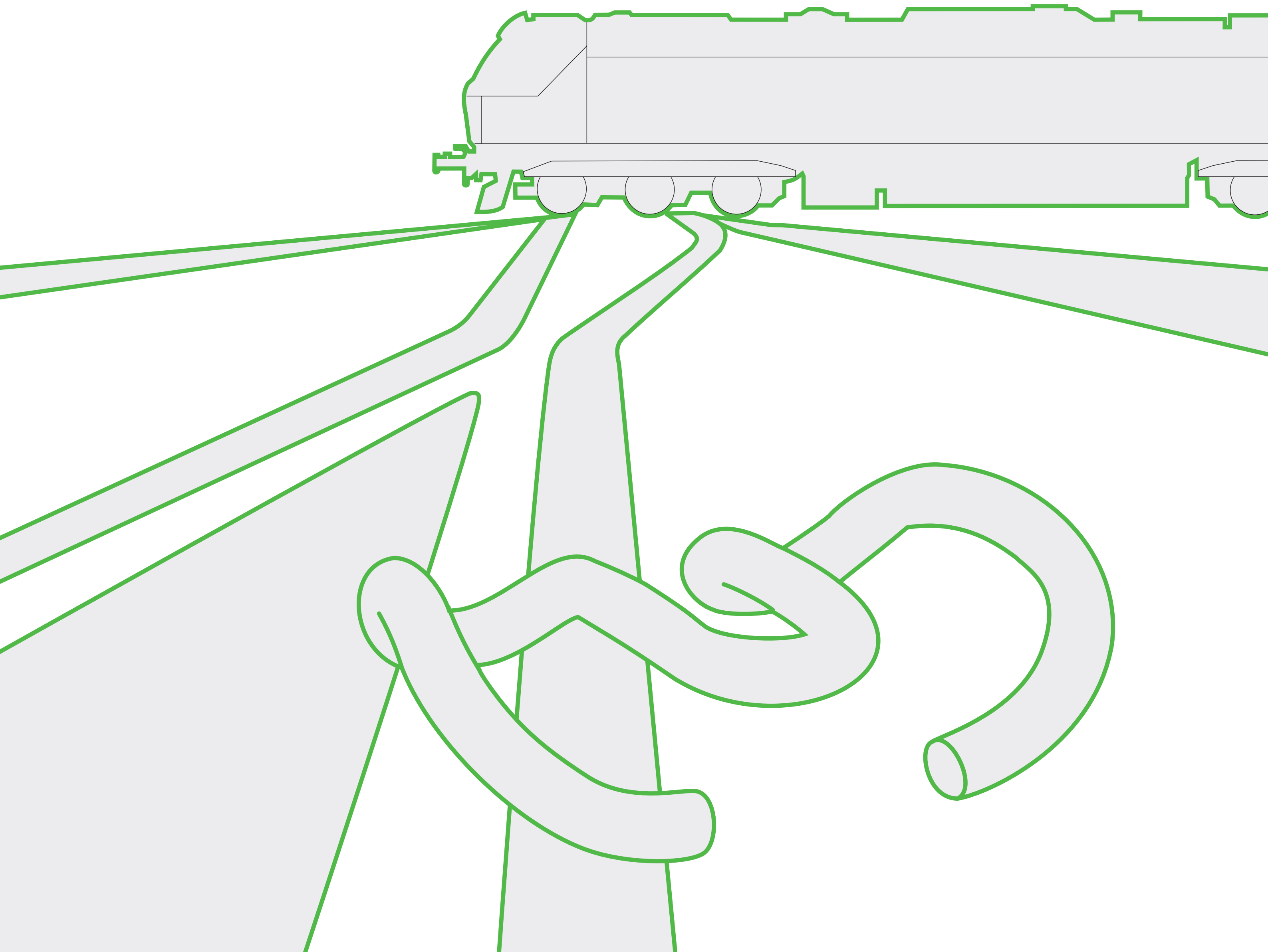
vossloh

ANNUAL REPORT 2007

Sustainable success.



Group indicators and key figures		2007	2006
Order backlog	€ mill.	1,306.9	1,368.6
Net sales	€ mill.	1,232.1	1,015.2
thereof: Rail Infrastructure	€ mill.	763.1	613.9
Motive Power & Components	€ mill.	468.9	401.2
EBITDA	€ mill.	150.7	108.6
EBIT	€ mill.	121.5	82.7
EBT	€ mill.	109.2	68.6
Group earnings (total)	€ mill.	71.4	20.3
Earnings per share (EpS)	€	4.83	1.38
Total assets	€ mill.	1,326.8	1,198.5
Total equity	€ mill.	434.0	371.1
Equity ratio	%	32.7	31.0
Pretax return on equity (ROE)	%	25.2	18.5
Working capital	€ mill.	312.8	216.7
Capital employed	€ mill.	816.2	640.1
ROCE	%	14.9	12.9
Net financial debt	€ mill.	124.9	62.3
Net leverage	€ mill.	28.8	16.8
Cash flow from operating activities	€ mill.	80.2	186.9
Cash flow from investing activities	€ mill.	(123.6)	(15.4)
Cash flow from financing activities	€ mill.	(25.7)	(81.5)
Annual average headcount		5,493	4,765
Personnel expenses	€ mill.	268.9	223.9
Personnel expenses per capita	€ '000	49.0	47.0

Vossloh's corporate structure

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

Rail Infrastructure division

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

The rail fasteners developed by Vossloh Fastening Systems ensure safe rail traffic in over 65 countries.

Vossloh Switch Systems commands a foremost international position in the market for advanced engineered rail switches.

Vossloh Infrastructure Services builds trackage for mainline and local lines, which it also services and maintains.

Motive Power & Components division

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

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

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

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems
Vossloh Infrastructure Services

Indicators		2007	2006
Net sales	€ mill.	763.1	613.9
EBITDA	€ mill.	128.6	95.1
EBIT	€ mill.	110.1	81.2
EBIT margin	%	14.4	13.2
Working capital	€ mill.	236.7	120.5
Working capital ratio	%	31.0	19.6
Fixed assets	€ mill.	369.7	291.9
Capital expenditures	€ mill.	39.0	9.7
Amortization/depreciation	€ mill.	18.5	14.0
Capital employed	€ mill.	606.4	412.4
ROCE	%	18.2	19.7

Business units:

Vossloh Locomotives
Vossloh Electrical Systems

Indicators		2007	2006
Net sales	€ mill.	468.9	401.2
EBITDA	€ mill.	40.1	31.8
EBIT	€ mill.	30.6	23.6
EBIT margin	%	6.5	5.9
Working capital	€ mill.	76.1	96.9
Working capital ratio	%	16.1	24.2
Fixed assets	€ mill.	122.6	119.7
Capital expenditures	€ mill.	13.3	12.9
Amortization/depreciation	€ mill.	9.5	8.2
Capital employed	€ mill.	198.7	216.6
ROCE	%	15.4	10.9

Sustainably successful

Rail infrastructure and rail technology: this is our business. This is where we play a key role in making rail traffic safe, cost efficient, and kind to the environment. Vossloh stands for rail-industry competence and advanced solutions that have grown and matured over decades. In its chosen markets Vossloh is a leader enjoying foremost positions worldwide. The know-how of our business units is more than ever sought after. We are continuously enhancing the benefits from our products and services in the interests of our customers and this, in turn, opens up for us fresh and attractive growth potentials. We rigorously focus on the success and sustainable value-adding growth of our group.

Contents

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

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

Dear Stockholders:

For Vossloh AG, 2007 was an outstanding year. We originally budgeted for 2007 sales of €1.08 billion and an EBIT of €108 million. These target estimates were then twice raised in the course of 2007, allowing for the business uptrend and our new acquirees. Ultimately, even the figures revised upward were exceeded. In fiscal 2007, Vossloh generated sales of €1.23 billion, with EBIT climbing to €121.5 million. We are also quite pleased with the trend of our profitability. The key controlling parameter, return on capital employed (ROCE), climbed to 14.9 percent in 2007, thus outstripping the prior year's by 2 percentage points. The EBIT margin came to 9.9 percent in the year under review, up from 8.1. Therefore, we have nudged our self-set profitability targets—an ROCE of 15 percent and an EBIT margin of 10 percent.

At the same time, we made solid progress in executing our strategy. Following the sale of the Information Technologies division in January 2007, the focus of our portfolio optimization shifted to acquisitions. In March, we acquired the US switch manufacturer Pohl Corp., based in Reading, Pennsylvania. Just a few weeks later, we succeeded in taking over Cleveland Track Material, Inc., a second acquisition in the USA, this time located in Cleveland, Ohio. The two US subsidiaries are expected to contribute annual sales of US$100+ million in 2008. As a result, Vossloh has not only entered the US market but already become its third-largest switch producer at first go.

In August, the previous 50-percent stake in the French affiliate Européenne de Travaux Ferroviaires SA (ETF) was increased to 100 percent. In November, we signed an agreement to purchase the switch business of Thompsons Kelly & Lewis Pty. Ltd. (TKL) in Australia. TKL Rail is the second-largest manufacturer in the Australian switch market. These two companies are set to generate incremental sales equivalent to some €120 million in 2008.

Unlike in the switch segment, with rail fastening systems we are relying increasingly on organic growth. During the past fiscal year, this trend was driven chiefly by two major contracts from China together worth €185 million, which had been secured in the fall of 2006. The vast bulk of the contracted volumes will be processed through our own factory, which we built in record time together with a Chinese joint venturer in Kunshan outside of Shanghai.

With the acquisitions in the USA and Australia and the China business, we have moved significantly closer to our target of leveling up the share of non-European sales from 10 to 30 percent. In fiscal 2007, we generated 20+ percent of our sales outside of Europe, compared with less than 10 percent in 2006.

In view of the favorable operating performance and against the backdrop of the successful acquisitions we feel fully confirmed in our strategy. We will continue to ensure that Vossloh remains prominently represented wherever rail infrastructure and rail technology promise growth.

The Locomotives unit has picked up steam, with both the Kiel and Valencia sites showing very healthy order books. For the first time in 2007, Locomotives exceeded the key benchmark, an ROCE of at least 15 percent. In the switch systems market we are seeking to close further geographical gaps by acquiring local companies. Components which complement our rail infrastructure and rail transport products will continue to be potential acquisition targets. Parallel with the drive to round off our portfolio, we will further advance productivity and the pace of innovation in our present business segments.

"Sustainable success" is the motto of this year's Annual Report—an ambitious claim but one that we believe we can fulfill, as demonstrated by our budget figures released in December 2007. For 2008, we have budgeted sales of a good €1.3 billion and an EBIT of €142 million, which would lift ROCE to 17.9 percent and the EBIT margin to 10.6 percent. We predict that sales will rise once again in 2009, too, thus maintaining these commendable returns. In view of the increasing uncertainties in the general economic environment, this outlook underlines the continuity and sustainable prospects offered by Vossloh's business model.

You, our stockholders, are set to benefit from these profitability-boosting efforts. For fiscal 2007, the Executive and Supervisory Boards will propose to your annual meeting a dividend of €1.70 per share, clearly above the previous year's. Moreover, our dividend policy will remain pegged to our earnings, meaning that rising profit brings not only further financial scope for growth but also attractive dividend payouts. Vossloh will maintain its chosen path of profitable growth. I would be most happy if you, as Vossloh AG's stockholders, continued to accompany us in our efforts.

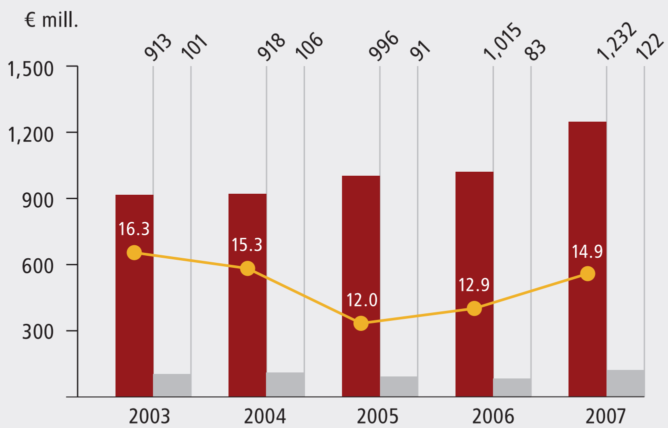
With kind regards,

Werner Andree
CEO

Most successful year ever in the Group's history: Sales of €1.23 billion and group earnings of €74.9 million

Vossloh branching out internationally: Acquisitions in the USA and Australia, new factory in China

Vossloh strategy staying on track: Continuing in the direction of profitable growth



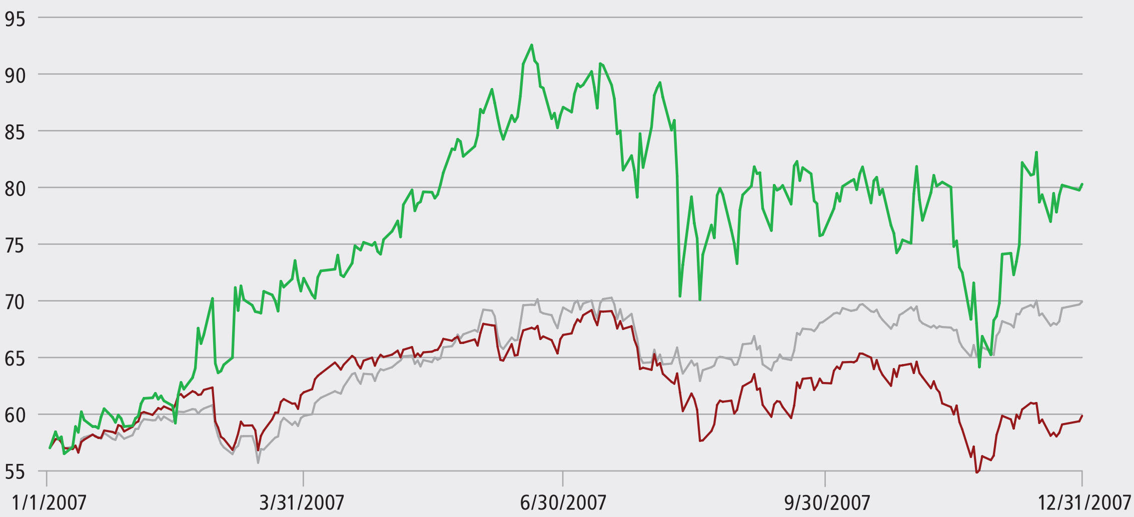
Vossloh's sales, EBIT and ROCE trends

Stock price gain of over 40 percent in 2007

Easily outpacing both the DAX and MDAX

Dividend hike of 30+ percent to €1.70

Vossloh stock price trend from Jan. 1 to Dec. 31, 2007



Vossloh stock
MDAX (rebased)
DAX (rebased)

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

Vossloh stock

For Vossloh, 2007 was also a good year on the capital market. The investor community rewarded both the strategic landmarks (such as the acquisitions in the USA and Australia) and the very good operating results and prospects. Almost consistently, the price outperformed both the DAX and MDAX and, just as in 2006, the year-end gain was well in excess of these two German benchmarks.

Stock markets in 2007

2007 was a period of contrasts on the German and international stock markets. The first six months saw a continuous upswing triggered by global economic growth and sustained corporate profits. This was followed in the latter half of the year by a roller coaster ride, the spreading US subprime mortgage market crisis and the attendant recession scares plus the continuous rise in oil prices causing stock quotations in some cases to swing wildly after mid-2007.

Germany's prime stock market index, the DAX, closed the year at 8,067, only 85 points short of the annual high of 8,152 notched on July 13, 2007. With a year-on-year gain of 22 percent, the DAX easily outperformed other indexes in Germany and abroad.

The MDAX, Vossloh's home and hence chiefly relevant index, ended the year at 9,865. arallel to the DAX, the MDAX had by July 13 climbed to its all-time high of 11,494. The general economic uncertainty infecting after mid-2007 increasingly Germany and Europe depressed the MDAX in the latter half of 2007 to around 14 percent below its annual high. On a year-on-year balance, the MDAX rose around 5 percent, for the first time since 2003 a mere single-digit gain.

Vossloh share price trend

Mounting a good 40 percent inside 12 months Vossloh stock clearly outperformed both the DAX and MDAX.

Listed under the MDAX, Vossloh AG entered 2007 with a price of €56.70. The Company's access to the US rail switch market combined with promising interim results and 12-month forecasts propelled the price to an all-time high of €94.47 on June 18, 2007. Then, in the latter half of the year, the stock price followed the general market downtrend. The CEO change of August 9, 2007, initially led to some uncertainty on the part of the capital market, thus causing the price to temporarily falter. By the end of August, however, it had regained its composure, ranging between €75 and just over €80 in the months that succeeded. Only in November did it dip down to €62.60 analogous to the general MDAX trend. Following the budget announced on December 7, 2007, Vossloh stock once more topped €80 and at year-end its €80.10 represented a 41-percent 12-month gain.

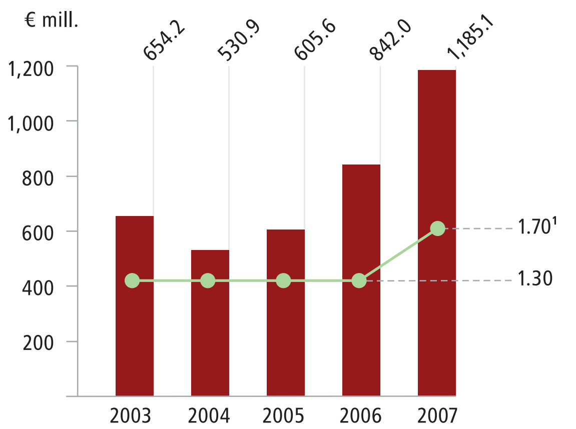
Market capitalization climbed from €842.0 million (year-end 2006) to €1,185.1 million as of December 31, 2007. In all, some 24 million Vossloh AG shares changed hands in 2007; this topped the 2006 record volume by over one-half or about 8.3 million shares. The average daily trading volume jumped from 61,800 to 95,400 and in Deutsche Börse's MDAX rankings for December 2007, the Company was positioned 43 and 44 in terms of market capitalization and 12-month turnover, respectively (up from 53 and 50, respectively). The capital stock at year-end 2007 was up by 60,001 newly issued shares as options under the 2004 employee and management stock option programs (LTIP/ESOP) were exercised.

Vossloh stock indicators		2007	2006	2005	2004	2003
Earnings per share (EpS)	€	4.83	1.38	3.07	3.91	3.90
Cash flow per share	€	5.43	12.68	3.71	2.25	1.10
Dividend per share	€	1.70[1]	1.30	1.30	1.30	1.30
Total dividend payout	€ mill.	25.2	19.2	19.2	19.0	19.0
Book value per share (excl. minority interests)	€	28.51	24.55	24.09	22.28	19.99
Annual average number of shares outstanding	1,000	14,768	14,735	14,688	14,605	14,239
Number of shares outstanding at year-end	1,000	14,796	14,736	14,735	14,606	14,604
Closing stock price	€	80.10	57.14	41.10	36.35	44.80
Closing market capitalization	€ mill.	1, 185.1	842.0	605.6	530.9	654.2
Annual high/low	€	94.47/56.21	59.20/34.90	48.58/36.11	47.68/27.45	44.85/23.75
Price-earnings ratio (PER)		16.6	41.4	13.4	9.3	11.5
Price-cash flow ratio		14.7	4.5T	11.1	16.1	40.7
Trading volume (shares)	1,000	24,040	15,760	10,453	10,828	8,785
Average daily turnover of shares	1,000	95.4	61.8	40.5	42.1	34.9

[1]proposed

Dividend

Vossloh AG's Executive and Supervisory Boards will propose to the annual general meeting on May 21, 2008, to distribute a cash dividend for fiscal 2007 of €1.70 per share, up 40 cents or almost one-third. The total dividend payout will then be equivalent to around 35 percent of group earnings.



Market capitalization and dividend trend

Market capitalization at Dec. 31

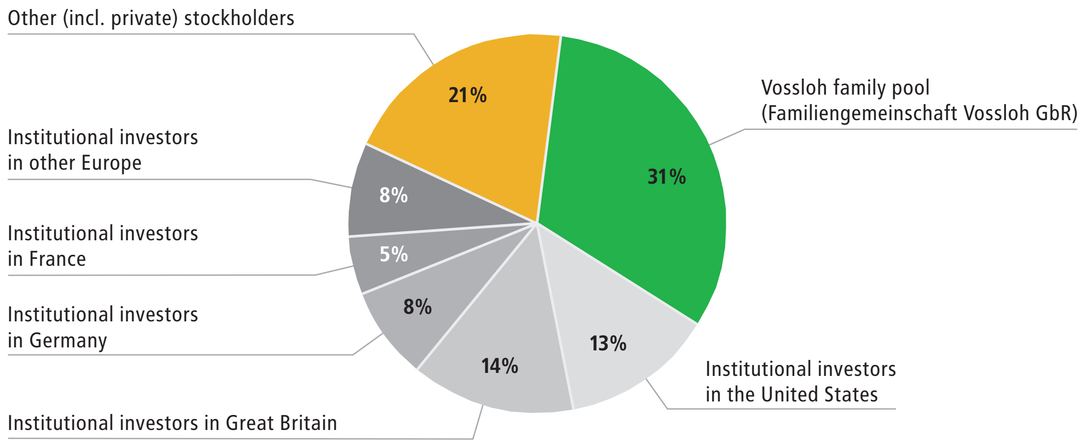
Cash dividend in €

[1]Subject to AGM approval

Ownership structure

At the close of fiscal 2007, the Vossloh family pool again held a virtually unchanged stake of around 31 percent in the Company's capital stock.

An ownership structure survey conducted in September 2007 indicated that of the remaining around 69 percent, a good two-thirds were in the hands of institutional investors. Just under one-third of the free float was held by "other" stockholders, including private investors other than the Vossloh family. Compared with the year-earlier survey results, there had therefore been a noticeable advance in the proportion of institutional investors. In fall 2007, the proportion of major foreign institutional investors accounted for about 40 percent of the total capital stock or around 59 percent of the free float. Some 27 percent of the total capital stock and just under 40 percent of the free-floating capital was in the hands of British and US investment funds. The US investor Arnhold and S. Bleichroeder Advisers, LLC, whose shareholding in Vossloh (temporarily in excess of 5 percent) is assigned to its parent Arnhold and S. Bleichroeder Holdings, Inc., had shrunk its stake. As of January 28, 2007, Arnhold and S. Bleichroeder Advisers, LLC announced that its voting interest had slipped below 3 percent. Institutional investors in Germany held about 8 percent of the total capital stock, equivalent to some 12 percent of the free float and a pronounced rise versus the year-earlier figure.



Vossloh AG's ownership structure

Analysts' opinions

At present, the number of analysts regularly reviewing Vossloh stock is 14 (up from 11). The publication of the new budget figures in December 2007 triggered several reassessments which, in turn, by end-January 2008 resulted in published price targets ranging between €64 and €105 and, at the time, an average of €89. Hence, most analysts recommended "buy" and the majority emphasized the still very bright growth prospects of the various units as well as the substantial insensitivity to economic swings thanks to Vossloh's business model.

Dialogue with the capital market

Transparent reporting and a regular dialogue with financial analysts and institutional and private investors is a key objective and rigorously pursued purpose of our investor relations efforts.

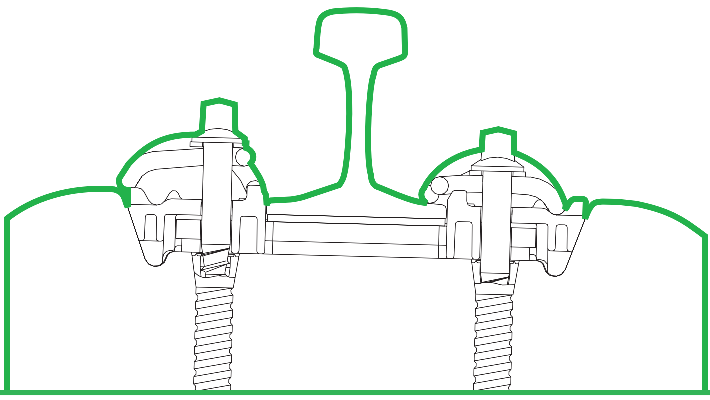
In the course of 2007, Vossloh highlighted its activities to present and potential investors at altogether ten road shows held in Europe and the USA. The Company also attended major capital market conferences organized for MDAX companies. Teleconferences coinciding 0with all the important publications as well as numerous one-on-one interviews with institutional investors, analysts, and private stockholders are likewise integral elements of our investor relations work. In the early months of 2008 there was another clear uptrend in Vossloh's capital market contacts.

The newest presentation documents, present and past annual and quarterly reports are all available for downloading from our website. We will also gladly forward this material to you by post or email. Go to investor.relations@ag.vossloh.com to contact our IR department.

On the move worldwide

Vossloh is growing in attractive markets around the globe—examples in 2007 being China, Australia and North America. Rail transport has a future especially in these regions because of the increasing freight volumes to be moved. Yet the railways are also proving their global potential in state-of-the-art passenger transportation.

Over 300 guests were invited to the opening ceremony for the plant built in record time, where production was already in full swing. With the new facility in the Chinese city of Kunshan, Vossloh has achieved another important milestone in its internationalization drive. Since the fall of 2007, Vossloh has been manufacturing rail fastening systems on the outskirts of Shanghai—right at the heart of one of the rail industry's most promising growth markets.



Founded in Werdohl in 1888: Vossloh Fastening Systems has been a world-leading manufacturer of rail fastening systems for 120 years.

“Vossloh offers its workforce attractive working conditions with good career prospects. Nevertheless, it was certainly a challenge to find and train over 100 skilled employees for the new Vossloh plant within just a few months.”

Dai Yun,
Human Resources Manager,
Vossloh Fastening Systems
Kunshan, China

A presence in one of the most important growth markets

The Chinese government has decided to invest heavily in rail transport in an effort to meet the constantly growing transportation needs of its booming economy. The equivalent of some €150 billion is to be spent on expanding and upgrading the vast railway network in the world's fourth-largest country by 2010 alone. This network already copes with almost a quarter of global rail freight transport operations—and sharply rising. The passenger services particularly between the numerous cities of more than a million inhabitants in the vast “Middle Kingdom” are overloaded: the population of 1.3 billion is becoming increasingly mobile in the search for employment as well as in their leisure time. A network of high-speed lines for long-distance services as well as many local light rail transit and tram projects are intended to help eliminate the bottlenecks. From Beijing to Shanghai, and from Shenzhen to Nanjing to Hangzhou or Chongqing, it is very hard to find a Chinese megacity which is not investing or planning to invest in (sub)urban railbound passenger transport. Another crucial factor, of course, is that with Beijing hosting the 2008 Summer Olympics and Shanghai the World Expo in 2010, China will be presiding over two superlative events for which the country is now meticulously planning and preparing.

The rail fasteners for what is known as the Olympic railway line between Beijing and Tianjin were supplied by Vossloh all the way from Germany. Now, thanks to the new plant, the distances to the Chinese railways’ major construction sites will be considerably shorter. The fastening systems manufactured in Kunshan will initially be used on the future high-speed lines from Wuhan to Guangzhou and from Guangzhou to Shenzhen. They conform with the Group’s high quality standards and the plant’s capacity is sufficient to satisfy the enormous order volume within the country.

This presence in the middle of the market offers Vossloh a strategically favorable starting position in the contest for further orders—a perfectly justified expectation, as shown by recent experience in neighboring India. Vossloh has been active on the Indian subcontinent since the end of 2004 and is successfully sharing in the rail market’s steady growth. For example, the foundry for manufacturing manganese switch crossings, which is operated through a joint venture in India, and the switch assembly capacity now require substantial expansion.

A tailor-made production plant

Twenty-four hours a day, seven days a week: after just four months of building work, the new Vossloh plant in Kunshan was ready for operation. By the end of 2007, the Chinese plant with a 200-strong workforce had already produced 4.25 million rail clamps—exclusively for the domestic market. Vossloh invested €16 million in the industrial complex outside of Shanghai.

The main plant is owned by Vossloh Fastening Systems China Co. Ltd., a joint venture with the Chinese company Nanjing Iron Steel Co. Ltd. (NISCO), in which Vossloh holds an around 80-percent stake. Two smaller Sino-European joint ventures are located right next door: as longstanding partners of Vossloh, they produce components for the rail fastening systems.

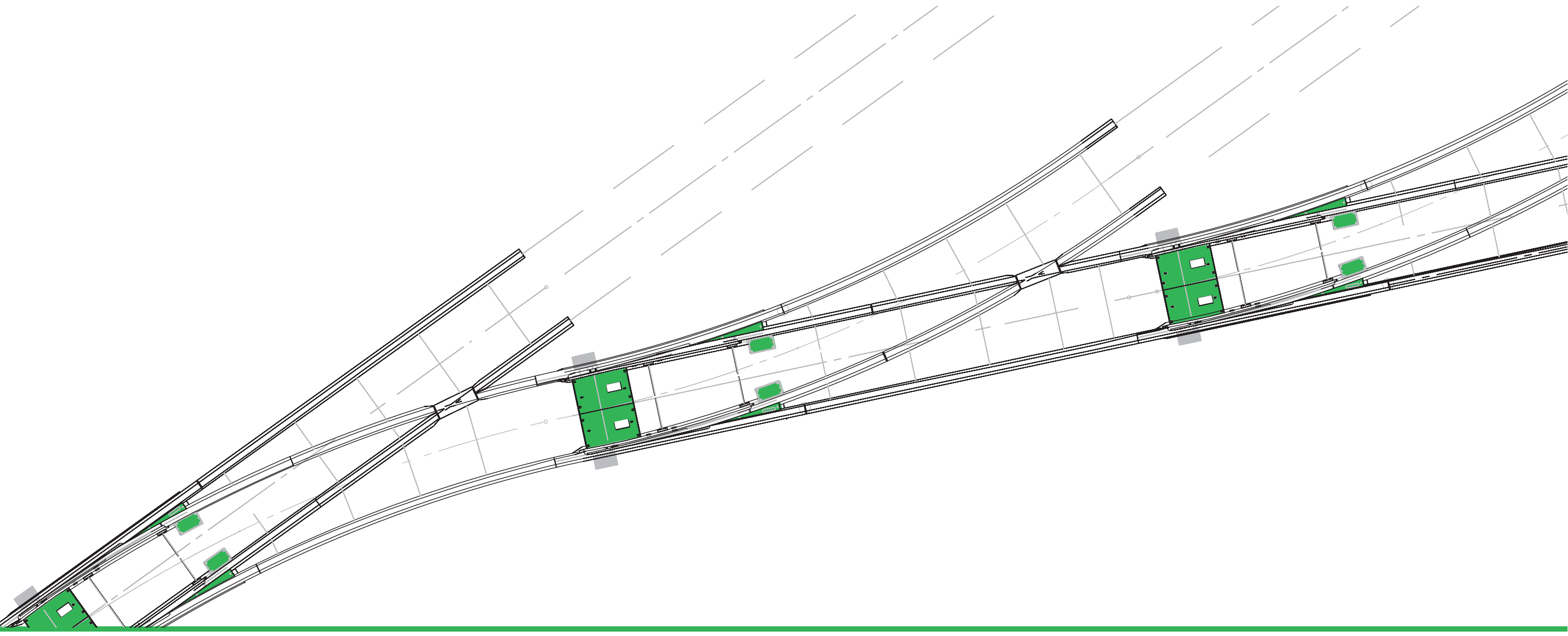
Promising acquisition in Australia

In future, Vossloh will be providing an even greater presence on the continent of Australia, where TKL Rail, the switch business of Thompsons Kelly & Lewis Pty. Ltd. (TKL), was acquired in November 2007. The purchase of Australia's second-largest manufacturer of switches and switch components is the key to an additional growth market, bearing in mind that significant sums are being invested in rail transport down under—especially in transporting heavy freight over long distances. Given the continued high demand for steel worldwide, rapid and large-scale expansion of the rail links between the iron ore mines in Western Australia and the ports in the North-West is planned. In addition, Australia possesses vast coal reserves. Having supplied 150 heavy-duty switches for the upgrading of the North-South infrastructure between Melbourne and Brisbane, Vossloh has already signaled its high quality standards in the Australian market.

New companies in the USA scoring successes

Heavy hauls and long distances: given this dual freight transport challenge, many signals are set at green for rail transport in the North American market, too. In the USA, for instance, more than one-third of freight traffic is handled by rail (compared with 10 percent in the EU). Whereas in Germany for safety reasons freight trains are never more than 750 meters long, in the United States 3-km freight trains are not unusual. The load carried is therefore commensurately heavier. However, the networks used by the freight trains are often run-down and in need of upgrading. Several studies show that the United States will have to invest the equivalent of more than €100 billion in its rail infrastructure over the next 30 years. At present, light rail rapid transit and streetcar systems are also experiencing a renaissance in many US cities as the nation of drivers discovers above all the benefits of rail transportation.

Vossloh is now also directly represented in the promising US railway market: thanks to its two newly acquired subsidiaries, Vossloh Track Material (formerly: Pohl Corp.) and Cleveland Track Material, Vossloh has become the third-biggest manufacturer in the US switch market—with encouraging prospects for further growth. Before very long the two acquirees were fully integrated into the Group, with some of the expected synergies already realized. Initial bidding successes were achieved in 2007 which can be built on in 2008.



A tradition of technology stretching back to 1904:
Vossloh Switch Systems is now the world's second-largest
manufacturer of switches for rail traffic.

"Vossloh is exactly the right partner for us. We are now part of an excellently positioned group with long-term growth prospects, in which our specific strengths and our reputation on the US market can be consistently exploited."

William F. Willoughby,
Vossloh Switch Systems,
COO Cleveland Track Material,
Cleveland, USA

Vossloh's heavy-haul switches for every standard

With its new acquisitions in America and Australia Vossloh has not only improved its position in two key global markets but also strengthened a vigorously growing segment of the product range. Companies with expertise in heavy-load and superheavy-load rail transport were deliberately targeted. Vossloh can now offer heavy-haul switches for every standard worldwide.

Vossloh continuing to grow in Europe, too

With an estimated total volume of over €25 billion—and thus about 40 percent of the global market—Europe is and remains the most important region for rail industry products, with further growth anticipated in the years ahead. Above all, the new EU member states in C&E Europe have, in some cases, enormous pent-up demand for rail infrastructure modernization; in Western Europe, on the other hand, the politically driven deregulation of rail markets is opening up new opportunities. Permanently rising freight volumes can be managed only if the advantages of rail transport are exploited in cross-border intermodal haulage. Moreover, in passenger transport, key countries with a longstanding railway tradition, such as Italy, Spain, France or Poland, are planning further high-speed links between their major cities.

The Vossloh brand is steadily gaining in importance here, in its home markets, across all segments in which the company is engaged. Vossloh stands for quality, reliability and delivery dependability and invests in comprehensive optimization programs aimed at further enhancing efficiency and productivity at the individual plant locations. Through ERION, a joint venture with the state-owned RENFE rail company, Vossloh has gained a foothold in the locomotive maintenance business on the Iberian peninsula. This market is generally regarded as increasingly attractive because private operators and leasing companies are playing an ever greater role chiefly in freight transportation. They have a special interest in maintaining the value of their rolling stock in the long term.

Energizing the economy

Unending expanses and huge distances: in North America as in Australia the railway played a key role in continental development. At the end of the 19th century, the railway—still exclusively steam-powered in those days— both guaranteed and drove economic prosperity in what were colonies in those days.


To this day, a large proportion of freight in the USA and in Australia is carried by rail from coast to coast—especially heavy cargo such as coal and ore, agricultural produce or large containers. The rail freight networks in both countries are privately owned. And another parallel: on both continents private investors are currently reinvesting heavily in freight trains.

Continuing internationalization

Vossloh meanwhile operates in over 100 countries around the world and an international focus continues to enjoy priority. The Group's aims are, firstly, to build on the market positions achieved and, secondly, to tap further markets. For example, Vossloh will establish a subsidiary in Abu Dhabi in the first half of 2008 against the backdrop of the burgeoning rail business in North Africa and the Middle East. One of the last regions in the world without a rail network is being developed: the Persian Gulf states are planning to invest huge sums in their infrastructure. The United Arab Emirates, for instance, intends to build an around 800-kilometer railway system. The Dubai metro system is scheduled to be operational by the end of 2009. In Kuwait, a 400-kilometer railway line is under discussion, while Saudi Arabia plans to have more than 3,000 kilometers of rail track by 2020.

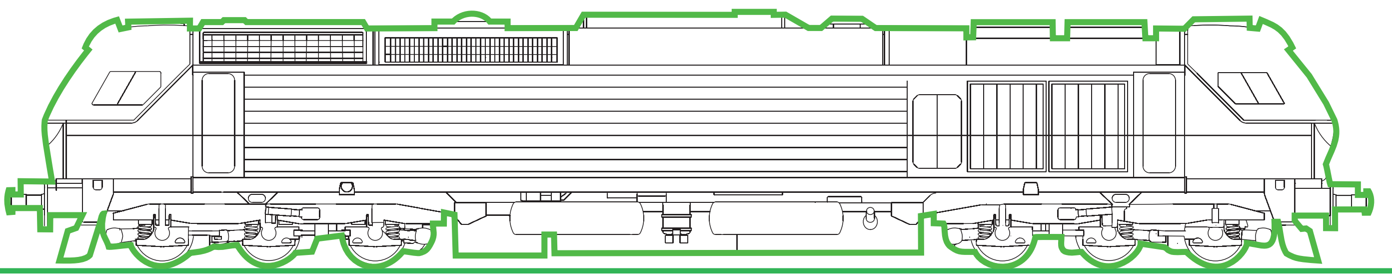
From Asia to America and Australia, on the Persian Gulf or "at home" in Europe: Vossloh's switches are firmly fixed on a growth course.

