsidized assets.

(24.3) Trade payables

This line includes payables under PoC contracts at €46.7 million (up from €15.2 million), as well as all other trade payables at €106.8 million (up from €86.1 million). For details of PoC payables, see the note to trade receivables.

(25) Pension accruals

Vossloh AG and some subsidiaries have entered into pension obligations to employees. These defined benefit obligations (DBO) vary according to the economic situation and are as a rule based on service years, pensionable pay, and position within Vossloh. Being a defined benefit plan, the pension payment obligations must be met by the subsidiaries concerned.

In accordance with IAS 19, the projected unit credit method has been used to accrue pension obligations, duly taking into account current capital market rates and anticipating future pay and pension increases. Actuarial gains and losses are not recognized in net income until and unless outside a 10-percent corridor of the total annual opening DBO, but if so, they are distributed, and recognized in the income statement, over the remaining service years of the beneficiaries. Assets from an employer's pension liability insurance, which had been capitalized in 2004, have been reclassified as plan assets and offset against the present value of the DBO. The prior-year comparative has been adjusted accordingly. Independent actuarial opinions and reports underlie the pension accruals recognized.

Pension obligations were based on the following assumptions:

%	2005	2004
Discount rate	4.5	5.5
Expected pension rise	1.5	2.0
Expected pay rise	1.5	2.0
Expected cost-of-living rise	1.5	2.0
Probable employee turnover rate	6.0	6.0

The pension accrual recognized was derived as follows:

€ million	2005	2004
Fair value of plan-funded DBO	12.2	10.5
Fair value of plan assets	6.3	4.6
Adjustment for unrecognized actuarial gains/losses	(0.8)	0.6
Accrual for plan-funded DBO	**5.1**	**6.5**
Present value of plan-unfunded DBO	11.4	9.1
Unrecognized actuarial gains/losses. net	(1.6)	0
Accrual for plan-unfunded DBO	**9.8**	**9.1**
Recognized pension accrual acc. to balance sheet	**14.9**	**15.6**

Plan assets developed as follows:

€ million	2005	2004
Annual opening fair value of plan assets	4.6	3.0
Expected return on plan assets	0.3	0.2
Contribution to plan assets	1.7	1.6
Pension payments from plan assets	0.0	0.0
Plan-related actuarial gains/losses	(0.3)	(0.2)
Annual closing fair value of plan assets	**6.3**	**4.6**

The pension accrual presented the following development:

€ million	2005	2004
Opening balance at Jan. 1	15.6	16.9
Utilized	(0.9)	(1.1)
Change in plan assets	(1.4)	(1.6)
Provided for	1.6	1.4
Closing balance at Dec. 31	**14.9**	**15.6**

Breakdown of annual DBO cost:

€ million	2005	2004
Current service cost	0.8	0.6
Expected return on plan assets	(0.3)	(0.2)
Interest cost	1.1	1.0
	1.6	**1.4**

Current service cost is part of the personnel expenses within the functional expense categories concerned, while interest cost is shown within the net interest expense.

(26) Current and other noncurrent accruals

Breakdown of this total:

€ million	2005	2004
Noncurrent tax accruals	0.0	0.3
Sundry noncurrent accruals	29.7	36.3
Other noncurrent accruals recognized	**29.7**	**36.6**
Current tax accruals	3.5	5.2
Other current accruals	95.4	53.0
Current accruals recognized	**98.9**	**58.2**

Accruals are disclosed as current if due within one year, all others being noncurrent.

Tax and other accruals provide for all obligations which are identifiable at the balance sheet date, are based on past events and whose amount or maturity is uncertain. Such obligations are only provided for if predicated on a legal or constructive commitment to third parties. Accruals provide for the amounts of their probable utilization. The maximum risk inherent in accrued obligations is €22.4 million (up from €11.6 million) above the accruals recognized in the balance sheet. Additional risks of €29.3 million (up from €5.5 million) exist but were not provided for since their probability is below 50 percent.

Tax and other accruals developed in 2005 as follows:

Analysis of tax and other accruals

€ million	Taxes	Personnel	Unbilled costs	Warranties and follow-up costs	Litigation and impending losses	All other accruals	**Total**
Opening balance at 1/1/2005	5.5	25.5	3.9	31.5	7.9	20.5	**94.8**
Changes due to							
initial consolidation	–	–	16.9	3.9	11.0	–	**31.8**
deconsolidation	–	0.1	0.2	1.1	–	0.1	**1.5**
Utilized	3.0	15.6	7.4	18.1	3.3	13.0	**60.4**
Released/reversed	0.3	1.3	0.2	1.3	5.7	6.6	**15.4**
Provided for	1.3	24.6	5.0	18.9	17.6	11.9	**79.3**
Closing balance at 12/31/2005	3.5	33.1	18.0	33.8	27.5	12.7	**128.6**

The personnel-related accruals provide for profit shares, vacation and employment anniversary allowances, as well as preretirement part-time work. The accruals for unbilled costs account for goods and services received but not yet invoiced. The warranty accruals include both provisions for specific warranty expenses and the general warranty risks empirically derived from past sales. The accrued litigation risks and impending losses account for obligations under lawsuits and for loss risks from uncompleted contracts. As of the balance sheet date, €0.5 million provides for impending losses on purchase obligations (down from €1.0 million).

Notes to the segment reports

The Vossloh Group's internal reporting structure also underlies the primary segment reporting format, which breaks Vossloh down into three divisions and the holding company.

Self-explanatory, the Rail Infrastructure division umbrellas the Group's rail infrastructure products and services and comprises the Switch Systems, Fastening Systems and Infrastructure Services business units.

Motive Power covers the Locomotives (diesel locomotive manufacture) and Electrical Systems (electrics for trams, streetcars and trolleybuses) BUs.

Information Technologies as third division subsumes the development and marketing of operations control systems, passenger information and planning systems as well as signaling technology.

Intersegment/intercompany transfers are transacted on terms and conditions as if at arm's length. All segments use the same accounting principles. Segment information is presented before consolidation.

The other major noncash segment expenses reflect provisions.

The primary segment information by division is shown on page 83, the secondary segment information (by geographical markets/regions) being presented below. Regional sales are based on the customer location.

Secondary segment information

		Germany	Other Euroland	Other Europe	Americas	Asia	Other	Total
Net external sales								
2005	€ million	203.9	550.3	139.5	29.4	49.6	15.5	988.2
2004	€ million	290.7	361.7	198.0	18.7	33.7	8.3	911.1
Segment operating assets								
2005	€ million	276.9	636.2	38.6	0.0	1.0	0.0	952.7
2004	€ million	292.2	467.4	50.3	0.2	0.0	0.0	810.1
Segment capital expenditures								
2005	€ million	15.0	18.1	1.3	0.0	0.1	0.0	34.5
2004	€ million	16.7	19.9	2.8	0.0	0.0	0.0	39.4

Below follows a reconciliation each of segment operating assets and liabilities to total assets and total equity & liabilities in the balance sheet.

Reconciliation of segment operating assets to total assets

€ million	2005	2004
Intangible assets	334.0	276.0
Tangible assets	102.7	97.4
Inventories	174.2	169.0
Trade receivables	319.2	251.5
Sundry assets less tax assets	21.3	14.6
Prepaid expenses and deferred charges	1.3	1.6
Segment operating assets	**952.7**	**810.1**
Nonoperating assets	138.5	206.6
Total assets	**1,091.2**	**1,016.7**

Reconciliation of segment operating liabilities to total equity & liabilities

€ million	2005	2004
Prepayments received	36.4	16.1
Trade payables	153.7	101.3
Pension accruals	14.9	15.6
Other accruals	125.2	89.3
Sundry accruals less tax liabilities	53.0	90.2
Deferred income	5.4	5.0
Segment operating liabilities	**388.6**	**317.5**
Equity	361.0	331.1
Nonoperating liabilities	341.6	368.1
Total equity & liabilities	**1,091.2**	**1,016.7**

Further disclosures

Contingent liabilities and other financial obligations

As of December 31, 2005, contingent liabilities totaled €10.4 million (up from €5.1 million). The Group has incurred contingent liabilities under guaranties/suretyships at €6.8 million (up from €2.8 million), including €4.2 million (up from €1.6 million) in favor of unconsolidated subsidiaries, and for the collateralization of third-party debts at €3.6 million (up from €2.3 million), including €1.3 million (up from €0.0 million) in favor of unconsolidated subsidiaries.

