

vossloh

ANNUAL REPORT 2009

► Solid value. Sound prospects.



Group figures and indicators		2009	2008
Order backlog	€ mill.	1,092.2	1,126.2
Income statement data			
Net sales	€ mill.	1,173.7	1,212.7
thereof Rail Infrastructure	€ mill.	690.3	707.1
Motive Power&Components	€ mill.	483.2	505.0
EBIT	€ mill.	137.9	137.7
Net interest expense	€ mill.	(9.4)	(9.3)
EBT	€ mill.	128.5	128.4
Net income from continuing operations	€ mill.	96.7	99.4
Group earnings (total)	€ mill.	87.9	139.4
Earnings per share (EpS)	€	6.57	9.48
EpS from continuing operations	€	6.57	6.30
EBIT margin	%	11.7	11.4
Pretax return on equity (ROE)	%	26.1	26.1
Return on capital employed (ROCE) ¹	%	20.5	21.8
Value added ¹	€ mill.	63.7	68.2
Balance sheet data			
Fixed assets ²	€ mill.	458.2	431.4
capital expenditures	€ mill.	41.9	37.6
amortization/depreciation/write-down ³	€ mill.	24.6	22.8
Closing working capital	€ mill.	245.1	150.6
Year-end working capital intensity	%	20.9	12.4
Closing capital employed	€ mill.	703.2	582.1
Total equity	€ mill.	492.6	492.7
thereof minority interests	€ mill.	20.4	16.9
Net financial debt/(asset)	€ mill.	70.2	(35.0)
Net leverage	%	14.3	(7.1)
Total assets	€ mill.	1,338.4	1,339.4
Equity ratio	%	36.8	36.8
Cash flow statement data			
Gross cash flow	€ mill.	183.8	218.1
Cash flow from operating activities	€ mill.	44.9	133.8
Cash flow from investing activities	€ mill.	(52.3)	116.8
Cash flow from financing activities	€ mill.	(84.1)	(77.0)
Net cash (outflow)/inflow	€ mill.	(91.5)	173.6
Workforce data			
Annual average headcount		4,717	4,631
thereof Rail Infrastructure		2,710	2,660
Motive Power&Components		1,956	1,925
Vossloh AG		51	46
Payroll intensity	%	61.9	61.3
Personnel expenses	€ mill.	229.6	223.2
Share data			
Annual closing price	€	69.52	79.49
Closing market capitalization	€ mill.	926.0	1,104.0

¹ Based on average capital employed

² Fixed assets = intangible and tangible assets + investment properties + shares in associated affiliate + other noncurrent financial instruments

³ Excluding noncurrent financial instruments

Vossloh's corporate structure

The operations of Vossloh's Rail Infrastructure and Motive Power&Components divisions are organized under the umbrella of Vossloh AG.

The individual companies are coordinated centrally yet operate flexibly and independently of each other.

Rail Infrastructure division

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

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

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

Motive Power&Components division

This division builds locomotives and (sub)urban trains, and manufactures electrical components for various types of light rail vehicles (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. We also build ultramodern (sub)urban trains for a variety of operations.

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

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems

Indicators		2009	2008
Net sales	€ mill.	690.3	707.1
EBITDA	€ mill.	136.5	124.3
EBIT	€ mill.	125.0	113.4
EBIT margin	%	18.1	16.0
Closing working capital	€ mill.	210.2	175.5
Year-end working capital intensity	%	30.5	24.8
Fixed assets	€ mill.	310.6	298.4
Capital expenditures	€ mill.	21.6	19.3
Amortization/depreciation	€ mill.	11.5	10.9
Closing capital employed	€ mill.	520.8	473.9
Average capital employed	€ mill.	522.3	504.0
ROCE ¹	%	23.9	22.5
Value added ¹	€ mill.	67.5	58.0

Business units:

Vossloh Locomotives
Vossloh Electrical Systems

Indicators		2009	2008
Net sales	€ mill.	483.2	505.0
EBITDA	€ mill.	47.4	53.4
EBIT	€ mill.	35.2	42.3
EBIT margin	%	7.3	8.4
Closing working capital	€ mill.	40.9	(15.6)
Year-end working capital intensity	%	8.5	(3.1)
Fixed assets	€ mill.	136.6	126.8
Capital expenditures	€ mill.	19.4	16.8
Amortization/depreciation	€ mill.	12.2	11.1
Closing capital employed	€ mill.	177.5	111.2
Average capital employed	€ mill.	150.8	125.8
ROCE ¹	%	23.4	33.6
Value added ¹	€ mill.	18.6	28.5

¹ Based on average capital employed

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Dear Stockholders:

We look back on a solid performance in fiscal 2009. Despite a hostile market environment our business stayed altogether stable. Admittedly, sales fell slightly short of the prior year's all-time high yet at €1.17 billion, were a mere 3.2 percent short. Our EBIT again reached the record level of 2008, this time at €137.9 million slightly up over the prior year's level.



Dr.-Ing. Norbert Schiedeck
Executive Board member

Werner Andree
CEO

Our self-set ROCE and EBIT margin benchmarks were easily surpassed: ROCE at 20.5 percent (down from 21.8) and the EBIT margin at 11.7 percent (up from 11.4). Group earnings added up to €87.9 million, a 5.1-percent decline versus the prior year's like-for-like earnings (excluding the result of discontinued operations). Earnings per share rose from €6.30 to €6.57. For the past period we plan to distribute an annual dividend of €2.00 for each eligible share, equal to the prior year's record level.

We again expanded our solid strategic market position. In December 2009, we signed a sale and transfer agreement covering the rail services companies of the Stahlberg-Roensch Group as well as LOG Logistikgesellschaft Gleisbau mbH and ISB Instandhaltungssysteme Bahn GmbH of the Contrack Group. The deal—formally closed on February 5, 2010—is for us an important step in rounding off in the best possible way our core rail infrastructure business. These highly specialized companies are profitable market leaders in Germany; through the new Rail Services business unit under which these companies will operate we can now offer such services as welding and preventive maintenance of rails as well as the related complex logistics.

We have upheld our position well during the period, even though the financial and economic crisis did leave its mark on us, too. The collapse in freight haulage, in particular, impinged on our business and eroded European demand for diesel locomotives. Our infrastructure products in such markets as the USA (where most rail haulage is freight), met with drooping demand in some cases. The Vossloh stock price also suffered from the economic turbulences. As in the tough stock market year of 2008, initially our stock outperformed the market but then when the general mood improved due to the rebound of cyclic sectors, the price failed to share in the recovery and closed the period with a loss of 12.5 percent.

“Solid value. Sound prospects.”—this is the motto of this year's annual report and it mirrors the confidence with which we have entered 2010. Although as is generally conceded, the economic upswing will be modest, UNIFE, the Association of the European Rail Industry, still sticks to its annual growth forecast of 2.5 percent per year up to 2016. It is our conviction that rail-bound transport remains an important economical and clean option for the movement of people and goods. And Vossloh is ideally positioned to seize for itself the opportunities offered by this promising market. This confidence is reflected in our forecasts for the coming two years. Including our new Rail Services business unit, for 2010 we are expecting sales growth of between 11 and 15 percent and an EBIT advance ranging between 5 and 7 percent. For the year thereafter, 2011, we are looking to ongoing sales growth and an EBIT of around €150 million. Sharing in this growth will be both divisions: Rail Infrastructure and Motive Power&Components, now renamed Transportation.

We are pressing ahead with our expenditure program and earmarking for 2010 and 2011 annual capital outlays of over €60 million in order to strengthen our market position and growth. Above all, we intend to expand and revamp locations of the Rail Infrastructure division and Electrical Systems business unit and extend our lineup of rail vehicles.

Not only organic growth is on our agenda; we will continue to be receptive to any M&A that strategically supplement our portfolio, improve vertical production integration and contribute to value-adding growth. Potential candidates are suppliers of components for both rail infrastructure and rail vehicles. We will also be substantially strengthening our business in the related services.

We will do our utmost to continue along the path of creating solid value and, in the process, make the most of our sound prospects. We would be happy if you again joined us on our journey.

Kind regards,

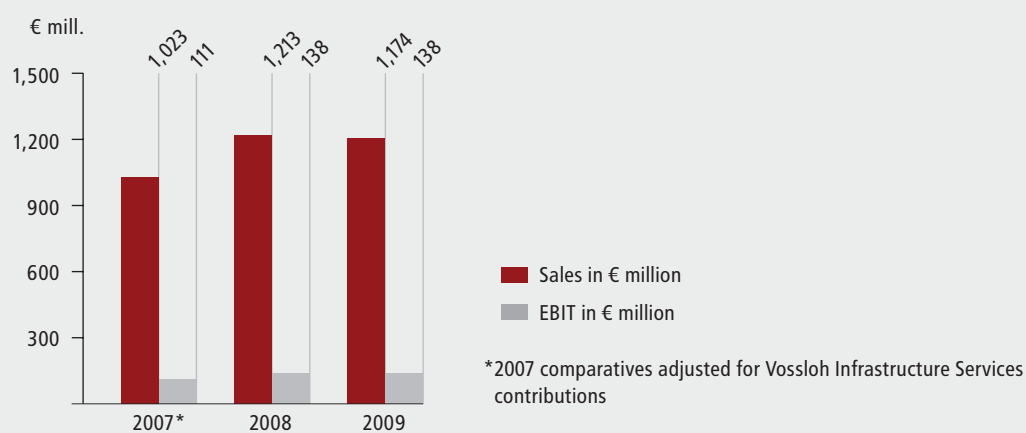
A handwritten signature in blue ink, appearing to read 'W. Andree', is displayed on a light blue rectangular background.

Werner Andree
CEO

Despite recession, record sales of 2008 almost repeated, earnings slightly improved: €1.17 billion sales, €137.9 million EBIT

Higher expenditures on new products

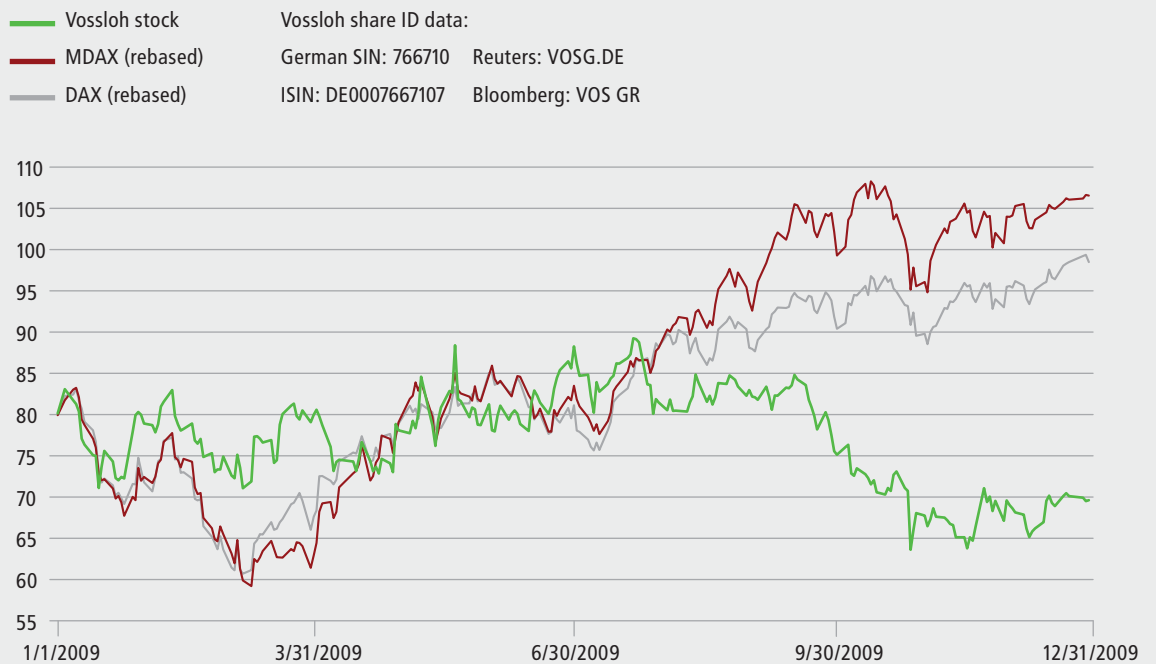
New Rail Services business unit in 2010



Vossloh Group: sales and EBIT trends

Year-on-year Vossloh stock down

*Proposed annual dividend
of €2.00 at prior year's record level*



Vossloh stock price trend from Jan. 1 to Dec. 31, 2009

Vossloh stock

At the start of 2009, Vossloh stock initially resisted the general downturn on the world's stock markets. Investors appreciated above all the largely recession-impervious Q1 performance and the second megacontract for high-speed rail fasteners for China. In late July, however, the price failed to share in the pronounced market upturn meanwhile manifest and by year-end showed a year-on-year loss of 12.5 percent. This should be seen, though, within the context of a mere just under one-percent loss in the punishing previous year.

The stock market in 2009

On the international markets, the price avalanche which had started in H2/2008 in the wake of the financial crisis, initially continued into Q1/2009 and by early March most indexes had plunged to their multiyear lows. This was succeeded then by an emphatic recovery on a global scale. Fueled by improved economic indicators and an expansive monetary policy most share prices were moving upward by year-end. Only here and there were there minor consolidations. In all, the international stock markets closed 2009 well above their January 1 level. In Germany, the DAX and MDAX largely followed international trends: on March 9, the DAX fell to its annual low of 3,589 points, having shed around 15 percent in the first three months. As the period proceeded, stock prices surged and the index closed the year at 5,957 (a year-on-year gain of around 24 percent), only just shy of its annual high of 6,027.

The MDAX, which includes Vossloh, plunged even steeper than the DAX, its Q1 loss amounting to almost 21 percent. Then, however, driven mainly by the recovery of the cyclic stocks, it rebounded all the more sharply. By October 16, it had climbed to an annual high of 7,676, closing the year at 7,507 on December 30. Hence this midcap index vaulted 34 percent during the year, even outperforming the DAX.

Vossloh share price trend

Within a tough stock market environment, Vossloh stock in the first quarter of 2009 initially showed a gain of 0.5 percent, appreciably more resilient than the comparable indexes. As the period proceeded, the price improved by 7.6 percent and, on climbing to its annual high of €89.80 on July 24, then disengaged itself from the meanwhile general market upswing and declined, especially starting from mid-September. For the stock exchange whose upbeat mood was buoyed by cyclic sector recovery potentials, news from Vossloh since the summer had fallen short of expectations. On October 28, the date of the publication of the 9-month figures, Vossloh stock slumped to its annual low of €62.36, then somewhat recovering by year-end to €69.52—a year-on-year loss of 12.5 percent.

As of December 31, 2009, Vossloh AG's market capitalization amounted to €926.0 million (down from €1,104.0 million). Compared with 2008, Vossloh AG's market capitalization on Deutsche Börse's MDAX listing of December 2009 dropped from rank 23 (end of 2008) to rank 33. In terms of trading volume, the position rose from 29 to 22. During the 12 months altogether 20.4 million shares were traded, some 7.5 million fewer or 26.8 percent down from the prior year. On a daily average, 80,500 Vossloh shares were traded, the previous year 109,900. Hence, the stock's trading volume followed the general downturn, though to a less pronounced degree.

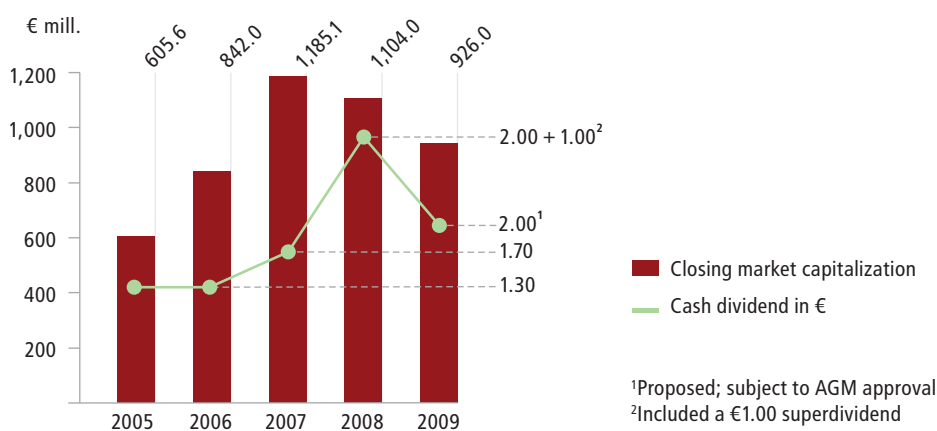
Vossloh stock indicators		2009	2008	2007	2006	2005
Earnings per share (EpS)	€	6.57	9.48	4.83	1.38	3.07
Cash flow per share	€	3.36	9.10	5.43	12.68	3.71
Dividend per share	€	2.00 ¹	2.00 + 1.00 ²	1.70	1.30	1.30
Total dividend payout	€ mill.	26.6	40.0	25.2	19.2	19.2
Book value per share (excl. minority interests)	€	35.45	32.36	28.51	24.55	24.09
Annual average number of shares outstanding	1,000	13,381	14,703	14,768	14,735	14,688
Number of shares outstanding at year-end	1,000	13,320	13,889	14,796	14,736	14,735
Closing stock price	€	69.52	79.49	80.10	57.14	41.10
Closing market capitalization	€ mill.	926.0	1,104.0	1,185.1	842.0	605.6
Annual high/low	€	89.80/62.36	99.49/45.41	94.47/56.21	59.20/34.90	48.58/36.11
Price-earnings ratio (PER)		10.6	8.4	16.6	41.4	13.4
Price-cash flow ratio		20.7	7.4	14.7	4.5	11.1
Trading volume (shares)	1,000	20,437	27,913	24,040	15,760	10,453
Average daily turnover of shares	1,000	80.5	109.9	95.4	61.8	40.5

¹Proposed; subject to AGM approval

²Included a €1.00 superdividend

Dividend

Vossloh AG's Executive and Supervisory Boards will propose to the annual general meeting on May 19, 2010, a dividend of €2.00 per eligible share of stock. The previous year's dividend had also been at this record level plus a superdividend of €1.00 from the gain on the Vossloh Infrastructure Services divestment. The dividend payment 2009 is equivalent to 30.3 percent of group earnings.



Market capitalization and dividend trend

Stock repurchase program

On March 20, 2009, the stock repurchase program for 10 percent of the capital stock was completed with the purchase of the maximum permissible number of shares. On October 15, 2008, Vossloh AG's Executive Board had resolved this program after duly obtaining Supervisory Board approval; the program was then launched on October 16, 2008. The repurchase cost €106.3 million, the average price being €71.86. As decided by the Executive Board in October 2009, altogether 3,352 treasury shares from this portfolio were reclassified as available to employees in the course of the ESOP program 2009. Vossloh now holds 1,476,230 treasury shares equivalent to 9.98 percent of the capital stock.

	Shares purchased	Total price (€) *	Capital stock (%)
October 2008	182,000	10,722,541.40	1.23
November 2008	293,000	20,056,694.21	1.98
December 2008	432,000	31,890,659.88	2.92
Total 2008	907,000	62,669,895.49	6.13
January 2009	230,000	17,555,206.81	1.55
February 2009	181,500	13,972,774.45	1.23
March 2009	161,082	12,119,195.03	1.09
Total 2009	572,582	43,647,176.29	3.87
November 2009	(3,352)	(241,075.84)	(0.02)
Total treasury stock repurchased	1,476,230	106,075,995.94	9.98

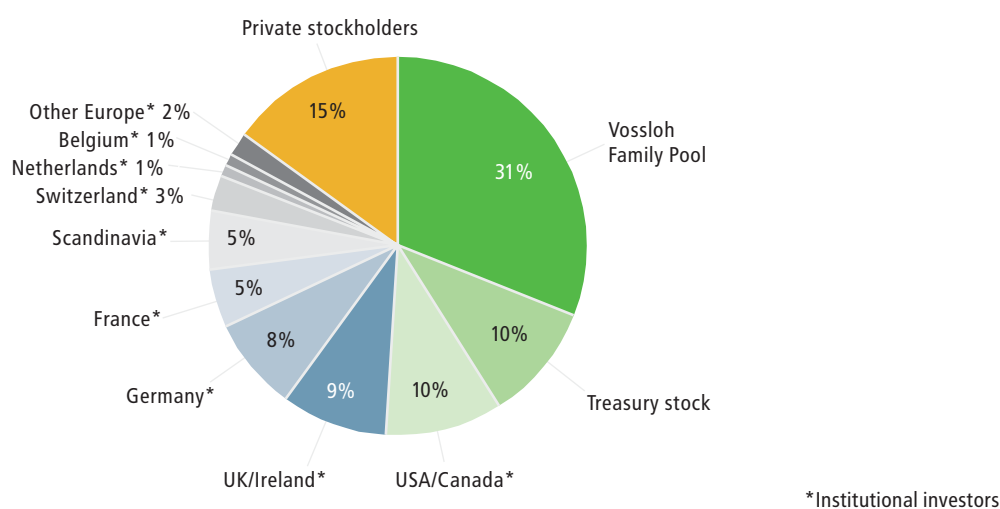
*Excl. bank commissions

The stock repurchase was managed and carried out by a bank independently and uninfluenced by Vossloh AG, by virtue of the authority conferred by the annual general meeting of May 21, 2008. The treasury stock may be used for any of the purposes authorized by that AGM, including to fund M&A transactions. Pursuant to Art. 71b German Stock Corporation Act ("AktG"), Vossloh AG is not entitled to any rights, interests or claims from treasury stock. No final decision has yet been made regarding the use of the stock.

Ownership structure

At the close of fiscal 2009, the Vossloh Family Pool (“Familiengemeinschaft Vossloh GbR”) again held a virtually unchanged stake of around 31 percent in the Company’s capital stock. Another 9.98 percent is now owned by Vossloh AG itself after the repurchase program had been completed in March 2009.

An ownership structure survey of January 2010 revealed that private investors held around 15 percent of the stock, more than double the proportion of the previous period. Accordingly, the percentage of institutional investors slipped from 54 to 44 percent. Regionally, there have been shifts, too. At the time of the survey, the institutional investors were mainly in the USA, UK, and Ireland as well as Germany, with the latter’s share rising noticeably. Larger parcels of stock are now held by investors in Scandinavia and Switzerland while non-European and French investors meanwhile command a lower proportion. At the time of the survey, the institutional players, in fact over three-quarters, included chiefly those oriented toward “value” and “growth” equities.



Ownership structure of Vossloh AG, survey as of Jan. 31, 2010, by IPREO

Generation Investment Management LLP, London, UK, announced in a notification according to the German Securities Trading Act (“WpHG”) that its voting interest in Vossloh AG as of February 1, 2010, was 5.02 percent, equivalent to 742,813 shares. Generation has been investing in Vossloh since 2008 and during the period under review its stake had hovered, according to notifications, between 2.92 percent on January 26, 2009, and 3.07 percent on October 7, 2009.

Analysts’ opinions

At the close of 2009, the number of analyst firms regularly reviewing Vossloh stock was 23 (up from 22). Eleven analysts recommended “buy,” two “sell,” and ten neither nor. The price targets ranged between €55 and €88, the average being €78. Once again the analysts lauded the defensive nature of Vossloh’s business model. In the view of the majority, the upward price potential was constrained by the presently, compared with other industrial stocks, relatively modest catch-up prospects. Whereas most industrial companies at the end of 2008 and in 2009 had suffered double-digit percentage declines in sales and earnings and thus had a baseline offering plenty of catch-up potential, Vossloh in fiscal 2009 managed to repeat its prior year’s record sales and EBIT from operating activities, and so had less scope for higher growth rates.

Sustainability ratings and initiatives

In 2009, Vossloh AG underwent three sustainability ratings. oekom research awarded the Company an investment status of “prime.” The Swiss INrate recommended Vossloh for Raiffeisen Schweiz’s investment universe of sustainability investments. With the Sarasin sustainability rating, Vossloh stock ranks suitable as an investment in this bank’s sustainability funds.

As in the previous two years, Vossloh AG has been reporting to the Carbon Disclosure Project (CDP). This is an initiative that gathers company CO₂ emission and climate protection strategy data on behalf of presently almost 500 institutional investors worldwide.

Dialog with the capital market

Fiscal 2009 was a period in which Vossloh again stepped up its dialog with the capital community. In the course of one-on-one interviews, presentations to groups and conference calls over 600 capital market contacts resulted. Vossloh's Investor Relations team participated in eleven investor conferences and staged twelve road shows in Germany, UK, France, Switzerland, Austria, Ireland, Luxembourg, Spain, Portugal, Scandinavia, and the USA. Rounding off the efforts were two of its own conferences for analysts and investors staged in the spring and December of 2009.

Current and historical presentation documents, all present and past annual and quarterly reports are available for downloading from the Vossloh website. These documents can also be forwarded to you by post or by email. The Company's IR department has the following address: investor.relations@ag.vossloh.com

Vossloh AG's Supervisory Board

Dr. Hans Vossloh

† Sep. 22, 2009, 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,
Chairman of the European and
Group Works Councils, Werdohl

Michael Ulrich

Mechanic, Works Council Chairman
of Vossloh Locomotives GmbH, Kiel



Dr.-Ing. Wilfried Kaiser,
Supervisory Board Chairman

Report of the Supervisory Board

Supervisory Board work in fiscal 2009

During the year 2009, Vossloh AG's Supervisory Board duly performed the functions and duties incumbent on it under law, the Company's memorandum & articles of incorporation (the "bylaws"), the German Corporate Governance Code (the "Code") and the Supervisory Board rules of procedure, continuously oversaw the conduct of business and provided advice to management. The Supervisory Board obtained timely detailed regular written and oral reports on the business trend of Vossloh AG and its subsidiaries, the strategic alignment of the Group, and the progress of planned M&A transactions and other major projects and events.

Meetings and attendance

In 2009 the Supervisory Board convened at five scheduled meetings (March 25, May 19, August 20, October 8, and December 2) and one extraordinary meeting on April 21. At two meetings, one member was excused each. At its meetings, the Supervisory Board discussed in depth with the Executive Board day-to-day business and the strategic concepts, short- and medium-term corporate plans, capital expenditure and investment budgets, the current income and cash trends, as well as at length the repercussions of the financial market crisis on Vossloh's present and medium-term business. Other periodical items on its meeting agenda and subject of the Executive Board's routine reports were the trend of each business unit's operating activities, especially in view of the widely observed reluctance to invest on the part of industrial, government and municipal customers. Further items discussed regularly were Vossloh's risk position and management, as well as jointly with the Executive Board, significant organizational and personnel changes. The Supervisory Board deliberated on and approved Executive Board transactions subject to its approval. Furthermore, it discussed in depth with the Executive Board M&A candidates in Europe and the United States since these not only extended the scope of Vossloh's international operations but also resulted in a broader field of business by adding the Rail Services business unit after the Stahlberg-Roensch/Contrack Groups were acquired in December 2009 and the deal closed in February 2010. Also on the agenda for thorough debate were corporate governance and Code compliance issues. After assessing its own efficiency in 2009 by self-evaluation, the Supervisory Board decided to again resort (as in 2007) to outside expert consultants in early 2010.

No Supervisory Board member was subject to any clashing interests under the terms of § 5.5 of the Code. When meeting at a subsidiary, the Supervisory Board took the opportunity of being directly briefed by local management on strategic concepts and plans, as well as on the plant itself.

Ongoing information outside Supervisory Board meetings

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

Supervisory Board membership

Supervisory Board membership remained unchanged in 2009. Dr.-Ing. Wilfried Kaiser and lawyer Peter Langenbach are Chairman and Vice-Chairman, respectively.

Committee work

Vossloh AG's Supervisory Board has three committees, the Staff Committee and the Audit Committee having three members each while the Slate Submittal Committee has four. The primary duties of the Staff and Audit Committees include the preparation of business to be transacted before the plenary Supervisory Board. Furthermore, the Supervisory Board has delegated certain defined powers to its committees, such as in the case of the Staff Committee, the execution, amendment and termination of the employment contracts with Executive Board members, however, not the latter's appointment or removal, nor decisions on the Executive Board remuneration system, or on fixing and periodically reviewing total remuneration, or on downscaling any emoluments of Executive Board members in accordance with Art. 87(2) German Stock Corporation Act ("AktG") as these are all subject to the plenary Supervisory Board's approval.

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

The Audit Committee convened six times in 2009. Its meetings on April 28, July 28 and October 27 centered on discussing the quarterly reports with the Executive Board prior to publication.

At its March 24 meeting, which was also attended by the Executive Board and the statutory auditor, the Audit Committee deliberated on, discussed and examined thoroughly, the documentation on the separate and the consolidated financial statements and the combined management report on Vossloh AG and the Group for fiscal 2008. No objections were raised. At the same meeting, the Audit Committee also dealt in detail with the statutory auditor's declaration of independence and the proposal for the election of the statutory auditors for fiscal 2009 for the Company and the Group. Audit Committee discussions also focused on risk management at the March 24 and July 28 meetings, and additionally at the December 1 meeting with the statutory auditor, Vossloh's financial reporting principles.

Moreover, the Audit Committee required the Executive Board to furnish continual reports on the main risks identified for the Vossloh Group. At their October 8 meeting, the Audit Committee members furthermore dealt with the agreed fees for, and the proposed focal areas of, the annual audit as of December 31, 2009.

The Staff Committee members convened twice in 2009. In line with the Supervisory Board resolution in 2008 on establishing a discretionary bonus concept, the Staff Committee proposed to the plenary Supervisory Board at the March 24 meeting that, given an exceptionally successful fiscal 2008, the Executive Board be granted a discretionary bonus, a proposal that was approved at the plenary meeting on March 25. The Staff Committee decided to submit to the plenary Supervisory Board a proposal to renew Dr.-Ing. Norbert Schiedeck's appointment as Executive Board member up to March 31, 2015, which after unanimous approval by the Supervisory Board at the April 21 meeting, was then also accepted by Dr. Schiedeck. At its December 2 meeting, against the backdrop of the new legislation governing the reasonableness of executive board remuneration, the Staff Committee dealt in detail with the compensation system and its propriety. The Supervisory Board was agreed that the total remuneration of the Executive Board members reasonably compensates for each member's functions and duties, personal performance, and the economic situation, the success and future prospects of Vossloh, as well as conforms—in a horizontal and vertical comparative analysis—with customary standards. The Supervisory Board members further agreed that the remuneration structure must generally focus on sustainable corporate performance, and emphasized in this context that, in accordance with Art. 87(1) AktG, the employment contracts with Executive Board members should be reviewed when the foreseeable trend at comparable corporations presents a clearer picture.

Since the AGM had newly elected on May 21, 2008, the members of the Supervisory Board who all remained in office in 2009 and will continue to do so in 2010 as well, the Slate Submittal Committee did not convene in the period.

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

Dr. Hans Vossloh, Honorary Chairman of the Supervisory Board of Vossloh AG, died on September 22, 2009, age ninety. He was the last surviving grandson of founder Eduard Vossloh. After bearing operational responsibility for over 40 years, Dr. Hans Vossloh played a lead role in the transformation from a successful family enterprise to a stock corporation. In 1986 he moved from the management of Vossloh-Werke, Werdohl, to Supervisory Board Chairman and laid the groundwork for the Company's IPO in 1990. Since 1994, Dr. Hans Vossloh has been Honorary Supervisory Board Chairman.

Separate and consolidated financial statements 2009

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 2009 (including the accounting), all as prepared by the Executive Board, were examined by the statutory auditors, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the May 20, 2009 AGM and issued their unqualified opinion thereon.

The statutory auditor also concluded that the Executive Board had installed a proper early risk identification system as required by Art. 91(2) AktG to identify any risks to the Group's survivability early on, and confirmed that Vossloh AG's Executive and Supervisory Boards complied with their obligation to publish the declaration of conformity pursuant to Art. 161 AktG. The Supervisory Board continually followed up on the further development of corporate governance standards and implemented measures to ensure compliance with such standards. In December 2009, 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 20).

The audit engagement letter for fiscal 2009 was issued by resolution of the Audit Committee, also on behalf of the plenary Supervisory Board, in accordance with the recommendations of the Code.

In due course prior to the Supervisory Board's annual accounts meeting on March 24, 2010, at which the annual financial statements were adopted, all members of the Supervisory Board were provided with copies of the separate and the consolidated financial statements of Vossloh AG, the combined management report on the Company and the Group, the disclosures required by Arts. 289(4) and 315(4) German Commercial Code ("HGB"), the remaining annual report, the profit appropriation proposal, and the annual audit reports.

At this annual accounts meeting, which was attended by statutory auditor staff, the Supervisory Board members discussed in detail all issues arising in connection with the above-mentioned documents. The attending auditors briefed the participants on all 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 evidence suggesting that the declaration of conformity issued in 2009 by the Executive and Supervisory Boards in connection with the Code was incorrect, was found during the audit.

The Supervisory Board, too, reviewed Vossloh AG's separate and consolidated financial statements and the combined management report for fiscal 2009 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, 2009; the separate financial statements as of December 31, 2009, are thus adopted. The Supervisory Board concurs with the combined management report, particularly the statements on Vossloh's further development and the disclosures pursuant to Arts. 289(4) and 315(4) HGB, as well as with the profit appropriation as proposed by the Executive Board, i.e., to distribute a cash dividend of €2.00 per no-par share.

The Supervisory Board thanks the Executive Board and all the employees for once again their highly dedicated contributions and successful input in fiscal 2009.

Werdohl, March 24, 2010

The Supervisory Board
Dr.-Ing. Wilfried Kaiser
Chairman

Corporate governance report

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

Declaration of conformity and corporate governance report

Vossloh believes that successful corporate governance—rooted in a responsible, transparent and predictable organization and its management and supervision—is the basis that nurtures and preserves long-range investor confidence in Vossloh and ensures that shareholder value is added continuously. Given the amended provisions of German legislation and Code regulations in 2009, Vossloh AG's Executive and Supervisory Boards have reviewed and updated their corporate governance practices.

Vossloh has therefore issued a statement on its implementation of the corporate governance practices which are recommended by the Code (as amended up to June 6, 2008, and June 18, 2009):

“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 2009, 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 6, 2008, and June 18, 2009), with the following exception:

The stipulation of an appropriate deductible, recommended by Clause 3.8, in a Supervisory Board D&O insurance contract will be complied with as from July 1, 2010.

Werdohl, December 2009

Vossloh AG

The Executive and Supervisory Boards”

The current declaration of conformity under the terms of Art. 161 AktG was issued in December 2009 and published for long-term availability on the Company's website.

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 bylaws. Like any other German stock corporation, too, Vossloh has a two-tier board structure, both the Executive and Supervisory Boards as mandatory bodies being required to perform management or monitoring functions, respectively. The general meeting as the stockholders' statutory body makes pivotal decisions of fundamental interest to the corporation. All three bodies are obligated to act in the best interests of the corporation and its owners.

Executive Board

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

The Executive Board performs its duties with a sustainable addition of shareholder value in mind and closely cooperates with the Supervisory Board whose consent is required for certain major transactions and Executive Board actions expressly specified in the Executive Board rules of procedure. Based on an agreed plan, each Executive Board member is assigned the responsibility for specific areas of business. Executive Board members work together on a peer basis and brief each other routinely on significant actions, transactions and events within their respective responsibilities and the areas assigned to them. Fundamental and certain defined issues require a decision by the plenary Executive Board. Any conflict of interests of one Executive Board member would immediately be disclosed to the Supervisory Board and other Executive Board member(s). Any sideline activity or membership in a nongroup company's supervisory board requires the Supervisory Board's prior approval. At present, no Executive Board member holds any supervisory board office at a listed nongroup company.

For detailed information on Vossloh AG's Executive Board members, turn to page 157 of this annual report.

For all its board members, Vossloh AG has contracted so-called D&O insurance policies (against consequential economic loss) with an agreed deductible. As from July 1, 2010, a higher deductible will be stipulated, amounting to 10 percent of the loss but capped at 150 percent of the board member's fixed annual remuneration.

Supervisory Board

In accordance with Art. 10(1), first clause, of the bylaws, Vossloh AG's Supervisory Board consists of six members. Consequently, the composition of the Supervisory Board is governed by the provisions of the Stock Corporation Act and the Supervisory Board Composition Act, according to which the Supervisory Board must be composed of one-third of employee representatives and two-thirds of stockholder representatives. The owner representatives on the Supervisory Board are elected by the general meeting, the employee representatives by the workforce, for identical terms of office. As recommended by the Code, the stockholder representatives were elected by the May 21, 2008 AGM by individual poll. When compiling the slate of candidates, the appropriate skills, proper qualification and technical expertise required for Supervisory Board duty were duly considered. No former Vossloh Executive Board members are on the Supervisory Board which comprises a sufficient number of independent members being parties unrelated to either Company or the Executive Board as defined by the law. The term of a Supervisory Board member is five years, the current term expiring at the AGM 2013. The Supervisory Board constitutes a quorum if not less than three members participate in voting. Supervisory Board resolutions require the simple majority of votes cast unless statutory or legislative regulations provide otherwise. If a vote results in a tie, any Supervisory Board member has the right to require that the voting be immediately repeated on the same agenda item. The Supervisory Board Chairman has two votes in this second voting process on the same item if it again results in an equality of votes.

The Supervisory Board oversees and advises the Executive Board in its management and conduct of business. Certain material transactions and Executive Board actions (specified in the Executive Board rules of procedure) are subject to prior Supervisory Board approval. The Supervisory Board periodically discusses with the Executive Board Vossloh's business trend, the corporate plan and strategy and their implementation, as well as the risk management and corporate compliance issues. Moreover, the Supervisory Board approves the annual budget and decides on the approval of the separate and the consolidated financial statements of Vossloh AG and the Group with due regard to the statutory auditor's report, besides being responsible for the appointment and removal of Executive Board members.

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

The three-member Staff Committee is mainly responsible for Executive Board matters and prepares, for decision by the plenary Supervisory Board, the documents for voting on and reviewing the compensation system and total remuneration of each Executive Board member, and on downscaling any emoluments of Executive Board members in accordance

with Art. 87(2) German Stock Corporation Act (AktG), besides being in charge of determining the rules governing the legal relations between the Company and the various Executive Board members (in particular, the execution, amendment, renewal, rescission, cancellation or termination of the employment contracts with Executive Board members), the regulation of the legal relationship between the Company and former Executive Board members, the approval of contracts or agreements with Supervisory Board members, as well as on the grant of loans to Supervisory Board members. The Staff Committee is chaired by the Supervisory Board Chairman.

The Audit Committee is responsible for proposing to the Supervisory Board the statutory auditor(s) for the Company and the Group for election by the general meeting, and deals in particular with aspects relating to the statutory auditor's prescribed independence and with issuing the audit engagement letter, determining focal audit areas, and fixing the auditor fees. In addition, the Audit Committee is in charge of ongoing risk management monitoring and deals with corporate compliance issues (which includes overseeing the internal control system). For these purposes, the Audit Committee obtains periodical reports directly from the Head of Internal Auditing and the Group's Compliance Officer. 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. The Audit Committee and the Executive Board jointly discuss each quarterly financial report prior to publication. Dr. Christoph Kirsch chairs the three-member Audit Committee and, as former chief financial officer (CFO) of Südzucker AG, meets the criteria of Art. 100(5) AktG, which require that an independent financial expert preside over an audit committee.

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

Every Supervisory Board member is committed to the Company's interests. Any conflict of interests must immediately be reported to the Supervisory Board Chairman. Supervisory Board members must abstain from voting on any business that affects themselves or related parties (entities or individuals). No Supervisory Board member is also on a board of, or provides consultancy or advisory services to, a competitor. The Company has not granted any loan or

credit to a Supervisory Board member, nor have Supervisory Board members received any compensation, benefits or advantages for personally rendered consultancy, advisory, agency or other services.

For details of Vossloh AG's Supervisory Board members, see page 158 of this annual report.

Stockholders' meeting

Vossloh AG's stockholders safeguard their statutory rights and exercise their voting rights at the general meeting, at which they resolve, with binding effect on the Company and themselves, on all matters assigned or subjected by the law to AGM vote, including on the appropriation of net earnings, the official approval of the acts and omissions of Executive and Supervisory Board members in the fiscal year, the election of the statutory auditor, as well as on intercompany agreements, equity moves and other amendments to the bylaws. At the general meeting, one share of (common) stock entitles to one vote. For the stockholders' convenience, the Executive Board appoints a general proxy who ensures the exercise of the voting rights of, in accordance with instructions issued by, stockholders at the meeting. The Supervisory Board Chairman presides over the general meeting.