Leading in rail technology

Vossloh enjoys market and technology supremacy across many segments. New developments—such as in 2007 the SURVAIG-NG switch monitoring system for high-speed networks, the improved W14-HH rail fastener for heavy-load traffic or a new-generation locomotive—strengthen our foremost position.

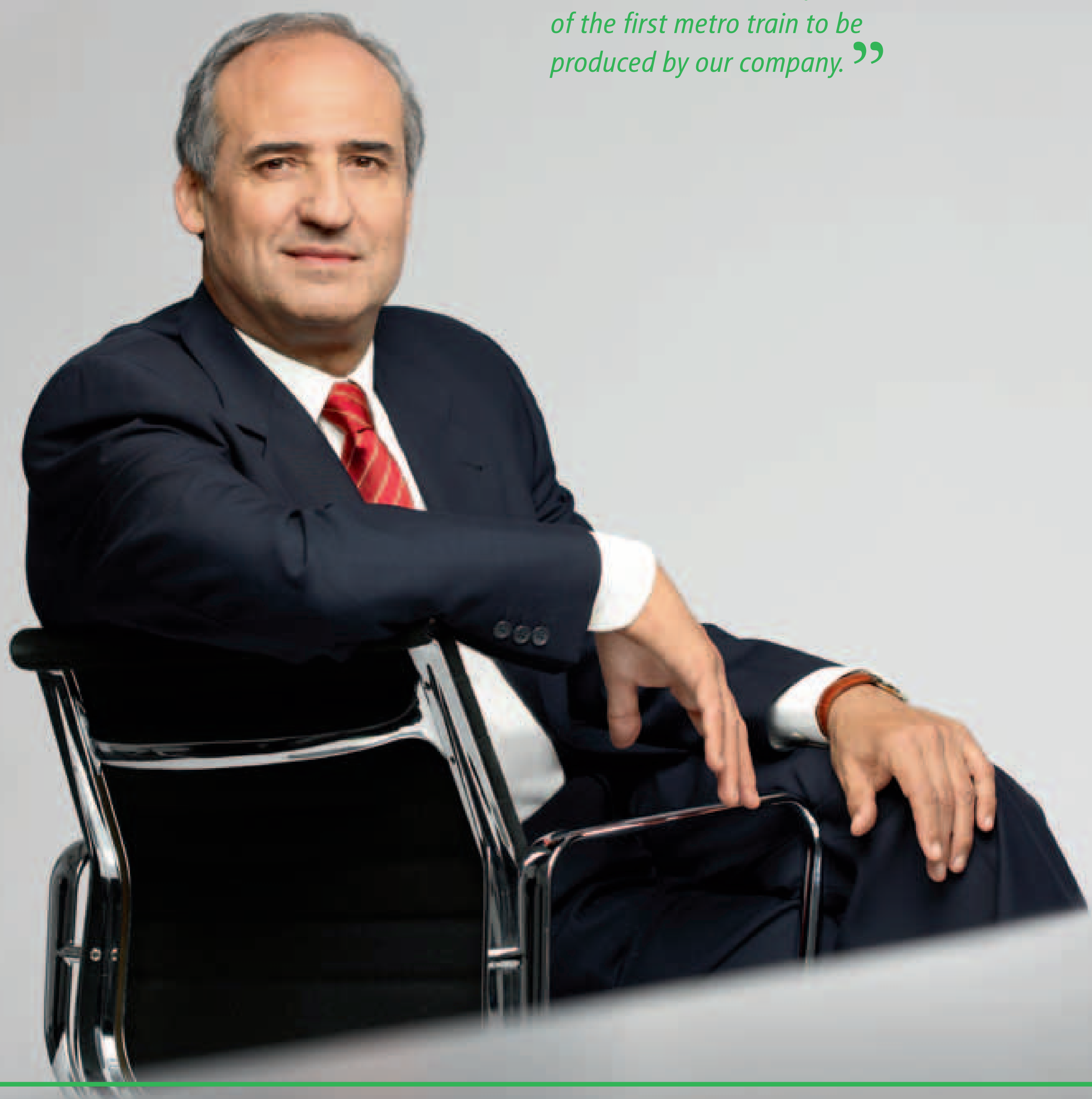
Vossloh is Europe's biggest producer of diesel locomotives. With its diesel-hydraulic vehicles produced in Kiel, Vossloh has long been a leading manufacturer of diesel shunting locomotives in addition to the reliable "workhorses" designed for mainline services. For the Kiel locomotive builder, the focus in 2007 was on optimizing the product portfolio, especially with a view to complying with noise abatement and crash behavior regulations due to come into force in the next few years. The first vehicle of the new generation of locomotives is the G12-6C, which is to be unveiled at the 2008 InnoTrans trade fair.

With the EURO 4000, currently the most powerful diesel-electric locomotive in Europe, Vossloh Kiel's sister company Vossloh España S.A. in Valencia has achieved another technological feat. Thanks to a chassis consisting of high-strength steel, the vehicle is also a lightweight model in its class, weighing one-quarter less than comparable locomotives. The jury of the renowned Swedish Steel Prize deemed this worthy of a silver medal.



A wealth of experience in locomotive construction: IC-engined rail vehicles have been built in Kiel since 1923; the history of the Spanish sister company dates back even further to 1897.

“First and foremost, locomotives have to be safe and clean. We are already working on achieving future safety and environmental standards, with the EURO 4000, for instance. I am also proud of the first metro train to be produced by our company.”



Daniel Mesa,
Director Sales International,
Vossloh Locomotives,
Valencia, Spain

Overall, the range of vehicles which Vossloh manufactures from scratch or for which it supplies core components is becoming ever broader. For example, the first metro trains made by Vossloh were shipped out from Valencia in 2007. With the lightweight "train-tram" the Spanish vehicle builders have developed a completely new suburban train concept which is environment-friendly, fast and extremely economical.

When it comes to equipping light rail vehicles and trams, Vossloh Electrical Systems' services are in demand not only in Düsseldorf, Cologne or Bremen, but also in Kraków, Gdańsk, Vienna, and Manchester. The leap into the 1,500-volt system league, new for the business unit, has now been achieved within just two years together with a consortium partner. The new low-floor regional train with Vossloh "insides" has since the fall of 2007 been reliably conveying passengers to their destinations in the Dutch province of Gelderland. At the same time, Vossloh Electrical Systems has expanded its leading position in the growing market for eco-friendly trolleybuses with zero-emission technology. Energy consumption by modern low-floor buses equipped with Vossloh components is also reduced to a minimum because the braking energy is fed back into the network.

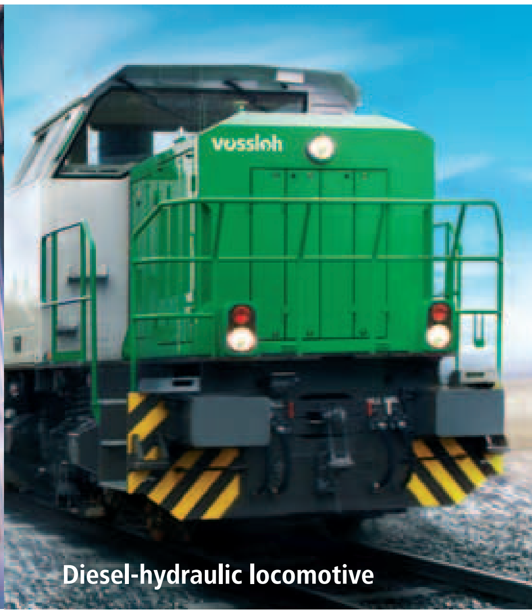
Leading in the technically advanced switch business

Sophisticated cutting-edge technology is also behind the SURVAIG-NG. The latest generation of switch monitoring systems from Vossloh Switch Systems ensures, including on the LGV Est high-speed line from Paris to Strasbourg, that even minor irregularities in the switches can be detected early enough to prevent any major damage. In fact, the system can help to prevent some 70 percent of all possible defects from the outset—a considerable safety and quality factor and a major contributor to lower life cycle costs, meaning the estimated costs over a switch's entire service life.

The high reliability of its safety and control systems is a hallmark of Vossloh Switch Systems, the world's second-largest supplier of switches for all operating ranges from (sub)urban to heavy-load to high-speed traffic. It is therefore no accident that Vossloh occupies a leading global position in the technically advanced switch business.

Made by Vossloh


Diesel-electric locomotive



Diesel-hydraulic locomotive

Train-tram

The rail technology specialist offers a broad range of vehicles for passenger and freight transport, either building them from scratch or supplying core components for them. Europe’s major manufacturer of modern diesel locomotives specializes in both diesel-electric (one example is the powerful EURO 4000, pictured left) and diesel-hydraulic models (the mid-range G 1700 for mainline and shunting services is shown here). In the middle, Vossloh’s two new developments from Valencia: the metro train, available in three versions, and the “train tram,” a newly devised transport concept for urban regional transport.

Metro train

Tram

Hybrid bus

Vossloh Electrical Systems equips (sub)urban public transport vehicles with key electrical components and systems. Alongside trams and streetcars, the focus is shifting increasingly toward electrical and hybrid buses: the environment-friendly zero-emission technology in trolleybuses and the energy-saving hybrid drive (combination of diesel engine and dual-layer capacitor as energy store) are original Vossloh developments.

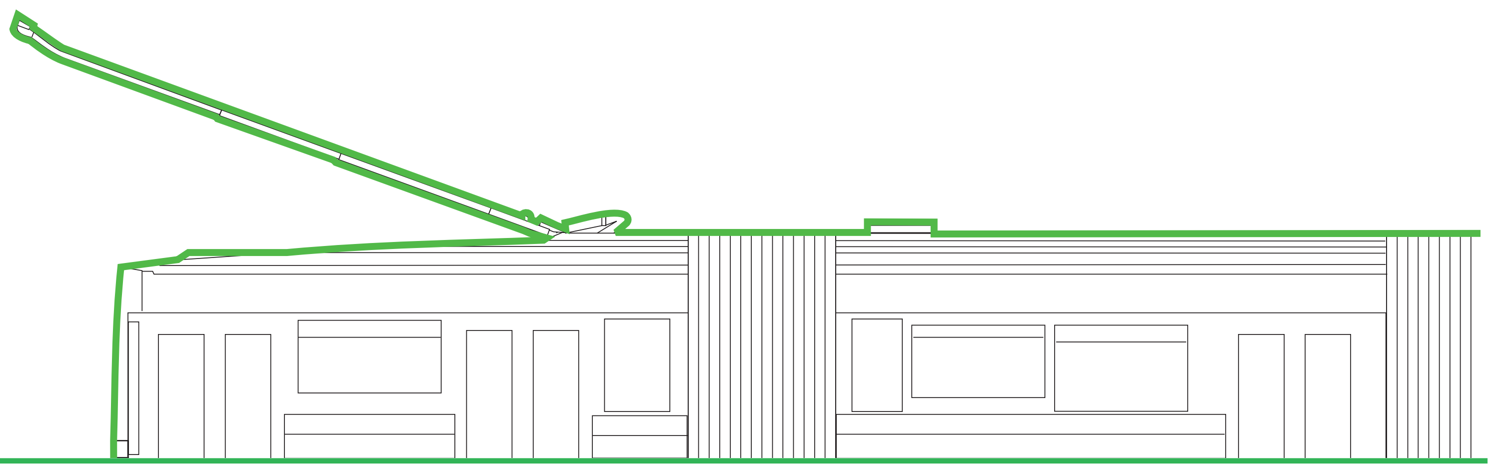
Technological edge with fastening systems

Vossloh has been a leading manufacturer of rail fastening systems for over a century. Indeed, the Vossloh name stands for high quality and safety worldwide—and for ongoing technological improvements to the rail clamp together with additional components. The latest products include, for example, the W 14-HH (heavy-haul) rail fastener for axle loads of up to 35 tonnes. In 2007, Vossloh Fastening Systems underlined the international expansion of its operations by filing several patent applications for the USA and China—a further major step in safeguarding its global technological lead over the long term.

Staying ahead with new ideas.

Vossloh safeguards its future viability with innovative and sustainable solutions. In 2007, a patent was filed for the economical multi-engine drive for diesel locomotives while an alternative hybrid drive for buses proved convincing in practical tests. Vossloh is also involved in a freight tram system pilot scheme and in efforts to reduce track-related noise.

Sustained success in the marketplace and steady growth in shareholder value: these are the fundamental factors in Vossloh's strategic positioning. The consequences of climate change and the need to conserve natural resources are key topics in the current debates in which society as a whole is engaged. The resulting actions lend additional support to the Group's long-term growth prospects: trains, trams and buses are regarded as environment-friendly, safe and efficient modes of transport. Vossloh is making innovative contributions in this regard, often also in collaboration with universities, polytechnics and specialized institutes. For new developments the opportunities offered by technological advances are as important as customer demands and legal requirements. At the same time, Vossloh always endeavors to achieve the greatest possible cost-efficiency.



A history dating back over a century: Vossloh Electrical Systems supplies innovative key electrical components and systems for rail and road vehicles in (sub)urban public transport. Its trolleybuses are among the star products.

“The technological possibilities for making LRV and tram systems and even buses run more cleanly and efficiently are far from exhausted. We are pushing ahead with a whole number of promising approaches and concepts. The fact that markets worldwide are opting increasingly for sustainability is an additional boost for us, of course.”

Jürgen Textor,
CEO Vossloh Electrical Systems,
Düsseldorf, Germany

"Variable" engine for shunting locomotives

Lowering fuel consumption without any loss in power—this is a prime necessity for locomotive builders. In response, Vossloh has developed a promising new concept derived from the operation of shunting locos with their frequent stoppages with the engine running and traction tasks of varying difficulty depending on how many railcars have to be moved with what loads and over which distances. A variable drive in such cases would be a suitable option. The Vossloh solution involves fitting locomotives with two, three or four smaller engines, whose power can be added depending on the requirements. As a result, the vehicle's diesel consumption is reduced by up to two-thirds. Vossloh has already filed for a patent for this multi-engine locomotive. Translating the idea into a marketable vehicle will take some years, however.

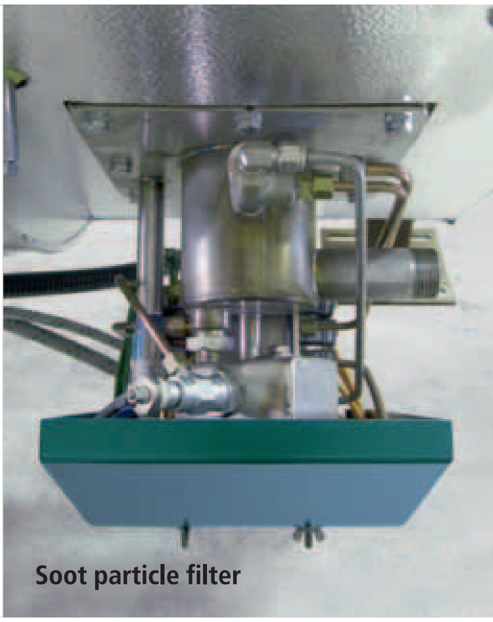
At the InnoTrans 2008 trade fair, Vossloh Locomotives will unveil the new G12-6C. Based on consistent optimization of existing locomotive platforms, it is the first vehicle in a complete locomotive series which complies in advance with all the EU regulations on exhaust and noise emissions and crash behavior to come into force as from 2012.

Double-articulated hybrid bus ready to go into production

Vossloh Electrical Systems presented a world first in the summer of 2007 when the environment-friendly double-articulated hybrid bus, jointly developed with vehicle maker HESS, passed a four-week practical test with style in the Swiss town of Zug. The 24-meter bus, which can accommodate up to 200 passengers, is impressive because of its low fuel consumption partly thanks to an intelligent energy management system, which responds to the traffic situation. In addition, the bus has Vossloh's new electrical dual-axle drive. Thanks to an efficient energy storage unit the bus leaves the bus stop both quietly and without emitting exhaust gas; the drive—then shortly purely electrical—enables the vehicle to accelerate quickly even when the bus is full. Despite its length the double-articulated bus is very maneuverable, coping easily with narrow streets in historic old towns.

Safer, cleaner, longer-lasting

Traction system



Soot particle filter

SURVAIG-NG

Double-articulated hybrid bus

Vossloh's compact switch monitoring systems fitted with state-of-the-art IT reliably ensure safety on railway tracks—together with much lower maintenance costs. The 24-meter-long double-articulated hybrid bus is not only environment-friendly and exceedingly economical: the vehicle can accommodate up to 200 passengers—for many major cities an interesting alternative or addition to tram or streetcar systems.

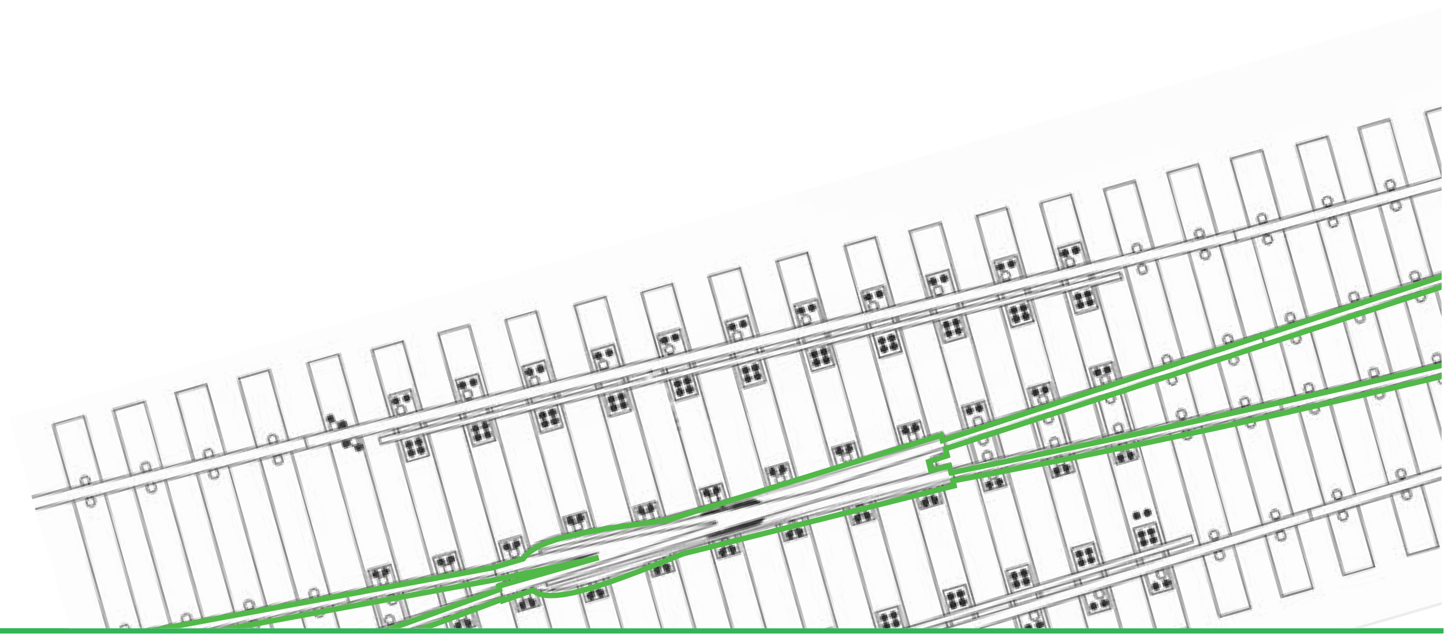
Actively involved in developing new concepts

Vossloh's efforts to make rail transport even more appealing are many and varied. This includes collaborating actively for years on projects specially designed to abate rail traffic noise, specifically the rolling noise emanating from the wheel-rail contact point. In addition, Vossloh was one of the fitters of the innovative CargoTrams being used in a pioneering pilot scheme launched by Amsterdam City Council to transport freight on the tram network. Its chief aim is to reduce the ever increasing delivery traffic in downtown Amsterdam. In addition, Vossloh was a co-organizer of the 2007 European Locomotive and Freight Forum held in Frankfurt/Main, at which experts from all over Europe discussed proposals on how the railways' hitherto untapped development potential in passenger and freight transport can be mobilized.

Well equipped for the competition.

Vossloh is more than the sum total of its individual companies, which achieved an unprecedented level of success in their specialty markets in 2007. Methodical collaboration and targeted learning from one another are adding extra value, making us even fitter for future challenges.

The Vossloh Group meantime comprises some 80 companies around the world with a total workforce of just under 6,000 people in 108 countries. Vossloh has gradually evolved in recent years from a largely Germany-oriented mixed group into an internationally operating specialist in rail infrastructure and technology—a process which is far from over. Now a global player, the Group has maintained its philosophy typical of a midsize company. The business units take responsibility for developing their markets independently while the hierarchies remain flat and the chains of command short. This lean group structure is a key reason why new acquirees, on whatever continent, can be integrated into the Vossloh Group so swiftly and successfully.



Over 100 years' experience as a provider of complete modern track-laying solutions: Vossloh Infrastructure Services is a strong partner in the construction of new and maintenance and repair of existing rail infrastructure.

“Rail transport depends on good cooperation between all the parties concerned. The wheels have to engage smoothly with one another so that railway's enormous potential can be fully exploited. This image chimes well with Vossloh's recipe for success: we are working toward common goals, with each individual company contributing its specific strengths.”

Pierre-Louis Rochet,
Senior Advisor Vossloh Group,
Paris, France

Intelligent interlinking of know-how

Think global, act local: this motto is an apt description of the how tasks are assigned within Vossloh. The management and financial holding company, Vossloh AG, promotes internal synergistic effects through centralized managerial functions such as Group Treasury or sales coordination. As parent, it also advances the consistent drive for internationalization. Parallel with the Group's steady organic growth, Vossloh AG seeks suitable partners worldwide which will further strengthen Vossloh's competitive position and help it to build on the leading positions in specialty markets. The crucial criteria for acquisitions and alliances are the increase in Vossloh's profitability and shareholder value.

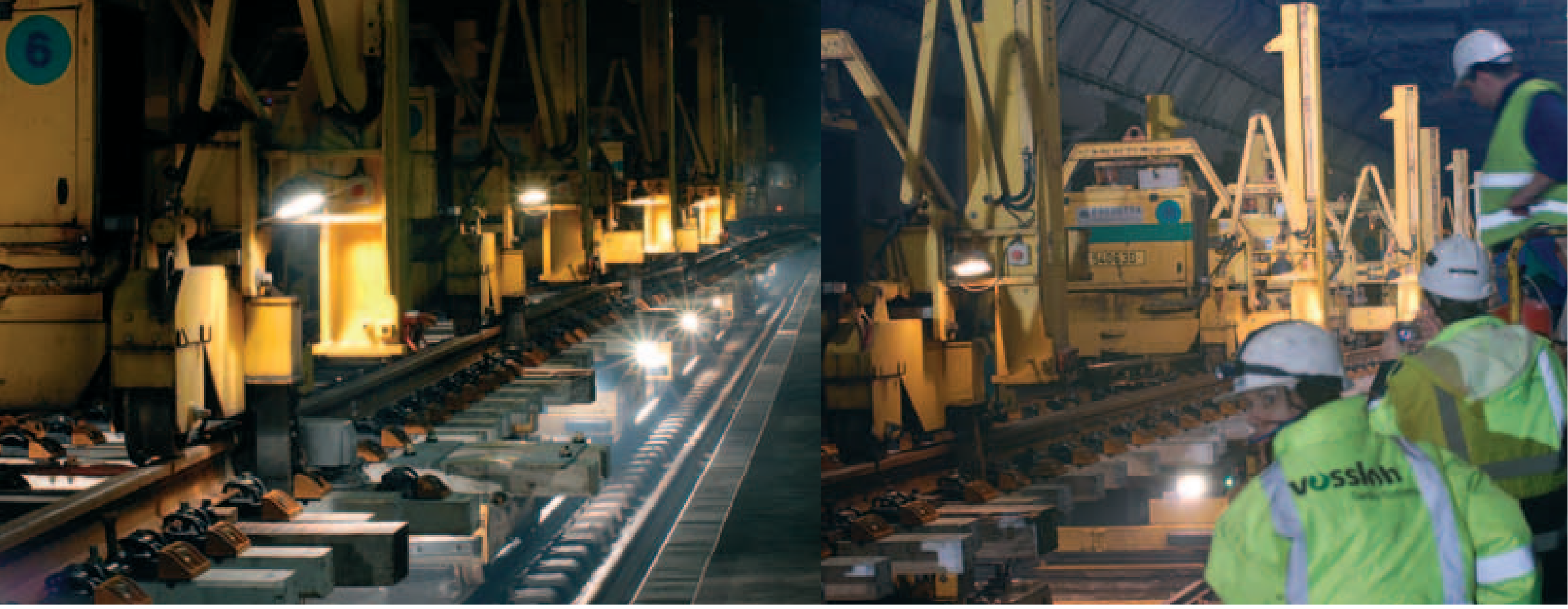
The individual companies are successful in their respective regions thanks to their rail transport expertise, profound knowledge of market conditions and decades of experience. They are close to the customers and can recognize their requirements early on and deliver individual tailor-made solutions. This also applies to after-sales and services, where Vossloh offers its customers targeted added value.

Since April 2007, Dr.-Ing. Norbert Schiedeck has been responsible on the Executive Board for Corporate Engineering, Marketing and Human Resources. Under his direction, Vossloh is working on intelligently interlinking the know-how and potential of the individual companies. The individual companies' extensive knowledge can now bear fruit throughout the company as a whole—also for the benefit of customers.

Closer alliances—including across borders—in sales, R&D, production, and purchasing enable Vossloh companies to develop attractive new fields of activity jointly. This smoothly functioning collaboration among several business units, planned with military precision, was the key to success with the ambitious Eurotunnel contract: two of the ten large rail switches in this tunnel linking England and France had to be completely replaced within 21 hours. Regardless of the team composition, the target is clearly defined: Vossloh is seeking to meet head-on the growing challenges posed by competition.

The Eurotunnel project

It is the world's longest underwater tunnel: 39 of the Channel Tunnel's 52 kilometers between Folkestone (UK) and Calais (France) lie below sea level. The trains have been running under the Channel in two parallel tunnels since 1994. The tracks cross in two huge "hangars," each of which is located one-third of the way along the track, making it possible to shut down parts of the tunnel for maintenance work. Safety enjoys the highest priority at Eurotunnel.



The 130-kilometer track is to be completely replaced for the second time by the end of 2008. Vossloh replaces the switches, ten in all, over a five-year period, always in two days when there is little or no traffic, such as Christmas. At the same time, the timber sleepers are replaced by concrete sleepers, with an optimized fastening system providing a better ride. The tunnel can be shut down for this purpose for no more than 24 hours—the logistics machinery therefore has to function with utmost precision.

The Vossloh brand enjoys a high reputation

At international level, the often old-established individual companies recede into the background. Vossloh is perceived as a strong, globally positioned group with a high reputation. Vossloh is therefore investing increasingly in fostering its brand—and in protecting it. The green trademark stands for everything valuable that Vossloh delivers: competence, quality, reliability, customer proximity, and innovative resources. At the same time, it symbolizes dynamism, motion and purposefulness—the qualities enabling the Group to gain a successful foothold in even more markets internationally.

Success breeds higher expectations

Vossloh is on a successful track. The Group's services are running "fully on schedule" on a course pointing to further growth. An interview with Dr.-Ing. Wilfried Kaiser, Supervisory Board Chairman, and Werner Andree, Vossloh AG CEO.

Dr. Kaiser, Mr. Andree, fiscal 2007 has been for Vossloh the best year in the company's history to date…

Dr. Wilfried Kaiser: … and for that I would first like to thank all our employees on behalf of the Supervisory and Executive Boards. We are proud of our competent and highly motivated team. We must not rest on our laurels, nonetheless. We are facing new challenges and we will continue to need the dedication of each and every individual. Thanks also to our business partners and stockholders for their trust in our company and in the course on which we have embarked.

And to stay with the railway image, the teams in the driver's cab and in the control room have certainly also contributed to this success?

Dr. Wilfried Kaiser: Yes, of course, on a rail network destinations can be reached only through teamwork. The Executive and Supervisory Boards have ensured that Vossloh has gathered momentum. The 2007 performance is further evidence that by concentrating on rail infrastructure and technology Vossloh is on the right track. We are—and remain—on a growth course in our markets. Our stockholders can gauge our success from the stock price. We realize that this means rising expectations on capital markets as well.

“Vossloh has gathered momentum. We are—and remain—on a growth course in our markets.”

“The Vossloh brand is gaining increasing weight worldwide. We are well positioned to make the most of new opportunities.”

Dr.-Ing. Wilfried Kaiser, Supervisory Board Chairman

Werner Andree, CEO

Werner Andree: The surge in the Vossloh stock price in recent months shows that the capital markets have great faith in our long-term strategy. It is becoming increasingly clear, after all, that rail-based transport has a brighter future now, probably than ever before. A wide variety of factors are contributing to this, such as the climate change debate and the economic boom in emerging nations. At the same time, the deregulation of rail markets—slow yet irreversible—is bearing fruit. We are sensing this also in the form of much tougher competition. In 2007, we therefore scrutinized our internal structures among other things, making changes chiefly in production and marketing. Our efficiency has improved and the effects are set to become more visible in the years ahead.

What does that mean specifically?

Werner Andree: Our group's strength lies in its individual companies which have been extraordinarily successful in their fields for years now. They possess a profound understanding of their markets and customers. Also, they can operate independently within a jointly defined framework, making decisions quickly and with direct responsibility. We have now added a further plus point to these advantages by creating structures for learning systematically from one another and supporting one another even more effectively. This involves not an elaborate code of practice but a beneficial form of regular experience and information sharing.

So the Vossloh timetable applies even if things suddenly get turbulent in the driver's cab as in 2007?

Dr. Wilfried Kaiser: This topic has to be addressed in this annual report, of course. Allow me to make the following comment. Naturally, the change of management which was completely unexpected for outsiders did cause some irritation. A track change, meaning a change of strategy, was never on the agenda, however. Our timetable is and will remain unchanged. The Supervisory Board takes responsibility for the short-term disruption. In Vossloh's interests, we acted quickly, clearly and unanimously—thus opening up the required scope and prospects for Vossloh just as quickly again.

And the future holds many new challenges for Vossloh…

Dr. Wilfried Kaiser: … which we are taking up from a strong position but certainly not underestimating. Vossloh is well positioned, but the environment is changing.

Werner Andree: The Vossloh brand is gaining increasing weight, not only in our home markets in Western Europe but increasingly worldwide. We are now operating in 108 countries around the globe. We are currently engaged in production in all the industry's key growth regions, in China, India, Central & Eastern Europe, North America, and Australia. Yet we are also continuing to grow in Western Europe, which remains the biggest rail market. In future, we intend to establish a presence in North Africa and the Middle East, where rail networks are being heavily invested in. The markets are in flux. New operator and financing models are gaining ground. Leasing companies are playing an ever more important role in the rail vehicle business. The lawmakers are setting high requirements, especially with regard to emissions. We are making the relevant adjustments to our portfolio of products and services, allowing for foreseeable trends through innovations. In the marketplace we are highlighting the features that distinguish us from the rest, such as quality, flexibility and longstanding expertise.

The rate of change is therefore likely to accelerate in future?

Werner Andree: The momentum in rail markets is growing. But changes mean new opportunities first and foremost. We are well positioned to make the most of these opportunities for our company, enabling us to achieve sustainable success and long-term value enhancement.

Does Vossloh actually need to make further acquisitions?

Werner Andree: Our growth strategy is clear and unequivocal. Firstly, we are seeking to achieve further organic growth. The two divisions are working intensively on new products and services; in this regard, we are planning much higher expenditures for 2008 and 2009. Secondly, we are constantly analyzing the markets in order to strengthen our position through targeted acquisitions. But, as we see it, growth is not an aim in itself but linked to specific targets with regard to profitability and the addition of value to Vossloh.

Dr. Wilfried Kaiser: It is all about continuity. I like the image mentioned at the start of our talk: Vossloh is steadily gathering momentum. Our train has enough traction even for a steep ascent.

Vossloh AG's Supervisory Board

Dr. Hans Vossloh
Honorary Chairman, retired manager, Werdohl

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

Peter Langenbach
Vice-Chairman, lawyer, Wuppertal

Dr. Jürgen Blume
Sworn public auditor and tax accountant,
Bad Bentheim

Dr. Christoph Kirsch
Former CFO of Südzucker AG, Weinheim

Wolfgang Klein
Galvanizer, Group Works Council Chairman,
Werdohl

Wilfried Köpke
(up to March 31, 2007)
Engineering designer, Works Council Chairman
of Vossloh Locomotives GmbH, Kiel

Michael Ulrich
(as from April 20, 2007)
Mechanic, Works Council Chairman
of Vossloh Locomotives GmbH, Kiel

Dr.-Ing. Wilfried Kaiser,
Supervisory Board Chairman

Report of the Supervisory Board

Supervisory Board work in fiscal 2007

During the year 2007, Vossloh AG's Supervisory Board duly performed the functions and duties incumbent on it under law, the Company's memorandum & articles of association, the German Corporate Governance Code (the "Code") and the Supervisory Board Rules of Procedure, oversaw the conduct of business and provided advice to management. The Supervisory Board obtained timely detailed regular written and oral reports on the business trend of Vossloh AG and its subsidiaries, the strategic alignment of the Group, and the progress of planned M&A transactions and other major projects and events.

Meetings and attendance

At five scheduled meetings (March 26, May 31, August 9, October 11, December 6, 2007) attended by the plenary Supervisory Board (with one member excused once) and two extraordinary meetings on January 25 and June 19, 2007, which were attended by all members, the Supervisory Board dealt in detail with all issues of relevance to Vossloh. Moreover, the Supervisory Board discussed in depth with the Executive Board day-to-day business and the strategic concepts, short- and medium-term corporate plans, capital expenditure and investment budgets, the current income and cash trends, risk position and management, as well as significant organizational and personnel changes.

The Supervisory Board deliberated on and approved Executive Board transactions subject to its approval. The progress of the investment project in China was closely observed in detail. The Supervisory Board discussed in depth with the Executive Board the planned M&A projects successfully realized in 2007 in the United States, as well as the 2007 divestment of the Information Technologies division. Also on the agenda for thorough debate were corporate governance and Code compliance issues, including the introduction of a groupwide code of conduct.

A focal point of Supervisory Board work was the assessment of its own efficiency. For this purpose, this Board relied on outside expert consultants and evaluated its own efficiency, discussing the results in all facets at a separate internal meeting. These results were reflected in the rules of procedure for the Supervisory Board, its Audit Committee and the Executive Board which were revised accordingly, also due to the wider scope of the German Corporate Governance

Code requirements. No Supervisory Board member was subject to any clashing interests under the terms of § 5.5 of the Code. Another item on the agenda was the Executive Board remuneration system structure, especially its long-term incentive nature.

At all its meetings, the Supervisory Board obtained detailed information about developments in 2007, significant transactions and the trend of financial indicators.

At two meetings in plants of subsidiaries, the Supervisory Board took the opportunity of being directly briefed by local management on strategic concepts and plans, as well as on the plant itself.

Ongoing information outside Supervisory Board meetings

Projects of key importance or urgency were also communicated by the Executive Board to the Supervisory Board between meetings. Furthermore, the Supervisory Board Chairman regularly deliberated on and discussed with the Executive Board—mainly with the CEO—strategic aspects, the business trend, major HR issues, and risk management matters. The Supervisory Board Chairman was throughout promptly informed by the CEO about any extraordinary events of major significance to the assessment of the Vossloh Group's current position and development, and personally took care of promptly informing the other Supervisory Board members.

Executive and Supervisory Board membership

The reduction of the Executive Board to two members and Werner Andree's appointment as Chief Executive Officer (CEO) offered the opportunity to upgrade the efficiency of Executive Board work and intragroup organizational work flows by assigning clearly defined responsibilities to the two members. Besides hitherto Finance and Accounting, CEO Werner Andree is also in charge of Corporate Development, Investor/Public Relations, Internal Auditing, Law, and IT. Dr.-Ing. Norbert Schiedeck is responsible for R&D, Production, Strategic Purchasing, Marketing, HR, and Technical Controlling. This narrowly focused structure is testimony to the Vossloh's organization as a locally managed group parented by a lean-management holding company.

Supervisory Board membership has changed, too. Wilfried Köpke stepped down from the Supervisory Board as of March 31, 2007, the date at which he also left Vossloh to go into retirement. The Supervisory Board expresses its sincere thanks for his many years of constructive input and commitment.

Michael Ullrich, Works Council Chairman of Kiel-based Vossloh Locomotives GmbH, was appointed Supervisory Board member by order of April 20, 2007, of the Iserlohn Local Court for the term up to the close of the annual general meeting 2008.

Committee work

Vossloh AG's Supervisory Board has three committees, the Staff Committee and the Audit Committee having three members each while the Slate Submittal Committee has four.
The primary duties of the Staff and Audit Committees include the preparation of business to be transacted before the plenary Supervisory Board. Furthermore, the Supervisory Board has delegated certain defined powers, such as the execution, amendment and termination of the employment contracts with Executive Board members, however, not the latter's appointment and removal as these are subject to the plenary Supervisory Board's approval. The Audit Committee decides, for instance, on the statutory auditors' independence, the definition of focal audit areas, as well as auditor fee issues.

The Staff Committee has Peter Langenbach and Wolfgang Klein as members and is chaired by Dr.-Ing. Wilfried Kaiser, the Audit Committee Dr. Jürgen Blume and Wolfgang Klein, its Chairman being Dr. Christoph Kirsch. The Slate Submittal Committee consists of the four stockholder representatives on the Supervisory Board (Dr.-Ing. Wilfried Kaiser, Dr. Christoph Kirsch, Peter Langenbach and Dr. Jürgen Blume as committe chairman). The Audit Committee convened five times in 2007. Also based on the annual audit report, the Audit Committee in the presence of the Executive Board and the statutory auditors, deliberated on, discussed and examined thoroughly the separate and the consolidated financial statements and the combined management report on Vossloh AG and the Group for fiscal 2006. No objections were raised.