Breakdown of other financial obligations::

Other financial obligations

€ million	2005	2004
due within 1 year:		
under operating leases	6.3	5.0
property rentals	2.1	4.5
	8.4	**9.5**
due >1–5 years:		
under operating leases	17.1	8.4
property rentals	11.3	13.9
	28.4	**22.3**
due after 5 years:		
under operating leases	14.8	2.1
property rentals	2.1	3.5
	16.9	**5.6**
Purchase obligations	**132.3**	**168.9**

The obligations under operating leases have mostly been incurred for factory, business and office equipment. In 2005 lease and sublease payments of a total €8.4 million were recognized in net income, including €5.1 million being minimum lease payments, €0.2 million contingent rents, and €3.1 million for subleases. €40.9 million is expected to be payable in future as minimum under noncancelable subleases.

Financial risk management

Its operations expose the Vossloh Group to certain financial risks, mainly liquidity, exchange and interest rate risks. Treasury Management is responsible for the groupwide management, control and containment of such risks.

Liquidity is ensured through a rolling cash budget and a central cash management system, which includes—without being limited to—borrowing and depositing funds from or with banks, investing in fixed-income securities and in equities, etc. Delinquency, default and other nonpayment risks are minimized by doing business with counterparties of prime standing only.

Interest rate and currency risk management tools include financial derivatives, too. This type of financial instruments is deployed solely for hedging purposes. The positive or negative fair value of the financial derivatives used from time to time is shown as sundry asset or sundry liability, respectively.

Interest rate risks chiefly ensue from the borrowings (loans and credits) for group financing purposes. The risk that future interest payments increase as rates rise is covered by contracting interest rate swaps or options, these being accounted for as cash flow hedges. Changes in the fair value of such hedges are banked in, and only in, an equity account, viz. accumulated OCI. In the year under review, the decrease in an interest cap's fair value which previously had been recognized in OCI only was recognized in interest expense at €1.7 million since the hedging relationship ceased to exist.

Vossloh uses currency forwards and cross-currency swaps to hedge currency receivables and payables, as well as forecasted transactions in non-euro currencies, against exchange rate fluctuations. Changes in the fair value of currency forwards contracted to hedge present receivables and payables are recognized in the income statement. However, if used to hedge forecasted transactions, such changes are—according to IFRS cash flow hedge accounting rules—solely recognized as OCI. The current market values of financial derivatives used by the Vossloh Group are shown on page 105, the notional volumes indicating the non-netted total of all derivative instruments bought and sold.

Financial derivatives

€ million		Fair value 2005	Notional volume 2005	Fair value 2004	Notional volume 2004
Interest rate swaps					
current maturity	≤1 year	0.0	0.0	(0.6)	25.5
	>1-5 years	(2.9)	25.6	0.0	0.0
	>5 years	0.0	0.0	(3.5)	25.6
		(2.9)	**25.6**	**(4.1)**	**51.1**
Cross-currency swaps (US priv. placem.)					
current maturity	≤1 year	0.0	0.0	0.0	0.0
	>1-5 years	0.0	0.0	0.0	0.0
	>5 years	(16.8)	203.9	(38.4)	203.9
		(16.8)	**203.9**	**(38.4)**	**203.9**
Caps					
current maturity	≤1 year	0.0	0.0	0.0	0.0
	>1-5 years	0.1	76.7	0.2	76.7
	>5 years	0.0	0.0	0.0	0.0
		0.1	**76.7**	**0.2**	**76.7**
Currency forwards					
current maturity	≤1 year	1.4	41.3	0.3	13.8
	>1-5 years	0.4	19.7	0.0	1.1
	>5 years	0.0	0.0	0.0	0.0
		1.8	**61.0**	**0.3**	**14.9**
		(17.8)	**367.2**	**(42.0)**	**346.6**

Material subsequent events

There were none.

Joint ventures

The Vossloh Group's balance sheet and income statement include the following assets, liabilities, income and expenses from the consolidation pro rata of joint ventures:

€ million	2005	2004
Current assets	73.8	68.1
Noncurrent assets	19.2	7.1
Current liabilities	54.5	28.0
Noncurrent liabilities	1.3	0.8
Income	116.3	100.7
Expenses	107.0	93.5

Statutory auditor's fees

The following fees for services rendered by the statutory group auditor, viz. BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, were recognized as expense in 2005:

€ million	2005
Statutory audits	0.4
Other certification, verification or appraisal services	0.8
Tax consultancy	0.5
Other services provided for Vossloh AG or its subsidiaries	0.0
	1.7

The fees for statutory audits mainly include those paid for the group audit and the statutory audits by BDO Deutsche Warentreuhand AG of Vossloh AG's and its German subsidiaries' financial statements. The fees for other certification, verification or appraisal services (i) include €0.2 million for services rendered by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG and (ii) mainly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, as well as for due diligence services related to planned M&A transactions and divestments. Moreover, this line covers the fees for examining the internal control system (incl. IT systems). The tax consultancy fees refer to the formulation of tax returns, the review of tax assessment notices, as well as other advisory services for national and international tax matters.

Remuneration of board members
The fees of the Supervisory Board in the year under review amounted to €0.290 million (down from €0.343 million), breaking down into a fixed fee of €0.089 million (up from €0.088 million) and a variable component of €0.201 million (down from €0.255 million). Fees of Advisory Board members for fiscal 2005 came to €0.020 million (virtually unchanged).

The cash and noncash remuneration of Vossloh AG's Executive Board members totaled €3.155 million (down from €3.398 million) and includes besides a fixed portion of €0.862 million (virtually unchanged), a variable profit share of €2.293 million (down from €2.536 million). Under the Long-Term Incentive Program (LTIP), the Executive Board members exercised in 2005 stock options from the 2002 tranche; the related taxable income of Executive Board members totaled €0.694 million (up from €0). In 2005, no new stock options were granted to, nor were any held at year-end (down from 48,220) by, the Executive Board.

A total €2.146 million (down from €2.213 million) was provided for the full accrued pension obligations to former executive and management board members and their surviving dependants; current pension payments amounted to €0.239 million (up from €0.237 million).

Related-party transactions
The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated subsidiaries, joint ventures and associated affiliates. All transactions of these companies inter se conform to the arm's length principle. Related companies controlled or significantly influenced by the Vossloh Group are itemized in the list of shareholdings.

No significant related-party business was transacted with, besides the remuneration of, the Executive and Supervisory Boards.

German Corporate Governance Code
In December 2005 the Executive and Supervisory Boards issued, and made available to the stockholders on the Group's website, the updated declaration of conformity pursuant to Art. 161 AktG.

Exemption of subsidiaries from certain publication obligations
Vossloh subsidiaries which claim the exemption from preparing and publishing their own financial statements under the terms of Art. 264(3) or 264b HGB are marked accordingly in the list of Vossloh AG's shareholdings (published on pages 110-111).

Proposed profit appropriation
The Executive Board will propose to the annual stockholders' meeting to distribute for the eligible capital stock of Vossloh AG of €37.7 million, a cash dividend of €1.30 per common share, hence a total €19.2 million, and retain €20.4 million as reserves.