Accounting and annual audit

The Vossloh Group's accounting basis is the International Financial Reporting Standards (IFRS), while the separate financial statements of Vossloh AG are prepared according to German GAAP (viz. the accounting regulations of the Commercial Code), as prescribed by law. Both the 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 2009 as proposed by the Supervisory Board), in accordance with German audit regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. The audit engagement letter was issued by the Supervisory Board's Audit Committee in conformity with the recommendations of the Code and after due verification of the statutory auditor's independence. The Supervisory Board has agreed with the statutory auditor that the former will be promptly informed of any significant findings, conclusions and circumstances which are established during the annual audit and may be of relevance to the Supervisory Board's duties. While the statutory auditor has further agreed to notify the Supervisory Board if it finds any facts substantiating that the declaration of conformity issued by the Executive and Supervisory Boards is incorrect, no such indications were found during the audit 2009. The semiannual financial report as of June 30, 2009, was reviewed by the statutory auditor.

Informing the stockholders

High priority is attached by Vossloh to having the same information communicated early, efficiently and at the same time to all stockholders. Therefore, any information about Vossloh is displayed on the corporate website at www.vossloh.com. This applies specifically to quarterly and annual reports, invitations to, and information on, general meetings, press releases, as well as the financial diary with all dates of significant periodic publications. The consolidated financial statements are published within 90 days after fiscal year-end while quarterly reports are publicly available within 45 days after closing date. The website also includes the so-called Annual Document (Sec. 10 German Securities Prospectuses Act obligating Vossloh to publish it once yearly) where all the preceding 12 months' information is compiled if of relevance under companies or capital market laws and regulations. All these documents ensure a high level of transparency.

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

Remuneration of the Executive and Supervisory Boards

For details of Executive and Supervisory Board remuneration, see the Board Compensation Report on page 62 which is an integral part of both the combined management report and this corporate governance report.

Risk management

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

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

Investor Relations

Capital market participants are continuously, promptly and all at the same time informed about the Vossloh Group's economic situation and new facts from the world of Vossloh wherever of relevance. The annual, semiannual and quarterly reports are published within the periods required by the law. Press releases and, where appropriate, ad-hoc notifications report on the latest events or transactions. Furthermore, the corporate website at www.vossloh.com provides a host of up-to-date news and facts on the Vossloh Group and Vossloh stock, as well as current presentations to investors and financial analysts. The dates scheduled for major recurring or periodical events and publications (such as the AGM, annual and interim reports) are summarized in a financial diary which is published in good time on Vossloh AG's website for long-term availability.

Stock ownership by board members

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

SOPs and similar securities-based incentive systems

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

No active or former Executive Board member has participated in, or acquired any stock option under, the 2005 LTIP. For details of other remuneration components with a long-term incentive effect, see the Board Compensation Report (page 62 of this annual report) whereas the other SOPs for both officers and employees are detailed on page 131 hereof.

Compliance as the foundation stone of business enterprise and efficiency

Besides the self-evident adherence to the principles of law and order, Vossloh interprets corporate compliance as the observance of intracompany rules and regulations and voluntary self-commitments.

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

Code of Conduct

A Code of Conduct has been compiled for observance equally throughout by Executive and Management Board members and all Vossloh employees.

With the purpose of encouraging uniform and exemplary behavior, it lays down minimum standards while suggesting how employees can cooperate to comply with the Code. The latter is intended to assist in coping with ethical and legal issues and challenges surfacing in daily work; it serves as a signpost in conflict situations. Infringements are thoroughly investigated in the interests of the workforce and the Company and their causes remedied. Such action includes the rigorous pursuance of misdeeds according to the respective national rules and regulations.

Corporate compliance organization

Allowing these principles to cascade down through the organization where they are then permanently anchored, this is the mission of the corporate compliance organization which, alongside the Executive and Management Boards as well as other senior management, is responsible for making sure that the compliance program is enacted groupwide.

Through setting up an external ombudsperson it is now possible for all employees to anonymously report any noncompliance. This is a facility in addition to the in-house corporate compliance organization. Reports are immediately analyzed and any necessary measures initiated.

The Executive Board
Werdohl, March 24, 2010



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Vossloh AG

Rail Infrastructure
division

Motive Power&Components
division

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems

Business units:

Vossloh Locomotives
Vossloh Electrical Systems

Business and market environment

Strategy, segmentation, and competitive position

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

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

Rail Infrastructure subsumes the Group's rail infrastructure operations and in fiscal 2009 comprised the Fastening Systems and Switch Systems business units, both of which rank among the respective world leaders. The erstwhile Infrastructure Services business unit was sold with economic effect as of January 1, 2008.

- Vossloh Fastening Systems is a leading supplier of rail fastening systems. The lineup covers rail fasteners for all types of transport, from (sub)urban via heavy-haul to high-speed.
- Vossloh Switch Systems supplies, installs and services switches, control and monitoring systems for rail networks. Here, too, the range reaches from light-rail to high-speed lines.

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

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

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

- Concentration on rail market segments in which the Group aims for market leadership.
- Through such focus, Vossloh intends to operate more profitably than the rail market as such and add value by earning a premium on top of the cost of capital.
- Growth at least at the rate of the entire rail technology market.

Organization

Vossloh patterns its business on local presence and customer proximity. The Group is positioned internationally, with major European production plants in Germany, France, Spain, Luxembourg, Scandinavia, Poland, and Austria. Outside of Europe Vossloh produces switch systems chiefly in Australia and the USA and rail fasteners in China and Turkey. Besides its production plants, Vossloh operates through sales companies and branches and has in some instances, together with competent partners, entered into local joint ventures and alliances. At the end of 2009, the Group comprised a total of over 70 companies in more than 30 countries.

Major subsidiaries and, at the same time, business unit lead companies are:

Vossloh Fastening Systems GmbH, Werdohl, Germany; Vossloh Cogifer SA, Rueil-Malmaison, France; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España SA, Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

Control system and objectives

As part of its value-driven growth strategy, Vossloh's prime target is to generate a premium on top of the return claimed by investors and lenders (cost of capital). This premium is the difference between the return on capital employed (ROCE) and WACC, determined as the weighted average cost of capital (debt and equity). The absolute value added in a period is the product of the premium times capital employed. Cost of equity is composed of a risk-free rate of 4.25 percent plus a current premium of 5.0 percent, while cost of debt is calculated on the basis of the Group's funding terms and tax deductibility. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not from the balance sheet since it is not only predicated on a benchmark for the funding structure and interest-bearing accruals but also because equity is here based on fair value and not the carrying amounts of the balance sheet. Multiplying the premium by average capital employed (CE) produces the value added (VA) in a period in absolute terms.

Currently, EBIT must return 11 percent on the Group's capital employed (before taxes) 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 and relative performance indicator, the expected premium over pretax WACC hence being 4 percent at present (related to capital employed). Contrary to earlier-year practice, the other current accruals, being non-interest, are also deducted in the working capital formula and thus reduce CE (which is included therein as period average); the prior-year comparatives in this management report have been restated accordingly.

Since the publication of its Q1/2009 report, Vossloh has met the IFRS 8 segment reporting criteria and has presented its operating segments in line with the Group's internal (management) reporting system, thus disclosing value added as an absolute key performance indicator of the Vossloh Group both internally and externally.

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

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

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

Business report

Business environment



The rail infrastructure and rail technology markets of relevance to Vossloh follow general economic trends worldwide only to a limited extent. Just as pertinent are political policies and the current status of rail sector deregulation, public-sector debts and the infrastructure expenditures allocated for shoring up the economy. In 2009, the industry once again benefited from the burgeoning emerging and transformation nations whose economic growth typically requires heavy infrastructure spending.

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 major trends is therefore given under the reports on each segment.

As assessed in its 2009 annual report by UNIFE, the Association of the European Rail Industry, the impact of the global recession on the rail market varies by segment. Its observations are partly applicable to Vossloh's own business. Especially battered by the current crisis is freight haulage. According to the newest UNIFE analysis of July/August 2009, haulage volumes in Europe in the first half of 2009 tumbled between 25 and 52 percent. Meanwhile German Rail's Transport & Logistics unit has reported a slump of around 25 percent for all of 2009. For rail industry suppliers, lower freight volumes inevitably depress demand for locomotives. This was well reflected in Vossloh's own business during the period where in Europe, the main sales market, demand for our diesel locomotives, especially the center-cab variety, plunged. Elsewhere, too, in countries where rail haulage is primarily synonymous with freight such as the USA, our global business in infrastructure products encountered weaker demand in some areas. In the USA, rail cargo haulage contracted by around 16 percent. As to long-distance passenger transportation and infrastructure, the UNIFE 2009 report identifies slightly adverse repercussions. Admittedly, some new railway line projects are being delayed yet Vossloh has managed to buck the trend by tapping and developing new markets. In the case of local public transport, UNIFE identifies barely any fallout from the economic situation and this is exemplified in Vossloh's own business where the Electrical Systems unit reports extremely strong and stable demand and Vossloh España impressive new contracts for metro trains and trams.

It is generally conceded that the worst economic crisis since World War II touched its trough in 2009. According to the International Monetary Fund, global GDP slipped by 0.8 percent in 2009; this compares with a 3.0-percent rise in 2008.

Europe, China, and North America are Vossloh's chief sales markets.

The decline in the eurozone's GDP, Vossloh's most important market, slowed down in the course of 2009 and, in Q3 and Q4, output rose somewhat quarter-on-quarter. For all of 2009 and according to the February estimate of Eurostat, the eurozone's GDP was down by 4.0 percent (in 2008 up by 0.6 percent).

Down by 4.3 percent (in 2008 up by 3.1 percent), those economies of C&E Europe neighboring the eurozone likewise shrank. The most vigorous, albeit also decelerating, growth rates in 2009 were again reported by the emerging nations of Asia as in the case of China, 8.7 percent (down from 9.6).

The US economy in 2009 contracted by 2.5 percent, the previous year it had shown a marginal gain of 0.4 percent.

M&A transactions

Three businesses were acquired in fiscal 2009.

In April 2009, Vossloh took over APS electronic AG, Switzerland, in order to expand Vossloh Electrical Systems' components and servicing business.

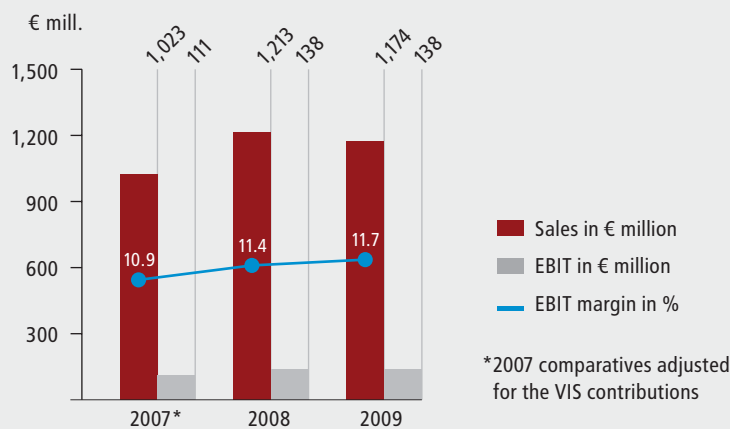
In July, the switch and permanent-way components business of Nuova Sima Sud, Italy, was added to the Switch Systems business unit.

In October 2009, a majority stake was acquired in the Texas-based signaling equipment manufacturer Global Rail Systems, Inc., a move that will strengthen the USA business of Vossloh Switch Systems. This company is to be consolidated in 2010.

Each of these three enterprises has annual sales in the single-digit million euro range.

Results of operations

Note Absolute differences and relative variances have first been computed from the full figures and then commercially rounded. When reperforming these calculations by using the rounded reference figures reported herein, these differences or variances may therefore deviate.



Vossloh Group: sales and EBIT trend 2007–2009

Despite the global financial and economic turmoil, Vossloh succeeded in almost repeating prior-year sales and in slightly outstripping EBIT, both at record levels in 2008. Year-on-year, sales edged down 3.2 percent from €1,212.7 million to €1,173.7 million. EBIT inched up 0.1 percent from €137.7 million a year ago to €137.9 million in 2009. Consequently, the EBIT margin mounted from 11.4 to 11.7 percent, hence again significantly above the corporate benchmark of 10 percent.

Group earnings for 2009 came to €87.9 million, the previous year's €139.4 million had included the net result of €46.8 million from the discontinued and sold Vossloh Infrastructure Services (VIS) operations. Accordingly, earnings per share (EpS) in the period amounted to €6.57, down from the prior-year €9.48 but up from a like-for-like €6.30 from continuing operations. Substantially thanks to the treasury stock repurchased, the average number of shares outstanding in 2009 shrank 1,322,244 to a total 13,380,908.

Largely due to a higher annual average capital employed, ROCE receded from 21.8 (LFL) to 20.5 percent, down by 1.3 percentage points. Measured against our present WACC of 11 percent, we achieved a premium of nigh 10 percentage points. The value added in 2009 totaled €63.7 million (down from €68.2 million). The Executive and Supervisory Boards will propose to the annual general meeting an unchanged cash dividend of €2.00 per share; the €1.00 superdividend additionally distributed a year ago was a one-time bonus from the VIS divestment.

Sales

Vossloh Group: sales by business unit

	€ million		%	€ million		%
	2009			2008		
Rail Infrastructure	690.3		58.8	707.1		58.3
Fastening Systems	267.1		22.8	254.9		21.0
Switch Systems	424.9		36.1	453.6		37.4
Consolidation	(1.7)		(0.1)	(1.4)		(0.1)
Motive Power&Components	483.2		41.2	505.0		41.7
Locomotives	336.2		28.6	375.2		31.0
Electrical Systems	148.5		12.7	129.8		10.7
Consolidation	(1.5)		(0.1)	0.0		0.0
Intermediate holding companies and consolidation	0.2		0.0	0.6		0.0
	1,173.7		100.0	1,212.7		100.0

With sales of €690.3 million (down €16.8 million or 2.4 percent), the Rail Infrastructure division accounted for 58.8 percent (up from 58.3) of group sales. The division's Fastening Systems business unit upped its sales by €12.2 million or 4.8 percent, mainly due to again higher revenue from China, rising from €86.0 million to €105.9 million. The lower revenue at Vossloh Switch Systems (down €28.7 million or 6.3 percent) is chiefly related to shrinking sales in North and Central America.

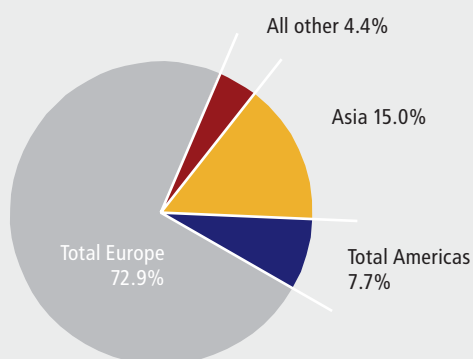
The Motive Power&Components division reported sales of €483.2 million for 2009, a drop of €21.8 million or 4.3 percent. Added revenue by the Electrical Systems business unit failed to make good the €39.0 million or 10.4-percent decline at Vossloh Locomotives. Thanks to a broader product array the Valencia location did manage to almost achieve the prior year's sales; this plant was working on long-term orders for suburban trains. As a builder of center-cab shunting locomotives the Kiel plant is by nature most hit by the recession and the accompanying plunge in freight transport.

From a strong baseline, the division's Electrical Systems business unit posted another vigorous advance in sales which climbed by €18.7 million or 14.4 percent to €148.5 million. Orders for fitting out electrical-driven light rail vehicles and (trolley)buses were placed at home and abroad.

Vossloh Group: sales by region

	€ mill.	%	€ mill.	%
	2009		2008	
Germany	132.3	11.3	155.3	12.8
France	156.0	13.3	113.6	9.4
Other Western Europe	172.0	14.7	209.1	17.2
Northern Europe	100.5	8.6	79.1	6.5
Southern Europe	260.8	22.2	268.5	22.1
Eastern Europe	34.1	2.8	46.0	3.8
Total Europe	855.7	72.9	871.6	71.8
North and Central America	84.2	7.2	131.4	10.8
South America	6.4	0.5	4.4	0.4
Total Americas	90.6	7.7	135.8	11.2
Middle East	16.4	1.4	32.2	2.7
Other Asia	159.2	13.6	125.8	10.4
Total Asia	175.6	15.0	158.0	13.1
Africa	22.3	1.9	30.3	2.5
Australia	29.5	2.5	17.0	1.4
Total	1,173.7	100.0	1,212.7	100.0

European sales by the Vossloh Group in 2009 slipped by almost 2 percent; outside of Europe by just under 7 percent. So, non-European sales as a share of the total dipped one percentage point to 27.1 percent.



Sales breakdown by region in 2009

In terms of the ongoing internationalization of business this is but a temporary setback. Certain non-European rail markets, especially in Central America and the USA, have suffered to a relatively higher degree from the financial and economic crisis, and even buoyant Chinese business failed to make good the loss.

In the important Western European rail markets, especially Germany, France and Spain, Vossloh traditionally commands a solid position, also thanks to its long-established manufacturing presence in these countries. Business in Spain was again dominated by the Valencia location of the Locomotives business unit where, besides the locomotives themselves, production of trains for local transport generated high domestic shipments. In France, Vossloh's switch business triggered appreciable sales and, in 2009, especially with locomotives from both Valencia and Kiel, the latter also contributing revenue from services. Business in Germany in fiscal 2009 was again chiefly attributable to Vossloh Fastening Systems, Vossloh Electrical Systems and the Kiel plant where locomotives are built. Whereas in Germany sales at the Fastening Systems and Locomotives business units were partly down significantly, revenue at Vossloh Electrical Systems rose appreciably. In fact, this business unit was the main source of sales in Germany last year. In all, German sales fell by 14.8 percent, their share of the total inching down once more, this time to 11.3 percent.

Vossloh Group: sales and performance

	€ mill.	%	€ mill.	%
	2009		2008	
Sales	1,173.7	100.0	1,212.7	100.0
Gross margin	257.3	21.9	253.8	20.9
Operating result	138.0	11.8	139.9	11.5
EBITDA	162.5	13.8	160.5	13.2
EBIT	137.9	11.7	137.7	11.4
EBT	128.5	10.9	128.4	10.6
Net result of discontinued operations	–	–	46.8	3.9
Group earnings	87.9	7.5	139.4	11.5
EpS (€)	6.57		9.48	

Cost of sales receded 4.4 percent to €916.3 million in the Group; as the rate of decline outpaced the sales decrease, cost of sales as a share of sales improved from 79.1 to 78.1 percent. The primary reason was the lower prices paid for commodities and components.

General administrative and selling (GAS) expenses advanced by €5.4 million to €134.2 million and as a share of sales climbed from 10.6 to 11.4 percent, albeit still short of the 11.9 percent in 2007.

With the reduction in cost of sales outpacing the decline in revenue, as well as with a merely moderate rise in other operating expenses, EBIT rose marginally, from €137.7 million to €137.9 million in fiscal 2009.

Since the net interest expense was virtually unchanged at €9.4 million, EBT also inched up only slightly, by €0.1 million or 0.1 percent to €128.5 million.

The Group's tax load ratio, just under 23 percent in 2008, climbed to almost 25 percent, mainly as a consequence of the phaseout of the full income tax exemption in China. Group earnings amounted to €87.9 million. The prior year's €139.4 million had included €46.8 million from discontinued operations solely in connection with the sale of the Infrastructure Services business unit. Group earnings were down even without taking into account the net result of discontinued operations, the decline being attributable to higher minority interests and the heavier tax burden.

Year-end order backlog in the Group added up to €1.09 billion (down from €1.13 billion a year before). Whereas Rail Infrastructure reported a higher backlog, the orders on hand at Motive Power& Components had shrunk. The improvement at Rail Infrastructure was solely attributable to Vossloh Fastening Systems thanks to the new megacontract from China; order backlog at Switch Systems fell on account of much more sluggish order intake. The Locomotives business unit's order backlog decreased, in particular due to the slump in order intake at the Kiel location; at Valencia the reduction was of more moderate proportions. Vossloh Electrical Systems' order book slimmed down, too, albeit slightly.

Vossloh divisions: order backlog

	€ mill.	%	€ mill.	%
	2009		2008	
Rail Infrastructure	422	38.6	359	31.9
Motive Power&Components	670	61.4	767	68.1
	1,092	100.0	1,126	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, Corporate Treasury Management is in charge of securing the finances of all subsidiaries as well as of hedging and managing financial risks, which include not only liquidity risks but also and in particular those from interest and exchange rate fluctuations. Hedging instruments comprise financial derivatives, too. The group companies' funding level is largely ensured by Vossloh AG providing the necessary cash resources intragroup. Only in isolated cases where funding outside Germany is either economically preferable or required by law will a subsidiary obtain finance locally.

The Vossloh Group's net financial debt as of December 31, 2009, amounted to €70.2 million, comparing with prior-year net financial assets of €35.0 million. At year-end 2009, financial debts of €227.5 million (up from €212.9 million) contrasted with cash and cash equivalents (including short-term securities) of €157.3 million (down from €247.9 million), the decrease being largely attributable to the repurchase of treasury stock and the dividend payout. The net leverage in 2009 was 14.3 percent, which compares with a prior-year negative 7.1.

Vossloh Group: net leverage

		2009	2008
Total equity	€ mill.	492.6	492.7
Net financial debt/(assets)	€ mill.	70.2	(35.0)
Net leverage	%	14.3	(7.1)

Financial debts in 2009 substantially represented the long-term debt of around €168 million raised by Vossloh in 2004 by a two-loan private placement from the US capital market. The first and second fixed-rate US-dollar loans (due in 2014 and 2016, respectively) have a bullet maturity. Since the funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and cross-currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively. The remaining financial debts as of the balance sheet date mainly included a short-term floating-rate loan of €26 million raised by Vossloh AG. Moreover, other group companies had incurred financial liabilities of just under €34 million, including short-term funds of €22.6 million raised by Vossloh Fastening Systems China alone.

As of December 31, 2009, open cash credit facilities of €172 million were available to the Vossloh Group. For details, see the chapter on risk and reward management starting from page 78. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

Vossloh Group: cash flow analysis

€ million	2009	2008
Cash flow from operating activities	44.9	133.8
Cash flow from investment activities	(52.3)	116.8
Cash flow from financing activities	(84.1)	(77.0)
Net cash (outflow)/inflow	(91.5)	173.6

The much lower net cash provided by operating activities resulted in particular from the buildup of working capital.

Vossloh Group: capital expenditures and amortization/depreciation

€ million	2009		2008	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	21.6	11.5	19.3	10.9
Motive Power&Components	19.4	12.2	16.8	11.1
Holding companies and consolidation	0.9	0.9	1.5	0.8
	41.9	24.6	37.6	22.8

The net cash of €52.3 million used in investing activities in 2009 compares with net cash of €116.8 million provided by investing activities a year ago (mainly the divestment of Vossloh Infrastructure Services). Cash outflows for additions to tangible and intangible assets in the period totaled €39.5 million (up from €37.6 million).

The net cash outflow of €7.3 million went into the acquisition of consolidated subsidiaries and other units (down from €15.2 million). Investments of €5.7 million in noncurrent financial instruments (up from €0.6 million) chiefly covered the acquisition of Global Rail Systems, Inc. (yet to be consolidated).

In 2009, capital outlays again outstripped by far amortization and depreciation of €24.6 million (up from €22.8 million).

Fiscal 2009 saw the €45.9 million payout of cash dividends (up from €26.3 million), including €40.0 million to Vossloh AG stockholders (up from €25.2 million).

Besides the capital expenditures of the Fastening Systems business unit for the production plant in Turkey, the outlays of both business units of the Rail Infrastructure division essentially centered on modernizing their facilities. As in the preceding years, expenditures at both locations of Vossloh Locomotives were mainly directed at the development of new products, major projects being the new modular center-cab locomotive family, the diesel-electric driveline, and the EURO Light large diesel-electric locomotive, as well as further work on (sub)urban trains.

Vossloh Group: breakdown of capital expenditures

€ million	2009		2008	
	Capex	%	Capex	%
Development costs	9.7	23.2	7.4	19.7
Other intangibles	1.9	4.5	0.8	2.1
Land and buildings	2.2	5.3	2.6	6.9
Production plant and machinery	9.8	23.4	9.7	25.8
Other plant, factory and office equipment	6.5	15.5	4.6	12.2
Prepayments made, construction in progress	11.8	28.2	12.5	33.3
	41.9	100.0	37.6	100.0

The future cash outflows under the operating leases existing at December 31, 2009, will total €40.2 million (up from €35.3 million), including €11.4 million in 2010.

Asset and capital structure

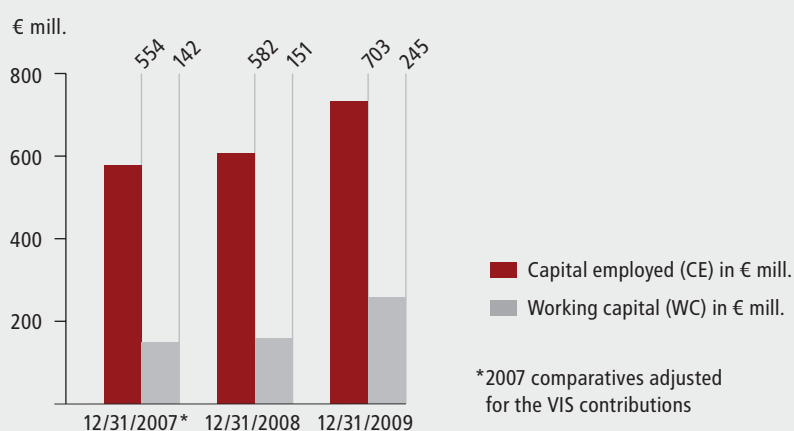
With total assets inching down marginally from the close of 2008, Vossloh's equity ratio remained at 36.8 percent. Equity crept up a negligible €0.1 million, being substantially the net balance of (i) a €43.5 million decrease (to reflect the treasury stock repurchase) and a €45.9 million reduction for the dividend payout, and (ii) an €87.9 million rise due to the earnings for 2009.

Vossloh Group: asset and capital structure

		2009	2008
Total assets	€ mill.	1,338.4	1,339.4
Total equity	€ mill.	492.6	492.7
Equity ratio	%	36.8	36.8
Closing working capital	€ mill.	245.1	150.6
Closing capital employed	€ mill.	703.2	582.1
Year-end working capital intensity	%	20.9	12.4
Fixed assets	€ mill.	458.2	431.4
Return on equity (ROE)	%	26.1	26.1

In a year-on-year comparison, working capital climbed €94.5 million or 62.7 percent, mainly due to the swelling inventories within Vossloh Locomotives and, to a lesser extent, to the Switch Systems business unit. A bulging receivables portfolio thanks to brisk business in Q4/2009 boosted year-end working capital. Since sales declined during the period, the Group's working capital intensity worsened markedly, by 8+ percentage point to 20.9 percent.

Capital expenditures above amortization/depreciation caused the rise in capital employed (up €121.1 million) to be steeper than that in working capital.



Vossloh Group: CE and WC trend 2007–2009

Shareholder value management

Due to the significantly higher average capital employed and the only marginal rise in EBIT, the like-for-like ROCE contracted from 21.8 percent a year ago to 20.5 in 2009 but nonetheless remained 9.5 percentage points above the Group's WACC of 11 percent and clearly outperformed the internal benchmark of 15 percent.

Vossloh Group: shareholder value management

		2009	2008
Average capital employed	€ mill.	674.0	631.3
ROCE	%	20.5	21.8
Value added (VA)*	€ mill.	63.7	68.2

*Based on an 11-percent WACC.

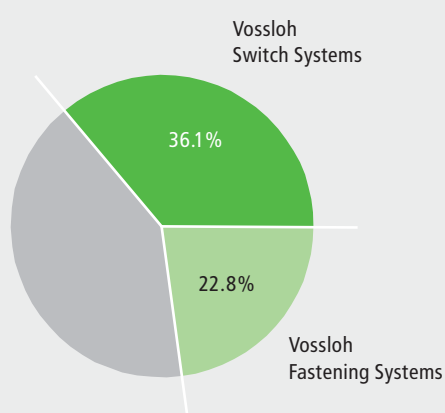
While the Rail Infrastructure division upgraded its ROCE in the year under review to 23.9 percent, the pushed-up working capital and high net capital expenditures notwithstanding, ROCE of Motive Power&Components plunged 10.2 points to 23.4 percent as this division's EBIT slid and capital employed heightened.

Value added presented a similar trend: within the Group, VA diminished from €68.2 million to €63.7 million. Within Rail Infrastructure, VA rose year-on-year from €58.0 million to €67.5 million and, within Motive Power&Components, it slimmed down from €28.5 million to €18.6 million.

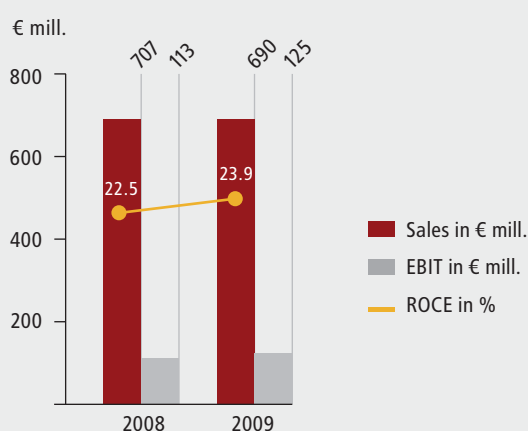
Sales growth at Vossloh Fastening Systems due to brisk business with China



Decline at Vossloh Switch Systems through lower revenue in North and Central America as a result of the financial and economic crisis



Shares of business units in group sales



Rail Infrastructure division: sales, EBIT and ROCE trends

Rail Infrastructure business trend

In fiscal 2009, the Rail Infrastructure division comprised two business units: Fastening Systems and Switch Systems.

Together, they generated sales of €690.3 million, down €16.8 million or 2.4 percent from the figure for 2008. A sales gain of €12.2 million or 4.8 percent by Vossloh Fastening Systems contrasted with a decrease of €28.7 million or 6.3 percent at Vossloh Switch Systems.

Vossloh Fastening Systems benefited from a steep growth generated by its Chinese subsidiary which since 2007 has been manufacturing rail fasteners and in 2009 once again reported a sizable increase in sales.

Rail Infrastructure

		2009	2008
Sales	€ mill.	690.3	707.1
EBITDA	€ mill.	136.5	124.3
EBIT	€ mill.	125.0	113.4
EBIT margin	%	18.1	16.0
Closing working capital	€ mill.	210.2	175.5
Year-end working capital intensity	%	30.5	24.8
Fixed assets	€ mill.	310.6	298.4
Capital expenditures	€ mill.	21.6	19.3
Amortization/depreciation	€ mill.	11.5	10.9
Closing capital employed	€ mill.	520.8	473.9
Average capital employed	€ mill.	522.3	504.0
ROCE	%	23.9	22.5
Value added	€ mill.	67.5	58.0

Value added advanced appreciably by 16.5 percent from €58 million to €67.5 million. Despite the higher capital employed (CE) and thanks to an improved EBIT, ROCE inched up again and at 23.9 percent (up from 22.5) was well above the 15-percent corporate benchmark. Much of the higher EBIT was due to sinking procurement prices. The division's average working capital climbed around 5 percent from €209.3 million to €220.3 million. Since this rise was accompanied by lower sales, working capital intensity worsened by 5.7 percentage points.

Vossloh Fastening Systems

The Fastening Systems business unit reported sales of €267.1 million for fiscal 2009, thus topping the prior year's high €254.9 million. The 4.8-percent rise is solely due to mounting revenue from Asia, in particular from China.

This country was once again the business unit's biggest national market where sales totaled €105.9 million, a hike of €19.9 million or 23.1 percent from the prior year's €86.0 million. The end of September saw the signing of a new contract for fasteners on the new high-speed Beijing-Shanghai line and during the period the first shipments were sent out from our Chinese production plant.

China was not the only emerging Asian market where Vossloh Fastening Systems scored successes. In India, its position in the local public transport market was bolstered further. The rail fastening system that has already proven itself on the New Delhi Metro is now also being installed on the Mumbai Metro. For the first time the slab track system is used for a rail link in India. Vossloh Fastening Systems is supplying the corresponding products for the Delhi Airport Express. In Vietnam, Vossloh is equipping the Yen Vien-Pha Lai-Ha Long-Cailan line, an important linkup with the Chinese railways. And for Kazakhstan's state rail, the business unit fitted altogether 258,000 concrete sleepers with its fastening systems.

Business in the important European market, in contrast, was appreciably weaker during the period, especially with receding revenue in Southern and Eastern Europe. Sales in Germany came to €36.7 million, as anticipated again short of the 2008 figure. With competition tightening, this is a trend that will continue. Sales in Austria more than doubled since Vossloh is providing the fasteners for the new slab track lines. From Switzerland, Vossloh Fastening Systems was awarded the contract for fasteners on the Gotthard Base Tunnel.

In Turkey, certain projects were postponed but are expected to be awarded in 2010. This is a market where since 2009 Vossloh has been present with an expanded production plant. Besides its ongoing new-build projects, the state rail TCDD has resolved an additional refurbishment program.

In the countries of the Middle East and North Africa (MENA) Vossloh again succeeded in being awarded attractive projects. For instance, the new metro in Mecca, Saudi Arabia, was equipped with Vossloh rail fasteners.

Capital expenditures added up to €4.6 million (up from €2.5 million) of which the expansion to the Erzincan production facility in Turkey accounted for €0.8 million. Amounts were also invested at the Kunshan plant in China and at Werdohl.

The previous year had seen significant input market price hikes which could only partly be offset through output price increases. Last year the unit benefited from commodity price reductions.

Value added soared from €44.4 million to €58.0 million, up by 30.7 percent.

Thanks to the megacontract awarded in China in 2009, Vossloh Fastening Systems was able to report a year-end order backlog which had more than doubled, from €72.2 million to €154.1 million.

Vossloh Switch Systems

Compared with the record €453.6 million booked in 2008, Vossloh Switch Systems in 2009 showed 6.3 percent lower sales of €424.9 million. Most of the shortfall is due to sagging revenue from North and Central America, down €43.4 million. The majority of US rail network operators are privately financed and active in the freight haulage sector which is especially hard hit by the economic crisis. As a consequence there was less demand for switches and trading products. In the Central American metro market, project delays meant reduced revenue.

Western European sales proved strong in most countries including Sweden, Portugal, Finland, and Spain. As in the preceding periods, shipments to Spain mainly concerned high-speed switches. Our position in the Italian market was buttressed with the acquisition of Nuova Sima Sud, a manufacturer of switches and permanent-way components. France saw a turnaround of the prior-year trend: added sales were generated from local transport projects including those at Orléans, Angers, Paris, Lyon, and Mulhouse while the relatively sluggish demand for high-speed switches was due to the shelving of projects. Despite the attractive tram projects in Poland, Vossloh Switch Systems was not fully impervious to a weak Eastern European market which included delays in the expansion of the EU's rail corridors.

Shipments to Tunisia, Algeria, and Morocco included signaling equipment and conventional switches for new lines and local transport projects.

Asian business was generally robust in 2009. Through a licensing agreement Vossloh Switch Systems is sharing in the construction of several high-speed lines in China. A large order booked in Malaysia is helping the business unit to expand its local presence. Enlarged the previous year, the Indian frog production capacities are busy, albeit demand for switches, turnouts, and signaling equipment was down.

Capital expenditures at €17.0 million were well over the €12.0 million in 2008. Revamping and fine-tuning work was carried out at all the locations. The current amount includes the tangible assets from the acquisition of Nuova Sima Sud.

In all, this business unit's profitability remained stable. Any adverse effects accrued from unfavorable exchange rates and weaker sales, while lower procurement prices did provide some relief. Steel and rail material prices fell appreciably.

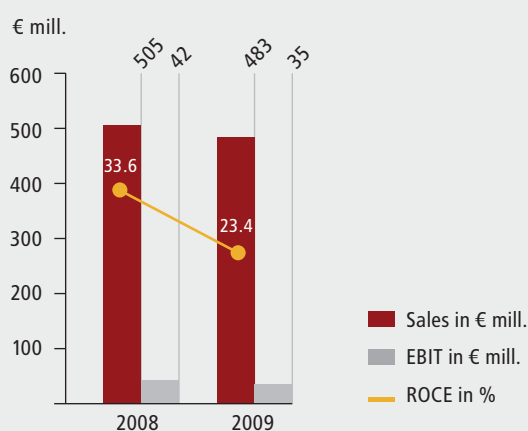
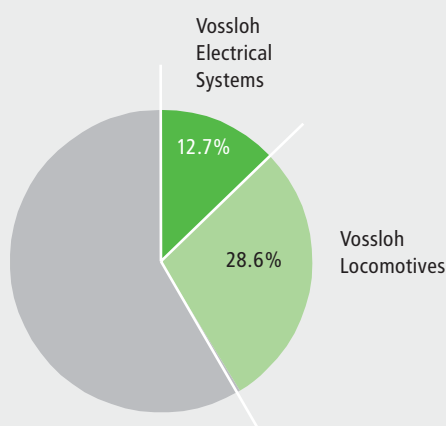
In the wake of soaring capital employed, value added dropped from €13.5 million to €9.6 million.

Year-end order backlog shrank from €286.3 million to €267.1 million.

*Global freight haulage reduction
squeezes locomotive shipments*

*Sharp sales hike at
Vossloh Electrical Systems*

*"Green" local public transport vehicles
again in demand*



Shares of business units
in group sales

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

Motive Power&Components

business trend

Sales by Motive Power&Components—a division consisting of Vossloh Locomotives and Vossloh Electrical Systems—slipped by 4.3 percent to €483.2 million. Vossloh Locomotives reported a €39.0 million drop in sales while Vossloh Electrical Systems added €18.7 million versus 2008.

At Vossloh Locomotives, both the Kiel and Valencia locations failed to repeat their prior-year performance. As a consequence of the financial and economic crisis and the related slowdown in freight haulage, shipments of center-cab locomotives from Kiel were much hurt. Our Spanish subsidiary generated almost one-half of its sales with (sub)urban trains, bogies, and services, and accordingly suffered only a marginal loss in revenue.

From a high baseline, the Electrical Systems business unit again achieved added sales both in its LRV business and with the supply of components for electrically powered (trolley)buses. Addressing the demand for alternative propulsion concepts, Vossloh Electrical Systems has now equipped the first vehicles with its series hybrid drive.

Motive Power&Components

		2009	2008
Sales	€ mill.	483.2	505.0
EBITDA	€ mill.	47.4	53.4
EBIT	€ mill.	35.2	42.3
EBIT margin	%	7.3	8.4
Closing working capital	€ mill.	40.9	(15.6)
Year-end working capital intensity	%	8.5	(3.1)
Fixed assets	€ mill.	136.6	126.8
Capital expenditures	€ mill.	19.4	16.8
Amortization/depreciation	€ mill.	12.2	11.1
Closing capital employed	€ mill.	177.5	111.2
Average capital employed	€ mill.	150.8	125.8
ROCE	%	23.4	33.6
Value added	€ mill.	18.6	28.5

The value added by the division fell from €28.5 million to €18.6 million.

At 23.4 percent, ROCE, though 10.2 percentage points short of the prior year's figure, was still well above the corporate benchmark of 15 percent.

EBIT slid 16.8 percent to €35.2 million, the EBIT margin at 7.3 percent was down by 1.1 percentage points.

Average capital employed moved up €25.0 million since, at €18.1 million, the division's average working capital was significantly above the 2008 magnitude of €0.4 million, mainly due to leveled-up inventories.

Vossloh Locomotives

Sales at the Locomotives business unit slowed down by 10.4 percent, from €375.2 million to €336.2 million. Vossloh España including its maintenance operation (Erion Mantenimiento Ferroviario SA, Madrid) showed sales of €215.3 million, equivalent to around 64 percent of the total by this business unit. The Kiel location generated revenue of €121.7 million (down from €158.7 million).

Year-end 2009 orders on hand at Vossloh Locomotives totaled €448.1 million (down from €531.4 million), theoretically enough to keep it busy for over 14 months.

The Locomotives business unit added value of €1.7 million (down from €10.3 million).

Valencia location Around 59 percent of sales at Vossloh España in fiscal 2009 was sourced from diesel locomotives; orders included those from the Spanish rail company Renfe and, as subcontractor, from Alstom for the French railways SNCF. Further national homologations were either obtained or progress was made in the application procedures for the EURO 4000, Europe's most powerful diesel-electric locomotive.

The remaining 41 percent of sales at Vossloh España was generated from local transport trains and bogies. A contract for a train-tram to operate on the vacation island of Mallorca represented an important milestone. For the first time Vossloh itself is furnishing both the railcars and their electrical traction equipment.

Of the total capital expenditures of €8.0 million, over €3 million went toward work on the EURO Light to be unveiled at InnoTrans 2010. Rated at 2,800 kW, this four-axle high-duty locomotive is engineered for lines with low axle loads (less than 20 t per axle).