Audit Committee work in 2007 centered on
- the proposal to the Supervisory Board for the election by the AGM of the statutory auditor,
- the statutory auditor's independence,
- the competitiveness of the annual audit offer and the proposed fee in comparison with other auditing firms,
- the discussion, deliberation and approval of draft rules of procedure for the Audit Committee as already approved by the Supervisory Board,
- the risk management system,
- Code compliance issues,
- matters of its own efficiency.

In its activities, the Audit Committee also resorted to reports of the Executive Board and, in some cases, of the statutory auditors. Moreover, the Committee determined specific focal areas for the annual audit.

The Staff Committee members conferred six times in 2007, in detail and on several occasions their deliberations concentrating on the Executive Board's remuneration and related components with long-term incentive effects in view of the Executive Board members' total remuneration.

As dissent and disagreement grew stronger both within the Executive Board and between the then CEO and the Supervisory Board, thus increasingly burdening the work of both boards, the Staff Committee, identifying a substantial risk to Vossloh's further development and after discussing the matter in depth, unanimously recommended that the Supervisory Board revoke Dr. Eschenröder's appointment with immediate effect. At its August 9 meeting, the Supervisory Board thoroughly discussed this issue and carried out this recommendation. In addition, the Staff Committee conferred on the subject of the reorganized Executive Board with only two members and the ensuing clear assignment of responsibilities.

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

Separate and consolidated financial statements 2007

The separate financial statements of Vossloh AG according to German GAAP, the consolidated financial statements according to IFRS, and the combined management report on Vossloh AG and the Group for fiscal 2007 (including the accounting), all as prepared by the Executive Board, were examined by the statutory auditor, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, Essen branch, that had been duly appointed by the May 31, 2007 annual general meeting and issued its unqualified opinion thereon.

The statutory auditor also concluded that the Executive Board had installed a proper early risk identification system as required by Art. 91(2) AktG to identify any risks to the Group's survivability early on, and confirmed that Vossloh AG's Executive and Supervisory Boards complied with their obligation to publish the declaration of conformity pursuant to Art. 161 AktG.
The Supervisory Board continually followed up on the further development of corporate governance standards. In December 2007 and January 2008, the Executive and Supervisory Boards issued, and made available to the stockholders long term on the Company's website, a declaration of conformity pursuant to Art. 161 AktG (see also page 47).

In due course prior to the Supervisory Board's annual accounts meeting, at which the annual financial statements were adopted, all members of the Supervisory Board were provided with copies of the separate and the consolidated financial statements of Vossloh AG, the combined management report on the Company and the Group, the disclosures required by Arts. 289(4) and 315(4) of the German Commercial Code ("HGB"), the remaining annual report, the profit appropriation proposal, and the annual audit reports.

At this annual accounts meeting, which was attended by statutory auditor staff, the Supervisory Board members discussed in detail all issues arising in connection with the above-mentioned documents and dealt with beforehand by the Audit Committee, after the Audit Committee's report thereon (and its recommendation). At this meeting, the attending auditors briefed the participants on all material results of their audit and were available to answer queries. In this context, the statutory auditors also reported on the risk management system within the Vossloh Group. No facts suggesting that the declaration of conformity issued in 2007 by the Executive and Supervisory Boards in connection with the Code was incorrect, were found during the audit.

The Supervisory Board, too, reviewed Vossloh AG's separate and consolidated financial statements and the combined management report for fiscal 2007 as submitted by the Executive Board, as well as the proposed profit appropriation. According to the final result of its own review, the Supervisory Board raised no objections. The Supervisory Board approved Vossloh AG's separate and consolidated financial statements as of December 31, 2007; the separate financial statements as of December 31, 2007, are thus adopted. The Supervisory Board concurs with the combined management report, particularly the statements on Vossloh's further development and the disclosures pursuant to Arts. 289(4) and 315(4) HGB, as well as with the profit appropriation as proposed by the Executive Board, i.e., to distribute a cash dividend of €1.70 per no-par share.

The Supervisory Board thanks the Executive Board, the Management Boards, the Works Councils, and all the employees for their dedicated contributions and successful input in fiscal 2007.

Kiel, April 2, 2008
The Supervisory Board
Dr.-Ing. Wilfried Kaiser
Chairman

Corporate governance

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

Vossloh's governance structure

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

Executive Board

The Executive Board defines Vossloh's strategic orientation and focus. After Dr. Gerhard Eschenröder had left on August 9, 2007, the Executive Board has consisted of two members: CEO Werner Andree has been in charge of Finance and Accounting, as well as Corporate Development, Investor/Public Relations, Internal Auditing, Law, and IT. Dr.-Ing. Norbert Schiedeck is responsible for R&D, Production, Strategic Purchasing, Marketing, HR, and Technical Controlling.

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

Any sideline activity or membership in any nongroup company's supervisory board requires the Supervisory Board's prior approval. At present, no Executive Board member holds any supervisory board office at a nongroup listed company. For detailed information on Vossloh AG's Executive Board members, turn to page 183 of this annual report.

Supervisory Board

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

The Supervisory Board oversees and advises the Executive Board'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 Vossloh's business trend, the corporate plan and strategy and their implementation, as well as the risk management and Code compliance issues. Moreover, the Supervisory Board approves the annual budget and decides on the approval of the separate and the consolidated financial statements of Vossloh AG and the Group with due regard to the reports of the internal and the statutory auditors, apart from being responsible for the appointment and removal of Executive Board members.

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

The three-member Staff Committee is mainly responsible for Executive Board matters and decides on the rules governing the legal relations between the Company and the various Executive Board members (in particular, the execution, amendment, renewal, rescission, cancellation or termination of the employment contracts with Executive Board members), the regulation of the legal relationship between the Company and former Executive Board members, the approval of contracts or agreements with Supervisory Board members, as well as on the grant of loans to Supervisory Board members. The Staff Committee is chaired by the Supervisory Board Chairman.

The Audit Committee is responsible for proposing to the Supervisory Board the statutory auditor(s) for the Company and the Group for election by the general meeting, and deals in particular with issues of the statutory auditor's prescribed independence and with issuing the audit engagement letter, determining focal audit areas, and fixing the auditor fees. In addition, the Audit Committee is in charge of ongoing risk management monitoring and deals with Code compliance issues (which includes overseeing the internal control system). Moreover, the Audit Committee prepares the review and adoption by the Supervisory Board of the Company's separate financial statements, management report and audit report, as well as the review and approval by the Supervisory Board of the consolidated financial statements, group management report and group audit report. Dr. Christoph Kirsch chairs the Audit Committee.

The four-member Slate Submittal Committee convenes ahead of the annual general meeting 2008 and will submit to the Supervisory Board a slate of Supervisory Board candidates to be proposed to, for election by, the annual general meeting. When selecting potential Supervisory Board members proposed for election by the AGM 2008, the Supervisory Board is responsible for seeing that the slate lists only candidates that have the necessary knowledge, capabilities, technical experience, international background, independence and sufficient time for their designated office.

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

For details of Vossloh AG's Supervisory Board members, see page 184 of this annual report.

Stockholders' meeting

Vossloh AG's stockholders safeguard their statutory rights and exercise their voting rights at the general meeting, at which they resolve, with binding effect on the Company and themselves, on all matters assigned or subjected by the law to its vote, including on the

appropriation of net earnings, the official approval of the acts and omissions of Executive and Supervisory Board members in the fiscal year, the election of the statutory auditor, as well as on intercompany agreements, equity moves and other amendments to the Bylaws. At the general meeting, one share of (common) stock entitles to one vote. For the stockholders' convenience, the Executive Board appoints a general proxy who ensures the exercise of the voting rights of, in accordance with instructions issued by, stockholders at the meeting.
The Supervisory Board Chairman presides over the general meeting.

Accounting and annual audit

The Vossloh Group's primary accounting basis is the International Financial Reporting Standards (IFRS), while the separate financial statements of Vossloh AG are prepared according to the accounting regulations of the Commercial Code ("HGB"), as prescribed by German law. Both the consolidated financial statements based on the IFRS and the separate financial statements according to German GAAP were audited by BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft (the statutory auditor elected by the annual general meeting as proposed by the Supervisory Board), in accordance with German audit regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. The audit engagement letter was issued by the Supervisory Board's Audit Committee in conformity with the recommendations of the Code and after due verification of the statutory auditor's independence. The Supervisory Board has agreed with the statutory auditor that it will be promptly informed of any significant findings, conclusions and circumstances which are established during the annual audit and may be of relevance to the Supervisory Board's duties. While the statutory auditor has further agreed to notify the Supervisory Board if it finds any facts substantiating that the declaration of conformity issued by the Executive and Supervisory Boards is incorrect, no such indications were found during the audit 2007.

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. For the first time, the consolidated financial statements were published this year 93 days after fiscal year-end while quarterly reports are publicly available within 45 days after closing date. The website also includes the so-called annual document (Art. 10 German Securities Prospectuses Act obligating Vossloh to publish it once yearly) where all the preceding 12 months' information is compiled where of relevance under companies or capital market laws and regulations.

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

Remuneration of the Executive and Supervisory Boards

For details of Executive and Supervisory Board remuneration, see the Board Compensation Report on page 84 which is an integral part of both the combined management report and this corporate governance report.

Stock ownership by board members

The provisions of Art. 15a German Securities Trading Act ("WpHG") obligate members of Vossloh AG's Executive and Supervisory Boards, certain other managerial staff and parties (individuals or entities) related to these officers and managers, to disclose the purchase or sale of Vossloh AG shares or related financial instruments. No such so-called directors' dealings were reportable in 2007.

Stock option programs and similar securities-based incentive systems

As long-term incentive program for the Executive Board, Vossloh has since 1998 issued certain stock option programs (last relaunched in 2004). Under the terms of the long-term incentive program for Executive Board members (LTIP), the grant of Vossloh stock options is contingent on the prior purchase of Vossloh shares from each LTIP participant's own funds (personal investment).

No active or former Executive Board member has participated in, or acquired any stock option under, the 2005 LTIP. While the LTIP was not relaunched in 2007, it is intended to redesign it in the form of remuneration components with a long-term incentive effect.

For further stock option program details (LTIP and employee stock option plan), see page 147 of this annual report.

Declaration of conformity pursuant to Art. 161 AktG

Pursuant to Art. 161 AktG, the executive and supervisory boards of an exchange-listed stock corporation are required to issue an annual declaration on the extent to which the recommendations of the German Corporate Governance Code Government Commission (as published by the Federal Ministry of Justice in the official section of the digital Federal Gazette) have been, are or will be complied with. Considering the legislation and Code provisions as amended in 2007, Vossloh AG's Executive and Supervisory Boards have reviewed and revised the Company's corporate governance rules. By presenting this annual report the recommendations of the Code are fully carried out with one exception (mentioned in the declaration of conformity below).

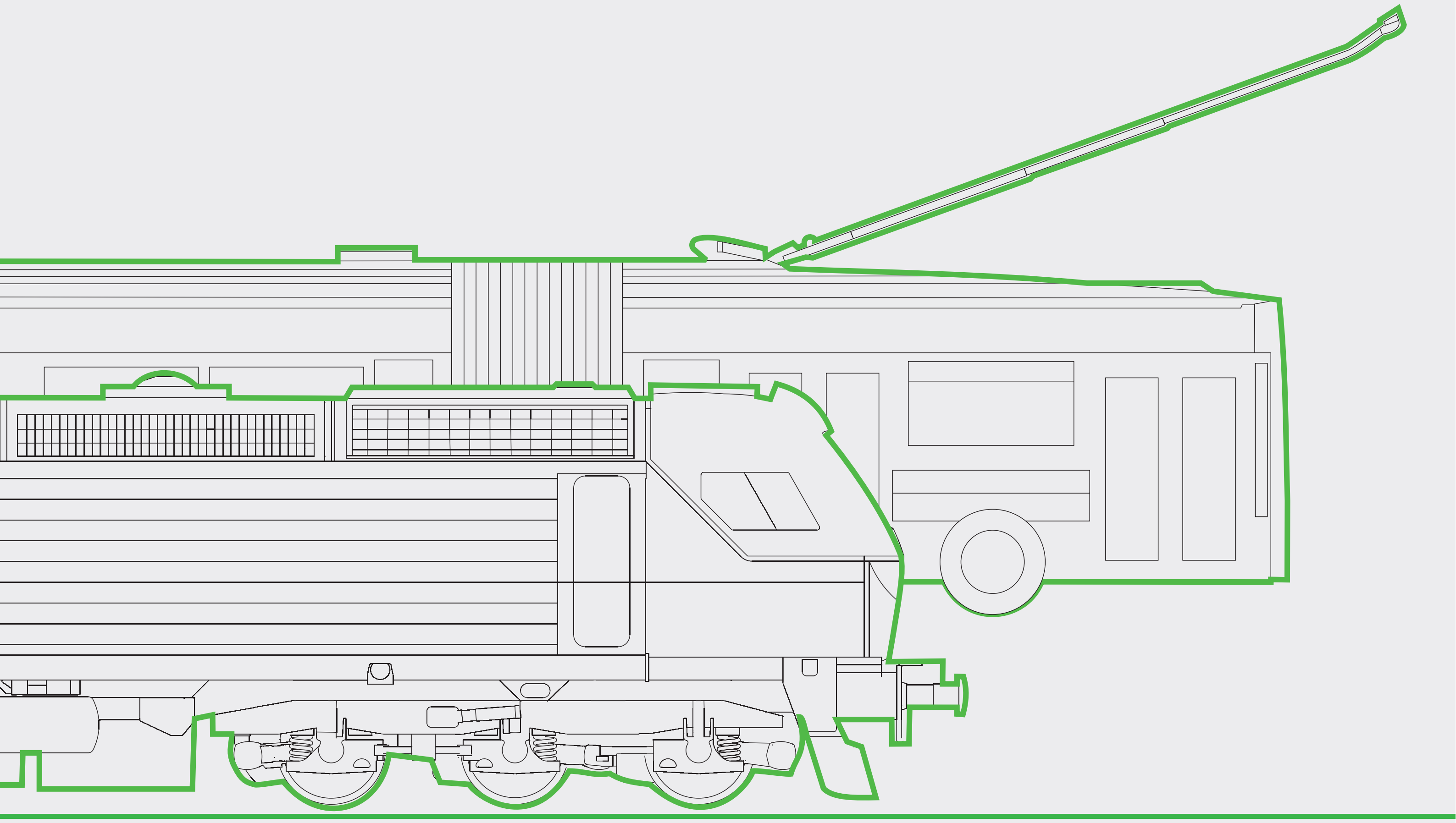
The current declaration of conformity under the terms of Art. 161 AktG was issued in January 2008, and published for long-term availability on the Company's website:

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

In fiscal 2007, Vossloh AG implemented, and continues to implement, the recommendations of the German Corporate Governance Code Government Commission, which have been published by the Federal Ministry of Justice in the official part of the digital Federal Gazette (as amended up to June 12, 2006, and June 14, 2007, respectively), with the following exceptions: For the first time, the period of 90 days after year-end as specified in Clause 7.1.2 for the publication of Vossloh AG's consolidated financial statements 2007 will be exceeded, their publication being scheduled for April 3, 2008. The Code recommendations of Clauses 4.2.5, 2nd paragraph, 2nd sentence, and 6.6, 1st paragraph, 2nd sentence, and 2nd paragraph not implemented in fiscal 2006, will be applied in the annual report 2007.

Werdohl, January 2008

Vossloh AG
Executive Board/Supervisory Board"



Combined management report

Vossloh AG

Division Rail Infrastructure	Division Motive Power&Components
Business units: Vossloh Fastening Systems Vossloh Switch Systems Vossloh Infrastructure Services	Business units: Vossloh Locomotives Vossloh Electrical Systems

Business and general conditions

Strategy, segmentation, and competitive position

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

- A closely focused portfolio. The Vossloh Group concentrates its activities on products and services destined for rail infrastructure as well as on rail vehicles and trolleybuses.
- Accelerated internationalization: Vossloh increasingly exploits the opportunities surfacing on the high-growth markets outside of Europe, presently on China, India, and the USA.
- Value-driven growth: profitability takes precedence over sales. To retain our competitive edge we prioritize our return on capital employed (ROCE) while never losing sight of our close customer orientation.

Accordingly, the Group has subsumed its business operations—its two Rail Infrastructure and Motive Power&Components divisions—under the roof of Vossloh AG, the management and financial holding parent.

The Rail Infrastructure division bundles the Group's infrastructure operations including the related services. The division comprises the Fastening Systems, Switch Systems and Infrastructure Services business units.

- Vossloh Fastening Systems is Europe's biggest and the world's second biggest supplier of rail fastening systems. The lineup covers rail fasteners for all types of traffic, from (sub)urban via heavy-haul to high-speed.
- Vossloh Switch Systems is the world's second biggest manufacturer of rail switches. It supplies, installs and services switches, control and monitoring systems for rail networks—from LRV to high-speed lines.
- Vossloh Infrastructure Services is a leading supplier of trackage maintenance work in France and Luxembourg including overhead line installation and track maintenance. Customers include state-owned and industrial rail networks as well as operators of trams, streetcars and other LRV services.

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

- With its two production locations at Valencia, Spain, and Kiel, Germany, Vossloh Locomotives is Europe's foremost manufacturer of diesel locomotives while in addition supplying maintenance work and locomotive/rental packages. At its Valencia location it also develops and produces (sub)urban rail vehicles. Customers include state and private rail operators plus leasing companies.
- Vossloh Electrical Systems is the world's foremost supplier of electrical systems for trolleybuses; buses are also equipped with complete hybrid drive systems. In fitting out LRV with advanced electrical systems, the business unit primarily focuses on the European and American markets. Besides furnishing complete systems, the unit supplies individual components, subassemblies plus revamping work, servicing and maintenance.

Organization

Vossloh patterns its business on local presence and customer proximity. Accordingly, the Group is positioned internationally, the most production plants being in Germany, France, Benelux, Spain, Scandinavia, and Poland. Outside of Europe it has plants in India and the USA (switch systems) and a rail fastener facility opened in Kunshan, China, in the fall of 2007. Besides its production plants Vossloh also has sales companies and branches and, together with competent associates, local joint ventures and alliances. At the end of 2007, the Group comprised a total of almost 80 companies in around 30 countries.

The biggest group companies and, at the same time, the parents of the business units, are: Vossloh Fastening Systems GmbH, Werdohl, Germany; Vossloh Cogifer SA, Rueil-Malmaison, France; Vossloh Infrastructure Services SA, Beauchamp, France; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España S.A., Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

Strategy and control system

As part of its value-driven growth strategy, Vossloh's prime target is to generate a better-than-average premium on top of the return claimed by investors and lenders (cost of capital). This premium is the difference between the return on capital employed (ROCE) and the weighted average cost of capital (WACC). This weighted average is composed of a risk-free rate of interest on equity (4.8 percent) plus a premium (currently 5.0 percent) and a debt interest rate, based on Vossloh's long-term financing terms after allowing for tax deductibility.

The ratio of equity to interest-bearing debt of two-thirds to one-third—a ratio needed for WACC calculation—is not derived from the balance sheet since, on the one hand, it is based on a parameter targeted for the financing structure and on interest-bearing accruals, and, on the other, equity for the WACC formula is not stated at book value (as in the balance sheet) but at fair value.

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

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

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

Through organic growth in its two divisions combined with judicious acquisitions, it is hoped to achieve a significant advance in revenue and raise non-European sales from presently some 20 to over 30 percent of the total over the years ahead.

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

Business report

Economic environment

The global economy again showed strong growth in 2007, though most recently losing pace in the wake of surging oil prices and the turmoils on the international financial markets. Still, GDP climbed worldwide in 2007 by 5.2 percent (down from 5.4). Despite slumping property prices and rising energy costs, the US economy—strongly driven by private spending—continued to grow. The Japanese economy showed modest yet sustainable growth in the region of 1.9 percent. As expected, most growth was generated by the Asian threshold nations, especially China and India. The C&E European economies also made further progress. Alongside high commodity prices, it is meanwhile also private consumption and infrastructure expenditures that are propelling the economies of these nations. Once again, Russia reported especially robust gains.

Despite the sharp appreciation of the euro versus the dollar, Euroland, Vossloh's most important market, showed a strong 2.6-percent gain in GDP—chiefly fueled by the momentum of industrial production especially in France and Germany and somewhat higher private consumption as a consequence of generally reduced unemployment.

Germany, too, reported once more buoyant gains in 2007, its price-adjusted GDP climbing 2.5 percent. All sectors of the economy contributed, especially the production, with 5.2 percent higher gross output. Momentum came both from exports and the domestic market. The higher export surplus contributed 1.4 and domestic consumption (mainly thanks to higher spending on equipment) 1 percentage point to Germany's economic growth. Clouding the overall picture was the relatively high inflation rate.

The rail infrastructure and rail technology markets of relevance to Vossloh's business follow only to a limited extent worldwide economic trends. Just as important are such factors as the current status of rail traffic deregulation and the situation regarding public-sector finances. In 2007, vigorous momentum was once again derived from the rapidly developing emerging nations whose economic dynamism also calls for substantial expenditures on infrastructure. To address the especially robust Chinese economy we opened a new local production plant in 2007. Another emerging trend: higher spending on rail infrastructure versus competitive modes of transport against the background of global climate protection efforts.

The international financial community is also indicating rising interest in infrastructure programs and the related products.

Vossloh's sales markets are barely homogeneous in their structure and trends. Moreover, there is very limited generally accessible and reliable data on these markets. A description of the markets and their chief trends in 2007 is therefore given under the reports on each segment.

Major events

The results of operations, asset and capital structure and financial position of the Vossloh Group and specific business units were materially influenced by the following D&A transactions in 2007 and by the start-up of rail fastener production in China:

Divestments

By agreement dated January 10, 2007, Vossloh sold and transferred its Information Technologies division to Funkwerk AG; the deal was closed in February 2007. Funkwerk acquired the division on a cash- and debt-free basis at a final purchase price of €2.2 million. Since the division had already been earmarked for divestment back in September 2006, all income and expenses from operating activities and from disposal were shown in a separate line as result from discontinued operations according to IFRS 5. As the division's assets and liabilities had been carried at net realizable value in the consolidated financial statements as of December 31, 2006, Vossloh reported in its 2007 financial statements substantially the net effect of contractual purchase price adjustments.

Acquisitions

An asset deal was signed on March 5, 2007, with the US rail switch manufacturer Pohl Corp., Reading, Pennsylvania, for a purchase price equivalent to €15.4 million. This company, which now operates as Vossloh Track Materials, Inc. (VTM), makes switches and their components besides trading in new and used rails and rail accessories. In the USA, VTM is the third biggest player in this market and generated sales equivalent to €30.1 million in the period April through December. Its full 12-month dollar sales corresponded to €39.3 million.

On April 4, 2007, Vossloh signed a share deal to acquire a 100-percent stake in Cleveland Track Material Inc., Cleveland, Ohio (CTM). The takeover was consummated as of April 30, 2007. Excluding the acquired financial debts, the price paid was €23.3 million. This company contributed €23.1 million to group sales for the period May (first-time consolidation) through December. Its full 12-month sales amounted to the equivalent of €34.8 million.

Both VTM and CTM have been assigned to the Switch Systems business unit.

In July 2007, Vossloh Infrastructure Services SA acquired from Colas SA, Boulogne Billancourt, France, the remaining stake in the ETF Group (until then Vossloh had held a 50-percent stake). The price was €33.0 million. This 100-percent takeover is reflected in €27.9 million incremental sales for the period July through December, 2007.

With the acquisition of major switch-business assets belonging to Australia's TKT Rail Corp., Castlemaine, Vossloh Switch Systems was able to expand its position on this market, too. This asset deal was signed on November 19, 2007, and closed in December 2007. The acquiree is set for first-time consolidation in January 2008.

Business start-up

The Chinese town of Kunshan close to Shanghai saw, under the management of Vossloh, the completion in 2007 of a new rail fastener plant. The production of the first fasteners commenced in July and since October these products have been shipped out for the construction of the high-speed Wuhan-Guangzhou line. The factory is a joint venture, with Vossloh holding an 84.2-percent stake. Sales in 2007 added up to €38.8 million.

The construction of this production plant has entailed expenditures in the region of €13.6 million in 2007.

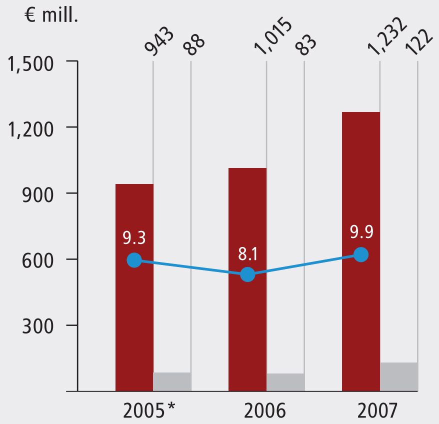
Results of operations

Summary

Fiscal 2007 proved to be a period in which Vossloh reported all-time highs of sales and EBIT in its longstanding history. Versus 2006, growth was considerable and profitable. Sales climbed by over 21 percent to €1,232 million; EBIT from continuing operations jumped by close to 47 percent from €82.7 million to €121.5 million. In parallel, the EBIT margin mounted from 8.1 to 9.9 percent. Group earnings leapt to €71.4 million and hence EpS surged from €1.38 to €4.83. ROCE reached 14.9 percent, thus climbing 2 percentage points over the figure for 2006. Measured against our weighted average cost of capital (WACC) of presently 11 percent, we achieved a 3.9-percentage-point premium.

Not only were sales and earnings up over the prior-year level, the figures originally budgeted for fiscal 2007 were, in some cases clearly exceeded, too. Sales outgrew the original budget by 13.9 percent, EBIT by 12.5 percent, group earnings and EpS by 15+ percent.

The Executive and Supervisory Boards will propose to the annual general meeting a cash dividend of €1.70 per share, which is about 30 percent more than the year before.



Vossloh Group: Sales and EBIT trends 2005–2007

* The comparatives 2005 have been adjusted for the Information Technologies division's contributions.

Sales Both divisions shared in the pronounced sales uptrend reported for 2007.

Vossloh Group: sales by business unit

	€ mill.	%	€ mill.	%
	2007		2006	
Rail Infrastructure	**763.1**	**61.9**	**613.9**	**60.5**
Fastening Systems	198.4	16.1	152.3	15.0
Switch Systems	357.4	29.0	253.0	24.9
Infrastructure Services	217.2	17.6	219.1	21.6
Consolidation	(9.9)	(0.8)	(10.5)	(1.0)
Motive Power&Components	**468.9**	**38.1**	**401.2**	**39.5**
Locomotives	340.5	27.7	296.8	29.2
Electrical Systems	128.4	10.4	104.4	10.3
Consolidation	0.0	0.0	0.0	0.0
Holding companies/consolidation	**0.1**	**0.0**	**0.1**	**0.0**
	1,232.1	**100.0**	**1,015.2**	**100.0**

Sales at Rail Infrastructure climbed €149.2 million or 24.3 percent to €763.1 million. Contributing to the €104.4 million rise at Switch Systems were the two US switch manufacturers acquired in the spring of 2007, with together €53.2 million. The division also benefited from increased maintenance jobs, especially in Scandinavia, and the building of rail corridors in C&E Europe. Opened in Kunshan 2007, the Chinese rail fastener factory inputted sales of €38.8 million, thus playing a major role in Vossloh Fastening Systems' growth (up €46.1 million). Whereas German domestic business remained at the prior-year volume, exports again advanced, especially to Western and C&E European countries. Despite the acquisition of the remaining 50-percent stake in the ETF Group, Infrastructure Services, a business unit whose operations are focused on France, reported sales of €217.2 million, still slightly shy of the €219.1 million in 2006.

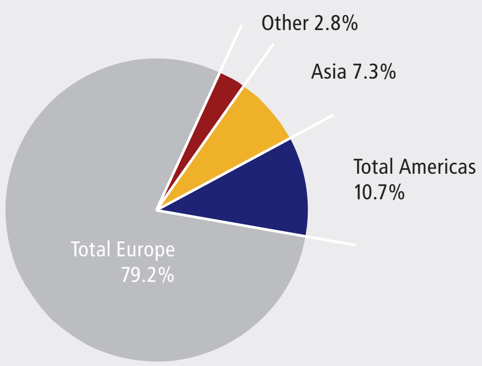
Sales at Motive Power&Components mounted almost 17 percent to €468.9 million. Chiefly due to sharp gains at Valencia, Vossloh Locomotives boosted its sales by almost €44 million or just under 15 percent. Vossloh España reported incremental sales from its suburban train business while Kiel, chiefly engaged in diesel-hydraulic locomotive manufacture, halted the sales shrinkage of the two previous years by generating a slight rise. The growth at Vossloh Electrical Systems of €24 million or 23 percent resulted from (mainly international) contracts for equipment mounted into trolleybuses as well as higher tram-related sales.

At Motive Power&Components and Infrastructure Services business is chiefly geared to medium-term contracts while, in contrast, sales at Vossloh Fastening Systems and Vossloh Switch Systems are pegged to current customer requirements, often with the products shipped out as and when needed.

Combined, the two US switch manufacturing acquirees and the first shipments of rail fasteners destined for the high-speed line in China impelled the non-European sales share which surged from 9.2 to as much as over 20 percent, even though the acquisitions were not consolidated for a full 12 months and the Chinese factory has only been shipping out its products since October of the year.

Vossloh Group: sales by region

	€ mill.	%	€ mill.	%
	2007		2006	
Germany	148.1	12.0	128.4	12.7
France	311.1	25.3	316.9	31.2
Other Euroland	353.2	28.7	333.4	32.8
Other Europe	163.1	13.2	143.5	14.1
Total Europe	**975.5**	**79.2**	**922.2**	**90.8**
North America	98.7	8.0	26.3	2.6
Latin America	33.7	2.7	4.4	0.4
Total Americas	**132.4**	**10.7**	**30.7**	**3.0**
Asia	**89.9**	**7.3**	**42.5**	**4.2**
Other regions	**34.3**	**2.8**	**19.8**	**2.0**
Total	**1,232.1**	**100.0**	**1,015.2**	**100.0**



Sales by region 2007

As in the preceding periods France was again the Vossloh Group's region with the highest sales and the chief market for Vossloh Switch Systems and Vossloh Infrastructure Services. Another plant kept busy by French customers is Valencia still working on locomotives destined for SNCF.

With the ETF takeover, French sales remained virtually unchanged from the prior-year level yet their share of the total plummeted from 31 to a good 25 percent due to rising revenue from other parts of the world. Vossloh's German business in 2007 was again fueled by the Fastening Systems and Electrical Systems business units, and the Kiel locomotive plant. Whereas the Fastening Systems business unit's German domestic business was down, that of Vossloh Electrical Systems (especially tram-related) and Vossloh Locomotives climbed. In all, the German sales share in the Group's total receded slightly to 12.0 percent. In Spain, too, the sales magnitude outnumbered Germany, as in 2006: Sales mounted from €133.4 million a year ago to €170.3 million in the period. Sales in Spain were generated not only by the Valencia locomotive plant but also the Switch Systems and Fastening Systems business units.

Cost of sales throughout the Group increased by 18.9 percent to €985.2 million, albeit at a much lower rate than the gain in sales. As a consequence, the gross margin inched up by 1.6 percentage points to 20.0 percent. Where not transferable to customers, rising prices (especially for certain locomotive components and the steel parts used in switches and rail fasteners) were largely absorbed by cost-cutting programs, productivity hikes, and economies of scale. Also impacting favorably was the fact that most growth was posted by the high-margin business units.

€14.9 million of the €28.6 million rise in general administrative and selling (GAS) expenses to €143.6 million is attributable to the first-time inclusion of the acquirees and the new production plant in China. Additionally weighing on general administrative expenses was a payment of €3.6 million made when one member left the Executive Board. Especially, the impending losses on trade receivables at Electrical Systems entailed a €3.7 million write-down in 2007. The remaining GAS expenses were propelled by elevated selling expenses in the wake of Vossloh's significant business expansion. Mainly due to the nonrecurring burden, the share of GAS expenses in net sales inched up from 11.4 to 11.7 percent.

The net other operating income in 2007 outgrew the prior year's by some €7 million. In 2006, mainly the write-down of investment properties, losses on tangible-asset disposal and litigation expenses had burdened, whereas higher income from the release of accruals no longer needed in 2007 raised, net other operating income.

The significant sales boost, the clearly upgraded gross margin and the climbing net other operating income all accounted for the nigh 47 percent by which EBIT jumped from €82.7 million a year ago to €121.5 million in the period.

Despite high cash outflows for the M&A transactions and capital expenditures (mainly for setting up the production facility in China), net interest expense shrank by €1.8 million to €12.3 million. Thanks to the higher EBIT and lower net interest expense, EBT shot up almost 60 percent or €40.6 million to €109.2 million.

Vossloh Group: sales and earnings

	€ mill.	%	€ mill.	%
	2007		2006	
Sales	1,232.1	100.0	1,015.2	100.0
Gross margin	246.9	20.0	186.5	18.4
Operating result	120.0	9.7	80.9	8.0
EBITDA	150.7	12.2	108.6	10.7
EBIT	121.5	9.9	82.7	8.1
EBT	109.2	8.9	68.6	6.8
Net result of discontinued operations	2.0	0.2	(23.6)	(2.3)
Group earnings	71.4	5.8	20.3	2.0
Earnings per share (€)	4.83		1.38	

The Group's tax load ratio inched up from 32.6 to 34.0 percent, basically as deferred tax assets from loss carryovers in Germany required restatement after the enactment of the Corporate Taxation Reform Act. A mitigating effect on the tax burden came from the higher percentage of profits in countries with below-average tax rates.

Group earnings in 2007 zoomed to €71.4 million (up from €20.3 million), including a posttax profit of discontinued operations of €2.0 million (up from a posttax loss of €23.6 million). The posttax result of discontinued operations for either year refers only to the disposal of the Information Technologies division.

At December 31, 2007, orders on hand throughout the Group totaled €1.31 billion (down from €1.37 billion). A year-on-year order backlog comparison shows a nigh 11-percent advance by Rail Infrastructure, a virtually unchanged amount at Vossloh Electrical systems, and a noticeable decrease at Locomotives chiefly due to the absence of new large state-rail awards and the pending completion at Valencia of the megaorders won in the preceding years.

Vossloh divisions: order backlog

	€ mill.	%	€ mill.	%
	2007		2006	
Rail Infrastructure	551	42.2	497	36.3
Motive Power&Components	756	57.8	873	63.7
Consolidation	0	0.0	(1)	(0.0)
	1,307	**100.0**	**1,369**	**100.0**

Financial position and investing activities

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

The Vossloh Group's net financial debt as of December 31, 2007, amounted to €124.9 million, hence up €62.6 million from the prior year-end's €62.3 million, substantially caused by cash outflows for the M&A transacted in 2007. The cash outflow for these new acquirees totaled around €74 million.

As of December 31, 2007, financial debts of €227.4 million (down from €230.5 million) contrasted with cash and cash equivalents (including short-term securities) of €102.5 million (down from €168.2 million), partly destined for funding future M&A transactions. The higher net financial debt raised net leverage from 16.8 percent a year ago to 28.8.

Vossloh Group: net leverage

		2007	2006
Equity	€ mill.	434.0	371.1
Net financial debt	€ mill.	124.9	62.3
Net leverage	%	28.8	16.8

The financial debts in 2007 substantially represented the long-term debt of around €163 million raised by Vossloh in 2004 by a two-loan private placement from the US capital market.
The first and second fixed-rate US-dollar loans (due in 2014 and 2016, respectively) have a bullet maturity. Since the funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and cross-currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively.

The remaining financial debts as of the balance sheet date mainly included a short-term floating-rate loan of €26.0 million, a long-term fixed-rate loan in Chinese yuan (equivalent to some €9 million) and a 5.93-percent note loan whose balance totaled €5 million at year-end 2007 and which is redeemable by mid-2008. Moreover, other group companies had incurred financial liabilities of nigh €25 million.

As of December 31, 2007, open cash credit facilities of about €157 million were available to the Vossloh Group. For details, see the chapter on risk and reward management starting from page 100. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

Vossloh Group: cash flow analysis

€ million	2007	2006
Cash flow from operating activities	80.2	186.9
Cash flow from investment activities	(123.6)	(15.4)
Cash flow from financing activities	(25.7)	(81.5)
Change in cash and cash equivalents	**(69.1)**	**90.0**

Despite the €38.8 million surge in the Group's EBIT, the net cash provided by operating activities in 2007 plunged around €107 million. In 2006, a key source of inflowing cash had been significant customer prepayments (which slashed working capital accordingly) whereas, in 2007, working capital swelled by €62.1 million. Moreover, the cash outflow in 2007 for taxes was up by €19.2 million as EBT for the year hiked up.

Vossloh Group: capital expenditures and amortization/depreciation

€ million	2007		2006	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	39.0	18.5	9.7	14.0
Motive Power&Components	13.3	9.5	12.9	8.2
Discontinued operations			1.1	
Holding companies and consolidation	0.3	1.2	0.2	3.7
	52.6	**29.2**	**23.9**	**25.9**

The net cash of €125.2 million used in investing activities 2007 soared from the 2006 level of €15.4 million, however, new acquirees accounting for cash outflows of €74.1 million alone. The cash outflow of €52.6 million for added tangible and intangible assets more than doubled in comparison with 2006. Even excluding the capital outlays of €13.6 million for setting up the production facility in China, capital expenditures in 2007 were easily above amortization and depreciation of €29.2 million.