Werdohl, February 28, 2006

Vossloh AG
The Executive Board

Andree, Caiña-Lindemann

Fixed-asset analysis

Group

€ million	Cost: Balance at 1/1/2005	Changes due to new consolidation	Changes due to deconsolidation	Additions/ current capex	Disposals	Book transfers
Intangible assets						
Development costs	17.2	–	–	8.4	–	0.9
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	22.9	5.6	(0.1)	1.6	2.8	0.6
Goodwill	264.5	49.1	–	–	–	–
Prepayments on intangibles	1.6	–	–	–	–	(1.6)
	306.2	**54.7**	**(0.1)**	**10.0**	**2.8**	**(0.1)**
Tangible assets						
Land, equivalents titles, and buildings (including on leased land)	70.2	–	(4.2)	2.0	2.8	1.0
Production plant and machinery	150.6	3.8	(1.6)	14.8	1.6	4.6
Other plant, factory and office equipment	44.7	0.8	(0.8)	6.5	2.9	2.4
Prepayments made, construction in progress	9.2	0.8	–	1.2	0.0	(9.8)
	274.7	**5.4**	**(6.6)**	**24.5**	**7.3**	**(1.8)**
Investment properties	**18.4**	–	–	**0.0**	**0.0**	**1.9**
Financial assets						
Shares in unconsolidated subsidiaries	5.3	0.0	–	1.4	–	–
Shares in associated affiliates	1.4	–	–	0.7	1.1	–
Other investments	1.0	–	–	0.0	–	–
Other long-term securities	0.9	–	–	0.2	0.3	–
Sundry long-term loans	0.1	–	–	6.9	0.8	–
	8.7	**–**	**–**	**9.2**	**2.2**	**–**
Total	**608.0**	**60.1**	**(6.7)**	**43.7**	**12.3**	**–**

		Amortization/depreciation/write-down			Book values	Book values
Currency translation differences	Balance at 12/31/2005	accumulated by 12/31/2005	charged in fiscal 2005	changes due to deconsolidation	Balance at 12/31/2005	Balance at 12/31/2004
0.0	26.5	12.4	2.9	–	14.1	8.0
0.0	27.8	19.7	1.4	(0.1)	8.1	3.7
–	313.6	1.8	–	–	311.8	262.7
–	–	–	–	–	–	1.6
0.0	**367.9**	**33.9**	**4.3**	**(0.1)**	**334.0**	**276.0**
(0.2)	66.0	31.5	2.5	(1.2)	34.5	36.8
0.2	170.8	118.9	12.5	(1.0)	51.9	41.1
(0.1)	50.6	35.7	4.3	(0.5)	14.9	10.3
0.0	1.4	–	–	–	1.4	9.2
(0.1)	**288.8**	**186.1**	**19.3**	**(2.7)**	**102.7**	**97.4**
0.0	**20.3**	**12.9**	**0.2**	**–**	**7.4**	**6.9**
–	6.7	2.1	0.4	–	4.6	3.6
–	1.0	–	–	–	1.0	1.4
–	1.0	0.3	–	–	0.7	0.7
0.0	0.8	0.1	0.1	–	0.7	0.9
–	6.2	4.0	4.0	–	2.2	0.1
0.0	**15.7**	**6.5**	**4.5**	**–**	**9.2**	**6.7**
(0.1)	**692.7**	**239.4**	**28.3**	**(2.8)**	**453.3**	**387.0**

List of shareholdings

	€ million	Footnote	Held in %	through ( )	Consol-idation[1]	Equity[2]	Sales[2]	Net income/ (loss)[2]
(1)	**Vossloh AG, Werdohl**				(c)	499.8	1.0	(6.7)
	Rail Technology							
(2)	Vossloh Rail Technology GmbH, Werdohl	3	100	(1)	(c)	188.4	0.0	17.2
	Rail Infrastructure division							
(3)	Vossloh France SAS, Paris, France		100	(2)	(c)	96.1	0.0	8.3
	Vossloh Fastening Systems business unit							
(4)	Vossloh-Werke GmbH, Werdohl	3	100	(2)	(c)	4.3	3.0	11.9
(5)	Vossloh Fastening Systems GmbH, Werdohl	3	100	(4)	(c)	5.3	142.8	17.3
(6)	Vossloh Werdohl GmbH, Werdohl		100	(4)	(c)	8.9	35.7	7.2
(7)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania	4	100	(4)	(u)	0.0	0.1	0.0
(8)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100	(4)	(u)	0.2	3.5	0.0
(9)	Vossloh Sistemi S.r.l., Sarsina, Italy	4	100	(4)	(u)	0.6	7.3	0.3
(10)	Patil Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4	51	(4)	(u)	0.7	4.7	0.2
(11)	BeNT-Vossloh T.O.O., Almaty, Kazakhstan		25	(4)	(u)	2.5	6.7	(0.9)
(12)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50	(4)	(e)	0.6	10.2	1.4
(13)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50	(4)	(u)	0.0	0.0	0.0
(14)	Vossloh Maschinenfabrik Deutschland GmbH, Erkelenz	4	100	(4)	(u)	(0.3)	0.0	0.0
(15)	Vossloh Utenzilija d.d., Zagreb, Croatia	4	89.2	(4)	(u)	2.7	1.0	0.0
(16)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100	(4)	(c)	4.4	10.6	1.8
(17)	Vossloh Rail Technologies Ltd.Sti., Istanbul, Turkey	4	99.5/0.5	(4/5)	(u)	0.0	0.0	0.0
(18)	Feder-7 Kft., Szekesfeheryar, Ungary	4	99.67/3.33	(4/5)	(u)	0.2	0.3	0.0
	Vossloh Switch Systems business unit							
(19)	Vossloh Cogifer SA, Rueil-Malmaison, France		100	(3)	(c)	73.5	146.7	20.4
(20)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100	(19)	(c)	1.9	6.5	0.5
(21)	Vossloh Cogifer Finnland OY, Teijo, Finland		100	(22)	(c)	1.0	4.9	0.3
(22)	Vossloh Cogifer Nordic Switch Systems AB, Örebro, Sweden		100	(19)	(c)	6.9	29.0	2.3
(23)	Vossloh Cogifer Norway AS, Oslo, Norway		100	(22)	(c)	0.2	3.2	0.0
(24)	KIHN SA, Rumelange, Luxembourg		89.21	(19)	(c)	11.7	20.7	1.7
(25)	DDL SA, Rodange, Luxembourg		99.9	(24)	(c)	(4.0)	0.6	0.4
(26)	Vossloh Laeis GmbH & Co. KG, Trier		100	(24)	(c)	1.7	6.6	0.3
(27)	Vossloh Laeis Verwaltungs GmbH, Trier		100	(24)	(c)	0.0	0.0	0.0
(28)	EAV Durieux SA, Carnières, Belgium		98.76/1.24	(24/19)	(c)	1.6	5.7	0.2
(29)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61	(19)	(c)	2.7	8.8	0.9
(30)	Amurrio Ferrocarriles y Equipos SA, Amurrio, Spain		50	(19)	(p)	18.0	37.5	2.1
(31)	Montajes Ferroviarios srl, Amurrio, Spain		100	(30)	(u)	0.0	0.3	0.0
(32)	Burbiola S.A., Amurrio, Spain		50	(30)	(u)	1.5	0.3	0.0
(33)	Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK		50	(19)	(p)	9.1	22.8	1.5
(34)	Vossloh Cogifer Italia S.r.l., Bari, Italy		100	(19)	(c)	0.6	4.4	(0.1)
(35)	Cogifer Polska Sp.z o.o., Bydgosecz, Poland		52.38	(19)	(c)	8.3	8.2	0.7
(36)	ATO-Asia Turnouts Ltd., Bangkok, Thailand		51	(19)	(c)	0.4	2.3	0.0
(37)	Cogifer Services (Malaysia) sdn bhd, Kuala Lumpur, Malaysia	4	100	(19)	(u)	0.1	0.0	0.0
(38)	Cogifer Americas Inc., Cincinnati, OH, USA	4	100	(19)	(u)	0.0	0.0	0.0
(39)	J.S. Industrie, Secunderabad, India	4	51	(19)	(u)	0.6	1.0	(0.1)
(40)	Beekay Engineering, Bhilai, India	4	58.2	(19)	(u)	2.5	3.4	0.3
(41)	Siema Applications SAS, Villeurbanne, France		100	(19)	(c)	1.2	5.6	0.4
(42)	Vossloh Min Skretnice, AO, Niš, Serbia		90.61	(19)	(c)	0.6	2.6	2.2
(43)	SMIF, Casablanca, Morocco	4	100	(19)	(u)	0.0	0.0	0.0
(44)	Swedish Rail Systems AB, Ystad, Sweden		100	(22)	(c)	0.0	5.3	(0.2)
(45)	Dakshin Transtek, Bangalore, India	4	100	(39)	(u)	(0.1)	0.5	0.0

