

► Momentum for growth.



Group figures and indicators		2010	2009
Order backlog	€ mill.	1,085	1,092
<b>Income statement data</b>			
Net sales	€ mill.	1,351.3	1,173.7
Rail Infrastructure	€ mill.	891.5	690.3
Transportation	€ mill.	459.7	483.2
EBIT	€ mill.	152.1	137.9
Net interest expense	€ mill.	(11.7)	(9.4)
EBT	€ mill.	140.4	128.5
Net income from continuing operations	€ mill.	105.8	96.7
Group earnings (total)	€ mill.	97.5	87.9
Earnings per share (EpS)	€	7.32	6.57
EpS from continuing operations	€	6.92	6.57
EBIT margin	%	11.3	11.7
Pretax return on equity (ROE)	%	24.2	26.1
Return on capital employed (ROCE) <sup>1</sup>	%	17.2	20.5
Value added <sup>1</sup>	€ mill.	54.8	63.7
<b>Balance sheet data</b>			
Fixed assets <sup>2</sup>	€ mill.	590.7	458.2
capital expenditures	€ mill.	57.9	41.9
amortization/depreciation	€ mill.	39.5	24.6
Closing working capital	€ mill.	258.0	245.1
Year-end working capital intensity	%	19.1	20.9
Closing capital employed	€ mill.	848.6	703.2
Total equity	€ mill.	580.0	492.6
thereof minority interests	€ mill.	27.9	20.4
Net financial debt	€ mill.	136.6	70.2
Net leverage	%	23.5	14.3
Total assets	€ mill.	1,405.8	1,338.4
Equity ratio	%	41.3	36.8
<b>Cash flow statement data</b>			
Gross cash flow	€ mill.	187.7	183.8
Cash flow from operating activities	€ mill.	139.1	44.9
Cash flow from investing activities	€ mill.	(151.1)	(52.3)
Cash flow from financing activities	€ mill.	(71.8)	(84.1)
Net cash outflow	€ mill.	(83.8)	(91.5)
<b>Workforce data</b>			
Annual average headcount		4,984	4,717
Rail Infrastructure		3,155	2,710
Transportation		1,781	1,956
Vossloh AG		48	51
Payroll intensity	%	61.5	61.9
Personnel expenses	€ mill.	249.5	229.6
<b>Share data</b>			
Annual closing price	€	95.50	69.52
Closing market capitalization	€ mill.	1,272.6	926.0

<sup>1</sup> Based on average capital employed

<sup>2</sup> Fixed assets = intangible and tangible assets + investment properties + shares in associated affiliates + other noncurrent financial instruments

# *Vossloh's corporate structure*

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

## **Rail Infrastructure division**

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

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

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

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

## **Transportation division**

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

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

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

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## Business units:

Vossloh Fastening Systems

Vossloh Switch Systems

Vossloh Rail Services

Indicators		2010	2009
Net sales	€ mill.	891.5	690.3
EBITDA	€ mill.	167.8	136.5
EBIT	€ mill.	141.9	125.0
EBIT margin	%	15.9	18.1
Closing working capital	€ mill.	234.5	210.2
Year-end working capital intensity	%	26.3	30.5
Fixed assets	€ mill.	431.9	310.6
Capital expenditures	€ mill.	29.3	21.6
Amortization/depreciation	€ mill.	25.5	11.5
Closing capital employed	€ mill.	666.5	520.8
Average capital employed	€ mill.	688.7	522.3
ROCE <sup>1</sup>	%	20.6	23.9
Value added <sup>1</sup>	€ mill.	66.1	67.5

## Business units:

Vossloh Transportation Systems

Vossloh Electrical Systems

Indicators		2010	2009
Net sales	€ mill.	459.7	483.2
EBITDA	€ mill.	40.7	47.4
EBIT	€ mill.	27.5	35.2
EBIT margin	%	6.0	7.3
Closing working capital	€ mill.	31.3	40.9
Year-end working capital intensity	%	6.8	8.5
Fixed assets	€ mill.	149.1	136.6
Capital expenditures	€ mill.	25.2	19.4
Amortization/depreciation	€ mill.	13.3	12.2
Closing capital employed	€ mill.	180.3	177.5
Average capital employed	€ mill.	189.5	150.8
ROCE <sup>1</sup>	%	14.5	23.4
Value added <sup>1</sup>	€ mill.	6.6	18.6

