ANNUAL REPORT 2011

Technology that moves

Group figures and indicators		2011	2010
Order backlog	€ mill.	1,496	1,085
Income statement data			
Net sales	€ mill.	1,197.2	1,351.3
thereof Rail Infrastructure	€ mill.	778.8	891.5
Transportation	€ mill.	420.0	459.7
EBIT	€ mill.	96.5	152.1
Net interest expense	€ mill.	(12.3)	(11.7)
EBT	€ mill.	84.2	140.4
Net income from continuing operations	€ mill.	60.5	105.8
Group earnings	€ mill.	55.7	97.5
Earnings per share (EpS)	€	4.28	7.32
EpS from continuing operations	€	4.28	6.92
EBIT margin	%	8.1	11.3
Pretax return on equity (ROE)	%	17.4	24.2
Return on capital employed (ROCE)[1]	%	11.9	17.2
Value added[1]	€ mill.	15.4	54.8
Balance sheet data			
Fixed assets[2]	€ mill.	625.6	590.7
capital expenditures	€ mill.	65.6	57.9
amortization/depreciation	€ mill.	38.2	39.5
Closing working capital	€ mill.	200.3	258.0
Year-end working capital intensity	%	16.7	19.1
Closing capital employed	€ mill.	825.9	848.6
Total equity	€ mill.	482.8	580.0
thereof minority interests	€ mill.	14.0	27.9
Net financial debt	€ mill.	238.8	136.6
Net leverage	%	49.5	23.5
Total assets	€ mill.	1,512.3	1,405.8
Equity ratio	%	31.9	41.3
Cash flow statement data			
Gross cash flow	€ mill.	120.2	187.7
Cash flow from operating activities	€ mill.	138.5	137.1
Cash flow from investing activities	€ mill.	(90.6)	(151.1)
Cash flow from financing activities	€ mill.	(47.3)	(71.8)
Net cash inflow/(outflow)	€ mill.	0.6	(85.8)
Workforce data			
Annual average headcount		5,000	4,984
thereof Rail Infrastructure		3,206	3,155
Transportation		1,748	1,781
Vossloh AG		46	48
Payroll intensity	%	72.1	61.5
Personnel expenses	€ mill.	259.7	249.5
Share data			
Annual closing price	€	74.07	95.50
Closing market capitalization	€ mill.	888.3	1,272.6

[1] Based on average capital employed
[2] Fixed assets = intangible and tangible assets + investment properties + shares in associated affiliate + other noncurrent financial instruments

Vossloh's corporate structure

The operations of Vossloh's Rail Infrastructure and Transportation divisions are organized under the umbrella of Vossloh AG. The individual companies are coordinated centrally yet operate flexibly and independently of each other.

Rail Infrastructure division

This division bundles our rail infrastructure products and services. It has three 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.

Vossloh Rail Services provides wide-ranging rail-related services including welding and logistics as well as rail care, preventive maintenance and reconditioning.

Transportation division

This division builds locomotives and (sub)urban trains, and manufactures electrical components for various types of light rail vehicles (LRVs) and locomotives. It has two business units:

Vossloh Transportation Systems is Europe's leading supplier of diesel locomotives along with related financing arrangements and all-in services. We also build ultramodern (sub)urban trains for a variety of operations.

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

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems
Vossloh Rail Services

Indicators		2011	2010
Net sales	€ mill.	778.8	891.5
EBITDA	€ mill.	110.3	167.8
EBIT	€ mill.	86.2	141.9
EBIT margin	%	11.1	15.9
Closing working capital	€ mill.	249.2	234.5
Year-end working capital intensity	%	32.0	26.3
Fixed assets	€ mill.	455.0	431.9
Capital expenditures	€ mill.	38.9	29.3
Amortization/depreciation	€ mill.	24.1	25.5
Closing capital employed	€ mill.	704.2	666.5
Average capital employed	€ mill.	683.1	688.7
ROCE[1]	%	12.6	20.6
Value added[1]	€ mill.	17.9	66.1

Business units:

Vossloh Transportation Systems
Vossloh Electrical Systems

Indicators		2011	2010
Net sales	€ mill.	420.0	459.7
EBITDA	€ mill.	41.3	40.7
EBIT	€ mill.	27.8	27.5
EBIT margin	%	6.6	6.0
Closing working capital	€ mill.	(41.4)	31.3
Year-end working capital intensity	%	(9.9)	6.8
Fixed assets	€ mill.	159.2	149.1
Capital expenditures	€ mill.	23.7	25.2
Amortization/depreciation	€ mill.	13.5	13.3
Closing capital employed	€ mill.	117.8	180.3
Average capital employed	€ mill.	124.6	189.5
ROCE[1]	%	22.3	14.5
Value added[1]	€ mill.	15.3	6.6

[1] Based on average capital employed

Dr.-Ing. Norbert Schiedeck
COO

Werner Andree
CEO

Dear Stockholders:

Following a series of very successful fiscal years marked by above-average growth rates Vossloh suffered setbacks in 2011. Contrary to our expectations, Group sales and earnings declined. The chief influencing factors were the slowdown in the progress of Chinese rail projects, which only became evident as the year proceeded, the suspension of shipments for a major project in Libya and, from the summer onward, weak demand in key European rail markets.

Under these circumstances, the Rail Infrastructure division's sales, which at around 65 percent of the Group's continued to contribute the lion's share of revenue, dropped for the first time in years, by some 13 percent. The sales shortfall at Vossloh Fastening Systems was especially severe at the Chinese location and could not be offset by business elsewhere. The Switch Systems unit also performed below expectations due to the military conflict in Libya, which prevented the planned extensive shipments to that country in 2011. In addition, in several European countries demand slackened and price pressure stepped up. In this challenging scenario Vossloh Switch Systems nonetheless managed to almost repeat its prior-year sales. In contrast, Vossloh Rail Services' operations developed as budgeted.

In spite of operating setbacks, Vossloh managed to again strengthen and expand its market position in the Rail Infrastructure division. Vossloh Fastening Systems will for the first time supply products for an international high-speed rail project on ballast tracks. This means that in addition to the world-leading market position for fastening systems on slab tracks a second strong technology reference has now been gained. Further new contracts were awarded in Asia and North Africa as well as in the Middle East (the so-called MENA region). The customer base was again greatly expanded in 2011 in the Americas.

Vossloh Switch Systems booked further orders in 2011 likewise in the MENA countries and also in Scandinavia. Additional growth potential for this business unit exists in the USA, where orders on hand in 2011 soared in comparison with the previous year. Vossloh Rail Services, which is marketing an innovative and world-leading technique for preventive track maintenance known as high-speed grinding, won customers in Switzerland and Denmark in addition to more orders in Germany. At the start of 2012, the whole Rail Infrastructure division is more international and diversified than ever.

The Transportation division did well in booking new orders in fiscal 2011, even though sales were down on the 2010 level. This was due to modest order influx in the preceding periods. While revenue from the center-cab locomotive business rebounded in 2011 as scheduled, sales at our production plant for locomotives and local transport trains in Valencia and at the Electrical Systems business unit in Düsseldorf receded sharply. Nonetheless, the Transportation division generated a higher EBIT thanks to the timely adjustment of cost structures.

Our strategy of accelerated development of new locomotives and local transport trains, launched in 2009, is bearing fruit. At some €765 million, orders placed were more than double that of the preceding year, with both the Valencia and Kiel rail vehicle plants as well as the Electrical Systems business unit contributing to this growth. Our new local transport trains, which are being jointly developed by Vossloh Electrical Systems in Düsseldorf and the Spanish production plant in Valencia, are going down exceptionally well with customers. The new center-cab locomotives from Kiel, which we have been offering with the option of our own diesel-electric driveline since 2010, are arousing great interest, too. Finally, we are continuing the success story of the most powerful diesel locomotive in Europe, the EURO 4000, with customers in new regions.

The Vossloh Group entered 2012 with a brimming order book. Orders on hand total some €1.5 billion, in fact higher than the sales forecast for this year. For 2012 and 2013, order backlog at Rail Infrastructure at around €580 million is a reason for confidence even though we still perceive uncertainties as to the implementation speed of projects, especially in China. Order backlog at the Transportation division is arithmetically double the level of sales expected for 2012. The volume of orders on hand also ensures that business booked in 2011 will in 2013 and thereafter boost Transportation's sales, besides impacting favorably on EBIT.

In all, Vossloh should be back on the growth track in fiscal 2012. On this basis we anticipate that group sales will reach €1.25 billion to 1.3 billion and EBIT between €100 million and €110 million. We are also striving for an improvement in ROCE and EBIT margin. Vossloh continues to hold great financial strength and cash flow generating power. Value-driven growth, both organically and through judicious M&A deals, is the focal point of our efforts. Having stockholders share in our success is also very important for us. Given these considerations, after exercising our authority to redeem and withdraw treasury shares, we thus raised the percentage equity interest of each stockholder in Vossloh AG's capital stock and net earnings. Then we again conducted a treasury stock repurchase program last year, in the scope of which 10 percent of capital stock for €100.9 million (excluding incidentals) was acquired. Our confidence in what lies ahead is also endorsed for you, our stockholders, in the proposal to the annual general meeting for a dividend of €2.50 per share. Compared with 2010, the best year in our group's history to date, this shows we are thus sticking to an unchanged dividend payout per share.

Our thanks to you, our stockholders, for your confidence in us. We would be happy to have you continue in our company.

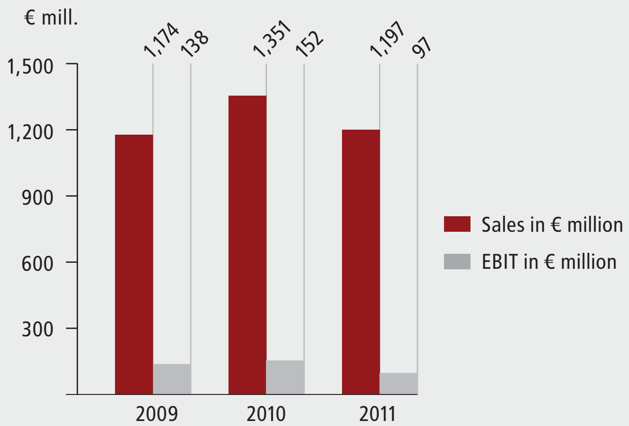
Our best regards,

Werner Andree
CEO

At €1.2 billion group sales down

ROCE at 11.9 and EBIT margin at 8.1 percent short of 2010 records

Financial indicators again robust



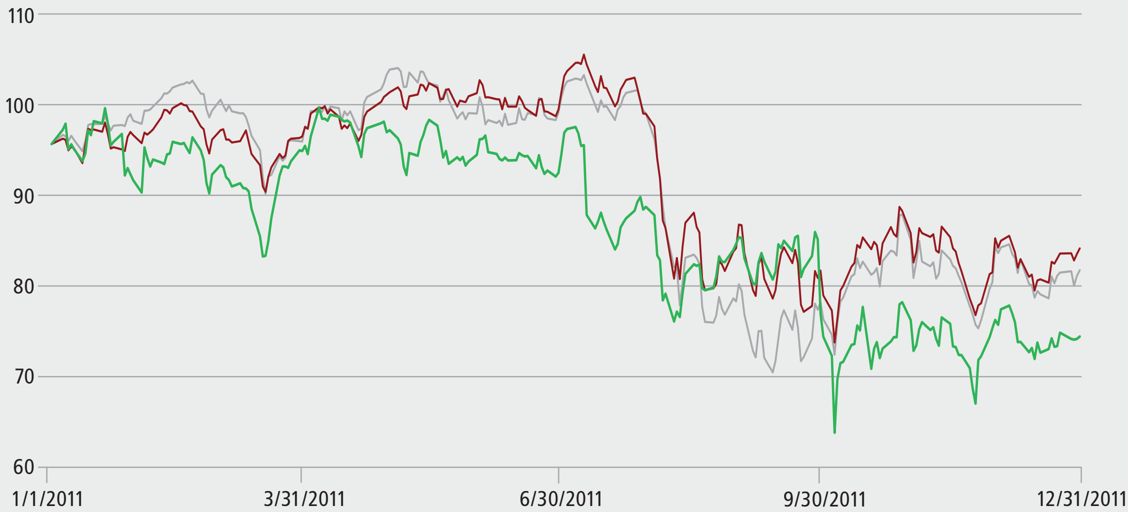
Vossloh Group: sales and EBIT trend

Vossloh stock with steeper downturn than index

Another share buyback program for €100.9 million

Dividend for 2011 to remain stable

Vossloh stock	Vossloh share ID data:	
MDAX (rebased)	German SIN: 766710	Reuters: VOSG.DE
DAX (rebased)	ISIN: DE0007667107	Bloomberg: VOS GR



Vossloh stock price trend from Jan. 1 to Dec. 31, 2011

Vossloh stock

Stock market depressed by debt crisis

The prime focus of attention for the international capital markets throughout 2011 was the gradual worsening of the European debt crisis and the constantly high sovereign debt of the USA. Across the board, the European stock markets responded negatively to the sharp rise in yields for bonds issued by the debt-burdened nations of Greece, Spain, and Italy, the downrating of these and other eurozone countries as well as the USA. Right up to year-end 2011, political endeavors to assemble rescue packages and enforce stricter fiscal and monetary policies failed to leave any favorable impression on the capital markets. Scares of a massive weakening in the European economy, possible consequences for the Chinese economy and uncertainty as to a possible double-dip in the US economy, these were factors that dragged down stock prices in the eurozone. The Euro STOXX slipped by over 17 percent, the STOXX Europe 50 (a mirror of the trend of equities in Europe) by 8+ percent. Likewise poor in the majority of instances were the performances of the main non-European stock markets. Japan's Nikkei suffered an annual loss of over 17 percent in the aftermath of the severe earthquake in the spring of 2011. The MSCI World posted a loss of almost 8 percent in 2011. Only in the USA did shareholders benefit from a more congenial stock market thanks to improving business data in the latter half of the year. The Dow Jones climbed by over 5 percent, the S&P 500 stayed put, and the Nasdaq 100 advanced by close to 3 percent by year-end.

Sharp losses for DAX and MDAX

Fiscal 2011 was a weak period for the German stock market, with the DAX shedding a total 14.7 percent to close the year at 5,898, well short of the annual high of 7,600 on May 2. The annual low of 4,966 was quoted on September 12, 2011. Among the year's winners were such crisis-resistant industries as the pharmaceutical as well as the consumer goods sector. The losers included the financial and energy-producing sectors, with erosions well into double-digit percentages. Uncertainty as to the banking sector's balance sheets as a result of the debt crisis and Germany's plans to phase out nuclear energy were factors that discouraged any further investment in these sectors. As to the MDAX, which includes Vossloh stock, this index closed the year at 8,898, a loss of 12.2 percent compared with year-end 2010. For 2011, its 12-month high of 11,259 was hit on July 8, 2011, its low of 7,637 on October 4, 2011.

Vossloh stock with steeper downturn than index

Shedding 22.4 percent during the period, Vossloh stock clearly underperformed in relation to the average for the German stock market. This was chiefly due to two profit forecast adjustments required because of external factors. At the start of July and then again in late September 2011, Vossloh adjusted its forecasts for 2011 since not only the volume of business from the Chinese market was smaller than originally expected but also a megaproject in Libya could not be implemented and moreover demand in certain European markets was weakening appreciably. Within this context, Vossloh stock, after a reasonably steady first six months, took a downhill direction. Toward year-end, the price then steadied. The closing price was €74.07, the annual low of €62.67 occurred on October 4, 2011, the annual high of €102.75 on April 4, 2011. Vossloh AG's market capitalization amounted to €883.3 million at year-end; the Company thus ranked 51 among the MDAX members in terms of free-floating market capitalization and 31 in average trading volume in the course of the year. At year-end 2010, the Company had ranked 35 and 27, respectively.

At 21.5 million shares, the annual trading volume of Vossloh stock was well above the prior-year 17.2 million. The average daily turnover the previous year had been 67,300 shares; in 2011, it was 83,800. The number of shares outstanding at year-end 2011 totaled 11.993 million (down from 13.325 million at year-end 2010). The decline resulted from the treasury repurchase program resolved on July 26, 2011, and launched on July 27, 2011; this continued until December 2, 2011, and resulted in the repurchase of altogether 10 percent treasury stock.

Vossloh stock indicators		2011	2010	2009	2008	2007
Earnings per share (EpS)	€	4.28	7.32	6.57	9.48	4.83
Cash flow per share	€	9.74	10.44	3.36	9.10	5.43
Dividend per share	€	2.50[1]	2.50	2.00	2.00 + 1.00[2]	1.70
Total dividend payout	€ mill.	30.0	33.3	26.6	40.0	25.2
Book value per share (excl. minority interests)	€	39.09	41.44	35.45	34.26	28.51
Annual average number of shares outstanding	1,000	13,024	13,320	13,381	14,703	14,768
Number of shares outstanding at year-end	1,000	11,993	13,325	13,320	13,889	14,796
Closing stock price	€	74.07	95.50	69.52	79.49	80.10
Closing market capitalization	€ mill.	888.3	1,272.6	926.0	1,104.0	1,185.1
Annual high/low	€	102.75/62.67	96.46/65.75	89.80/62.36	99.49/45.41	94.47/56.21
Price-earnings ratio (PER)		17.3	13.0	10.6	8.4	16.6
Price-cash flow ratio (PCFR)		7.6	9.1	20.7	8.7	14.7
Price-book ratio (PBR)		1.9	2.3	2.0	2.3	2.8
Share trading volume	1,000	21,536	17,235	20,437	27,913	24,040
Average daily turnover of shares	1,000	83.8	67.3	80.5	109.9	95.4

[1] Proposed; subject to AGM approval
[2] Superdividend of €1.00

On July 26, 2011, Vossloh AG's Executive Board resolved with the Supervisory Board's approval to redeem and withdraw—without decreasing the Company's capital stock—the 1,470,630 treasury shares then held by the Company after completion of the stock buyback program 2008/2009. That treasury stock was equivalent to 9.9 percent of the capital stock of €37,825,168.68 which has since been allocated among 13,325,290 no-par shares, and the withdrawal of the treasury stock therefore raised the equity interest of each stockholder in Vossloh AG by around 11 percent as of the date of redemption.

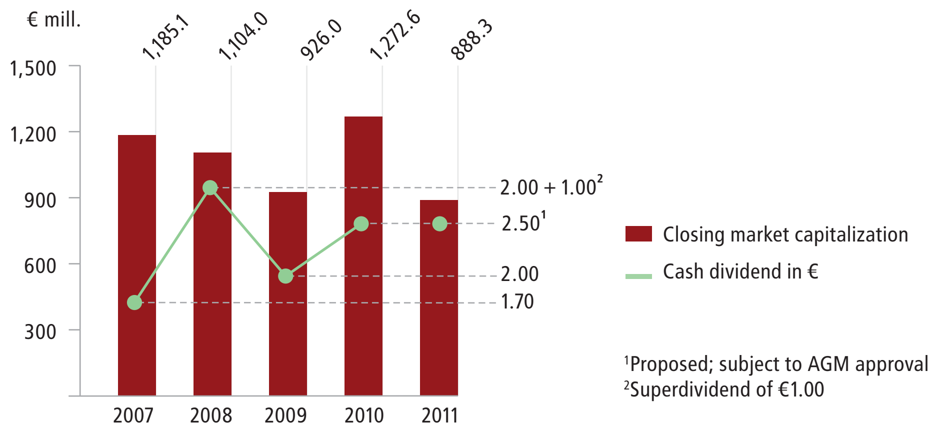
Another share buyback program for €100.9 million

In accordance with another resolution passed on July 26, 2011, by Vossloh AG's Executive Board after obtaining Supervisory Board approval and following the treasury stock repurchase (in 2008/2009) and redemption/withdrawal (in 2011), a new stock buyback program was then launched. Between its commencement on July 27 and completion on December 2, 2011, Vossloh AG reacquired altogether 1,332,529 treasury shares (tantamount to 10 percent of the capital stock) at a total cost of €100.9 million (excluding incidentals) and an average price of €75.76 per share.

The stock buyback program was managed by a securities firm independently and uninfluenced by Vossloh AG and implemented in accordance with the trading terms of EC Regulation No. 2273/2003 of the EU Commission dated December 22, 2003. The price paid by Vossloh AG for one treasury share (excl. incidentals) was in no case more than 10 percent above or below the Vossloh stock price as quoted at the trading day's opening auction of the Xetra trade at the Frankfurt Stock Exchange. The reacquired treasury stock may be used for any of the purposes stated in the May 19, 2010 AGM resolution.
For more details of the stock repurchase, see the *Investors* section at *http://www.vossloh.com*

Unchanged dividend of €2.50 proposed

Vossloh AG's Executive and Supervisory Boards will propose to the annual general meeting on May 23, 2012, that a cash dividend of €2.50 be paid per share. Assuming AGM approval, this means that the dividend per share for 2011 will be at the prior-year record level, its payout thus totaling around €30 million. Expressed in percent of group earnings, the dividend payout rate will accordingly be boosted from 34 percent for 2010 to 54 for 2011.



Market capitalization and dividend trend

Ownership structure

Unchanged is the fact that the Vossloh Family Pool ("Familiengemeinschaft Vossloh GbR") remains Vossloh AG's major stockholder, reportedly owning close to 34 percent of the Company's capital stock.

