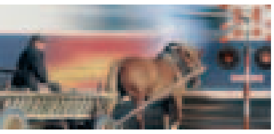
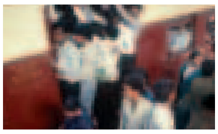
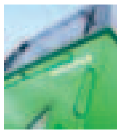
vossloh

Annual Report 2004

Specialty supplier on the fast track

Fiscal 2004 at a glance

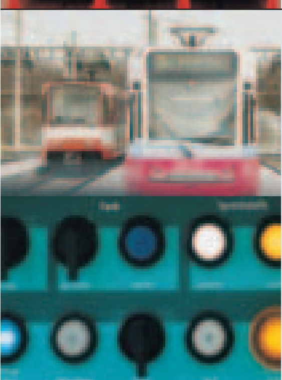
Group			
		2004	2003
Income statement data			
Net sales	€ mill.	922.2	912.5
thereof: Rail Infrastructure	€ mill.	514.1	515.8
Motive Power	€ mill.	345.4	336.6
Information Technologies	€ mill.	64.6	61.0
EBIT	€ mill.	105.8	100.9
Net interest result	€ mill.	(16.2)	(14.7)
EBT	€ mill.	89.6	86.2
Group earnings (total)	€ mill.	57.2	55.5
Earnings per share (EpS)	€	3.91	3.90
EBIT margin	%	11.5	11.1
Pretax return on equity (ROE)	%	27.1	29.0
Return on capital employed (ROCE)	%	15.3	16.3
Balance sheet data			
Fixed assets	€ mill.	387.0	377.7
capital expenditures[1]	€ mill.	39.4	30.5
amortization/depreciation[1]	€ mill.	26.0	24.4
Working capital	€ mill.	303.2	242.7
Working capital ratio	%	32.9	26.6
Capital employed	€ mill.	690.2	620.4
Total equity	€ mill.	331.1	297.6
thereof: minority interests	€ mill.	5.8	5.6
Net financial debt	€ mill.	171.1	183.1
Net leverage	%	51.7	61.5
Total assets	€ mill.	1,021.3	880.3
Equity ratio	%	32.4	33.8
Cash flow statement data			
Cash flow from operating activities	€ mill.	32.9	16.1
Cash flow from investing activities	€ mill.	(27.5)	22.4
Cash flow from financing activities	€ mill.	110.5	(51.0)
Change in cash & cash equivalents	€ mill.	115.9	(12.5)
Workforce			
Annual average headcount		4,540	4,422
thereof: Germany		1,574	1,558
abroad		2,966	2,864
thereof: Rail Infrastructure		3,050	2,941
Motive Power		1,175	1,175
Information Technologies		283	276
Vossloh AG		32	30
Payroll-to-added value ratio	%	66.3	66.9
Personnel expenses	€ mill.	218.9	213.9
Personnel expenses per capita	€'000	48.2	48.4

Vossloh AG			
		2004	2003
Capital stock	€ mill.	37.4	37.4
Dividend per share	€	1.30[2]	1.30
Stock price at Dec. 31	€	36.35	44.80
Market capitalization at Dec. 31	€ mill.	530.9	654.2

As from 2003 according to IFRS
[1] Excl. financial assets
[2] If approved by the stockholders' meeting

Rail Infrastructure

– Fastening Systems
– Switch Systems
– Infrastructure Services



Motive Power

– Locomotives
– Electrical Systems
– Services

Information Technologies

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

Rail fasteners from Vossloh are used worldwide in more than 65 countries for their inherent safety and efficiency. The Group also commands a position of global supremacy in the manufacture of high-tech switches, as well as in the construction of trackage and in track maintenance.

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

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

Vossloh: a specialist in applied transport technology

Vossloh products are first choice in many parts of the world. In its selected applied transport technology market segments—rail fasteners, switches and switch systems, track construction and maintenance, diesel locomotives, electrical systems in trams and trolleybuses, control and safety systems for rail lines, as well as passenger information systems—Vossloh possesses extensive specialized expertise and a particular proximity to its customers. Its technological and market leadership provides Vossloh with the best possible platform for benefiting on a sustained basis from the opening-up of markets in Central & Eastern Europe, in the Middle East and in Asia. With an initiative to promote the public-private partnership (PPP), Vossloh is helping to stimulate investment in rail systems despite scarce funding.


333.317

Dear Stockholders:

Burkhard Schuchmann (left)

CEO, born 1942,
joined Vossloh in 1986

Executive Board member since 1990
Appointed until Dec. 31, 2006

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

Milagros Caiña-Lindemann

Born 1962,
joined Vossloh in 1982

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

In charge of Human Resources Management/Development, Organization, Insurance

Werner Andree (right)

Born 1951,
joined Vossloh in 2001

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

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

In spite of the very challenging overall situation in the rail industry, Vossloh ended fiscal 2004 successfully. Not least thanks to our strong internationalization strategy, we managed to compensate for declining sales in some markets with additional orders booked in others. As a result, despite the steep downturn in the industry we succeeded in reaching the sales and profit targets set in the summer of 2004, even posting the highest earnings in our over 130-year history. A much improved product mix as well as cost savings by which we can respond flexibly to declines in individual market segments were among the factors that contributed to this commendable performance. Vossloh is feeling the effects of these more challenging market conditions especially through the lack of invitations to bid for locomotives. We therefore have to brace ourselves for halving the number of locomotives built at our Kiel plant. The relevant restructuring measures have been initiated and are due to be completed by the end of 2005, our aim being to create a flexible and productive location which can successfully hold its own even in the face of increasingly volatile demand for its products.

Vossloh will not be deterred from its chosen path by the current slump in the rail industry. Nothing has changed, after all, in our basic assessment that this is a growth industry both throughout Europe and worldwide, as borne out by the content of this annual report.

Toward the end of the fiscal year, we reported that an agreement for the purchase of the Alstom locomotive plant near Valencia had been signed. Whereas diesel-hydraulic locomotives are produced in Kiel, diesel-electric vehicles are built at this facility. As a result, Vossloh now covers the whole diesel locomotive market. This represents a strategically vital acquisition. In Sweden, we acquired the switch manufacturer Swedish Rail Systems AB in 2004, thus fortifying our activities in the Scandinavian market.

Our growth projects extend far beyond Europe, however. India has been our primary objective. The Indian railway network is one of the largest in the world, playing a central role in the country's economic development. We have acquired majority stakes in an Indian switch manufacturer and in a foundry for manganese crossings used in switch production. Additionally, with the purchase of the Delkor Group's rail fastening business, we have established close ties with the Australian market, one that offers exciting medium- to long-term prospects.

In the course of its profit-driven growth policy, Vossloh will continue to scout for strategic acquisitions in 2005. We are confident of our ability to complement our product portfolio through the acquisition of additional companies or stakes and thus to guide the Group toward a growth-oriented future of further success.

In the light of the planned acquisitions we have reorganized our group finances. As part of a private placement in the USA, outside capital of some €200 million has been made available by US investors on a very long-term basis. This keen interest being shown by US financial investors in Vossloh demonstrates the strong confidence which our group also enjoys abroad.

In 2005, Vossloh plans to prepare the ground for successful years marked by substantial earnings. In 2004, we showed, despite the unfavorable situation in our industry, how strong we are. The dedication of our employees and their representatives worldwide and the implicit trust of our customers and associates laid the crucial foundations for our success. Our special thanks to them all for their support and cooperation. Recognizing that in 2005 we can continue to build on these achievements, we look to the future with justified optimism.

Vossloh AG

Burkhard Schuchmann, CEO

Supervisory Board

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

Dipl.-Vwt. Dr. rer. pol.
Karl Josef Neukirchen,
Chairman, former CEO of mg technologies ag, Bad Homburg

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

Wolfgang Klein, galvanizer, Werdohl

Wilfried Köpke,
engineering designer, Kiel

Peter Langenbach,
lawyer, Wuppertal

Dr. Anselm Raddatz,
lawyer, Düsseldorf

Advisory Board

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

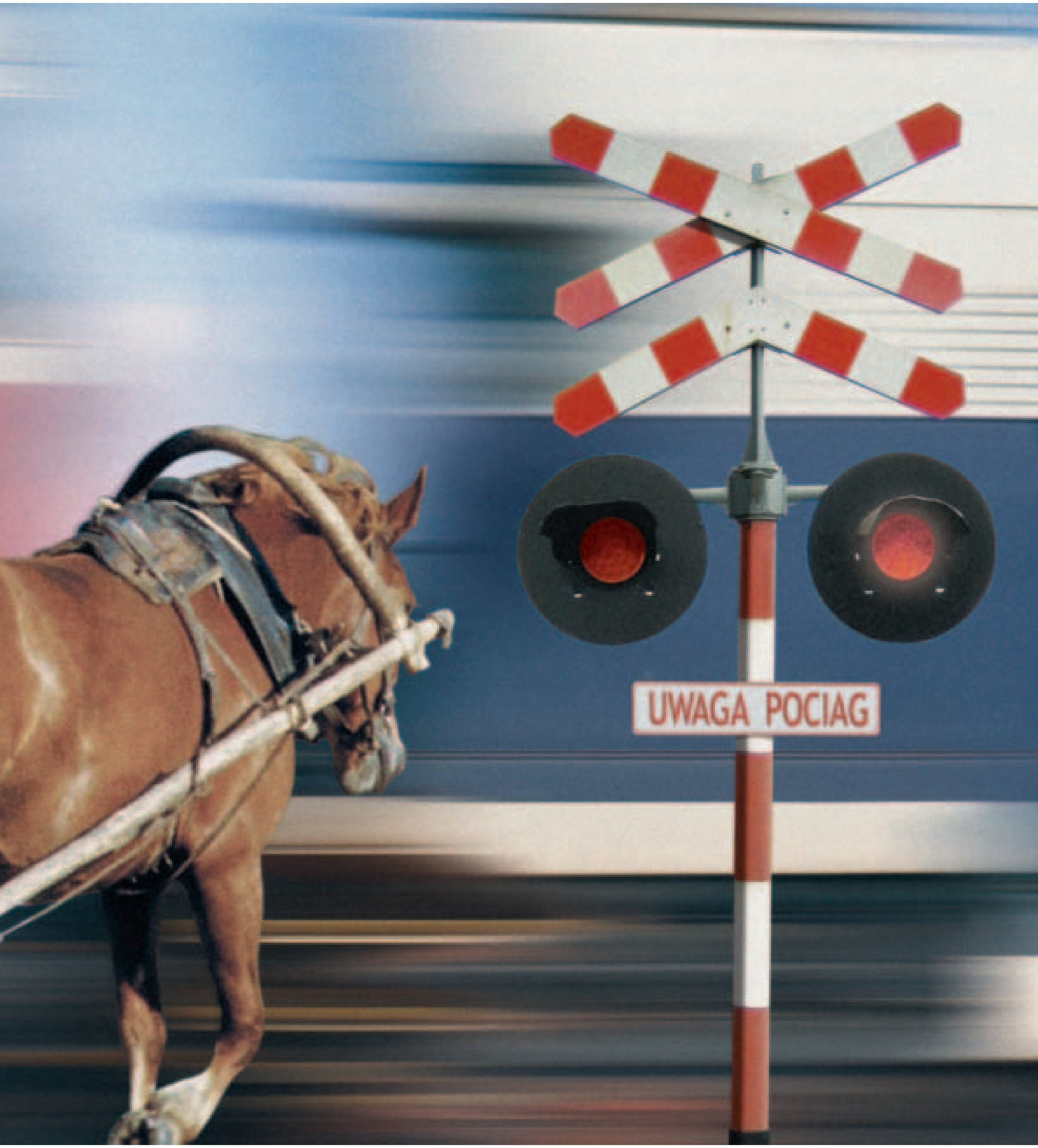
Dr. Gerd Weber,
Vice-Chairman, lawyer, Wuppertal

Ernst Schimke,
management consultant, Gummersbach

Rail markets on the move:

Seizing opportunities when they arise

The pace of change is accelerating: deregulation and privatization, on the one hand, and ambitious political targets, on the other, are driving international rail transport markets increasingly forward. This opening-up offers business opportunities while also entailing risks. Flexible and targeted actions based on extensive market knowledge are a crucial factor in success.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Global presence:

Growth markets under surveillance

Those seeking to join in must do so in good time: only global players can consistently exploit the opportunities arising worldwide. Asia’s boom regions above all are proving to be the rail sector’s growth markets at present. This rapid upswing in the rail industry is being driven by an increasing shortage of transport capacity in both freight and passenger services. Against this background, the rail system can display its strengths: high bulk handling and mass transportation capacity, huge potential for transit consolidation, and favorable energy balance.

Specialist with winning ways:

Staying ahead in attractive markets

Technological and market leadership in selected specialty markets with above-average growth potential provides the edge, the ability to grow profitably—even against the general trend. Stakeholders of all kinds are equally appreciative of this. Vossloh's companies are just as aware of the global trends in their specialty markets as they are of the regional challenges they face. The Vossloh Group is one of the pacesetters that are actively shaping the process of change.

Rail markets on the move

The rail market is a growth market—from a global perspective and in the medium to long term. The current challenges facing companies like Vossloh as a result of the temporary constraints on railway investment, chiefly in Europe, illustrate once again how misguided short-term thinking in this rail infrastructure segment can be. Moreover, they show the opportunities offered by a corporate strategy which focuses on attractive market segments and is able to flexibly meet the varying requirements of these specialty submarkets.

International rail markets are on the move and undergoing great change. Around the globe more and more governments are paving the way for rail sector deregulation and privatization. New suppliers of specialized services are emerging while established companies are repositioning themselves. In line with the realities of a global economy, an increasing number of rail operators are investing abroad or relying—above all in Europe—on cross-border cooperation, as exemplified by Railion, Thalys or Elipsos. The railway industry is also in the throes of change, the opening-up of markets offering opportunities but entailing risks.

The pace of change is chiefly set by political exigencies. The European Union's eastward expansion, for example, was and is accompanied by high EU investments in the rail infrastructure of its new member states, aimed at bringing them into line with existing EU standards as quickly as possible. The Instrument for Structural Policies for Pre-Accession (ISPA) program alone, which is to run until 2006, comprises transport and environmental projects worth €7.3 billion, many of these in the rail sector. Linked to this accession assistance is the demand that the rail system's organizational structures should also be modernized. Far from stopping at the borders of the new EU member states, the trend thus set in motion has long since spread to the other accession candidates, Bulgaria, Romania and Turkey, as well as the former CIS states.

Change as a result of deregulation and privatization: rail markets are on the move worldwide.

If the economic engine sputters, however, as in some EU states in 2004, rail reforms can lose momentum—and the capital spending associated with them. A prime example is Germany, where the stream of negative reports about the rail sector seemed endless in 2004. With public funds in short supply the government also cut grants to the railway industry. As a result, procurements were canceled or not put out for bidding in the first place. Projects to upgrade existing networks and build new lines were protracted or delayed to a future date, with many major schemes being axed altogether. This move to put on the brakes left its mark in the order books of rail industry companies. The once predictable German railway market based on long-term planning is now showing a volatility which is quickly working to the disadvantage of inflexible protagonists. Those able to master such challenges hold an option on the future, however. The postponing of necessary investment will, after all, lead to pent-up demand, which has to be met at a given future date.

Europe remains the biggest market

Despite all the current shortages, the figures speak for themselves. Europe will remain the key market for rail technology industry products, its prospects looking healthy. The European Rail Infrastructure 2004/2005 study prepared by SCI Verkehr, for example, comes to the conclusion that the market for this segment will grow by 10 percent from its current level of almost €13 billion to a good €14 billion in 2008, the large countries of the "old" EU accounting for the bulk of this amount.

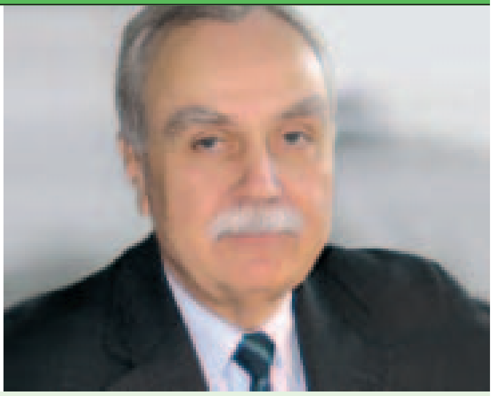
Germany, experts predict, will remain Europe's most significant rail market due to its extensive infrastructural networks, ahead of France, which is to invest some €15 billion in the expansion of rail services over the next eight years. This represents the lion's share of a €20 billion program to strengthen the transport infrastructure, which has been adopted by the French CIADT committee for regional development.

For Spain and Portugal, pundits foresee significant market growth by 2008.

Investment in the rail infrastructure: according to forecasts, this market segment is to grow by 10 percent in the coming years to a good €14 billion, especially in large Western European states.

"In the contest among rival modes of transportation the playing field needs to be leveled and costs should be charged according to the polluter-pays principle."

Dr. Johannes Ludewig,
Executive Director of the Community of European Railway and Infrastructure Companies (CER)



From January 1, 2007, there will be a single European rail freight transport market. A great deal needs to be done before then, however. From CER's point of view, what is the most pressing problem which has to be tackled?
The key problem at present is the prices or, to be more exact, the factors which have some bearing on the calculation of transport costs—or do not. Competition between the modes of transportation, chiefly between road and rail, is being enacted on a playing field that is not level. This particularly applies to the so-called external costs—meaning, environmental damage, noise, the cost of traffic jams, and similar factors—which are not charged in the case of road transport. The price of hauling goods by road is therefore too low because trucks do not bear the total costs which they cause. In comparison, rail transport is too expensive. We believe that this is unfair. The costs must be charged in line with the polluter-pays principle, a point which has been repeatedly stressed at every EU summit meeting. We are confident that Jacques Barrot, the new EU Commissioner for Transport, views this matter the same way and that he will be very committed to taking it forward.

So that the railways can finally become more competitive...
We live in a market economy where prices play a key role. The price determines the customer's response—and also ultimately the financial resources available to the whole sector. Switzerland shows how things can be done. Because pricing there is based on the polluter-pays principle, the market shares of the various means of transport have shifted in the railway's favor. There is also more money available for the rail infrastructure in that country as a result. You see, the railway's strength is its ability to convey large volumes over long distances. This is where it can display its advantages and where the rail network is superior to roads—if the arising costs are charged to the two systems in the same way. As far as the ecological bottom line is concerned, the railway enjoys a clear lead in this area.

Long distances seem to be the key, but the EU still has its national borders...
This is correct but we are working hard on this. This applies to both the politicians and private industry. The number of cross-border rail collaborations especially in freight transport is growing. Such examples as Railion and SBB Cargo show that we are on the right track in our efforts to organize freight transport on a cross-border basis. Freight transport is an international business for the most part—quite unlike passenger services, incidentally, which are largely confined to a national and regional context. The differences between the rail systems of individual countries play only a limited role today thanks to such technical developments as multi-system locomotives. The ETCS safety and control system will take us an important step forward in this regard. And with the single market for rail freight transport in the EU from 2007, we will be opening a completely new chapter in European rail history. This political course being set represents a crucial stage.

And the outlook...
Regarding the rail infrastructure, we need a clear political strategy and consistent implementation over the next 15 to 20 years. During this period, we will be able to achieve a sustainable and workable change in the way that modes of transport interact over the long term. The railways will certainly play a central part in such change.

The Community of European Railway and Infrastructure Companies (CER) is a pan-European association of 44 railway companies. Its prime goal is the development of a sustainable rail-based transport system, which combines (economical and organizational) efficiency with environmental acceptability.

Ready to revolutionize rail transport: the satellite-assisted Galileo navigation system.

At €6.36 billion, investments in the Spanish railway network reached a new record level as early as in 2004, the construction of high-speed links accounting for over half of this amount. The ambitious PEIT (Plan Estratégico de Infraestructuras del Transporte) infrastructure plan published at the end of 2004 extends to the year 2020 and contains projects worth some €100 billion.

In Greece, the railway issue remains on the agenda even after the Olympic Games. The Greek state railway OSE has been gradually modernizing existing lines and building new sections since 2003. Its investment program up to 2007, worth €9.5 billion, prioritizes the upgrading of the railway linking the country's two major cities, Athens and Thessaloniki. Another chief area of activity is the Athens–Patras route, as are the services between seaports and the interior.

The endeavor to shape the "new" EU into a uniform economic area will have a major bearing on the pan-European railway market in the years ahead. Through EU eastward enlargement alone, the German Transport Ministry has calculated, Germany will see a 64-percent rise in freight traffic and an increase of over 20 percent in passenger traffic by 2015 owing to its central geographic location. The EU Commission has proposed a budget of more than €20 billion for the creation of the Trans-European transport Network (TEN) from 2007 to 2013. Priority projects include rail links from Berlin via Naples to Palermo or extending from Athens to Dresden, as well as the satellite-assisted Galileo navigation system, which is also intended to revolutionize rail transport. In addition, the EU Commission has decided to extend the Marco Polo program aimed at promoting combined and intermodal transport operations

What the experts say

Daniel Nordmann
Head of SBB Cargo AG
Senior Executive at SBB AG

European rail freight is undergoing rapid change. The customers are increasingly seeking railway companies which assume sole responsibility for the whole transportation route, including across borders, and provide services of better quality at the lowest possible rates. The former national monopolies have therefore been broken up to give industry access to the new rail operators and competition is already in full swing. The Swiss rail freight corporation, SBB Cargo, was one of the first railway companies to adapt to these new market conditions, laying the necessary foundations by establishing its subsidiaries in Germany and Italy. SBB Cargo is therefore the only freight railway to offer through transport services from Germany to Northern Italy, centrally planned from Basel, for which it uses its own resources and assumes full responsibility. Thanks to this business model the quality required by customers can be offered. This is borne out by SBB Cargo's success in securing the majority of the contracts advertised for bids by Hupac and all the contracts put out by ICF. Increased productivity thanks to cross-border operations helps combined freight traffic to gain further momentum while boosting rail's competitiveness in relation to road.

and to provide some €740 million of funding for it from 2007 to 2013. The measures adopted by the EU parliament in the Second Railway Package should provide further impetus. At the heart of this scheme is the plan to open up intrastate rail freight transport services in the EU to competition from 2007, a year earlier than previously planned.

Harmonized pan-European network growing

Europe is growing together. Especially in the railway sector, where up until the 1990s planning and action were undertaken exclusively within national borders, many hurdles still have to be overcome. From rail gauges to control and safety systems, from approval regulations to customs rules, diversity still prevails on the continent's railways. It is not yet common practice—unlike at Vossloh—for diesel locomotives to be designed to suit the control systems of several countries. Dual-current local transport services, such as the trams and (sub)urban railway in use in Karlsruhe, are still the exception rather than the rule.

Yet the political pressure, largely motivated by economic considerations, to speed up the development of compatible networks througthout Europe is growing. Cross-border freight transportation forms an essential prerequisite for a strong internal market—and within the transport system as a whole the railway plays a pivotal part in transporting bulk cargo over long distances reliably. This requires a high-quality rail infrastructure as well as a modern and effective organization of the rail network.

The new EU states are therefore becoming the focus of attention. "Apart from economic growth and the changed economic structure, the deregulation of railway transport is also supplying encouraging momentum," says the study entitled, "Market and Investment Volumes in Railway Technology in Central & Eastern Europe," commissioned by Vossloh in 2004. Moreover, "Apart from the net rise in market volume, the increasing quality of the services offered results above all in wide-ranging investment." The study estimates the total volume of the railway technology market in Central & Eastern Europe for 2004 to 2006 at some €13.2 billion, Poland, Slovakia, the Czech Republic, Slovenia, and Hungary forming the biggest growth region. "They are continuing to invest heavily in the expansion of their rail infrastructure, although mixed product demand is to be observed overall," the study notes.

According to the Vossloh study, freight transportation by rail offers the biggest growth potential for Central & Eastern Europe as a whole, with passenger transport increasing only at a low level, in contrast. "A major reason for this situation is the still very strained state budgets. Against this background, investment is effected mainly in those areas where a quick return on investment is to be expected."

Freight volumes on the rise again

In virtually all Central & Eastern European countries, the volume of rail traffic, particularly in freight transportation, slumped dramatically in the 1980s and 1990s. With rising economic growth since the collapse of the Iron Curtain and above all during their preparations for EU accession, most new EU members have now achieved a turnaround, however. Slovenia showed the most encouraging economic trend and its economy bottomed out as early as 1993, whereas Poland became one of the last countries to see its rail freight services rally substantially in 2003.

With a current volume of €550 million and rising, Poland now constitutes the biggest rail infrastructure market in Central & Eastern Europe. The industry is pinning most of its future hopes on the new EU member with the highest population and a longstanding railway tradition. Even if the situation is not progressing as rapidly as many optimists forecast, the Polish rail market is slowly gaining momentum. Through what is known as the SOPT plan, for instance, a program to revive the transport industry, the Ministry of Infrastructure intends to invest with substantial financial support from the European Fund for Regional Development (ERDF) close to €400 million in modernizing a good 550 km of railway track by 2006.

Poland is also negotiating with the European Investment Bank (EIB) over a €760 million loan, 40 percent of which is to be used to update some 700 kilometers of the E20 (from Poznań via Warsaw in the direction of Belarus), E30 (from the Neisse via Kraków in the direction of Ukraine) and E65 (from Gdańsk via Warsaw and Katowice in the direction of the Czech Republic and Slovakia) rail transversals.

Similar to Poland, the rail network in Hungary is benefiting from its strong position when mated with other modes of transportation, bearing in mind that the two countries have only just under 400 kilometers of expressway each. Hungary is also establishing itself increasingly as the gateway to Southeastern Europe, aided by the upgrading of the rail link to the Slovenian port of Koper.

Even the smaller new EU states in the northern part of Europe are using the support from Brussels to prepare for the requirements of modern rail transport. The EU has offered Lithuania financial assistance of €4 million for the modernization of its rail routes over the next years. The government is especially seeking to bring up to date the line from Kaunas via Vilnius to the border with Belarus and to ensure that the trains operating within the country can travel at speeds of up to 160 kilometers per hour.

The accession candidates Bulgaria and Romania are hoping for an upturn similar to that in their neighboring EU countries. Both governments have kick-started the restructuring of their railways. Even the countries of

Priority for trains

Metros in Madrid, Barcelona and Valencia, modern trams in Alicante and Bilbao: tracks are important lifelines in Spain's big cities. Since 2004, the capital has another major construction site: the metro network is being extended by over 70 kilometers, almost half of this section with 81 new stops running above ground. The Balearics are also experiencing metro fever with plans for a 7.3-kilometer line in Palma de Mallorca comprising nine stops.

A continent on the right track

Sydney, Melbourne, Adelaide, Perth: Australia's cities are relying on rail for passenger transportation. Sydney is planning to expand the light railway built for the 2000 Olympics, with construction scheduled to start in 2005/2006. Perth, on the other hand, is well known for its historical tram dating back to 1899. With more and more people commuting into the city from further and further afield, a 70-kilometer double-track railway line providing a link to the suburbs in the south is under construction.

Heavily populated cities going rail »

Hanoi in the north, Ho Chi Minh City in the south: both Vietnamese cities are booming and their traffic congestion is accelerating. The aim is for rail systems to relieve this congestion. Hanoi closed down its inner city rail network only in 1991, replacing it with bus services. The city is now starting to build an urban railway, which is to become operational in 2010 and transport up to 100,000 passengers a day. Ho Chi Minh City has even bigger plans: the future metro network, the first lines of which have been under construction since 2004, is to cover over 195 kilometers by 2020 and in a second stage is to be extended into the surrounding region.

« Conurbations pinning their hopes on local public transport

There are three light rail rapid transit systems in Mexico: in Mexico City, Guadalajara and Monterrey. The East-West link in Monterrey runs above, the North-South service below ground. Apart from the Tren Ligero (light railway), the capital has a tourist attraction in the historical streetcar running in the colonial district of Coyoacán—and at 450 kilometers long, one of the world's largest trolleybus networks. More than 400 buses are suspended from the overhead contact wire on its 15 lines.

Rail boom even in car-producing heartlands

Even car-producing heartlands are discovering the benefits of the railway—at least in the cities. In the USA, new light rail rapid transit systems were opened in Houston, Camden and Trenton in 2004. And, it's hard to imagine many major US cities without their streetcars. The network in New Orleans, for example, dates back to 1835, while the first cable car started operating in San Francisco in 1873.

Relief for congested overland routes: Turkey also plans to rely on its rail network increasingly in future.

the western Balkans still scarred by the consequences of war are relying on the railway again. The infrastructure program for Croatia, Serbia and Montenegro, Macedonia, Bosnia-Herzegovina, and Albania, outlined in a memorandum of understanding with the EU Commission and worth an estimated €16 million, involves the repair of some 4,300 kilometers of railway track.