€ million		Footnote	Held in % through ( )		Consol-idation[1]	Equity[2]	Sales[2]	Net income/ (loss)[2]
	Vossloh Infrastructure Services business unit							
(46)	Vossloh Infrastructure Services SA, Beauchamp, France		100	(3)	(c)	21.6	91.7	(1.7)
(47)	ETF SA, Paris, France		50	(46)	(p)	28.5	107.6	3.4
(48)	La Champenoise SA, Champagne au Mont d'Or, France		100	(47)	(p)	0.7	7.1	0.2
(49)	Vossloh Infrastructure Services Luxembourg SA, Pétange, Luxembourg		100	(46)	(c)	12.9	18.4	0.7
(50)	Euro VF Holding SA, Luxembourg, Luxembourg	4	99.9	(49)	(u)	0.0	0.0	0.0
(51)	Dehé Bahnbau GmbH, Trier		100	(49)	(c)	0.6	1.0	0.0
(52)	Vossloh Infrastructure Services Belgium SA/NV, Carnières, Belgium		100	(46)	(c)	0.2	10.9	(0.5)
(53)	Cogifer TF B.V., Goirle, Netherlands		100	(46)	(c)	0.6	0.0	0.0
(54)	Cogi Hbg VOF, Goirle, Netherlands		50	(53)	(p)	0.0	0.0	0.0
(55)	Cogimex SA de CV, Mexico City, Mexico		94	(46)	(c)	(0.1)	0.0	(0.1)
(56)	Sogafer SA, Libreville, Gabon		49	(46)	(u)	0.0	0.0	0.0
(57)	Cogifer de Chili Lda., Santiago, Chile	4	100	(46)	(u)	0.0	0.0	0.0
(58)	Vossloh Infrastructure Services Ltd., Sidcup, UK		100	(46)	(c)	3.4	0.2	0.8
(59)	Turinval S.c.r.l., Torino, Italy		50	(46)	(u)	0.0	0.0	0.0
	Motive Power division							
	Vossloh Locomotives business unit							
(60)	Vossloh Locomotives GmbH, Kiel	3	100	(2)	(c)	26.1	175.0	(2.0)
(61)	Locomotion Service GmbH, Kiel		100	(60)	(c)	0.0	3.8	(0.7)
(62)	Vossloh España S.A., Valencia, Spain		100	(2)	(c)	21.9	98.8	5.9
	Vossloh Electrical Systems business unit							
(63)	Vossloh Kiepe GmbH, Düsseldorf		5.1/94.9	(1/2)	(c)	55.8	74.6	3.5
(64)	Vossloh Kiepe Elektrik Beteiligungs GmbH, Düsseldorf		100	(63)	(c)	1.4	0.0	0.0
(65)	Vossloh Kiepe Ges.m.b.H., Vienna, Austria		100	(64)	(c)	7.9	21.3	1.3
(66)	Vossloh Kiepe Corporation, Ottawa-Carleton, Canada	4	100	(64)	(u)	(0.4)	0.0	(0.1)
(67)	Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy	4	100	(64)	(u)	0.2	0.7	0.1
(68)	Vossloh Kiepe Trakcja Sp.z o.o., Krákow, Poland	4	99/1	(64/63)	(u)	0.0	0.0	0.0
	Information Technologies division							
(69)	Vossloh Verwaltungsgesellschaft mbH, Werdohl	5	100	(1)	(c)	0.0	0.0	0.0
(70)	Vossloh Information Technologies GmbH, Kiel	3	100	(69)	(c)	7.8	15.1	1.0
(71)	Vossloh Information Technologies Karlsfeld GmbH, Karlsfeld	3	100	(70)	(c)	5.0	35.5	1.7
(72)	Vossloh Information Technologies York Ltd., York, UK		100	(70)	(c)	(0.3)	3.2	(1.9)
(73)	Vossloh Information Technologies Malmö AB, Malmö, Sweden		68.47	(70)	(c)	0.1	1.1	(0.9)
(74)	Vossloh Information Technologies Połska Sp.z.o.o., Warsaw, Poland	4	100	(70)	(u)	0.0	0.0	0.0
	Other companies							
(75)	Vossloh Communication GmbH, Werdohl	4	100	(1)	(u)	0.5	1.2	0.1
(76)	Vossloh Australia PTY Ltd., Castle Hill, Australia	4	100	(1)	(u)	2.8	0.1	0.1
(77)	Vossloh Schwabe Australia PTY Ltd., Castle Hill, Australia	4	100	(76)	(u)	(1.0)	0.2	0.0
(78)	Delkor Rail PTY Limited, Sydney, Australia	4	100	(76)	(u)	1.0	6.1	0.9
(79)	Delkor Rail (HK) Ltd., Hong Kong, China	4	100	(78)	(u)	0.1	1.6	0.1
(80)	Vossloh Corporate Finance GmbH, Werdohl	4	100	(1)	(u)	0.9	0.1	0.1
(81)	Vossloh Pfleiderer GmbH, Werdohl	4	100	(2)	(u)	0.0	0.0	0.0

1 Fully consolidated companies are labeled (c), those stated at equity (e), those included pro rata (p), and unconsolidated companies (u)
2 Derived from the consolidated financial statements, non-euro equity being translated at the mean current rate and non-euro sales at the annual average rate
3 Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.
4 Not included in consolidation group due to minor significance for the net assets, financial position and results of operations.
5 Newly consolidated in 2005.
The comprehensive list of shareholdings will be filed and deposited with the Commercial Register of the Iserlohn Local Court under C/R no. HRB 5292.

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

We have audited the consolidated financial statements (consisting of balance sheet, income statement, statement of changes in equity, cash flow statement, segment reports, and notes) and the combined management report (on the Company and the Group), all as prepared by Vossloh AG, Werdohl, for the fiscal year ended December 31, 2005. The preparation of the consolidated financial statements and combined management report in accordance with the IFRS, whose application is mandatory in the European Union (EU), and the additional financial-accounting provisions of Art. 315a(1) HGB, is the responsibility of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and combined management report.

We have conducted our annual group audit in accordance with Art. 317 HGB and with due regard to generally accepted standards for the audit of financial statements as established by IDW, the Institute of Sworn Public Accountants & Auditors in Germany. Said standards require that we plan and perform the audit to obtain reasonable assurance that any misstatement or fraud which has a material impact on the view of the net assets, financial position and results of operations as presented by the consolidated 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 Group'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 consolidated financial statements and combined management report. An audit also includes assessing the financial statements of companies included in the consolidated financial statements, the definition of the consolidation group, the accounting principles used, and significant estimates made, by the Company's legal representatives, as well as evaluating the overall presentation of the consolidated financial statements 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 consolidated financial statements are in conformity with the IFRS, whose application is mandatory in the EU, and the additional financial-accounting provisions of Art. 315a(1) HGB, and, with due regard to these standards, regulations and provisions, present a true and fair view of the Group's net assets, financial position and results of operations. The combined management report is in conformity with the consolidated financial statements and presents fairly, in all material respects, both the Group's and the Company's position and the risks and rewards inherent in their future development.