Heinz Hermann Thiele acquires Vossloh stock

Mr. Heinz Hermann Thiele, Germany, communicated on July 20, 2011, that his voting interest in Vossloh AG had crossed above the 15-percent threshold on July 18, 2011, to reach 15.29 percent (2,262,918 votes), including 10.24 percent (1,515,761 votes) attributable to him. Such attributable votes are held by the following companies controlled by him and whose voting interests in Vossloh AG amount to 3 percent each or more: KB Holding GmbH, Stella Vermögensverwaltungs GmbH. According to this communication, the stake personally and directly owned by Mr. Thiele totaled 747,157 shares, equivalent to an interest of 5.05 percent as of said date.
In a notification dated July 22, 2011, these stockholders stated that the purpose of their investment in Vossloh stock was a long-term strategic ownership.

Since December 2, 2011, Vossloh AG has held 1,332,529 treasury shares (corresponding to 10 percent of the capital stock).

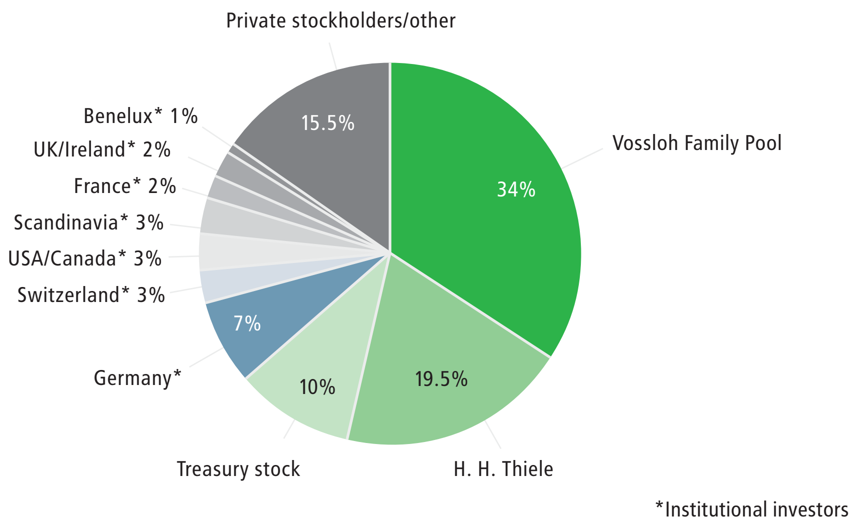
Just as in previous years, an ownership structure survey was in early 2012 carried out by a specialist service provider on Vossloh AG's behalf. As of the 2012 survey date, the interest directly and indirectly held by Mr. Heinz Hermann Thiele in Vossloh AG came to 19.5 percent of the capital stock. Adding the close to 34 percent owned by the Vossloh Family Pool and Vossloh AG's 10-percent treasury stock, the proportion of strategic Vossloh investors rose from around 41 percent in early 2011 to 63.5 percent of the capital stock.

Sharp decline in percentage of institutional investors

Whereas the proportion of private investors was still around 8 percent and that of others climbed from some 4 to 7.5 percent, the percentage of institutional investors dropped sharply from 47 to 21 percent, especially in USA/Canada and UK/Ireland. At the start of 2012 and despite a decline, the largest aggregate stake of the institutional investors was still in Germany. On the European continent, France, Switzerland and Scandinavia again accounted for approximately equal proportions. Altogether, the percentage of shares held by institutional investors in these countries stayed more or less unchanged.

Analysts' assessment

As of December 31, 2011, altogether 19 equity research firms were regularly reviewing Vossloh stock. Nine at that time recommended "hold," eight "sell." The generally skeptical view was based on the assumption that the Group's business might further suffer from uncertainties in the Chinese market and the sovereign debt crisis in Europe. As prospects in China brightened, two analysts did recommend "buy" at the turn of 2011/12.
On the basis of these assessments, price targets averaged €72, the bottom-end fair value being €59 and the maximum €88.



Ownership structure of Vossloh AG, survey as of Jan. 31, 2012, by IPREO

Sustainability

With its rail technology products and services, Vossloh operates in an industry whose environmental performance is good. Product developments at Vossloh also play a part in the more economical use of fossil fuels, a minimization of emissions and a reduction in noise caused by rail and bus traffic. Given these circumstances, Vossloh has for several years now increasingly attracted the attention of sustainability investors. Since 2008, it has been listed in three sustainability ratings that qualify the Company as an investment for sustainability funds: oekom research, INrate, and Sarasin. Moreover, in February 2012, Vossloh was awarded by Kempen "Provisional Status" for the good results in environmental performance and has since been included in the Kempen/SNS SRI Universe. Since 2007, Vossloh has also been reporting to the Carbon Disclosure Project (CDP).

Kempen includes Vossloh in Kempen/SNS SRI Universe

Capital market dialog

The Investor Relations team is continuing its close contacts with the capital market community and, especially in the difficult year of 2011, personal dialogs with numerous capital market participants were stepped up. Once again, IR efforts centered on one-on-one interviews and conference calls with investors and financial analysts. Vossloh participated in seven investor conferences in and outside Germany and staged five road shows. Presentation documents, detailed information on Vossloh stock and financial reports are available for downloading from the Vossloh website at www.vossloh.com. These documents can also be forwarded to you by post or email or you can contact us personally at investor.relations@ag.vossloh.com or by phone (+49-2392) 52-359.

Technology that moves

Along with the capital expenditure program launched in 2008, Vossloh has strategically expanded its rail proficiencies. Additional know-how in the area of mainline railways, interdivisional development projects and a focus on customizable products are presently stimulating demand.

The center-cab locomotive developed and built within the Vossloh Group with its proprietary diesel-electric driveline has been ordered by private railway operators barely 15 months after its presentation. The new and efficient Tramlink, also featuring all-Vossloh mechanical and electrical equipment, impressed public transport operators in Rostock only shortly after its development.

The second generation of the high-speed grinding train was developed at Vossloh Locomotives following the entry of Vossloh Rail Services into the Group. This preventive track-grinding process whose operation dovetails into the regular timetable enjoys a unique market position and is internationally in demand.

Sustainability becomes a decisive purchase criterion even in times of tighter public funds. Network operators globally require innovative products and solutions for building rail lines that are safe and economical also in their subsequent maintenance. Lower noise emissions are of focal interest—and achievable with track fasteners and switches specifically for urban transport, and also with “acoustic grinding.” The next step in tram development will be a hybrid model for which the Group already possesses the know-how. The market leader position in the electric bus sector established over decades has put Vossloh in a position to cooperate in the development of the hydrogen buses now operating in Cologne and Amsterdam on regular services.

Modern Vossloh vehicles are favorites especially with very cost-conscious industrial customers. The triple-axle center-cab locomotive G 6, the first model of the new modular locomotive family, has been sold more than 60 times to date. Europe’s most powerful diesel-electric mainline locomotive, the EURO 4000, presented as early as 2007, is a bestseller with almost 80 units sold. Its cousin, the EURO*LIGHT*, developed for axle loads below 20 t, has scored its first major market successes after presentation at InnoTrans 2010.

Vossloh Fastening System’s new Technology Center headquartered in Werdohl was opened in 2011. Here, engineers and technicians can develop under a single roof innovative solutions with the aid of the most modern testing technology. Moreover, with the integrated showroom for the entire Group the Technology Center has developed into a meeting point frequented by industry experts and railway aficionados.

Vossloh has capitalized on a number of rewarding fiscal years in order to renew its product portfolio and, just as its know-how, broaden it. Surging order intake since 2011 has emphasized market acceptance of the direction taken. Technology from Vossloh is in demand, not least of all since mobility requirements are mushrooming on a global scale. This offers the Group a good launch pad for future growth.

Wanted: spry, strong worker

The reinvention of the industrial locomotive.

Shunting locomotives, especially for the industrial sector, need to reconcile conflicting requirements. They have to operate in the narrowest spaces, therefore they have to be compact. They have to move incredibly heavy loads, therefore have to be heavy. And finally they not only have to be strong, but also fast enough to be employable on mainline services.

In designing their industrial locomotives, Vossloh engineers at first had to take one step back and ditch the prevailing concept of a 4-axle machine. Then, however, with modern components in a modular concept and innovative ideas, at least two steps were taken forward. The consequence: since mid-2010, more than 60 G 6 locomotives have been ordered—despite the initially still modest market environment.

The triple-axle machine stretching a mere ten meters is able to negotiate unassisted tight track bends with a radius of 50 meters. Thanks to its modern chassis with axially

Salzgitter AG, Germany

movable wheelsets, abrasion and wear stay marginal. The G 6 is a real power pack: with a 650-kW engine it is also able to perform heavy-duty shunting operations on confined industrial yards. And as the first triple-axle industrial locomotive, it can alternatively take on mainline duties on public networks at speeds of 80 km/h.

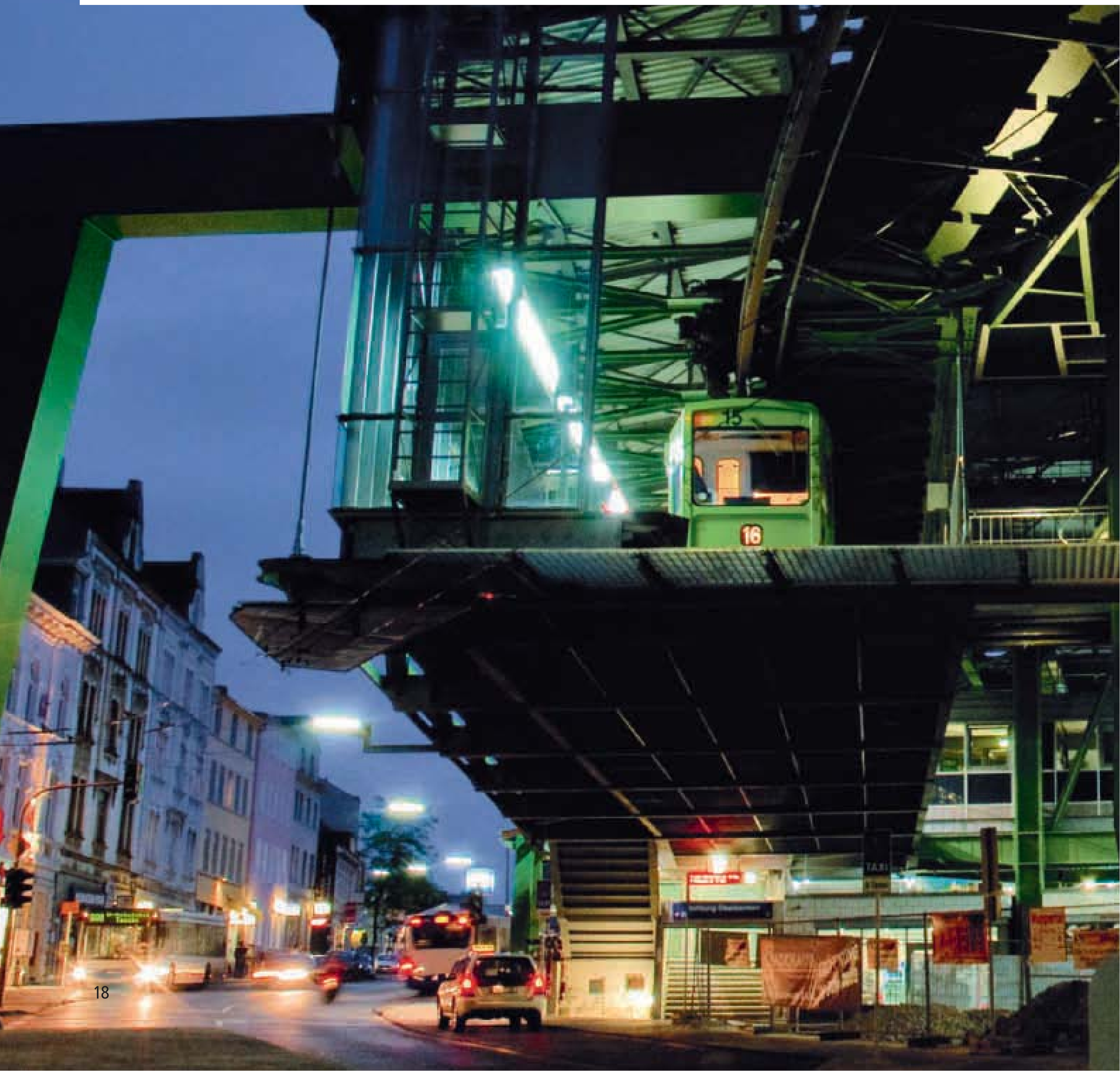
For customers, the G 6 is a smart solution also when in operation. A neat superstructure, good accessibility to all components as well as parts commonality with other modern Vossloh locomotives are money-saving benefits.

Gazing down on the gridlock

Vossloh builds the next generation of Wuppertal's suspension railcars.

Like a steel centipede, the scaffolding upholding Wuppertal's *Schwebebahn* winds its way through the city. Daily, more than 80,000 people use this worldwide unique means of transport. At a height of eight to twelve meters, there are no congestions or obstacles to fear. For more than 100 years, the suspension railway has been Wuppertal's landmark and an ideal means of transport for the city in the Ruhr region's south, a city that stretches through the narrow valley like a tapeworm. All important points in Wuppertal are accessible along a line of almost 15 kilometers length—the railway follows 13.3 kilometers of these, for 350,000 inhabitants and countless tourists.

Every 30 years or so, the world-famous suspension monorail is ready for a facelift: new vehicles are introduced. A challenge, since this technology is found nowhere else in the world. Today's fleet painted in orange and blue dates back to the 1970s. The next generation shaping the cityscape for decades after 2013 will be a Vossloh product.



The Wuppertal authorities need a total of 31 vehicles to maintain 2-minute services. The ultramodern and quiet railcars are being developed by Vossloh engineers from Düsseldorf and Valencia, Vossloh Kiepe is supplying the electrics. Vossloh Rail Vehicles is building the vehicle bodies and handling the final assembly of the railcars.

At the rear of the new railcars will be a panoramic window stretching down to floor level. From here there is unobstructed view of the city with the most public steps and steep streets. If this seems like a motion picture, it’s not surprising: Wuppertal has served as a movie set many times.

Wuppertal, Germany

Cologne Cathedral, Germany

A deep breath

Fuel-cell buses for zero emission.

An efficient and eco-friendly infrastructure is one of the most urgent challenges facing today's conurbations. Even now, more than one-half of the world's population live in the city. In 15 years, the share will rise to around 60 percent and, moreover, almost 90 percent of global gross national product will be generated in the conurbations!

When the media report about the most livable cities, one thing is immediately evident: these almost all have an efficient local public transport system. Its vehicles frequently feature modern electric drive technology from Vossloh Kiepe. The future of local transit can be typically observed in the cities of Amsterdam and Cologne. Since 2011, these cities have had two articulated buses with fuel cells on regular service—with a length of 18 meters the world's longest hydrogen buses. Vossloh Kiepe was the consortium leader in the construction of the vehicles and contributed the electrical equipment.

Hydrogen is converted into electric energy with the aid of the fuel cell. The exhaust system simply emits water vapor. In this way, smog-suffering citizens can take a deep breath even at the bus stop. Since hydrogen crops up in the chemical industry as a byproduct, vehicles powered by hydrogen score through zero emissions even when taking into account the upstream energy chain. Moreover, the hybrid system can temporarily recuperate and store the energy occurring whenever the brakes are applied and reuse it for accelerating. The result: quieter and jolt-free operation, comparable to a modern light rail vehicle.

This way, but quietly, please!

Noiseless switches for China's megacities.

Almost two-thirds of the world's 50 biggest cities are in Asia and of these eight in China. The distances between home, jobs and places to spend time off create enormous commuter flows. Traffic gridlocks and smog make efficient local public transport systems the chosen means of movement in the megacities. The metro in Shanghai, the world's second-largest city, has the worldwide longest subway network today with a track length of 420 kilometers and hence has outstretched London and New York within only 15 years. China is also stretching its tram lines, since according to the latest figures, more than one-half of its population now lives in the city—around 675 million people. The subject of noise abatement in the densely populated conurbations is a talking-point among transport planners. When together with the Chinese partners, Vossloh Cogifer launches switch production in Wuhu this year, a noise-dampening switch will be enriching the product range. It cuts the sound level when crossed by a train quite significantly.

Embedded in this noiseless switch is the know-how of several Vossloh companies. Vossloh Cogifer, for example, furnishes a specially engineered frog that causes the wheel to stay on the same level when negotiating the crossing. The result: an appreciable reduction in noise along with the attendant wear and tear. Vossloh Fastening Systems is contributing a highly elastic track fastening system. Apart from the tension clamp, a super-elastic elastomer takes on the task of dampening noise and vibrations. To ensure noise reduction by 5 to 8 dB, extensive reference measurements together with the Technical University of Munich were carried out. The Chinese approval process is underway and being scientifically accompanied by the University of Tongji in Shanghai. The first of these switches will be installed in the Shanghai Metro.

Hong Kong, China


1028

Preventive care at 80 km/h

Globally unique track preservation.

The consequences of rising travel speeds, higher-frequency services and faster-accelerating vehicles are no longer chiefly rail wear and tear but rather the damage caused by rail fatigue. Corrugation and slip waves generate loud noise. Rolling-contact fatigue symptoms, so-called head checks, lower track life, thus leading to higher maintenance costs.

Vossloh Rail Services has developed a unique preventive-care strategy. Before fatigue damage can spread, a wafer-thin layer is ground off the rails and this dramatically extends their service life. Thanks to such “artificial wear” from removing 0.1 mm per pass, crack propagation at the rail head surface is prevented. High-speed grinding (HSG) works at a speed of 80 km/h and this is the worldwide unique selling proposition of the technology. At this pace, work can be carried out within the regular timetable; track shutdowns are unnecessary.

In 2011 and together with Vossloh Locomotives in Kiel, where the vehicle was built, Vossloh Rail Services launched the second-generation grinding train onto the market.

Near Hamburg, Germany

Improved suction suppresses grinding sparks to a minimum. This and the use of particulate filters for the diesel engines make HSG fully suitable for tunnels. Meanwhile, high-speed grinding is also a success internationally.

Another advantage of the latest grinding train is the option to vary the grinding profile. The residents in the vicinity of the track lines maintained by this “acoustic grinding” technique will be happy. The resurfacing alone lowers noise level by 3 dB—a significant reduction compared to a conventionally maintained track.

Bitterly cold. Well wrapped.

Failsafe switch systems for harsh climes.

Kiruna is Sweden's northernmost city. Between December 12 and 31 it is polar night. In January, the coldest month, the thermometer never climbs above –10 °C. The city with its rich ore deposits is the center of Scandinavia's most important freight train connection. The "ore railway" with a length of 473 kilometers links Kiruna with the ports of Narvik on the North Atlantic and Luleå on the Baltic.

Trains measuring hundreds of meters, each weighing more than 8,000 t and with an axle load of 30 t, roll several times daily along the line. The tracks are exposed to temperatures ranging from –50 to +60 °C. Here to the north of the Arctic Circle, the functioning of the switches on the single-track line is vital. In 2010, Trafikverket, the Swedish infrastructure authority, entrusted Vossloh with the supply of new types of switch machines.

Kopparåsen, Nordschweden

The system chosen by Trafikverket is nested in the track sleeper and is a customized development for this environment of the Easyswitch system developed by Vossloh Cogifer. Despite its design for extreme requirements, nearly all components are lightweight and replaceable within 15 minutes. Endurance tests conducted on a constantly shaded, ice-cold stretch of track have endorsed Vossloh Cogifer's engineering concept.

Centrifugal forces firmly under control

Big loads, tight bends—specialty solutions for heavy-cargo haulage.

Witnessing a freight train in the United States is an indelible experience, say even the non-aficionados of the railways. A freight train may measure a good 700 m in Germany, in the USA at times three kilometers. This combines with the often spectacular topography. In the vast expanses of the Great Plains in Western Nebraska, we find this tortuous hairpin bend. When the front engines on a freight train quit the bend here at Breezy Point, the last of over 100 wagons with 35 tons axle load have yet to squeeze their way into it. The centrifugal forces acting on the rails are brutal, way in excess of what the steel normally has to withstand. Even proven, heavy-duty rail fasteners had to be replaced at unusually short intervals.

For the rail operator, Vossloh Fastening Systems has now come up with a fastener that is a landmark in force resistance.

In fact, the solution may seem paradoxical. The W 40 system is stronger and more durable than any other because it responds more elastically to loads. The rail can subside somewhat deeper and is able to yield sideways more than usual, although a millimeter is the limit and thereafter the train is held relentlessly in its tracks. The new fastening system underwent the most punishing tests and tryouts to ensure uncompromising safety and cost efficiency. It is now demonstrating its capabilities and maybe very soon will become state-of-the art in cost-conscious US heavy-haul operations.

Breezy Point, Nebraska, USA

Vossloh AG's Supervisory Board

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, Chairman of the European
and Group Works Councils, Werdohl

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

Dr.-Ing. Wilfried Kaiser,
Supervisory Board Chairman

Report of the Supervisory Board

During fiscal 2011, Vossloh AG's Supervisory Board duly performed the functions and duties incumbent on it under law, the Company's memorandum & articles of incorporation (the "bylaws"), 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.