Besides the construction of the Chinese plant, capital spending centered on maintaining and revamping existing capacities, as well as on new-product development. For instance, Vossloh Fastening Systems spent €2.6 million on a new production line while capex at Vossloh Switch Systems focused on the modernization of the unit's French facilities. Vossloh Infrastructure Services made downpayments in 2007 to replace the track-laying train lost in an accident in 2006. As in the preceding two years, the investing activities of both locations of Vossloh Locomotives were mainly directed at the development of new products. Development costs capitalized in the period totaled €5.2 million (down from €6.8 million) and went largely toward the EURO 4000 heavy-duty diesel-electric locomotive.

Vossloh Group: breakdown of capex for intangible/tangible assets

€ million	2007		2006	
	Capex	%	Capex	%
Development costs	5.5	10.5	7.7	32.2
Other intangibles	1.2	2.2	0.8	3.4
Land and buildings	8.4	16.0	1.3	5.4
Production plant and machinery	23.9	45.4	7.7	32.2
Other plant, factory and office equipment	5.5	10.5	4.4	18.4
Prepayments made, construction in progress	8.1	15.4	2.0	8.4
	52.6	**100.0**	**23.9**	**100.0**

The future cash outflows under the operating leases existing at December 31, 2007, will total €35.5 million (up from €34.7 million), including €6.0 million in 2008. The current property leases entail cash outflows of a total €6.6 million (down from €12.2 million), including €1.7 million in 2008. Future cash outflows under capital leases came to €2.6 million as of December 31, 2007.

Asset and capital structure

In comparison with year-end 2006, equity climbed €62.9 million to €434.0 million, substantially in the wake of the increase in group earnings (to €71.4 million), in capital stock (as employees exercised their stock options under the ESOP), as well as in accumulated other comprehensive income. The higher OCI was attributable to the favorable impact of the restatement to fair value of the interest rate and currency hedges for the US private placement. The rise in equity contrasted with the dividend payout of €20.0 million for 2006. Vossloh's equity ratio edged up from 31.0 to 32.7 percent, its return on equity surging almost seven percentage points to 25.2 percent despite the considerably higher equity (up from 18.5 percent).

Vossloh Group: asset and capital structure

		2007	2006
Total assets	€ mill.	1,326.8	1,198.5
Total equity	€ mill.	434.0	371.1
Equity ratio	%	32.7	31.0
Working capital	€ mill.	312.8	216.7
Working capital intensity	%	25.4	21.3
Capital employed	€ mill.	816.2	640.1
Fixed assets	€ mill.	503.4	423.4
ROCE	%	14.9	12.9
Return on equity (ROE)	%	25.2	18.5

In a year-on-year comparison, working capital soared around €96 million or 44 percent to €312.8 million, €65.4 million of the rise being attributable to M&A transactions and the new plant in China alone. Another reason for the swelling working capital was the slump in prepayments by Rail Infrastructure customers. The year-end working capital at the Motive Power&Components division slimmed down substantially in 2007.

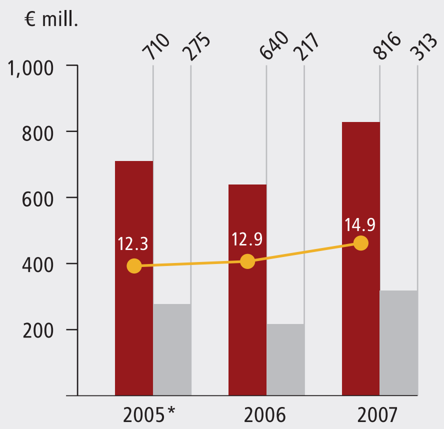
Higher working capital, the excess of capital expenditures over amortization/depreciation and the initial capitalization of fixed assets taken over in M&A transactions (including the intangible assets ensuing from purchase price allocation) heightened capital employed (CE), too (up by a good €176 million or 27.5 percent to €816.2 million).

Shareholder value management

The higher capital employed notwithstanding, ROCE at 14.9 percent exceeded the previous year's return of 12.9 percent, thanks to the faster rate of EBIT growth. ROCE thus outperformed the Group's WACC of 11 percent and nudged Vossloh's internal benchmark of 15 percent, despite one-time burdens.

Despite its elevated capex level and clearly higher working capital, the Rail Infrastructure division achieved an ROCE of 18.2 percent (down from 19.7). Its CE surged almost 50 percent or €194 million to €606.4 million, substantially as the year's acquirees and newly formed companies were included for the first time.

In contrast, the Motive Power&Components division boosted its ROCE in 2007, from 10.9 percent a year ago to 15.4 in the period. The division's two business units both outstripped the Group benchmark of 15 percent. Besides the definitely improved EBIT, the 8.3-percent CE shrinkage to €198.7 million contributed to the upgraded ROCE.



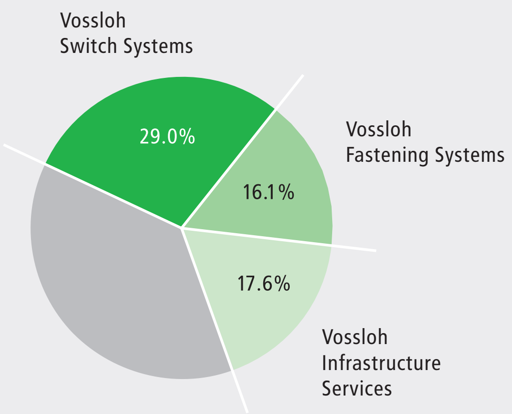
Trend 2005–2007 of capital employed, working capital and ROCE, Vossloh Group

CE in € million
WC in € million
ROCE in %

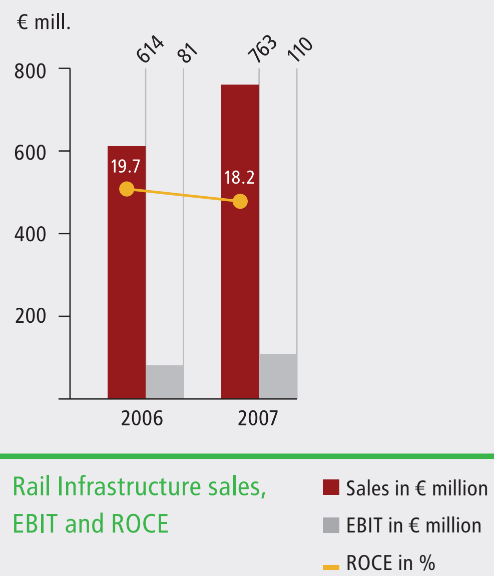
* The 2005 comparatives have been adjusted for the Information Technologies division's contributions.

Sales by Fastening Systems and Switch Systems at a record level

Production capacities even busier



Shares of business units in group sales



Rail Infrastructure sales, EBIT and ROCE

Business situation Rail Infrastructure

Vossloh Rail Infrastructure comprises three business units: Fastening Systems, Switch Systems, and Infrastructure Services. Total sales rose by €149.2 million to €763.1 million, up 24.3 percent. Sharing in this gain were significant growth rates reported by Vossloh Switch Systems (up €104.4 million) and Vossloh Fastening Systems (up €46.1 million). Besides the organic increases, it was the two new US acquirees and the commencement of rail fastener production in China that largely contributed incremental sales. Despite the addition of the remaining 50-percent stake in ETF, Infrastructure Services sales inched down due to the progressing completion of major tram projects in various large cities in France.

Rail Infrastructure

		2007	2006
Sales	€ mill.	763.1	613.9
EBITDA	€ mill.	128.6	95.1
EBIT	€ mill.	110.1	81.2
EBIT margin	%	14.4	13.2
Working capital	€ mill.	236.7	120.5
Working capital intensity	%	31.0	19.6
Fixed asstets	€ mill.	369.7	291.9
Capital expenditures	€ mill.	39.0	9.7
Amortization/depreciation	€ mill.	18.5	14.0
Capital employed	€ mill.	606.4	412.4
ROCE	%	18.2	19.7

At 18.2 percent ROCE again topped the corporate benchmark of 15 percent, albeit short of the prior year's 19.7 percent. Whereas EBIT much improved over 2006, the climb in working capital (also due to the acquisitions) and fixed assets depressed ROCE in 2007.

Rail Infrastructure's EBIT improved by 35.6 percent to €110.1 million, with the EBIT margin correspondingly advancing from 13.2 to 14.4 percent. The chief reasons for the relatively sharp earnings hike were the strong growth rates, especially in the high-margin Switch Systems and Fastening Systems business units coupled with an again higher utilization of production capacities. The new acquirees contributed €3.5 million in 2007 to the EBIT rise.

Working capital almost doubled to around €237 million, most of the sizable addition being sunk in the M&A transactions and the first-time inclusion of Vossloh Fastening Systems China. Customer prepayments, whose magnitude had had a mitigating effect in 2006, slumped by December 31, 2007. The fixed assets acquired in the M&A transactions and the capital expenditures for establishing the plant in Kunshan were also behind the €77.8 million hike in fixed assets. Consequently, capital employed, too, swelled in comparison to the previous year.

Vossloh Fastening Systems

Vossloh Fastening Systems generated sales of €198.4 million in 2007, €46.1 million or 30.3 percent up over the prior-year figure. Domestic sales in Germany from W1 and W14 system shipments required for maintenance work on German Rail's network at €48.4 million were clearly in excess of original expectations yet still 2.8 percent short of 2006.

Vossloh Fastening Systems' export business again boomed, sales at €150.0 million up €47.5 million or 46.3 percent. As a proportion of total revenue, non-German sales climbed from 67.3 to 75.6 percent.

A major share in this growth was attributable to the joint venture in Kunshan, near Shanghai. Vossloh's stake in this venture with Nanjing Iron Steel Co. Ltd. (NISCO) is 84.2 percent. The industrial complex set up at Kunshan hosts, besides Vossloh, further Sino-European joint ventures with longstanding rail fastener production associates of Vossloh. The factory came on stream in July 2007 and the first fasteners were shipped out in October. During the year under review Vossloh dispatched fasteners worth €50 million under the Chinese megacontract for €185.0 million (awarded in the fall of 2006). Whereas the smaller part for the Olympic line Beijing–Tianjin was covered by exports from Germany, the much larger proportion (€38.8 million) for the high-speed links between Wuhan and Guangzhou and from there to Shenzhen is being sourced from this new factory in China.

Besides the revenue from the construction of high-speed lines in China, incremental international sales were also reported from Spain and Poland. In the former, a number of projects generated sales of €9.8 million (up by €3.4 million). Shipments to Spanish customers concerned sections of the new Madrid–Valladolid link and the Eje Atlántico project which comprises several slabbed track lines on the Iberian Peninsula. In addition to the fasteners for the new high-speed lines, the business unit supplied noise-dampening specialty rail fasteners for slabbed tracks on Spanish suburban rail systems including the new metro for Palma de Mallorca.

For 2007, Vossloh Fastening Systems reported a pronounced rise in business in Poland. Versus 2006, sales climbed €4.0 million to €9.0 million. This is a country in which the business unit has its own boltless rail fastener production plant specifically for the home market, which in terms of track mileage is Europe's third biggest.

Apart from business in its existing markets, Vossloh Fastening Systems also ventured into new ones, especially in North Africa.

Capital expenditures in 2007 totaled €18.4 million (up from €1.0 million) and chiefly went into the new Kunshan factory and a new Werdohl assembly line. In all, an amount of €13.6 million was invested in China while Werdohl accounted for €2.6 million.

The rising prices of steel and plastic components were only partly offset by procurement savings and, in a few instances, selling price hikes.

At year-end, Vossloh Fastening Systems reported an order backlog of €136.2 million (down from €188.9 million)—mostly, alongside the Chinese megacontracts, make-and-hold orders.

Vossloh Switch Systems

In 2007, Vossloh Switch Systems generated sales of €357.4 million, an all-time high and over €104.4 million or 41.2 percent in excess of 2006. Of this increase, around 50 percent was contributed by the US subsidiaries acquired in April and May of the year. Vossloh Switch Systems has thus graduated to #3 on the US market for switches and crossings.

Vossloh Switch Systems also gained a foothold on the Australian market by taking over the switch business of Thompsons Kelly & Lewis Pty. Ltd. (TKL) in late 2007. A large contract which the business unit had acquired together with TKL in Australia, has since 2007 been shipped out, with final shipments scheduled for 2009. TKL is due for consolidation starting from 2008.

Adjusted for the newcomers and despite fiercer competition worldwide combined with shrinking sales at home in France, Vossloh Switch Systems nonetheless reported clear gains in its existing markets.

French sales in 2007 slumped by around 28 percent. In the preceding years, many French municipalities had been injecting funds into the construction of tram lines and between 2004 and 2006 both Vossloh Switch Systems and Vossloh Infrastructure Services had benefited from this boom and acquired extensive tram system contracts. Besides this sales shortfall, revenue from high-speed switches was likewise lower in France. On completion of the Paris–Strasbourg line fitted with Vossloh switches, the French market presently does not have any major high-speed lines under construction.

Making up for shrinking sales in France were sharp upturns especially in the other European markets and Asia. Scandinavia, Poland and Spain showed steep growth rates. In Sweden rising M&R expenses triggered robust demand while Vossloh Cogifer Polska's business was driven by the construction of the C&E European rail corridors. For the Spanish market, high-speed switches destined for the new Madrid–Barcelona line were shipped.

Sales in North Africa and the Middle East were also well up and most of the shipments comprised conventional switches for new mainline services.

Asian business was robust, too, and in China the Switch Systems business unit generated sales of around €10 million, mostly from switch and signaling components supplied to a Chinese associate as part of a technology transfer deal.

The Indian companies reported once again soaring demand for rail products. This nation's focus is on upgrading existing lines, building new goods haulage lines and on converting the switches to international standards. The switches are being fitted with rail profiles allowing higher speeds. In 2007, the Indian subsidiaries of Vossloh Switch Systems reported aggregate sales of €13.4 million (up from about €10 million).

Capital expenditures in 2007 almost doubled to €6.9 million and were directed at revamping and fine-tuning the production facilities at all the locations.

The period saw another sharp rise in expenses for steel and, especially, rail materials. Only a portion of these higher expenses were absorbed by cost savings, efficiency enhancements, and by raising the selling prices of individual products.

Year-end order backlog climbed from €208.3 million to €246.4 million of which the 2007 newcomers in the USA accounted for €21.9 million.

Vossloh Infrastructure Services

At €217.2 million, sales by Vossloh Infrastructure Services in 2007 were slightly short of the year-earlier €219.1 million yet up as much as 29.4 percent or €49.4 million over budget. Contributing €27.9 million was the acquisition of the remaining stake in ETF (previously Vossloh Infrastructure Services had held a 50-percent stake). In France, ETF is the leading player in the rail maintenance market and track construction work performed on behalf of RFF, the owner of the nation's rail infrastructure, and the state rail SNCF. In 2007, the ETF Group was also involved in the concluding work on the first phase of the high-speed Paris–Strasbourg line (LGV Est). The opening of the LGV Est in June 2007 has shortened the rail journey between these two cities from four to now two hours and 20 minutes.

Adversely impacting on sales by this business unit during the year was the fact that large tram projects in various French cities had meantime been completed. Of the original eight, only four were still in progress in France in 2007.

Capital expenditures by this business unit amounted to €13.7 million (up by €8.7 million). Alongside a number of smallish replacements, the main item was the downpayment for a substitute for the track-laying train derailed the year before. The ETF Group's capex, prorated the previous year, has been fully included since the complete takeover of the unit.

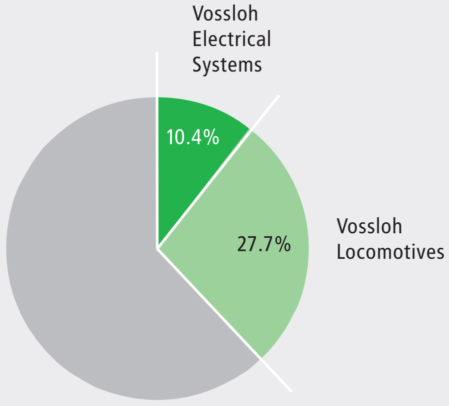
Orders on hand soared to around €170 million at year-end (up from €99.5 million), including around €33 million thanks to the ETF acquisition. Among the major orders booked in 2007 were the RFF track renewal contract and the construction of the Lyon City–Airport link.

ROCE in both business units over 15 percent

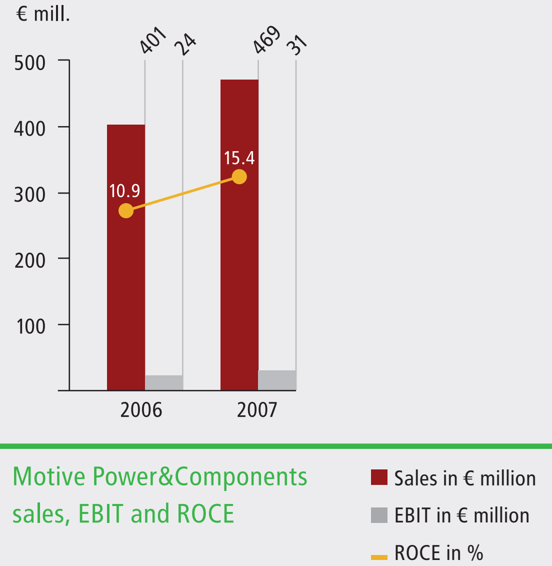
Kiel back on track

Growth through metro trains from Valencia

Eco-friendly trolleybuses gaining ground



Shares of business units in group sales



Motive Power&Components sales, EBIT and ROCE

Business situation Motive Power&Components

In 2007, the Motive Power&Components division, comprising the Locomotives and Electrical Systems business units, again recorded substantial growth in sales, which climbed €67.7 million or 16.9 percent to €468.9 million. Vossloh Locomotives contributed €43.7 million to this rise, Vossloh Electrical Systems €24.0 million.

Above all surging business in metro vehicles at the Valencia location boosted Vossloh Locomotives' sales by 15 percent versus 2006. Sales sourced from orders for diesel locomotives came chiefly from lessors again in 2007, while demand from state-owned railways remained, as in previous years, low.

In 2007, Vossloh Electrical Systems recorded rallying business for components built into trolley-buses. The business unit made a notable contribution to the current debate about alternative drive concepts by unveiling the world's first 24-meter double-articulated bus equipped with a series hybrid drive. Following its presentation in the Swiss town of Zug, the bus has been made available to several operators for trial runs. There was another rise in demand for electrical equipment installed into trams and LRV.

Motive Power&Components

		2007	2006
Sales	€ mill.	468.9	401.2
EBITDA	€ mill.	40.1	31.8
EBIT	€ mill.	30.6	23.6
EBIT margin	%	6.5	5.9
Working capital	€ mill.	76.1	96.9
Working capital intensity	%	16.2	24.2
Fixed asstets	€ mill.	122.6	119.7
Capital expenditures	€ mill.	13.3	12.9
Amortization/depreciation	€ mill.	9.5	8.2
Capital employed	€ mill.	198.7	216.6
ROCE	%	15.4	10.9

The division's ROCE shot up to 15.4 percent, 4.5 percentage points above the prior-year level and thus exceeding the Group's 15-percent benchmark. Both business units topped the group target. Apart from a clearly improved EBIT in the business units, the downscaled working capital at Vossloh Locomotives contributed to the ROCE boost.

EBIT was upgraded by 30 percent, from €23.6 million to €30.6 million, the EBIT margin by 0.6 percentage points to 6.5 percent. Write-down and other necessary risk provisions related to a Vossloh Electrical Systems project partner's potential insolvency burdened the division's EBIT with €6.6 million.

At €76.1 million, working capital was well below the 2006 year-end level of €96.9 million, basically due to higher customer prepayments and trade payables.

Vossloh Locomotives

The Locomotives business unit's sales climbed from €296.8 million in 2006 to €340.5 million in the period under review. The Valencia plant generated sales of €194.3 million in 2007, equivalent to some 57 percent of the unit's total sales. The Kiel location's sales totaled €146.2 million in 2007 (up from €143.9 million), including intercompany transfers of €0.6 million.

The necessary restructuring measures at the Kiel plant in recent years not only resulted in the locomotives plant returning to the black—despite lower production figures than in the past—but also helped the Locomotives unit to exceed the Group's 15-percent ROCE benchmark.

At the end of 2007, Vossloh Locomotives' order backlog came to €543.1 million. Even though this fell short of the prior-year €656.4 million, the unit is predicting increased sales in the years ahead.

Valencia plant

At €194.3 million, Vossloh España's sales in 2007 outstripped the 2006 level by 27+ percent (up from €152.9 million).

Compared with 2006, sales from (sub)urban transportation projects rose significantly.
In particular, the completion progress of the contract secured in 2006 from the Valencia province railway operator FGV for the supply of 20 metro trains of the 4300 series boosted business substantially in 2007. In May 2007, FGV placed another €42.6 million order for an additional 20 cars for these trains.

Some 44 percent of Vossloh España's sales in 2007 was sourced from orders for diesel locomotives, including from Renfe, the Spanish rail operator, and from Alstom for contracts awarded by France's state-owned SNCF. In addition, the 18 newly developed EURO 4000 locomotives ordered by Antwerp-based Angel Trains Cargo (ATC) at the InnoTrans 2006 trade fair were produced according to schedule in 2007, with the first deliveries planned for early 2008. Further orders for the EURO 4000 were attracted in the year under review. For example, Angel Trains Cargo exercised an option for another 12 vehicles at a value of some €39 million and due to be shipped out as from late 2008.

Capital expenditures in 2007 added up to €6.1 million, of which more than half went toward the development of the EURO 4000.

Kiel plant

In 2007, Vossloh Locomotives in Kiel generated sales of €146.2 million, thus halting the downturn of recent years. For the first time since 2004, sales edged up 1.6 percent on the previous year.

During the period, 54 diesel-hydraulic locomotives were delivered to customers, nine more than a year before. The contract booked in 2006 from the private rail operator SecoRail for 20 locomotives was successfully performed, with the customer exercising an option for another six locomotives in 2007. The production of 19 diesel locomotives for Angel Trains Cargo (ATC) was fully completed. In early 2008, ATC exercised an option for the delivery of another three G 2000 locomotives. The order secured from Mitsui Rail Capital Europe (MRCE) in early 2007 for seven G 1206-type diesel locomotives was largely completed in 2007 as planned. The project started in 2006 to retrofit locomotives with the new European Train Control System (ETCS) proceeded according to plan in 2007.

The Kiel plant spent some €5 million in 2007, including €2.0 million on product developments, a large proportion of which went toward the new three-axle G 12-6C locomotive with a centrally mounted engineer's cab.

Vossloh Electrical Systems

At €128.4 million, Vossloh Electrical Systems' sales were up 23 percent, primarily thanks to sales growth sparked by business in electrical equipment for trolleybuses. Shipments of electrical systems for LRV also generated incremental sales.

The delivery of environment-friendly trolleybuses fitted with Vossloh's electrical equipment to Vancouver, Canada, which started in 2006, was successfully continued. The customer received the last of the 188 single buses in November 2007, four months before the agreed date. Delivery of the additional 40 articulated buses ordered will be completed in early 2008.

A total of 24 vehicles were shipped out to the Zurich transit authority (Verkehrsbetriebe Zürich, or VBZ) in 2007; the project comprises 18 articulated and 17 double-articulated trolleybuses. Following a six-week trial operation in 2006, VBZ had opted for the purchase. The 24-meter, exhaust-free and low-noise vehicles can carry up to 200 passengers.

Electrical equipment for tram and LRV systems was supplied for projects in Cologne, Bremen and Düsseldorf, among others, in 2007. The delivery of electrics to the Cologne transit authority, comprising 69 trams, of which 24 vehicles were supplied in 2007, was completed. During the period under review, the Bremen transit authority received five vehicles and exercised part of an option for a further four. The final vehicle of the first 15-unit batch was delivered to Rheinbahn Düsseldorf in November 2007.

Moreover, Vossloh Electrical Systems expanded its product range by adding traction equipment for regional trains. Following extensive testing in the Netherlands, the vehicles were homologated for passenger transportation. Besides the traction equipment, Vossloh Electrical Systems also supplied the on-board power supply network, the heating, ventilation and air-conditioning equipment, the train control system, the communications and operating equipment in the engineer's cab, and the train protection system. The business unit thus has a first reference for marketing regional trains with Vossloh Electrical Systems traction equipment.

At the end of 2007, the Electrical Systems business unit's order backlog came to €212.5 million, matching the prior-year level. Order intake in 2007 totaled €124.0 million. The unit managed to attract new customers, including the Greater Manchester Passenger Transport Executive (GMPTE), which placed an order for twelve high-floor LRV of the M5000 series with an option for up to another 85. Vossloh Electrical Systems will process the order together with Bombardier Transportation. The vehicles are to be shipped out by the end of 2009.

Another new customer is the municipality of Krefeld, Germany, from which Vossloh Electrical Systems together with Bombardier Transportation won the public bid in December 2007 for 19 low-floor trams with an option for an additional 19.

The unit spent €2.2 million in 2007, chiefly on replacements.

Vossloh AG

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

Analysis of the separate financial statements

A comparative analysis of the business trend and situation of the Company will hardly turn out reasonable results since Vossloh Rail Technology GmbH and Vossloh Communication GmbH were in 2007 retroactively merged into Vossloh AG as of January 1, 2007. However, to enable such year-on-year comparisons nonetheless, pro forma prior-year comparatives were added in the balance sheet and income statement to depict the situation as it would have been had the mergers already been implemented at the inception of fiscal 2006.

As nonoperating holding company, Vossloh AG's revenue consists of rental income and intercompany allocations. The operating expenses are mainly incurred in connection with the Company's management and financing functions. Therefore, EBT is substantially influenced by gen- eral administrative expenses, other operating income and the net financial result. The general administrative expenses exceeded the prior year's by €7.7 million, the increase being largely attributable to the quit of an Executive Board member and the write-down of receivables, totaling €9+ million. In contrast, consultancy fees at €1.6 million slumped by €4.6 million from the 2006 level. The €12.8 million surge in other operating income to €17.4 million was caused by the required write-up of investment book values previously written down, as well as by steeply climbing tax allocations. These contributed a total of €11.6 million to the increase.

Besides the administrative expenses and the net other operating income or expense, the net financial result has another major impact on Vossloh AG's EBT since the Company is also the financial holding company of the Group and therefore owns most of its subsidiaries. Key components of the financial results are the profit transferred by Vossloh Locomotives GmbH and Vossloh-Werke GmbH, together accounting in 2007 for €21.8 million. Interest expense of €15.5 million (up from €15.1 million) for refinancing the Group's capital requirements contrasted in 2007 with interest income of €15.4 million from granting short-term credit or medium-term loans to consolidated subsidiaries and from cash investments (down from €17.9 million).

In addition to the EBT of €12.6 million (up from €11.1 million), the net income for 2007 of €70.0 million (up from a net loss of €44.0 million) also accounts for the extraordinary gain of €51.7 million from merging Vossloh Rail Technology GmbH into Vossloh AG.

As of December 31, 2007, Vossloh AG's financial assets showed a steep rise after the merger of Vossloh Rail Technology GmbH. As the latter's shares in direct subsidiaries accrued to Vossloh AG, financial assets zoomed by €437.3 million, which contrasted with a €275.0 million decrease in the shares in, and long-term loans to, Vossloh Rail Technology GmbH.

As of December 31, 2007, Vossloh AG's equity climbed to €500.5 million (up from €447.3 million). Since total assets rose from €721.9 million to €790.5 million, the Company's equity ratio edged up from the prior year's 62.0 percent to 63.3.

Vossloh AG's financial position depends on the funds needed by subsidiaries and the debt raised by the Company to refinance such requirements. The debt raised in 2004 from the US capital market by way of private placement, carried within sundry liabilities, amounted to an unchanged €203.9 million. As €5.0 million was redeemed, the other borrowings shrank to €31.0 million as of December 31, 2007. Vossloh AG's cash on hand and in bank sank from €107.1 million to €26.0 million as of December 31, 2007, mainly after the increase in Vossloh International GmbH's additional paid-in capital and after subsidiaries had been granted additional intercompany loans to fund acquisitions.

Board compensation report

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

This board compensation report follows the recommendations of the German Corporate Governance Code as amended up to June 14, 2007.

Remuneration of Executive Board members in 2007

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

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

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

In fiscal 2007, Vossloh AG's executive officers received a total monetary compensation of €5,388,916 (up from €2,389,910), including €788,220 of fixed, and €2,357,983 variable, remuneration, plus one-time payments of €2,200,000 million. In addition, they received noncash fringes as payments in kind (PIK), basically in the form of private company car use at the tax base of €42,713. PIK income is taxable income of each executive officer.

The table below itemizes the remuneration of each executive officer:

€	Fixed salary	Fringes	Profit share (performance-unrelated)	Profit share (performance-related)	Total
Werner Andree CEO as from Aug. 9, 2007	278,434	18,166	100,000	924,554	1,321,154
Dr.-Ing. Norbert Schiedeck (as from Apr. 1, 2007)	187,512	10,759	0	443,786	642,057
Dr. Gerhard Eschenröder CEO (up to Aug. 9, 2007)	322,274	13,788	150,000	739,643	1,225,705
Total	**788,220**	**42,713**	**250,000**	**2,107,983**	**3,188,916**

Executive Board members resigned in fiscal 2007 received one-time payments of €2,200,000 million.

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

Moreover, they have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the minimum retirement age of 60. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 15 or 35 percent, and are stepped up by 3 or 4 percent annually (as from Jan. 1, 2005, or April 1, 2010, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2007, a total €1,409,871 was provided for accrued pension obligations to Executive Board members (up from €658,123). Current postretirement pensions are adjusted annually in line with the collective pay trend of white-collar employees.

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

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

No loans or advances were granted in 2007 to any Executive Board member.

The compensation paid as current pensions to former executive officers and their surviving dependants totaled €658,809 (down from €1,165,417).

Pension obligations to former executive officers and their surviving dependants amounted to €7,589,773 (down from €7,626,993) and are fully covered by accruals.

Remuneration of Supervisory Board members in 2007

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

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

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

In accordance with the bylaws, Supervisory Board members received a total €465,502 in 2007 (up from €126,750), including €96,980 fixed and €368,522 variable, performance-related fees. The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Dr.-Ing. Wilfried Kaiser, Chairman	30,000	114,000	144,000
Peter Langenbach, Vice-Chairman	17,500	66,500	84,000
Dr. Jürgen Blume	12,500	47,500	60,000
Dr. Christoph Kirsch	12,500	47,500	60,000
Wolfgang Klein	15,000	57,000	72,000
Wilfried Köpke (up to 3/31/2007)	2,466	9,370	11,836
Michael Ulrich (as from 4/20/2007)	7,014	26,652	33,666
Total	**96,980**	**368,522**	**465,502**

In addition to these fees, no Supervisory Board member received in 2007 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2007 to any Supervisory Board member.

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

Vossloh AG's capital stock amounts to €37,824,851.86 and is divided into 14,795,796 no-par bearer shares of common stock. In the course of 2007, altogether 60,001 new shares were issued as stock options were exercised under the ESOP and LTIP.

The Vossloh family pool owned a stake of 31.43 percent, according to information furnished in March 2007 by Familiengemeinschaft Vossloh GbR. Voting right exercise by Vossloh family members has been pooled by contractual agreement.

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

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

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

1. Execution of a direct-control (subordination) and profit & loss transfer agreement

2. Execution of a merger agreement under which Vossloh AG's assets are transferred substantially in their entirety either to another entity as transferee in return for the grant of such transferee's stock (absorbing merger) or to a new enterprise (consolidation)

3. Execution of an agreement that obligates Vossloh AG to transfer substantially all of its corporate assets

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

At December 31, 2007, authorized capital existed at €18,406,507.72.

The annual general meeting of June 3, 2004, conditionally raised the capital stock by up to €1,840,650.77 by issuing a maximum of 720,000 no-par bearer shares of common stock in order to grant stock options to officers of Vossloh AG, as well as to officers and executives of Vossloh subsidiaries under the terms of Arts. 15 et seq. AktG. By December 31, 2007, the 145,680 shares issued thereunder increased the capital stock by altogether €372,425.00.

Moreover, the capital stock was conditionally raised by up to €383,468.91 by issuing a maximum of 150,000 no-par bearer shares of common stock in order to grant stock options to employees of Vossloh AG and its German subsidiaries under the terms of Arts. 15 et seq. AktG. Out of this authorized but unissued capital, altogether 10,235 shares were issued by December 31, 2007, thus raising the capital stock by €26,165.37.

As resolved by the annual meeting of Vossloh AG's stockholders on May 31, 2007, the Company is authorized pursuant to Art. 71(1)(8) after expiration of the authority ended November 23, 2007, to repurchase on or before November 30, 2008, shares of treasury stock equivalent to ten percent of the capital stock. The consideration given in return for treasury shares may neither be below five percent of, nor more than five percent above, the average Vossloh share price as quoted at the closing auction of the Xetra trade (or any successor system in lieu of and replacing the Xetra system) at the Frankfurt Stock Exchange during the five trading days preceding the treasury stock acquisition date.

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

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

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

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

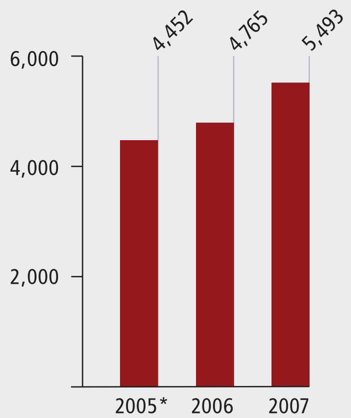
In the event of a change of control and the ensuing early loss of an Executive Board office, no Executive Board member affected will be entitled to claim under their employment contract certain termination indemnities or benefits in settlement.

Headcount up by over 20 percent

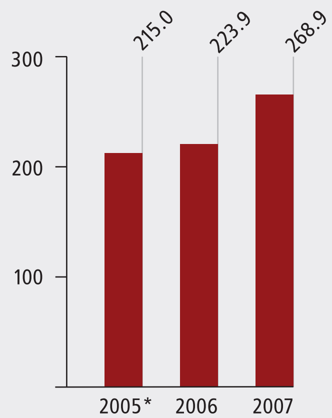
Workforce: 12 percent outside of Europe

Value added per capita much higher

Workforce



Group headcount on annual average



Personnel expenses in € million

* The 2005 comparatives have been adjusted for the Information Technologies division's contributions.

Workforce

At December 31, 2007, the Vossloh Group employed a workforce of 5,972 worldwide, representing a rise of 22.7 percent or 1,105 on the headcount of 4,867 a year ago. The reasons for the significant increase were, firstly, the acquisition of the US switch manufacturers, Vossloh Track Material and Cleveland Track Material, which together employed a workforce of 362 at year-end, and the setting-up of rail fastener production in the Chinese city of Kunshan, where 112 people were employed at the end of 2007. Secondly, the complete inclusion of the 421-strong workforce at the ETF Group—following its 100-percent takeover in July—coupled with organic growth, especially in the Locomotives unit, contributed to the headcount increase.

Workforce-related indicators

		2007	2006	2005
Personnel expenses per capita	€'000	49.0	47.0	48.3
Sales per capita	€'000	224.3	213.1	211.7
Payroll to value added	%	67.5	71.6	69.7
Value added per capita	€'000	72.5	65.6	69.3

At 88 percent (down from 95.4 percent) of the workforce, most employees work at the Group's European locations. However, the share of employees outside of Europe saw a sharp rise in 2007 from the prior-year 4.6 to 12.0 percent, including some 6 percent employed in North America (up from nil) and the remaining also around 6 percent (up from 4.6) working at the Asian production locations in China and India.

Mainly due to the acquisitions, the employee age structure and average number of service years within each subsidiary concerned changed: The proportion of employees aged below 35 edged up 3 percentage points from the 2006 share to 33 percent, basically on account of the inclusion of the new acquirees and, pro rata, of Vossloh Fastening Systems China. The share of group employees with 10 service years or less climbed 4 percentage points to now 55 percent, largely after the recruitment of new personnel in China and at the Valencia locomotive plant.

Personnel expenses

€ million	2007	2006	Change in %
Pay	209.0	170.7	22.4
Social security	57.7	50.9	13.4
Pension expense	2.2	2.3	(4.3)
Total personnel expenses	**268.9**	**223.9**	**20.1**

Since the employees of the 2007 acquirees were included only pro rata temporis, the Group's annual average headcount rise was shallower than at year-end 2006: whereas in 2006 the Group had employed a workforce of 4,765 on an annual average, this figure rose by 15.3 percent to 5,493 in the period under review.

In 2007, personnel expenses advanced on the previous year by 20.1 percent from €223.9 million to €268.9 million. Since personnel expenses outgrew headcount, the average payroll per capita (rounded) moved up 4.3 percent to €49,000 (up from €47,000). Alongside pay rises, this increase was also attributable to payments in connection with the quit of an Executive Board member.

Value added—which is calculated from the excess of total operating performance over cost input and amortization/depreciation/write-down—per capita (rounded) advanced by 10.5 percent to €72,500 (up from €65,600), thus outpacing the rise in average personnel expenses per capita. The ratio of payroll to value added improved accordingly to 67.5 percent (down from 71.6).

Sales per capita (rounded) mounted from €213,100 in 2006 to €224,300 in the year under review, equivalent to 5.3-percent growth, mainly in the Electrical Systems and Switch Systems business units.