Boom in Turkey's rail sector, great potential in Russia

All experts are predicting a boom for the rail market in Turkey. With virtually no investment in Turkey's rail network since the 1950s, the railways ultimately incurred losses running into millions. This situation is now to change fundamentally. The Turkish railway intends to bring part of its network up to modern standards not least to relieve congestion on overland highways. Due to the strained financial situation, the state-owned company is concentrating for the time being on upgrading and modifying the key Istanbul—Ankara line. Turkey is investing €13.2 billion in the first half of the line from the capital to Eskişehir alone, which is due to be completed by December 2005.

With an estimated volume of some €6.3 billion for 2004 to 2006, Russia is by far the biggest railway market in Central & Eastern Europe. The infrastructure is in particular need of maintenance. At over 140,000 kilometers, the Russian railway network is the longest in the region.

In many parts of the country, the railways form the backbone of transport development, with some 37,000 settlements completely inaccessible by road. The Russian Railways (RZD), reorganized in the wake of reform and now operating as a stock corporation, has achieved considerable success in recent years, especially in its rapidly expanding and increasingly profitable freight transportation. In the first half of 2004 alone, RZD generated a profit of some €140 million, including the still loss-making passenger services.

Due to its extremely extensive network, Russia constitutes the biggest market for rail infrastructure components in Eastern Europe—with a large proportion of the lines to be maintained situated east of the Urals. The capital expenditures planned by RZD are correspondingly high, with the strategic concept for the development and reconstruction of infrastructure up to 2010 costing almost €37 billion. Over the same period, the company intends to increase freight traffic to 2.0 billion tonne-kilometers (up from 1.4 billion) and passenger services to 1.8 billion passenger-kilometers (up from 1.3 billion). The chief projects are the upgrading of the Trans-Siberian Railway and the Baikal-Amur Mainline aimed at boosting container traffic in the direction of both Western Europe and China.

Those responsible have long been thinking beyond the borders of "Mother Russia." Together with neighboring states they are planning a new railway line from Qazvin in Iran to Astara in Azerbaijan. If the project succeeds, this will create an attractive alternative to the ferry link over the Caspian Sea, which is currently still benefiting from the suspension of rail services between Russia and Iran 14 years ago. The rail journey should be five to 14 days shorter than the ferry crossing.

China needs more transport capacity

Russia's dialog with its vast neighbor China also concerns rail projects aimed at coping with their ever increasing trade—the current annual cargo volume of some 30 million tonnes is set to double by 2010. Russia is investing the equivalent of some €340 million in modernizing the 365-km line from Karimskaya in Siberia to the border town of Zabaikalsk, for example, with the construction of a parallel route expected to cost

€3.8 billion. Also planned is a railway route between Kamyshovaya in Khasan district and the Chinese town of Hunchun—an important connecting link in the international Primorye 2 transport corridor, which is designed to connect China's northern provinces with Japan, the USA, and the states bordering the Asian-Pacific rim.

The economic boom in China has also brought a strong upswing for the Middle Kingdom's rail market. Manufacturing industry's enormous need for raw materials has triggered huge demand for transport services. An example illustrates the dimensions involved. In order to avert a looming electricity shortage in the summer of 2004, the Chinese railways had to transport an additional 6 million tonnes of coal within a few weeks, equivalent to 6,800 freight cars daily. According to official figures, the railways transported 481 million tonnes of coal during the first half of 2004 alone.

In 2004, the go-ahead was also given in the People's Republic for the first of three major new rail projects involving the construction of a 1,500-kilometer line from Shanghai to Hong Kong. In addition, links are planned in the southeast from Kunming (Yunnan Province) to Vietnam, Myanmar and Thailand, which are to join up with the respective national rail networks. In the west of the country, China is planning a link from Kashi in Kashgar to Peshawar on the Pakistan-Afghan border. In order to finance this strong growth, the Chinese government has gone so far as to break up the state railway monopoly and allow international investors access to the market.

Daily means of transport for millions in China's boom town: Shanghai's metro is one of the most modern in the world.

Growing demand for more efficient transportation by rail: India has one of the world's largest rail networks. Numerous modernization projects are underway; the government is also encouraging private investment in the railways.

The Indian rail network is undergoing gradually modernization

The deregulation of the rail market is also the maxim in India, whose economy has been consistently growing by 6 to 7 percent annually since the early 1990s. For some time, the government has been encouraging joint ventures between the state railway company and, for example, port operators or federal states, in order to stimulate investment in the rail network. In 2002, the responsible ministry adopted guidelines for the participation of private companies in rail transport and since then has been offering six different public-private partnership (PPP) models.

The subcontinent is a patchwork of contrasts and this is also true of its railway network, which in its 150 years of existence has matured into the world's second-largest. Whereas steam locomotives still operate on some routes, Indian Railways is already planning high-speed trains for the so-called Golden Quadrilateral between the metropolises of Delhi, Mumbai, Calcutta, and Chennai and is testing the introduction of ticket sales via cell phone. Building work is being carried out in every corner and at all ends of the rail network, with more than 240 major projects in progress in 2004. The Indian cabinet adopted nine further projects in 2004 worth some €510 million over the years ahead.

The package includes the building of six new links, regauging on two routes and the double-track upgrading of 1,100 kilometers of railway line. The Asian Development Bank (ADB) has granted India a loan of almost €250 million to finance a number of smaller-scale upgrading and electrification projects in the rail network. Since 1992, the Southeast Asian neighboring states of Cambodia, Laos, Myanmar, Thailand, and Vietnam, as well as the Chinese province of Yunnan, have

What the experts say

Shri R.K. Singh
Chairman of the Railway Board at the Ministry of Railways of the Republic of India

Indian Railways operates one of the largest railway systems in the world. The net is about 63,000 km of track, there are 7,000 railway stations all over the country. More than 1.6 million people work for Indian Railways. With a daily transport volume of 11 million passengers and 110 million t of goods, trains are furnishing an essential part of mobility in India. The track network will be an elementary pier for further successful economic development. Therefore we take enormous efforts to strengthen our railway system and to increase efficiency. The modernization programs for the next years cover about €5 billion and will include infrastructure improvements (track, bridges, rolling stock, etc.) as well as organizational revisions. One of the first and most important steps will be the implementation of the Corporate Safety Plan to realize our vision of accident-free and casualty-free traffic on the track. Our aim is a modern, attractive and reliable railway system as a key factor for sustainable economic growth in India.

been working together in the Greater Mekong Subregion (GMS) confederation aimed at promoting mutual efforts to sustain the economic upswing. In a Cross-Border Transport Agreement, the governments reiterated at the end of 2003 their intention to open up their borders to the movement of goods and people, including by rail. The showpiece among the major projects planned is a through rail link extending from Singapore via Malaysia, Thailand, Cambodia, and Vietnam to Kunming in southern China, more than 5,500 kilometers long and according to earlier estimates costing the equivalent of €1.8–2 billion. The planning for the initial sections is already well advanced, however. The "tiger states" above all are seeking to live up to their name, thus opening up new potential for the rail technology industry. The tsunami catastrophe of 2004 may well delay but will not halt this development, in the opinion of economic experts.

Encouraging signals for the rail industry have recently been coming even from Africa. In southern Africa, for example, the South African state railway is attracting private investors and investing increasingly outside its home country, such as in Kenya, Tanzania, and Ghana. In the north of the continent, Libya and Tunisia, among others, are building new lines. Even in civil war-torn Sudan, the reopening of railway lines started in 2004.

From a global perspective and in the medium to long term, the railways are a growth market.


Market
Global Advantage
Leading Technolog
Attractive Potential
No. 1 Market Position!

Portfolio expanded
Vossloh is expanding its international activities with acquisitions.

Modern rail transport
Vossloh devising solutions for the rail services of the future.

PPP—a method of investment
Vossloh is generating impetus with a study of financing options.

Highlights of 2004
Vossloh was successful in 2004 despite the challenging environment.

Success strategy for specialty supplier

Rail markets are changing—and opening up opportunities. Through its realignment Vossloh has embarked on a course of successfully exploiting the resulting radical changes and of growing further. With an unwavering international emphasis and focus on attractive specialized markets and as a market and technology leader in many segments, the Group's units act as independent midsize entrepreneur-driven companies. With initiatives such as the study devoted to public-private partnerships, Vossloh is also working on improving the financial parameters prompting greater investment in the rail sector.

Vossloh stock: page 68
Consolidated financial statements: page 82

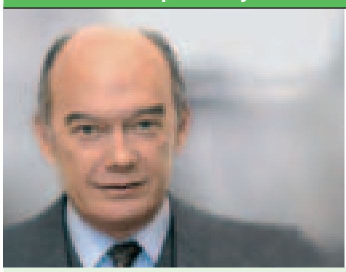
Vossloh continued to further expand its international operations in 2004 through a purposeful drive aimed at opening up promising new markets for the Werdohl-based global specialist. The acquisition from Alstom of the Albuixech locomotive plant located near Valencia in Spain (for further information see page 37) is thus linked to the strategically selective extension of the product range to include diesel-electric locomotives.

With the purchase of the rail fastening operations of the international Delkor Group, Vossloh has not only secured an opportune platform in the small but in the medium to long term certainly inviting Australian market. The company down under also offers Vossloh new opportunities in the whole Asia-Pacific region—one of the key growth markets for the rail industry. It is appealing thanks to the huge potential offered by rail freight transport in the booming economies of the region and by passenger transport, because in the rapidly growing conurbations as well as over long distances more and more people are on the move. Additionally, the highly specialized Delkor products offer solutions for challenges on the European market, such as noise abatement problems related to tracks on bridges, a subject of recurring frequency.

Through majority holdings in JS Industries Private Ltd. based in Hyderabad and in Beekay Engineering & Casting Ltd. in the “steel city” Bhilai, Vossloh Cogifer has recently held a market presence in India. With Vossloh’s support the switch manufacturer JS is to step up its investment in electronically controlled production processes and in further expanding its product portfolio. The Beekay foundry is the largest Indian producer of manganese crossings and thanks to an attractive price-performance ratio has secured a promising positioning in the face of fierce international competition. Indian Railways’ ambitious modernization program is expected to trigger much higher demand for products and technologies on the subcontinent itself, the Indian rail network being one of the largest worldwide.

All experts are predicting a railway boom over the coming years in Turkey, where Vossloh

What the experts say



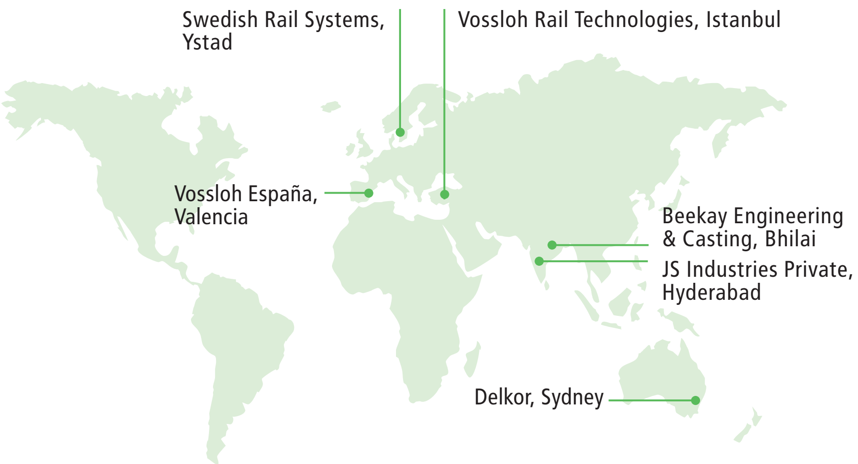
Antonio Monfort Bernat
Secretary-General for Infrastructure
at the Ministry of Transport
in the Kingdom of Spain

Spain is going rail. Over the past years, our country has invested vast amounts in building new high-speed lines and revamping existing networks. In 2004 alone, over €6 billion went into the rail system, a large portion of this being spent on new high-speed links designed to bring our large cities closer together. At the same time, these links are important components of the planned Transeuropean rail network. Together with the European Union we are also contemplating a rail connection to the continent of Africa. In taking over the Albuixech locomotive plant near Valencia, the Vossloh Group has now extended its presence in Spain to include not only products but also an important production plant. We are pleased that Vossloh has opted for our country in order to boost its production capacities. We are confident that this project will prove successful and fulfill the expectations of all concerned.

established the subsidiary Vossloh Rail Technologies Ltd. in 2004—in the presence, incidentally, of Turkish Prime Minister Recep Tayyip Erdogan and German Chancellor Gerhard Schröder. Vossloh is actively supporting the Turkish railway TCDD on its privatization course by, for example, drawing up together with Turkish and other European partners attractive business models for various infrastructure projects.

In 2004, the Vossloh Group also bolstered its activities in Scandinavia. Vossloh Cogifer acquired from HeidelbergCement AG its subsidiary Swedish Rail Systems AB (SRS) based in Ystad. The company in southern Sweden produces switches while trading in tracklaying materials. Through SRS Vossloh has gained further customers in the Scandinavian market and is able to realize operational synergies with the company's existing activities in this region to date.

Not least of all for the way in which the new subsidiaries were quickly and successfully assimilated into the Group's business practices and processes did Vossloh receive the Best Practice Award 2004 conferred by the Institute for Productivity and Quality (IPQ). This is an annual prize for a company that owes its success in large part to the effectiveness of its business processes and its practice of ongoing, timely, company- and market-specific improvements which, in turn, translate into a visible enhancement of shareholder value.



Acquisitions, subsidiaries, joint ventures: Vossloh is expanding its company portfolio purposefully.

Product range extension for new sectors: with the purchase of the locomotive plant in Albuixech near Valencia, Vossloh has managed to inroad the diesel-electric locomotive market.

Vossloh devising solutions for the rail services of the future

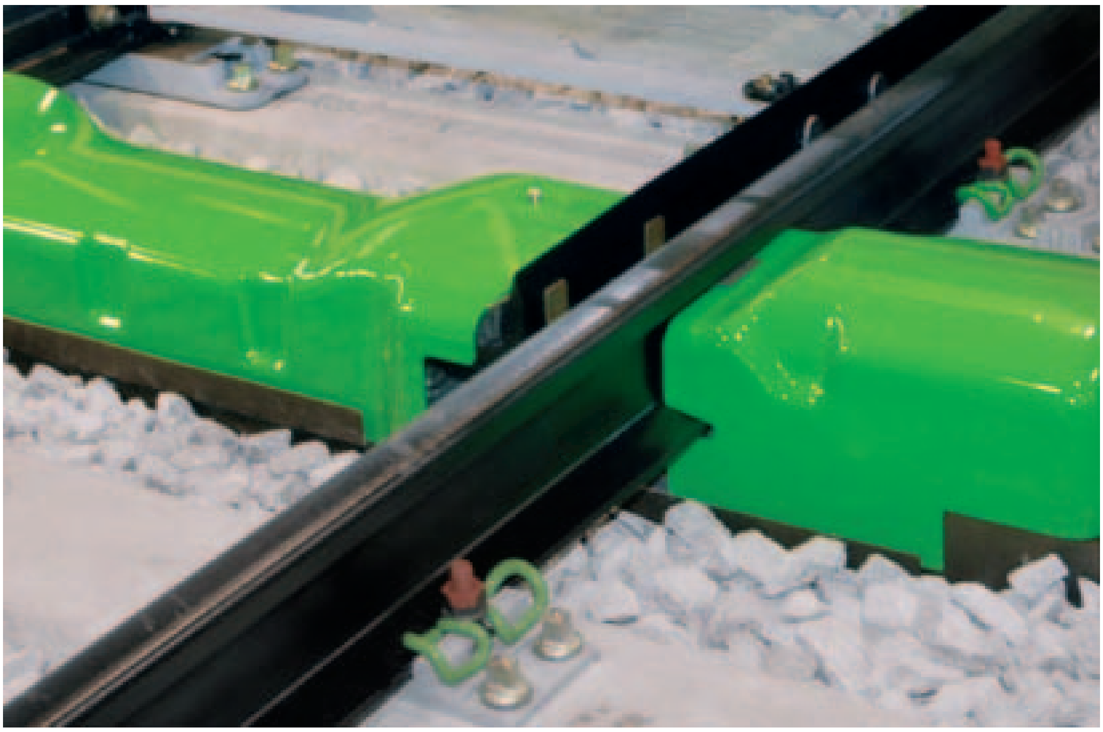
Greater safety, improved performance and economic efficiency, enhanced comfort, more environmental protection, increased early focus on future demand: modern rail transport finds itself confronted with a multitude of demands in its efforts to build on its key position among the interacting modes of transportation. With market-driven new developments and advancements, Vossloh as a specialty supplier is providing key impetus for the sustainability of the railways.

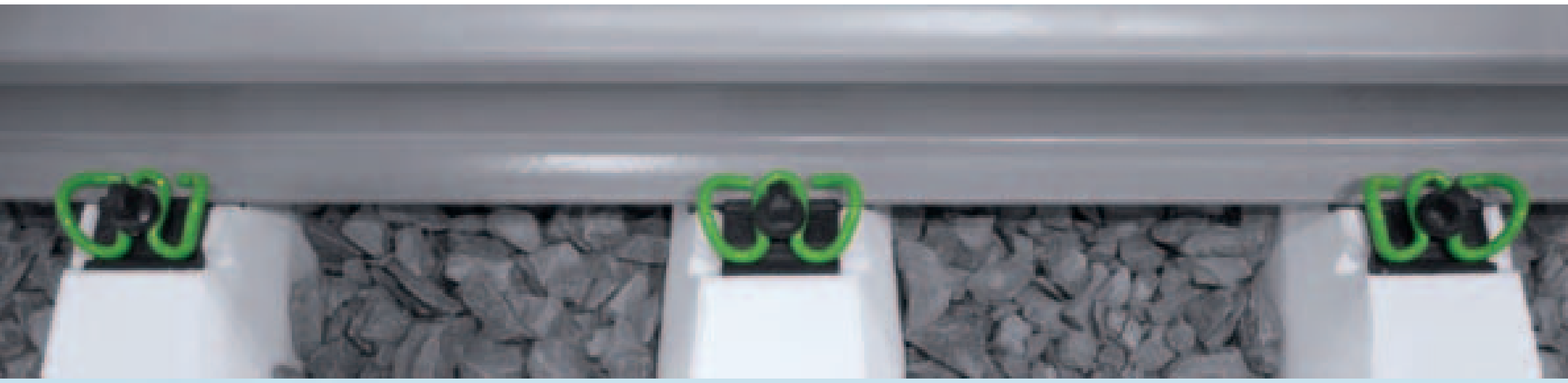
The best example is the innovative W 25 rail fastening system, which was unveiled by Vossloh Fastening Systems as a prototype at Berlin's InnoTrans 2004, the world's largest railway fair, and is undergoing operational tests on the Deutsche Bahn AG network in 2005. The W 25's excellent technical properties result from the geometric redesigning of its chief components, the tension clamp and angular guide plate enabling a new method of deflecting the forces impacting on the track when the train passes. Since the fastener cushions major vertical vibrations, the track can be laid with greater elasticity without entailing any gauge accuracy problems. In practice this higher resilience offers significant advantages by reducing loading and thus wear on the ballast, causing less noise and increasing traveling comfort. The W 25 is chiefly designed for use in high-speed rail traffic and Vossloh has applied for a patent.

Even greater noise absorption can be achieved by mating the new rail fastening system from Werdohl with the highly resilient rail base plates produced by Delkor. The engineers of the new Vossloh subsidiary in Australia specialize in minimizing vibrations and noise. And with the Skl 24, Vossloh is providing for the first time a tension clamp for ribbed plate tracks, making it possible to use so-called soft rail pads in this track segment. The track therefore wears less quickly and the passage of trains causes less noise.

Greater safety coupled with lower maintenance are offered by the new-generation control and condition-monitoring devices presented by Vossloh Switch Systems at InnoTrans 2004. Easyswitch is the name of a switch control system which can be built into the track directly and at low cost. Modular in design, it consists of three plug-and-play units—the actuator, the circuit breaker and the position detector—all of which replace easily. Survaig NG

State-of-the-art technology for high efficiency coupled with low maintenance costs: Vossloh's condition-monitoring devices nest into the track.





Solutions for the rail services of tomorrow: Vossloh is providing impetus for the sustainability of the railways with its advancements in rail fastening systems.

is a remote diagnosis system for maintenance support, special analyses making it possible to detect substandard effectiveness in switches and crossings early on. Both innovations help rail systems to operate more efficiently and have already successfully passed practical testing on the French state railway SNCF.

Modern information and communications technologies form a key foundation of efficient future rail operation. Increased punctuality, faster rail traffic management, enhanced line capacity, optimized staffing, and minimized operating costs: these are the advantages of the new operations control center concept for Deutsche Bahn's network (for further information see page 36). Vossloh Information Technologies was in overall charge of the development consortium involved in the world's largest and most significant rail transport automation project, which was concluded in 2004. This Vossloh company showcased further new products at InnoTrans 2004, including the adaptation of the Alister operations control system for regional and local transport networks designed to greatly enhance their economic efficiency. An infrastructure-independent GPS-based scheduling system for trains both transmits and monitors operations- and maintenance-related data.

State-of-the-art IT also enhances traveling comfort. A UIC data train bus developed by Vossloh makes it possible to operate the air-conditioning systems of trains more economically with train-wide automation enabling simple control of electronic seat reservations and side-selective door release. The passenger information systems with "electronic ink," scheduled to go

Greater comfort for rail travelers: passenger information systems with "electronic ink" going into series production at Vossloh in 2005.

into series production at Vossloh in mid-2005, combine outstanding legibility with extremely low power consumption, shallow installation depth and a lightweight design. The future Berlin Central Station/Lehrter Bahnhof, among others, will therefore be equipped with these ultramodern Vossloh modules.

As a consequence of the advancing deregulation of rail markets, a completely new field of activity is emerging for which Vossloh Information Technologies presented a first solution in 2004: AccessPlan is the online handling of the bid-and-offer process between infrastructure operators and railway companies in the negotiations over line access. The tool ensures close cooperation between all those involved with the aim of utilizing existing networks optimally and planning the future infrastructure efficiently. Given further railway deregulation a rail company seeking to operate a train from A to B will have to order a route from the infrastructure operator. The latter can accept or decline the request or even make a counter offer. AccessPlan standardizes this "negotiating process," handling it electronically and partially automatically—thus greatly reducing the time and costs involved for both parties.

Developments at Vossloh Locomotives illustrate that product performance and environmental compatibility need not clash. The first new MaK 2000-4 BB mainline locomotive was named Boreas at InnoTrans 2004 during a public ceremony. The four-axle single-engine diesel-hydraulic locomotive, at 2,700 kW the most powerful in the world, has a (still) unusual feature in this performance class, namely a filter system made of porous ceramic elements which removes more than 99 percent of the soot particles in the engine's exhaust gases—without any loss in traction power or thrust. Vossloh's green locomotive, especially suitable for heavy-load freight train services, therefore already undercuts emission limits which in the view of experts are likely to be the standard in five to ten years' time.

In view of the clean-air regulations, the Swiss SBB Cargo purchased altogether 59 Am 843-type diesel locomotives with special soot particle filters from Vossloh, of which 36 were delivered in 2004. Deutsche Bahn AG has also now stated that it intends to procure only diesel locomotives with particle filters in future so that the rail network does not lose its environmental lead over car and truck traffic in the medium term.

A pollution-free powerhouse: Vossloh's green machine has a soot particle filter that scrubs clean the exhaust gases—without sacrificing performance.

Rail instead of road: more and more cities worldwide are turning to this environment-friendly alternative in an effort to tackle their traffic problems. Either through their work or thanks to increasing leisure time and the related traveling, people are becoming more mobile. Local public transport is therefore enjoying a renaissance above all in conurbations. In 2004, Vossloh emerged as victor in more invitations to bid for tram projects than ever before in its corporate history: in Paris, Nice and Marseilles, as well as in Athens and Amsterdam, Warsaw, Poznań, Gdańsk, and Kraków, in Zurich, Milan, and Ostrava—and not least in Isfahan and Tabriz.

The new tram routes in Valenciennes, France, for example, are made by Vossloh, with Vossloh Infrastructure Services and Vossloh Cogifer responsible for the whole network, the overhead lines and the signaling technology. The first line, more than nine kilometers long with 19 stops, is due to be opened in June 2006. Having ordered 25 crossover tracks, turnouts and exits, the tram company in Geneva, Switzerland, is relying

With more and more people on the move, conurbations above all are experiencing a renaissance in local public transport.

for the extension of its line 17 to Acacia on high-quality products from the Vossloh company Kihn, which is also acting as supplier for the current upgrading of the services to Grand Lancy.

In Torino, Vossloh Infrastructure Services is playing a major part in realizing the city's new fully automatic metro system, which is to transport up to 15,000 people per hour. The Vossloh specialists are contributing their vast experience based on the implementation of similar projects in such cities as Lille, Orly, Toulouse, and Rennes. The first section in Torino—just under ten kilometers long and comprising 15 stops—is to be commissioned in time for the 2006 Winter Olympics, which the city is hosting.

Signals still pointing to growth

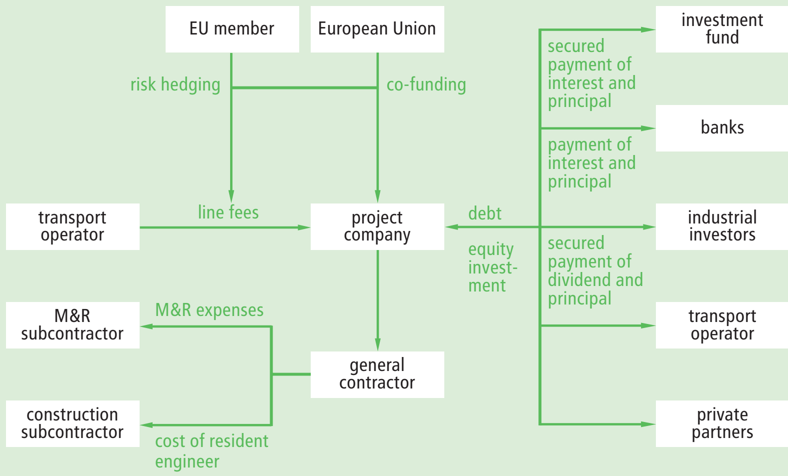
Since, despite the challenging business environment, Vossloh need not revise its earnings targets, the option of growing further holds good unconditionally—including through more acquisitions. Vossloh is, after all, actively seeking ways of helping above all the countries of Central & Eastern Europe to modernize their railways. It faces the following dilemma, however. Valued at some €13.2 billion for the period from 2004 to 2006, the market for rail technology products may be very attractive and the growth prospects encouraging, but due to precarious state finances many investment projects have been delayed and often even subsidies pledged by the European Union cannot be called upon because the follow-up financing has not been secured at national level.

Against this background, Vossloh commissioned in 2004 a basic study to investigate into ways of stimulating investment through private financing models known as public-private partnerships (PPPs). Based on its findings, Vossloh regards PPP projects as promising if the partners have a joint interest in successful implementation and the opportunities and risks involved are shared between the parties concerned on an equitable basis.

Theoretical structure of PPP projects in the rail segment

The public-private partnership: an intricate maze of relationships

Public-private partnership (PPP) projects offer substantial efficiency and time advantages over conventional construction, financing and operating models. They also place higher demands, however, on those involved in the private and public sector because a multitude of differing interests have to be accommodated. In discussions the advantages of private co-financing are often emphasized while the drawbacks are underplayed. Risk covering, such as the guaranteed refinancing of the investment through fees for use, must be considered, too.



Especially in growth regions, such as the new EU member states, Turkey and Asia, PPP can be the key to implementing the required railway infrastructure.

The number of PPP projects in the rail sector, even in Western Europe, is still limited. The most important current infrastructure scheme is the construction of an around 100-kilometer-long high-speed rail link (HSL Zuid) between the Belgian city of Antwerp and Amsterdam in Holland. The section from the Dutch commercial capital to the Belgian border is being financed through a PPP model. Private investors bear the costs of construction and maintenance up to 2030. The Dutch government remains the owner of the line but pays investors an annual fee for use. In the construction of the Betuwe line, a double-track high-speed freight route from the port of Rotterdam to the German border at Emmerich, private investment is focused on the planning and building of various tunnels and bridges.

Initial experience available

Vossloh has experience in innovative financing models—if on a smaller scale—even in-house. Its partner Angel Trains established the first privately financed fleet of locomotives for leasing and with expenditures for rolling stock of a good €3.8 billion is regarded as the most successful operator in Europe. Its subsidiary Angel Trains Cargo has over 90 diesel-hydraulic Vossloh locomotives in its leasing portfolio, and rising. The company is expecting average growth of 20 percent in sales and the number of vehicles over the next three to five years.

As a second example, the Nord-Ostsee-Bahn railway (NOB) has leased Vossloh locomotives by way of a "traction-providing" arrangement for the marshland route from Hamburg to Westerland. This arrangement entails the daily provision of fully maintained and fueled diesel locomotives for the reversible trains. Ten-year provision of the locomotives has been agreed.

