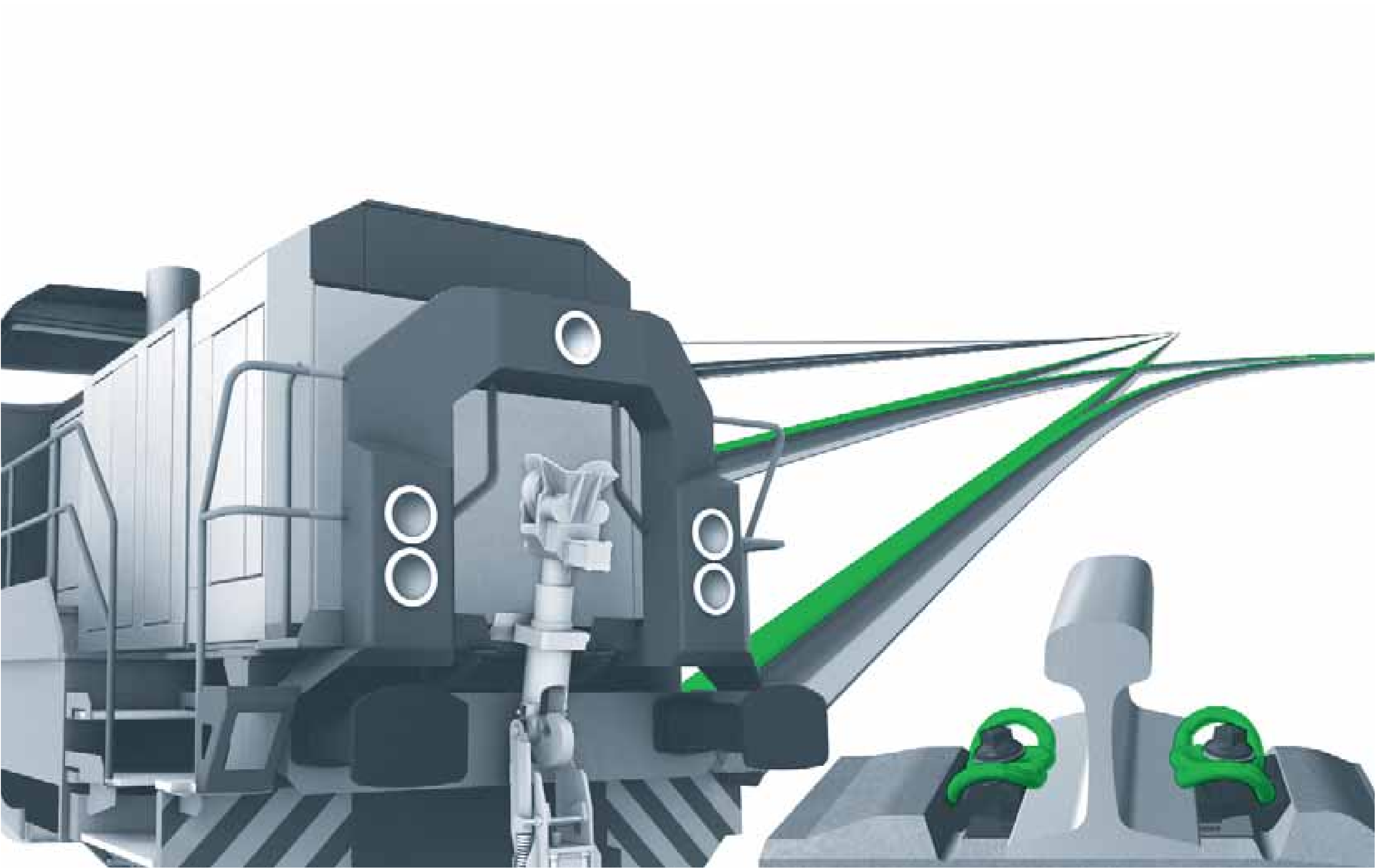
ANNUAL REPORT 2008

The future with mobility.



Group indicators and key figures		2008	2007
Order backlog	€ mill.	1,126.2	1,135.9
Net sales	€ mill.	1,212.7	1,023.3
thereof: Rail Infrastructure	€ mill.	707.1	554.3
Motive Power&Components	€ mill.	505.0	468.9
EBITDA	€ mill.	160.5	130.7
EBIT	€ mill.	137.7	111.1
EBT	€ mill.	128.4	99.7
Group earnings (total)	€ mill.	139.4	71.4
Earnings per share (EpS)	€	9.48	4.83
Total assets	€ mill.	1,339.4	1,326.8
Total equity	€ mill.	492.7	434.0
Equity ratio	%	36.8	32.7
Pretax return on equity (ROE)	%	26.1	25.2
Working capital	€ mill.	300.7	312.8
Capital employed	€ mill.	732.1	816.2
ROCE	%	18.8	14.9
Net financial assets/(debt)	€ mill.	35.0	(124.9)
Net leverage	%	(7.1)	28.8
Cash flow from operating activities	€ mill.	158.0	80.2
Cash flow from investing activities	€ mill.	101.6	(123.6)
Cash flow from financing activities	€ mill.	(86.0)	(25.7)
Annual average headcount		4,631	4,066
Personnel expenses	€ mill.	223.2	194.1
Personnel expenses per capita	€ '000	48.2	47.7

Vossloh's corporate structure

The various operations of Vossloh's Rail Infrastructure and Motive Power&Components divisions are parented by Vossloh AG. Although centrally coordinated, the individual companies operate flexibly and independently of each other.

Rail Infrastructure division

This division bundles our rail infrastructure products and services.
It has two business units:
The rail fasteners developed by Vossloh Fastening Systems ensure safe rail traffic in over 65 countries.
Vossloh Switch Systems commands a foremost international position in the market for advanced engineered rail switches.

Motive Power&Components division

This division builds locomotives, (sub)urban trains, and manufactures electrical components for a variety of LRVs. It has two business units:

Vossloh Locomotives is Europe's leading supplier of diesel locomotives along with related financing arrangements and all-in services. Also available are state-of-the-art (sub)urban trains for a variety of operations.

Vossloh Electrical Systems develops and produces key electrical components and systems for LRVs.

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems

Indicators		2008	2007
Net sales	€ mill.	707.1	554.3
EBITDA	€ mill.	124.3	108.8
EBIT	€ mill.	113.4	99.8
EBIT margin	%	16.0	18.0
Working capital	€ mill.	226.4	236.7
Working capital intensity	%	32.0	42.7
Fixed assets	€ mill.	298.4	369.7
Capital expenditures	€ mill.	19.3	39.0
Amortization/depreciation	€ mill.	10.9	9.0
Capital employed	€ mill.	524.8	606.4
ROCE	%	21.6	16.5

Business units:

Vossloh Locomotives
Vossloh Electrical Systems

Indicators		2008	2007
Net sales	€ mill.	505.0	468.9
EBITDA	€ mill.	53.4	40.1
EBIT	€ mill.	42.3	30.6
EBIT margin	%	8.4	6.5
Working capital	€ mill.	75.8	76.1
Working capital intensity	%	15.0	16.2
Fixed assets	€ mill.	126.8	122.6
Capital expenditures	€ mill.	16.8	13.3
Amortization/depreciation	€ mill.	11.1	9.5
Capital employed	€ mill.	202.6	198.7
ROCE	%	20.9	15.4

The future with mobility

Today's Vossloh operates in the worldwide rail technology markets. Our core businesses are rail infrastructure plus rail and (sub)urban transport vehicles. In close cooperation with our customers we make important contributions toward safe, efficient and eco-friendly short- and long-haul passenger and freight traffic. Throughout the world, the Vossloh brand stands for rail industry expertise that has grown over many years, solutions that point the way ahead, and products incorporating state-of-the-art technology. We never stop enhancing customer benefits as this is the only way to access further attractive growth potentials. We plan with perspicuity guided by our goal of generating a sustainable growth in corporate value.

Contents

Dr.-Ing. Norbert Schiedeck
Executive Board member
Engineering, Marketing, HR

Werner Andree
CEO,
Corporate Development, Finance/Controlling,
Corporate Communications, Law, IT, Internal Auditing

Dear Stockholders:

For the second year in succession we have a record period to report on. We even surpassed our forecasts, already upwardly revised.

During the period, Vossloh generated sales of €1.21 billion and an EBIT of €137.7 million. Originally, we had budgeted sales of €1.13 billion and an EBIT of €131 million (both excluding the Infrastructure Services business unit). The most important controlling indicator, ROCE, reached 18.8 percent in 2008 and hence, was well up over the prior-year like-for-like 16.5 percent. The EBIT margin mounted from a LFL 10.9 to 11.4 percent. We have therefore topped our self-set benchmarks of 15 percent ROCE and 10 percent EBIT margin.

Last year we sold our trackage construction operations. The Infrastructure Services business unit joined the Group in 2002 when Vossloh acquired the Cogifer Group. Major construction contracts, nowadays, however tend to be awarded to project contractors operating on an international scale. One consequence of ever tighter competition is that the risks are being downloaded onto the contractors themselves. The management of such construction-sector risks is not among our core capabilities. The new owner, an international construction and infrastructure specialist of some size, is better suited and hence a better owner.

Group earnings in 2008 totaled €139.4 million including a €46.8 million profit from the disposal of the discontinued Infrastructure Services operations. Even without this one-off effect, group earnings would still have significantly surged from €62.9 million (excluding the result from discontinued operations) to €92.6 million. Earnings per share (EpS) improved from €4.83 to €9.48.

We want you, our stockholders, to share in our improved earnings. For fiscal 2008, the Executive and Supervisory Boards will propose to your general meeting a much increased dividend of €2.00 per eligible share plus a superdividend of €1.00 so that you likewise benefit from the aforementioned gain. In all, our dividend policy remains tied to our profit with the result that rising earnings not only allow added financial latitude for growth but also a higher payout.

Despite the financial crisis, Vossloh stock's 2008 closing price was almost at the prior-year level. Your investment in Vossloh stock thus fared much better in 2008 than did the comparable indexes.

"The future with mobility" is the leitmotif of this year's annual report. We are firm believers in the future of railbound transport. Besides the substantial risks from the current economic situation, Vossloh management does perceive opportunities for future business.

The International Monetary Fund predicts for 2009 the lowest global economic growth rate since World War II. We are confident, however, that as a result of the relevant global trends—urbanization, deregulation of state-owned railways, fiercer competition among modes of transport and, last but not least, climate protection efforts—there will be added demand for railbound infrastructure and eco-friendly rolling stock.

We are budgeting for 2009 sales just short of €1.3 billion and an EBIT of €138 million; for 2010, sales of almost €1.4 billion and an EBIT of €151 million. Both divisions—Rail Infrastructure and Motive Power&Components—are set to share in the added growth. We expect ongoing growth potential in the important rail market of Europe and more-than-average, in some instances new market opportunities, in Asia, Africa, the USA, and Russia.

We cannot completely disengage ourselves from a recession lasting over an extended period of time. In order to seize our medium- and long-term opportunities even more forcefully we have significantly boosted our capital expenditure budget.

My thanks to you for your trust and confidence as reflected in the ownership of Vossloh stock. It would give me great pleasure if you continued with us along our journey.

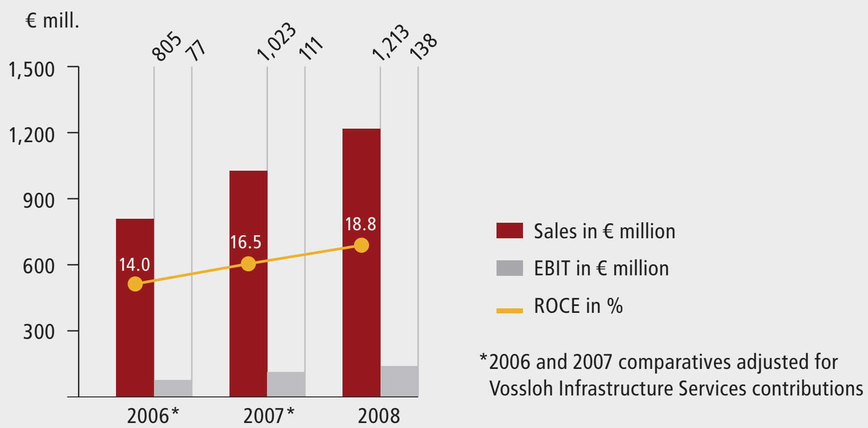
With kind regards,

Werner Andree
CEO

Another record year: €1.21 billion sales, €137.7 million EBIT, and €139.4 million group earnings

Portfolio improvements: trackage construction business sold, switch business strengthened

Expenditure program launched for added growth



Sales, EBIT and ROCE trends, Vossloh Group

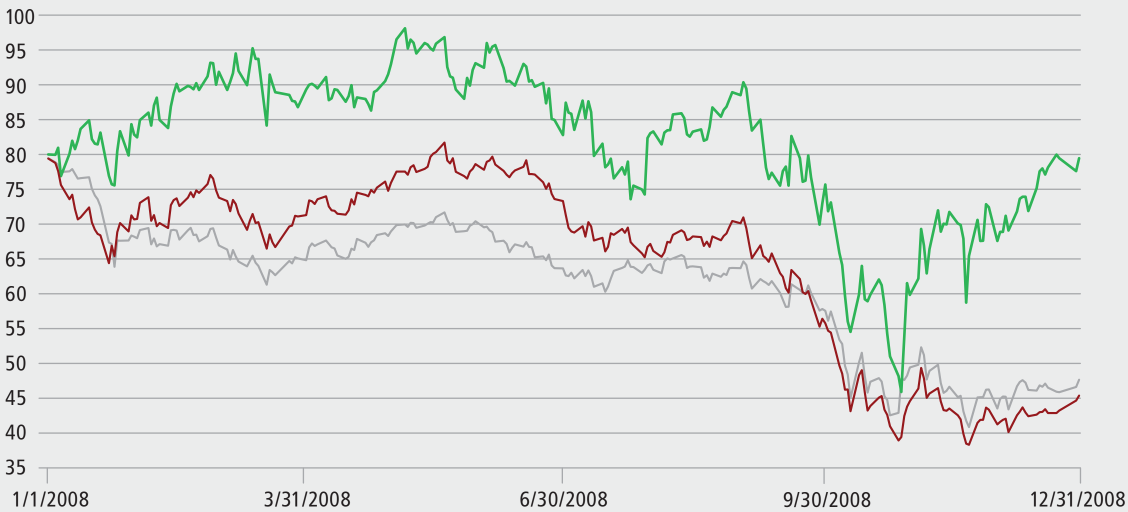
Vossloh stock closing 2008 almost at 2007 level

Easily outperforming both DAX and MDAX; 3rd in MDAX ranking

Dividend raised to €2.00 plus €1.00 superdividend

Vossloh stock
MDAX (rebased)
DAX (rebased)

Vossloh share ID data:
German SIN: 766710 Reuters: VOSG.DE
ISIN: DE0007667107 Bloomberg: VOS GR



Vossloh stock price trend from Jan. 1 to Dec. 31, 2008

Vossloh stock

Within a hostile capital market environment Vossloh stock held its ground well in 2008 during which it benefited in particular from a favorable business performance and the Group's upbeat forecasts. Disregarding the heavy losses sustained on the German and international stock markets, the 2008 closing price was almost at the prior-year level. In fact, it closed the year significantly superior to the badly battered DAX and MDAX indexes.

The stock market in 2008

The international stock markets suffered heavy losses in 2008. The year began with a downturn followed by a slight recovery in Q2 and then, starting from June, continued with plunging prices and violent swings, a trend that rapidly gained pace in the fall of 2008. The global stock markets had to contend with plummeting prices in the wake of the banking crisis and growing scares of recession; many indexes tumbled to their lowest level for years. Extensive government rescue packages and rate cuts by the central banks initially failed to generate relief and it was only toward year-end that the stock markets again showed slight gains over their annual lows.

As the year advanced, the DAX followed the downswing on the international stock markets and shed around 40 percent. On the first trading day in January it had opened at 8,101, its annual high, and by October 24 it collapsed to an annual low of 4,015. By year-end it had rallied to 4,810.

The MDAX, which includes Vossloh, was initially less affected by the losses at the start of 2008 and by May 19, had climbed to a year-high of just over 10,000. However, this index was unable to continue to shelter itself from the stock market turbulences and fell all the more steeply in the ensuing months. In the course of November 20 it slipped to an annual low of 4,664, thus shedding over 50 percent compared with May 19. Closing the year at 5,602, the MDAX lost in all around 43 percent in 2008, thus even more than the DAX.

Vossloh stock

In a difficult year, Vossloh stock in 2008 clearly outperformed the overall market. Having closed 2007 at €80.10, the stock defied the general price slide and on May 5, hit an all-time high of €99.49. In the months that followed, Vossloh shares failed to fully escape the overall market trend and, caught up in the general downswing, fell to an annual low of €45.41 on October 29. After the announcement of once again good 9-month figures and the upwardly revised 12-month forecast, the price picked up in strength contrary to the general market climate. By year-end, it had virtually made good its preceding losses to close December at €79.49. With an annual loss of less than one percent, the stock's performance was easily superior to both the DAX and MDAX. Among all MDAX members, Vossloh in fact ranked third in terms of performance in 2008.

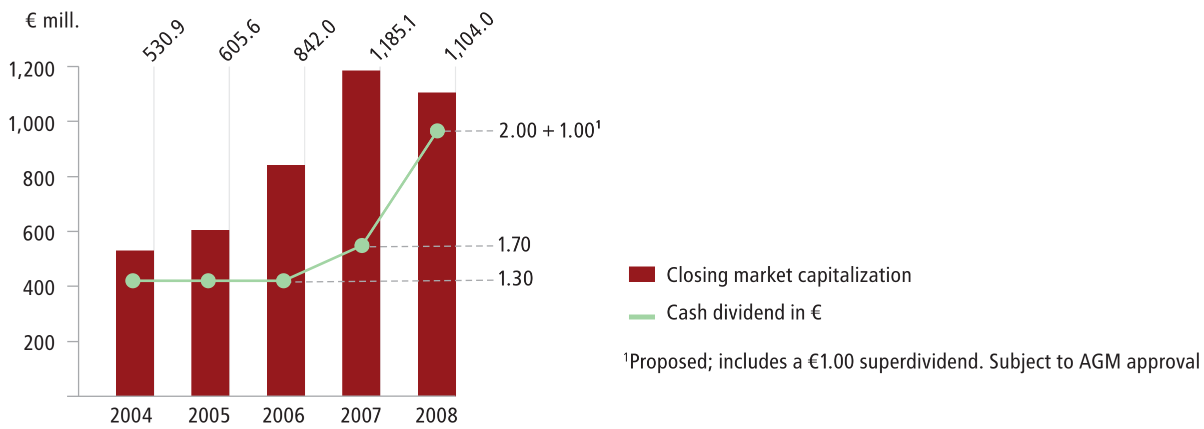
Accordingly, its Dec. 30, 2008 market capitalization amounted to €1,104.0 million, just shy of the prior-year €1,185.1 million. At 27.9 million shares, the stock's trading volume exceeded the 2007 all-time high by around another 3.9 million or 16 percent. On a daily average, 109,900 Vossloh shares were traded, 14,500 more than in 2007. Vossloh AG surged in December 2008 from rank 43 a year ago to 23 in terms of market capitalization and from 44 to 29 in terms of 12-month trading volume.

Vossloh stock indicators		2008	2007	2006	2005	2004
Earnings per share (EpS)	€	9.48	4.83	1.38	3.07	3.91
Cash flow per share	€	10.75	5.43	12.68	3.71	2.25
Dividend per share	€	2.00 + 1.00[1]	1.70	1.30	1.30	1.30
Total dividend payout	€ mill.	41.7	25.2	19.2	19.2	19.0
Book value per share (excl. minority interests)	€	32.36	28.51	24.55	24.09	22.28
Annual average number of shares outstanding	1,000	14,703	14,768	14,735	14,688	14,605
Number of shares outstanding at year-end	1,000	13,889	14,796	14,736	14,735	14,606
Closing stock price	€	79.49	80.10	57.14	41.10	36.35
Closing market capitalization	€ mill.	1,104.0	1,185.1	842.0	605.6	530.9
Annual high/low	€	99.49/45.41	94.47/56.21	59.20/34.90	48.58/36.11	47.68/27.45
Price-earnings ratio (PER)		8.4	16.6	41.4	13.4	9.3
Price-cash flow ratio		7.4	14.7	4.5	11.1	16.1
Trading volume (shares)	1,000	27,913	24,040	15,760	10,453	10,828
Average daily turnover of shares	1,000	109.9	95.4	61.8	40.5	42.1

[1]Proposed; includes a €1.00 superdividend. Subject to AGM approval

Dividend

Vossloh AG's Executive and Supervisory Boards will propose to the annual general meeting on May 20, 2009, that the dividend for fiscal 2008 be raised by around 18 percent to €2.00 (up from €1.70) per eligible share of stock. Moreover, a one-time superdividend of €1.00 is proposed to be distributed so that Vossloh stockholders participate in the gain from the Vossloh Infrastructure Services divestment. In all, these payouts are equivalent to around 30 percent of group earnings.



Market capitalization and dividend trend

Stock repurchase program

On October 15, 2008, Vossloh AG's Executive Board resolved after duly obtaining Supervisory Board approval to repurchase up to 1,479,582 treasury shares via stock exchange, equivalent to 10 percent of the capital stock. The repurchase program commenced October 16, 2008, and will be completed by April 15, 2009. A total of 907,000 treasury shares at a market value of some €62.7 million had been acquired by the close of 2008. By March 9, 2009, funds of just under €99 million were spent on acquiring altogether around 1.38 million treasury shares, equivalent to 9.34 percent of the capital stock.

	Number of treasury shares purchased	Total share price in €	% of capital stock
October	182,000	10,722,541.40	1.23
November	293,000	20,056,694.22	1.98
December	432,000	31,890,659.87	2.92
Total 2008	907,000	62,669,895.49	6.13
January	230,000	17,555,206.81	1.55
February	181,500	13,972,774.45	1.23
March (up to 3/9)	63,500	4,619,132.85	0.43
Total 2009	475,000	36,147,114.11	3.21
Stock repurchase as of Mar. 9, 2009	1,382,000	98,817,009.60	9.34

[1]Excl. bank commissions

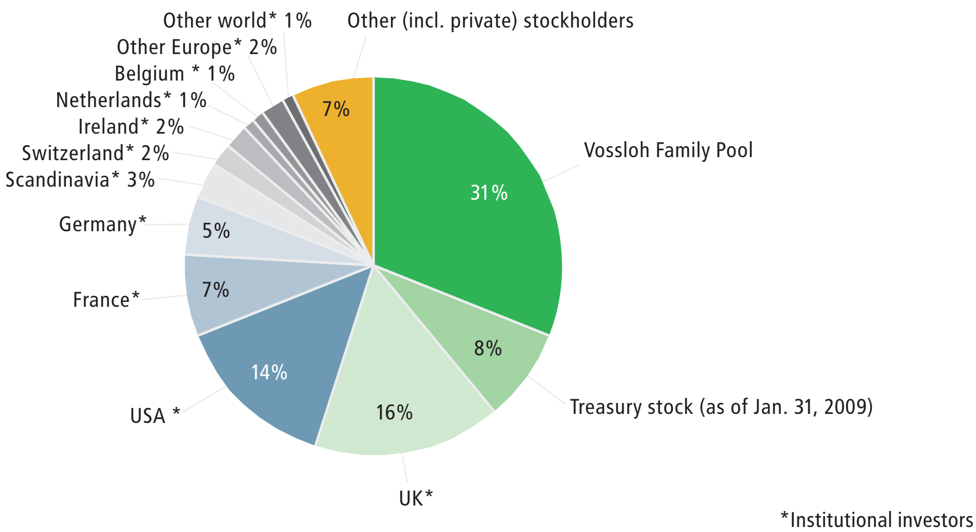
The stock repurchase is managed and carried out by a bank independently and uninfluenced by Vossloh AG, by virtue of the authority conferred by the annual general meeting of May 21, 2008. The treasury stock may be used for any of the purposes authorized by the AGM, including to fund M&A transactions.

Ownership structure

At the close of fiscal 2008, the Vossloh family pool again held a virtually unchanged stake of around 31 percent in the Company's capital stock.

According to the most recent ownership structure survey of January 31, 2009, institutional investors located especially in the UK, USA and to a lesser degree, in France and Germany held a good three-quarters of the stock not in the possession of the Vossloh family or Vossloh AG itself. Less than ten percent of this free-float market capitalization was allocable to other stockholders including private investors.

On September 25, 2008, Generation Investment Management LLP, London, announced that its voting interest in Vossloh AG was 3.11 percent. On January 26, 2009, it then announced that its interest had dropped to 2.92 percent. In the wake of its treasury stock repurchase program Vossloh AG exceeded on December 15, 2008, the 5-percent threshold to reach 5.01 percent of its capital stock.



Ownership structure of Vossloh AG, survey as of Jan. 31, 2009, by Thomson Reuters

Analysts' opinions

At the close of 2008, the number of analyst firms regularly reviewing Vossloh stock was 22; the number in 2007 was 14 and at the end of 2006 it had been 11. The price targets ranged between €49 and €107, averaging €76. Ten analysts recommended “buy,” five “sell,” and seven “hold.” Earning commendatory mention was the fact that within an extremely uncertain environment the Company had at year-end 2008 a tall order backlog to cover a long period and also the relatively reliable prospects awaiting rail infrastructure business. On the downside, it was noted that given any lengthy recession it could not be ruled out that Vossloh’s sales and earnings would likewise suffer. Virtually all the analysts lauded the Company’s foremost market position and financial strength.

Sustainability ratings and initiatives

For the first time in 2008 Vossloh AG underwent two sustainability ratings. The *oekom research* agency awarded the Company for its social, ecological and ethical performance a total rating of B- on a scale of A+ to D- and an investment status of “prime.” In the sustainability rating by the Swiss *INrate* agency Vossloh achieved for “eco” a 13-percent and for “social” a 7-percent score above the Mobility sector average and was thus accepted into Raiffeisen Schweiz’s investment universe for sustainability investments.

For two years, Vossloh AG has been reporting to the Carbon Disclosure Project (CDP). This is an initiative that gathers CO_2 emission and climate protection strategy information from companies, then making the details available as reference material in their investment decisions to 385 institutional investors that support the project.

Dialogue with the capital market

Transparent financial reporting and a regular dialogue with financial analysts and institutional and private investors again headed the investor relations priorities at Vossloh.

In the course of 2008, Vossloh updated investors at 13 road shows in Europe, the USA, and Canada about its business situation and prospects (up from ten in 2007). Vossloh also raised the number of one-on-one interviews with institutional investors, analysts, and private stockholders besides again attending major capital market conferences organized for MDAX companies. Teleconferences coinciding with all the important publications and two analysts conferences in Frankfurt were likewise organized.

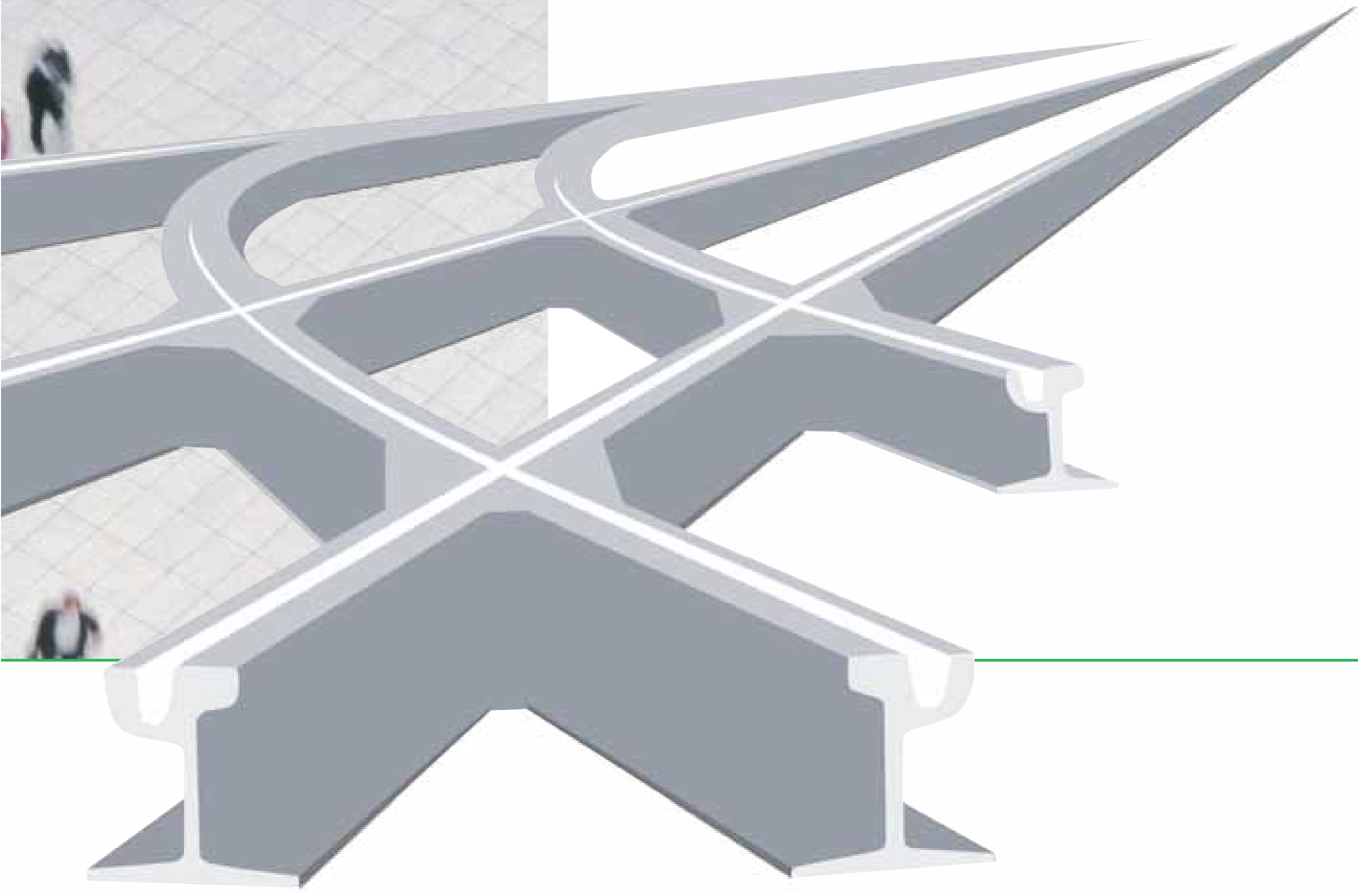
The newest presentation documents, present and past annual and quarterly reports are all available for downloading from the Vossloh website. These documents can also be forwarded to you by post or by email to investor.relations@ag.vossloh.com

Mobility

Solidly positioned in a growth market

Rail transport has a bright future—in the markets for freight as well as local and long-distance passenger services. As an economical and environment-friendly mode of transport it is set to accelerate since in the wake of the international division of labor and accompanying globalization, goods are being hauled the world over in vast volumes. Personal mobility is also rising, especially in China and India, which represent a third of the world's population.

Vossloh is solidly positioned in this growth market and can benefit from these trends. With our products and solutions we are making a key contribution to the movement of people and commodities.



Railbound transport will continue to gain ground in the long term, even at the expense of other modes of haulage. Many roads above all in urban regions are continuously congested, resulting in daily mile-long jams and "warehouses on wheels" crawling along expressways and highways. Transport by sea is slower as a rule, while air transport is usually more expensive than carriage by rail. A highly efficient rail network can relieve congestion while creating extra capacities—economically and in compliance with the environment.

This long-term growth trend will last despite the current financial and economic crisis. Even though the economic meltdown may result in not all new rail projects being financed within the time frame previously envisaged, some being shelved, opportunities will arise for Vossloh nonetheless. Apart from the equipping of new railway lines, replacement expenditures for existing network infrastructure are a significant driver of expansion at the Fastening Systems and Switch Systems business units. And, as far as locomotives and electric modes of propulsion are concerned, the postponement of investment projects usually increases demand for the retrofitting, upgrading and servicing of existing rolling stock.

Trading goods around the globe

The international division of labor entails a global flow of commodities. The value-adding stages of many products are geographically far apart yet synchronized to just-in-time shipments around the globe by land, water, and air. Two figures illustrate the dimensions of this global exchange: Germany's logistics industry sales reached almost €210 billion in 2008 and the world's two biggest container ports in Singapore and Shanghai each handled the equivalent of some 28 million standard 20-foot units in the same period. In the current economic crisis the flow of goods may have flagged but is not expected to reach a standstill by any means.

Efficient, economical, environment-friendly: rail transport is set to gain further ground.

Quick and comfortable: superfast trains have already won considerable market shares for intercity connections.

In freight haulage, rail systems score highly when it comes to conveying heavy and bulky goods—an advantage that comes to the fore in the globalized economy. Whereas in the past freight trains traditionally operated on a regional to national scale, in future cross-border or even cross-continent services will figure ever more prominently. A signal for the future was sent out by the Trans-Eurasia Express in the fall of 2008. Crammed with 50 containers, it completed the 10,000-kilometer journey from Beijing to Hamburg in 17 days—a third faster than by sea and 75 percent cheaper than by air.

Urbanization breeds mobility

Urbanization is on the advance: since 2007 more than half of the world's population has been living in towns and cities. According to United Nations forecasts, the proportion of urban population will exceed 60 percent globally by 2030, rising to 70 percent by 2050. The number of megacities is growing, especially in China and India. The distances between where people live, work and recreate are producing enormous flows of commuters; as urban populations rise, innercity traffic swells, as does the traffic between cities and their satellites. In the long run, the mobility of thousands of people in a confined area can be sensibly managed only with effective mass transit systems—in the shape of streetcars, trams, light rail and metro systems, buses and trolleybuses.

A renaissance in light rail and tram services has been underway in (sub)urban passenger transport for some years. Yet not only growth countries such as China and India are relying on rail. Even in the USA, where the car still rules, cities such as Houston, Dallas or Denver are investing in modern streetcar networks. Their popularity is bolstered by the climate change debate and the knowledge that fossil fuels like crude oil are finite.

In long-distance passenger transportation comfortable express and superfast trains have already secured substantial market share in intercity connections in Europe—above all for journey times in the range up to four hours. A good example is the high-speed rail service on the Madrid–Barcelona route meanwhile more popular than the flight connection which once was among the world's most frequently used. The express trains operating on the Frankfurt/Main–Paris line have already grabbed a market share of some 90 percent.

National barriers falling

In Europe and elsewhere policy-makers are shaking up the rail market. In the wake of European integration and the development of the single EU market, the traditional national barriers in rail transport have been gradually disintegrating. Cross-border connections are on the agenda, especially for freight and high-speed services. This means the opening and harmonization of rail systems which had previously been encapsulated from each other. New railway lines are being built, existing ones revamped and upgraded.

At the same time, deregulation of rail transport has injected fiercer competition into rail services—with passengers, for example, reaping the benefits through improved comfort and services.

Encouraging market outlook in the long term: high-speed and suburban services harboring the greatest growth potential.

Congested roads: rail systems can reduce pollution while creating new capacity, including for freight haulage.

Rail market further expanding

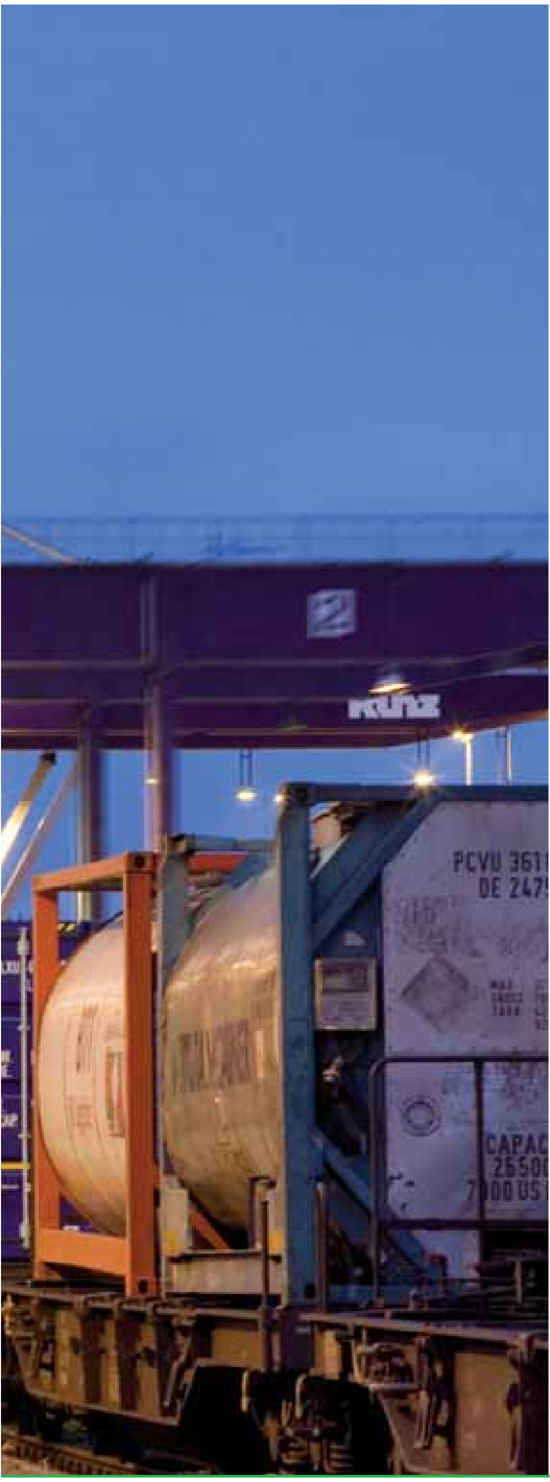
Role allocation among modes of transportation will continue to shift in favor of rail, according to a study commissioned by the Association of the European Rail Industry (UNIFE), which sheds light on the rail market of the present and future. According to the study, this will result in additional investment in rail infrastructure and rolling stock, in control and monitoring systems, as well as in services.

Whereas the total volume of the global rail market came to some €122 billion in 2007, this is set to rise to €150 billion by 2016—equivalent to a 2.9-percent increase on an annual average. Local transport is expected to grow by a well above-average 3.4 percent per year, as are high-speed services, for which the study predicts annual expansion of 7.2 percent.