Supervisory Board membership remained unchanged in 2011.

Meetings and attendance

In 2011 the Supervisory Board convened at five scheduled meetings (March 30, May 24, July 7, September 28, and December 1) and two extraordinary meetings on July 26 (as teleconference) and October 12. All meetings were attended by the plenary Supervisory Board.

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, as well as the current income, profitability and cash trends. Any business trends at variance with budget or plan were detailed by the Executive Board. The Supervisory Board deliberated on and throughout approved major capex projects and other Executive Board transactions subject to approval. Other periodical items on meeting agendas and subject of the Executive Board's routine reports were the trend of each business unit's operating activities, with particular emphasis on the effects of suspended deliveries in Libya, delayed shipments in China and Russia, as well as on the trends of Southern European and Scandinavian business. Further items discussed regularly were Vossloh's risk position and management, besides—jointly with the Executive Board—significant organizational and personnel changes.

Furthermore, the Supervisory Board regularly obtained detailed information about the latest facts ascertained in-house in connection with the Federal Cartel Office investigation into anticompetitive agreements and related antitrust issues. Also discussed and evaluated with the Executive Board were M&A candidates. The actual performance of recent-year acquirees was dealt with in depth particularly by comparing it with the original budget data underlying the various M&A deals.

Additionally on the agenda for several thorough debates were the further fine-tuning of a code of conduct binding Vossloh's workforce worldwide and the installation of a compliance-monitoring organization.

Upstream of the annual general meeting (AGM) of May 24, 2011, both Boards jointly discussed the proposed agenda.

After having its own efficiency reassessed by outside expert consultants in 2010, the Supervisory Board implemented the few ensuant recommendations in fiscal 2011. Another conference topic was the professional development of Supervisory Board members.

Ongoing information outside Supervisory Board meetings

Momentous or urgent projects 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 material import to the assessment of the Vossloh Group's current position and development, and personally took care of promptly informing his peers on the Supervisory Board.

Committee work

For improved efficiency, 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 or removal, nor decisions on the Executive Board compensation system, or on fixing and periodically reviewing total remuneration, or on downscaling any emoluments of Executive Board members in accordance with Art. 87(2) German Stock Corporation Act ("AktG") as these are all subject to the plenary Supervisory Board's approval.

The Staff Committee has Wolfgang Klein and Peter Langenbach 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. Jürgen Blume (chairman up to March 2011), Peter Langenbach (chairman as from March 2011), Dr.-Ing. Wilfried Kaiser, and Dr. Christoph Kirsch.

The Staff Committee met once in 2011. On its agenda were details of a long-term incentive component for Executive Board remuneration—an issue first raised back in 2010. Solutions were elaborated to be translated into Executive Board employment contracts once these have expired in 2014 and 2015, respectively. After thorough scrutiny, the immediate amendment of the current contract terms was deemed inappropriate in either Board's opinion.

The Audit Committee convened six times in 2011. Its meetings on May 3, July 26 and October 26 centered on discussing the quarterly reports with the Executive Board prior to publication. Likewise discussed were the analysis and calculation of capital cost (WACC) and return on capital employed (ROCE) of the Group, its divisions and business units when dealing with their shareholder value management and value added. Another item on the Audit Committee's agenda for joint consideration with the Executive Board was the impact of exchange rates on sales and EBIT. At its March 29 meeting, which was also attended by the Executive Board and the statutory auditor, 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 2010, including the documents submitted to substantiate the value of the Company's shareholdings and related goodwill. No objections were raised, and the Audit Committee approved the statutory auditor's conclusions. At the same meeting, the Audit Committee also dealt in detail with the statutory auditor's declaration of independence and the proposal for the election of the statutory auditors for fiscal 2011 for the Company and the Group. After the AGM had endorsed the proposed election, the audit engagement letter was duly issued by the Audit Committee, also on behalf of the plenary Supervisory Board and in line with the recommendations of the Code. Audit Committee discussions also focused on risk management at the March 29, July 26, October 26 and December 1 meetings; moreover, the Audit Committee required the Executive Board to furnish continual reports on the main risks identified for the Vossloh Group. The topics of discussion included the need for, and the reasonableness of, the recognized accruals, as well as—jointly with the Executive

Board—the quality of the internal control system, mainly regarding inventory pricing. Further, the Audit Committee looked in detail into the appropriateness of interperiod revenue recognition, particularly in the context of dedicated manufacturing contracts for which the percentage-of-completion (PoC) method is used. At additional meetings, the Audit Committee members furthermore dealt with the agreed fees for, and the proposed focal areas of, the annual audit as of December 31, 2011, and related issues.

The Slate Submittal Committee convened once in 2011, basically to discuss long-range succession planning issues involving Supervisory Board members, also in light of membership mix, diversity and fees as recommended by the Code. These issues were likewise frequently addressed among Supervisory Board members.

The committee chairmen reported on their respective committee work and the results of their discussions to the plenary Supervisory Board when it next convened after a committee meeting.

German Corporate Governance Code

No Supervisory Board member was subject to any clashing interests under the terms of § 5.5 of the Code. In December 2011, the Executive and Supervisory Boards issued, and made available to the stockholders long term on the Company's website, the unqualified declaration of conformity according to Art. 161 AktG (see page 41).

Separate and consolidated financial statements 2011

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 2011 (including the accounting), all as prepared by the Executive Board, were examined by the statutory auditor, BDO AG Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the May 24, 2011 AGM and issued an 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.

In due course prior to the Supervisory Board's annual accounts meeting on March 27, 2012, 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) 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 highlights 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 evidence suggesting that the declaration of conformity issued in 2011 by the Executive and Supervisory Boards in connection with the Code was incorrect, was found during the audit.

The Supervisory Board, too, reviewed Vossloh AG's separate and consolidated financial statements and the combined management report for fiscal 2011 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, 2011; the separate financial statements as of December 31, 2011, 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 €2.50 per no-par share.

The Supervisory Board thanks the Executive Board and all the employees for once again their highly dedicated contributions and—in light of the partly thorny environment—successful input in fiscal 2011.

Werdohl, March 27, 2012

The Supervisory Board
Dr.-Ing. Wilfried Kaiser
Chairman

Corporate governance report/statement

Vossloh believes that successful corporate governance—rooted in a responsible, transparent and predictable organization and its management and supervision—is the basis that nurtures and preserves long-range investor confidence in Vossloh and ensures that shareholder value is added continuously.

Sound and sustainable corporate governance is essential to perpetuate the trust that a company's present stockholders and future investors, its lenders, as well as its staff, customers and suppliers place in it. In the subject statement, the Executive Board reports, also on behalf of the Supervisory Board, on corporate governance at Vossloh in accordance with § 3.10 of the Code and Art. 289a(1) HGB.

Vossloh's management and supervision 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 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/Compliance, and IT. COO Dr.-Ing. Norbert Schiedeck is responsible for Engineering, Marketing, and HR.

The Executive Board performs its duties with a sustainable addition of 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 routinely on significant actions, transactions and events within their respective responsibilities and the areas assigned to them. Fundamental and certain defined 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 the other Executive Board member. 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 listed nongroup company. For detailed information on Vossloh AG's Executive Board members, turn to page 181 of this annual report.

For all its board members, Vossloh AG has contracted so-called D&O insurance policies (against consequential economic loss) with an agreed deductible amounting to 10 percent of the loss but capped at 150 percent of the board member's fixed annual remuneration.

Supervisory Board

In accordance with the first clause of Art. 10(1) of the bylaws, the composition of Vossloh AG's six-member 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 owner representatives on the Supervisory Board are elected by the general meeting, the employee representatives by the workforce, for identical terms of office. The term of a Supervisory Board member is five years, the current term expiring at the close of the AGM 2013, which votes on the official discharge for fiscal 2012. As recommended by the Code, the stockholder representatives were elected by the May 21, 2008 AGM by individual poll.

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 and regulatory compliance issues. Moreover, the Supervisory Board approves the annual budget and decides on the adoption of Vossloh's separate and the approval of the consolidated financial statements with due regard to the statutory auditor's review and audit reports, besides being responsible for the appointment and removal of Executive Board members.

In the year under review, too, the two boards dealt in depth with Code compliance matters. The recommendations of the Code are carried out by Vossloh without exception. In staffing its boards and other executive functions within the Group Vossloh pays heed to the necessary expertise and aims for diversity.

The Supervisory Board Rules of Procedure comply with the Code. Specific details of future Supervisory Board composition have been agreed upon.

The Executive and Supervisory Boards issued in December 2011, and published for long-term availability to stockholders on the Company's website, an unqualified declaration of conformity (cf. page 41).

The Supervisory Board comprises a sufficient number of independent members being parties unrelated to either Company or the Executive Board as defined by the law. 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 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 prepares, for decision by the plenary Supervisory Board, the documents for voting on and reviewing the compensation system and total remuneration of each Executive Board member, and on downscaling any emoluments of Executive Board members in accordance with Art. 87(2) AktG, besides being in charge of determining 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 Supervisory Board Chairman presides over the Staff Committee.

The Audit Committee is responsible for proposing to the Supervisory Board the statutory auditors for the Company and the Group for election by the general meeting, and deals in particular with 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 regulatory and corporate compliance issues (which includes overseeing the internal control system). For these purposes, the Audit Committee obtains periodical reports directly from the Head of Internal Auditing and the Chief Compliance Officer. Moreover, the Audit

Committee prepares the review by the Supervisory Board of the Company's and the Group's financial statements, management report and audit report. The Audit Committee and the Executive Board jointly discuss each quarterly financial report prior to publication. Dr. Christoph Kirsch chairs the three-member Audit Committee and, as former Chief Financial Officer (CFO) of Südzucker AG, meets the criteria of Art. 100(5) AktG, which require that an independent financial expert preside over an audit committee.

The four-member Slate Submittal Committee is responsible for the Supervisory Board's long-term succession planning and submits to the Supervisory Board a slate of suitable Supervisory Board candidates to be proposed to, for election by, the annual general meeting wherever any Supervisory Board member steps down early. When selecting potential Supervisory Board members proposed first for approval by the plenary Supervisory Board and then for election by the AGM, the plenary Supervisory Board and its Slate Submittal Committee are responsible for seeing that the slate reflects diversity and lists only candidates that have the necessary knowledge, capabilities, technical and accounting experience, international background, expertise in internal control systems and the Group as such, independence, an age not beyond 70 at the time of election, no clashing interests, and sufficient time for their designated office. Peter Langenbach chairs the Slate Submittal Committee.

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 (entities or individuals). 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. No former Executive Board members serve on Vossloh AG's Supervisory Board.

For details of Vossloh AG's Supervisory Board members, see page 182 of this annual report.

Compliance as the foundation stone of business enterprise and efficiency

Besides the self-evident adherence to the principles of law and order (regulatory compliance), Vossloh defines corporate compliance as the observance of intragroup rules and regulations and voluntary self-commitments.

Doing business according to sustainable, economic, ecological and social criteria is for Vossloh an integral constituent of corporate culture. Competence, quality, innovative resources and the longstanding relationships with customers and suppliers form for Vossloh the foundations of a successful future. An essential precondition for this success is Vossloh's integrity in its dealings with stakeholders including employees, customers, suppliers, stockholders and the general public.

Vossloh AG has unmistakably expressed, and published on its website at www.vossloh.com, its zero-tolerance policy regarding any infringements of law and order. To ensure groupwide impeccable modes of behavior, the Group has set up since 2007 its own Code of Conduct for the Group as such to serve as a pattern of behavior for the Executive Board, the Management Boards, other officers and all employees throughout the Group. This Code of Conduct sets minimum standards and includes proposals on how all employees may cooperate in complying with it. In addition to the Code of Conduct, groupwide binding guidelines are meant to assist in coping with ethical and legal challenges in everyday work. Any misconduct is rigorously pursued within the context of the applicable rules and regulations. Employees are advised regarding the related legal requirements and in-house policies.

In addition to the Executive Board, the Management Boards and other senior management staff it is the duty of the Compliance Organization to ensure that these values are infused into and firmly affixed within the corporate structure. It is this organization that makes sure the Compliance Program is enacted groupwide.

Besides directly contacting the internal Compliance Organization, all group employees may anonymously report any case of noncompliance to an external ombudsperson appointed for this purpose.

Risk management and control environment

Responsible business risk management is part and parcel of good corporate governance practice. Vossloh AG's Executive Board and the Management Boards of Vossloh subsidiaries can use groupwide and specifically tailored reporting and controlling systems which ensure that such risks are identified, mapped, profiled, assessed and managed. These systems are continually checked and tested for effectiveness and, where necessary, updated and examined by the statutory auditor. As described above, the Supervisory Board and its Audit Committee are regularly briefed on, and duly involved in, the risk management process.

For details of risk management within the Vossloh Group, see the risk report, which also includes the statutory report on the accounting-related internal control and risk management systems, as required by German accounting law modernization legislation (known as BilMoG).

Declaration of conformity

In 2011, too, Vossloh AG's Executive and Supervisory Boards have dealt in detail with Code requirements. Vossloh's corporate governance practices are regularly reviewed and revised accordingly.

Vossloh has therefore issued a statement on its implementation of the corporate governance practices which are recommended by the Code (as amended up to May 26, 2010):

"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 2011, 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 May 26, 2010).

Werdohl, December 2011
Vossloh AG
The Executive and Supervisory Boards"

The current declaration of conformity was issued in December 2011 in accordance with Art. 161 AktG and published for long-term availability on the Company's website.

Stockholders and their general meeting

Vossloh AG's stockholders safeguard their statutory rights and exercise their voting rights at the general meeting. As a rule, the Supervisory Board Chairman presides over the general meeting, which resolves with binding effect 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 Company appoints a general proxy who ensures the exercise of the voting rights of, in accordance with instructions issued by, stockholders at the meeting. Directly after the AGM, the voting results are published online on the Company's website.

Investor Relations

Vossloh attaches high priority to the early, timely and efficient information of all stockholders and other capital market participants at the same time by ensuring a continuous, prompt and concurrent flow of information about the Vossloh Group. Any corporate news published by Vossloh is promptly disclosed in German and English on the Company's website at www.vossloh.com, including (without limitation) the annual, semiannual and quarterly reports, invitations and other information. The dates scheduled for major recurring or periodical events and publications (such as the AGM, annual and interim reports) are summarized in a financial diary which is published in good time on Vossloh AG's website for long-term availability. 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 according to Sec. 10 German Securities Prospectuses Act ("WpPG") where all the preceding 12 months' information is compiled if of relevance under companies or capital market laws and regulations.

Any facts or circumstances surfacing or occurring outside Vossloh AG's periodic reporting are promptly communicated in ad-hoc notifications if of potential impact on the Vossloh share price. Furthermore, the corporate website at www.vossloh.com provides a host of up-to-date news and facts on the Vossloh Group and Vossloh stock.

Accounting and annual audit

The Vossloh Group's accounting basis is the International Financial Reporting Standards (IFRS), while the separate financial statements of Vossloh AG are prepared according to German GAAP (viz. the accounting regulations of the Commercial Code), as prescribed by law. Both the IFRS consolidated financial statements and the separate financial statements according to German GAAP were audited by BDO AG Wirtschaftsprüfungsgesellschaft (the statutory auditor elected by the annual general meeting 2011 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 beyond any doubt 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 suggesting a departure from the declaration of conformity (as issued by the Executive and Supervisory Boards), no such indications were found during the audit 2011. The semiannual financial report (condensed interim financial statements and interim management report of the Group) as of June 30, 2011, was reviewed by the statutory auditor.

Remuneration of the Executive and Supervisory Boards

For details of Executive and Supervisory Board remuneration, see the Board Compensation Report on page 78, an integral part of both the combined management report and this corporate governance report. On the Supervisory Board's agenda in 2010 had been the Executive Board compensation system. An outside consultant specializing in compensation issues had been commissioned to review the Executive Board's compensation for a fair and reasonable scale and revise the variable-remuneration system. The gist was that the overall compensation of the Executive Board should add up to a fair and reasonable remuneration for each member's functions, duties, and personal performance, as well as for Vossloh's economic situation, successful performance and future prospects, besides being in line with industry peers and in proportion to Vossloh's general pay system. Regarding a long-term pay component, solutions were elaborated to be translated into Executive Board employment contracts once these have expired in 2014 and 2015, respectively.

Stock ownership by board members

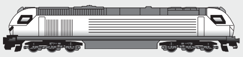
The provisions of Sec. 15a German Securities Trading Act ("WpHG") obligate members of Vossloh AG's Executive and Supervisory Boards, certain other managerial staff and parties (individuals or entities) related to these officers and managers, to disclose the purchase or sale of Vossloh AG shares or related financial instruments. The full details of all such reportable so-called "directors' dealings" are published in the Annual Document on the Vossloh website.

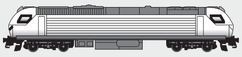
SOPs and similar securities-based incentive systems

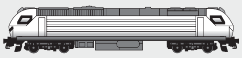
Since 1998 Vossloh has issued stock option programs available for the benefit of Executive Board members and other officers. For instance, under the terms of the long-term incentive program (LTIP), the grant of Vossloh stock options is contingent on the prior purchase of Vossloh shares from each LTIP participant's own funds (personal investment). However, since 2005 the LTIP has not been relaunched. No active or former Executive Board member holds any stock options.

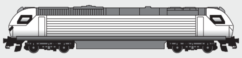
Vossloh vehicle overview

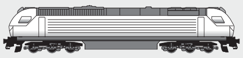
Mainline locomotives


EURO 4000

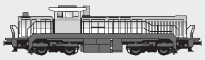

EURO 3000

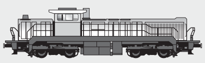

EURO*LIGHT*

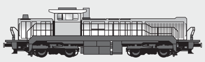

UK*LIGHT*

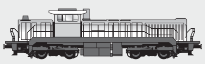

ASIA*LIGHT*

Center-cab locomotives


DE 18


DE 12


G 18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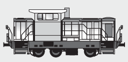
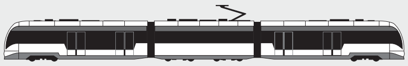
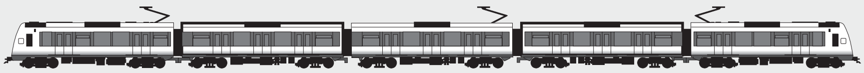
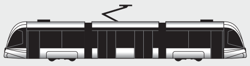

G 6

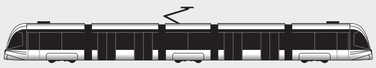
Local-transport vehicles


Citylink
Train-trams


Tubelink
Metro

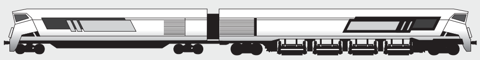



Tramlink
Trams

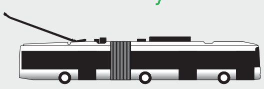


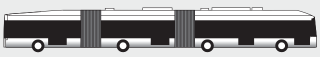
Special vehicles


Suspension railcars


Grinding trains

Bus traction systems


Trolleybuses


Hybrid buses


Fuel-cell buses

Combined management report

Vossloh AG

Rail Infrastructure division

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems
Vossloh Rail Services

Transportation division

Business units:

Vossloh Transportation Systems
Vossloh Electrical Systems

Business and market environment

Strategy, segmentation, and competitive position

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

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

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

International leader in selected rail infrastructure sectors

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

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

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

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

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

Strategic principles

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

Organization

Vossloh Group: some 90 companies in almost 30 countries

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

Controlling system and benchmarks

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

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

Value-driven benchmark: 15 percent sustainable ROCE

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

Additional financial targets

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

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

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

Business report

Business report

Business environment

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

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

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

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

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

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

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

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

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

Megatrends governing rail technology markets

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

M&A

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

Results of operations

Group sales down due to unexpected decrease in Rail Infrastructure revenue

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

Vossloh Group: sales by business unit

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

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

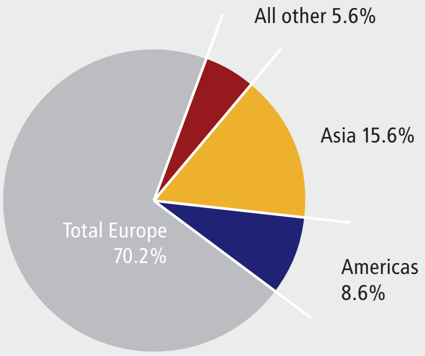
Vossloh Group: sales by region

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

Sales shortfall in Southern Europe and Asia

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

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



Sales breakdown by region in 2011

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

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

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

Higher cost of materials and lower workloads erode gross margin

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

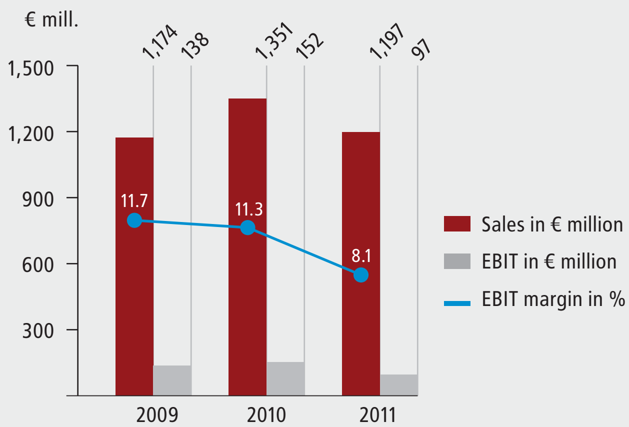
While selling expenses climbed 5.8 percent in 2011, general administrative expenses advanced a mere 1.7 percent, the combined total of both functional expense categories (GAS) rising to €163.6 million (up from €157.7 million): as a share of sales GAS accounted for 13.7 percent (up from 11.7).