As a manufacturer of center-cab shunting locomotives Vossloh Locomotives in Kiel is naturally hard hit by the economic crisis and accompanying collapse in freight haulage. Many capital expenditures were postponed and orders for new machines accordingly slumped. During the period the Kiel plant shipped out to its customers 48 diesel-hydraulic locomotives, the year before 64. Another 14 were retrofitted with the new European Train Control System (ETCS); together with a local associate, work on a similar scale was launched with the Italian system SCMT (Sistema di Controllo della Marcia del Treno).

Observable over recent years, the rising demand for all-in service packages including parts, full servicing, maintenance management, advice and training was reaffirmed during the period. This is a type of activity that Vossloh Locomotives is steadily expanding by developing proposals tailored to individual regional market needs and expectations. Special emphasis is placed on carrying out sophisticated regular maintenance and repair (M&R) work (such as general inspections), and more extensive modernization jobs. Available for such work will in future be, besides the Moers service shop, the Kiel plant to a greater degree.

Capital expenditures at the Kiel location amounted in 2009 to around €7.2 million of which €5.6 million went toward product developments, largely for the new modular family of locomotives. On the basis of a newly devised platform strategy, the four-axle G 12 and G 18 will be available in both diesel-hydraulic and diesel-electric versions. It is generally conceded that either mode of propulsion has its specific advantages. Vossloh engineers have succeeded in achieving up to 80-percent parts commonality for the two versions.

Vossloh Electrical Systems

Vossloh Electrical Systems reported a strong gain in sales by 14.4 percent to €148.5 million.

The mainstay of this growth was business in electrical equipment for trams and other light rail vehicles. During the year, the contracts from Porto, Dortmund, Manchester, Krefeld and Düsseldorf were carried out. Demand for rail equipment in 2009 was from inside and outside of Germany; in general, competition is becoming fiercer with the advent of new, smaller players.

By strengthening its electrical equipment competence in the form of the new company Vossloh Kiepe Main Line Technology and with the acquisition of Switzerland's APS electronic, the Electrical Systems business unit has entered the mainline rail market. The first projects comprise the development of the diesel-electric driveline for Vossloh Locomotives' new locomotive family and the equipment for Vossloh's Valencia-built train-tram destined for Mallorca. This allows Vossloh Electrical Systems to revert to its own proprietary frequency converter topology, with downward compatibility and hence very long parts availability.

A strategic milestone was a contract from the USA. Houston, along with Dallas the second Texas city with a light rail service, is expanding its network. To cater for what will then be five lines, Metro Houston is adding 103 low-floor vehicles to its current fleet. Just as the vehicles themselves, the traction kits from Vossloh Kiepe will be manufactured in the USA. Shipments to Metro Houston will take place between April 2012 and summer 2014.

International demand continues strong for trolleybuses and other electric buses, vehicles that are gaining attraction through new energy storage systems (supercaps and/or batteries) and the availability of double-articulated buses as high-occupancy vehicles (HOVs). Likewise attracting ample attention is hybrid drive and the first commercially operating vehicles of this kind are already in service in Luxembourg.

Besides the shipments for Vancouver, Arnheim and Solingen, projects in the Swiss cities of St. Gallen, Lucerne and Lausanne, as well as in Italy's Milan and Avellino made up most of the revenue derived from buses.

In-house integration of our retrofitting and servicing activities within a Service and Components unit is a move that has led to higher demand. Package solutions, in particular, are going down very well with customers.

Business in retrofitted air-conditioning kits for rail vehicles continues brisk, albeit fiercely competitive.

At year-end 2009, Vossloh Electrical Systems had an order backlog of €222.1 million, down from €236.2 million on account of some project delays. Still, this is enough to keep it busy for well over a year.

The business unit's capital expenditures came to €4.2 million for procuring or revamping plant and machinery, office furniture and equipment, and IT systems.

The value added by this business unit shrank from €18.2 million in 2008 to €16.9 million in the year under review.

Vossloh AG

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

Analysis of the separate financial statements

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

In fiscal 2009, the administrative expenses of €19.6 million were €9.1 million below the prior year's. Particularly the expenses borne by Vossloh in connection with the divestment of Vossloh Infrastructure Services SA had boosted costs significantly. Personnel expenses rose 15.6 percent to €8.9 million; the higher annual average headcount of 51 (up from 46) is largely attributable to stepped-up, centrally organized marketing activities.

Besides income from taxes apportioned to subsidiaries and forex gains/losses, the other operating income/expenses reflect nonperiod expenses in connection with potential obligations under guaranties in favor of subsidiaries.

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



Key components of the net financial result are the income from the profits transferred by Vossloh-Werke GmbH and Vossloh Kiepe GmbH, together accounting in 2009 for €55.4 million (up from €43.8 million). Interest expense of €14.6 million (down from €16.3 million)—mainly for refinancing the Group's capital requirements—contrasted in 2009 with interest income of €6.1 million from granting short-term credit or medium-term loans to consolidated subsidiaries and from cash investments (down from €15.9 million).

The slight downturn of net financial income (from €41.9 million to €39.9 million) was indirectly caused by the divestment in 2008 of Vossloh Infrastructure Services. The disposal made it possible to repay intragroup loans granted by Vossloh AG, which, in turn, pared interest income significantly. Moreover, the restatement at the lower current value of the treasury stock as of December 31, 2009, burdened the net financial result with €3.5 million.

Despite EBT inching down €0.6 million, Vossloh AG's net income of €29.1 million is above the prior-year €26.4 million, thanks to a significantly lighter income tax burden (down from €5.5 million to €2.2 million).

As of December 31, 2009, Vossloh AG's total assets sank to €815.4 million (down from €819.5 million). The 1,476,230 treasury shares repurchased between October 15, 2008, and March 20, 2009, had a year-end market value of €69.52 each. The net slump in receivables and other assets was produced by two opposite trends: on the one hand, total fixed-term monies plunged €120.0 million; on the other, intercompany receivables due for intragroup finance purposes and for agreed profit transfers surged €62.6 million. As of December 31, 2009, Vossloh AG's equity edged down €10.9 million to €490.8 million. Accordingly, the Company's equity ratio crept down from the prior year's 61.2 percent to 60.2.

Vossloh AG's financial position depends on the funds needed by subsidiaries and the debt raised by the Company to refinance such requirements. The debt raised in 2004 from the US capital market by way of private placement, carried within sundry liabilities, amounted to an unchanged €203.9 million. The other borrowings totaled an unchanged €26.0 million as of December 31, 2009.

Board compensation report

This report summarizes the principles underlying remuneration of Vossloh AG's Executive Board members and specifies the details of structure and amount of income of each such officer. In addition, the report describes principles and level of Supervisory Board fees. No stocks or stock options have been granted to the Executive or Supervisory Board members as part of the latter's remuneration.

This board compensation report follows the recommendations of the German Corporate Governance Code as amended up to June 18, 2009.

Remuneration of Executive Board members in 2009

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

At its December 3, 2008 meeting, the Supervisory Board deliberated on the structure of Executive Board remuneration and resolved to establish a discretionary bonus concept instead of the standard long-term incentive. The Supervisory Board decides on the grant and amount of such discretionary bonus after adopting the separate financial statements and approving the consolidated financial statements. In 2009, the Supervisory Board granted the Executive Board such a bonus for 2008 at a total €500,000.

For fiscal 2009, Vossloh AG's executive officers received a total compensation of €2,550,230 (down from €2,716,888), plus the above discretionary bonus for 2008. The total for 2009 includes €660,993 of fixed, and €1,852,423 variable, remuneration. In addition, they received noncash fringes as payments in kind (PIK), basically in the form of private company car use at the tax base of €36,814. PIK income is taxable income of each executive officer.

The table below itemizes the remuneration of each executive officer:

€	Fixed salary	Fringes	Profit share	Discretionary bonus*	Total
CEO					
Werner Andree	408,434	19,367	1,129,526	300,000	1,857,327
COO					
Dr.-Ing. Norbert Schiedeck	252,559	17,447	722,897	200,000	1,192,903
Total	660,993	36,814	1,852,423	500,000	3,050,230

*granted in 2009 for 2008

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

Moreover, they have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 15 or 35 percent, and are stepped up by 3 or 4 percent annually (as from Jan. 1, 2005, or April 1, 2010, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2009, a total €508,867 was provided for accrued pension obligations to Executive Board members (up from €217,154). 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 articulated 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 2009 to any Executive Board member.

The compensation paid as current pensions to former executive officers and their surviving dependants totaled €674,597 (up from €672,966).

Pension obligations to former executive officers and their surviving dependants amounted to €8,648,353 (down from €8,929,872) and are fully covered by accruals.

Remuneration of Supervisory Board members for 2009

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 €20,000 each. In addition, they are paid a variable annual fee of €1,000 for each €0.10 in excess of the Group's earnings per share over €2.00.

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

In accordance with the bylaws, Supervisory Board members received a total €612,125 in 2009 (down from €987,813), including €207,500 fixed and €404,625 variable, performance-related fees. The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Dr.-Ing. Wilfried Kaiser, Chairman	60,000	117,000	177,000
Peter Langenbach, Vice-Chairman	37,500	73,125	110,625
Dr. Jürgen Blume	25,000	48,750	73,750
Dr. Christoph Kirsch	35,000	68,250	103,250
Wolfgang Klein	30,000	58,500	88,500
Michael Ulrich	20,000	39,000	59,000
Total	207,500	404,625	612,125

In addition to these fees, no Supervisory Board member received in 2009 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2009 to any Supervisory Board member.

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

Vossloh AG's capital stock of €37,825,041.04 is divided into 14,795,870 no-par bearer shares of common stock. In the course of 2009, altogether 24 new shares were issued as stock options were exercised under the stock option programs.

The Vossloh Family Pool owned a stake of 31.03 percent, according to information furnished in March 2010 by Familiengemeinschaft Vossloh GbR. Voting right exercise by Vossloh family members has been pooled by contractual agreement.

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

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

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

1. Execution of a direct-control (subordination) and profit & loss transfer agreement
2. Execution of a merger agreement under which Vossloh AG's assets are transferred 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 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, 2009, capital of €7,500,000 was authorized.

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, 2009, 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 10,309 shares were issued by December 31, 2009, thus raising the capital stock by €26,354.55.

As resolved by the annual meeting of Vossloh AG's stockholders on May 20, 2009, the Company is authorized pursuant to Art. 71(1)(8) to repurchase shares of treasury stock equivalent to up to ten percent of the capital stock.

If treasury stock is purchased via a stock exchange, the consideration given in return for treasury shares may not be more than ten percent above or below the Vossloh share price as quoted at the opening auction of the Xetra trade at the Frankfurt Stock Exchange on the trading day.

If treasury stock is reacquired by public offering to buy or a public invitation to bid, the purchase price offered or, as appropriate, the stock price spread per share shall not be more than ten percent above or below the average Vossloh share price as quoted during the closing auction of the Xetra trade during the three trading days preceding the publication date of the public offering or invitation to bid.

The stock repurchase program commenced in 2008 was completed March 20, 2009, after 1,479,582 treasury shares had been reacquired. As decided by the Executive Board, on October 26, 2009, altogether 3,352 treasury shares from this portfolio were reclassified as available to, for purchase by, those employees of Vossloh AG or a Vossloh Group company who have registered for participation in the ESOP 2009, all pursuant to Art. 71(1) No. 2 AktG. Consequently, out of the total 14,795,870 no-par shares issued, Vossloh AG holds 1,476,230 treasury shares, equivalent to 9.98 percent of its capital stock.

Regarding such treasury shares, the Executive Board is authorized, excluding any stockholder subscription rights but 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. 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 at the Frankfurt Stock Exchange during the five trading days preceding the sale of such shares.

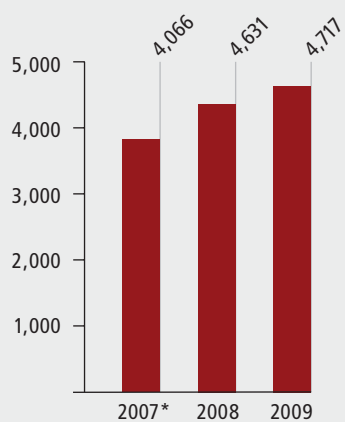
The Executive Board is further authorized, subject to the Supervisory Board's consent, to sell and transfer to third parties any such repurchased stock in the scope of business combinations or M&A transactions, or when acquiring other companies or any equity interest therein.

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 general meeting.

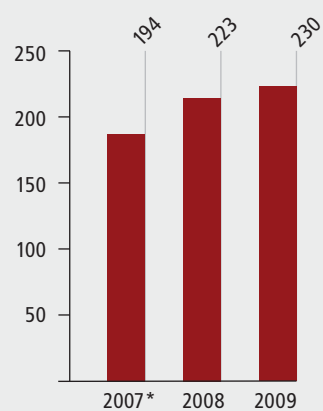
In the event of a change of control and the ensuing early loss of an Executive Board office, no Executive Board member affected will be entitled to claim under their employment contract any termination indemnities or benefits in settlement.

Headcount stable

*17 percent
outside of Europe*



Average group headcount



Personnel expenses in € mill.

*2007 comparatives adjusted for the Infrastructure Services business unit's contributions.

Workforce

At December 31, 2009, the Vossloh Group employed a workforce worldwide of 4,708, up 0.5 percent or 24 compared with the 4,684 at year-end 2008. The consolidation of new companies added 94 employees.

Employee-related indicators

		2009	2008	2007*
Payroll per capita	€ '000	48.7	48.2	47.7
Sales per capita	€ '000	248.8	261.9	251.7
Payroll intensity	%	61.9	61.3	62.9
Value created per capita	€ '000	78.7	78.7	75.9

* 2007 comparatives adjusted for the Infrastructure Services business unit's contributions.

At an unchanged 83 percent, most employees worked at the Group's European locations; outside of Europe 17 percent, of which around 7 percent (down from 8) in North America, and some 8 percent (up from 7) together at the production plants in China and India.

There were only marginal changes in the age structure of the group employees and their average length of service with each subsidiary. The proportion of employees aged below 35 slipped, and that of staff aged above 50 rose, by one percentage point to 32 and 27 percent, respectively. The share with up to ten service years climbed by one percentage point to 57 percent, that with ten to twenty years of service dropped by one percentage point to 19 percent.

Personnel expenses (payroll)

€ million	2009	2008	% change
Pay	185.9	180.3	+3.1
Social Security	40.0	39.2	+2.0
Pension expense	3.7	3.7	+0.0
Total personnel expenses	229.6	223.2	+2.9

Since the employees of the acquirees of fiscal 2008 had been included only pro rata temporis, the Group's average headcount rise from 2008 to 2009 was steeper than at year-end. Whereas in 2008 the Group had employed a workforce of 4,631 on an annual average, this figure rose by 1.8 percent to 4,717 in the period under review.

In 2009, personnel expenses advanced on the previous year by 2.9 percent from €223.2 million to €229.6 million. Since personnel expenses slightly outgrew headcount, the average payroll per capita (rounded) moved up by 1.0 percent from €48,200 to €48,700.

Alongside pay rises, this increase was also attributable to higher social security taxes.

Value created—defined as the excess of total operating performance over cost input and amortization/depreciation/write-down—per capita (rounded) was at the prior year’s level of €78,700. Hence, the ratio of payroll to value created (“payroll intensity”) deteriorated slightly from 61.3 to 61.9 percent.

Sales per capita (rounded) amounted to €248,800 (down from €261,900), a decrease of 5.0 percent.

Rail Infrastructure

Because of the acquirees, the annual average workforce in the Rail Infrastructure division rose by 1.9 percent from 2,660 to 2,710. Average payroll per capita (rounded) slipped 1.0 percent from €40,800 to €40,400. Value created per capita mounted from €84,600 to €87,600 (both rounded); the payroll intensity at 46.0 percent was down by 2.2 percentage points. Sales per capita (rounded) fell 4.2 percent from €265,800 to €254,700.

Motive Power&Components

The annual average number of Motive Power&Components employees inched up from 1,925 to 1,956 (up 1.6 percent). Sales per capita (rounded) slipped 5.8 percent, from €262,300 to €247,000, value created per capita fell by 3.7 percent from €77,800 to €74,900. Payroll per capita increased 1.9 percent from €55,700 to €56,800. Payroll intensity climbed 4.2 percentage points, from 71.6 to 75.8 percent.

Employees 2009

	Annual average*			Year-end		
	Germany	Abroad	Total	Germany	Abroad	Total
Rail Infrastructure	296	2,414	2,710	303	2,454	2,757
Motive Power&Components	965	991	1,956	978	924	1,902
Vossloh AG	51	0	51	49	0	49
Total	1,312	3,405	4,717	1,331	3,377	4,708

* Annual average based on monthly data

Recruiting and developing employees

So that Vossloh can rank among the best in the market we are especially interested in ensuring high-quality apprenticeship courses and carefully compiled HR development programs, plus siding with our workforce as a loyal employer.

As part of existing HR development programs the individual business units offer a broadly ranging selection of in-house and external courses. Typical subjects include quality, work techniques, communication, and leadership. We also organize advanced commercial and technical as well as language courses.

Blue-collar courses likewise enjoy priority and deal with such subjects as welding, load securing/hazardous goods, and the operation of forklift trucks.

As a complement to the existing HR development programs, the Vossloh Academy opened up in fiscal 2009. In the form of a web portal, the German employees (initially) can revert to a range of advanced courses across all companies. Dealt with are topics of assistance in daily work to ensure that Vossloh can cope with tomorrow's job challenges and continues as successful as it is today.

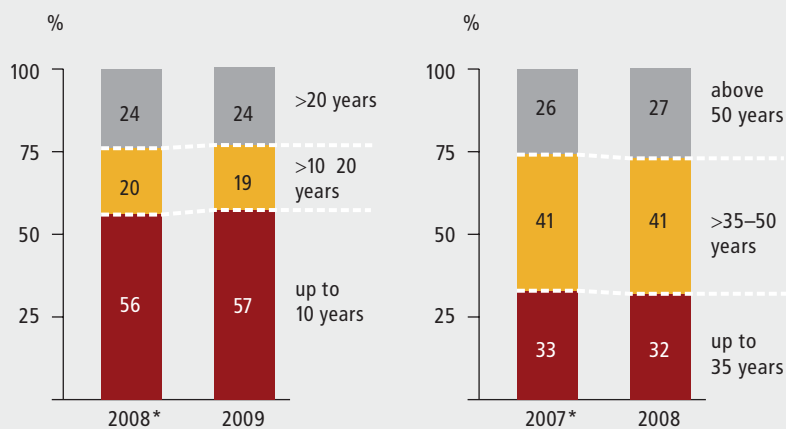
A program under the title "We lead Vossloh" has also been launched and acts as a platform for regularly sharing ideas among staff in key positions at all business units. Concurrently, the program serves as a basis for the ongoing personal development of these employees and thus acts as an essential component for strengthening staff loyalty and planning for jobholder succession.

With a view to broadcasting these various aspects both inside and outside the Group, Vossloh during the fiscal period laid the foundations for successful employer branding. Within this context, Vossloh's essential employer properties of significance for present and future workforces were mapped out. The outcome of a study specially commissioned for this purpose is that Vossloh as a loyal employer offers multifaceted, attractive and challenging jobs within a flat hierarchical organization with swift decision-making channels.

Not to be overlooked are the already existing widely ranging relations with schools and universities in Germany and abroad, especially with European institutions of relevance to our industry. Some of these take the form of research and other projects. Besides, guest lectures are given and undergraduates invited to plant tours.

A first taste of job experience can be obtained by undergraduates in the course of internships and other forms of practical training as well as when working on their diploma, B.A. and M.A. theses. Besides the direct-entry opportunities we are preparing special introductory-level programs for young engineers and engineering graduates.

Vossloh's own in-house apprenticeship courses play a major role in the Group's talent recruitment efforts. During the period, the German locations hired 26 new blue-, white-, and gray-collar apprentices and at year-end, the Werdohl, Düsseldorf, Kiel, Moers and Trier locations together employed 72 apprentices, equivalent to 6.0 percent of the workforce at the German operations with apprenticeship opportunities.



Service years in %

Age structure in %

European Works Council

The period saw the formation of a European Works Council for the purpose of asserting transnational employee rights. It consists of 12 members from Austria, Belgium, Finland, France, Germany, Luxembourg, Netherlands, Poland, Spain, and Sweden.

Thanks

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

Research and development

The Vossloh Group's companies are among the technology leaders in their selected sectors and are constantly investing in the improvement of their products and services. One of their prime aims is to satisfy the specific requirements of customers in the various market regions. In addition, Vossloh works on pioneering new solutions. Activities in this area were rigorously intensified in 2009 in order to extend the product portfolio and adapt it to emerging development trends on the markets. In research and development (R&D), the Group resorts to cooperation both intragroup and with external specialists, and to partnerships with scientific institutions. Since the lion's share of R&D takes place in connection with specific contracts, the associated costs are reflected in the cost of sales and not in R&D expenses.

At Vossloh Fastening Systems, solutions for specific customers are a powerful source of innovation. In 2009, in cooperation with systems suppliers, railway companies and local public transport companies, several new rail fastening systems were developed, tested and in some cases put into practice. The new Skl 30 tension clamp for heavy-haul lines with high temperature differences meets challenging standards of elasticity and creep resistance. Further development work on the successful W-Tram system focused on higher axle loads (up to 22.5 t). In a very short time, the Slab Track System 300 has been further developed for the first triple-rail solution (simultaneous operation of two track gauges). Vossloh Fastening Systems is responding to the global trend toward increasing track elasticity by developing new elastomers. In cooperation with partners, a new test line has also been set up for this very purpose.

In 2009, Vossloh Switch Systems continued the development of a new switch model. For the ongoing optimization of environment-friendly, lubrication-free switches, engineers are working on new coatings for the rail chairs that deliver even lower frictional resistance than the current nickel-chrome coating. The engineers successfully tested spring-roller rail chairs designed to allow extra-long and high-speed switches to be actuated with less force. Work has been pushed ahead on various switch machines that help to extend maintenance and service intervals. Also in the development pipeline is a new solution for extremely arid and sandy applications.



At Vossloh Locomotives in Kiel, 2009 was a year devoted to the new modular locomotive family. The three-axle center-cab locomotive G 6 unveiled in 2008 is being followed in 2010 by the G 12 (up to 1,200 kW) and the G 18 (up to 1,800 kW), two four-axle models for shunting and line service for freight traffic. These two models will also be available in diesel-electric versions, DE 12 and DE 18. This diesel-electric drive has been created under the overall control of the newly established development unit at Vossloh Electrical Systems which is also responsible for the traction equipment of the first “Vossloh Train,” which will be built by Vossloh España in Valencia as a train-tram for Mallorca starting in 2010. This is one reason why development work there in 2009 focused among other things on new vehicles for local public transport. In addition, the development of the EURO Light weighing less than 20 t per axle was largely wrapped up in Valencia in 2009. The new 2,800-kW engine satisfies the criteria of the latest emission standards. In this connection, Vossloh España is participating in an EU research project known as “CleanER-D.” This project is paving the way for the compliance of locomotive diesel engines with the Stage IIIb emission standard that comes into effect from 2012.

Hybrid technology was again a focus of development activities at Vossloh Electrical Systems in 2009. The “LighTram,” the 24-meter double-articulated hybrid bus, is the first commercial application. The initial vehicles have gone successfully into service in Luxembourg. In the development of the first production-ready hydrogen fuel cell buses in cooperation with German and Dutch partners, Vossloh Electrical Systems is leading a development consortium for the first time. This innovative bus—pollutant-free and extra quiet—will be showcased at the World Hydrogen Energy Conference 2010 in Essen, Germany.

Environment

Passenger and freight haulage by rail is one of the greenest modes of transport. Modern buses with hybrid technology and above all trolleybuses are also clearly superior environmentally to private transport by car. Products from Vossloh make an important contribution, so that the eco-friendly movement of passengers and goods is reliable, cost-effective, and safe. The Group is also working in all its business units on making rail transport even greener and thus emphasizing it as an attractive means of conveyance.

Vossloh's diesel locomotive developers naturally make sure that the vehicles consume as little fuel as possible—and thus minimize CO₂ emissions. The principle of “zero emissions” also applies to trolleybuses with drive technology from Vossloh Kiepe. Another benefit of these local transport vehicles is that they are very quiet in operation, a fact much appreciated by passengers and bystanders alike. Conventional diesel-engine buses can also improve their environmental profile with Vossloh technology, as hybrid propulsion reduces exhaust and noise emissions.

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

In production, all Vossloh companies attach huge importance to the sparing and efficient use of resources. Emissions from production are reduced to a minimum across the board. Regular audits by the competent environmental authorities demonstrate the consistent observance of all the legal and official limits and compliance with the permitted ceilings, in some cases by a wide margin. As far as possible, residues are consistently recycled, while solid wastes are systematically separated.

In both Kiel and Valencia, Vossloh uses exclusively low-solvent paints for the finishes on its locomotives. Vossloh Fastening Systems has also been using waterborne paints for the surface coating of its tension clamps for years. By resorting to a special map, it conducts targeted searches for environment-friendly production materials. In 2009, a strategy was developed for recovering and recycling the waste heat from the heat treatment plant. “Green IT” was the name of the program to cut paper and electricity consumption in Kiel in 2009.



All the large Vossloh locations have been approved and certified to the DIN EN ISO 14001 environmental management system or comparable systems and undergo regular audits by external, independent bodies. In Germany, Vossloh Kiepe has been additionally certified to the OHSAS 18001 occupational health & safety standard since 2001, completing the re-audit in November 2009 without any objections. Vossloh Kiepe Austria was awarded certification to IRIS (International Railway Industry Standard) in June 2009. The Vossloh Cogifer Fère-en-Tardenois location has been complying with the even stricter ILO OSH 2001 safety and health standard since the end of 2007. The production facilities in Reichshoffen embarked on preparations for certification to this standard in 2009. In accordance with the principle of sustainability in economic, ecological, safety and health respects, Vossloh Cogifer has taken its first steps to merge its environmental management with quality and safety management to yield an integrated risk management system.

Risk and reward management

Organization

For the systematic 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 reported according to a predefined plan operating at the various group levels. A proactive and systematic risk and reward system ensures that the impact of possible adverse changes is avoided or contained and that any opportunities arising are indicated and rigorously seized. In this way, risk management plays a major role in achieving financial targets and hence adding sustainable value to the Vossloh Group. All the subsidiaries, both in Germany and abroad, in which Vossloh holds a stake, whether direct or indirect, are integrated into the risk management system, irrespective of how they are included in the consolidated financial statements. Those acquired in 2009 were integrated into the system in good time.

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 Group's risk manual underwent a thorough revision in 2009. The organizational setup is based on the structure of the operating processes and procedures of the respective unit. At all group levels, risk owners, risk officers, and risk controllers are assigned responsibility for continuously identifying, analyzing, assessing, communicating, monitoring and controlling risks and rewards. The identification of risks and rewards is ensured by a perpetual risk inventory in which relevant risks are identified effectively, timely, and systematically. Risks are registered with the aid of risk areas.

Perceived risks and rewards are analyzed and assessed at Vossloh for their possible impact on earnings. For this purpose, the loss interval, in other words the maximum and minimum variances possible and the most probable effect on earnings are determined. These are supplemented by an assessment of loss probability. Any risk provisions already recognized are taken into account. For the best and worse case scenarios, a value-at-risk approach with a minimum probability of 5 percent is assumed.

Risks and rewards are documented and communicated by Vossloh in standardized reports. Besides the assessment parameters indicated, proposed action is reported. Periodic risk reporting is quarterly and serves as a supplement to the latest annual projection and allows risks looming in future periods to be profiled, too. Ad-hoc reports additionally allow at all times an updated evaluation of the current risk situation.



These reports are addressed to Vossloh AG's Executive Board as well as the management of each company and business unit. It is they that control and monitor 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 auditor for adequacy, efficiency and compliance with legal requirements.

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 an 0.8-percent decline in global GDP, 2009 was a period overshadowed by the economic crisis. Given the substantially worldwide synchronous nature of this downturn it is much more difficult to perform some kind of balancing act in our overall business by taking advantage of dissimilar geographical trends. Even though rail business is normally less volatile, there does exist the risk that state and/or private customers will shelve or even in some cases cancel contracts due to weak business (especially freight haulage) or limited financial facilities. Presently badly hit are our Kiel locomotives plant and US switch business. Also, the current crisis is impacting on the debt situation of public-sector customers. The worsening parameters might likewise impinge on business. On the upside are the various economic stimulus packages provided they target higher or earlier spending on rail infrastructure or local public transport. Benefiting, in particular, are the new high-speed lines in China through earlier-than-planned spending as a result of these stimulus packages.

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), the MENA states, Eastern Europe (including Russia), the United States, and South America. In recent years the Group has much reduced its dependence on individual European markets, albeit in 2009 non-European sales did creep down to around 27.1 percent of the total. Back in 2006, this share had amounted to a mere 9.2 percent.

Rail markets in Europe and North America are more or less stable in terms of their political and economic environments and hence as far as these core markets are concerned, there are no major risks confronting the Group, albeit fluctuations in US switch business on account of the largely private nature of customers (Class I Railroads) is a factor that does give rise to greater volatility. Accessing new markets, especially Asian and some Eastern European, does expose Vossloh not only to opportunities but also risks possibly arising from political and social instability, exchange rate fluctuations and legal uncertainties. As the percentage of sales in these markets grows, both the business prospects and the risk position rise. Asian and Eastern European sales in 2010 are budgeted at around 23 percent of total group sales.

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

Operating risks

This category includes operations-related activities such as sourcing, production, and contract performance. Vossloh attempts to counteract purchase price (input market) risks especially by long-term procurement contracts or price escalator clauses concluded with customers. In 2009, Vossloh benefited from sinking input market prices. A further shortage of commodities, especially steel or oil, might still however impact on production costs specifically at Rail Infrastructure. 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 profitability at the divisions.

Exchange rate risks from purchasing are normally contained by currency forwards. Procurement chain risks may also result from supplier dropouts, poor quality or delivery delays. Vossloh attempts to minimize these risks by working with longstanding local vendors. Despite a careful screening of suppliers, ongoing monitoring and setting-up alternative sources, future procurement chain risks may be contained but never fully ruled out. Project complexity is another source of risks. These include unexpected technical or engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors, logistic challenges, and acceptance and invoicing delays. These are factors possibly leading to unbudgeted expenses or contractual penalties. Contractual provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. Especially exposed to risks of this nature is Motive Power&Components. Project risks arising in 2009 and still existing were provided for as required by the IFRS. Along the value-adding chain, Vossloh subsidiaries are exposed to work interruption, quality problem, occupational safety and environmental risks. These risks are either altogether avoided or at least diluted through a comprehensive set of guidelines and standard procedures that govern project and quality management, product and occupational safety, as well as environmental protection.

Financial risks

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

Financial derivatives

Vossloh uses financial derivatives solely to hedge against specific risks from current underlyings or forecasted transactions. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, turn to the notes to the consolidated financial statements on page 150. 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 for a long term from the low interest rates, the Group restructured its finances in 2004 by raising one ten-year and one twelve-year loan under a US private placement of a total \$240.0 million (around €200 million). As part of its proactive risk management concept, Vossloh has fully hedged future principal and interest payments through interest rate and cross-currency swaps on a euro basis. Current or expected currency receivables and payables represent an unmatched position which is generally closed by contracting currency forwards.

Default/ counterparty risks

Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to Vossloh. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies. As of December 31, 2009, cash investments and financial derivatives with a positive fair value were allocable at 14 percent to counterparties rated between AA+ and AA-, at 84 percent to those rated from A+ to A-, and at 2 percent to counterparties rated BBB+ (according to Standard & Poor's). In fiscal 2009, the rating of banks essentially remained unchanged. Monies are centrally deposited only with banks which are members of the German Deposit Insurance Fund. Moreover, risks are spread by distributing such cash deposits among several banks. No dependence on specific banks has existed or does exist.

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, 2009, the Vossloh Group had cash and cash equivalents (including short-term securities) of a total €157.3 million. In addition, adequate and sufficient credit lines ensured that no financial or cash bottlenecks occurred. The unutilized balances from cash credit facilities at year-end totaled €171.7 million, mostly due within one year. Furthermore, Vossloh had unutilized guaranty bond facilities of €457.5 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 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 2009 not affected to any significant degree by financial risks.

Legal risks

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

Other risks

These are mainly of an IT or human resources nature. The control of operational and strategic business processes largely relies on complex IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability, and security. Such mechanisms and instruments also ensure efficient information processing. The Group's economic situation may well suffer as a result of substandard staffing such as shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, poor training and/or mistakes, fraud or theft committed by employees. Vossloh has a menu of measures to abate such risks: in particular, our reputation as an attractive company to work for, a reputation that strengthens our position in the competition for highly qualified employees. In-house courses allow our employees to regularly upgrade their skills while highly competitive pay structures tie the employees long-term to the Group. None of these "other risks" influenced the Group's earnings in 2009 to any substantial degree.

Overall risk assessment

The potential impact of any and all risks described above and which Vossloh is exposed to on its results of operations, asset and capital structure or financial position, is monitored and controlled at all times. As required by IFRS, provisions have been made for all risks identified to date. The updated annual forecasts duly reflect any potential losses, where reliably identifiable. From today's vantage point, neither any specific risks nor all currently known risks in their aggregate are potentially ruinous or likely to jeopardize the Vossloh Group's or any subsidiary's continued existence as a going concern in terms of either assets or liquidity. The Group's equity slipped only slightly mainly because of the higher dividend and the stock repurchase program. A countering effect was exercised by group earnings. Equity lies well above the risk-adjusted capital, i.e., the statutory minimum equity portion that is earmarked exclusively for the cover of potential losses.

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

Summary of key criteria of the accounting-related Internal Control and Risk Management Systems (ICS/RMS) pursuant to Arts. 289(5) and 315(2) No. 5 HGB

As stated earlier in the report on risks and rewards, Vossloh has installed a comprehensive monitoring system for the groupwide methodical early identification of going-concern risks as required by Art. 91(2) AktG, with a view to identifying early on, managing and monitoring not only risks jeopardizing Vossloh's survivability but also other risks beyond the statutory scope. According to Art. 317(4) HGB, the statutory group auditor assesses the effectiveness of the early risk identification system (ERIS).

Definitions
and elements
of Vossloh's ICS
and RMS

The Vossloh Group's ICS described below encompasses all principles, methods, processes and procedures designed to ensure not only the accounting system's effectiveness, efficiency and propriety but also compliance with applicable legal and statutory regulations.

Responsible at group level for the Internal Control System are substantially the corporate departments of Internal Auditing, Controlling, Accounting, Treasury, and Legal Affairs.

In-process and process-independent monitoring procedures and routines are ICS components. Besides manual process controls (such as peer reviews) IT processes, too, are a key element of in-process steps. Further, Corporate Legal Affairs ensures that certain in-process monitoring routines are implemented. Process-independent tests and/or audit procedures are the responsibility of Vossloh AG's Supervisory Board (specifically its Audit Committee), Internal Auditing, and staff locally assigned at the level of the business unit parent.

The statutory group auditor is involved in the Vossloh Group's control environment by performing process-independent tests and audit procedures. Particularly the annual audit of the consolidated financial statements, as well as the focal interim audit procedures upstream of the annual audit of the separate financial statements are essential process-unrelated monitoring procedures that center on the corporate accounting system.

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

Information
technology

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

Accounting-related risks

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

Key activities aimed to ensure corporate accounting propriety and reliability

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

After transactions have been recorded in the local accounting system of each subsidiary, the monthly accounts are reviewed at the level of the business unit parent. Besides random-sampled cases, tests would focus primarily on high-amount or unusual transactions.

Corporate guidelines exist, for instance, for capital expenditures, bidding, and risk management. Vossloh companies and business units are, moreover, obligated to issue local guidelines for material areas. Corporate Internal Auditing reviews all such guidelines and causes amendments to be enacted wherever deemed necessary.

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

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

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

Qualifying note

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

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

For the corporate governance report (which is an integral part of the combined management report) see page 20 of this annual report. The annual report is also available long term on Vossloh AG's website at www.vossloh.com

Subsequent events

Acquisition gives birth to new Rail Services business unit

On December 14, 2009, Vossloh had signed a sale and transfer agreement covering the rail services companies of the Stahlberg-Roensch Group, Seevetal near Hamburg, as well as LOG Logistikgesellschaft Gleisbau mbH and ISB Instandhaltungssysteme Bahn GmbH of the Hannover-based Contrack Group. Following a due diligence procedure and the go-ahead from its Supervisory Board and the antitrust authorities, Vossloh closed the transfer agreement on February 5, 2010.

The acquisition covers seven German locations specializing in complex solutions for the welding and preventive maintenance of rails as well as the related logistics. With annual sales of around €80 million in 2009, the companies are segmental market leaders in Germany. The acquisition considerably strengthens Vossloh's competence in the Rail Infrastructure division.

The new business unit, whose activities Vossloh aims to extend internationally, will operate as Vossloh Rail Services.

New names within the corporate structure

As of the turn of 2009/2010, the Vossloh Group slightly revised the names of its divisions and business units. A number of new names are intended to more faithfully reflect the respective business purposes and are hence closer to terms customary in the industry.

As hitherto, the Rail Infrastructure division is made up of the two business units Fastening Systems and Switch Systems. They are now joined by a third, Rail Services.

The second division, previously Motive Power&Components, has been renamed Transportation. Electrical Systems as a business unit is unchanged. Because its business meantime branches out beyond Locomotives to include other vehicles, Locomotives has been renamed Transportation Systems. Within this business unit, the Kiel location (which solely builds locomotives) stays Vossloh Locomotives; Valencia (which also makes light-rail and local transport vehicles) is now Vossloh Rail Vehicles.

Rail Infrastructure	Transportation
Vossloh Fastening Systems	Vossloh Transportation Systems
Vossloh Switch Systems	Vossloh Electrical Systems
Vossloh Rail Services	

*Only slow recovery from
the global financial and economic crisis*

*Rail-bound and local transport with
unchanged growth prospects*

*Moderate sales growth budgeted,
profitability indicators above benchmarks*

*Capital expenditure program
continued for more growth*



Prospects

UNIFE, the Association of the European Rail Industry, published in 2008 its “Worldwide Rail Market Study – Status Quo and Outlook 2016.” The study forecasted an order intake averaging 2.5 to 3 percent annually until, by 2016, the accessible rail technology market will have reached around €110 billion. In a further study commissioned on UNIFE’s behalf, published in April 2009 and entitled “Scenario Perspectives for Rail Industry in 2025,” these growth expectations were reviewed against the background of the global crisis. The paper reaches the conclusion that the average growth expectations of 2.5 percent annually up to 2016 are still valid. However, this year, 2010, is likely to show in some areas a lower growth rate: this applies to rail vehicles and all regions excluding Western Europe and Asia/Pacific. Higher growth rates might emerge from the infrastructure sector and the Asia/Pacific region, even for the period 2011 to 2013. In this latter period, the study states that steeper growth might well be derived from signaling products and, regionally, Western Europe.

The leading German economic research institutes are of the opinion that the worldwide economy will remain sluggish in 2010. Experience shows that previous recessions related to the banking and property markets, have in most cases been overcome only slowly. For 2010, the International Monetary Fund predicts global economic growth of 3.9 percent, followed by 4.3 percent in 2011, growth that will mainly be driven by the strongest expanding economies in Asia, especially China and India, and the MENA nations (Middle East and North Africa).

Strong GDP advances in 2010/2011 are predicted for China (10.0/9.7 percent), India (7.7/7.8 percent), the Middle East (4.5/4.8 percent), Africa (4.3/5.3 percent), and Brazil (4.7/3.7 percent). These forecasts assume no further exogenous shocks beyond the known geopolitical and economic risks.

According to the forecasts of the World Bank, the economy in the industrialized nations will show only moderate gains, averaging 2.1 percent in 2010 and 2.4 percent in 2011. The figures for the eurozone are set at a mere 1.0 (2010) and 1.6 percent (2011).

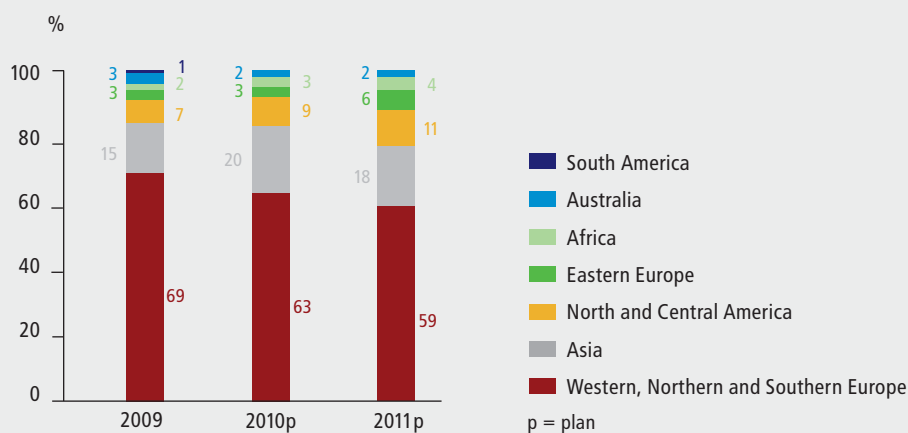
Alongside uniform groupwide requirements, Vossloh's annual medium-term plan incorporates in particular assumptions specific to each business unit, including product prospects, competitors, likely projects, market opportunities and risks in the individual regions, as well as the required capex volumes.