Experts anticipate the highest market growth in the Asia/Pacific region. Market volume in Eastern Europe and the CIS states is also expected to rise at an accelerated rate up to 2016. Nevertheless, Western Europe will remain the biggest and most important single market with an around 35-percent share of total volume, the study concludes.

Attractive options in major cities around the world:
local public transit facilities as here in Valencia help keep millions of people on the move.

Solutions



In the right direction with the right products.

Modern freight transport needs intelligent interplay among the various modes of haulage. High-speed lines will play a decisive role in the long-distance passenger services of the future. And when it comes to local transit systems, the hallmarks of tomorrow will be capacity, efficiency, reliability, and comfort.

Vossloh has the right solutions for the exacting requirements of its markets: rail fasteners and switches, locomotives, and electrical equipment for light rail vehicles and trolleybuses.

In recent years Vossloh has matured into a specialist in rail infrastructure and modes of transport, building for itself a leading position in selected market niches. Solutions developed by Vossloh are targeted at and tailored to the requirements of fast-growing market segments.

The EURO 4000 success story

Performance, economic efficiency and flexibility are the trump cards of Vossloh España's EURO 4000, fifty units of which have been sold since the model was launched in 2006. This most powerful diesel-electric locomotive in Europe is available in both a freight and passenger version. It comes with clear advantages when pulling heavy trains and in cross-border operations. Thanks to an economical electronic diesel injection engine and its vast tank capacity, the EURO 4000 can cover distances of up to 2,000 kilometers without refueling. Its high-strength steel chassis results in about 25-percent weight savings over comparable locomotives.

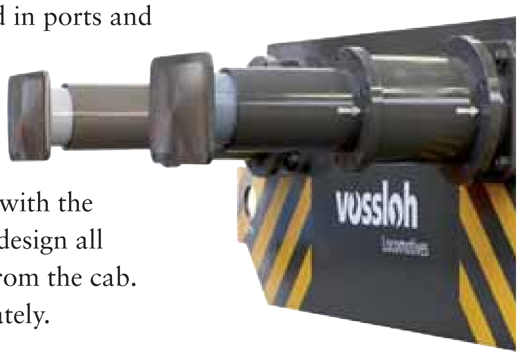
The EURO 4000 possesses all the prerequisites for being equipped with the European Train Control System (ETCS), regarded as the future industry standard. It can be easily adapted to any European rail system. Models for Scandinavia are winterized for operation at extreme subzero temperatures. An optional extra is a GSM data transfer system, which transmits all vehicle data to the maintenance shop, thus minimizing the risk of unscheduled downtimes. Vossloh is currently building the EURO 4000 range in Valencia, including for operation in markets with low axle loads.

Equipped for the future: Vossloh's diesel locomotives are closely tailored to their operating requirements.

Powerful yet economical: the diesel-electric EURO 4000 from Valencia.

Newly engineered locomotive from Kiel

Vossloh also caused an industry sensation with its triple-axle shunting and industrial G 6 locomotive, unveiled at InnoTrans 2008. It satisfies all the requirements for its typical jobs in marshaling yards, at industrial facilities such as steel mills, car or chemical plants, and in ports and their hinterland. The Privatbahn trade magazine awarded the G 6 its innovation prize which every year honors the industry's most outstanding new products.



Unique selling proposition: the safety buffers on the new G 6 come with a constant collision resistance curve

The G 6 can operate unassisted on tight track curves of up to 50 meters in radius. Thanks to a newly developed chassis, abrasion and wear are kept to a minimum, with the emphasis on ease of operation, maintenance and upkeep. In spite of the compact design all the components are readily accessible, much of the electrical equipment directly from the cab. As a result, the crew can locate a fault easily and carry out minor repairs immediately.

The around 700-kW center-cab locomotive fulfills all the applicable German and international regulations for exhaust emissions, noise control, software, and fire protection. The G 6 is already equipped to be adapted to future norms and standards, especially relating to emissions. The newly designed cab conforms to ultramodern ergonomic requirements and the ultralow noise levels also help improve the working environment of locomotive crews.

The G 6 is the first model in a new breed of center-cab locomotives from Kiel for shunting and mainline freight haulage services. Next in line are four-axle locomotives engineered to the same modular design principles.

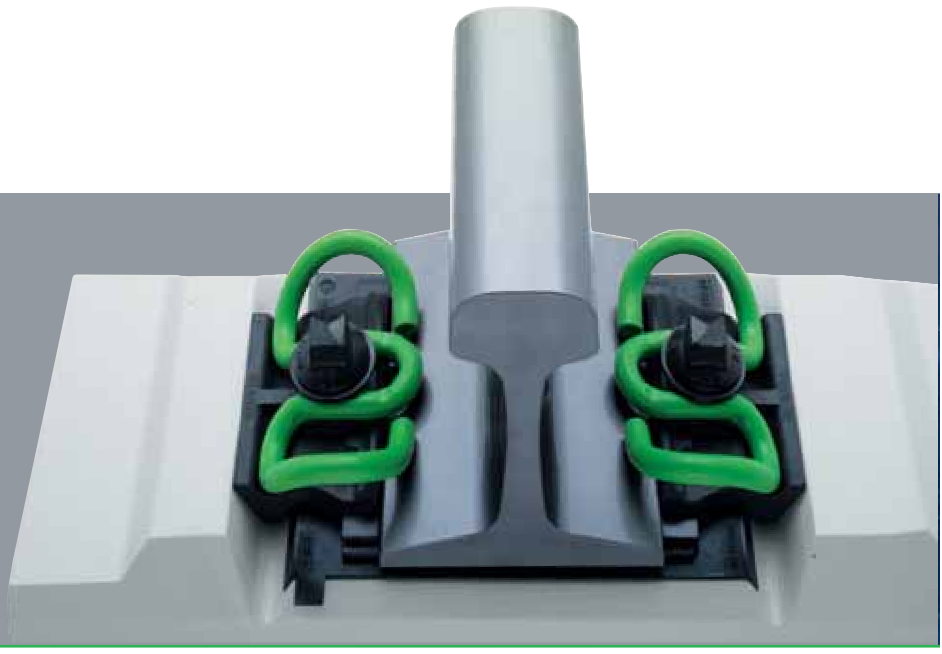
Versatile: the new G 6 shunter from Kiel

Further fastening systems for heavy-haul traffic

At Vossloh Fastening Systems, HH stands for "heavy haul" rail fastening systems designed to cope with very heavy loads: huge quantities of ore directly from the mine, iron and steel products or agricultural produce, such as wheat, corn and soybean. In this segment, the W 14 HH Vossloh system for axle loads of up to 32 t is winning over an increasing number of Class 1 freight railroad companies in the USA. The fastening system has also been in trial operation for some time on the track of a mining company in Brazil.

Building on this tried-and-tested solution, Vossloh developed in 2008 the W 30 HH system, for which a patent has now been applied, to cope with the special requirements on heavy-load lines subject to high temperature fluctuations. In Russia, North and South America or Australia, for example, temperatures ranging from as low as -60° C to +50° C have a punishing impact on rails. The new Vossloh system ensures that the trackage constantly maintains the same properties, however. With its increased diameter and optimized geometry the W 30 HH rail clamp combines exceptional holding force, superior dynamic fatigue strength and rugged creep resistance all in one. This ensures safe operation even under extreme conditions, with wear remaining minimal and maintenance and operating costs low.

Concentration on selected rail industry markets: Vossloh develops new products, including for heavy-load and high-speed traffic, on the basis of repeatedly proven solutions.



W 30 HH system: the new rail fastener is tailored to the requirements of heavy-haul transport even under extreme winter conditions.

Fast, reliable, safe

Vossloh has developed remarkable expertise as a supplier of equipment for high-speed rail networks, a fast-growing market in Europe and Asia. In Europe, Spain, France and Poland are currently investing in networks designed to be linked for cross-border operations some time in the future. In Asia, new high-speed lines are being laid mainly in China.

High-speed switches are among Vossloh Cogifer's longstanding strengths. Specifically adapted and perfected for local parameters, they ensure that the network's superfast trains can switch tracks safely without having to slow down. The patented swing-nose crossings made of manganese steel are remarkably durable. Control and monitoring systems developed by Vossloh for high-speed lines ensure that the switches perform their job with utmost precision and reliability. A remote diagnosis system can continuously provide the control room with data on the current condition of all switch components. Maintenance can then be carried out as and when actually required—making a key contribution to lower upkeep costs.

Vossloh's high-speed rail fasteners enjoy an outstanding reputation. The 300 system currently in use on a good 4,000 kilometers of high-speed track is contributing to the safe operation of long-distance superfast passenger services worldwide. The advanced 306 system, already undergoing successful field testing in China, offers an optimum solution for the ballastless slab tracks frequently found in Asia.

Utmost precision and reliability: Vossloh Cogifer's high-speed switches ensure safe track changing on many high-speed lines worldwide.

Tried and tested many times over: Vossloh is the second-largest switch supplier worldwide and manufactures products for every application: from light rail via heavy haul to high speed.

Alternative to the traffic jam

In a bid to escape traffic gridlock, more and more major cities have been turning to attractive means of public transportation. Alicante, for example, is proud of its "train-tram"—a winning transport concept developed by Vossloh. The train-tram is a cross between a tram and suburban train. The low-floor vehicle in a stylish design can in fact operate on both track systems, negotiating tight curves of 30 m radius in city centers and gradients of up to six percent out in the country. Moreover, the environment-friendly train-tram offers a comfortable ride besides being quick and economical to operate.

When trams make their comeback to the Scottish capital Edinburgh in 2011 after a break of over 50 years, they will be operating with Vossloh Kiepe technology in their insides. The company is supplying all the traction components on these over 40-meter-long vehicles, which can accommodate some 250 passengers and will then be the biggest of their kind in operation in the UK.

Vossloh Kiepe celebrated a premiere of a very different kind with its new high-floor light rail vehicle for Bielefeld, Germany. The company is not only supplying the complete electrical equipment—including the control and traction systems and on-board power supply network—but also heading the consortium for the first time, bearing responsibility for the project as a whole.

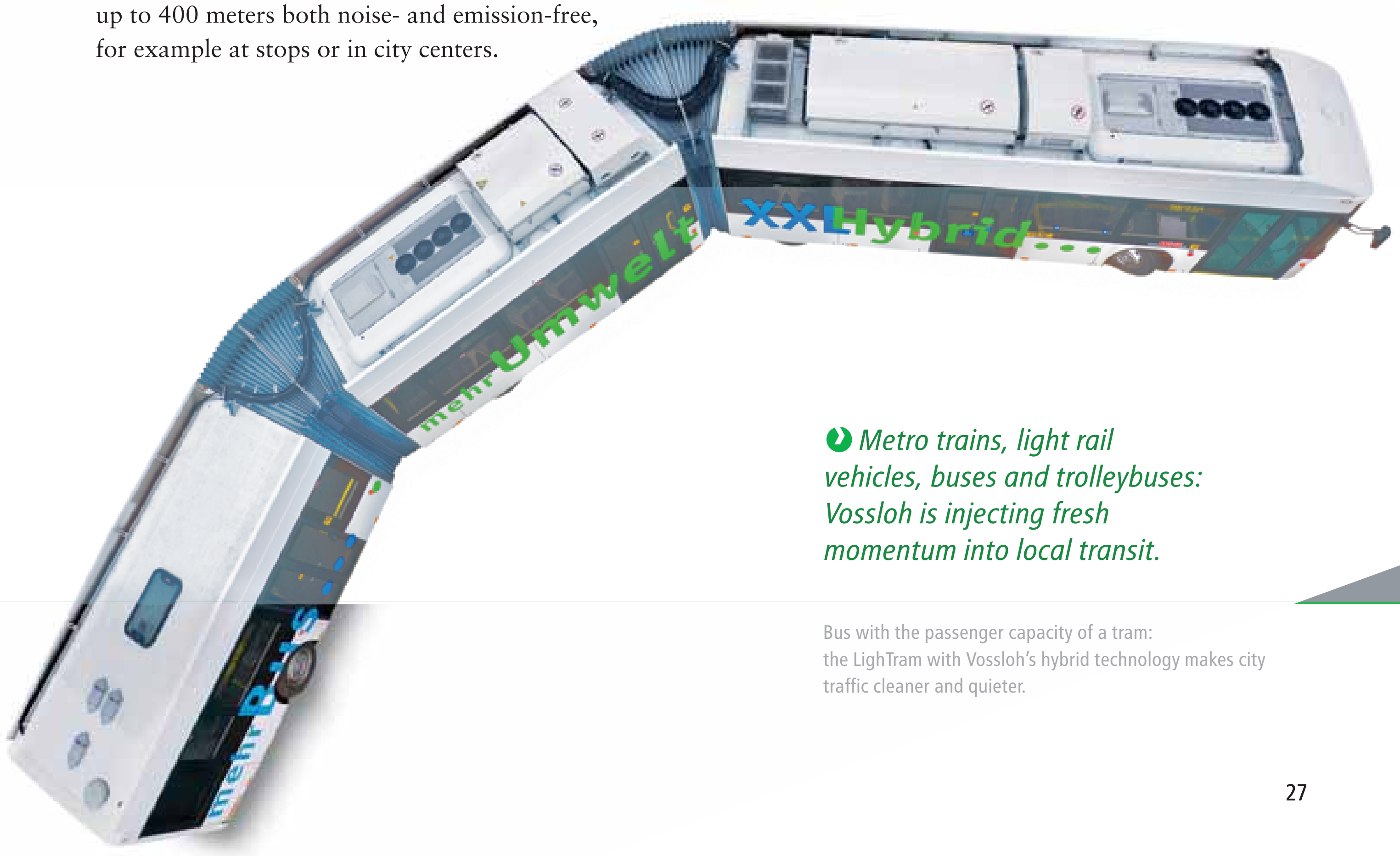
Ample passenger comfort and seating: today's trams.

Coveted equipment for light rail vehicles and trams: Vossloh Kiepe's electrical components.

Environment-friendly hybrids

Clean and quiet: hybrid technology contributes to improved urban air quality, as demonstrated in Luxembourg by the "LighTram" bus. This 24-meter double-articulated vehicle for up to 200 passengers features a hybrid drive system—a diesel engine mated to a generator—developed by Vossloh Kiepe. The LighTram consumes up to 35 percent less fuel than conventional buses and therefore emits fewer pollutants, crucial features being its electrical traction and intelligent energy management system. The diesel engine provides the generator with electric power efficiently and can be operated irrespective of the axle speed at optimum consumption. In addition, long-life dual-layer capacitors, known as supercaps, assimilate the energy generated during braking and then make it available for subsequent acceleration. Passengers and outsiders appreciate the purely electrical operation when stopping and restarting—which are both noiseless and emission-free. This Vossloh technology has already been put through its paces in the buses of various manufacturers, including in Enschede, Leipzig, and Hannover.

Even the environment-friendly electric (trolley)buses now in operation in such Italian cities as Genoa, Pescara, Modena, Bari and Rimini can be operated more efficiently with hybrid traction. The Milanese have been benefiting from this innovation since the start of 2009. These urban trolleybuses are fitted with a traction system developed by Vossloh Kiepe which also operates with supercaps. The advantages bring results especially with the two-part duo bus. Its energy storage system replaces one-half of the output of the diesel engine, which can be downsized accordingly. Thanks to the energy stored, solo trolleybuses can operate disconnected from the overhead line for up to 400 meters both noise- and emission-free, for example at stops or in city centers.



Metro trains, light rail vehicles, buses and trolleybuses: Vossloh is injecting fresh momentum into local transit.

Bus with the passenger capacity of a tram: the LighTram with Vossloh's hybrid technology makes city traffic cleaner and quieter.

Markets

Our timetable has an international destination.

Railways worldwide are on the threshold of gigantic investment projects involving both the construction of new and the expansion or upgrading of existing lines. Asia, North and South America, Eastern Europe, and the Middle East are the chief such investment regions.

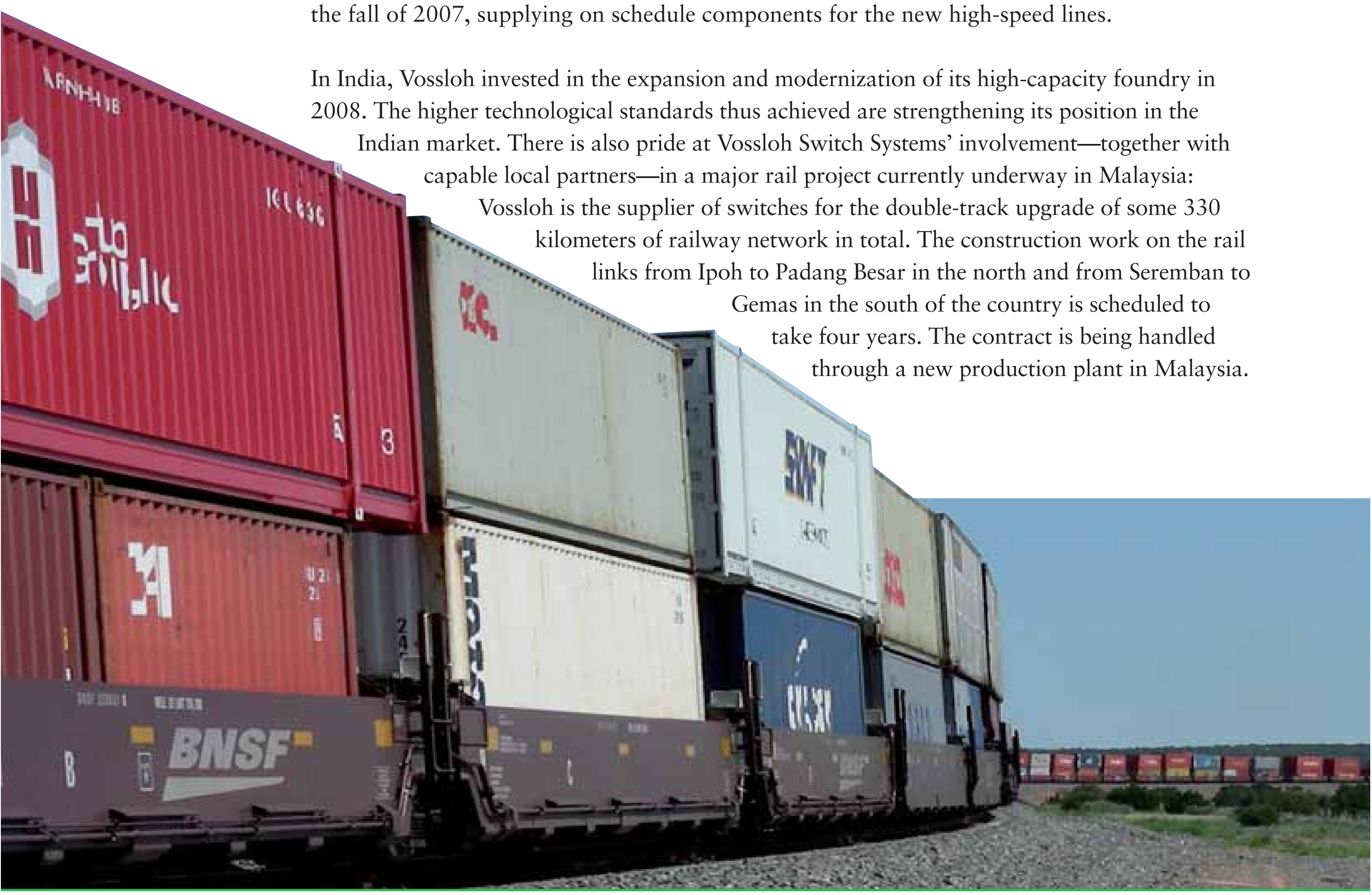
Vossloh has strengthened its position in recent years through acquisitions and joint ventures. True to our role of international player we now have a local presence in all our key growth markets.

Industry experts see Asia as the rail market of the future with the highest growth potential. Given its mushrooming population and an economy generating unabated demand for haulage services, Asia's rail infrastructure needs to be massively upgraded and matched to accommodate rising demand.

Bright prospects in Asia

China is investing heavily in its rail network with cities such as Shenyang, Jinan, Qingdao, Xian or Zhengzhou planning to build metros. In addition to the upgrading of railway lines, development of a high-speed network is underway, the Beijing to Tianjin section of which was opened—with rail fasteners supplied by Vossloh—in time for the 2008 Olympic Games. Vossloh has maintained a local presence at its production plant in Kunshan close to Shanghai since the fall of 2007, supplying on schedule components for the new high-speed lines.

In India, Vossloh invested in the expansion and modernization of its high-capacity foundry in 2008. The higher technological standards thus achieved are strengthening its position in the Indian market. There is also pride at Vossloh Switch Systems' involvement—together with capable local partners—in a major rail project currently underway in Malaysia: Vossloh is the supplier of switches for the double-track upgrade of some 330 kilometers of railway network in total. The construction work on the rail links from Ipoh to Padang Besar in the north and from Seremban to Gemas in the south of the country is scheduled to take four years. The contract is being handled through a new production plant in Malaysia.



Convincing solutions for a market offering bright prospects:
an increasing number of freight operators in the USA are opting for Vossloh's rail fastening systems.

Reaching out down under

In Australia, railways are the preferred option for transporting freight—mainly iron ore from the mines in the west of the country to the ports in the north-west. In addition, cities down under such as Melbourne, Sydney and Brisbane have plans to expand or modernize local public transportation. Through Vossloh Cogifer Australia, since the takeover of the operations from TKL Rail Australia's second-largest manufacturer of switches and their components, Vossloh commands a foremost position in this market, with plans for expansion.

From North to South America

Long-distance freight haulage plays a crucial role in the North American rail market, while railbound passenger transport has figured only in a few big cities to date. Last year's acquisition of today's Vossloh Track Material and Cleveland Track Material has proved the right step for Vossloh in making inroads into the US market: the Group is already supplying four of the country's seven Class 1 rail haulers with rail fasteners and switches, especially for heavy-load traffic. Indeed, the USA has a lot to catch up on. According to studies, the equivalent of over €100 billion will have to be invested over the next 30 years in a rail infrastructure in need of revamping.

Vossloh plans to focus more intently on South America now, with the emphasis on Brazil and Argentina initially. High-speed lines and the expansion of several urban light rail networks are planned in both countries. Another interesting aspect is that large quantities of commodities are transported by rail in Brazil—for the most part on outdated lines resulting in frequent bottlenecks.

Successes in North America and in the booming Asia/Pacific region as Vossloh seeks to build on achieved market positions.

Growth sought in the MENA region

In the MENA region, standing for the Middle East and North Africa, a number of new railway lines have been built in recent years, also with Vossloh's involvement. Examples include the equipping of track installations with rail fasteners in Algeria, Mauritania and Morocco and the shipment of switches for the Dubai metro. Vossloh is seeking to achieve further organic growth in this promising market in the coming years.

Stronger presence in Eastern Europe

Vossloh also anticipates medium- and long-term growth in Eastern Europe, a region which has enormous pent-up demand for rail infrastructure and rolling stock. In the EU member states of Eastern Europe, both the planned expansion of the pan-European rail corridors and growing innercity transit needs are opening up opportunities for Vossloh. Poland is the biggest of the new accession states in Central Europe and strategically the most important market. In Nowe Skalmierzyce near Wrocław and in Bydgoszcz, Vossloh manufactures rail fastening and switch systems for the local and regional markets.

Vossloh has been represented in the CIS states to date by a joint venture in Kazakhstan and through local partners. At the end of November 2008, the Company opened an office in Moscow charged with the task of strengthening existing customer relations in the strategic key market of Russia and effectively exploiting the Russian market's attractive opportunities. Russia plans to implement an extensive rail development program in the coming years, which will involve building some 20,000 kilometers of new lines by 2030.

Presence extended to new markets: Vossloh is forging ahead with its internationalization drive while continuing to exploit opportunities in home markets.

Great interest: Vossloh's products enjoy an international reputation.

Western Europe remains prime market

Western Europe with its well-developed rail network will remain the global rail industry's most significant region for the foreseeable future. In addition to the construction of high-speed rail links, replacement investment in this region constitutes a key market driver. France, for example, plans to spend several billion euros on upgrading its almost 30,000-kilometer network in the years ahead. Scandinavian countries are also investing heavily in the maintenance and modernization of their networks.

The politically driven deregulation of the rail market and closer focus on interoperability can present opportunities, with new operators bringing greater diversity and more competition and demand to the market. Rail operators are increasingly able to set up business in other EU states, creating new services. Freight and passenger transportation is also intended to operate across borders, interlocking with different modes of transport like smoothly engaging machinery.
In its home markets Vossloh remains active in all its longstanding segments while continuously building on its position, including through acquisitions targeted to further bolster the core rail infrastructure business.

Understanding Mobility: Under this motto the companies of the Vossloh Group showcased their products and services on three booths at the world's biggest transport technology fair InnoTrans 2008.

Vision

Investing in sustainable success.

Durability, enhanced safety, low operating costs, tailored solutions: the requirements being placed by rail and local transit operators on their suppliers are becoming increasingly exacting, with environmental and climate protection standards more and more stringent.

Vossloh's business model has a long-term perspective, aiming to continuously add shareholder value. We are now targeting our investment on both existing and new locations and on the development of new products in an effort to actively seize the market opportunities arising in future.

Forestry serves as a good example of the concept of sustainability. A tree planted by the owner of a forest today can benefit only the next or next-but-one generation

Vossloh is not guided by short-term prospects when it comes to rewards and returns. Sustainable success in the marketplace forms a fundamental part of its strategic positioning. Economic efficiency in the medium and long term is crucial—in the development and manufacture of products, in their use within the transport system and in the Group's internal organization, and above all in the investments made by Vossloh.

Precisely! A Vossloh switch being put into place.

Investing in tomorrow

The principle of economic sustainability applies at Vossloh to potential acquisitions, which must contribute to a growth in value. In an effort to improve the foundations also for organic growth in the years ahead, Vossloh is stepping up its investments, under which it is developing new products, modernizing existing plant and equipment, and opening new locations. The additional measures planned for 2009 and 2010 will cost around €60 million and take long-term market trends closely into account.

Expanded capacity, rationalization and increased productivity: these are the goals associated with the modernization of machining centers at several locations in Poland, Australia, France, Sweden, and Germany. This will include fresh investment in Vossloh Fastening Systems' parent plant in Werdohl and in Vossloh Kiepe's production premises in Düsseldorf. The Vossloh rail fastener plant in Erzincan in eastern Turkey, whose products are supplied to the burgeoning local market, has already been expanded.

In Valencia, Vossloh Locomotives is systematically expanding the EURO 4000 family and extending its range of suburban rail vehicles. In Kiel, further models of the new-generation center-cab locomotives are emerging, a parts commonality concept helping to lower production costs.

Low vibrations thanks to an elastically mounted ribbed plate: the 336 rail fastening system for light rail slab tracks.

Further growth sought: in stepping up its investments Vossloh is improving the foundations for future success. Spending will target both production facilities and product development.

A look inside Vossloh Kiepe's production plant in Düsseldorf which was expanded in 2008.

Asset: low life-cycle costs

Ranging from rail infrastructure to rolling stock, economically efficient operation is becoming an ever more crucial criterion in decision-making for Vossloh's customers. One major factor is life-cycle costs, meaning scrutiny of a product's costs over its entire lifetime. Vossloh's products help rail and rail infrastructure operators to lower their maintenance and operating costs.

Requiring minimum maintenance once installed, Vossloh's rail fastening systems perform outstandingly when assessed on this basis. The same applies to Vossloh's switches along with control and monitoring systems. Another solution bringing economic benefits for customers is the special Cogidur steel and an intelligent design which make the switch crossings for LRV more robust and thus longer-lasting. Low life-cycle costs are a feature of the G 6, the first member of the new breed of modular locomotives from Kiel, and of the various models with in the EURO 4000 range. Additionally, in the manufacture of electrical equipment for trams, Vossloh Kiepe no longer makes converters as individual elements but in a newly developed modular and compact design, which is more durable and can be replaced quickly and simply in the event of damage.

These examples show that Vossloh sees itself as its customers' value enhancer, its high technical expertise and specialists forming the basis for the creation of sustainable tailor-made solutions.

Economic efficiency in demand: many Vossloh products offer customers the scope to reduce maintenance and operating costs.

Contribution to cost-cutting: control and monitoring systems extend the intervals between maintenance work on railway lines.

Helping to safeguard the environment

Alongside economic factors, environmental and societal issues are naturally linked to Vossloh's perception of sustainability, too. Modern railways and buses are generally regarded as eco-friendly, safe and efficient modes of transportation. Vossloh, often also in collaboration with universities and engineering institutes, is making its contribution toward efforts to improve the environment and combat climate change.

The conventional hybrid technology for buses developed by Vossloh Kiepe already substantially reduces CO_2 emissions compared with traditional vehicles. Now the company is going a step further by developing, together with partners, an 18-meter fuel-cell articulated bus ready for production. Using hydrogen as a source of energy, the bus is emission-free and virtually noiseless. This reference project to be unveiled at the World Hydrogen Energy Conference in Essen, Germany, in 2010 is being subsidized by the North Rhine-Westphalian state and Dutch Governments.

Vossloh Fastening Systems is also working on noise-reducing components, such as rail web attenuation designed to combat the "curve squeal" which occurs when, for example, trams negotiate tight bends. In addition, the locomotives built by Vossloh meet statutory requirements on exhaust and noise emissions usually long before they actually come into force.

Reference project for the 2010
World Hydrogen Energy Conference in Essen: together with partners,
Vossloh is developing for series production a fuel-cell bus running on hydrogen.

Vossloh AG's 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
Sworn public auditor and tax accountant, Bad Bentheim

Dr. Christoph Kirsch
Former CFO of Südzucker AG, Weinheim

Wolfgang Klein
Galvanizer, Group Works Council Chairman, Werdohl

Michael Ulrich
Mechanic, Works Council Chairman of Vossloh Locomotives GmbH, Kiel

Dr.-Ing. Wilfried Kaiser,
Supervisory Board Chairman

Report of the Supervisory Board

Supervisory Board work in fiscal 2008

During the year 2008, Vossloh AG's Supervisory Board duly performed the functions and duties incumbent on it under law, the Company's memorandum & articles of association, the German Corporate Governance Code (the "Code") and the Supervisory Board Rules of Procedure, continuously 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 other major projects and events.

Meetings and attendance

In 2008 the Supervisory Board convened at five scheduled meetings (April 2, May 20, August 14, October 14, and December 3), two extraordinary meetings on March 7 and June 27, as well as its post-election constituent meeting on May 21. At two meetings, one member was excused each. At its meetings, the Supervisory Board discussed in depth with the Executive Board day-to-day business and the strategic concepts, short- and medium-term corporate plans, capital expenditure and investment budgets (especially in China), the current income and cash trends, as well as at length the repercussions of the financial market crisis on Vossloh's medium-term business. Other periodical items on its agenda were Vossloh's risk position and management, as well as jointly with the Executive Board, significant organizational and personnel changes. The Supervisory Board deliberated on and approved Executive Board transactions subject to its approval. Furthermore, it discussed in depth with the Executive Board the planned M&A projects and those successfully realized in 2008 in Denmark and the Netherlands, as well as the 2008 divestment of the Infrastructure Services business unit.
Also on the agenda for thorough debate were corporate governance and Code compliance issues. After the Supervisory Board had relied for the assessment of its own efficiency on outside expert consultants and completed its evaluation, the resultant recommendations were translated into practice in 2008. No Supervisory Board member was subject to any clashing interests under the terms of § 5.5 of the Code. Additional items on the agenda were performance-upgrading steps, as well as development concepts for its two divisions and the Group in its entirety and realizability of such concepts. At its December 3 meeting and as proposed by its Staff Committee, the Supervisory Board approved the future system and key contractual components of Executive Board remuneration.

When meeting at a subsidiary, the Supervisory Board took the opportunity of being directly briefed by local management on strategic concepts and plans, as well as on the plant itself.

Ongoing information outside Supervisory Board meetings

Projects of key importance or urgency were also communicated by the Executive Board to the Supervisory Board between meetings. Furthermore, the Supervisory Board Chairman regularly deliberated on and discussed with the Executive Board—mainly with the 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, and personally took care of promptly informing the other Supervisory Board members.

Executive and Supervisory Board membership

The Executive Board has two members. Besides Finance and Accounting, CEO Werner Andree is also in charge of Corporate Development, Investor/Public Relations, Internal Auditing, Legal Affairs, and IT. Dr.-Ing. Norbert Schiedeck is responsible for Engineering, Marketing, and HR. This narrowly focused structure is testimony to the Vossloh's organization as a locally managed group parented by a lean-management holding company.

After their reelection at the annual general meeting 2008, the Supervisory Board members convened to their constituent meeting on May 21, 2008, and reelected Dr.-Ing. Wilfried Kaiser and lawyer Peter Langenbach as Chairman and Vice-Chairman, respectively. Therefore, Supervisory Board membership has remained unchanged.

Committee work

Vossloh AG's Supervisory Board has three committees, the Staff Committee and the Audit Committee having three members each while the Slate Submittal Committee has four. The primary duties of the Staff and Audit Committees include the preparation of business to be transacted before the plenary Supervisory Board. Furthermore, the Supervisory Board has delegated certain defined powers to its committees, such as in the case of the Staff Committee, 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. The Audit Committee decides, for instance, on the statutory auditors' independence, the definition of focal audit areas, as well as auditor fee issues, besides deliberating periodically and in depth on risk management, accounting and corporate compliance issues.

The Staff Committee has Peter Langenbach and Wolfgang Klein as members and is chaired by Dr.-Ing. Wilfried Kaiser, the Audit Committee Dr. Jürgen Blume and Wolfgang Klein, its chairman being Dr. Christoph Kirsch. The Slate Submittal Committee consists of the four stockholder representatives on the Supervisory Board, viz. Dr.-Ing. Wilfried Kaiser, Dr. Christoph Kirsch, Peter Langenbach and, as chairman, Dr. Jürgen Blume.

The Audit Committee convened seven times in 2008. Its meetings on April 28, July 29 and October 29 centered on discussing the quarterly reports with the Executive Board prior to publication. At its April 1 meeting, which was also attended by the Executive Board and the statutory auditors, the Audit Committee deliberated on, discussed and examined thoroughly, the documentation on the separate and the consolidated financial statements and the combined management report on Vossloh AG and the Group for fiscal 2007. No objections were raised. At the same meeting, the Audit Committee also dealt in detail with the statutory auditor's independence and the proposal for the election of the statutory auditor for fiscal 2008. At its constituent meeting immediately after the annual general meeting on May 21, the Audit Committee elected Dr. Christoph Kirsch and Dr. Jürgen Blume as its chairman and vice-chairman, respectively. Audit Committee discussions also focused on risk management at the April 1 and July 29 meetings, and additionally at the December 3 meeting with the statutory auditors, Vossloh's financial reporting principles. Moreover, the Audit Committee required the Executive Board to furnish continual reports on the main risks identified for the Vossloh Group. At their October 14 meeting, the Audit Committee members furthermore dealt with the agreed fees for, and the proposed focal areas of, the annual audit as of December 31, 2008. In addition, at the December 3 meeting, the Group's Compliance Officer and the Head of Internal Auditing gave a comprehensive account on fiscal 2008 to the Audit Committee. Other business on its agenda included issues of the Audit Committee's own efficiency, also in light of its extended scope of duties.

The Staff Committee members convened twice in 2008, their deliberations concentrating closely and repeatedly on the system and key contractual components of Executive Board remuneration and related components. By establishing a discretionary bonus concept, according to which the Supervisory Board will decide whether and in what amount a bonus should be granted after assessing each Executive Board member's specific performance and the Vossloh AG's economic position, a long-term incentive has been created in addition to the Executive Board members' total remuneration.

When meeting on October 14, the Staff Committee decided to submit to the plenary Supervisory Board a proposal to renew Werner Andree's appointment as Executive Board member up to August 31, 2014, which after unanimous approval by the Supervisory Board was then also accepted by CEO Werner Andree.

Well ahead of the periodical election of Supervisory Board member at the annual general meeting on May 21, the Slate Submittal Committee met on March 7 to make sure that the candidates had the required qualifications and skills, especially professional and international experience, besides being independent and having the necessary time for their office. After thorough deliberation, the Slate Submittal Committee proposed to the plenary Supervisory Board that the previous stockholder representatives be recommended for reelection by the AGM. After its post-AGM constituent meeting, the Slate Submittal Committee elected Dr. Jürgen Blume as its chairman.

The committee chairmen reported at the meetings of the plenary Supervisory Board on their respective committee work and the results of their discussions.

Separate and consolidated financial statements 2008

The separate financial statements of Vossloh AG according to German GAAP, the consolidated financial statements according to IFRS, and the combined management report on Vossloh AG and the Group for fiscal 2008 (including the accounting), all as prepared by the Executive Board, were examined by the statutory auditor, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the May 21, 2008 AGM and issued their unqualified opinion thereon.

The statutory auditor also concluded that the Executive Board had installed a proper early risk identification system as required by Art. 91(2) AktG to identify any risks to the Group's survivability early on, and confirmed that Vossloh AG's Executive and Supervisory Boards 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 and implemented measures to ensure compliance with such standards. In December 2008, 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 (see also page 51).

The audit engagement letter for fiscal 2008 was issued by resolution of the Audit Committee, also on behalf of the plenary Supervisory Board, in accordance with the recommendations of the Code. In due course prior to the Supervisory Board's annual accounts meeting on March 25, 2009, at which the annual financial statements were adopted, all members of the Supervisory 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 disclosures required by Arts. 289(4) and 315(4) of the German Commercial Code ("HGB"), the remaining annual report, the profit appropriation proposal, and the annual audit reports.

At this annual accounts meeting, which was attended by statutory auditor staff, the Supervisory Board members discussed in detail all issues arising in connection with the above-mentioned documents. The attending auditors 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 2008 by the Executive and Supervisory Boards in connection with the Code was incorrect, were found during the audit.