Rail Infrastructure

The annual average workforce in the Rail Infrastructure division rose by 16 percent, due to acquisitions and the inclusion of the new Vossloh Fastening Systems joint venture in China, to 3,694 (up from 3,156). Average personnel expenses per capita (rounded) increased by 4.9 percent from €42,600 to €44,600, primarily on account of pay rises and the larger number of employees in higher-wage countries. Value added per capita (rounded) improved by 10.2 percent from €69,400 to €76,500, with the payroll-to-VA ratio 2.3 percentage points below the year-earlier level at 58.4 percent. Sales per capita (rounded) climbed 6.2 percent from €194,500 to €206,600.

Motive Power&Components

The annual average number of Motive Power&Components employees mounted to 1,761 (up from 1,578), largely as Vossloh Locomotives' Valencia plant recruited new personnel. In spite of the higher headcount, sales per capita (rounded) advanced by 4.8 percent to €266,300 (up from €254,200) especially due to substantial sales gains in the Electrical Systems business unit achieved with a largely unchanged headcount. In particular, extra manpower in Spain raised the division's personnel expenses by 11 percent to €92.8 million (up from €83.6 million).

At €52,700, average personnel expenses per capita (rounded) were virtually unchanged, however. Despite the advance in personnel expenses, the ratio of payroll to value added improved by 2.7 percentage points from 77.8 to 75.1 percent. This was attributable to almost 15-percent growth in value added to €123.6 million (up from €107.4 million), outpacing the personnel expense increase. Value added per capita (rounded) improved from the prior-year €68,000 to €70,200 in 2007.

Headcount 2007

	Annual average			Year-end		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Rail Infrastructure	257	3,437	3,694	266	3,814	4,080
Motive Power&Components	888	873	1,761	903	948	1,851
Vossloh AG	38		38	41		41
Total	**1,183**	**4,310**	**5,493**	**1,210**	**4,762**	**5,972**

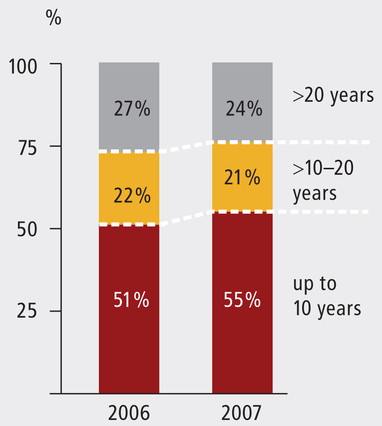
Investing in tomorrow's employees

The training of young people enjoys high priority within the Vossloh Group. We are dedicated to providing training across a broad range of blue-, gray- and white-collar trades for our youngsters, the aim being to recruit skilled young employees from our own ranks for a wide variety of areas and positions and to further develop them over the long term for future tasks.

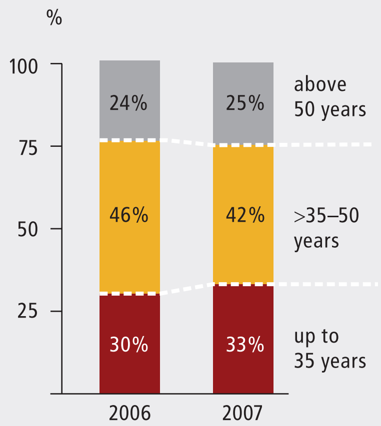
In fiscal 2007, we employed at our German locations in Werdohl, Düsseldorf, Kiel, Moers and Trier 69 apprentices in all (at December 31, 2007) or 6.3 percent of the workforce at the German operations with apprenticeship opportunities. We attach importance to vocational training by setting high standards for the selection, supervision and development of apprentices.

Even beyond training, Vossloh invests in securing tomorrow's employees. Contacts with universities are used to attract talented and determined young academics. Within student placements during basic and main courses of studies and through supervision of dissertations, a pool of potential candidates for current and future vacancies is created.

At the Kiel location, the foundation stone was laid during the year under review for a further project aimed at junior employees. University graduates with bachelor degrees in technical or engineering courses are to be offered in cooperation with a university the opportunity to attain an additional master's degree. Having joined the company, the participants will be released for periods of time on full pay for their postgraduate studies leading to a master's degree.



Years with Vossloh in %



Age structure in %

Our thanks to our workforce

Our thanks go to our employees, whose commitment, performance and loyalty to Vossloh have played a major part in our success. We also thank the workforce representatives for their constructive input in an atmosphere of mutual trust and understanding.

Research & development

The Vossloh companies are among the technological leaders in their industries and are constantly investing in refinements to their products and services. In doing so, they aim to satisfy the specific needs of customers in the various market regions. In addition, Vossloh also works on forward-looking new solutions. In the R&D sector, Vossloh relies on cooperation within the Group and with external specialists and on partnerships with scientific institutions.
The bulk of R&D work takes place in connection with individual contracts and is therefore covered by the contract-related cost of sales.

In 2007, Vossloh Fastening Systems merged its Technical Sales and R&D departments to form the new Engineering Systems unit. This reorganization ensures that requirements from the market find direct expression in development projects. Examples of new developments are the fastening systems W21 B07, SKL 24 new, System 304, System 300 UTS, W21 SH and DFF 21. Also new are highly elastic rail pads with so-called anti-tilting properties for small rail profiles and narrow radii. Research has been focused on the investigation of electrical resistance in fastening systems and the enhancement of highly elastic systems for high-speed and (sub)urban traffic. Vossloh Fastening Systems has invested among other things in a test bench for the simulation of heavy loads, in evaluation or analysis software and in software for the calculation of noise and vibration levels.

Vossloh Switch Systems also reorganized its related departments in 2007, thus extending its R&D activities at the same time. Prototypes of a newly developed movable common crossing for switch systems underwent test operation in France. Since they will be installed primarily in China, the design of high-speed switches has been optimized further for slab tracks. The re-improved switches for heavy-haul traffic are supplied above all to Australia. New machines have been developed for the installation of signal systems for tram and high-speed switches. Work has started on a special actuator for extra-long high-speed switches. A newly developed control system can also be employed for even greater ease of track monitoring. Vossloh Switch Systems has been actively involved in two large research projects. INNOTRACK is aimed at prolonging the service life of switch systems and thus reducing life cycle costs. The development of New Ballastless Track (NBT) aims to generate a new concept for slab tracks and the switch systems installed in them.

Locomotive engineering at Vossloh in Kiel was dominated in 2007 by the development of the new three-axle center-cab locomotive, which will be unveiled at InnoTrans 2008 in Berlin this September. In Kiel, as in Valencia, the engineers have already started adapting the locomotives to future EU legal requirements (relating to emissions, accident prevention, etc.). In Valencia, development work has been additionally focused on extending the range of light rail vehicles for (sub)urban services. The planned development of a shunting locomotive with an innovative drive strategy (patent pending) will extend until 2010. The strategy involves several smaller diesel engines generating precisely the required power in order to cut fuel consumption, emissions and noise.

In 2007, Vossloh Electrical Systems concentrated its development activities on the traction electrics for the world's first all low-floor 24-meter double-articulated hybrid bus. The demonstration vehicle, now ready for series production, underwent several practical tests in the course of the year without a hitch. Attention was also devoted to the electrical equipment of railcars for regional services. The Company has thus for the first time extended its portfolio of products and services into the 1500-volt DC technology range. Since fall 2007, the trains have been in daily service on the Dutch Vallelijn, the line linking the towns of Amersfoort and Ede-Wageningen in the Province of Gelderland.

Environment

Moving passengers and freight by rail is one of the forms of transportation with the lowest ecological impact. The environmental profile of modern buses with hybrid drive and above all trolleybuses is also vastly superior to that of individual transportation by car. With its products, Vossloh makes an important contribution to ensuring that this eco-friendly form of transportation also performs efficiently and safely. In all its business fields, the Group also works on optimizing further the environmental features of rail and bus transportation and thus supports the goal of transferring more traffic into these areas.

Because the Group generates a major part of its sales with sustainable products and services, Vossloh was included in 2007 by the Hannover Stock Exchange in its new Global Challenges Index geared to seven global challenges of the current millennium. These are climate change, poverty, drinking water scarcity, sustainable forestry, species diversity, demographic change and good governance. The index lists 50 companies from all over the world, and Vossloh is one of the total of eight German companies selected.

In 2004, Vossloh became the first manufacturer worldwide to introduce a highly effective diesel particulate filter system for diesel-hydraulic locomotives. For the diesel-electric EURO 4000, Vossloh's developers opted for high-strength steel for the chassis. The outcome is that it weighs 25 percent less than comparable locomotives. This means less abrasion on the rails, lower energy consumption and greater economy. All Vossloh locomotives can of course be equipped with hypermodern train control systems. For the top coat of Vossloh locomotives, exclusively low-solvent paints are used both in Kiel and in Valencia.

For years now, the tension clamps of Vossloh's Fastening Systems have been surface-coated with waterborne paints—both at the parent plant in Werdohl, at Nowe Skalmierzyce in Poland and, of course, at our new production plant in Kunshan, China.

Environment

The propulsion technologies for trolleybuses developed by Vossloh Electrical Systems are distinguished by their "zero emission" status. The example of Vancouver shows how environmental benefits can snowball. In this Canadian city, almost 200 trolleybuses equipped with Vossloh technology form the extremely low-noise backbone of local public transportation. The electricity that powers these vehicles is derived from environment-friendly hydropower. Vossloh technology also makes conventional buses environment-friendlier. The hybrid drive, a combination of diesel engine and dual-layer capacitor for highly efficient power storage, cuts exhaust and noise emissions. The optional double-axle drive, an intelligent energy management and brake energy recovery systems also reduce the vehicles' energy consumption dramatically—another direct contribution to climate protection.

All Vossloh companies attach great importance to the sparing and efficient use of resources. Emissions are reduced to a minimum across the board. Regular audits by the responsible environment authorities show that all the relevant laws and regulations are consistently complied with, in some cases to an exceptional degree. Residues are recycled wherever possible. For instance, Vossloh Infrastructure Services has come up with a system for recycling ballast and rails.

All large Vossloh locations are certified to the DIN EN ISO 140001 environmental management system, and even our non-certified sites operate in accordance with the standard.
Vossloh Electrical Systems' Austrian subsidiary received an award from "ÖkoBusinessPlan Wien" in 2007. In Germany, Vossloh Electrical Systems has been additionally certified to the social standard OHSAS 18001 since 2001. A test seal to the even stricter safety and health standard ILO OSH 2001 was obtained by the Fère-en-Tardenois plant of Vossloh Switch Systems at the end of 2007. This made Vossloh the 21st company in the metalworking industry in France to be awarded this certificate and the first in the Département of Aisne.

Risk and reward management

Risk and reward management organization

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

All the group companies are integrated into the risk management system, irrespective of how they are included in the consolidated financial statements. Those acquired or established in 2007 were integrated as soon as practicable.

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

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

Risks and rewards are documented and communicated in standardized reports. In addition to the assessment parameters indicated, proposed action is reported. Periodic risk reporting is quarterly and serves as a supplement to the latest annual projection. In addition, full risk inventories are prepared and communicated as part of the medium-term plan. Ad-hoc reports additionally allow at all times an updated evaluation of the current risk situation.

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

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

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

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

General economic and sector risks

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

With its two divisions, Rail Infrastructure and Motive Power&Components, Vossloh ranks among the foremost suppliers on selected rail industry markets. The markets of relevance to Vossloh are oligopolistic by nature both on the demand and supply sides. Most of the customers are rail and network operators, as a rule still under public-sector control. This results in dependence on public-spending patterns. Vossloh attempts to abate such risks by expanding its international presence, especially in the Rail Infrastructure division, and thus achieve a balancing effect. At the focus of its internationalization drive are presently the growth markets of Asia (especially China and India) and the USA. In recent years the Group has much reduced its dependence on individual European markets. Compared with 2006, sales outside of Western Europe rose from around 15 to some 25 percent of the total.

The Western European and North American rail markets are more or less stable in terms of their political and economic environments and hence as far as the core markets are concerned, there are no major risks confronting the Group. Accessing new markets, especially Asian and some C&E European, does expose Vossloh not only to opportunities but also risks arising from political and social instability, exchange rate fluctuations and legal uncertainties.
As the percentage of sales in these markets grows, both the reward and the risk prospects rise. Asian and C&E European sales in 2008 are budgeted at around 16 percent of aggregate sales.

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

Operating risks

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

Vossloh attempts to counteract procurement price risks especially by long-term procurement contracts or price escalator clauses concluded with customers. Nonetheless they may still impact on production costs specifically at Rail Infrastructure, above all through the further shortage of raw materials, especially steel and oil. Earnings at Motive Power&Components also hinge on how component prices develop. The medium-term planning assumptions of increases in the cost of materials are based on such factors as information from suppliers and market analyses. Any rises significantly above these expectations may erode earnings at the business units. Climbing costs of production materials in 2007 were only in part downloadable onto customers. Exchange rate risks from purchasing are normally contained by currency forwards.

Procurement chain risks may also result from supplier dropouts, poor quality or delivery delays. The supplies for the new Chinese facility were chiefly sourced from Chinese companies with whom Vossloh in 2007 did business for the first time. Despite a careful screening of suppliers, ongoing monitoring and setting-up alternative sources, future procurement chain risks may be contained but never fully ruled out.

Project complexity is another source of risks. These include unexpected engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors, logistic challenges, and acceptance and invoicing delays. These are factors possibly leading to unbudgeted expenses or contractual penalties. Contractual provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. Especially exposed to risks of this nature are Motive Power&Components and Infrastructure Services. The divestment of the Information Technologies division in early 2007 did lessen considerably Vossloh's risk exposure. Project risks arising in 2007 were provided for as required by the IFRS.

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

Financial risks

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

Financial derivatives

Vossloh uses financial derivatives solely to hedge against specific risks from current underlyings or forecasted transactions. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, turn to the notes to the consolidated financial statements on pages 160 et seq.
The following financial risks are controlled:
- price risks,
- default and counterparty risks,
- liquidity risks, and
- cash flow risks.

Price risks

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

Default/counterparty risks

Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to the Vossloh Group. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies.

As of December 31, 2007, cash investments and financial derivatives with a positive fair value were allocable at 42 percent to counterparties rated between AA+ and AA–, at 53 percent to those rated from A+ to A–, and at 5 percent to counterparties graded BBB+ to BBB– (according to Standard & Poor's). No dependence on specific banks has existed, whether in the past or at present.

Liquidity risks

Liquidity risks may arise if the Group is potentially unable to provide the funds required to meet the obligations which have been incurred in connection with financial instruments. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies) through a permanent cash management system. An intragroup financial equalization concept through cash pooling and intercompany loans ensures the best possible application of any surplus cash at certain subsidiaries to meet the liquidity requirements at other group companies. The long-term debt raised in the form of loans through the US private placement in 2004 was used to settle repayable liabilities to banks, thereby making bilateral credit facilities available for future utilization. As of December 31, 2007, the Vossloh Group had cash, cash equivalents and short-term securities of a total €71.3 million. Adequate and sufficient credit lines ensured that no financial or cash bottlenecks occurred. The unutilized balances from cash credit facilities at year-end totaled €156.7 million, including €29.0 million due after one year. Furthermore, Vossloh had unutilized guaranty bond facilities of €273.4 million at its disposal.

Cash flow risks

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

On balance, the Vossloh Group's net earnings were in 2007 not affected to any significant degree by financial risks.

Legal risks

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

In 2007 there were no legal risks that significantly impacted on earnings.

Other risks

These are mainly of an IT or human resources nature.

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

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

None of these "other risks" influenced the Group's earnings in 2007 to any substantial degree.

Overall risk assessment

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

Thanks to the solid financial performance in the period, the Group's equity was considerably geared up in 2007 and lies well above the risk-adjusted capital, i.e., the statutory minimum equity portion that is earmarked exclusively for the cover of potential losses.

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

Subsequent events

On December 3, 2007, Sweden's Vossloh Nordic Switch Systems AB signed a share deal for the takeover of Denmark's Sportek Maskinfabrik A/S. This rail switch manufacturer is market leader in Denmark and generates sales of a high single-digit million euro magnitude. The deal was closed January 3, 2008.

In a share deal dated February 12, 2008, Vossloh Cogifer S.A. acquired all of the shares in Kloos Oving B.V. This Dutch company, based in Alblasserdam near Rotterdam, Netherlands, manufactures and markets rail switches, switch components and further rail infrastructure products. With provisional 2007 sales of around €15 million, Kloos Oving is #2 in this segment in the Netherlands. The transaction is set to take retroactive effect as of January 1, 2008.

Sustained, profitable growth

Successful ongoing internationalization

Sustainable ROCE of 15+ percent

Prospects

It is generally expected that the world economy is set to lose momentum, with increased inflation and high oil prices having a dampening effect while the extent of the problems in the US property market and resulting ramifications remain unclear. Additionally, the strong euro is putting the brakes on business activity, with monetary policy no longer on an expansionary course. The rate of growth in industrialized nations is being estimated at about 2 percent on average for 2008, provided that there are no exogenous shocks beyond the known geopolitical and economic risks.

The momentum of the world's fastest-growing economies, including the so-called BRIC states (Brazil, Russia, India, and China), makes significant investment in infrastructure necessary. In addition, the global debate about energy efficiency and sustainable transport development is opening up sales opportunities for the rail infrastructure and rail technology industry, from which the Vossloh Group will benefit thanks to its international presence.

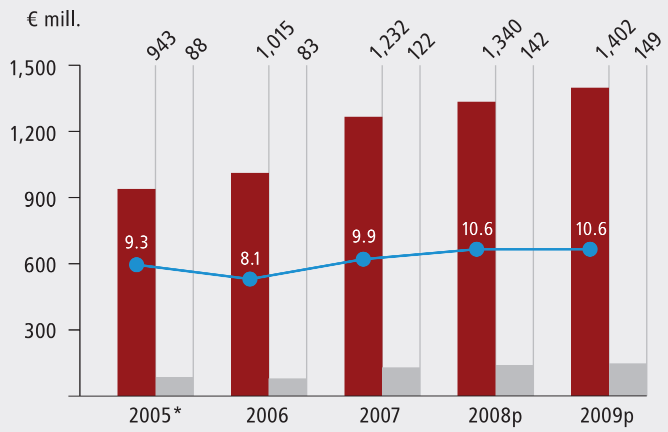
Alongside uniform groupwide requirements, Vossloh's annual medium-term plan incorporates in particular assumptions specific to each business unit, including product prospects, competitors, likely projects, market opportunities and risks in the individual regions, as well as the required capex volumes.

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

An additional factor is that though outlays by public-sector and private customers in a country are cyclical, Vossloh's business units have managed in the past to largely compensate for regional fluctuations thanks to their worldwide presence.

For 2008 and 2009, Vossloh is forecasting sustained growth in all business units. Group sales are to continue growing organically by 9 percent in 2008 and to expand again in 2009, even if probably at a lower rate. Specifically, we have budgeted group sales of some €1.34 billion for 2008 and about €1.40 billion for 2009. A large proportion of the sales growth sought for 2008 will be contributed by our operations in the two major markets of China and USA, where we started operating to a sizable extent for the first time in 2007. In 2009, we intend to expand further in all regions. We assume that efforts to extensively modernize, expand and upgrade rail infrastructure will continue above all in the following regions: India, Australia, Scandinavia, the Middle East, as well as Russia, the eastern EU states and their neighboring countries. Vossloh hopes to take part in these activities to varying degrees. Overall, we expect to come closer to our goal of a sales share of around 30 percent in markets outside of Europe within the plan period.

With the anticipated sales trend Vossloh is set to benefit from economies of scale since very high capacity utilization is likely at all business units. The accompanying improvement in profitability will be reflected, in our view, in an even higher EBIT margin in the current year. With an expected 10.6 percent, we will surpass the targeted 10-percent benchmark. This very strong return of EBIT on sales we intend to maintain in the years ahead.



Vossloh Group:
sales and EBIT trend 2005–2009p

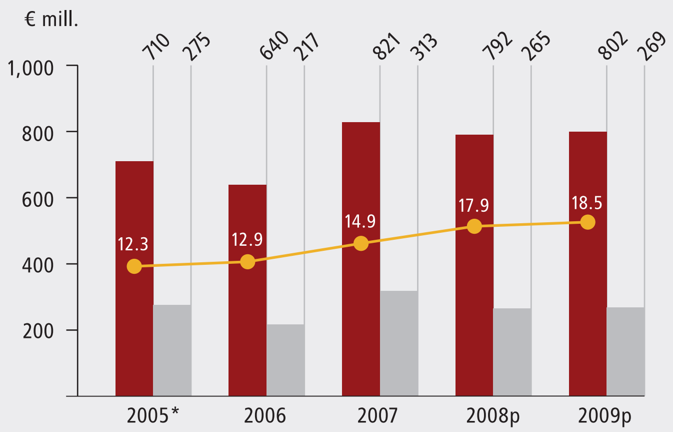
Sales in € mill.
EBIT in € mill.
EBIT margin in %
p = plan/budget

* The 2005 comparatives have been adjusted for the Information Technologies division's contributions.

Vossloh Group: sales and earnings

		2007	2008p	2009p
Sales	€ mill.	1,232.1	1,340	1,402
Operating result	€ mill.	120.0	141	148
EBIT	€ mill.	121.5	142	149
EBIT margin	%	9.9	10.6	10.6
EBT	€ mill.	109.2	127	136
Group earnings	€ mill.	71.4	91	93
Earnings per share (€)	€	4.83	6.15	6.28

The improvement in group earnings should, according to the budget, be higher in 2008 than the rise in the operating result. A crucial reason for the higher rate of increase is that the Group's tax load ratio will be lower than in 2007 thanks to the tax-privileged earnings in China. For 2008, Vossloh is predicting group earnings of €91 million, rising to €93 million in 2009. Related to the forecasted number of shares then outstanding, this could mean earnings per share for 2008 of more than €6.00.



Vossloh Group: trends 2005–2009p of capital employed, working capital and ROCE

CE in € mill.
WC in € mill.
ROCE in %
p = plan/budget

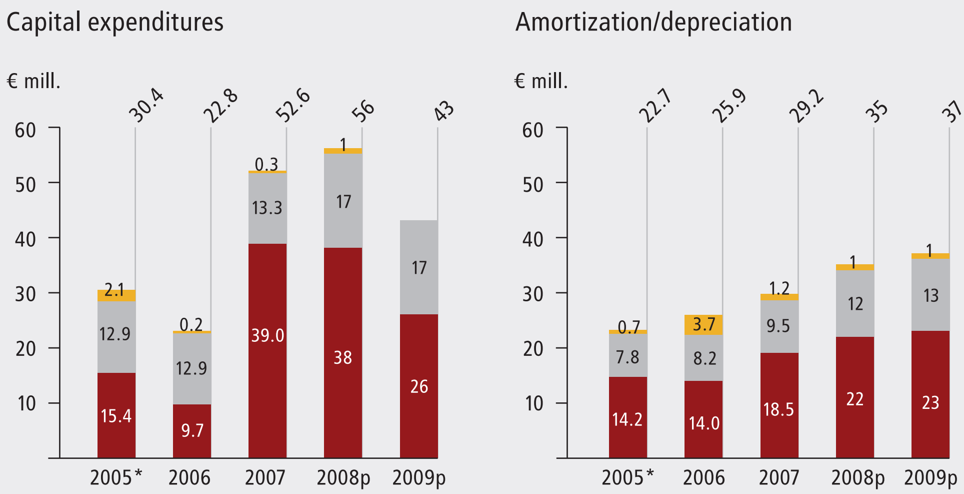
* The 2005 comparatives have been adjusted for the Information Technologies division's contributions.

In spite of the planned further expansion, the Group's working capital and capital employed are not set to grow in 2008 and 2009. A maximum working capital ratio of 20 percent is targeted, meaning a continuation of the course of strict working capital management embarked on since 2006. The envisaged further improvement in earnings as well as the desired stable level of capital employed will result in a continued ROCE upgrade.

Vossloh Group indicators

		2007	2008p	2009p
Working capital	€ mill.	312.8	265	269
Capital employed	€ mill.	816.2	792	802
ROCE	%	14.9	17.9	18.5
Equity ratio	%	32.7	38	40
Net financial debt	€ mill.	124.9	87	32
Net leverage	%	28.8	17	6

The capital expenditure budget and plan for 2008 and 2009 meet the objective of consistent organic growth, especially in regions outside of Europe. A focus of the planned investment projects will be the expansion of existing switch manufacturing capacities, in India, for example. Preventive maintenance work will continue to account for about 40 percent of capital spending, while close to 42 percent of capital expenditures is earmarked for expansion measures. Fundamentally, group capital spending from 2009 should conform with the annual volume of amortization/depreciation and be equivalent to about 3 percent of sales, as has been the case on average in preceding years.



Vossloh Group: capex and amortization/depreciation 2005–2009p

Rail Infrastructure in € mill.

Motive Power&Components in € mill.

Others in € mill

p = plan/budget

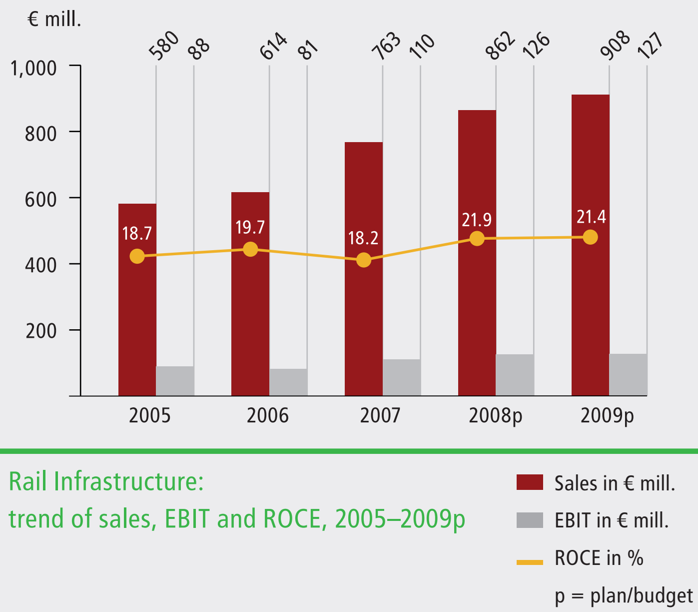
* The 2005 comparatives have been adjusted for the Information Technologies division's contributions.

The planned organic growth and expected cash inflows will enable the Group to significantly downlevel its net financial debt in both 2008 and 2009. Excluding future M&A transactions, net financial debt of €87.0 million is the target for the end of the current year, falling by a further €55.0 million to €32.0 million in 2009. Vossloh regards a ratio of net financial debt to total group equity of up to 1:1 as sustainable.

The increase in the number of employees in 2008 will again reflect the expanded business volume. We are expecting an average headcount of 6,126 in the current year. The budgeted 12-percent increase in headcount therefore almost matches the budgeted organic sales growth. For 2009, we anticipate that an additional 60 jobs will have to be staffed.

The Rail Infrastructure division is budgeted to report 2009 sales of over €900 million, the lion's share of which will come from the Switch Systems business unit, its sales forecast to reach just under €400 million in 2008 and grow further in 2009. Vossloh Switch Systems will benefit from market growth in regions outside of Europe, but also in Southern Europe and Scandinavia.

In 2008, Vossloh Fastening Systems' sales are expected to leap to over €260 million. Crucially, the Chinese plant, where production started in the fall of 2007, will be operating at full capacity throughout 2008 for the first time, making the biggest regional contribution to sales. For 2009, Vossloh Fastening Systems is anticipating further growth, stoked by rising demand in all regions.



Rail Infrastructure:
trend of sales, EBIT and ROCE, 2005–2009p

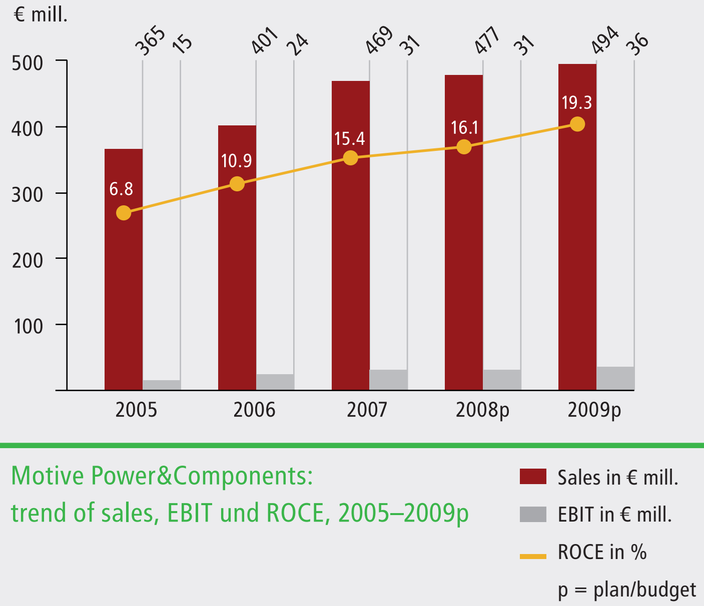
Following a year of expected sales stabilization at a high level, Vossloh Infrastructure Services, whose activities are centered virtually exclusively on France, has budgeted a slight decline in organic sales growth for 2008. In absolute terms, sales are expected to advance to €214.0 million, a figure which is influenced, however, by the first-time 12-month full consolidation of the ETF subsidiary. Sales are not predicted to rise again until 2009.

The Rail Infrastructure division's profitability should again improve tangibly in 2008 through the expected business expansion and associated very high utilization of existing capacities.

The planned increase in EBIT coupled with capped capital employed, largely thanks to strict working capital management, will see Rail Infrastructure's ROCE rise further in 2008 and 2009.

With favorable capacity utilization and bulging order books, the Motive Power&Components division's two business units are expecting their robust performance to continue in 2008 and 2009. For these two years, Vossloh Locomotives is budgeting sales growth of 1 and 4 percent successively.

At year-end, orders on hand at both the Valencia and Kiel locations were sufficient to reach into 2009. Against the background of a good 18-month order backlog, Vossloh Electrical Systems is anticipating sales of €132 million for 2008 with further growth in 2009.



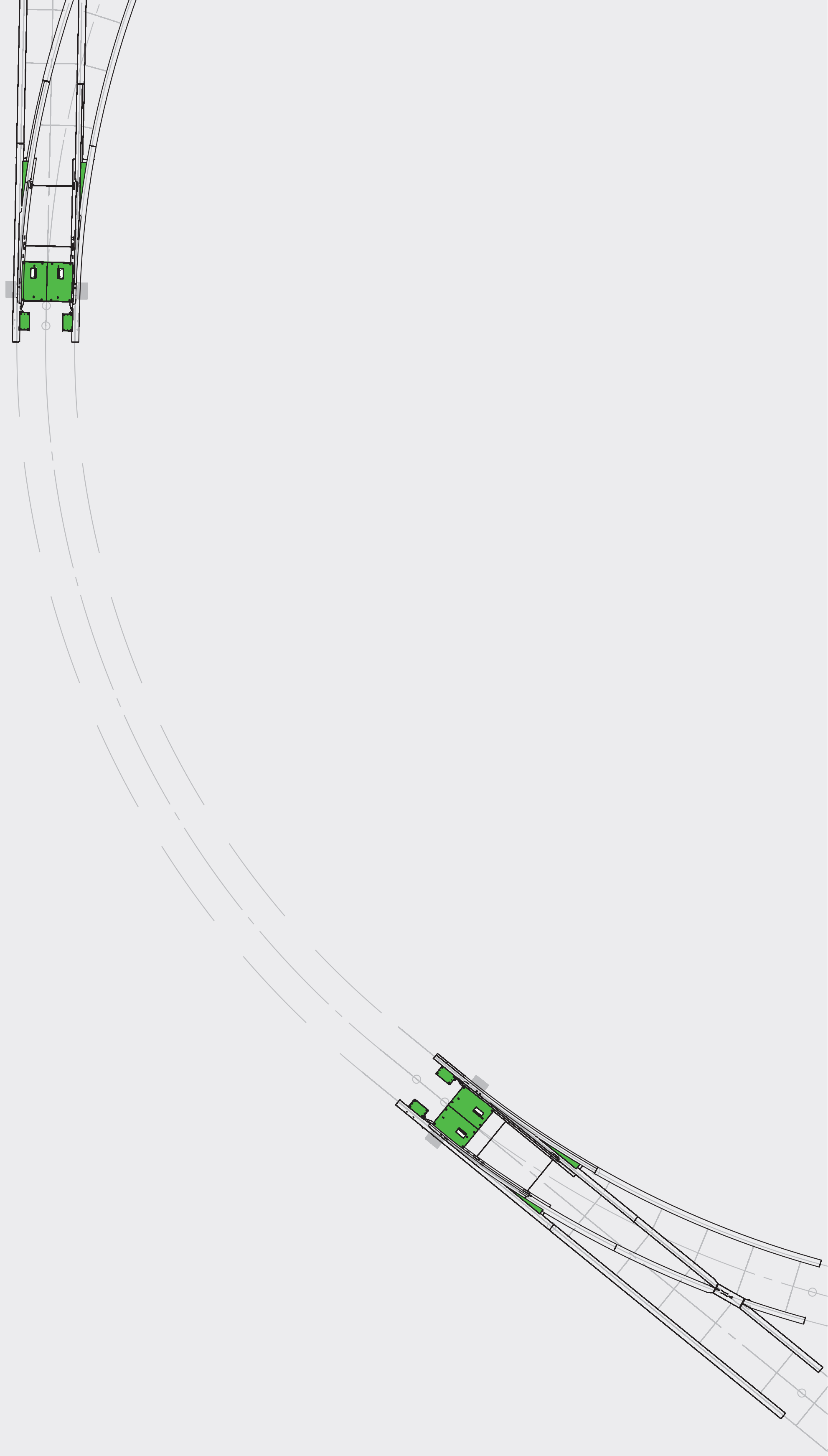
Motive Power&Components:
trend of sales, EBIT und ROCE, 2005–2009p

All in all, Motive Power&Components' sales are predicted to grow to just under €500 million by the year 2009, even though temporary reductions in EBIT and EBIT margin are anticipated in 2008 for project-related reasons.

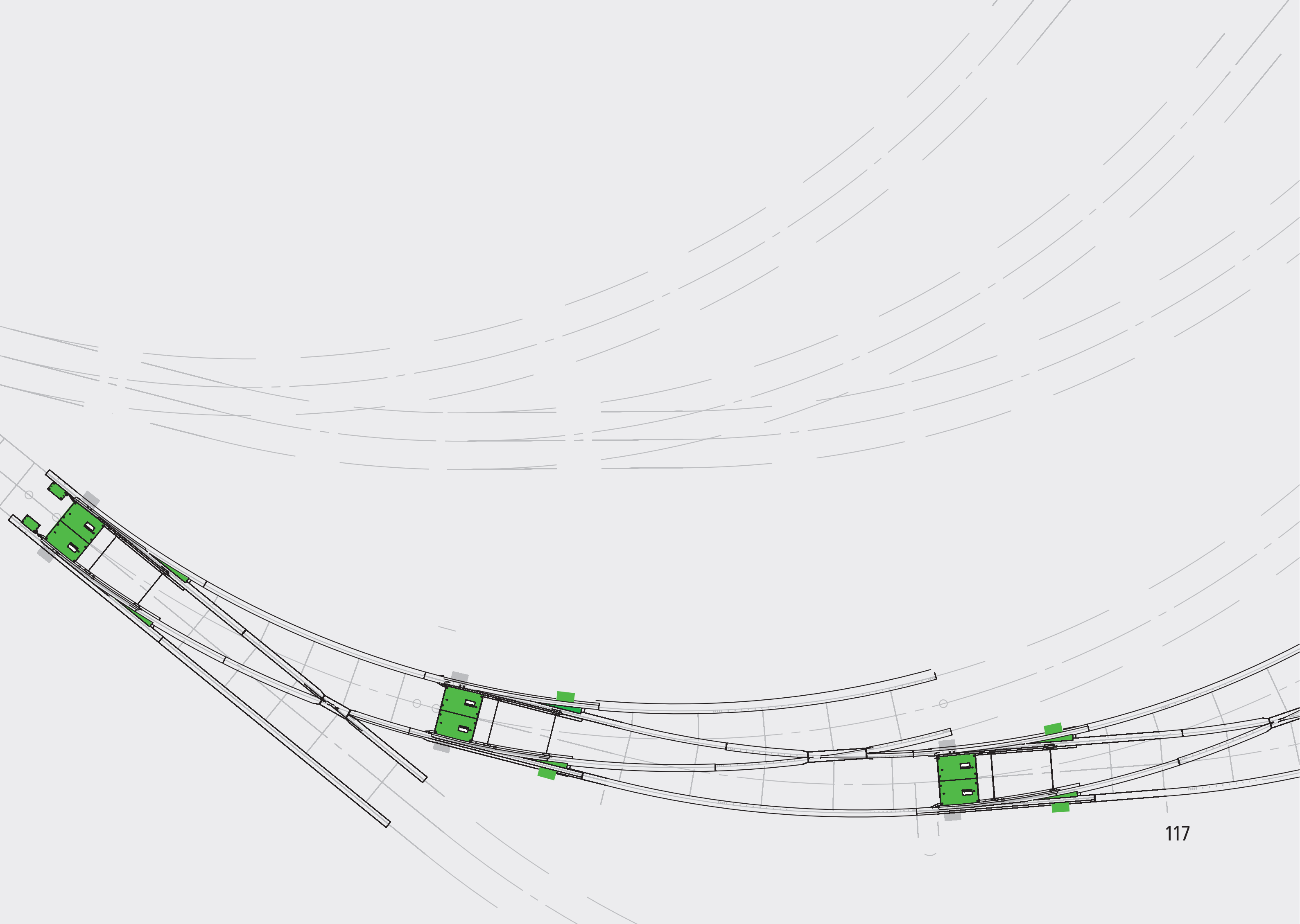
Continued successful working capital management and the fundamental further improvement in profitability are expected to result in an ROCE for Motive Power&Components in both 2008 and 2009 which, as in 2007, is above the 15-percent mark, the defined minimum, thus clearly underlining the ROCE appeal of its two business units.