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

An additional factor is that though outlays by public-sector and private customers in a country are cyclical, Vossloh's business units have managed in the past to largely compensate for regional fluctuations thanks to their worldwide presence. Due to the synchronized worldwide downturn this compensation will be less effective in the near future, however. On the other hand, there are some countries that are already or will be investing considerably in rail-bound infrastructure; this may be in the form of economic stimulus packages, in connection with upcoming megaevents or in their efforts to rejuvenate rail transport.

Over the next two years Vossloh reckons with sizable activities in Asia (especially China) and North America; other regions harboring potential are the MENA states.

The acquisition of the Rail Services business unit, a transaction closed in early 2010 only, could not be reflected in the corporate plan.



Regional sales distribution percentages

Vossloh management now looks for 2010 including Vossloh Rail Services to a year-on-year sales boost by 11–15 percent, equivalent to group sales of €1.3+ billion. The EBIT increase will come in 2010 to 5–7 percent (€145+ million). For 2011 Vossloh anticipates another sales hike of at least 2.5 percent in line with the overall rail technology market uptrend, with EBIT then at around €150 million.

Vossloh Group: sales and EBIT trend

		2009	2010p
Sales	€ bill.	1.17	>1.3
EBIT	€ mill.	137.9	>145
EBIT margin	%	11.7	11 to 11.5
ROCE	%	20.5	approx. 17
Value added	€ mill.	63.7	55 to 60
Earnings per share	€	6.57	6.50 to 7.00

p = plan

Also given the higher expenditures earmarked, value added—a central controlling indicator—will in 2010 and 2011 be in the range of 55–60 million euros, hence below the 2009 magnitude. Working capital will swell 10 percent in 2010 and stay at this level in 2011 while capital employed in 2010 and 2011 will average €850 million to €900 million.

Since Vossloh Rail Services, due to the acquisition price allocation upon first-time consolidation and the resultant burden on earnings, will contribute a low profit in 2010, the Group's ROCE is forecast to edge down to around 17 percent but, in 2011, expected to rise to about 18 percent. In both fiscal years ROCE will be well in excess of the specified benchmark of 15 percent. From today's vantage point, Vossloh's EBIT margin, predicted to range between 11 and 11.5 percent in 2010 and 2011, will also outperform the internal benchmark of 10 percent. Earnings per share for 2010 or 2011 are estimated to remain in a bandwidth of €6.50 to €7.00.

Vossloh Group: indicators

		2009	2010p
Average working capital	€ mill.	231.7	approx. + 10%
Year-end working capital intensity	%	20.9	<20
Capital expenditures (excl. M&As)	€ mill.	41.9	>60
Average capital employed	€ mill.	674.0	850 to 900
Net financial debt	€ mill.	70.2	100 to 150
Net leverage	%	14.3	20 to 25

p = plan

In the wake of the acquisition, Vossloh's net financial debt will in 2010 rise to a range of €100 million to €150 million. Consequently, the Group's conservative leverage will be maintained.

In order to buttress our market positions and achieve added growth we will continue our spending program and for 2010 and 2011, have earmarked an amount of €60+ million each. The capex program will center on revamping and expanding the Rail Infrastructure division's and Electrical Systems business unit's locations. At Vossloh Locomotives, the emphasis will be on broadening the product spectrum.

Even though the Kiel locomotive business, decelerating in line with the decline in freight haulage, is likely to lose somewhat more steam in 2010 than a year ago, the current budget predicts sales growth for both the Rail Infrastructure and Transportation divisions over the next two years, with ROCE in both cases topping the Group's 15-percent benchmark.

At Rail Infrastructure, the Fastening Systems business unit will benefit especially from the brisk business in China. Future growth potentials exist in Eastern Europe, North America, and North Africa. Switch Systems will gain from an economic rebound especially in North and Central America, and bright prospects in North Africa.

Within the Transportation division, the demand for efficient local public transport systems in Europe and North America should be having a favorable impact while the market for freight haulage locomotives will remain strained.

EBIT of Vossloh AG as a pure management and financial holding company is largely influenced by administrative expenses, whose magnitude is budgeted to be kept substantially unchanged.

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

Consolidated financial statements of Vossloh AG as of December 31, 2009

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Income statement for the year ended December 31, 2009

€ million	Note	2009	2008
Net sales	(1)	1,173.7	1,212.7
Cost of sales	(2.1)	(916.3)	(958.9)
General administrative and selling expenses	(2.2)	(134.2)	(128.8)
R&D expenses	(2.3)	(11.2)	(9.9)
Net other operating income	(3)	26.0	24.8
Operating result		138.0	139.9
Net P/L from associated affiliate	(4)	(0.2)	0.3
Other financial income	(5)	0.6	0.5
Other financial expenses	(6)	(0.5)	(3.0)
Earnings before interest and taxes (EBIT)		137.9	137.7
Interest income		13.4	11.6
Interest expense		(22.8)	(20.9)
Earnings before taxes (EBT)		128.5	128.4
Income taxes	(7)	(31.8)	(29.0)
Net income from continuing operations		96.7	99.4
Minority interests	(8)	(8.8)	(6.8)
Net result of discontinued operations	(9)	–	46.8
Group earnings		87.9	139.4
Earnings per share (EpS)			
Undiluted EpS * (€)	(10)	6.57	9.48
thereof from continuing operations (€)	(10)	6.57	6.30
thereof from discontinued operations (€)	(10)	–	3.18
Fully diluted EpS (€)	(10)	6.57	9.48
thereof from continuing operations (€)	(10)	6.57	6.30
thereof from discontinued operations (€)	(10)	–	3.18

*During fiscal 2009 and 2008, altogether 13,380,908 and 14,703,152 no-par shares of stock, respectively, were issued and outstanding on average.

Statement of comprehensive income for the year ended December 31, 2009

€ million	2009	2008
Group earnings	87.9	139.4
Minority interests therein	8.8	6.8
Statement at fair value of derivatives in CFHs		
Change in OCI	(12.7)	2.5
Gains/losses recycled from OCI to income statement	0.7	1.2
Statement at fair value of securities available for sale		
Change in OCI	0.0	0.0
Currency translation differences		
Change in OCI	0.0	(1.7)
Deferred taxes		
on OCI changes	3.5	(1.1)
Gains/losses directly recognized in equity, net	(8.5)	0.9
Comprehensive income	88.2	147.1
thereof Vossloh AG stockholders	80.2	141.2
thereof minority interests	8.0	5.9

Cash flow statement for the year ended December 31, 2009

€ million	2009	2008
Cash flow from operating activities		
EBIT	137.9	137.7
Net result of discontinued operations	0.0	46.8
Amortization/depreciation/write-down (less write-up) of noncurrent assets	24.6	29.7
Change in noncurrent accruals	21.3	3.9
Gross cash flow	183.8	218.1
Noncash change in shares in associated affiliate	0.2	(0.3)
Other noncash income/expenses, net	(4.7)	1.2
Net book (gain)/loss from the disposal of tangibles and intangibles	(4.7)	(47.9)
Income taxes paid	(30.9)	(39.9)
Change in working capital	(92.3)	7.1
Change in other assets/liabilities	(6.5)	(4.5)
Net cash provided by operating activities	44.9	133.8
Cash flow from investing activities		
Cash outflow for additions to intangibles and tangibles	(39.5)	(37.6)
Cash outflow for additions to noncurrent financial instruments	(5.7)	(0.6)
Cash inflow from the disposal of intangibles and tangibles	0.8	6.3
Cash (outflow for the purchase)/inflow from the sale of short-term securities	(0.7)	15.2
Cash inflow from the disposal of noncurrent financial instruments	0.1	3.7
Cash inflow from the disposal of consolidated subsidiaries	–	145.0
Cash outflow for the acquisition of consolidated subsidiaries and other units	(7.3)	(15.2)
Net cash (used in)/provided by investing activities	(52.3)	116.8
Cash flow from financing activities		
Change in treasury stock	(43.5)	(62.7)
Cash inflow from equity increases	0.0	0.0
Cash outflow to Vossloh stockholders and minority interest holders	(45.9)	(26.3)
Net financing from short-term credits	20.4	34.8
Net financing from medium- and long-term loans	(1.4)	(7.3)
Cash inflow from interest	9.1	5.7
Cash outflow for interest	(22.8)	(21.2)
Net cash used in financing activities	(84.1)	(77.0)
Net (outflow)/inflow of cash & cash equivalents	(91.5)	173.6
Change in cash & cash equivalents from initial consolidation	0.2	2.9
Opening cash & cash equivalents	247.8	71.3
Closing cash & cash equivalents	156.5	247.8

The prior-year data includes the cash flows of the discontinued Vossloh Infrastructure Services operations. For their breakdown as required by the provisions of IFRS 5:33/34, see the notes on page 119, which also includes the explanation of the updated allocation of cash flows.

Balance sheet

Assets in € million	Note	12/31/2009	12/31/2008
Total noncurrent assets		489.6	463.7
Intangible assets	(11)	322.1	313.6
Tangible assets	(12)	121.6	108.4
Investment properties	(13)	4.5	4.8
Shares in associated affiliate	(14)	0.4	0.6
Other noncurrent financial instruments	(15)	9.6	11.1
Sundry noncurrent assets	(16)	0.8	0.5
Deferred tax assets	(17)	30.6	24.7
Total current assets		848.8	875.7
Inventories	(18)	342.0	321.1
Trade receivables	(19)	298.9	262.3
Income tax assets	(20)	3.8	9.5
Sundry current assets	(21)	46.8	34.9
Short-term securities	(22)	0.8	0.1
Cash & cash equivalents	(23)	156.5	247.8
		1,338.4	1,339.4

Equity & liabilities in € million	Note	12/31/2009	12/31/2008
Total equity	(24)	492.6	492.7
Capital stock	(24.1)	37.8	37.8
Additional paid-in capital	(24.2)	42.7	42.7
Treasury stock	(24.3)	(106.2)	(62.7)
Reserves retained from earnings	(24.4)	410.5	315.4
Undistributed group profit		4.5	0.1
Group earnings		87.9	139.4
Accumulated other comprehensive income	(24.5)	(5.0)	3.1
Stockholders' equity		472.2	475.8
Minority interests	(24.6)	20.4	16.9
Total noncurrent liabilities and accruals		335.5	305.5
Pension accruals	(25)	9.7	8.9
Noncurrent tax accruals	(26)	2.7	4.0
Other noncurrent accruals	(26)	83.7	63.2
Noncurrent financial debts	(27.1)	167.9	173.2
Other noncurrent liabilities	(27.4)	47.2	34.9
Deferred tax liabilities	(17)	24.3	21.3
Total current liabilities and accruals		510.3	541.2
Current tax accruals	(26)	3.8	6.6
Other current accruals	(26)	137.3	150.1
Current financial debts	(27.1)	59.6	39.6
Trade payables	(27.2)	229.9	228.9
Income tax liabilities	(27.3)	5.3	7.1
Other current liabilities	(27.4)	74.4	108.9
		1,338.4	1,339.4

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital	Treasury stock	Reserves retained from earnings	Undistributed group profit	Group earnings	Accumulated OCI	Stockholders' equity	Minority interests	Total
Balance at 1/1/2008	37.8	42.7	–	268.7	0.0	71.4	1.3	421.9	12.1	434.0
Carryforward to new account					71.4	(71.4)		0.0		0.0
Transfer to reserves retained from earnings				46.1	(46.1)			0.0		0.0
Change due to initial consolidation				0.6				0.6		0.6
Comprehensive income						139.4	1.8	141.2	5.9	147.1
Capital increases from SOPs	0.0	0.0						0.0		0.0
Dividend payout					(25.2)			(25.2)	(1.1)	(26.3)
Repurchase of treasury stock			(62.7)					(62.7)		(62.7)
Balance at 12/31/2008	37.8	42.7	(62.7)	315.4	0.1	139.4	3.1	475.8	16.9	492.7
Carryforward to new account					139.4	(139.4)		0.0		0.0
Transfer to reserves retained from earnings				95.0	(95.0)			0.0		0.0
Changes in shareholdings				(0.1)			(0.4)	(0.5)	1.4	0.9
Change due to initial consolidation				0.2				0.2		0.2
Comprehensive income						87.9	(7.7)	80.2	8.0	88.2
Capital increases from SOPs	0.0	0.0						0.0		0.0
Dividend payout					(40.0)			(40.0)	(5.9)	(45.9)
Repurchase/disposal of treasury stock			(43.5)					(43.5)		(43.5)
Balance at 12/31/2009	37.8	42.7	(106.2)	410.5	4.5	87.9	(5.0)	472.2	20.4	492.6

Segment information by division/business unit

€ million		Fastening Systems	Switch Systems	Intermediate holding company/ consolidation	Rail Infrastructure
Value added*	2009	58.0	9.6	(0.1)	67.5
	2008	44.4	13.5	0.1	58.0
Net external sales	2009	259.4	424.9	0.2	684.5
	2008	246.5	450.3	0.2	697.0
Intersegment transfers	2009	7.7	0.0	(1.9)	5.8
	2008	8.4	3.3	(1.6)	10.1
Interest income	2009	0.2	0.6	(0.1)	0.7
	2008	0.3	1.9	(1.3)	0.9
Interest expense	2009	(1.6)	(3.2)	(0.2)	(5.0)
	2008	(2.9)	(3.2)	(6.8)	(12.9)
Amortization/depreciation	2009	3.0	8.5	0.0	11.5
	2008	3.0	7.9	0.0	10.9
Net result of discontinued operations	2009	–	–	–	–
	2008	–	–	54.4	54.4
Net P/L from associated affiliate	2009	(0.2)	–	–	(0.2)
	2008	0.3	–	–	0.3
Income taxes	2009	18.4	17.5	(0.2)	35.7
	2008	3.9	18.4	(2.8)	19.5
Other major noncash segment expenses	2009	14.8	18.6	(0.2)	33.2
	2008	9.6	31.9	23.3	64.8
Write-down of intangibles/tangibles	2009	0.0	0.0	0.0	0.0
	2008	0.0	0.0	0.0	0.0
Write-up	2009	–	–	–	–
	2008	–	0.0	–	0.0
Total assets	2009	199.8	379.9	200.0	779.7
	2008	147.5	355.4	196.7	699.6
Liabilities	2009	127.6	152.9	(0.5)	280.0
	2008	79.3	142.1	10.6	232.0
Capital expenditures	2009	4.6	17.0	0.0	21.6
	2008	2.5	12.0	4.8	19.3
Shares in associated affiliate	2009	0.4	–	–	0.4
	2008	0.6	–	–	0.6
Average headcount	2009	447	2,263	–	2,710
	2008	441	2,219	–	2,660

*Prior-year data adjusted for the CE contributions of Vossloh Infrastructure Services

Locomotives	Electrical Systems	Consolidation	Motive Power & Components	H.O./consolidation	Group
1.7	16.9	0.0	18.6	(22.4)	63.7
10.3	18.2	0.0	28.5	(18.3)	68.2
336.2	146.3	0.0	482.5	0.3	1,167.3
375.2	128.9	0.0	504.1	0.3	1,201.4
0.0	2.2	(1.5)	0.7	(0.1)	6.4
0.0	0.9	0.0	0.9	0.3	11.3
11.1	0.7	0.0	11.8	0.9	13.4
7.1	1.6	0.0	8.7	2.0	11.6
(7.1)	(1.2)	0.0	(8.3)	(9.5)	(22.8)
(5.3)	(0.6)	0.0	(5.9)	(2.1)	(20.9)
9.8	2.4	0.0	12.2	0.9	24.6
9.0	2.1	0.0	11.1	0.8	22.8
—	—	—	—	—	—
—	—	—	—	(7.6)	46.8
—	—	—	—	—	(0.2)
—	—	—	—	—	0.3
2.5	6.1	0.0	8.6	(12.5)	31.8
0.7	7.2	0.0	7.9	1.6	29.0
32.0	18.2	0.0	50.2	10.3	93.7
55.7	16.6	0.0	72.3	14.3	151.4
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0
—	—	—	—	0.1	0.1
—	—	—	—	—	0.0
403.0	170.4	(1.8)	571.6	(12.9)	1,338.4
373.6	169.0	0.0	542.6	97.2	1,339.4
176.5	65.4	(1.8)	240.1	64.2	584.3
172.1	72.9	0.0	245.0	115.7	592.7
15.2	4.2	0.0	19.4	0.9	41.9
13.8	3.0	0.0	16.8	1.5	37.6
0.0	—	—	—	—	0.4
0.0	—	—	—	—	0.6
1,358	598	—	1,956	51	4,717
1,384	541	—	1,925	46	4,631

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2009

General

Vossloh AG is a listed resident company based in Werdohl, Germany, and registered under number HRB 5292 at the Commercial Register of the Iserlohn Local Court. The Vossloh Group's key activities include the manufacture and marketing of rail technology products.

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

On March 10, 2010, Vossloh AG's Executive Board released the consolidated financial statements for transmittal to the Supervisory Board's Audit Committee and then for submittal to the plenary Supervisory Board at the meeting of March 24, 2010.

New accounting rules

The following Standards and Interpretations, though published by December 31, 2009, (i) did not require application as of such date or (ii) were not yet endorsed as European law. In the case of (ii), the obligatory first-time application of a Standard or Interpretation as required by the IASB is indicated below.

IASB document	Published	To be applied as from	Endorsed by the EU	Effects
New Standards				
IFRS 9 <i>Financial Instruments</i>	November 2009	FY 2013	N/a	Effects of IFRS 9 on Vossloh AG's consolidated financial statements not yet finally assessed

IASB document	Published	To be applied as from	Endorsed by the EU	Effects
Amended Standards; already endorsed by the EU				
IFRS 1 <i>First-Time Adoption of the IFRS</i>	November 2008	FY 2010	11/25/2009	None expected
IFRS 3 <i>Business Combinations</i>	January 2008	FY 2010	6/03/2009	The amended IFRS 3 will change the impact of M&A on the consolidated financial statements, mainly regarding a step acquisition and the treatment of M&A-related incidentals and contingent consideration.
IAS 27 <i>Consolidated and Separate Financial Statements</i>	January 2008	FY 2010	6/03/2009	Inter alia, shares sold without losing control will in future be treated as equity transaction among owners, with the result that such transactions will be recognized in, and only in, equity (contrary to current corporate accounting practice).
IAS 32 <i>Financial Instruments: Presentation—Classification of subscription rights</i>	October 2009	FY 2011	12/23/2009	None expected
IAS 39 <i>Financial Instruments: Recognition and Measurement—Qualifying underlyings</i>	July 2008	FY 2010	9/15/2009	None expected
Revised Standards; yet to be endorsed by the EU				
IFRS 1 <i>First-Time Adoption of the IFRS—Additional exemptions for first-time users</i>	July 2009	FY 2010	N/a	None expected
IFRS 2 <i>Share-Based Payment—Group cash-settled share-based payment transactions</i>	June 2009	FY 2010	N/a	None expected
IAS 24 <i>Related-Party Disclosures</i>	November 2009	FY 2011	N/a	None expected
Improvements to IFRS	April 2009	FY 2010	N/a	None expected
Amended Interpretations; already endorsed by the EU				
IFRIC 12 <i>Service Concession Arrangements</i>	November 2006	FY 2010	3/25/2009	None expected
IFRIC 15 <i>Agreements for the Construction of Real Estate</i>	July 2008	FY 2010	7/22/2009	None expected
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	July 2008	FY 2010	6/04/2009	None expected
IFRIC 17 <i>Distributions of Noncash Assets to Owners</i>	November 2008	FY 2010	11/26/2009	None expected
IFRIC 18 <i>Transfers of Assets from Customers</i>	January 2009	FY 2010	11/27/2009	None expected
Revised Interpretations; yet to be endorsed by the EU				
IFRIC 14 <i>IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction—Prepayments of a minimum funding requirement</i>	November 2009	FY 2011	N/a	None expected
IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	November 2009	FY 2011	N/a	None expected

The early-application option was not exercised for 2009.

First-time application of Standards/Interpretations

Application in fiscal 2009 of the following revised or amended Standards/Interpretations was obligatory for the first time:

IASB document	Published	Endorsed by the EU	Effects on the consolidated financial statements
New, amended or revised Standards			
IFRS 1 <i>First-Time Adoption of the IFRS</i> and IAS 27 <i>Consolidated and Separate Financial Statements—Cost of shares in subsidiaries, joint ventures or associated affiliates</i>	May 2008	1/23/2009	None
IFRS 2 <i>Share-Based Payment</i>	January 2008	12/16/2008	None
IFRS 7 <i>Financial Instruments: Disclosures</i>	March 2009	11/27/2009	Among the disclosable details of financial instruments (FI), some relating to FI valuation and the aged structure of straight financial liabilities have been added.
IFRS 8 <i>Operating Segments</i>	November 2006	11/21/2007	By introducing the management approach concept and dropping the distinction between primary and secondary segment reporting, segment reports have changed significantly; cf. the notes to segment reporting on p. 142.
IAS 1 <i>Presentation of Financial Statements</i>	September 2007	12/17/2008	By introducing the separate statement of comprehensive income (SOC), the revised IAS 1 has materially changed financial statement presentation, which has also resulted in a changed format of the statement of changes in equity.
IAS 23 <i>Borrowing Costs</i>	March 2007	12/10/2008	The first-time application produced no significant effects.
IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	March 2009	11/27/2009	None
Reclassification of financial assets—effective date and transitional provisions (amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments: Disclosures</i>)	November 2008	9/09/2009	None
IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements—Puttable financial instruments and obligations arising on liquidation</i>	February 2008	1/21/2009	None
Improvements to IFRS	May 2008	1/23/2009	None

IASB document	Published	Endorsed by the EU	Effects on the consolidated financial statements
New or revised Interpretations			
IFRIC 13 <i>Customer Loyalty Programs</i>	June 2007	12/16/2008	None
IFRIC 14 <i>IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction</i>	July 2007	12/16/2008	None
IFRIC 18 <i>Transfers of Assets from Customers</i>	January 2009	11/27/2009	None
IFRIC 9 <i>Reassessment of Embedded Derivatives</i>	March 2009	11/27/2009	None

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

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

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

Consolidation

Consolidation principles

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

The acquisition method of accounting is used for capital consolidation. Accordingly, cost is offset against the Group's interest in the revalued equity of subsidiaries. All of the acquiree's identifiable assets and liabilities (including contingent liabilities) are stated at fair value as of the acquisition date. Any residual net assets under cost are capitalized as goodwill according to IFRS 3 and tested for impairment once annually. Any resulting goodwill is directly released to income.

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

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

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

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

In comparison to year-end 2008, four companies were consolidated for the first time as of December 31, 2009:

- Vossloh Kiepe Main Line Technology GmbH, Düsseldorf, Germany
- APS electronic AG, Niederbuchsiten, Switzerland
- Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia
- Vossloh Locomotives France SAS, Antony, France

The former two subsidiaries have been assigned to the Electrical Systems business unit, the third and fourth to Switch Systems and Locomotives, respectively.

While the latter two subsidiaries have now been consolidated due to their elevated significance, Vossloh Kiepe Main Line Technology GmbH was newly formed in spring 2009. APS electronic AG was acquired as of April 1, 2009.

No company was derecognized in 2009. Consequently, 48 subsidiaries (including 13 in Germany) were fully consolidated as of December 31, 2009.

Changes in fully consolidated subsidiaries

	2009	2008
January 1	44	50
newly consolidated	4	5
derecognized	–	(11)
December 31	48	44

As of December 31, 2009, two companies based outside Germany were included pro rata in the consolidated financial statements (unchanged). One German affiliate is carried at equity.

Due to their minor significance to the Group's asset and capital structure, financial position and results of operations, 19 subsidiaries (down from 20) were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights or otherwise controlled them at the balance sheet date.

Acquirees Effective April 1, 2009 (under the share sale & transfer agreement of March 6, 2009), Vossloh Kiepe Beteiligungs GmbH took over all of the shares in APS electronic AG for a price of Sfr 5.5 million (€3.6 million), this acquiree having since been consolidated.

€ million	Pre-combination book values	Adjustments	Provis. fair values at initial consolidation date
Inventories	0.6	0.5	1.1
Current receivables, cash & cash equivalents	2.4	0.1	2.5
Other noncurrent and current assets	0.1	0.0	0.1
Current liabilities	(2.4)	0.0	(2.4)
Accruals and deferred income	(0.4)	(0.3)	(0.7)
Net assets acquired	0.3	0.3	0.6
Acquisition price			3.6
Purchase incidentals			0.0
Total cost			3.6
Residual goodwill			3.0

Since its acquisition, APS electronic AG has contributed €2.9 million and €0.3 million to the Group's sales and net earnings, respectively. If this acquiree had been taken over as of January 1, the Group's sales and net earnings would have increased by €0.9 million and €0.1 million, respectively.

In addition to M&A that have widened the consolidation group, one business combination was formed by asset deal: Effective July 22, 2009, Italy's Vossloh Cogifer Italia Srl acquired from Nuova Sima Sud SpA, Pomezia, Italy, the latter's rail switch operations. Nuova Sima Sud engages in the production and marketing of certain railway switch and permanent-way components.

The acquisition price of €4.5 million contrasted with the following assets and liabilities:

€ million	Pre-combination book values	Adjustments	Provis. fair values as of initial consolidation date
Inventories	2.0	0.0	2.0
Tangible assets	2.6	(0.2)	2.4
Current liabilities and accruals	(0.6)	0.0	(0.6)
Net assets acquired	4.0	(0.2)	3.8
Acquisition price			4.5
Purchase incidentals			0.5
Total cost			5.0
Residual goodwill			1.2

Since its acquisition, the new operation has contributed sales of €1.6 million to the Group's. In summer 2009, Vossloh Cogifer Italia relocated its permanent establishments to the site of the acquired assets. Preexisting operations and the acquired business have since been separated only to a limited extent and, therefore, net income can be stated neither for the period of Vossloh control nor pro forma for the full year (i.e., assuming the operation had been acquired January 1, 2009) because the necessary information is simply neither available nor ascertainable, nor is the pro forma disclosure of 12-month sales.

Wilmington, DE, USA, based Vossloh US Holding Inc. executed on September 22, 2009, a sale and transfer agreement for 60 percent of the shares in Global Rail Systems, Inc., Marlin, TX, for a price of \$6.0 million. The deal was closed October 16, 2009. The acquiree will be consolidated for the first time in fiscal 2010.

By sale and transfer agreement dated December 14, 2009, the takeover by the Vossloh Group of the equity interests in several enterprises of the Stahlberg-Roensch (SR) Group and in the Contrack Group was finalized: Vossloh Rail Services GmbH acquired all of (i) the equity interests in the limited partnerships known as Stahlberg, Roensch GmbH & Co. KG, RCH rail center Handel GmbH & Co. KG, and Stahlberg Track Asset GmbH & Co. KG, and (ii) the shares in the private limited companies that constitute the corporate general partners of each acquiree (viz. Stahlberg Verwaltungsgesellschaft mbH, Oberbau Beteiligungsgesellschaft mbH, and Stahlberg Track Asset Verwaltungs GmbH), and (iii) all of the shares in LOG Logistikgesellschaft Gleisbau mbH and ISB Instandhaltungssysteme Bahn GmbH. The SR Group acquirees do business in rail trading, unloading long rails onto construction sites, welding work for new rails, reconditioning old rails, on-site welding, rail replacement, rail grinding/milling, rail inspection, and site supervision. The Contrack companies organize and monitor just-in-time rail shipments to construction sites and ensure on-time availability of approved loading systems.

The date of passage of controlling powers was January 1, 2010, and the acquirees have since been included in Vossloh's consolidated financial statements within the Vossloh Rail Services business unit, a new reportable segment.

On a provisional basis, the acquisition cost (including all related direct incidentals) amounts to €85.8 million.

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

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

Exchange rates		Current rate at Dec. 31,			Average rate in	
Country	Currency		2009	2008	2009	2008
Australia	AUD	€1.00	1.60	2.03	1.77	1.74
China	CNY	€1.00	9.77	9.61	9.53	10.25
Denmark	DKK	€1.00	7.44	7.45	7.45	7.46
India	INR	€1.00	66.86	68.43	67.73	64.13
Mexico	MXN	€1.00	18.64	19.35	18.79	16.31
Norway	NOK	€1.00	8.31	9.79	8.74	8.23
Poland	PLN	€1.00	4.13	4.18	4.34	3.52
Serbia	CSD	€1.00	96.16	89.93	93.98	82.04
Sweden	SEK	€1.00	10.26	10.92	10.62	9.62
Turkey	TRL	€1.00	2.16	2.15	2.16	1.91
UK	GBP	€1.00	0.89	0.96	0.89	0.79
USA	USD	€1.00	1.43	1.40	1.39	1.47

Notes to the consolidated income statement

Breakdown of net sales		
€ million	2009	2008
Products and services	883.2	868.2
PoC contracts	290.5	344.5
Total	1,173.7	1,212.7

(1) Net sales

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

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

The segment reports starting on pages 102 and 142 include breakdowns of net sales by division, business unit, and region.

(2) Functional expenses

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

Expense types		
€ million	2009	2008
Cost of raw materials, supplies	589.8	652.3
Cost of services purchased	69.1	73.4
Cost of materials	658.9	725.7
Wages and salaries	185.9	180.3
Social security and related employee benefits	40.0	39.2
Pension expense	3.7	3.7
Personnel expenses	229.6	223.2
Amortization/depreciation/write-down	24.6	22.8
Operating leases	13.6	9.9

Based on the quarterly averages, the workforce structure in 2009 was on average the following:

Workforce structure	2009	2008
Executive/Management Boards	63	59
Other officers/executives	84	78
Exempts	944	853
Nonexempts	3,575	3,588
Apprentices/interns/degree candidates	81	83
	4,747	4,661

(2.1) Cost of sales

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

Breakdown of GAS expenses

€ million	2009	2008
Selling expenses	68.1	65.5
General administrative expenses	66.1	63.3
	134.2	128.8

(2.2) General administrative and selling (GAS) expenses

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 €3.2 million (up from €2.0 million).

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

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 2009 came to €16.8 million (up from €12.5 million).

(2.3) R&D expenses

(3) Net other
operating income

Breakdown:

€ million	2009	2008
Income from the release of accruals	12.5	9.8
Foreign exchange gains	7.7	9.1
Gains from the disposal of financial instruments	4.8	–
Income from public grants/subsidies	2.5	1.0
Rental income	1.4	1.3
Allowances released and write-up	0.9	1.8
Insurance claims/indemnities	0.7	0.7
Gains from the disposal of tangibles/intangibles	0.1	1.4
Damages received	–	5.3
Sundry income	3.9	4.7
Other operating income	34.5	35.1
Foreign exchange losses	(6.1)	(8.7)
Expenses for building M&R	(0.4)	(0.7)
Losses on the disposal of tangibles/intangibles	(0.2)	(0.3)
Sundry expenses	(1.8)	(0.6)
Other operating expenses	(8.5)	(10.3)
Net other operating income	26.0	24.8

The gain from the disposal of financial instruments was made from the sale by Vossloh-Werke China Investment GmbH of a 16.2-percent stake in Vossloh Fastening Systems China Co. Ltd.

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

(4) Net P/L
from associated affiliate

The red result (a €0.2 million loss) from the associated affiliate (down from a black €0.3 million) reflects the loss proratable to the Vossloh Group and incurred for the investment in BV Oberflächentechnik GmbH & Co. KG, Werdohl.

(5) Other financial income

Breakdown:

€ million	2009	2008
Income from shares in unconsolidated subsidiaries	0.4	0.5
Income from securities	0.0	0.0
Gain from restatement at fair value of financial instruments	0.1	–
Write-up of financial instruments	0.1	–
Other financial income	0.6	0.5

Breakdown:

€ million	2009	2008
Write-down of financial instruments	0.1	2.4
Expenses from loss absorption	0.4	0.1
Losses on the restatement at fair value of currency forwards	–	0.5
Other financial expenses	0.5	3.0

(6) Other financial expenses

Breakdown:

€ million	2009	2008
Current income taxes	30.8	27.6
Deferred taxes	1.0	1.4
Income taxes	31.8	29.0

(7) Income taxes

An unchanged income tax rate of 30 percent is applied to the taxable income of the Vossloh Group's German subsidiaries and encompasses the current corporate income tax rate of 15 percent for 2009, the solidarity surtax thereon, and the municipal trade tax.

The Vossloh Group's actual tax expense of €31.8 million (up from €29.0 million) is €6.8 million (down from €9.5 million) below the calculated (expected) tax expense resulting from applying a groupwide uniform rate of 30 percent to EBT.

Reconciliation of the expected to the actually recognized tax expense:

		2009	2008
Earnings before taxes (EBT)	€ mill.	128.5	128.4
Tax rate incl. municipal trade tax	%	30.0	30.0
Expected tax expense at a single rate	€ mill.	38.6	38.5
Tax reduction due to lower rates abroad	€ mill.	(7.0)	(13.2)
Tax reduction from tax-exempt income	€ mill.	(2.2)	(0.1)
Tax increase for nondeductible business expenses	€ mill.	2.5	0.9
Taxes for prior years	€ mill.	(1.0)	(0.5)
Tax effect of the write-up/write-down of deferred tax assets	€ mill.	(1.7)	3.6
Double-taxation effects	€ mill.	2.7	–
Other differences	€ mill.	(0.1)	(0.2)
Recognized income tax burden	€ mill.	31.8	29.0
Actual income tax rate	%	24.7	22.6

Total deferred taxes from items directly recognized in OCI came to €3.5 million (up from €1.4 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 €9.5 million (up from €7.0 million) and in loss of €0.7 million (up from €0.2 million).

(9) Net result
from discontinued operations

Breakdown of 2008 net result from discontinued operations

€ million	2008
Net sales	158.9
Cost of sales	(138.6)
GAS expenses	(17.6)
R&D expenses	0.0
Net other operating income	6.2
Operating result	8.9
Other financial results	0.0
EBIT	8.9
Net interest expense	(0.9)
EBT of discontinued operations	8.0
Income taxes	(3.1)
EAT of discontinued operations	4.9
Gain on disposal of discontinued operations	43.2
Income taxes on divestment	(1.3)
Net result from disposal	41.9
Net result from discontinued operations	46.8

(10) Earnings per share

Earnings per share

		2009	2008
Weighted average number of common shares		14,795,863	14,795,828
Weighted number of repurchased shares		(1,414,955)	(92,676)
Weighted average shares issued and outstanding		13,380,908	14,703,152
Dilutive effects of LTIP/ESOP options	shares	30	52
Diluted weighted average shares issued and outstanding		13,380,938	14,703,204
Group earnings	€ mill.	87.9	139.4
Basic (undiluted) EpS	€	6.57	9.48
thereof from continuing operations	€	6.57	6.30
thereof from discontinued operations	€	–	3.18
Fully diluted EpS	€	6.57	9.48
thereof from continuing operations	€	6.57	6.30
thereof from discontinued operations	€	–	3.18

Notes to the consolidated statement of cash flows

The consolidated statement of cash flows depicts the changes in cash and cash equivalents within the Vossloh Group. The term cash and cash equivalents corresponds to the equivalent balance sheet line, which is defined below. Cash equivalents comprise any financial instruments maturing within three months and readily convertible into cash.

The cash flow statement is prepared in conformity with IAS 7 and breaks down changes in cash and cash equivalents into the cash inflows from, and outflows for, operating, investing and financing activities. The cash flow from operating activities is presented according to the indirect method.

The cash outflow for the purchase, or inflow from the sale, of short-term securities is treated as cash flow from investing activities, in contrast to the prior-year presentation. This disclosure better reflects the nature of a short-term investment of funds; prior-year data has been restated accordingly.

The cash outflow for the acquisition of consolidated subsidiaries and other units represents the net of (i) an inflow of cash and cash equivalents at €0.8 million and (ii) an outflow for prices paid at €8.1 million.

The cash flow statement for 2008 also included the cash inflows and outflows of Vossloh Infrastructure Services, which was reported as discontinued operation in the income statement. The cash flows included in the statement but allocable to this business unit are listed below:

Cash flows 2008 of discontinued operations	
€ million	2008
Cash flow from operating activities	2.4
Cash flow from investing activities	(5.3)
Cash flow from financing activities	(0.2)
Net cash outflow	(3.1)
Opening cash and cash equivalents	6.4
Closing cash and cash equivalents	3.3

Notes to the consolidated balance sheet

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

(11) Intangible assets

Breakdown of intangible assets

€ million	2009	2008
Goodwill	298.1	293.5
Capitalized development costs	18.7	14.3
Concessions/licenses/property rights/software	5.0	5.7
Prepayments on intangibles	0.3	0.1
	322.1	313.6

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

Pursuant to IFRS 3 in conjunction with IAS 36 and IAS 38, goodwill from acquisitions (business combinations) is not amortized but its value tested once annually for impairment. To this end, the net book value of goodwill is contrasted to the discounted cash flows (applying a pretax rate of 10.5 percent; down from 10.6) expected from the relevant cash-generating units (CGUs) in line with the medium-term (3-year) detailed plan, which is based on empirical data and expected future market trends. The average annual sales growth rate assumed in this planning period for each unit is a minor 1-digit percentage. For periods beyond this planning horizon, the cash flows are updated by assuming a uniform annual growth rate of one percent to determine value in use. Since the discounted cash flows exceed goodwill book values, no goodwill write-down was required; nor would there have been any need for the write-down of major goodwill items to reflect an impairment loss after the discount rate had been raised by one percentage point or a flat 7.5-percent markdown applied to expected cash flows.

Goodwill breakdown by segment

€ million	2009	2008
Switch Systems	223.8	222.2
Locomotives	52.4	52.4
Electrical Systems	21.9	18.9
	298.1	293.5

Development costs are capitalized at cost wherever (i) the latter can clearly be assigned, (ii) the developed product's technical feasibility and future marketability are ensured, and (iii) the development work is reasonably certain to produce future cash inflows. Cost includes all costs directly or indirectly assignable to the development process. Capitalized development costs are amortized by straight-line charges based on useful lives of 3 to 10 years.

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

Amortization of intangible assets was charged at €7.1 million to the appropriate functional expenses, cf. Note (2).

Neither in 2009 nor in 2008 was any intangible asset written down.

Movement analysis of intangible assets:

€ million	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Goodwill		Capitalized development costs		Concessions, industrial-property and similar rights and assets, as well as licenses thereto		Prepayments on intangibles		Total intangibles	
Net book values	298.1	293.5	18.7	14.3	5.0	5.7	0.3	0.1	322.1	313.6
At cost										
Balance at January 1	294.4	335.3	27.6	20.3	24.3	25.8	0.1	0.0	346.4	381.4
M&A-related change	4.2	14.6	–	–	–	3.5	0.0	–	4.2	18.1
Additions (incl. current capex)	–	–	9.7	7.3	1.6	0.9	0.3	0.1	11.6	8.3
Disposals	0.0	–	–	–	(1.5)	(3.3)	0.0	–	(1.5)	(3.3)
Reclassified into assets of discontinued operations	–	(55.5)	–	–	–	(2.8)	–	–	–	(58.3)
Book transfers	–	–	–	–	0.1	0.1	(0.1)	0.0	0.0	0.1
Currency translation differences	0.4	–	–	–	(0.2)	0.1	0.0	–	0.2	0.1
Balance at December 31	299.0	294.4	37.3	27.6	24.3	24.3	0.3	0.1	360.9	346.4
Accumulated amortization and write-down										
Balance at January 1	0.9	0.9	13.3	8.6	18.6	19.7	0.0	0.0	32.8	29.2
Additions	–	–	5.3	4.7	1.8	1.8	–	–	7.1	6.5
Disposals	–	–	–	–	(1.1)	(0.1)	–	–	(1.1)	(0.1)
Reclassified into assets of discontinued operations	–	–	–	–	–	(2.8)	–	–	–	(2.8)
Currency translation differences	–	–	–	–	0.0	0.0	–	–	0.0	0.0
Balance at December 31	0.9	0.9	18.6	13.3	19.3	18.6	0.0	0.0	38.8	32.8

(12) Tangible assets

Breakdown of tangible assets

€ million	2009	2008
Land, equivalent titles, and buildings (incl. on leased land)	37.9	36.5
Production plant and machinery	53.9	51.4
Other plant, factory and office equipment	16.4	13.9
Prepayments on tangibles, construction in progress	13.4	6.6
	121.6	108.4

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

Useful lives of tangible assets	
Buildings	5–40 years
Production plant and machinery	1–30 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 either 2009 or 2008. Depreciation of €17.3 million is included within the functional expenses in the income statement; cf. Note (2).