<sup>1</sup> Based on average capital employed

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COO Dr.-Ing. Norbert Schiedeck

CEO Werner Andree

Dear Stockholders:

Fiscal 2010 was a successful year for Vossloh, with sales and EBIT ascending to new all-time highs and group earnings plus earnings per share (EPS) again outstripping appreciably the already solid prior year's figures. Given this commendable performance, the Executive and Supervisory Boards will propose to the annual general meeting in May that the dividend be raised by one-quarter.

Not only did Vossloh achieve vigorous organic growth last year, we also successfully integrated within the Group the new Rail Services business unit. Group sales showed an advance of around 15 percent to €1,351 million of which one-half (some €85 million) was due to the first-time consolidation of the new business unit. Excluding this, purely organic growth stood at around 8 percent, thanks especially to the Fastening Systems and Electrical Systems units.

EBIT climbed 10.3 percent to €152.1 million. The EBIT margin slipped to 11.3 percent yet was still well above our 10-percent benchmark. Likewise topping the benchmark was ROCE in 2010 at 17.2 percent. The Group has set itself an ROCE target of at least 15 percent and hence last year we again did better even though the inclusion of Vossloh Rail Services meant that capital employed was much higher than the year before.

Geographically, Vossloh expanded in virtually all regions in 2010. In our home market of Europe, sales of some €950 million were up by a good €100 million. Outside of Europe, growth was even more pronounced and non-European sales as a share of aggregate climbed from 27.1 to 29.5 percent. Our sales in North America, dragged down by soft demand the year before, recovered substantially. In Asia, business branched out further. And we have ventured into new markets such as Russia.

The Group's growth drivers in 2010 were the Fastening Systems and Electrical Systems business units. Among the five business units making up the Group, the only one to report lower sales was Transportation Systems. This was because locomotive business suffered from sluggish demand in the wake of the financial and economic crisis. This year 2011 will see a sharp rebound in our German subsidiary's locomotive sales as this plant has been experiencing a welcome resurgence in new orders since the spring of 2010.

One of our industry highlights is the InnoTrans fair staged every other year, at which last September Vossloh was again represented by all its product groups. Keen customer interest was shown both in our new locomotive models that meet all current EU safety and environmental standards and our now complete lineup of commuter trains. Thanks to a joint development effort between Vossloh Transportation Systems and Vossloh Electrical Systems we will be able to fit out the Transportation Systems business unit's products with our own driveline.

In light of rising demand in the first quarter of 2011, Vossloh Rail Vehicles in Valencia reported an order intake worth over €100 million, substantially a megacontract for the proven EURO 4000 and the EURO 3000. We are therefore very confident that overall our locomotive business will regenerate higher sales and earnings in 2012.

For the years ahead, we intend to accelerate our growth while sustaining the rate of profitability. It is especially in the international markets that we will be amplifying our presence and we will be scoring in particular with the new products. For 2011, we are targeting group sales of €1.4 billion and an EBIT above €160 million. The general conditions are hospitable as shown by the latest 2010 study published by the Association of the European Rail Industry. Accordingly, the total rail technology market will be advancing by an annual average 2.3 percent in the years to come, especially outside of Europe. This is a challenge we are prepared to meet! And over the years ahead we will be deploying a major portion of the resources available to us to adapt in the best possible way to the opportunities opening up.

To this end, groupwide capital expenditures totaling some €90 million are budgeted this year and include a rail fastener production facility in Russia, a switch plant in China, and ongoing development work on the new locomotive models. We are therefore quite consciously generating growth momentum. And we are convinced that these measures will help Vossloh to again achieve growth rates in excess of the market as demonstrated in recent years. Despite heavy expenditures on organic growth our net debt will remain low and we will maintain enough financial latitude to expand further if necessary by M&A in preferred market segments. Of interest to us are possible geographic expansion plus additional products and services for rail infrastructure and our Transportation division.