PPP—a job for specialists

The Vossloh study on public-private partnerships draws attention chiefly to the “large gap between theoretical needs and available budgetary funds for investments in rail infrastructure and rolling stock” in Central & Eastern Europe. Moreover, “In addition to the financial constraints, the public sector in some countries also has an operational shortage of planning, financial and project realization skills.” PPP projects could exploit “entrepreneurial skills and creativity over the entire infrastructure life cycle, from planning through to operation, for the optimization of overall performance.” Apart from efficiency gains, the study states that the special value of PPP solutions is to be found in the faster realization of necessary public investment since additional private capital can be raised with the aid of innovative finance models. “PPP models can thus break through the classic vicious circle of obstacles to economic development.”

However, “PPP in the rail sector is a job for specialists,” the study makes clear, because it is important to correctly assess the risks right from the start of the project and to achieve the highest possible efficiency during implementation of all project stages—from planning, construction and financing to maintenance and operation. Experience in responsible project management is—according to the study—just as vital as experience in dealing with public administration. The key criteria of capable midsize project partners for participation in PPP projects therefore concentrate on a calculable risk of loss, reasonable ROI expectations and an acceptable burden of debt.

Required are tools and solutions adapted to the specific conditions in the rail sector, the study concludes. PPP solutions confined to industrial components could make a contribution here. Another approach could be compensatory PPP models in which services, rights or assets not directly associated with the project can be contributed to refinance the new or extended line.

With “Go East” as its slogan, Vossloh is well prepared for the new challenges ahead, as the year 2004 has shown.

The Vossloh principle: Focusing squarely on the customer

Flat hierarchies and clearly defined chains of command are key features of the manageably sized and entrepreneurially run Vossloh Group, which now has a presence in more than 70 countries worldwide. Its business units take responsibility for developing their markets independently; as a result, newly acquired companies can be speedily integrated into the Vossloh “family.” The strategy of targeted acquisitions to strengthen and complement the positions held in international markets increasingly creates synergies through in-house cooperation and interaction. Vossloh Kiepe and Vossloh Information Technologies, for example, pool their vehicle-equipping expertise and can now offer tram customers complete solutions which are already arousing great interest in the marketplace. In Asia, Vossloh Locomotives receives competent support from Vossloh’s local partners, enabling it to gain a firmer foothold in the markets there.

All the companies under the Vossloh umbrella consistently put into practice a crucial corporate principle: the focus on customer requirements. The business units not only respond promptly to changes in demand but are even able to anticipate many trends thanks to their profound market intelligence. Vossloh was, for instance, quick to adapt to the consequences of advancing rail sector deregulation and privatization, namely, fewer and fewer large contracts from state-owned railways in the locomotive market but an increasing number of small-scale projects involving private operators. Through Vossloh’s partner Angel Trains these operators can even lease individual Vossloh locomotives for a limited period.

The Werdohl success story has not escaped the attention of the politicians either. German Chancellor Gerhard Schröder described Vossloh as an “industrial champion” in his speech opening the Worldwide Rail Market conference held in Berlin in late September 2004. The head of government identified corporate farsightedness, innovative power, diligence and creativity as key driving forces—and promised Vossloh full political support.

Highlights of 2004

Encouraging results: in spite of the very challenging overall situation in the rail industry, the Vossloh Group closed 2004 successfully. Its focus on transport technology proved right, the strategy of acquisition-driven, profit-propelling growth having already borne fruit. Vossloh intends to continue along its chosen path consistently and is looking to the future with justified optimism.

Rail Infrastructure division: page 46
Motive Power division: page 50
Information Technologies division: page 54

Operation control centers increase reliability

Number 8 has gone into operation with the Berlin metropolitan railway: an operating system largely co-developed by Vossloh has been in use at all German Rail (Deutsche Bahn AG) control centers since November 2004. Thirty high-power computers in Berlin, Hannover, Duisburg, Karlsruhe, Leipzig, Frankfurt, and Munich integrate and automate all the processes related to operational management and coordination of the extensive 40,000-kilometer railway network with 70,000 trains traveling daily—thus greatly increasing the efficiency and reliability of rail operations. The system identifies clashing train schedules and works out solutions—all automatically—, resulting in largely trouble-free operation.

« Into new markets with diesel-electric locomotives

Annual sales of some €100 million and a 400-strong workforce: Vossloh acquired the Albuixech manufacturing plant from Alstom in 2004. Diesel-electric locomotives for passenger and freight transport as well as for shunting operations are developed and produced at this site near Valencia in Spain. Six-axle locomotives of the upper-performance classes are a particular center of activity. The acquisition gives Vossloh access to a further inviting specialty market with high potential, strengthening its position as Europe's leading manufacturer of diesel locomotives.

Vossloh generating new impetus

With Federal Chancellor Gerhard Schröder among the speakers and more than 300 guests from all over the world, the second Worldwide Rail Market conference staged by Vossloh AG in Berlin in September 2004 was a resounding success. Vossloh presented its new study on market and investment volumes in rail technology in Central & Eastern Europe. The central topic of discussion was the public-private partnership (PPP)—a way of creating new growth impetus despite empty coffers.

Trolleybuses for the Olympics

Vancouver is to rely even more heavily on trolleybuses in future. Vossloh has been commissioned to equip 228 new vehicles for the Winter Olympics to be staged in the Canadian city in 2010. In the summer of 2004, Athens largely shifted its Olympics traffic to the eco-friendly low-floor vehicles; Innsbruck, Lausanne and Mexico City also gathered good experience of trolleybuses when they hosted the event. With an overhead wire length of more than 300 kilometers, the Vancouver network is one of the largest in North America. The first new vehicles are to go into operation in mid-2005—a development likely to be followed closely in other cities with trolleybus systems, such as Philadelphia, San Francisco and Seattle, which are planning procurements in the near future.

Management report

Business trend and situation

Global economy mushrooming

The world economy in 2004 grew at a pace unprecedented over almost three decades. Global production advanced 5 percent, the volume of international trade surged by around 9 percent. Even though fiscal incentives in the United States tapered out in the latter half of the year and the Chinese government did intervene to dampen its effervescent economy, worldwide developments in 2004 were again driven by still low real interest rates and abundant liquidity.

The US real GDP progressed by 4.4 percent (up from 3.0 percent) during the period under review. It was the Southeast Asian nations and, additionally and most especially China whose GDP soared about 9 percent, that powered the global upswing. Indeed, China's voracious demand for imports propelled raw material and commodity prices worldwide—most conspicuously in the case of crude oil and steel.

Europe: demand steadying

Robust worldwide demand also helped cement Europe's economic recovery, albeit the some 2 percent upturn was well short of other regions' due to generally still anemic domestic demand. What's more, any economic recovery in 2004 failed to spark commensurate improvements to the public-sector budgets where spending again outgrew revenues even though some public purse strings did tighten.

Germany: apathy overcome

Within Germany, the economic rebound already evident in the latter half of 2003 endured into 2004 whose 1.6-percent GDP growth marked the close of a three-year apathy spell, albeit this growth was solely export driven. Domestic demand in Germany again lacked any luster.

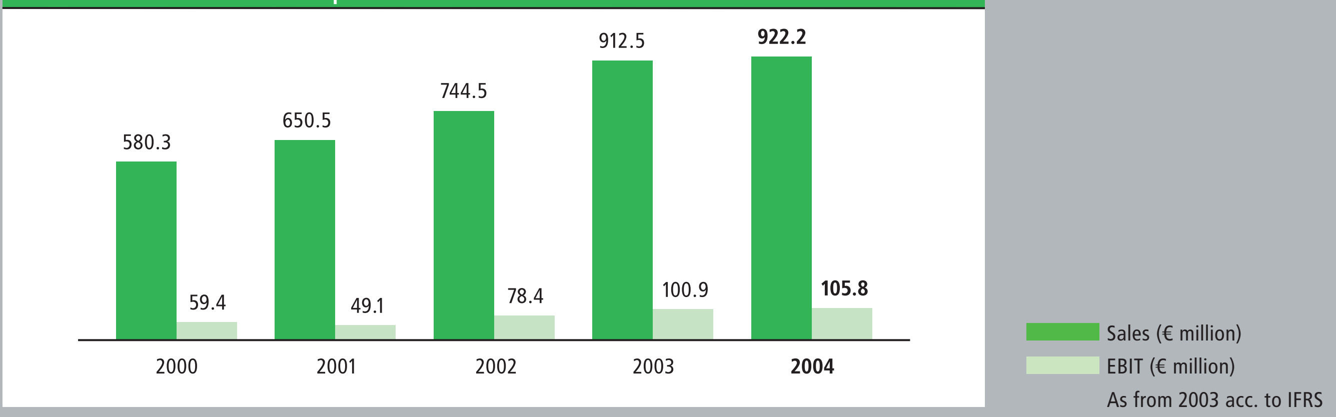
Analysis of the consolidated financial statements

January 1, 2004, saw the Vossloh Group's primary accounting system change from US GAAP to the International Financial Reporting Standards (IFRS) in anticipated compliance with EU law, which requires the transition to IFRS for the consolidated financial statements by not later than 2005. The prior-year data has been restated accordingly to ensure comparability of the 2003 and 2004 financial information.

In fiscal 2004, the Vossloh Group raised its sales by around €10 million, up a good 1 percent from the prior year's record of €912.5 million to €922.2 million.

The Motive Power and Information Technologies divisions reported an increase in sales. Due to a high level of work in process accounted for according to its percentage of completion, Locomotive production boosted Motive Power revenues by just under €9 million from €336.6 million a year ago to now €345.4 million. Information Technologies stepped up its sales by almost 6 percent to €64.6 million (up from €61.0 million). At €514.1 million, business at the Rail Infrastructure division as the Group's prime sales generator just missed the high 2003 level of €515.8 million.

Sales and EBIT of the Vossloh Group



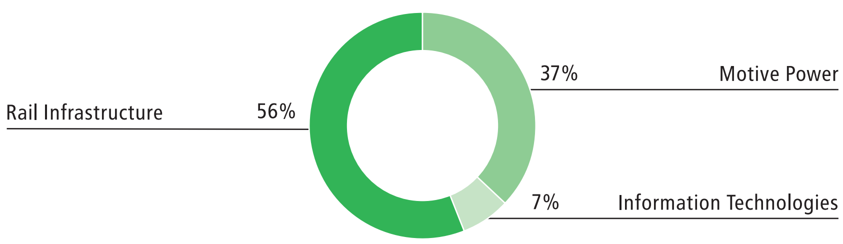
At €105.8 million, EBIT for 2004 again outperformed the preceding year's of €100.9 million significantly. This encouraging improvement is attributable to a clearly better product mix as well as to cost-cutting programs in response to downtrends in certain submarkets.

Although net interest expense climbed €1.5 million and the tax load ratio—due to plunging tax-exempt capital gains—advanced 2 percentage points to now 35.5 percent, the Group's earnings nonetheless outnumbered the prior year's high €55.5 million by running up to €57.2 million.

Vossloh Group: sales and earnings

		2004	2003
Net sales	€ mill.	922.2	912.5
EBITDA	€ mill.	131.8	125.3
EBIT	€ mill.	105.8	100.9
EBIT margin	%	11.5	11.1
EBT	€ mill.	89.6	86.2
Group earnings	€ mill.	57.2	55.5

Breakdown of 2004 sales within the Vossloh Group



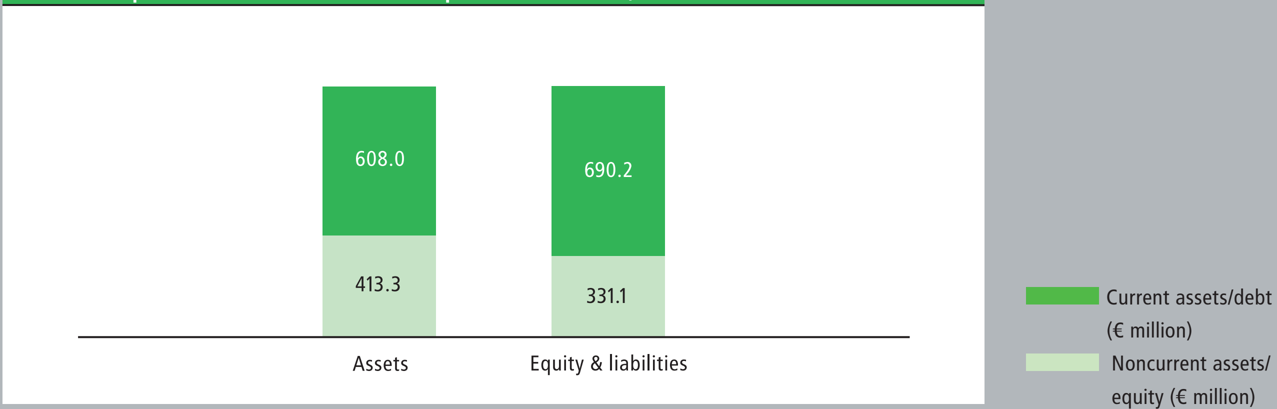
The Vossloh Group's total operating performance climbed from €920.0 million in 2003 to €950.0 million in the period. The net value added by the Group rose by around €10 million to €330.1 million (up from €319.7 million) and came in relative terms to an unchanged 34.8 percent. The value-added percentage distribution changed only negligibly versus 2003.

Vossloh Group: value added

	€ mill.	%	€ mill.	%
	2004		2003	
Created				
Net sales	922.2	97.1	912.5	99.2
Net inventory movement/ other work and material capitalized	27.8	2.9	7.5	0.8
Total operating performance	**950.0**	**100.0**	**920.0**	**100.0**
– less input	(593.9)	(62.5)	(575.9)	(62.6)
– less amortization/depreciation	(26.0)	(2.7)	(24.4)	(2.6)
Value added	**330.1**	**34.8**	**319.7**	**34.8**
Distributed				
Employees	218.9	66.3	213.9	66.9
Lenders	16.2	4.9	14.7	4.6
Stockholders	19.0	5.8	19.0	5.9
Treasury	37.2	11.3	33.8	10.6
Remaining in the Group	38.8	11.7	38.3	12.0
Value added	**330.1**	**100.0**	**319.7**	**100.0**

Out of the net value added in 2004, employees received 66.3 percent (down from 66.9 percent). The slighter higher interest rate level ratcheted up the proportion due to lenders to 4.9 percent (up from 4.6 percent).

Asset and capital structure of the Vossloh Group as of December 31, 2004

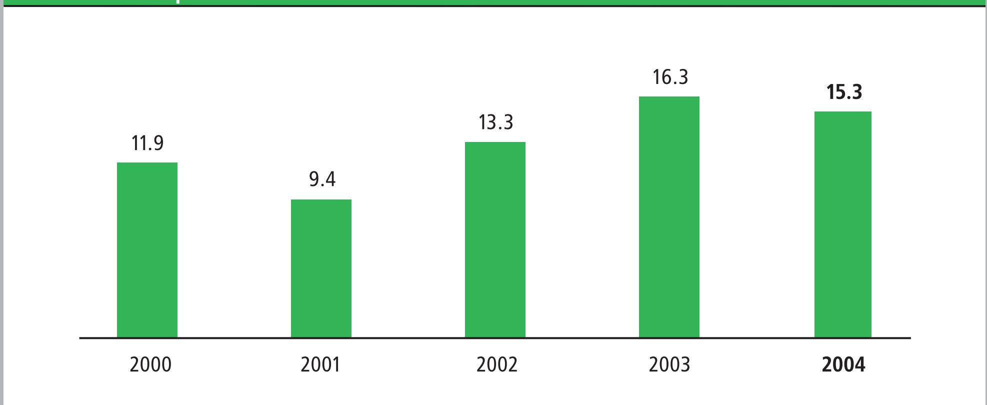


The chopped-down tax-exempt capital gains from divestments caused the share collected by the Treasury to inch up from 10.6 to 11.3 percent. With the proposed unchanged cash dividend of €1.30 per share, Vossloh stockholders will receive 5.8 percent of the value added (down from 5.9 percent).

In 2004, the Vossloh Group raised debt of $240 million (about €200 million) by private placement from the US capital market. The $140 million and $100 million portions have a bullet maturity after a term of 10 and 12 years, respectively. The principal and interest payments have entirely been hedged on a euro basis through interest rate and currency swaps. On the one hand, this fresh debt was used to repay short-term liabilities to banks and, on the other, it will secure the funding of future acquisition projects.

This funding move significantly restructured the Vossloh Group's balance sheet and finance in comparison to 2003 and largely accounted for the clearly higher total assets of the Group. While still at €880.3 million as of December 31, 2003, total assets grew by €141.0 million to €1,021.3 million as of end-2004, the higher total being mainly ascribable to the debt having only in part been deployed for loan repayment. On balance, financial liabilities jumped from €209.0 million as of December 31, 2003, to €311.8 million as of year-end 2004, while cash & cash equivalents soared to €140.0 million, up by €115.9 million. Net financial debts were further downsized, from the December 31, 2003 €183.1 million to now €171.1 million. Since the Group's equity hiked up in a year-on-year comparison from €297.6 million to €331.1 million, Vossloh's net leverage (i.e., the ratio of net financial debt to equity) was greatly improved: from 61.5 percent a year earlier to 51.7 percent—the lowest since 1998 in spite of all the acquisitions in recent years.

The Vossloh Group's ROCE in %



As from 2003 acc. to IFRS

As of December 31, 2004, working capital came to €303.2 million. Basically as a result of slumping customer prepayments for dedicated manufacturing contracts (down by €39 million) and growing inventories (up by almost €11 million), the Group's working capital rose by €60.5 million above the prior-year €242.7 million.

The working capital hike combined with fixed-asset additions of €9+ million to propel capital employed (CE) from €620.4 million in 2003 to €690.2 million as of December 31, 2004. The CE surge whittled down ROCE by one percentage point, from 16.3 percent in 2003 to 15.3 in the year under review, however, which is still above the Group's internal benchmark of 15 percent.

Vossloh Group			
		2004	2003
Total assets	€ mill.	1,021.3	880.3
Equity	€ mill.	331.1	297.6
Equity ratio	%	32.4	33.8
Working capital	€ mill.	303.2	242.7
Working capital ratio	%	32.9	26.6
Capital employed	€ mill.	690.2	620.4
Fixed assets	€ mill.	387.0	377.7
Capital expenditures*)	€ mill.	39.4	30.5
Amortization/depreciation*)	€ mill.	26.0	24.4
ROCE	%	15.3	16.3
Return on equity (ROE)	%	27.1	29.0
Net financial debt	€ mill.	171.1	183.1
Net leverage	%	51.7	61.5

*) excl. financial assets

The cash inflow from operating activities in 2004 soared to €32.9 million (up from €16.1 million), despite high expenditures for working capital. €27.5 million was used in investing activities in 2004 after the year before mainly a cash inflow from the disposal of shareholdings had provided €22.4 million. Moreover, the period's cash outflow to fund the €45.7 million capital expenditures for fixed assets definitely outstripped the prior year's €34.7 million. The net cash provided by financing activities at €110.5 million in 2004 contrasted with a net cash outflow in 2003 of €51.0 million. In the year under review, a cash inflow of just under €200 million from the US private placement was netted against the cash outflow for loan repayment and dividend distribution. The end-of-period balance of cash & cash equivalents totaled €140.0 million, up from €24.1 million as of December 31, 2003.

Although the Group's net earnings improved from the prior-year €55.5 million to €57.2 million in 2004, earnings per share (EpS) merely crept up from €3.90 to €3.91 as the number of eligible shares included outgrew net earnings for the period. Since new shares were issued in 2004 under Vossloh's stock option plans and total shares had shrunk in 2003, the number of shares included in the EpS formula rose from 14.2 million in 2003 to 14.6 million in the year under review.

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Vossloh stock: page 68

Vossloh's Rail Infrastructure division supplies a comprehensive range of rail infrastructure products and services revolving around rail fasteners and track switches. In fact, Vossloh is worldwide leading manufacturer of such essential rail infrastructure ingredients.

Rail Infrastructure division

In fiscal 2004, this division generated sales of €514.1 million, more or less equal to the year-earlier €515.8 million.

To this total, Fastening Systems contributed €150.2 million (down from €160.4 million), while the Switch Systems business unit added €227.0 million (up from €208.9 million), and Infrastructure Services €150.4 million (down from €156.1 million).

EBIT by this division in 2004 climbed around 8.6 percent, from €83.5 million in 2003 to €90.7 million, the EBIT margin picking up significantly from 16.2 to 17.6 percent.

At December 31, 2004, working capital had risen by 24 percent from the year-earlier €132.9 million to €164.6 million, chiefly due to changed policies in the stocking of steel products, a response on the part of Fastening Systems and Switch Systems to the soaring steel prices and also reflected in the almost 10-percent advance in capital employed from €418.6 million to €459.5 million.

With an ROCE of 19.7 percent (down from 20.0 percent), Rail Infrastructure again easily topped the Vossloh Group's 15-percent standard benchmark.

Rail Infrastructure			
		2004	2003
Net sales	€ mill.	514.1	515.8
EBITDA	€ mill.	103.8	96.1
EBIT	€ mill.	90.7	83.5
EBIT margin	%	17.6	16.2
Working capital	€ mill.	164.6	132.9
Working capital ratio	%	32.0	25.8
Fixed assets	€ mill.	294.9	285.7
Capital expenditures*)	€ mill.	19.6	19.6
Depreciation/amortization*)	€ mill.	13.1	12.6
Capital employed	€ mill.	459.5	418.6
ROCE	%	19.7	20.0

*) excl. financial assets

Fastening Systems business unit

As expected, Fastening Systems failed to quite repeat the year-earlier record sales of €160.4 million. Nonetheless, the business unit's 2004 sales of €150.2 million outstripped budget by almost 13 percent.

The proven W 14 fastening system and the System 300 for slab tracks continue to be the business unit's product backbone. Europe and Asia remain the regional centers of activity.

Domestic sales in 2004 reached €57.3 million, 20 percent or €14.4 million short of the prior year's figure. Among the rail fastening systems supplied for new track lines within Germany in 2004, a sizable share went toward the high-speed Nürnberg–Ingolstadt line. Export sales in 2004 reached €92.9 million, a good 5 percent up from the high year-earlier €88.7 million. During the period, the Netherlands invested in upkeeping and upgrading its rail network.

The Dutch investments centered in particular on the high-speed Amsterdam–Antwerp line and the Betuweline heavy-load line. Also noteworthy and in preparation for the 2004 Olympics were the expenditures for Greece's rail network in the first half of the year. In fact, this country is evolving into an important market for the Fastening Systems unit. In Italy, Vossloh supplied in 2004 the fasteners for the new Torino–Novara line while in Turkey, the Vossloh Fastening Systems business unit covered the annual requirements of the country's state railway (worth around €8.3 million). A bidding consortium involving the Spanish sister company Amurrio (Vossloh Switch Systems) and this division has won a supply contract for the Ankara-Istanbul line over the years ahead, deliveries starting in 2005.

Meriting special mention outside of Europe are three projects sprouting from the concerted marketing activities with Vossloh Switch Systems. One of these concerns rail fastening systems for the Santiago de Chile metro (worth around €5.3 million in sales), a contract acquired in close cooperation with Vossloh Cogifer. Vossloh Cogifer was also involved in the delivery of fastening systems for Taiwan's high-speed Taipei–Kaohsiung line. Subsequent to the successful introduction of the W 14 fasteners for concrete sleepers, a follow-up order was placed by the Pakistan state railways, Vossloh winning the contract against Chinese competitors. Most of the fasteners are scheduled for delivery in 2005.

In mid-2004, Vossloh took over the rail fastening business of Australia's Delkor Pty Limited. Sales by the Delkor unit in the full year 2004 totaled €2.5 million.

Given the mushrooming steel market prices, hefty cost increases had to be absorbed when sourcing the raw materials. These could only partly be passed on to customers. In order to further enhance its manufacturing operations, Vossloh concentrated production in the course of 2004 on its Werdohl, Germany, and Nowe Skalmierzyce, Poland, locations. Production in Delitzsch was relocated to the Nowe Skalmierzyce plant.

Switch Systems business unit

The world's second biggest supplier of track switches, the Vossloh Switch Systems business unit posted sales of €227.0 million in 2004 (up from €208.9 million). The unit's largest individual regional market is France, accounting for sales of €53.0 million. Among the contracts handled by Vossloh during the period were the high-speed switches ordered by the French state railways SNCF for the new TGV-East line intended to shrink travel time between Paris and Strasbourg to 2 hours 20 minutes. The TGV will then for the first time achieve a cruising speed of between 320 and 330 km/h (previously around 300 km/h). Vossloh Infrastructure Services has been assigned part of the track construction work for 2005.

Both in 2004 and 2005, Vossloh Switch Systems is engaged in major tram projects in France, with no fewer than ten in preparation, under construction or almost complete. Some of these are being handled in close cooperation with Vossloh Infrastructure Services. For the Valenciennes tram line, for instance, Vossloh Switch Systems will supply the switches and crossings in 2005 while Vossloh Infrastructure Services will lay the tracks and install the switches and signals.

Not only in France, elsewhere, too, (sub)urban rail operators are opting for Vossloh switch systems. In 2004, the Mexico City metro—prompted by the severe punishment which the tracks sustained as a consequence of the heavy traffic (1.2 million passengers daily)—had to replace its switches, dating back to the early 1970s, with modern ones built by Vossloh Cogifer. For the Santiago de Chile metro, Vossloh supplied both the switches and the rail fastening systems.

The Torino–Milan line was another to be fitted with Vossloh high-speed switches in 2004. In this instance, Vossloh Switch Systems also provided technical support during the installation of the switches. In previous years, Vossloh Cogifer had likewise delivered systems for the high-speed Rome–Naples link.

In 2004, Vossloh acquired 100 percent of Swedish Rail Systems AB (SRS). Located in the town of Ystad in southern Sweden, this company builds and trades in permanent way materials. Its 2004 sales totaled around €13.3 million. In taking over this company, Vossloh Switch Systems has won further customers on the Scandinavian market where it complements the activities of Vossloh Cogifer Nordic—already successfully operating in Sweden.

Vossloh Switch Systems was likewise battered by the hefty steel price increases.

At December 31, 2004, this business unit had an order backlog in the region of €167 million (up by some €50 million). Major order book items budgeted for 2005 include the French and Italian high-speed lines, the deliveries for a megacontract in Taiwan (to be carried out together with Fastening Systems), and various tram projects in France.

Infrastructure Services business unit

This Infrastructure Services business unit handles Vossloh's track construction services, albeit track maintenance is the mainstay of business. Sales by Vossloh Infrastructure Services in 2004 added up to €150.4 million (down from €156.1 million). The delayed start of several metro and tram projects meant that the increase in sales expected for 2004 could not be realized. Most of the revenues were reaped in France, Belgium, and Luxembourg where Vossloh leads the track construction and maintenance market. Other prime sources of sales were maintenance work on the Eurotunnel rail network and a number of metro megacontracts, especially in Mexico, Switzerland, and Italy.

Vossloh Infrastructure Services still does most of its work in France where business proved buoyant in 2004, sales rising by some 6 percent to about €120 million. Of this amount, around €51 million accrued from track maintenance work commissioned by the French state railways SNCF. Catenary construction business flourished well above average, sales surging by 50+ percent to almost €14 million. Sales to industrial customers matched the year-earlier volume. Since some of the metro projects were postponed into 2005, the megaproject side of the business failed to generate prior-year sales.

Outside of France major projects in (sub)urban rail projects in 2004 covered Mexico City, Torino, and Geneva. Amid an adverse market environment, the unit could not achieve the 2003 level of business in Luxembourg and Belgium where a restructuring of the national rail companies led to capital expenditure shrinkages.

At December 31, 2004, order backlog by this business unit added up to around €180 million (up from about €165 million), some of the items including the new Paris-Strasbourg TGV link and several tram contracts in French cities, such as Strasbourg, Valenciennes, Montpellier, and St. Etienne.

Vossloh's Motive Power division is Europe's foremost builder of diesel locomotives. Also included in the lineup are all the electric components required by trams, and the division is a leader in the market for electric systems built into trolleybuses.

Motive Power division

Despite a more hostile market environment, Vossloh succeeded 2004 in upholding its position as leading manufacturer of diesel locomotives in Europe. During the period, altogether 126 locomotives were sold, eight fewer than the 2003 record of 134. Due to the very high level of contract work in process (which is accounted for according to the percentage of completion), sales at Vossloh Locomotives nonetheless accelerated by almost 8 percent to €257.6 million.

Acquired in 2002 and specialist in electrical systems for trams and trolleybuses, the Electrical Systems business unit generated sales of €83.4 million in fiscal 2004. The loss of an order on account of engineering problems on the part of the co-supplier responsible for building the vehicles meant that the year-earlier sales of €94.2 million were not achieved.

Sales by the Services business unit in 2004 added up to €4.6 million (up from €3.9 million).