Movement analysis of tangible assets:

€ million	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Land, equivalent titles, and buildings (incl. on leased land)		Production plant and machinery		Other plant, factory and office equipment		Prepayments on tangibles, construction in progr.		Tangible assets	
Net book values	37.9	36.5	53.9	51.4	16.4	13.9	13.4	6.6	121.6	108.4
At cost										
Balance at January 1	71.7	79.9	149.0	239.1	48.0	50.8	6.6	8.9	275.3	378.7
Change from initial consolidation	0.0	1.0	0.0	3.3	0.1	0.7	0.0	–	0.1	5.0
Additions (incl. current capex)	2.2	2.6	9.8	9.6	6.5	4.6	11.8	12.5	30.3	29.3
Disposals	(0.5)	(0.5)	(3.8)	(3.8)	(2.5)	(1.8)	0.0	(0.1)	(6.8)	(6.2)
Reclassified into assets of discontinued operations	–	(8.8)	–	(100.0)	–	(6.8)	–	(10.3)	–	(125.9)
Book transfers	1.8	(2.0)	1.1	2.1	2.4	0.9	(5.3)	(4.0)	0.0	(3.0)
Currency translation differences	0.2	(0.5)	0.2	(1.3)	0.1	(0.4)	0.3	(0.4)	0.8	(2.6)
Balance at December 31	75.4	71.7	156.3	149.0	54.6	48.0	13.4	6.6	299.7	275.3
Accumulated depreciation and write-down										
Balance at January 1	35.2	37.0	97.6	165.1	34.1	37.2	–	–	166.9	239.3
Change from initial consolidation	–	–	0.0	2.1	0.0	0.7	–	–	0.0	2.8
Additions	2.8	2.8	10.1	13.7	4.4	4.1	–	–	17.3	20.6
Disposals	(0.4)	(0.2)	(3.7)	(1.4)	(2.3)	(1.7)	–	–	(6.4)	(3.3)
Reclassified into assets of discontinued operations	–	(3.9)	–	(80.2)	–	(5.9)	–	–	–	(90.0)
Book transfers	–	0.0	(1.9)	(0.1)	1.9	0.0	–	–	0.0	(0.1)
Currency translation differences	(0.1)	(0.5)	0.3	(1.6)	0.1	(0.3)	–	–	0.3	(2.4)
Balance at December 31	37.5	35.2	102.4	97.6	38.2	34.1	–	–	178.1	166.9

(13) Investment properties

Movement analysis of investment properties:

€ million	2009	2008
Net book values	4.5	4.8
At cost		
Balance at January 1	7.8	20.3
Disposals	–	(15.6)
Book transfers	–	3.0
Currency translation differences	(0.1)	0.1
Balance at December 31	7.7	7.8
Accumulated depreciation and write-down		
Balance at January 1	3.0	16.3
Additions	0.2	0.2
Disposals	–	(13.6)
Book transfers	–	0.1
Currency translation differences	0.0	0.0
Balance at December 31	3.2	3.0

Investment properties include nonessential land and buildings partly leased to nongroup lessees. According to IAS 40, buildings owned for investment purposes are carried at amortized 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 (up from €0.1 million). Expenses (including depreciation, M&R and incidentals) incurred in 2009 for properties leased out totaled €0.4 million (down from €0.6 million), those for other properties amounting to €0.243 million (up from €0.043 million). These expenses do not include any write-down (unchanged).

The fair values of investment properties totaled €5.5 million at December 31, 2009 (down from €5.8 million) and are mostly based on current market prices of comparable real estate.

Movement analysis of shares in the associated affiliate:

€ million	2009	2008
Balance at January 1	0.6	0.8
Prorated (loss)/profit	(0.2)	0.3
Dividend distribution	–	(0.5)
Balance at December 31	0.4	0.6
Total assets	2.0	2.5
Total liabilities	1.3	1.9
Net sales	5.6	11.0
Posttax P/L	(0.4)	0.6

(14) Shares in associated affiliate

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.

Breakdown of other noncurrent financial instruments

€ million	2009	2008
Shares in unconsolidated subsidiaries	8.1	2.7
Shares in other investees	0.6	0.5
Other long-term securities	0.7	0.7
Long-term loans	0.2	0.1
Financial derivatives in hedges	–	7.0
Other noncurrent financial assets	0.0	0.1
Other noncurrent financial instruments	9.6	11.1

(15) Other noncurrent financial instruments

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

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

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

The other financial instruments below investment level are valued according to their IAS 39 classification. For the reconciliation of the balance sheet line to the IAS 39 valuation categories, see pages 145–147, *Additional disclosures of financial instruments*.

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

Financial instruments in hedges are stated at fair value. The item covers specifically the hedge of future interest payments for the US private placement. Fair value changes within this hedging relationship are recognized in OCI only. Since these financial instruments presented a negative fair value in 2009, they were shown within the other liabilities.

(16) Other noncurrent assets This line mostly includes long-term prepaid expenses and deferred charges.

(17) Deferred taxes

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

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

€ million	2009		2008	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible and tangible assets	0.8	15.2	0.3	11.9
Inventories	3.5	3.6	2.0	0.1
Receivables	0.6	1.8	0.5	3.5
Other assets	0.1	3.0	0.2	4.3
Pension accruals	0.9	0.0	1.2	0.0
Other accruals	19.7	0.4	19.0	0.7
Liabilities	2.5	0.2	0.5	0.4
Other liability items	0.1	0.1	0.3	0.4
	28.2	24.3	24.0	21.3
Loss carryforwards	2.4	–	0.7	–
Recognized deferred taxes	30.6	24.3	24.7	21.3

As of December 31, 2009, loss carryforwards of €33.2 million (down from €34.4 million) existed in Germany for corporation income tax purposes and of €20.5 million for municipal trade tax purposes (down from €23.9 million). No taxes were deferred for corporation income tax losses of €23.7 million (down from €32.5 million) and municipal trade tax losses of €20.5 million (down from €23.9 million). According to current German legislation, the carryforward of tax losses is not subject to any limitation or expiration. Non-German companies reported tax loss carryforwards of an additional €10.2 million (up from €1.1 million) for €3.3 million of which (up from €1.1 million) taxes were deferred. In fiscal 2009, the €8.7 million effect of the tax group formed by the Australian subsidiaries was taken into account for the first time.

Write-down of €0.6 million was charged to deferred tax assets in 2009 (down from €3.6 million).

(18) Inventories

Breakdown of inventories:

€ million	2009	2008
Raw materials and supplies	144.9	155.1
Work in process	134.6	119.4
Merchandise	14.4	10.2
Finished products	14.8	15.0
Prepayments made	33.3	21.4
Total	342.0	321.1

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

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

In the year under review, write-down of €23.7 million was charged to inventories (up from €18.9 million). The book value of inventories stated at NRV totaled €60.1 million (up from €59.2 million).

As the reasons for previous write-down existed no longer, inventories were written up by €0.355 million (up from €0.002 million).

(19) Trade receivables

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

Breakdown of trade receivables:

€ million	2009	2008
Sundry trade receivables	242.0	195.3
PoC receivables	56.9	67.0
Total	298.9	262.3

Movement analysis of allowances for trade receivables:

€ million	2009	2008
Balance at Jan. 1	9.6	11.6
Added	4.4	3.3
Released	(1.1)	(0.8)
Utilized	(0.1)	(1.7)
Currency translation differences	0.0	(0.1)
Reclassified into assets of discontinued operations	–	(2.7)
Balance at Dec. 31	12.8	9.6

In accounting for PoC receivables, the contract costs incurred, including a profit share (less any losses) according to the percentage of completion, are capitalized as total contract progress from such customized manufacturing contracts.

Accounts due under PoC contracts are shown within trade receivables if the total contract progress by the balance sheet date outstrips customer prepayments received. In the opposite case, PoC payables are recognized within trade payables.

PoC receivables and payables

€ million	2009			2008		
	Receivables	Payables	Total	Receivables	Payables	Total
Total PoC contract costs	234.0	438.4	672.4	316.9	348.4	665.3
Profit at PoC	41.1	51.0	92.1	38.2	69.8	108.0
Loss at PoC	0.0	(7.0)	(7.0)	(8.0)	(0.8)	(8.8)
Total PoC contract progress	275.1	482.4	757.5	347.1	417.4	764.5
Prepayments received/billings under PoC contracts	(218.2)	(580.7)	(798.9)	(280.1)	(506.5)	(786.6)
Recognized PoC receivables	56.9		56.9	67.0		67.0
Recognized PoC payables		98.3	98.3		89.1	89.1

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

(20) Income tax assets

(21) Sundry current assets

Breakdown of sundry current assets

€ million	2009	2008
Interest receivable	10.8	6.5
Due from unconsolidated subsidiaries	7.7	5.9
Non-income tax assets	6.9	10.0
Financial derivatives	2.5	3.6
Prepaid expenses and deferred charges	2.2	1.4
Security and similar deposits	1.9	0.6
Due from employees	1.3	1.5
Customers with credit balances	1.3	0.9
Short-term loans	0.9	0.9
Due from investees	0.3	0.1
Miscellaneous	11.0	3.5
Sundry current assets	46.8	34.9

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	2009	2008
Balance at Jan. 1	1.1	0.9
Added	0.6	0.4
Released	0.0	(0.1)
Utilized	(0.2)	(0.1)
Currency translation differences	0.0	0.0
Balance at Dec. 31	1.5	1.1

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 145–147, *Additional disclosures of financial instruments*. The non-income tax assets and the miscellaneous current assets are carried at cost.

This line reflects monies invested in short-term fixed-income securities €0.6 million of which is classified as held to maturity and hence carried at cost. The remaining securities of €0.2 million are held for trading and stated at fair value. The year before, all short-term securities had been classified as available for sale.

(22) Short-term securities

For the reconciliation of short-term securities to the IAS 39 valuation categories, see pages 145–147, *Additional disclosures of financial instruments*.

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

(23) Cash and cash equivalents

For the statement of changes in equity, see page 101.

(24) Total equity

Vossloh AG's capital stock rose in 2009 to €37,825,041.04 and is divided into 14,795,870 no-par bearer shares of common stock only. Unchanged, the capital was increased as stock options were exercised by staff.

(24.1) Capital stock

	2009		2008	
	€	Shares	€	Shares
Balance at January 1	37,824,979.68	14,795,846	37,824,851.86	14,795,796
Stock options exercised	61.36	24	127.82	50
Balance at December 31	37,825,041.04	14,795,870	37,824,979.68	14,795,846

Vossloh AG launched in 2009 a new bonus program (similar to the 2008 ESOP) for the employees of its German companies, offering them the option of acquiring either two shares free or four shares at a discount of 50 percent of the issue price of €65 per share (down from €83), determined as of share transfer date. Under this program, Vossloh employees were granted in 2009 altogether 1,916 free shares (up from 826) at an expense to the Company of approx. €124,500 (up from about €68,500).

Employee bonus program 2009

Stock option programs 2005

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

The number of stock options issued developed as follows:

Movement analysis of stock options		
	Number of options	Average strike price (€)
Jan. 1, 2008	124	38.75
exercised	50	38.75
expired	–	–
Dec. 31, 2008	74	38.75
thereof exercisable	74	38.75
Options		
granted	–	–
exercised	24	38.75
expired	–	–
Dec. 31, 2009	50	38.75
thereof exercisable	50	38.75

The options still exercisable as of December 31, 2009, have a remaining term of 0.25 year. The SOPs launched in 2005 have been valued in accordance with IFRS 2, which produced additional personnel expenses distributed over the qualifying period. Therefore, no such expenses were incurred in either 2009 or 2008.

(24.2) Additional paid-in capital

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

(24.3) Treasury stock

The AGM of May 20, 2009, authorized the Executive Board again to repurchase treasury shares equivalent to a maximum of 10 percent of the current capital stock pursuant to Art. 71(1) No. 8 AktG.

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

Vossloh stock. In this case, the number of shares to be sold plus any shares issued or disposed of by applying the provisions of Art. 186(3) clause 4 AktG directly or mutatis mutandis, may not exceed the ceiling of ten percent of the capital stock.

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

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

This authority will expire after November 19, 2010. On October 15, 2008, the Executive Board, after first obtaining due Supervisory Board approval, decided to repurchase up to 1,479,582 treasury shares, corresponding to 10 percent of the capital stock.

In the period between October 16 and December 30, 2008, Vossloh AG repurchased an aggregate 907,000 treasury shares from the stock market at an average price of €69.10 per share and a total market value of €62,669,895.49. These treasury shares, which are deducted from equity, corresponded to 6.1 percent of the capital stock at year-end 2008. In the period from January 1 to March 20, 2009, the Company reacquired another 572,582 treasury shares at an average market price of €76.23 and a total market value of €43,647,176.29. Vossloh AG thus repurchased 1,479,582 shares of treasury stock (€3,782,491.32 or 10 percent of the capital stock) out of a total 14,795,846 no-par shares as of March 20, 2009, the date at which the stock repurchase program was completed.

Stock repurchased

	Shares purchased	Total price (€) *	Capital stock (€)	Capital stock (shares)	% of capital stock
October 2008	182,000	10,722,541.40	37,824,979.68	14,795,846	1.23
November 2008	293,000	20,056,694.21	37,824,979.68	14,795,846	1.98
December 2008	432,000	31,890,659.88	37,824,979.68	14,795,846	2.92
Total 2008	907,000	62,669,895.49	37,824,979.68	14,795,846	6.13
January 2009	230,000	17,555,206.81	37,824,979.68	14,795,846	1.55
February 2009	181,500	13,972,774.45	37,824,979.68	14,795,846	1.23
March 2009	161,082	12,119,195.03	37,824,979.68	14,795,846	1.09
Total 2009	572,582	43,647,176.29	37,824,979.68	14,795,846	3.87
As of March 31, 2009	1,479,582	106,317,071.78	37,824,979.68	14,795,846	10.00
November 2009	(3,352)	(241,075.84)	37,825,041.04	14,795,870	(0.02)
Total treasury stock repurchased	1,476,230	106,075,995.94	37,825,041.04	14,795,870	9.98

*Excl. bank commissions

On and effective October 26, 2009, the Executive Board decided to reclassify 3,352 no-par shares out of Vossloh AG's treasury stock portfolio as available to those active or former employees of Vossloh AG or a Vossloh Group company who have registered for participation in the employee bonus program 2009, in accordance with Art. 71(1) No. 2 AktG.

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

(24.5) Accumulated other comprehensive income The OCI includes those differences from the currency translation of financial statements of non-German subsidiaries which are recognized in equity only, as well as unrealized gains/losses from the statement (remeasurement) at fair value of derivatives within cash flow hedges and of financial instruments available for sale. The biggest single OCI item is the negative fair value of €3.7 million (after deferred taxes) of hedges of future interest payments for liabilities associated with the US private placement.

(24.6) Minority interests Around €10.9 million of these refer to shares held by nongroup owners in Switch Systems companies, another some €8.8 million to minority interests in the Fastening Systems unit, plus €0.6 million in Locomotives companies. The sale of a 16.2-percent stake in Vossloh Fastening Systems China Co. Ltd. raised the minority interests proratable to Fastening Systems by €1.4 million.

(25) Pension accruals

Movement analysis of pension accruals

€ million	2009	2008
Opening balance at Jan. 1	8.9	11.5
Added on initial consolidation	0.3	–
Utilized	(1.0)	(0.9)
Change in plan assets	–	(3.2)
Added	1.5	1.5
Closing balance at Dec. 31	9.7	8.9

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 addition, defined contribution plans exist at certain subsidiaries. These companies are under no obligation to make any pension-related payments over and above that of agreed contributions to an outside fund, these totaling an unchanged €0.4 million in 2009.

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

Independent actuarial opinions and reports underlie the pension accruals recognized.

Assumptions underlying pension liability calculation:		
%	2009	2008
Discount rate	5.25	5.8
Expected pension rise	2.0	2.0
Expected pay rise	3.0	3.0
Expected cost-of-living rise	3.0	3.0
Probable employee turnover rate	6.0	6.0
Expected return on plan assets	4.5	4.5

The pension accrual recognized was derived as follows:

Pension accrual analysis		
€ million	2009	2008
Present value of plan-funded DBO	18.1	14.9
Fair value of plan assets	(9.5)	(7.5)
Unrecognized actuarial gains/losses, net	(5.6)	(5.1)
Accrual for plan-funded DBO	3.0	2.3
Present value of plan-unfunded DBO	7.0	6.5
Unamortized cost of plan changes	–	0.2
Unrecognized actuarial gains/losses, net	(0.3)	(0.1)
Accrual for plan-unfunded DBO	6.7	6.6
Recognized pension accrual	9.7	8.9

Movement analysis of the present value of the DBO

€ million	2009	2008
Balance at Jan. 1	21.4	21.1
Added on initial consolidation	1.7	–
Cost of plan changes	0.2	–
Service cost	0.4	0.4
Interest cost	1.2	1.1
Actuarial gains and losses	1.4	0.1
Beneficiaries' contributions	0.1	–
Pension payments	(1.3)	(1.3)
Balance at Dec. 31	25.1	21.4

The fair value of plan assets presented the following movements:

Movement analysis of plan assets

€ million	2009	2008
Balance at Jan. 1	7.5	5.8
Added on initial consolidation	1.4	–
Expected return on plan assets	0.5	0.4
Actuarial gains/losses	0.4	(1.5)
Employer contributions to plan assets	–	3.2
Beneficiaries' contributions	0.1	–
Pension payments	(0.4)	(0.4)
Balance at Dec. 31	9.5	7.5

The following pension expense was recognized in the income statement:

Breakdown of total annual pension expense

€ million	2009	2008
Current service cost	0.4	0.4
Interest cost	1.3	1.1
Expected return on plan assets	(0.5)	(0.4)
Actuarial gains/losses amortized in the period	0.3	0.2
Cost of plan changes	–	0.2
Total annual expense	1.5	1.5

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

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

Comparative analysis of present/fair values

€ million	2009	2008	2007	2006	2005
Present value of the DBO	25.1	21.4	21.1	20.7	23.6
Fair value of plan assets	(9.5)	(7.5)	(5.8)	(8.4)	(6.3)
Plan-unfunded obligation	15.6	13.9	15.3	12.3	17.3

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

€ million	2009	2008	2007	2006
Empirical adjustments of plan assets	0.4	(1.5)	(2.6)	0.2
Empirical adjustments of pension liabilities	0.1	0.0	0.9	(0.3)

In the present fiscal year 2010 we expect €2.6 million to be added to plan assets.

Breakdown of other accruals

€ million	2009	2008
Personnel-related	8.4	8.8
Warranty obligations and follow-up costs	43.4	31.4
Accrued trade payables	3.0	–
Litigation risks and impending losses	4.5	1.7
Sundry	24.4	21.3
Other noncurrent accruals	83.7	63.2
Personnel-related	27.9	28.9
Accrued trade payables	11.5	29.2
Warranty obligations and follow-up costs	53.8	46.6
Litigation risks and impending losses	36.5	39.7
Sundry	7.6	5.7
Other current accruals	137.3	150.1
	221.0	213.3

(26) Other accruals

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 are recognized at amounts likely to be utilized. The maximum risk inherent in accrued obligations is €44.5 million above those recognized in the balance sheet (up from 37.6 million). Additional risks of €1.1 million (up from €0.6 million) exist as below-the-line items but are not provided for since their probability is below 50 percent.

The personnel-related accruals provide for obligations to pay profit shares,

vacation and employment anniversary allowances, as well as for preretirement part-time work.

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

The warranty accruals include both provisions for specific warranty expenses and the general warranty risks empirically derived from past sales. The accrued litigation risks and impending losses account for obligations under lawsuits and for loss risks from uncompleted contracts. As of the balance sheet date, €0.5 million provides for impending losses on purchase obligations (down from €0.7 million).

Movement analysis of other accruals

€ million	Opening balance at 1/1/2009	Added upon initial consolidation	Utilized	Released/reversed	Provided for	Currency translation differences	Closing balance at 12/31/2009
Tax accruals	10.6	0.0	(7.1)	0.0	3.1	(0.1)	6.5
Personnel-related	37.7	0.0	(23.2)	(0.2)	22.0	0.0	36.3
Accrued trade payables	29.2	0.1	(25.0)	(0.3)	10.5	0.0	14.5
Warranty obligations and follow-up costs	78.0	0.0	(13.7)	(4.2)	37.2	(0.1)	97.2
Litigation risks and impending losses	41.4	0.0	(4.4)	(7.0)	11.0	0.0	41.0
Sundry	27.0	0.1	(3.5)	(0.2)	8.5	0.1	32.0
Other accruals	213.3	0.2	(69.8)	(11.9)	89.2	0.0	221.0

(27) Liabilities

€ million	2009	2008	2009	2008	2009	2008	2009	2008
Remaining term	≤ 1 year		>1–5 years		>5 years		Total	
Financial debts	59.6	39.6	98.5	0.5	69.4	172.7	227.5	212.8
Trade payables	229.9	228.9	0.0	0.0	0.0	0.0	229.9	228.9
Income tax liabilities	5.3	7.1	0.0	0.0	0.0	0.0	5.3	7.1
Other liabilities	74.4	108.9	29.3	2.7	17.9	32.2	121.6	143.8
	369.2	384.5	127.8	3.2	87.3	204.9	584.3	592.6

(27.1) Financial debts

Breakdown of financial debts

€ million	2009	2008
US private placement	167.8	171.7
Long-term debts to banks	0.1	1.5
Noncurrent financial debts	167.9	173.2
Short-term debts to banks	59.3	39.3
Interest payable	0.3	0.3
Current financial debts	59.6	39.6
Total financial debts	227.5	212.8

Financial debts are carried at amortized cost. The US private placement is treated as the underlying in a fair value hedge against currency risks inherent in the principal. For the reconciliation of the financial debts to the IAS 39 valuation categories, see pages 145–147, *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 4.5 and 6.5 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 €167.8 million debt disclosed as of December 31, 2009, corresponds to the dollar debt translated at the year-end rate. Including the currency hedge shown at €36.1 million within other liabilities, the hedged repayment sum totals €203.9 million.

In connection with the US private placement, Vossloh has inter alia covenanted that, if and when defined long-term indicators cross above or below agreed thresholds, the interest rate is stepped up or the loan principal may fall due. Vossloh has complied with all such covenants at each balance sheet date. In addition, similar covenants have been signed by two US subsidiaries in the context of bank credit facilities, however, only one of which had been utilized at €4.6 million as of year-end 2009. Any violation of the covenants will entitle the bank to take recourse to inventories and/or receivables of the infringing subsidiary. All these covenants have been complied throughout, too.

(27.2) Trade payables

Breakdown of trade payables

€ million	2009	2008
Trade payables to suppliers	131.6	139.8
PoC payables	98.3	89.1
Total	229.9	228.9

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

(27.3) Income tax liabilities

The line reflects the income taxes actually owed by various group companies as of December 31, 2009.

(27.4) Other liabilities

Breakdown of other liabilities

€ million	2009	2008
Financial derivatives from fair value hedges	36.1	32.2
Financial derivatives from cash flow hedges	5.2	1.3
Prepayments received	5.2	0.0
Noncurrent deferred income	0.4	1.4
Sundry	0.3	0.0
Noncurrent other liabilities	47.2	34.9
Prepayments received	27.5	56.4
VAT payable	11.4	14.5
Statutory Social Security and Health Insurance	5.1	5.2
Other non-income taxes	4.7	4.4
Due to employees	4.6	4.1
Customers with credit balances	2.9	2.3
Due to unconsolidated subsidiaries (nontrade)	1.9	1.3
Commissions	1.9	5.0
Financial derivatives from fair value hedges	1.6	0.8
Financial derivatives from cash flow hedges	1.1	0.2
Sundry	11.7	14.7
Current other liabilities	74.4	108.9
	121.6	143.8

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 €36.1 million (up from €32.3 million) under noncurrent other liabilities refers to the fair value hedge against currency risks from loan repayment under the US private placement agreement.

According to IAS 39, the sundry other liabilities (except for deferred income) are financial ones and hence stated at amortized cost. For the reconciliation of other liabilities to the IAS 39 valuation categories, see pages 145–147, *Additional disclosures of financial instruments*.

The prepayments received, shown at €27.5 million as other liabilities, do not refer to PoC contracts. In accordance with IAS 19, the current liabilities to employees are recognized at the undiscounted amount owed.

Notes to the segment reports

The Vossloh Group's operating segments are defined by its internal organizational and reporting structures which are based on the products and services offered by Vossloh's business units. Since the application of IFRS 8, segment reporting has encompassed not only the identifiable two operating divisions (Rail Infrastructure and Motive Power&Components) but also separately presented their business units.

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

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

The Switch Systems business unit, the world's #2 rail switch manufacturer, equips rail networks with switches (turnouts, crossings, etc.), as well as with the related control and monitoring systems which it installs and maintains. Here, too, the lineup extends from light-rail to high-speed.

Motive Power&Components includes the rail vehicle and vehicle system/component operations plus the related services. The division comprises the Locomotives and Electrical Systems business units.

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

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

Consolidation eliminates all intersegment transactions, such as primarily by mutually offsetting intragroup income/expenses and receivables/payables, as well as by eliminating intragroup income from profit distribution. The HQ/consolidation column includes not only the Group's top-tier consolidation items but also the holding companies which cannot be assigned to any segment, plus Vossloh AG as the Group's managerial grandparent and financial holding company.

Intersegment business (if any) is transacted on terms as if at arm's length. The accounting methods of all segments are identical. Segment information is presented before consolidation.

Segment financial information is presented for each division and business unit on pages 102/103.

The major noncash segment expenses reflect provisions.

Reconciliation of value added to recognized EBIT:

Reconciliation of value added to recognized EBIT:		
€ million	2009	2008
Value added	63.7	68.2
Cost of capital employed	74.2	69.5
EBIT	137.9	137.7

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

Segment information by region

€ million	2009	2008	2009	2008
	Net external sales		Noncurrent assets	
Germany	132.3	155.3	74.0	67.2
France	156.0	110.4	205.6	204.0
Other Western Europe	172.0	208.8	17.3	14.7
Northern Europe	100.5	79.1	10.9	8.2
Southern Europe	260.5	267.9	79.4	74.6
Eastern Europe	31.7	41.2	4.8	3.7
Total Europe	853.0	862.7	392.0	372.4
North and Central America	83.1	129.4	30.3	31.7
South America	6.3	4.4	0.0	0.0
Total Americas	89.4	133.8	30.3	31.7
Near & Middle East	16.5	32.1	0.0	0.0
Other Asia	156.6	125.8	18.8	17.7
Total Asia	173.1	157.9	18.8	17.7
Africa	22.3	30.3	0.0	0.0
Australia	29.5	16.7	7.9	5.5
Total	1,167.3	1,201.4	449.0	427.3

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

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

Reconciliation of balance sheet lines to IAS 39 valuation categories and disclosure of the book values (BV) and fair values (FV) of FI											
€ million	Recognized BV	Excluded from IAS 39	Measured acc. to IAS 39								
IAS 39 valuation category:			straight receivables/ payables	FI held to maturity		FI available for sale	FI held for trading	Derivatives in hedges			
Measured at:			amortized cost	historical cost	fair value (chg. rec. in OCI)	historical cost	fair value (chg. rec. in IS)	fair value (chg. rec. in IS)	fair value (chg. rec. in OCI)	Total IAS 39 BV	Fair Values
Dec. 31, 2009											
Financial instruments (assets)											
Sundry noncurrent FI	9.6	8.1	0.2	0.2	0.5	0.6				1.5	1.5
Trade receivables	298.9	–	298.9							298.9	298.9
Sundry current assets	46.8	19.6	24.7					2.2	0.3	27.2	27.2
Short-term securities	0.8	–		0.6			0.2			0.8	0.8
Cash and cash equivalents	156.5	–	107.1	48.0	1.4	0.0				156.5	156.5
Financial instruments (liabilities)											
Noncurrent financial debts	167.9	–	167.9							167.9	188.4
Noncurrent other liabilities	47.2	0.6	5.3					36.1	5.2	46.6	46.6
Current financial debts	59.6	–	59.6							59.6	59.6
Trade payables	229.9	–	229.9							229.9	229.9
Sundry current liabilities	74.4	27.3	44.4					1.6	1.1	47.1	47.1

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

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

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

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

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

€ million	Straight receivables/ payables	FI held to maturity	FI available for sale	FI held for trading	2009	2008
Net gains/(losses) from						
interest	(11.0)	0.3	–	(0.2)	(10.9)	(9.3)
allowances/write-down	(3.4)	0.0	0.0	–	(3.4)	(3.5)
currency translation	0.9	–	–	–	0.9	0.3
restatement at fair value	–	–	–	0.1	0.1	(0.5)
disposal	4.8	–	–	–	4.8	0.0
Total	(8.7)	0.3	0.0	(0.1)	(8.5)	(13.0)

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

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

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

Financial risk management

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

Liquidity risks

Vossloh manages its liquidity risk (i.e., that the Group is not able at all times to meet its payment obligations) through a rolling cash budget and a central cash management system. As of the end of the year under review, cash, cash equivalents and readily salable securities of just under €156.5 million were at the Group's disposal, besides additional, unutilized credit facilities of €171.7 million to satisfy any future cash requirements. The table below shows the contractual undiscounted payments of principal and interest for financial payables:

€ million	2009	
Book value of financial payables:	552.1	
Cash outflow due for	principal	interest
within 1 year	336.6	11.1
in >1–5 years	127.3	40.7
after 5 years	87.3	7.0
	551.2	58.8

Currency risks

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

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

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. In fiscal 2009, a €3.9 million gain from the lower euro equivalent of the dollar-denominated debt as the underlying in the FVH contrasted with a same-amount loss on the hedging derivative's remeasured fair value. In the previous year, an €8.6 million loss on the increased dollar debt principal contrasted with a same-amount gain.

When the dollar interest payments fell due in 2009, unrealized gains of €0.7 million (down from €1.2 million) previously accumulated in OCI and corresponding to the hedging cross-currency swap's fair value change were recycled from equity to interest expense.

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

If US dollar rates	€1.00 = \$	FV of recognized hedges in € mill.		FV change of financial debt from USPP in € mill. ²
		CFH ¹	FVH	
rise 10 percent	1.58	(7.1)	(51.8)	51.8
remain at the 12/31/2009 current rate	1.43	(5.4)	(36.1)	36.1
fall 10 percent	1.29	(2.2)	(18.1)	18.1

¹Before deferred taxes

²Change from the hedged principal repayment of €203.9 million

Interest rate risks

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

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

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

Financial derivatives		Fair value	Notional volume	Fair value	Notional volume
€ million		2009		2008	
Interest rate swaps	Time to maturity <1 year	(0.8)	25.6	0.0	0.0
	≤1–5 years	0.0	0.0	(1.3)	25.6
	>5 years	0.0	0.0	0.0	0.0
		(0.8)	25.6	(1.3)	25.6
Cross-currency swaps (USPP)	Time to maturity <1 year	0.0	0.0	0.0	0.0
	≤1–5 years	(23.5)	118.9	0.0	0.0
	>5 years	(17.9)	85.0	(25.4)	203.9
		(41.4)	203.9	(25.4)	203.9
Interest rate caps	Time to maturity <1 year	0.0	0.0	0.0	25.6
	≤1–5 years	0.0	0.0	0.0	0.0
	>5 years	0.0	0.0	0.0	0.0
		0.0	0.0	0.0	25.6
Currency forwards	Time to maturity <1 year	(0.2)	90.6	2.6	96.2
	≤1–5 years	0.0	0.0	0.2	2.1
	>5 years	0.0	0.0	0.0	0.0
		(0.2)	90.6	2.8	98.3
Currency options	Time to maturity <1 year	0.0	0.0	0.1	7.5
	≤1–5 years	0.0	0.0	0.0	0.0
	>5 years	0.0	0.0	0.0	0.0
		0.0	0.0	0.1	7.5
Total		(42.4)	320.1	(23.8)	360.9

Credit risks

Credit risks are defined as the risk that counterparties fail to meet their financial obligations. The credit risk attaching to the cash and cash equivalents invested by Vossloh with banks and the short-term securities held by subsidiaries, as well as to hedging instruments contracted with banks, is minimized by selecting counterparties of prime standing. As part of business operations, trade and other receivables are exposed to a certain default or nonpayment risk.

These credit risks are monitored by the risk management system and minimized by taking out credit insurance. Specific collection risks are adequately allowed for.

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

Current gross receivables

€ million	Receivables neither past due nor impaired	Receivables past due but not impaired	Impaired receivables*	Gross value of receivables
Trade receivables				
2009	249.7	51.0	10.9	311.6
2008	223.5	40.9	7.4	271.8
Other				
2009	47.3	0.1	0.8	48.2
2008	34.9	0.0	1.1	36.0

*This is the gross portfolio of impaired trade receivables, the specific allowances charged to them totaling €10.6 million (up from 7.2 million).

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

Receivables past due but not impaired

€ million	past due for					Total
	<1 month	1–3 months	3–6 months	6–12 months	>12 months	
Trade receivables						
2009	22.8	8.0	7.0	10.2	3.0	51.0
2008	16.6	11.0	6.4	4.0	2.9	40.9
Other						
2009	0.0	0.0	0.0	0.0	0.0	0.0
2008	0.0	0.0	0.0	0.0	0.0	0.0

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

The maximum loss on default from all financial assets equals the book value of the financial instruments on the asset side (cf. the analysis on page 145).

Further disclosures

Contingent liabilities

As of December 31, 2009, contingent liabilities totaled €14.6 million (up from €9.4 million). The Group has incurred contingent liabilities under guaranties/suretyships at €11.1 million (up from €5.9 million), their full amount (unchanged) being in favor of unconsolidated subsidiaries, and for the collateralization of third-party debts at €3.5 million (down from €3.6 million), including €1.3 million (virtually unchanged) allocable to unconsolidated subsidiaries.

Other financial obligations

The obligations under purchase contracts or firm commitments for buying tangible/intangible assets and inventories total €5.7 million (down from €6.4 million).

The minimum undiscounted future payments under operating and similar leases came to €51.7 million (up from €35.3 million), those under operating leases alone falling due as follows:

Financial obligations under operating leases		
€ million	2009	2008
due <1 year	11.4	7.8
due 1–5 years	24.9	21.3
due after 5 years	3.9	6.2
	40.2	35.3

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

Lease payments expensed		
€ million	2009	2008
Minimum lease payments	13.1	9.8
Contingent rent	0.5	0.1
Prepayments received from sublessees	(6.1)	(6.0)

Future minimum payments of €29.1 million are expected from noncancelable subleases (down from €32.7 million).

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

Joint ventures

Vossloh's share in the assets, liabilities, income and expenses of joint ventures		
€ million	2009	2008
Current assets	28.5	26.6
Noncurrent assets	5.8	6.1
Current liabilities	13.9	14.9
Noncurrent liabilities	0.0	0.2
Income	41.0	36.9
Expenses	37.3	33.7

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

Related-party transactions

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 associated affiliate) are all itemized in the list of shareholdings (presented separately and available via the Companies Register).

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

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

€ million	2009	2008
Sale/purchase of goods		
Net sales of finished goods/WIP	6.4	11.3
Cost of sales of finished goods/WIP purchased	1.0	0.6
Trade receivables	4.5	4.1
Trade payables	0.2	1.3
Sale/purchase of other assets		
Receivables from the sale of other assets	0.8	0.4
Payables for the purchase of other assets	0.7	0.8
Services provided/purchased		
Income from services provided	1.2	0.1
Leases		
Income from operating leases	0.0	0.3
Expenses for operating leases	0.5	0.3
Finance		
Interest income from loans granted	0.1	1.2
Interest expense for loans raised	0.0	0.1
Receivables under loans	1.8	0.6
Guaranties/collateral furnished		
Bonds/guaranties furnished	11.2	5.9
Other collateral furnished	1.3	1.3

The Supervisory Board members active in 2009 received short-term benefits of €0.612 million (down from €0.988 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 Vossloh's combined management report).

Executive Board remuneration		
€ '000	2009	2008
Short-term benefits	3,050.2	2,716.9
Postretirement benefits	508.9	217.2

In the year under review, former Executive Board members received a total compensation of €0.675 million. €8.648 million was accrued for the pension obligations to former Executive and Management Board members and their surviving dependants. The obligations have fully been recognized and are largely plan-funded.

The following fees for services rendered by the statutory group auditor, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, were recognized as expense in 2009:

Statutory auditor's fees

€ million	2009	2008
Statutory audits	0.3	0.3
Other certification, verification or appraisal services	0.3	0.5
Tax consultancy	0.6	0.6
	1.2	1.4

The fees for statutory audits mainly includes those paid for the obligatory group audit and the statutory audits by BDO Deutsche Warentreuhand AG of Vossloh AG's and its German subsidiaries' financial statements. The fees include €0.0 million (down from €0.1 million) for other certification, verification or appraisal services plus €0.1 million (up from €0.0 million) for tax consultancy provided by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG. 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&As and divestments. The tax consultancy fees cover substantially advisory services rendered for the formulation of tax returns, the review of tax assessment notices, as well as for national and international tax matters.

In December 2009 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.

German Corporate Governance Code

Pursuant to Art. 313(4) HGB, details of Vossloh AG's and the Group's shareholdings are listed separately and will be disclosed via the Companies Register.

Group companies and investees

Major subsidiaries

The list below names Vossloh AG's major subsidiaries (directly or indirectly held as first-/second-tier subsidiaries):

Major subsidiaries	Shareholding in %
Fastening Systems business unit	
Vossloh Fastening Systems GmbH, Werdohl, Germany	100.00
Vossloh Werdohl GmbH, Werdohl, Germany	100.00
Vossloh Skamo Sp. z o.o., Nowe Skalmierzyce, Poland	100.00
Vossloh Rail Technologies Ltd. Şti., Istanbul, Turkey	100.00
Vossloh Fastening Systems China Co. Ltd., Kunshan, China	68.00
Switch Systems business unit	
Vossloh Cogifer SA, Rueil-Malmaison, France	100.00
Vossloh Nordic Switch Systems AB, Örebro, Sweden	100.00
KIHN SA, Rumelange, Luxembourg	89.21
Amurrio Ferrocarril y Equipos SA, Amurrio, Spain	50.00
Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK	50.00
Vossloh Track Material, Inc., Wilmington, USA	100.00
Cleveland Track Material Inc., Cleveland, USA	100.00
Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia	100.00
Locomotives business unit	
Vossloh Locomotives GmbH, Kiel, Germany	100.00
Vossloh Kiepe Ges.mbH, Vienna, Austria	100.00
Electrical Systems business unit	
Vossloh Kiepe GmbH, Düsseldorf, Germany	100.00
Vossloh Kiepe Ges.mbH, Vienna, Austria	100.00

Exemption of subsidiaries from certain publication obligations

List of Vossloh subsidiaries which claim the exemption from preparing and publishing their own financial statements under the terms of Art. 264(3) or 264b HGB:

Exempted subsidiaries	Shareholding in %
Fastening Systems business unit	
Vossloh-Werke GmbH, Werdohl, Germany	100.00
Vossloh Fastening Systems GmbH, Werdohl, Germany	100.00
Vossloh Werdohl GmbH, Werdohl, Germany	100.00
Locomotives business unit	
Vossloh Locomotives GmbH, Kiel, Germany	100.00
Locomotion Service GmbH, Kiel, Germany	100.00
Electrical Systems business unit	
Vossloh Kiepe GmbH, Düsseldorf, Germany	100.00
Vossloh Kiepe Beteiligungs GmbH, Düsseldorf, Germany	100.00

According to German GAAP, Vossloh AG's separate financial statements 2009 show net income of €29,065,599.19 and, after including the profit carryforward of €4,531,918.01, net earnings of €33,597,517.20.

Proposed profit appropriation

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €2.00 for each no-par share of the eligible common stock of €34,051,118.97 (13,319,640 shares) and to carry forward the balance of €6,958,237.20. When determining the capital stock ranking for dividend, a total of 1,476,230 treasury shares (€3,773,922.07) was deducted.