Accelerated, profitable growth and a policy of sustainable rising dividends represent the cornerstones of our value-focused corporate strategy. This annual report 2010 shows that once again we have more than achieved our goals. The index-outperforming gain by Vossloh stock in 2010 is an indication that the capital market community endorses our assessment. We will stick to the path of value-centered growth and will be happy to have you continue in our company.

Kind regards,



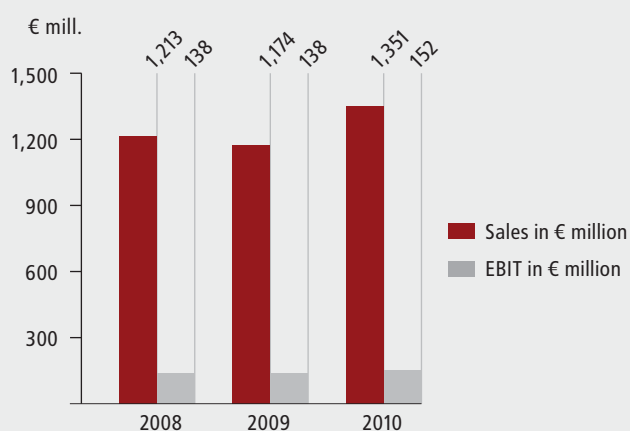
Werner Andree  
CEO



*New all-time highs: sales at  
€1.35 billion and EBIT at €152 million*

*Group earnings  
climbing around 11 percent;  
dividend payout  
to surge 25 percent*

*Rail Services business unit  
successfully integrated*



Vossloh Group: sales and EBIT trend

*Vossloh stock: up 37 percent  
and among the MDAX winners*

*Average annual ROI  
in Vossloh stock since  
IPO 20 years ago: 15.8 percent*

*Market capitalization:  
at year-end 2010, around €1.3 billion*



Vossloh stock price trend from Jan. 1 to Dec. 31, 2010

# Vossloh stock

*On an international comparison, the German stock market was a firm favorite among investors in 2010. The DAX climbed 16 percent, the MDAX by an even steeper 35 percent. With a gain of 37 percent, Vossloh stock was among the outperformers even compared with the MDAX. For the first time since 2005, German institutional investors at 13 percent at the end of 2010 held the largest slice of capital stock among the institutionals.*

2010 was a mixed year for stock markets with—by year-end and on balance—a gain for most of the world's stock exchanges albeit with annual hikes that widely varied. Easily top performer among all the relevant international indexes was Germany's MDAX that surged 34.9 percent to reach a year-end 10,128, only just short of the year-high 10,153 notched on December 23. Once more, therefore, it was the midcaps that enjoyed most favor in Germany among investors. Preferred were cyclic equities with a swift and sweeping recovery in profitability that surprised, as well as stocks of very dissimilar sectors with businesses structured for more sustainable success.

The DAX, too, outperformed most of the big international stock markets and closed the period at 6,914 (year-on-year up 16.1 percent). Its annual peak was quoted on December 21 at 7,088; in early February and just as all the other stock markets, it had sunk to its year low (5,433 on February 5, 2010). On an international comparison, only the New York Nasdaq Composite did better, advancing some 18 percent, whereas the Euro Stoxx 50, for example, shed around 4 percent during the same 12 months.

Stock market  
year 2010:  
German stocks,  
especially the  
MDAX, defy  
general  
market trends

Individual DAX stock prices fared to very differing degrees. Whereas equities in the auto sector and other cyclic stocks fueled by the economic upturn surged year-on-year by 50 percent or more, the utilities and financial sectors were among the double-digit losers. From the viewpoint of the capital market community these sectors were still tainted by the troubled issues of the previous year. After all, by the end of 2010 there was as yet no all-clear regarding the fallout from the financial, economic and European debt crises. In an ongoing difficult economic setting it was Germany's unexpected economic disengagement from the stifled growth rates in Europe and worldwide that was the good news.