Motive Power			
		2004	2003
Net sales	€ mill.	345.4	336.6
EBITDA	€ mill.	29.1	24.2
EBIT	€ mill.	18.8	15.3
EBIT margin	%	5.4	4.5
Working capital	€ mill.	121.6	100.2
Working capital ratio	%	35.2	29.8
Fixed assets	€ mill.	64.0	62.7
Capital expenditures*)	€ mill.	14.4	8.9
Depreciation/amortization*)	€ mill.	10.3	8.9
Capital employed	€ mill.	185.6	162.9
ROCE	%	10.1	9.4

*) excl. financial assets

Total sales much higher

The sharp rise in sales by the Locomotives business unit pushed up total revenues at Motive Power by 2.6 percent to €345.4 million (up from €336.6 million). EBIT accelerated significantly from €15.3 million to €18.8 million, with all units contributing.

At €121.6 million, working capital at year-end 2004 was around 21 percent up over the 2003 closing level of €100.2 million—mainly due to an almost €39-million decline in customer prepayments at Locomotives. The reduction was only party offset by the lower working capital at Electrical Systems. The working capital ratio rose accordingly from 29.8 to 35.2 percent in 2004.

Despite the higher funds tied up in working capital and the resulting rise in capital employed from €162.9 million at the close of 2003 million to €185.6 million at year-end 2004, ROCE climbed from 9.4 percent a year earlier to 10.1 percent at the end of 2004.

Locomotives business unit

Even though the number of locomotives delivered did slip slightly from 134 to 126, sales advanced by €19.0 million to €257.6 million, mainly due to the higher percentage of contract work in process.

Major revenue sources in 2004 were the contracts placed by the Austrian (ÖBB), Belgian (SNCB), and Swiss (SBB) state railways. Work started on time on the series production of the SBB locomotives fitted with eco-friendly exhaust-particle filters and in the course of the period, altogether 36 units were delivered to the customer.

Order intake in 2004 fell well short of expectation since both the European state railways and the domestic private-sector operators were postponing major capital outlays. Orders booked in 2004 concerned, in particular, the MaK, the flagship of the standard locomotive family, a total of nine orders being received from Italy and Switzerland. In all, however, there was a sharp decline in Locomotives order backlog, from €291.4 million at the end to 2003, to €183.9 million at the close of 2004.

Electrical Systems business unit

During the period under review, the Electrical Systems business unit posted sales of €83.4 million (down from €94.2 million). The main reason for the decrease was the loss of a major order for electrically equipping 40 trams for the Budapest Transit Authority BKV Rt. due to engineering problems encountered by the consortium member in charge of vehicle construction. The 2004 budget had included this contract at a sales volume of around €28 million.

Almost 37 percent of sales at Electrical Systems in 2004 accrued from electrics for LRVs, specifically the Cologne, Bremen and Düsseldorf contracts. Trolleybus electrics made up around 26 percent of sales in 2004. The project covering a total 140 vehicles for Athens was completed on schedule in 2004. All of these were available on time for the Olympics.

Trolleybus business in 2004 was driven by all-out efforts to acquire new business, especially in North America, Switzerland, and Italy. A contract worth some €70 million was signed in January for equipping 188 single and 40 articulated trolleybuses for the city of Vancouver. The business unit also won a bidding for the electrics on 30 low-floor articulated and ten low-floor double-articulated trolleybuses destined for Geneva. The Austrian subsidiary, which focuses on heating, air-conditioning and ventilation systems booked a major order for such equipment.

At year-end 2004, order backlog totaled €201.1 million (up from €198.2 million).

Services business unit

Sales by the Services business unit during the period amounted to €4.6 million (up from €3.9 million). By sale and transfer agreement of February 3, 2005, Vossloh discontinued its (sub)urban train maintenance operations.

Vossloh's Information Technologies division is steadily expanding its array of products and services. Vossloh process automation and optimization technologies maximize rail traffic efficiency.

Information Technologies division

Vossloh Information Technologies reaffirmed in 2004 its lead role as IT specialist in process automation for rail transport within Europe. For rail to maintain a competitive edge it is vital to make best use of existing networks and efficiently schedule the available infrastructure. With a product lineup extending from operations control via simulation to electronic interlock systems, Vossloh Information Technologies offers effective solutions.
Sales by this division in 2004 added up to €64.6 million (down from €61.0 million).

Information Technologies			
		2004	2003
Net sales	€ mill.	64.6	61.0
EBITDA	€ mill.	8.9	7.2
EBIT	€ mill.	7.6	5.9
EBIT margin	%	11.8	9.6
Working capital	€ mill.	16.6	10.9
Working capital ratio	%	25.7	17.8
Fixed assets	€ mill.	15.9	13.0
Capital expenditures*)	€ mill.	4.3	1.3
Depreciation/amortization*)	€ mill.	1.3	1.3
Capital employed	€ mill.	32.5	23.9
ROCE	%	23.4	24.6

* excl. financial assets

Meriting special mention is the completion in 2004 of stage two of German Rail's operations centers, a project started in 1997 by a consortium also including Siemens and Alcatel. Rail transport within Germany will be scheduled and controlled from seven operations centers—very likely Europe's most innovative operations control system. The final phase is planned to come on stream in 2005.

The electronic interlock system, Alister, developed together with Swedish rail and using nonproprietary standard industry elements, is encountering an enthusiastic reception within Europe and initial orders were booked in 2004. Together, Vossloh Information Technologies and Vossloh Switch Systems are renewing the signaling and control systems on Corsica's rail network. It was, in fact, this bundling of capabilities that tilted the scales in favor of Vossloh when competing for the contract.

Among the contracts handled by the mobile passenger information systems unit, the UIC Zugbus again contributed a major share of division sales in 2004, a period which saw the successful equipping for German Rail of 1,200 Intercity railcars and 145 locomotives with the new information and communication technology. In efforts to book new business, Vossloh Information Technologies and Vossloh Electrical Systems will be working more closely together and on tram and trolleybus projects, the Vossloh Information Technologies mobile passenger information systems will be among the items on the specification menu.

Vossloh Information Technologies raised its EBIT to €7.6 million, almost 30 percent above the 2003 record of €5.9 million. ROCE slipped slightly from 24.6 in 2003 to 23.4 percent in 2004 as capital employed climbed €8.6 million.

During the period Vossloh Information Technologies booked orders worth around €37.4 million (down from €47.3 million). Especially significant are the first contracts for the electronic interlock Alister. The passenger information systems unit won a contract to equip around 150 Munich (sub)urban rail stations. Orders on hand at year-end 2004 added up to about €41.6 million (down from €75.0 million).

Analysis of Vossloh AG's separate financial statements

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

As nonoperating holding company, Vossloh AG generated sales in 2004 of €1.9 million (up from €1.8 million). Its net income of €36.0 million (up from €19.1 million) is the bottom line after accounting for administrative expenses, the other operating result, the net financial result, and income taxes. The 2004 other operating result of €17.2 million (down from €19.0 million) includes gains from the disposal of tangible and financial assets, income from the write-up of financial assets, as well as income from intragroup fee allocations and the release of unutilized accruals. The huge improvement of the net financial result, which shot up from €15.7 million the year before to €42.5 million in 2004, was basically ascribable to the profit & loss transfer agreement executed in the period with Vossloh Rail Technology GmbH (VRT) since the profit transferred by this subsidiary alone accounted for as much as €34.2 million. In 2003, Vossloh AG had received a cash dividend of €6.0 million from VRT. The net interest income (including income from long-term loans) eased off to €8.1 million (down from €8.7 million). Under the tax group and fiscal unity agreement with VRT, also signed in 2004, an income tax expense of €7.2 million was incurred (up from nil).

It will be proposed to distribute an unchanged total cash dividend of €19.0 million—corresponding to €1.30 per share—from the net income, as well as to retain €17.0 million of the remaining net earnings as equity and carry forward the balance.

As of December 31, 2004, Vossloh AG's stockholders' equity mounted to €487.6 million (up by €17.0 million) and accounts for 55.5 percent of the total assets of €879.1 million. This decline of the equity ratio (down from 64.6 percent) is the result of the increase in total assets, which rose in 2004 due to the different corporate finance structure in the wake of the US private placement. The resultant debt of €203.9 million multiplied the parent's sundry liabilities to €214.9 million (up from €2.4 million). These inflowing funds were deployed to repay loans and invest capital in short-term securities, and thus not only slashed the accounts due to banks by €82.3 million to €105.0 million but also boosted the total due from banks by €119.8 million.

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Workforce

As of December 31, the number of employees on the Vossloh Group's payroll totaled 4,481 in 2004, up 4.3 percent or 186 from the year-earlier 4,295. The increase in the headcount is chiefly due to the first-time consolidation of Vossloh Min Skretnice and Swedish Rail System during the year under review.

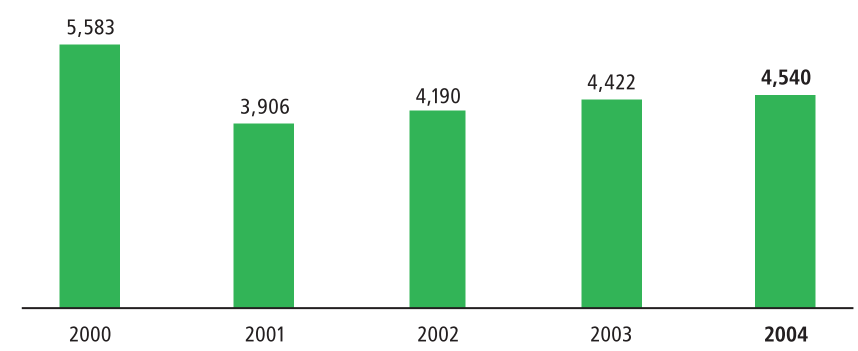
The first-time consolidation of the two subsidiaries and collectively agreed pay raises stepped up personnel expenses for 2004 to €218.9 million (up 2.3 percent from €213.9 million). However, average personnel expenses per capita inched down from €48,400 a year ago to €48,200 in 2004 (all per capita figures herein being rounded) since the percentage of Vossloh employees in low-wage countries climbed. Sales per capita within the Vossloh Group shrank by 1.6 percent from €206,400 in 2003 to €203,100 in 2004, mainly because the newly included Vossloh Min Skretnice's workforce generated sales per capita still at a level significantly below the remaining group companies' average.

Payroll-to-value added ratio further improved

At 66.3 percent, the ratio of payroll to value added further improved in 2004 (down from 66.9 percent).

As of December 31, 2004, the Rail Infrastructure division's headcount grew 6.4 percent to 3,005 employees (up from 2,825) as Vossloh Min Skretnice and Swedish Rail System were included for the first time.

Group headcount on annual average



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On the one hand, the newly consolidated subsidiaries ratcheted down sales per capita by 3.9 percent, from €175,400 in 2003 to €168,600 in 2004; on the other, the collective pay raises were outcompensated, with the result that average payroll per capita crept down by 1.2 percent from €41,500 in 2003 to €41,000 in the year under review. The ratio of payroll to value added in the Rail Infrastructure division improved slightly by 1.4 percentage points to 56.6 percent, basically thanks to the solid 5.1-percent increase in value added to €221.1 million (up from €210.3 million) combined with a 2.6-percent rise in personnel expenses to €125.1 million (up from €121.9 million).

In the Motive Power division, the year-end number of employees at 1,159 in 2004 remained virtually unchanged (down from 1,169). Sales per capita grew 2.6 percent to €293,900. As a consequence of collective pay raises, personnel expenses per capita moved up 1.9 percent, from €56,600 a year ago to €57,700 in 2004, with total value added climbing 5.9 percent to €86.7 million (up from €81.9 million). Since the value-added growth rate outpaced the payroll increase, the ratio of payroll to value added was upgraded by a commendable 3.1 percentage points from 81.3 percent the year before to 78.2 percent in 2004.

Sales per capita within the Information Technologies division were pushed up by 3.4 percent, from €220,900 in 2003 to €228,400 in 2004. On an annual average, the headcount rose by just 2.5 percent to 283 (up by 7 employees). While average personnel expenses per capita sank from €69,400 to €67,900, the value added per capita improved by 4.5 percent to €94,800 (up from €90,700)—enhancing the ratio of payroll to value added by a significant 4.9 percentage points from 76.5 percent a year ago to 71.6 percent in the year under review.

Group personnel expenses in € million

As from 2003 acc. to IFRS

Workforce-related indicators						
		2004	2003[1]	2002	2001	2000
Personnel expenses per capita	€ '000	48.2	48.4	42.6	39.7	40.9
Sales per capita	€ '000	203.1	206.4	177.7	166.5	153.0
Payroll to value added	%	66.3	66.9	69.0	76.0	74.2
Value added per capita	€ '000	72.7	72.3	61.7	52.3	55.1

[1]) 2003 figures differ from previous reports due to the transition from US GAAP to IFRS.

Personnel expenses			
€ million	**2004**	2003[1]	Change in %
Pay	169.3	166.8	1.5
Social security taxes	48.1	45.5	5.6
Pension expense	1.5	1.6	(5.1)
Total personnel expenses	**218.9**	**213.9**	**2.3**

[1]) 2003 figures differ from previous reports due to the transition from US GAAP to IFRS.

Headcount 2004	Annual average			Year-end		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Rail Technology	1,542	2,966	4,508	1,512	2,937	4,449
Vossloh AG	32	–	32	32	–	32
Total	**1,574**	**2,966**	**4,540**	**1,544**	**2,937**	**4,481**

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

Cultivating and maturing a culture of meritocracy

One of our goals is continuous improvement and for this purpose we need to recruit skilled and hard-working employees and then fire their enthusiasm for, and win over their lasting loyalty to, Vossloh. This is a process that starts with our traditionally strong commitment to vocational training, continues with the systematic identification and nurturing of young talent and culminates in our management development programs.

During the period, Vossloh's German companies were training on average 61 apprentices. In addition and together with schools, Vossloh organized career consultancy seminars regarding the apprenticeships available at our subsidiaries as well as apprenticeship application training sessions for final-graders. Our objective is to assist young people in their choice of career and, at the same time, coax them into the Group.

As part of our *Vocus on Talents* program, we organized in 2004 several talent-spotting workshops to serve as a basis for unearthing and nurturing to our requirements the existing capabilities. Following the workshops, any need for changes was identified in the course of constructive feedback sessions and then support measures agreed upon.

Our management development efforts are based on internal and external appraisals in line with Vossloh's requirement profiles. The selected participants are invited to annual development interviews during which the development areas and career prospects serve for specific career advancement measures. In order to hone their leadership skills and encourage cross-departmental and interdisciplinary teamwork within the Group, the participants follow the Vossloh Leadership Curriculum which comprises a mixture of specialized seminars and individual coaching.

Vossloh's meritocratic culture is also reflected in the ongoing improvement of efficiency. To ensure a groupwide integrated measurement of productivity indicators that also allows interdivisional comparisons, a new personnel controlling system was rolled out in 2004 to interlink workforce productivity data and financial controlling indicators of relevance to Vossloh.

Annual stockholders' meeting approving new stock option programs

The stock option programs Vossloh launched back in 1998 for management (long-term incentive program, or LTIP) and the workforce (employee stock option plan, or ESOP) have proved valuable tools. The LTIP offers executive and managerial staff a remuneration element that hinges on additions to the Company's shareholder value; the non-management staff benefits from Vossloh's successful performance, too. Since the 1998 authorized but unissued capital was virtually depleted after issuing the third tranches (series) of the two option programs, the annual stockholders' meeting approved the renewal of both programs, the LTIP and the ESOP, which are described in greater detail on pages 100 et seq.

Corporate citizenship

As employer, we feel committed not only to our employees but also to the neighborhoods where our subsidiaries are based. With this responsibility in mind, Vossloh continued its commitment as good corporate citizen during 2004 as well, having for years traditionally supported schools, kindergartens, nurseries, youth sport clubs, as well as charitable and cultural institutions.

Thanks to the workforce

We thank all employees for their dedication, flexibility and performance. Special thanks also go to the employee representatives for their constructive cooperation.

Mutual appreciation

Essential ingredients in Vossloh's successful track record are the hardworking, dedicated employees many of whom have been with the Group for scores of years—an indication of a congenial working climate.

Research and development

The Vossloh companies are technological leaders in high-growth specialty markets of transport technology, investing continuously in the development of leading-edge products and services. In the development of innovative solutions, the companies cooperate within the Group as well as work in partnerships with customers and experienced specialists from the industry. This regular dialog yields a profound understanding of the marketplace—an ideal foundation for the development of tailor-made products and services for highly specialized technical applications.

Vossloh companies in concerted research

In Research & Development, the various divisions of the Vossloh Group work closely together. The goal is to enable expertise and technologies from the various sectors to be transferred to other fields of application and transport modes.

In 2004, in the joint project for a track monitoring and diagnosis system, Vossloh Fastening Systems and Vossloh Switch Systems first investigated the technical and economic feasibility of an autonomous measuring unit for the continuous—acquisition of track data. Then a contract was awarded for the construction of a first prototype, which is due for tryout on the rail network of Deutsche Bahn AG, and particularly on test tracks, from 2005 onward.

In the context of the German Quiet Traffic multi-institution research project, Vossloh Fastening Systems and Vossloh Locomotives are involved in the Quiet Trains and Tracks program. In the medium term, noise-abating products are to be developed for the wheel/rail system superstructure. Innovative wheelsets and bogies are being considered as well as highly resilient rail fastening systems designed, for instance, to reduce slip waves.

New developments for rail fastening

In 2004, Vossloh Fastening Systems refined the classic W system into the new W 25 rail fastening system (see also page 28). The initial response from customers showed that they consider it suitable for all operating conditions—on anything from mainline railways to tram systems, new or retrofitted. To extend the application range of the new highly elastic 300 W system to switches on slab tracks, it was adapted in 2004 to narrow-radius switches. The German federal railway authority has meanwhile approved the 300 W for switches on ballast-bed tracks, too. The rail fastener developed for a steel sleeper with an axle load of up to 30 t has undergone extensive modification following experience from the first trials in the UK and has passed a number of new approval tests.

Together with a cooperation partner, Vossloh Switch Systems has jointly developed a new concrete bearer especially for tram switches. Several switch components have had their design optimized, with tests being carried out on the new Vossloh Cogifer installations.

Vossloh Infrastructure Services has continued its work on breakthrough services. Among other things, a new automatic train warning system is due for launch in 2005.

Additions to range of locomotives

In 2004, Vossloh Locomotives developed models to supplement the standard range of locomotives. It pressed ahead with the approval of machines in further European countries. These include locomotives in the 1,100-kW performance range for use in France and Italy, a modification for the application of track-laying train locomotives in France and the development, production and commissioning of a locomotive with broad-gauge bogies in Spain.

The MaK 2000 locomotive has meanwhile gained approval in Germany, the Netherlands, and Italy. Approval in Belgium, Poland and Scandinavia is now in the pipeline. For cross-border traffic to Scandinavia, the performance-enhanced MaK 2000—the world's most powerful four-axle diesel-hydraulic line locomotive—is now being built. In 2004, a soot-particle filter was also integrated on the MaK 2000-4 (see also page 31).

Vossloh Locomotives has also refined a remote diagnosis system. This permits the capture of key operating data for locomotive maintenance and monitoring and its remote transmission to the VSMS database in Kiel.

The R&D activities of Vossloh Electrical Systems have been concerned with the further development of drive options for future standard low-floor buses and dual-purpose road/rail vehicles and particularly single-wheel drive technology and the testing of alternative energy storage systems. The development of new hardware for the control equipment platform through to series production has been continued. In connection with the extension of the product range for dual-system vehicles, the a.c. converter for mains current (4QS), developed in the years preceding, has undergone field tests. In a pilot project, a drive converter has been developed for 1500-V contact line voltage systems.

"Electronic ink" on the brink of market maturity

Vossloh Information Technologies has been working on the further development of the innovative display technology with electronic ink in close cooperation with the Fraunhofer Institute in Berlin (see also page 31). In 2004, a first pilot display was commissioned at the travel information center in Berlin. Vossloh will be launching marketable products in the first half of 2005.

Series production start-up 2005:

Vossloh Information Technologies' new display generation uses so-called electronic ink with a special film substrate (illustrated). These displays combine outstanding legibility, very low energy consumption and, thanks to their shallow installation dimensions and light weight, integrate very easily into both existing and new passenger information systems.

Environmental protection

Vossloh is committed to protecting the environment. In production, this transport technology group insists on environment-compatible methods and processes and invests in the development of eco-friendly products and components.

Vossloh Fastening Systems, certified according to ISO 14001 since summer 2002, has put in place a continuous improvement process (CIP) for the sparing use of resources. Several variance analyses over the year and an annual environmental management review check the degree of goal achievement.

In 2004, Vossloh Switch Systems embarked on the systematic measurement of the exhaust air from both production plants, focusing on manganese oxides as well as particles of wood and tar oil. So far, no threshold transgressions have been detected.

In 2004, Vossloh Locomotives continued the changeover of its top coats to low-solvent paints, thus complying with the statutory targets for the reduction of VOC emissions. The changeover will be completed when the last locomotive is delivered to the Belgian state railways in summer 2005. As a manufacturer of locomotives, Vossloh set new standards again in 2004 with the first soot particle filters as international series production components of diesel engine locomotives outputting more than 2,000 HP (DIN). Instances: the clean-emission machine on the Am 843 from the G 1206/G 1700 family built for Swiss Rail (SBB) or the MaK-4 BB, currently the world's most powerful single-engine diesel-hydraulic locomotive which also features this filter system as standard. This 2,700-kW engine has 99+ percent of the soot particles removed with no sacrifice in output or performance. As a consequence, Vossloh locomotives even remain far below the limits allowed by current emission code legislations.

Clean machines

Vossloh's Am 843 locomotives delivered to Swiss Rail (SBB) come standard with a soot particle filter.

Risk management

Risk management organization

The Vossloh Group's active risk management system makes a major contribution to a sustained successful and value-adding business trend. This system, integrated with internal work flows, ensures that risks and opportunities are early on identified, analyzed, assessed and communicated, thus enabling their active control in order to avoid or minimize losses and seize opportunities to the Group's maximum benefit.

General economic and sector risks

In selected rail industry submarkets, Vossloh enjoys lead player status, its regional focus being on Western Europe where the Vossloh Group generates 85+ percent of its sales. One hallmark of these specialty markets is their oligopolistic pattern both on the demand and supply sides. Most of the customers are rail and network operators (as a rule still state-owned or under public-sector control). Potential risks emanating from this configuration include not only a certain dependence on the spending constraints of government budgets but also the limited number of prospective customers.

The Vossloh Group counteracts the dependence on the budgets of certain governments and on certain customers through a strategy of consistent globalization extending primarily into the EU accession nations and Asian countries. By pursuing this strategy, Vossloh has succeeded in recent years in significantly reducing its reliance on specific national railway markets.

Operational risks

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

The Vossloh Group may face operational risks particularly from the price trend of major raw materials, especially steel. Even though such risks can be contained through long-term contracts with suppliers or by stipulating escalator clauses with customers, they can never be entirely eliminated.

In addition, most of the customer contracts involve complex project-type business whose risk profile embraces unexpected engineering obstacles, unforeseeable developments at the project locations, problems with associates or subcontractors along with the accompanying logistics disruptions. Difficulties in executing a project may severely impact on the costed profits, with unbudgeted costs and noncompliance with defined milestones and deadlines normally penalized. Contractual provisions or holistic project and quality management may mitigate such risks but never totally exclude them. Moreover, long-term contracts entail the risk that acceptance and invoicing may be delayed. In the year under review, such postponements were identified in good time and partly offset by completing other projects.

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

Financial risks

Financial risks are monitored and managed, and the Group's finances precision-engineered, by Corporate Treasury. The goals, principles, responsibilities, and accountabilities are defined in policy statements and standards. Currency and interest rate hedges are solely contracted to cover specific risks from existing or reliably forecasted underlyings.

In the management of its capital structure Vossloh ensures compliance with the benchmarks of a company rated as investment grade. Sufficient credit facilities ensured in the period that neither financing nor liquidity bottlenecks existed. The rolling liquidity control system provides for adequate cash reserves to meet sudden needs. With a view to benefiting long term from the current low interest rates, the Group restructured its finances in 2004 by raising long-term debt under a US private placement of a total $240 million (around €200 million), maturing in 10 and 12 years, respectively. In line with the concept of proactive risk management, rates and future cash outflows were fully hedged in euro. The ensuing repayment of bank debts made bilateral credit facilities available for future utilization. Vossloh does not depend on any specific bank or credit institution.

In all, financial risks did not impinge to any significant extent on the Group's 2004 earnings.

Legal risks

Legal risks encountered by a company comprise basically those arising from complaints, warranty claims, claims for damages or indemnification, litigation, and pending lawsuits. Identifiable legal risks are either covered by insurance or adequately provided for in the balance sheet.

The Group's 2004 earnings were unaffected to any material degree by legal risks.

Other risks

In particular, these include IT risks and those emanating from inadequate staffing or human resources.

Any risks affecting the data processing systems or databases are not identifiable at Vossloh.

Potential risks from inadequate staffing or human resources are abated by a large number of measures aimed at portraying Vossloh as an attractive place to work and also at retaining employees for long periods.

During the period, there were no other risks having a major impact on net earnings.

Overall risk position

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

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Vossloh stock

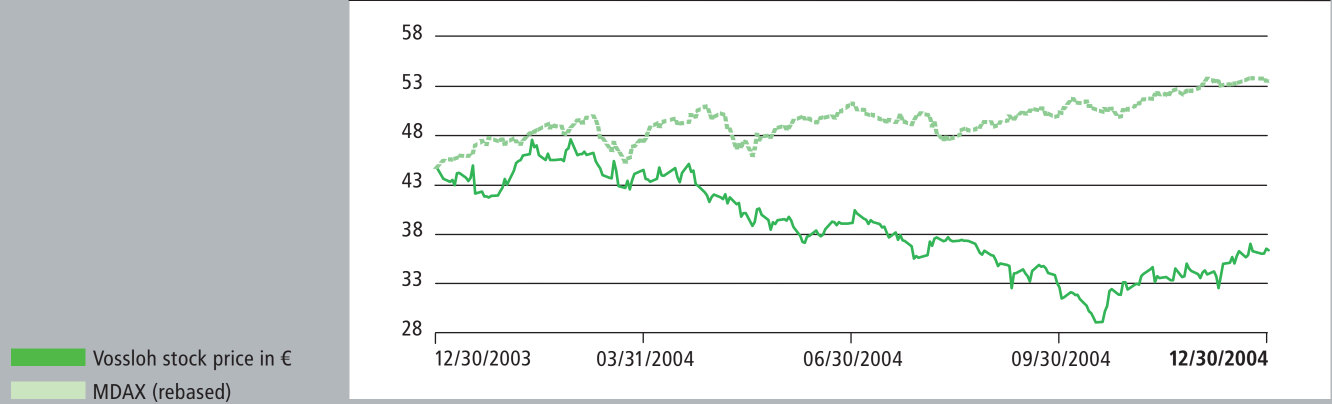
German stock markets bullish

Boosted by buoyant exports, the German economy appreciably rebounded in 2004 after three years of stagnation. While gross domestic product (GDP) in real terms (i.e., adjusted for inflation) gained 1.6 percent in Germany, this growth remained below the 2.4-percent growth average across the 25 EU nations. The MDAX, the stock index which includes Germany's midsize companies and in which Vossloh is listed, started the year at 4,472 points—also the annual low. Following a steady uptick by around 11 percent in the early months of the year, the MDAX snapped back to its opening level in the wake of the Madrid terrorist attacks on March 11, 2004, and the resurging fear of terrorism. Encouraging corporate news and bright business prospects propelled the stock market until, in early May, oil price peaks put stock quotations into short-lived reverses. After sideways movements, MDAX equities began to revive in the fall to close the year at 5,376 on December 30, 2004, also the annual high and equivalent to an all-year gain of 20.3 percent.

Profit-taking and uncertainty depressing Vossloh stock prices

Vossloh stock failed to keep pace with the overall market trend in 2004. After the price had trebled from 2001 to 2003, Vossloh stock opened the year 2004 at €44.80 to climb further and peak on February 27, 2004, at €47.68, its new all-time high. The profit-taking that followed hurt Vossloh's stock market prices. As the year progressed, widespread uncertainties surrounding the capital expenditure programs of Western European state railway companies sent the Vossloh stock price tumbling by October 18, 2004, to €27.45, its annual low. Market quotations then rebounded by year-end, Vossloh shares closing 2004 at €36.35 (Xetra), thus 18.9 percent below the opening level.

Vossloh stock price trend in 2004



Vossloh stock—a paying investment

Although the total return on an investment in Vossloh stock came to a negative 16.1 percent in 2004, for long-term investors Vossloh stock continues to be extremely rewarding. For an investor who has held Vossloh stock for five or ten years, the annual return averaged 24.0 percent and 13.4 percent, respectively, while the MDAX returned an average 5.4 percent and 8.0 percent inside five and ten years, respectively.

The price-earnings ratio (PER), too, hints at further upward price potential. Based on the Vossloh stock price of €36.35 quoted at December 31, 2004, a price-earnings ratio (PER) of 11.2 would result from the budgeted 2005 earnings. Vossloh stock was thus still priced at year-end 2004 below the comparable MDAX average PER of 12.9.