Werner Andree, born 1951, Neuenrade
CEO

Vossloh AG's Executive Board

(since Aug. 9, 2007; Executive Board member since Sep. 1, 2001, appointed up to Aug. 31, 2014)

- Vossloh Cogifer SA: Director
- Vossloh France SAS: President
- Vossloh Australia Pty. Ltd.: Director
- Vossloh Schwabe Australia Pty. Ltd.: Director
- Vossloh España SA: Director

Dr.-Ing. Norbert Schiedeck, born 1965, Arnsberg,
COO

(Executive Board member since Apr. 1, 2007, appointed up to Mar. 31, 2015)

- Vossloh Cogifer SA: Director
- Amurrio Ferrocarril y Equipos SA: Director
- Wohnungsgesellschaft Werdohl GmbH: supervisory board member
- Vossloh España SA: Director

Vossloh AG's
Supervisory Board

Dr.-Ing. Dipl.-Ing. Wilfried Kaiser, Chairman^{2, 4}, Munich, degreed engineer, former executive board member of Asea Brown Boveri AG

- EvoBus GmbH: supervisory board member
- ACTech GmbH: advisory board member⁵
- schenck.de AG: supervisory board chairman
- Hugo Kern und Liebers GmbH & Co.: director⁵
- VAG Holding GmbH: advisory board chairman⁵

Peter Langenbach^{2, 4}, Wuppertal, lawyer

- Credit- und Volksbank eG, Wuppertal: supervisory board member

Dr. Jürgen Blume^{3, 4}, Bad Bentheim, sworn public auditor and tax accountant

Dr. Christoph Kirsch^{3, 4}, Weinheim, former CFO of Südzucker AG

- GELITA AG: supervisory board member

Wolfgang Klein^{1, 2, 3}, Werdohl, galvanizer, Chairman of the European and Group Works Councils

Michael Ulrich¹, Kiel, mechanic

¹ Employee representative

² Staff Committee member

³ Audit Committee member

⁴ Slate Submittal Committee member

⁵ Optional board

Werdohl, March 10, 2010

Vossloh AG

The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

Management Representation

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

Werdohl, March 10, 2010

Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

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

We have audited the consolidated financial statements (consisting of balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes) and the combined management report on the Company and the Group, all as prepared by Vossloh AG, Werdohl, for the fiscal year ended December 31, 2009. The preparation of the consolidated financial statements and combined management report in accordance with the IFRS whose application is mandatory in the European Union (EU), and with the additionally applicable financial-accounting provisions of Art. 315a(1) HGB, is the responsibility of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and combined management report.

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

Our audit has not resulted in any objections or exceptions.

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

Essen, March 10, 2010

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

Fritz	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 (<i>a.k.a.</i> 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 yield	Total dividend payout ÷ group earnings
EBIT	Earnings before interest and income taxes
EBITDA	EBIT before amortization of intangibles and depreciation of tangibles/investment properties
EBIT margin	EBIT ÷ net sales
EBT	Earnings before income taxes
Eps	Earnings per share: group earnings ÷ annual average number of shares outstanding
Equity ratio	Equity ÷ total assets
Financial derivative	Contract whose fair value is derived from an underlying (e.g. stock or currency)
Financial debts	Private placement loans + bank debts + notes payable + payables under capital leases
Guaranty facility	Credit line for guaranties and guaranty bonds
IAS/IFRS	International Accounting Standards/International Financial Reporting Standards
Interest rate cap	Option contract for an interest rate ceiling to hedge against rising rates

Interest rate swap	Contract for swapping variable and fixed interest payments based on underlying principal
Investment grade	Rating between AAA and BBB– (S&P's), any credit standing below being "speculative grade"
Long-term incentive program (LTIP)	Incentive-based stock option program for officers/executives
Net financial debt	Financial debts – cash & cash equivalents – short-term securities
Net leverage	Net financial debt ÷ equity
Operating lease	Type of lease which requires the lessor to capitalize the leased asset
Payroll intensity	Personnel expenses ÷ value created
Personnel expenses per capita	Personnel expenses ÷ annual average headcount
Pretax return on equity (ROE)	EBT ÷ equity
Private placement	Private deal between issuer and investors
Return on capital employed (ROCE)	EBIT ÷ capital employed
Statement at equity	Method similar to consolidation for including investees at the prorated equity
Stock option program	Program for granting options to officers and employees to subscribe for their employer company's stock
Treasury	Finance management
Value added	(ROCE – WACC) × average capital employed
Value created	EBIT + personnel expenses + non-income taxes
Working capital	Trade receivables (incl. PoC receivables) + inventories – trade payables (incl. PoC payables) – prepayments received
Working capital intensity	Working capital ÷ net sales

Financial diary 2010/2011

Annual general meeting	May 19, 2010
Payment of cash dividends	May 20, 2010
Publication of interim report	
as of March 31	April 28, 2010
as of June 30	July 28, 2010
as of September 30	October 27, 2010

For further dates, go to www.vossloh.com

Financial diary 2011

Publication of 2010 financial data	March 2011
Press conference	March 2011
DVFA presentation	March 2011
Annual general meeting	May 2011

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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 12/31/2009:	13,319,640
Share price (12/31/2009):	€69.52
2009 high/low:	€89.80 / €62.36
Reuters code:	VOSG.DE
Bloomberg code:	VOS GR
Dividend proposed:	€2.00

Disclaimer: This annual report contains future-related statements based on estimates of future trends on the part of the Executive Board.

The statements and forecasts represent an assessment of the as-is situation and all information presently available. If the assumptions underlying such statements and forecasts fail to materialize, actual results may differ from current expectations.

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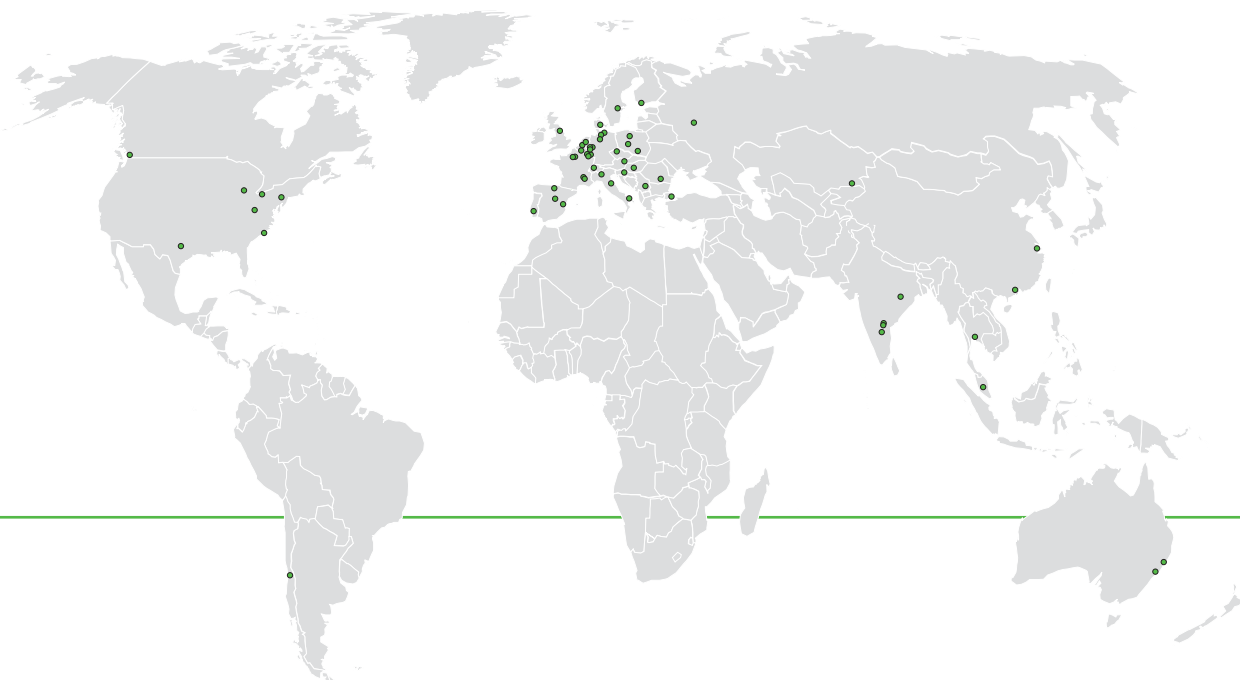
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This annual report has been published in
English and German and is also
downloadable from www.vossloh.com





Ten-year overview of the Vossloh Group

		2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Income statement data											
Net sales	€ mill.	1,173.7	1,212.7	1,232.1	1,015.2	996.4	917.8	912.5	744.5	903.0	854.4
thereof: Rail Technology	€ mill.	1,173.4	1,212.1	1,231.8	1,014.2	996.1	917.5	912.2	743.6	649.7	579.8
Lighting	€ mill.	—	—	—	—	—	—	—	—	252.8	274.1
EBIT	€ mill.	137.9	137.7	121.5	82.7	90.8	105.6	100.9	78.4	60.0	77.9
Net interest expense	€ mill.	(9.4)	(9.3)	(12.3)	(14.1)	(19.6)	(16.0)	(14.7)	(14.8)	(17.2)	(13.6)
EBT	€ mill.	128.5	128.4	109.2	68.6	71.2	89.6	86.2	63.6	42.8	64.3
Group earnings (total)	€ mill.	87.9	139.4	71.4	20.3	45.1	57.2	55.5	52.4	17.2	27.8
Earnings per share (EpS)	€	6.57	9.48	4.83	1.38	3.07	3.91	3.90	3.85	1.20	1.93
Pretax ROS	%	10.9	10.6	8.9	6.8	7.1	9.8	9.4	8.5	4.7	7.5
Pretax ROE	%	26.1	26.1	25.2	18.5	19.7	27.1	29.0	26.7	13.6	20.0
ROCE ¹	%	20.5	18.8	14.9	12.9	12.0	15.3	16.3	13.3	9.4	11.9
Value added	€ mill.	63.7									
Balance sheet data											
Fixed assets	€ mill.	458.2	431.4	503.4	423.4	453.3	387.0	377.7	414.5	322.0	311.4
capital expenditures	€ mill.	41.9	37.6	52.6	23.9	34.5	39.4	30.5	25.5	48.2	43.6
amortization/depreciation	€ mill.	24.6	22.8	29.2	25.9	23.9	25.2	24.4	19.7	38.1	37.4
Closing working capital ²	€ mill.	245.1	300.7	312.8	216.7	303.3	303.2	242.7	175.5	316.3	341.4
Year-end working capital intensity	%	20.9	24.8	25.4	21.3	30.4	33.1	26.6	23.6	35.0	40.0
Closing capital employed	€ mill.	703.2	732.1	816.2	640.1	756.6	690.2	620.4	590.0	638.3	652.8
Total equity	€ mill.	492.6	492.7	434.0	371.1	361.0	331.1	297.6	238.6	314.4	321.0
thereof: minority interests	€ mill.	20.4	16.9	12.1	9.3	6.1	5.8	5.6	4.6	121.2	116.7
Net financial debt/(assets)	€ mill.	70.2	(35.0)	124.9	62.3	220.5	171.1	183.1	227.0	231.2	209.5
Total assets	€ mill.	1,338.4	1,339.4	1,326.8	1,198.5	1,091.2	1,016.7	880.3	947.2	899.0	896.3
Equity ratio	%	36.8	36.8	32.7	31.0	33.1	32.6	33.8	25.2	35.0	35.8
Cash flow statement data											
Cash flow from operating activities	€ mill.	44.9	133.8	80.2	186.9	54.6	32.9	16.1	122.9	50.6	35.1
Cash flow from investing activities	€ mill.	(52.3)	116.8	(123.6)	(15.4)	(65.5)	(27.5)	22.4	(292.3)	(45.8)	(49.3)
Cash flow from financing activities	€ mill.	(84.1)	(77.0)	(25.7)	(81.5)	(78.9)	110.5	(51.0)	10.8	(9.3)	23.2
Net cash inflow/(outflow)	€ mill.	(91.5)	173.6	(69.1)	90.0	(89.8)	115.9	(12.5)	(6.6)	(4.5)	8.0
Workforce											
Annual average headcount		4,717	4,631	5,493	4,765	4,732	4,513	4,422	4,190	5,370	5,583
thereof: Germany		1,312	1,243	1,183	1,168	1,494	1,547	1,558	1,651	2,494	2,824
abroad		3,405	3,388	4,310	3,597	3,238	2,966	2,864	2,539	2,876	2,759
thereof: Rail Technology		4,666	4,585	5,455	4,734	4,701	4,481	4,392	4,167	3,884	4,001
Lighting		—	—	—	—	—	—	—	—	1,464	1,566
Vossloh AG		51	46	38	31	31	32	30	23	22	16
Payroll intensity	%	61.9	61.3	67.5	71.6	70.8	66.2	66.9	69.0	77.0	74.2
Personnel expenses	€ mill.	229.6	223.2	268.9	223.9	234.5	217.5	213.9	178.4	208.1	228.2
Personnel expenses per capita	€ '000	48.7	48.2	49.0	47.0	49.6	48.2	48.4	42.6	38.7	40.9

Vossloh AG—Ten-year overview

		2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Capital stock	€ mill.	37.8	37.8	37.8	37.7	37.7	37.4	37.4	36.8	36.8	36.8
Dividend per share	€	2.00 ³	2.00 +1.00	1.70	1.30	1.30	1.30	1.30	1.20	0.75	0.75
Stock price at Dec. 31	€	69.52	79.49	80.10	57.14	41.10	36.35	44.80	24.70	22.53	14.95
Market capitalization at Dec. 31	€ mill.	926.0	1,104.0	1,185.1	842.0	605.6	530.9	654.2	338.1	310.4	215.3

2000–2002 according to US GAAP

As from 2003 according to IFRS

¹Since 2009 based on average capital employed

²As from 2009, the other current accruals, being non-interest, are deducted, too.

³If approved by the AGM



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Financial statements according to German GAAP
and combined management report of Vossloh AG
for fiscal 2009



4 Combined management report

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Combined management report

Vossloh AG

Rail Infrastructure
division

Motive Power&Components
division

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems

Business units:

Vossloh Locomotives
Vossloh Electrical Systems

Business and market environment

Strategy, segmentation, and competitive position

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

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

Rail Infrastructure subsumes the Group's rail infrastructure operations and in fiscal 2009 comprised the Fastening Systems and Switch Systems business units, both of which rank among the respective world leaders. The erstwhile Infrastructure Services business unit was sold with economic effect as of January 1, 2008.

- Vossloh Fastening Systems is a leading supplier of rail fastening systems. The lineup covers rail fasteners for all types of transport, from (sub)urban via heavy-haul to high-speed.
- Vossloh Switch Systems supplies, installs and services switches, control and monitoring systems for rail networks. Here, too, the range reaches from light-rail to high-speed lines.

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

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

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

- Concentration on rail market segments in which the Group aims for market leadership.
- Through such focus, Vossloh intends to operate more profitably than the rail market as such and add value by earning a premium on top of the cost of capital.
- Growth at least at the rate of the entire rail technology market.

Organization

Vossloh patterns its business on local presence and customer proximity. The Group is positioned internationally, with major European production plants in Germany, France, Spain, Luxembourg, Scandinavia, Poland, and Austria. Outside of Europe Vossloh produces switch systems chiefly in Australia and the USA and rail fasteners in China and Turkey. Besides its production plants, Vossloh operates through sales companies and branches and has in some instances, together with competent partners, entered into local joint ventures and alliances. At the end of 2009, the Group comprised a total of over 70 companies in more than 30 countries.

Major subsidiaries and, at the same time, business unit lead companies are:

Vossloh Fastening Systems GmbH, Werdohl, Germany; Vossloh Cogifer SA, Rueil-Malmaison, France; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España SA, Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

Control system and objectives

As part of its value-driven growth strategy, Vossloh's prime target is to generate a premium on top of the return claimed by investors and lenders (cost of capital). This premium is the difference between the return on capital employed (ROCE) and WACC, determined as the weighted average cost of capital (debt and equity). The absolute value added in a period is the product of the premium times capital employed. Cost of equity is composed of a risk-free rate of 4.25 percent plus a current premium of 5.0 percent, while cost of debt is calculated on the basis of the Group's funding terms and tax deductibility. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not from the balance sheet since it is not only predicated on a benchmark for the funding structure and interest-bearing accruals but also because equity is here based on fair value and not the carrying amounts of the balance sheet. Multiplying the premium by average capital employed (CE) produces the value added (VA) in a period in absolute terms.

Currently, EBIT must return 11 percent on the Group's capital employed (before taxes) 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 and relative performance indicator, the expected premium over pretax WACC hence being 4 percent at present (related to capital employed). Contrary to earlier-year practice, the other current accruals, being non-interest, are also deducted in the working capital formula and thus reduce CE (which is included therein as period average); the prior-year comparatives in this management report have been restated accordingly.

Since the publication of its Q1/2009 report, Vossloh has met the IFRS 8 segment reporting criteria and has presented its operating segments in line with the Group's internal (management) reporting system, thus disclosing value added as an absolute key performance indicator of the Vossloh Group both internally and externally.

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

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

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

Business report

Business environment

The rail infrastructure and rail technology markets of relevance to Vossloh follow general economic trends worldwide only to a limited extent. Just as pertinent are political policies and the current status of rail sector deregulation, public-sector debts and the infrastructure expenditures allocated for shoring up the economy. In 2009, the industry once again benefited from the burgeoning emerging and transformation nations whose economic growth typically requires heavy infrastructure spending.

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 major trends is therefore given under the reports on each segment.

As assessed in its 2009 annual report by UNIFE, the Association of the European Rail Industry, the impact of the global recession on the rail market varies by segment. Its observations are partly applicable to Vossloh's own business. Especially battered by the current crisis is freight haulage. According to the newest UNIFE analysis of July/August 2009, haulage volumes in Europe in the first half of 2009 tumbled between 25 and 52 percent. Meanwhile German Rail's Transport & Logistics unit has reported a slump of around 25 percent for all of 2009. For rail industry suppliers, lower freight volumes inevitably depress demand for locomotives. This was well reflected in Vossloh's own business during the period where in Europe, the main sales market, demand for our diesel locomotives, especially the center-cab variety, plunged. Elsewhere, too, in countries where rail haulage is primarily synonymous with freight such as the USA, our global business in infrastructure products encountered weaker demand in some areas. In the USA, rail cargo haulage contracted by around 16 percent. As to long-distance passenger transportation and infrastructure, the UNIFE 2009 report identifies slightly adverse repercussions. Admittedly, some new railway line projects are being delayed yet Vossloh has managed to buck the trend by tapping and developing new markets. In the case of local public transport, UNIFE identifies barely any fallout from the economic situation and this is exemplified in Vossloh's own business where the Electrical Systems unit reports extremely strong and stable demand and Vossloh España impressive new contracts for metro trains and trams.

It is generally conceded that the worst economic crisis since World War II touched its trough in 2009. According to the International Monetary Fund, global GDP slipped by 0.8 percent in 2009; this compares with a 3.0-percent rise in 2008.

Europe, China, and North America are Vossloh's chief sales markets.

The decline in the eurozone's GDP, Vossloh's most important market, slowed down in the course of 2009 and, in Q3 and Q4, output rose somewhat quarter-on-quarter. For all of 2009 and according to the February estimate of Eurostat, the eurozone's GDP was down by 4.0 percent (in 2008 up by 0.6 percent).

Down by 4.3 percent (in 2008 up by 3.1 percent), those economies of C&E Europe neighboring the eurozone likewise shrank. The most vigorous, albeit also decelerating, growth rates in 2009 were again reported by the emerging nations of Asia as in the case of China, 8.7 percent (down from 9.6).

The US economy in 2009 contracted by 2.5 percent, the previous year it had shown a marginal gain of 0.4 percent.

M&A transactions

Three businesses were acquired in fiscal 2009.

In April 2009, Vossloh took over APS electronic AG, Switzerland, in order to expand Vossloh Electrical Systems' components and servicing business.

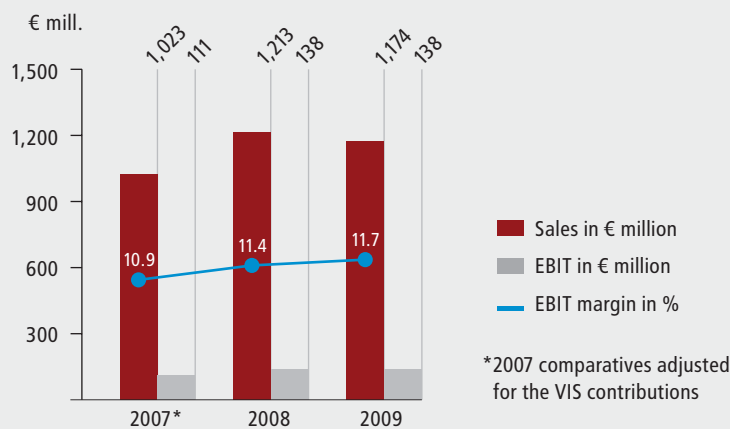
In July, the switch and permanent-way components business of Nuova Sima Sud, Italy, was added to the Switch Systems business unit.

In October 2009, a majority stake was acquired in the Texas-based signaling equipment manufacturer Global Rail Systems, Inc., a move that will strengthen the USA business of Vossloh Switch Systems. This company is to be consolidated in 2010.

Each of these three enterprises has annual sales in the single-digit million euro range.

Results of operations

Note Absolute differences and relative variances have first been computed from the full figures and then commercially rounded. When reperforming these calculations by using the rounded reference figures reported herein, these differences or variances may therefore deviate.



Vossloh Group: sales and EBIT trend 2007–2009

Despite the global financial and economic turmoil, Vossloh succeeded in almost repeating prior-year sales and in slightly outstripping EBIT, both at record levels in 2008. Year-on-year, sales edged down 3.2 percent from €1,212.7 million to €1,173.7 million. EBIT inched up 0.1 percent from €137.7 million a year ago to €137.9 million in 2009. Consequently, the EBIT margin mounted from 11.4 to 11.7 percent, hence again significantly above the corporate benchmark of 10 percent.

Group earnings for 2009 came to €87.9 million, the previous year's €139.4 million had included the net result of €46.8 million from the discontinued and sold Vossloh Infrastructure Services (VIS) operations. Accordingly, earnings per share (EpS) in the period amounted to €6.57, down from the prior-year €9.48 but up from a like-for-like €6.30 from continuing operations. Substantially thanks to the treasury stock repurchased, the average number of shares outstanding in 2009 shrank 1,322,244 to a total 13,380,908.

Largely due to a higher annual average capital employed, ROCE receded from 21.8 (LFL) to 20.5 percent, down by 1.3 percentage points. Measured against our present WACC of 11 percent, we achieved a premium of nigh 10 percentage points. The value added in 2009 totaled €63.7 million (down from €68.2 million). The Executive and Supervisory Boards will propose to the annual general meeting an unchanged cash dividend of €2.00 per share; the €1.00 superdividend additionally distributed a year ago was a one-time bonus from the VIS divestment.

Sales

Vossloh Group: sales by business unit

	€ million	%	€ million	%
	2009		2008	
Rail Infrastructure	690.3	58.8	707.1	58.3
Fastening Systems	267.1	22.8	254.9	21.0
Switch Systems	424.9	36.1	453.6	37.4
Consolidation	(1.7)	(0.1)	(1.4)	(0.1)
Motive Power&Components	483.2	41.2	505.0	41.7
Locomotives	336.2	28.6	375.2	31.0
Electrical Systems	148.5	12.7	129.8	10.7
Consolidation	(1.5)	(0.1)	0.0	0.0
Intermediate holding companies and consolidation	0.2	0.0	0.6	0.0
	1,173.7	100.0	1,212.7	100.0

With sales of €690.3 million (down €16.8 million or 2.4 percent), the Rail Infrastructure division accounted for 58.8 percent (up from 58.3) of group sales. The division's Fastening Systems business unit upped its sales by €12.2 million or 4.8 percent, mainly due to again higher revenue from China, rising from €86.0 million to €105.9 million. The lower revenue at Vossloh Switch Systems (down €28.7 million or 6.3 percent) is chiefly related to shrinking sales in North and Central America.

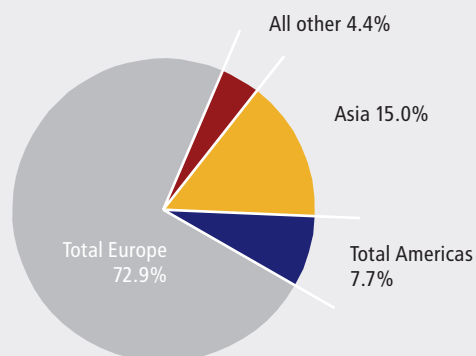
The Motive Power&Components division reported sales of €483.2 million for 2009, a drop of €21.8 million or 4.3 percent. Added revenue by the Electrical Systems business unit failed to make good the €39.0 million or 10.4-percent decline at Vossloh Locomotives. Thanks to a broader product array the Valencia location did manage to almost achieve the prior year's sales; this plant was working on long-term orders for suburban trains. As a builder of center-cab shunting locomotives the Kiel plant is by nature most hit by the recession and the accompanying plunge in freight transport.

From a strong baseline, the division's Electrical Systems business unit posted another vigorous advance in sales which climbed by €18.7 million or 14.4 percent to €148.5 million. Orders for fitting out electrical-driven light rail vehicles and (trolley)buses were placed at home and abroad.

Vossloh Group: sales by region

	€ mill.	%	€ mill.	%
	2009		2008	
Germany	132.3	11.3	155.3	12.8
France	156.0	13.3	113.6	9.4
Other Western Europe	172.0	14.7	209.1	17.2
Northern Europe	100.5	8.6	79.1	6.5
Southern Europe	260.8	22.2	268.5	22.1
Eastern Europe	34.1	2.8	46.0	3.8
Total Europe	855.7	72.9	871.6	71.8
North and Central America	84.2	7.2	131.4	10.8
South America	6.4	0.5	4.4	0.4
Total Americas	90.6	7.7	135.8	11.2
Middle East	16.4	1.4	32.2	2.7
Other Asia	159.2	13.6	125.8	10.4
Total Asia	175.6	15.0	158.0	13.1
Africa	22.3	1.9	30.3	2.5
Australia	29.5	2.5	17.0	1.4
Total	1,173.7	100.0	1,212.7	100.0

European sales by the Vossloh Group in 2009 slipped by almost 2 percent; outside of Europe by just under 7 percent. So, non-European sales as a share of the total dipped one percentage point to 27.1 percent.



Sales breakdown by region in 2009

In terms of the ongoing internationalization of business this is but a temporary setback. Certain non-European rail markets, especially in Central America and the USA, have suffered to a relatively higher degree from the financial and economic crisis, and even buoyant Chinese business failed to make good the loss.

In the important Western European rail markets, especially Germany, France and Spain, Vossloh traditionally commands a solid position, also thanks to its long-established manufacturing presence in these countries. Business in Spain was again dominated by the Valencia location of the Locomotives business unit where, besides the locomotives themselves, production of trains for local transport generated high domestic shipments. In France, Vossloh's switch business triggered appreciable sales and, in 2009, especially with locomotives from both Valencia and Kiel, the latter also contributing revenue from services. Business in Germany in fiscal 2009 was again chiefly attributable to Vossloh Fastening Systems, Vossloh Electrical Systems and the Kiel plant where locomotives are built. Whereas in Germany sales at the Fastening Systems and Locomotives business units were partly down significantly, revenue at Vossloh Electrical Systems rose appreciably. In fact, this business unit was the main source of sales in Germany last year. In all, German sales fell by 14.8 percent, their share of the total inching down once more, this time to 11.3 percent.

Vossloh Group: sales and performance

	€ mill.	%	€ mill.	%
	2009		2008	
Sales	1,173.7	100.0	1,212.7	100.0
Gross margin	257.3	21.9	253.8	20.9
Operating result	138.0	11.8	139.9	11.5
EBITDA	162.5	13.8	160.5	13.2
EBIT	137.9	11.7	137.7	11.4
EBT	128.5	10.9	128.4	10.6
Net result of discontinued operations	–	–	46.8	3.9
Group earnings	87.9	7.5	139.4	11.5
EpS (€)	6.57		9.48	

Cost of sales receded 4.4 percent to €916.3 million in the Group; as the rate of decline outpaced the sales decrease, cost of sales as a share of sales improved from 79.1 to 78.1 percent. The primary reason was the lower prices paid for commodities and components.

General administrative and selling (GAS) expenses advanced by €5.4 million to €134.2 million and as a share of sales climbed from 10.6 to 11.4 percent, albeit still short of the 11.9 percent in 2007.

With the reduction in cost of sales outpacing the decline in revenue, as well as with a merely moderate rise in other operating expenses, EBIT rose marginally, from €137.7 million to €137.9 million in fiscal 2009.

Since the net interest expense was virtually unchanged at €9.4 million, EBT also inched up only slightly, by €0.1 million or 0.1 percent to €128.5 million.

The Group's tax load ratio, just under 23 percent in 2008, climbed to almost 25 percent, mainly as a consequence of the phaseout of the full income tax exemption in China. Group earnings amounted to €87.9 million. The prior year's €139.4 million had included €46.8 million from discontinued operations solely in connection with the sale of the Infrastructure Services business unit. Group earnings were down even without taking into account the net result of discontinued operations, the decline being attributable to higher minority interests and the heavier tax burden.

Year-end order backlog in the Group added up to €1.09 billion (down from €1.13 billion a year before). Whereas Rail Infrastructure reported a higher backlog, the orders on hand at Motive Power& Components had shrunk. The improvement at Rail Infrastructure was solely attributable to Vossloh Fastening Systems thanks to the new megacontract from China; order backlog at Switch Systems fell on account of much more sluggish order intake. The Locomotives business unit's order backlog decreased, in particular due to the slump in order intake at the Kiel location; at Valencia the reduction was of more moderate proportions. Vossloh Electrical Systems' order book slimmed down, too, albeit slightly.

Vossloh divisions: order backlog

	€ mill.	%	€ mill.	%
	2009		2008	
Rail Infrastructure	422	38.6	359	31.9
Motive Power&Components	670	61.4	767	68.1
	1,092	100.0	1,126	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, Corporate Treasury Management is in charge of securing the finances of all subsidiaries as well as of hedging and managing financial risks, which include not only liquidity risks but also and in particular those from interest and exchange rate fluctuations. Hedging instruments comprise financial derivatives, too. The group companies' funding level is largely ensured by Vossloh AG providing the necessary cash resources intragroup. Only in isolated cases where funding outside Germany is either economically preferable or required by law will a subsidiary obtain finance locally.

The Vossloh Group's net financial debt as of December 31, 2009, amounted to €70.2 million, comparing with prior-year net financial assets of €35.0 million. At year-end 2009, financial debts of €227.5 million (up from €212.9 million) contrasted with cash and cash equivalents (including short-term securities) of €157.3 million (down from €247.9 million), the decrease being largely attributable to the repurchase of treasury stock and the dividend payout. The net leverage in 2009 was 14.3 percent, which compares with a prior-year negative 7.1.

Vossloh Group: net leverage

		2009	2008
Total equity	€ mill.	492.6	492.7
Net financial debt/(assets)	€ mill.	70.2	(35.0)
Net leverage	%	14.3	(7.1)

Financial debts in 2009 substantially represented the long-term debt of around €168 million raised by Vossloh in 2004 by a two-loan private placement from the US capital market. The first and second fixed-rate US-dollar loans (due in 2014 and 2016, respectively) have a bullet maturity. Since the funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and cross-currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively. The remaining financial debts as of the balance sheet date mainly included a short-term floating-rate loan of €26 million raised by Vossloh AG. Moreover, other group companies had incurred financial liabilities of just under €34 million, including short-term funds of €22.6 million raised by Vossloh Fastening Systems China alone.

As of December 31, 2009, open cash credit facilities of €172 million were available to the Vossloh Group. For details, see the chapter on risk and reward management starting from page 52. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

Vossloh Group: cash flow analysis

€ million	2009	2008
Cash flow from operating activities	44.9	133.8
Cash flow from investment activities	(52.3)	116.8
Cash flow from financing activities	(84.1)	(77.0)
Net cash (outflow)/inflow	(91.5)	173.6

The much lower net cash provided by operating activities resulted in particular from the buildup of working capital.

Vossloh Group: capital expenditures and amortization/depreciation

€ million	2009		2008	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	21.6	11.5	19.3	10.9
Motive Power&Components	19.4	12.2	16.8	11.1
Holding companies and consolidation	0.9	0.9	1.5	0.8
	41.9	24.6	37.6	22.8

The net cash of €52.3 million used in investing activities in 2009 compares with net cash of €116.8 million provided by investing activities a year ago (mainly the divestment of Vossloh Infrastructure Services). Cash outflows for additions to tangible and intangible assets in the period totaled €39.5 million (up from €37.6 million).

The net cash outflow of €7.3 million went into the acquisition of consolidated subsidiaries and other units (down from €15.2 million). Investments of €5.7 million in noncurrent financial instruments (up from €0.6 million) chiefly covered the acquisition of Global Rail Systems, Inc. (yet to be consolidated).

In 2009, capital outlays again outstripped by far amortization and depreciation of €24.6 million (up from €22.8 million).

Fiscal 2009 saw the €45.9 million payout of cash dividends (up from €26.3 million), including €40.0 million to Vossloh AG stockholders (up from €25.2 million).

Besides the capital expenditures of the Fastening Systems business unit for the production plant in Turkey, the outlays of both business units of the Rail Infrastructure division essentially centered on modernizing their facilities. As in the preceding years, expenditures at both locations of Vossloh Locomotives were mainly directed at the development of new products, major projects being the new modular center-cab locomotive family, the diesel-electric driveline, and the EURO Light large diesel-electric locomotive, as well as further work on (sub)urban trains.

Vossloh Group: breakdown of capital expenditures

€ million	2009		2008	
	Capex	%	Capex	%
Development costs	9.7	23.2	7.4	19.7
Other intangibles	1.9	4.5	0.8	2.1
Land and buildings	2.2	5.3	2.6	6.9
Production plant and machinery	9.8	23.4	9.7	25.8
Other plant, factory and office equipment	6.5	15.5	4.6	12.2
Prepayments made, construction in progress	11.8	28.2	12.5	33.3
	41.9	100.0	37.6	100.0

The future cash outflows under the operating leases existing at December 31, 2009, will total €40.2 million (up from €35.3 million), including €11.4 million in 2010.

Asset and capital structure

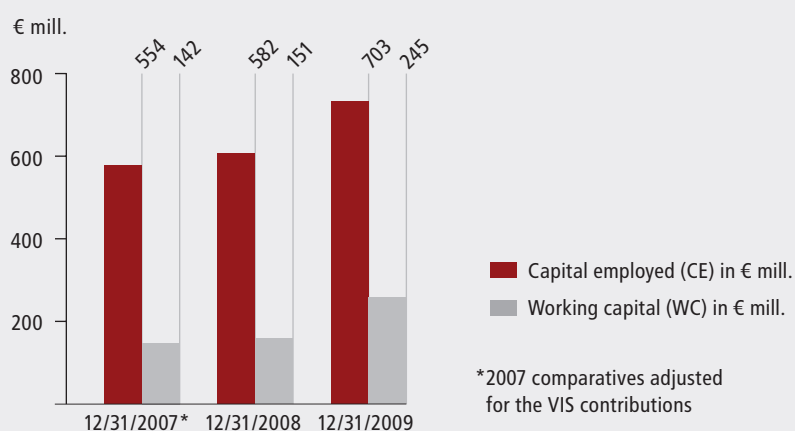
With total assets inching down marginally from the close of 2008, Vossloh's equity ratio remained at 36.8 percent. Equity crept up a negligible €0.1 million, being substantially the net balance of (i) a €43.5 million decrease (to reflect the treasury stock repurchase) and a €45.9 million reduction for the dividend payout, and (ii) an €87.9 million rise due to the earnings for 2009.

Vossloh Group: asset and capital structure

		2009	2008
Total assets	€ mill.	1,338.4	1,339.4
Total equity	€ mill.	492.6	492.7
Equity ratio	%	36.8	36.8
Closing working capital	€ mill.	245.1	150.6
Closing capital employed	€ mill.	703.2	582.1
Year-end working capital intensity	%	20.9	12.4
Fixed assets	€ mill.	458.2	431.4
Return on equity (ROE)	%	26.1	26.1

In a year-on-year comparison, working capital climbed €94.5 million or 62.7 percent, mainly due to the swelling inventories within Vossloh Locomotives and, to a lesser extent, to the Switch Systems business unit. A bulging receivables portfolio thanks to brisk business in Q4/2009 boosted year-end working capital. Since sales declined during the period, the Group's working capital intensity worsened markedly, by 8+ percentage point to 20.9 percent.

Capital expenditures above amortization/depreciation caused the rise in capital employed (up €121.1 million) to be steeper than that in working capital.



Vossloh Group: CE and WC trend 2007–2009

Shareholder value management

Due to the significantly higher average capital employed and the only marginal rise in EBIT, the like-for-like ROCE contracted from 21.8 percent a year ago to 20.5 in 2009 but nonetheless remained 9.5 percentage points above the Group's WACC of 11 percent and clearly outperformed the internal benchmark of 15 percent.

Vossloh Group: shareholder value management

		2009	2008
Average capital employed	€ mill.	674.0	631.3
ROCE	%	20.5	21.8
Value added (VA)*	€ mill.	63.7	68.2

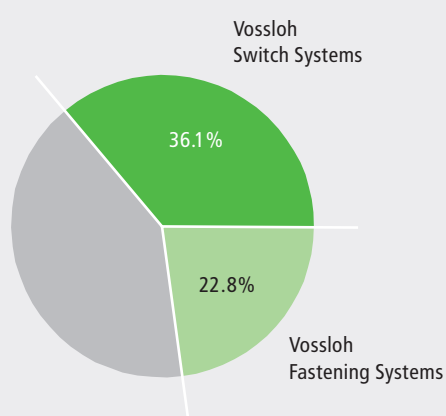
*Based on an 11-percent WACC.

While the Rail Infrastructure division upgraded its ROCE in the year under review to 23.9 percent, the pushed-up working capital and high net capital expenditures notwithstanding, ROCE of Motive Power&Components plunged 10.2 points to 23.4 percent as this division's EBIT slid and capital employed heightened.

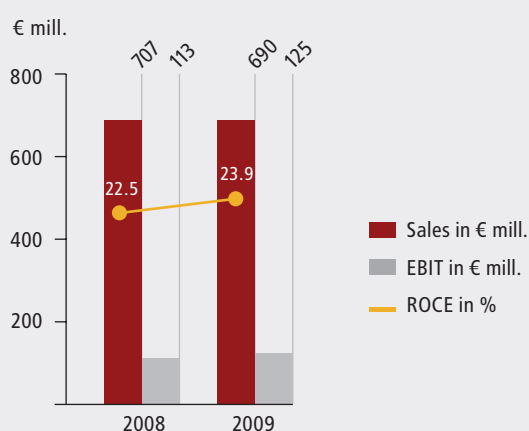
Value added presented a similar trend: within the Group, VA diminished from €68.2 million to €63.7 million. Within Rail Infrastructure, VA rose year-on-year from €58.0 million to €67.5 million and, within Motive Power&Components, it slimmed down from €28.5 million to €18.6 million.

*Sales growth at Vossloh Fastening Systems
due to brisk business with China*

*Decline at Vossloh Switch Systems
through lower revenue in North and
Central America as a result of the
financial and economic crisis*



Shares of business units
in group sales



Rail Infrastructure division: sales, EBIT and ROCE trends

Rail Infrastructure business trend

In fiscal 2009, the Rail Infrastructure division comprised two business units: Fastening Systems and Switch Systems.

Together, they generated sales of €690.3 million, down €16.8 million or 2.4 percent from the figure for 2008. A sales gain of €12.2 million or 4.8 percent by Vossloh Fastening Systems contrasted with a decrease of €28.7 million or 6.3 percent at Vossloh Switch Systems. Vossloh Fastening Systems benefited from a steep growth generated by its Chinese subsidiary which since 2007 has been manufacturing rail fasteners and in 2009 once again reported a sizable increase in sales.

Rail Infrastructure

		2009	2008
Sales	€ mill.	690.3	707.1
EBITDA	€ mill.	136.5	124.3
EBIT	€ mill.	125.0	113.4
EBIT margin	%	18.1	16.0
Closing working capital	€ mill.	210.2	175.5
Year-end working capital intensity	%	30.5	24.8
Fixed assets	€ mill.	310.6	298.4
Capital expenditures	€ mill.	21.6	19.3
Amortization/depreciation	€ mill.	11.5	10.9
Closing capital employed	€ mill.	520.8	473.9
Average capital employed	€ mill.	522.3	504.0
ROCE	%	23.9	22.5
Value added	€ mill.	67.5	58.0

Value added advanced appreciably by 16.5 percent from €58 million to €67.5 million. Despite the higher capital employed (CE) and thanks to an improved EBIT, ROCE inched up again and at 23.9 percent (up from 22.5) was well above the 15-percent corporate benchmark. Much of the higher EBIT was due to sinking procurement prices. The division's average working capital climbed around 5 percent from €209.3 million to €220.3 million. Since this rise was accompanied by lower sales, working capital intensity worsened by 5.7 percentage points.