Vossloh Group: sales and performance

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

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

Group EBIT slumps



Vossloh Group: sales and EBIT trend 2009–2011

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

Group earnings down

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

Dividend to stay unchanged at €2.50 per share

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

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

Order intake and backlog at record heights

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

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

Marked rise in Transportation's order intake

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

Vossloh divisions: order backlog

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

Financial position and investing activities

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

Stock buyback program raises net financial debt

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

Vossloh Group: net leverage

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

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

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

Vossloh Group: cash flow analysis

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

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

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

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

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

As of December 31, 2011, unutilized cash credit facilities of €195.7 million were available to the Vossloh Group (down from €252.3 million). For details, see the chapter on *risk and reward management* starting from page 99. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

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

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

Another clear rise in capital outlays

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

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

Vossloh Group: breakdown of capital expenditures

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

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

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

Asset and capital structure

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

Vossloh Group: asset and capital structure

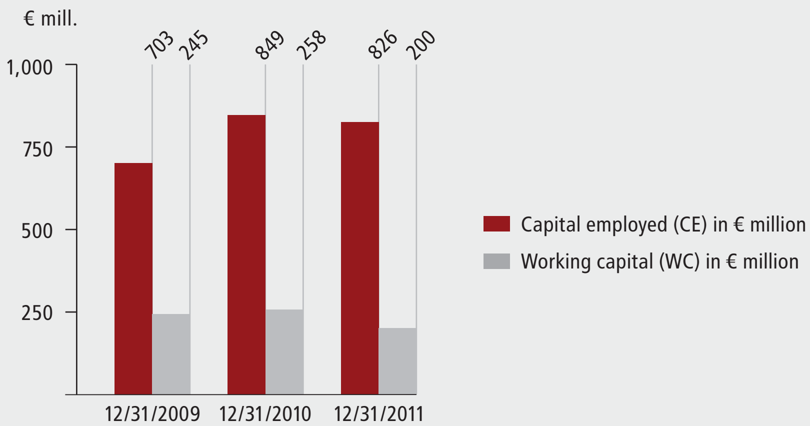
		2011	2010
Total assets	€ mill.	1,512.3	1,405.8
Total equity	€ mill.	482.8	580.0
Equity ratio	%	31.9	41.3
Closing working capital (WC)	€ mill.	200.3	258.0
Closing capital employed	€ mill.	825.9	848.6
Year-end working capital intensity	%	16.7	19.1
Fixed assets	€ mill.	625.6	590.7
Return on equity (ROE)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

Equity ratio at 31.9 percent

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

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

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



Vossloh Group: CE and WC trend 2009–2011

Shareholder value management

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

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

Transportation's ROCE up

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

Vossloh Group: shareholder value management

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

*Based on 10-percent WACC

Group adding value of €15.4 million in 2011

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

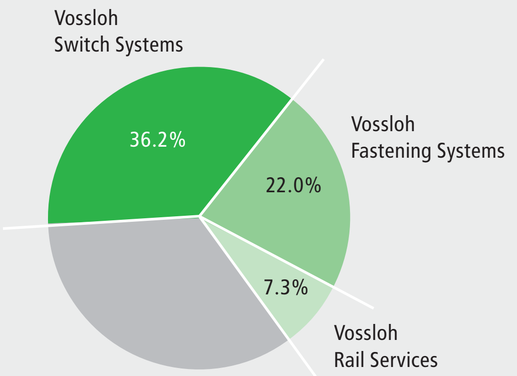
Based on the current WACC, the Vossloh Group's posttax value added in 2011 totaled €17.1 million, breaking down into Rail Infrastructure's of €17.9 million and Transportation's of €11.7 million.

Rail Infrastructure

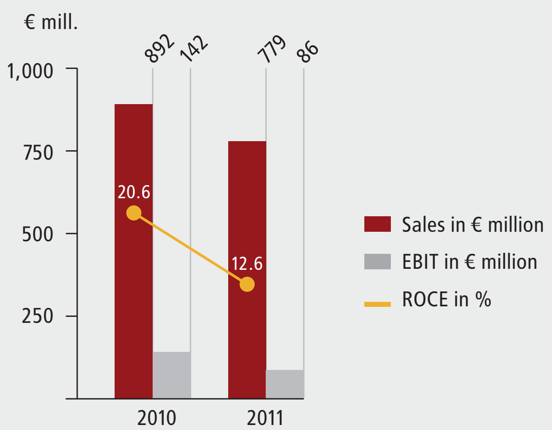
Project delays erode sales at Vossloh Fastening Systems

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

Vossloh Rail Services added sales in line with budget



Shares of business units in group sales



Rail Infrastructure division: sales, EBIT and ROCE trends

Business trend Rail Infrastructure

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

Rail Infrastructure's sales and EBIT down

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

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

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

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

Rail Infrastructure

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

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

Vossloh Fastening Systems

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

Project delays in China burden Vossloh Fastening Systems

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

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

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

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

Vossloh Switch Systems

Vossloh Switch Systems' sales down due to weak H1

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

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

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

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

Vossloh Rail Services

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

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

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

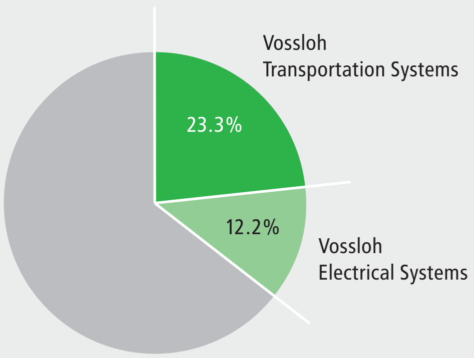
Vossloh Rail Services wins new orders for high-speed grinding

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

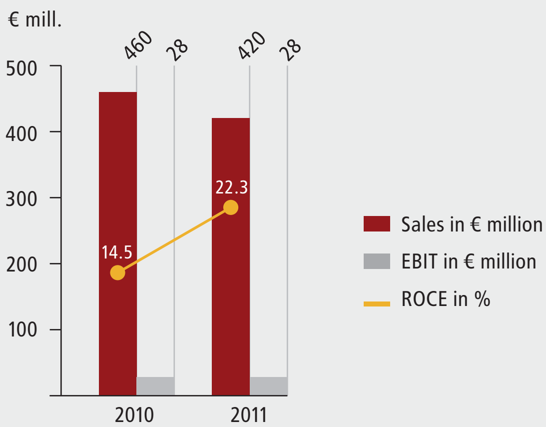
Vossloh Transportation Systems bottoms out and doubles order intake

Vossloh Electrical Systems wins big rail orders

Transportation



Shares of business units in group sales



Transportation division: sales, EBIT and ROCE trends

Transportation business trend

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

Lower sales by both business units

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

Much improved ROCE

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

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

Transportation

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

Vossloh Transportation Systems

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

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

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

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

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

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

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

Valencia location

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

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

EURO 4000 and 3000 in strong demand

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

Kiel location

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

Kiel books big orders for new G 6 and DE locomotives

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

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

Vossloh Electrical Systems

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

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

Soaring order intake

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

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

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

Vossloh AG

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

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

Analysis of the separate financial statements

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

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

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

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

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

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

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

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

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

Board compensation report

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

Remuneration of Executive Board members

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

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

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

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

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

The table below itemizes the remuneration of each executive officer:

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

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

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

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

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

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

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

Remuneration of Supervisory Board members

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Authorized capital
The provisions of Art. 4(2) of the bylaws authorize the Executive Board, subject to the Supervisory Board's approval, to increase the capital stock on or before May 19, 2014, by an aggregate maximum of €7,500,000 by issuing once or several times new no-par bearer shares of common stock against cash and/or noncash contributions ("Authorized Capital") while duly granting stockholders their statutory subscription right. However, after first obtaining approval from the Supervisory Board, the Executive Board may exclude this subscription right:
(i) for fractions entailed by the subscription ratio;
(ii) in order to (a) grant to holders of conversion rights, options and/or warrants which are outstanding when the Authorized Capital is utilized or (b) satisfy conversion

obligations ensuing from convertible and/or warrant bonds previously floated or issuable by the Company or any of its wholly-owned subsidiaries, the right to subscribe for new shares to the extent which they would be entitled to as stockholders upon exercise of their conversion rights and/or options or upon satisfaction of their conversion obligations;

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

(iv) for any capital increase against noncash contributions.

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

(b) Contingent/conditional capital

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

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

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

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

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

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

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

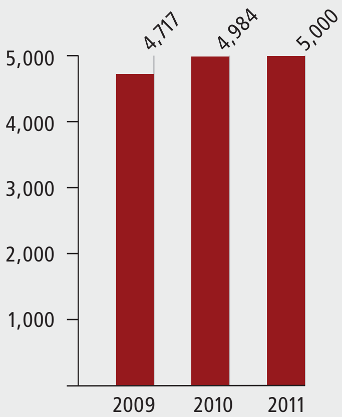
Compensation agreements upon change of control
No arrangements for post-takeover indemnification or other compensation of Executive Board members or Vossloh employees upon a change of control have been made either.

Another slight rise in headcount; 18 percent outside of Europe

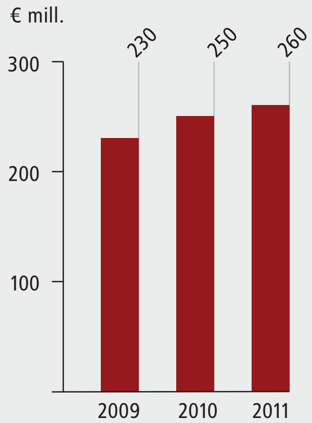
Vossloh Academy: in-house training curriculum

Program laid out for improved Occupational Safety & Health

Workforce



Average group headcount



Personnel expenses in € million

Workforce

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

Employee-related indicators

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

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

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

Personnel expenses (payroll)

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

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

Average group headcount of 5,000

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

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

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

Rail Infrastructure

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

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

Transportation

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

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

Employees 2011

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

*Annual average based on monthly data

Recruiting and developing employees

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

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

Vossloh Academy for employee further education

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

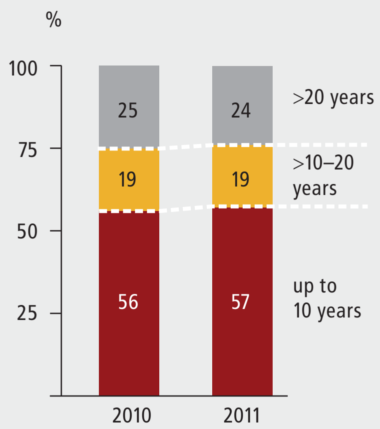
Launched in 2009, the program under the title *We lead Vossloh* is meanwhile a firm fixture of groupwide HR development and acts as a platform for key staff to exchange ideas across all business units. Concurrently, the program serves as a basis for the ongoing personal development of these employees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

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

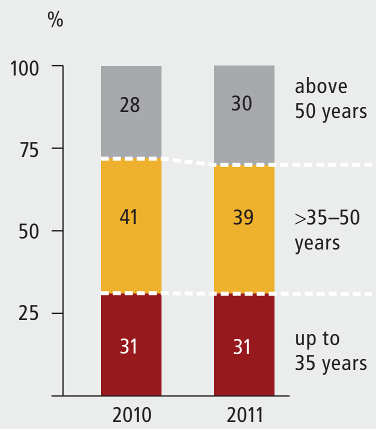
A first taste of job experience can be obtained by undergraduates in the course of internships and other forms of practical training as well as when working on their diploma, B.A. and M.A. theses.

82 apprentices in Germany

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



Service years in %



Age structure in %

Occupational Safety & Health project

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

Occupational safety a top action priority

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

Thanks to the employees

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

Research and development

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

Inauguration of Technology Center in Werdohl

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

Research and development

Europe-wide partnerships with universities and research institutes

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

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

The focus was on two-dimensional rail movements as occurring in very tight track bends. For the first time, an Skl 40 tension clamp was developed with a fatigue strength well above 3 mm amplitude with, at the same time, a high toe load of up to 15 kN as well as higher lateral fatigue strength of more than 100 percent. A patent has been applied for this tension clamp. This project also aimed at looking into the effects of various surface treatments on the tension clamp.

Rail fasteners for new applications

For China's local and long-distance transport infrastructure, new rail fasteners for ballast and slab tracks were engineered. With the approval tests passed, the development of the new DFF Metro fastening system made further progress. A major share of R&D activities in 2011 was again the short-notice addressing of individual customer requirements.

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

Innercity high-speed rail grinding

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

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

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

Train-tram for in and outside cities

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

Improved traction control efficiency for local transport

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

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

Environmental protection

Vossloh products contribute toward greener public transport

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

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

Zero emissions with traction systems from Vossloh Kiepe

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

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

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

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

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

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

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

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

Consumption of district heating was around 20 million kWh; a large share was used at the Kiel production plant for center-cab locomotives. The Vossloh Group consumed about 120,000 m^3 of water and approximately 650,000 liters of heating oil. Almost all of this latter was used by Rail Infrastructure. Total energy costs amounted to €14.1 million, equivalent to 1.2 percent of sales.

DIN EN ISO 14001 certification at all large locations

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

Risk and reward management

Risk and reward management

Organization

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

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

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

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

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

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

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

General economic and sector risks and rewards

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

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

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

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

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

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

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

Operating risks and rewards

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

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

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

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

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

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

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

Financial risks and rewards

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

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

Liquidity risks

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

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

Cash flow risks

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

Price risks

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

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

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

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

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

Legal risks and rewards

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

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

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

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

Other risks and rewards

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

None of these "other risks" influenced the Group's earnings in 2011 to any substantial degree.

Overall assessment of the risk and reward situation

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

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

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

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

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

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

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

IT

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

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

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

Accounting-related risks

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

Major safeguards for a valid and reliable accounting system

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

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

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

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

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

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

Limitations

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

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

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

Subsequent events

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

Order backlog at record level

Sales and earnings to rebound in 2012 and 2013

ROCE and EBIT margin to recover

Debts stay conservatively scaled

Organic growth and judicious acquisitions firm components of strategic targets

Prospects

Prospects

Global growth forecasts down for 2012

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

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

UNIFE forecasts 2.3-percent annual growth until 2015/2016

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

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

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

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

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

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

The year 2011 saw simultaneously several such risks whose concurrence prevented any compensation during the fiscal period. In particular, delays in the construction of high-speed lines in China resulted in the shelving of shipments of rail fastening systems. Product delays also occurred in Russia. In addition, the suspension of construction work in Libya's planned project also hurt business. Aggravating the situation was the increasing delay and associated shrinkage of order placements in Southern Europe as well as Scandinavia, regions with growing price pressure specifically for the Rail Infrastructure division. These factors meant that on July 7, 2011, and again on September 29, 2011, Vossloh had to revise its forecasts. Regarding further risks and rewards that might affect the medium-term plans as outlined, refer to the comments in the chapter on Risk & Rewards (page 99).

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

Vossloh Group: sales and performance trends

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

p = plan

Group order backlog at all-time high

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

Sales, earnings and profitability to rebound in 2012 and 2013

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

Rising sales expected for both divisions in 2012

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

Vossloh Group: indicators

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

p = plan
*excl. M&A

Working capital can again be cut back

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

Financial debts stay conservative

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

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

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

Focus on organic growth and judicious M&A

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

Income statement for the year ended December 31, 2011

€ million	Note	2011	2010
Net sales	(1)	1,197.2	1,351.3
Cost of sales	(2.1)	(963.5)	(1,055.9)
General administrative and selling expenses	(2.2)	(163.6)	(157.7)
R&D expenses	(2.3)	(10.7)	(10.9)
Net other operating income	(3)	36.4	24.2
Operating result		**95.8**	**151.0**
Net P/L from associated affiliates		0.6	1.4
Other financial income	(4)	1.2	0.1
Other financial expenses	(5)	(1.1)	(0.4)
EBIT (earnings before interest and taxes)		**96.5**	**152.1**
Interest income		13.8	11.5
Interest expense		(26.1)	(23.2)
EBT (earnings before taxes)		**84.2**	**140.4**
Income taxes	(6)	(23.7)	(34.6)
Net result of discontinued operations	(7)	–	5.3
Total net income		**60.5**	**111.1**
thereof **group earnings** (Vossloh stockholders)		55.7	97.5
thereof minority interests	(8)	4.8	13.6
Earnings per share (EpS)			
Undiluted/fully diluted EpS* (€)	(9)	4.28	7.32

*During fiscal 2011, altogether 13,023,516 no-par shares of stock (down from 13,320,338) were outstanding on average.

Statement of comprehensive income for the year ended December 31, 2011

€ million	2011	2010
Total net income	**60.5**	**111.1**
Statement at fair value of derivatives in CFHs		
Change in OCI	1.4	2.9
Gains/losses recycled from OCI to income statement	(0.7)	(0.2)
Statement at fair value of securities available for sale		
Change in OCI	0.0	0.0
Currency translation differences		
Change in OCI	(3.9)	11.6
Deferred taxes		
on OCI changes	(0.2)	(0.8)
Total OCI	**(3.4)**	**13.5**
Comprehensive income	**57.1**	**124.6**
thereof Vossloh stockholders	53.5	108.2
thereof minority interests	3.6	16.4

Cash flow statement for the year ended December 31, 2011

€ million	2011		2010	
Cash flow from operating activities				
EBIT	96.5		152.1	
Net result of discontinued operations	–		5.3	
Amortization/depreciation/write-down (less write-up) of noncurrent assets	38.8		39.8	
Change in noncurrent accruals	(15.1)		(9.5)	
Gross cash flow		**120.2**		**187.7**
Noncash change in shares in associated affiliates	(0.6)		(1.4)	
Other noncash income/expenses, net	0.5		9.8	
Net book loss/(gain) from the disposal of tangibles and intangibles	(1.6)		0.3	
Cash outflow for income taxes	(30.5)		(34.7)	
Change in working capital	54.6		(7.3)	
Change in other assets/liabilities, net	(4.1)		(17.3)	
Net cash provided by operating activities		**138.5**		**137.1**
Cash flow from investing activities				
Cash outflow for additions to intangibles/tangibles	(65.6)		(57.9)	
Cash outflow for investments in noncurrent financial instruments	(9.5)		(6.6)	
Cash inflow from the disposal of intangibles/tangibles	0.4		0.3	
Cash (outflow for)/inflow from short-term securities (purchased)/sold, net	(1.6)		(0.4)	
Cash inflow from the disposal of noncurrent financial instruments	2.9		1.0	
Cash changes in shares in associated affiliates	0.6		(0.9)	
Cash outflow for the acquisition of consolidated subsidiaries and other units	(17.8)		(86.6)	
Net cash used in investing activities		**(90.6)**		**(151.1)**
Cash flow from financing activities				
Change in treasury stock	(102.9)		0.4	
Cash inflow from changes in equity	–		0.0	
Cash outflow to stockowners and nongroup parties	(44.2)		(36.5)	
Net finance from short-term loans	115.7		(31.9)	
Net finance from medium-/long-term loans	(2.0)		2.6	
Cash inflow from interest	12.3		16.7	
Cash outflow for interest	(26.2)		(23.1)	
Net cash used in financing activities		**(47.3)**		**(71.8)**
Net inflow/(outflow) of cash and cash equivalents	0.6		(85.8)	
Change in cash and cash equivalents from initial consolidation	10.5		1.9	
Parity-related changes	(0.3)		2.0	
Opening cash and cash equivalents	**74.6**		**156.5**	
Closing cash and cash equivalents	**85.4**		**74.6**	

Balance sheet

Assets in € million	Note	12/31/2011	12/31/2010
Intangible assets	(10)	415.1	406.2
Tangible assets	(11)	190.3	162.0
Investment properties	(12)	6.3	6.1
Shares in associated affiliates (at equity)	(13)	0.9	5.5
Other noncurrent financial instruments	(14)	13.3	11.0
Sundry noncurrent assets	(15)	0.6	0.4
Deferred tax assets	(16)	44.6	35.2
Total noncurrent assets		**671.1**	**626.4**
Inventories	(17)	351.5	300.5
Trade receivables	(18)	353.0	360.6
Income tax assets	(19)	8.0	6.2
Sundry current assets	(20)	40.5	36.2
Short-term securities	(21)	2.8	1.3
Cash and cash equivalents	(22)	85.4	74.6
Total current assets		**841.2**	**779.4**
Total assets		**1,512.3**	**1,405.8**