Trading volumes at record level

The volume of Vossloh stock turned over in 2004 rose by some 23 percent from 8.8 million to about 10.8 million shares, equivalent to an average daily trading volume of around 42,000. The electronic system Xetra accounted for approximately 85 percent of the volume of Vossloh stock turnover.

Vossloh stock indicators

		2004	2003
Dividend	€	1.30 [1]	1.30
Group earnings per share (EpS)	€	3.91	3.90
Stockholders' equity per share	€	22.28	19.99
Number of shares [2]	1,000	14,605	14,239
Stock price [3]	€	36.35	44.80
Market capitalization [3]	€ mill.	530.9	654.2
Total dividend distribution	€ mill.	19.0	19.0
Price-earnings ratio (PER)		9.3	11.5

[1] proposed

[2] in 2004, an average 14,604,813 shares were issued, at year-end 14,605,574

[3] annual closing price

Dividend remaining stable

Vossloh AG's Executive and Supervisory Boards will propose to the annual stockholders' meeting to vote in favor of the distribution of an unchanged cash dividend of €1.30 per share. Based on the year-end Vossloh stock price of €36.35, this represents a yield of 3.6 percent. In comparison to 35 percent in the previous year, some 33 percent of net earnings will be distributed. With this proposal the Executive and Supervisory Boards are confirming a dividend policy based on the principle of continuity.

Capital stock

Due to the increase in Vossloh AG's authorized but unissued capital (which had been resolved and approved by the June 25, 1998 stockholders' meeting), 1,887 new no-par bearer shares of common stock corresponding to an arithmetic portion of €4,824.04 of the Company's capital stock were issued in exchange for the same number of stock options when these were exercised. The capital stock has thus risen to €37,427,135.80, subdivided into 14,640,223 no-par bearer shares of common stock.

Treasury stock portfolio unchanged

The June 3, 2004 annual stockholders' meeting renewed Vossloh AG's authority to repurchase treasury stock. Consequently, the Company may on or before December 2, 2005, reacquire up to 10 percent of its issued stock and subsequently redeem and withdraw or sell such treasury stock. By December 31, 2004, an unchanged 34,649 treasury shares (or 0.2 percent of the capital stock) were held by the Company.

Ownership structure

At the end of 2004, the Vossloh family owned an unchanged 33 percent approximately of Vossloh AG's capital stock. The free-floating shares thus accounted for 67 percent, almost one-half of which is held by institutional investors based mainly in Germany, the UK, elsewhere in Europe or the USA, the other half by private stockholders.

Investor relations

A regular dialog with private and institutional investors and financial analysts is the platform for Vossloh's investor relations work. At numerous presentations and road shows in and outside Germany as well as analysts conferences, the Executive Board provided information about current trends. In a survey conducted by the Börse online investors magazine among private investors in 2004, Vossloh ranked first of 80 mid-cap companies and 2nd in the overall panel across all categories. It was especially the general quality and readily understandable presentation of Vossloh's IR work plus its annual report that were rated outstanding. Capital, the German business magazine, together with DVFA, the German Association for Financial Analysis and Asset Management, interviews every year around 300 financial analysts on the quality of corporate communications with the financial markets: among the 50 MDAX companies, Vossloh scored an outstanding second place in the year under review.

All annual and interim reports, press releases and the corporate presentations made at meetings with financial analysts are freely available on the Internet at www.vossloh.com, added information on current subjects being also provided in the quarterly company magazine Inside.

Research reports as decision-making tools

The reports of equity research analysts offer an objective analysis of investments and thus another opportunity to find out more about the price potential of Vossloh stock, which is on the agenda of currently 13 institutes for regular observation, evaluation and assessment. On the basis of the fundamental data presented to the December 2004 financial analysts conference, there were nine recommendations to buy and three recommendations to hold the stock. The share's upward price potential is seen by the analysts to range between €35 and €50. A regularly updated summary of the opinions of financial analysts, as well as further information about Vossloh stock are also available at www.vossloh.com

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Prospects

On the basis of pundit predictions as well as in-house and external market intelligence, Vossloh still expects the world market for rail technology to grow at a mean rate of some 4 percent annually over the coming years. Some years will again show exceptionally high gains, some lower spending propensity phases. Neither will the growth rate be homogeneous when viewed regionally. Efforts by a number of (especially Western European) nations to consolidate their budgets will over the years ahead lead to a reduction or postponement of rail infrastructure expenditures. At present, Germany and France, in particular, are affected by such measures. The situation is different in many Central & Eastern European countries as well as in Asia. Among the 2004 EU accession nations, the years ahead will see major already funded investments in infrastructure while in many Asian countries, still steep population growth rates especially in the conurbations will necessitate an expansion of rail infrastructure.

Naturally, the Vossloh Group is also affected when major state and municipal rail industry customers cut back or dilute their budgeted expenditures. Thanks to its strong internationalization, however, the Vossloh Group does manage to offset shrinking sales in certain markets by incremental volumes in others and hence maintain equilibrium. But these possibilities do have their limits. Poor locomotive spending propensity on the part of German Rail does entail quite significant consequences for Vossloh Locomotives in Kiel. Compounding the situation is the sharp gain in steel prices on a scale no one would have anticipated. Depending on product, prices shot up in 2004 between 40 and 100 percent. Not in every instance do contractual stipulations allow these prices to be channeled down to the customer.

The tougher rail industry market, the surging steel prices and, especially, the lack of invitations to bid for diesel locomotives, as well as tram business problems that have spilled over onto Vossloh, have prompted the Group's Executive Board to launch a groupwide efficiency enhancement and cost reduction program. The market-induced problems are most pronounced at Kiel-based Vossloh Locomotives where locomotive production is expected to halve with the consequence that besides the cutback in hitherto employed temporary staff, the plant's own workforce will also have to be downscaled. It is also considered to relocate further production from high-pay sites to low-wage countries. All these planned measures are designed to enable the Vossloh Group to respond more flexibly to the stronger demand fluctuations.

In November 2004, Vossloh signed a contract to acquire the diesel locomotive plant from Alstom in Valencia, Spain. The deal cements Vossloh's position as foremost manufacturer of diesel locomotives in Europe. Whereas Vossloh Locomotives, Kiel, develops and builds two- and four-axle low- and medium-capacity diesel-hydraulic locomotives, the Valencia facility manufactures diesel-electric units for passenger and goods traffic as well as shunting operations. Among the specialties at Valencia are six-axle higher-capacity diesel locomotives. The Valencia plant has enough orders to keep it completely busy over the years ahead.

Sales and earnings forecast 2005

The following sales and earnings forecast is based on what is presently known about the markets of relevance to Vossloh and refers to the Group's current structure including the Valencia diesel locomotive plant acquired from Alstom (Vossloh España in future). Any potential further takeovers are not taken into consideration.

According to present estimates, Group sales are budgeted to rise to just under €1.1 billion in 2005 of which Vossloh España will account for around €138 million. This means that sales will advance from €922.2 million in 2004 by about 19 percent (excluding Vossloh España by almost 5 percent). Due to the groupwide savings and improvement programs as well as the restructuring efforts pending in certain areas, 2005 will see quite substantial one-off expenses. Despite these initially high-cost measures, which should enable the Group to respond more flexibly to market fluctuations through clear productivity enhancements and a lastingly lower breakeven and notwithstanding the surge in steel prices, on the basis of present knowledge we are predicting for 2005 an EBIT of €93.4 million and hence an EBIT margin of 8.5 percent. Net earnings are budgeted at €47.4 million and earnings per eligible share at €3.25.

At around €645 million at year-end 2005 (down from €690.2 million as of December 31, 2004), capital employed would shrink by over €45 million and at 14.5 percent and despite the above-mentioned burdens, ROCE will be within close range of the groupwide benchmark of 15 percent.

Sharp gain in headcount

At around 5,160 on an annual average, the number of employees will rise versus 2004 (4,540), the sharp increase being due to the takeover of the diesel locomotive operation in Valencia and planned strong growth in the Infrastructure Services business unit, whose higher headcount will be project-related and limited to a specific period. The personnel retrenchments in certain areas in connection with restructuring and cost savings will on average have only slight impact in 2005.

Capital expenditures for 2005

Following Vossloh's unusually high expenditures of around €40 million in 2004, spending in 2005 will resume normality at about €28.7 million; at €26.3 million depreciation will match the level of 2004.

The situation by divisions in 2005

The Rail Infrastructure division and its business units Fastening Systems, Switch Systems, and Infrastructure Services is, from today's vantage point, expected to see in 2005 an increase in sales from €514.1 million in 2004 to €591.3 million. Climbing from €150.4 million to €208.0 million, Infrastructure Services is likely to advance furthest, albeit with the division's lowest-margin type of business. Switch Systems, too, is predicted to rise over its year-earlier €227.0 million to €251.1 million, mainly due to high-speed projects in the UK, Ireland, and Italy as well as added contracts placed by municipal authorities. Fastening Systems will be burdened in 2005 by the decline in business from German Rail, which is only partly offsettable by higher exports. At €139.7 million, 2005 sales would be some 7 percent down from the €150.2 million for the year under review.

This division's earnings will also be eroded in 2005 by the expected added rise in steel prices which can only partly be downloaded onto customers.

Rail Infrastructure's 2004 EBIT of €90.7 million is budgeted to recede to €81.7 million while at 17.9 percent ROCE would again be well over the groupwide benchmark.

Motive Power's 2004 sales of €345.4 million are predicted to surge to €442.0 million in 2005, a gain that is almost exclusively due to the acquisition of Vossloh España. Diesel locomotives built at Kiel are likely to drop from 126 in 2004 to 82 in the year under preview. At €95.2 million, sales budgeted by Electrical Systems are still impaired by the loss of the Budapest contract. In all, the division has budgeted an EBIT of €19.1 million for 2005 (up from €18.8 million in 2004).

The Information Technologies division expects 2005 sales at virtually the same level, adding up to €65.6 million (up from €64.6 million). The volume budgeted for 2005 is affected by German Rail's embargo on new business and the less-than-expected order intake in 2004. EBIT is set to rise from €7.6 million to €7.9 million.

Financial planning for 2005

By December 31, 2005, the equity ratio should have mounted sharply from 32.4 percent at year-end 2004 to 35.2 percent.

Year-end net financial debts should have shrunk from €171.1 million in 2004 to €131.6 million as of December 31, 2005, while net leverage would accordingly be upgraded from 51.7 to 36.7 percent.

Group structure

Apart from the future consolidation of Vossloh España, no other fundamental changes to the Vossloh Group's present structure are envisaged.

Material subsequent events

With the sale and transfer agreement of February 3, 2005, Vossloh disposed of its subsidiary EuroTrac GmbH Verkehrstechnik, Kiel, which in fiscal 2004 inputted €4.6 million to the Group's sales and €0.2 million to the EBIT.

No material subsequent events had occurred by February 28, 2005, the date at which this report was completed.

Corporate governance

A responsibly and well-governed corporation nurtures and perpetuates the trust that its present and future stakeholders place in it.

The German Corporate Governance Code (the "Code"), presented on February 26, 2002, by the ad hoc commission appointed in September 2001 by the Federal Minister of Justice, includes internationally and nationally accepted standards of sound and responsible corporate governance. At least once annually, this government commission reviews the Code for updating requirements in light of recent legislative and practice developments. Therefore, at the government commission's plenary session of May 21, 2003, certain amendments of the Code were adopted and published on July 4, 2003, in the digital version of the German Federal Gazette, while none were made in 2004. Vossloh regards the Code as a major step forward in the further development of corporate management and control standards in Germany. Moreover, the Code well depicts the corporate governance and culture of German listed companies especially for foreign investors and, through the enhanced transparency, raises the confidence in the governance of German stock corporations and in the German equity market.

Vossloh's governance structure

Characteristic of German stock corporations is their two-tier board structure. Both mandatory bodies, the executive board and the (strictly non-executive) supervisory board, are required under German corporate law to act in the company's best interests and perform management and monitoring functions, respectively. The general meeting as the stockholders' statutory body makes pivotal decisions of fundamental interest to the corporation.

Executive Board

In this two-tier model, Vossloh AG's Executive Board is the senior management body within the Vossloh Group and currently has three members. This board is responsible for Vossloh's strategic control, which includes defining the purposes, objectives and strategy of the entire Vossloh Group, acquiring and disposing of shareholdings and other financial investments, focusing R&D activities, deciding on major issues of HR policy, public relations, corporate identity, and IT wherever the overall interests of the Vossloh Group are affected or involved, but always with a sustained increase in shareholder value in mind. The Executive Board closely cooperates with the Supervisory Board whose consent is required for certain major transactions and Executive Board actions specified in the Executive Board Rules of Procedure. Based on an agreed plan, each Executive Board member is assigned the responsibility for certain operating divisions and corporate activities. Executive Board members work together on a peer basis and brief each other on significant actions, transactions and events within their respective responsibilities. Certain issues require a decision by the plenary Executive Board.

Supervisory Board

According to Art. 10(1)(1) of the bylaws, Vossloh AG's Supervisory Board consists of six members (see also page 5). Consequently, the composition of the Supervisory Board is governed by the provisions of the Stock Corporation Act and the Supervisory Board Composition Act (newly enacted in Germany in 2004), according to which the Supervisory Board must be composed of one-third of employee representatives and two-thirds of stockholder representatives.
The stockholder representatives on the Supervisory Board are appointed by the stockholders' meeting, the employee representatives being elected by the workforce. The Supervisory Board constitutes a quorum if not less than three members participate in voting. Supervisory Board resolutions require the simple majority of votes cast unless statutory or legislative regulations or the bylaws provide otherwise. If any vote results in a tie, any Supervisory Board member has the right to require that the voting be immediately repeated on the same agenda item. The Supervisory Board Chairman has two votes in this second voting process on the same item if it again results in an equality of votes.

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

Vossloh AG's Supervisory Board has currently one committee, the 3-member Staff & Audit Committee (see also page 129 of the annual report) which is also responsible for Executive Board matters, besides performing the functions of an audit committee by dealing with issues of accounting, annual auditing, risk management and supervision of management. This committee is chaired by the Supervisory Board Chairman. The Supervisory Board may establish additional committees if and when needed.

Stockholders' meeting

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

Advisory Board

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

Accounting and annual audit

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

Informing the stockholders

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

Remuneration of the Executive and Supervisory Boards

The remuneration of Vossloh AG's Executive Board members includes a fixed and a variable component. In addition to the profit share, Executive Board members are granted stock options in tranches (lots) under the Company's long-term incentive plan (LTIP); LTIP tranches were launched in 1998, 2000, and 2002. Meantime, no more options exist from the 1998 and 2000 tranches and, therefore, the Executive Board did not exercise any in 2004. Out of the third (2002) LTIP tranche, the Executive Board holds a total 48,220 options, their strike price being €24.01. In the year under review, no options were issued to the Executive Board, whether under the 1998 or the 2004 LTIP (the latter was resolved as relaunch by the annual stockholders' meeting on June 3, 2004).

For further LTIP details, see the notes to the consolidated financial statements on page 100 of this annual report.

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

In the year under review, the remuneration of Vossloh AG's active Executive Board members totaled €3,348,798 and included besides a fixed portion of €812,310, a variable profit share of €2,536,488, plus payments in kind of €49,782, representing the use of company cars as assessed for tax purposes. Each Executive Board member pays their own private income taxes on such payments in kind.

No loans or advances were granted to Executive or Supervisory Board members in 2004.

Current payments to former Executive and Management members and their surviving dependants amounted to €237,099, another €2,212,824 having been provided for accrued pension obligations to these persons.

In line with the Company's bylaws, Supervisory Board members received a total fee of €342,901, of which €87,671 and €255,230 are allocable to the fixed and variable, performance-related, portions, respectively.

Implementation of Code recommendations in 2004

The Executive and Supervisory Boards saw no reason for any adjustments to the Vossloh Group's governance in view of the non-amendment in 2004 of the German Corporate Governance Code and concluded that Vossloh's corporate governance practices in 2004 fully conformed to Code recommendations, subject to four exceptions detailed below in the declaration of conformity.

Declaration of conformity pursuant to Art. 161 AktG

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

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

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

According to Clause 4.2.3, 2nd paragraph, 4th sentence, the Supervisory Board should agree on a possibility of capping stock options, etc. in the case of unforeseen, extraordinary developments; this recommendation was newly inserted into the Code on May 21, 2003, and could therefore not be reflected in Vossloh AG's previous stock option plans. As these SOPs extend over several years, Vossloh AG will not implement the recommendation for these expiring programs in future either. Therefore, the Executive and Supervisory Boards have decided not to follow the recommendation of Clause 4.2.3, 2nd paragraph, 4th sentence, of the Code. However, in view of new SOPs issuable on the basis of the authorization by the annual stockholders' meeting of June 3, 2004, the recommended capping option will be included to comply with recommendation of Clause 4.2.3, 2nd paragraph, 4th sentence.

Pursuant to Clause 4.2.4, the compensation of Executive Board members should be disclosed as individualized figures in the notes to the consolidated financial statements. However, since Vossloh AG's Executive Board comprises only three members, the Executive and Supervisory Boards believe that the disclosure of individual compensation data will not add any significant transparence to the report. Consequently, the Executive and Supervisory Boards have decided not to carry out the recommendation of Clause 4.2.4 either.

According to the recommendation of Clause 5.4.5, 3rd paragraph, 1st sentence, the compensation of the Supervisory Board members should be broken down into its components and disclosed on an individualized basis in the notes to the consolidated financial statements. In this case, too, the Executive and Supervisory Boards feel that these disclosures would add no significant transparence to the report and have therefore decided not to follow this recommendation.

Under the terms of Clause 6.6, 2nd paragraph, 3rd sentence, the total stock ownership shall be broken down into the stakes held each by the Executive Board and the Supervisory Board if the total stake held by all Executive and Supervisory Board members exceeds 1% of the stock issued by the company. Part of Vossloh stock is tied up in a family pool. With a view to safeguarding the family pool members' rights of personality, stock ownership data that would indicate details of stakes held by the family pool may not be published. With due regard thereto, Vossloh AG's Executive and Supervisory Boards have decided not to implement the aforesaid recommendation of Clause 6.6, 2nd paragraph, 3rd sentence, of the Code.

Werdohl, December 2004

The Executive and Supervisory Boards

Report of the Supervisory Board

During the year 2004, Vossloh AG's Supervisory Board performed the functions and duties incumbent on it under law and the Company's memorandum & articles of association. The Supervisory Board obtained timely detailed regular written and oral reports on the business trend of Vossloh AG and its subsidiaries, the strategic alignment of the Group, and the progress of planned M&A transactions and corporate policy implementation. The Executive and Supervisory Boards were in an in-depth dialog throughout. At four scheduled meetings (March 23, June 3, October 1, December 8, 2004), the Supervisory Board discussed with the Executive Board day-to-day business and the strategic concepts, short- and medium-term corporate plans, capital expenditure projects, the current income and cash trends, risk position and management, as well as significant organizational and personnel changes, along with Vossloh's corporate governance issues.

Projects of key importance or urgency were also communicated to the Supervisory Board between scheduled meetings. Moreover, the Supervisory Board Chairman regularly deliberated on and discussed with the Executive Board—mainly with the latter's Chairman (CEO)—strategic aspects, the business trend, major HR issues, and risk management matters. The Supervisory Board Chairman was throughout promptly informed by the CEO about any extraordinary events of major significance to the assessment of the Vossloh Group's current position and development. All transactions requiring the Supervisory Board's consent were duly submitted to, and authorized by, this Board. In addition, the Supervisory Board dealt with the ongoing profit improvement measures, as well as the strategies—and their translation into practice—aimed at further expanding the divisions.

One of the focal points on the Supervisory Board's agenda in the year under review involved the acquisition from Madrid-based Alstom Transporte, S.A. of the Albuixech operation near Valencia, Spain.

Dr. Karl Josef Neukirchen
Supervisory Board Chairman of Vossloh AG

Vossloh AG's Supervisory Board has one committee, the Staff & Audit Committee, which consists of three members and is chaired by the Supervisory Board Chairman. Inter alia, the Staff & Audit Committee prepares items on the agenda of plenary Supervisory Board meetings. In addition, certain Supervisory Board powers have been conferred on this committee, such as the conclusion, amendment and termination of employment contracts with Executive Board members, however, not their appointment or removal as such decisions remain subject to the plenary Supervisory Board vote. For the Staff & Audit Committee members, see page 129 of this annual report.
This Committee met twice, on March 22 and October 1, 2004.

There was no change in Executive or Supervisory Board membership in 2004, nor in that of the Staff & Audit Committee. The Supervisory Board resolved to reappoint Werner Andree Vossloh AG's Executive Board member for a 5-year term, from September 1, 2004, to August 31, 2009.

The separate and the consolidated financial statements of Vossloh AG (including the accounting) and the combined management report on Vossloh AG and the Group for fiscal 2004, all as prepared by the Executive Board, were examined by the statutory auditors, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the June 3, 2004 stockholders' meeting and who issued their unqualified opinion thereon. The statutory auditors confirmed that (i) the risks of future development existing at the subsidiaries and within the Group were recognized, mapped and profiled through the early risk identification system established pursuant to Art. 91(2) AktG, (ii) the combined management report on the Company and the Group presented such risks fairly, and (iii) Vossloh AG's Executive and Supervisory Boards, in connection with the recommendations of the German Corporate Governance Code, fully complied with their obligation to publish the declaration of conformity pursuant to Art. 161 AktG.

The resolution to issue the audit engagement letter had been duly passed at the Staff & Audit Committee meeting of October 1, 2004, in line with the Code recommendations. In due course prior to the Supervisory Board's annual accounts meeting, at which the annual financial statements were adopted, all members of this Board were provided with copies of the separate and the consolidated financial statements of Vossloh AG, the combined management report on the Company and the Group, the Executive Board's profit appropriation proposal, and the annual audit reports.

The Supervisory Board members discussed on March 17, 2005, in detail all issues arising in connection with the above-mentioned documents. The statutory auditors attended the Supervisory Board's annual accounts meeting, briefed the participants on all material results of their audit and were available to answer queries. In this context, the statutory auditors also reported on the risk management system within the Vossloh Group. No facts suggesting that the declaration of conformity issued in 2004 by the Executive and Supervisory Board in connection with the Code was incorrect were found during the audit.

The Supervisory Board, too, examined Vossloh AG's separate and consolidated financial statements and the combined management report for the fiscal year 2004 as submitted by the Executive Board, as well as the proposed appropriation of profit. According to the final result of its own review, the Supervisory Board raised no objections and therefore consented to the results of the examination by the statutory auditors. The Supervisory Board approved Vossloh AG's separate and consolidated financial statements as of December 31, 2004; the separate financial statements as of December 31, 2004, are thus adopted. The Supervisory Board agrees to the profit appropriation as proposed by the Executive Board, i.e., to distribute a cash dividend of €1.30 per no-par share.

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

Werdohl, March 17, 2005

The Supervisory Board
Dr. Karl Josef Neukirchen
Chairman

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Consolidated and separate financial statements 2004

Consolidated financial statements of Vossloh AG as of December 31, 2004

Consolidated income statement for the year ended December 31, 2004

€ million	Note	**2004**	2003
Net sales	(1)	922.2	912.5
Cost of sales	(2.1)	(731.9)	(722.4)
General administrative and selling expenses	(2.2)	(109.7)	(105.6)
R&D expenses	(2.3)	(8.6)	(7.4)
Other operating income/expenses, net	(3)	30.7	23.7
Operating result		**102.7**	**100.8**
Income from associated affiliates	(4)	1.1	0.0
Income from other investees	(4)	0.5	3.1
Income from securities and financial assets		0.1	1.0
Other financial results	(5)	1.4	(4.0)
Earnings before interest and taxes (EBIT)		**105.8**	**100.9**
Net interest expense	(6)	(16.2)	(14.7)
Earnings before taxes (EBT)		**89.6**	**86.2**
Income taxes	(7)	(31.8)	(28.9)
Earnings before minority interests/net income		**57.8**	**57.3**
Minority interests	(8)	(0.6)	(1.8)
Group earnings		**57.2**	**55.5**
Earnings per share*			
Undiluted earnings per share (€)	(9)	3.91	3.90
Fully diluted earnings per share (€)	(9)	3.91	3.87

* During fiscal 2003 and 2004, altogether 14,238,612 and 14,604,813 no-par shares of stock, respectively, were issued.

Consolidated statement of cash flows for the year ended December 31, 2004

€ million	2004		2003	
Cash inflow from operating activities*				
Group earnings		57.2		55.5
Adjustments to reconcile group earnings with cash inflow/outflow from operating activities				
Minority interests in net income	0.6		1.8	
Amortization/depreciation/write-down less write-up	24.6		28.4	
Change in deferred taxes	10.4		6.1	
Book gains/losses (net) from the disposal of fixed assets	(6.7)		(21.0)	
Undistributed profits of associated affiliates	(0.5)		0.0	
Change in deferred income	(0.7)		0.6	
Change in receivables	0.8		(16.2)	
Change in inventories	(5.6)		(19.6)	
Change in prepaid expenses & deferred charges	0.9		0.4	
Increase in liabilities and accruals	(48.1)		(19.9)	
Total adjustments		(24.3)		(39.4)
Net cash provided by operating activities		32.9		16.1
Cash (outflow for)/inflow from investing activities*				
Cash inflow from the disposal of intangible and tangible assets	6.4		3.6	
Cash inflow from the disposal of financial assets	2.7		3.0	
Cash outflow for intangible and tangible assets	(37.3)		(27.4)	
Cash outflow for financial assets (plus cash & cash equivalents from acquisitions)	(8.4)		(7.3)	
Cash inflow from the disposal of short-term securities	1.1		1.0	
Cash inflow from the disposal of investments	8.0		49.5	
Net cash (used in)/provided by investing activities		(27.5)		22.4
Cash inflow from/(outflow for) financing activities*				
Cash inflow from capital increases	0.2		4.5	
Net borrowings through note-based finance	4.2		4.0	
Net financing from short-term credits	44.9		(58.1)	
Net financing from medium- and long-term loans	81.1		(2.5)	
Change in treasury stock	–		18.8	
Cash dividend payments	(19.0)		(17.2)	
Change in minority interests due to dividend payout	(0.9)		(0.5)	
Net cash provided by/(used in) financing activities		110.5		(51.0)
Net inflow/(outflow) of cash & cash equivalents		115.9		(12.5)
Cash inflow from initial consolidation		0.0		0.8
Cash & cash equivalents at beginning of period		24.1		35.8
Cash & cash equivalents at end of period		140.0		24.1

* Positive amounts correspond to an inflow, negative ones to an outflow of funds.
For details of interest and tax payments, see the note to the cash flow statement.