Vossloh AG as the financial holding company is set to earn an EBT well above breakeven in 2008 and 2009 as well. According to plans, the financial result, which substantially consists of profit transfers as well as of interest income and expenses in connection with the financing of subsidiaries, will clearly exceed the operating result (which is largely affected by general administrative expenses). However, any unbudgeted or unplanned nonrecurring factors, such as organizational moves or transactions, may have a strong impact on Vossloh AG's earnings.

Organic growth will remain the focus of Vossloh's objectives in the years ahead, as will the search for judicious acquisitions which ideally complement the existing portfolio strategically and in terms of value creation. This concerns possible expansion geographically in the switch business as well as additional products and services in Rail Infrastructure and Motive Power & Components. The aim of such acquisitions is firstly to optimize the Group's value-adding structures and secondly to open up additional growth opportunities. The medium-term planning figures in the form represented refer to organic growth alone.



Consolidated financial statements of Vossloh AG as of December 31, 2007



Income statement for the year ended December 31, 2007

€ million	Note	2007	2006
Net sales	(1)	1,232.1	1,015.2
Cost of sales	(2.1)	(985.2)	(828.7)
General administrative and selling expenses	(2.2)	(143.6)	(115.0)
R&D expenses	(2.3)	(7.2)	(7.6)
Net other operating income	(3)	23.9	17.0
Operating result		**120.0**	**80.9**
Net P/L from investee carried at equity	(4)	0.5	0.7
Other financial results	(5)	1.0	1.1
Earnings before interest and taxes (EBIT)		**121.5**	**82.7**
Net interest expense	(6)	(12.3)	(14.1)
Earnings before taxes (EBT)		**109.2**	**68.6**
Income taxes	(7)	(37.1)	(22.4)
Net income from continuing operations		**72.1**	**46.2**
Minority interests	(8)	(2.7)	(2.3)
Net result of discontinued operations	(9)	2.0	(23.6)
Group earnings		**71.4**	**20.3**
Undiluted earnings per share* (€)	(10)	4.83	1.38
thereof from continuing operations (€)	(10)	4.70	2.98
thereof from discontinued operations (€)	(10)	0.13	(1.60)
Fully diluted earnings per share (€)	(10)	4.83	1.38

*During fiscal 2007 and 2006, altogether 14,767,569 and 14,735,304 no-par shares of stock, respectively, were issued on average.

Cash flow statement for the year ended December 31, 2007

€ million	2007		2006	
Cash flow from operating activities				
EBIT	121.5		82.7	
Net result of discontinued operations	2.0		(23.6)	
Amortization/depreciation/write-down (less write-up) of fixed assets	28.9		36.2	
Other noncash income/expenses, net	3.5		7.8	
Net book (gain)/loss from the disposal of fixed assets	0.1		1.1	
Cash outflow for the purchase of short-term securities	(2.4)		(23.0)	
Change in inventories, trade receivables and other assets for operating activities	(87.9)		(23.6)	
Change in trade payables and other liabilities from operating activities	43.7		139.3	
Cash outflow for taxes	(29.2)		(10.0)	
Net cash provided by operating activities		**80.2**		**186.9**
Cash flow from investing activities				
Cash inflow from the disposal of intangibles and tangibles	1.1		8.6	
Cash outflow for additions to intangibles and tangibles	(52.6)		(23.9)	
Cash inflow from the disposal of financial assets	0.9		1.2	
Cash outflow for additions to financial assets	(0.8)		(1.3)	
Cash inflow from the disposal of consolidated subsidiaries and other units	1.9		–	
Cash outflow for the acquisition of consolidated subsidiaries and other units	(74.1)		–	
Net cash used in investing activities		**(123.6)**		**(15.4)**
Cash flow from financing activities				
Cash inflow from equity increases	2.4		0.0	
Cash outflow for Vossloh stockholders and minority interest holders	(20.0)		(19.5)	
Change in treasury stock	0.0		–	
Net finance from short-term credits	(5.6)		(23.3)	
Net finance from medium- and long-term loans	9.8		(23.9)	
Cash inflow from interest	6.1		1.7	
Cash outflow for interest	(18.4)		(16.5)	
Net cash used in financing activities		**(25.7)**		**(81.5)**
Net (outflow)/inflow of cash & cash equivalents		(69.1)		90.0
Change in cash & cash equivalents from initial consolidation		0.0		0.2
Opening cash & cash equivalents		140.4		50.2
Closing cash & cash equivalents		71.3		140.4
thereof capitalized as cash & cash equivalents		71.3		140.1
thereof shown as assets of discontinued operations		–		0.3

Balance sheet

Assets in € million	Note	12/31/2007	12/31/2006
Total noncurrent assets		**533.8**	**465.8**
Intangible assets	(11)	352.2	315.4
Tangible assets	(12)	139.4	95.7
Investment properties	(13)	4.0	4.4
Investment carried at equity	(14)	0.8	1.0
Other noncurrent financial instruments[1]	(15)	10.8	7.4
Sundry noncurrent assets	(16)	0.5	0.5
Deferred tax assets	(17)	26.1	41.4
Total current assets		**793.0**	**698.9**
Inventories	(18)	237.2	161.5
Trade receivables	(19)	396.6	331.1
Income tax assets	(20)	6.0	8.2
Sundry current assets[2]	(21)	50.7	29.9
Short-term securities	(22)	31.2	28.1
Cash & cash equivalents	(23)	71.3	140.1
Assets of discontinued operations	(24)	0.0	33.8
		1,326.8	**1,198.5**

Equity & liabilities in € million	Note	12/31/2007	12/31/2006
Total equity	(25)	**434.0**	**371.1**
Capital stock	(25.1)	37.8	37.7
Additional paid-in capital	(25.2)	42.7	40.4
Treasury stock	(25.3)	–	–
Reserves retained from earnings	(25.4)	268.7	268.0
Undistributed group profit		0.0	0.1
Group earnings		71.4	20.3
Accumulated other comprehensive income	(25.5)	1.3	(4.7)
Stockholders' equity		**421.9**	**361.8**
Minority interests	(25.6)	12.1	9.3
Total noncurrent liabilities and accruals		**291.5**	**295.5**
Pension accruals	(26)	11.5	9.9
Noncurrent tax accruals[3]		0.0	0.8
Other noncurrent accruals	(27)	37.0	34.5
Noncurrent financial debts	(28.1)	182.7	191.9
Other noncurrent liabilities	(28.2)	42.2	31.7
Deferred tax liabilities	(17)	18.1	26.7
Total current liabilities and accruals		**601.3**	**506.2**
Current tax accruals[3]		13.8	13.7
Other current accruals	(27)	133.9	109.3
Current financial debts	(28.1)	44.7	38.6
Trade payables	(28.3)	271.9	203.8
Income tax liabilities	(28.4)	12.7	5.6
Sundry current liabilities[2]	(28.2)	124.3	135.2
Liabilities of discontinued operations	(29)	0.0	25.7
		1,326.8	**1,198.5**

[1] New item in response to IFRS 7   [2] Prior-year comparatives adjusted due to IFRS 7   [3] Tax accruals stated separately for the first time

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital	Reserves retained from earnings	Undistributed group profit	Group earnings	Accumulated OCI	Stockholders' equity	Minority interests	Total
Balance at 1/1/2006	**37.7**	**40.2**	**241.5**	**0.0**	**45.1**	**(9.6)**	**354.9**	**6.1**	**361.0**
Stockholder-unrelated changes in equity									
Carryforward to new account				45.1	(45.1)		0.0		0.0
Transfer to reserves retained from earnings			26.0	(26.0)			0.0		0.0
Change due to initial consolidation			0.6				0.6	1.3	1.9
Other changes			(0.1)	0.1			0.0		0.0
Net income for 2006					20.3			2.3	
Accumulated OCI									
currency translation differences						0.4		0.0	
statement at fair value of financial instruments						4.5			
Comprehensive income					20.3	4.9	25.2		25.2
Minority interests								2.3	2.3
Stockholder-related changes in equity									
Capital increases									
from SOPs	0.0	0.2					0.2		0.2
other								0.4	0.4
Dividend payout				(19.1)			(19.1)	(0.8)	(19.9)
Balance at 12/31/2006	**37.7**	**40.4**	**268.0**	**0.1**	**20.3**	**(4.7)**	**361.8**	**9.3**	**371.1**
Stockholder-unrelated changes in equity									
Carryforward to new account				20.3	(20.3)		0.0		0.0
Transfer to reserves retained from earnings			0.7	(0.7)			0.0		0.0
Change due to derecognition								(1.2)	(1.2)
Change due to initial consolidation				(0.5)			(0.5)	1.3	0.8
Net income for 2007					71.4			2.7	
Accumulated OCI									
currency translation differences						(1.4)		0.3	
statement at fair value of financial instruments						7.4			
Comprehensive income					71.4	6.0	77.4		77.4
Minority interests								3.0	3.0
Stockholder-related changes in equity									
Capital increases									
from SOPs	0.1	2.3					2.4		2.4
other								0.5	0.5
Dividend payout				(19.2)			(19.2)	(0.8)	(20.0)
Balance at 12/31/2007	**37.8**	**42.7**	**268.7**	**0.0**	**71.4**	**1.3**	**421.9**	**12.1**	**434.0**

Segment information by division

€ million		Rail Infrastructure	Motive Power& Components	Discontinued Information Technologies operations[3]
Net external sales	2007	757.6	468.2	–
	2006	611.2	400.2	–
Intersegment transfers	2007	5.5	0.7	–
	2006	2.7	1.0	–
Amortization/depreciation	2007	18.5	9.5	–
	2006	14.0	8.2	–
Write-down (impairment losses)[1,4]	2007	0.0	0.0	–
	2006	0.0	0.0	–
EBIT	2007	110.1	30.6	–
	2006	81.2	23.6	–
Net interest result	2007	(10.6)	(1.7)	–
	2006	(7.7)	(3.6)	–
EBT	2007	99.5	28.9	–
	2006	73.4	20.0	–
Net income from continuing operations	2007	65.4	24.5	–
	2006	48.1	16.4	–
Net result of discontinued operations	2007	–	–	(4.8)
	2006	–	–	1.9
Net earnings (EAT)[2]	2007	62.6	24.6	(4.8)
	2006	46.7	16.4	1.0
Net profit from investees carried at equity	2007	0.5	0.0	0.0
	2006	0.7	–	–
Other major noncash segment expenses	2007	45.2	60.8	0.0
	2006	27.9	51.6	2.0
Capital expenditures for tangible assets	2007	39.0	13.3	0.0
	2006	9.7	12.9	1.1
Total operating assets	2007	768.7	370.9	0.0
	2006	565.0	352.3	–
Total operating liabilities	2007	252.2	280.2	0.0
	2006	220.7	276.3	–
Shares in investees carried at equity	2007	0.8	0.0	0.0
	2006	1.0	0.0	0.0
Capital employed	2007	606.4	198.7	0.0
	2006	412.4	216.6	–
Total assets	2007	830.8	465.3	0.0
	2006	627.8	411.9	33.9

1 Excluding financial assets
2 Before profit/loss transfer
3 Since the Information Technologies division is shown as discontinued operation, the disclosure of certain data is omitted here. The noncash segment expenses (mainly derived from annual provisions), as well as the capital expenditures for tangibles (according to the fixed-asset analysis) are stated at the amounts reported as of September 30, 2006, as additions to this division's movement analyses.
4 Write-down does not include the discontinued Information Technologies operation's goodwill write-down, which is shown within the *Net result of discontinued operations.*

Intermediate holding company/consolidation	Rail Technology (RT)	H.O./consolidation	Group
0.0	1,225.8	0.3	1,226.1
0.3	1,011.7	0.3	1,012.0
(0.2)	6.0	0.0	6.0
(1.1)	2.6	0.6	3.2
0.0	28.0	0.9	28.9
0.0	22.2	0.9	23.1
0.0	0.0	0.3	0.3
0.0	0.0	2.8	2.8
0.0	140.7	(19.2)	121.5
(3.1)	101.7	(19.0)	82.7
0.0	(12.3)	0.0	(12.3)
(11.4)	(22.7)	8.6	(14.1)
0.0	128.4	(19.2)	109.2
(14.4)	79.0	(10.4)	68.6
0.0	89.9	(17.8)	72.1
(9.0)	55.5	(9.3)	46.2
0.0	(4.8)	6.8	2.0
0.0	1.9	(25.5)	(23.6)
0.0	82.4	(11.0)	71.4
(9.1)	55.0	(34.7)	20.3
0.0	0.5	0.0	0.5
–	0.7	–	0.7
0.0	106.0	7.4	113.4
0.9	82.4	15.7	98.1
(1.2)	51.1	1.5	52.6
0.0	23.7	0.2	23.9
0.0	1,139.6	12.0	1,151.6
2.1	919.4	9.1	928.5
0.0	532.4	55.9	588.3
(39.4)	457.6	39.0	496.6
0.0	0.8	0.0	0.8
0.0	1.0	0.0	1.0
0.0	805.1	11.1	816.2
246.7	875.7	(235.6)	640.1
(0.3)	1,295.8	31.0	1,326.8
241.8	1,315.4	(116.9)	1,198.5

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2007

General

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

The following Standard and Interpretations, though already published on December 31, 2007, did not require application as of such date (IFRS 8, IFRIC 11) or were not adopted as European law (IFRIC 12–14):

- IFRS 8, *Segment Reporting,* as from Jan. 1, 2009
- IFRIC 11, *IFRS 2 Group and Treasury Share Transactions,* as from Jan. 1, 2008
- IFRIC 12, *Service Concession Arrangements,* as from Jan. 1, 2008
- IFRIC 13, *Customer Loyalty Programs,* as from July 1, 2008
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* as from Jan. 1, 2008

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

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 or reviewed by independent statutory accountants. The Group's currency is the euro (€). The income statement has been presented in the cost-of-sales format.

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

Consolidation

Consolidation principles

Vossloh's consolidated financial statements comprise the financial statements of Vossloh AG and principally all its subsidiaries. Subsidiaries where Vossloh AG can exercise control through its directly or indirectly held voting majority are generally fully consolidated in the Vossloh Group's accounts and included therein from the date at which control is gained until control is no longer exerted. The purchase method of accounting is used for capital consolidation. Accordingly, the purchase cost of the acquired shares in subsidiaries is offset against their revalued equity. All of the acquiree's identifiable assets and liabilities (including contingent liabilities) are stated at fair value as of the acquisition date. Any residual net assets over cost are recognized as goodwill according to IFRS 3 and tested for impairment once annually. Any resulting badwill is directly expensed.

Besides consolidating all intragroup receivables and payables, all income and expenses as well as all profits or losses realized among consolidated group companies are mutually offset. Where in the separate financial statements of consolidated subsidiaries, write-down had been charged to shares in consolidated subsidiaries or intragroup receivables, such write-down is reversed in consolidation. Profits and losses from intercompany transfers are eliminated.

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. Major joint ventures are—due to their significance to the Vossloh Group's asset and capital structure, financial position and results of operations—consolidated pro rata according to the same consolidation principles.

The remaining investees, in which Vossloh holds a voting interest below 20 percent, are disclosed at the lower of cost or market within financial assets.

Consolidation group

In comparison to year-end 2006, nine companies were fully consolidated for the first time as of December 31, 2007. Besides the acquirees mentioned as such, the newly included companies comprise the Chinese subsidiary initially consolidated at the beginning of 2007, as well as two subsidiaries whose consolidation had previously been waived for lack of materiality.

Change in fully consolidated subsidiaries

	2007	2006
January 1	46	42
newly consolidated	9	4
merged intragroup	(1)	0
derecognized	(4)	0
December 31	50	46

The intragroup merger refers to Vossloh Rail Technology GmbH, which was merged into Vossloh AG.

As the Information Technologies division was disposed of in January 2007, four subsidiaries were excluded from the consolidation group.

As of December 31, 2007, in addition to the JVs listed among shareholdings, another 22 joint ventures of the Infrastructure Services business unit were included pro rata in the consolidated financial statements. Due to their minor significance to the Group's asset and capital structure, financial position and results of operations, 23 subsidiaries (down from 27) were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights at the balance sheet date.

Acquirees

Major acquisitions and their effects on the Group's balance sheet, net sales and EBIT are detailed below.

On March 5, 2007, the Vossloh Group executed an asset deal with Pohl Corp., a US rail switch manufacturer based in Reading, PA, whose business is meantime operated under the name of Vossloh Track Material, Inc. The price was $21 million plus incidentals of $2.3 million. The deal was closed as of March 30, 2007. The assets and liabilities taken over were (re)stated at fair value.

Vossloh Track Material, Inc.: purchase price allocation (PPA)

€ million	Pre-combination book values	Adjustments	Fair values as of initial consolidation date
Intangible assets	1.8	(1.3)	0.5
Tangible assets	2.5	4.1	6.6
Current receivables, inventories, cash & cash equivalents	15.2	(1.3)	13.9
Current liabilities and accruals	(4.1)	0.2	(3.9)
Net assets acquired	**15.4**	**1.7**	**17.1**
Purchase price			15.4
Purchase incidentals			1.7
Total cost			**17.1**
Residual goodwill			**0.0**

Assuming that the purchase of Vossloh Track Material Inc. had already been closed at January 1, 2007, this would have increased net sales by €9.2 million and earnings distributable to the parent's stockholders by €0.1 million. Since its acquisition date, Vossloh Track Material has contributed net sales of €30.1 million and a profit of €0.2 million to the Group's.

On April 4, 2007, the Vossloh Group executed a share sale and transfer agreement on the takeover of all of the shares in Cleveland, OH, based Cleveland Track Material Inc. The price including financial debts assumed (enterprise value) was $42.5 million plus incidentals. The deal was closed as of April 30, 2007.

The equity value of €23.3 million contrasted with the following assets and liabilities as of the acquisition date:

Cleveland Track Material Inc.: PPA

€ million	Pre-combination book values	Adjustments	Fair values as of initial consolidation date
Intangible assets	0.0	1.8	1.8
Tangible assets	4.0	3.6	7.6
Financial assets	0.1	0.0	0.1
Current receivables, inventories, cash & cash equivalents	13.5	(0.9)	12.6
Current liabilities and accruals	(11.1)	(0.9)	(12.0)
Deferred tax assets	0.7	(0.3)	0.4
Deferred tax liabilities	(1.1)	(0.8)	(1.9)
Net assets acquired	**6.1**	**2.5**	**8.6**
Purchase price			23.3
Purchase incidentals			0.5
Total cost			**23.8**
Residual goodwill			**15.2**

Assuming that Cleveland Track Material Inc. had already been acquired at January 1, 2007, net sales of €11.7 million and earnings of €0.9 million distributable to the parent's stockholders would have been reflected in consolidation. Since its acquisition date, Cleveland Track Material Inc. has contributed net sales of €23.1 million and a profit of €0.6 million to the Group's.

In connection with the US acquisitions, Vossloh International GmbH (formerly Vossloh Corporate Finance GmbH, Werdohl), and the newly incorporated, Wilmington, DE, based US Holdings Inc., were consolidated for the first time. The essential assets of either subsidiary are the directly or indirectly held investments in the new US acquirees.

In May 2007, Vossloh Infrastructure Service SA (VIS), a Vossloh AG subsidiary, executed a binding memorandum of understanding with Colas SA, Boulogne Billancourt, France, for the complete acquisition of the ETF Group (Européenne de Travaux Ferroviaires SA), Paris. As from July 1, 2007, the closing date, the ETF Group companies (previously consolidated pro rata) have been fully consolidated.

ETF Group: PPA

€ million	Pre-combination book values	Adjustments	Fair values as of initial consolidation date
Intangible assets	0.0	1.2	1.2
Tangible assets	9.9	0.0	9.9
Current receivables, inventories, cash & cash equivalents	32.2	0.0	32.2
Current liabilities and accruals	(27.9)	(0.2)	(28.1)
Deferred tax assets	0.1	0.1	0.2
Deferred tax liabilities	(0.2)	(0.6)	(0.8)
Net assets acquired	**14.1**	**0.5**	**14.6**
Total cost			**33.0**
Residual goodwill			**18.4**

Assuming that the ETF Group had already been acquired at January 1, 2007, net sales of €35.4 million and earnings of €1.0 distributable to the parent's stockholders would have additionally been reflected in consolidation. Since the date of its initial full consolidation (July 1, 2007), the ETF Group has contributed net sales of €27.9 million and an EBIT of €1.0 million to the Group's.

On November 19, 2007, Vossloh Australia Pty. Ltd. (a Castle Hill-based subsidiary fully owned by Vossloh AG) concluded an asset deal to take over TKL Rail, the rail switch unit of Australia's Thompsons Kelly & Lewis Pty. Ltd. (TKL), Castlemaine, Victoria, a subsidiary wholly owned by Flowserve Corporation. The purchase price amounted to $A 14.1 million. The deal was closed on December 14, 2007.
The company will be newly consolidated in 2008.

Currency translation

Non-euro financial statements of subsidiaries are translated into € as the group currency according to the functional-currency concept. Since these subsidiaries are foreign operations (as defined by the IFRS), their functional currency corresponds to their local currency. For balance sheet lines, the mean exchange rate as of December 31 is used while for income statement translation, the annual average rate is applied.

Currency translation differences, whether from the interperiod differences in assets and liabilities or those between income statement and balance sheet, are recognized in, and only in, equity, the total change for the year being shown in a separate line within accumulated other comprehensive income (OCI).

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

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

Exchange rates

Country	Currency		2007	2006	2007	2006
	(ISO code)		Current rate at Dec. 31,		Average rate in	
China	CNY	€1.00	10.47	10.12	10.43	9.84
UK	GBP	€1.00	0.73	0.67	0.68	0.68
India	INR	€1.00	57.95	58.32	56.61	54.40
Mexico	MXN	€1.00	16.07	14.32	14.98	13.70
Norway	NOK	€1.00	7.97	8.24	8.02	8.05
Poland	PLN	€1.00	3.59	3.84	3.79	3.90
Sweden	SEK	€1.00	9.44	9.04	9.25	9.25
Serbia	CSD	€1.00	78.80	79.12	81.70	87.03
USA	USD	€1.00	1.47	1.32	1.37	1.26

Notes to the consolidated income statement

(1) Net sales

Breakdown of net sales		
€ million	2007	2006
Products and services	903.9	589.3
PoC contracts	328.2	425.9
Total	**1,232.1**	**1,015.2**

Sales are recognized net of sales deductions and price allowances (such as cash and other discounts, bonuses, rebates, purchases or returns credited). In line with IAS 18, sales are generally realized once goods have been delivered or services rendered, provided that the price has been fixed or can be determined and that realization of the underlying receivable is reasonably probable. Where milestone invoices have been agreed on in advance, sales are recognized after the customer has finally and formally accepted the milestone delivery.

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

Pages 122/123 and 155/156 include breakdowns of net sales according to primary and secondary segments (i.e., by division and geographical market/region).

(2) Functional expenses

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

Expense types		
€ million	2007	2006
Cost of raw materials and supplies	567.9	428.2
Cost of services purchased	93.2	91.5
Cost of materials	**661.1**	**519.7**
Wages and salaries	209.0	170.7
Social security and related employee benefits	57.7	50.9
Pension expenses	2.2	2.3
Personnel expenses	**268.9**	**223.9**
Amortization/depreciation/write-down	**29.2**	**25.9**
Operating leases	**7.9**	**8.0**

The Vossloh Group's annual average headcount in 2007 came to 5,547 (up from 4,676 including the discontinued VIT operation's employees).

(2.1) Cost of sales

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

(2.2) General administrative and selling (GAS) expenses

Breakdown of GAS expenses

€ million	2007	2006
General administrative expenses	77.6	70.4
Selling expenses	66.0	44.6
	143.6	**115.0**

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

Besides payroll, selling expenses mainly consist of outbound freight and commissions and include most of the allowances for bad trade receivables and sundry assets at €5.4 million (up from €0.4 million).

(2.3) R&D expenses

In accordance with IAS 38, all research costs are directly expensed in this line.
The costs incurred for developing a marketable product are capitalized where meeting the intangible-asset recognition criteria. Noncapitalizable development costs are expensed in this line, too. R&D expenses before capitalized other work and material in 2007 came to €9.5 million (up from €9.0 million).

(3) Net other operating income

Net other operating income

€ million	2007	2006
Income from the release of accruals	16.6	11.3
Insurance claims/indemnities	3.4	5.7
Allowances released and write-up	1.4	1.2
Rental income	1.2	1.1
Foreign exchange gains	1.0	0.7
Gains from fixed-asset disposal	0.1	0.4
Sundry income	7.7	7.9
Other operating income	**31.4**	**28.3**
Losses on fixed-asset disposal	(0.3)	(1.5)
Foreign exchange losses	(3.0)	(1.1)
Sundry expenses	(4.2)	(8.7)
Other operating expenses	**(7.5)**	**(11.3)**
Net other operating income	**23.9**	**17.0**

(4) Net P/L of investees carried at equity

The €0.5 million profit of investees carried at equity (down from €0.7 million) reflects the profit proratable to the Vossloh Group and earned from the investment in BV Oberflächentechnik GmbH & Co. KG, Werdohl.

(5) Other financial results

Breakdown of other financial results

€ million	2007	2006
Income from securities and financial assets	0.4	0.4
Income from shares in unconsolidated subsidiaries	0.3	0.8
Write-up of financial assets	0.3	0.0
Losses on the statement at fair value currency forwards	0.0	(0.1)
Other financial results, net	**1.0**	**1.1**

(6) Net interest expense

Breakdown of net interest expense

€ million	2007	2006
Interest and similar income	5.9	2.4
Interest and similar expenses	(18.2)	(16.5)
	(12.3)	**(14.1)**

(7) Income taxes

Breakdown of income taxes

€ million	2007	2006
Current income taxes	(37.7)	(28.8)
Deferred taxes	0.6	6.4
Income taxes	**(37.1)**	**(22.4)**

An unchanged income tax rate of 40 percent is applied to the taxable income of the Vossloh Group's German subsidiaries and encompasses the effective corporate income tax rate of 25 percent for 2007, the solidarity surtax thereon, and municipal trade tax.

The Vossloh Group's actual tax expense of €37.1 million (up from €22.4 million) is €6.6 million (up from €5.0 million) below the calculated (expected) tax expense resulting from applying a groupwide uniform rate of 40 percent to EBT.

The corporate income tax rate downscaled by the German Corporate Taxation Reform Act 2008 entailed an additional tax expense of €1.8 million.

Reconciliation of the expected to the actually recognized tax expense:

Income tax reconciliation

		2007	2006
Earnings before taxes (EBT)	€ mill.	109.2	68.6
Tax rate incl. municipal trade tax	%	40.0	40.0
Expected tax expense at a single rate	€ mill.	43.7	27.4
Tax reduction due to lower local rates	€ mill.	(7.9)	(8.0)
Tax reduction from tax-exempt investment income	€ mill.	(0.1)	(0.1)
Tax increase for nondeductible business expenses	€ mill.	0.7	4.3
Taxes for prior years	€ mill.	1.3	(0.8)
Other differences	€ mill.	(0.6)	(0.4)
Recognized income tax burden	€ mill.	37.1	22.4
Actual income tax rate	%	34.0	32.6

Total deferred taxes from items directly credited to OCI came to €4.2 million (up from €2.3 million). The dividend payout neither increased nor decreased corporate income tax.

(8) Minority interests

The Group's net income includes minority interests in profit of €2.8 million (up from €2.5 million) and in loss of €0.1 million (down from €0.2 million).

(9) Net result of discontinued operations

Breakdown of the prior-year net result from discontinued operations

€ million	2007	2006
Net sales	0.0	36.4
Cost of sales	0.0	(41.3)
GAS expenses	0.0	(8.1)
R&D expenses	0.0	(1.1)
Net other operating expense	3.0	(3.7)
EBIT	**3.0**	**(17.8)**
Net interest expense	0.0	(0.2)
EBT	**3.0**	**(18.0)**
Tax (expense)/credit	(1.0)	4.7
EAT	**2.0**	**(13.3)**
Loss on restatement acc. to IFRS 5	0.0	(10.3)
Net result of discontinued operations	**2.0**	**(23.6)**

(10) Earnings per share

Earnings per share

		2007	2006
Weighted average number of common shares		14,776,256	14,735,304
Weighted number of repurchased shares		(8,687)	0
Weighted average shares outstanding		14,767,569	14,735,304
Dilutive effects of LTIP/ESOP options	shares	14,715	7,859
Diluted weighted average shares issued		14,782,284	14,743,163
Group earnings	€ mill.	71.4	20.3
Basic (undiluted) EpS	€	4.83	1.38
thereof from continuing operations	€	4.70	2.98
thereof from discontinued operations	€	0.13	(1.60)
Fully diluted EpS	€	4.83	1.38

Note to the consolidated statement of cash flows

The consolidated statement of cash flows depicts the changes in cash and cash equivalents within the Vossloh Group. The term *cash and cash equivalents* corresponds to the corresponding 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 flow statement also includes the cash inflows and outflows of Vossloh Information Technologies, which was reported as discontinued operation in 2006 both in the balance sheet and income statement. The cash flows allocable to this division are listed below:

Cash flows of discontinued operations

€ million	2007	2006
Cash flow from operating activities	0.0	38.6
Cash flow from investing activities	1.9	(1.1)
Cash flow from financing activities	0.0	(37.9)

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 a more transparent presentation and given the disclosure requirements of the initially applied IFRS 7, certain balance sheet items have been subsumed in captions; the prior-year data has been rearranged accordingly.

(1) Intangible assets

Breakdown of intangible assets

€ million	2007	2006
Goodwill	334.4	301.0
Capitalized development costs	11.7	9.6
Concessions/licenses/property rights/software	6.1	4.8
	352.2	315.4

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

Goodwill breakdown by segment

€ million	2007	2006
Rail Infrastructure	263.1	229.8
Motive Power&Components	71.3	71.2
	334.4	301.0

Pursuant to IFRS 3 in conjunction with IAS 36 (revised 2005) 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 pretax rate of 11.1 percent) expected from the relevant cash-generating units (CGUs) in line with the medium-term plan, which is based on empirical data and expected future market trends. Since the discounted cash flows exceed goodwill book values, no goodwill write-down was required.

Development costs are capitalized at cost wherever (i) the latter can clearly be assigned, (ii) the developed product's technical feasibility and future marketability are ensured, and (iii) the development work is reasonably certain to produce future cash inflows. Cost includes all costs directly or indirectly assignable to the development process. Capitalized development costs are amortized by straight-line charges based on useful lives of 5 to 7 years.

Concessions (incl. franchises), licenses, property rights and software are as a rule amortized on a straight-line basis over 3 to 5 years.

Amortization and write-down of intangible assets were charged at €5.9 million to the appropriate functional expenses, cf. Note (2), *Functional expenses*. In the year under review, write-down was charged at €0.013 million to intangibles (up from nil).

Movement analysis of intangible assets:

€ million	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Goodwill		Capitalized development costs		Concessions, industrial-property and similar rights and assets, as well as licenses thereto		Prepayments		Intangible assets	
At cost										
Balance at January 1	301.9	313.6	14.8	26.5	21.7	27.8	–	–	338.4	367.9
Change from initial consolidation	33.6	–	–	–	4.0	0.0	–	–	37.6	0.0
Additions (incl. current capex)	–	–	5.5	7.6	1.2	0.8	0.0	–	6.7	8.4
Disposals	(0.2)	0.0	–	(15.0)	(1.1)	(2.5)	–	–	(1.3)	(17.5)
Reclassified into assets of discontinued operations	–	(11.7)	–	(4.3)	–	(4.6)	–	–	–	(20.6)
Book transfers	–	–	0.0	–	0.0	0.2	–	–	0.0	0.2
Currency translation differences	–	–	–	–	0.0	0.0	–	–	0.0	0.0
Balance at December 31	**335.3**	**301.9**	**20.3**	**14.8**	**25.8**	**21.7**	**0.0**	**–**	**381.4**	**338.4**
Accumulated amortization and write-down										
Balance at January 1	0.9	1.8	5.2	12.4	16.9	19.7	–	–	23.0	33.9
Change from initial consolidation	–	–	–	–	0.9	0.0	–	–	0.9	0.0
Additions	–	–	3.4	2.8	2.5	1.6	–	–	5.9	4.4
Disposals	–	–	–	(9.3)	(0.4)	(0.2)	–	–	(0.4)	(9.5)
Reclassified into assets of discontinued operations	–	(0.9)	–	(0.7)	–	(4.2)	–	–	–	(5.8)
Currency translation differences	–	–	–	–	(0.2)	0.0	–	–	(0.2)	0.0
Balance at December 31	**0.9**	**0.9**	**8.6**	**5.2**	**19.7**	**16.9**	**–**	**–**	**29.2**	**23.0**
Net book values	**334.4**	**301.0**	**11.7**	**9.6**	**6.1**	**4.8**	**0.0**	**–**	**352.2**	**315.4**

(12) Tangible assets

Breakdown of tangible assets

€ million	2007	2006
Land, equivalent titles, and buildings	42.9	34.2
Production plant and machinery	74.0	47.6
Other plant, factory and office equipment	13.6	11.7
Prepayments on tangibles, construction in progress	8.9	2.2
	139.4	95.7

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

Depreciation ranges/useful lives	
Buildings	5–50 years
Production plant and machinery	2–21 years
Other plant, factory and office equipment	1–25 years

Where the value of a tangible asset is found impaired, appropriate write-down is charged, none being recognized in 2007 (unchanged). Depreciation of €22.9 million is included within the functional expenses in the income statement, cf. Note (2), *Functional expenses*.

Movement analysis of tangible assets:

€ million	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Land, equivalent titles, and buildings (incl. on leased land)		Production plant and machinery		Other plant, factory and office equipment		Prepayments on tangibles, construction in progress		Tangible assets	
At cost										
Balance at January 1	68.2	66.0	174.9	170.8	45.6	50.6	2.2	1.4	290.9	288.8
Change from initial consolidation	3.4	1.3	40.9	2.7	1.7	0.7	0.7	0.0	46.7	4.7
Additions (incl. current capex)	8.4	1.3	23.9	7.7	5.5	4.4	8.1	2.0	45.9	15.4
Disposals	(0.1)	(0.3)	(2.1)	(6.9)	(2.0)	(3.0)	(0.2)	(0.0)	(4.4)	(10.2)
Reclassified into assets of discontinued operations	–	(0.3)	–	(0.4)	–	(7.4)	–	(0.1)	–	(8.2)
Book transfers	0.2	0.0	1.6	0.7	0.1	0.2	(1.9)	(1.1)	0.0	(0.2)
Currency translation differences	(0.2)	0.2	(0.1)	0.3	(0.1)	0.1	0.0	0.0	(0.4)	0.6
Balance at December 31	**79.9**	**68.2**	**239.1**	**174.9**	**50.8**	**45.6**	**8.9**	**2.2**	**378.7**	**290.9**
Accumulated depreciation and write-down										
Balance at January 1	34.0	31.5	127.3	118.9	33.9	35.7	–	0.0	195.2	186.1
Change from initial consolidation	0.1	0.3	23.8	1.2	1.3	0.5	–	–	25.2	2.0
Additions	2.8	2.5	16.1	12.9	4.0	4.7	–	–	22.9	20.1
Disposals	(0.0)	(0.2)	(2.1)	(5.5)	(1.9)	(2.8)	–	–	(4.0)	(8.5)
Reclassified into assets of discontinued operations	–	(0.2)	–	(0.3)	–	(4.2)	–	–	–	(4.7)
Book transfers	0.0	0.0	0.0	0.0	0.0	0.0	–	–	0.0	0.0
Currency translation differences	0.1	0.1	0.0	0.1	(0.1)	–	–	–	0.0	0.2
Balance at December 31	**37.0**	**34.0**	**165.1**	**127.3**	**37.2**	**33.9**	**–**	**0.0**	**239.3**	**195.2**
Net book values	**42.9**	**34.2**	**74.0**	**47.6**	**13.6**	**11.7**	**8.9**	**2.2**	**139.4**	**95.7**

(13) Investment properties

Movement analysis of investment properties:

€ million	2007	2006
At cost		
Balance at January 1	20.3	20.3
Additions	0.0	0.0
Disposals	0.0	0.0
Balance at December 31	**20.3**	**20.3**
Accumulated depreciation and write-down		
Balance at January 1	15.9	12.9
Additions	0.4	3.0
Book transfers	0.0	0.0
Balance at December 31	**16.3**	**15.9**
Net book values	**4.0**	**4.4**

Investment properties include nonessential land and buildings partly leased to non-group lessees. According to IAS 40, buildings owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years. Rental income in the period came to €0.5 million (virtually unchanged). Expenses (including depreciation, M&R and incidentals) incurred in 2007 for properties leased out totaled €0.3 million (up from €0.2 million), those for other properties amounting to €0.5 million (down from €3.1 million). These expenses include write-down for an impairment loss of €0.2 million. The fair values of investment properties totaled €5.9 million at December 31, 2007 (up from €4.8 million) and are mostly based on current market prices of comparable real estate.

(14) Investee carried at equity

Financial information of investment carried at equity

€ million	2007	2006
Balance at January 1	1.0	1.0
Prorated profit	0.5	0.7
Dividend distribution	(0.7)	(0.7)
Balance at December 31	**0.8**	**1.0**
Total assets	3.3	4.0
Total liabilities	2.7	3.4
Net sales	11.7	11.6
Posttax P/L	1.0	1.4

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

(15) Other noncurrent financial instruments

Breakdown of other noncurrent financial instruments

€ million	2007	2006
Shares in unconsolidated subsidiaries	3.3	3.6
Shares in other investees	0.5	0.5
Other long-term securities	0.8	0.7
Long-term loans	2.4	2.1
Financial derivatives in hedges	3.7	0.1
Remaining noncurrent financial assets	0.1	0.4
Other noncurrent financial instruments	10.8	7.4

The shares in unconsolidated subsidiaries and in other investees are capitalized at cost. The other financial instruments below investment level are valued according to their IAS 39 classification.