Equity and liabilities in € million	Note	12/31/2011	12/31/2010
Capital stock	(23.1)	37.8	37.8
Additional paid-in capital	(23.2)	42.7	42.7
Treasury stock	(23.3)	(102.9)	(105.8)
Reserves retained from earnings	(23.4)	426.7	467.7
Undistributed group profit		5.8	7.0
Group earnings		55.7	97.5
Accumulated other comprehensive income	(23.5)	3.0	5.2
Stockholders' equity		**468.8**	**552.1**
Minority interests	(23.6)	14.0	27.9
Total equity		**482.8**	**580.0**
Pension accruals	(24)	12.7	11.7
Noncurrent tax accruals	(25)	0.7	0.0
Other noncurrent accruals	(25)	60.0	75.8
Noncurrent financial debts	(26.1)	189.8	187.0
Noncurrent trade payables	(26.2)	8.2	–
Other noncurrent liabilities	(26.4)	21.3	26.2
Deferred tax liabilities	(16)	48.2	36.9
Total noncurrent liabilities and accruals		**340.9**	**337.6**
Current tax accruals	(25)	2.8	10.1
Other current accruals	(25)	162.9	157.9
Current financial debts	(26.1)	137.2	25.5
Current trade payables	(26.2)	314.5	204.9
Income tax liabilities	(26.3)	4.2	3.9
Other current liabilities	(26.4)	67.0	85.9
Total current liabilities and accruals		**688.6**	**488.2**
Total equity and liabilities		**1,512.3**	**1,405.8**

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 1/1/2010	**37.8**	**42.7**	**(106.2)**	**410.5**	**4.5**	**87.9**	**(5.0)**	**472.2**	**20.4**	**492.6**
Carryforward to new account					87.9	(87.9)		0.0		0.0
Transfer to reserves retained from earnings				57.2	(57.2)			0.0		0.0
Change due to derecognition					(0.3)		(0.5)	(0.8)	(0.5)	(1.3)
Change due to initial consolidation					(1.3)		0.0	(1.3)	1.5	0.2
Comprehensive income						97.5	10.7	108.2	16.4	124.6
Capital increases from EBP 2010 and SOPs	0.0	0.0						0.0		0.0
Dividend payout					(26.6)			(26.6)	(9.9)	(36.5)
Disposal of treasury stock			0.4					0.4		0.4
Balance at 12/31/2010	**37.8**	**42.7**	**(105.8)**	**467.7**	**7.0**	**97.5**	**5.2**	**552.1**	**27.9**	**580.0**
Carryforward to new account					97.5	(97.5)		0.0		0.0
Transfer to reserves retained from earnings				64.8	(64.8)			0.0		0.0
Change due to initial consolidation and changed equity interests					(0.6)			(0.6)	(6.6)	(7.2)
Comprehensive income						55.7	(2.2)	53.5	3.6	57.1
Dividend payout					(33.3)			(33.3)	(10.9)	(44.2)
Treasury shares redeemed and withdrawn			105.8	(105.8)				0.0		0.0
Repurchase of treasury stock			(102.9)					(102.9)		(102.9)
Balance at 12/31/2011	**37.8**	**42.7**	**(102.9)**	**426.7**	**5.8**	**55.7**	**3.0**	**468.8**	**14.0**	**482.8**

Segment information by division/business unit

€ million		Fastening Systems	Switch Systems	Rail Services	Consolidation	Rail Infrastructure
Value added	2011	23.4	(13.0)	7.3	0.2	**17.9**
	2010	54.3	5.2	6.7	(0.1)	**66.1**
Net external sales	2011	253.5	432.7	87.7	0.4	**774.3**
	2010	363.6	438.7	84.7	0.1	**887.1**
Intersegment transfers	2011	9.3	0.3	0.0	(5.1)	**4.5**
	2010	5.8	0.3	0.1	(1.8)	**4.4**
Interest income	2011	0.2	0.8	0.1	(0.1)	**1.0**
	2010	0.5	0.6	0.1	0.0	**1.2**
Interest expense	2011	(3.4)	(3.1)	(2.3)	(0.1)	**(8.9)**
	2010	(3.5)	(3.1)	(1.9)	0.0	**(8.5)**
Amortization/depreciation	2011	6.1	11.0	7.0	0.0	**24.1**
	2010	4.7	9.9	10.9	0.0	**25.5**
Net P/L from associated affiliates	2011	0.6	–	–	–	**0.6**
	2010	0.5	–	0.9	–	**1.4**
Income taxes	2011	9.3	10.3	4.7	(0.1)	**24.2**
	2010	17.2	16.0	4.3	(0.1)	**37.4**
Net result of discontinued operations	2011	–	–	–	–	**–**
	2010	–	–	–	5.3	**5.3**
Other major noncash segment expenses	2011	8.4	28.4	2.4	0.7	**39.9**
	2010	25.1	16.6	4.7	0.0	**46.4**
Write-down of intangibles, tangibles and investment properties	2011	–	–	–	–	**–**
	2010	0.3	–	–	–	**0.3**
Write-up	2011	–	–	–	0.0	**0.0**
	2010	–	–	–	–	**–**
Total assets	2011	224.1	424.8	122.5	187.0	**958.4**
	2010	218.3	423.0	113.6	197.5	**952.4**
Liabilities	2011	157.2	134.4	98.1	3.0	**392.7**
	2010	115.5	147.4	82.8	9.1	**354.8**
Capital expenditures for noncurrent assets	2011	10.9	17.9	10.1	0.0	**38.9**
	2010	12.1	14.2	3.0	0.0	**29.3**
Shares in associated affiliates	2011	0.9	–	–	–	**0.9**
	2010	0.9	–	4.6	–	**5.5**
Average headcount	2011	573	2,273	360	–	**3,206**
	2010	503	2,333	319	–	**3,155**

Transportation Systems	Electrical Systems	Consolidation	Transportation	Holding companies	Consolidation	Group
(0.4)	14.0	1.7	**15.3**	1.5	(19.3)	**15.4**
(9.0)	15.7	(0.1)	**6.6**	(8.3)	(9.6)	**54.8**
278.2	138.5	0.0	**416.7**	0.3	0.0	**1,191.3**
304.8	153.2	0.1	**458.1**	0.3	0.0	**1,345.5**
1.7	8.2	(6.6)	**3.3**	1.0	(2.9)	**5.9**
0.0	6.8	(5.2)	**1.6**	0.9	(1.1)	**5.8**
13.6	0.5	0.0	**14.1**	8.5	(9.8)	**13.8**
10.2	0.1	0.0	**10.3**	8.0	(8.0)	**11.5**
(10.0)	(1.7)	0.1	**(11.6)**	(15.6)	10.0	**(26.1)**
(6.3)	(1.4)	0.0	**(7.7)**	(15.2)	8.2	**(23.2)**
10.3	3.2	0.0	**13.5**	0.6	0.0	**38.2**
10.5	2.8	0.0	**13.3**	0.7	0.0	**39.5**
–	–	–	**–**	–	–	**0.6**
–	–	–	**–**	–	–	**1.4**
1.1	5.9	0.5	**7.5**	(8.1)	0.1	**23.7**
1.5	6.4	0.0	**7.9**	(10.7)	0.0	**34.6**
–	–	–	**–**	–	–	**–**
–	–	–	**–**	–	–	**5.3**
28.0	17.1	(1.8)	**43.3**	6.0	0.1	**89.3**
23.9	18.6	0.0	**42.5**	6.9	0.0	**95.8**
–	–	–	**–**	–	–	**–**
–	–	–	**–**	–	–	**0.3**
–	–	–	**–**	0.0	–	**0.0**
–	–	–	**–**	0.0	–	**0.0**
516.6	204.1	(1.4)	**719.3**	911.9	(1,077.3)	**1,512.3**
417.6	174.1	(2.1)	**589.6**	848.9	(985.1)	**1,405.8**
229.5	85.0	(1.4)	**313.1**	547.5	(511.1)	**742.2**
160.7	58.5	(2.1)	**217.1**	391.9	(430.4)	**533.4**
15.8	7.9	0.0	**23.7**	3.0	0.0	**65.6**
22.4	2.8	0.0	**25.2**	3.4	0.0	**57.9**
–	–	–	**–**	–	–	**0.9**
–	–	–	**–**	–	–	**5.5**
1,087	661	–	**1,748**	46	–	**5,000**
1,144	637	–	**1,781**	48	–	**4,984**

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2011

General

Vossloh AG is a listed resident company based in Werdohl, Germany, and registered under number HRB 5292 at the Commercial Register of the Iserlohn Local Court. The Vossloh Group's key activities include the manufacture and marketing of rail infrastructure products, locomotives, electrical systems for local transport vehicles (LTVs), as well as the provision of rail-related services.

The present consolidated financial statements were prepared in due accordance with all 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").

On March 9, 2012, Vossloh AG's Executive Board released the consolidated financial statements for transmittal to the Supervisory Board's Audit Committee and then for submittal to the plenary Supervisory Board at the meeting of March 27, 2012.

New accounting rules

The following Standards and Interpretations, though published by December 31, 2011, (i) did not require application as of such date or (ii) were not yet endorsed as European law. In the case of (ii), the obligatory first-time application of a Standard or Interpretation as required by the IASB is indicated below.

IASB document	Published	To be applied as from	Endorsed by the EU	Significant effects on Vossloh AG's consolidated financial statements
New Standards				
IFRS 10 *Consolidated Financial Statements*	May 2011	FY 2013	No	None for the present corporate structure; obligation to consolidate or include future acquirees may differ upon M&A
IFRS 11 *Joint Arrangements*	May 2011	FY 2013	No	Effects to be seen in the context of the amended IAS 28
IFRS 12 *Disclosures of Interests in Other Entities*	May 2011	FY 2013	No	Additional disclosures will be required for companies included, especially those involving significant minority interests
IFRS 13 *Fair Value Measurement*	May 2011	FY 2013	No	Effects not yet finally assessed

IASB document	Published	To be applied as from	Endorsed by the EU	Significant effects on Vossloh AG's consolidated financial statements
Revised Standards				
Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	December 2011	FY 2015	No	Effects of IFRS 9 and IFRS 7 amendments not yet finally assessed
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	December 2011	FY 2014	No	None
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	December 2011	FY 2013	No	None
Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	June 2011	FY 2013	No	Deeper drilldown of OCI components in the SOCI expected. Recognition and valuation of transactions to remain unchanged
IAS 19 *Employee Benefits*	June 2011	FY 2013	No	Elimination of the corridor will impact materially on pension accrual measurement.
IAS 28 *Investments in Associates and Joint Ventures*	May 2011	FY 2013	No	Elimination of prorated consolidation will produce significant effects since none of the assets and liabilities of companies presently included pro rata will be disclosed in the consolidated financial statements; instead the prorated equity of such investees will be reflected in the shares in associated affiliates. Similarly, the income statement will be affected: instead of prorating income and expenses, the prorated net income/loss will then be disclosed within the net P/L of associated affiliates.
IAS 27 *Separate Financial Statements*	May 2011	FY 2013	No	None
Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)	December 2010	FY 2012	No	None
Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendments to IFRS 1)	December 2010	FY 2012	No	None
New Interpretations				
IFRIC 20: *Stripping Costs in the Production Phase of a Surface Mine*	October 2011	FY 2013	No	None

First-time application of Standards/Interpretations

Application in fiscal 2011 of the following revised or amended Standards/Interpretations was obligatory for the first time:

IASB document	Published	Endorsed by the EU
New or amended Standards		
IAS 24 *Related Party Disclosures*	November 2009	July 2010
Amendment to IFRS 1 *Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*	January 2010	June 2010
Amendment to IAS 32 *Classification of Rights Issues*	October 2009	December 2009
Improvements to IFRS	May 2010	February 2011
New or amended Interpretations		
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	November 2009	July 2010
Amendment to IFRIC 14 *Prepayments of a Minimum Funding Requirement*	November 2009	July 2010

The first-time application of these Standards and Interpretations had no significant effects.

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 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 10), the recognition of deferred taxes (cf. Note 16), the determination of the discount rate for pension accruals (cf. Note 24), as well as for the recognition and measurement of other accruals (cf. Note 25).

The accounting and valuation principles and policies used for Vossloh AG's consolidated financial statements are detailed in the respective notes.

Consolidation

Consolidation group

Vossloh's consolidated financial statements comprise the financial statements of Vossloh AG and basically all its subsidiaries. Generally all subsidiaries where Vossloh AG can exercise control through its directly or indirectly held voting majority are fully consolidated and included therein from the date at which control is gained until control is no longer exerted.

The acquisition method (*a.k.a.* purchase method) of accounting is used for capital consolidation. Accordingly, cost is offset against the Group's interest in the revalued equity of subsidiaries. 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 under cost are capitalized as goodwill according to IFRS 3 and tested for impairment once annually. Any resulting badwill is directly released to income.

Besides all intragroup receivables and payables being consolidated, 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. Where material, enterprises 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 are disclosed at the lower of cost or market within *other noncurrent financial instruments*.

In fiscal 2011, the consolidation group changed as follows:

An organizational restructuring process of the Rail Services business unit meant that Stahlberg Verwaltungsgesellschaft mbH was merged into Stahlberg Roensch GmbH (both of Seevetal), as were RCN Rail Center Nürnberg GmbH & Co. KG into Vossloh Rail Center Nürnberg GmbH (both based in Nürnberg) and RCB Rail Center Bützow GmbH & Co. KG into Vossloh Rail Center Bützow GmbH (both of Bützow).

Vossloh Ray Hizmetleri Limited Şirketi, a Vossloh Rail Services subsidiary established in 2010, has been consolidated since January 1, 2011.

Wuhu China Railway Cogifer Track Co., Huo Long Gang Town, China, a Vossloh Switch Systems joint venture established in 2010, has been consolidated pro rata as from January 1, 2011.

In Q3/2011, 'J' Rail Components & Manufacturing, Inc., Grass Valley, CA, USA, was acquired and assigned to the Switch Systems business unit.

Consequently, 59 subsidiaries (including 24 in Germany) were fully consolidated as of December 31, 2011.

Changes in fully consolidated subsidiaries

	2011
January 1	60
newly consolidated	1
reclassified	1
merged intragroup	(3)
December 31	**59**

Since January 1, 2011, the 50-percent equity interest held by Stahlberg Roensch GmbH in Berlin-based Alpha Rail Team GmbH & Co. KG has been consolidated pro rata.

As of December 31, 2011, three companies based outside, and one inside, Germany were included pro rata in the consolidated financial statements. One German associated 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 21) were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights or otherwise controlled them at the balance sheet date.

Acquirees

In fiscal 2011, all of the shares in 'J' Rail Components & Manufacturing, Inc., Grass Valley, CA, USA, were acquired by share deal closed as of July 1, 2011, the date as from which the acquiree has been fully consolidated.

The purchase price, corresponding to €5.7 million, for the share deal contrasted with the following assets:

€ million	Pre-combination book values	Adjustments	Provis. fair values at initial consolidation date
Intangible and tangible assets	0.0	1.3	1.3
Inventories	1.0	(0.4)	0.6
Current receivables and other assets	0.4	0.1	0.5
Cash and cash equivalents	0.1	–	0.1
Liabilities	(0.5)	(0.5)	(1.0)
Net assets acquired	**1.0**	**0.5**	**1.5**
Acquisition price			5.7
Residual goodwill			**4.2**

The company manufactures switch machines and related components and has been assigned to Vossloh Switch Systems. The acquisition considerably boosted Vossloh's capabilities for switch machines on the US market. The residual goodwill particularly reflects the technological and marketing competence of the subsidiary's management. Goodwill of some €3.0 million is tax deductible.

Since its first-time consolidation, 'J' Rail Components & Manufacturing has contributed €1.4 million and a negative €0.1 million to Vossloh's sales and group earnings, respectively. If the subsidiary had been acquired at January 1, 2011, it would have added €3.2 million and €0.2 million to the Vossloh Group's sales and earnings, respectively.

On December 21, 2011, Vossloh Cogifer SA, Rueil-Malmaison, France, closed the share sale & transfer agreement executed at November 30, 2011, for all of the shares in Entreprise d'Études de Signalisation Ferroviaire (EESF), a railway signaling company, for a price of €1.25 million. The acquiree will be consolidated in fiscal 2012.

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 first transaction entry), gains or losses accrued by the balance sheet date from translating at the current closing rate any monetary assets and liabilities being duly recognized in the income statement.

The exchange rates of non-eurozone 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 (ISO code)		2011	2010	2011	2010
Australia	AUD	€1.00	1.27	1.31	1.35	1.44
China	CNY	€1.00	8.15	8.77	9.00	8.99
Denmark	DKK	€1.00	7.43	7.46	7.45	7.45
India	INR	€1.00	68.98	59.65	65.42	60.81
Malaysia	MYR	€1.00	4.11	4.10	4.26	4.28
Norway	NOK	€1.00	7.78	7.82	7.80	8.01
Poland	PLN	€1.00	4.46	3.97	4.13	4.00
Serbia	CSD	€1.00	106.07	105.47	101.99	102.98
Sweden	SEK	€1.00	8.92	8.98	9.03	9.55
Switzerland	CHF	€1.00	1.22	1.24	1.23	1.38
Thailand	THB	€1.00	40.83	40.13	42.75	42.36
Turkey	TRL	€1.00	2.44	2.06	2.34	2.00
UK	GBP	€1.00	0.84	0.86	0.87	0.86
USA	USD	€1.00	1.29	1.33	1.39	1.33

Notes to the consolidated income statement

(1) Net sales

Breakdown of net sales

€ million	2011	2010
Products and services	946.5	1,101.3
PoC contracts	250.7	250.0
Total	**1,197.2**	**1,351.3**

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 or dedicated manufacturing or construction contracts with customers ("PoC contracts") is recognized according to the percentage of completion (PoC) as required by 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 at the percentage of completion provided that contract results can be reliably determined.

The segment reports starting on pages 124 and 159 include breakdowns of net sales by division, business unit, and 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	2011	2010
Cost of raw materials and supplies	563.0	625.8
Cost of services purchased	111.4	89.4
Cost of materials	**674.4**	**715.2**
Wages and salaries	211.2	202.1
Social security and related employee benefits	43.8	43.3
Pension expense	4.7	4.1
Personnel expenses	**259.7**	**249.5**
Amortization/depreciation	**38.2**	**39.8**
Operating leases	**9.4**	**12.7**

Based on the quarterly averages, the workforce structure in 2011 was on average the following:

Workforce structure

	2011	2010
Executive/Management Boards	70	69
Other officers/executives	126	123
Exempts	1,176	1,138
Nonexempts	3,575	3,569
Apprentices	78	80
Interns/degree candidates	15	10
	5,040	**4,989**

The above data includes 138 employees of companies consolidated pro rata (up from 122).

(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 expenses

Breakdown of GAS expenses

€ million	2011	2010
Selling expenses	85.5	80.9
General administrative expenses	78.1	76.8
	163.6	**157.7**

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 €1.6 million (up from €1.0 million).

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

(2.3) R&D expenses

In accordance with IAS 38, all research costs are directly expensed as R&D expenses. 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 2011 came to €24.2 million (up from €20.7 million).

(3) Net other operating income

Breakdown of net other operating income

€ million	2011	2010
Income from the release of accruals	19.7	14.5
Foreign exchange gains	8.5	9.0
Allowances released and write-up	2.0	3.1
Insurance claims/indemnities	1.9	3.3
Gains from the disposal of financial instruments	1.8	0.0
Rental income	1.7	1.7
Income from public grants/subsidies	1.4	1.6
Gains from the disposal of tangibles/intangibles	0.1	0.3
Sundry income	8.3	4.7
Other operating income	**45.4**	**38.2**
Foreign exchange losses	(6.3)	(8.7)
Expenses for building M&R	(0.6)	(0.8)
Losses on the disposal of tangibles/intangibles	(0.3)	(0.7)
Sundry expenses	(1.8)	(3.8)
Other operating expenses	**(9.0)**	**(14.0)**
Net other operating income	**36.4**	**24.2**

Income from public grants/subsidies mainly refers to R&D-related subsidies or government assistance. Payments received on account of such grants are recognized as deferred income which is then amortized to other operating income. Investment/capex-related grants or incentives are offset against cost of the tangible assets 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) Other financial income

Breakdown of other financial income

€ million	2011	2010
Income from investments	0.9	0.1
Income from securities	0.2	0.0
Income from shares in unconsolidated subsidiaries	0.1	–
Write-up of financial instruments	0.0	0.0
Other financial income	**1.2**	**0.1**

(5) Other financial expenses

Breakdown of other financial expenses

€ million	2011	2010
Write-down of financial instruments	1.1	0.2
Expenses from loss absorption	–	0.2
Losses on restatement at fair value of financial instruments	–	0.0
Other financial expenses	**1.1**	**0.4**

(6) Income taxes

Breakdown of income taxes

€ million	2011	2010
Current income taxes	22.3	34.5
Deferred taxes	1.4	0.1
Income taxes	**23.7**	**34.6**

An unchanged income tax rate of 30 percent is applied to the taxable income of the Vossloh Group's German subsidiaries and encompasses the current corporate income tax rate of 15 percent, the solidarity surtax thereon, and the municipal trade tax burden.

The Vossloh Group's actual tax expense of €23.7 million (down from €34.6 million) was €1.6 million (down from €7.5 million) below the calculated (expected) tax expense which would have resulted from applying a groupwide single rate of 30 percent to EBT.