Vossloh Fastening Systems

The Fastening Systems business unit reported sales of €267.1 million for fiscal 2009, thus topping the prior year's high €254.9 million. The 4.8-percent rise is solely due to mounting revenue from Asia, in particular from China.

This country was once again the business unit's biggest national market where sales totaled €105.9 million, a hike of €19.9 million or 23.1 percent from the prior year's €86.0 million. The end of September saw the signing of a new contract for fasteners on the new high-speed Beijing-Shanghai line and during the period the first shipments were sent out from our Chinese production plant.

China was not the only emerging Asian market where Vossloh Fastening Systems scored successes. In India, its position in the local public transport market was bolstered further. The rail fastening system that has already proven itself on the New Delhi Metro is now also being installed on the Mumbai Metro. For the first time the slab track system is used for a rail link in India. Vossloh Fastening Systems is supplying the corresponding products for the Delhi Airport Express. In Vietnam, Vossloh is equipping the Yen Vien-Pha Lai-Ha Long-Cailan line, an important linkup with the Chinese railways. And for Kazakhstan's state rail, the business unit fitted altogether 258,000 concrete sleepers with its fastening systems.

Business in the important European market, in contrast, was appreciably weaker during the period, especially with receding revenue in Southern and Eastern Europe. Sales in Germany came to €36.7 million, as anticipated again short of the 2008 figure. With competition tightening, this is a trend that will continue. Sales in Austria more than doubled since Vossloh is providing the fasteners for the new slab track lines. From Switzerland, Vossloh Fastening Systems was awarded the contract for fasteners on the Gotthard Base Tunnel.

In Turkey, certain projects were postponed but are expected to be awarded in 2010. This is a market where since 2009 Vossloh has been present with an expanded production plant. Besides its ongoing new-build projects, the state rail TCDD has resolved an additional refurbishment program.

In the countries of the Middle East and North Africa (MENA) Vossloh again succeeded in being awarded attractive projects. For instance, the new metro in Mecca, Saudi Arabia, was equipped with Vossloh rail fasteners.

Capital expenditures added up to €4.6 million (up from €2.5 million) of which the expansion to the Erzincan production facility in Turkey accounted for €0.8 million. Amounts were also invested at the Kunshan plant in China and at Werdohl.

The previous year had seen significant input market price hikes which could only partly be offset through output price increases. Last year the unit benefited from commodity price reductions.

Value added soared from €44.4 million to €58.0 million, up by 30.7 percent.

Thanks to the megacontract awarded in China in 2009, Vossloh Fastening Systems was able to report a year-end order backlog which had more than doubled, from €72.2 million to €154.1 million.

Vossloh Switch Systems

Compared with the record €453.6 million booked in 2008, Vossloh Switch Systems in 2009 showed 6.3 percent lower sales of €424.9 million. Most of the shortfall is due to sagging revenue from North and Central America, down €43.4 million. The majority of US rail network operators are privately financed and active in the freight haulage sector which is especially hard hit by the economic crisis. As a consequence there was less demand for switches and trading products. In the Central American metro market, project delays meant reduced revenue.

Western European sales proved strong in most countries including Sweden, Portugal, Finland, and Spain. As in the preceding periods, shipments to Spain mainly concerned high-speed switches. Our position in the Italian market was buttressed with the acquisition of Nuova Sima Sud, a manufacturer of switches and permanent-way components. France saw a turnaround of the prior-year trend: added sales were generated from local transport projects including those at Orléans, Angers, Paris, Lyon, and Mulhouse while the relatively sluggish demand for high-speed switches was due to the shelving of projects. Despite the attractive tram projects in Poland, Vossloh Switch Systems was not fully impervious to a weak Eastern European market which included delays in the expansion of the EU's rail corridors.

Shipments to Tunisia, Algeria, and Morocco included signaling equipment and conventional switches for new lines and local transport projects.

Asian business was generally robust in 2009. Through a licensing agreement Vossloh Switch Systems is sharing in the construction of several high-speed lines in China. A large order booked in Malaysia is helping the business unit to expand its local presence. Enlarged the previous year, the Indian frog production capacities are busy, albeit demand for switches, turnouts, and signaling equipment was down.

Capital expenditures at €17.0 million were well over the €12.0 million in 2008. Revamping and fine-tuning work was carried out at all the locations. The current amount includes the tangible assets from the acquisition of Nuova Sima Sud.

In all, this business unit's profitability remained stable. Any adverse effects accrued from unfavorable exchange rates and weaker sales, while lower procurement prices did provide some relief. Steel and rail material prices fell appreciably.

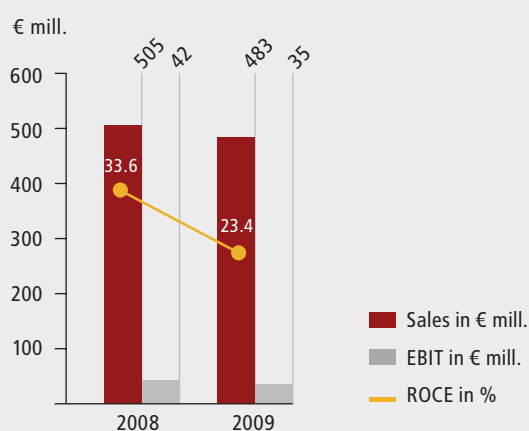
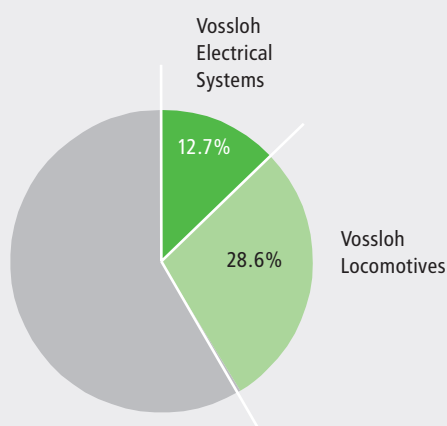
In the wake of soaring capital employed, value added dropped from €13.5 million to €9.6 million.

Year-end order backlog shrank from €286.3 million to €267.1 million.

*Global freight haulage reduction
squeezes locomotive shipments*

*Sharp sales hike at
Vossloh Electrical Systems*

*"Green" local public transport vehicles
again in demand*



Shares of business units
in group sales

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

Motive Power&Components

business trend

Sales by Motive Power&Components—a division consisting of Vossloh Locomotives and Vossloh Electrical Systems—slipped by 4.3 percent to €483.2 million. Vossloh Locomotives reported a €39.0 million drop in sales while Vossloh Electrical Systems added €18.7 million versus 2008.

At Vossloh Locomotives, both the Kiel and Valencia locations failed to repeat their prior-year performance. As a consequence of the financial and economic crisis and the related slowdown in freight haulage, shipments of center-cab locomotives from Kiel were much hurt. Our Spanish subsidiary generated almost one-half of its sales with (sub)urban trains, bogies, and services, and accordingly suffered only a marginal loss in revenue.

From a high baseline, the Electrical Systems business unit again achieved added sales both in its LRV business and with the supply of components for electrically powered (trolley)buses. Addressing the demand for alternative propulsion concepts, Vossloh Electrical Systems has now equipped the first vehicles with its series hybrid drive.

Motive Power&Components			
		2009	2008
Sales	€ mill.	483.2	505.0
EBITDA	€ mill.	47.4	53.4
EBIT	€ mill.	35.2	42.3
EBIT margin	%	7.3	8.4
Closing working capital	€ mill.	40.9	(15.6)
Year-end working capital intensity	%	8.5	(3.1)
Fixed assets	€ mill.	136.6	126.8
Capital expenditures	€ mill.	19.4	16.8
Amortization/depreciation	€ mill.	12.2	11.1
Closing capital employed	€ mill.	177.5	111.2
Average capital employed	€ mill.	150.8	125.8
ROCE	%	23.4	33.6
Value added	€ mill.	18.6	28.5

The value added by the division fell from €28.5 million to €18.6 million.

At 23.4 percent, ROCE, though 10.2 percentage points short of the prior year's figure, was still well above the corporate benchmark of 15 percent.

EBIT slid 16.8 percent to €35.2 million, the EBIT margin at 7.3 percent was down by 1.1 percentage points.

Average capital employed moved up €25.0 million since, at €18.1 million, the division's average working capital was significantly above the 2008 magnitude of €0.4 million, mainly due to leveled-up inventories.

Vossloh Locomotives

Sales at the Locomotives business unit slowed down by 10.4 percent, from €375.2 million to €336.2 million. Vossloh España including its maintenance operation (Erion Mantenimiento Ferroviario SA, Madrid) showed sales of €215.3 million, equivalent to around 64 percent of the total by this business unit. The Kiel location generated revenue of €121.7 million (down from €158.7 million).

Year-end 2009 orders on hand at Vossloh Locomotives totaled €448.1 million (down from €531.4 million), theoretically enough to keep it busy for over 14 months.

The Locomotives business unit added value of €1.7 million (down from €10.3 million).

Valencia location Around 59 percent of sales at Vossloh España in fiscal 2009 was sourced from diesel locomotives; orders included those from the Spanish rail company Renfe and, as subcontractor, from Alstom for the French railways SNCF. Further national homologations were either obtained or progress was made in the application procedures for the EURO 4000, Europe's most powerful diesel-electric locomotive.

The remaining 41 percent of sales at Vossloh España was generated from local transport trains and bogies. A contract for a train-tram to operate on the vacation island of Mallorca represented an important milestone. For the first time Vossloh itself is furnishing both the railcars and their electrical traction equipment.

Of the total capital expenditures of €8.0 million, over €3 million went toward work on the EURO Light to be unveiled at InnoTrans 2010. Rated at 2,800 kW, this four-axle high-duty locomotive is engineered for lines with low axle loads (less than 20 t per axle).

As a manufacturer of center-cab shunting locomotives Vossloh Locomotives in Kiel is naturally hard hit by the economic crisis and accompanying collapse in freight haulage. Many capital expenditures were postponed and orders for new machines accordingly slumped. During the period the Kiel plant shipped out to its customers 48 diesel-hydraulic locomotives, the year before 64. Another 14 were retrofitted with the new European Train Control System (ETCS); together with a local associate, work on a similar scale was launched with the Italian system SCMT (Sistema di Controllo della Marcia del Treno).

Observable over recent years, the rising demand for all-in service packages including parts, full servicing, maintenance management, advice and training was reaffirmed during the period. This is a type of activity that Vossloh Locomotives is steadily expanding by developing proposals tailored to individual regional market needs and expectations. Special emphasis is placed on carrying out sophisticated regular maintenance and repair (M&R) work (such as general inspections), and more extensive modernization jobs. Available for such work will in future be, besides the Moers service shop, the Kiel plant to a greater degree.

Capital expenditures at the Kiel location amounted in 2009 to around €7.2 million of which €5.6 million went toward product developments, largely for the new modular family of locomotives. On the basis of a newly devised platform strategy, the four-axle G 12 and G 18 will be available in both diesel-hydraulic and diesel-electric versions. It is generally conceded that either mode of propulsion has its specific advantages. Vossloh engineers have succeeded in achieving up to 80-percent parts commonality for the two versions.

Vossloh Electrical Systems

Vossloh Electrical Systems reported a strong gain in sales by 14.4 percent to €148.5 million.

The mainstay of this growth was business in electrical equipment for trams and other light rail vehicles. During the year, the contracts from Porto, Dortmund, Manchester, Krefeld and Düsseldorf were carried out. Demand for rail equipment in 2009 was from inside and outside of Germany; in general, competition is becoming fiercer with the advent of new, smaller players.

By strengthening its electrical equipment competence in the form of the new company Vossloh Kiepe Main Line Technology and with the acquisition of Switzerland's APS electronic, the Electrical Systems business unit has entered the mainline rail market. The first projects comprise the development of the diesel-electric driveline for Vossloh Locomotives' new locomotive family and the equipment for Vossloh's Valencia-built train-tram destined for Mallorca. This allows Vossloh Electrical Systems to revert to its own proprietary frequency converter topology, with downward compatibility and hence very long parts availability.

A strategic milestone was a contract from the USA. Houston, along with Dallas the second Texas city with a light rail service, is expanding its network. To cater for what will then be five lines, Metro Houston is adding 103 low-floor vehicles to its current fleet. Just as the vehicles themselves, the traction kits from Vossloh Kiepe will be manufactured in the USA. Shipments to Metro Houston will take place between April 2012 and summer 2014.

International demand continues strong for trolleybuses and other electric buses, vehicles that are gaining attraction through new energy storage systems (supercaps and/or batteries) and the availability of double-articulated buses as high-occupancy vehicles (HOVs). Likewise attracting ample attention is hybrid drive and the first commercially operating vehicles of this kind are already in service in Luxembourg.

Besides the shipments for Vancouver, Arnheim and Solingen, projects in the Swiss cities of St. Gallen, Lucerne and Lausanne, as well as in Italy's Milan and Avellino made up most of the revenue derived from buses.

In-house integration of our retrofitting and servicing activities within a Service and Components unit is a move that has led to higher demand. Package solutions, in particular, are going down very well with customers.

Business in retrofitted air-conditioning kits for rail vehicles continues brisk, albeit fiercely competitive.

At year-end 2009, Vossloh Electrical Systems had an order backlog of €222.1 million, down from €236.2 million on account of some project delays. Still, this is enough to keep it busy for well over a year.

The business unit's capital expenditures came to €4.2 million for procuring or revamping plant and machinery, office furniture and equipment, and IT systems.

The value added by this business unit shrank from €18.2 million in 2008 to €16.9 million in the year under review.

Vossloh AG

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

Analysis of the separate financial statements

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

In fiscal 2009, the administrative expenses of €19.6 million were €9.1 million below the prior year's. Particularly the expenses borne by Vossloh in connection with the divestment of Vossloh Infrastructure Services SA had boosted costs significantly. Personnel expenses rose 15.6 percent to €8.9 million; the higher annual average headcount of 51 (up from 46) is largely attributable to stepped-up, centrally organized marketing activities.

Besides income from taxes apportioned to subsidiaries and forex gains/losses, the other operating income/expenses reflect nonperiod expenses in connection with potential obligations under guaranties in favor of subsidiaries.

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

Key components of the net financial result are the income from the profits transferred by Vossloh-Werke GmbH and Vossloh Kiepe GmbH, together accounting in 2009 for €55.4 million (up from €43.8 million). Interest expense of €14.6 million (down from €16.3 million)—mainly for refinancing the Group's capital requirements—contrasted in 2009 with interest income of €6.1 million from granting short-term credit or medium-term loans to consolidated subsidiaries and from cash investments (down from €15.9 million).

The slight downturn of net financial income (from €41.9 million to €39.9 million) was indirectly caused by the divestment in 2008 of Vossloh Infrastructure Services. The disposal made it possible to repay intragroup loans granted by Vossloh AG, which, in turn, pared interest income significantly. Moreover, the restatement at the lower current value of the treasury stock as of December 31, 2009, burdened the net financial result with €3.5 million.

Despite EBT inching down €0.6 million, Vossloh AG's net income of €29.1 million is above the prior-year €26.4 million, thanks to a significantly lighter income tax burden (down from €5.5 million to €2.2 million).

As of December 31, 2009, Vossloh AG's total assets sank to €815.4 million (down from €819.5 million). The 1,476,230 treasury shares repurchased between October 15, 2008, and March 20, 2009, had a year-end market value of €69.52 each. The net slump in receivables and other assets was produced by two opposite trends: on the one hand, total fixed-term monies plunged €120.0 million; on the other, intercompany receivables due for intragroup finance purposes and for agreed profit transfers surged €62.6 million. As of December 31, 2009, Vossloh AG's equity edged down €10.9 million to €490.8 million. Accordingly, the Company's equity ratio crept down from the prior year's 61.2 percent to 60.2.

Vossloh AG's financial position depends on the funds needed by subsidiaries and the debt raised by the Company to refinance such requirements. The debt raised in 2004 from the US capital market by way of private placement, carried within sundry liabilities, amounted to an unchanged €203.9 million. The other borrowings totaled an unchanged €26.0 million as of December 31, 2009.

Board compensation report

This report summarizes the principles underlying remuneration of Vossloh AG's Executive Board members and specifies the details of structure and amount of income of each such officer. In addition, the report describes principles and level of Supervisory Board fees. No stocks or stock options have been granted to the Executive or Supervisory Board members as part of the latter's remuneration.

This board compensation report follows the recommendations of the German Corporate Governance Code as amended up to June 18, 2009.

Remuneration of Executive Board members in 2009

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

At its December 3, 2008 meeting, the Supervisory Board deliberated on the structure of Executive Board remuneration and resolved to establish a discretionary bonus concept instead of the standard long-term incentive. The Supervisory Board decides on the grant and amount of such discretionary bonus after adopting the separate financial statements and approving the consolidated financial statements. In 2009, the Supervisory Board granted the Executive Board such a bonus for 2008 at a total €500,000.

For fiscal 2009, Vossloh AG's executive officers received a total compensation of €2,550,230 (down from €2,716,888), plus the above discretionary bonus for 2008. The total for 2009 includes €660,993 of fixed, and €1,852,423 variable, remuneration. In addition, they received noncash fringes as payments in kind (PIK), basically in the form of private company car use at the tax base of €36,814. PIK income is taxable income of each executive officer.

The table below itemizes the remuneration of each executive officer:

€	Fixed salary	Fringes	Profit share	Discretionary bonus*	Total
CEO					
Werner Andree	408,434	19,367	1,129,526	300,000	1,857,327
COO					
Dr.-Ing. Norbert Schiedeck	252,559	17,447	722,897	200,000	1,192,903
Total	660,993	36,814	1,852,423	500,000	3,050,230

*granted in 2009 for 2008

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

Moreover, they have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 15 or 35 percent, and are stepped up by 3 or 4 percent annually (as from Jan. 1, 2005, or April 1, 2010, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2009, a total €508,867 was provided for accrued pension obligations to Executive Board members (up from €217,154). 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 articulated 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 2009 to any Executive Board member.

The compensation paid as current pensions to former executive officers and their surviving dependants totaled €674,597 (up from €672,966).

Pension obligations to former executive officers and their surviving dependants amounted to €8,648,353 (down from €8,929,872) and are fully covered by accruals.

Remuneration of Supervisory Board members for 2009

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 €20,000 each. In addition, they are paid a variable annual fee of €1,000 for each €0.10 in excess of the Group's earnings per share over €2.00.

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

In accordance with the bylaws, Supervisory Board members received a total €612,125 in 2009 (down from €987,813), including €207,500 fixed and €404,625 variable, performance-related fees. The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Dr.-Ing. Wilfried Kaiser, Chairman	60,000	117,000	177,000
Peter Langenbach, Vice-Chairman	37,500	73,125	110,625
Dr. Jürgen Blume	25,000	48,750	73,750
Dr. Christoph Kirsch	35,000	68,250	103,250
Wolfgang Klein	30,000	58,500	88,500
Michael Ulrich	20,000	39,000	59,000
Total	207,500	404,625	612,125

In addition to these fees, no Supervisory Board member received in 2009 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2009 to any Supervisory Board member.

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

Vossloh AG's capital stock of €37,825,041.04 is divided into 14,795,870 no-par bearer shares of common stock. In the course of 2009, altogether 24 new shares were issued as stock options were exercised under the stock option programs.

The Vossloh Family Pool owned a stake of 31.03 percent, according to information furnished in March 2010 by Familiengemeinschaft Vossloh GbR. Voting right exercise by Vossloh family members has been pooled by contractual agreement.

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

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

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

1. Execution of a direct-control (subordination) and profit & loss transfer agreement
2. Execution of a merger agreement under which Vossloh AG's assets are transferred 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 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, 2009, capital of €7,500,000 was authorized.

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, 2009, 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 10,309 shares were issued by December 31, 2009, thus raising the capital stock by €26,354.55.

As resolved by the annual meeting of Vossloh AG's stockholders on May 20, 2009, the Company is authorized pursuant to Art. 71(1)(8) to repurchase shares of treasury stock equivalent to up to ten percent of the capital stock.

If treasury stock is purchased via a stock exchange, the consideration given in return for treasury shares may not be more than ten percent above or below the Vossloh share price as quoted at the opening auction of the Xetra trade at the Frankfurt Stock Exchange on the trading day.

If treasury stock is reacquired by public offering to buy or a public invitation to bid, the purchase price offered or, as appropriate, the stock price spread per share shall not be more than ten percent above or below the average Vossloh share price as quoted during the closing auction of the Xetra trade during the three trading days preceding the publication date of the public offering or invitation to bid.

The stock repurchase program commenced in 2008 was completed March 20, 2009, after 1,479,582 treasury shares had been reacquired. As decided by the Executive Board, on October 26, 2009, altogether 3,352 treasury shares from this portfolio were reclassified as available to, for purchase by, those employees of Vossloh AG or a Vossloh Group company who have registered for participation in the ESOP 2009, all pursuant to Art. 71(1) No. 2 AktG. Consequently, out of the total 14,795,870 no-par shares issued, Vossloh AG holds 1,476,230 treasury shares, equivalent to 9.98 percent of its capital stock.

Regarding such treasury shares, the Executive Board is authorized, excluding any stockholder subscription rights but 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. 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 at the Frankfurt Stock Exchange during the five trading days preceding the sale of such shares.

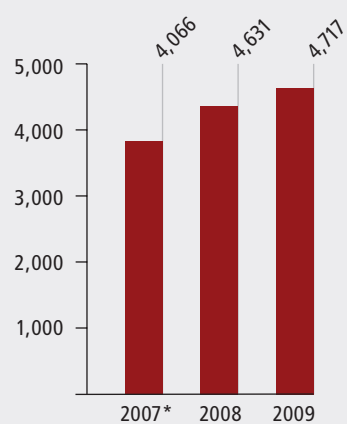
The Executive Board is further authorized, subject to the Supervisory Board's consent, to sell and transfer to third parties any such repurchased stock in the scope of business combinations or M&A transactions, or when acquiring other companies or any equity interest therein.

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 general meeting.

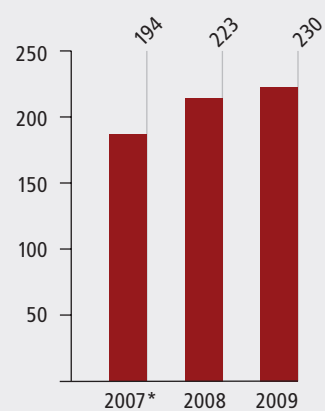
In the event of a change of control and the ensuing early loss of an Executive Board office, no Executive Board member affected will be entitled to claim under their employment contract any termination indemnities or benefits in settlement.

Headcount stable

*17 percent
outside of Europe*



Average group headcount



Personnel expenses in € mill.

*2007 comparatives adjusted for the Infrastructure Services business unit's contributions.

Workforce

At December 31, 2009, the Vossloh Group employed a workforce worldwide of 4,708, up 0.5 percent or 24 compared with the 4,684 at year-end 2008. The consolidation of new companies added 94 employees.

Employee-related indicators

		2009	2008	2007 *
Payroll per capita	€ '000	48.7	48.2	47.7
Sales per capita	€ '000	248.8	261.9	251.7
Payroll intensity	%	61.9	61.3	62.9
Value created per capita	€ '000	78.7	78.7	75.9

* 2007 comparatives adjusted for the Infrastructure Services business unit's contributions.

At an unchanged 83 percent, most employees worked at the Group's European locations; outside of Europe 17 percent, of which around 7 percent (down from 8) in North America, and some 8 percent (up from 7) together at the production plants in China and India.

There were only marginal changes in the age structure of the group employees and their average length of service with each subsidiary. The proportion of employees aged below 35 slipped, and that of staff aged above 50 rose, by one percentage point to 32 and 27 percent, respectively. The share with up to ten service years climbed by one percentage point to 57 percent, that with ten to twenty years of service dropped by one percentage point to 19 percent.

Personnel expenses (payroll)

€ million	2009	2008	% change
Pay	185.9	180.3	+3.1
Social Security	40.0	39.2	+2.0
Pension expense	3.7	3.7	+0.0
Total personnel expenses	229.6	223.2	+2.9

Since the employees of the acquirees of fiscal 2008 had been included only pro rata temporis, the Group's average headcount rise from 2008 to 2009 was steeper than at year-end.

Whereas in 2008 the Group had employed a workforce of 4,631 on an annual average, this figure rose by 1.8 percent to 4,717 in the period under review.

In 2009, personnel expenses advanced on the previous year by 2.9 percent from €223.2 million to €229.6 million. Since personnel expenses slightly outgrew headcount, the average payroll per capita (rounded) moved up by 1.0 percent from €48,200 to €48,700.

Alongside pay rises, this increase was also attributable to higher social security taxes.

Value created—defined as the excess of total operating performance over cost input and amortization/depreciation/write-down—per capita (rounded) was at the prior year’s level of €78,700. Hence, the ratio of payroll to value created (“payroll intensity”) deteriorated slightly from 61.3 to 61.9 percent.

Sales per capita (rounded) amounted to €248,800 (down from €261,900), a decrease of 5.0 percent.

Rail Infrastructure

Because of the acquirees, the annual average workforce in the Rail Infrastructure division rose by 1.9 percent from 2,660 to 2,710. Average payroll per capita (rounded) slipped 1.0 percent from €40,800 to €40,400. Value created per capita mounted from €84,600 to €87,600 (both rounded); the payroll intensity at 46.0 percent was down by 2.2 percentage points. Sales per capita (rounded) fell 4.2 percent from €265,800 to €254,700.

Motive Power&Components

The annual average number of Motive Power&Components employees inched up from 1,925 to 1,956 (up 1.6 percent). Sales per capita (rounded) slipped 5.8 percent, from €262,300 to €247,000, value created per capita fell by 3.7 percent from €77,800 to €74,900. Payroll per capita increased 1.9 percent from €55,700 to €56,800. Payroll intensity climbed 4.2 percentage points, from 71.6 to 75.8 percent.

Employees 2009

	Annual average*			Year-end		
	Germany	Abroad	Total	Germany	Abroad	Total
Rail Infrastructure	296	2,414	2,710	303	2,454	2,757
Motive Power&Components	965	991	1,956	978	924	1,902
Vossloh AG	51	0	51	49	0	49
Total	1,312	3,405	4,717	1,331	3,377	4,708

* Annual average based on monthly data

Recruiting and developing employees

So that Vossloh can rank among the best in the market we are especially interested in ensuring high-quality apprenticeship courses and carefully compiled HR development programs, plus siding with our workforce as a loyal employer.

As part of existing HR development programs the individual business units offer a broadly ranging selection of in-house and external courses. Typical subjects include quality, work techniques, communication, and leadership. We also organize advanced commercial and technical as well as language courses.

Blue-collar courses likewise enjoy priority and deal with such subjects as welding, load securing/hazardous goods, and the operation of forklift trucks.

As a complement to the existing HR development programs, the Vossloh Academy opened up in fiscal 2009. In the form of a web portal, the German employees (initially) can revert to a range of advanced courses across all companies. Dealt with are topics of assistance in daily work to ensure that Vossloh can cope with tomorrow's job challenges and continues as successful as it is today.

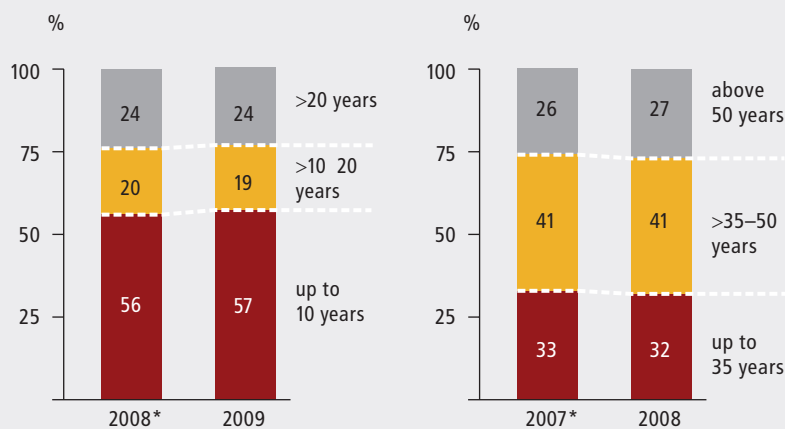
A program under the title "We lead Vossloh" has also been launched and acts as a platform for regularly sharing ideas among staff in key positions at all business units. Concurrently, the program serves as a basis for the ongoing personal development of these employees and thus acts as an essential component for strengthening staff loyalty and planning for jobholder succession.

With a view to broadcasting these various aspects both inside and outside the Group, Vossloh during the fiscal period laid the foundations for successful employer branding. Within this context, Vossloh's essential employer properties of significance for present and future workforces were mapped out. The outcome of a study specially commissioned for this purpose is that Vossloh as a loyal employer offers multifaceted, attractive and challenging jobs within a flat hierarchical organization with swift decision-making channels.

Not to be overlooked are the already existing widely ranging relations with schools and universities in Germany and abroad, especially with European institutions of relevance to our industry. Some of these take the form of research and other projects. Besides, guest lectures are given and undergraduates invited to plant tours.

A first taste of job experience can be obtained by undergraduates in the course of internships and other forms of practical training as well as when working on their diploma, B.A. and M.A. theses. Besides the direct-entry opportunities we are preparing special introductory-level programs for young engineers and engineering graduates.

Vossloh's own in-house apprenticeship courses play a major role in the Group's talent recruitment efforts. During the period, the German locations hired 26 new blue-, white-, and gray-collar apprentices and at year-end, the Werdohl, Düsseldorf, Kiel, Moers and Trier locations together employed 72 apprentices, equivalent to 6.0 percent of the workforce at the German operations with apprenticeship opportunities.



Service years in %

Age structure in %

European Works Council

The period saw the formation of a European Works Council for the purpose of asserting transnational employee rights. It consists of 12 members from Austria, Belgium, Finland, France, Germany, Luxembourg, Netherlands, Poland, Spain, and Sweden.

Thanks

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

Research and development

The Vossloh Group's companies are among the technology leaders in their selected sectors and are constantly investing in the improvement of their products and services. One of their prime aims is to satisfy the specific requirements of customers in the various market regions. In addition, Vossloh works on pioneering new solutions. Activities in this area were rigorously intensified in 2009 in order to extend the product portfolio and adapt it to emerging development trends on the markets. In research and development (R&D), the Group resorts to cooperation both intragroup and with external specialists, and to partnerships with scientific institutions. Since the lion's share of R&D takes place in connection with specific contracts, the associated costs are reflected in the cost of sales and not in R&D expenses.

At Vossloh Fastening Systems, solutions for specific customers are a powerful source of innovation. In 2009, in cooperation with systems suppliers, railway companies and local public transport companies, several new rail fastening systems were developed, tested and in some cases put into practice. The new Skl 30 tension clamp for heavy-haul lines with high temperature differences meets challenging standards of elasticity and creep resistance. Further development work on the successful W-Tram system focused on higher axle loads (up to 22.5 t). In a very short time, the Slab Track System 300 has been further developed for the first triple-rail solution (simultaneous operation of two track gauges). Vossloh Fastening Systems is responding to the global trend toward increasing track elasticity by developing new elastomers. In cooperation with partners, a new test line has also been set up for this very purpose.

In 2009, Vossloh Switch Systems continued the development of a new switch model. For the ongoing optimization of environment-friendly, lubrication-free switches, engineers are working on new coatings for the rail chairs that deliver even lower frictional resistance than the current nickel-chrome coating. The engineers successfully tested spring-roller rail chairs designed to allow extra-long and high-speed switches to be actuated with less force. Work has been pushed ahead on various switch machines that help to extend maintenance and service intervals. Also in the development pipeline is a new solution for extremely arid and sandy applications.

At Vossloh Locomotives in Kiel, 2009 was a year devoted to the new modular locomotive family. The three-axle center-cab locomotive G 6 unveiled in 2008 is being followed in 2010 by the G 12 (up to 1,200 kW) and the G 18 (up to 1,800 kW), two four-axle models for shunting and line service for freight traffic. These two models will also be available in diesel-electric versions, DE 12 and DE 18. This diesel-electric drive has been created under the overall control of the newly established development unit at Vossloh Electrical Systems which is also responsible for the traction equipment of the first “Vossloh Train,” which will be built by Vossloh España in Valencia as a train-tram for Mallorca starting in 2010. This is one reason why development work there in 2009 focused among other things on new vehicles for local public transport. In addition, the development of the EURO Light weighing less than 20 t per axle was largely wrapped up in Valencia in 2009. The new 2,800-kW engine satisfies the criteria of the latest emission standards. In this connection, Vossloh España is participating in an EU research project known as “CleanER-D.” This project is paving the way for the compliance of locomotive diesel engines with the Stage IIIb emission standard that comes into effect from 2012.

Hybrid technology was again a focus of development activities at Vossloh Electrical Systems in 2009. The “LighTram,” the 24-meter double-articulated hybrid bus, is the first commercial application. The initial vehicles have gone successfully into service in Luxembourg. In the development of the first production-ready hydrogen fuel cell buses in cooperation with German and Dutch partners, Vossloh Electrical Systems is leading a development consortium for the first time. This innovative bus—pollutant-free and extra quiet—will be showcased at the World Hydrogen Energy Conference 2010 in Essen, Germany.

Environment

Passenger and freight haulage by rail is one of the greenest modes of transport. Modern buses with hybrid technology and above all trolleybuses are also clearly superior environmentally to private transport by car. Products from Vossloh make an important contribution, so that the eco-friendly movement of passengers and goods is reliable, cost-effective, and safe. The Group is also working in all its business units on making rail transport even greener and thus emphasizing it as an attractive means of conveyance.

Vossloh's diesel locomotive developers naturally make sure that the vehicles consume as little fuel as possible—and thus minimize CO₂ emissions. The principle of “zero emissions” also applies to trolleybuses with drive technology from Vossloh Kiepe. Another benefit of these local transport vehicles is that they are very quiet in operation, a fact much appreciated by passengers and bystanders alike. Conventional diesel-engine buses can also improve their environmental profile with Vossloh technology, as hybrid propulsion reduces exhaust and noise emissions.

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

In production, all Vossloh companies attach huge importance to the sparing and efficient use of resources. Emissions from production are reduced to a minimum across the board. Regular audits by the competent environmental authorities demonstrate the consistent observance of all the legal and official limits and compliance with the permitted ceilings, in some cases by a wide margin. As far as possible, residues are consistently recycled, while solid wastes are systematically separated.

In both Kiel and Valencia, Vossloh uses exclusively low-solvent paints for the finishes on its locomotives. Vossloh Fastening Systems has also been using waterborne paints for the surface coating of its tension clamps for years. By resorting to a special map, it conducts targeted searches for environment-friendly production materials. In 2009, a strategy was developed for recovering and recycling the waste heat from the heat treatment plant. “Green IT” was the name of the program to cut paper and electricity consumption in Kiel in 2009.

All the large Vossloh locations have been approved and certified to the DIN EN ISO 14001 environmental management system or comparable systems and undergo regular audits by external, independent bodies. In Germany, Vossloh Kiepe has been additionally certified to the OHSAS 18001 occupational health & safety standard since 2001, completing the re-audit in November 2009 without any objections. Vossloh Kiepe Austria was awarded certification to IRIS (International Railway Industry Standard) in June 2009. The Vossloh Cogifer Fère-en-Tardenois location has been complying with the even stricter ILO OSH 2001 safety and health standard since the end of 2007. The production facilities in Reichshoffen embarked on preparations for certification to this standard in 2009. In accordance with the principle of sustainability in economic, ecological, safety and health respects, Vossloh Cogifer has taken its first steps to merge its environmental management with quality and safety management to yield an integrated risk management system.

Risk and reward management

Organization

For the systematic 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 reported according to a predefined plan operating at the various group levels. A proactive and systematic risk and reward system ensures that the impact of possible adverse changes is avoided or contained and that any opportunities arising are indicated and rigorously seized. In this way, risk management plays a major role in achieving financial targets and hence adding sustainable value to the Vossloh Group. All the subsidiaries, both in Germany and abroad, in which Vossloh holds a stake, whether direct or indirect, are integrated into the risk management system, irrespective of how they are included in the consolidated financial statements. Those acquired in 2009 were integrated into the system in good time.

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 Group's risk manual underwent a thorough revision in 2009. The organizational setup is based on the structure of the operating processes and procedures of the respective unit. At all group levels, risk owners, risk officers, and risk controllers are assigned responsibility for continuously identifying, analyzing, assessing, communicating, monitoring and controlling risks and rewards. The identification of risks and rewards is ensured by a perpetual risk inventory in which relevant risks are identified effectively, timely, and systematically. Risks are registered with the aid of risk areas.

Perceived risks and rewards are analyzed and assessed at Vossloh for their possible impact on earnings. For this purpose, the loss interval, in other words the maximum and minimum variances possible and the most probable effect on earnings are determined. These are supplemented by an assessment of loss probability. Any risk provisions already recognized are taken into account. For the best and worse case scenarios, a value-at-risk approach with a minimum probability of 5 percent is assumed.

Risks and rewards are documented and communicated by Vossloh in standardized reports. Besides the assessment parameters indicated, proposed action is reported. Periodic risk reporting is quarterly and serves as a supplement to the latest annual projection and allows risks looming in future periods to be profiled, too. Ad-hoc reports additionally allow at all times an updated evaluation of the current risk situation.

These reports are addressed to Vossloh AG's Executive Board as well as the management of each company and business unit. It is they that control and monitor 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 auditor for adequacy, efficiency and compliance with legal requirements.

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 an 0.8-percent decline in global GDP, 2009 was a period overshadowed by the economic crisis. Given the substantially worldwide synchronous nature of this downturn it is much more difficult to perform some kind of balancing act in our overall business by taking advantage of dissimilar geographical trends. Even though rail business is normally less volatile, there does exist the risk that state and/or private customers will shelve or even in some cases cancel contracts due to weak business (especially freight haulage) or limited financial facilities. Presently badly hit are our Kiel locomotives plant and US switch business. Also, the current crisis is impacting on the debt situation of public-sector customers. The worsening parameters might likewise impinge on business. On the upside are the various economic stimulus packages provided they target higher or earlier spending on rail infrastructure or local public transport. Benefiting, in particular, are the new high-speed lines in China through earlier-than-planned spending as a result of these stimulus packages.

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), the MENA states, Eastern Europe (including Russia), the United States, and South America. In recent years the Group has much reduced its dependence on individual European markets, albeit in 2009 non-European sales did creep down to around 27.1 percent of the total. Back in 2006, this share had amounted to a mere 9.2 percent.

Rail markets in Europe and North America are more or less stable in terms of their political and economic environments and hence as far as these core markets are concerned, there are no major risks confronting the Group, albeit fluctuations in US switch business on account of the largely private nature of customers (Class I Railroads) is a factor that does give rise to greater volatility. Accessing new markets, especially Asian and some Eastern European, does expose Vossloh not only to opportunities but also risks possibly arising from political and social instability, exchange rate fluctuations and legal uncertainties. As the percentage of sales in these markets grows, both the business prospects and the risk position rise. Asian and Eastern European sales in 2010 are budgeted at around 23 percent of total group sales.

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

Operating risks

This category includes operations-related activities such as sourcing, production, and contract performance. Vossloh attempts to counteract purchase price (input market) risks especially by long-term procurement contracts or price escalator clauses concluded with customers. In 2009, Vossloh benefited from sinking input market prices. A further shortage of commodities, especially steel or oil, might still however impact on production costs specifically at Rail Infrastructure. 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 profitability at the divisions.

Exchange rate risks from purchasing are normally contained by currency forwards. Procurement chain risks may also result from supplier dropouts, poor quality or delivery delays. Vossloh attempts to minimize these risks by working with longstanding local vendors. Despite a careful screening of suppliers, ongoing monitoring and setting-up alternative sources, future procurement chain risks may be contained but never fully ruled out. Project complexity is another source of risks. These include unexpected technical or engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors, logistic challenges, and acceptance and invoicing delays. These are factors possibly leading to unbudgeted expenses or contractual penalties. Contractual provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. Especially exposed to risks of this nature is Motive Power&Components. Project risks arising in 2009 and still existing were provided for as required by the IFRS. Along the value-adding chain, Vossloh subsidiaries are exposed to work interruption, quality problem, occupational safety and environmental risks. These risks are either altogether avoided or at least diluted through a comprehensive set of guidelines and standard procedures that govern project and quality management, product and occupational safety, as well as environmental protection.

Financial risks

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

Financial derivatives

Vossloh uses financial derivatives solely to hedge against specific risks from current underlyings or forecasted transactions. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, see the Vossloh Group's annual report, notes to the consolidated financial statements, page 150. 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 for a long term from the low interest rates, the Group restructured its finances in 2004 by raising one ten-year and one twelve-year loan under a US private placement of a total \$240.0 million (around €200 million). As part of its proactive risk management concept, Vossloh has fully hedged future principal and interest payments through interest rate and cross-currency swaps on a euro basis. Current or expected currency receivables and payables represent an unmatched position which is generally closed by contracting currency forwards.