Essen, March 9, 2006

BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rittmann Wirtschaftsprüfer	pp. Rüttershoff Wirtschaftsprüfer

Separate financial statements of Vossloh AG as of December 31, 2005

Income statement for the year ended December 31, 2005

€ million	2005	2004
Net sales	1.9	1.9
Cost of sales	(0.7)	(0.6)
Gross margin	**1.2**	**1.3**
General administrative expenses	(14.7)	(17.8)
Other operating income	8.1	17.3
Other operating expenses	(0.0)	(0.1)
Operating result	**(5.4)**	**0.7**
Income from investments	0.1	0.2
thereof from subsidiaries: €0.1 million (down from €0.2 million)		
Income from P&L transfer agreements	45.2	34.2
thereof from subsidiaries: €45.2 million (up from €34.2 million)		
Income from other long-term securities/loans	8.0	7.5
thereof from subsidiaries: €8.0 million (up from €7.4 million)		
Other interest and similar income	16.9	16.6
thereof from subsidiaries: €16.0 million (up from €15.7 million)		
Interest and similar expenses	(17.8)	(16.0)
thereof to subsidiaries: €0.7 million (down from €0.9 million)		
Net financial result	**52.4**	**42.5**
Result from ordinary operations (EBT)	**47.0**	**43.2**
Extraordinary expenses/losses	(3.5)	–
Income taxes	(3.9)	(7.2)
Net income	**39.6**	**36.0**

Balance sheet

Assets

€ million	12/31/2005	12/31/2004
Intangible assets		
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	2.1	0.1
Caps/collars/floors	0.1	0.2
Prepayments on intangibles	–	1.5
	2.2	**1.8**
Tangible assets		
Land, equivalent titles, and buildings (including on leased land)	6.9	7.2
Sundry plant, business and office equipment	0.3	0.3
	7.2	**7.5**
Financial assets		
Shares in subsidiaries	139.5	99.9
Loans to subsidiaries	179.0	155.0
Other long-term securities	0.1	0.1
Other long-term loans	0.0	0.0
	318.6	**255.0**
Fixed assets	**328.0**	**264.3**
Receivables and sundry assets		
Trade receivables	0.0	0.0
Due from subsidiaries	442.0	482.4
Sundry assets	22.6	11.4
	464.6	**493.8**
Short-term securities		
Treasury stock	–	1.1
Cash on hand and in bank	20.3	119.8
Current assets	**484.9**	**614.7**
Prepaid expenses & deferred charges	0.1	0.1
	813.0	**879.1**

Stockholders' equity & liabilities

€ million	12/31/2005	12/31/2004
Capital stock	37.7	37.4
Additional paid-in capital	35.4	33.3
Reserves retained from earnings		
Reserve for treasury stock	–	1.1
Other	397.7	379.7
Net earnings	39.6	36.1
Stockholders' equity	**510.4**	**487.6**
Accruals for pensions and similar obligations	9.8	9.5
Tax accruals	2.8	0.3
Other accruals	5.5	8.8
Accruals	**18.1**	**18.6**
Due to banks	41.1	105.0
Trade payables	0.4	0.5
Due to subsidiaries	37.4	49.8
Due to investees	0.9	2.7
Sundry liabilities	204.7	214.9
thereof for taxes (rounded): €81,500 (down from €8,573,300)		
thereof for social security (rounded): €0 (down from €39,900)		
Liabilities	**284.5**	**372.9**
	813.0	**879.1**

Notes to the separate financial statements of Vossloh AG as of December 31, 2005

Vossloh AG	Cost							Amortization/ depreciation/write-down		Book values	
€ million	Balance at 1/1/2005	Additions/ current capex	Additions of assets accrued	Disposals	Disposal due to asset accrual	Book transfers	Balance at 12/31/2005	accumu-lated by 12/31/2005	charged in fiscal 2005	Balance at 12/31/2005	Balance at 12/31/2004
Intangible assets											
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	5.2	0.8	–	0.0	–	1.5	7.5	5.4	0.3	2.1	0.1
Caps/collars/floors	0.2	–	–	0.1	–	–	0.1	–	–	0.1	0.2
Prepayments on intangibles	1.5	–	–	–	–	(1.5)	–	–	–	–	1.5
	6.9	**0.8**	**0.0**	**0.1**	**0.0**	**–**	**7.6**	**5.4**	**0.3**	**2.2**	**1.8**
Tangible assets											
Land, equivalent titles, and buildings (incl. on leased land)	23.0	0.0	–	0.0	–	–	23.0	16.1	0.3	6.9	7.2
Sundry plant and equipment	1.3	0.1	–	0.1	–	–	1.3	1.0	0.1	0.3	0.3
	24.3	**0.1**	**0.0**	**0.1**	**0.0**	**–**	**24.3**	**17.1**	**0.4**	**7.2**	**7.5**
Financial assets											
Shares in subsidiaries	99.9	–	44.6	–	5.0	–	139.5	–	–	139.5	99.9
Loans to subsidiaries	155.0	33.0	–	9.0	–	–	179.0	–	–	179.0	155.0
Other long-term securities	0.1	–	–	–	–	–	0.1	0.0	–	0.1	0.1
Other long-term loans	0.0	–	–	0.0	–	–	0.0	–	–	0.0	0.0
	255.0	**33.0**	**44.6**	**9.0**	**5.0**	**–**	**318.6**	**0.0**	**–**	**318.6**	**255.0**
Total	**286.2**	**33.9**	**44.6**	**9.2**	**5.0**	**–**	**350.5**	**22.5**	**0.7**	**328.0**	**264.3**

Separate financial statements

The separate annual financial statements of Vossloh AG as of December 31, 2005, were prepared in accordance with the provisions of the German Commercial Code ("HGB") and the German Stock Corporation Act ("AktG").

(1) Accounting and valuation principles

Accounting and valuation are governed by the following principles:

Purchased intangible assets, as well as tangible assets are stated 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. Low-value assets, defined as assets at net cost of €410 or less, are fully written off in the year of their addition. Write-down for tax purposes is charged wherever this option is offered, whether for ACR or otherwise. Financial assets are recognized at cost or any lower current value. Receivables and sundry assets as well as cash on hand and in bank are shown at par or principal. Non-euro receivables are translated, if hedged, at the rate so covered or any lower mean current rate. Treasury stock is valued at the lower of cost or market. Accruals provide for pensions and similar obligations at actuarial present values, based on an annual interest rate of 6 percent and on the 1998 and 2005 G mortality tables of Prof. Dr. Klaus Heubeck. These accruals conform with the 1998 mortality tables, plus 1/3 of the differential between these and the 2005 G tables. Using the 2005 mortality tables results in approx. €90,000 lower obligations. Tax and other accruals are shown at the amounts in future required in sound business practice and judgment. Liabilities are generally stated at their settlement amounts. Non-euro payables are translated at the higher mean current rate or the hedged rate, as appropriate.

(2) Fixed assets

Classification and development of fixed assets are explained in greater detail in the fixed-asset analysis on page 116. The caps/collars/floors line refers to capitalized premiums for long-term cap agreements. The additions to the shares in subsidiaries result from the accrual to Vossloh AG of Vossloh Beteiligungsgesellschaft mbH & Co. KG, Werdohl, and refer to the 100-percent interest in Vossloh Kiepe GmbH, Düsseldorf, which has thus devolved on the Company. With effect in rem as of December 31, 2005, title to a 94.9-percent stake in Düsseldorf-based Vossloh Kiepe GmbH has been assigned and transferred to Vossloh Rail Technology GmbH, Werdohl. For a full list of shareholdings, see pages 110 and 111.

(3) Receivables and sundry assets

Except for €6.252 million, all receivables and sundry assets fall due within one year. The accounts due from subsidiaries are nontrade receivables only.