The Supervisory Board, too, reviewed Vossloh AG's separate and consolidated financial statements and the combined management report for fiscal 2008 as submitted by the Executive Board, as well as the proposed profit appropriation. According to the final result of its own review, the Supervisory Board raised no objections. The Supervisory Board approved Vossloh AG's separate and consolidated financial statements as of December 31, 2008; the separate financial statements as of December 31, 2008, are thus adopted. The Supervisory Board concurs with the combined management report, particularly the statements on Vossloh's further development and the disclosures pursuant to Arts. 289(4) and 315(4) HGB, as well as with the profit appropriation as proposed by the Executive Board, i.e., to distribute a cash dividend of €2.00 plus a €1.00 superdividend per no-par share.

The Supervisory Board thanks the Executive Board, the Management Boards, the Works Councils, and all the employees for their highly dedicated contributions and successful input in fiscal 2008.

Werdohl, March 25, 2009
The Supervisory Board
Dr.-Ing. Wilfried Kaiser
Chairman

Corporate governance

Good corporate governance is synonymous with the effective and transparent organization, management and supervision of a company. Vossloh believes that successful corporate governance—rooted in a responsible, transparent and predictable corporate strategy—is the basis that nurtures and perpetuates the trust that its present stockholders and future investors, its lenders, as well as its staff and business associates, place in it.

Vossloh's governance structure

Vossloh AG is subject to the provisions of the German Stock Corporation Act, capital market legislation, codetermination law, as well as to its own memorandum & articles of association (the "Bylaws"). Like any other German stock corporation, too, Vossloh has a two-tier board structure, both the Executive and Supervisory Boards as mandatory bodies being required to perform management or monitoring functions, respectively. The general meeting as the stockholders' statutory body makes pivotal decisions of fundamental interest to the corporation. All three bodies are obligated to act in the best interests of the corporation and its owners.

Executive Board

The two-member Executive Board defines Vossloh's strategic orientation and focus. CEO Werner Andree is in charge of Finance and Accounting, as well as Corporate Development, Investor/Public Relations, Internal Auditing, Law, and IT. COO Dr.-Ing. Norbert Schiedeck is responsible for Engineering, Marketing, and HR.

The Executive Board performs its duties with a sustained increase in shareholder value in mind and closely cooperates with the Supervisory Board whose consent is required for certain major transactions and Executive Board actions expressly specified in the Executive Board Rules of Procedure. Based on an agreed plan, each Executive Board member is assigned the responsibility for specific areas of business. Executive Board members work together on a peer basis and brief each other on significant actions, transactions and events within their respective responsibilities and the areas assigned to them. Certain issues require a decision by the plenary Executive Board. Any conflict of interests of one Executive Board member would immediately be disclosed to the Supervisory Board and other Executive Board member(s).

Any sideline activity or membership in a nongroup company's supervisory board requires the Supervisory Board's prior approval. 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 193 of this annual report.

Supervisory Board

In accordance with Art. 10(1) first clause of the Bylaws, Vossloh AG's Supervisory Board consists of six members. 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 general 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 in its 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 Vossloh's business trend, the corporate plan and strategy and their implementation, as well as the risk management and corporate compliance issues. Moreover, the Supervisory Board approves the annual budget and decides on the approval of the separate and the consolidated financial statements of Vossloh AG and the Group with due regard to the reports of the internal and the statutory auditors, besides being responsible for the appointment and removal of Executive Board members.

The Supervisory Board performs its duties both as plenary body and through the currently three committees it has established to improve its efficiency.

The three-member Staff Committee is mainly responsible for Executive Board matters and decides on the rules governing the legal relations between the Company and the various Executive Board members (in particular, the execution, amendment, renewal, rescission, cancellation 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 responsible for proposing to the Supervisory Board the statutory auditor(s) for the Company and the Group for election by the general meeting, and deals in particular with aspects relating to the statutory auditor's prescribed independence and with issuing the audit engagement letter, determining focal audit areas, and fixing the auditor fees. In addition, the Audit Committee is in charge of ongoing risk management monitoring and deals with corporate compliance issues (which includes overseeing the internal control system). Moreover, the Audit Committee prepares the review and adoption by the Supervisory Board of the Company's separate 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. Dr. Christoph Kirsch chairs the Audit Committee.

The four-member Slate Submittal Committee convenes ahead of the annual general meeting and submits to the Supervisory Board a slate of Supervisory Board candidates to be proposed to, for election by, the annual general meeting. When selecting potential Supervisory Board members proposed for election by the AGM, the Supervisory Board is responsible for seeing that the slate lists only candidates that have the necessary knowledge, capabilities, technical experience, international background, independence and sufficient time for their designated office.

Every Supervisory Board member is committed to the Company's interests. Any conflict of interests must immediately be reported to the Supervisory Board Chairman. Supervisory Board members must abstain from voting on any business that affects themselves or related parties. No Supervisory Board member is also on a board of, or provides consultancy or advisory services to, a competitor. The Company has not granted any loan or credit to a Supervisory Board member, nor have Supervisory Board members received any compensation, benefits or advantages for personally rendered consultancy, advisory, agency or other services. None of Vossloh AG's Supervisory Board members are former Executive Board members.

For details of Vossloh AG's Supervisory Board members, see page 194 of this annual report.

Stockholders' meeting

Vossloh AG's stockholders safeguard their statutory rights and exercise their voting rights at the general meeting, at which they resolve, with binding effect on the Company and themselves, on all matters assigned or subjected by the law to AGM vote, including on the appropriation of net earnings, the official approval of the acts and omissions of Executive and Supervisory Board members in the fiscal year, the election of the statutory auditor, as well as on intercompany agreements, equity moves and other amendments to the Bylaws.
At the general 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 general meeting

Accounting and annual audit

The Vossloh Group's primary accounting basis is the International Financial Reporting Standards (IFRS), while the separate 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 auditor elected by the annual general meeting 2008 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 Code and after due verification of the statutory auditor's independence. The Supervisory Board has agreed with the statutory auditor that the former 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 auditor has further agreed to notify the Supervisory Board if it finds any facts substantiating that the declaration of conformity issued by the Executive and Supervisory Boards is incorrect, no such indications were found during the audit 2008.

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, general meetings, press releases, as well as the financial diary with all dates of significant periodic publications. The consolidated financial statements are published within 90 days after fiscal year-end while quarterly reports are publicly available within 45 days after closing date. The website also includes the so-called annual document (Art. 10 German Securities Prospectuses Act obligating Vossloh to publish it once yearly) where all the preceding 12 months' information is compiled where of relevance under companies or capital market laws and regulations. All these documents ensure a high level of transparency.

Any facts or circumstances surfacing or occurring outside Vossloh AG's periodic reporting are communicated in ad-hoc notifications if of potential impact on the Vossloh share price.

Remuneration of the Executive and Supervisory Boards

For details of Executive and Supervisory Board remuneration, see the Board Compensation Report on page 86 which is an integral part of both the combined management report and this corporate governance report.

Stock ownership by board members

The provisions of Sec. 15a German Securities Trading Act ("WpHG") obligate members of Vossloh AG's Executive and Supervisory Boards, certain other managerial staff and parties (individuals or entities) related to these officers and managers, to disclose the purchase or sale of Vossloh AG shares or related financial instruments. No such so-called directors' dealings were reportable in 2008.

SOPs and similar securities-based incentive systems

Since 1998 Vossloh has issued stock option programs also available for the benefit of Executive Board members and other officers. For instance, under the terms of the long-term incentive program (LTIP), the grant of Vossloh stock options is contingent on the prior purchase of Vossloh shares from each LTIP participant's own funds (personal investment). Since 2005 the LTIP has not been relaunched.

No active or former Executive Board member has participated in, or acquired any stock option under, the 2005 LTIP. For details of remuneration components with a long-term incentive effect, turn to page 86 of this annual report.

For further LTIP and employee stock option plan (ESOP) details, see page 154 of this annual report.

Declaration of conformity pursuant to Art. 161 AktG

Pursuant to Art. 161 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, are or will be complied with.

Considering the legislation and Code provisions as amended in 2008, Vossloh AG's Executive and Supervisory Boards have reviewed and revised the Company's corporate governance rules.

The current declaration of conformity under the terms of Art. 161 AktG was issued in December 2008 and published for long-term availability 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

In fiscal 2008, Vossloh AG implemented, and continues to implement, 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 (as amended up to June 14, 2007, and June 6, 2008, respectively), with the following exception: The first-time noncompliance in 2008 with Clause 7.1.2, 2nd sentence, will not recur.

Werdohl, December 2008

Vossloh AG
Executive Board/Supervisory Board"


G 1206

Combined management report

Vossloh AG

Division
Rail Infrastructure

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems

Division
Motive Power&Components

Business units:

Vossloh Locomotives
Vossloh Electrical Systems

Business and market environment

Strategy, segmentation, and competitive position

Vossloh is a global player in the rail technology markets. The Group is run according to three strategic principles:

- A closely focused portfolio. The Vossloh Group concentrates its activities on products and services destined for rail infrastructure as well as on rail vehicles and trolleybuses.
- Accelerated internationalization: Vossloh increasingly exploits the opportunities surfacing on the high-growth markets outside of Western Europe.
- Value-driven growth: profitability takes precedence over sales. To retain our competitive edge we run our business units strictly according to return on capital employed (ROCE) and the absolute value added in a period while, at the same time, never losing sight of our close customer orientation.

Under the roof of Vossloh AG as the management and financial holding parent, the Group has organized its business operations into two reporting segments: Rail Infrastructure and Motive Power&Components.

The Rail Infrastructure division subsumes the Group's rail infrastructure operations and comprises the Fastening Systems and Switch Systems business units. The former Infrastructure Services business unit was sold during the period with economic effect as of January 1, 2008.

- Vossloh Fastening Systems is the foremost European and the world’s second biggest supplier of rail fastening systems. The lineup covers rail fasteners for all types of transport, from (sub)urban via heavy-haul to high-speed.
- Vossloh Switch Systems is the world's second biggest manufacturer of rail switches. It supplies, installs and services switches, control and monitoring systems for rail networks—from LRV to high-speed lines.

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

- With its two production locations at Valencia, Spain, and Kiel, Germany, Vossloh Locomotives is Europe's leading manufacturer of diesel locomotives while in addition supplying maintenance services. At its Valencia location it also develops and produces (sub)urban rail vehicles. Customers include state and private rail operators plus leasing companies.
- Vossloh Electrical Systems equips light rail vehicles (LRV) and trolleybuses with advanced electrical systems. The business unit is the world's foremost supplier of electrical equipment for trolleybuses and, since 2008, has also offered hybrid traction for installation in trolleybuses. Besides furnishing complete systems, the unit supplies air conditioners for rail vehicles, individual components, subassemblies plus revamping work, servicing and maintenance.

Organization

Vossloh patterns its business on local presence and customer proximity. The Group is positioned internationally, with major European production plants in Germany, France, Spain, Scandinavia, Poland, and Austria. Outside of Europe it has plants in India, Australia and the USA (switch systems) and in China and Turkey (rail fasteners). Besides its production plants Vossloh operates through sales companies and branches and has in some instances, together with competent partners, entered into local joint ventures and alliances. At the end of 2008, the Group comprised a total of almost 70 companies in around 30 countries.

Major subsidiaries and, at the same time, the business unit parents are: Vossloh Fastening Systems GmbH, Werdohl, Germany; Vossloh Cogifer SA, Rueil-Malmaison, France; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España S.A., Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

Control system and objectives

As part of its value-driven growth strategy, Vossloh's prime target is to generate a premium on top of the return claimed by investors and lenders (cost of capital). This premium is the difference between the return on capital employed (ROCE) and WACC, determined as the weighted average cost of capital (debt and equity). The absolute value added in a period is the product of the premium times capital employed.

Currently, EBIT must return 11 percent on the Group's capital employed in order to produce the yield expected by investors and lenders. A groupwide sustainable ROCE of 15 percent has been set as value-oriented benchmark, the expected premium over WACC hence being 4 percent at present (related to capital employed).

Besides the ROCE benchmark, Vossloh has defined additional financial targets for the Group, basically

- EBIT margin above 10 percent (adjusted for nonoperating one-time factors)
- sustainable increase in earnings per share and commensurate cash dividends
- conservative net debt ceiling.

Through organic growth in its two divisions combined with judicious acquisitions, Vossloh endeavors to achieve a significant advance in revenue and raise the share of non-European sales to a sustainable 30+ percent.

For the ongoing analysis and control of subsidiaries, business units and the Group as such, senior management deploys such tools as monthly financial reports in which the financial statements and key indicators of all subsidiaries are consolidated and analyzed according to the same principles as the monthly rolling annual projection. Variances are analyzed for their impact on financial targets and explained in a commentary. The monthly projection is supplemented by a risk report to identify any drain on or addition to assets. Further analyses and discussions deal with the effectiveness of (counter)actions proposed in order to achieve targets or benchmarks.

Business report

Business environment

Since around mid-2008, the global economy has been deteriorating at a severe and synchronized pace. According to the European Central Bank, the banking system turbulences have led to tighter credit conditions, a rapid loss of confidence and tumbling stock market prices. The International Monetary Fund estimates that, thanks to the relatively strong first two quarters and the still robust growth of the emerging countries, the global GDP will have risen by 3.4 percent in 2008 (down from 5.2). The US economy showed a slight advance of 1.1 percent (down from 2.0). The Japanese GDP shrank by 0.3 percent while the emerging nations of Asia again reported the sharpest growth rates, although these economies, too, have meanwhile lost much of their momentum. The Chinese economy rose by 9.0 percent (down from 13.0), the Indian by 7.3 percent (down from 9.3). The Central & Eastern European nations still showed clear growth rates of 3.2 percent (down from 5.4), the Russian GDP rising even 6.2 percent (down from 8.1).

Since the second quarter of 2008, the economies of the Eurozone, Vossloh's most important market, have been in a state of recession. Experts are unanimous in predicting for all of 2008 a GDP growth of 1.0 percent for Euroland, following 2.6 percent in 2007. Most recently industrial output has fallen at an accelerated pace. Business spending has dropped and even foreign trade is on the decline.

In the latter half of the year the German economy ran out of steam in the wake of the global meltdown. According to the German Federal Statistics Office, growth for 2008 amounted to 1.3 percent, following 2.5 percent in 2007. The disruptive influences impacted on Germany's real economy relatively late. However, toward year-end 2008 the increased interaction among the industrial, emerging and transformation nations meant, according to the German Bundesbank, that the traditionally broadly based regional marketing structure of the German economy was barely able to exercise its normally balancing function.

The rail infrastructure and rail technology markets of relevance to Vossloh follow general economic trends worldwide only to a limited extent. Just as relevant are political policies and the current status of rail sector deregulation, the availability of public funds and at present the infrastructure expenditures being discussed in some countries with a view to shoring up the economy. In 2008, the industry once again benefited from the burgeoning emerging and transformation nations whose economic growth typically requires heavy infrastructure spending. Another trend is for greater sums to be invested in rail infrastructure compared with competitive modes of transport in view of global climate protection efforts.

Vossloh's sales markets are barely homogeneous in their structure and trends. Moreover, there is very limited generally accessible and reliable data on these markets. A description of the markets and their chief trends is therefore given under the reports on each segment.

Major events

The results of operations, asset and capital structure and financial position of the Vossloh Group and specific business units were materially influenced by the following D&A transactions in 2008:

Divestments

At June 30, 2008, the Vossloh Group executed a share sale and transfer agreement on the divestment of Vossloh Infrastructure Services (VIS). This business unit built and maintained trackage and installed overhead lines. After the antitrust authorities had given their go-ahead, the share deal was closed on September 19, 2008. The fixed total price for all of the shares in Vossloh Infrastructure Services SA (including subsidiaries) was €150 million. In addition, the acquirer assumed the divestee's financial debts of around €35 million. VIS was divested with retroactive effect as of January 1, 2008, and derecognized as and when the deal was effectively closed. In accordance with IFRS 5, all VIS income and expenses both for the period and 2007 are shown in a separate line as net result from discontinued operations. Where data is not comparable despite presentation according to IFRS, we have added pro forma comparatives for 2007 (which exclude VIS).

Acquisitions

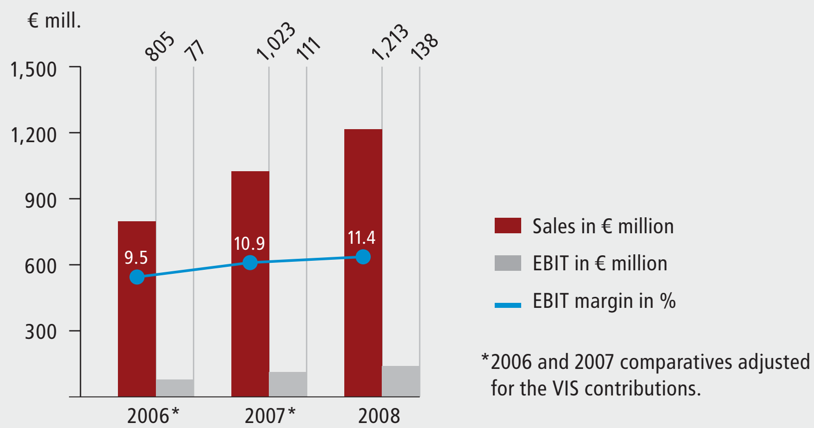
The Vossloh Group started into 2008 by strengthening its Switch Systems business unit with two additions. On December 3, 2007, Sweden's Vossloh Nordic Switch Systems AB, had signed a share deal for the complete takeover of Denmark's Sportek Maskinfabrik A/S. This rail switch manufacturer generates sales of a low double-digit million euro magnitude. The deal was closed January 3, 2008.

This was followed by a share deal in February 2008, involving the takeover of Kloos Oving BV. This Dutch company, based in Alblasserdam near Rotterdam, Netherlands, manufactures and markets rail switches, switch components and further rail infrastructure products. The transaction took retroactive effect as of January 1, 2008.

Results of operations

Summary

Fiscal 2008 proved to be the second period in succession in which Vossloh, on a like-for-like basis, reported all-time highs of sales and EBIT in its long corporate history. Versus 2007, growth was considerable and profitable. Sales climbed 18.5 percent to €1,212.7 million. Adjusted for all M&A-related effects, organic growth was 11.9 percent. EBIT jumped by 23.9 percent from €111.1 million a year ago to €137.7 million in 2008. In parallel, the EBIT margin mounted from 10.9 to 11.4 percent, hence again significantly above the corporate benchmark of 10 percent. Group earnings for 2008 leapt to €139.4 million, including the net result of €46.8 million from the discontinued and sold VIS operations.



Sales and EBIT trend 2006–2008, Vossloh Group

Even excluding this nonrecurring profit, group earnings rose significantly from the €71.4 million in 2007. Accordingly, EpS surged from €4.83 to €9.48 and like-for-like (excluding discontinued operations), from €4.26 to €6.30. ROCE reached 18.8 percent, thus topping the prior year's LFL 16.5 percent by 2.3 percentage points. Measured against our weighted average cost of capital (WACC) of presently 11 percent, we achieved a premium of 7.8 percentage points.

Not only were sales and earnings up over the prior-year level, the LFL figures originally budgeted for fiscal 2008 were, in some cases clearly, exceeded, too. Sales outgrew the original budget by 7.3 percent and EBIT by 5.1 percent.

The Executive and Supervisory Boards will propose to the annual general meeting a cash dividend of €2.00 per share, which is almost 18 percent more than the year before (€1.70). Moreover, a one-time superdividend of €1.00 is proposed to be distributed so that our stockholders participate in the gain from the VIS divestment.

Sales

Vossloh Group: sales by business unit

	2008 € million	2008 %	2007* € million	2007* %
Rail Infrastructure	**707.1**	**58.3**	**554.3**	**54.2**
Fastening Systems	254.9	21.0	198.4	19.4
Switch Systems	453.6	37.4	357.4	34.9
Consolidation	(1.4)	(0.1)	(1.5)	(0.1)
Motive Power&Components	**505.0**	**41.7**	**468.9**	**45.8**
Locomotives	375.2	31.0	340.5	33.3
Electrical Systems	129.8	10.7	128.4	12.5
Consolidation	0.0	0.0	0.0	0.0
Intermediate holding companies and consolidation	**0.6**	**0.0**	**0.1**	**0.0**
	1,212.7	**100.0**	**1,023.3**	**100.0**

*2007 comparatives adjusted for the VIS contributions.

The Rail Infrastructure division's sales account for 58.3 percent (up from 54.2) of group sales and mounted €152.8 million or 27.6 percent to €707.1 million. Opened in 2007, the rail fastener factory at Kunshan, China, generated sales of €86.0 million (up from €38.8 million), thus largely sharing in the €56.5 million or 28.5-percent sales boost achieved by the Fastening Systems business unit. Whereas German domestic sales were slightly down, the unit's business elsewhere in Western and Southern Europe again grew. The newly consolidated companies contributed altogether €42.7 million to the Switch Systems business unit's sales rise of €96.2 million or 26.9 percent: Vossloh Cogifer Australia, acquired in late 2007 under the name of Thompsons Kelly & Lewis Pty. Ltd. (TKL), as well as Sportek and Kloos Oving. Acquired in Q2/2007 and for the first time included for a full year in 2008, the two US subsidiaries Vossloh Track Material, Inc. and Cleveland Track Material, Inc. added aggregate sales of €84.8 million (up from €53.2 million). Vossloh Switch Systems also benefited from extra maintenance activities, especially in Scandinavia, plus rail corridor and local public transportation projects in Eastern Europe.

Sales at Motive Power&Components in 2008 jumped 7.7 percent to €505.0 million, with both the Kiel and Valencia locations sharing in the 10.2-percent or €34.7 million combined sales increase. Vossloh España generated added revenue from both its diesel-electric locomotives and commuter trains. The Kiel location, which chiefly builds diesel-hydraulic locomotives, worked on both new locomotives and to a sizable degree, on retrofitting existing ones with the European Train Control System (ETCS).

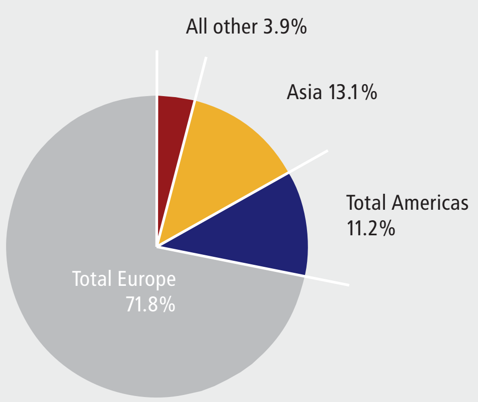
Vossloh Electrical Systems slightly topped the high prior-year figure by €1.4 million or 1.1 percent. Contracts for fitting out electrically powered rail vehicles and trolleybuses are increasingly being awarded by customers outside of Germany.

Vossloh Group: sales by region

	€ mill.	%	€ mill.	%
	2008		2007*	
Germany	155.3	12.8	140.9	13.7
France	113.6	9.4	121.6	11.9
Other Western Europe	209.1	17.2	153.2	15.0
Northern Europe	79.1	6.5	60.1	5.9
Southern Europe	268.5	22.1	241.0	23.5
Eastern Europe	46.0	3.8	48.5	4.7
Total Europe	**871.6**	**71.8**	**765.3**	**74.7**
North and Central America	131.4	10.8	130.5	12.8
South America	4.4	0.4	1.4	0.1
Total Americas	**135.8**	**11.2**	**131.9**	**12.9**
Middle East	32.2	2.7	7.8	0.8
Other Asia	125.8	10.4	89.7	8.8
Total Asia	**158.0**	**13.1**	**97.5**	**9.6**
Africa	30.3	2.5	23.8	2.3
Australia	17.0	1.4	4.8	0.5
Total	**1,212.7**	**100.0**	**1,023.3**	**100.0**

*2007 comparatives adjusted for the VIS contributions.

In the year under review, the Vossloh Group pushed up its sales in Europe by almost 14 percent and outside of Europe by close to one-third. This boost raised the share of non-European sales by nigh three percentage points to 28.2 percent, very close to the strategic goal of 30 percent of total sales.



Sales breakdown by region in 2008

The non-European sales increase was attributable, on the one hand, to the first-time 12-month inclusion of the Switch Systems unit's US companies and the Fastening System unit's Chinese plant and, on the other, to the contributions of the newly consolidated Australian rail switch plant (acquired in late 2007) and incremental sales in the MENA region, mainly by Vossloh Switch Systems.

In the important Western European markets, especially Germany, France and Spain, Vossloh traditionally commands a solid position thanks to its long-established manufacturing presence in these countries. Business in Spain is dominated by the Valencia location of Locomotives where, besides the locomotives themselves, production of metro trains generates high domestic shipments. In France, Vossloh's switch business generates appreciable sales; another major source of sales are the locomotives for the French state rail SNCF successively being shipped out. Business in Germany in fiscal 2008 was again chiefly attributable to Vossloh Fastening Systems, Vossloh Electrical Systems and the Kiel plant where locomotives are built. Whereas in Germany sales at the Fastening Systems and Electrical Systems business units were down, revenue at Vossloh Locomotives, Kiel, rose sharply. Despite the 10.2-percent climb of German domestic sales, their share of the total inched down once more, this year to 12.8 percent.

The Group's cost of sales jumped by just over 20 percent to €958.9 million, slightly in excess of the sales growth. As a consequence, its share of sales edged up from 78.0 to 79.1 percent. Where not transferable to customers, rising prices, especially for certain locomotive components and the steel parts used in switches and rail fasteners, were largely absorbed by cost-pruning programs, productivity hikes, and economies of scale.

The €7.5 million rise in general administrative and selling (GAS) expenses to €128.8 million is attributable to the first-time inclusion of the acquirees and a selling expense leap due to considerably expanded business. However, the share of GAS expenses in net sales appreciably shrank from 11.9 percent in 2007 to 10.6 in the period.

The significant sales boost, the gross margin decline offset by a shallower rise in GAS expenses and the climbing net other operating income were the drivers of the nigh 24 percent by which EBIT jumped from €111.1 million a year ago to €137.7 million in 2008.

Mainly thanks to the cash inflows from the disposal of the Infrastructure Services business unit, net interest expense shrank by €2.1 million to €9.3 million. Due to the higher EBIT and lower net interest expense, EBT shot up close to 29 percent or €28.7 million to €128.4 million.

Vossloh Group: sales and performance

	€ mill.	%	€ mill.	%
	2008		2007*	
Sales	1,212.7	100.0	1,023.3	100.0
Gross margin	253.8	20.9	225.1	22.0
Operating result	139.9	11.5	109.8	10.7
EBITDA	160.5	13.2	130.7	12.8
EBIT	137.7	11.4	111.1	10.9
EBT	128.4	10.6	99.7	9.7
Net result from discontinued operations	46.8	3.9	8.5	0.8
Group earnings	139.4	11.5	71.4	7.0
EpS (€)	9.48		4.83	

*2007 comparatives adjusted for the VIS contributions.

The Group's tax load ratio plunged from around 34 percent in 2007 to 23 in the year under review, basically thanks to tax-free profit contributions from China, besides the lower rates of German corporation and trade income taxes. Group earnings in 2008 zoomed to €139.4 million (up from €71.4 million), including the posttax result from discontinued operations of €46.8 million (up from €8.5 million). The net result from discontinued operations in 2008 refers only to the disposal of the Infrastructure Services business unit.

Year-end order backlog within the Group amounted to €1.13 billion (down from €1.14 billion). Whereas orders on hand at Rail Infrastructure slipped slightly, Motive Power&Components showed a slight gain. The main reason for the lower order backlog at Vossloh Fastening Systems was the scheduled and successive shipments of the Chinese megacontract; order backlog at Vossloh Switch Systems rose. Only slight changes were reported by Vossloh Locomotives: Kiel inching up, Valencia slipping down. Mounting orders booked by Vossloh Electrical Systems propelled order backlog appreciably at this business unit.

Vossloh divisions: order backlog

	€ mill.	%	€ mill.	%
	2008		2007*	
Rail Infrastructure	359	31.9	381	33.5
Motive Power&Components	767	68.1	755	66.5
	1,126	**100.0**	**1,136**	**100.0**

*2007 comparatives adjusted for the VIS contributions.

Financial position and investing activities

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

The Vossloh Group's net financial assets as of December 31, 2008, amounted to €35.0 million, comparing with a prior-year net financial debt of €124.9 million. At year-end 2008, financial debts of €212.9 million (down from €227.4 million) contrasted with cash and cash equivalents of €247.9 million (up from €102.5 million), partly destined for funding the repurchase of treasury stock as well as future M&A transactions. The positive net financial position turned around net leverage from the prior-year 28.8 percent to a negative 7.1.

Vossloh Group: net leverage

		2008	2007
Equity	€ mill.	492.7	434.0
Net financial assets/(debt)	€ mill.	35.0	(124.9)
Net leverage	%	(7.1)	28.8

Financial debts in 2008 substantially represented the long-term debt of around €172 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 funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and cross-currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively. The remaining financial debts as of the balance sheet date mainly included a short-term floating-rate loan of €26 million. Moreover, other group companies had incurred financial liabilities of just under €15 million.

As of December 31, 2008, open cash credit facilities of about €154 million were available to the Vossloh Group. For details, see the chapter on risk and reward management starting from page 102. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

Vossloh Group: cash flow analysis

€ million	2008	2007
Cash flow from operating activities	158.0	80.2
Cash flow from investment activities	101.6	(123.6)
Cash flow from financing activities	(86.0)	(25.7)
Change in cash and cash equivalents	**173.6**	**(69.1)**

The net cash provided by operating activities surged, on the one hand, as EBIT soared from the prior-year level and, on the other, as investing activities for building up working capital were considerably below the 2007 magnitude. Moreover, a €15.2 million cash inflow from short-term securities sold (up from €2.4 million) improved the cash flow. However, a draining effect came from the higher tax payments in 2008.

Vossloh Group: capital expenditures and amortization/depreciation

€ million	2008		2007*	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	19.3	10.9	39.0	9.0
Motive Power&Components	16.8	11.1	13.3	9.5
Holding companies and consolidation	1.5	0.8	0.3	1.1
	37.6	**22.8**	**52.6**	**19.6**

*Amortization/depreciation in 2007 adjusted for the VIS contributions.

The net cash of €101.6 million provided by investing activities in 2008 compared with net cash of €123.6 million used in the 2007 investing activities. A cash inflow of €145.0 million from the VIS divestment contrasted mainly with cash outflows of €15.2 million for M&A transactions (down from €74.1 million) and €37.6 million for tangible and intangible assets in the period (down from €52.6 million) but nonetheless again outstripped amortization and depreciation of €22.8 million. Capital expenditures incurred by the Rail Infrastructure division at €19.3 million (down from €39.0 million) include in 2008 the €4.8 million spent by divestee VIS (down from €13.7 million).

Besides the capital expenditures of Vossloh Fastening Systems for the production plant in Turkey, the outlays of both business units of the Rail Infrastructure division centered on modernizing their facilities and expanding their capacities. As in the preceding years, the investing activities of both locations of Vossloh Locomotives were mainly directed at new products, major projects being the development of the new G 6 three-axle center-cab locomotive and the enhancement of the EURO 4000 heavy-duty diesel-electric locomotive.

Vossloh Group: breakdown of capex for intangible/tangible assets

€ million	2008		2007	
	Capex	%	Capex	%
Development costs	7.4	19.7	5.5	10.5
Other intangibles	0.8	2.1	1.2	2.2
Land and buildings	2.6	6.9	8.4	16.0
Production plant and machinery	9.7	25.8	23.9	45.4
Other plant, factory and office equipment	4.6	12.2	5.5	10.5
Prepayments made, construction in progress	12.5	33.3	8.1	15.4
	37.6	**100.0**	**52.6**	**100.0**

The future cash outflows under the operating leases existing at December 31, 2008, will total €35.3 million (down from €42.1 million), including €7.8 million in 2009.

Asset and capital structure

The disposal of Vossloh Infrastructure Services (VIS) biases an interperiod comparison of the asset and capital structure as of December 31, 2008, and prior years since IFRS 5 does not require earlier-period balance sheets to be updated. For improved comparability, the analysis of assets and capital below uses pro forma data which excludes Vossloh Infrastructure Services:

Vossloh Group: asset and capital structure

		2008	2007	Pro forma
Total assets	€ mill.	1,339.4	1,326.8	1,326.8
Total equity	€ mill.	492.7	434.0	434.0
Equity ratio	%	36.8	32.7	32.7
Working capital	€ mill.	300.7	312.8	263.3
Capital employed	€ mill.	732.1	816.2	675.4
Working capital intensity	%	24.8	25.4	25.7
Fixed assets	€ mill.	431.4	503.4	412.1
ROCE	%	18.8	14.9	16.5
Return on equity (ROE)	%	26.1	25.2	23.0

With total assets inching up only marginally from the close of 2007, Vossloh's equity ratio mounted 4.1 percentage points to 36.8 percent. Equity surged by almost €59 million mainly due to group earnings of €139.4 million. Moreover, minority interests in equity increased, as did the accumulated OCI from the remeasurement to current fair value of the interest rate and currency hedges for the US private placement. These rises contrasted with the dividend payout of €25+ million for 2007 and the offset against equity of the treasury stock of just under €63 million.

In a year-on-year comparison, working capital climbed €37.4 million or a good 14 percent. The subsidiaries newly consolidated in 2008 raised working capital by altogether €8+ million. However, since the sales surge outpaced working capital growth, the working capital intensity improved by 1+ percentage point to 24.8 percent.

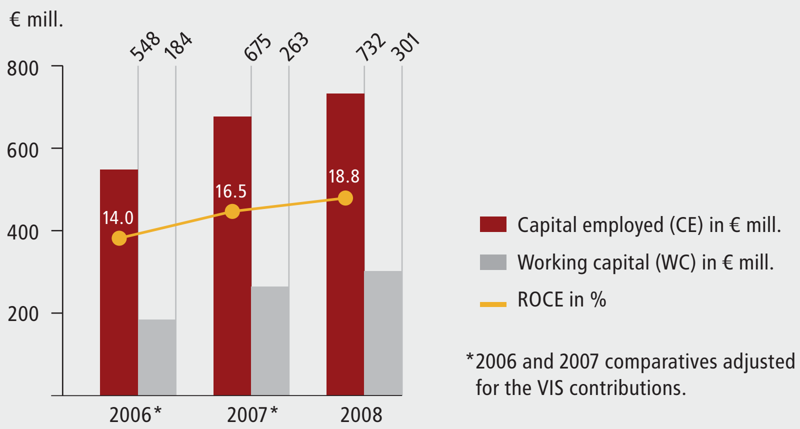
Capital expenditures above amortization/depreciation and the M&A-related addition of fixed assets (including the intangibles from acquisition price allocation) caused the rise in capital employed (up almost €57.0 million) to be significantly steeper than that in working capital.

Shareholder value management

Despite the higher capital employed and thanks to faster rate of EBIT growth, the like-for-like ROCE hiked up to 18.8 percent in 2008 (up from 16.5), hence 7.8 percentage points above the Group's WACC of 11 percent and significantly outperforming the internal benchmark of 15 percent.

Both divisions upgraded their ROCE in the year under review: at 21.6 percent, Rail Infrastructure's was slightly higher than the year before, the pushed-up working capital and high capital expenditures notwithstanding.

Thanks to a significant EBIT improvement and despite the somewhat higher capital employed, the Motive Power&Components division's ROCE jumped 5.5 percentage points to 20.9 percent.

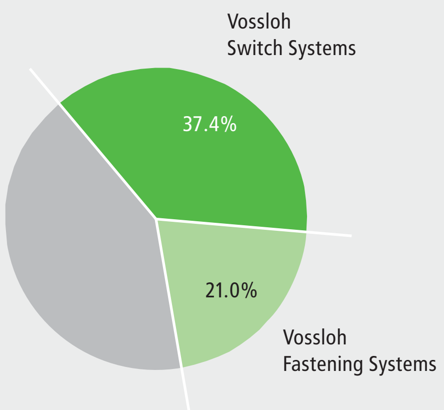


CE, WC and ROCE trend 2006–2008, Vossloh Group

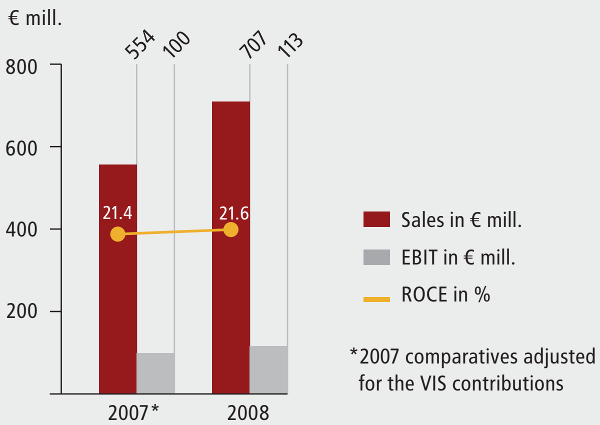
Another clear double-digit sales growth for Fastening Systems and Switch Systems

Accelerated internationalization nurtures vigorous organic growth at Fastening Systems

Acquisitions among the growth drivers at Switch Systems



Shares of business units in group sales



Rail Infrastructure division: sales, EBIT and ROCE trends

Rail Infrastructure business trend

Following the disposal of Vossloh Infrastructure Services, the Rail Infrastructure division now has two business units: Fastening Systems and Switch Systems. To improve comparability in the following analyses, the contributions of the Infrastructure Services business unit have been eliminated from the prior-year figures (pro forma presentation).

Together, the Fastening Systems and Switch Systems units' sales totaled €707.1 million in fiscal 2008 (up €152.8 million or 27.6 percent). The added sales result from vigorous growth in both business units. Revenue at Vossloh Switch Systems surged €96.3 million or 26.9 percent; at Vossloh Fastening Systems €56.5 million or 28.5 percent. Besides from organic expansion, the extra sales at Vossloh Switch Systems resulted from the first-time consolidated switch manufacturers in Australia, Denmark, and the Netherlands, plus the first-time twelve-month consolidation of the US companies acquired during 2007. Vossloh Fastening Systems benefited from burgeoning sales at its Chinese subsidiary which since July 2007 has been manufacturing rail fasteners and in 2008 was likewise consolidated for the first time for a full twelve months.