Reconciliation of the expected to the actually recognized tax expense:

Reconciliation to recognized tax expense

		2011	2010
Earnings before taxes (EBT)	€ mill.	84.2	140.4
Income tax rate incl. municipal trade tax	%	30.0	30.0
Expected tax expense at a single rate	€ mill.	25.3	42.1
Tax reduction due to lower rates abroad	€ mill.	(1.7)	(9.3)
Tax reduction from tax-exempt income	€ mill.	(3.7)	(7.3)
Tax increase for nondeductible business expenses	€ mill.	2.6	5.3
Taxes for prior years	€ mill.	(0.7)	1.4
Tax effect of the write-down/write-up of deferred tax assets	€ mill.	0.8	0.9
Double-taxation effects	€ mill.	1.4	1.8
Other differences	€ mill.	(0.3)	(0.3)
Recognized income tax burden	€ mill.	23.7	34.6
Actual income tax rate	%	28.1	24.6

Total deferred taxes from items directly credited to OCI came to a negative €0.2 million (down from a red €0.8 million). The deferred taxes arose solely from the intra-OCI restatement at current fair values of derivatives for cash flow hedges.

The dividend payout neither increased nor decreased corporate income tax.

(7) Net result of discontinued operations

The prior-year result mirrored the net balance of (i) income of €5.4 million from the release of accruals which had been recognized in connection with the divestment of the erstwhile Infrastructure Service business unit and (ii) expenses of €0.1 million for deferred taxes.

(8) Minority interests

The Group's total net income includes minority interests in profit of €5.1 million (down from €13.6 million) and in loss of €0.3 million (up from €0.0 million).

(9) Earnings per share

Earnings per share

		2011	2010
Weighted average number of common shares		14,163,364	14,795,908
Weighted number of repurchased shares		(1,139,848)	(1,475,570)
Weighted average shares outstanding		13,023,516	13,320,338
Dilutive effects of LTIP/ESOP options	shares	0	6
Diluted weighted average shares outstanding		13,023,516	13,320,344
Group earnings	€ mill.	55.7	97.5
Basic/fully diluted EpS	**€**	**4.28**	**7.32**
thereof from continuing operations	€	4.28	6.92
thereof from discontinued operations	€	–	0.40

Notes 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. Cash covers cash on hand and in bank. 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 outflow for the acquisition of consolidated subsidiaries and other units included inflowing cash and cash equivalents of €0.1 million (down from €7.2 million) netted against cash outflows for prices paid at €17.9 million (down from €93.8 million).

Notes to the consolidated balance sheet

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

(10) Intangible assets

Breakdown of intangible assets

€ million	2011	2010
Goodwill	359.4	355.2
Capitalized development costs	40.3	31.5
Concessions/licenses/property rights	15.3	19.5
Prepayments on intangibles	0.1	0.0
	415.1	**406.2**

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

Pursuant to IFRS 3 in conjunction with IAS 36, goodwill from acquisitions (business combinations) is not amortized but its value tested once annually for impairment as of December 31. To this end, the net book value of a cash-generating unit (CGU) to which goodwill from a business combination has been allocated is contrasted to the fair market value derived from the CGU's expected discounted cash flows (applying a pretax rate of 9.5 percent; down from 10.8) in line with the medium-term (3-year) detailed plan, which is based on empirical data and expected future market trends. The average annual sales growth rate assumed in this planning period for each unit is a medium single-digit percentage. 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 CGUs' fair values (including assigned goodwill) exceed their book values, no goodwill write-down was required; nor would there have been any need for the write-down of major goodwill items to reflect an impairment loss after the discount rate had been raised by half a percentage point or, alternatively, a flat 6.5-percent markdown applied to expected cash flows.

Goodwill breakdown by segment

€ million	2011	2010
Switch Systems	232,3	226,9
Transportation Systems	52,4	52,4
Rail Services	50,9	50,9
Electrical Systems	22,6	22,5
Fastening Systems	1,2	2,5
	359,4	**355,2**

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, as well as—for qualifying assets as defined by IAS 23—the borrowing costs allocable to the construction period. Capitalized development costs are amortized by straight-line charges based on useful lives of three to ten years.

Concessions (incl. franchises), licenses, and property rights are mostly amortized on a straight-line basis over three to twenty years.

Amortization of intangible assets was charged at €12.8 million to the appropriate functional expenses, cf. Note (2).

Neither in 2011 nor in 2010 was any intangible asset written down.

Movement analysis of intangible assets:

€ million	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Goodwill		Capitalized development costs		Concessions, industrial-property and similar rights and assets, as well as licenses thereto		Prepayments on intangibles		Total intangibles	
Net book value at December 31	**359.4**	**355.2**	**40.3**	**31.5**	**15.3**	**19.5**	**0.1**	**0.0**	**415.1**	**406.2**
At cost:										
Balance at January 1	**355.7**	**299.0**	**56.0**	**37.3**	**47.5**	**24.3**	**0.0**	**0.3**	**459.2**	**360.9**
Changes due to M&A and initial consolidation	4.7	55.4	–	0.6	1.3	22.9	–	–	6.0	78.9
Changes due to derecognition	–	(0.4)	–	–	–	–	–	–	–	(0.4)
Additions (incl. current capex)	–	–	14.5	18.1	1.2	1.7	0.1	–	15.8	19.8
Disposals	(1.3)	–	–	–	(0.3)	(1.9)	(0.0)	–	(1.6)	(1.9)
Book transfers	–	–	–	–	0.1	0.5	–	(0.3)	0.1	0.2
Currency translation differences	0.7	1.7	–	–	0.3	0.0	–	–	1.0	1.7
Balance at December 31	**359.8**	**355.7**	**70.5**	**56.0**	**50.1**	**47.5**	**0.1**	**0.0**	**480.5**	**459.2**
Accumulated amortization and write-down:										
Balance at January 1	**0.5**	**0.9**	**24.5**	**18.6**	**28.0**	**19.3**	**0.0**	**0.0**	**53.0**	**38.8**
Additions	–	–	5.7	5.9	7.1	10.7	0.0	–	12.8	16.6
Disposals	–	–	–	–	(0.3)	(1.9)	(0.0)	–	(0.3)	(1.9)
Currency translation differences	(0.1)	(0.4)	–	–	0.0	(0.1)	–	–	(0.1)	(0.5)
Balance at December 31	**0.4**	**0.5**	**30.2**	**24.5**	**34.8**	**28.0**	**0.0**	**0.0**	**65.4**	**53.0**

(11) Tangible assets

Breakdown of tangible assets

€ million	2011	2010
Land, equivalent titles, and buildings (incl. on leased land)	56.2	44.0
Production plant and machinery	90.7	88.4
Other plant, factory and office equipment	21.6	21.2
Prepayments on tangibles, construction in progress	21.8	8.4
	190.3	**162.0**

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

Useful lives of tangible assets	
Buildings	5–50 years
Production plant and machinery	2–33 years
Other plant, factory and office equipment	2–25 years

Where the value of a tangible asset is found impaired, appropriate write-down is charged, none being recognized in either 2011 or 2010. Depreciation of €25.1 million is included within the functional expenses in the income statement.

Movement analysis of tangible assets:

€ million	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	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		Total tangibles	
Net book value at December 31	**56.2**	**44.0**	**90.7**	**88.4**	**21.6**	**21.2**	**21.8**	**8.4**	**190.3**	**162.0**
At cost:										
Balance at January 1	**83.7**	**75.4**	**203.8**	**156.3**	**62.9**	**54.6**	**8.4**	**13.4**	**358.8**	**299.7**
Changes due to M&A and initial consolidation	–	2.4	3.7	20.1	0.0	1.6	0.0	0.3	3.7	24.4
Changes due to derecognition	–	(1.7)	–	(2.2)	–	(0.5)	–	–	–	(4.4)
Additions (incl. current capex)	8.9	2.5	12.0	14.0	7.4	7.4	21.3	14.2	49.6	38.1
Disposals	(1.2)	(0.0)	(2.9)	(1.2)	(2.4)	(2.5)	(0.0)	(0.1)	(6.5)	(3.8)
Book transfers	10.8	3.7	2.1	12.8	(4.5)	1.6	(8.5)	(20.1)	(0.1)	(2.0)
Currency translation differences	0.1	1.4	(0.3)	4.0	0.2	0.7	0.6	0.7	0.6	6.8
Balance at December 31	**102.3**	**83.7**	**218.4**	**203.8**	**63.6**	**62.9**	**21.8**	**8.4**	**406.1**	**358.8**
Accumulated depreciation and write-down:										
Balance at January 1	**39.7**	**37.5**	**115.4**	**102.4**	**41.7**	**38.2**	**–**	**–**	**196.8**	**178.1**
Changes due to initial consolidation/derecognition	–	(1.1)	–	(1.2)	–	(0.3)	–	–	–	(2.6)
Additions	3.9	3.1	15.2	13.9	6.0	5.6	–	–	25.1	22.6
Disposals	(1.2)	(0.0)	(2.6)	(1.1)	(2.2)	(2.3)	–	–	(6.0)	(3.4)
Book transfers	3.8	–	(0.1)	–	(3.7)	–	–	–	0.0	–
Currency translation differences	(0.1)	0.2	(0.2)	1.4	0.2	0.5	–	–	(0.1)	2.1
Balance at December 31	**46.1**	**39.7**	**127.7**	**115.4**	**42.0**	**41.7**	**–**	**–**	**215.8**	**196.8**

(12) Investment properties

Movement analysis of investment properties:

€ million	2011	2010
Net book values	**6.3**	**6.1**
At cost:		
Balance at January 1	10.0	7.7
Additions	0.2	0.4
Disposals	–	(0.0)
Book transfers	–	1.4
Currency translation differences	0.3	0.5
Balance at December 31	**10.5**	**10.0**
Accumulated depreciation and write-down:		
Balance at January 1	3.9	3.2
Additions	0.3	0.6
Currency translation differences	0.0	0.1
Balance at December 31	**4.2**	**3.9**

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 €1.1 million (virtually unchanged). Expenses (including depreciation, M&R and incidentals) incurred in 2011 for properties leased out totaled €0.6 million (down from €0.8 million), those for other properties amounting to €0.024 million (up from €0.023 million). The expenses for properties leased out included in 2011 no write-down (down from €0.3 million).

The fair values of investment properties totaled €7.0 million at December 31, 2011 (down from €7.1 million) and are mostly based on current market prices of comparable real estate.

(13) Shares in associated affiliates

Details of shareholdings in associated affiliates

€ million	2011	2010
Balance at January 1	**5.5**	**0.4**
Reclassified	(4.6)	–
Prorated profit/(loss)	0.6	1.4
Dividend distribution	(0.6)	(0.0)
Additions from M&A	0.0	2.8
Additions from transfer to additional paid-in capital	0.0	0.9
Balance at December 31	**0.9**	**5.5**
Total assets	2.7	11.6
Total liabilities	2.1	2.7
Net sales	11.3	15.8
Posttax profit	1.1	1.0

These investments refer to the equity interest held in BV Oberflächentechnik GmbH & Co. KG, Werdohl, a limited partnership carried at equity as associated affiliate since it is subject to Vossloh's significant influence. In line with the equity method, the investment book value of the associated affiliate is adjusted for prorated profits or losses, dividends distributed or any other changes in equity.

Berlin-based Alpha Rail Team GmbH & Co. KG had been carried at equity among these investments in 2010 but, as from 2011, has been consolidated pro rata and therefore reclassified as shown above.

(14) Other noncurrent financial instruments

Breakdown of other noncurrent financial instruments

€ million	2011	2010
Shares in unconsolidated subsidiaries	4.8	3.0
Interests in joint ventures	0.0	5.2
Shares in other investees	0.8	0.7
Long-term loans	6.8	1.3
Other long-term securities	0.6	0.6
Financial derivatives from hedges	–	0.0
Other noncurrent financial assets	0.3	0.2
	13.3	**11.0**

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

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

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 OCI within equity only but, upon disposal of such securities, such proratable 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 162 et seq., *Additional disclosures of financial instruments*.

(15) Sundry noncurrent assets

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

(16) Deferred taxes

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.

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

Deferred taxes

€ million	2011		2010	
	Deferred tax		Deferred tax	
	assets	liabilities	assets	liabilities
Intangible and tangible assets	0.9	31.8	0.9	23.8
Inventories	2.2	7.4	3.1	6.0
Receivables	1.0	4.8	0.7	1.8
Other assets	0.4	2.8	0.1	2.7
Pension accruals	2.1	0.0	1.2	0.8
Other accruals	30.8	1.0	26.2	0.4
Liabilities	4.3	0.2	1.6	1.3
Other liability items	1.7	0.2	0.2	0.1
	43.4	**48.2**	**34.0**	**36.9**
Loss carryforwards	1.2	–	1.2	–
Recognized deferred taxes	**44.6**	**48.2**	**35.2**	**36.9**

As of December 31, 2011, loss carryforwards of €12.3 million (up from €10.7 million) existed in Germany for corporation income tax purposes and of €0.8 million for municipal trade tax purposes (down from €4.9 million). No taxes were deferred for corporation income tax losses of €7.6 million (up from €4.6 million) and municipal trade tax losses of €0.8 million (down from €4.6 million). According to current German legislation, the carryforward of tax losses is not subject to any limitation or expiration. Non-German companies reported tax loss carryforwards of an additional €15.6 million (up from €10.8 million) for €3.6 million of which (up from €0.5 million) taxes were deferred.

Write-down of €1.2 million was charged to deferred tax assets in 2011 (up from €0.8 million).

(17) Inventories

Breakdown of inventories

€ million	2011	2010
Raw materials and supplies	165.8	136.6
Work in process	106.3	105.6
Merchandise	18.3	13.0
Finished products	37.6	22.6
Prepayments made	23.5	22.7
Total	**351.5**	**300.5**

Inventories are stated at the lower of purchase/production cost or net realizable value (NRV). Besides full direct costs, production cost also includes all fixed and variable manufacturing overheads systematically allocable to the production process, as well as special direct manufacturing costs. Borrowing (interest) costs are capitalized as part of cost wherever qualifying assets according to IAS 23 are involved.

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

In the year under review, write-down of €29.2 million was charged to inventories (up from €27.7 million). The book value of inventories stated at NRV totaled €19.8 million (down from €26.0 million).

As the reasons for previous write-down existed no longer, inventories were written up by €0.5 million (virtually unchanged) in 2011.

(18) Trade receivables

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

For the current balances of, and the movements in 2011 of allowances for, trade receivables, see the tables below.

Breakdown of trade receivables

€ million	2011	2010
Sundry trade receivables	239.6	277.5
PoC receivables	113.4	83.1
Total	**353.0**	**360.6**

Movement analysis of allowances for trade receivables

€ million	2011	2010
Balance at Jan. 1	**12.3**	**12.8**
Added	1.9	2.4
Released	(1.4)	(2.5)
Utilized	(1.6)	(0.5)
Currency translation differences	0.1	0.1
Balance at Dec. 31	**11.3**	**12.3**

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	2011			2010		
	Receivables	Payables	Total	Receivables	Payables	Total
Total PoC contract costs	399.1	415.1	814.2	273.8	437.1	710.9
Profit at PoC	96.9	47.3	144.2	53.4	54.0	107.4
Loss at PoC	(0.9)	(7.3)	(8.2)	(1.3)	(7.2)	(8.5)
Total PoC contract progress	495.1	455.1	950.2	325.9	483.9	809.8
Prepayments received/billings under PoC contracts	(381.7)	(609.6)	(991.3)	(242.8)	(549.4)	(792.2)
Recognized PoC receivables	**113.4**		**113.4**	**83.1**		**83.1**
Recognized PoC payables		**154.5**	**154.5**		**65.5**	**65.5**

(19) Income tax assets

These include €4.9 million of income taxes refundable to companies of the Rail Infrastructure division, plus another €0.2 million to Transportation companies, and €2.9 million to Vossloh AG.

(20) Sundry current assets

Breakdown of sundry current assets

€ million	2011	2010
Non-income tax assets	10.1	7.0
Interest receivable	7.1	5.6
Prepaid expenses and deferred charges	4.0	2.3
Due from unconsolidated subsidiaries	3.6	3.2
Short-term loans	2.5	0.0
Security and similar deposits	2.0	2.5
Suppliers with debit balances	1.9	1.3
Financial derivatives	1.6	0.3
Due from employees	1.2	1.3
Due from investees	0.4	0.0
Receivable from share sale	0.0	3.4
Miscellaneous	6.1	9.3
Sundry current assets	**40.5**	**36.2**

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

For the current balances and the movements in 2011 of allowances, see the table below.

Movement analysis of allowances/write-down

€ million	2011	2010
Balance at Jan. 1	**1.1**	**1.5**
Added	0.7	0.2
Released	(0.0)	(0.6)
Utilized	(0.1)	(0.0)
Currency translation differences	0.0	0.0
Balance at Dec. 31	**1.7**	**1.1**

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

For the reconciliation of financial instruments shown as sundry current assets to the IAS 39 valuation categories, see pages 162 et seq., *Additional disclosures of financial instruments*. The non-income tax assets and the miscellaneous current assets are carried at cost.

(21) Short-term securities

This line reflects monies invested in short-term fixed-income securities €1.0 million (virtually unchanged) of which is classified as held to maturity and hence carried at cost. The remaining securities of €1.8 million are available for sale and hence stated at fair value.

For the reconciliation of short-term securities to the IAS 39 valuation categories, see pages 162 et seq., *Additional disclosures of financial instruments*.

(22) Cash and cash equivalents

Cash encompasses cash on hand and in bank while 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.

(23) Total equity

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

(23.1) Capital stock

Vossloh AG's capital stock rose in 2011 to €37,825,168.86 and is divided into 13,325,290 no-par bearer shares of common stock only.

Buyback and redemption/withdrawal of treasury stock

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

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

On July 26, 2011, Vossloh AG's Executive Board resolved with the Supervisory Board's approval to redeem and withdraw the 1,470,630 treasury shares repurchased by Vossloh AG in 2008/2009, without decreasing the capital stock but by accordingly raising pro rata the notional par value of each of the remaining no-par shares to the unchanged carrying amount of Vossloh AG's capital stock.

Since the effective date of this redemption/withdrawal Vossloh AG has had an unchanged capital stock of €37,825,168.86 now divided into 13,325,290 no-par shares of common stock.

	2011		2010	
	€	Shares	€	Shares
Balance at January 1	37,825,168.86	14,795,920	37,825,041.04	14,795,870
Shares redeemed and withdrawn	–	(1,470,630)	–	–
Stock options exercised	–	–	127.82	50
Balance at December 31	37,825,168.86	13,325,290	37,825,168.86	14,795,920

Employee bonus program 2011

The employee bonus program 2011 (on terms unchanged versus 2010) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares free or eight shares at a discount of 50 percent of the issue price of €68.23 per share (down from €85.51), determined at market as of the share transfer date. Under this program, Vossloh employees were granted in 2011 altogether 3,286 free shares (up from 3,148) at an expense to the Company of k€249.3 (down from k€269.2).

(23.2) Additional paid-in capital

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

(23.3) Treasury stock

Movement analysis of treasury shares

€	2011	2010
Balance at January 1	105,762,018.85	106,164,770.85
Employee bonus program	–	(402,752.00)
Treasury shares repurchased 2009/2010 and redeemed/withdrawn	(105,762,018.85)	–
Treasury stock buyback 2011	102,957,566.34	–
Balance at December 31	102,957,566.34	105,762,018.85

Vossloh AG's AGM had reauthorized the Executive Board on May 19, 2010, to acquire on or before May 18, 2015, treasury shares corresponding to an aggregate 10 percent of the capital stock in accordance with Art. 71(1) No. 8 AktG.

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

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

This program was launched on July 27 and completed on December 2, 2011. Out of a total 13,325,290 no-par shares, Vossloh AG now holds 1,332,529 treasury shares, repurchased at an average €75.76 per share (excluding incidentals) and totaling about €100.9 million. Consequently, 11,992,761 no-par shares were outstanding as of December 31, 2011. Pursuant to Art. 71b AktG, the treasury stock does not entitle Vossloh AG to any rights or interests.

(23.4) Reserves retained from earnings

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

(23.5) Accumulated other comprehensive income

Breakdown of accumulated OCI

€ million	2011	2010
Currency translation differences	4.8	7.5
Statement at fair value of financial derivatives	(2.6)	(3.3)
Statement at fair value of financial instruments available for sale	0.0	0.0
Deferred taxes on OCI changes	0.8	1.0
Total as of December 31, 2011	**3.0**	**5.2**

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 (remeasurement) at fair value of derivatives within cash flow hedges and of financial instruments available for sale.

(23.6) Minority interests

€7.4 million of these refers to shares held by nongroup owners in Vossloh Switch Systems companies, another €5.8 million to minority interests in the Fastening Systems business unit, plus €0.8 million in Vossloh Transportation Systems companies.

(24) Pension accruals

Movement analysis of pension accruals

€ million	2011	2010
Opening balance at Jan. 1	11.7	9.7
Added on initial consolidation	–	1.5
Released by plan change	–	(0.1)
Utilized	(0.8)	(1.2)
Added	1.8	1.7
Currency translation differences	0.0	0.1
Closing balance at Dec. 31	**12.7**	**11.7**

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

In addition, defined contribution plans exist at certain subsidiaries. These companies are under no obligation to make any pension-related payments over and above that of agreed contributions to an outside fund, these totaling €10.3 million (up from €9.7 million).