(4) Prepaid expenses & deferred charges

This caption totals €0.074 million (down from €0.140 million) and includes loan discount at €0.022 million (down from €0.103 million).

(5) Stockholders' equity

Vossloh AG's capital stock amounted to €37,668,946.16 (up from €37,427,135.80) and is divided into 14,734,811 (up from 14,640,223) no-par bearer shares (common stock only).

Authorized capital of €18,406,507.72 existed at December 31, 2005.

The annual stockholders' meetings of June 25, 1998, and June 3, 2005, conditionally raised the capital stock by up to €1,840,650.77 by issuing a maximum of 720,000 no-par bearer shares of common stock in order to grant stock options to officers of Vossloh AG, as well as to officers and executives of Vossloh subsidiaries under the terms of Arts. 15 et seq. AktG. By December 31, 2005, the 90,250 shares issued thereunder had increased the capital stock by altogether €230,720.46. Moreover, the capital stock was conditionally raised by up to €383,468.91 for issuing a maximum of 150,000 no-par bearer shares of common stock in order to grant stock options to employees of Vossloh AG and of its German subsidiaries under the terms of Arts. 15 et seq. AktG. Out of this authorized but unissued capital, altogether 4,680 shares had been issued by December 31, 2005, thus raising the capital stock by €11,964.23. As of December 31, 2005, the Company held no (down from 34,649) treasury shares, corresponding to €0.00 (down from €88,578.76) or 0.00 percent (down from 0.24) of the capital stock.

The additional paid-in capital includes the premium earned from stock issued by Vossloh AG. Due to the capital increase from the conditional capital, €2,027,345.10 (up from €25,009.43) was transferred to the additional paid-in capital. The reserves retained from earnings consisted of other reserves retained from earnings (for 2004 also the reserve for treasury stock at €1,120,568.20).

(6) Accruals

The other accruals of €5.092 million (down from €8.834 million) include €3.103 million for payroll (down from €3.317 million) and €1.989 million for sundry administrative purposes (down from €5.517 million).

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

Except for one account of €10.0 million (down from €15.0 million) due to banks within one to five years and another of €203.908 million (virtually unchanged) due after more than five years, the liabilities disclosed in the balance sheet mature throughout within one year. The accounts due to subsidiaries were throughout nontrade.

€318.170 million (up from €224.987 million) of the contingent liabilities under suretyships and guaranties, which total €320.653 million (up from €227.747 million), was incurred for obligations of subsidiaries.

The fixed-liability guaranties in favor of subsidiaries total €518.840 million. Six guaranties do not have a stipulated ceiling.

The other financial obligations total €0.298 million, including €0.000 million to subsidiaries (down from €0.203 million), and break down into €0.166 million falling due within one (down from €0.346 million) and another €0.132 million between one and five years (up from €0.074 million).

(8) Results of operations

€1.020 million (down from €1.027 million) of net sales, generated in 2005 solely in Germany, refers to rental income, including €0.640 million charged to subsidiaries (down from €0.648 million). The other operating income came to €8.266 million (down from €17.292 million) and mainly resulted from tax apportionment (at €4.614 million) and the release of other accruals (at €3.054 million).

(9) Other disclosures

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

In the year under review, personnel expenses totaled €6.696 million (up from €5.990 million), of which €5.937 million (down from €6.000 million) is allocable to wages and salaries, another €0.759 million (up from €0.522 million) to social security taxes, pension expense and related employee benefits, including €0.430 million pension expense (up from €0.195 million).

In fiscal 2005, Vossloh AG employed an average workforce of 31 (down from 32).

The fees of the Supervisory Board in the year under review amounted to €0.290 million (down from €0.343 million), breaking down into a fixed fee of €0.089 million (up from €0.088 million) and a variable component of €0.201 million (down from €0.255 million). Fees of Advisory Board members for fiscal 2005 came to €0.020 million (virtually unchanged).

The cash and noncash remuneration of Vossloh AG's Executive Board members totaled €3.155 million (down from €3.398 million) and includes besides a fixed portion of €0.862 million (virtually unchanged), a variable profit share of €2.293 million (down from €2.536 million).
The Executive Board members exercised in 2005 options under the LTIP tranche 2002, the resulting taxable income amounting to €0.694 million (up from €0.000 million).

In 2005 no new stock options were granted to the Executive Board. As of December 31, 2005, Executive Board members held no stock options (down from 48,220).

A total €2.146 million (down from €2.213 million) was provided for the full accrued pension obligations to former Executive Board members and their surviving dependants; current pension payments amounted to €0.239 million (up from €0.237 million).

Vossloh AG uses interest rate swaps, caps and cross-currency swaps to contain the risks emanating from changed rates being applied to the debt which was raised for group finance purposes.
In an effort to cover currency risks from the operations of subsidiaries and hedge currency loans extended to subsidiaries, currency forwards were contracted with banks. The notional volumes and market values of these hedges are listed below:

	Market value	Notional volume	Market value	Notional volume
€ million	2005		2004	
Interest rate swaps	(2.9)	25.6	(4.1)	51.1
Caps	0.1	76.7	0.2	76.7
Cross-currency swaps	(16.9)	203.9	(38.4)	203.9
Currency forwards	1.8	52.8	0.3	14.9
	(17.9)	**359.0**	**(42.0)**	**346.6**

Bank opinions underlie the market valuation of interest rate hedges, while the market values of currency forwards were determined internally on the basis of current spot exchange rates and the forward premiums/discounts in comparison to the contracted forward exchange rate.

The cap book values shown under intangible assets were written down to the lower current values.

In December 2005, the Executive and Supervisory Boards reissued, and made available to the stockholders on the Group's website, the declaration of conformity, as required by the provisions of Art. 161 AktG. After the enactment of certain German legislation governing the notification, disclosure and publication of significant voting stakes in listed corporations, as required by Arts. 2, 3 and 4 of the Securities Purchase & Takeover Act, Vossloh AG received the following notifications of attributable voting rights in 2005 under the terms of Art. 21(1) or (1a) German Securities Trading Act ("WpHG"):

- On January 24, 2005, Vossloh AG received the following notifications from Schroders:
  Please be aware that Schroders plc is the parent company of Schroder Holdings pls, which is itself the parent of Schroder Investment Management Ltd (SIM). The registered address for all three companies is 31 Gresham Street, London EC2V 7QA, UK.
  We, Schroders plc and Schroder Holdings plc, write to advise you in accordance with Art. 21(1) WpHG that our voting shareholding in Vossloh AG crossed above the 5% threshold on January 12, 2005, and is now 5.02% of the total number of Vossloh AG shares in issue, namely 14,640,223. These shares are attributed to us according to Art. 22 par. 1(1) No. 6, 1(2) and 1(3) WpHG. We, Schroder Investment Management Ltd, write to advise you in accordance with Art. 21(1) WpHG that our voting shareholding in Vossloh AG crossed above the 5% threshold on January 12, 2005, and is now 5.02% of the total number of Vossloh AG shares in issue, namely 14,640,223. These shares are attributed to us according to Art. 22 par. 1(1) No. 6 WpHG.

- On March 24, 2005, Vossloh AG received the following notifications from Schroders:
  Please be aware that Schroders plc is the parent company of Schroder Holdings pls, which is itself the parent of Schroder Investment Management Ltd (SIM). The registered address for all three companies is 31 Gresham Street, London EC2V 7QA, UK.
  We, Schroders plc and Schroder Holdings plc, write to advise you in accordance with Art. 21(1) WpHG that our voting shareholding in Vossloh AG crossed below the 5% threshold on March 17, 2005, and is now 4.94% of the total number of Vossloh AG shares in issue, namely 14,640,223. These shares are attributed to us according to Art. 22 par. 1(1) No. 6, 1(2) and 1(3) WpHG.
  We, Schroder Investment Management Ltd, write to advise you in accordance with Art. 21(1) WpHG that our voting shareholding in Vossloh AG crossed below the 5% threshold on March 17, 2005, and is now 4.94% of the total number of Vossloh AG shares in issue, namely 14,640,223. These shares are attributed to us according to Art. 22 par. 1(1) No. 6 WpHG.