Consolidated balance sheet

Assets

€ million	Note	**12/31/2004**	12/31/2003
Total noncurrent assets		**413.3**	**401.0**
Intangible assets	(10)	276.0	272.8
Tangible assets	(11)	97.4	87.9
Investment properties	(12)	6.9	7.1
Financial assets	(13)	6.7	9.9
Shares in unconsolidated subsidiaries		3.6	1.1
Shares in associated affiliates		1.4	0.9
Other investments and long-term securities		1.6	5.5
Long-term loans		0.1	2.4
Fixed assets		387.0	377.7
Sundry noncurrent assets	(14)	5.5	5.6
Deferred tax assets	(15)	20.8	17.7
Total current assets		**608.0**	**479.3**
Inventories	(16)	169.0	158.1
Trade receivables	(17)	250.9	257.8
Due from subsidiaries and investees	(18)	3.8	3.3
Sundry current assets	(19)	43.6	34.2
Short-term securities	(20)	0.7	1.8
Cash & cash equivalents	(21)	140.0	24.1
		1,021.3	**880.3**

Equity & liabilities

€ million	Note	12/31/2004	12/31/2003
Total group equity	(22)	**331.1**	**297.6**
Capital stock	(22.1)	37.4	37.4
Additional paid-in capital	(22.2)	37.8	37.8
Treasury stock	(22.3)	(1.1)	(1.1)
Reserves retained from earnings	(22.4)	203.2	167.6
Undistributed group profit		0.1	0.0
Group earnings		57.2	55.5
Accumulated other comprehensive income	(22.5)	(9.3)	(5.2)
Minority interests	(22.6)	5.8	5.6
Noncurrent liabilities and accruals		**309.9**	**214.2**
Noncurrent financial debts	(23.1)	191.4	138.2
Other noncurrent liabilities	(23.2)	44.4	6.4
Pension accruals	(24)	20.2	19.8
Other noncurrent accruals	(25)	36.6	41.3
Deferred tax liabilities	(15)	17.3	8.5
Current liabilities and accruals		**380.3**	**368.5**
Current financial debts	(23.1)	120.4	70.8
Trade payables	(23.3)	101.3	152.2
Due to subsidiaries and investees		4.3	3.0
Sundry current liabilities	(23.2)	96.1	83.0
Current accruals	(25)	58.2	59.5
		1,021.3	**880.3**

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital	Treasury stock	Reserves retained from earnings	Undistributed Group profit	Group earnings	Accumulated OCI	Minority interests	Total
Balance at 01/01/2003	**36.8**	**29.5**	**(15.5)**	**131.8**	**0.3**	**52.4**	**(4.1)**	**4.8**	**236.0**
Stockholder-unrelated changes in equity									
Carryforward to new account					52.4	(52.4)			0.0
Transfer to reserves retained from earnings				35.5	(35.5)				0.0
Change through initial consolidation				0.3					0.3
Sale of treasury stock		4.4	14.4						18.8
Net income for 2003						55.5		1.8	
Accumulated other comprehensive income (OCI)									
currency translation differences							(1.4)	(0.5)	
statement at fair value of financial instruments							0.3		
Comprehensive income						55.5	(1.1)		54.4
Minority interests								1.3	1.3
Stockholder-related changes in equity									
Capital increases from SOPs	0.6	3.9							4.5
Dividend payout					(17.2)			(0.5)	(17.7)
Balance at 12/31/2003	**37.4**	**37.8**	**(1.1)**	**167.6**	**0.0**	**55.5**	**(5.2)**	**5.6**	**297.6**
Stockholder-unrelated changes in equity									
Carryforward to new account					55.5	(55.5)			0.0
Transfer to reserves retained from earnings				36.4	(36.4)				0.0
Change through initial consolidation				(0.2)				(0.2)	(0.4)
All other changes				(0.6)				0.0	(0.6)
Net income for 2004						57.2		0.6	
Accumulated OCI									
currency translation differences							1.7	0.5	
statement at fair value of financial instruments							(5.8)		
Comprehensive income						57.2	(4.1)		53.1
Minority interests								1.1	1.1
Stockholder-related changes in equity									
Capital increases									
from SOPs	0.0	0.0							0.0
other								0.2	0.2
Dividend payout					(19.0)			(0.9)	(19.9)
Balance at 12/31/2004	**37.4**	**37.8**	**(1.1)**	**203.2**	**0.1**	**57.2**	**(9.3)**	**5.8**	**331.1**

Segment information by divisions

		Rail Infrastructure	Motive Power	Information Technologies	Intermediate holding company/ consolidation	Rail Technology (RT)	H.O./con-solidation	Group
Net external sales								
2004	€ mill.	507.7	341.4	64.2	1.9	915.2	0.3	915.5
2003	€ mill.	511.2	334.9	60.7	0.0	906.8	0.3	907.1
Intercompany transfers								
2004	€ mill.	6.4	4.0	0.4	(4.1)	6.7	0.0	6.7
2003	€ mill.	4.6	1.7	0.3	(1.2)	5.4	0.0	5.4
Amortization/depreciation/write-down [1]								
2004	€ mill.	13.1	10.3	1.3	0.0	24.7	1.3	26.0
2003	€ mill.	12.6	8.9	1.3	0.1	22.9	1.5	24.4
Net interest result								
2004	€ mill.	(7.4)	(5.4)	(0.7)	(10.6)	(24.1)	7.9	(16.2)
2003	€ mill.	(9.7)	(4.5)	(0.6)	(8.2)	(23.0)	8.3	(14.7)
EBIT								
2004	€ mill.	90.7	18.8	7.6	0.4	117.5	(11.7)	105.8
2003	€ mill.	83.5	15.3	5.9	(2.0)	102.7	(1.8)	100.9
EBT								
2004	€ mill.	83.4	13.4	6.9	(10.3)	93.4	(3.8)	89.6
2003	€ mill.	73.8	10.8	5.3	(10.2)	79.7	6.5	86.2
Net income [2]								
2004	€ mill.	52.8	7.2	4.0	(4.9)	59.1	(1.9)	57.2
2003	€ mill.	44.0	8.8	2.9	(7.4)	48.3	7.2	55.5
Net profit from associated affiliates								
2004	€ mill.	1.1	0.0	0.0	0.0	1.1	0.0	1.1
2003	€ mill.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other major noncash segment expenses								
2004	€ mill.	16.1	21.1	4.9	0.9	43.0	5.3	48.3
2003	€ mill.	23.9	29.0	4.0	1.2	58.2	9.4	67.6
Capital expenditures for tangible assets								
2004	€ mill.	19.6	14.4	4.3	(0.6)	37.7	1.7	39.4
2003	€ mill.	22.9	9.1	1.6	(0.5)	33.1	0.7	33.8
Total operating assets								
2004	€ mill.	539.2	228.3	37.2	0.5	805.2	9.5	814.7
2003	€ mill.	490.4	255.7	45.4	(0.4)	791.0	7.3	798.3
Total operating liabilities								
2004	€ mill.	145.5	95.1	13.9	3.2	257.7	64.4	322.1
2003	€ mill.	141.4	137.1	28.9	2.5	309.9	26.7	336.6
Shares in associated affiliates								
2004	€ mill.	1.4	0.0	0.0	0.0	1.4	0.0	1.4
2003	€ mill.	0.9	0.0	0.0	0.0	0.9	0.0	0.9
Capital employed								
2004	€ mill.	459.5	185.6	32.5	244.4	922.0	(231.8)	690.2
2003	€ mill.	418.6	162.9	23.9	243.6	849.0	(228.6)	620.4
Total assets								
2004	€ mill.	601.0	270.8	39.0	252.5	1,163.3	(142.0)	1,021.3
2003	€ mill.	575.2	276.9	47.6	241.7	1,141.4	(261.1)	880.3

[1] Excluding write-down of financial assets

[2] Before profit/loss transfer

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2004

Bases of the consolidated financial statements

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

The consolidated financial statements of Vossloh AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) current at the balance sheet date, except for IAS 1, *Presentation of Financial Statements*, and IFRS 3, *Business Combinations*, which are applied to fiscal 2003 and 2004 though not obligatory before January 1, 2005. Moreover, the consolidated financial statements are consistent with the 4th and 7th EC Directives as interpreted by the German Accounting Standards Committee ("GASC"), and are based on German Accounting Standard ("GAS") No. 1 and Amendment No. 1a. Pursuant to Art. 292a German Commercial Code ("HGB"), Vossloh AG is thus exempted from formulating consolidated annual accounts according to German GAAP or Commercial Code regulations.

For an explanation of significant differences between the accounting, valuation and consolidation methods of IFRS and those of German GAAP, as well as for the reconciliation according to IFRS 1 between US GAAP and IFRS, see the *Further disclosures* section herein.

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

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

Consolidation principles

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

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

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

Joint ventures are consolidated pro rata in accordance with the same principles.

Consolidation group

Vossloh's consolidated financial statements comprise the financial statements of Vossloh AG and principally all its subsidiaries.

Subsidiaries where Vossloh AG can exercise control through its directly or indirectly held voting majority are generally fully consolidated in the Vossloh Group's accounts. Due to their minor significance to the Group's net assets, financial position and results of operations, 24 subsidiaries (up from 21) were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights at the balance sheet date.

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

Major joint ventures are—due to their significance to the Vossloh Group's net assets, financial position and results of operations—consolidated pro rata. The consolidated financial statements as of December 31, 2004, include pro rata a total 28 companies and joint ventures.

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

The group of fully consolidated subsidiaries developed in 2004 as follows:

Fully consolidated companies	2004	2003
January 1	41	39
newly consolidated	3	3
merged intragroup	0	(1)
deconsolidated	0	0
December 31	44	41

The initial consolidation resulted from the acquisition of the entire stock of Swedish Rail Systems A.B., Sweden, the formation of Vossloh España S.A. in Spain, as well as from the first-time inclusion of Vossloh Min Skretnice in Serbia in which the Vossloh Group owns 90.61 percent of the shares.

Key balance sheet lines of acquirees underlying first-time consolidation:

€ million	
Fixed assets	2.9
+ current assets (incl. cash and cash equivalents)	9.6
– liabilities	(5.4)
– accruals	(0.5)
= total purchase price	**6.6**
– cash and cash equivalents of acquirees	(1.3)
= cash outflow for the acquisition of subsidiaries	**5.3**

The three companies were newly consolidated as of January 1 (Vossloh Min Skretnice), May 1 (Swedish Rail Systems), and December 1, 2004 (Vossloh España).

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 entities (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, 2004, 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 OCI.

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

The exchange rates of countries other than members of European Economic and Monetary Union (EMU) and where the Vossloh Group transacts major business through consolidated subsidiaries are listed below:

Exchange rates

Country	Currency		Current rate		Average rate	
	(ISO code)		**2004**	2003	**2004**	2003
Mexico	MXN	€1.00	15.24	14.15	14.03	12.21
Norway	NOK	€1.00	8.24	8.42	8.37	7.99
Poland	PLN	€1.00	4.09	4.73	4.54	4.41
Serbia	CSD	€1.00	78.65	72.75	72.54	66.00
Sweden	SEK	€1.00	9.02	9.07	9.13	9.12
Thailand	THB	€1.00	53.08	49.94	50.06	46.93
UK	GBP	€1.00	0.71	0.71	0.68	0.69

Notes to the consolidated income statement

(1) Net sales

Sales are recognized net of sales deductions and price allowances (such as cash and other discounts, bonuses, rebates, purchases or returns credited). Sales are generally realized once goods have been delivered (physically or de jure) or services rendered, provided that the price has been fixed or can be determined and that realization of the underlying receivable is reasonably probable. Where milestone invoices have been agreed in advance, sales are recognized after the customer has finally and formally accepted the milestone delivery.

Revenues from specific manufacturing or construction contracts with customers are recognized according to their percentage of completion (PoC) in line with IAS 11. By adopting the cost-to-cost method, i.e. relating costs incurred in the period to estimated total contract costs, the percentage of completion is determined and applied to the contracts, these being recognized at production cost, plus a profit pro rata of the percentage of completion provided that contract results can be reliably determined.

Net sales		
€ million	**2004**	2003
Revenues from the sale of products and services	715.8	697.7
Revenues from specific manufacturing contracts	206.4	214.8
Total	**922.2**	**912.5**

Pages 89 and 107 include a breakdown of net sales according to primary and secondary segments (i.e., by divisions and geographical markets/regions).

(2) Functional expenses

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

Expense types		
€ million	**2004**	2003
Cost of materials	474.6	450.0
Personnel expenses	218.9	213.9
Amortization/depreciation/write-down	26.0	24.4

The functional expenses include rental expenses from operating leases of €4.6 million (up from €1.2 million).

The Vossloh Group's annual average headcount in 2004 came to 4,600 (up from 4.476).

(2.1) Cost of sales

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

(2.2) General administrative and selling expenses (GAS)

GAS expenses in 2004 broke down into €44.0 million of selling expenses (up from €42.0 million) and general administrative expenses of €65.7 million (up from €63.6 million).

Besides payroll, selling expenses mainly consist of outbound freight and commissions, as well as most of the allowances charged to trade receivables. In the year under review, the allowances recognized as selling expenses for bad trade receivables and sundry assets totaled €0.3 million (down from €0.8 million). The general administrative expenses cover the payroll and impersonal expenses of administration, including the related amortization/depreciation.

(2.3) R&D expenses

In conformity with IAS 38, all research costs were directly expensed in this line. The costs incurred for developing a marketable product are capitalized where meeting the capitalization criteria. Noncapitalizable development costs are expensed in this line. R&D expenses before capitalized other work and material in 2004 came to €15.1 million (up from €11.0 million).

(3) Other operating income/expenses (net)

The major components of this line are:

Other operating income/expenses (net)		
€ million	**2004**	2003
Gains from the disposal of fixed assets	7.0	23.3
Income from the release of accruals	16.4	8.0
Insurance claims/indemnities	1.9	2.4
Rental income	0.6	0.7
Foreign exchange gains	1.1	1.8
Losses on the disposal of fixed assets	(0.4)	(2.1)
Foreign exchange losses	(1.3)	(1.6)
All other income	6.9	3.6
All other expenses	(1.5)	(12.4)
	30.7	**23.7**

(4) Income from investments

The income from associated affiliates reflects the profit share allocable to the Vossloh Group. In 2004, this income of €1.1 million was earned from the investment in BV Oberflächentechnik GmbH & Co. KG, Werdohl.

The income from other investees refers to companies in which the Vossloh Group holds less than one-fifth of the voting rights and over which Vossloh does not have any significant influence, as well as to the income from unconsolidated subsidiaries.

(5) Other financial results

This line mirrors the write-down of financial assets at €0.6 million (down from €4.0 million) and the write-up of financial assets at €2.0 million (up from €0.0 million).

(6) Net interest expense

The net interest expense of €16.2 million (up from €14.7 million) is the balance of interest and similar income of €1.7 million (up from €0.7 million) and interest and similar expenses of €17.9 million (up from €15.4 million).

(7) Income taxes

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

Income taxes		
€ million	**2004**	2003
Current income taxes	21.4	22.8
Deferred taxes	10.4	6.1
	31.8	**28.9**

The Vossloh Group's actual tax expense of €31.8 million (up from €28.9 million) is €4.0 million (down from €5.6 million) below the theoretical tax expense resulting from applying a groupwide uniform rate of 40 percent to EBT. This (unchanged) tax rate of 40 percent combines the corporate income tax and municipal trade tax load.

Reconciliation of the expected to the recognized tax expense:

Income taxes			
		2004	2003
Earnings before taxes (EBT)	€ million	89.6	86.2
Tax rate incl. municipal trade tax	%	40.0	40.0
Expected tax expense at a uniform rate	€ million	35.8	34.5
Tax reduction due to lower rates abroad	€ million	(2.8)	(2.9)
Tax effects of the write-down/write-up of deferred taxes	€ million	(0.4)	1.7
Tax reduction from tax-exempt investment income and gains from the tax-free disposal of investments	€ million	(3.0)	(7.8)
Tax increase for nondeductible business expenses	€ million	0.9	2.8
Taxes for prior years	€ million	1.1	0.6
Other differences	€ million	0.2	0.0
Recognized income tax burden	€ million	31.8	28.9
Actual income tax rate	%	35.5	33.5

(8) Minority interests

The Group's net income includes minority interests in profit of €1.0 million (down from €2.1 million) and in loss of €0.4 million (up from €0.3 million).

(9) Earnings per share

Earnings per share			
		2004	2003
Weighted average number of common shares		14,639,462	14,468,719
Number of repurchased shares		34,649	230,107
Weighted average number of shares issued		14,604,813	14,238,612
Dilutive effects of LTIP/ESOP options	shares	34,580	85.514
Diluted weighted average number of shares issued		14,639,393	14,324,126
Group earnings	€ mill.	57.2	55.5
Basic (undiluted) EpS	€	3.91	3.90
Fully diluted EpS	€	3.91	3.87

Note to the consolidated statement of cash flows

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

The cash outflow for tax payments and interest, and the cash inflow from interest and dividends are fully assigned to the cash flow from operating activities, which included in 2004 interest received at €1.7 million (up from €0.7 million), interest paid at €17.8 million (up from €14.6 million), dividends received at €1.2 million (down from €3.1 million), and income taxes paid after offsetting tax credits at a net €26.3 million (up from €19.4 million).

Notes to the consolidated balance sheet

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

For the analysis of fixed assets as part of noncurrent assets, see pages 116 and 117.

(10) Intangible assets

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

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

Pursuant to IFRS 3 in conjunction with IAS 36 (revised 2004) and IAS 38 (revised 2004), goodwill from acquisitions (business combinations) is not amortized but its value tested once annually for impairment. To this end, the net book value of goodwill is contrasted to the discounted cash flows (applying a rate of 7.8 percent) expected from the pertinent cash-generating units (CGUs) in line with medium-term plans. Since the discounted cash flows exceed goodwill book values in 2004, no goodwill was written down.

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

(11) Tangible assets

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

Useful lives of tangible assets	
Buildings	20–50 years
Production plant and machinery	3–21 years
Other plant, factory and office equipment	3–20 years

Where the value of tangibles is found impaired, appropriate write-down is charged, in 2004 amounting to €0.1 million (virtually unchanged).

(12) Investment properties

These include land and buildings not used for operational purposes and partly leased to nongroup lessees. According to IAS 40, *Investment Properties*, land owned for investment purposes is carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years. Rental income derived in the period came to €0.4 million (up from €0.1 million). Expenses (including depreciation, M&R and incidentals) incurred in 2004 for properties leased out totaled €0.2 million (down from €0.5 million), those for other properties amounting to €0.3 million (up from €0.2 million). The fair value of investment properties is €7.2 million.

(13) Financial assets

The shares in unconsolidated subsidiaries and the other investments were capitalized at cost. The shares in associated affiliates, over which a significant influence is exercised, are carried at equity. The long-term loans are stated at amortized cost. In accordance with IAS 39, the other long-term securities were classified at €0.2 million as held to maturity and at €0.7 million as available for sale. In line with this classification, these securities are generally carried at amortized cost or fair value, respectively. Since the fair value of securities available for sale exceeded their book value by just €17,000 (up from €9,000, rounded in either case), valuation at cost has been maintained. Where signs of long-term impairment are identified, financial assets are tested and written down as appropriate. Where the reasons for such write-down cease to exist, the charge is reversed and the assets written up accordingly. Expenses for the write-down, and income from the write-up, of financial assets are shown within the other financial results.

(14) Sundry noncurrent assets

This line includes long-term trade receivables of €0.6 million (down from €1.7 million) and miscellaneous noncurrent assets of €4.9 million (up from €3.9 million).

The sundry noncurrent assets are carried at amortized cost.

(15) Deferred taxes

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

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

Deferred taxes

	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
€ million	**2004**		2003	
Intangible and tangible assets	0.3	4.3	1.1	3.1
Receivables	1.2	8.7	0.3	2.8
Inventories	2.2	0.6	3.7	0.0
Other asset lines	0.0	0.1	0.0	0.1
Liabilities	6.3	0.4	1.9	0.0
Pension accruals	2.0	0.0	2.0	0.0
Other accruals	6.0	2.1	6.9	2.5
Other liability lines	0.1	1.1	0.8	0.0
	18.1	**17.3**	**16.7**	**8.5**
Loss carryforwards	2.7	–	1.0	–
Gross totals	**20.8**	**17.3**	**17.7**	**8.5**

Deferred tax assets are adjusted by write-down wherever their realization is unlikely. In 2004, deferred taxes were written down at €1.5 million (down from €1.7 million). Loss carryforwards of €10.0 million (up from €8.3 million), which are not subject to expiration, underlie the unadjusted deferred tax assets.

(16) Inventories

Breakdown of inventories:

Inventories

€ million	**2004**	2003
Raw materials and supplies	72.8	85.3
Work in process	64.2	51.4
Merchandise (MFR)	5.2	4.3
Finished products	16.5	9.3
Prepayments made	10.3	7.8
Total	**169.0**	**158.1**

Inventories are stated at the lower of purchase/production cost or net realizable value (NRV). Besides full direct costs, production cost also includes all fixed and variable manufacturing overheads systematically allocable to the production process, as well as special direct manufacturing costs, borrowing (interest) costs not being capitalized. To the extent that inventories are valued groupwise, the average price method is used. Risks from obsolescence or slow-moving items are appropriately allowed for. In the year under review, inventories were written down at €22.6 million (up from €20.0 million). The book value of inventories stated at NRV totaled €32.2 million (up from €26.3 million). As the reasons for previous write-down existed no longer, inventories were written up by €0.1 million (down from €0.9 million).

(17) Trade receivables

Breakdown of trade receivables:

Trade receivables		
€ million	**2004**	2003
Receivables from PoC contracts	41.2	20.1
Other trade receivables	209.7	237.7
	250.9	**257.8**

The other trade receivables are carried at principal, specific risks being duly and reasonably allowed for. A general allowance for doubtful accounts provides for the standard collection risk. As of December 31, 2004, allowances of €6.0 million (down from €6.3 million) were charged to the other trade receivables.

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

Receivables and payables from PoC contracts						
€ million	receivables	payables	total	receivables	payables	total
	2004			2003		
Total contract progress	85.6	37.1	122.7	52.2	27.5	79.7
Prepayments received	(44.4)	(52.3)	(96.7)	(32.1)	(103.7)	(135.8)
PoC receivables recognized	**41.2**		41.2	**20.1**		20.1
PoC payables recognized		**15.2**	15.2		**76.2**	76.2

The total PoC contract progress of €122.7 million (up from €79.7 million) includes contract costs of €99.1 million accumulated by December 31, 2004 (up from €70.8 million) as well as the profits prorated to such costs at €24.1 million (up from €9.3 million) and prorated losses of €0.5 million (up from €0.4 million).

(18) Due from subsidiaries and investees

These accounts are carried at principal and refer to receivables from unconsolidated subsidiaries at €3.6 million (up from €3.1 million) and to receivables under investor/investee relations at €0.2 million (virtually unchanged).

(19) Sundry current assets

This caption mainly accounts for tax assets at €27.8 million (up from €18.2 million), suppliers with credit balances at €1.8 million (down from €2.8 million), as well as for prepaid expenses and deferred charges at €1.5 million (down from €2.5 million).

The other receivables were carried at principal or amortized cost, less reasonable allowances for long-term impairment at €0.1 million (down from €1.0 million).

(20) Short-term securities

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

(21) Cash and cash equivalents

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

(22) Total equity

For the statement of changes in equity, see page 88.

(22.1) Capital stock

Vossloh AG's capital stock totals €37,427,135.80 (up from €37,422,311.76) and is divided into 14,640,223 no-par bearer shares of common stock only (up from 14,638,336).

As of December 31, 2004, authorized capital existed at €18,406,502.72.

Stock option programs

In 1998, 2000 and 2002, the Vossloh Group launched stock option programs under which certain executive and managerial staff of subsidiaries (LTIP) and employees of German subsidiaries (ESOP) are granted options to acquire further shares after first purchasing Vossloh AG stock as personal investment at program inception. For each Vossloh share acquired, LTIP and ESOP participants received ten and three stock options, respectively. The strike (exercise) price and total number of options were fixed at program inception. The strike price corresponds to the average Vossloh stock prices as quoted at the closing auction at the Frankfurt/Main stock exchange during the five trading days preceding the option issuance date. The term of the programs is five years each and therefore, the options issued in 1998 were exercisable in 2003 at the latest. When purchasing shares of Vossloh stock, eligible participants received free options, granting them the privilege after expiration of the 3-year qualifying period to acquire Vossloh AG stock at the market price which had been quoted at program inception (strike price). The subscription rights may only be exercised in so-called opportunity windows; shortly before window opening, Vossloh would inform the participants about the Group's current position. Option exercise is subject to certain benchmarks being achieved. Under the LTIP for instance, the Vossloh stock price must have outperformed the MDAX and, as cumulative condition, outgrown the strike price by not less than 15 or 30 percent (depending on participants group). Under the ESOP, the Vossloh stock price must have risen at least 5 percent above the strike price or, alternatively, the stock price trend must match or outgrow that of the MDAX.

Under the LTIP, the executive/managerial staff's personal investment ranges (depending on the participants group) between €5,000 and €50,000, for the ESOP, eligible employees have to invest a good €500.

The number of stock options issued developed as follows:

Analysis of stock options issued		
	Number of options	Average strike price
1/1/2003	**386.934**	**20.87**
Options exercised	(238,336)	18.73
expired	(47,074)	25.28
12/31/2003	**101,524**	**23.79**
thereof exercisable	2,698	15.81
Options exercised	1,887	15.81
expired	3,129	23.67
12/31/2004	**96,508**	**23.95**
thereof exercisable	683	15.81

The table below lists the stock options issued and outstanding at December 31, 2004:

Options outstanding				
	Strike price (€)	Number of unexercised options	Average time up to option exercise (years)	Number of exercisable options at 12/31/2004
Tranche 2000	15.81	683	0.4	683
Tranche 2002	24.01	95,825	2.3	0

The stock options granted are valued at their intrinsic value (i.e., the amount by which the option is in the money) as of the granting date. Since the strike price is a priori determined on the basis of current stock prices as of program launch, the intrinsic value for all programs is ipso facto zero. Therefore, the stock option programs are accounted for without recognition in the income statement. The capital stock and additional paid-in capital will not be affected unless and until the options are exercised, in which case the capital stock is increased as new shares are issued.

Since all stock option programs were launched prior to November 8, 2002, IFRS 2 has not been applied. Application of IFRS 2 would have had only a marginal effect on net income.

With a view to ensuring the issuance of new shares under the SOPs, the annual stockholders' meeting of June 25, 1998, had approved €2,223,245.37 of authorized but unissued capital, corresponding to a maximum of 869,658 bearer shares of common stock. Accumulated up to December 31, 2004, a total 240,223 shares were issued to employees and executive staff, thus raising the capital stock by altogether €614,120.35.

Upstream of a relaunch of both stock option programs (LTIP and ESOP), the annual stockholders' meeting of June 3, 2004, authorized the Executive Board, subject to Supervisory Board approval, to grant stock options to employees and executives to entitle these to the subscription for altogether 869,658 shares. The corresponding stockholders' resolution included the approval of authorized but unissued capital of €2,223,245.37, the residual authorized but unissued capital from the previous SOPs thus being rescinded.

Like the previous SOPs, the stock option programs 2005 will grant three (ESOP) or ten (LTIP) options per Vossloh share which has been purchased as personal investment. The qualifying personal investment ranges between €500 and €1,000 (ESOP) or €5,100 and €51,000 (LTIP). The strike price will be determined when the options are granted, on the basis of the average Vossloh stock prices quoted in Xetra trading at the closing auctions of the 5 trading days preceding option grant. The SOP 2005 term will be 5 years, options are exercisable for the first time two years after program launch. Option exercise is conditional on the achievement of certain absolute and relative benchmarks: The ESOP specifies the Vossloh stock price trend to match MDAX performance or a 4-percent increase of the stock price over the strike price. Depending on the participants group, the exercise of options by LTIP participants is contingent on a stock price rise of 12.5 percent to 25 percent (Executive Board) and a Vossloh stock price trend in line with the MDAX's. Moreover, the Supervisory Board has reserved the right to cap stock options in the case of unforeseen, extraordinary developments by resolving to either reasonably raise the level of the strike price or otherwise cap option exercise by Executive Board members.

(22.2) Additional paid-in capital

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

(22.3) Treasury stock

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

As of December 31, 2004, an unchanged 34,649 shares (€88,578.76, or 0.24 percent of the capital stock) were held as treasury stock.

(22.4) Reserves retained from earnings

This equity line includes the—from the Group's vantage point—undistributed earnings of prior years retained by consolidated subsidiaries, as well as the adjustments herein, and only herein, recognized in the IFRS opening balance sheet as of January 1, 2003, due to the first-time application of the IFRS. For details and a breakdown of these adjustments, see the *Further disclosures* section under *First-time application of the IFRS*.

(22.5) Accumulated other comprehensive income

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

(22.6) Minority interests

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

(23) Liabilities

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

Aged breakdown of the remaining term of liabilities:

Liabilities								
	Remaining term						Total	
€ million	≤ 1 year		> 1–5 years		> 5 years			
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Financial debts	120.4	70.8	16.4	137.6	175.0	0.6	311.8	209.0
Sundry liabilities	96.1	83.0	13.0	3.3	31.4	3.1	140.5	89.4
Trade payables	101.3	152.2	–	0.0	–	0.0	101.3	152.2
Due to subsidiaries	1.6	1.2	–	–	–	–	1.6	1.2
Due to investees	2.7	1.8	–	–	–	–	2.7	1.8
Total	**322.1**	**309.0**	**29.4**	**140.9**	**206.4**	**3.7**	**557.9**	**453.6**

(23.1) Financial debts

Breakdown:

Financial debts		
€ million	**2004**	2003
Note loans	105.0	105.0
US private placement	175.1	0.0
Other accounts due to banks	16.4	93.3
Notes payable	13.4	9.0
Payables under capital leases	1.9	1.7
	311.8	**209.0**

€85 million of the note loans has a bullet maturity within 2005, the remaining €20 million being repayable in 4 installments from mid-2005 to mid-2008. The note loans carry interest between 3.06 and 5.93 percent.

Under a US private placement agreement, debt of a total $240 million was raised from the capital market, comprising one 10-year loan of $140 million and another 12-year loan of $100 million. Payment of principal and interest has entirely be hedged by euro-denominated interest rate and currency swaps, thus ensuring that both loans carry interest at fixed euro rates of 5.325 and 5.455 percent, respectively. The €175.1 million debt disclosed as of December 31, 2004, corresponds to the dollar debt translated at the year-end rate. Including the currency hedge shown at €28.0 million within sundry liabilities and the costs of €0.8 million amortizable over the remaining term, the repayment sum totals €203.9 million. The hedge of future interest payments, also carried as a sundry liability, showed a negative market value of €10.4 million at December 31, 2004.