Rail Infrastructure

		2008	2007*	Pro forma
Sales	€ mill.	707.1	554.3	554.3
EBITDA	€ mill.	124.3	108.8	108.8
EBIT	€ mill.	113.4	99.8	99.8
EBIT margin	%	16.0	18.0	18.0
Working capital	€ mill.	226.4	236.7	187.6
Working capital intensity	%	32.0	42.7	33.9
Fixed assets	€ mill.	298.4	369.7	278.4
Capital expenditures	€ mill.	19.3	39.0	25.3
Amortization/depreciation	€ mill.	10.9	9.0	9.0
Capital employed	€ mill.	524.8	606.4	466.0
ROCE	%	21.6	16.5	21.4

*Income statement data adjusted for the VIS contributions.

Working capital rose 2008 by around 20 percent to €226.4 million. Since the rise in working capital fell short of the 27.6-percent sales advance, the working capital intensity improved by almost two percentage points in a year-on-year comparison. Despite this higher working capital and the added tangible assets of €20.0 million, ROCE was nonetheless again ratcheted up thanks to the improved EBIT: at 21.6 percent, the division's like-for-like ROCE was once more easily in excess of the corporate 15-percent benchmark. While EBIT climbed by €13.6 million to €113.4 million, the EBIT margin slipped by two percentage points to 16.0 percent. Especially in the early half of the year, a sharp rise in steel prices, only partly offset by increased selling prices and cost savings elsewhere, squeezed the EBIT margin mainly at Vossloh Fastening Systems.

Vossloh Fastening Systems

In 2008, Vossloh Fastening Systems generated sales of €254.9 million, well up by €56.5 million or 28.5 percent. All of the increase was generated outside of Germany where the business unit reported revenue of €211.3 million, up €60.1 million or 39.7 percent. China was again the biggest market. For the megacontract booked in the fall of 2006 and worth a total €185.0 million, Vossloh shipped out fastening systems at the value of around €86 million in 2008. The end of October saw the signing of the final contract from the first series of bids for expanding the high-speed network on the Guangzhou–Shenzhen–Hong Kong line. Shipments under the contract commenced during the period under review. The Chinese market is supplied by our local production plant.

The Turkish market again showed buoyant demand during the period, especially for rail fasteners for local rail networks. In future, however, mainline services will gain in importance as the country is systematically expanding its rail network and, in the process, involving the Vossloh production plant in Erzincan. In Italy, Vossloh managed to win fastening system orders for virtually all new projects. In Greece, sales again rose as a consequence of recent years' extensive expenditure programs. In Poland, which in terms of network length is Europe's third-biggest market, demand stayed steady.

In the German market, sales of W1 and W14 fasteners for the maintenance of German Rail's network amounted to €2.9 million or 15.2 percent short of the prior-year level due to the fewer make-and-take orders. This is a trend likely to continue as a consequence of expiring patents and hence tighter competition.

Capital expenditures added up to €2.5 million; the high prior-year €18.4 million had been incurred for the construction of the Kunshan plant in China and for a new manufacturing line at Werdohl. Capital spending in 2008 focused on setting up a new manufacturing facility in Erzincan, Turkey.

Increased steel and plastic component prices were partly offset by cost savings and selling price adjustments.

At the balance sheet date, Vossloh Fastening Systems reported an order backlog of €72.2 million (down from €136.2 million). The decline is due to the scheduled shipments of rail fasteners in connection with the megacontract in China. Included besides this contract are the business unit's regular make-and-take orders.

Vossloh Switch Systems

At €453.6 million, the Switch Systems business unit reported sales at an all-time high, a surge of €96.3 million or 26.9 percent. The rise was partly M&A-related. First consolidated in 2008, Vossloh Cogifer Australia, acquired in late 2007 as Thompsons Kelly & Lewis Pty. Ltd. (TKL), Sportek and Kloos Oving contributed a total of €42.7 million to the additional sales while the two US subsidiaries, Vossloh Track Material, Inc. and Cleveland Track Material, Inc. together accounted for €84.8 million (up from €53.2 million for nine months in 2007).

Even after deducting these newcomers, Vossloh Switch Systems managed to show significant expansion, with organic growth at the unit's other companies totaling 7 percent.

Sales in the French market were stable as in Germany, the UK, and Portugal. Although revenue from conventional switches and local transportation projects in France receded, incremental sales were generated from business in signaling equipment and high-speed switches. Vossloh was involved in equipping the new high-speed line from Perpignan, France, to Figueras, Spain. Besides the swing-nose switches, Vossloh Switch Systems' remote diagnosis SURVAIG NG was installed into a high-speed line. The contract comprised the supply, installation and commissioning of the entire system which is masterminded from a central computer at the Figueras maintenance center. Referring to a multitude of continuously measured variables, it monitors the proper functioning of the switches. The performance of the contract and coordination of the subcontractors were in the hands of our subsidiary SIEMA Applications in Villeurbanne, France.

North and Central American business proceeded according to plan; in South America, work continued on a number of sizeable metro projects.

In Europe, steep growth rates were reported in Scandinavia, Poland, and Spain. In Sweden, increased maintenance expenditures triggered high demand; in Poland, Vossloh Cogifer Połska booked orders in connection with the construction of the Eastern European rail corridors. In Spain, high-speed switches again predominated.

Sales in Africa and the Middle East were well up over the prior-year level and comprised mainly conventional switches for new lines. There was a surge in signaling equipment orders while LRV projects also figured prominently.

Asian sales in 2008 were buoyant: in Malaysia, Vossloh Switch Systems contracted two large orders for conventional switches.

India in 2008 showed rising demand for rail products. The emphasis here is on increasing the efficiency and capacity of existing lines. Preparations are now underway for converting rail switches to international standards. Orders were also won for suburban line switches. Given this situation, Switch Systems has expanded its capacities in India.

Capital expenditures totaled €12.0 million (well up from €6.9 million). All the locations carried out modernization and production optimization work.

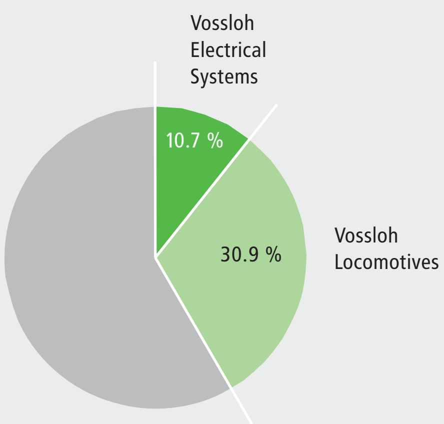
Prices paid for steel and rails again climbed appreciably, especially for the latter. Rising raw material costs were largely offset by cost savings elsewhere, efficiency enhancements and, in some cases, higher selling prices.

At year-end, order backlog had risen from €246.4 million to €286.3 million.

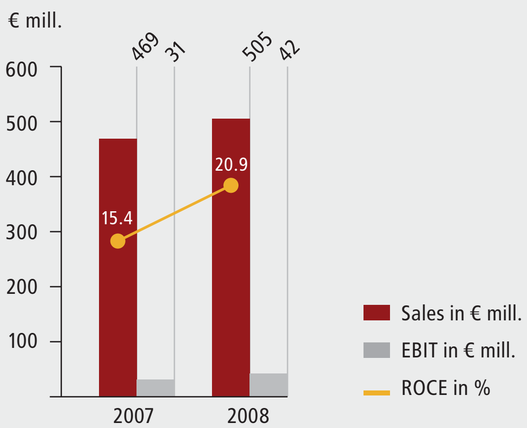
Growth at both the Kiel and Valencia Locomotives locations

Tall order intake and backlog at Electrical Systems

Eco-friendly trolleybuses still in fashion



Shares of business units in group sales



Motive Power&Components division: sales, EBIT and ROCE trends

Motive Power&Components business trend

Consisting of the two business units, Locomotives and Electrical Systems, the Motive Power&Components division reported a sales growth of €36.1 million or 7.7 percent to €505.0 million. The rise was attributable to both Vossloh Locomotives (€34.7 million) and Vossloh Electrical Systems (€1.4 million).

Both the Kiel and Valencia plants of the Locomotives unit raised their sales. The Kiel company sold its center-cab locomotives in 2008 once more chiefly to private rail operators and leasing companies. Our Spanish location sourced approximately one-half of its sales from locomotives and the other half from suburban trains and bogies.

Vossloh Electrical Systems showed further gains in both the LRV sector and in trolleybus components. Within the ongoing public debate on alternative modes of propulsion, Vossloh Electrical Systems is in the starting blocks ready to supply its series hybrid drive; so far, however, no sizeable contracts have been booked.

Motive Power&Components

		2008	2007
Sales	€ mill.	505.0	468.9
EBITDA	€ mill.	53.4	40.1
EBIT	€ mill.	42.3	30.6
EBIT margin	%	8.4	6.5
Working capital	€ mill.	75.8	76.1
Working capital intensity	%	15.0	16.2
Fixed assets	€ mill.	126.8	122.6
Capital expenditures	€ mill.	16.8	13.3
Amortization/depreciation	€ mill.	11.1	9.5
Capital employed	€ mill.	202.6	198.7
ROCE	%	20.9	15.4

At 20.9 percent, ROCE was 5.5 percentage points over the 2007 figure and hence well in excess of the corporate benchmark of 15 percent.

EBIT improved by 38.2 percent to €42.3 million (up from €30.6 million). This also reflects a favorable nonrecurring effect due to a compromise, whereas the previous year's EBIT had been burdened with necessary write-downs and other risk provisions related to the possible insolvency of a Vossloh Electrical Systems project partner. The EBIT margin climbed 1.9 percentage points to 8.4 percent.

At €75.8 million and despite the sales hike, the division's working capital was close to the prior-year €76.1 million.

Vossloh Locomotives

Sales at the Locomotives business unit jumped 10.2 percent, from €340.5 million to €375.2 million. At €217.2 million, Vossloh España (including the M&R business of Erion Mantenimiento Ferroviario SA, Madrid) accounted for around 58 percent of total sales by this business unit. Kiel reported revenue of €158.7 million (including intercompany transfers of €0.8 million), a hike of almost 9 percent over the prior-year €146.2 million.

Order backlog at Vossloh Locomotives had accumulated to €531.4 million by the close of the period (down from €543.1 million), theoretically enough to keep the plants busy for around 17 months.

Valencia

In 2008, diesel locomotives accounted for around 50 percent of Vossloh España's sales of €213.1 million (up from €194.3 million). Included among the shipments were locomotives for the Spanish rail company Renfe and the French state rail SNCF (general contractor Alstom). Unveiled at InnoTrans 2006, the diesel-electric mainline EURO 4000 locomotive is enjoying buoyant demand and so far as many as 50 units have been ordered—for operations between Spain and Portugal, between France, Germany and Belgium and, most recently, between Sweden and Norway.

The other half of sales at Vossloh España was derived from LRVs and bogies. In 2008, eight trains each with four cars, were built and delivered to Metro Valencia.

Of the total capital expenditures of €9.4 million, over €4 million went toward further developing the EURO 4000.

Kiel

Altogether 64 diesel-hydraulic locomotives (up almost 19 percent) were shipped out from the Kiel plant to customers. Besides building new locomotives, the plant carried out conversion and retrofitting work (such as with the ETCS train control system) on existing units and their components.

Business made altogether good progress at Kiel where the customer base has expanded. Alongside new customers from the private rail sector there were additional leasing companies that have identified diesel locomotives as an investment. Demand on the part of the established leasing companies was, however, less dynamic than in previous years.

The main sales markets were again in Western Europe, Germany and France where demand focuses on the center-cab G 1000 and G 1206 in their various national configurations.

Meanwhile firmed is recent years' trend for a comprehensive all-in package: parts, full service, maintenance management, consultancy and training. Vossloh Locomotives is continuously expanding this side of the business and offering new packages individually assembled to regional needs and expectations.

The Kiel location spent a total of around €4.4 million of which product developments accounted for €2.6 million. A large portion of this went toward the development of the new triple-axle center-cab G 6 locomotive.

Vossloh Electrical Systems

Vossloh Electrical Systems lifted its sales by 1.1 percent to €129.8 million.

International demand for electrically powered (trolley)buses is still vigorous. These vehicles are enjoying a renaissance—thanks to new energy storage systems and the availability of double-articulated versions with vast passenger capacities. Hybrid technology is also meeting with keen demand.

The period saw the shipment of electrical equipment for the first two of 15 articulated trolleybuses ordered by Solingen transit authority in Germany. During the period nine of 17 articulated trolleybuses were fitted out for the St. Gallen public transit authority, Switzerland. The last of the shipments to Biel, Switzerland, were completed.

In 2008, the business unit received orders from the municipalities of Lausanne and Neuenburg for articulated-bus electrics, installed into vehicles built by the Swiss company Carrosserie Hess AG. Toward year-end, the Vancouver transit authorities exercised an option for another 20 vehicles and then upped this to altogether 34 units. Work on the electrical equipment has already started at the Düsseldorf plant. The trolleybuses will then be assembled at New Flyer in Winnipeg, Canada, and shipped out to Vancouver as from mid-2009. Orders for trolleybus kits were also received from Southern Europe including Milan, Avellino, and Pescara.

LRV electrics were shipped out for Bremen and Porto projects, among others. The Bremen tram contract comprises 14 vehicles to be delivered in 2009; for Porto, 30 vehicles will be fitted and this contract, too, will be completed this year. Shipments for Vienna's low-floor metro vehicles were completed. For the first time, a project was realized for an African company. For Ghana, Vossloh Kiepe supplied the traction and onboard converters to be installed into two diesel-electric railcars.

Sales from rail vehicle air-conditioning units grew 32.1 percent to around €17 million.

At the end of 2008, Vossloh Electrical Systems had an order backlog of €236.2 million, well over the prior-year level of €212.5 million. At €153.6 million, order intake in 2008 rose steeply.

The business unit invested a total of €3.0 million mostly for a new production shop in Düsseldorf.

Vossloh AG

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

Analysis of the separate financial statements

As nonoperating holding company, Vossloh AG's revenue consists of rental income and intercompany allocations. The operating expenses are mainly incurred in connection with the Company's management and financing functions. Therefore, EBT is substantially influenced by general administrative expenses, other operating income and the net financial result.

In fiscal 2008, the administrative expenses of €28.7 million exceeded the prior year's by €2.2 million. Particularly the expenses borne by Vossloh in connection with the divestment of Vossloh Infrastructure Services SA boosted consultancy fees significantly. In contrast, write-down fell clearly and, above all, personnel expenses slumped by €3.1 million to €7.7 million, largely since the 2007 expenses had soared due to the quit of an Executive Board member. The €3.0 million rise in other operating income to €20.4 million was attributable to climbing intragroup allocations for taxes, marketing and IT. These contributed a total of €18.6 million to the increase from €9.7 million in 2007. Higher exchange gains and cash inflows from the sale of a nonessential property also raised other operating income while the year before, the necessary write-up of previously written-down investments had added to it.

Besides the administrative expenses and the net other operating income or expense, the net financial result has another major impact on Vossloh AG's EBT since the Company is also the financial holding company of the Group and therefore owns most of its subsidiaries.

Key components of the net financial result are the profits transferred by Vossloh Locomotives GmbH, Vossloh-Werke GmbH, and Vossloh Kiepe GmbH, together accounting in 2008 for €43.7 million (up from €21.8 million). The profit & loss transfer agreement with Vossloh Kiepe GmbH was made in 2008. Interest expense of €16.3 million (up from €15.5 million) mainly for refinancing the Group's capital requirements contrasted in 2008 with interest income of €15.9 million from granting short-term credit or medium-term loans to consolidated subsidiaries and from cash investments (up from €15.4 million).

In fiscal 2007, €51.7 million of the extraordinary gain of €57.7 million had resulted from merging Vossloh Rail Technology GmbH into Vossloh AG. Since this gain did naturally not recur in 2008, Vossloh AG's net income of €26.4 million is clearly below the prior-year €70.0 million although the Company had earned a €19.3 million higher profit from ordinary operations.

As of December 31, 2008, Vossloh AG's total assets mounted to €819.5 million (up from €790.5 million). The 907,000 treasury shares repurchased between October 15 and December 31, 2008, had a year-end market value of €62.7 million and are disclosed within securities. Vossloh AG's sundry assets soared thanks to fixed-term monies of €140 million. Intercompany receivables plunged from €253.2 million to €87.8 million primarily as the accounts due from Vossloh France SAS slumped. As former owner of Vossloh Infrastructure Services SA, this company had applied certain purchase price payments received in 2008 for the VIS disposal to repay borrowings. As of December 31, 2008, Vossloh AG's equity edged up €1.2 million to €501.7 million. Accordingly, the Company's equity ratio crept down from the prior year's 63.3 percent to 61.2.

Vossloh AG's financial position depends on the funds needed by subsidiaries and the debt raised by the Company to refinance such requirements. The debt raised in 2004 from the US capital market by way of private placement, carried within sundry liabilities, amounted to an unchanged €203.9 million. As €5.0 million was redeemed, the other borrowings shrank to €26.0 million as of December 31, 2008.

Board compensation report

This report summarizes the principles underlying remuneration of Vossloh AG's Executive Board members and specifies the details of structure and amount of each such officer. In addition, the report describes principles and level of Supervisory Board fees and discloses Vossloh stock portfolios held by Executive and/or Supervisory Board members.

This board compensation report follows the recommendations of the German Corporate Governance Code as amended up to June 6, 2008.

Remuneration of Executive Board members for 2008

The compensation of Executive Board members ("executive officers") breaks down into a fixed annual basic salary and an annual profit share, the fixed portion being paid out by monthly installments. The profit share is payable when the annual financial statements have been adopted. Propriety and fair market level of such compensation are reviewed for reasonableness at regular intervals.

The criteria for fair compensation include, besides the tasks and performance of each executive officer, particularly the company's economic situation and sustained performance in comparison to industry peers.

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

For fiscal 2008, Vossloh AG's executive officers received a total compensation of €2,716,888 (down from €5,388,916), including €634,327 of fixed, and €2,050,000 variable, remuneration. In addition, they received noncash fringes as payments in kind (PIK), basically in the form of private company car use at the tax base of €32,561. PIK income is taxable income of each executive officer. The table below itemizes the remuneration of each executive officer:

€	Fixed salary	Fringes	Profit share	Total
CEO Werner Andree	381,768	20,391	1,250,000	1,652,159
COO Dr.-Ing. Norbert Schiedeck	252,559	12,170	800,000	1,064,729
Total	**634,327**	**32,561**	**2,050,000**	**2,716,888**

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

Moreover, they have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 15 or 35 percent, and are stepped up by 3 or 4 percent annually (as from Jan. 1, 2005, or April 1, 2010, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2008, a total €217,154 was provided for accrued pension obligations to Executive Board members (down from €1,409,871). Current postretirement pensions are adjusted annually in line with the collective pay trend of white-collar employees.

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

No contractual arrangements with Executive Board members exist for the case of a change of control.

No loans or advances were granted in 2008 to any Executive Board member.

The compensation paid as current pensions to former executive officers and their surviving dependants totaled €672,966 (up from €658,809).

Pension obligations to former executive officers and their surviving dependants amounted to €8,929,872 (up from €7,589,773) and are fully covered by accruals.

At its December 3, 2008 meeting, the Supervisory Board deliberated on the structure of Executive Board remuneration and resolved to establish a discretionary bonus concept instead of a standard long-term incentive. The Supervisory Board will decide on the grant and amount of a discretionary bonus once the separate financial statements have been adopted and the consolidated financial statements approved.

Remuneration of Supervisory Board members for 2008

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

The annual general meeting of May 21, 2008, redetermined Supervisory Board compensation. The amended provision of Vossloh's bylaws took effect on October 1, 2008, meaning that the compensation of Supervisory Board members is governed for 9 and 3 months by the previous and the amended provisions, respectively.

Accordingly, the prorated 9-month compensation was determined as follows:

Besides being reimbursed for their out-of-pocket expenses and costs advanced, Supervisory Board members receive a fixed annual fee of €10,000 each. In addition, they are paid a variable annual fee of €1,000 for each €0.10 in excess of the Group's earnings per share over €1.00.

The Supervisory Board Chairman receives 300 percent, the vice-chairman 150 percent and each committee member 125 percent. If the Supervisory Board Chairman is also committee member, no additional fee is paid to him.

In accordance with the bylaws as amended up to May 21, 2008, the prorated compensation for the final months of 2008 was determined as follows:

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

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

In accordance with the bylaws, Supervisory Board members will receive a total €987,813 for 2008 (up from €465,502), including €134,375 fixed and €853,438 variable, performance-related fees. The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Dr.-Ing. Wilfried Kaiser, Chairman	37,500	244,500	282,000
Peter Langenbach, Vice-Chairman	25,625	160,688	186,313
Dr. Jürgen Blume	18,750	117,625	136,375
Dr. Christoph Kirsch	21,250	126,875	148,125
Wolfgang Klein	18,750	122,250	141,000
Michael Ulrich	12,500	81,500	94,000
Total	**134,375**	**853,438**	**987,813**

In addition to these fees, no Supervisory Board member received in 2008 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2008 to any Supervisory Board member.

Statutory disclosures of the Executive Board under the terms of Arts. 289(4) and 315(4) HGB

Vossloh AG's capital stock of €37,824,979.68 is divided into 14,795,846 no-par bearer shares of common stock. In the course of 2008, altogether 50 new shares were issued as stock options were exercised under the stock option programs.

The Vossloh family pool owned a stake of 31.33 percent, according to information furnished in March 2009 by Familiengemeinschaft Vossloh GbR. Voting right exercise by Vossloh family members has been pooled by contractual agreement.

According to the Company's bylaws, the Executive Board shall have at least one member but should generally comprise not less than two. The Supervisory Board determines the number of Executive Board members and may appoint a chairperson or spokesperson (CEO) as well as a vice-chairperson or vice-spokesperson of the Executive Board. Executive Board deputy members may be appointed, too. In accordance with the provisions of Art. 84(1) AktG, Executive Board members are appointed for a maximum term of five years, their reappointment or the renewal of their term of office being permitted. The appointment of an Executive Board member may be revoked in the cases set out in Art. 84(3) AktG.

In conformity with the bylaws but subject to overriding statutory provisions to the contrary, the general meeting shall pass its resolutions with the simple majority of votes cast. Where the law prescribes a stock ownership majority in addition to a voting majority, the simple majority of the capital stock represented at the vote shall suffice unless the provisions of the law or Vossloh AG's bylaws prescribe otherwise. Any vote resulting in a tie shall be deemed a nay to the agenda item or proposal.

According to the bylaws, any of the following business shall require a minimum nine-tenth majority of the capital stock represented at the vote:

(1) Execution of a direct-control (subordination) and profit & loss transfer agreement
(2) Execution of a merger agreement under which Vossloh AG's assets are transferred substantially in their entirety either to another entity as transferee in return for the grant of such transferee's stock (absorbing merger) or to a new enterprise (consolidation)
(3) Execution of an agreement that obligates Vossloh AG to transfer substantially all of its corporate assets

Moreover, the provisions of the German Stock Corporation Act (AktG) specify certain cases in derogation of the principle of a simple voting (Art. 133 AktG) or capital majority.

At December 31, 2008, no authorized capital existed.

The annual general meeting of June 3, 2004, 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, 2008, the 145,680 shares issued thereunder increased the capital stock by altogether €372,425.00.

Moreover, the capital stock was conditionally raised by up to €383,468.91 by 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 its German subsidiaries under the terms of Arts. 15 et seq. AktG. Out of this authorized but unissued capital, altogether 10,285 shares were issued by December 31, 2008, thus raising the capital stock by €26,293.19.

As resolved by the annual meeting of Vossloh AG's stockholders on May 21, 2008, the Company is authorized pursuant to Art. 71(1)(8) after expiration of the authority ended November 30, 2008, to repurchase on or before November 20, 2009, shares of treasury stock equivalent to ten percent of the capital stock.

The consideration given in return for treasury shares may neither be below five percent of, nor more than five percent above, the average Vossloh share price as quoted at the closing auction of the Xetra trade (or any successor system in lieu of and replacing the Xetra system) at the Frankfurt Stock Exchange during the five trading days preceding the treasury stock acquisition date.

On October 15, 2008, Vossloh AG's Executive Board resolved after Supervisory Board approval to repurchase up to 1,479,582 treasury shares via stock exchange, equivalent to 10 percent of the capital stock. The stock repurchase is managed and carried out by a bank independently and uninfluenced by Vossloh AG. By December 31, 2008, altogether 907,000 no-par treasury shares (6.13 percent of the capital stock) were repurchased.

The Executive Board is authorized, after first obtaining the Supervisory Board's approval, to dispose of such treasury shares in a form other than (i) through a stock market or (ii) by offering them to all Vossloh stockholders, however, always provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the quoted market price then current for same-class Vossloh stock.

This authority is confined, including the current authority under the terms of Art. 4(2)(c) of the Company's bylaws, to an aggregate maximum of ten percent of Vossloh AG's capital stock. The applicable stock purchase price for the purposes of the preceding clause shall be the average Vossloh share price as quoted during the closing auction of the Xetra trade (or any successor system in lieu of and replacing the Xetra system) at the Frankfurt Stock Exchange during the five trading days preceding the sale of such shares.

The Executive Board is further authorized, subject to the Supervisory Board's consent, to sell and transfer to third parties any such repurchased stock in the scope of business combinations or M&A transactions, or when acquiring other companies or any equity interest therein.

Furthermore, the Executive Board is authorized to redeem and withdraw treasury stock with the Supervisory Board's approval, however, without requiring another vote by the stockholders' meeting.

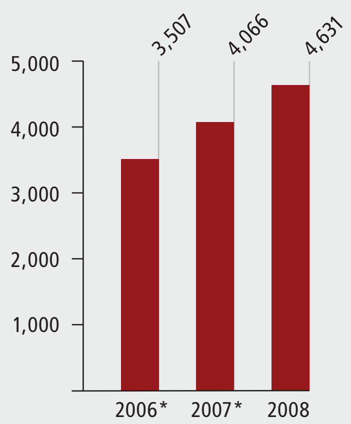
In the event of a change of control and the ensuing early loss of an Executive Board office, no Executive Board member affected will be entitled to claim under their employment contract certain termination indemnities or benefits in settlement.

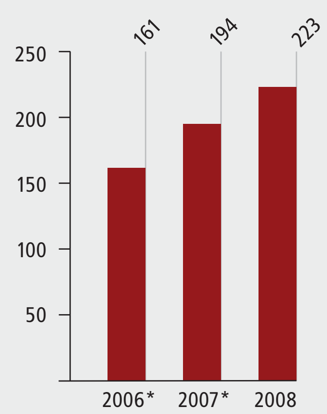
Headcount hike through buoyant business and acquisitions

17 percent of the workforce outside of Europe

Another gain in value added per capita

Workforce





*2006 comparatives adjusted for the Information Technologies division's and Infrastructure Services business unit's contributions, 2007 comparatives only for the VIS contributions.

Average group headcount

Personnel expenses in € mill.

Workforce

At December 31, 2008, the Vossloh Group employed a workforce of 4,684 worldwide, representing a rise of 6.9 percent or 301 on the year-end 2007 headcount of 4,383 (excluding the employees of divestee Vossloh Infrastructure Services). Consolidation of the new acquirees (Vossloh Cogifer Australia, Sportek, Kloos Oving) raised the headcount by 154.

Employee-related indicators

		2008	2007*	2006*
Payroll per capita	€ '000	48.2	47.7	45.9
Sales per capita	€ '000	261.9	251.7	229.5
Payroll-to-value added ratio	%	61.3	62.9	67.0
Value added per capita	€ '000	78.7	75.9	68.6

*2006 and 2007 comparatives adjusted for the VIS contributions.

At 83 percent (down from 84) most of the workforce was employed at the European locations. The share of employees outside of Europe in 2008 rose to 17 percent (up from 16 percent). Of these, around 8 percent (virtually unchanged) worked in North America and altogether around 7 percent (down from 8) at the Asian production plants in China and India.

Despite the acquisitions there were only marginal changes in the age structure of the group employees and their average length of service with each subsidiary. The proportion of employees aged below 35 edged up by one percentage point to 33 percent. The share of employees with up to ten service years climbed by two percentage points to 56 percent.

Personnel expenses (payroll)

€ million	2008	2007*	% change
Pay	180.3	157.4	14.5
Social Security	39.2	34.6	13.6
Pension expense	3.7	2.1	75.2
Total personnel expenses	**223.2**	**194.1**	**15.0**

*2006 and 2007 comparatives adjusted for the VIS contributions

Since the employees of the 2007 acquirees had been included only pro rata temporis, the Group's annual headcount rise from 2007 to 2008 was steeper than at year-ends. Whereas in 2007 the Group had employed a workforce of 4,066 on an annual average, this figure rose by 13.9 percent to 4,631 in the period under review.

In 2008, personnel expenses advanced on the previous year by 15 percent from €194.1 million to €223.2 million. Since personnel expenses slightly outgrew headcount, the average payroll per capita (rounded) moved up by one percent from €47,700 to €48,200. Alongside pay rises, this increase was also attributable to higher social security taxes and pension expenses. The prior-year expenses had been inflated as a result of payments in connection with the quit of an Executive Board member.

Value added—defined as the excess of total operating performance over cost input and amortization/depreciation/write-down—per capita (rounded) improved by 3.7 percent to €78,700 (up from €75,900), thus clearly outpacing the rise in average payroll per capita. The ratio of payroll to value added improved slightly to 61.3 percent (down from 62.9).

Sales per capita (rounded) amounted to €261,900 (up from €251,700), a growth of 4.1 percent.

Rail Infrastructure

Because of the acquirees, the annual average workforce in the Rail Infrastructure division—excluding Vossloh Infrastructure Services in both 2007 and 2008—rose from 2,266 to 2,660. Average payroll per capita (rounded) inched up 2.6 percent from €39,800 to €40,800, chiefly due to pay rises. Value added per capita at €84,600 was virtually at the prior-year level of €85,200; the payroll-to-VA ratio at 48.2 percent was up by 1.5 percentage points. Sales per capita (rounded) climbed a clear 8.7 percent from €244,600 to €265,800.

Motive Power&Components

The annual average number of Motive Power&Components employees mounted to 1,925 (up 9.3 percent from 1,761). Vossloh España, in particular, hired extra employees. Whereas sales per capita (rounded) slipped 1.5 percent, from €266,300 to €262,300, value added per capita climbed 10.9 percent from €70,200 to €77,800. Payroll per capita increased 5.8 percent from €52,700 to €55,700. Despite the higher personnel expenses, the ratio of payroll to value added improved by 3.5 percentage points, from 75.1 to 71.6 percent.

Employees 2008

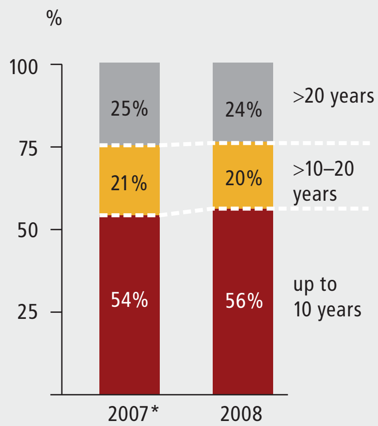
	Annual average			Year-end		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Rail Infrastructure	281	2,379	2,660	288	2,385	2,673
Motive Power&Components	916	1,009	1,925	939	1,022	1,961
Vossloh AG	46		46	50		50
Total	**1,243**	**3,388**	**4,631**	**1,277**	**3,407**	**4,684**

Recruiting and developing employees

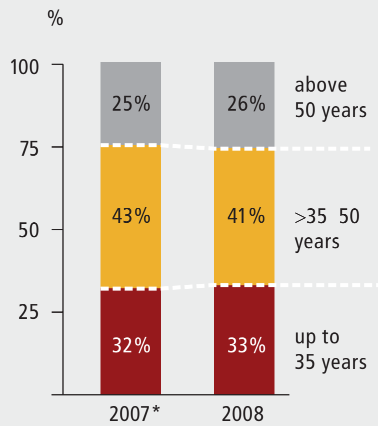
The Vossloh Group's success largely depends on the skills and motivation of our employees. We nurture employee potential by giving them ample responsibility and staging extensive training courses.

Throughout its organization, the Vossloh Group needs qualified and skilled junior employees. Some of these are recruited through our own vocational training programs which enjoy a long tradition at Vossloh. We offer a broad spectrum of blue-, gray- and white-collar apprenticeship courses. Through personal supervision and individual opportunities our apprentices acquire solid theoretical training, broad-ranging practical experience and hence the foundations for a successful career. In fiscal 2008, we employed at our German locations in Werdohl, Düsseldorf, Kiel, Moers and Trier 73 apprentices in all (at December 31, 2008) or 6.3 percent of the workforce at the German operations with apprenticeship opportunities. During the period 25 youngsters started their apprenticeships and for 2009, we are planning to recruit another 27.

In Germany and abroad we work closely together with schools and universities: guest lectures at universities, scholarships for students, internships accompanying university courses. We cooperate, for example, with the Westphalia-Ruhr-Bochum Administration and Business Academy and the Hesse University of Cooperative Education, in offering a three-year industrial clerk and business management course.



Service years in %



Age structure in %

*2007 comparatives adjusted for the VIS contributions

In France, Germany, Spain and elsewhere we provide opportunities for students of various subjects to obtain practical experience through internships at one of our subsidiaries or spend time at one of our locations for dissertation or thesis research into topics of industrial relevance. Undergraduates at Universidad Politécnica de Valencia work for Vossloh España and others at the French school of engineering ENIM for our Reichshoffen development center. In Germany we have such arrangements with universities in Aachen, Cologne, Dresden, Kiel, Berlin and Munich. If they do decide to join Vossloh, university graduates find themselves facing outstanding self-development opportunities. Vossloh España, for instance, runs a systematic career development program with a 2-year training phase for junior engineers. Such opportunities are instrumental in attracting to Vossloh valuable young talent in engineering and other disciplines such as logistics and finance. Our pervasive presence extends to the schools in the locations' neighborhoods where students are introduced to our vocational training courses and obtain useful tips on how to prepare their job application documents.

Another aspect of our HR development efforts: sharing and transferring expertise across national frontiers. In getting our Chinese and Turkish plants on stream we assign staff from our parent European plants to help install equipment and processes besides systematically training local employees.

Thanks

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

Research & development

The Vossloh companies are among the technology leaders in their sectors and are constantly investing in the improvement of their products and services. One of their prime aims is to satisfy the specific requirements of customers in the various market regions. In addition, Vossloh works on pioneering new solutions. In research & development (R&D), the Group resorts to cooperation intragroup and with external specialists, and to partnerships with scientific institutions. Since the lion's share of R&D takes place in connection with specific contracts, the associated costs are reflected in the cost of sales and not in R&D expenses.

In 2008, Vossloh Fastening Systems expanded its development team and boosted its innovative capacity by calling on the services of further external partners. The goal is to keep the period for the development of a fastening system from the idea through to approval for installation in a test track as short as possible. This has been achieved with the new System 306 for the ballastless slab track for high-speed lines. Also new in 2008 was the tension clamp Skl 30 for the System W 30 HH, designed for the needs of heavy haul. Along with project-related new designs, interesting products for the conversion of existing fasteners were developed in 2008, particularly in North America and Japan. In the joint project LZarG (German acronym for "quiet train on real track"), Vossloh Fastening Systems is supervising development work on a highly elastic rail support point and rail web damping system in the part of the project devoted to the "acoustic optimization of the permanent way."

Vossloh Switch Systems developed a switch that has been optimized, in terms of cost and otherwise, for use mainly on the markets of Eastern Europe and Africa. The engineers devised a new strategy for switch rail chairs to enable extra-long and high-speed switches to be driven with little force. To further improve environment-friendly lubrication-free switches, a new slide bearing coating has been developed. In the further development of switch machines, the emphasis was on extending maintenance intervals—and important contribution to reducing operating costs. At InnoTrans 2008 in Berlin, the newly developed NUMCOM monitoring system that makes use of Internet telephony was unveiled. Vossloh Switch Systems was involved in several research projects in 2008. The purpose of INNOTRACK is to extend the service life of switch systems and hence reduce life-cycle costs. The goal in the development of the NBT (New Ballastless Track) is a new strategy for ballastless slab tracks and the switch systems installed in them.

At Vossloh Locomotives in Kiel, the development of the new three-axle center-cab locomotive G 6 was completed in 2008 and was presented to the public at the InnoTrans fair in Berlin. The G 6 is the first model of the new locomotive family based on uniform functional modules. By adopting the parts commonality principle, production costs can be cut and plant throughput accelerated. More important, however, are the resultant benefits for the customer in terms of lower maintenance and hence life-cycle costs. In Valencia, work continued in 2008 on the extension of the EURO 4000 family. The new models are geared to the needs of clearly delineated markets. In Kiel as in Valencia, efforts in 2008 concentrated on January 1, 2009, the date from which the engines of all locomotives must comply with the Stage IIIa standard. Existing locomotives therefore have to be retrofitted for the installation of Stage IIIa engines. In this connection, Vossloh España participated for the first time in 2008 in an EU research project known as “CleanER-D.” This project is paving the way for the compliance of locomotive diesel engines with the even stricter Stage IIIb emission standard that comes into effect from 2012. Our subsidiary in Valencia also focused on the development of new vehicles for local transit.

In 2008 the development activities of Vossloh Kiepe again concentrated on hybrid technology. A landmark achievement was the launch of the “LighTram” pilot project in Luxembourg—the 24-meter double-articulated hybrid bus is the first commercial application of the technology, and initial experience has been very promising. The company is also going new ways together with German and Dutch partners in the development of a fuel-cell bus. Vossloh Kiepe is responsible for the vehicle’s electric traction and energy management. The innovative bus—pollutant-free and extra quiet—is one of the reference projects of the World Hydrogen Energy Conference 2010 in Essen. The project is being jointly funded by the state of North Rhine-Westphalia and the Dutch government.

Environment

Passenger and freight haulage by rail is one of the greenest modes of transportation. Modern buses with hybrid technology and above all trolleybuses are also clearly superior environmentally to private transport by car. Products from Vossloh make an important contribution, so that the eco-friendly movement of passengers and goods is both reliable and cost-effective. The Group is also working in all its business units on further optimizing rail and bus transportation in environmental terms and is thus supporting the goal of shifting more traffic into this area.