- On April 1, 2005, Vossloh AG received the following notifications from Arnhold and S. Bleichroeder:
  The share of the voting rights in Vossloh AG held by Arnhold and S. Bleichroeder Advisers, LLC exceeded the 5% threshold on March 29, 2005, and amounts to 5.01% of the voting rights (equivalent of 733,939 shares). The share of the voting rights in Vossloh AG held by Arnhold and S. Bleichroeder Holdings, Inc. exceeded the 5% threshold on March 29, 2005, and has since amounted to 5.01% of the voting rights.
  These voting rights have been attributed to Arnhold and S. Bleichroeder Holdings, Inc. pursuant to Art. 22(1)(1) No. 1 in conjunction with Art. 22(1)(2) and (1)(3) WpHG.

The following fees for services rendered by the statutory group auditor, viz. BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, were recognized as expense in 2005:

€ million	
Statutory audits	0.1
Other certification, verification or appraisal services	0.8
Tax consultancy	0.3
Other services	0.0
	1.2

The fees for statutory audits mainly include those paid for the group audit and the statutory audits by BDO Deutsche Warentreuhand AG of Vossloh AG's financial statements where such fees are borne directly by Vossloh AG. The fees for other certification, verification or appraisal services (i) include €0.2 million for services rendered by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG and (ii) mainly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, as well as for due diligence services related to planned M&A transactions and divestments. Moreover, this line covers the fees for examining the internal control system (incl. IT systems). The tax consultancy fees refer to the formulation of tax returns, the review of tax assessment notices, as well as other advisory services for national and international tax matters.

(10) Vossloh AG board members

Executive Board:

Dr. Gerhard Eschenröder, Chairman (as from March 1, 2006), Essen

Burkhard Schuchmann, Chairman (up to Dec. 31, 2005), Lüdenscheid
- Vossloh France SAS[1]: president (up to Dec. 31, 2005)
- Vossloh Cogifer SA[1]: supervisory board member (up to Dec. 31, 2005)
- Vossloh Infrastructure Services S.A.[1]: supervisory board member (up to Dec. 31, 2005)
- Amurrio Ferrocarriles y Equipos S.A.[1]: supervisory board member (up to Dec. 31, 2005)
- Vossloh España, S.A.[1]: chairman (up to May 17, 2005) and member of the supervisory board (up to Dec. 31, 2005)

Werner Andree, CFO
- Vossloh Cogifer SA[1]: supervisory board member (as from Sep. 30, 2005)
- Vossloh France SAS[1]: president (as from Jan. 23, 2006)

Milagros Caiña-Lindemann, HR
- Wohnungsbaugesellschaft Werdohl GmbH: supervisory board member
- Vossloh Cogifer SA[1]: supervisory board member (as from Sep. 30, 2005)
- Vossloh España, S.A.[1]: supervisory board member
- Amurrio Ferrocarriles y Equipos S.A.[1]: supervisory board member (as from Jan. 17, 2006)

Supervisory Board:

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

Dr.-Ing. Wilfried Kaiser (as from May 26, 2005),
Chairman[3,4] (as from Sep. 24, 2005), Munich, Dipl.-Ing.,
former executive board member of Asea Brown Boveri AG
- EvoBus GmbH: supervisory board member
- Konrad Hornschuch AG: supervisory board chairman
- schenck.de AG: supervisory board chairman
- BHS Getriebe GmbH: advisory board chairman
- Hugo Kern und Liebers GmbH & Co.: director
- Single Holding GmbH: advisory board chairman

Dipl. Vwt. Dr. rer. pol. Karl Josef Neukirchen,
Chairman[3] (up to Sep. 23, 2005), Bad Homburg
- Sixt AG: supervisory board chairman
- Stadtwerke Düsseldorf AG: supervisory board member
- Clariant International AG: director

Peter Langenbach, Vice-Chairman[4] (as from Jan. 1, 2006), Wuppertal, lawyer
- Credit- und Volksbank eG, Wuppertal: supervisory board member

Dipl. Kfm. Dr. Jürgen Blume, Vice-Chairman[3,5] (up to Dec. 31, 2005), Bad Bentheim,
sworn public auditor and tax adviser

Dr. Christoph Kirsch[5] (as from Nov. 17, 2005), Weinheim,
CFO of Südzucker AG
- AGRANA Beteiligungs-AG[1]: supervisory board member
- AGRANA Zucker, Stärke und Frucht Holding AG[1]: supervisory board member
- Financière Franklin Roosevelt S.A.S.[1]: supervisory board chairman
- Freiberger Holding GmbH[1]: supervisory board member
- Raffinerie Tirlemontoise S.A.[1]: chairman of the board of directors
- Slaska Społka Cukrowa S.A.[1]: supervisory board member
- Südzucker International GmbH[1]: supervisory board member
- SÜDZUCKER-VERKAUF GmbH[1]: supervisory board member
- Südzucker Versicherungs-Vermittlungs-GmbH[1]: advisory board chairman
- Z & S Zucker und Stärke Holding AG[1]: supervisory board member

Wolfgang Klein[2,3,4,5], Werdohl, galvanizer

Wilfried Köpke[2], Kiel, engineering designer

Dr. Anselm Raddatz (up to May 25, 2005), Düsseldorf, lawyer

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

[2] Employee representative

[3] Member of the Staff and Audit Committee (dissolved on Oct. 5, 2005)

[4] Staff Committee member

[5] Audit Committee member

The annual financial statements 2005 show net income of €39,632,293.36. When including the undistributed profit of €19,752.47 carried forward from 2004, the net earnings available for distribution come to €39,652,045.83.

(11) Proposed profit appropriation

The Executive Board will propose to the annual stockholders' meeting to distribute a cash dividend of €1.30 for each share of the common stock of €37,668,946.18 ranking for dividend, hence a total cash distribution of €19,155,254.30, transfer €20,400,000 to the other reserves retained from earnings, and carry forward the undistributed profit of €96,791.53.

Proposed profit appropriation

€	
Undistributed profit as of January 1, 2005	19,752.47
Net income for 2005	39,632,293.36
Net earnings as of December 31, 2005	**39,652,045.83**
Proposed:	
total cash dividend	19,155,254.30
to be retained as reserve	20,400,000.00
carryforward	96,791.53

Werdohl, February 28, 2006

Vossloh AG
The Executive Board

Andree, Caiña-Lindemann

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, 2005. The accounting and the preparation of the annual financial statements and combined management report in accordance with the German Commercial Code and the supplementary provisions of the bylaws are the responsibility and assertions of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and combined management report.

We have conducted our annual audit in accordance with the provisions of Art. 317 HGB and with due regard to generally accepted standards for the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. Those standards require that we plan and perform the audit to obtain reasonable assurance that any misstatement or fraud which has a material impact on the view of the net assets, financial position and results of operations as presented by the annual 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 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 the annual financial statements, with due regard to accounting principles generally accepted in Germany, comply with the law and the supplementary provisions of the Company's bylaws, and present a true and fair view of the Company's net assets, financial position and results of operations. The combined management report presents fairly, in all material respects, the Company's overall position and the risks and rewards inherent in its future development.