Vossloh stock  
among the  
winners in the  
high-performing  
MDAX league  
in 2010

With a hike of altogether 37.4 percent, Vossloh stock in 2010 outperformed the German stock market average both when measured against the MDAX and the DAX. It was especially in the first and fourth quarters that Vossloh outpaced the MDAX; in May and June, it underperformed. Generally, Vossloh's stock price was patterned on the MDAX during 2010. Having vacillated up to midyear, it then advanced continuously. The annual closing price of €95.50 was next to the year-high of €96.46, also tested on the final trading day of 2010. The annual bottom of €65.75 was touched on July 1, 2010. In terms of market capitalization among the 50 MDAX stocks, Vossloh ranked 35 at year-end 2010 (down from 33 a year ago). In absolute terms, Vossloh AG's market capitalization at December 31, 2010, hit an all-time high of €1.27 billion.

Vossloh stock has been listed since June 1990. The 20-year average annual yield (ROI) during the 20 years as of December 30, 2010, amounts to 15.8 percent. Contributing to this high return on investment are both price gains and steadily rising dividends. In the three years 2008 to 2010 alone, Vossloh's stock climbed 19 percent whereas, for instance, the MDAX during the same period and not least of all due to the global recession, failed to show any improvement. The sustained appreciation of an investment in Vossloh stock is also based on dividend payments which over the past 20 years have never receded but as a rule stepped up or, at least, remained unchanged (based on regular dividends).

Despite the generally upbeat price trend in Germany, volumes traded on the Xetra platform and German stock markets were well short of the previous years'. This is also true of Vossloh stock whose total turnover of 17.2 million shares in 2010 fell short of the year-earlier 20.4 million. Compared with other MDAX stocks, Vossloh at year-end 2010 ranked 27 in terms of trading volume (down from 22). On a daily average, around 67,300 Vossloh shares were traded (down from 80,500). The number of shares outstanding at December 31, 2010, totaled 13,325,290, virtually the same as a year ago. The slight rise of 5,650 shares is mainly due to the employee stock option program launched in October 2010: these represented treasury shares reclassified under the treasury stock repurchase program of 2008/2009. Hence, at year-end 2010 Vossloh AG's treasury shares accounted for 9.94 percent of the capital stock (down from 9.98).

Vossloh stock indicators		2010	2009	2008	2007	2006
Earnings per share (EpS)	€	7.32	6.57	9.48	4.83	1.38
Cash flow per share	€	10.44	3.36	9.10	5.43	12.68
Dividend per share	€	2.50 <sup>1</sup>	2.00	2.00 + 1.00 <sup>2</sup>	1.70	1.30
Total dividend payout	€ mill.	33.3	26.6	40.0	25.2	19.2
Book value per share (excl. minority interests)	€	41.44	35.45	34.26	28.51	24.55
Annual average number of shares outstanding	1,000	13,320	13,381	14,703	14,768	14,735
Number of shares outstanding at year-end	1,000	13,325	13,320	13,889	14,796	14,736
Closing stock price	€	95.50	69.52	79.49	80.10	57.14
Closing market capitalization	€ mill.	1,272.6	926.0	1,104.0	1,185.1	842.0
Annual high/low	€	96.46/65.75	89.80/62.36	99.49/45.41	94.47/56.21	59.20/34.90
Price-earnings ratio (PER)		13.0	10.6	8.4	16.6	41.4
Price-cash flow ratio		9.1	20.7	8.7	14.7	4.5
Trading volume (shares)	1,000	17,235	20,437	27,913	24,040	15,760
Average daily turnover of shares	1,000	67.3	80.5	109.9	95.4	61.8