Vossloh's diesel locomotive developers naturally make sure that the vehicles consume as little fuel as possible—and thus minimize CO_2 emissions. The principle of "zero emissions" also applies to trolleybuses with drive technology from Vossloh Kiepe. Another benefit of these suburban transit vehicles is that they are very quiet in operation, a fact much appreciated by passengers and bystanders alike. Conventional buses can also improve their environmental profile with Vossloh technology, as hybrid propulsion reduces exhaust and noise emissions.

Because the Group achieves a significant portion of its sales with products and services that contribute to ecologically sustainable solutions, Vossloh is represented in the Global Challenges index on the Hannover stock exchange and is approved both by *INrate* and *oekom research*.

In production, all the Vossloh companies attach great importance to the sparing and efficient use of resources. Emissions from production are reduced to a minimum across the board. Regular audits by the environmental authorities confirm that the companies consistently observe all legal and official requirements and keep below the permitted ceilings, in some cases by a large margin. Where possible, residues are consistently recycled and solid wastes are systematically separated.

Both in Kiel and Valencia, Vossloh uses exclusively low-solvent paints for the finishes on its locomotives. Vossloh Fastening Systems has also been using waterborne paints for the surface coating of its tension clamps for several years. In the course of 2008, a new oiling system was installed at the Werdohl plant, which strongly reduces immission. With the aid of a special map, a targeted search is on for environment-friendly production materials.

Almost all the large Vossloh locations have been approved and certified according to the DIN EN ISO 14001 environmental management system or comparable systems and undergo regular audits by external, independent bodies. In Germany, Vossloh Kiepe has also been additionally approved according to the social standard OHSAS 18001 since 2001. The Vossloh Cogifer Fère-en-Tardenois plant has been complying with the even stricter safety and health standard ILO OSH 2001 since the end of 2007.

Risk and reward management

Risk and reward management organization

For the purpose of the planned control of risks and rewards that may surface, Vossloh has set up a groupwide risk and reward management system. Risks and rewards are thus identified, analyzed, assessed and communicated according to a predefined plan operating at the various group levels. Risks are understood as the possibility of adverse developments of the forecasted asset and capital structure, financial position, or results of operations; such risks should be avoided, abated or contained. To this end, the possibilities of risk shifting (insurance cover) and other precautionary options are considered. The opportunities or rewards—as a possible improvement on budgets or forecasts and the resulting incremental earnings potential—are identified early on and systematically utilized. In this way, risk management not only assists in the early identification of matters endangering survival but also plays a major role in achieving financial targets and hence adding sustainable value to the Vossloh Group.

All the group companies are integrated into the risk management system, irrespective of how they are included in the consolidated financial statements. Those acquired in 2008 were integrated into the system as soon as practicable.

The risk and reward management system is part of the business, planning and controlling mechanisms. The system's setup is defined and described in groupwide principles, policies and procedures. The organizational setup is based on the structure of the operating processes and procedures of the respective unit. At all group levels risk owners are assigned responsibility for continuously identifying, analyzing, assessing, communicating, monitoring and controlling risks and rewards. In order to identify risks, early warning indicators are defined where possible. Checklists and risk workshops ensure complete risk and reward inventories and efficient control system handling. The group companies compile annual risk inventories which are assimilated into the planning process.

Identified risks and rewards are analyzed and assessed at Vossloh for their possible impact on earnings. For this purpose, the loss or damage interval, in other words the maximum and minimum variances possible and the most probable impact on earnings are determined. These are supplemented by an assessment of loss probability. Any risk provisions already recognized are taken into account.

Risks and rewards are documented and communicated in standardized reports. In addition to the assessment parameters indicated, proposed action is reported. Periodic risk reporting is quarterly and serves as a supplement to the latest annual projection.

In addition, full risk inventories are prepared and communicated as part of the medium-term plan. Ad-hoc reports additionally allow at all times an updated evaluation of the current risk situation.

These reports are addressed to the management of each company and business unit as well as to Vossloh AG. Then, at the level of Vossloh AG the reported risks and rewards are aggregated and communicated to the Executive Board. The aggregates indicate the Group's overall risk/reward position.

Besides the management of the group companies and business units it is Vossloh AG's Executive Board that is responsible for the control and monitoring of risks and rewards. The current risk situation is regularly discussed between business unit management and the Executive Board.

The system is regularly reviewed by Internal Auditing and the statutory auditors for adequacy, efficiency and compliance with legal requirements. In the course of the reviews and audits any shortcomings are eliminated without delay.

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

General economic and sector risks

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

The financial crisis has meanwhile turned into an international economic recession. Given the global nature of this downturn it is much more difficult to perform some kind of balancing act in our overall business by taking advantage of dissimilar geographical trends. Even though rail business is normally less volatile, there does exist the risk that state and/or private customers will shelve or even in some cases cancel contracts due to weak business (especially freight haulage), pruned public-sector budgets or limited financial facilities. On the upside are the various economic stimulus packages targeting higher spending on rail infrastructure or local public transit.

With its two divisions, Rail Infrastructure and Motive Power&Components, Vossloh ranks among the foremost suppliers on selected rail industry markets. The markets of relevance to Vossloh are oligopolistic by nature both on the demand and supply sides. Most of the customers are rail and network operators, as a rule still under public-sector control. This results in dependence on public-spending patterns. Vossloh attempts to abate such risks by expanding its international presence, especially in the Rail Infrastructure division, and thus achieve a balancing effect. At the focus of its internationalization drive are presently the growth markets of Asia (especially China and India), the MENA states, Eastern Europe, and the United States. In recent years the Group has much reduced its dependence on individual European markets. Compared with the previous year, sales outside of Europe have now risen to 28.2 percent (up almost 3 percentage points); the figure for 2007 had been 25.3 percent (excluding divestee Vossloh Infrastructure Services).

Our core markets in Europe and North America are more or less stable in terms of their political and economic environments and hence as far as these core markets are concerned, there are no major risks confronting the Group. Accessing new markets, especially Asian and some Eastern European, does expose Vossloh not only to opportunities but also risks arising from political and social instability, exchange rate fluctuations and legal uncertainties. As the percentage of sales in these markets grows, both the reward prospects and the risk position rise. Asian and Eastern European sales in 2009 are budgeted at around 13 percent of total group sales.

The oligopolistic nature of the supply side of the market also harbors risks for Vossloh. The high level of market transparency may lead to fiercer price competition with adverse effects on margins. There is also the risk of products being replaced by newly engineered ones and that new competitors enter the market. Vossloh avoids or contains such risks by repeatedly refining its products and services and cultivating close contacts with existing customers. Margins are presently already under mounting heavy pressure.

Operating risks

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

Vossloh attempts to counteract procurement price risks especially by long-term procurement contracts or price escalator clauses concluded with customers. Nonetheless they may still impact on production costs specifically at Rail Infrastructure, above all through the further shortage of commodities, especially steel and oil. Earnings at Motive Power&Components also hinge on how component prices develop. The medium-term planning assumptions of increases in the cost of materials are based on such factors as information from suppliers and market analyses. Any rises significantly above these expectations may erode earnings at the business units. Climbing costs of production materials in 2008 were only in part downloadable onto customers. Exchange rate risks from purchasing are normally contained by currency forwards.

Procurement chain risks may also result from supplier dropouts, poor quality or delivery delays. Vossloh attempts to minimize these risks by working with longstanding local suppliers as in the case of the Turkish production plant in Erzincan (on stream since 2009). Despite a careful screening of suppliers, ongoing monitoring and setting-up alternative sources, future procurement chain risks may be contained but never fully ruled out.

Project complexity is another source of risks. These include unexpected technical or engineering difficulties, unforeseeable developments at the project locations, problems with business associates, joint venturers or subcontractors, logistic challenges, and acceptance and invoicing delays. These are factors possibly leading to unbudgeted expenses or contractual penalties. Contractual provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. Especially exposed to risks of this nature is Motive Power&Components. The divestment of Infrastructure Services in 2008 did lessen considerably Vossloh's project risk exposure. Project risks arising in 2009 were provided for as required by the IFRS. Along the value-adding chain, Vossloh subsidiaries are exposed to work interruption, quality problem, occupational safety and environmental risks. 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.

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 targets the benchmarks of an investment-graded company.

Financial derivatives

Vossloh uses financial derivatives solely to hedge against specific risks from current underlyings or forecasted transactions. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, turn to the notes to the consolidated financial statements on pages 168 et seq. The following financial risks are controlled: price risks, default and counterparty risks, liquidity risks, and cash flow risks.

Price risks

Price risks arise from the possibility that the value of a financial instrument is changed by higher or lower market interest or exchange rates. With a view to benefiting long term from the low interest rates, the Group restructured its finances in 2004 by raising one ten-year and one twelve-year loan under a US private placement of a total $240.0 million (around €200 million). As part of its proactive risk management concept, Vossloh has fully hedged future principal and interest payments through interest rate and cross-currency swaps on a euro basis. Current or future currency receivables and payables represent an unmatched position which is generally closed by contracting currency forwards.

Default/ counterparty risks

Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to Vossloh. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies. As of December 31, 2008, cash investments and financial derivatives with a positive fair value were allocable at 11 percent to counterparties rated between AA+ and AA–, at 75 percent to those rated from A+ to A–, and at 14 percent to counterparties not rated (according to Standard & Poor's). In the wake of the financial crisis, the rating of banks deteriorated substantially in 2008. Monies are centrally deposited only with banks which are members of the German Deposit Insurance Fund. Moreover, risks are spread by distributing such cash deposits among several banks. No dependence on specific banks has existed, whether in the past or at present.

Liquidity risks

Liquidity risks may 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 surplus cash 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. As of December 31, 2008, the Vossloh Group had cash and cash equivalents of a total €247.8 million. In addition, adequate and sufficient credit lines ensured that no financial or cash bottlenecks occurred. The unutilized balances from cash credit facilities at year-end totaled €154.4 million, mostly due within one year. Furthermore, Vossloh had unutilized guaranty bond facilities of €373.9 million at its disposal.

Cash flow risks

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

On balance, the Vossloh Group's net earnings were in 2008 not affected to any significant degree by financial risks.

Legal risks

Legal risks comprise basically those arising from complaints, warranty claims, claims for damages or indemnification, and litigation. Identifiable legal risks are either covered by insurance or adequately provided for in the balance sheet. Nonetheless, losses may occur that are uninsured or underinsured, or outweigh accruals by far.

In 2008 there were no legal risks that significantly impacted on earnings.

Other risks

These are mainly of an IT or human resources nature.

The control of operational and strategic business processes largely relies on complex IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability, and security. Such mechanisms and instruments also ensure efficient information processing.

The Group's economic situation may well suffer as a result of substandard staffing such as shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, poor training and/or mistakes, fraud or theft committed by employees. Vossloh has a menu of measures to abate such risks: in particular, our reputation as an attractive company to work for, a reputation that strengthens our position in the competition for highly qualified employees. In-house courses allow our employees to regularly upgrade their skills while highly competitive pay structures tie the employees long-term to the Group.

None of these “other risks” influenced the Group’s earnings in 2008 to any substantial degree.

Overall risk assessment

The potential impact of any and all risks described above and which Vossloh is exposed to on its results of operations, asset and capital structure or financial position, is monitored and controlled at all times. As required by IFRS, provisions have been made for all risks identified to date. The updated annual forecasts duly reflect any potential losses, where reliably identifiable. From today’s vantage point, neither any specific risks nor all currently known risks in their aggregate are potentially ruinous or likely to jeopardize the Vossloh Group’s or any subsidiary's continued existence as a going concern in terms of either assets or liquidity.

Thanks to the solid financial performance in the period, the Group’s equity was considerably geared up in 2008 and lies well above the risk-adjusted capital, i.e., the statutory minimum equity portion that is earmarked exclusively for the cover of potential losses.

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

Subsequent events

On March 6, 2009, Fastening Systems opened up its substantially expanded production plant in Erzincan, Turkey, where on a shop space of almost 3,000 m² some 55 employees will annually manufacture about eight million tension clamps, mostly for Turkey's high-speed rail network. The location has a very good infrastructure and well-trained employees.

Under the stock repurchase program which had been resolved on October 15, 2008, Vossloh AG acquired in 2009 another 475,000 treasury shares up to March 9. Together with the 907,000 shares repurchased in 2008, the Company held as of March 9, 2009, treasury stock of 9.34 percent (1,382,000 shares) of the capital stock.

Global financial and economic crisis

Railbound and local transit nonetheless with sustainable growth rates

Further growth planned; above-benchmark profitability

Capital expenditure program for added growth

Prospects

The International Monetary Fund is anticipating for 2009 the lowest growth in the world economy since WWII. The forecasted 0.5-percent increase will be largely attributable to the fastest-growing economies in Asia, especially China and India, as well as the so-called MENA (Middle East/North Africa) states.

Economic activity in industrialized nations is set to decline across the board, according to the World Bank's projections, by 2 percent on average, this drop also applying to the eurozone. The CIS isexpected to see their gross domestic product contract by 0.4 percent, marking a break in their growth progression.

Gross domestic product is set to rise especially in China (up 6.7 percent), India (up 5.1 percent), the Middle East (up 3.9 percent), Africa (up 3.4 percent) and Brazil (up 1.8 percent), provided that there are no exogenous shocks beyond the known geopolitical and economic risks.

The German economy is facing in 2009 its biggest challenge since reunification, in the view of the Federal Government, which in its 2009 annual economic report forecasts that GDP will decrease by 2.25 percent, the capital goods sector being especially hard hit.

In 2008, the Association of the European Rail Industry (UNIFE) published its "Worldwide Rail Market Study—Status Quo and Outlook 2016," which established that world market volume for the railway supply industry rose from 2006 to 2007 by 9 percent annually in nominal terms. Moreover, the study forecasts that order placing will grow by a further 2.5 to 3 percent on an annual average until the accessible rail technology market has reached its upper limit at some €111 billion by 2016. Based on analysis of key current trends—urbanization and deregulation of state-owned railways, the growth of intermodal competition and, of course, environmental protection commitments—the study comes to the conclusion that demand for rail technology is set to grow further.

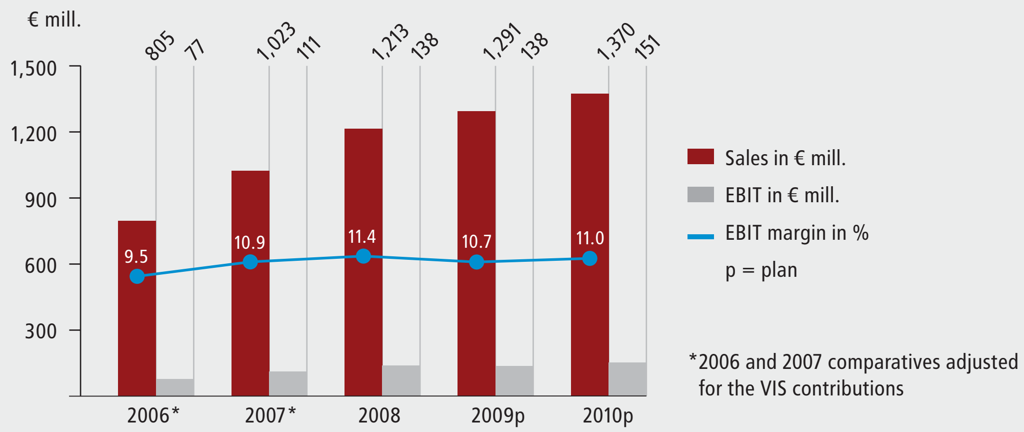
Alongside uniform groupwide requirements, Vossloh's annual medium-term plan incorporates in particular assumptions specific to each business unit, including product prospects, competitors, likely projects, market opportunities and risks in the individual regions, as well as the required capex volumes.

Compared with other industries, the rail industry has a fundamentally more reliable range of vision on which to base its budgets and plans because our customers are public-sector and private local and long-distance transport or transit operators, whose capital spending decisions follow long-term processes and medium-range financing parameters. As our customers' partner we provide support over a period of years. Together with them we develop and engineer specific solutions tailored to individual product requirements. This usually entails long delivery and project periods. Our order books therefore extend over several months, with some awarded contracts spanning several years.

An additional factor is that though outlays by public-sector and private customers in a country are cyclical, Vossloh's business units have managed in the past to largely compensate for regional fluctuations thanks to their worldwide presence. Due to the synchronized worldwide downturn this compensation will be less effective in the near future, however. Several countries have announced within their economic stimulus packages investment in railbound infrastructure, including Russia, China and even Germany.

Alongside substantial risks from the current economic situation, Vossloh’s management also sees business development opportunities. Three mobility segments are of importance to the future development of Vossloh’s operations: freight, long-distance passenger and local transit.

Freight transportation: freight volumes may be on the decline with economic output contracting, but consumer regions and production regions are drifting increasingly apart worldwide. The exchange of goods over long distances will therefore continue to have a future. Eco-compatibility and energy efficiency will gain in importance. We see this as an opportunity for further expanding the role of railbound traffic within the mode of transport mix. There is also continued need for the expansion of European freight corridors.



Sales and EBIT trend 2006–2010p, Vossloh Group

Long-distance passenger transportation: countries worldwide are pressing ahead with the expansion of high-speed networks. The railways are an environment-friendly mode of transport, with the CO_2 emissions of a high-speed train comparatively low. In the fast-growing regions of the world, railways are the means of conveyance of choice, offering high capacity while covering long distances at comparatively low cost.

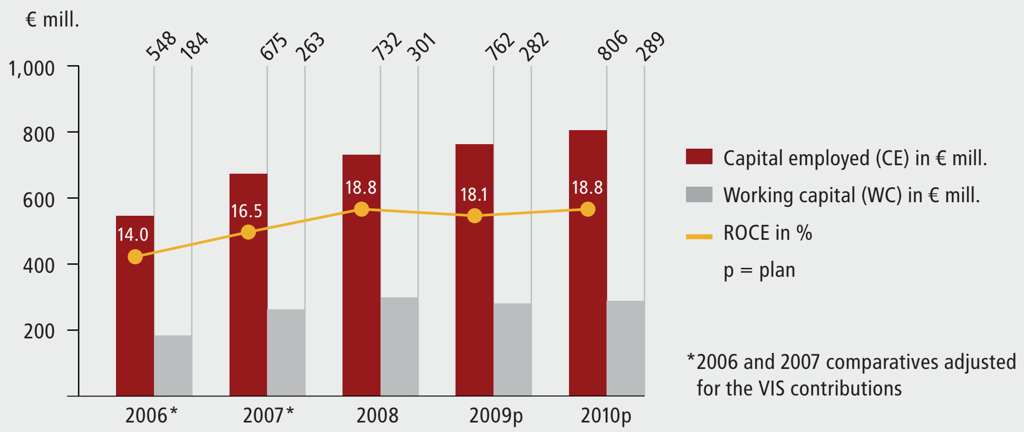
Local and rapid transit: urbanization is a global trend. More than half of the world's population currently lives in towns and cities, a share that is set to rise further. Traffic volume is climbing continuously while the available transport area remains limited. Rail systems in particular with their comparatively high capacity can help alleviate this congestion.

Vossloh Group: sales and performance

		2008	2009p	2010p
Sales	€ mill.	1,212.7	1,291	1,370
Operating result	€ mill.	139.9	137	151
EBIT	€ mill.	137.7	138	151
EBIT margin	%	11.4	10.7	11.0
EBT	€ mill.	128.4	126	141
Group earnings	€ mill.	139.4	86	96
EpS	€	9.48	6.37	7.11

p = plan

Vossloh's management believes that on the basis of these considerations further moderate growth can be achieved in the coming two years. Group sales in 2009 are expected to reach some €1,291 million, with EBIT totaling €138 million.



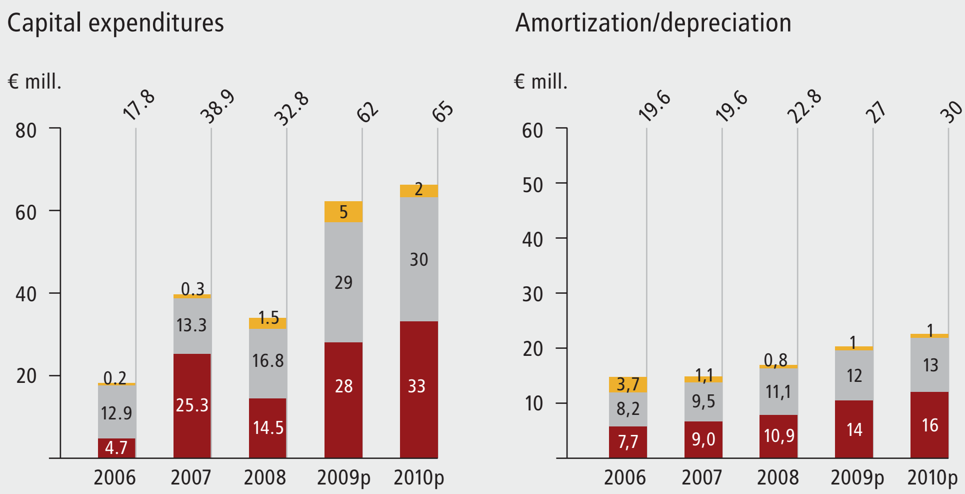
CE, WC and ROCE trends 2006–2010p, Vossloh Group

Owing to a higher tax load ratio, the anticipated group earnings for 2009 of €86 million will be slightly below the LFL 2008 figure (€46.8 million, adjusted for the discontinued operations). The Company's key controlling parameter, return on capital employed (ROCE), will come to some 18 percent based on current budgeting in fiscal 2009, thus outstripping the 15-percent benchmark. From today's perspective, the EBIT margin is also expected to slightly exceed the targeted 10-percent benchmark in 2009. Earnings per share for 2009 are predicted to reach €6.37.

For 2010, Vossloh is looking to further improvement in sales and earnings. From today's vantage point, sales are set to mount 6 percent on 2009 to €1,370 million and EBIT by 9 percent to €151 million. ROCE should again improve slightly versus 2009.

Based on current budgeting, both divisions—Rail Infrastructure und Motive Power& Components—are expected to contribute to sales growth over the next two years.

In the Rail Infrastructure division, Vossloh Fastening Systems will benefit from further expansion in China, the USA and Russia and from replacement requirements in Europe. The Switch Systems business unit is expected to achieve additional growth above all in Scandinavia, Southern Europe, USA and North Africa.



Capex and amortization/depreciation 2006–2010p, Vossloh Group

Rail Infrastructure in € mill.
Motive Power&Components in € mill.
Others in € mill.
p = plan

*2006 and 2007 comparatives adjusted for the VIS contributions.

At Motive Power&Components, new products in the Locomotives unit should have an encouraging impact, while Vossloh Electrical Systems is set to benefit from demand for efficient local transport systems.

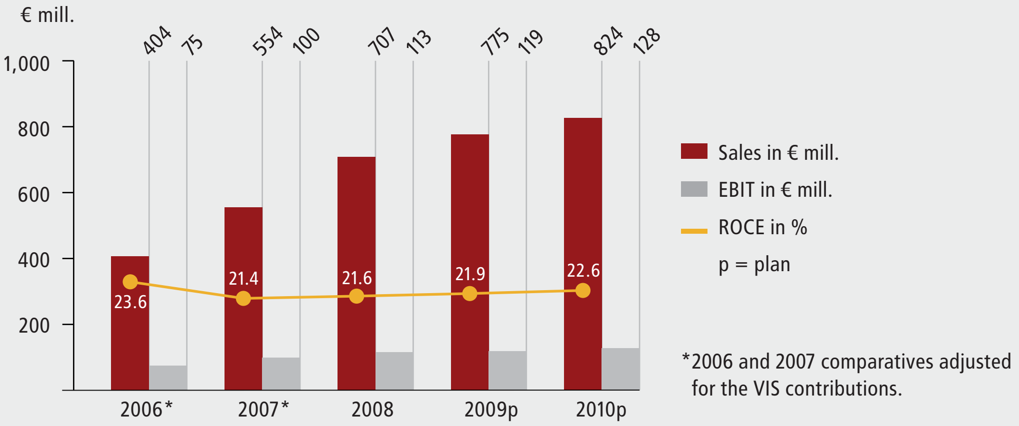
Thanks to the targeted reinforcement of our sales structure we have created the foundations for seizing outstanding and often new market opportunities, including outside of Europe.

In an effort to bolster our market position and boost growth, a groupwide capital expenditure program has been launched, under which some €60 million will be made available over each of the next two years. The focus will be on modernization and expansion at the locations of the Rail Infrastructure division and Electrical Systems business unit. At our locomotive plants we will be concentrating on developing new products.

Vossloh Group: indicators

		2008	2009p	2010p
Working capital	€ mill.	300.7	282	289
Capital employed	€ mill.	732.1	762	806
ROCE	%	18.8	18.1	18.8
Equity ratio	%	36.8	38	41
Net financial assets/(debt)	€ mill.	35.0	(38)	(3)
Net leverage	%	(7.1)	7.7	0.6

p = plan

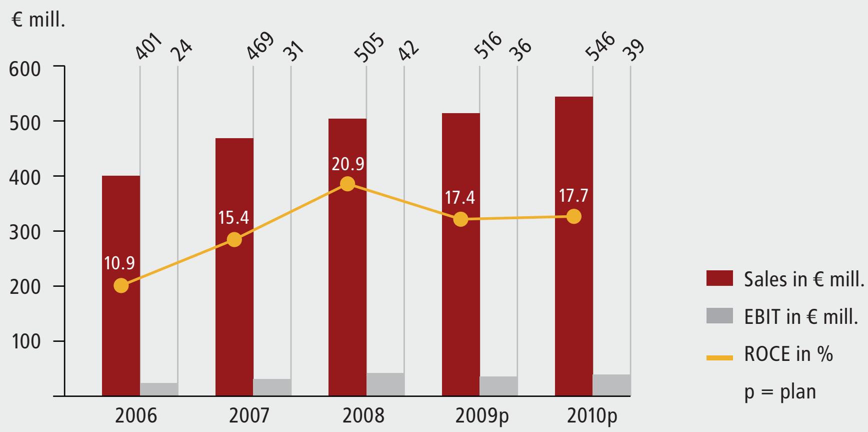


Sales, EBIT and ROCE trends 2006–2010p, Rail Infrastructure division

In 2009 and 2010, groupwide capital expenditures will exceed the annual volume of amortization/depreciation by some 200 percent and be equivalent to almost 5 percent of sales, significantly higher than the average of preceding years.

On the basis of the planned organic growth and expected cash inflows and despite the heavy outlays, the Group's net financial debt will remain low in both 2009 and 2010. The number of employees in 2009 will again reflect the business volume. We are expecting an average head-count of 4,800 this year. For 2010, we predict that an additional 50 jobs will have to be staffed.

The Rail Infrastructure division is budgeted to report 2010 sales of over €800 million, the lion's share of which will come from the Switch Systems business unit. Rising demand is anticipated in virtually all regions, and apart from Asia especially in Eastern Europe, the MENA states, and the Americas. Even though the Rail Infrastructure division's profitability will be diminished by expected cost increases and fierce competition, EBIT and ROCE should remain well above the targeted benchmarks.



Sales, EBIT and ROCE trends 2006–2010p, Motive Power&Components division

With healthy order books, the Motive Power&Components division's two business units are expecting their solid performance to continue in 2009 and 2010. For these two years, Vossloh Locomotives is budgeting moderate sales growth.

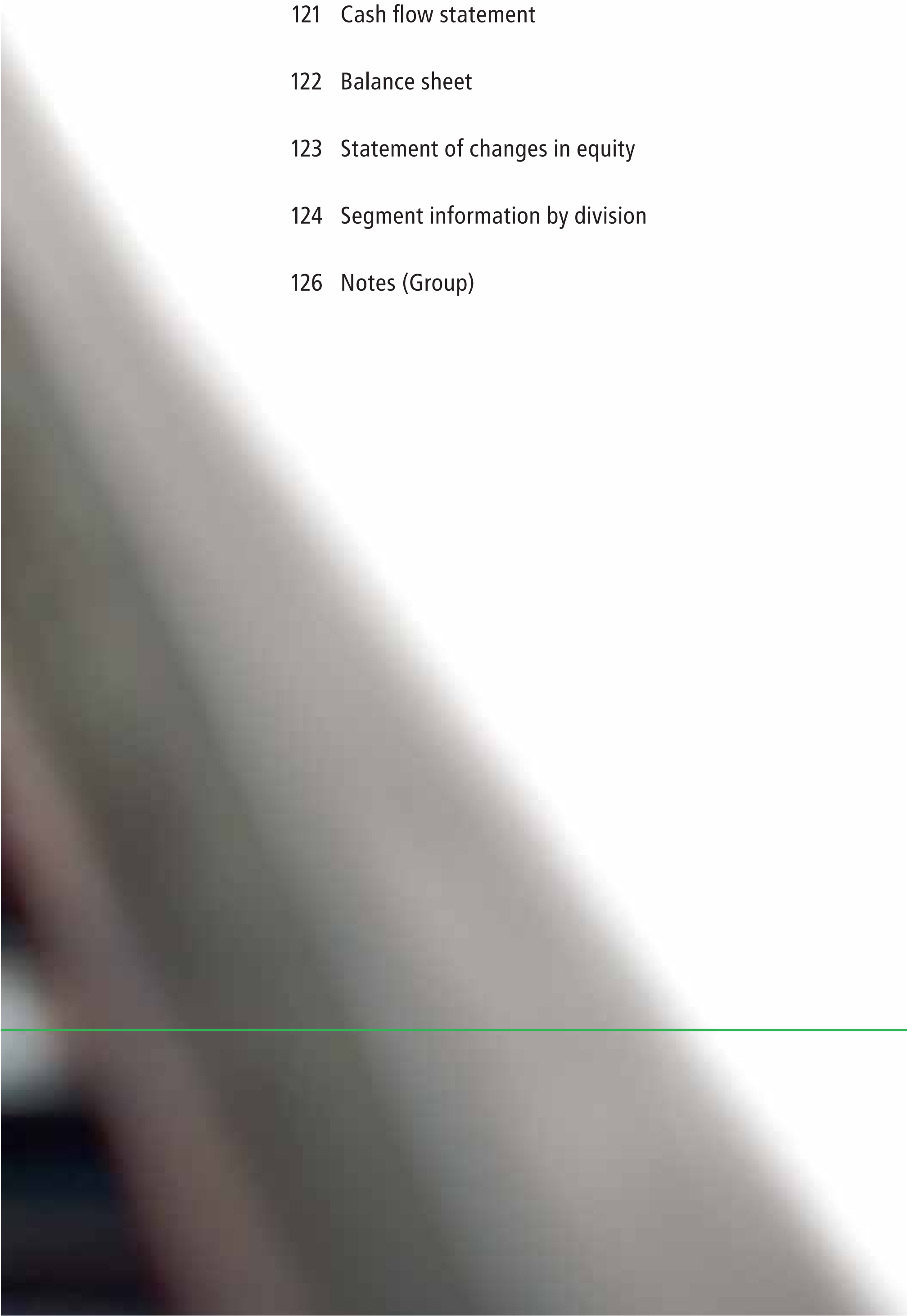
At year-end 2008, orders on hand at the Valencia location especially ensured capacity utilization well beyond 2009. Against the background of an order backlog theoretically sufficient for almost two years, Vossloh Electrical Systems is anticipating high sales gains. All in all, Motive Power&Components' sales are predicted to grow to well over €500 million by the year 2010. Continued successful working capital management and the fundamental further improvement in profitability are expected to result in an ROCE for Motive Power&Components in both 2009 and 2010 which is well above the 15-percent mark, the defined minimum, thus clearly underlining the ROCE appeal of its two business units.

The EBIT of Vossloh AG as the financial holding company is largely influenced by administrative expenses, which should remain within limits appropriate for the Group’s size in 2009 and 2010 as well.

Organic growth will remain the focus of Vossloh's objectives in the years ahead, as will the search for judicious acquisitions which ideally complement the existing portfolio of shareholdings strategically. This concerns possible expansion geographically in the switch business as well as additional products and services in Rail Infrastructure and Motive Power&Components. The aim of such acquisitions is firstly to optimize the Group's value-adding structures and secondly to open up additional growth opportunities. Sizable acquisitions are intended to meaningfully supplement the Group’s core competencies in mobility and transport. Acquisitions should always meet group requirements from the outset while adding value. The medium-term plan figures in the form represented refer to organic growth alone.

Consolidated financial statements

Consolidated financial statements of Vossloh AG as of December 31, 2008



Income statement for the year ended December 31, 2008

€ million	Note	2008	2007
Net sales	(1)	1,212.7	1,023.3
Cost of sales	(2.1)	(958.9)	(798.2)
General administrative and selling expenses	(2.2)	(128.8)	(121.3)
R&D expenses	(2.3)	(9.9)	(7.2)
Net other operating income	(3)	24.8	13.2
Operating result		**139.9**	**109.8**
Net P/L from associated affiliate	(4)	0.3	0.5
Other financial income	(5)	0.5	0.8
Other financial expenses	(6)	(3.0)	(0.0)
Earnings before interest and taxes (EBIT)		**137.7**	**111.1**
Interest income		11.6	6.5
Interest expense		(20.9)	(17.9)
Earnings before taxes (EBT)		**128.4**	**99.7**
Income taxes	(7)	(29.0)	(34.1)
Net income from continuing operations		**99.4**	**65.6**
Minority interests	(8)	(6.8)	(2.7)
Net result from discontinued operations	(9)	46.8	8.5
Group earnings		**139.4**	**71.4**
Undiluted earnings per share* (€)	(10)	9.48	4.83
thereof from continuing operations (€)	(10)	6.30	4.26
thereof from discontinued operations (€)	(10)	3.18	0.57
Fully diluted earnings per share (€)	(10)	9.48	4.83
thereof from continuing operations (€)	(10)	6.30	4.26
thereof from discontinued operations (€)	(10)	3.18	0.57

*During fiscal 2008 and 2007, altogether 14,703,152 and 14,767,569 no-par shares of stock, respectively, were issued on average.

Cash flow statement for the year ended December 31, 2008

€ million	2008		2007	
Cash flow from operating activities				
EBIT	137.7		111.1	
Net result from discontinued operations	46.8		8.5	
Amortization/depreciation/write-down (less write-up) of fixed assets	29.7		28.9	
Change in noncurrent accruals	3.9		3.3	
Gross cash flow		**218.1**		**151.8**
Noncash change in shares in associated affiliates	0.2		0.0	
Other noncash income/expenses, net	1.2		3.5	
Net book (gain)/loss from the disposal of fixed assets	(47.9)		0.1	
Cash inflow from the sale/(outflow for the purchase) of short-term securities	15.2		(2.4)	
Income taxes paid	(39.9)		(29.2)	
Change in working capital	(19.8)		(60.9)	
Change in current accruals	25.6		22.7	
Change in other assets/liabilities	5.3		(5.4)	
Net cash provided by operating activities		**158.0**		**80.2**
Cash flow from investing activities				
Cash outflow for additions to intangibles and tangibles	(37.6)		(52.6)	
Cash outflow for additions to noncurrent financial instruments	(0.6)		(0.8)	
Cash inflow from the disposal of intangibles and tangibles	6.3		1.1	
Cash inflow from the disposal of noncurrent financial instruments	3.7		0.9	
Cash inflow from the disposal of consolidated subsidiaries	145.0		1.9	
Cash outflow for the acquisition of consolidated subsidiaries	(15.2)		(74.1)	
Net cash provided by/(used in) investing activities		**101.6**		**(123.6)**
Cash flow from financing activities				
Change in treasury stock	(62.7)		0.0	
Cash inflow from equity increases	0.0		2.4	
Cash outflow to Vossloh stockholders and minority interest holders	(26.3)		(20.0)	
Net financing from short-term credits	25.9		(5.6)	
Net financing from medium- and long-term loans	(7.3)		9.8	
Cash inflow from interest	5.7		6.1	
Cash outflow for interest	(21.3)		(18.4)	
Net cash used in financing activities		**(86.0)**		**(25.7)**
Net inflow/(outflow) of cash & cash equivalents	173.6		(69.1)	
Change in cash & cash equivalents from initial consolidation	2.9		0.0	
Opening cash & cash equivalents	71.3		140.4	
Closing cash & cash equivalents	247.8		71.3	

The cash flows shown above include those of the discontinued Infrastructure Services operations. The separate breakdown of such cash flows under the terms of IFRS 5:33/34 is presented in the notes.