Default/ counterparty risks

Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to Vossloh. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies. As of December 31, 2009, cash investments and financial derivatives with a positive fair value were allocable at 14 percent to counterparties rated between AA+ and AA-, at 84 percent to those rated from A+ to A-, and at 2 percent to counterparties rated BBB+ (according to Standard & Poor's). In fiscal 2009, the rating of banks essentially remained unchanged. Monies are centrally deposited only with banks which are members of the German Deposit Insurance Fund. Moreover, risks are spread by distributing such cash deposits among several banks. No dependence on specific banks has existed or does exist.

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, 2009, the Vossloh Group had cash and cash equivalents (including short-term securities) of a total €157.3 million. In addition, adequate and sufficient credit lines ensured that no financial or cash bottlenecks occurred. The unutilized balances from cash credit facilities at year-end totaled €171.7 million, mostly due within one year. Furthermore, Vossloh had unutilized guaranty bond facilities of €457.5 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 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 2009 not affected to any significant degree by financial risks.

Legal risks

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

Other risks

These are mainly of an IT or human resources nature. The control of operational and strategic business processes largely relies on complex IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability, and security. Such mechanisms and instruments also ensure efficient information processing. The Group's economic situation may well suffer as a result of substandard staffing such as shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, poor training and/or mistakes, fraud or theft committed by employees. Vossloh has a menu of measures to abate such risks: in particular, our reputation as an attractive company to work for, a reputation that strengthens our position in the competition for highly qualified employees. In-house courses allow our employees to regularly upgrade their skills while highly competitive pay structures tie the employees long-term to the Group. None of these "other risks" influenced the Group's earnings in 2009 to any substantial degree.

Overall risk assessment

The potential impact of any and all risks described above and which Vossloh is exposed to on its results of operations, asset and capital structure or financial position, is monitored and controlled at all times. As required by IFRS, provisions have been made for all risks identified to date. The updated annual forecasts duly reflect any potential losses, where reliably identifiable. From today's vantage point, neither any specific risks nor all currently known risks in their aggregate are potentially ruinous or likely to jeopardize the Vossloh Group's or any subsidiary's continued existence as a going concern in terms of either assets or liquidity. The Group's equity slipped only slightly mainly because of the higher dividend and the stock repurchase program. A countering effect was exercised by group earnings. Equity lies well above the risk-adjusted capital, i.e., the statutory minimum equity portion that is earmarked exclusively for the cover of potential losses.

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

Summary of key criteria of the accounting-related Internal Control and Risk Management Systems (ICS/RMS) pursuant to Arts. 289(5) and 315(2) No. 5 HGB

As stated earlier in the report on risks and rewards, Vossloh has installed a comprehensive monitoring system for the groupwide methodical early identification of going-concern risks as required by Art. 91(2) AktG, with a view to identifying early on, managing and monitoring not only risks jeopardizing Vossloh's survivability but also other risks beyond the statutory scope. According to Art. 317(4) HGB, the statutory group auditor assesses the effectiveness of the early risk identification system (ERIS).

Definitions
and elements
of Vossloh's ICS
and RMS

The Vossloh Group's ICS described below encompasses all principles, methods, processes and procedures designed to ensure not only the accounting system's effectiveness, efficiency and propriety but also compliance with applicable legal and statutory regulations.

Responsible at group level for the Internal Control System are substantially the corporate departments of Internal Auditing, Controlling, Accounting, Treasury, and Legal Affairs.

In-process and process-independent monitoring procedures and routines are ICS components. Besides manual process controls (such as peer reviews) IT processes, too, are a key element of in-process steps. Further, Corporate Legal Affairs ensures that certain in-process monitoring routines are implemented. Process-independent tests and/or audit procedures are the responsibility of Vossloh AG's Supervisory Board (specifically its Audit Committee), Internal Auditing, and staff locally assigned at the level of the business unit parent.

The statutory group auditor is involved in the Vossloh Group's control environment by performing process-independent tests and audit procedures. Particularly the annual audit of the consolidated financial statements, as well as the focal interim audit procedures upstream of the annual audit of the separate financial statements are essential process-unrelated monitoring procedures that center on the corporate accounting system.

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

Information
technology

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

Accounting-
related risks

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

Key activities
aimed to
ensure corporate
accounting
propriety and
reliability

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

After transactions have been recorded in the local accounting system of each subsidiary, the monthly accounts are reviewed at the level of the business unit parent. Besides random-sampled cases, tests would focus primarily on high-amount or unusual transactions.

Corporate guidelines exist, for instance, for capital expenditures, bidding, and risk management. Vossloh companies and business units are, moreover, obligated to issue local guidelines for material areas. Corporate Internal Auditing reviews all such guidelines and causes amendments to be enacted wherever deemed necessary.

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

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

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

Qualifying note

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

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

For the corporate governance report (which is an integral part of the combined management report) see page 20 of the Vossloh Group's annual report. The annual report is also available long term on Vossloh AG's website at www.vossloh.com

Subsequent events

Acquisition gives birth to new Rail Services business unit

On December 14, 2009, Vossloh had signed a sale and transfer agreement covering the rail services companies of the Stahlberg-Roensch Group, Seevetal near Hamburg, as well as LOG Logistikgesellschaft Gleisbau mbH and ISB Instandhaltungssysteme Bahn GmbH of the Hannover-based Contrack Group. Following a due diligence procedure and the go-ahead from its Supervisory Board and the antitrust authorities, Vossloh closed the transfer agreement on February 5, 2010.

The acquisition covers seven German locations specializing in complex solutions for the welding and preventive maintenance of rails as well as the related logistics. With annual sales of around €80 million in 2009, the companies are segmental market leaders in Germany. The acquisition considerably strengthens Vossloh's competence in the Rail Infrastructure division.

The new business unit, whose activities Vossloh aims to extend internationally, will operate as Vossloh Rail Services.

New names within the corporate structure

As of the turn of 2009/2010, the Vossloh Group slightly revised the names of its divisions and business units. A number of new names are intended to more faithfully reflect the respective business purposes and are hence closer to terms customary in the industry.

As hitherto, the Rail Infrastructure division is made up of the two business units Fastening Systems and Switch Systems. They are now joined by a third, Rail Services.

The second division, previously Motive Power&Components, has been renamed Transportation. Electrical Systems as a business unit is unchanged. Because its business meantime branches out beyond Locomotives to include other vehicles, Locomotives has been renamed Transportation Systems. Within this business unit, the Kiel location (which solely builds locomotives) stays Vossloh Locomotives; Valencia (which also makes light-rail and local transport vehicles) is now Vossloh Rail Vehicles.

Rail Infrastructure	Transportation
Vossloh Fastening Systems	Vossloh Transportation Systems
Vossloh Switch Systems	Vossloh Electrical Systems
Vossloh Rail Services	

*Only slow recovery from
the global financial and economic crisis*

*Rail-bound and local transport with
unchanged growth prospects*

*Moderate sales growth budgeted,
profitability indicators above benchmarks*

*Capital expenditure program
continued for more growth*

Prospects

UNIFE, the Association of the European Rail Industry, published in 2008 its “Worldwide Rail Market Study – Status Quo and Outlook 2016.” The study forecasted an order intake averaging 2.5 to 3 percent annually until, by 2016, the accessible rail technology market will have reached around €110 billion. In a further study commissioned on UNIFE’s behalf, published in April 2009 and entitled “Scenario Perspectives for Rail Industry in 2025,” these growth expectations were reviewed against the background of the global crisis. The paper reaches the conclusion that the average growth expectations of 2.5 percent annually up to 2016 are still valid. However, this year, 2010, is likely to show in some areas a lower growth rate: this applies to rail vehicles and all regions excluding Western Europe and Asia/Pacific. Higher growth rates might emerge from the infrastructure sector and the Asia/Pacific region, even for the period 2011 to 2013. In this latter period, the study states that steeper growth might well be derived from signaling products and, regionally, Western Europe.

The leading German economic research institutes are of the opinion that the worldwide economy will remain sluggish in 2010. Experience shows that previous recessions related to the banking and property markets, have in most cases been overcome only slowly. For 2010, the International Monetary Fund predicts global economic growth of 3.9 percent, followed by 4.3 percent in 2011, growth that will mainly be driven by the strongest expanding economies in Asia, especially China and India, and the MENA nations (Middle East and North Africa).

Strong GDP advances in 2010/2011 are predicted for China (10.0/9.7 percent), India (7.7/7.8 percent), the Middle East (4.5/4.8 percent), Africa (4.3/5.3 percent), and Brazil (4.7/3.7 percent). These forecasts assume no further exogenous shocks beyond the known geopolitical and economic risks.

According to the forecasts of the World Bank, the economy in the industrialized nations will show only moderate gains, averaging 2.1 percent in 2010 and 2.4 percent in 2011. The figures for the eurozone are set at a mere 1.0 (2010) and 1.6 percent (2011).

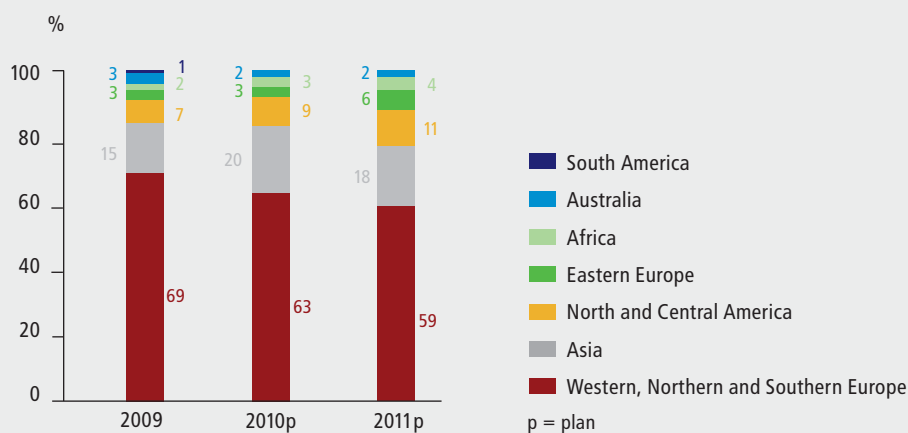
Alongside uniform groupwide requirements, Vossloh's annual medium-term plan incorporates in particular assumptions specific to each business unit, including product prospects, competitors, likely projects, market opportunities and risks in the individual regions, as well as the required capex volumes.

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

An additional factor is that though outlays by public-sector and private customers in a country are cyclical, Vossloh's business units have managed in the past to largely compensate for regional fluctuations thanks to their worldwide presence. Due to the synchronized worldwide downturn this compensation will be less effective in the near future, however. On the other hand, there are some countries that are already or will be investing considerably in rail-bound infrastructure; this may be in the form of economic stimulus packages, in connection with upcoming megaevents or in their efforts to rejuvenate rail transport.

Over the next two years Vossloh reckons with sizable activities in Asia (especially China) and North America; other regions harboring potential are the MENA states.

The acquisition of the Rail Services business unit, a transaction closed in early 2010 only, could not be reflected in the corporate plan.



Regional sales distribution percentages

Vossloh management now looks for 2010 including Vossloh Rail Services to a year-on-year sales boost by 11–15 percent, equivalent to group sales of €1.3+ billion. The EBIT increase will come in 2010 to 5–7 percent (€145+ million). For 2011 Vossloh anticipates another sales hike of at least 2.5 percent in line with the overall rail technology market uptrend, with EBIT then at around €150 million.

Vossloh Group: sales and EBIT trend

		2009	2010p
Sales	€ bill.	1.17	>1.3
EBIT	€ mill.	137.9	>145
EBIT margin	%	11.7	11 to 11.5
ROCE	%	20.5	approx. 17
Value added	€ mill.	63.7	55 to 60
Earnings per share	€	6.57	6.50 to 7.00

p = plan

Also given the higher expenditures earmarked, value added—a central controlling indicator—will in 2010 and 2011 be in the range of 55–60 million euros, hence below the 2009 magnitude. Working capital will swell 10 percent in 2010 and stay at this level in 2011 while capital employed in 2010 and 2011 will average €850 million to €900 million.

Since Vossloh Rail Services, due to the acquisition price allocation upon first-time consolidation and the resultant burden on earnings, will contribute a low profit in 2010, the Group's ROCE is forecast to edge down to around 17 percent but, in 2011, expected to rise to about 18 percent. In both fiscal years ROCE will be well in excess of the specified benchmark of 15 percent. From today's vantage point, Vossloh's EBIT margin, predicted to range between 11 and 11.5 percent in 2010 and 2011, will also outperform the internal benchmark of 10 percent. Earnings per share for 2010 or 2011 are estimated to remain in a bandwidth of €6.50 to €7.00.

Vossloh Group: indicators

		2009	2010p
Average working capital	€ mill.	231.7	approx. + 10%
Year-end working capital intensity	%	20.9	<20
Capital expenditures (excl. M&As)	€ mill.	41.9	>60
Average capital employed	€ mill.	674.0	850 to 900
Net financial debt	€ mill.	70.2	100 to 150
Net leverage	%	14.3	20 to 25

p = plan

In the wake of the acquisition, Vossloh's net financial debt will in 2010 rise to a range of €100 million to €150 million. Consequently, the Group's conservative leverage will be maintained.

In order to buttress our market positions and achieve added growth we will continue our spending program and for 2010 and 2011, have earmarked an amount of €60+ million each. The capex program will center on revamping and expanding the Rail Infrastructure division's and Electrical Systems business unit's locations. At Vossloh Locomotives, the emphasis will be on broadening the product spectrum.

Even though the Kiel locomotive business, decelerating in line with the decline in freight haulage, is likely to lose somewhat more steam in 2010 than a year ago, the current budget predicts sales growth for both the Rail Infrastructure and Transportation divisions over the next two years, with ROCE in both cases topping the Group's 15-percent benchmark.

At Rail Infrastructure, the Fastening Systems business unit will benefit especially from the brisk business in China. Future growth potentials exist in Eastern Europe, North America, and North Africa. Switch Systems will gain from an economic rebound especially in North and Central America, and bright prospects in North Africa.

Within the Transportation division, the demand for efficient local public transport systems in Europe and North America should be having a favorable impact while the market for freight haulage locomotives will remain strained.

EBIT of Vossloh AG as a pure management and financial holding company is largely influenced by administrative expenses, whose magnitude is budgeted to be kept substantially unchanged.

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

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Income statement for the year ended December 31, 2009

€ million	2009	2008
Net sales	1.4	1.4
Cost of sales	(1.3)	(1.3)
Gross margin	0.1	0.1
General administrative expenses	(19.6)	(28.7)
Other operating income	15.9	20.4
Other operating expenses	(5.0)	(1.8)
Operating result	(8.6)	(10.0)
Income from investments	–	0.0
thereof from subsidiaries: none (unchanged)		
Income from P&L transfer agreements	55.4	43.8
thereof from subsidiaries: €55.4 million (up from €43.8 million)		
Income from other long-term securities/loans	0.4	1.0
thereof from subsidiaries: €0.1 million (down from €0.7 million)		
Other interest and similar income	6.1	15.9
thereof from subsidiaries: €4.8 million (down from €13.1 million)		
Write-down of financial assets and short-term securities	(3.6)	(2.4)
Expenses for loss absorption	(3.8)	(0.1)
thereof for subsidiaries: €3.8 million (up from €0.1 million)		
Interest and similar expenses	(14.6)	(16.3)
thereof to subsidiaries: €1.0 million (down from €2.3 million)		
Net financial result	39.9	41.9
Result from ordinary operations (EBT)	31.3	31.9
Income taxes	(2.2)	(5.5)
Net income	29.1	26.4

Balance sheet

Assets in € million	12/31/2009	12/31/2008
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	0.5	1.0
Interest rate caps	–	0.1
Total intangible assets	0.5	1.1
Land, equivalent titles, and buildings (including on leased land)	3.2	3.0
Sundry plant, business and office equipment	0.4	0.4
Prepayments on tangibles, construction in progress	0.4	0.2
Total tangible assets	4.0	3.6
Shares in subsidiaries	473.9	473.8
Loans to subsidiaries	–	9.6
Other investments	0.1	0.1
Other long-term securities	0.1	0.1
Total financial assets	474.1	483.6
Total fixed assets	478.6	488.3
Trade receivables	0.0	–
Due from subsidiaries	150.4	87.8
Due from investees	0.3	0.1
Sundry assets	34.7	154.1
Total receivables and sundry assets	185.4	242.0
Securities/treasury stock	102.6	62.7
Cash on hand and in bank	48.6	26.3
Total current assets	336.6	331.0
Prepaid expenses and deferred charges	0.2	0.2
	815.4	819.5
Stockholders' equity & liabilities in € million	12/31/2009	12/31/2008
Capital stock	37.8	37.8
Additional paid-in capital	37.6	37.6
Reserves retained from earnings		
Reserve for treasury stock	102.6	62.7
Other	279.2	319.1
Net earnings	33.6	44.5
Stockholders' equity	490.8	501.7
Accruals for pensions and similar obligations	12.8	12.6
Tax accruals	2.9	4.5
Other accruals	11.9	8.0
Total accruals	27.6	25.1
Due to banks	26.0	26.0
Trade payables	1.0	0.8
Due to subsidiaries	65.7	61.5
Sundry liabilities	204.3	204.4
thereof for taxes: €0.1 million (virtually unchanged)		
thereof for social security: none (unchanged)		
Total liabilities	297.0	292.7
	815.4	819.5

Fixed-asset analysis

€ million										
	Cost				Accumulated amortization/ depreciation/write-down				Book values	
	Bal. at 1/1/2009	Addi- tions	Dis- posals	Book transf.	Bal. at 12/31/2009	Bal. at 12/31/2008	Charged in 2009	Write-up	Bal. at 12/31/2009	Bal. at 12/31/2008
Intangible assets										
Franchises, concessions, industrial- property and similar rights and assets, as well as licenses thereto	7.9	0.1	(0.1)	–	7.9	7.4	0.6	–	0.5	1.0
Interest rate caps	0.1	–	(0.1)	–	0.0	–	–	–	0.0	0.1
	8.0	0.1	(0.2)	–	7.9	7.4	0.6	–	0.5	1.1
Tangible assets										
Land, equivalent titles, and buildings (incl. on leased land)	11.2	0.2	(0.4)	0.2	11.2	8.0	0.2	–	3.2	3.0
Sundry plant, business and office equipment	1.3	0.1	(0.2)	–	1.2	0.8	0.1	–	0.4	0.4
Prepayments on tangibles, construction in progress	0.2	0.4	–	(0.2)	0.4	0.0	–	–	0.4	0.2
	12.7	0.7	(0.6)	0.0	12.8	8.8	0.3	–	4.0	3.6
Financial assets										
Shares in subsidiaries	492.3	0.1	–	–	492.4	18.5	–	–	473.9	473.8
Loans to subsidiaries	9.6	–	(9.6)	–	0.0	–	–	–	0.0	9.6
Other investments	0.1	–	–	–	0.1	–	–	–	0.1	0.1
Other long-term securities	0.1	–	0.0	–	0.1	–	–	0.0	0.1	0.1
Other long-term loans	6.2	0.1	0.1	–	6.2	6.2	0.1	0.0	0.0	0.0
	508.3	0.2	(9.7)	–	498.8	24.7	0.1	0.0	474.1	483.6
Total	529.0	1.0	(10.5)	0.0	519.5	40.9	1.0	0.0	478.6	488.3

Notes

The separate financial statements of Vossloh AG as of December 31, 2009, were prepared in accordance with the provisions of the German Commercial Code (“HGB”) and the German Stock Corporation Act (“AktG”).

Accounting and valuation are governed by the following principles:

Accounting
and valuation principles

Purchased intangible assets, as well as tangible assets are carried at cost, if finite-lived less amortization or depreciation according to the declining-balance or straight-line method. Finite-lived fixed assets added on or after January 1, 2001, are depreciated on a straight-line basis. Write-down for tax purposes is charged wherever this option is offered, whether for ACR or otherwise. Moreover, fixed assets are written down to any lower current value if so required. Financial assets are recognized at cost or any lower current value. Receivables and sundry assets as well as cash on hand and in bank are shown at par or principal. The corporation income tax credit distributable in the period from 2009 to 2017 was discounted at 4 percent annually and shown at present value. Non-euro receivables/payables are translated, if hedged, at the rate so covered or any more unfavorable mean current rate. Treasury stock is valued at the lower of cost or market. Accruals provide for pensions and similar obligations at the actuarial present value, based on an imputed annual discount rate of 6 percent and on the 2005G mortality tables of Prof. Dr. Klaus Heubeck. Tax and other accruals are shown at the future amounts required in sound business practice and judgment. Hedge accounting is used for financial derivatives (mainly cross-currency swaps) by combining the derivatives with the underlying into one valuation unit wherever a direct hedging relationship exists between hedge and underlying. In these cases, the result from the currency hedge contracted is not recognized before maturity or due date. Liabilities are generally stated at their settlement amounts.

Fixed assets Classification and movements of fixed assets are explained in greater detail in the above fixed-asset analysis. The additions to shares in subsidiaries mainly refer to two group companies newly formed by Vossloh AG.

Within financial assets, write-down of €0.080 million was charged to the other long-term loans; write-up was credited at €0.053 million.

For a list of shareholdings, see the appendix to these notes.

Receivables and sundry assets Except for €11.772 million, all receivables and sundry assets fall due within one year. The accounts due from subsidiaries and investees are nontrade receivables only.

Treasury stock The annual general meeting (AGM) of May 20, 2009, authorized the Executive Board again to repurchase on or before November 19, 2010, treasury shares equivalent to a maximum of 10 percent of the current capital stock pursuant to Art. 71(1) No. 8 AktG.

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

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

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

By dint of the authority conferred upon the Executive Board by the AGM of May 21, 2008, and expired after November 20, 2009, Vossloh AG's Executive Board, after duly obtaining Supervisory Board approval, decided October 15, 2008, to repurchase up to 1,479,582 treasury shares, corresponding to 10 percent of the capital stock.

In the period between October 16 and December 31, 2008, Vossloh AG repurchased an aggregate 907,000 treasury shares from the stock market at an average price of €69.10 per share and a total market value of €62,669,895.49. These treasury shares corresponded to 6.1 percent of the capital stock at year-end 2008 and were shown as such within current assets. In the period from January 1 to March 20, 2009, Vossloh AG reacquired from the stock exchange another 572,582 treasury shares at an average market price of €76.23 each and a total value of €43,647,176.29, thus bringing its treasury stock portfolio to 1,479,582 out of a total 14,795,846 shares as of March 20, 2009 (ten percent or €3,782,491.32 of the capital stock). Consequently, the stock repurchase was completed on March 20, 2009. On October 26, 2009, the Executive Board decided to reclassify 3,352 no-par shares out of Vossloh AG's treasury stock portfolio as available to those active or former employees of Vossloh AG or a Vossloh Group company who have registered for participation in the employee bonus program 2009, in accordance with Art. 71(1) No. 2 AktG. Therefore, on November 2, 2009, altogether 3,352 shares were sold at a total €241,075.84 under the employee bonus program. The closing portfolio of 1,476,230 treasury shares was valued at €69.52 each, resulting in a total €3,537,261.25 lower value.

Treasury stock repurchased

	Shares purchased	Total price (€) *	Capital stock (€)	Capital stock (shares)	% of capital stock
October 2008	182,000	10,722,541.40	37,824,979.68	14,795,846	1.23
November 2008	293,000	20,056,694.21	37,824,979.68	14,795,846	1.98
December 2008	432,000	31,890,659.88	37,824,979.68	14,795,846	2.92
Total 2008	907,000	62,669,895.49	37,824,979.68	14,795,846	6.13
January 2009	230,000	17,555,206.81	37,824,979.68	14,795,846	1.55
February 2009	181,500	13,972,774.45	37,824,979.68	14,795,846	1.23
March 2009	161,082	12,119,195.03	37,824,979.68	14,795,846	1.09
Total 2009	572,582	43,647,176.29	37,824,979.68	14,795,846	3.87
Total at March 31, 2009	1,479,582	106,317,071.78	37,824,979.68	14,795,846	10.00
November 2009	(3,352)	(241,075.84)	37,825,041.04	14,795,870	(0.02)
Total treasury stock repurchased	1,476,230	106,075,995.94	37,825,041.04	14,795,870	9.98

*Excl. bank commissions

Pursuant to Art. 272(4) HGB, a reserve for treasury stock has been set up at the amount of the (downvalued) treasury stock.

Stockholders' equity

Vossloh AG's capital stock of €37,825,041.04 (up from €37,824,979.68) is divided into 14,795,870 (up from 14,795,846) no-par bearer shares of only common stock.

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 and executives 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, 2009, 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 10,309 shares were issued by December 31, 2009, thus raising the capital stock by an aggregate €26,354.55, including the 24-share or €61.36 increase in fiscal 2009.

Under the ESOP 2009 (on terms similar to the ESOP 2008), Vossloh Group employees working in Germany were offered the option to either obtain two free Vossloh shares or purchase eight (up from four) at a 50-percent discount based on an issue price of €65 (down from €83) per share, the issue price being determined on the basis of the market price as of share transfer date. As Vossloh employees exercised options under the employee bonus program in 2009, they were granted altogether 1,916 free shares (up from 826), at an expense to Vossloh AG of approx. €137,800 (up from €68,500).

The AGM of May 20, 2009, resolved to reauthorize capital of €7,500,000, this authorization expiring after May 19, 2014.

The additional paid-in capital reflects the premiums earned from stock issued by Vossloh AG. Due to the capital increase from the conditional capital, €868.64 (down from €1,809.68) was transferred to the additional paid-in capital.

The reserves retained from earnings include a reserve for treasury stock of €102,627,509.60 (up from €62,724,315.49) and other reserves of €279,205,558.17 (down from €319,108,752.28).

In the fiscal year, 572,582 treasury shares (down from 907,000) had been acquired for a price of €43.647 million (down from €62.670 million). As decided on October 26, 2009, altogether 3,352 shares from the treasury stock portfolio were reclassified as available for the employee bonus program 2009, bringing the year-end portfolio to 1,476,230 shares, valued at a total €106.076 million (€102.628 million after downvaluation).

The other accruals of €11.864 million (up from €8.013 million) include €2.815 million for personnel (down from €3.246 million) and €9.049 million for sundry administrative purposes (up from €4.767 million).

Accruals

93.127 million of the liabilities recognized in the balance sheet falls due within one year (up from €88.791 million), another €118.946 million after one but within five years (up from nil) and €84.962 million after more than five years (down from €203.908 million). The accounts due to subsidiaries were throughout nontrade.

Liabilities
(above-the-line and
contingent)

The contingent liabilities under suretyships and guaranties of €435.534 million (up from €435.203 million) were in full incurred for obligations of subsidiaries (unchanged).

The fixed-liability guaranties in favor of subsidiaries total €667.941 million. Eleven guaranties do not have a stipulated ceiling.

The other financial obligations (exclusively to third parties) total €0.684 million (up from €0.392 million) and break down into €0.324 million falling due within one (up from €0.189 million) and another €0.360 million between one and five years (up from €0.203 million).

€1.429 million (up from €1.396 million) of net sales, generated in 2009 solely in Germany, basically referred to rental income, including €1.068 million charged to subsidiaries (up from €0.983 million).

Results of operations

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

The other operating income came to €15.914 million (down from €20.422 million) and chiefly resulted from apportioned taxes (at €11.812 million) and allocated marketing fees and IT costs (at €1.207 million and €1.187 million, respectively). Moreover, financial assets were written up at €0.053 million (up from nil).

The other operating expenses of €5.012 million (up from €1.817 million) included €4.500 million relating to other periods (up from nil) in connection with potential obligations under guaranties in favor of subsidiaries.

The net financial result includes write-down of €0.080 million charged to other long-term loans. The treasury stock was written down by €3.537 million to the lower current market value.

Income taxes refer to EBT of 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 €8.908 million (up from €7.703 million), of which €7.733 million (up from €6.981 million) is allocable to wages and salaries, another €1.175 million (up from €0.722 million) to Social Security, pension expense and related employee benefits, pension expense alone accounting for €0.651 million (up from €0.294 million). The €0.761 million interest portion in the addition to pension accruals was recognized as interest and similar expenses.

In fiscal 2009, Vossloh AG employed an average white-collar workforce of 50 (up from 45).

Remuneration of Executive Board members in 2009 totaled €3.050 million, including €0.698 million of fixed and €2.352 million of variable compensation. Former Executive Board members received a total €0.675 million in 2009. €8.648 million was accrued for the pension obligations to former Executive and Management Board members and their surviving dependants. The obligations have fully been provided for.

Total Supervisory Board fees for 2009 came to €0.612 million, including fixed and variable components of €0.207 million and €0.405 million, respectively.

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

Vossloh AG uses interest-rate 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	2009		2008	
	Market value	Notional volume	Market value	Notional volume
Interest rate swaps	(0.8)	25.6	(1.3)	25.6
Interest rate caps	0.0	0.0	0.0	25.6
Cross-currency swaps	(41.4)	203.9	(25.4)	203.9
Currency forwards	(0.1)	72.3	1.7	67.5
Currency options	0.0	0.0	0.3	7.5
	(42.3)	301.8	(24.7)	330.1

The cap book values are based on bank opinions, while the market values of currency forwards were determined internally on the basis of a comparison of forward rates to current rates.

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

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

In December 2009, the Executive and Supervisory Boards issued, and made available long term to the stockholders on the Company's website, the declaration of conformity as required by the provisions of Art. 161 AktG.

Notifications acc. to
Sec. 21 WpHG

Vossloh AG received the following notifications of attributable voting rights in 2009 under the terms of Sec. 21(1) German Securities Trading Act (“WpHG”):

Notifying party	Date	Threshold	Voting interest
Generation Investment Management LLP, London, UK	1/26/2009	crossed below 3%	2.92%
Generation Investment Management LLP, London, UK	10/01/2009	crossed above 3%	3.07%

Statutory auditor’s fees

The following fees for services rendered by the statutory auditor, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft (“BDO”), were recognized as expense in 2009:

€ million	2009	2008
Statutory audits	0.1	0.1
Other certification, verification or appraisal services	0.3	0.4
Tax consultancy	0.4	0.4
Other services	0.0	0.0
	0.8	0.9

The fees for statutory audits mainly include those paid for the statutory annual audits by BDO of Vossloh AG’s separate and consolidated financial statements where such fees are borne directly by Vossloh AG. The fees include €0.0 million (down from €0.1 million) for other certification, verification or appraisal services and €0.1 million (up from €0.0 million) for tax consultancy provided by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG. 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 M&A transactions.

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

Werner Andree, born 1951, Neuenrade

CEO

(since Aug. 9, 2007; Executive Board member since Sep. 1, 2001, appointed up to Aug. 31, 2014)

- Vossloh Cogifer SA: Director
- Vossloh France SAS: President
- Vossloh Australia Pty. Ltd.: Director
- Vossloh Schwabe Australia Pty. Ltd.: Director
- Vossloh España SA: Director

Dr.-Ing. Norbert Schiedeck, born 1965, Arnsberg,

COO

(Executive Board member since Apr. 1, 2007, appointed up to Mar. 31, 2015)

- Vossloh Cogifer SA: Director
- Amurrio Ferrocarril y Equipos SA: Director
- Wohnungsgesellschaft Werdohl GmbH: supervisory board member
- Vossloh España SA: Director

Vossloh AG's
Supervisory Board

Dr.-Ing. Dipl.-Ing. Wilfried Kaiser, Chairman^{2, 4}, Munich, degreed engineer, former executive board member of Asea Brown Boveri AG

- EvoBus GmbH: supervisory board member
- ACTech GmbH: advisory board member⁵
- schenck.de AG: supervisory board chairman
- Hugo Kern und Liebers GmbH & Co.: director⁵
- VAG Holding GmbH: advisory board chairman⁵

Peter Langenbach^{2, 4}, Wuppertal, lawyer

- Credit- und Volksbank eG, Wuppertal: supervisory board member

Dr. Jürgen Blume^{3, 4}, Bad Bentheim, sworn public auditor and tax accountant

Dr. Christoph Kirsch^{3, 4}, Weinheim, former CFO of Südzucker AG

- GELITA AG: supervisory board member

Wolfgang Klein^{1, 2, 3}, Werdohl, galvanizer, Chairman of the European and Group Works Councils

Michael Ulrich¹, Kiel, mechanic

¹ Employee representative

² Staff Committee member

³ Audit Committee member

⁴ Slate Submittal Committee member

⁵ Optional board

The annual financial statements 2009 close with net income of €29,065,599.19. Including the profit carryover of €4,531,918.01, net earnings amount to €33,597,517.20.

Proposed profit appropriation

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €2.00 for each no-par share of the common stock of €34,051,118.97 ranking for dividend and to carry forward the balance of €6,958,237.20. When determining the eligible capital stock, the total number of treasury shares (1,476,230) was deducted.

Proposed profit appropriation

in €	
Net income for 2009	29,065,599.19
Undistributed profit as of January 1, 2009	4,531,918.01
Net earnings as of December 31, 2009	33,597,517.20
Proposed:	
total dividend payout	26,639,280.00
carryforward to new account	6,958,237.20

Werdohl, March 10, 2010

Vossloh AG
The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

List of shareholdings

€ million	Footnote	Shareholding in %	through ()	Equity ¹	EAT ¹
(1) Vossloh AG, Werdohl				384.5	(16.2)
(2) Vossloh International GmbH, Werdohl		100.00	(1)	23.2	0.0
(3) Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	22.5	(0.3)
(4) Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	4.5	(0.1)
(5) Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(6.2)	(0.2)
Rail Infrastructure division					
(6) Vossloh France SAS, Paris, France		100.00	(1)	233.3	14.3
Fastening Systems business unit					
(7) Vossloh-Werke GmbH, Werdohl	2	100.00	(1)	4.3	49.6
(8) Vossloh Fastening Systems GmbH, Werdohl	2	100.00	(7)	4.9	14.2
(9) Vossloh Werdohl GmbH, Werdohl	2	100.00	(7)	5.1	5.6
(10) Vossloh Tehnică Feroviară SRL, Bucharest, Romania		100.00	(7)	0.0	0.0
(11) Vossloh Drážni Technika s.r.o., Prague, Czech Republic		100.00	(7)	0.6	0.2
(12) Vossloh Sistemi Srl, Sarsina, Italy		100.00	(7)	3.7	1.2
(13) Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	3	51.00	(7)	1.1	0.4
(14) T.O.O. Vossloh-Kasachstan, Almaty, Kazakhstan		50.00	(7)	0.0	0.0
(15) BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	0.0	0.0
(16) BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	0.0	0.0
(17) Vossloh Maschinenfabrik Deutschland GmbH, Werdohl		100.00	(7)	0.3	0.1
(18) Vossloh Utenzilija d.d., Zagreb, Croatia		89.20	(7)	2.1	0.0
(19) Vossloh Skamo Sp. z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	3.8	1.4
(20) Vossloh Rail Technologies Ltd Şti., Istanbul, Turkey		99.5/0.50	(7/8)	2.2	0.3
(21) Feder-7 Kft., Székesféheryár, Hungary		96.67/3.33	(7/8)	0.2	0.0
(22) Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(7)	0.6	(0.2)
(23) Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	35.1	25.6
(24) Vossloh-Werke China Investment GmbH, Werdohl		100.00	(7)	10.0	9.2
(25) ZAO Vossloh Fastening Systems Rus, Moscow, Russia		50.10	(7)	0.0	0.0
(26) Beijing China Railways Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	0.0	0.0
Switch Systems business unit					
(27) Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	109.8	25.0
(28) Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(27)	2.4	0.3
(29) Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(30)	1.8	1.1
(30) Vossloh Nordic Switch Systems AB, Örebro, Sweden		100.00	(27)	18.6	8.0
(31) KIHN SA, Rumelange, Luxembourg		89.21	(27)	12.1	1.6
(32) DDL SA, Rodange, Luxembourg		100.00	(31)	0.1	0.0
(33) Vossloh Laeis GmbH & Co. KG, Trier		100.00	(31)	2.8	0.6
(34) Vossloh Laeis Verwaltungs GmbH, Trier		100.00	(31)	0.0	0.0
(35) EAV Durieux SA, Carnières, Belgium		98.76/1.24	(31/27)	0.3	(0.4)
(36) Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(27)	2.6	1.5
(37) Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(27)	26.7	5.8
(38) Montajes Ferroviarios srl, Amurrio, Spain		100.00	(37)	0.2	0.1
(39) Burbiola SA, Amurrio, Spain		50.00	(37)	1.5	0.0
(40) Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK		50.00	(27)	8.8	1.4
(41) Vossloh Cogifer Italia Srl, Bari, Italy		100.00	(27)	4.1	(0.7)

€ million	Footnote	Shareholding in %	through ()	Equity ¹	EAT ¹
(42) Cogifer Polska Sp. z o.o., Bydgoszcz, Poland		52.38	(27)	12.4	1.4
(43) ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(27)	0.8	0.2
(44) Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(27)	0.1	(0.1)
(45) Cogifer Americas, Inc., Cincinnati, USA		100.00	(27)	0.1	0.0
(46) J.S. Industries Pvt. Ltd., Secunderabad, India	3	51.00	(27)	0.3	(1.3)
(47) Vossloh Beekay Castings Ltd., Bhilai, India	3	60.00	(27)	5.5	2.0
(48) Siema Applications SAS, Villeurbanne, France		100.00	(27)	2.7	0.5
(49) Vossloh Min Skretnice AD, Niš, Serbia		100.00	(27)	2.3	0.4
(50) Dakshin Transtek Pvt. Ltd., Bangalore, India	3	100.00	(46)	0.1	(0.1)
(51) Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	8.8	0.1
(52) Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	9.3	(0.2)
(53) Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	2.7	1.1
(54) Vossloh Sportek A/S, Horsens, Denmark		100.00	(30)	1.4	1.2
(55) Kloos Oving BV, Rotterdam, Netherlands		100.00	(27)	4.1	1.4
(56) Global Rail Systems, Inc., Marlin, USA		60.00	(3)	2.7	0.2
Locomotives business unit					
(57) Vossloh Locomotives GmbH, Kiel	2	100.00	(1)	22.0	(3.5)
(58) Locomotion Service GmbH, Kiel	2	100.00	(57)	0.2	0.0
(59) Vossloh España SA, Valencia, Spain		100.00	(1)	78.4	14.2
(60) Erion Mantenimiento Ferroviario SA, Madrid, Spain		51.00	(59)	1.2	0.7
(61) Vossloh Locomotives France SAS, Antony, France		100.00	(57)	(0.3)	(0.3)
Electrical Systems business unit					
(62) Vossloh Kiepe GmbH, Düsseldorf	2	100.00	(1)	28.4	6.5
(63) Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	2	100.00	(62)	1.4	(0.7)
(64) Vossloh Kiepe Ges.mbH, Vienna, Austria		100.00	(63)	14.8	3.3
(65) Vossloh Kiepe Corporation, Vancouver, Canada		100.00	(63)	0.2	0.2
(66) Vossloh Kiepe Srl, Cernusco sul Naviglio, Italy		100.00	(63)	0.2	0.0
(67) Vossloh Kiepe Sp.z o.o., Kraków, Poland		99.00/1.00	(62/63)	0.0	0.0
(68) Vossloh Kiepe Main Line Technology GmbH, Düsseldorf		100.00	(63)	3.0	(1.7)
(69) APS electronic AG, Niederbuchsiten, Switzerland		100.00	(63)	0.9	0.3
Other companies					
(70) Vossloh Schwabe Australia Pty. Ltd., Sydney, Australia		100.00	(4)	0.9	(1.3)
(71) Delkor Rail Pty. Ltd., Sydney, Australia		100.00	(4)	1.3	0.4
(72) Delkor Rail (HK) Ltd., Hong Kong, China		100.00	(71)	0.0	0.0
(73) Vossloh Track Systems GmbH, Werdohl		100.00	(1)	0.0	(0.3)
(74) Vossloh Middle East Business Rail LLC, Abu Dhabi, UAE		49.00	(73)	0.0	0.0
(75) Vossloh Rail Services GmbH, Werdohl		100.00	(1)	0.0	(0.8)
(76) Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl		100.00	(1)	0.0	0.0

¹Non-euro equity is translated at the mean current rate. EAT (net income or loss) is shown before P/L transfer.

²Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.

³Fiscal year from April 1 to March 31.

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

Management representation

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

Werdohl, March 10, 2010

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, 2009. The accounting and the preparation of the annual financial statements and combined management report in accordance with the German Commercial Code and the supplementary provisions of the bylaws are the responsibility and assertions of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and combined management report.

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

Our audit has not resulted in any objections or exceptions.

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

Essen, March 10, 2010

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

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