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.

The plan assets originate from employer pension liability insurance contracts at fair value and have been offset against part of the present value of the DBO. Each of these insurance contracts has been pledged to the individual beneficiary concerned.

Independent actuarial opinions and reports underlie the pension accruals recognized.

Assumptions underlying pension liability calculation

%	2011	2010
Discount rate	5.0	4.7
Expected pension rise	2.0	2.0
Expected pay rise	3.0	3.0
Probable employee turnover rate	6.0	6.0
Expected return on plan assets	4.5	4.5

The pension accrual recognized was derived as follows:

Pension accrual analysis

€ million	2011	2010
Present value of plan-funded DBO	20.9	20.5
Fair value of plan assets	(13.3)	(13.1)
Unrecognized actuarial gains/losses, net	(3.4)	(4.2)
Accrual for plan-funded DBO	**4.2**	**3.2**
Present value of plan-unfunded DBO	8.9	9.3
Unrecognized actuarial gains/losses, net	(0.4)	(0.8)
Accrual for plan-unfunded DBO	**8.5**	**8.5**
Recognized pension accrual	**12.7**	**11.7**

Movement analysis of the present value of the DBO:

Movement analysis of the present value of the DBO

€ million	2011	2010
Balance at Jan. 1	29.8	25.1
Added on initial consolidation	0.0	1.5
Plan changes	0.0	(0.2)
Service cost	0.7	0.6
Interest cost	1.3	1.3
Actuarial gains/losses	(0.8)	2.1
Beneficiaries' contributions	0.1	0.4
Pension payments	(1.4)	(1.5)
Currency translation differences	0.1	0.5
Balance at Dec. 31	**29.8**	**29.8**

The fair value of plan assets presented the following movements:

Movement analysis of plan assets

€ million	2011	2010
Balance at Jan. 1	13.1	9.5
Added on initial consolidation	0.0	0.0
Plan changes	0.0	(0.1)
Asset ceiling effect	(0.4)	–
Expected return on plan assets	0.5	0.6
Actuarial gains/losses	0.1	2.6
Employer contributions	0.1	0.1
Beneficiaries' contributions	0.1	0.4
Pension payments	(0.3)	(0.4)
Currency translation differences	0.1	0.4
Balance at Dec. 31	**13.3**	**13.1**

Pension expense was recognized in the income statement as follows:

Breakdown of total annual pension expense

€ million	2011	2010
Current service cost	0.7	0.6
Interest cost	1.3	1.3
Expected return on plan assets	(0.5)	(0.6)
Amortization of actuarial gains/losses	0.4	0.4
Asset ceiling effect	0.4	–
Total annual expense	**2.3**	**1.7**

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	2011	2010	2009	2008	2007
Present value of the DBO	29.8	29.8	25.1	21.4	21.1
Fair value of plan assets	(13.3)	(13.1)	(9.5)	(7.5)	(5.8)
Plan-unfunded obligation	**16.5**	**16.7**	**15.6**	**13.9**	**15.3**

The empirical adjustments of plan assets and pension liabilities amounted to:

5-year comparative analysis of empirical adjustments

€ million	2011	2010	2009	2008	2007
Empirical adjustments of plan assets	0.1	2.6	0.4	(1.5)	(2.6)
Empirical adjustments of pension liabilities	0.1	(0.3)	0.1	0.0	0.9

Plan assets returned in 2011 an actual 4.1 percent. In the present fiscal year 2012 we expect €2.6 million to be added to plan assets.

(25) Other accruals

Breakdown of other accruals

€ million	2011	2010
Personnel-related	11.3	11.2
Accrued trade payables	3.8	6.7
Warranty obligations and follow-up costs	22.8	39.0
Litigation risks and impending losses	8.7	5.3
Sundry	13.4	13.6
Other noncurrent accruals	**60.0**	**75.8**
Personnel-related	26.1	27.9
Accrued trade payables	20.6	15.2
Warranty obligations and follow-up costs	66.7	69.1
Litigation risks and impending losses	30.2	33.2
Sundry	19.3	12.5
Other current accruals	**162.9**	**157.9**
	222.9	**233.7**

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, based on past events, and uncertain in terms of amount or timing. Accruals are recognized at amounts likely to be utilized. If the effect of discount is material, noncurrent accruals are recognized at the present value of the uncertain obligations provided for.

The maximum risk inherent in accrued obligations is €28.8 million above those recognized in the balance sheet (down from €39.7 million). Additional risks of €0.1 million (down from €1.9 million) exist as below-the-line items but are not provided for since their probability is below 50 percent. Regarding obligations from antitrust proceedings, Vossloh refrains from giving details on the related exposure to contingent liabilities in cases of any serious potential impact on its interests.

Personnel-related accruals provide for obligations to pay profit shares, bonuses, vacation and employment anniversary allowances, as well as for 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, no accrual was recognized for impending losses on purchase obligations (down from €0.1 million).

Movement analysis of other accruals

€ million	Opening balance at 1/1/2011	Added upon initial con-solidation	Utilized	Released/ reversed	Provided for	Currency translation differences	Closing balance at 12/31/2011
Tax accruals	**10.1**	**0.0**	**(9.4)**	**(0.2)**	**3.1**	**(0.1)**	**3.5**
Personnel-related	39.1	0.0	(24.1)	(2.9)	25.3	0.0	37.4
Accrued trade payables	21.9	0.1	(10.8)	(3.9)	17.0	0.1	24.4
Warranty obligations and follow-up costs	108.1	0.0	(28.9)	(9.4)	19.7	0.0	89.5
Litigation risks and impending losses	38.5	0.0	(7.4)	(2.3)	10.1	0.0	38.9
Sundry	26.1	0.0	(4.3)	(1.2)	12.1	0.0	32.7
Other accruals	**233.7**	**0.1**	**(75.5)**	**(19.7)**	**84.2**	**0.1**	**222.9**

(26) Liabilities

Aged breakdown of liabilities

€ million	2011	2010	2011	2010	2011	2010	2011	2010
Remaining term	≤1 year		>1–5 years		>5 years		Total	
Financial debts	137.2	25.5	186.0	109.0	3.8	78.0	327.0	212.5
Trade payables	314.5	204.9	8.2	0.0	0.0	0.0	322.7	204.9
Income tax liabilities	4.2	3.9	0.0	0.0	0.0	0.0	4.2	3.9
Other liabilities	67.0	85.9	21.3	15.2	0.0	11.0	88.3	112.1
	522.9	**320.2**	**215.5**	**124.2**	**3.8**	**89.0**	**742.2**	**533.4**

(26.1) Financial debts

Breakdown of financial debts

€ million	2011	2010
US private placement	185.1	180.3
Other long-term debts to banks	4.5	6.6
Long-term capital leases	0.2	0.1
Noncurrent financial debts	**189.8**	**187.0**
Short-term debts to banks	136.6	24.8
Interest payable	0.4	0.5
Short-term notes payable	0.2	–
Short-term capital leases	0.0	0.2
Current financial debts	**137.2**	**25.5**
Total financial debts	**327.0**	**212.5**

Financial debts are carried at amortized cost. The US private placement is treated as the underlying in a fair value hedge against currency risks inherent in the principal. For the reconciliation of the financial debts to the IAS 39 valuation categories, see pages 162 et seq., *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 $140.0 million and $100.0 million; they both have a bullet maturity, their remaining terms being 2.5 and 4.5 years, respectively. Since payment of principal and interest has entirely been 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 €185.1 million debt disclosed as of December 31, 2011, corresponds to the dollar debt carried at amortized cost and translated at the current closing rate. Including the currency hedge within *other liabilities*, the hedged repayment sum totals €203.9 million.

In connection with the US private placement, Vossloh has *inter alia* covenanted that, if and when defined long-term indicators cross above or below agreed thresholds, the interest rate is stepped up or the loan principal may fall due. Vossloh has complied with all such covenants at each balance sheet date. In addition, similar covenants have been signed by two US subsidiaries in the context of bank credit facilities, however, none of which were utilized as of December 31, 2011.

The payables under capital leases are recognized at the present value of the lease payments and are owed under leases for capital goods within Vossloh Rail Services. The net book values of the capitalized tangible assets total €0.2 million (down from €0.3 million).

The minimum lease payments show the following maturity pattern:

Capital leases

€ million	2011			2010		
	Principal	Discount	Present value	Principal	Discount	Present value
Due ≤1 year	0.1	(0.0)	0.1	0.2	(0.0)	0.2
Due >1–5 years	0.1	(0.0)	0.1	0.2	(0.1)	0.1
Due >5 years	–	–	–	–	–	–
	0.2	**(0.0)**	**0.2**	**0.4**	**(0.1)**	**0.3**

(26.2) Trade payables

Breakdown of trade payables

€ million	2011	2010
Trade payables to suppliers	168.2	139.4
PoC payables	154.5	65.5
Total	**322.7**	**204.9**

Accounts due under PoC contracts are shown within trade payables as PoC payables if customer prepayments received and PoC billings outstrip the total contract progress made. For the detailed breakdown of these payables into gross receivables and prepayments received/PoC billings, see Note (18) to *trade receivables*.

(26.3) Income tax liabilities

The line reflects the income taxes actually owed by various group companies as of December 31, 2011.

(26.4) Other liabilities

Breakdown of other liabilities

€ million	2011	2010
Financial derivatives from fair value hedges	18.4	23.2
Financial derivatives from cash flow hedges	2.2	2.2
Prepayments received	0.1	0.4
Noncurrent deferred income	0.6	0.3
Sundry	–	0.1
Noncurrent other liabilities	**21.3**	**26.2**
Prepayments received	20.2	41.6
VAT payable	11.7	12.9
Financial derivatives from fair value hedges	6.2	1.5
Financial derivatives from cash flow hedges	1.9	1.2
Due to employees	5.8	5.5
Other non-income taxes	5.5	4.4
Statutory Social Security and Health Insurance	5.3	4.6
Due to unconsolidated subsidiaries (nontrade)	2.2	2.5
Commissions	0.3	2.0
Customers with credit balances	1.1	1.5
Sundry	6.8	8.2
Current other liabilities	**67.0**	**85.9**
	88.3	**112.1**

When initially recognized, financial instruments are stated at their historical fair value (as of the trading date) including direct transaction costs (if any) and thereafter carried at amortized cost unless their statement at fair value is required. The recognition of gains/losses from the remeasurement at fair value depends on whether the IAS 39 hedge accounting criteria are met. Gains/losses from the restatement at fair value of derivatives in fair value hedges (FVH) are recognized in the income statement, as are the changes in value of the hedged underlyings. In contrast, the corresponding remeasurement gains/losses from derivatives in cash flow hedges (CFH) are recognized in equity only (as OCI) after duly deferring taxes thereon.

The financial derivatives shown as FVH at €18.4 million (down from €23.2 million) under *noncurrent liabilities* reflect the fair values of the cross-currency swaps hedging the repayment under the US private placement agreement.

For the reconciliation of *other liabilities* to the IAS 39 valuation categories, see pages 162 et seq., *Additional disclosures of financial instruments*.

The prepayments received, shown at €20.2 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 operating segments are defined by its internal organizational and reporting structures which are based on the products and services offered by Vossloh's business units. In accordance with IFRS 8, segment reporting encompasses not only the identifiable two operating divisions (Rail Infrastructure and Transportation) but also separately presents their business units.

The Rail Infrastructure division covers the Group's related products and services and comprises the Fastening Systems, Switch Systems and Rail Services business units.

The Fastening Systems business unit is a foremost supplier of rail fastening systems. The range embraces fasteners for every application: from light-rail via heavy-haul to high-speed.

The Switch Systems business unit, one of the world's leading rail switch manufacturers, equips rail networks with switches (turnouts, crossings, etc.), as well as with the related control and monitoring systems which it installs and maintains. Here, too, the lineup extends from light-rail to high-speed applications.

Vossloh Rail Services engages in activities such as rail trading, long-rail (un)loading at construction sites, welding new rails, reconditioning old rails, on-site welding, rail replacement, rail grinding/milling, rail inspection, and construction site supervision, in addition to organizing and monitoring just-in-time rail shipments to construction sites and ensuring on-site availability of the approved (un)loading systems.

Transportation includes the rail vehicle and vehicle system/component operations plus the related services. The division comprises two business units: Transportation Systems and Electrical Systems.

Vossloh Transportation Systems with its two production locations in Valencia, Spain, and Kiel, Germany, is Europe's leading manufacturer of diesel locomotives for which it also provides maintenance services. In addition, the Valencia location develops and builds vehicles for local transport rail services. The business unit's customers comprise state and private rail operators as well as leasing companies.

Vossloh Electrical Systems equips light rail vehicles and buses with advanced electrical systems. The product range includes traction systems, onboard power supply units, vehicle controls, heating and air-conditioning systems. The kits are integrated into a complete customer-specific package and supplied from a single source. The business unit is the world's leading supplier of electrical equipment for trolleybuses and other electric buses which since 2008 have optionally been available with hybrid drive systems. Besides complete vehicle kits, the unit's businesses also cover retrofitted air-conditioning systems for rail vehicles, parts, components and subassemblies, revamping, servicing and M&R work.

Consolidation eliminates all intrasegment and intersegment transactions, such as primarily by mutually offsetting intragroup income/expenses and receivables/payables, as well as by eliminating intragroup income from profit distribution.

The accounting methods of all segments are identical. Intersegment business is transacted on terms as if at arm's length.

Segment financial information is presented for each division and business unit on pages 124/125.

The major noncash segment expenses reflect provisions.

In the analysis of its results of operations in the management report, the Vossloh Group reports the pretax value added (VA) as a key performance indicator. Besides this pretax VA used for internal controlling purposes, also the posttax value added is communicated in external reports at group and division levels, based on the current WACC—6.2 percent posttax for fiscal 2011—in order to disclose the actual value trend of relevance to stockholders.

The analysis below shows how the Group's total value added (according to the segment report) is reconciled with its recognized EBIT:

Reconciliation of VA to recognized EBIT:

€ million	2011	2010
Value added	15.4	54.8
Cost of capital employed	81.1	97.3
EBIT	**96.5**	**152.1**

Segment information by region (geographical market) covers noncurrent assets and (external) sales. Regional sales are based on the customer location.

Segment information by region

€ million	2011	2010	2011	2010
	Net external sales		Noncurrent assets	
Germany	260.3	267.1	197.2	176.5
France	128.2	121.9	206.3	206.4
Other Western Europe	101.8	151.2	18.9	18.1
Northern Europe	86.4	96.5	11.5	11.7
Southern Europe	199.0	272.9	84.3	84.9
Eastern Europe	59.3	39.4	5.0	5.2
Total Europe	**835.0**	**949.0**	**523.2**	**502.8**
Americas	102.2	105.2	45.8	37.4
Asia	187.0	236.4	31.0	22.6
Africa	39.2	27.6	0.0	0.0
Australia	27.9	27.3	12.1	12.1
Total	**1,191.3**	**1,345.5**	**612.1**	**574.9**

Additional disclosures of financial instruments

Vossloh's consolidated balance sheet includes not only straight financial instruments (assets such as financial receivables, cash, cash equivalents and the other financial assets, as well as liabilities such as financial payables and debts) but also financial derivatives (such as currency forwards or swaps) whose value is derived from an underlying's.

Straight financial instruments

Pursuant to IAS 39, financial instruments (FI) are recognized and valued according to valuation category.

Straight financial instruments are recognized in the consolidated balance sheet as and when Vossloh becomes a party to the financial instrument. 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 assets and liabilities are categorized as *loans and receivables, held for trading*, *held to maturity* or *available for sale*. The Vossloh Group does not exercise the so-called fair value option.

Financial instruments categorized as *loans and receivables* or *held to maturity* are carried at amortized cost subsequent to initial recognition, while those *held for trading* are remeasured and carried at fair value, the resulting gains/losses being recognized in net income.

Financial assets *available for sale* are likewise remeasured and carried at fair value but the resulting gains/losses are recognized in OCI if their fair value is reliably quantifiable. This category mainly includes securities other than loans, receivables or FI held to maturity. €1.4 million of financial instruments available for sale is carried at cost (up from €0.6 million).

Derivative financial instruments

The Vossloh Group uses various financial derivatives, primarily to hedge (i) forex or currency risks from firm non-euro contractual obligations, (ii) future currency receivables/payables, (iii) price risks from sales or sourcing transactions, and (iv) interest rate risks emanating from long-term finance.

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 FV changes (gains/losses) 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 the underlying transactions, the associated gains/losses previously accumulated in OCI are either recycled to the income statement or offset against the cost of purchased assets.

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			2011		2010	
Cross-currency swaps (USPP)	Time to maturity	≤1 year	–	–	–	–
		>1–5 years	(20.2)	203.9	(14.4)	118.9
		>5 years	0.0	0.0	(11.0)	85.0
			(20.2)	**203.9**	**(25.4)**	**203.9**
Currency forwards	Time to maturity	≤1 year	(7.5)	201.4	(1.9)	99.6
		>1–5 years	(0.4)	1.9	(0.4)	5.6
		>5 years	0.0	0.0	0.0	0.0
			(7.9)	**203.3**	**(2.3)**	**105.2**
Total			**(28.1)**	**407.2**	**(27.7)**	**309.1**

DCF methods are used to determine fair values (FV) of cross-currency swaps and currency forwards, the discount being based on current market rates which match the financial instruments' time to maturity.

The tables below detail financial instrument (FI) book values, the breakdown into IAS 39 valuation categories, FI fair values, as well as FV hierarchy levels of FI according to IFRS 7, and include—although not covered by any IAS 39 valuation category—derivatives in hedges.

Book values (BV), valuation categories and fair values (FV) of FI as of December 31, 2011

€ million	Recognized BV at 12/31/2011	Measured acc. to IAS 39 at amortized cost	Measured acc. to IAS 39 at FV through OCI	Measured acc. to IAS 39 at FV through IS	FV at 12/31/2011
Trade receivables	**353.0**				
loans and receivables	353.0	353.0			353.0
Securities	**2.8**				
held to maturity	1.0	1.0			1.0
held for trading	0.0			0.0	0.0
available for sale	1.8		1.8		1.8
Cash and cash equivalents	**85.4**				
loans and receivables	77.6	77.6			77.6
held to maturity	5.5	5.5			5.5
held for trading	0.1			0.1	0.1
available for sale	2.2		2.2		2.2
Other FI and sundry assets	**54.3**				
loans and receivables	27.6	27.6			27.6
held to maturity	0.0	0.0			0.0
held for trading	0.0			0.0	0.0
available for sale	1.4	1.0	0.4		1.4
derivatives in hedges	1.6		1.4	0.2	1.6
not covered by IAS 39	23.7				–
Total financial assets	**495.5**	**465.7**	**5.8**	**0.3**	**471.8**
Financial debts	**327.0**				
loans and receivables	326.8	326.8			326.8
not covered by IAS 39	0.2				–
Trade payables	**322.7**				
loans and receivables	322.7	322.7			322.7
Other liabilities	**88.3**				
loans and receivables	35.2	35.2			35.2
derivatives in hedges	28.6		4.1	24.5	28.6
not covered by IAS 39	24.5				–
Total financial payables	**738.0**	**674.6**	**4.1**	**24.5**	**703.3**

Summary by IAS 39 valuation category

€ million	Recognized BV at 12/31/2011	Measured acc. to IAS 39 at amortized cost	at FV through OCI	at FV through IS	FV at 12/31/2011
Financial assets					
loans and receivables	458.2	458.2			458.2
held to maturity	6.5	6.5			6.5
held for trading	0.1			0.1	0.1
available for sale	5.4	1.0	4.4		5.4
Total financial assets	**470.2**	**465.7**	**4.4**	**0.1**	**470.2**
Financial payables					
loans and receivables	684.7	684.7			684.7
Total financial payables	**684.7**	**684.7**	**–**	**–**	**684.7**

Book values (BV), valuation categories and fair values (FV) of FI as of December 31, 2010

€ million	Recognized BV at 12/31/2010	Measured acc. to IAS 39 at amortized cost	at FV through OCI	at FV through IS	FV at 12/31/2010
Trade receivables	**360.6**				
loans and receivables	360.6	360.6			360.6
Securities	**1.3**				
held to maturity	1.0	1.0			1.0
available for sale	0.3			0.3	0.3
Cash and cash equivalents	**74.6**				
loans and receivables	53.1	53.1			53.1
held to maturity	18.4	18.4			18.4
held for trading	0.1			0.1	0.1
available for sale	3.0		3.0		3.0
Other FI and sundry assets	**47.6**				
loans and receivables	16.2	16.2			16.2
held to maturity	0.3	0.3			0.3
held for trading	0.0			0.0	0.0
available for sale	1.1	0.6	0.5		1.1
derivatives in hedges	0.3		0.0	0.3	0.3
not covered by IAS 39	29.7				–
Total financial assets	**484.1**	**450.2**	**3.5**	**0.7**	**454.4**
Financial debts	**212.5**				
loans and receivables	212.2	212.2			212.2
not covered by IAS 39	0.3				–
Trade payables	**204.9**				
loans and receivables	204.9	204.9			204.9
Other liabilities	**112.1**				
loans and receivables	59.0	59.0			59.0
derivatives in hedges	28.1		3.4	24.7	28.1
not covered by IAS 39	25.0				–
Total financial payables	**529.5**	**476.1**	**3.4**	**24.7**	**504.2**

Summary by IAS 39 valuation category

€ million	Recognized BV at 12/31/2010	Measured acc. to IAS 39 at amortized cost	at FV through OCI	at FV through IS	FV at 12/31/2010
Financial assets					
loans and receivables	429.9	429.9			429.9
held to maturity	19.7	19.7			19.7
held for trading	0.1			0.1	0.1
available for sale	4.4	0.6	3.5	0.3	4.4
Total financial assets	**454.1**	**450.2**	**3.5**	**0.4**	**454.1**
Financial payables					
loans and receivables	476.1	476.1			476.1
Total financial payables	**476.1**	**476.1**	**–**	**–**	**476.1**

Due to the short time to maturity, the fair value of trade receivables, cash, cash equivalents, other receivables and assets substantially equals book value.