Balance sheet

Assets in € million	Note	12/31/2008	12/31/2007
Total noncurrent assets		**463.7**	**533.8**
Intangible assets	(11)	313.6	352.2
Tangible assets	(12)	108.4	139.4
Investment properties	(13)	4.8	4.0
Shares in associated affiliates	(14)	0.6	0.8
Other noncurrent financial instruments	(15)	11.1	10.8
Sundry noncurrent assets	(16)	0.5	0.5
Deferred tax assets	(17)	24.7	26.1
Total current assets		**875.7**	**793.0**
Inventories	(18)	321.1	237.2
Trade receivables	(19)	262.3	396.6
Income tax assets	(20)	9.5	6.0
Sundry current assets	(21)	34.9	50.7
Short-term securities	(22)	0.1	31.2
Cash & cash equivalents	(23)	247.8	71.3
		1,339.4	**1,326.8**

Equity & liabilities in € million	Note	12/31/2008	12/31/2007
Total equity	(24)	**492.7**	**434.0**
Capital stock	(24.1)	37.8	37.8
Additional paid-in capital	(24.2)	42.7	42.7
Treasury stock	(24.3)	(62.7)	–
Reserves retained from earnings	(24.4)	315.4	268.7
Undistributed group profit		0.1	0.0
Group earnings		139.4	71.4
Accumulated other comprehensive income	(24.5)	3.1	1.3
Stockholders' equity		**475.8**	**421.9**
Minority interests	(24.6)	16.9	12.1
Total noncurrent liabilities and accruals		**305.5**	**291.5**
Pension accruals	(25)	8.9	11.5
Noncurrent tax accruals		4.0	0.0
Other noncurrent accruals	(26)	63.2	37.0
Noncurrent financial debts	(27.1)	173.2	182.7
Other noncurrent liabilities	(27.4)	34.9	42.2
Deferred tax liabilities	(17)	21.3	18.1
Total current liabilities and accruals		**541.2**	**601.3**
Current tax accruals	(27)	6.6	13.8
Other current accruals	(26)	150.1	133.9
Current financial debts	(27.1)	39.6	44.7
Trade payables	(27.2)	228.9	271.9
Income tax liabilities	(27.3)	7.1	12.7
Sundry current liabilities	(27.4)	108.9	124.3
		1,339.4	**1,326.8**

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	Stockholders' equity	Minority interests	Total
Balance at 1/1/2007	**37.7**	**40.4**	**–**	**268.0**	**0.1**	**20.3**	**(4.7)**	**361.8**	**9.3**	**371.1**
Carryforward to new account					20.3	(20.3)		0.0		0.0
Transfer to reserves retained from earnings				0.7	(0.7)			0.0		0.0
Change due to derecognition									(1.2)	(1.2)
Change due to initial consolidation					(0.5)			(0.5)	1.3	0.8
Stockholder-unrelated changes in equity	–	–	–	0.7	19.1	(20.3)	–	(0.5)	0.1	(0.4)
Net income for 2007						71.4		71.4	2.7	74.1
Accumulated OCI										
currency translation differences							(1.4)	(1.4)	0.3	(1.1)
statement at fair value of financial instruments							7.4	7.4		7.4
Comprehensive income	–	–	–	–	–	71.4	6.0	77.4	3.0	80.4
Capital increases										
from SOPs	0.1	2.3						2.4		2.4
other								–	0.5	0.5
Dividend payout					(19.2)			(19.2)	(0.8)	(20.0)
Stockholder-related changes in equity	0.1	2.3	–	0.0	(19.2)	–	–	(16.8)	(0.3)	(17.1)
Balance at 12/31/2007	**37.8**	**42.7**	**–**	**268.7**	**0.0**	**71.4**	**1.3**	**421.9**	**12.1**	**434.0**
Carryforward to new account					71.4	(71.4)		0.0		0.0
Transfer to reserves retained from earnings				46.1	(46.1)			0.0		0.0
Change due to initial consolidation				0.6				0.6		0.6
Stockholder-unrelated changes in equity	–	–	–	46.7	25.3	(71.4)	0.0	0.6	0.0	0.6
Net income for 2008						139.4		139.4	6.8	146.2
Accumulated OCI										
currency translation differences							(0.9)	(0.9)	(0.9)	(1.8)
statement at fair value of financial instruments							2.7	2.7	0.0	2.7
Comprehensive income	–	–	–	–	–	139.4	1.8	141.2	5.9	147.1
Capital increases										
from SOPs	0.0	0.0						0.0		0.0
Dividend payout					(25.2)			(25.2)	(1.1)	(26.3)
Repurchase of treasury stock			(62.7)					(62.7)		(62.7)
Stockholder-related changes in equity	–	0.0	(62.7)	0.0	(25.2)	–	–	(87.9)	(1.1)	(89.0)
Balance at 12/31/2008	**37.8**	**42.7**	**(62.7)**	**315.4**	**0.1**	**139.4**	**3.1**	**475.8**	**16.9**	**492.7**

Segment information by division

€ million		Rail Infrastructure[3]	Motive Power& Components	Discontinued Information Technologies operations
Net external sales	2008	697.0	504.1	–
	2007	549.2	468.2	–
Intersegment transfers	2008	10.1	0.9	–
	2007	5.1	0.7	–
Amortization/depreciation	2008	10.9	11.1	–
	2007	9.0	9.5	–
Write-down (impairment losses)[1]	2008	0.0	0.0	–
	2007	0.0	0.0	–
EBIT	2008	113.4	42.3	–
	2007	99.8	30.6	–
Net interest result	2008	(12.0)	2.8	–
	2007	(9.7)	(1.7)	–
EBT	2008	101.4	45.1	–
	2007	90.1	28.9	–
Net income from continuing operations	2008	81.9	37.2	–
	2007	58.9	24.5	–
Net result of discontinued operations	2008	54.4	0.0	–
	2007	6.5	0.0	(4.8)
Net earnings (EAT)[2]	2008	129.6	37.1	–
	2007	56.1	24.6	(4.8)
Net profit from associated affiliate	2008	0.3	–	–
	2007	0.5	–	–
Other major noncash segment expenses	2008	64.8	72.3	–
	2007	37.3	60.8	–
Capital expenditures for tangible assets	2008	19.3	16.8	–
	2007	39.0	13.3	0.0
Total operating assets	2008	621.6	404.4	–
	2007	768.7	370.9	0.0
Total operating liabilities	2008	200.1	328.1	–
	2007	252.2	280.2	0.0
Shares in associated affiliates	2008	0.6	–	–
	2007	0.8	–	0.0
Capital employed	2008	524.8	202.6	–
	2007	606.4	198.7	0.0
Total assets	2008	699.6	542.6	–
	2007	830.8	465.3	0.0

[1]Excluding noncurrent financial instruments
[2]Before profit/loss transfer
[3]Prior-year income statement data adjusted for the contributions of Vossloh Infrastructure Services

Intermediate holding company/consolidation	Rail Technology (RT)	H.O./holding companies/consolidation	Group
0.0	1,201.1	0.3	1,201.4
0.0	1,017.4	0.3	1,017.7
0.0	11.0	0.3	11.3
(0.2)	5.6	0.0	5.6
0.0	22.0	0.8	22.8
0.0	18.5	0.8	19.3
0.0	0.0	0.0	0.0
0.0	0.0	0.3	0.3
0.0	155.7	(18.0)	137.7
0.0	130.4	(19.3)	111.1
0.0	(9.2)	(0.1)	(9.3)
(0.1)	(11.5)	0.,1	(11.4)
0.0	146.5	(18.1)	128.4
0.0	119.0	(19.3)	99.7
0.0	119.1	(19.7)	99.4
0.0	83.4	(17.8)	65.6
0.0	54.4	(7.6)	46.8
0.0	1.7	6.8	8.5
0.1	166.8	(27.4)	139.4
6.5	82.4	(11.0)	71.4
0.0	0.3	0.0	0.3
0.0	0.5	0.0	0.5
0.0	137.1	14.3	151.4
7.9	106.0	7.4	113.4
0.1	36.2	1.4	37.6
(1.2)	51.1	1.5	52.6
0.0	1,026.0	15.4	1,041.4
0.0	1,139.6	12.0	1,151.6
0.0	528.2	45.7	573.9
0.0	532.4	55.9	588.3
0.0	0.6	0.0	0.6
0.0	0.8	0.0	0.8
(0.1)	727.3	4.8	732.1
0.0	805.1	11.1	816.2
0.0	1,242.2	97.2	1,339.4
(0.2)	1,295.9	30.9	1,326.8

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2008

General

Vossloh AG is a listed resident company based in Werdohl, Germany, and registered under number HRB 5292 at the Commercial Register of the Local Court of Iserlohn. The Vossloh Group's key activities include the manufacture and marketing of rail infrastructure and rail technology products. The present consolidated financial statements were prepared in due accordance with the 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 following Standards and Interpretations, though already published on December 31, 2008, did not require application as of such date, were not yet adopted as European law, or are irrelevant to Vossloh's consolidated financial statements:

Standards:
- IFRS 1, *First-Time Adoption of the International Financial Reporting Standards*, as from Jan. 1, 2009
- IFRS 2, *Share-Based Payments*, as from Jan. 1, 2009
- IFRS 3, *Business Combinations*, as from July 1, 2009
- IFRS 8, *Operating Segments*, as from Jan. 1, 2009
- IAS 1, *Presentation of Financial Statements*, as from Jan. 1, 2009
- IAS 23, *Borrowing Costs*, as from Jan. 1, 2009
- IAS 27, *Consolidated and Separate Financial Statements*, as from Jan. 1, 2009
- IAS 32, *Financial Instruments: Presentation*, as from Jan. 1, 2009
- IAS 39, *Financial Instruments: Recognition and Measurement*, as from July 1, 2008
- *Improvements to IFRS*, as from Jan. 1, 2009

Interpretations:
- IFRIC 12, *Service Concession Arrangements*, as from Jan. 1, 2008
- IFRIC 13, *Customer Loyalty Programs*, as from July 1, 2008
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, as from Jan. 1, 2009
- IFRIC 15, *Agreements for the Construction of Real Estate*, as from Jan. 1, 2009
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, as from Oct. 1, 2008
- IFRIC 17, *Distributions of Noncash Assets to Owners*, as from July 1, 2009
- IFRIC 18, *Transfers of Assets from Customers*, as from July 1, 2009

The option of their early application was not exercised for the period. The aforementioned IASB rules are not expected to have any significant effect on the consolidated financial statements.

Application of the following Standard amendments and new Interpretation was binding for the first time:

- IAS 39 and IFRS 7 amendments: reclassification of financial instruments
- IFRIC 11, *IFRS 2—Group and Treasury Share Transactions*

The new rules did not impact on the consolidated financial statements.

The financial statements of all companies included in Vossloh's consolidated financial statements are prepared as of December 31 (Vossloh AG's closing date) in accordance with groupwide uniform accounting and valuation methods; they are audited or reviewed by independent statutory accountants. The Group's currency is the euro (€). The income statement is presented in the cost-of-sales format.

Preparing the consolidated financial statements requires management to make certain assumptions and estimates. These estimates affect the reported values of recognized assets and liabilities and of current balances of contingent liabilities, as well as the recognition of income and expenses in the period. The actual values subsequently determined may differ from those estimates and hence from the amounts disclosed in the consolidated financial statements. The estimates and underlying assumptions are subject to ongoing review. Adjustments are accounted for in the period of change.

Estimates are particularly required for the capitalization and impairment testing of goodwill (cf. Note 11), the recognition of deferred taxes (cf. Note 17), the determination of the discount rate for pension accruals (cf. Note 25), as well as for the recognition and measurement of other accruals (cf. Note 26).

Consolidation

Consolidation principles

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 and included therein from the date at which control is gained until control is no longer exerted. The acquisition method of accounting is used for capital consolidation. Accordingly, the cost of the acquired shares in subsidiaries is offset against their revalued equity. All of the acquiree's identifiable assets and liabilities (including contingent liabilities) are stated at fair value as of the acquisition date. Any residual net assets over cost are capitalized as goodwill according to IFRS 3 and tested for impairment once annually. Any resulting badwill is directly released to income.

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. 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. Profits and losses from intercompany trade transfers are eliminated.

Joint ventures are consolidated pro rata according to IAS 31, i.e., the assets, liabilities, income and expenses of joint ventures are included at the percentage of interest held. Capital is consolidated pro rata in analogous accordance with acquisition method principles.

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.

The remaining investees, in which Vossloh holds (directly or indirectly) a voting interest below 20 percent, are disclosed at the lower of cost or market within other noncurrent financial instruments.

Consolidation group

In comparison to year-end 2007, five companies were fully consolidated for the first time as of December 31, 2008. Eleven companies were excluded from the consolidation group. Consequently, 44 subsidiaries (including 12 in Germany) were fully consolidated as of December 31, 2008.

Changes in fully consolidated subsidiaries

	2008	2007
January 1	50	46
newly consolidated	5	9
derecognized	(11)	(4)
merged intragroup	–	(1)
December 31	44	50

As of December 31, 2008, two companies based outside Germany were included pro rata in the consolidated financial statements (down from 25). One affiliate is carried at equity.

Due to their minor significance to the Group's asset and capital structure, financial position and results of operations, 20 subsidiaries (down from 23) 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.

Acquirees

The following 5 subsidiaries were newly consolidated in 2008:

- Vossloh Rail Technologies Ltd. Şti., Istanbul, Turkey
- Vossloh Australia Pty. Ltd., Castle Hill, Australia
- Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia
- Sportek Maskinfabrik A/S, Horsens, Denmark
- Kloos Oving B.V., Alblasserdam, Netherlands

The latter three companies have been assigned to the Switch Systems business unit.

Vossloh Rail Technologies Ltd. Şti. is held by Vossloh Fastening Systems and has been newly consolidated as of December 31, 2008, due to its increased importance.

Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia, has been included in the consolidated financial statements since January 1, 2008, after acquiring by asset deal of November 19, 2007, the rail switch operations from Thompsons Kelly & Lewis Pty. Ltd. (TKL), a subsidiary wholly owned by Flowserve Corporation, Castlemaine, Victoria, Australia. The purchase price paid in 2007 under the asset deal (closed December 14, 2007) amounted to $A 14.1 million (€8.3 million).

In connection with the above acquisition, Vossloh Australia Pty. Ltd., Castle Hill, Australia, a subsidiary wholly owned by Vossloh AG, has been fully consolidated since January 1, 2008, too. The subsidiary's key assets are the Vossloh Group's Australian investments.

Effective January 3, 2008, Sweden's Vossloh Nordic Switch Systems AB took over all of the shares in Sportek Maskinfabrik A/S, a Horsens-based Danish rail switch manufacturer also newly consolidated as of January 1, 2008.

The acquisition price of €6.5 million contrasted with the following assets and liabilities:

€ million	Pre-combination book values	Adjustments	Fair values at initial consolidation date
Intangible assets	0.0	0.9	0.9
Current receivables, inventories, cash & cash equivalents	2.9	0.0	2.9
Current liabilities and accruals	(1.5)	(1.2)	(2.7)
Deferred tax liabilities	0.0	(0.3)	(0.3)
Net assets acquired	**1.4**	**(0.6)**	**0.8**
Acquisition price			6.5
Purchase incidentals			0.0
Total cost			**6.5**
Residual goodwill			**5.7**

Since its acquisition, Sportek Maskinfabrik A/S has contributed sales of €11.2 million and net income of €1.5 million to the Group's.

In February, France's Vossloh Cogifer executed an agreement on the takeover of all shares in Kloos Oving B.V., a rail switch supplier based in Alblasserdam near Rotterdam. The transaction was closed, and the subsidiary newly consolidated, in March 2008.

The acquisition price of €8.9 million contrasted with the following assets and liabilities:

€ million	Pre-combination book values	Adjustments	Fair values at initial consolidation date
Intangible assets	0.0	1.8	1.8
Tangible assets	0.6	0.0	0.6
Current receivables, inventories, cash & cash equivalents	4.9	0.2	5.1
Current liabilities and accruals	(3.4)	0.0	(3.4)
Deferred tax liabilities	0.0	(0.5)	(0.5)
Net assets acquired	**2.1**	**1.5**	**3.6**
Acquisition price			8.9
Purchase incidentals			0.0
Total cost			**8.9**
Residual goodwill			**5.3**

Since its acquisition, Kloos Oving B.V. has contributed sales of €14.8 million and net income of €0.4 million to the Group's.

Assuming that the subsidiary had been acquired at January 1, 2008, sales would have risen by €3.0 million and the Group's net by €0.1 million.

Divestees, derecognized companies and discontinued operations

At June 30, 2008, the Vossloh Group executed a share sale and transfer agreement on the divestment of the Infrastructure Services (VIS) business unit. VIS built and maintained trackage and installed overhead lines. The fixed total price for all of the shares in Vossloh Infrastructure Services (including subsidiaries) was €150 million.

In accordance with IFRS 5, VIS is shown as discontinued operation. After the antitrust authorities had given their go-ahead, the share deal was closed on September 19, 2008, and the divestee derecognized.

Upon the divestment, the following nine companies left the consolidation group:

- Vossloh Infrastructure Services SA, Beauchamp, France
- ETF SA, Paris, France
- La Champenoise SA, Champagne au Mont d'Or, France
- Vossloh Infrastructure Services Luxembourg SA, Pétange, Luxembourg
- Dehé Bahnbau GmbH, Trier, Germany
- Vossloh Infrastructure Services Belgium SA/NV, Carnières, Belgium
- Cogifer TF B.V., Goirle, Netherlands
- Cogimex SA de CV, Mexico City, Mexico
- Vossloh Infrastructure Services Ltd., UK

Additionally, the above share sale and transfer included two unconsolidated subsidiaries and 23 joint ventures consolidated pro rata.

Having been consummated during the fiscal year, the divestment impacted on the consolidated balance sheet and income statement.

However, with a view to facilitating year-on-year comparability of the balance sheet as of December 31, 2008, the assets and liabilities sold and derecognized are presented below:

€ million	8/12/2008	12/31/2007
Noncurrent assets	**93.5**	**93.5**
Intangible assets	55.5	55.5
Tangible assets	35.8	35.6
Other noncurrent financial instruments	0.1	0.1
Deferred tax assets	2.1	2.3
Current assets	**137.2**	**133.5**
Inventories	13.1	10.9
Trade receivables	92.4	100.0
Income tax assets	0.2	0.3
Other current assets	12.4	15.4
Short-term securities	15.8	0.5
Cash and cash equivalents	3.3	6.4
Total assets disposed of	**230.7**	**227.0**
Noncurrent liabilities and accruals	**4.5**	**7.1**
Other noncurrent accruals	2.5	2.3
Noncurrent financial debts	1.1	3.9
Deferred tax liabilities	0.9	0.9
Current liabilities and accruals	**143.9**	**142.4**
Current tax accruals	1.6	1.8
Other current accruals	10.7	12.9
Current financial debts	7.1	3.6
Trade payables	51.8	51.3
Income tax liabilities	2.3	1.1
Other current liabilities	70.4	71.7
Total liabilities disposed of	**148.4**	**149.5**
Net assets disposed of	**82.3**	**77.5**

Having reclassified all VIS expense and income items into the net result from discontinued operations the income statements for 2008 and 2007 are, in fact, comparable.

The net result from discontinued operations for 2008 is separately detailed in Note (9) to the income statement.

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 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 the first 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			Current rate at Dec. 31,		Average rate in	
Country	Currency	€	2008	2007	2008	2007
Australia	AUD	€1.00	2.03	1.68	1.74	1.64
China	CNY	€1.00	9.61	10.74	10.25	10.43
Denmark	DKK	€1.00	7.45	7.46	7.46	7.45
India	INR	€1.00	68.43	57.59	64.13	56.61
Mexico	MXN	€1.00	19.35	16.07	16.31	14.98
Norway	NOK	€1.00	9.79	7.97	8.23	8.02
Poland	PLN	€1.00	4.18	3.59	3.52	3.79
Serbia	RSD	€1.00	89.93	78.80	82.04	81.70
Sweden	SEK	€1.00	10.92	9.44	9.62	9.25
Turkey	TRL	€1.00	2.15	1.71	1.91	1.79
UK	GBP	€1.00	0.96	0.73	0.79	0.68
USA	USD	€1.00	1.40	1.47	1.47	1.37

Notes to the consolidated income statement

(1) Net sales

Breakdown of net sales

€ million	2008	2007
Products and services	868.2	756.2
PoC contracts	344.5	267.1
Total	**1,212.7**	**1,023.3**

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 or partial invoices have been agreed upon in advance, sales are recognized after the customer has finally and formally accepted the milestone or partial delivery.

Revenue from specific manufacturing or construction contracts with customers ("PoC contracts") is 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.

Pages 124 and 163/164 include breakdowns of net sales according to primary and secondary segments (i.e., by division and geographical market/region).

(2) Functional expenses

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

Expense types

€ million	2008	2007
Cost of raw materials, supplies	652.3	533.9
Cost of services purchased	73.4	64.5
Cost of materials	**725.7**	**598.4**
Wages and salaries	180.2	157.4
Social security and related employee benefits	39.2	34.6
Pension expense	3.7	2.1
Personnel expenses	**223.2**	**194.1**
Amortization/depreciation/write-down	**22.8**	**19.6**
Operating leases	**9.9**	**7.9**

The Vossloh Group's annual average headcount in 2008 came to 4,661 (up from 4,129 excluding the discontinued VIS operation's employees).

(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 and depreciation, as well as any write-down charged in the period to inventories.

(2.2) General administrative and selling (GAS) expenses

Breakdown of GAS expenses

€ million	2008	2007
Selling expenses	65.5	61.5
General administrative expenses	63.3	59.8
	128.8	**121.3**

General administrative expenses cover the payroll and other expenses of administration, including the related amortization and depreciation.

Besides payroll, selling expenses mainly consist of outbound freight and commissions and include most of the allowances for bad trade receivables and sundry assets at €2.0 million (down from €5.4 million).

(2.3) R&D expenses

In accordance with IAS 38, all research costs are directly expensed in this line. The costs incurred for developing a marketable product are capitalized where meeting the intangible-asset recognition criteria. Noncapitalizable development costs are expensed in this line, too. R&D expenses before capitalized other work and material in 2008 came to €12.5 million (up from €9.5 million).

(3) Net other operating income

Net other operating income

€ million	2008	2007
Income from the release of accruals	9.8	12.2
Foreign exchange gains	9.1	1.0
Income from damages	5.3	–
Allowances released and write-up	1.8	1.1
Gains from fixed-asset disposal	1.4	0.1
Rental income	1.3	1.0
Income from public grants/subsidies	1.0	0.0
Insurance claims/indemnities	0.7	0.8
Sundry income	4.7	4.4
Other operating income	**35.1**	**20.6**
Foreign exchange losses	(8.7)	(3.2)
Expenses for building M&R	(0.7)	(0.7)
Losses on fixed-asset disposal	(0.3)	(0.3)
Sundry expenses	(0.6)	(3.2)
Other operating expenses	**(10.3)**	**(7.4)**
Net other operating income	**24.8**	**13.2**

Income from public grants refers to R&D-related subsidies or government assistance. Such grants are recognized as deferred income which is then amortized to income over the estimated useful life of the asset concerned. Conditions yet to be met and whose non-satisfaction would entail the repayment of grants do not exist, nor do any contingent liabilities in this context.

(4) Net P/L from associated affiliate

The €0.3 million profit from the associated affiliate (down from €0.5 million) reflects the profit proratable to the Vossloh Group and earned from the investment in BV Oberflächentechnik GmbH & Co. KG, Werdohl.

(5) Other financial income

Breakdown of other financial income:

€ million	2008	2007
Income from shares in unconsolidated subsidiaries	0.5	0.3
Income from securities	0.0	0.3
Write-up of financial instruments	–	0.2
	0.5	**0.8**

(6) Other financial expenses

Breakdown of other financial expenses:

€ million	2008	2007
Write-down of financial instruments	2.4	0.0
Expenses for shares in unconsolidated subsidiaries	0.1	–
Losses on the statement at fair value of currency forwards	0.5	0.0
	3.0	**0.0**

(7) Income taxes

Breakdown of income taxes

€ million	2008	2007
Current income taxes	27.6	34.0
Deferred taxes	1.4	0.1
Total income taxes	**29.0**	**34.1**

An income tax rate of 30 percent (down from 40) is applied to the taxable income of the Vossloh Group's German subsidiaries and encompasses the current corporate income tax rate of 15 percent for 2008 (down from 25), the solidarity surtax thereon, and the municipal trade tax. Consequently, the tax rate was cut by 10 percentage points.

The Vossloh Group's actual tax expense of €29.0 million (down from €34.1 million) is €9.5 million (up from €5.8 million) below the calculated (expected) tax expense resulting from applying a groupwide uniform rate of 30 percent to EBT (down from 40).

Reconciliation of the expected to the actually recognized tax expense:

		2008	2007
Earnings before taxes (EBT)	€ mill.	128.4	99.7
Tax rate incl. municipal trade tax	%	30.0	40.0
Expected tax expense at a single rate	€ mill.	38.5	39.9
Tax reduction due to lower rates abroad	€ mill.	(13.2)	(7.1)
Tax reduction from tax-exempt investment income	€ mill.	(0.1)	(0.1)
Tax increase for nondeductible business expenses	€ mill.	0.9	0.7
Taxes for prior years	€ mill.	(0.5)	1.3
Tax expense for the write-down of deferred tax assets	€ mill.	3.6	0.0
Other differences	€ mill.	(0.2)	(0.6)
Recognized income tax burden	€ mill.	29.0	34.1
Actual income tax rate	%	22.6	34.2

Total deferred taxes from items directly recognized in OCI came to €1.4 million (down from €4.2 million).

The dividend payout neither increased nor decreased corporate income tax.

(8) Minority interests

The Group's net income includes minority interests in profit of €7.0 million (up from €2.8 million) and in loss of €0.2 million (up from €0.1 million).

(9) Net result from discontinued operations

Breakdown of net result from discontinued operations

€ million	2008	2007
Net sales	158.9	217.2
Cost of sales	(138.6)	(195.2)
GAS expenses	(17.6)	(23.6)
Net other operating income	6.2	14.9
Operating result	**8.9**	**13.3**
Other financial results	0.0	0.1
EBIT	**8.9**	**13.4**
Net interest expense	(0.9)	(0.9)
EBT of discontinued operations	**8.0**	**12.5**
Income taxes	(3.1)	(4.0)
EAT of discontinued operations	**4.9**	**8.5**
Gain on disposal of discontinued operations	43.2	–
Income taxes on divestment	(1.3)	–
Net result from disposal	**41.9**	**–**
Net result from discontinued operations	**46.8**	**8.5**

(10) Earnings per share

Earnings per share

		2008	2007
Weighted average number of common shares		14,795,828	14,776,256
Weighted number of repurchased shares		(92,676)	(8,687)
Weighted average shares outstanding		14,703,152	14,767,569
Dilutive effects of LTIP/ESOP options	shares	52	14,715
Diluted weighted average shares issued		14,703,204	14,782,284
Group earnings	€ mill.	139.4	71.4
Basic (undiluted) EpS	€	9.48	4.83
thereof from continuing operations	€	6.30	4.26
thereof from discontinued operations	€	3.18	0.57
Fully diluted EpS	€	9.48	4.83
thereof from continuing operations	€	6.30	4.26
thereof from discontinued operations	€	3.18	0.57

Note to the consolidated statement of cash flows

The consolidated statement of cash flows 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. Cash equivalents comprise any financial instruments maturing within three months and readily convertible into cash.

The cash flow statement is prepared in conformity with IAS 7 and breaks down changes in cash and cash equivalents 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 flow statement also includes the cash inflows and outflows of Vossloh Infrastructure Services, which is reported as discontinued operation in the income statement.

The cash flows included in the statement but allocable to this business unit/division are listed below:

Cash flows of discontinued operations

€ million	2008	2007
Cash flow from operating activities	**2.4**	**53.3**
Cash flow from investing activities	**(5.3)**	**(46.4)**
Cash flow from financing activities	**(0.2)**	**(4.4)**
Net cash (outflow)/inflow	(3.1)	2.5
Change in cash and cash equivalents from initial consolidation	0.0	0.3
Opening cash and cash equivalents	**6.4**	**3.6**
Closing cash and cash equivalents	**3.3**	**6.4**

For fiscal 2007, the statement also reflects a net cash inflow from Vossloh Information Technologies' investing activities of €1.9 million, a division derecognized in 2007.

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.

(11) Intangible assets

Breakdown of intangible assets

€ million	12/31/2008	12/31/2007
Goodwill	293.5	334.4
Capitalized development costs	14.3	11.7
Concessions/licenses/property rights/software	5.7	6.1
Prepayments on intangibles	0.1	0.0
	313.6	352.2

Except for goodwill, all intangible assets are finite-lived and therefore carried at amortized cost.

Pursuant to IFRS 3 in conjunction with IAS 36 and IAS 38, goodwill from acquisitions (business combinations) is not amortized but its value tested once annually for impairment. To this end, the net book value of CGUs including goodwill is contrasted to the discounted cash flows (applying a pretax rate of 10.6 percent) expected from the relevant cash-generating units (CGUs) in line with the medium-term (3-year) detailed plan, which is based on empirical data and expected future market trends. The average annual growth rates assumed in this planning period for the Rail Infrastructure and Motive Power&Components divisions are around 7 and 4 percent, respectively. For periods beyond this planning horizon, the cash flows are updated by assuming a uniform annual growth rate of one percent to determine value in use. Since the discounted cash flows exceed goodwill book values, no goodwill write-down was required.

Goodwill breakdown by segment

€ million	12/31/2008	12/31/2007
Rail Infrastructure	222.2	263.1
Motive Power&Components	71.3	71.3
	293.5	334.4

Development costs are capitalized at cost wherever (i) the latter can clearly be assigned, (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 or indirectly assignable to the development process. Capitalized development costs are amortized by straight-line charges based on useful lives of 3 to 7 years.

Concessions (incl. franchises), licenses, property rights and software are as a rule amortized on a straight-line basis over 3 to 10 years.

Amortization of intangible assets was charged at €6.4 million to the appropriate functional expenses, cf. Note (2). In fiscal 2007, write-down had additionally been charged at €0.013 million to intangibles.

Movement analysis of intangible assets:

€ million	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	Goodwill		Capitalized development costs		Concessions, industrial-property and similar rights and assets, as well as licenses thereto		Prepayments on intangibles		Total intangibles	
Net book values	**293.5**	**334.4**	**14.3**	**11.7**	**5.7**	**6.1**	**0.1**	**0.0**	**313.6**	**352.2**
At cost										
Balance at January 1	**335.3**	**301.9**	**20.3**	**14.8**	**25.8**	**21.7**	**0.0**	**–**	**381.4**	**338.4**
Change from initial consolidation	14.6	33.6	–	–	3.5	4.0	–	–	18.1	37.6
Change from derecognition	–	–		–		–		–	–	–
Additions (incl. current capex)	–	–	7.3	5.5	0.9	1.2	0.1	0.0	8.3	6.7
Disposals	–	(0.2)	–	–	(3.3)	(1.1)	–	–	(3.3)	(1.3)
Reclassified into assets of discontinued operations	(55.5)	–	–	–	(2.8)	–	–	–	(58.3)	–
Book transfers	–	–	–	0.0	0.1	0.0	0.0	–	0.1	0.0
Currency translation differences	–	–	–	–	0.1	0.0	–	–	0.1	0.0
Balance at December 31	**294.4**	**335.3**	**27.6**	**20.3**	**24.3**	**25.8**	**0.1**	**0.0**	**346.4**	**381.4**
Accumulated amortization and write-down										
Balance at January 1	**0.9**	**0.9**	**8.6**	**5.2**	**19.7**	**16.9**	**0.0**	**–**	**29.2**	**23.0**
Change from initial consolidation	–	–	–	–	–	0.9	–	–	–	0.9
Additions	–	–	4.7	3.4	1.8	2.5	–	–	6.5	5.9
Disposals	–	–	–	–	(0.1)	(0.4)	–	–	(0.1)	(0.4)
Reclassified into assets of discontinued operations	–	–	–	–	(2.8)	–	–	–	(2.8)	–
Currency translation differences	–	–	–	–	0.0	(0.2)	–	–	0.0	(0.2)
Balance at December 31	**0.9**	**0.9**	**13.3**	**8.6**	**18.6**	**19.7**	**0.0**	**–**	**32.8**	**29.2**

(12) Tangible assets

Breakdown of tangible assets

€ million	2008	2007
Land, equivalents titles, and buildings (incl. on leased land)	36.5	42.9
Production plant and machinery	51.4	74.0
Other plant, factory and office equipment	13.9	13.6
Prepayments on tangibles, construction in progress	6.6	8.9
	108.4	**139.4**

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

Useful lives of tangible assets	
Buildings	5–50 years
Production plant and machinery	2–21 years
Other plant, factory and office equipment	1–17 years

Where the value of a tangible asset is found impaired, appropriate write-down is charged, none being recognized in either 2008 or 2007. Depreciation of €16.2 million is included within the functional expenses in the income statement; cf. Note (2). Not included, however, in functional expenses is the depreciation charged within Vossloh Infrastructure Services and prorated up to June 30, 2008, since as of such date, the divestee was first disclosed as discontinued operation according to IFRS 5. While in the income statement this depreciation is part of the net result from discontinued operations, it is shown in the fixed-asset analysis as addition to depreciation in 2008.

Movement analysis of tangible assets:

€ million	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	Land, equivalent titles, and buildings (incl. on leased land)		Production plant and machinery		Other plant, factory and office equipment		Prepayments on tangibles, construction in progress		Tangible assets	
Net book values	**36.5**	**42.9**	**51.4**	**74.0**	**13.9**	**13.6**	**6.6**	**8.9**	**108.4**	**139.4**
At cost										
Balance at January 1	79.9	68.2	239.1	174.9	50.8	45.6	8.9	2.2	378.7	290.9
Change from initial consolidation	1.0	3.4	3.3	40.9	0.7	1.7	–	0.7	5.0	46.7
Additions (incl. current capex)	2.6	8.4	9.6	23.9	4.6	5.5	12.5	8.1	29.3	45.9
Disposals	(0.5)	(0.1)	(3.8)	(2.1)	(1.8)	(2.0)	(0.1)	(0.2)	(6.2)	(4.4)
Reclassified into assets of discontinued operations	(8.8)	–	(100.0)	–	(6.8)	–	(10.3)	–	(125.9)	–
Book transfers	(2.0)	0.2	2.1	1.6	0.9	0.1	(4.0)	(1.9)	(3.0)	0.0
Currency translation differences	(0.5)	(0.2)	(1.3)	(0.1)	(0.4)	(0.1)	(0.4)	0.0	(2.6)	(0.4)
Balance at December 31	**71.7**	**79.9**	**149.0**	**239.1**	**48.0**	**50.8**	**6.6**	**8.9**	**275.3**	**378.7**
Accumulated depreciation and write-down										
Balance at January 1	37.0	34.0	165.1	127.3	37.2	33.9	–	–	239.3	195.2
Change from initial consolidation	–	0.1	2.1	23.8	0.7	1.3	–	–	2.8	25.2
Additions	2.8	2.8	13.7	16.1	4.1	4.0	–	–	20.6	22.9
Disposals	(0.2)	0.0	(1.4)	(2.1)	(1.7)	(1.9)	–	–	(3.3)	(4.0)
Reclassified into assets of discontinued operations	(3.9)	–	(80.2)	–	(5.9)	–	–	–	(90.0)	–
Book transfers	(0.0)	0.0	(0.1)	0.0	0.0	0.0	–	–	(0.1)	0.0
Currency translation differences	(0.5)	0.1	(1.6)	0.0	(0.3)	(0.1)	–	–	(2.4)	0.0
Balance at December 31	**35.2**	**37.0**	**97.6**	**165.1**	**34.1**	**37.2**	**–**	**–**	**166.9**	**239.3**

(13) Investment properties

Movement analysis of investment properties:

€ million	2008	2007
Net book values	**4.8**	**4.0**
At cost		
Balance at January 1	20.3	20.3
Disposals	(15.6)	(0.0)
Book transfers	3.0	0.0
Currency translation differences	0.1	–
Balance at December 31	**7.8**	**20.3**
Accumulated depreciation and write-down		
Balance at January 1	16.3	15.9
Additions	0.2	0.4
Disposals	(13.6)	–
Book transfers	0.1	0.0
Currency translation differences	0.0	–
Balance at December 31	**3.0**	**16.3**

Investment properties include nonessential land and buildings partly leased to nongroup lessees. According to IAS 40, buildings owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years. Rental income in the period came to €0.1 million (down from €0.5 million). Expenses (including depreciation, M&R and incidentals) incurred in 2008 for properties leased out totaled €0.6 million (up from €0.3 million), those for other properties amounting to €0.043 million (down from €0.5 million). These expenses do not include any write-down (down from €0.2 million). The fair values of investment properties totaled €5.8 million at December 31, 2008 (down from €5.9 million) and are mostly based on current market prices of comparable real estate.

(14) Shares in associated affiliates

Movement analysis of shares in the associated affiliate:

€ million	2008	2007
Balance at January 1	**0.8**	**1.0**
Prorated profit	0.3	0.5
Dividend distribution	(0.5)	(0.7)
Balance at December 31	**0.6**	**0.8**
Total assets	2.5	3.3
Total liabilities	1.9	2.7
Net sales	11.0	11.7
Posttax P/L	0.6	1.0

This investment refers to the equity interest held in BV Oberflächentechnik GmbH & Co. KG, a Werdohl-based limited partnership carried at equity as associated affiliate since it is subject to Vossloh's significant influence.

(15) Other noncurrent financial instruments

Breakdown of other noncurrent financial instruments

€ million	2008	2007
Shares in unconsolidated subsidiaries	2.7	3.3
Shares in other investees	0.5	0.5
Other long-term securities	0.7	0.8
Long-term loans	0.1	2.4
Financial derivatives in hedges	7.0	3.7
Sundry noncurrent financial assets	0.1	0.1
Other noncurrent financial instruments	11.1	10.8

The shares in unconsolidated subsidiaries and in other investees are capitalized at cost.

Long-term securities with fixed or quantifiable payments and fixed maturities are carried at amortized cost using the effective interest rate method if they are quoted in an active market and classified as held to maturity.

Any other long-term securities are classified as available for sale and hence stated at fair value. Any fair value changes upon remeasurement are recognized as other comprehensive income (OCI) within equity only but, upon disposal of such securities, such accumulated OCI is recycled to the income statement.

The other financial instruments below investment level are valued according to their IAS 39 classification. For the reconciliation of the balance sheet line to the IAS 39 valuation categories, see pages 165/166, *Additional disclosures of financial instruments*.

Long-term loans not quoted in an active market as well as the sundry noncurrent financial assets are capitalized as straight instruments at fair value (which as a rule equals the principal receivable or the loan principal extended). Non- and low-interest loans and receivables are discounted. For their remeasurement (at amortized cost), the effective interest rate method is used.

Financial instruments in hedges are stated at fair value. The item covers the hedge of future interest payments for the US private placement. Fair value changes within this hedging relationship are recognized in OCI only.

(16) Other noncurrent assets

This line mostly includes long-term prepaid expenses and deferred charges.

In accordance with IAS 12, taxes are deferred for temporary differences between tax bases and IFRS accounting values, for tax loss carryforwards, as well as for consolidation transactions recognized in the income statement. Deferred taxes are determined at the rates anticipated according to legislation current at December 31 to apply upon their realization or recognition.