For the reconciliation of the balance sheet line to the IAS 39 valuation categories, see page 157, *Additional disclosures of financial instruments*.

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

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

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

Financial derivatives in hedges are classified as assets held for trading and therefore stated at fair value. The item covers the hedge of future interest payments for the US private placement. Fair value changes within this hedging relationship are recognized in OCI only.

(16) Other noncurrent assets

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

(17) Deferred taxes

In accordance with IAS 12, taxes were deferred for temporary differences between tax bases and IFRS accounting values, for tax loss carryforwards, as well as for consolidation transactions recognized in the income statement. Deferred taxes were determined at the rates anticipated according to legislation current at December 31, 2007, to apply upon their realization or recognition. Deferred taxes for temporary differences affected the following balance sheet lines:

Deferred taxes

€ million	2007		2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible and tangible assets	0.4	10.7	2.2	8.8
Inventories	1.1	2.9	0.8	11.3
Receivables	0.9	3.3	0.4	4.0
Other assets	0.0	0.1	0.3	0.9
Pension accruals	1.1	0.0	1.0	0.0
Other accruals	12.0	1.0	13.2	1.4
Liabilities	0.3	0.0	2.0	0.3
Other liability items	0.1	0.1	3.7	0.0
	15.9	**18.1**	**23.6**	**26.7**
Loss carryforwards	10.2	–	17.8	–
Recognized deferred taxes	**26.1**	**18.1**	**41.4**	**26.7**

Deferred tax assets from loss carryforwards were based on loss carryforwards of €33.3 million (down from €44.6 million) utilizable for tax purposes. No write-down was charged to deferred taxes.

(18) Inventories

Breakdown of inventories:

€ million	2007	2006
Raw materials and supplies	94.6	61.2
Work in process	102.3	65.2
Merchandise	6.4	4.5
Finished products	16.0	12.6
Prepayments made	17.9	18.0
Total	**237.2**	**161.5**

Inventories are stated at the lower of purchase/production cost or net realizable value (NRV). Besides full direct costs, production cost also includes all fixed and variable manufacturing overheads systematically allocable to the production process, as well as special direct manufacturing costs, borrowing (interest) costs not being capitalized.

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

In the year under review, inventories were written down at €17.0 million (down from €18.5 million). The book value of inventories stated at NRV totaled €20.0 million (up from €18.1 million).

As the reasons for previous write-down existed no longer, inventories were written up by €0.028 million (down from €0.1 million).

(19) Trade receivables

Breakdown of trade receivables:

€ million	2007	2006
Trade receivables	283.7	202.2
PoC receivables	112.9	128.9
Total	**396.6**	**331.1**

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

Movement analysis of allowances for trade receivables:

€ million	2007	2006
Allowances as of Jan. 1	6.2	5.5
Added	6.7	1.4
Released	(1.1)	(0.6)
Utilized	(0.1)	(0.2)
Currency translation differences	(0.1)	0.1
Allowances as of Dec. 31	11.6	6.2

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

PoC receivables and payables

€ million	2007			2006		
	Receivables	Payables	Total	Receivables	Payables	Total
Total PoC contract progress	791.8	23.5	815.3	584.5	37.4	621.9
Prepayments received under PoC contracts	(678.9)	(119.5)	(798.4)	(455.6)	(100.4)	(556.0)
Recognized PoC receivables	**112.9**		**112.9**	**128.9**		**128.9**
Recognized PoC payables		**96.0**	**96.0**		**63.0**	**63.0**

The total PoC contract progress of €815.3 million (up from €621.9 million) includes contract costs of €727.1 million accumulated by December 31, 2007 (up from €537.8 million) as well as the profits prorated to such costs at €105.5 million (up from €86.5 million) and prorated losses of €17.3 million (up from €2.4 million).

(20) Income tax assets

Most of these assets are income taxes refundable to Vossloh AG.

(21) Sundry current assets

Breakdown of sundry current assets

€ million	2007	2006
Non-income tax assets	20.1	11.8
Due from unconsolidated subsidiaries	14.6	2.5
Due from employees	2.1	1.5
Prepaid expenses and deferred charges	1.5	1.2
Short-term loans	0.9	0.8
Interest receivable	0.5	0.7
Suppliers with debit balances	0.7	0.6
Financial derivatives	0.3	0.3
Due to third-party joint venturers from clearing	5.1	4.2
Miscellaneous	4.9	6.3
Sundry current assets	**50.7**	**29.9**

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

Movement analysis of allowances/write-down:

€ million	2007	2006
Allowances/write-down as of Jan. 1	0.6	0.4
Added	0.9	0.2
Released	(0.6)	0.0
Utilized	0.0	0.0
Currency translation differences	0.0	0.0
Allowances/write-down as of Dec. 31	**0.9**	**0.6**

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

For the reconciliation of the financial instruments shown as sundry current assets to the IAS 39 valuation categories, see pages 157/158, *Additional disclosures of financial instruments*. The non-income tax assets and the miscellaneous current assets are carried at cost.

(22) Short-term securities

€30.5 million of the total includes short-term fixed-income securities held to maturity and stated at cost. The remaining securities are held for trading (according to IAS 39) and carried at fair value. For the reconciliation of short-term securities to the IAS 39 valuation categories, see page 157/158, *Additional disclosures of financial instruments*.

(23) Cash and cash equivalents

This line encompasses cash on hand and in bank. The accounts due from banks all fall due within one year. Cash and cash equivalents are carried at principal or face value.

(24) Assets of discontinued operations

In 2006, this line included the assets of Vossloh Information Technologies, a division disposed of in January 2007.

(25) Total equity

For the statement of changes in equity, see page 121.

(25.1) Capital stock

Vossloh AG's capital stock totals €37,824,851.86 (up from €37,671,461.74) and is divided into 14,795,796 no-par bearer shares of common stock only (up from 14,735,795).

As of December 31, 2007, authorized capital existed at €18,406,507.72.

Stock option programs

In 1998, 2000, 2002 and 2005, the Vossloh Group launched stock option programs under which certain executive and managerial staff of subsidiaries (LTIP) and employees of German subsidiaries (ESOP) have been granted options to acquire further shares after first purchasing Vossloh AG stock as personal investment at program inception. For each Vossloh share acquired, LTIP and ESOP participants received 10 or 3 stock options, respectively, entitling them to acquire Vossloh shares at the strike price (market price fixed at program inception). Option exercise is subject to certain relative and absolute benchmarks in terms of Vossloh stock price uptrends being achieved. The stock options under the 2005 program were exercisable for the first time after expiration of the qualifying period on March 31, 2007.

The number of stock options issued developed as follows:

Movement analysis of stock options

	Number of options	Average strike price
Jan. 1, 2006	**75,246**	**38.54**
granted	984	24.01
expired	14,137	38.65
Dec. 31, 2006	**60,125**	**38.75**
thereof exercisable	3	24.01
exercised	60,001	38.75
expired	75	38.75
Dec. 31, 2007	**49**	**38.75**
thereof exercisable	49	38.75

The options still exercisable as of December 31, 2007, have a remaining term of 2.25 years. The SOPs launched in 2005 have been valued in accordance with IFRS 2, which produced additional personnel expenses of €0.1 million in 2007 (down from €0.2 million).

(25.2) Additional paid-in capital

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

(25.3) Treasury stock

As of December 31, 2007, no shares (unchanged) were held as treasury stock.

(25.4) Reserves retained from earnings

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

(25.5) Accumulated other comprehensive income

The OCI includes those differences from the currency translation of financial statements of non-German subsidiaries which are recognized in equity only, as well as unrealized gains/losses from the statement at fair value of derivatives within cash flow hedges and of financial instruments available for sale. The biggest single OCI item is the posttax negative fair value of €2.5 million of hedges of future interest payments for liabilities associated with the US private placement.

(25.6) Minority interests

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

(26) Pension accruals

Movement analysis of pension accruals

€ million	2007	2006
Opening balance at Jan. 1	9.9	14.9
Utilized	(0.9)	(1.4)
Change in plan assets	0.0	(2.1)
Added	2.5	1.7
Reclassified into liabilities of discontinued operations	0.0	(3.2)
Closing balance at Dec. 31	**11.5**	**9.9**

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

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

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

Assumptions underlying pension obligation calculation:

%	2007	2006
Discount rate	5.3	4.75
Expected pension rise	1.5	1.5
Expected pay rise	3.0	2.0
Expected cost-of-living rise	3.0	2.0
Probable employee turnover rate	4.0	6.0
Expected return on plan assets	4.5	4.0

The pension accruals recognized were derived as follows:

Analysis of recognized pension accruals

€ million	2007	2006
Present value of plan-funded DBO	14.9	12.9
Fair value of plan assets	(5.8)	(8.4)
Adjustment for unrecognized actuarial gains/losses	(3.8)	(1.6)
Accrual for plan-funded DBO	**5.3**	**2.9**
Present value of plan-unfunded DBO	6.2	7.8
Unrecognized actuarial gains/losses, net	(0.0)	(0.8)
Accrual for plan-unfunded DBO	**6.2**	**7.0**
Recognized pension accruals	**11.5**	**9.9**

Movement analysis of the present value of the DBO:

Movement analysis of the present value of the DBO

€ million	2007	2006
Opening balance at Jan. 1	20.7	20.1
Service cost	1.7	0.8
Interest cost	0.9	0.9
Actuarial gains and losses	(0.9)	0.3
Pension payments	(1.3)	(1.4)
Closing balance at Dec. 31	**21.1**	**20.7**

The fair value of plan assets presented the following movements:

Movement analysis of plan assets

€ million	2007	2006
Annual opening fair value of plan assets	8.4	6.3
Expected return on plan assets	0.3	0.3
Plan-related actuarial gains/losses	(2.6)	(0.3)
Employer contributions to plan assets	0.0	2.1
Pension payments from plan assets	(0.3)	0.0
Annual closing fair value of plan assets	**5.8**	**8.4**

The following pension expense was recognized in the income statement:

Breakdown of total annual pension expense

€ million	2007	2006
Current service cost	1.7	1.0
Actuarial gains/losses amortized in the period	0.0	0.0
Expected return on plan assets	(0.3)	(0.3)
Interest cost	0.9	1.0
Total annual pension expense	**2.3**	**1.7**

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

The present value of the DBO compares to the fair value of plan assets as follows:

Comparative analysis of present and fair values

€ million	2007	2006
Present value of the DBO	21.1	20.7
Less fair value of plan assets	(5.8)	(8.4)
Plan-unfunded DBO	**15.3**	**12.3**

The empirical adjustments of plan assets and liabilities amounted to:

€ million	2007	2006
Empirical adjustments of plan assets	(2.6)	0.2
Empirical adjustments of plan liabilities	0.9	(0.0)

(27) Other accruals

Breakdown of other accruals

€ million	2007	2006
Personnel-related accruals	8.8	8.6
Warranty obligations and follow-up costs	25.7	19.3
Litigation risks and impending losses	1.3	5.5
Sundry accruals	1.2	1.1
Other noncurrent accruals	**37.0**	**34.5**
Personnel-related accruals	29.2	23.7
Accrued trade payables	29.0	23.4
Warranty obligations and follow-up costs	22.5	15.6
Litigation risks and impending losses	41.4	32.2
Sundry accruals	11.8	14.4
Other current accruals	**133.9**	**109.3**
	170.9	**143.8**

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

The other accruals provide for all obligations which are identifiable at the balance sheet date, based on past events, and uncertain in terms of amount or maturity. Accruals provide for the amounts of their probable utilization. The maximum risk inherent in accrued obligations is €38.0 million above those recognized in the balance sheet (up from 24.2 million). Additional risks of €8.9 million (down from €35.5 million) exist as below-the-line items but were not provided for since their probability is below 50 percent.

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

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

The warranty accruals include both provisions for specific warranty expenses and the general warranty risks empirically derived from past sales. The accrued litigation risks and impending losses account for obligations under lawsuits and for loss risks from uncompleted contracts. As of the balance sheet date, €0.1 million provides for impending losses on purchase obligations (down from €0.6 million).

Movement analysis of accruals

€ million	Opening balance at 1/1/2007	Added upon initial consolidation	Utilized	Released/ reversed	Provided for	Closing balance at 12/31/2007
Tax accruals	**14.5**	**0.2**	**(12.1)**	**(0.3)**	**11.5**	**13.8**
Personnel-related accruals	32.3	0.4	(20.2)	(0.2)	25.7	38.0
Accrued trade payables	23.4	1.5	(9.2)	(0.2)	13.5	29.0
Warranty obligations and follow-up costs	34.9	0.0	(12.2)	(4.1)	29.6	48.2
Litigation risks and impending losses	37.7	0.1	(10.0)	(9.9)	24.8	42.7
Sundry accruals	15.5	1.6	(8.0)	(1.8)	5.7	13.0
Other accruals	**143.8**	**3.6**	**(59.6)**	**(16.2)**	**99.3**	**170.9**

(28) Liabilities

Aged breakdown of liabilities:

€ million	2007	2006	2007	2006	2007	2006	2007	2006
Remaining term	≤1 year		>1–5 years		>5 years		Total	
Financial debts	44.7	38.6	15.2	15.6	167.5	176.3	227.4	230.5
Trade payables	271.9	203.8	0.0	0.1	0.0	0.0	271.9	203.9
Income tax liabilities	12.7	5.6	0.0	–	0.0	–	12.7	5.6
Other liabilities	124.3	135.2	1.4	2.1	40.8	29.5	166.5	166.8
	453.6	383.2	16.6	17.8	208.3	205.8	678.5	606.8

(28.1) Financial debts

Breakdown of financial debts

€ million	2007	2006
US private placement	163.1	182.1
Other long-term debts to banks	18.1	3.9
Long-term capital leases	1.5	0.9
Note loans	0.0	5.0
Noncurrent financial debts	**182.7**	**191.9**
Short-term debts to banks	38.2	32.3
Note loans	5.0	5.0
Short-term capital leases	0.9	0.6
Interest payable	0.6	0.7
Current financial debts	**44.7**	**38.6**
Total financial debts	**227.4**	**230.5**

Financial debts are carried at amortized cost. The US private placement is the underlying in a fair value hedge against currency risks inherent in the principal and as such stated at fair value. For the reconciliation of the financial debts to the IAS 39 valuation categories, see page 157, *Additional disclosures of financial instruments*.

Under a US private placement agreement, debt of a total $240.0 million was raised in 2004 from the capital market, comprising one loan each of $140 million and $100 million; they both have a bullet maturity, their remaining terms being 6.5 and 8.5 years, respectively. Since payment of principal and interest has entirely be hedged by euro-denominated swaps, Vossloh has ensured that both loans carry interest at fixed euro rates of 5.325 and 5.455 percent, respectively. The €163.1 million debt disclosed as of December 31, 2007, corresponds to the dollar debt translated at the year-end rate. Including the currency hedge shown at €40.8 million within sundry liabilities, the hedged repayment sum totals €203.9 million.

Payables under capital leases are owed for capital goods leased within Vossloh Infrastructure Services and are recognized at the present value of the lease payments. The net book value of the leased assets capitalized within tangibles came to €2.3 million (up from €1.4 million). The minimum capital lease payments fall due as follows:

Capital leases

€ million	12/31/2007			12/31/2006		
	Principal	Discount	PV	Principal	Discount	PV
Due within 1 year	1.0	(0.1)	0.9	0.7	(0.1)	0.6
Due >1–5 years	1.6	(0.1)	1.5	0.9	(0.0)	0.9
Due after 5 years	0.0	(0.0)	0.0	–	–	–
	2.6	**(0.2)**	**2.4**	**1.6**	**(0.1)**	**1.5**

(28.2) Other liabilities

Breakdown of other liabilities

€ million	12/31/2007	12/31/2006
Financial derivatives from fair value hedges	40.8	21.8
Financial derivatives from cash flow hedges	0.9	9.2
Noncurrent deferred income	0.5	0.6
Sundry	0.0	0.1
Noncurrent other liabilities	**42.2**	**31.7**
Prepayments received	49.0	72.1
VAT	25.3	22.3
Statutory Social Security and Health Insurance	9.1	7.3
Due to employees	8.5	6.2
Commissions	4.7	0.1
Other non-income taxes	6.2	3.5
Customers with credit balances	1.3	1.7
Sundry	20.2	22.0
Current other liabilities	**124.3**	**135.2**
	166.5	**166.9**

The financial derivatives shown within the other liabilities reflect the negative fair values of (i) the currency hedges and (ii) the cross-currency swaps hedging the repayment under the US private placement agreement. The derivative stated at a fair value of €40.8 million (up from €21.8 million) under noncurrent other liabilities refers to the fair value hedge against currency risks from loan repayment under the US private placement agreement.

According to IAS 39, the sundry other liabilities (except for deferred income) are financial ones and hence stated at amortized cost. For the reconciliation of other liabilities to the IAS 39 valuation categories, see page 157, *Additional disclosures of financial instruments*.

The prepayments received, shown at €49.0 million as current other liabilities, do not refer to PoC contracts. In accordance with IAS 19, the current liabilities to employees are recognized at the undiscounted amount owed.

(28.3) Trade payables

Breakdown of trade payables

€ million	12/31/2007	12/31/2006
Trade payables	175.9	140.8
PoC payables	96.0	63.0
Total	**271.9**	**203.8**

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

(28.4) Income tax liabilities

The line reflects the income taxes actually owed by various group companies as of December 31, 2007.

(29) Liabilities of discontinued operations

For 2006, this line had represented the liabilities of Vossloh Information Technologies, a division disposed of in January 2007.

Notes to the segment reports

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

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

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

As part of the Vossloh Group's repositioning, the Information Technologies division had in September 2006 been earmarked for divestment and therefore, this division's business has been shown as discontinued operation. The data included in the primary and secondary segment reports has been restated in accordance with the IFRS 5 rules.

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 additions to the discontinued VIT operation's accruals being included in the prior-year data up to September 30, 2006.

The primary segment information by division is shown on pages 122/123, the secondary segment information (by geographical market/region) being presented below. Regional sales are based on the customer location.

Secondary segment information

€ million	Germany	Other Euroland	Other Europe	Americas	Asia	Other	Total
Net external sales							
2007	148.1	664.0	159.4	131.4	89.2	34.0	1,226.1
2006	128.4	649.9	140.9	30.6	42.4	19.8	1,012.0
Segment operating assets							
2007	228.7	744.2	42.6	60.6	75.5	0.0	1,151.6
2006	254.9	629.7	35.0	0.1	8.8	0.0	928.5
Segment capital expenditures							
2007	11.0	23.8	1.4	1.8	14.6	0.0	52.6
2006	5.8	17.2	0.9	0.0	0.0	0.0	23.9

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

Reconciliation of segment operating assets to total assets

€ million	2007	2006
Intangible assets	352.2	315.4
Tangible assets	139.4	95.7
Inventories	237.2	161.5
Trade receivables	396.6	331.2
Sundry liabilities less tax assets	24.5	23.2
Prepaid expenses and deferred charges	1.7	1.5
Segment operating assets	**1,151.6**	**928.5**
Assets of discontinued operations	–	33.8
Other nonoperating assets	175.2	236.2
Total assets	**1,326.8**	**1,198.5**

Reconciliation of segment operating liabilities to total equity & liabilities

€ million	2007	2006
Prepayments received	49.0	72.1
Trade payables	271.9	203.9
Pension accruals	11.5	9.9
Other accruals	170.9	143.8
Sundry liabilities less tax liabilities	84.3	66.0
Deferred income	0.7	0.9
Segment operating liabilities	**588.3**	**496.6**
Equity	434.0	371.1
Liabilities of discontinued operations	–	25.7
Other nonoperating liabilities	304.5	305.1
Total equity & liabilities	**1,326.8**	**1,198.5**

Additional disclosures of financial instruments

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

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

Reconciliation of balance sheet lines to IAS 39 valuation categories and disclosure of the book and fair values of the financial instruments

€ million	Book value	Not covered by IAS 39	Measurement acc. to IAS 39							
IAS 39 valuation category:			straight receivables/payables	FI held to maturity	FI available for sale		FI held for trading			
Measured at:			amortized cost	historical cost	FV (chg. rec. in OCI)	historical cost	fair value (chg. rec. in IS)	FV (chg. rec. in OCI)	IAS 39 book value total	FV
Dec. 31, 2007										
Financial instruments (assets)										
Sundry noncurrent FI	10.8	3.3	2.5	0.1	0.6	0.6	–	3.7	7.5	7.5
Trade receivables	396.6		396.6						396.6	396.6
Sundry current assets	50.7	25.0	25.4				0.1	0.2	25.7	25.7
Short-term securities	31.2			30.5			0.7		31.2	31.2
Cash and cash equivalents	71.3		71.3						71.3	71.3
Financial instruments (liabilities)										
Noncurrent financial debts	182.7		182.7						182.7	185.7
Noncurrent other liabilities	42.2	0.5	0.0				40.8	0.9	41.7	41.7
Current financial debts	44.7		44.7						44.7	44.7
Trade payables	271.9		271.9						271.9	271.9
Sundry current liabilities	124.3	42.6	81.0				0.1	0.6	81.7	81.7

Reconciliation of balance sheet lines to IAS 39 valuation categories and disclosure of the book and fair values of the financial instruments

€ million	Book value	Not covered by IAS 39	Measurement acc. to IAS 39							
IAS 39 valuation category:			straight receiv-ables/payables	FI held to maturity	FI available for sale		FI held for trading			
Measured at:			amortized cost	historical cost	FV (chg. rec. in OCI)	historical cost	fair value (chg. rec. in IS)	FV (chg. rec. in OCI)	IAS 39 book value total	FV
Dec. 31, 2006										
Financial instruments (assets)										
Sundry noncurrent FI	7.4	3.7	2.5	0.0	0.7	0.4	–	0.1	3.7	3.7
Trade receivables	331.1		331.1						331.1	331.1
Sundry current assets	29.9	18.3	11.3				0.1	0.2	11.6	11.6
Short-term securities	28.1			23.7			4.4		28.1	28.1
Cash and cash equivalents	140.1		140.1						140.1	140.1
Financial instruments (liabilities)										
Noncurrent financial debts	191.9		191.9						191.9	201.5
Noncurrent other liabilities	31.7	0.6	0.1				21.8	9.2	31.1	31.1
Current financial debts	38.6		38.6						38.6	38.6
Trade payables	203.8		203.8						203.8	203.8
Sundry current liabilities	135.2	40.2	94.1				0.1	0.8	95.0	95.0

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

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

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

€ million	from interest	from remeasurement			from disposal	2007	2006
		at fair value	currency translation differences	allowances/ write-down			
Net gains/(losses) from:							
straight receivables/payables	(13.5)	–	(1.8)	(4.6)	–	(19.9)	(14.1)
FI held to maturity	1.1	–	–	–	–	1.1	0.2
FI held for trading	0.1	0.4	–	0.0	0.1	0.6	(0.4)
FI available for sale	–	0.0	–	0.0	0.1	0.1	0.0
Total	**(12.3)**	**0.4**	**(1.8)**	**(4.6)**	**0.2**	**(18.1)**	**(14.3)**

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

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

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

Financial risk management

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

Liquidity risk

Vossloh manages its liquidity risk (i.e., that the Group might not be able at all times to meet its payment obligations) through a rolling cash budget and a central cash management system. As of the end of the year under review, cash, cash equivalents and readily salable securities of €102+ million were at the Group's disposal, besides additional, unutilized credit facilities of €156.7 million to satisfy any future cash requirements. For an aged summary of financial obligations and the ensuing cash outflows, see the analysis of remaining liability terms in Note (28) above.

Currency risks

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

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

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

Currency risks material to the Group originate from the financial debts of $240.0 million raised by US private placement, as well as from future interest payments in US dollars. At the time of borrowing, these risks were fully hedged by contracting cross-currency swaps of matching maturities and amounts. These derivatives are accounted for as fair value hedge (principal repayment) and cash flow hedge (future interest payments), respectively. A €19.0 million gain (down from €20.7 million) from the reduced euro equivalent of the US dollar-denominated debt as the underlying in the FVH contrasted with a same-amount loss on the hedging derivative's remeasured fair value. When the dollar interest payments fell due in 2007, unrealized losses of €0.8 million (down from a €0.1 million gain) accumulated in OCI and corresponding to the hedging cross-currency swap's fair value change were recycled from equity to interest expense.

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

If US dollar rates	€1.00 = $	FV of recognized USPP hedges in € million		Party-related change in FV of USPP debt[2]
		CFV[1]	FVH	
rise 10 percent	1.6188	2.2	(55.6)	55.6
remain at the 12/31/2007 rate	1.4716	3.5	(40.8)	40.8
fall 10 percent	1.3244	5.1	(22.7)	22.7

[1] Before deferred taxes
[2] change in € mill. versus hedged €203.9 million repayable

Interest rate risks

Interest rate risks mainly result from floating-rate short-term loans raised for group-financing purposes. The risk of an unfavorable market rate trend and thus higher interest payments is contained by contracting interest rate swaps and caps (treated as CFHs in hedge accounting). Both the hedged underlying sums and the derivatives' fair values are insignificant in comparison with the currency hedges.

The table below shows the fair value of derivatives used for hedging only, as well as the hedged principal of the underlyings.

Financial derivatives			Fair value	Notional volume	Fair value	Notional volume
€ million			2007		2006	
Interest rate swaps	time to maturity	≤1 year	0.0	0.0	0.0	0.0
		>1–5 years	(0.9)	25.6	(1.5)	25.6
		>5 years	0.0	0.0	0.0	0.0
			(0.9)	**25.6**	**(1.5)**	**25.6**
Cross-currency swaps (USPP)	time to maturity	≤1 year	0.0	0.0	0.0	0.0
		>1–5 years	0.0	0.0	0.0	0.0
		>5 years	(37.3)	203.9	(29.5)	203.9
			(37.3)	**203.9**	**(29.5)**	**203.9**
Interest rate caps	time to maturity	≤1 year	0.0	0.0	0.0	51.1
		>1–5 years	0.0	25.6	0.1	25.6
		>5 years	0.0	0.0	0.0	0.0
			0.0	**25.6**	**0.1**	**76.7**
Currency forwards	time to maturity	≤1 year	(0.4)	75.0	(0.6)	114.9
		>1–5 years	0.0	2.4	0.2	20.1
		>5 years	0.0	0.0	0.0	0.0
			(0.4)	**77.4**	**(0.4)**	**135.0**
Currency options	time to maturity	≤1 year	0.0	3.2	0.0	0.0
		>1–5 years	0.1	7.5	0.0	0.0
		>5 years	0.0	0.0	0.0	0.0
			0.1	**10.7**	**0.0**	**0.0**
Total			**(38.5)**	**343.2**	**(31.3)**	**441.2**

Credit risks

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

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

Current receivables

€ million	Receivables neither past due nor written down	Overdue receivables not written down	Receivables written down[1]	Gross value of receivables
Trade receivables				
2007	319.2	78.8	10.2	408.2
2006	279.0	53.3	5.0	337.3
Other				
2007	49.7	0.3	0.9	50.9
2006	29.3	0.5	0.7	30.5

[1] This is the gross portfolio of trade receivables written down, the write-down charged amounting to €8.7 million (up from €4.1 million).

The analysis below breaks down the overdue receivables not written down:

Overdue receivables not written down

€ million	Past due within the following ranges					Total
	<1 month	1–3 months	3–6 months	6–12 months	>12 months	
Trade receivables						
2007	30.1	20.7	18.0	6.9	3.1	**78.8**
2006	24.1	15.0	6.2	6.2	1.8	**53.3**
Other						
2007	0.0	0.0	0.0	0.3	0.0	**0.3**
2006	0.0	0.0	0.0	0.0	0.5	**0.5**

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

The maximum loss on default from all monetary assets equals the book value of the financial instruments on the asset side (cf. the analysis on page 157).

Further disclosures

Contingent liabilities

As of December 31, 2007, contingent liabilities totaled €9.5 million (up from €6.0 million). The Group has incurred contingent liabilities under guaranties/suretyships at €5.9 million (up from €2.4 million), €5.7 million thereof (up from €2.4 million) being in favor of unconsolidated subsidiaries, and for the collateralization of third-party debts at €3.6 million (virtually unchanged), including €1.3 million (virtually unchanged) allocable to unconsolidated subsidiaries.

Other financial obligations

The obligations under purchase contracts or firm commitments for buying tangible/intangible assets total €95.4 million (down from €157.6 million).

Other financial obligations

€ million	2007	2006	2007	2006	2007	2006	2007	2006
	due within 1 year		due >1–5 years		due after 5 years		Total	
Operating leases	6.0	7.0	20.4	16.4	9.1	11.3	35.5	34.7
Rental contracts	1.7	1.6	4.6	9.0	0.3	1.6	6.6	12.2
	7.7	**8.6**	**25.0**	**25.4**	**9.4**	**12.9**	**42.1**	**46.9**

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

Payments expensed

€ million	2007	2006
Minimum lease payments	7.9	7.8
Contingent rent	0.0	0.2
Payments received from sublessees	(6.7)	(6.7)
	1.2	**1.3**

Future minimum payments of €19.7 million are expected from noncancelable subleases (down from €37.4 million)

Effective January 3, 2008, Sweden's Vossloh Nordic Switch Systems AB acquired Sportek Maskinfabrik A/S, a Danish rail switch manufacturer, for €7.7 million.

In February 2008, Vossloh Cogifer S.A. signed a purchase agreement on the takeover of Kloos Oving BV, a Dutch rail switch supplier, for €9.0 million. The deal is expected to be closed within March 2008.

Material subsequent events

Vossloh's consolidated balance sheet and income statement include the following prorated assets/liabilities and income/expenses of joint ventures consolidated pro rata.

Joint ventures

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

€ million	2007	2006
Current assets	41.4	75.2
Noncurrent assets	6.7	16.9
Current liabilities	26.2	50.4
Noncurrent liabilities	0.4	3.0
Income	53.6	118.8
Expenses	48.1	112.4

Related-party transactions

Vossloh AG is the top-tier controlling parent of the Group.

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

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

In 2007, transactions with related parties remained insignificant. The table below breaks down the period's material transactions with related entities, all conducted on terms as if at arm's length:

€ million	2007
Income from related parties (entities)	
from profit transfer and investments	1.4
from interest	0.0
	1.4
Expenses for related parties (individuals/entities)	
for rental	(0.6)
for consultancy services	(0.4)
for the purchase of merchandise	(0.1)
for sales commissions	(0.1)
for other short-term benefits	(1.7)
	(2.9)

The Supervisory Board members active in 2007 received short-term benefits of €0.466 million (up from €0.127 million). For an itemized breakdown by member of this total and further details of the remuneration system, see the Board Compensation Report (an integral part of the Vossloh Group's management report).

Executive Board remuneration

€ '000	2007	2006
Short-term benefits	5,389.0	2,390.0
Postretirement benefits	1,410.0	654.0
Stock-based payments	0.0	0.0

Statutory auditor's fees

The following fees for services rendered by the statutory group auditor, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, were recognized as expense in 2007:

€ million	2007	2006
Statutory audits	0.3	0.4
Other certification, verification or appraisal services	0.4	0.7
Tax consultancy	0.6	0.5
Other services provided for Vossloh AG or its subsidiaries	0.0	0.0
	1.3	**1.6**

The fees for statutory audits mainly include those paid for the group audit and the statutory audits by BDO Deutsche Warentreuhand AG of Vossloh AG's and its German subsidiaries' financial statements. The fees include €0.1 million for services rendered by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG (down from €0.3 million). The fees for other certification, verification or appraisal services mainly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, as well as for due diligence services related to planned M&A transactions and divestments. The tax consultancy fees refer to the formulation of tax returns, the review of tax assessment notices, as well as other advisory services for national and international tax matters.

German Corporate Governance Code

In December 2007 (updated in January 2008) the Executive and Supervisory Boards issued, and made available to the stockholders on the Group's website, the declaration of conformity pursuant to Art. 161 AktG.

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 168/169).

Proposed profit appropriation

The Executive Board will propose to the annual general meeting to distribute for the eligible capital stock of Vossloh AG of €37.7 million, a cash dividend of €1.70 per common share, hence a total €25.2 million.

Werdohl, March 25, 2008

Vossloh AG
The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

List of shareholdings

€ million		Footnt	Held in %	through ( )	Consoli-dation[1]	Equity[2]	Sales[2]	Net income (loss)[2]
(1)	**Vossloh AG, Werdohl**				(c)	510.2	1.0	40.2
(2)	Vossloh International GmbH, Werdohl	5	100.00	(1)	(c)	23.2	0.0	0.0
(3)	Vossloh US-Holding Inc., Wilmington, USA	5	100.00	(1)	(c)	23.1	0.0	(0.3)
(4)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(c)	(5.6)	0.0	0.1
	Rail Infrastructure division							
(5)	Vossloh France SAS, Paris, France		100.00	(1)	(c)	107.9	0.0	5.4
	Vossloh Fastening Systems business unit							
(6)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(c)	4.3	4.1	7.2
(7)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(6)	(c)	4.9	149.3	11.0
(8)	Vossloh Werdohl GmbH, Werdohl		100.00	(6)	(c)	11.2	37.6	6.0
(9)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania	4	100.00	(6)	(u)	0.0	0.1	0.0
(10)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100.00	(6)	(u)	0.7	5.6	0.4
(11)	Vossloh Sistemi S.r.l., Sarsina, Italy		100.00	(6)	(c)	2.1	7.0	0.4
(12)	Patil Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4	51.00	(6)	(u)	0.1	0.0	(0.2)
(13)	T.O.O. Vossloh-Kasachstan, Almaty, Kazakhstan		50.00	(6)	(u)	0.0	0.0	0.0
(14)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(6)	(e)	0.0	0.0	0.0
(15)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(6)	(u)	0.6	11.7	1.0
(16)	Vossloh Maschinenfabrik Deutschland GmbH, Erkelenz	4	100.00	(6)	(u)	(0.5)	0.0	(0.1)
(17)	Vossloh Utenzilija d.d., Zagreb, Croatia	4	89.20	(6)	(u)	2.2	1.3	0.0
(18)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(6)	(c)	6.7	17.8	4.2
(19)	Vossloh Rail Technologies Ltd.Sti., Istanbul, Turkey	4	99.5/0.5	(6/7)	(u)	0.6	3.0	0.6
(20)	Feder-7 Kft., Székesféheryár, Hungary	4	96.67/3.33	(6/7)	(u)	0.2	0.8	0.1
(21)	Vossloh Fastening Systems America Corp., Chicago, USA	4	100.00	(6)	(u)	0.2	0.3	(0.1)
(22)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China	5	68.00/16.2	(6/23)	(c)	12.1	38.8	6.2
(23)	Vossloh-Werke China Investment GmbH, Werdohl	5	100.00	(6)	(c)	0.8	0.0	0.0
	Vossloh Switch Systems business unit							
(24)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(5)	(c)	102.9	164.3	30.2
(25)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(24)	(c)	2.4	5.9	0.5
(26)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(27)	(c)	1.4	6.7	0.6
(27)	Vossloh Cogifer Nordic Switch Systems AB, Örebro, Sweden		100.00	(24)	(c)	9.4	43.4	4.1
(28)	Vossloh Cogifer Norway AS, Oslo, Norway		100.00	(27)	(c)	0.3	0.0	0.0
(29)	KIHN SA, Rumelange, Luxembourg		89.21	(24)	(c)	12.8	25.3	2.3
(30)	DDL SA, Rodange, Luxembourg		100.00	(29)	(c)	(0.4)	0.6	0.4
(31)	Vossloh Laeis GmbH & Co. KG, Trier		100.00	(29)	(c)	2.0	7.4	0.3
(32)	Vossloh Laeis Verwaltungs GmbH, Trier		100.00	(29)	(c)	0.0	0.0	0.0
(33)	EAV Durieux SA, Carnières, Belgium		98.76/1.24	(24/29)	(c)	0.7	4.5	(0.1)
(34)	Futrifer-Indústrias Ferroviárias SA, Lisboa, Portugal		61.00	(24)	(c)	2.2	6.6	0.9
(35)	Amurrio Ferrocarriles y Equipos SA, Amurrio, Spain		50.00	(24)	(p)	20.6	44.4	3.5
(36)	Montajes Ferroviarios srl, Amurrio, Spain		100.00	(35)	(u)	0.0	0.3	0.0
(37)	Burbiola S.A., Amurrio, Spain		50.00	(35)	(u)	1.5	0.4	0.0
(38)	Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK		50.00	(24)	(p)	9.9	25.6	1.6
(39)	Vossloh Cogifer Italia S.r.l., Bari, Italy		100.00	(24)	(c)	0.8	8.4	0.2
(40)	Cogifer Połska Sp.z o.o., Bydgosecz, Poland		52.38	(24)	(c)	10.9	13.9	1.9
(41)	ATO-Asia Turnouts Ltd., Bangkok, Thailand		51.00	(24)	(c)	0.3	0.3	(0.1)
(42)	Cogifer Services (Malaysia) sdn bhd, Kuala Lumpur, Malaysia	4	100.00	(24)	(u)	0.2	0.0	0.0
(43)	Cogifer Americas Inc., Cincinnati, OH, USA	4	100.00	(24)	(u)	0.1	0.0	0.0
(44)	J.S. Industrie, Secunderabad, India		51.00	(24)	(c)	2.3	3.3	0.2
(45)	Beekay Engineering, Bhilai, India		60.00	(24)	(c)	3.8	8.8	0.8

€ million	Footnt	Held in %	through ( )	Consoli-dation[1]	Equity[2]	Sales[2]	Net income (loss)[2]
(46) Siema Applications SAS, Villeurbanne, France		100.00	(24)	(c)	1.9	4.6	0.5
(47) Vossloh Min Skretnice, AO, Niš, Serbia		90.61	(24)	(c)	0.7	3.3	0.1
(48) SMIF, Casablanca, Morocco	4	100.00	(24)	(u)	0.0	0.0	0.0
(49) Swedish Rail Systems AB, Ystad, Sweden		100.00	(27)	(c)	0.0	0.0	0.0
(50) Dakshin Transtek, Bangalore, India		100.00	(44)	(c)	0.2	1.3	0.0
(51) Vossloh Cogifer Australia PTY Ltd., Sydney, Australia	4	100.00	(77)	(u)	(0.1)	2.9	(0.2)
(52) Vossloh Track Materials Inc., Wilmington, USA	5	100.00	(3)	(c)	7.0	30.1	0.2
(53) Cleveland Track Materials Inc., Cleveland, USA	5	100.00	(3)	(c)	8.4	23.1	0.6
Vossloh Infrastructure Services business unit							
(54) Vossloh Infrastructure Services SA, Beauchamp, France		100.00	(5)	(c)	26.2	90.5	1.8
(55) ETF SA, Paris, France		100.00	(54)	(c)	30.0	112.6	3.0
(56) La Champenoise SA, Champagne au Mont d'Or, France		100.00	(55)	(c)	0.7	7.0	0.1
(57) Vossloh Infrastructure Services Luxembourg SA, Pétange, Luxembourg		100.00	(54)	(c)	11.3	18.8	0.1
(58) Euro VF Holding SA, Luxembourg, Luxembourg	4	99.90	(57)	(u)	0.0	0.0	0.0
(59) Dehé Bahnbau GmbH, Trier		100.00	(57)	(c)	0.6	1.9	0.0
(60) Vossloh Infrastructure Services Belgium SA/NV, Carnières, Belgium		100.00	(54)	(c)	0.6	8.0	(0.5)
(61) Cogifer TF B.V., Goirle, Netherlands		100.00	(54)	(c)	0.3	0.0	0.0
(62) Cogimex SA de CV, Mexico City, Mexico		94.00	(54)	(c)	(0.1)	0.0	0.0
(63) Sogafer SA, Libreville, Gabon	4	49.00	(54)	(u)	0.0	0.0	0.0
(64) Cogifer de Chili Lda., Santiago, Chile	4	100.00	(54)	(u)	0.0	0.0	0.0
(65) Vossloh Infrastructure Services Ltd., Sidcup, UK		100.00	(54)	(c)	0.5	0.0	0.0
(66) Turinval S.c.r.l., Torino, Italy		50.00	(54)	(u)	0.0	0.0	0.0
Vossloh Locomotives business unit							
(67) Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(c)	31.8	146.2	3.6
(68) Locomotion Service GmbH, Kiel	3	100.00	(67)	(c)	0.2	1.0	0.0
(69) Vossloh España S.A., Valencia, Spain		100.00	(1)	(c)	47.2	194.3	12.7
(70) Erion Mantenimiento Ferroviario S.A., Madrid, Spain	5	51.00	(69)	(c)	0.5	0.5	(0.2)
Vossloh Electrical Systems business unit							
(71) Vossloh Kiepe GmbH, Düsseldorf		5.1/94.9	(1)	(c)	44.8	105.4	8.3
(72) Vossloh Kiepe Beteiligungs GmbH, Düsseldorf		100.00	(71)	(c)	1.4	0.0	1.2
(73) Vossloh Kiepe Ges.m.b.H., Vienna, Austria		100.00	(72)	(c)	11.0	29.3	2.3
(74) Vossloh Kiepe Corporation, Ottawa-Carleton, Canada	4	100.00	(72)	(u)	0.0	2.9	0.4
(75) Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy	4	100.00	(72)	(u)	0.2	0.7	0.0
(76) Vossloh Kiepe Trakcja Sp.z o.o., Krákow, Poland	4	99.0/1.0	(71/72)	(u)	0.0	0.0	0.0
Other companies							
(77) Vossloh Australia PTY Ltd., Castle Hill, Australia	4	100.00	(1)	(u)	2.6	0.1	0.0
(78) Vossloh Schwabe Australia PTY Ltd., Castle Hill, Australia	4	100.00	(77)	(u)	0.6	0.0	0.0
(79) Delkor Rail PTY Limited, Sydney, Australia	4	100.00	(77)	(u)	0.4	6.4	0.3
(80) Delkor Rail (HK) Ltd., Hong Kong, China	4	100.00	(79)	(u)	0.0	0.4	0.1
(81) Vossloh Track Systems GmbH, Werdohl	4	100.00	(1)	(u)	0.0	0.0	0.0

[1] Fully consolidated companies are labeled (c), those stated at equity (e), those included pro rata (p), and unconsolidated companies (u)
[2] Derived from the consolidated financial statements, non-euro equity being translated at the mean current rate and non-euro sales at the annual average rate
[3] Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.
[4] Not included in consolidation group due to minor significance for the asset and capital structure, financial position and results of operations.
[5] Newly consolidated in 2007.