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

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

Capital leases						
€ million	Principal	Discount	Present value	Principal	Discount	Present value
	12/31/2004			12/31/2003		
Due within 1 year	0.7	0.1	0.6	0.7	0.1	0.6
Due >1–5 years	1.4	0.1	1.3	1.2	0.1	1.1
Due after 5 years	–	–	–	–	–	–
	2.1	**0.2**	**1.9**	**1.9**	**0.2**	**1.7**

(23.2) Sundry liabilities

The sundry current liabilities basically include prepayments received at €16.1 million (down from €22.6 million) other than under PoC contracts, tax payables of €29.1 million (down from €18.9 million), social security and health insurance payables of €7.4 million (up from €6,9 million), as well as accounts of €9.6 million (down from €11.2 million) due to employees.

The largest single item within the sundry noncurrent liabilities is the fair value of financial derivatives, stated at €41.9 million (up from €4.4 million) and used as currency and interest rate hedges.

Also included in this caption is deferred income from public investment grants of €1.2 million (up from €0.5 million), which is released to income in proportion to the depreciation charged to the subsidized assets.

(23.3) Trade payables

This line includes payables under PoC contracts at €15.2 million (down from €76.2 million), as well as all other trade payables at €86.1 million (up from €76.0 million). For details of PoC payables, see the note to trade receivables.

(24) Pension accruals

Vossloh AG and some subsidiaries have made pension commitments to employees. These defined benefit obligations (DBO) hinge on 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 obligations are owed by the subsidiaries concerned.

In accordance with IAS 19, the projected unit credit method has been used to accrue pension obligations, duly taking into account current capital market rates and anticipated future pay and pension increases. Actuarial gains and losses are not recognized in net income until and unless outside a 10-percent corridor of the total annual opening DBO, but if so, they are distributed, and recognized in the income statement, over the remaining service years of the beneficiaries. Independent actuarial opinions and reports underlie the pension accruals recognized.

Pension obligations were based on the following assumptions:

%	2004	2003
Discount rate	5.5	5.5
Expected pension rise	2.0	2.0
Expected pay rise	2.0	2.0
Expected cost-of-living rise	2.0	2.0
Probable employee turnover rate	6.0	6.0

The pension accruals recognized were derived as follows:

€ million	2004	2003
Present value of unfunded DBO	19.6	19.9
Unrecognized actuarial gains/losses, net	0.6	(0. 1)
Recognized pension accruals	**20.2**	**19.8**

In fiscal 2003 and 2004, pension accruals developed as follows:

€ million	2004	2003
Opening balance at 1/1	19.8	18.7
Utilized	(1.1)	(0.9)
Provided for	1.5	2.0
Closing balance at 12/31	**20.2**	**19.8**

Breakdown of annual DBO cost:

€ million	2004	2003
Current service cost	0.5	0.6
Interest cost	1.0	1.4
	1.5	**2.0**

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

(25) Current and other noncurrent accruals

Breakdown of this total:

€ million	2004	2003
Noncurrent tax accruals	0.3	0.3
Sundry noncurrent accruals	36.3	41.0
Other noncurrent accruals acc. to balance sheet	**36.6**	**41.3**
Current tax accruals	5.2	6.4
Other current accruals	53.0	53.1
Current accruals acc. to balance sheet	**58.2**	**59.5**

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

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

Tax and other accruals developed in 2004 as follows:

Analysis of tax and other accruals

€ million	Taxes	Personnel	Unbilled costs	Warranties and follow-up costs	Litigation and impending losses	All other accruals	**Total**
Opening balance at 1/1/2004	6.7	23.9	6.2	32.7	8.9	22.4	**100.8**
Utilized	2.9	10.4	5.8	10.8	1.6	6.4	**37.9**
Released/reversed	0.1	0.8	0.3	7.3	2.9	5.1	**16.5**
Provided for	1.8	12.8	3.8	16.9	3.5	9.6	**48.4**
Closing balance at 12/31/2004	5.5	25.5	3.9	31.5	7.9	20.5	**94.8**

The personnel-related accruals provide for profit shares, vacation and employment anniversary allowances, as well as preretirement part-time work. The accruals for unbilled costs account for goods and services received but not yet invoiced. The warranty accruals include both provisions for specific warranties 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, €1.0 million provides for impending losses on purchase obligations.

Notes to the segment reports

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

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

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

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

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

The other major noncash segment expenses reflect provisions.

The primary segment information by divisions is shown on page 89, the secondary segment information (by geographical markets/regions) being presented below. Regional sales are based on the customer location.

Secondary segment information								
		Germany	Other Euroland	Other Europe	Americas	Asia	Other	Total
Net external sales								
2004	€ mill.	295.0	361.7	198.1	18.7	33.7	8.3	915.5
2003	€ mill.	326.9	396.3	102.2	12.0	42.2	27.5	907.1
Segment operating assets								
2004	€ mill.	296.8	467.4	50.3	0.2	0.0	0.0	814.7
2003	€ mill.	337.1	423.9	37.1	0.2	0.0	0.0	798.3
Segment capital expenditures								
2004	€ mill.	16.7	19.9	2.8	0.0	0.0	0.0	39.4
2003	€ mill.	12.8	12.1	8.9	0.0	0.0	0.0	33.8

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

Reconciliation of segment assets to total assets		
€ million	**2004**	2003
Intangible assets	276.0	272.8
Tangible assets	97.4	87.9
Inventories	169.0	158.1
Trade receivables	251.5	259.5
Sundry assets less tax assets	19.2	17.5
Prepaid expenses and deferred charges	1.6	2.5
Segment operating assets	**814.7**	**798.3**
Nonoperating assets	206.6	82.0
Totals assets	**1,021.3**	**880.3**

Reconciliation of segment liabilities to total equity & liabilities		
€ million	**2004**	2003
Prepayments received	16.1	22.6
Trade payables	101.3	152.3
Pension accruals	20.2	19.8
Other accruals	89.3	94.1
Sundry accruals less tax liabilities	90.2	42.1
Deferred income	5.0	5.7
Segment operating liabilities	**322.1**	**336.6**
Equity	331.1	297.6
Nonoperating liabilities	368.1	246.1
Total equity & liabilities	**1,021.3**	**880.3**

Further disclosures

Contingent liabilities and other financial obligations

As of December 31, 2004, contingent liabilities totaled €5.1 million (down from €9.0 million). The Group has incurred contingent liabilities under guaranties/suretyships at €2.8 million (down from €6.8 million) and for the collateralization of third-party debts at €2.3 million (virtually unchanged).

Breakdown of other financial obligations:

Other financial obligations		
€ million	**2004**	2003
due within 1 year:		
under operating leases	5.0	4.6
property rentals	4.5	4.2
	9.5	**8.8**
due >1–5 years:		
under operating leases	8.4	9.9
property rentals	13.9	11.1
	22.3	**21.0**
due after 5 years:		
under operating leases	2.1	3.1
property rentals	3.5	6.1
	5.6	**9.2**
Purchase obligations	**168.9**	**234.6**

The obligations under operating leases have mostly been incurred for factory, business and office equipment.

Financial risk management

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

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

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

Interest rate risks chiefly ensue from the borrowings (loans and credits) for group financing purposes. The risk that future interest payments increase as rates rise is covered by contracting interest rate swaps or options, these being accounted for as cash flow hedges. Changes in the fair value of such hedges are banked in, and only in, an equity account, viz. accumulated OCI.

Vossloh uses currency forwards and cross-currency swaps to hedge currency receivables and payables, as well as forecasted transactions in non-euro currencies, against exchange rate fluctuations. Changes in the fair value of currency forwards contracted to hedge present receivables and payables are recognized in the income statement. However, if used to hedge forecasted transactions, such changes are—according to IFRS cash flow hedge accounting rules—solely recognized as OCI.

The current market values of financial derivatives used by the Vossloh Group are shown below, the notional volumes indicating the non-netted total of all derivative instruments bought and sold:

Financial derivatives					
		Fair value	Notional volume	Fair value	Notional volume
€ million		**2004**		2003	
Interest rate swaps					
current maturity	≤1 year	(0.6)	25.5	0.0	0.0
	>1–5 years	0.0	0.0	(1.3)	25.5
	>5 years	(3.5)	25.6	(3.1)	25.6
		(4.1)	**51.1**	**(4.4)**	**51.1**
Cross-currency swaps (US private placement)					
current maturity	≤1 year	0.0	0.0	0.0	0.0
	>1–5 years	0.0	0.0	0.0	0.0
	>5 years	(38.4)	203.9	0.0	0.0
		(38.4)	**203.9**	**0.0**	**0.0**
Caps					
current maturity	≤1 year	0.0	0.0	0.0	0.0
	>1–5 years	0.2	76.7	0.2	51.1
	>5 years	0.0	0.0	0.4	25.6
		0.2	**76.7**	**0.6**	**76.7**
Currency forwards					
current maturity	≤1 year	0.3	13.8	1.5	25.4
	>1–5 years	0.0	1.1	0.0	0.0
	>5 years	0.0	0.0	0.0	0.0
		0.3	**14.9**	**1.5**	**25.4**
		(42.0)	**346.6**	**(2.3)**	**153.2**

Material subsequent events

By sale and transfer agreement dated February 3, 2005, Kiel-based EuroTrac GmbH Verkehrstechnik was sold with economic effect as of January 1, 2005, to a nongroup investor. EuroTrac's activities made up the Services business unit within the Motive Power division.

Key financial information on the discontinued operations of the Services business unit according to IAS 35:

Vossloh Services BU		
€ million	**2004**	2003
Assets	9.0	12.9
Liabilities	8.9	12.0
Net sales	4.6	3.9
All other income	2.3	2.1
Expenses	(6.9)	(8.5)
EBT	0.0	(2.4)
Income taxes	0.0	1.6
Net income (loss) before P&L transfer	0.0	(0.8)
Cash flow from operating activities	3.0	1.2
Cash flow from investing activities	(0.1)	0.1
Cash flow from financing activities	(3.0)	(1.2)

Joint ventures

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

€ million	**2004**	2003
Current assets	35.1	30.4
Noncurrent assets	7.1	5.7
Current liabilities	28.0	20.9
Noncurrent liabilities	0.1	0.2
Income	45.7	52.0
Expenses	41.7	45.9

Notes under the terms of Art. 292a HGB

The IFRS-compliant accounting, valuation and consolidation methods differ from German Commercial Code (HGB) regulations (German GAAP) mainly in the following aspects:

Goodwill

In line with IFRS 3, goodwill within the Vossloh Group is not amortized but instead tested for impairment at regular intervals. In contrast, German GAAP require that goodwill be amortized or offset against reserves.

Development costs

If meeting the criteria specified in IAS 38, development costs are capitalized. In contrast, German GAAP prohibit the capitalization of any internally created intangibles and require that they all be directly expensed.

Securities	According to the IFRS, securities available for sale and held for trading are carried at fair value. Changes in the fair value of securities available for sale are recognized in, and only in, accumulated OCI. When such securities are realized, the net fair value changes banked in OCI are released to income. Changes in the fair value of securities held for trading are recognized in the income statement. German GAAP require that securities be generally carried at the lower of cost or market.
Manufacturing/construction contracts	IAS 11 requires that under manufacturing or construction contracts specifically negotiated with customers (dedicated contracts), profits be realized pro rata of contract progress (percentage of completion, or PoC). German GAAP strictly insist on the completed-contract method, i.e., profits may only be realized from contracts after full delivery and formal acceptance or from defined/agreed milestones.
Deferred taxes	IAS 12 requires that taxes be deferred on all temporary (including quasi permanent) differences between the values in the consolidated financial statements and the tax bases, as well as on tax loss carryovers. In contrast, German GAAP require and permit the recognition of deferred taxes for timing differences only.
Pension accruals	Pension obligations according to IAS/IFRS are accrued by applying the projected unit credit (PUC) method with due regard to future pension and pay rises, whereas German GAAP base pension accruals just on the actuarial present value, determined by applying a discount rate of 6 percent as prescribed by tax legislation. In contrast, the PUC method uses long-term capital market rates.
Other accruals	According to IAS 37, provisions may not be recognized unless an obligation to a third party exists, its utilization is likely and its amount can be reliably determined, such determination to be based on the best estimate. German GAAP require that a provision be valued in accordance with the prudence concept at amounts acceptable in sound business practice. The provision for expenses without an obligation to a third party, permitted by German GAAP, is prohibited by IAS 37.
Currency receivables and payables	The IFRS insist on the translation of currency receivables and payables at the current rate as of the balance sheet date, duly recognizing unrealized exchange gains. German GAAP require a translation at the historical or any more unfavorable rate.
Derivatives	According to IAS 39, financial derivatives are carried at fair value, even where in excess of historical cost. If derivatives are used in cash flow hedges, changes in the fair value of such derivatives are accumulated as OCI without being recognized in net income. When an underlying falls due, the gains/losses accumulated in OCI are released to net income. Changes in the fair value of derivatives used in fair value hedges are directly recognized in the income statement. German GAAP do not specify any binding rules for the recognition and valuation of financial derivatives and, therefore, they are stated in accordance with the German concepts of historical cost, realization and imparity (the latter prohibiting the recognition of unrealized gains but insisting on that of unrealized losses).

First-time application of the IFRS

Due to the adjustment of the prior-year comparatives, the first-time application of the International Financial Reporting Standards resulted in differences between the prior-year total group equity and earnings and the corresponding figures shown according to US GAAP.

The comparatives were determined as if the IFRS had always been adopted. The differences between the accounting values of the consolidated financial statements as of December 31, 2002, according to US GAAP and those in the IFRS opening balance sheet as of January 1, 2003, were recognized in, and only in, the reserves retained from earnings.

Pursuant to IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, the total group equity according to US GAAP is reconciled to that based on IFRS:

€ million	Subnote	**12/31/2003**	1/1/2003
Total equity according to US GAAP		**297.9**	**238.6**
Capitalization of development costs	(a)	0.4	0.0
Write-up of tangible assets	(b)	0.8	1.5
Accounting for manufacturing contracts according to PoC	(c)	6.2	8.4
Accruals for employee benefits	(d)	(0.7)	(2.1)
M&A	(e)	(3.4)	(4.1)
Other adjustments		(1.7)	(2.1)
Tax effects of the adjustments	(f)	(1.9)	(4.2)
Total equity according to IFRS		**297.6**	**236.0**

The effects of adjustments to IFRS on the Group's net earnings are shown in the table below:

€ million	Subnote	Fiscal 2003
Group earnings according to US GAAP		**55.0**
Capitalization of development costs	(a)	0.4
Write-up of tangible assets	(b)	(0.7)
Accounting for manufacturing contracts according to PoC	(c)	(2.2)
Accruals for employee benefits	(d)	0.5
M&A	(e)	0.0
Other adjustments		0.0
Tax effects of the adjustments	(f)	2.5
Group earnings according to IFRS		**55.5**

The accounting and valuation methods applied in the US GAAP consolidated financial statements as of December 31, 2003, differ from those used when applying the IFRS as follows:

(a) Development costs

According to FAS 2 of US GAAP, contract-unrelated development costs were generally expensed in the period when incurred, whereas IAS 38 requires that such development costs be capitalized if and when the recognition criteria are met. By capitalizing and amortizing development costs, these are distributed differently over time.

(b) Write-up of tangible assets

US GAAP prohibit the write-up of tangible assets to reverse any previous write-down once the reason for write-down ceases to exist. In contrast, IAS 36 strictly prescribes that tangibles previously written down be written up to their previous depreciated cost. Accounting for the write-up in the opening balance sheet entails higher depreciation in subsequent periods.

(c) Manufacturing contracts

Under US GAAP, only long-term manufacturing or construction contracts (i.e., if extending over more than one year) were accounted for according to the PoC method. IAS 11 requires all dedicated manufacturing contracts and orders for customer-specific production—whether short- or long-term—to be recognized according to their PoC. Accounting for those contracts on a PoC basis which previously remained unrecognized for US GAAP purposes resulted in the earlier realization of sales and earnings. The opening financial statements as of January 1, 2003, show prorated pretax profits of €8.4 million (albeit not recognized in net income) from PoC contract work in process. This early profit recognition reduced EBT for the entire year 2003 by €2.2 million in comparison to the US GAAP accounts. These amounts reflect the effects on intercompany P&L elimination and sales-related accruals.

(d) Accruals for employee benefits

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, offers the option at the time of transition to the IFRS to increase pension accruals to the full defined benefit obligations even if the corridor method is applied at some future date only. This accounting option was exercised. Consequently and in contrast to the US GAAP accounts, the IFRS opening balance sheet as of January 1, 2003, does not present any unamortized actuarial gains or losses, the recognized accruals for employee benefits thus corresponding to the full total obligation. The increase in pension accruals to the full DBO made in the IFRS opening balance sheet but not recognized in the income instatement, implies that actuarial gains and losses will no longer be amortized, and hence pension expenses will be reduced, in future periods.

(e) Mergers and acquisitions

The goodwill recognized according to US GAAP differs from that shown in line with the IFRS since the IFRS adjustments impacted on the equity of acquirees as of takeover date.

Capital consolidation of the Kiepe Group acquired in late 2002 resulted in the equity of the IFRS opening balance sheet as of January 1, 2003, differing by €4.1 million from that according to US GAAP. This difference was substantially caused by the changed equity of the acquirees at takeover date due to the different adoption of the PoC method and the resultant change in goodwill value; see also subnote (c) to the PoC method.

According to US GAAP, badwill must be offset according to FAS 141 against certain acquired noncurrent assets whereas IFRS 3 requires badwill to be recognized in net income.

(f) Tax effects

This line mirrors all effects of the above adjustments to the IFRS. The deferred taxes of German subsidiaries were based on a rate of 40 percent, foreign companies using the appropriate local tax rates. Also included in this line is the adjustment to the write-down of deferred taxes.

Remuneration of board members
The fees of the Supervisory Board in the year under review amounted to €0.343 million (down from €0.487 million), breaking down into a fixed fee of €0.088 million (down from €0.117 million) and a variable component of €0.255 million (down from €0.370 million). Fees of Advisory Board members for fiscal 2004 came to €0.020 million (virtually unchanged).

The cash and noncash remuneration of Vossloh AG's Executive Board members totaled €3.398 million (up from €3.088 million) and includes besides a fixed portion of €0.862 million (up from €0.733 million), a variable profit share of €2.536 million (up from €2.355 million). Under the Long-Term Incentive Program (LTIP), the Executive Board members exercised in 2004 none of their stock options, which totaled an unchanged 48,220 at year-end 2004.

A total €2.213 million (down from €2.244 million) was provided for the full accrued pension obligations to former Executive Board members and their surviving dependants; current pension payments amounted to €0.237 million (up from €0.236 million).

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

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

German Corporate Governance Code
In December 2004 the Executive and Supervisory Boards issued, and made available to the stockholders on the Group's website, the updated declaration of conformity pursuant to Art. 161 AktG.

Exemption of subsidiaries from certain publication obligations
Vossloh subsidiaries which claim the exemption from preparing and publishing their own financial statements under the terms of Art. 264(3) or 264b HGB are marked accordingly in the list of Vossloh AG's shareholdings (published on pages 118–119).

Proposed profit appropriation
The Executive Board proposes to the annual stockholders' meeting to distribute for the eligible capital stock of Vossloh AG of €37.4 million, a cash dividend of €1.30 per common share, hence a total €19.0 million, and retain €17.0 million as reserves.

Werdohl, February 28, 2005

Vossloh AG
The Executive Board

Schuchmann, Andree, Caiña-Lindemann

Fixed-asset analysis

Group	Cost					
€ million	Balance at 1/1/2004	Additions from initial consolidation	Additions/ current capital expenditures	Disposals	Changes from deconsolidation	Book transfers
Intangible assets						
Development costs	12.6	–	5.3	0.3	–	(0.4)
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	21.5	–	1.6	0.8	–	0.6
Goodwill	262.4	–	2.1	–	–	–
Prepayments on intangibles	–	–	1.6	–	–	–
	296.5	**–**	**10.6**	**1.1**	**–**	**0.2**
Tangible assets						
Land, equivalents titles, and buildings (including on leased land)	66.0	5.4	3.3	4.5	–	0.1
Production plant and machinery	135.8	2.3	10.6	3.6	–	5.0
Other plant, factory and office equipment	43.6	0.3	5.3	2.9	–	(1.6)
Prepayments made, construction in progress	3.3	–	9.6	0.0	–	(3.7)
	248.7	**8.0**	**28.8**	**11.0**	**–**	**(0.2)**
Investment properties	**18.3**	**–**	**–**	**0.0**	**–**	**0.0**
Financial assets						
Shares in unconsolidated subsidiaries	4.4	0.0	0.9	0.1	0.1	–
Shares in associated affiliates	1.4	–	1.1	1.1	–	–
Other investments	6.2	–	0.0	5.2	–	–
Loans to investees	2.3	–	0.1	2.4	–	–
Other long-term securities	1.2	0.0	0.0	0.3	–	–
Other long-term loans	0.1	–	0.0	0.0	–	–
	15.6	**0.0**	**2.1**	**9.1**	**0.1**	**–**
Total	**579.1**	**8.0**	**41.5**	**21.2**	**0.1**	**–**

			Amortization/depreciation/write-down				Book values	Book values
	Currency translation differences	**Balance at 12/31/2004**	**Balance at 12/31/2004**	in fiscal 2004	Additions from initial consolidation	Write-up	**Balance at 12/31/2004**	Balance at 12/31/2003
	0.0	17.2	9.2	5.6	–	–	8.0	8.4
	0.0	22.9	19.2	1.9	–	–	3.7	3.8
	–	264.5	1.8	–	–	–	262.7	260.6
	–	1.6	–	–	–	–	1.6	–
	0.0	**306.2**	**30.2**	**7.5**	**–**	**–**	**276.0**	**272.8**
	(0.1)	70.2	33.4	2.8	3.0	–	36.8	36.6
	0.5	150.6	109.5	11.1	1.9	–	41.1	38.7
	0.0	44.7	34.4	4.3	0.2	–	10.3	9.3
	0.0	9.2	–	–	–	–	9.2	3.3
	0.4	**274.7**	**177.3**	**18.2**	**5.1**	**–**	**97.4**	**87.9**
	0.1	**18.4**	**11.5**	**0.3**	**–**	**–**	**6.9**	**7.1**
	0.0	5.3	1.7	0.6	(0.1)	2.0	3.6	1.1
	–	1.4	–	–	–	–	1.4	0.9
	–	1.0	0.3	–	–	–	0.7	4.4
	–	–	–	–	–	–	–	2.3
	0.0	0.9	0.0	–	–	–	0.9	1.1
	–	0.1	–	–	–	–	0.1	0.1
	0.0	**8.7**	**2.0**	**0.6**	**(0.1)**	**2.0**	**6.7**	**9.9**
	0.5	**608.0**	**221.0**	**26.6**	**5.0**	**2.0**	**387.0**	**377.7**

List of shareholdings

€ million		Footnote	Interest held in %	through ( )	Consol-idation[1]	Equity[2]	Sales[2]
(1)	**Vossloh AG, Werdohl**				(c)	478.0	1.0
	Rail Technology						
(2)	Vossloh Rail Technology GmbH, Werdohl		100	(1)	(c)	115.6	0.0
	Rail Infrastructure division						
(3)	Vossloh France SAS, Paris, France		100	(2)	(c)	87.7	0.0
	Vossloh Fastening Systems business unit						
(4)	Vossloh-Werke GmbH, Werdohl	3	100	(2)	(c)	4.3	2.5
(5)	Vossloh-Delitzsch GmbH, Delitzsch		100	(4)	(c)	7.7	3.3
(6)	Vossloh Fastening Systems GmbH, Werdohl	3	100	(4)	(c)	6.6	146.1
(7)	Vossloh Werdohl GmbH, Werdohl		100	(4)	(c)	8.5	33.2
(8)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania	4	100	(4)	(u)	0.0	0.1
(9)	Vossloh Drázni Technika s.r.o., Prague, Czech Republic	4	100	(4)	(u)	0.3	3.5
(10)	Vossloh Sistemi S.r.l., Sarsina, Italy	4	100	(4)	(u)	0.3	5.7
(11)	Patil Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4	51	(4)	(u)	0.3	4.0
(12)	BeNT-Vossloh T.O.O., Almaty, Kazakhstan		25	(4)	(u)	4.5	1.5
(13)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50	(4)	(e)	1.5	10.9
(14)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50	(4)	(u)	0.0	0.0
(15)	Vossloh Maschinenfabrik Deutschland GmbH, Erkelenz	4	100	(4)	(u)	(0.2)	0.0
(16)	Vossloh Utenzilija d.d., Zagreb, Croatia	4	89.2	(4)	(u)	2.4	1.7
(17)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100	(4)	(c)	2.3	7.0
(18)	Vossloh Rail Technologies Ltd.Sti., Istanbul, Turkey	4	99.5/0.5	(4,6)	(u)	0.0	0.0
(19)	Feder-7 Kft., Szekesfeheryar, Ungary	4	96.67/3.33	(4,6)	(u)	0.1	0.3
	Vossloh Switch Systems business unit						
(20)	Vossloh Cogifer SA, Rueil-Malmaison, France		100	(3)	(c)	61.8	128.7
(21)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100	(20)	(c)	1.5	4.0
(22)	Vossloh Cogifer Finnland OY, Teijo, Finland		100	(23)	(c)	1.0	5.0
(23)	Vossloh Cogifer Nordic AB, Örebro, Sweden		100	(20)	(c)	5.2	15.7
(24)	Vossloh Cogifer Norway AS, Oslo, Norway		100	(23)	(c)	0.2	3.1
(25)	KIHN SA, Rumelange, Luxembourg		89.21	(20)	(c)	10.8	16.0
(26)	DDL SA, Rodange, Luxembourg		100	(25)	(c)	(2.9)	0.6
(27)	Vossloh Laeis GmbH & Co KG, Trier		100	(25)	(c)	2.4	6.4
(28)	Vossloh Laeis Verwaltungs GmbH, Trier		100	(25)	(c)	0.0	0.0
(29)	EAV Durieux SA, Carnières, Belgium		99/1	(25/20)	(c)	1.4	6.2
(30)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61	(20)	(c)	2.8	12.0
(31)	Amurrio Ferrocarriles y Equipos SA, Amurrio, Spain		50	(20)	(p)	18.1	30.9
(32)	Montajes Ferroviarios srl, Amurrio, Spain		100	(31)	(u)	0.0	0.4
(33)	Burbiola S.A., Amurrio, Spain		50	(31)	(u)	1.5	0.3
(34)	Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK		50	(20)	(p)	9.2	36.1
(35)	Vossloh Cogifer Italia S.r.l., Bari, Italy		100	(20)	(c)	0.7	3.9
(36)	Cogifer Polska Sp.z o.o., Bydgosecz, Poland		52.38	(20)	(c)	7.4	8.0
(37)	ATO-Asia Turnouts Ltd., Bangkok, Thailand		51	(20)	(c)	0.5	2.5
(38)	Cogifer Services (Malaysia) sdn bhd, Kuala Lumpur, Malaysia	4	100	(20)	(u)	0.0	0.0
(39)	Cogifer Americas Inc., Cincinnati, OH, USA	4	100	(20)	(u)	0.0	0.0
(40)	J.S. Industrie, Secunderabad,India	4	51	(20)	(u)	0.1	0.3
(41)	Siema Applications SAS, Villeurbanne, France		100	(20)	(c)	1.2	5.8
(42)	Vossloh Min Skretnice, AO, Niš, Serbia	5	90.61	(20)	(c)	(0.8)	2.4
(43)	SMIF, Casablanca, Morocco	4	100	(20)	(u)	0.0	0.0
(44)	Swedish Rail Systems AB, Ystad,Sweden	5	100	(23)	(c)	3.4	10.1

	€ million	Footnote	Interest held in % through ( )		Consol-idation [1]	Equity [2]	Sales [2]
	Vossloh Infrastructure Services business unit						
(45)	Vossloh Infrastructure Services SA, Beauchamp, France		100	(3)	(c)	25.8	71.5
(46)	ETF SA, Paris, France		50	(45)	(p)	25.1	100.6
(47)	La Champenoise SA, Champagne au Mont d'Or, France		50	(46)	(p)	0.8	6.3
(48)	Soluxtrafer SA, Rodange, Luxembourg		100	(45)	(c)	9.9	16.9
(49)	Euro VF Holding SA, Luxembourg, Luxembourg	4	99.9	(48)	(u)	0.0	0.0
(50)	Dehé Bahnbau GmbH, Trier		100	(48)	(c)	0.6	0.0
(51)	SA Soluxtrafer Belgium N.V., Carnières, Belgium		100	(45)	(c)	0.7	7.2
(52)	Cogifer TF B.V., Goirle, Netherlands		100	(45)	(c)	0.0	0.0
(53)	Cogi Hbg VOF, Goirle, Netherlands		50	(52)	(p)	1.1	0.7
(54)	Cogimex SA de CV, Mexico City, Mexico		94	(45)	(c)	0.1	6.8
(55)	Sogafer SA, Libreville, Gabon		49	(45)	(u)	0.0	0.0
(56)	Cogifer de Chili Lda., Santiago, Chile	4	100	(45)	(u)	0.8	0.0
(57)	Vossloh Infrastructure Services Ltd., Sidcup, UK		100	(45)	(c)	2.6	0.6
(58)	Turinval S.c.r.l., Torino, Italy		50	(45)	(u)	0.2	4.9
	Motive Power division						
	Vossloh Locomotives business unit						
(59)	Vossloh Locomotives GmbH, Kiel	3	100	(2)	(c)	26.9	254.3
(60)	Locomotion Service GmbH, Kiel		100	(59)	(c)	0.1	4.8
(61)	Vossloh España S.A., Valencia,Spain	5	100	(59)	(c)	0.1	0.0
	Vossloh Electrical Systems business unit						
(62)	Vossloh Verwaltungsgesellschaft mbH, Werdohl	4	100	(1)	(u)	0.0	0.0
(63)	Vossloh Beteiligungsgesellschaft mbH & Co. KG, Werdohl		100	(1)	(c)	2.9	0.0
(64)	Vossloh Kiepe GmbH, Düsseldorf		100	(63)	(c)	52.4	71.4
(65)	Vossloh Kiepe Elektrik Beteiligungs GmbH, Düsseldorf		100	(64)	(c)	1.4	0.0
(66)	Vossloh Kiepe Ges.m.b.H., Vienna, Austria		100	(65)	(c)	6.6	16.5
(67)	Vossloh Kiepe Corporation, Ottawa-Carleton, Canada	4	99	(65)	(u)	(0.3)	0.0
(68)	Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy	4	100	(65)	(u)	0.1	0.6
(69)	Vossloh Kiepe Trakcja Sp.z o.o., Krákow, Poland	4	100	(65)	(u)	0.0	0.0
	Vossloh Services business unit						
(70)	EuroTrac GmbH Verkehrstechnik, Kiel	3	100	(2)	(c)	0.1	4.6
	Information Technologies division						
(71)	Vossloh Information Technologies GmbH, Kiel	3	100	(2)	(c)	8.1	19.3
(72)	Vossloh Information Technologies Karlsfeld GmbH, Karlsfeld	3	100	(71)	(c)	3.9	38.2
(73)	Vossloh Information Technologies York Ltd., York, UK		100	(71)	(c)	1.5	5.6
(74)	Vossloh Information Technologies Malmö AB, Malmö, Sweden		68.47	(71)	(c)	0.6	2.1
	Other companies						
(75)	Vossloh Communication GmbH, Werdohl	4	100	(1)	(u)	0.4	1.3
(76)	Vossloh Australia PTY Ltd., Castle Hill, Australia	4	100	(1)	(u)	2.4	0.0
(77)	Vossloh Schwabe Australia PTY Ltd., Castle Hill, Australia	4	100	(76)	(u)	0.6	0.0
(78)	Delkor Rail PTY Limited, Sydney, Australia	4	100	(76)	(u)	0.2	2.1
(79)	Delkor Rail (HK) Ltd., Hong Kong, China	4	100	(78)	(u)	0.0	0.0
(80)	Vossloh Corporate Finance GmbH, Werdohl	4	100	(1)	(u)	0.0	0.5

1 Fully consolidated companies are labeled (c), those stated at equity (e), those included pro rata (p), and unconsolidated companies (u).
2 Derived from the consolidated financial statements, non-euro equity being translated at the mean current rate and non-euro sales and net income at the annual average rate.
3 Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.
4 Not included in consolidation group due to minor significance for the net assets, financial position and results of operations.
5 Newly consolidated in 2004.
A comprehensive list of shareholdings will be filed and deposited with the Commercial Register of the Iserlohn Local Court under C/R no. HRB 5292.