(17) Deferred taxes

Deferred taxes for temporary differences affected the following balance sheet lines:

Deferred taxes

€ million	2008		2007	
	Deferred tax		Deferred tax	
	assets	liabilities	assets	liabilities
Intangible and tangible assets	0.3	11.9	0.4	10.7
Inventories	2.0	0.1	1.1	2.9
Receivables	0.5	3.5	0.9	3.3
Other assets	0.2	4.3	0.0	0.1
Pension accruals	1.2	0.0	1.1	0.0
Other accruals	19.0	0.7	12.0	1.0
Liabilities	0.5	0.4	0.3	0.0
Other liability items	0.3	0.4	0.1	0.1
	24.0	21.3	15.9	18.1
Loss carryforwards	0.7	–	10.2	–
Recognized deferred taxes	**24.7**	**21.3**	**26.1**	**18.1**

As of December 31, 2008, loss carryforwards of €34.4 million (down from €53.8 million) existed in Germany for corporation income tax purposes and of €23.9 million for municipal trade tax purposes (down from €44.6 million). No taxes were deferred for corporation income tax losses of €32.5 million (up from €16.5 million) and municipal trade tax losses of €23.9 million (up from €16.5 million). According to current German legislation, the carryforward of tax losses is not subject to any limitation or restriction. Non-German companies reported tax loss carryforwards of an additional €1.1 million for which full taxes were deferred. Write-down of €3.6 million was charged to deferred tax assets in 2008.

(18) Inventories

Breakdown of inventories:

€ million	2008	2007
Raw materials and supplies	155.1	94.6
Work in process	119.4	102.3
Merchandise	10.2	6.4
Finished products	15.0	16.0
Prepayments made	21.4	17.9
Total	**321.1**	**237.2**

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, no borrowing (interest) costs being capitalized.

To the extent that inventories are valued groupwise, the average-price (MAP) method is used. Risks from obsolescence or slow-moving items are appropriately allowed for.

In the year under review, inventories were written down at €18.9 million (up from €17.0 million). The book value of inventories stated at NRV totaled €59.2 million (up from €20.0 million).

As the reasons for previous write-down existed no longer, inventories were written up by €0.002 million (down from €0.028 million).

(19) Trade receivables

Breakdown of trade receivables:

€ million	2008	2007
Sundry trade receivables	195.3	283.7
PoC receivables	67.0	112.9
Total	**262.3**	**396.6**

Given their short remaining term, trade receivables other than PoC receivables are carried at principal, specific risks being duly and reasonably allowed for.

Movement analysis of allowances for trade receivables:

€ million	2008	2007
Allowances as of Jan. 1	11.6	6.2
Reclassified into assets of discontinued operations	(2.7)	–
Added	3.3	6.7
Released	(0.8)	(1.1)
Utilized	(1.7)	(0.1)
Currency translation differences	(0.1)	(0.1)
Allowances as of Dec. 31	9.6	11.6

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

PoC receivables and payables

€ million	2008			2007		
	Receivables	Payables	Total	Receivables	Payables	Total
Total PoC contract progress	347.1	417.4	764.5	791.8	23.5	815.3
Prepayments received under PoC contracts	(280.1)	(506.5)	(786.6)	(678.9)	(119.5)	(798.4)
Recognized PoC receivables	**67.0**		**67.0**	**112.9**		**112.9**
Recognized PoC payables		**89.1**	**89.1**		**96.0**	**96.0**

The total PoC contract progress of €764.5 million (down from €815.3 million) includes contract costs of €665.3 million accumulated by December 31, 2008 (down from €727.1 million) as well as the profits prorated to such costs at €108.0 million (up from €105.5 million) and prorated losses of €8.8 million (down from €17.3 million).

(20) Income tax assets

These refer to income taxes refundable mainly to the Rail Infrastructure division.

(21) Sundry current assets

Breakdown of sundry current assets

€ million	2008	2007
Non-income tax assets	10.0	20.1
Interest receivable	6.5	0.5
Due from unconsolidated subsidiaries	5.9	14.6
Financial derivatives	3.6	0.3
Due from employees	1.5	2.1
Prepaid expenses and deferred charges	1.4	1.5
Short-term loans	0.9	0.9
Customers with credit balances	0.9	0.7
Due to third-party joint venturers from clearing	0.0	5.1
Miscellaneous	4.2	4.9
Sundry current assets	**34.9**	**50.7**

The receivables shown within sundry current assets are stated at cost or amortized cost, specific risks being duly and reasonably allowed for.

Movement analysis of allowances/write-down:

€ million	2008	2007
Balance at Jan. 1	0.9	0.6
Added	0.4	0.9
Released	(0.1)	(0.6)
Utilized	(0.1)	(0.0)
Currency translation differences	0.0	0.0
Balance at Dec. 31	**1.1**	**0.9**

The financial derivatives from currency hedges are stated at fair value.

For the reconciliation of the financial instruments shown as sundry current assets to the IAS 39 valuation categories, see pages 165/166, *Additional disclosures of financial instruments*. The non-income tax assets and the miscellaneous current assets are carried at cost.

(22) Short-term securities

This line reflects monies invested in short-term fixed-income securities which are classified as available for sale. The year before, it also included securities of €30.5 million held to maturity and stated at cost. The remaining securities shown here in 2007 had been held for trading (according to IAS 39) and valued as such.

For the reconciliation of short-term securities to the IAS 39 valuation categories, see pages 165/166, *Additional disclosures of financial instruments*.

(23) Cash and cash equivalents

This line encompasses cash on hand and in bank. The accounts due from banks all fall due within one year. Cash equivalents comprise any financial instruments maturing within three months and readily convertible into cash. Cash and cash equivalents are carried at principal or face value.

(24) Total equity

For the statement of changes in equity, see page 123.

(24.1) Capital stock

Vossloh AG's capital stock rose in 2008 to €37,824,979.68 and is divided into 14,795,846 no-par bearer shares of common stock only (up from 14,795,796). Unchanged, the capital was increased as stock options were exercised by staff.

	2008		2007	
	€	Shares	€	Shares
Balance at January 1	37,824,851.86	14,795,796	37,671,461.74	14,735,795
Stock options exercised	127.82	50	153,390.12	60,001
Balance at December 31	37,824,979.68	14,795,846	37,824,851.86	14,795,796

Employee bonus program 2008

Vossloh AG launched in 2008 a new bonus program for the employees of its German companies, offering them the option of acquiring either two shares free or four shares at a discount of 50 percent of the issue price of €83 per share. Under this program, Vossloh employees were granted in 2008 altogether 826 free shares at an expense to the Company of approx. €68,500.

Stock option programs 2005

In 2005, the Vossloh Group had launched stock option programs 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 inception. For each Vossloh share acquired, LTIP and ESOP participants received 10 or 3 stock options, respectively, entitling them to acquire Vossloh shares at the strike price (market price fixed at program inception). Option exercise is subject to certain relative and absolute benchmarks in terms of Vossloh stock price uptrends being achieved.
The stock options under the 2005 program were exercisable for the first time after expiration of the qualifying period on March 31, 2007.

The number of stock options issued developed as follows:

Movement analysis of stock options

	Number of options	Average strike price (€)
Jan. 1, 2007	**60,200**	**38.75**
exercised	(60,001)	38.75
expired	(75)	38.75
Dec. 31, 2007	**124**	**38.75**
thereof exercisable	124	38.75
Options		
granted	–	–
exercised	(50)	38.75
expired	–	–
Dec. 31, 2008	**74**	**38.75**
thereof exercisable	74	38.75

The options still exercisable as of December 31, 2008, have a remaining term of 1.25 years. The SOPs launched in 2005 have been valued in accordance with IFRS 2, which produced additional personnel expenses distributed over the qualifying period. Therefore, no such expenses were incurred in 2008 (down from €0.1 million).

(24.2) Additional paid-in capital

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

(24.3) Treasury stock

The AGM of May 21, 2008, authorized the Executive Board again to repurchase treasury shares equivalent to a maximum of 10 percent of the current capital stock pursuant to Art. 71(1) No. 8 AktG.

The Executive Board has been authorized, after first obtaining the Supervisory Board's approval, to dispose of such treasury shares ex rights in a form other than (i) through a stock market or (ii) by offering them to all Vossloh stockholders, however, always provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the stock market price then current for same-class Vossloh stock. In this case, the number of shares to be sold plus any shares issued or disposed of by applying the provisions of Art. 186(3) clause 4 AktG directly or mutatis mutandis, may not exceed the ceiling of ten percent of the capital stock.

The Executive Board has further been authorized, subject to the Supervisory Board's consent and excluding the stockholders’ subscription right, to sell and transfer to third parties any such repurchased (treasury) stock in the scope of business combinations or M&A transactions, or when acquiring other companies or any equity interest therein.

The treasury stock thus purchased may be redeemed and withdrawn with the Supervisory Board's approval, however, without requiring another vote by the general meeting.

This authority will expire after November 20, 2009. On October 15, 2008, the Executive Board, after first obtaining due Supervisory Board approval, decided to repurchase up to 1,479,582 treasury shares, corresponding to 10 percent of the capital stock.

In the period between October 16 and December 30, 2008, Vossloh AG repurchased an aggregate 907,000 treasury shares from the stock market at an average price of €69.10 per share and a total market value of €62,669,895.49. These treasury shares, which are deducted from equity, correspond to 6.1 percent of the capital stock. The stock repurchase is scheduled to be completed by April 15, 2009.

	Treasury shares repurchased	Value (€)	Capital stock (€)	Total shares issued	% of capital stock
October	182,000	10,722,541.40	37,824,979.68	14,795,846	1.23
November	293,000	20,056,694.21	37,824,979.68	14,795,846	1.98
December	432,000	31,890,659.88	37,824,979.68	14,795,846	2.92
Balance at Dec. 30, 2008	907,000	62,669,895.49	37,824,979.68	14,795,846	6.13

(24.4) Reserves retained from earnings

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

(24.5) Accumulated other comprehensive income

The OCI includes those differences from the currency translation of financial statements of non-German subsidiaries which are recognized in equity only, as well as unrealized gains/losses from the statement at fair value of derivatives within cash flow hedges and of financial instruments available for sale. The biggest single OCI item is the posttax positive fair value of €4.8 million of hedges of future interest payments for liabilities associated with the US private placement.

(24.6) Minority interests

Around €10.1 million of these refer to shares held by nongroup owners in Vossloh Switch Systems companies, another some €1.8 million to minority interests in the Fastening Systems unit, plus €0.2 million in Locomotives companies.

(25) Pension accruals

Movement analysis of pension accruals

€ million	2008	2007
Opening balance at Jan. 1	11.5	9.9
Utilized	(0.9)	(0.9)
Change in plan assets	(3.2)	0.0
Added	1.5	2.5
Closing balance at Dec. 31	**8.9**	**11.5**

Vossloh AG and some subsidiaries have entered into pension obligations to employees. 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.

The plan assets originate from an employer's pension liability insurance at fair value and have been offset against the part of the present value of the DBO. Independent actuarial opinions and reports underlie the pension accruals recognized.

Assumptions underlying pension obligation calculation:

%	2008	2007
Discount rate	5.8	5.3
Expected pension rise	2.0	1.5
Expected pay rise	3.0	3.0
Expected cost-of-living rise	3.0	3.0
Probable employee turnover rate	6.0	4.0
Expected return on plan assets	4.5	4.5

The pension accrual recognized was derived as follows:

Pension accrual analysis

€ million	2008	2007
Present value of plan-funded DBO	14.9	14.9
Fair value of plan assets	(7.5)	(5.8)
Unrecognized actuarial gains/losses, net	(5.1)	(3.8)
Accrual for plan-funded DBO	**2.3**	**5.3**
Present value of plan-unfunded DBO	6.5	6.2
Unamortized cost of plan changes	0.2	0.0
Unrecognized actuarial gains/losses, net	(0.1)	(0.0)
Accrual for plan-unfunded DBO	**6.6**	**6.2**
Recognized pension accrual	**8.9**	**11.5**

Here follows a movement analysis of the present value of the DBO:

Movement analysis of the present value of the DBO

€ million	2008	2007
Balance at Jan. 1	21.1	20.7
Service cost	0.4	1.7
Interest cost	1.1	0.9
Actuarial gains and losses	0.1	(0.9)
Pension payments	(1.3)	(1.3)
Balance at Dec. 31	**21.4**	**21.1**

The fair value of plan assets presented the following movements:

Movement analysis of plan assets

€ million	2008	2007
Balance at Jan. 1	5.8	8.4
Expected return on plan assets	0.4	0.3
Actuarial gains/losses	(1.5)	(2.6)
Employer contributions to plan assets	3.2	0.0
Pension payments	(0.4)	(0.3)
Balance at Dec. 31	**7.5**	**5.8**

The following pension expense was recognized in the income statement:

Breakdown of total annual pension expense

€ million	2008	2007
Current service cost	0.4	1.7
Actuarial gains/losses amortized in the period	0.2	0.0
Cost of plan changes amortized in the period	0.2	0.0
Expected return on plan assets	(0.4)	(0.3)
Interest cost	1.1	0.9
Total annual expense	**1.5**	**2.3**

Current service cost and the expected return on plan assets are part of personnel expenses within the functional expense categories concerned, while interest cost is shown within net interest expense.

The present value of the DBO is covered by the fair value of plan assets as follows:

Comparative analysis of present/fair values

€ million	2008	2007	2006
Present value of the DBO	21.4	21.1	20.7
Fair value of plan assets	(7.5)	(5.8)	(8.4)
Plan-unfunded obligation	**13.9**	**15.3**	**12.3**

The empirical adjustments of plan assets and liabilities amounted to:

Empirical plan adjustments

€ million	2008	2007
Empirical adjustments of plan assets	(1.5)	(2.6)
Empirical adjustments of plan liabilities	0.0	0.9

(26) Other accruals

Breakdown of other accruals

€ million	2008	2007
Personnel-related accruals	8.8	8.8
Warranty obligations and follow-up costs	31.4	25.7
Litigation risks and impending losses	1.7	1.3
Sundry accruals	21.3	1.2
Other noncurrent accruals	**63.2**	**37.0**
Personnel-related accruals	28.9	29.2
Accrued trade payables	29.2	29.0
Warranty obligations and follow-up costs	46.6	22.5
Litigation risks and impending losses	39.7	41.4
Sundry accruals	5.7	11.8
Other current accruals	**150.1**	**133.9**
	213.3	**170.9**

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

The other accruals provide for all obligations which are identifiable at the balance sheet date, are based on past events, and are uncertain in terms of amount or maturity. Accruals provide for the amounts of their probable utilization. The maximum risk inherent in accrued obligations is €37.6 million above those recognized in the balance sheet (down from 38.0 million). Additional risks of €0.6 million (down from €8.9 million) exist as below-the-line items but are not provided for since their probability is below 50 percent.

The personnel-related accruals provide for profit shares, vacation and employment anniversary allowances, as well as preretirement part-time work.

The accrued trade payables account for goods or services received but not yet billed.

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, €0.7 million provides for impending losses on purchase obligations (up from €0.1 million).

Movement analysis of other accruals

€ million	Opening balance at 1/1/2008	Reclassified into discontinued operations	Added upon initial consolidation	Utilized	Released/ reversed	Provided for	Currency translation differences	Closing balance at 12/31/2008
Tax accruals	**13.8**	**(1.6)**	**0.0**	**(5.7)**	**(3.8)**	**7.7**	**0.2**	**10.6**
Personnel-related accruals	38.0	(3.0)	0.4	(22.7)	(0.4)	25.5	(0.1)	37.7
Accrued trade payables	29.0	(0.1)	0.0	(15.0)	(0.7)	15.6	0.4	29.2
Warranty obligations and follow-up costs	48.2	(2.5)	0.1	(25.7)	(2.6)	60.2	0.3	78.0
Litigation risks and impending losses	42.7	(1.3)	0.0	(9.3)	(6.8)	16.1	0.0	41.4
Sundry accruals	13.0	(5.7)	0.2	(4.7)	(0.5)	24.8	(0.1)	27.0
Other accruals	**170.9**	**(12.6)**	**0.7**	**(77.4)**	**(11.0)**	**142.2**	**0.5**	**213.3**

(27) Liabilities

€ million	2008	2007	2008	2007	2008	2007	2008	2007
Remaining term	≤ 1 year		> 1–5 years		> 5 years		Total	
Financial debts	39.6	44.7	0.5	15.2	172.7	167.5	212.8	227.4
Trade payables	228.9	271.9	0.0	0.0	0.0	0.0	228.9	271.9
Income tax liabilities	7.1	12.7	0.0	0.0	0.0	0.0	7.1	12.7
Other liabilities	108.9	124.3	2.7	1.4	32.2	40.8	143.8	166.5
	384.5	453.6	3.2	16.6	204.9	208.3	592.6	678.5

(27.1) Financial debts

Breakdown of financial debts

€ million	2008	2007
US private placement	171.7	163.1
Long-term debts to banks	1.5	18.1
Long-term capital leases	–	1.5
Noncurrent financial debts	**173.2**	**182.7**
Short-term debts to banks	39.3	38.2
Interest payable	0.3	0.6
Note loans	–	5.0
Short-term capital leases	–	0.9
Current financial debts	**39.6**	**44.7**
Total financial debts	**212.8**	**227.4**

Financial debts are carried at amortized cost. The US private placement is the underlying in a fair value hedge against currency risks inherent in the principal and as such stated at fair value. For the reconciliation of financial debts to the IAS 39 valuation categories, see pages 165/166, *Additional disclosures of financial instruments*.

Under a US private placement agreement, debt of a total $240.0 million was raised in 2004 from the capital market, comprising one loan each of $140 million and $100 million; they both have a bullet maturity, their remaining terms being 5.5 and 7.5 years, respectively. Since payment of principal and interest has entirely be hedged by euro-denominated swaps, Vossloh has ensured that both loans carry interest at fixed euro rates of 5.325 and 5.455 percent, respectively. The €171.7 million debt disclosed as of December 31, 2008, corresponds to the dollar debt translated at the year-end rate. Including the currency hedge shown at €32.3 million within other liabilities, the hedged repayment sum totals €203.9 million.

In 2007, the payables under capital leases were owed for capital goods leased within the Infrastructure Services business unit.

(27.2) Trade payables

Breakdown of trade payables

€ million	2008	2007
Trade payables to suppliers	139.8	175.9
PoC payables	89.1	96.0
Total	**228.9**	**271.9**

Accounts due under PoC contracts are shown within trade payables as PoC payables if customer prepayments received outstrip the total contract progress made. For the detailed breakdown of these payables into gross receivables and prepayments received, see Note (19) to trade receivables.

(27.3) Income tax liabilities

The line reflects the income taxes actually owed by various group companies as of December 31.

(27.4) Other liabilities

Breakdown of other liabilities

€ million	2008	2007
Financial derivatives from fair value hedges	32.2	40.8
Financial derivatives from cash flow hedges	1.3	0.9
Noncurrent deferred income	1.4	0.5
Sundry	0.0	0.0
Noncurrent other liabilities	**34.9**	**42.2**
Prepayments received	56.4	49.0
VAT	14.5	25.3
Statutory Social Security and Health Insurance	5.2	9.1
Commissions	5.0	4.7
Other non-income taxes	4.4	6.2
Due to employees	4.1	8.5
Suppliers with debit balances	2.3	1.3
Due to unconsolidated subsidiaries	1.3	–
Financial derivatives from fair value hedges	0.8	0.0
Financial derivatives from cash flow hedges	0.2	0.0
Sundry	14.7	20.2
Current other liabilities	**108.9**	**124.3**
	143.8	**166.5**

The financial derivatives shown within the other liabilities reflect the negative fair values of (i) the currency hedges and (ii) the cross-currency swaps hedging the repayment under the US private placement agreement. The derivative stated at a fair value of €32.3 million (down from €40.8 million) under noncurrent other liabilities refers to the fair value hedge against currency risks from loan repayment under the US private placement agreement.

According to IAS 39, the sundry other liabilities (except for deferred income) are financial ones and hence stated at amortized cost. For the reconciliation of other liabilities to the IAS 39 valuation categories, see pages 165/166, *Additional disclosures of financial instruments*.

The prepayments received, shown at €56.4 million as other liabilities, do not refer to PoC contracts. In accordance with IAS 19, the current liabilities to employees are recognized at the undiscounted amount owed.

Notes to the segment reports

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

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

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

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 major noncash segment expenses reflect provisions.

The primary segment information by division is shown on pages 124/125, the secondary segment information (by geographical market/region) being presented below. Regional sales are based on the customer location.

Segment information by region

€ million	Germany	Other Euroland	Other Europe	Americas	Asia	Other	Total
Net external sales							
2008	156.4	491.0	217.1	134.2	125.8	76.9	1,201.4
2007	142.4	460.2	160.8	131.0	89.2	34.1	1,017.7
Segment operating assets							
2008	242.9	582.4	56.3	83.6	61.3	14.9	1,041.4
2007	228.7	744.2	42.6	60.6	75.5	0.0	1,151.6
Segment capital expenditures							
2008	9.0	20.7	4.4	1.5	1.8	0.2	37.6
2007	11.0	23.8	1.4	1.8	14.6	0.0	52.6

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	2008	2007
Intangible assets	313.6	352.2
Tangible assets	108.4	139.4
Inventories	321.1	237.2
Trade receivables	262.3	396.6
Sundry assets less tax assets	34.2	24.5
Prepaid expenses and deferred charges	1.8	1.7
Segment operating assets	**1,041.4**	**1,151.6**
Sundry nonoperating assets	298.0	175.2
Total assets	**1,339.4**	**1,326.8**

Reconciliation of segment operating liabilities to total equity & liabilities

€ million	2008	2007
Prepayments received	56.4	49.0
Trade payables	228.9	271.9
Pension accruals	8.9	11.5
Other accruals	213.3	170.9
Other liabilities less tax liabilities	64.8	84.3
Deferred income	1.6	0.7
Segment operating liabilities	**573.9**	**588.3**
Equity	492.7	434.0
Sundry nonoperating liabilities	272.8	304.5
Total equity & liabilities	**1,339.4**	**1,326.8**

Additional disclosures of financial instruments

Vossloh's consolidated balance sheet includes not only straight financial instruments (such as financial receivables/payables and equity interests) but also financial derivatives (such as currency forwards or swaps) whose value is derived from an underlying's.

Pursuant to IAS 39, financial instruments are valued according to valuation category. The table below assigns those lines of Vossloh's consolidated balance sheet which include financial instruments (FI), to the appropriate valuation category and also states the measurement basis.

Reconciliation of balance sheet lines to IAS 39 valuation categories and disclosure of the book values (BV) and fair values (FV) of FI

€ million	Recognized BV	Excluded from IAS 39	Measured acc. to IAS 39							
IAS 39 valuation category:			straight receivables/ payables	FI held to maturity	FI available for sale		Derivatives in hedges			
Measured at:			amortized cost	historical cost	fair value (chg. rec. in OCI)	historical cost	fair value (chg. rec. in IS)	fair value (chg. rec. in OCI)	total BV acc. to IAS 39	FV
Dec. 31, 2008										
Financial instruments (assets)										
Sundry noncurrent FI	11.1	2.7	0.2	0.1	0.5	0.6	–	7.0	8.4	8.4
Trade receivables	262.3		262.3						262.3	262.3
Sundry current assets	34.9	14.8	16.5				3.0	0.6	20.1	20.1
Short-term securities	0.1			0.0	0.1		–		0.1	0.1
Cash and cash equivalents	247.8		83.1	164.7					247.8	247.8
Financial instruments (liabilities)										
Noncurrent financial debts	173.2		173.2						173.2	189.5
Noncurrent other liabilities	34.9	1.4					32.2	1.3	33.5	33.5
Current financial debts	39.6		39.6						39.6	39.6
Trade payables	228.9		228.9						228.9	228.9
Sundry current liabilities	108.9	32.0	75.9				0.8	0.2	76.9	76.9

Reconciliation of balance sheet lines to IAS 39 valuation categories and disclosure of the book values (BV) and fair values (FV) of FI

€ million	Recog-nized BV	Excluded from IAS 39	Measured acc. to IAS 39								
IAS 39 valuation category:			straight receivables/ payables	FI held to maturity	FI available for sale		FI held for trading	Derivatives in hedges			
Measured at:			amortized cost	historical cost	fair value (chg. rec. in OCI)	historical cost	fair value (chg. rec. in IS)	fair value (chg. rec. in IS)	fair value (chg. rec. in OCI)	total BV acc. to IAS 39	FV
Dec. 31, 2007											
Financial instruments (assets)											
Sundry noncurrent FI	10.8	3.3	2.5	0.1	0.6	0.6		–	3.7	7.5	7.5
Trade receivables	396.6		396.6							396.6	396.6
Sundry current assets	50.7	25.0	25.4					0.1	0.2	25.7	25.7
Short-term securities	31.2			30.5			0.7			31.2	31.2
Cash and cash equivalents	71.3		71.3							71.3	71.3
Financial instruments (liabilities)											
Noncurrent financial debts	182.7		182.7							182.7	185.7
Noncurrent other liabilities	42.2	0.5	0.0					40.8	0.9	41.7	41.7
Current financial debts	44.7		44.7							44.7	44.7
Trade payables	271.9		271.9							271.9	271.9
Sundry current liabilities	124.3	42.6	81.0					0.1	0.6	81.7	81.7

The financial instruments available for sale and carried at cost are equity instruments with no active market and hence no reliably determinable fair value. Due to very short terms to maturity, the fair value of short-term securities/cash equivalents carried at amortized cost equals book value. Current market rates have been applied to discount the future cash outflows for principal and interest and thus determine the fair value of noncurrent financial liabilities.

The net gains/losses and net interest income/expense recognized in the income statement (IS) result from the following FI valuation categories:

Net gains/(losses) from financial instruments by valuation category

€ million	from interest	from remeasurement			from disposal	2008	2007
		at fair value	currency translation differences	allowances			
Net gains/(losses)							
Straight receivables/payables	(9.3)	–	0.3	(3.5)	–	(12.5)	(19.9)
FI held to maturity	0.0	–	–	–	–	0.0	1.1
FI held for trading	0.0	(0.5)	–	–	–	(0.5)	0.6
FI available for sale	–	0.0	–	–	0.0	0.0	0.1
Total	**(9.3)**	**(0.5)**	**0.3**	**(3.5)**	**0.0**	**(13.0)**	**(18.1)**

Interest is shown within net interest expense, allowances for straight (primarily trade) receivables are recognized within the functional (mainly selling) expenses while the net gain or loss on disposal and the currency translation differences are disclosed within net other operating income (or expense). Dividend income from securities available for sale or held for trading and any write-down of such securities are included in the above table and recognized within the other financial results.

The Vossloh Group does not exercise the so-called fair value option.

Financial assets/liabilities are recognized in the consolidated balance sheet as and when Vossloh becomes a party to the financial instrument (trading day). Financial assets are derecognized according to IAS 39 when the contractual right to payments from a financial asset lapses or expires or when the financial asset is assigned and transferred along with substantially all the risks and rewards of its ownership. A financial liability or debt is derecognized when extinguished, i.e., when the contractual obligation is settled, discharged or canceled, or expires.

Financial risk management

The Vossloh Group's business operations are exposed to liquidity, currency (forex), interest rate, default and other credit risks. Vossloh's Treasury Management controls and contains groupwide all liquidity, forex and interest rate risks while default and other credit risks are monitored by the general risk management system.

Liquidity risk

Vossloh manages its liquidity risk (i.e., that the Group might not be able at all times to meet its payment obligations) through a rolling cash budget and a central cash management system. As of the end of the year under review, cash, cash equivalents and readily salable securities of just under €248 million were at the Group's disposal, besides additional, unutilized credit facilities of €154.4 million to satisfy any future cash requirements. The table below shows the contractual undiscounted payments of principal and interest for financial payables:

€ million	2008	
Book value of financial payables:	552.1	
Cash outflow due for	**principal**	**interest**
within 1 year	345.0	12.3
in >1–5 years	3.2	44.8
after 5 years	203.9	14.8
	552.1	**71.9**

Currency risks

Currency risks emanate from (i) recognized non-euro assets and liabilities whose fair value may be adversely affected by unfavorable exchange rates, and (ii) pending or uncompleted currency transactions whose future cash flows may show a negative trend depending on how forex rates develop. Significant operations-related currency risks Vossloh is exposed to originate from trade receivables and payables denominated in a non-euro currency, as well as from pending or uncompleted trade and purchasing transactions. Vossloh has issued binding instructions to counteract such currency risks groupwide by using currency forwards at matching maturities and amounts as microhedges of the associated underlyings. The fixed exchange rates for the hedged underlyings counter any unfavorable rate effects on cost estimates and assets.

Hedges of recognized assets and liabilities are treated as fair value hedges (FVHs), i.e., both the underlying and the currency forward are stated at fair value, any changes in fair value due to exchange rate volatility being recognized in the income statement. In a perfect (fully effective) microhedge, the gains and losses on the derivative's fair value remeasurement equal the losses and gains on the underlying's.

When accounting for cash flow hedges (CFHs) of pending or uncompleted transactions, changes in the derivative's fair value are recognized in equity only (OCI). Upon completion or recognition of such transactions, the gains/losses previously accumulated in OCI are either recycled to the income statement or offset against the cost of purchased assets.

Currency risks material to the Group originate from the financial debts of $240 million raised by US private placement, as well as from future interest payments in US dollars. At the time of borrowing, these risks were fully hedged by contracting cross-currency swaps of matching maturities and amounts. These derivatives are accounted for as fair value hedge (principal repayment) and cash flow hedge (future interest payments), respectively. In fiscal 2008, an €8.6 million loss (down from a €19.0 million gain in 2007) from the reduced euro equivalent of the US dollar-denominated debt as the underlying in the FVH contrasted with a same-amount gain (in 2007, loss) on the hedging derivative's remeasured fair value. When the dollar interest payments fell due in 2008, unrealized gains of €1.2 million (up from a loss of €0.8 million) accumulated in OCI and corresponding to the hedging cross-currency swap's fair value change were recycled from equity to interest expense.

Since the currency risks have almost fully been hedged, exchange rate swings impact primarily on the fair values of recognized hedging instruments. Material fair value changes are only expected from the hedged debt from the US private placement (USPP). The analysis below shows the effects of US dollar parity changes, assuming an otherwise unchanged what-if scenario:

If US dollar rates	€1.00 = $	FV of recognized hedges in € million		FV of financial debt in € million
		CFH[1]	FVH	
rise 10 percent	1.56	5.3	(49.7)	49.7
remain at the 12/31/2008 current rate	1.41	6.8	(32.2)	32.2
fall 10 percent	1.27	19.8	(15.4)	15.4

[1]Before deferred taxes
[2]Change from the hedged principal repayment of €203.9 million

Interest rate risks

Interest rate risks mainly result from floating-rate short-term loans raised for group-financing purposes, as well as from short-term monies invested at variable rates.

The risk of an unfavorable market rate trend and thus higher interest payments for floating-rate notes is contained by contracting interest rate swaps and caps (treated as CFHs in hedge accounting). Both the hedged underlying sums and the derivatives' fair values are insignificant in comparison to the currency hedges.

The table below shows the fair value of derivatives used for hedging against currency and interest rate risks, as well as the hedged principal (notional volume) of the underlyings:

Financial derivatives			Fair value	Notional volume	Fair value	Notional volume
€ million			2008		2007	
Interest rate swaps	time to maturity	≤1 year	0.0	0.0	0.0	0.0
		>1–5 years	(1.3)	25.6	(0.9)	25.6
		>5 years	0.0	0.0	0.0	0.0
			(1.3)	**25.6**	**(0.9)**	**25.6**
Cross-currency swaps (US PP)	time to maturity	≤1 year	0.0	0.0	0.0	0.0
		>1–5 years	0.0	0.0	0.0	0.0
		>5 years	(25.4)	203.9	(37.3)	203.9
			(25.4)	**203.9**	**(37.3)**	**203.9**
Interest rate caps	time to maturity	≤1 year	0.0	25.6	0.0	0.0
		>1–5 years	0.0	0.0	0.0	25.6
		>5 years	0.0	0.0	0.0	0.0
			0.0	**25.6**	**0.0**	**25.6**
Currency forwards	time to maturity	≤1 year	2.6	96.2	(0.4)	75.0
		>1–5 years	0.2	2.1	0.0	2.4
		>5 years	0.0	0.0	0.0	0.0
			2.8	**98.3**	**(0.4)**	**77.4**
Currency options	time to maturity	≤1 year	0.1	7.5	0.0	3.2
		>1–5 years	0.0	0.0	0.1	7.5
		>5 years	0.0	0.0	0.0	0.0
			0.1	**7.5**	**0.1**	**10.7**
Total			**(23.8)**	**360.9**	**(38.5)**	**343.2**

Credit risks

Credit risks are defined as the risk that counterparties fail to meet their financial obligations. The credit risk attaching to the cash, cash equivalents and short-term securities invested by Vossloh with banks, as well as to hedging instruments contracted with banks, is minimized by selecting counterparties of prime standing. As part of business operations, trade and other receivables are exposed to a certain default or nonpayment risk. Such credit risks are monitored by the risk management system and minimized by taking out credit insurance. Specific collection risks are adequately allowed for.

The portfolio of gross receivables (receivables before allowances or write-down) breaks down as follows in terms of operational risks:

Current receivables

€ million	Receivables neither past due nor impaired	Receivables past due but not impaired	Impaired receivables[1]	Gross value of receivables
Trade receivables				
2008	223.5	40.9	7.4	271.8
2007	319.2	78.8	10.2	408.2
Other				
2008	34.9	0.0	1.1	36.0
2007	49.7	0.3	0.9	50.9

[1] This is the gross portfolio of impaired trade receivables, the specific allowance amounting to €7.2 million (down from 8.7 million).

The analysis below breaks down the receivables past due but not impaired:

Receivables past due but not impaired

€ million	Past due within the following ranges					Total
	< 1 month	1–3 months	3–6 months	6–12 months	> 12 months	
Trade receivables						
2008	16.6	11.0	6.4	4.0	2.9	**40.9**
2007	30.1	20.7	18.0	6.9	3.1	**78.8**
Other						
2008	0.0	0.0	0.0	0.0	0.0	**0.0**
2007	0.0	0.0	0.0	0.3	0.0	**0.3**

No specific credit or default risk emanates from past due receivables either since, given Vossloh's customer structure, most debtors are government agencies.

The maximum loss on default from all financial assets equals the book value of the financial instruments on the asset side (cf. the analysis on pages 165/166).

Further disclosures

Contingent liabilities

As of December 31, 2008, contingent liabilities totaled €9.4 million (down from €9.5 million). The Group has incurred contingent liabilities under guaranties/suretyships at €5.9 million (virtually unchanged), their full amount (up from €5.7 million) being in favor of unconsolidated subsidiaries, and for the collateralization of third-party debts at €3.6 million (virtually unchanged), including €1.3 million (virtually unchanged) allocable to unconsolidated subsidiaries.

Other financial obligations

The obligations under purchase contracts or firm commitments for buying tangible/intangible assets and inventories total €103.0 million (up from €95.4 million).

The minimum undiscounted future payments under operating leases came to €35.3 million (down from €42.1 million) and fall due as follows:

Financial obligations under operating leases

€ million	2008	2007
due within 1 year	7.8	7.7
due > 1–5 years	21.3	25.0
due after 5 years	6.2	9.4
	35.3	**42.1**

The obligations under operating leases have mostly been incurred for factory, business and office equipment. The following payments were expensed:

Lease payments expensed

€ million	2008	2007
Minimum lease payments	9.8	7.9
Contingent rent	0.1	0.0
Payments received from sublessees	(6.0)	(6.7)

Future minimum payments of €32.7 million are expected from noncancelable subleases (up from €19.7 million).

Joint ventures

Vossloh's consolidated balance sheet and income statement include the following prorated assets and liabilities as well as income and expense items from the consolidation pro rata of joint ventures:

Vossloh's share in the assets, liabilities, income and expenses of joint ventures

€ million	2008	2007
Current assets	26.6	41.4
Noncurrent assets	6.1	6.7
Current liabilities	14.9	26.2
Noncurrent liabilities	0.2	0.4
Income	36.9	53.6
Expenses	33.7	48.1

Related-party transactions

Vossloh AG as top-tier parent is at the helm of the Vossloh Group.

The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated subsidiaries, joint ventures and the associated affiliate. The related entities (unconsolidated companies, joint ventures and the associate affiliate) are all itemized in the list of shareholdings.

Individuals among the Vossloh Group's related parties are the members of the Executive and Supervisory Boards, certain other senior management staff, as well as members of the Vossloh Family Pool ("Familiengemeinschaft Vossloh GbR"), a civil-law association.

The table below breaks down the period's transactions with related parties (entities/individuals), conducted almost exclusively with unconsolidated subsidiaries and reflected in the consolidated financial statements as intragroup transfers (internal sales) and as intercompany receivables/payables due from or to unconsolidated subsidiaries. The volume of transactions with related individuals was negligible.

€ million	2008	2007
Sale/purchase of goods		
Net sales of finished goods/WIP	11.3	6.0
Cost of sales of finished goods/WIP purchased	0.6	0.8
Trade receivables	4.1	4.2
Trade payables	1.3	0.1
Sale/purchase of other assets		
Receivables from the sale of other assets	0.4	0.0
Payables for the purchase of other assets	0.8	0.3
Services provided/purchased		
Income from services provided	0.1	0.0
Expenses for services received	0.0	2.3
Leases		
Income from operating leases	0.3	0.0
Expenses for operating leases	0.3	0.0
Finance		
Interest income from loans granted	1.2	0.1
Interest expense for loans raised	0.1	0.0
Receivables under loans	0.6	10.4
Guaranties/collateral furnished		
Bonds/guaranties furnished	5.9	5.7
Other collateral furnished	1.3	1.3

The Supervisory Board members active in 2008 received short-term benefits of €0.988 million (up from €0.466 million). For an itemized breakdown by member of this total and further details of the remuneration system, see the Board Compensation Report (an integral part of the Vossloh Group's management report).

Executive Board remuneration

€ '000	2008	2007
Short-term benefits	2,716.9	5,389.0
Postretirement benefits	217.2	1,410.0
Stock-based payments	0.0	0.0

Statutory auditor's fees

The following fees for services rendered by the statutory group auditor, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, were recognized as expense in 2008:

€ million	2008	2007
Statutory audits	0.3	0.3
Other certification, verification or appraisal services	0.5	0.4
Tax consultancy	0.6	0.6
	1.4	**1.3**

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 include €0.1 million for services rendered by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG (virtually unchanged), and 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. 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.

German Corporate Governance Code

In December 2008 the Executive and Supervisory Boards issued, and made available long term to the stockholders on the Group's website, the 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 major shareholdings (published on pages 176/177).