Essen, March 9, 2006

BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rittmann	pp. Rüttershoff
Wirtschaftsprüfer	Wirtschaftsprüfer

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Annual stockholders' meeting	May 24, 2006
Payment of cash dividends	May 25, 2006
Publication of interim report	
as of March 31	April 27, 2006
as of June 30	July 27, 2006
as of September 30	October 31, 2006
Press conference	December 7, 2006
Meeting with DVFA analysts	December 7, 2006

Financial diary 2007

Publication of 2006 financial data	March 2007
Press conference	March 2007
DVFA presentation	March 2007
Annual stockholders' meeting	May 31, 2007

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Vossloh stock details

ISIN	DE0007667107
Traded at:	XETRA, Düsseldorf, Frankfurt, Berlin
	Bremen, Hamburg, Hannover,
	Stuttgart, Munich
Index	MDAX
No. of shares issued and outstanding at 12/31/2005:	14,734,811
Stock price (12/31/2005):	€41.10
2005 high/low:	€48.58 / €36.11
Reuters code:	VOSG.F
Bloomberg code:	VOS GY
Dividend proposed:	€1.30

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Glossary

of financial terms

Capital employed
Working capital + fixed assets

Cash & cash equivalents
Cash on hand and in bank

EBIT
Earnings before interest and income taxes

EBITDA
Earnings before amortization of intangibles, depreciation of tangibles and investment properties, net interest result, and income taxes

EBIT margin
EBIT ÷ net sales

EBT
Earnings before income taxes

Equity ratio
Equity ÷ total assets

Financial liabilities
Private placement loans + bank debts + notes payable + payables under capital leases

IAS/IFRS
International Accounting Standards/International Financial Reporting Standards

Net financial debt
Financial debts – cash & cash equivalents – short-term securities

Net leverage
Net financial debt ÷ equity

Payroll-to-added value ratio
Personnel expenses ÷ value added

Personnel expenses per capita
Personnel expenses ÷ annual average headcount

Pretax return on equity (ROE)
EBT ÷ equity

Return on capital employed (ROCE)
EBIT ÷ capital employed

US GAAP
United States Generally Accepted Accounting Principles

Value added
EBIT + personnel expenses + non-income taxes

Working capital
Trade receivables (incl. PoC receivables) + inventories – trade payables (incl. PoC payables) – prepayments received

Working capital ratio
Working capital ÷ net sales

The Vossloh Group at a glance

Ten-year overview

		2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Income statement data											
Net sales	€ mill.	996.4	917.8	912.5	744.5	903.0	854.4	790.1	578.4	428.7	394.9
thereof: Rail Technology	€ mill.	996.1	917.5	912.2	743.6	649.7	579.8	561.9	357.3	159.3	123.3
Lighting	€ mill.	–	–	–	–	252.8	274.1	227.7	220.5	208.5	186.2
Decoration	€ mill.	–	–	–	–	–	–	–	–	60.6	85.0
EBIT	€ mill.	90.8	105.6	100.9	78.4	60.0	77.9	48.4	61.8	50.9	28.8
Net interest expense (until 1997 net financial result)	€ mill.	(19.6)	(16.0)	(14.7)	(14.8)	(17.2)	(13.6)	(7.0)	(6.4)	(2.2)	(3.4)
EBT	€ mill.	71.2	89.6	86.2	63.6	42.8	64.3	41.4	55.4	48.7	25.4
Group earnings (total)	€ mill.	45.1	57.2	55.5	52.4	17.2	27.8	17.7	31.2	28.9	15.9
Earnings per share[1,2] (EpS)	€	3.07	3.91	3.90	3.85	1.20	1.93	1.23	2.16	1.73	1.24
Pretax ROS	%	7.1	9.8	9.4	8.5	4.7	7.5	5.2	9.6	11.4	6.4
Pretax ROE	%	19.7	27.1	29.0	26.7	13.6	20.0	14.1	20.2	34.8	21.7
ROCE	%	12.0	15.3	16.3	13.3	9.4	11.9	8.4	12.7	29.0	14.7
Balance sheet data											
Fixed assets	€ mill.	453.3	387.0	377.7	414.5	322.0	311.4	286.9	269.2	63.7	68.7
capital expenditures[3]	€ mill.	34.5	39.4	30.5	25.5	48.2	43.6	35.6	24.5	16.4	9.5
amortization/depreciation[3]	€ mill.	23.9	25.2	24.4	19.7	38.1	37.4	34.2	24.9	14.2	13.4
Working capital	€ mill.	303.3	303.2	242.7	175.5	316.3	341.4	292.2	217.4	112.1	127.4
Working capital ratio	%	30.4	33.1	26.6	23.6	35.0	40.0	37.0	37.6	26.1	32.3
Capital employed	€ mill.	756.6	690.2	620.4	590.0	638.3	652.8	579.1	486.6	175.8	196.1
Total equity	€ mill.	361.0	331.1	297.6	238.6	314.4	321.0	293.9	274.7	140.1	117.2
thereof: minority interests	€ mill.	6.1	5.8	5.6	4.6	121.2	116.7	106.0	99.4	0.9	1.5
Net financial debt	€ mill.	220.5	171.1	183.1	227.0	231.2	209.5	181.8	108.7	(4.1)	32.1
Total assets	€ mill.	1,091.2	1,016.7	880.3	947.2	899.0	896.3	785.5	679.3	255.4	248.8
Equity ratio	%	33.1	32.6	33.8	25.2	35.0	35.8	37.4	40.4	54.9	47.1
Cash flow statement data											
Cash flow from operating activities	€ mill.	54.6	32.9	16.1	122.9	50.6	35.1	(18.8)	20.5	45.7	18.3
Cash flow from investing activities	€ mill.	(65.5)	(27.5)	22.4	(292.3)	(45.8)	(49.3)	(42.4)	(128.3)	(9.3)	(12.4)
Cash flow from financing activities	€ mill.	(78.9)	110.5	(51.0)	10.8	(9.3)	23.2	55.2	139.6	(24.3)	(7.7)
Change in cash & cash equivalents	€ mill.	(89.8)	115.9	(12.5)	(6.6)	(4.5)	8.0	(7.3)	32.4	12.1	(1.8)
Workforce											
Annual average headcount		4,732	4,513	4,422	4,190	5,370	5,583	5,575	4,001	2,411	2,608
thereof: Germany		1,494	1,547	1,558	1,651	2,494	2,824	2,674	1,915	1,689	1,839
abroad		3,238	2,966	2,864	2,539	2,876	2,759	2,901	2,086	722	769
thereof: Rail Technology		4,701	4,481	4,392	4,167	3,884	4,001	4,174	2,624	589	508
Lighting		–	–	–	–	1,464	1,566	1,385	1,361	1,288	1,290
Decoration		–	–	–	–	–	–	–	–	518	794
Vossloh AG		31	32	30	23	22	16	16	16	16	16
Payroll-to-added value ratio	%	70.8	66.2	66.9	69.0	77.0	74.2	81.7	69.3	67.0	77.6
Personnel expenses	€ mill.	234.5	217.5	213.9	178.4	208.1	228.2	222.8	143.6	106.5	107.2
Personnel expenses per capita	€'000	49.6	48.2	48.4	42.6	38.7	40.9	40.0	35.9	44.2	41.1

Vossloh AG—Ten-year overview

		2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Capital stock	€ mill.	37.7	37.4	37.4	36.8	36.8	36.8	36.8	36.8	18.4	18.4
Dividend per share[1]	€	1.30[4]	1.30	1.30	1.20	0.75	0.75	0.60	0.59	0.38	0.33
Stock price at Dec. 31[1]	€	41.10	36.35	44.80	24.70	22.53	14.95	14.90	25.05	25.95	14.11
Market capitalization at Dec. 31	€ mill.	605.6	530.9	654.2	338.1	310.4	215.3	214.6	360.7	373.7	203.2

As from 1998 according to US GAAP
As from 2003 according to IFRS

[1] Share-related indicators and stock price rebased according to DVFA standard (basis: 14,400,000 shares) to allow for the 1996 relisting of DM 50 shares as DM 5 shares and the 1998 (1-for-1) stock split.

[2] Pre-1998 data determined according to DVFA/SG

[3] Excl. financial assets

[4] If approved by the stockholders' meeting

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