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

We audited the consolidated financial statements prepared by Vossloh AG which comprise balance sheet, income statement, statement of changes in equity, cash flow statement and the notes, for the fiscal year ended December 31, 2004. The preparation of and disclosures in the consolidated financial statements are the responsibility and assertions of the Company's Executive Board. Our responsibility is, based on our audit, to express an opinion on whether the consolidated financial statements conform with the International Financial Reporting Standards (IFRS).

We conducted our group audit in accordance with German auditing regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. When planning the audit procedures, knowledge and understanding of the Group's business, its economic and legal environment as well as sources of potential errors are given due consideration. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's legal representatives, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

It is our opinion that the consolidated financial statements, which are in conformity with the IFRS, present a true and fair view of the Group's net assets, financial position and results of operations and of the cash flows for the year then ended.

Our audit, which also covered the management report on the Company and the Group as prepared by the Executive Board for the fiscal year ended December 31, 2004, has not resulted in any objections or exceptions. It is our opinion that the management report on the Company and the Group together with the other disclosures in the consolidated financial statements presents fairly, in all material respects, both the Company's and the Group's overall position and the risks inherent in their future development. In addition, we confirm that the consolidated financial statements and the management report on the Company and the Group for the fiscal year ended December 31, 2004, satisfy the requirements to exempt the Company from preparing consolidated financial statements and a group management report in accordance with German law.

Essen, March 1, 2005

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

Rittmann
Wirtschaftsprüfer

pp. Rüttershoff
Wirtschaftsprüfer

Separate financial statements of Vossloh AG as of December 31, 2004

Income statement for the year ended December 31, 2004

€ million	2004	2003
Net sales	1.9	1.8
Cost of sales	(0.6)	(1.6)
Gross profit on sales	**1.3**	**0.2**
General administrative expenses	(17.8)	(15.8)
Other operating income	17.3	27.1
Other operating expenses	(0.1)	(8.1)
Operating result	**0.7**	**3.4**
Income from investments	0.2	9.0
thereof from subsidiaries: €0.2 million (down from €6.0 million)		
Income from P&L transfer agreements	34.2	–
thereof from subsidiaries €34.2 million (up from €0.0 million)		
Income from other long-term securities/loans	7.5	2.3
thereof from subsidiaries: €7.4 million (up from €2.2 million)		
Other interest and similar income	16.6	18.9
thereof from subsidiaries: €15.7 million (down from €18.7 million)		
Write-down of financial assets	–	(2.0)
Interest and similar expenses	(16.0)	(12.5)
thereof to subsidiaries: €0.9 million (down from €1.2 million)		
Net financial result	**42.5**	**15.7**
Result from ordinary operations (EBT)	**43.2**	**19.1**
Income taxes	(7.2)	0.0
Net income	**36.0**	**19.1**

Balance sheet

Assets

€ million	**12/31/2004**	12/31/2003
Intangible assets		
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses as thereto	0.1	0.8
Caps/collars/floors	0.2	0.6
Prepayments on intangibles	1.5	–
	1.8	**1.4**
Tangible assets		
Land, equivalents titles, and buildings (including on leased land)	7.2	7.5
Sundry plant, business and office equipment	0.3	0.3
	7.5	**7.8**
Financial assets		
Shares in subsidiaries	99.9	97.8
Loans to subsidiaries	155.0	155.0
Other investments	–	0.4
Loans to investees	–	2.4
Other long-term securities	0.1	0.1
Other long-term loans	0.0	0.0
	255.0	**255.7**
Fixed assets	**264.3**	**264.9**
Receivables and sundry assets		
Trade receivables	0.0	0.0
Due from subsidiaries	482.4	453.8
Due from investees	–	0.0
Sundry assets	11.4	8.5
	493.8	**462.3**
Short-term securities		
Treasury stock	1.1	1.1
Cash on hand and in bank	119.8	0.0
Current assets	**614.7**	**463.4**
Prepaid expenses & deferred charges	0.1	0.3
	879.1	**728.6**

Stockholders' equity & liabilities

€ million	**12/31/2004**	12/31/2003
Capital stock	37.4	37.4
Additional paid-in capital	33.3	33.3
Reserves retained from earnings		
Reserve for treasury stock	1.1	1.1
Other	379.7	379.7
Net earnings	36.1	19.1
Stockholders' equity	**487.6**	**470.6**
Accruals for pensions and similar obligations	9.5	9.3
Tax accruals	0.3	0.3
Other accruals	8.8	9.4
Accruals	**18.6**	**19.0**
Due to banks	105.0	187.3
Trade payables	0.5	0.7
Due to subsidiaries	49.8	46.8
Due to investees	2.7	1.8
Sundry liabilities	214.9	2.4
thereof for taxes (approx.): €8,573,300 (up from €71,100)		
thereof for social security (approx.): €39,900 (up from €0)		
Liabilities	**372.9**	**239.0**
	879.1	**728.6**

Vossloh AG

Fixed-asset analysis

Vossloh AG									
	Cost				Amortization/depreciation			Book values	Book values
€ million	Balance at 1/1/2004	Additions/ current cap. exp.	Disposals	**Balance at 12/31/2004**	**Balance at 12/31/2004**	Write-down	Write-up	**Balance at 12/31/2004**	Balance at 12/31/2003
Intangible assets									
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	5 2	0.0	0.0	5.2	5.1	0.7	–	0.1	0.8
Caps/collars/floors	0.6	–	0.4	0.2	–	–	–	0.2	0.6
Prepayments on intangibles	–	1.5	–	1.5	–	–	–	1.5	–
	5.8	**1.5**	**0.4**	**6.9**	**5.1**	**0.7**	–	**1.8**	**1.4**
Tangible assets									
Land	23.0	–	–	23.0	15.8	0.3	–	7.2	7.5
Sundry plant and equipment	1.4	0.1	0.2	1.3	1.0	0.1	–	0.3	0.3
	24.4	**0.1**	**0.2**	**24.3**	**16.8**	**0.4**	**–**	**7.5**	**7.8**
Financial assets									
Shares in subsidiaries	99.8	0.1	–	99.9	–	–	2.0	99.9	97.8
Loans to subsidiaries	155.0	25.0	25.0	155.0	–	–	–	155.0	155.0
Other investments	0.4	–	0.4	–	–	–	–	–	0.4
Loans to investees	2.4	–	2.4	–	–	–	–	–	2.4
Other long-term securities	0.1	–	0.0	0.1	0.0	–	–	0.1	0.1
Other long-term loans	0.0	–	0.0	0.0	–	–	–	0.0	0.0
	257.7	**25.1**	**27.8**	**255.0**	**0.0**	**–**	**2.0**	**255.0**	**255.7**
Total	**287.9**	**26.7**	**28.4**	**286.2**	**21.9**	**1.1**	**2.0**	**264.3**	**264.9**

Notes to the separate financial statements of Vossloh AG as of December 31, 2004

The annual financial statements of Vossloh AG as of December 31, 2004, were prepared in accordance with the provisions of the German Commercial Code ("HGB") and the German Stock Corporation Act ("AktG").

(1) Accounting and valuation principles

Accounting and valuation are governed by the following principles:

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

(2) Fixed assets

Classification and development of fixed assets are explained in greater detail in the fixed-asset analysis on page 124. The caps/collars/floors line refers to capitalized premiums for long-term cap agreements. For a full list of shareholdings, see pages 118 and 119.

(3) Receivables and sundry assets

Except for €4.659 million, all receivables and sundry assets fall due within one year. The accounts due from subsidiaries are nontrade receivables only.

(4) Prepaid expenses & deferred charges

This caption totals €0.140 million (down from €0.278 million) and includes loan discount at €0.103 million (down from €0.241 million).

(5) Stockholders' equity

Vossloh AG's capital stock amounted to €37,427,135.80 (up from €37,422,311.76) and is divided into 14,640,223 (up from 14,638,336) no-par bearer shares (common stock only).

Authorized capital of €18,406,507.72 existed at December 31, 2004.

The annual stockholders' meetings of June 25, 1998, and June 3, 2004, conditionally raised the capital stock by up to €1,840,650.77 by issuing a maximum of 720,000 no-par bearer shares of common stock in order to grant stock options to the Executive Board and other officers of Vossloh AG, as well as to officers and executives of Vossloh subsidiaries under the terms of Arts. 15 et seq. AktG. By December 31, 2004, the 198,380 shares issued thereunder had increased the capital stock by altogether €507,150.42. Moreover, the capital stock was conditionally raised by up to €382,594.60 by issuing a maximum of 149,658 no-par bearer shares of common stock in order to grant stock options to employees of Vossloh AG and of its German subsidiaries under the terms of Arts. 15 et seq. AktG. Out of this authorized but unissued capital, altogether 41,843 shares had been issued by December 31, 2004, thus raising the capital stock by €106,969.93.

As of December 31, 2004, the Company held an unchanged total of 34,649 treasury shares, corresponding to an unchanged €88,578.76 or 0.24 percent of the capital stock. These shares had been purchased in May 2003 at a total price of €1,120,568.20, hence at an average €32.34 per share.

The additional paid-in capital includes the premium earned from stock issued by Vossloh AG. Due to the capital increase from the conditional capital, €25,009.43 (up from €3,854,989.37) was transferred to the additional paid-in capital. The reserves retained from earnings comprise the reserve for treasury stock at an unchanged €1,120,568.20 and other reserves retained from earnings.

(6) Accruals

The other accruals of €8.8 million (down from €9.4 million) include €3.3 million for payroll (up from €3.1 million) and €5.5 million for sundry administrative purposes (down from €6.3 million).

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

Except for one account of €15.0 million (up from €133.0 million) due to banks within one to five years and another of €203.9 million (up from €0.0 million) due after more than five years, the liabilities disclosed in the balance sheet mature throughout within one year. The accounts due to subsidiaries were throughout nontrade.

€225.0 million (down from €330.2 million) of the contingent liabilities under suretyships and guaranties, which total €227.7 million (down from €337.0 million), was incurred for obligations of subsidiaries.

The fixed-liability guaranties in favor of subsidiaries total €429.0 million. Seven guaranties do not have a stipulated ceiling.

The other financial obligations total €0.4 million, including €0.2 million to subsidiaries, and break down into €0.3 million falling due within one and another €0.1 million between one and five years.

Besides Vossloh AG, all German subsidiaries are jointly and severally liable for the cash pooling debit balance owed to Deutsche Bank AG and Commerzbank AG.

(8) Results of operations

€1.0 million (virtually unchanged) of net sales, generated in 2004 solely in Germany, refers to rental income, including €0.6 million charged to subsidiaries. The other operating income came to €17.3 million (down from €27.1 million) and mainly resulted from tax apportionment (at €9.9 million), the gain from the disposal of the stake in Niles Simmons Hegenscheidt GmbH (at €4.1 million), and the write-up of the investment book value of Vossloh Australia Pty. Ltd. to historical cost (at €2.0 million).

(9) Other disclosures

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

In the year under review, personnel expenses totaled €6.5 million (up from €6.3 million), of which €6.0 million (up from €5.6 million) is allocable to wages and salaries, another €0.5 million (down from €0.7 million) to social security taxes, pension expense and related employee benefits, including €0.2 million pension expense (down from €0.5 million).

In fiscal 2004, Vossloh AG employed an average workforce of 32 (up from 30).

The fees of the Supervisory Board in the year under review amounted to €0.343 million (down from €0.487 million), breaking down into a fixed fee of €0.088 million and a variable component of €0.255 million. Fees of Advisory Board members for fiscal 2004 came to €0.020 million (virtually unchanged).

The cash and noncash remuneration of Vossloh AG's Executive Board members totaled €3.398 million (up from €3.088 million) and includes besides a fixed portion of €0.862 million (up from €0.733 million), a variable profit share of €2.536 million (up from €2.355 million). Under the Long-Term Incentive Program (LTIP), the Executive Board members exercised in 2004 no option rights, nor were any new stock options granted to them in 2003 and 2004. As of December 31, 2004, Executive Board members held an unchanged total 48,220 stock options.

A total €2.213 million (down from €2.244 million) was provided for the full accrued pension obligations to former Executive Board members and their surviving dependants; current pension payments amounted to €0.237 million (up from €0.236 million).

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

	Market value	Notional volume	Market value	Notional volume
€ million	**2004**		2003	
Interest rate swaps	(4.1)	51.1	(4.4)	51.1
Caps	0.2	76.7	0.6	76.7
Cross-currency swaps	(38.4)	203.9	0.0	0.0
Currency forwards	0.3	14.9	1.5	25.4
	(42.0)	**346.6**	**(2.3)**	**153.2**

The cap book values shown under intangible assets correspond to the market values. Bank opinions underlie the market valuation of interest rate hedges, while the market values of currency forwards were determined internally on the basis of the ratio of hedged rate to current value.

In December 2004, the Executive and Supervisory Boards reissued, and made available to the stockholders on the Group's website, the declaration of conformity, as required by the provisions of Art. 161 AktG. After the enactment of certain German legislation governing the notification, disclosure and publication of significant voting stakes in listed corporations, as required by Arts. 2, 3 and 4 of the Securities Purchase & Takeover Act, Vossloh AG received the following notifications of attributable voting rights in 2004 under the terms of Art. 21(1) or (1a) German Securities Trading Act ("WpHG"):

- Arnhold and S. Bleichroeder Advisers, LLC, 1345 Avenue of the Americas, New York, NY 10105-4300, USA, notified Vossloh AG as follows:
  We hereby notify you that on January 8, 2004, our voting stake in Vossloh AG fell below the threshold of 5 percent and now totals 4.71 percent or 690,000 votes, of which the full 690,000 votes are attributable to us pursuant to Art. 22(1)(1)(6) WpHG.

- On February 25, 2004, Vossloh AG received the following notification from Arnhold and S. Bleichroeder Advisers, LLC, 1345 Avenue of the Americas, New York, NY 10105-4300, USA, which this investor issued for and on behalf of Arnhold and S. Bleichroeder Holdings, Inc., 1345 Avenue of the Americas, New York, NY 10105-4300, USA:
  By letter dated January 8, 2004, Arnhold and S. Bleichroeder Advisers, LLC notified you that on January 8, 2004, its voting stake in Vossloh AG had on January 8, 2004, fallen below the threshold of 5 percent and totaled 4.71 percent or 690,000 votes, of which the full 690,000 votes are attributable to Arnhold and S. Bleichroeder Advisers, LLC pursuant to Art. 22(1)(1)(6) WpHG.

  In addition, we would like to inform you that the voting stake of our parent, viz. Arnhold and S. Bleichroeder Holdings, Inc., had on January 8, 2004, also fallen below the threshold of 5 percent of Vossloh AG's voting capital. The voting stake held by Arnhold and S. Bleichroeder Holdings, Inc. in Vossloh AG now totals 4.71 percent or 690,000 votes out of the total 14,638,336 votes, of which the full 690,000 votes are attributable to Arnhold and S. Bleichroeder Holdings, Inc. pursuant to Art. 22(1)(2) and 22(1)(1)(6) WpHG.

(10) Vossloh AG board members

Executive Board:

Burkhard Schuchmann, Chairman
- Vossloh France SAS[1]: president
- Vossloh Cogifer SA[1]: chairman and supervisory board member
- Vossloh Infrastructure Services S.A.[1]: supervisory board member
- Amurrio Ferrocarriles y Equipos S.A.[1]: supervisory board chairman
- Vossloh-Schwabe Matsushita Electric Works GmbH:
  supervisory board member (up to June 11, 2004)

Milagros Caiña-Lindemann, HR
- Wohnungsbaugesellschaft Werdohl GmbH: supervisory board member

Werner Andree, CFO

Supervisory Board:

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

Dipl.-Vwt. Dr. rer. pol. Karl Josef Neukirchen[3], Chairman
- Sixt AG: supervisory board chairman
- Stadtwerke Düsseldorf AG: supervisory board member
- Clariant International AG: director

Dipl.-Kfm. Dr. Jürgen Blume[3], Vice-Chairman, sworn public auditor and tax adviser

Wolfgang Klein[2,3], galvanizer

Wilfried Köpke[2], engineering designer

Peter Langenbach, lawyer
- Credit- und Volksbank eG, Wuppertal: supervisory board member

Dr. Anselm Raddatz, lawyer

[1] Office held within the respective group pursuant to Art. 100(2)(2) AktG
[2] Employee representative
[3] Staff and Audit Committee member

The annual financial statements 2004 show net income of €35,970,542.02. When including the undistributed profit of €81,500.35 carried forward from 2003, the net earnings available for distribution come to €36,052,042.37.

(11) Proposed profit appropriation

The Executive Board will propose to the annual stockholders' meeting to distribute a cash dividend of €1.30 for each share of the common stock of €37,427,135.80 ranking for dividend, hence a total cash distribution of €19,032,289.90 and carry forward the undistributed profit of €19,752.47.

Proposed profit appropriation	
€	**2004**
Undistributed profit as of January 1, 2004	81,500.35
Net income for 2004	35,970,542.02
Net earnings as of December 31, 2004	**36,052,042.37**
Proposed:	
total cash dividend	19,032,289.90
to be retained as reserve	17,000,000.00
carryforward	19,752.47

Werdohl, February 28, 2005

Vossloh AG
The Executive Board

Schuchmann, Andree, Caiña-Lindemann

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

We audited the annual financial statements (including the records and books of account) and the combined management report on the Company and the Group of Vossloh AG for the fiscal year ended December 31, 2004. The accounting and the preparation of the annual financial statements and management report on the Company and the Group in accordance with the German Commercial Code and the supplementary provisions of the bylaws are the responsibility and assertions of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and management report on the Company and the Group.

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

Our audit has not resulted in any objections or exceptions.

It is our opinion that the annual financial statements, with due regard to accounting principles generally accepted in Germany, present a true and fair view of the Company's net assets, financial position and results of operations. The management report on the Company and the Group presents fairly, in all material respects, both the Company's overall position and the risks inherent in its future development.

Essen, March 1, 2005

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

Rittmann	pp. Rüttershoff
Wirtschaftsprüfer	Wirtschaftsprüfer

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Annual stockholders' meeting	May 25, 2005
Payment of cash dividends	May 26, 2005
Publication of interim report	
as of March 31	April 26, 2005
as of June 30	July 26, 2005
as of September 30	October 25, 2005
Press conference	December 9, 2005
Meeting with DVFA analysts	December 9, 2005

Financial diary 2006	
Publication of 2005 financial data	March 2006
Press conference	March 2006
DVFA presentation	March 2006
Annual stockholders' meeting	May 24, 2006

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Vossloh stock details	
ISIN	DE0007667107
Traded at	Xetra, Düsseldorf, Frankfurt, Berlin
	Bremen, Hamburg, Hannover,
	Stuttgart, Munich
Index	MDAX
No. of shares issued and outstanding at 12/31/2004	14,605,574
Stock price (12/31/2004)	€36.35
2004 high/low	€47.68 / €27.45
Reuters code	VOSG.F
Bloomberg code	VOS GR
Dividend proposed	€1.30

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Glossary

of financial terms

Capital employed
Working capital + fixed assets

Cash & cash equivalents
Cash on hand and in bank

EBIT
Earnings before interest and income taxes

EBITDA
Earnings before amortization, depreciation, interest, and income taxes

EBIT margin
EBIT ÷ net sales

EBT
Earnings before income taxes

Equity ratio
Equity ÷ total assets

Financial liabilities
Bank debts + notes payable

IAS/IFRS
International Accounting Standards/ International Financial Reporting Standards

Net financial debt
Financial liabilities + notes payable – cash & cash equivalents – short-term securities

Net leverage
Net financial debt ÷ equity

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

Personnel expenses per capita
Personnel expenses ÷ annual average headcount

Pretax return on equity (ROE)
EBT ÷ equity

Return on capital employed (ROCE)
EBIT ÷ capital employed

US GAAP
United States Generally Accepted Accounting Principles

Value added
EBIT + personnel expenses + non-income taxes

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

Working capital ratio
Working capital ÷ net sales

Vossloh Group at a glance

Ten-year overview											
		2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Income statement data											
Net sales	€ mill.	922.2	912.5	744.5	903.0	854.4	790.1	578.4	428.7	394.9	381.3
thereof: Rail Technology	€ mill.	921.9	912.2	743.6	649.7	579.8	561.9	357.3	159.3	123.3	112.3
Lighting	€ mill.	–	–	–	252.8	274.1	227.7	220.5	208.5	186.2	175.0
Decoration	€ mill.	–	–	–	–	–	–	–	60.6	85.0	93.7
EBIT	€ mill.	105.8	100.9	78.4	60.0	77.9	48.4	61.8	50.9	28.8	24.0
Net interest result (until 1997 net financial result)	€ mill.	(16.2)	(14.7)	(14.8)	(17.2)	(13.6)	(7.0)	(6.4)	(2.2)	(3.4)	(3.5)
EBT	€ mill.	89.6	86.2	63.6	42.8	64.3	41.4	55.4	48.7	25.4	20.5
Group earnings (total)	€ mill.	57.2	55.5	52.4	17.2	27.8	17.7	31.2	28.9	15.9	16.7
Earnings per share[1,2] (EpS)	€	3.91	3.90	3.85	1.20	1.93	1.23	2.16	1.73	1.24	1.03
Pretax return on sales (ROS)	%	9.7	9.4	8.5	4.7	7.5	5.2	9.6	11.4	6.4	5.4
Pretax return on equity (ROE)	%	27.1	29.0	26.7	13.6	20.0	14.1	20.2	34.8	21.7	19.9
Return on capital employed (ROCE)	%	15.3	16.3	13.3	9.4	11.9	8.4	12.7	29.0	14.7	13.8
Balance sheet data											
Fixed assets	€ mill.	387.0	377.7	414.5	322.0	311.4	286.9	269.2	63.7	68.7	70.7
capital expenditures[3]	€ mill.	39.4	30.5	25.5	48.2	43.6	35.6	24.5	16.4	9.5	11.8
amortization/depreciation[3]	€ mill.	26.0	24.4	19.7	38.1	37.4	34.2	24.9	14.2	13.4	15.6
Working capital	€ mill.	303.2	242.7	175.5	316.3	341.4	292.2	217.4	112.1	127.4	103.1
Working capital ratio	%	32.9	26.6	23.6	35.0	40.0	37.0	37.6	26.1	32.3	27.0
Capital employed	€ mill.	690.2	620.4	590.0	638.3	652.8	579.1	486.6	175.8	196.1	173.8
Total equity	€ mill.	331.1	297.6	238.6	314.4	321.0	293.9	274.7	140.1	117.2	103.4
thereof: minority interests	€ mill.	5.8	5.6	4.6	121.2	116.7	106.0	99.4	0.9	1.5	1.2
Net financial debt	€ mill.	171.1	183.1	227.0	231.2	209.5	181.8	108.7	(4.1)	32.1	32.2
Total assets	€ mill.	1,021.3	880.3	947.2	899.0	896.3	785.5	679.3	255.4	248.8	236.1
Equity ratio	%	32.4	33.8	25.2	35.0	35.8	37.4	40.4	54.9	47.1	43.8
Cash flow statement data											
Cash flow from operating activities	€ mill.	32.9	16.1	122.9	50.6	35.1	(18.8)	20.5	45.7	18.3	17.0
Cash flow from investing activities	€ mill.	(27.5)	22.4	(292.3)	(45.8)	(49.3)	(42.4)	(128.3)	(9.3)	(12.4)	6.8
Cash flow from financing activities	€ mill.	110.5	(51.0)	10.8	(9.3)	23.2	55.2	139.6	(24.3)	(7.7)	(20.6)
Change in cash & cash equivalents	€ mill.	115.9	(12.5)	(6.6)	(4.5)	8.0	(7.3)	32.4	12.1	(1.8)	3.2
Workforce											
Annual average headcount		4,540	4,422	4,190	5,370	5,583	5,575	4,001	2,411	2,608	2,959
thereof: Germany		1,574	1,558	1,651	2,494	2,824	2,674	1,915	1,689	1,839	2,146
abroad		2,966	2,864	2,539	2,876	2,759	2,901	2,086	722	769	813
thereof: Rail Technology		4,508	4,392	4,167	3,884	4,001	4,174	2,624	589	508	627
Lighting		–	–	–	1,464	1,566	1,385	1,361	1,288	1,290	1,409
Decoration		–	–	–	–	–	–	–	518	794	910
Vossloh AG		32	30	23	22	16	16	16	16	16	13
Payroll-to-added value ratio	%	66.3	66.9	69.0	77.0	74.2	81.7	69.3	67.0	77.6	81.1
Personnel expenses	€ mill.	218.9	213.9	178.4	208.1	228.2	222.8	143.6	106.5	107.2	111.2
Personnel expenses per capita	€ '000	48.2	48.4	42.6	38.7	40.9	40.0	35.9	44.2	41.1	37.6

Vossloh AG – Ten-year overview											
		2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Capital stock	€ mill.	37.4	37.4	36.8	36.8	36.8	36.8	36.8	18.4	18.4	18.4
Dividend per share[1]	€	1.30[4]	1.30	1.20	0.75	0.75	0.60	0.59	0.38	0.33	0.33
Stock price at Dec. 31[1]	€	36.35	44.80	24.70	22.53	14.95	14.90	25.05	25.95	14.11	12.09
Market capitalization at Dec. 31	€ mill.	530.9	654.2	338.1	310.4	215.3	214.6	360.7	373.7	203.2	174.1

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

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

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

[3] Excl. financial assets

[4] If approved by the stockholders' meeting

Specialty supplier on the fast track

Annual Report 2004

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