Proposed profit appropriation

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €2.00 plus a €1.00 superdividend for each no-par share of the eligible common stock of €34.0 million, hence a total cash distribution of €39.9 million. When determining the capital stock ranking for dividend, the anticipated total number of treasury shares (1,479,582) was deducted.

Werdohl, March 9, 2009

Vossloh AG
The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

List of major shareholdings

€ million		Footnote	Held in %	through ( )	Consolidation[1]	Equity[2]	EAT[2]
(1)	**Vossloh AG, Werdohl**				(c)	449.6	(18.5)
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(c)	23.2	0.0
(3)	Vossloh US-Holding, Inc., Wilmington, USA		100.00	(2)	(c)	22.4	(0.2)
(4)	Vossloh Australia Pty. Ltd., Castle Hill, Australia	5	100.00	(1)	(c)	4.5	(0.3)
(5)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(c)	(6.0)	(0.3)
	Rail Infrastructure division						
(6)	Vossloh France SAS, Paris, France		100.00	(1)	(c)	219.1	111.2
	Vossloh Fastening Systems business unit						
(7)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(c)	4.0	13.6
(8)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(7)	(c)	5.2	5.4
(9)	Vossloh Werdohl GmbH, Werdohl	3	100.00	(7)	(c)	5.2	6.4
(10)	Vossloh Tehnică Feroviară SRL, Bucharest, Romania	4	100.00	(7)	(u)	0.0	0.0
(11)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100.00	(7)	(u)	0.6	0.3
(12)	Vossloh Sistemi S.r.l., Sarsina, Italy		100.00	(7)	(c)	2.6	0.4
(13)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4,6	51.00	(7)	(u)	1.3	0.4
(14)	T.O.O. Vossloh-Kasachstan, Almaty, Kazakhstan		50.00	(7)	(u)	0.0	0.0
(15)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	(e)	0.6	0.6
(16)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	(u)	0.0	0.3
(17)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl	4	100.00	(7)	(u)	(0.5)	(0.1)
(18)	Vossloh Utenzilija d.d., Zagreb, Croatia	4	89.20	(7)	(u)	2.2	(0.1)
(19)	Vossloh Skamo Sp. z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	(c)	6.0	4.5
(20)	Vossloh Rail Technologies Ltd. Şti., Istanbul, Turkey	5	99.50/0.50	(7/8)	(c)	0.6	0.1
(21)	Feder-7 Kft., Székesféheryár, Hungary	4	96.67/3.33	(7/8)	(u)	0.2	0.1
(22)	Vossloh Fastening Systems America Corp., Chicago, USA	4	100.00	(7)	(u)	0.5	0.2
(23)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00/16.2	(7/24)	(c)	45.3	29.8
(24)	Vossloh-Werke China Investment GmbH, Werdohl		100.00	(7)	(c)	0.8	0.0
	Vossloh Switch Systems business unit						
(25)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	(c)	99.3	25.4
(26)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(25)	(c)	2.3	0.2
(27)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(28)	(c)	1.6	0.8
(28)	Vossloh Nordic Switch Systems AB, Örebro, Sweden		100.00	(25)	(c)	13.5	4.8
(29)	KIHN SA, Rumelange, Luxembourg		89.21	(25)	(c)	12.3	1.6
(30)	DDL SA, Rodange, Luxembourg		100.00	(29)	(c)	0.1	0.4
(31)	Vossloh Laeis GmbH & Co. KG, Trier		100.00	(29)	(c)	2.5	0.8
(32)	Vossloh Laeis Verwaltungs GmbH, Trier		100.00	(29)	(c)	0.0	0.0
(33)	EAV Durieux SA, Carnières, Belgium		98.76/1.24	(25/29)	(c)	0.7	0.0
(34)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(25)	(c)	2.3	1.1
(35)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(25)	(p)	22.9	4.0
(36)	Montajes Ferroviarios srl, Amurrio, Spain	4	100.00	(35)	(u)	0.2	0.1
(37)	Burbiola S.A., Amurrio, Spain		50.00	(35)	(u)	1.5	0.0
(38)	Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK		50.00	(25)	(p)	7.9	2.4
(39)	Vossloh Cogifer Italia S.r.l., Bari, Italy		100.00	(25)	(c)	0.2	(0.6)
(40)	Cogifer Połska Sp. z o.o., Bydgoszcz, Poland		52.38	(25)	(c)	10.8	2.9
(41)	ATO-Asia Turnouts Ltd., Bangkok, Thailand		51.00	(25)	(c)	0.6	0.3
(42)	Cogifer Services (Malaysia) Sdn Bhd, Kuala Lumpur, Malaysia	4	100.00	(25)	(u)	0.3	0.0

€ million	Footnote	Held in %	through ( )	Consoli-dation[1]	Equity[2]	EAT[2]
(43) Cogifer Americas, Inc., Cincinnati, USA	4	100.00	(25)	(u)	0.1	0.0
(44) J. S. Industries Pvt. Ltd., Secunderabad, India	6	51.00	(25)	(c)	1.7	(0.3)
(45) Vossloh Beekay Castings Ltd., Bhilai, India	6	60.00	(25)	(c)	3.8	0.6
(46) Siema Applications SAS, Villeurbanne, France		100.00	(25)	(c)	2.7	0.8
(47) Vossloh Min Skretnice, AD, Niš, Serbia		90.61	(25)	(c)	0.7	0.1
(48) Dakshin Transtek Pvt. Ltd., Bangalore, India	6	100.00	(44)	(c)	0.2	0.0
(49) Vossloh Track Materials, Inc., Wilmington, USA		100.00	(3)	(c)	8.9	1.5
(50) Cleveland Track Materials Inc., Cleveland, USA		100.00	(3)	(c)	9.7	0.8
(51) Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia	5	100.00	(4)	(c)	1.7	(1.0)
(52) Sportek Maskinfabrik A/S, Horsens, Denmark	5	100.00	(28)	(c)	2.3	1.5
(53) Kloos Oving B.V., Rotterdam, Netherlands	5	100.00	(25)	(c)	3.8	1.7
Vossloh Locomotives business unit						
(54) Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(c)	30.9	2.9
(55) Locomotion Service GmbH, Kiel	3	100.00	(54)	(c)	0.2	0.0
(56) Vossloh España S.A., Valencia, Spain		100.00	(1)	(c)	64.2	17.0
(57) Erion Mantenimiento Ferroviario S.A., Madrid, Spain		51.00	(56)	(c)	0.5	0.2
(58) Vossloh Locomotives France SAS, Antony, France	4	100.00	(55)	(u)	0.0	0.0
Vossloh Electrical Systems business unit						
(59) Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(c)	43.3	11.8
(60) Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(59)	(c)	1.4	1.2
(61) Vossloh Kiepe Ges.m.b.H., Vienna, Austria		100.00	(60)	(c)	12.5	2.6
(62) Vossloh Kiepe Corporation, Ottawa, Ontario, Canada	4	100.00	(60)	(u)	0.2	0.2
(63) Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy	4	100.00	(60)	(u)	0.2	0.0
(64) Vossloh Kiepe Sp. z o.o., Kraków, Poland	4	99.00/1.00	(59/60)	(u)	0.0	0.0
Other companies						
(65) Vossloh Schwabe Australia Pty. Ltd., Castle Hill, Australia	4	100.00	(4)	(u)	1.8	(0.2)
(66) Delkor Rail Pty. Ltd., Sydney, Australia	4	100.00	(4)	(u)	1.2	0.3
(67) Delkor Rail (HK) Ltd., Hong Kong, China	4	100.00	(66)	(u)	0.2	0.1
(68) Vossloh Track Systems GmbH, Werdohl	4	100.00	(1)	(u)	0.0	0.0
(69) Vossloh Middle East Business Rail L.L.C., Abu Dhabi, UAE		49.00	(68)	(u)	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 EAT (earnings after taxes) 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 asset and capital structure, financial position and results of operations
[5] Newly consolidated in 2008
[6] Fiscal year from April 1 to March 31

The comprehensive list of shareholdings has been filed and deposited with the Commercial Register of the Iserlohn Local Court under C/R no. HRB 5292.

Management Representation

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

Werdohl, March 9, 2009

Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

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, 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, 2008. 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 with the additionally applicable 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 on 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 asset and capital structure, 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 and consolidation 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 with the additionally applicable 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 asset and capital structure, 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, the Group's position and the risks and rewards inherent in its future development.

Essen, March 10, 2009

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rittmann	pp. Rüttershoff
Wirtschaftsprüfer	Wirtschaftsprüfer

Separate financial statements of Vossloh AG as of December 31, 2008

Income statement for the year ended December 31, 2008

€ million	2008	2007
Net sales	1.4	1.2
Cost of sales	(1.3)	(0.9)
Gross margin	**0.1**	**0.3**
General administrative expenses	(28.7)	(26.5)
Other operating income	20.4	17.4
Other operating expenses	(1.8)	(0.8)
Operating result	**(10.0)**	**(9.6)**
Income from investments	0.0	0.0
thereof from subsidiaries: none (unchanged)		
Income from P&L transfer agreements	43.8	21.8
thereof from subsidiaries: €43.8 million (up from €21.8 million)		
Income from other long-term securities/loans	1.0	0.8
thereof from subsidiaries: €0.7 million (up from €0.6 million)		
Other interest and similar income	15.9	15.4
thereof from subsidiaries: €13.1 million (up from €11.7 million)		
Write-down of financial assets and short-term securities	(2.4)	(0.3)
Expenses for loss absorption	(0.1)	–
thereof for subsidiaries: €0.1 million (up from nil)		
Interest and similar expenses	(16.3)	(15.5)
thereof to subsidiaries: €2.3 million (up from €1.1 million)		
Net financial result	**41.9**	**22.2**
Result from ordinary operations (EBT)	**31.9**	**12.6**
Extraordinary income/gains/extraordinary result	–	57.7
Income taxes	(5.5)	(0.3)
Net income	**26.4**	**70.0**

Balance sheet

Assets in € million	12/31/2008	12/31/2007
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	1.0	1.4
Interest rate caps	0.1	0.1
Total intangible assets	**1.1**	**1.5**
Land, equivalents titles, and buildings (including on leased land)	3.0	4.8
Sundry plant, business and office equipment	0.4	0.3
Prepayments on tangibles, construction in progress	0.2	–
Total tangible assets	**3.6**	**5.1**
Shares in subsidiaries	473.8	471.4
Loans to subsidiaries	9.6	15.0
Other investments	0.1	0.1
Other long-term securities	0.1	0.1
Other long-term loans	–	2.3
Total financial assets	**483.6**	**488.9**
Total fixed assets	**488.3**	**495.5**
Trade receivables	–	0.8
Due from subsidiaries	87.8	253.2
Due from investees	0.1	–
Sundry assets	154.1	15.0
Total receivables and sundry assets	**242.0**	**269.0**
Securities/treasury stock	62.7	–
Cash on hand and in bank	26.3	26.0
Total current assets	**331.0**	**295.0**
Prepaid expenses and deferred charges	0.2	0.0
	819.5	**790.5**

Stockholders' equity & liabilities in € million	12/31/2008	12/31/2007
Capital stock	37.8	37.8
Additional paid-in capital	37.6	37.6
Reserves retained from earnings		
Reserve for treasury stock	62.7	–
Other	319.1	355.1
Net earnings	44.5	70.0
Stockholders' equity	**501.7**	**500.5**
Accruals for pensions and similar obligations	12.6	12.5
Tax accruals	4.5	0.8
Other accruals	8.0	4.7
Total accruals	**25.1**	**18.0**
Due to banks	26.0	31.0
Trade payables	0.8	0.8
Due to subsidiaries	61.5	35.4
Due to investees	–	0.2
Sundry liabilities	204.4	204.6
thereof for taxes: €0.1 million (virtually unchanged)		
thereof for social security: none (unchanged)		
Total liabilities	**296.7**	**272.0**
	819.5	**790.5**

Fixed-asset analysis

€ million								
Cost					Accumulated amortization/ depreciation/write-down		Book values	
	Balance at 1/1/2008	Additions	Disposals	Balance at 12/31/2008	Balance at 12/31/2008	Charged in 2008	Balance at 12/31/2008	Balance at 12/31/2007
Intangible assets								
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	7.7	0.2	–	7.9	6.9	0.6	1.0	1.4
Interest rate caps	0.1	–	–	0.1	–	–	0.1	0.1
	7.8	**0.2**	**–**	**8.0**	**6.9**	**0.6**	**1.1**	**1.5**
Tangible assets								
Land, equivalent titles, and buildings (incl. on leased land)	22.9	0.4	(12.1)	11.2	8.2	0.1	3.0	4.8
Sundry plant, business and office equipment	1.3	0.2	(0.2)	1.3	0.9	0.1	0.4	0.3
Prepayments on tangibles, construction in progress	–	0.2	–	0.2	–	–	0.2	–
	24.2	**0.8**	**(12.3)**	**12.7**	**9.1**	**0.2**	**3.6**	**5.1**
Financial assets								
Shares in subsidiaries	489.9	2.4	–	492.3	18.5	–	473.8	471.4
Loans to subsidiaries	15.0	9.6	(15.0)	9.6	0.0	–	9.6	15.0
Other investments	0.1	–	–	0.1	–	–	0.1	0.1
Other long-term securities	0.1	–	–	0.1	0.0	–	0.1	0.1
Other long-term loans	6.0	0.3	(0.1)	6.2	6.2	2.4	0.0	2.3
	511.1	**12.3**	**(15.1)**	**508.3**	**24.7**	**2.4**	**483.6**	**488.9**
Total	**543.1**	**13.3**	**(27.4)**	**529.0**	**40.7**	**3.2**	**488.3**	**495.5**

Notes

The separate annual financial statements of Vossloh AG as of December 31, 2008, were prepared in accordance with the provisions of the German Commercial Code ("HGB") and the German Stock Corporation Act ("AktG").

Accounting and valuation principles

Accounting and valuation are governed by the following principles:

Purchased intangible assets, as well as tangible assets are 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. Write-down for tax purposes is charged wherever this option is offered, whether for ACR or otherwise. Moreover, fixed assets are written down to any lower current value if so required. 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. The corporation income tax credit distributable in the period from 2008 to 2017 was discounted at 4 percent and shown at present value.

Non-euro receivables/payables are translated, if hedged, at the rate so covered or any more unfavorable mean current rate. Treasury stock is valued at the lower of cost or market. Accruals provide for pensions and similar obligations at the actuarial present value, based on an imputed annual discount rate of 6 percent and on the 2005G mortality tables of Prof. Dr. Klaus Heubeck. Tax and other accruals are shown at the amounts in future required in sound business practice and judgment. Hedge accounting is used for financial derivatives (mainly cross-currency swaps) by combining the derivatives with the underlying into one valuation unit wherever a direct hedging relationship exists between hedge and underlying. In these cases, the result from the currency hedge contracted is not recognized before maturity or due date. Liabilities are generally stated at their settlement amounts.

Fixed assets

Classification and movements of fixed assets are explained in greater detail in the fixed-asset analysis on page 184. The interest rate caps refer to capitalized premiums for long-term cap contracts. The additions to shares in subsidiaries mainly refer to a $A 4 million increase in the capital of Vossloh Australia Pty. Ltd., Sydney, Australia.

Within financial assets, write-down of €2.392 million was charged to the other long-term loans.

For a list of major shareholdings, turn to pages 176/177.

Receivables and sundry assets

Except for €11.710 million, all receivables and sundry assets fall due within one year. The accounts due from subsidiaries and investees are nontrade receivables only.

Treasury stock

The annual general meeting (AGM) of May 21, 2008, authorized the Executive Board again to repurchase treasury shares equivalent to a maximum of 10 percent of the current capital stock pursuant to Art. 71(1) No. 8 AktG.

The Executive Board has been authorized, after first obtaining the Supervisory Board's approval, to dispose of such treasury shares ex rights in a form other than (i) through a stock market or (ii) by offering them to all Vossloh stockholders, however, always provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the stock market price then current for same-class Vossloh stock. In this case, the number of shares to be sold plus any shares issued or disposed of by applying the provisions of Art. 186(3) clause 4 AktG directly or mutatis mutandis, may not exceed the ceiling of ten percent of the capital stock.

The Executive Board has further been authorized, subject to the Supervisory Board's consent and excluding the stockholders' subscription right, to sell and transfer to third parties any such repurchased (treasury) stock in the scope of business combinations or M&A transactions, or when acquiring other companies or any equity interest therein.

The treasury stock thus purchased may be redeemed and withdrawn with the Supervisory Board's approval, however, without requiring another vote by the general meeting.

This authority will expire after November 20, 2009. On October 15, 2008, the Executive Board, after first obtaining due Supervisory Board approval, decided to repurchase up to 1,479,582 treasury shares, corresponding to 10 percent of the capital stock.

In the period between October 16 and December 30, 2008, Vossloh AG repurchased an aggregate 907,000 treasury shares from the stock market at an average price of €69.10 per share and a total market value of €62,669,895.49. These treasury shares, which are deducted from equity, correspond to 6.1 percent of the capital stock. The stock repurchase is scheduled to be completed by April 15, 2009.

	Treasury shares purchased	Price paid in €[1]	Capital stock in €	Total shares issued	% of capital stock
October	182,000	10,722,541.40	37,824,979.68	14,795,846	1.23
November	293,000	20,056,694.22	37,824,979.68	14,795,846	1.98
December	432,000	31,890,659.87	37,824,979.68	14,795,846	2.92
As of Dec. 30, 2008	907,000	62,669,895.49	37,824,979.68	14,795,846	6.13

[1]excl. bank commissions

Pursuant to Art. 272(4) HGB, a reserve for treasury stock has been set up in the amount of the treasury stock's cost.

Prepaid expenses & deferred charges

This caption totals €0.136 million (up from €0.052 million including loan discount of €0.004 million).

Stockholders' equity

Vossloh AG's capital stock amounts to €37,824,979.68 (up from €37,824,851.86) and is divided into 14,795,846 (up from 14,795,796) no-par bearer shares (common stock only).

The annual general meetings of June 3, 2004, 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, 2008, the 145,680 shares issued thereunder had increased the capital stock by altogether €372,425.00. Moreover, the capital stock was conditionally raised by up to €383,468.91 by 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 10,285 shares were issued by December 31, 2008, thus raising the capital stock by €26,293.19.

The additional paid-in capital includes the premium earned from stock issued by Vossloh AG. Due to the capital increase from the conditional capital, €1,809.68 (down from €2,171,604.41) was transferred to the additional paid-in capital.

The reserves retained from earnings include a reserve for treasury stock of €62,724,315.49 (up from nil) and other reserves of €319,108,752.28 (down from €355,133,067.77). As resolved by the AGM of May 21, 2008, €44,700,000.00 was transferred from the prior-year net earnings to these other reserves. During the year, 4,802 treasury shares (0.03 percent of the capital stock) had been acquired for a price of €0.398 million, 3,452 thereof having been sold at a loss of €0.037 million.

Accruals

The other accruals of €8.013 million (up from €4.697 million) include €3.246 million for payroll (up from €3.069 million) and €4.767 million for sundry administrative purposes (up from €1.628 million).

Liabilities (above-the-line and contingent)

Except for one sundry liability of €203.908 million (unchanged) due after more than five years, the liabilities recognized in the balance sheet mature throughout within one year. The accounts due to subsidiaries were all nontrade.

The contingent liabilities under suretyships and guaranties of €435.203 million (down from €505.307 million) were in full incurred for obligations of subsidiaries while in 2007, only €505.089 million was.

The fixed-liability guaranties in favor of subsidiaries total €710.614 million. Ten guaranties do not have a stipulated ceiling.

The other financial obligations total €0.392 million (down from €0.624 million) and break down into €0.189 million falling due within one (down from €0.308 million) and another €0.203 million between one and five years (down from €0.316 million).

Results of operations

€1.396 million (up from €1.054 million) of net sales, generated in 2008 solely in Germany, basically refers to rental income, including €0.983 million charged to subsidiaries (up from €0.625 million).

The functional expenses break down into cost of sales and general administrative expenses. Cost of sales mainly includes amortization, depreciation, write-down, and M&R expenses, while general administrative expenses basically cover personnel expenses, management consulting fees, advertising and promotion, as well as amortization/depreciation.

The other operating income came to €20.422 million (up from €17.373 million) and chiefly resulted from the apportionment of taxes (at €15.302 million) and the allocation of marketing fees and IT cost allocation (at €2.088 million and €1.165 million, respectively). Income taxes refer to EBT of the current and prior periods. The net financial result includes write-down of €2.392 million charged to other long-term loans.

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 €7.703 million (down from €10.801 million), of which €6.981 million (down from €9.127 million) is allocable to wages and salaries, another €0.722 million (down from €1.674 million) to Social Security, pension expense and related employee benefits, pension expense alone accounting for €0.294 million (down from €1.250 million). The €0.753 million interest portion in the change in pension accruals is recognized as interest and similar expenses.

The 2007 extraordinary result broke down into gains of a total €52.052 million from the merger of Vossloh Rail Technology GmbH and Vossloh Communication GmbH into Vossloh AG and a €5.654 million gain from the divestment of the Information Technologies division.

In fiscal 2008, Vossloh AG employed an average white-collar workforce of 45 (up from 37).

In fiscal 2008, remuneration of Executive Board members totaled €2.717 million, including €0.667 million of fixed and €2.050 million of variable compensation. Former Executive Board members received a total €0.673 million in 2008. Total Supervisory Board fees for 2008 came to €0.988 million, including fixed and variable components of €0.134 million and €0.854 million, respectively.

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

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:

Financial derivatives

€ million	2008		2007	
	Market value	Notional volume	Market value	Notional volume
Interest rate swaps	(1.3)	25.6	(0.9)	25.6
Interest rate caps	0.0	25.6	0.0	25.6
Cross-currency swaps	(25.4)	203.9	(37.3)	203.9
Currency forwards	1.7	67.5	(0.4)	57.9
Currency options	0.3	7.5	0.1	10.7
	(24.7)	330.1	(38.5)	323.7

The cap book values shown under intangible assets equal their market values. Bank opinions underlie the marking to market of interest rate hedges, while the market values of currency forwards were determined internally on the basis of a comparison of forward rates to current rates.

The financial derivatives were marked to market using standard valuation techniques and considering market data available at the valuation date.

The fair market value of a currency forward is calculated on the basis of the forex spot rate quoted at the closing date, with due regard for forward markup or markdown for the remaining contract term in relation to the contracted forward rate. The market value of currency options and interest rate caps is determined on the basis of generally accepted option pricing models, while that of interest-rate and cross-currency swaps is calculated by using a DCF method with the market interest rate appropriate for the remaining term of the derivative and a foreign exchange rate applicable to the currency of the expected future cash flows.

In December 2008, the Executive and Supervisory Boards issued, and made available long term to the stockholders on the Company's website, the declaration of conformity, as required by the provisions of Art. 161 AktG.

Notifications acc. to Sec. 21 WpHG

Vossloh AG received the following notifications of attributable voting rights in 2008 under the terms of Sec. 21(1) German Securities Trading Act ("WpHG"):

Notifying party	Date	Threshold	Voting interest
UBS AG, Zurich, Switzerland	9/19/2008	crossed above 3%	3.08%
UBS AG, Zurich, Switzerland	9/22/2008	crossed below 3%	0.55%
Generation Investment Management LLP, London, UK	9/25/2008	crossed above 3%	3.11%
Vossloh AG, Werdohl, Germany	11/27/2008	crossed above 3%	3.06%
Vossloh AG, Werdohl, Germany	12/15/2008	crossed above 5%	5.01%

Statutory auditor's fees

The following fees for services rendered by the statutory auditor, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, were recognized as expense in 2008:

€ million	2008	2007
Statutory audits	0.1	0.1
Other certification, verification or appraisal services	0.4	0.4
Tax consultancy	0.4	0.4
Other services	0.0	0.0
	0.9	**0.9**

The fees for statutory audits mainly include those paid for the statutory annual audits by BDO Deutsche Warentreuhand AG of Vossloh AG's separate and consolidated financial statements where such fees are borne directly by Vossloh AG. The fees for other certification, verification or appraisal services (i) include €0.1 million for services rendered by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG (virtually unchanged) 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.

The tax consultancy fees substantially 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.

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

Dr.-Ing. Norbert Schiedeck, born 1965, Neumagen-Dhron,
COO
(Executive Board member since Apr. 1, 2008, appointed up to Mar. 31, 2010)
– Vossloh Cogifer SA: Director
– Vossloh Infrastructure Services SA: Director (up to Sep. 19, 2008)
– Amurrio Ferrocarril y Equipos SA: Director
– Wohnungsgesellschaft Werdohl GmbH: Director

Vossloh AG's Supervisory Board

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

Dr.-Ing. Dipl.-Ing. Wilfried Kaiser, Chairman[2, 4], Munich, degreed engineer, former executive board member of Asea Brown Boveri AG
- EvoBus GmbH: supervisory board member
- ACTech GmbH: advisory board member[5]
- schenck.de AG: supervisory board chairman
- Hugo Kern und Liebers GmbH & Co.: director[5]
- Karl Eugen Fischer Holding GmbH: advisory board chairman (up to June 12, 2008)
- VAG Holding GmbH: advisory board member[5] (as from Mar. 3, 2008), advisory board chairman[5] (as from June 16, 2008)

Peter Langenbach[2, 4], Wuppertal, lawyer
- Credit- und Volksbank eG, Wuppertal: supervisory board member

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

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

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

Michael Ulrich[1], Kiel, mechanic

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

Proposed profit appropriation

The annual financial statements 2008 close with net income and net earnings of €26,377,495.53. Including the profit carryover of €103,214.48 and €18,000,000.00 transferred from the other reserves retained from earnings, net earnings amount to €44,480,710.01.

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €2.00 plus a €1.00 superdividend for each no-par share of the common stock of €34,042,488.36 ranking for dividend, hence a total cash distribution of €39,948,792.00. When determining the capital stock ranking for dividend, the anticipated total number of treasury shares (1,479,582) was deducted.

Proposed profit appropriation

in €	
Net income for 2008	26,377,495.53
Undistributed profit as of January 1, 2008	103,214.48
Transfer from other reserves retained from earnings	18,000,000.00
Net earnings as of December 31, 2008	**44,480,710.01**
Proposed:	
total dividend payout	39,948,792.00
carryforward to new account	4,513,918.01

Werdohl, March 9, 2009

Vossloh AG
The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

Management Representation

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

Werdohl, March 9, 2009
Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

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

We have audited the annual financial statements (consisting of balance sheet, income statement, and notes) including the records and books of account and the combined management report (on the Company and the Group) of Vossloh AG, Werdohl, for the fiscal year ended December 31, 2008. The accounting and the preparation of the annual financial statements and combined management report in accordance with the German Commercial Code and the supplementary provisions of the bylaws are the responsibility and assertions of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and combined management report.

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

Our audit has not resulted in any objections or exceptions. It is our opinion that, based on our audit conclusions, the annual financial statements, with due regard to accounting principles generally accepted in Germany, comply with the law and the supplementary provisions of the Company’s bylaws, and present a true and fair view of the Company's asset and capital structure, financial position and results of operations. The combined management report is in conformity with the annual financial statements and presents fairly, in all material respects, the Company's overall position and the risks and rewards inherent in its future development.

Essen, March 10, 2009

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rittmann	pp. Rüttershoff
Wirtschaftsprüfer	Wirtschaftsprüfer

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Glossary

Bilateral credit facility	Credit (line) agreement between two parties
Capital employed	Working capital + fixed assets
Capital lease	Type of lease (a.k.a. finance lease) which requires the lessee to capitalize the leased asset
Cash pooling	Concentration of cash funds for intercompany account balancing
Cash and cash equivalents	Cash on hand and in bank
Dividend rate	Total dividend payout ÷ group earnings
EBIT	Earnings before interest and income taxes
EBITDA	EBIT before amortization of intangibles and depreciation of tangibles/investment properties
EBIT margin	EBIT ÷ net sales
EBT	Earnings before income taxes
EpS	Earnings per share: group earnings ÷ annual average number of shares outstanding
Equity ratio	Equity ÷ total assets
Financial derivative	Contract whose fair value is derived from an underlying (e.g. stock or currency)
Financial debts	Private placement loans + bank debts + notes payable + payables under capital leases
Guaranty facility	Credit line for guaranties and guaranty bonds
IAS/IFRS	International Accounting Standards/International Financial Reporting Standards
Interest rate cap	Option contract for an interest rate ceiling to hedge against rising rates
Interest rate swap	Contract for swapping variable and fixed interest payments based on underlying principal

Investment grade	Rating between AAA and BBB– (S&P's), any credit standing below being "speculative grade"
Long-term incentive program (LTIP)	Incentive-based stock option program for officers/executives
Net financial debt	Financial debts – cash & cash equivalents – short-term securities
Net leverage	Net financial debt ÷ equity
Operating lease	Type of lease which requires the lessor to capitalize the leased asset
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
Private placement	Private deal between issuer and investors
Return on capital employed (ROCE)	EBIT ÷ capital employed
Statement at equity	Method similar to consolidation for including investees at the prorated equity
Stock option program	Program for granting options to officers and employees to subscribe for their employer company's stock
Treasury	Finance management
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 intensity	Working capital ÷ net sales

Financial diary 2009/2010

Annual general meeting	May 20, 2009
Payment of cash dividends	May 21, 2009
Publication of interim report	
as of March 31	April 29, 2009
as of June 30	July 29, 2009
as of September 30	October 28, 2009

For further dates, go to www.vossloh.com

Financial diary 2010

Publication of 2009 financial data	March 2010
Press conference	March 2010
DVFA presentation	March 2010
Annual general meeting	May 2010

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Vossloh stock details

ISIN:	DE0007667107
Traded at:	Xetra, Düsseldorf, Frankfurt,
	Berlin-Bremen, Hannover, Hamburg,
	Stuttgart, Munich
Index:	MDAX
No. of shares outstanding at 12/31/2008:	13,888,846
Share price (12/31/2008):	€79.49
2008 high/low:	€99.49 / €45.41
Reuters code:	VOSG.DE
Bloomberg code:	VOS GR
Dividend proposed:	€2.00 + €1.00

Ten-year overview of the Vossloh Group

		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Income statement data											
Net sales	€ mill.	1,212.7	1,232.1	1,015.2	996.4	917.8	912.5	744.5	903.0	854.4	790.1
thereof: Rail Technology	€ mill.	1,212.1	1,231.8	1,014.2	996.1	917.5	912.2	743.6	649.7	579.8	561.9
Lighting	€ mill.	–	–	–	–	–	–	–	252.8	274.1	227.7
EBIT	€ mill.	137.7	121.5	82.7	90.8	105.6	100.9	78.4	60.0	77.9	48.4
Net interest expense	€ mill.	(9.3)	(12.3)	(14.1)	(19.6)	(16.0)	(14.7)	(14.8)	(17.2)	(13.6)	(7.0)
EBT	€ mill.	128.4	109.2	68.6	71.2	89.6	86.2	63.6	42.8	64.3	41.4
Group earnings (total)	€ mill.	139.4	71.4	20.3	45.1	57.2	55.5	52.4	17.2	27.8	17.7
Earnings per share (EpS)	€	9.48	4.83	1.38	3.07	3.91	3.90	3.85	1.20	1.93	1.23
Pretax ROS	%	10.6	8.9	6.8	7.1	9.8	9.4	8.5	4.7	7.5	5.2
Pretax ROE	%	26.1	25.2	18.5	19.7	27.1	29.0	26.7	13.6	20.0	14.1
ROCE	%	18.8	14.9	12.9	12.0	15.3	16.3	13.3	9.4	11.9	8.4
Balance sheet data											
Fixed assets	€ mill.	431.4	503.4	423.4	453.3	387.0	377.7	414.5	322.0	311.4	286.9
capital expenditures[1]	€ mill.	37.6	52.6	23.9	34.5	39.4	30.5	25.5	48.2	43.6	35.6
amortization/depreciation[1]	€ mill.	22.8	29.2	25.9	23.9	25.2	24.4	19.7	38.1	37.4	34.2
Working capital	€ mill.	300.7	312.8	216.7	303.3	303.2	242.7	175.5	316.3	341.4	292.2
Working capital intensity	%	24.8	25.4	21.3	30.4	33.1	26.6	23.6	35.0	40.0	37.0
Capital employed	€ mill.	732.1	816.2	640.1	756.6	690.2	620.4	590.0	638.3	652.8	579.1
Total equity	€ mill.	492.7	434.0	371.1	361.0	331.1	297.6	238.6	314.4	321.0	293.9
thereof: minority interests	€ mill.	16.9	12.1	9.3	6.1	5.8	5.6	4.6	121.2	116.7	106.0
Net financial assets/(debt)	€ mill.	35.0	(124.9)	(62.3)	(220.5)	(171.1)	(183.1)	(227.0)	(231.2)	(209.5)	(181.8)
Total assets	€ mill.	1,339.4	1,326.8	1,198.5	1,091.2	1,016.7	880.3	947.2	899.0	896.3	785.5
Equity ratio	%	36.8	32.7	31.0	33.1	32.6	33.8	25.2	35.0	35.8	37.4
Cash flow statement data											
Cash flow from operating activities	€ mill.	158.0	80.2	186.9	54.6	32.9	16.1	(122.9)	50.6	35.1	(18.8)
Cash flow from investing activities	€ mill.	101.6	(123.6)	(15.4)	(65.5)	(27.5)	22.4	(292.3)	(45.8)	(49.3)	(42.4)
Cash flow from financing activities	€ mill.	(86.0)	(25.7)	(81.5)	(78.9)	110.5	(51.0)	(10.8)	(9.3)	23.2	55.2
Change in cash & cash equivalents	€ mill.	174.0	(69.1)	90.0	(89.8)	115.9	(12.5)	(6.6)	(4.5)	8.0	(7.3)
Workforce											
Annual average headcount		4,631	5,493	4,765	4,732	4,513	4,422	4,190	5,370	5,583	5,575
thereof: Germany		1,243	1,183	1,168	1,494	1,547	1,558	1,651	2,494	2,824	2,674
abroad		3,388	4,310	3,597	3,238	2,966	2,864	2,539	2,876	2,759	2,901
thereof: Rail Technology		4,585	5,455	4,734	4,701	4,481	4,392	4,167	3,884	4,001	4,174
Lighting		–	–	–	–	–	–	–	1,464	1,566	1,385
Vossloh AG		46	38	31	31	32	30	23	22	16	16
Payroll-to-added value ratio	%	61.3	67.5	71.6	70.8	66.2	66.9	69.0	77.0	74.2	81.7
Personnel expenses	€ mill.	223.2	268.9	223.9	234.5	217.5	213.9	178.4	208.1	228.2	222.8
Personnel expenses per capita	€ '000	48.2	49.0	47.0	49.6	48.2	48.4	42.6	38.7	40.9	40.0

Vossloh AG—Ten-year overview

		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Capital stock	€ mill.	37.8	37.8	37.7	37.7	37.4	37.4	36.8	36.8	36.8	36.8
Dividend per share	€	2.00 + 1.00[2]	1.70	1.30	1.30	1.30	1.30	1.20	0.75	0.75	0.60
Stock price at Dec. 31	€	79.49	80.10	57.14	41.10	36.35	44.80	24.70	22.53	14.95	14.90
Market capitalization at Dec. 31	€ mill.	1,104.0	1,185.1	842.0	605.6	530.9	654.2	338.1	310.4	215.3	214.6

1999–2002 according to US GAAP
As from 2003 according to IFRS
[1]Excl. financial assets/noncurrent financial instruments
[2]If approved by the AGM

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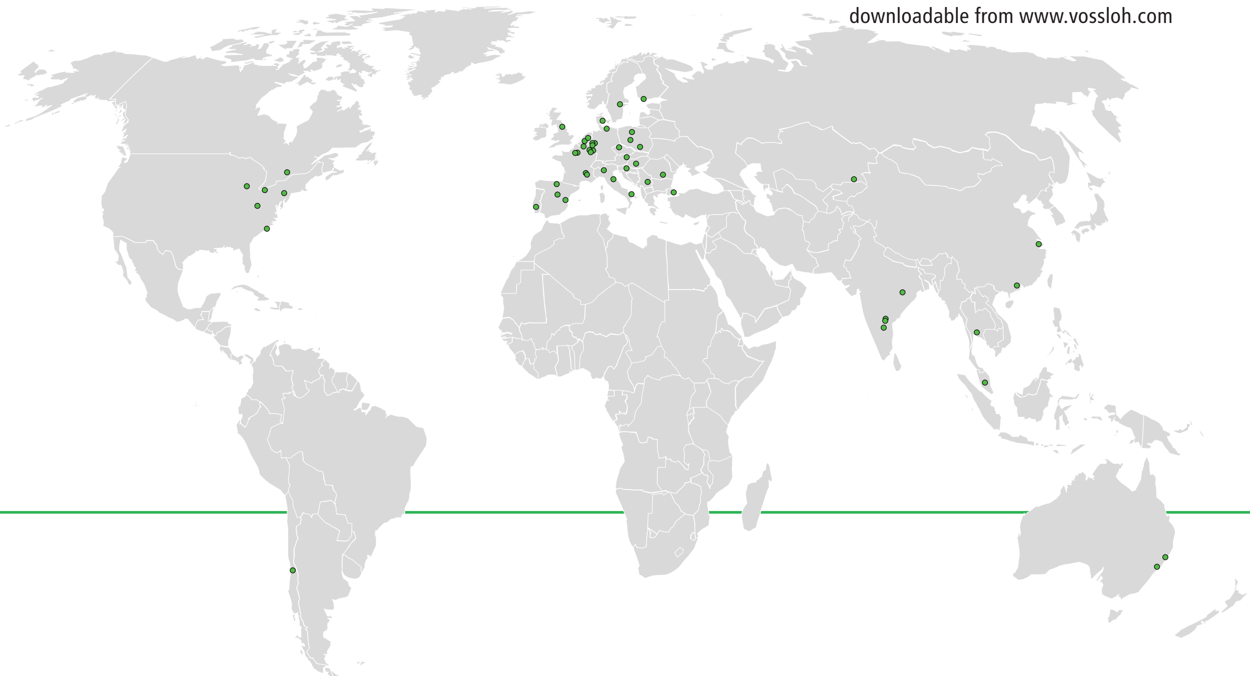

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