Trade payables and other liabilities usually have likewise a short time to maturity, which is why their book values essentially correspond to their fair values. 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 debts.

The financial assets carried at fair value chiefly reflect derivatives in hedges.

The table below assigns the financial assets and payables which are carried at fair value to IFRS 7 fair value hierarchy levels.

Assignment to IFRS 7 fair value hierarchy levels

€ million	Level 1: input of quoted prices	Level 2: input of observable market data	Level 3: no input of observable market data
Financial assets at fair value			
held for trading	0.1		
available for sale		4.4	
derivatives in hedges		1.6	
Total	**0.1**	**6.0**	
Financial payables at fair value			
derivatives in hedges		28.6	
Total		**28.6**	

The hierarchy that prioritizes the inputs to valuation techniques used to measure fair value of financial instruments breaks down into three broad levels: Level 1 inputs are in the form of (unadjusted) quoted prices in active markets for identical assets or liabilities. Level 2 covers direct inputs other than Level 1 quoted prices for identical or similar assets or liabilities or indirect inputs derived from observable market data. Level 3 is based on unobservable inputs for a financial asset or payable that are used to measure fair value wherever no observable market data is available.

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	Loans and receivables	FI held to maturity	FI held for trading	FI available for sale	2011	2010
Net gains/(losses) from:						
Interest	(13.1)	0.6	0.1	0.0	(12.4)	(12.8)
Remeasurement						
allowances/write-down	0.7	0.2	0.0	(0.1)	0.8	0.9
currency translation	2.7	–	–	–	2.7	2.5
at fair value	–	–	–	–	–	0.0
Disposal	0.0	–	–	1.7	1.7	0.0
Total	**(9.7)**	**0.8**	**0.1**	**1.6**	**(7.2)**	**(9.4)**

Interest is shown within *net interest expense*, allowances for straight (primarily trade) receivables are recognized within the functional (mainly selling) expenses while the net gains or losses on disposal and currency translation are disclosed within *net other operating income* (or *expense*). Gains from the remeasurement to fair value of securities held for trading and the write-down of securities available for sale are included in the above table and recognized within the *other financial results*.

Gains from the statement at fair value of financial assets available for sale were recognized in 2011 at €0.0 million in OCI (virtually unchanged).

In fiscal 2011, a €4.8 million (down from €12.9 million) loss on the higher euro equivalent of the dollar-denominated debt as the underlying in the fair value hedge contrasted with a same-amount gain from the hedging derivative's remeasured fair value.

When the dollar interest payments fell due in 2011, unrealized net gains of €0.7 million (up from €0.2 million) previously accumulated in OCI and corresponding to the hedging cross-currency swap's fair value change were recycled from equity to interest expense.

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 risks

Vossloh manages its liquidity risk (i.e., that the Group is not 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 €88.2 million were at the Group's disposal, besides additional, unutilized credit facilities of €195.7 million to satisfy any future cash requirements. The table below shows the contractual undiscounted payments of principal and interest for financial payables:

Aged analysis of principal and interest payments in 2011

€ million	within 1 year		>1–5 years		>5 years	
	principal	interest	principal	interest	principal	interest
Straight financial payables	(136.8)	(11.5)	(186.0)	(26.0)	(3.8)	(0.0)
Derivative financial payables	(8.0)		(20.6)		(0.0)	
Derivative financial assets	1.6					

Currency risks

Currency risks emanate from (i) recognized non-euro assets and liabilities whose euro equivalent 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 centrally hedge against currency risks groupwide through Treasury Management 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.

Currency risks material to the Group might originate from the financial debts of $240.0 million raised by US private placement (USPP), 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.

Since the currency risks have almost fully been hedged, exchange rate swings impact mainly on the recognized hedging instruments' fair values. Material fair value changes are only expected from the hedged USPP-related debt. 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[1]		FV change of financial debt from USPP in € million[2]
		CFH[1]	FVH	
rise 10 percent	1.42	(4.2)	(35.3)	35.3
remain at the 12/31/2011 current rate	1.29	(1.9)	(18.4)	18.4
fall 10 percent	1.16	0.9	2.2	(2.2)

[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 fair value of derivatives used for hedging against currency and interest rate risks, as well as the hedged principal (notional volume) of the underlyings are detailed in the notes to financial instruments (page 164).

Credit risks

Credit risks are defined as the risk that counterparties fail to meet their financial obligations. The credit risk attaching to the cash and cash equivalents invested by Vossloh with banks and the short-term securities held by subsidiaries, 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.

These 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:

Portfolio of gross current receivables

€ million	Receivables neither past due nor impaired	Receivables past due but not impaired	Impaired receivables*	Gross value of receivables
Trade receivables				
2011	270.5	78.9	14.9	364.3
2010	253.9	108.4	10.6	372.9
Other				
2011	41.0	0.0	1.2	42.2
2010	33.3	3.0	1.0	37.3

*This is the gross balance of impaired trade receivables, the specific bad-debt allowances charged to these totaling €11.3 million (down from €12.3 million).

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

Receivables not impaired but past due for

€ million	≤1 month	>1–3 months	>3–6 months	>6–12 months	>12 months	Total
Trade receivables						
2011	19.9	17.2	21.8	11.5	8.5	78.9
2010	51.4	20.5	20.1	12.1	4.3	108.4
Other						
2011	0.0	0.0	0.0	0.0	0.0	0.0
2010	0.0	0.0	3.0	0.0	0.0	3.0

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

The maximum loss on default from all financial assets (VaR) equals their book value (cf. the analysis on page 165).

Further disclosures

Contingent liabilities

As of December 31, 2011, contingent liabilities totaled €15.3 million (down by €2.0 million from €17.3 million). The Group has incurred contingent liabilities under guaranties/suretyships at €11.8 million (including €9.8 million in favor of unconsolidated subsidiaries), and for the collateralization of third-party debts at €3.5 million (including €1.3 million allocable to unconsolidated subsidiaries).

The risk of an enforcement of any of these contingent liabilities is not considered likely.

Other financial obligations

The obligations under purchase contracts or firm commitments for buying tangible/intangible assets and inventories total €16.6 million (up from €6.3 million).

The minimum undiscounted future payments under operating and similar leases came to €54.6 million (down from €62.5 million), those under operating leases alone falling due as follows:

Financial obligations under operating leases

€ million	2011	2010
Due ≤1 year	7.7	11.2
Due >1–5 years	16.9	28.6
Due after 5 years	0.0	0.7
	24.6	**40.5**

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

Lease payments recognized in net income

€ million	2011	2010
Expense for minimum lease payments	9.4	12.0
Expense for contingent rent	0.0	0.7
Income from subleases	8.3	7.5

Future minimum payments of €21.8 million are expected as income under noncancelable subleases (down from €33.0 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 prorated consolidation of joint ventures:

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

€ million	2011	2010
Current assets	28.1	29.3
Noncurrent assets	17.6	6.6
Current liabilities	9.4	13.4
Noncurrent liabilities	0.0	0.0
Income	32.5	34.5
Expenses	28.6	30.3

Related parties

Vossloh AG as top-tier controlling 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, associated affiliate) are all itemized in the list of shareholdings on page 178 et seq.

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 segment reporting as intragroup transfers (internal sales) and in the consolidated balance sheet as intercompany receivables/payables due from or to unconsolidated subsidiaries. The volume of transactions with related individuals was negligible. In one case, a related entity has been granted a €2.5 million loan on terms below market.

€ million	2011	2010
Sale/purchase of goods		
Net sales of finished goods/WIP	5.9	5.8
Cost of sales of finished goods/WIP purchased	0.9	1.8
Trade receivables	2.4	2.5
Trade payables	0.7	1.0
Prepayments received	0.1	0.1
Sale/purchase of other assets		
Receivables from the sale of other assets	0.0	0.3
Payables for the purchase of other assets	1.1	1.0
Services provided/purchased		
Income from services provided	2.2	1.8
Expenses for services purchased	3.9	0.4
Leases		
Income from operating leases	0.0	0.0
Expenses for operating leases	0.9	0.9
Licenses		
License income	0.0	0.0
License expenses	0.5	3.3
Finance		
Interest income from loans granted	0.0	0.1
Interest expense for loans raised	0.0	0.0
Receivables under loans	4.3	0.4
Guaranties/collateral furnished		
Bonds/guaranties furnished	6.8	13.8
Other collateral furnished	1.3	3.5

Supervisory Board members will receive short-term benefits of k€440.4 for the year under review (down from k€689.4). 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

k€	2011	2010
Short-term benefits	1,981.9	2,839.5
Postretirement benefits	0.3	1,182.5

Former Executive Board members received in 2011 a total k€606.5 (down from k€612.3). Pension obligations to former Executive and Management Board members and their surviving dependants were accrued in full at €11.6 million (up from €11.4 million) and are largely plan-funded.

Statutory auditor's fees

The following fees for services rendered by the statutory group auditor, BDO AG Wirtschaftsprüfungsgesellschaft, as well as by firms of BDO AG's international network were recognized as expense in 2011:

€ million	2011	2010
Statutory audits	1.1	1.1
Other certification or verification services	0.4	0.2
Tax consultancy	0.7	0.7
Other services	0.0	0.0
	2.2	**2.0**

The fees for statutory audits mainly includes those paid for the obligatory group audit and the statutory audits by BDO AG of Vossloh AG's and its German subsidiaries' financial statements. The fees include €0.0 million (virtually unchanged) for other certification or verification services plus €0.1 million (up from €0.0 million) for tax consultancy provided by non-German BDO firms but invoiced through BDO AG. The fees for other certification or verification services mainly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, for due diligence work relating to planned M&A deals, as well as for quarterly report reviews. The tax consultancy fees cover substantially advisory services rendered for the formulation of tax returns, the review of tax assessment notices, as well as for national and international tax matters.

German Corporate Governance Code

In December 2011 the Executive and Supervisory Boards issued, and made available to the stockholders on the Group's website, the declaration of conformity pursuant to Art. 161 AktG.

Group companies and investees

Pursuant to Art. 313(4) HGB, details of the Group's shareholdings are listed below.

List of shareholdings

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

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

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

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

Proposed profit appropriation

According to German GAAP, Vossloh AG's separate financial statements 2011 show net income of €44,117,694.19 and, after including the profit carryforward of €5,769,086.94, net earnings of €49,886,781.13.

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

Vossloh AG's Executive Board

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

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

Vossloh AG's Supervisory Board

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

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

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

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

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

Michael Ulrich[1], Kiel, mechanic

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

Werdohl, March 9, 2012

Vossloh AG
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 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, 2012

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 comprehensive income, 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, 2011. 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 9, 2012

BDO AG
Wirtschaftsprüfungsgesellschaft

Fritz	Barhold
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
Dividend yield	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
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 intensity	Personnel expenses ÷ value created
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
US GAAP	United States Generally Accepted Accounting Principles
Value added	(ROCE – WACC) × average capital employed
Value created	EBIT + personnel expenses + non-income taxes
Working capital	Trade receivables (incl. PoC receivables) + inventories – trade payables (incl. PoC payables) – prepayments received – other current accruals
Working capital intensity	Working capital ÷ net sales

Financial diary 2012/2013

Annual general meeting	May 23, 2012
Dividend payout	May 24, 2012
Payment of cash dividends	
as of March 31	April 26, 2012
as of June 30	July 26, 2012
as of September 30	October 31, 2012
Investors and analysts conference	December 6, 2012

For further dates, go to www.vossloh.com

Financial diary 2013

Publication of 2012 financial data	March 2013
Press conference	March 2013
Investors and analysts conference	March 2013
Annual general meeting	May 2013

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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 12/31/2011	11,992,761
Share price (12/31/2011)	€74.07
2011 high/low	€102.75 / €62.67
Reuters code	VOSG.F
Bloomberg code	VOS GR
Dividend proposed	€2.50

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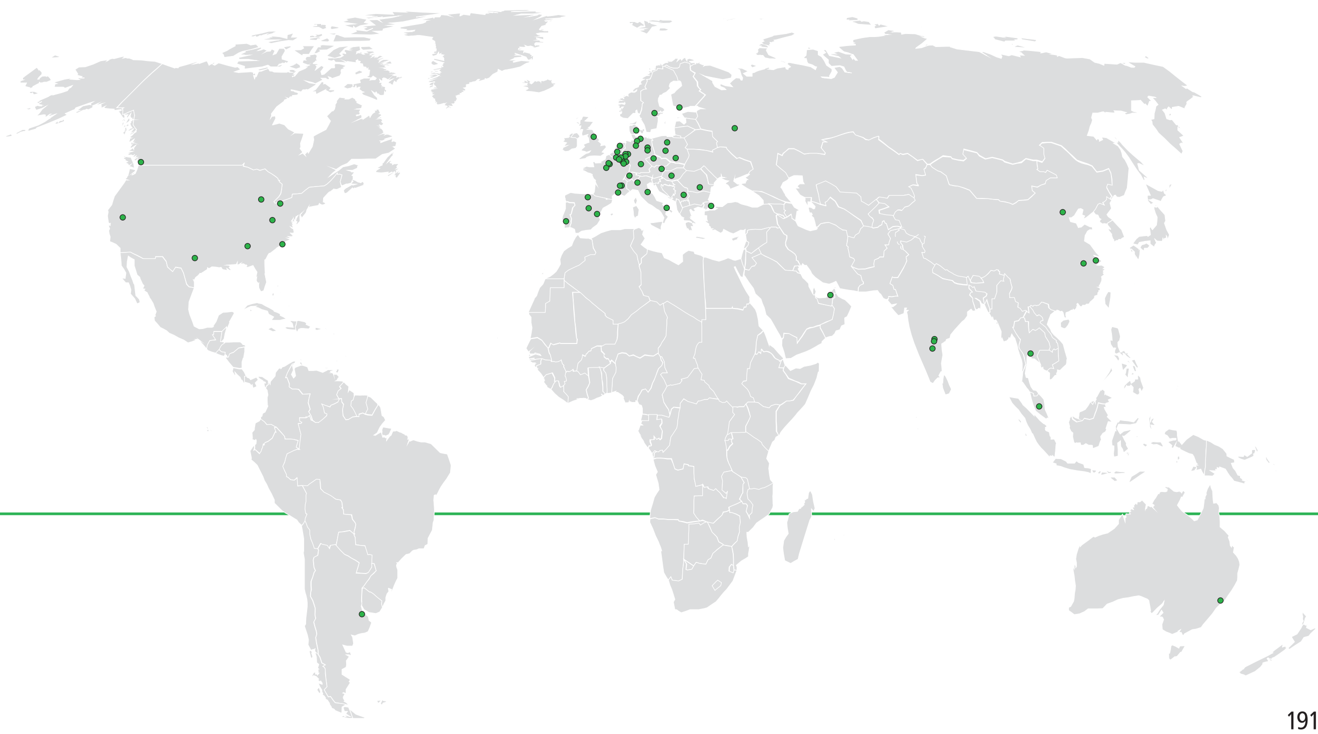

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downloadable from www.vossloh.com

Ten-year overview of the Vossloh Group

		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Income statement data											
Net sales	€ mill.	1,197.2	1,351.3	1,173.7	1,212.7	1,232.1	1,015.2	996.4	917.8	912.5	744.5
EBIT	€ mill.	96.5	152.1	137.9	137.7	121.5	82.7	90.8	105.6	100.9	78.4
Net interest expense	€ mill.	(12.3)	(11.7)	(9.4)	(9.3)	(12.3)	(14.1)	(19.6)	(16.0)	(14.7)	(14.8)
EBT	€ mill.	84.2	140.4	128.5	128.4	109.2	68.6	71.2	89.6	86.2	63.6
Group earnings (total)	€ mill.	55.7	97.5	87.9	139.4	71.4	20.3	45.1	57.2	55.5	52.4
Earnings per share (EpS)	€	4.28	7.32	6.57	9.48	4.83	1.38	3.07	3.91	3.90	3.85
Pretax ROS	%	7.0	10.4	10.9	10.6	8.9	6.8	7.1	9.8	9.4	8.5
Pretax ROE	%	17.4	24.2	26.1	26.1	25.2	18.5	19.7	27.1	29.0	26.7
ROCE[1]	%	11.9	17.2	20.5	18.8	14.9	12.9	12.0	15.3	16.3	13.3
Value added	€ mill.	15.4	54.8	63.7							
Balance sheet data											
Fixed assets	€ mill.	625.6	590.7	458.2	431.4	503.4	423.4	453.3	387.0	377.7	414.5
capital expenditures	€ mill.	65.6	57.9	41.9	37.6	52.6	23.9	34.5	39.4	30.5	25.5
amortization/depreciation	€ mill.	38.2	39.5	24.6	22.8	29.2	25.9	23.9	25.2	24.4	19.7
Closing working capital[2]	€ mill.	200.3	258.0	245.1	300.7	312.8	216.7	303.3	303.2	242.7	175.5
Year-end working capital intensity	%	16.7	19.1	20.9	24.8	25.4	21.3	30.4	33.1	26.6	23.6
Closing capital employed	€ mill.	825.9	848.6	703.2	732.1	816.2	640.1	756.6	690.2	620.4	590.0
Total equity	€ mill.	482.8	580.0	492.6	492.7	434.0	371.1	361.0	331.1	297.6	238.6
thereof: minority interests	€ mill.	14.0	27.9	20.4	16.9	12.1	9.3	6.1	5.8	5.6	4.6
Net financial debt/(assets)	€ mill.	238.8	136.6	70.2	(35.0)	124.9	62.3	220.5	171.1	183.1	227.0
Total assets	€ mill.	1,512.3	1,405.8	1,338.4	1,339.4	1,326.8	1,198.5	1,091.2	1,016.7	880.3	947.2
Equity ratio	%	31.9	41.3	36.8	36.8	32.7	31.0	33.1	32.6	33.8	25.2
Cash flow statement data											
Cash flow from operating activities	€ mill.	138.5	137.1	44.9	133.8	80.2	186.9	54.6	32.9	16.1	122.9
Cash flow from investing activities	€ mill.	(90.6)	(151.1)	(52.3)	116.8	(123.6)	(15.4)	(65.5)	(27.5)	22.4	(292.3)
Cash flow from financing activities	€ mill.	(47.3)	(71.8)	(84.1)	(77.0)	(25.7)	(81.5)	(78.9)	110.5	(51.0)	10.8
Net cash inflow/(outflow)	€ mill.	0.6	(85.8)	(91.5)	173.6	(69.1)	90.0	(89.8)	115.9	(12.5)	(6.6)
Workforce											
Annual average headcount		5,000	4,984	4,717	4,631	5,493	4,765	4,732	4,513	4,422	4,190
thereof: Germany		1,747	1,667	1,312	1,243	1,183	1,168	1,494	1,547	1,558	1,651
abroad		3,253	3,317	3,405	3,388	4,310	3,597	3,238	2,966	2,864	2,539
thereof: Rail Technology		4,954	4,936	4,666	4,585	5,455	4,734	4,701	4,481	4,392	4,167
Vossloh AG		46	48	51	46	38	31	31	32	30	23
Payroll intensity	%	72.1	61.5	61.9	61.3	67.5	71.6	70.8	66.2	66.9	69.0
Personnel expenses	€ mill.	259.7	249.5	229.6	223.2	268.9	223.9	234.5	217.5	213.9	178.4
Personnel expenses per capita	k€	51.9	50.1	48.7	48.2	49.0	47.0	49.6	48.2	48.4	42.6

Vossloh AG—Ten-year overview

		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Capital stock	€ mill.	37.8	37.8	37.8	37.8	37.8	37.7	37.7	37.4	37.4	36.8
Dividend per share	€	2.50[3]	2.50	2.00	2.00 + 1.00	1.70	1.30	1.30	1.30	1.30	1.20
Stock price at Dec. 31	€	74.07	95.50	69.52	79.49	80.10	57.14	41.10	36.35	44.80	24.70
Market capitalization at Dec. 31	€ mill.	888.3	1,272.6	926.0	1,104.0	1,185.1	842.0	605.6	530.9	654.2	338.1

2002 according to US GAAP
As from 2003 according to IFRS
[1]Based on average capital employed
[2]As from 2010, the other current accruals, being non-interest, are deducted, too.
[3]If approved by the AGM

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