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

Management representation

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

Werdohl, March 25, 2008

Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

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

We have audited the consolidated financial statements (consisting of balance sheet, income statement, statement of changes in equity, cash flow statement, and notes) and the combined management report (on the Company and the Group), all as prepared by Vossloh AG, Werdohl, for the fiscal year ended December 31, 2007. The preparation of the consolidated financial statements and combined management report in accordance with the IFRS whose application is mandatory in the European Union (EU), with the additionally applicable financial-accounting regulations of Art. 315a(1) HGB and the supplementary provisions of the bylaws is the responsibility of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and combined management report.

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

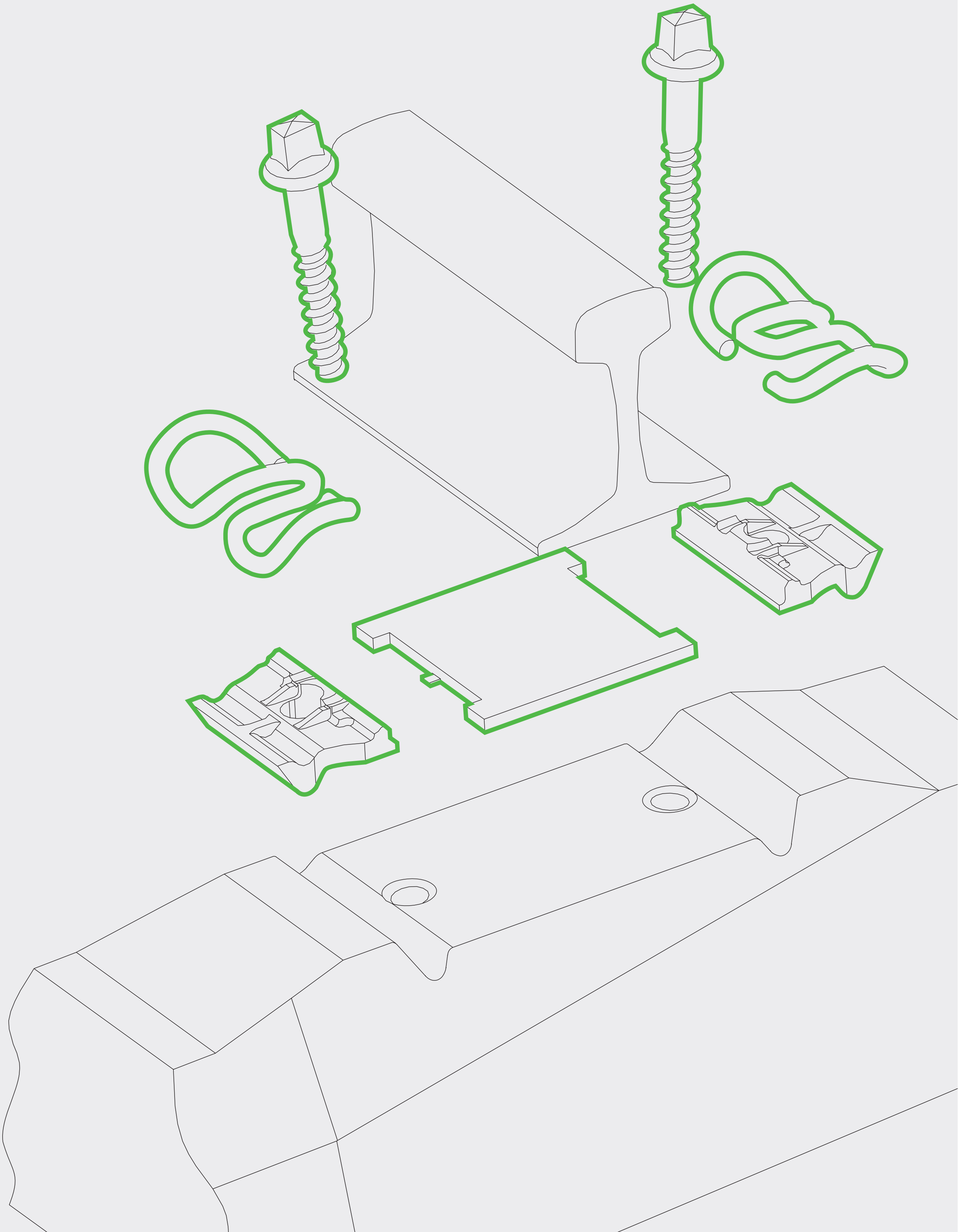
Our audit has not resulted in any objections or exceptions.

It is our opinion that, based on our audit conclusions, the consolidated financial statements are in conformity with the IFRS whose application is mandatory in the EU, with the additionally applicable financial-accounting regulations of Art. 315a(1) HGB and with the supplemetary provisions of the bylaws and, with due regard to these standards, regulations and provisions, present a true and fair view of the Group's asset and capital structure, financial position and results of operations. The combined management report is in conformity with the consolidated financial statements and presents fairly, in all material respects, the Group's position and the risks and rewards inherent in its future development.

Essen, March 26, 2008

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

Rittmann	pp. Rüttershoff
Wirtschaftsprüfer	Wirtschaftsprüfer



Separate financial statements of Vossloh AG as of December 31, 2007

Income statement for the year ended December 31, 2007

€ million	2007	2006	2006 pro forma
Net sales	1.2	1.9	1.9
Cost of sales	(0.9)	(2.1)	(2.1)
Gross margin	**0.3**	**(0.2)**	**(0.2)**
General administrative expenses	(26.5)	(19.3)	(24.6)
Other operating income	17.4	4.6	7.0
Other operating expenses	(0.8)	(0.4)	(0.5)
Operating result	**(9.6)**	**(15.3)**	**(18.3)**
Income from investments	0.0	1.5	25.0
thereof from subsidiaries: €0.0 million (down from €1.5 million)			
Income from P&L transfer agreements	21.8	32.2	25.9
thereof from subsidiaries: €21.8 million (down from €32.2 million)			
Income from other long-term securities/loans	0.8	8.1	1.6
thereof from subsidiaries: €0.6 million (down from €8.1 million)			
Other interest and similar income	15.4	17.9	13.5
thereof from subsidiaries: €11.7 million (down from €16.3 million)			
Write-down of financial assets and short-term securities	(0.3)	(18.2)	(18.3)
Expenses for loss absorption	–	–	(8.4)
Interest and similar expenses	(15.5)	(15.1)	(15.2)
thereof to subsidiaries: €1.1 million (up from €0.8 million)			
Net financial result	**22.2**	**26.4**	**24.1**
Result from ordinary operations (EBT)	**12.6**	**11.1**	**5.8**
Extraordinary income/gains	57.7	–	52.1
Extraordinary expenses/losses	–	(56.1)	(56.1)
Extraordinary result	**57.7**	**(56.1)**	**(4.0)**
Income taxes	(0.3)	1.0	6.3
Net income/(loss)	**70.0**	**(44.0)**	**8.1**

Subitem disclosures (“thereof” lines) refer to the 2006 actual (not the pro forma) data.

Balance sheet

Assets in € million	12/31/2007	12/31/2006	12/31/2006 pro forma
Intangible assets			
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	1.4	1.7	1.7
Interest rate caps	0.1	0.1	0.1
	1.5	1.8	1.8
Tangible assets			
Land, equivalent titles, and buildings (including on leased land)	4.8	5.4	5.4
Sundry plant, business and office equipment	0.3	0.3	0.3
	5.1	5.7	5.7
Financial assets			
Shares in subsidiaries	471.4	139.7	442.0
Loans to subsidiaries	15.0	155.0	15.0
Other investments	0.1	–	0.1
Other long-term securities	0.1	0.1	0.1
Other long-term loans	2.3	0.0	2.0
	488.9	294.8	459.2
Total fixed assets	**495.5**	**302.3**	**466.7**
Receivables and sundry assets			
Trade receivables	0.8	0.0	0.1
Due from subsidiaries	253.2	298.0	193.9
Sundry assets	15.0	14.5	16.5
	269.0	**312.5**	**210.5**
Cash on hand and in bank	26.0	107.1	107.1
Total current assets	**295.0**	**419.6**	**317.6**
Prepaid expenses & deferred charges	0.0	0.1	0.1
	790.5	**721.9**	**784.3**

Stockholders' equity & liabilities in € million	12/31/2007	12/31/2006	12/31/2006 pro forma
Capital stock	37.8	37.7	37.7
Additional paid-in capital	37.6	35.4	35.4
Reserves retained from earnings	355.1	355.1	355.1
Net earnings	70.0	19.1	71.2
Stockholders' equity	**500.5**	**447.3**	**499.4**
Accruals for pensions and similar obligations	12.5	10.3	11.4
Tax accruals	0.8	3.0	4.0
Other accruals	4.7	7.3	7.3
Total accruals	**18.0**	**20.6**	**22.7**
Due to banks	31.0	36.0	36.0
Trade payables	0.8	0.8	1.0
Due to subsidiaries	35.4	11.7	19.7
Due to investees	0.2	0.7	0.7
Sundry liabilities	204.6	204.8	204.8
thereof for taxes: €0.1 million (down from €0.3 million)			
thereof for social security: €0.0 million (virtually unchanged)			
Total liabilities	**272.0**	**254.0**	**262.2**
	790.5	**721.9**	**784.3**

Fixed-asset analysis

€ million	Cost						Accumulated amortization/ depreciation/write-down				Book values	
	at 1/1/ 2007	Additions from merger	Additions/ current capex	Disposals	Disposals from merger	at 12/31/ 2007	at 12/31/ 2007	Additions from merger	Write-up	Charged in 2007	at 12/31/ 2007	at 12/31/ 2006
Intangible assets												
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	7.6	0.0	0.2	(0.1)	–	7.7	6.3	0.0	–	0.5	1.4	1.7
Interest rate caps	0.1	–	–	–	–	0.1	–	–	–	–	0.1	0.1
	7.7	**0.0**	**0.2**	**(0.1)**	**–**	**7.8**	**6.3**	**0.0**	**–**	**0.5**	**1.5**	**1.8**
Tangible assets												
Land, equivalent titles, and buildings (incl. on leased land)	23.0	0.0	–	(0.1)	–	22.9	18.1	0.0	–	0.5	4.8	5.4
Sundry plant, business and office equipment	1.2	0.1	0.2	(0.2)	–	1.3	1.0	0.1	–	0.1	0.3	0.3
	24.2	**0.1**	**0.2**	**(0.3)**	**–**	**24.2**	**19.1**	**0.1**	**–**	**0.6**	**5.1**	**5.7**
Financial assets												
Shares in subsidiaries	158.0	443.9	23.1	–	(135.1)	489.9	18.5	6.6	(6.6)	0.3	471.4	139.7
Loans to subsidiaries	155.0	–	–	–	(140.0)	15.0	–	–	–	–	15.0	155.0
Other investments	–	0.1	–	–	–	0.1	–	–	–	–	0.1	–
Other long-term securities	0.1	–	–	–	–	0.1	0.0	–	–	–	0.1	0.1
Other long-term loans	0.0	6.0	–	0.0	–	6.0	3.7	4.0	(0.3)	–	2.3	0.0
	313.1	**450.0**	**23.1**	**0.0**	**(275.1)**	**511.1**	**22.2**	**10.6**	**(6.9)**	**0.3**	**488.9**	**294.8**
Total	**345.0**	**450.1**	**23.5**	**(0.4)**	**(275.1)**	**543.1**	**47.6**	**10.7**	**(6.9)**	**1.4**	**495.5**	**302.3**

Notes

The separate annual financial statements of Vossloh AG as of December 31, 2007, were prepared in accordance with the provisions of the German Commercial Code ("HGB") and the German Stock Corporation Act ("AktG").

Pro forma financial statements

Vossloh Rail Technology GmbH and Vossloh Communication GmbH were merged into Vossloh AG with retroactive effect as of January 1, 2007. For comparability of the prior-year data, a separate pro forma column shows the 2006 comparatives as if the merger had taken effect at January 1, 2006.

Accounting and valuation principles

Accounting and valuation are governed by the following principles:

Purchased intangible assets, as well as tangible assets are stated at cost, if finite-lived less amortization or depreciation according to the declining-balance or straight-line method. Finite-lived fixed assets added on or after January 1, 2001, are depreciated on a straight-line basis. Low-value assets, defined as assets at net cost of €410 or less, are directly written off in full. Write-down for tax purposes is charged wherever this option is offered, whether for ACR or otherwise. Moreover, fixed assets are written down to any lower current value if so required. Financial assets are recognized at cost or any lower current value. Receivables and sundry assets as well as cash on hand and in bank are shown at par or principal. The corporation income tax credit distributable in the period from 2008 to 2017 was discounted at 4 percent and shown at present value. Non-euro receivables are translated, if hedged, at the rate so covered or any lower mean current rate. Accruals provide for pensions and similar obligations at the actuarial present value, based on an annual interest rate of 6 percent and on the 2005G mortality tables of Prof. Dr. Klaus Heubeck. Tax and other accruals are shown at the amounts in future required in sound business practice and judgment. Hedge accounting is used for financial derivatives (mainly cross-currency swaps) by combining the derivatives with the underlying into one valuation unit wherever a direct hedging relationship exists between hedge and underlying. In these cases, the result from the currency hedge contracted is not recognized before maturity or due date. Liabilities are generally stated at their settlement amounts.

Non-euro payables are translated at the higher mean current rate or the hedged rate, as appropriate.

Fixed assets

Classification and movements of fixed assets are explained in greater detail in the fixed-asset analysis on page 176. The interest rate caps refer to capitalized premiums for long-term cap contracts. In the period, write-down of €0.249 million was charged to tangible assets. Financial assets changed primarily as the shares in subsidiaries grew by a total €302.377 million (mainly in the wake of the Vossloh Rail Technology GmbH merger). The value of the shares in Vossloh Locomotives GmbH, Kiel, which had been written down in 2005, rebounded and was written up by €6.595 million. A €23.100 million transfer to the additional paid-in capital of Vossloh International GmbH, Werdohl, also raised the total value of shares in subsidiaries, whereas long-term loans to subsidiaries shrank by €140.000 million after the merger of Vossloh Rail Technology GmbH. For a full list of shareholdings, turn to pages 168/169.

Receivables and sundry assets

Except for €8.867 million, all receivables and sundry assets fall due within one year. The accounts due from subsidiaries are nontrade receivables only.

Prepaid expenses & deferred charges

This caption totals €0.052 million (down from €0.060 million) and includes loan discount at €0.004 million (down from €0.013 million).

Stockholders' equity

Vossloh AG's capital stock amounts to €37,824,851.86 (up from €37,671,461.74) and is divided into 14,795,796 (up from 14,735,795) no-par bearer shares (common stock only).

Authorized capital of €18,406,507.72 existed at December 31, 2007.

The annual general meeting of June 3, 2004, conditionally raised the capital stock by up to €1,840,650.77 by issuing a maximum of 720,000 no-par bearer shares of common stock in order to grant stock options to officers of Vossloh AG, as well as to officers and executives of Vossloh subsidiaries under the terms of Arts. 15 et seq. AktG. By December 31, 2007, the 145,680 shares issued thereunder had increased the capital stock by altogether €372,425.00. Moreover, the capital stock was conditionally raised by up to €383,468.91 by issuing a maximum of 150,000 no-par bearer shares of common stock in order to grant stock options to employees of Vossloh AG and of its German subsidiaries under the terms of Arts. 15 et seq. AktG. Out of this authorized but unissued capital, altogether 10,235 shares were issued by December 31, 2007, thus raising the capital stock by €26,165.37.

The additional paid-in capital includes the premium earned from stock issued by Vossloh AG. Due to the capital increase from the conditional capital, €2,171,604.41 (up from €21,110.28) was transferred to the additional paid-in capital. Unchanged, the reserves retained from earnings do not include any reserve for treasury stock.

During the period, 50,000 treasury shares (0.34 percent of the capital stock) were purchased at a value of €4.054 million and again sold with a €0.023 million gain.

Accruals

The other accruals of €4.697 million (up from €7.304 million) include €3.069 million for payroll (up from €1.875 million) and €1.628 million for sundry administrative purposes (down from €5.429 million).

Liabilities (above-the-line and contingent)

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

The contingent liabilities under suretyships and guaranties of €505.307 million (up from €463.911 million) were in full incurred for obligations of subsidiaries.

The fixed-liability guaranties in favor of subsidiaries total €826.842 million. Six guaranties do not have a stipulated ceiling.

The other financial obligations total €0.624 million (up from €0.617 million) and break down into €0.308 million falling due within one (up from €0.296 million) and another €0.316 million between one and five years (down from €0.320 million).

Results of operations

€1.054 million (up from €1.020 million) of net sales, generated in 2007 solely in Germany, refers to rental income, including €0.625 million charged to subsidiaries (down from €0.643 million). The functional expenses break down into cost of sales and general administrative expenses. Cost of sales mainly includes amortization, depreciation and write-down (the latter amounting to €0.249 million), as well as allowances for receivables and M&R expenses, while general administrative expenses basically cover personnel expenses, management consulting fees, and amortization/depreciation.

The other operating income came to €17.373 million (up from €4.615 million) and chiefly resulted from the write-up of shares in subsidiaries (at €6.595 million), tax apportionment (at €7.775 million) and IT cost allocation (at €1.918 million). Income taxes refer to the current and prior periods.

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 €10.801 million (up from €6.346 million), of which €9.127 million (up from €5.121 million) is allocable to wages and salaries, another €1.674 million (up from €1.225 million) to Social Security, pension expense and related employee benefits, pension expense alone accounting for €1.250 million (up from €0.896 million). The €0.715 million interest portion in the change in pension accruals is recognized as interest and similar expenses.

The extraordinary result of a black €57.706 million (up from a red 56.065 million) breaks down into gains of a total €52.052 million from the merger of Vossloh Rail Technology GmbH and Vossloh Communication GmbH into Vossloh AG and a €5.654 million gain from the divestment of the Information Technologies division. The prior-year extraordinary expenses/losses were exclusively incurred in connection with the divestment of this division.

In fiscal 2007, Vossloh AG employed an unchanged average white-collar workforce of 37 (up from 31).

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

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

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

Financial derivatives

€ million	2007		2006	
	Market value	Notional volume	Market value	Notional volume
Interest rate swaps	(0.9)	25.6	(1.5)	25.6
Interest rate caps	0.0	25.6	0.1	76.7
Cross-currency swaps	(37.3)	203.9	(29.5)	203.9
Currency forwards	(0.4)	57.9	(0.6)	115.6
Currency options	0.1	10.7	–	–
	(38.5)	323.7	(31.5)	421.8

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

In December 2007 (updated in January 2008), the Executive and Supervisory Boards issued, and made available to the stockholders on the Company's website, the declaration of conformity, as required by the provisions of Art. 161 AktG.

Notifications acc. to Sec. 21 WpHG

Vossloh AG received the following notifications of attributable voting rights in 2007 under the terms of Sec. 21 German Securities Trading Act ("WpHG"):

Notifying party	Date	Threshold	Voting interest
Arnold an S. Bleichroeder Holdings, Inc., New York, USA	1/05/2007	crossed below 5%	4.24%
	1/28/2007	crossed below 3%	2.91%
Franklin Templeton Investment Management Limited, Edinburgh, Scotland, UK	3/08/2007	crossed below 3%	2.91%
JPMorgan Asset Management (UK) Limited, London, UK	6/21/2007	crossed below 3%	2.99%
	7/06/2007	crossed above 3%	3.20%
	7/23/2007	crossed below 3%	2.98%
	8/16/2007	crossed above 3%	3.04%
	9/20/2007	crossed below 3%	2.99%
	10/15/2007	crossed above 3%	3.01%
	10/22/2007	crossed below 3%	2.97%
JPMorgan Chase & Co., New York, USA	10/29/2007	crossed below 3%	2.54%
JPMorgan Asset Management Holding Inc., New York, USA	10/29/2007	crossed below 3%	2.50%

The following fees for services rendered by the statutory auditor, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, were recognized as expense in 2007:

€ million	2007	2006
Statutory audits	0.1	0.1
Other certification, verification or appraisal services	0.4	0.7
Tax consultancy	0.4	0.3
Other services	0.0	0.0
	0.9	1.1

The fees for statutory audits mainly include those paid for the statutory annual audits by BDO Deutsche Warentreuhand AG of Vossloh AG's separate and consolidated financial statements where such fees are borne directly by Vossloh AG. The fees for other certification, verification or appraisal services (i) include €0.1 million for services rendered by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG (down from €0.3 million) and (ii) mainly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, as well as for due diligence services related to planned M&A transactions and divestments.

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

Werner Andree, born 1951, Bergheim/Erft
CEO
(as from Aug. 9, 2007, Executive Board member since Sep. 1, 2001,
appointed up to Aug. 31, 2009)
– Vossloh Cogifer SA: Director
– Vossloh France SAS: President
– Vossloh Australia Pty. Ltd.: Director
– Vossloh Schwabe Australia Pty. Ltd.: Director
– Vossloh España S.A.: Director

Dr.-Ing. Norbert Schiedeck, born 1965, Neumagen-Drohn
(Executive Board member since Apr. 1, 2007, appointed up to Mar. 31, 2010)
– Vossloh Cogifer SA: Director (as from Sep. 21, 2007)
– Vossloh Infrastructure Services S.A.: Director (as from Oct. 30, 2007)

Dr. Gerhard Eschenröder, born 1954, Essen
CEO (up to Aug. 9, 2007)
– Vossloh Cogifer SA: Director (up to Sep. 9, 2007)
– Vossloh Infrastructure Services S.A.: Director (up to Aug. 9, 2007)

Vossloh AG's Supervisory Board

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

Dr.-Ing. Dipl.-Ing. Wilfried Kaiser, Chairman[2, 4], Munich, degreed engineer, former executive board member of Asea Brown Boveri AG
– EvoBus GmbH: supervisory board member
– ACTech GmbH: advisory board member (as from July 3, 2007)
– schenck.de AG: supervisory board chairman
– BHS Getriebe Holding GmbH: advisory board chairman (up to June 18, 2007)
– Hugo Kern und Liebers GmbH & Co.KG: director
– Karl Eugen Fischer Holding GmbH: advisory board chairman

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

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

Dr. Christoph Kirsch[3, 4], Weinheim, former CFO of Südzucker AG
– GELITA AG: supervisory board member (as from May 3, 2007)

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

Michael Ulrich[1], Kiel, mechanic (as from Apr. 20, 2007)

Wilfried Köpke[1], Kiel, engineering designer, Works Council Chairman of Vossloh Locomotives GmbH (up to Mar. 31, 2007)
– Versorgungskasse Deutscher Unternehmen Versicherungsverein a.G.: supervisory board member (as from Jan. 1, 2007)

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

Proposed profit appropriation

The annual financial statements 2007 close with net income and net earnings of €69,956,067.68. The Executive Board will propose to the annual general meeting to distribute a cash dividend of €1.70 for each share of the common stock of €37,824,851.86 ranking for dividend, hence a total cash distribution of €25,152,853.20, transfer €44,700,000.00 to the other reserves retained from earnings, and carry forward the balance of €103,214.48.

Proposed profit appropriation

in €	
Undistributed profit as of January 1, 2007	0.00
Net income for 2007	69,956,067.68
Net earnings as of December 31, 2007	69,956,067.68
Proposed:	
total dividend payout	25,152,853.20
transfer to other reserves retained from earnings	44,700,000.00
carryforward to new account	103,214.48

Werdohl, March 25, 2008

Vossloh AG
The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

Management representation

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

Werdohl, March 25, 2008
Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

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

We have audited the annual financial statements (consisting of balance sheet, income statement, and notes) including the records and books of account and the combined management report (on the Company and the Group) of Vossloh AG, Werdohl, for the fiscal year ended December 31, 2007. The accounting and the preparation of the annual financial statements and combined management report in accordance with the German Commercial Code and the supplementary provisions of the bylaws are the responsibility and assertions of the Company’s legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and combined management report.

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

Our audit has not resulted in any objections or exceptions.

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

Essen, March 26, 2008

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

Rittmann	pp. Rüttershoff
Wirtschaftsprüfer	Wirtschaftsprüfer

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Glossary

Bilateral credit facility	Credit (line) agreement between two parties
Capital employed	Working capital + fixed assets
Capital lease	Type of lease (a.k.a. finance lease) which requires the lessee to capitalize the leased asset
Cash pooling	Concentration of cash funds for intercompany account balancing
Cash and cash equivalents	Cash on hand and in bank
Dividend rate	Total dividend payout ÷ group earnings
EBIT	Earnings before interest and income taxes
EBITDA	EBIT before amortization of intangibles and depreciation of tangibles/ investment properties
EBIT margin	EBIT ÷ net sales
EBT	Earnings before income taxes
EpS	Earnings per share: group earnings ÷ annual average number of shares outstanding
Equity ratio	Equity ÷ total assets
Financial derivative	Contract whose fair value is derived from an underlying (e.g. stock or currency)
Financial debts	Private placement loans + bank debts + notes payable + payables under capital leases
Guaranty facility	Credit line for guaranties and guaranty bonds
IAS/IFRS	International Accounting Standards/International Financial Reporting Standards
Interest rate cap	Option contract for an interest rate ceiling to hedge against rising rates
Interest rate swap	Contract for swapping variable and fixed interest payments based on underlying principal
Investment grade	Rating between AAA and BBB– (S&P’s), any credit standing below being “speculative grade”
Long-term incentive program (LTIP)	Incentive-based stock option program for officers/executives
Maghreb states	Tunisia, Algeria, Morocco, Libya, Mauretania

Net financial debt	Financial debts – cash & cash equivalents – short-term securities
Net leverage	Net financial debt ÷ equity
Operating lease	Type of lease which requires the lessor to capitalize the leased asset
Payroll-to-added value ratio	Personnel expenses ÷ value added
Personnel expenses per capita	Personnel expenses ÷ annual average headcount
Pretax return on equity (ROE)	EBT ÷ equity
Private placement	Private deal between issuer and investors
Return on capital employed (ROCE)	EBIT ÷ capital employed
Statement at equity	Method similar to consolidation for including investees at the prorated equity
Stock option program	Program for granting options to officers and employees to subscribe for their employer company's stock
Treasury	Finance management
Trolleybus	Electric bus powered by two overhead wires from which it draws electricity using two trolley poles
Value added	EBIT + personnel expenses + non-income taxes
Working capital	Trade receivables (incl. PoC receivables) + inventories – trade payables (incl. PoC payables) – prepayments received
Working capital intensity	Working capital ÷ net sales

Financial diary 2008/2009

Annual general meeting	May 21, 2008
Payment of cash dividends	May 22, 2008
Publication of interim report	
as of March 31	April 29, 2008
as of June 30	July 30, 2008
as of September 30	October 30, 2008

For further dates, go to www.vossloh.com

Financial diary 2009

Publication of 2008 financial data	March 2009
Press conference	March 2009
DVFA presentation	March 2009
Annual general meeting	May 2009

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Vossloh stock details

ISIN:	DE0007667107
Traded at:	Xetra, Düsseldorf, Frankfurt,
	Berlin-Bremen, Hannover, Hamburg,
	Stuttgart, Munich
Index:	MDAX
No. of shares outstanding at 12/31/2007	14,795,796
Stock price (12/31/2007):	€80.10
2007 high/low:	€94.47 / €56.21
Reuters code:	VOSG.F
Bloomberg code:	VOS GR
Dividend proposed:	€1.70

Ten-year overview of the Vossloh Group

		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Income statement data											
Net sales	€ mill.	1,232.1	1,015.2	996.4	917.8	912.5	744.5	903.0	854.4	790.1	578.4
thereof: Rail Technology	€ mill.	1,231.8	1,014.2	996.1	917.5	912.2	743.6	649.7	579.8	561.9	357.3
Lighting	€ mill.	–	–	–	–	–	–	252.8	274.1	227.7	220.5
EBIT	€ mill.	121.5	82.7	90.8	105.6	100.9	78.4	60.0	77.9	48.4	61.8
Net interest expense	€ mill.	(12.3)	(14.1)	(19.6)	(16.0)	(14.7)	(14.8)	(17.2)	(13.6)	(7.0)	(6.4)
EBT	€ mill.	109.2	68.6	71.2	89.6	86.2	63.6	42.8	64.3	41.4	55.4
Group earnings (total)	€ mill.	71.4	20.3	45.1	57.2	55.5	52.4	17.2	27.8	17.7	31.2
Earnings per share[1] (EpS)	€	4.83	1.38	3.07	3.91	3.90	3.85	1.20	1.93	1.23	2.16
Pretax ROS	%	8.9	6.8	7.1	9.8	9.4	8.5	4.7	7.5	5.2	9.6
Pretax ROE	%	25.2	18.5	19.7	27.1	29.0	26.7	13.6	20.0	14.1	20.2
ROCE	%	14.9	12.9	12.0	15.3	16.3	13.3	9.4	11.9	8.4	12.7
Balance sheet data											
Fixed assets	€ mill.	503.4	423.4	453.3	387.0	377.7	414.5	322.0	311.4	286.9	269.2
capital expenditures[2]	€ mill.	52.6	23.9	34.5	39.4	30.5	25.5	48.2	43.6	35.6	24.5
amortization/depreciation[2]	€ mill.	29.2	25.9	23.9	25.2	24.4	19.7	38.1	37.4	34.2	24.9
Working capital	€ mill.	312.8	216.7	303.3	303.2	242.7	175.5	316.3	341.4	292.2	217.4
Working capital intensity	%	25.4	21.3	30.4	33.1	26.6	23.6	35.0	40.0	37.0	37.6
Capital employed	€ mill.	816.2	640.1	756.6	690.2	620.4	590.0	638.3	652.8	579.1	486.6
Total equity	€ mill.	434.0	371.1	361.0	331.1	297.6	238.6	314.4	321.0	293.9	274.7
thereof: minority interests	€ mill.	12.1	9.3	6.1	5.8	5.6	4.6	121.2	116.7	106.0	99.4
Net financial debt	€ mill.	124.9	62.3	220.5	171.1	183.1	227.0	231.2	209.5	181.8	108.7
Total assets	€ mill.	1,326.8	1,198.5	1,091.2	1,016.7	880.3	947.2	899.0	896.3	785.5	679.3
Equity ratio	%	32.7	31.0	33.1	32.6	33.8	25.2	35.0	35.8	37.4	40.4
Cash flow statement data											
Cash flow from operating activities	€ mill.	80.2	186.9	54.6	32.9	16.1	122.9	50.6	35.1	(18.8)	20.5
Cash flow from investing activities	€ mill.	(123.6)	(15.4)	(65.5)	(27.5)	22.4	(292.3)	(45.8)	(49.3)	(42.4)	(128.3)
Cash flow from financing activities	€ mill.	(25.7)	(81.5)	(78.9)	110.5	(51.0)	10.8	(9.3)	23.2	55.2	139.6
Change in cash & cash equivalents	€ mill.	(69.1)	90.0	(89.8)	115.9	(12.5)	(6.6)	(4.5)	8.0	(7.3)	32.4
Workforce											
Annual average headcount		5,493	4,765	4,732	4,513	4,422	4,190	5,370	5,583	5,575	4,001
thereof: Germany		1,183	1,168	1,494	1,547	1,558	1,651	2,494	2,824	2,674	1,915
abroad		4,310	3,597	3,238	2,966	2,864	2,539	2,876	2,759	2,901	2,086
thereof: Rail Technology		5,455	4,734	4,701	4,481	4,392	4,167	3,884	4,001	4,174	2,624
Lighting		–	–	–	–	–	–	1,464	1,566	1,385	1,361
Vossloh AG		38	31	31	32	30	23	22	16	16	16
Payroll-to-added value ratio	%	67.5	71.6	70.8	66.2	66.9	69.0	77.0	74.2	81.7	69.3
Personnel expenses	€ mill.	268.9	223.9	234.5	217.5	213.9	178.4	208.1	228.2	222.8	143.6
Personnel expenses per capita	€ '000	49.0	47.0	49.6	48.2	48.4	42.6	38.7	40.9	40.0	35.9

Vossloh AG—Ten-year overview

		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Capital stock	€ mill.	37.8	37.7	37.7	37.4	37.4	36.8	36.8	36.8	36.8	36.8
Dividend per share[1]	€	1.70[3]	1.30	1.30	1.30	1.30	1.20	0.75	0.75	0.60	0.59
Stock price at Dec. 31[1]	€	80.10	57.14	41.10	36.35	44.80	24.70	22.53	14.95	14.90	25.05
Market capitalization at Dec. 31	€ mill.	1,185.1	842.0	605.6	530.9	654.2	338.1	310.4	215.3	214.6	360.7

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 relisting as no-par shares and the 1998 (1-for-1) stock split.
[2] Excl. financial assets
[3] If approved by the stockholders' meeting

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