<sup>1</sup>Proposed; subject to AGM approval

<sup>2</sup>Superdividend of €1.00

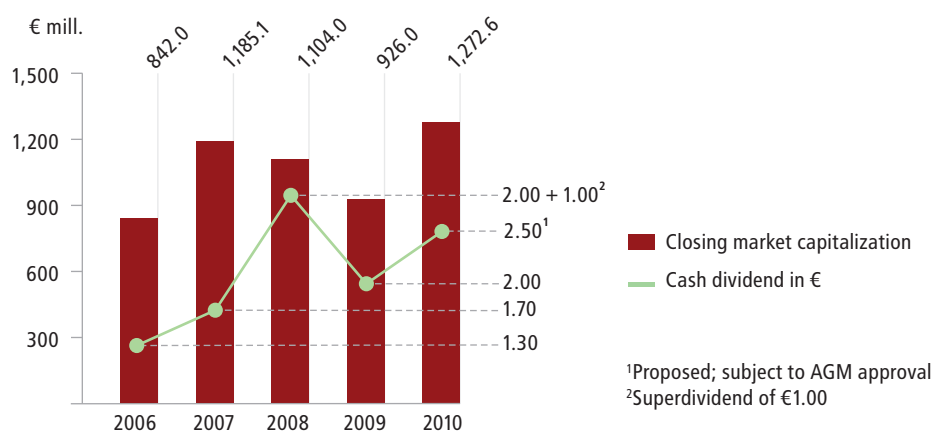
Dividend: ascending  
25 percent to new  
all-time high

Vossloh AG's Executive and Supervisory Boards will propose to the annual general meeting on May 25, 2011, that the regular dividend be raised by 50 cents to €2.50 per share. Assuming AGM approval, this means that the dividend payout for 2010 will be raised 25 percent, from €26.6 million to €33.3 million. The dividend payout (calculated as a percentage of the dividend amount as related to group earnings) is thus stepped up from 30.3 percent for 2009 to 34.2 for 2010. Both dividend per share and total payout are at new all-time highs for the regular dividend of Vossloh AG.

Ownership  
structure:  
a picture of  
stability and  
internationality

The biggest stockholder of Vossloh AG is the Vossloh Family Pool ("Familiengemeinschaft Vossloh GbR") which reports an unchanged 31-percent stake in the Company's capital stock. From the stock repurchase program carried out in 2008/2009, Vossloh AG held 9.94 percent of the capital stock as of December 31, 2010.

Just as in 2007–2009, an ownership structure survey was conducted at the end of fiscal 2010. This showed that in 2010 the proportion of Vossloh stock held by private investors shrank while that of institutional investors rose from 44 percent at year-end 2009 to 47 a year later. Larger portfolios of Vossloh stock were held in particular by institutional investors in Germany; in France, their total receded.

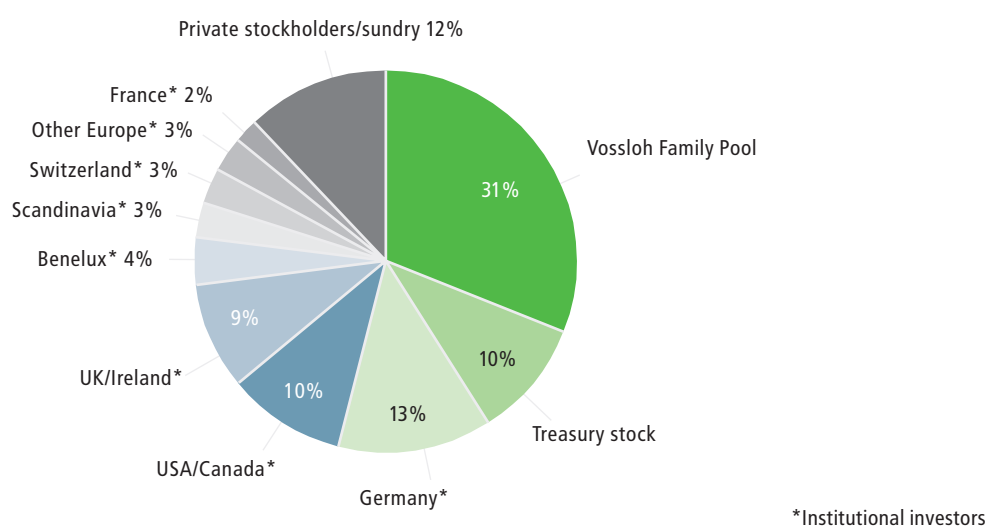


Market capitalization and dividend trend

Hence, for the first time in several years, Germany (13 percent, up from around 8) was the region with the largest proportion of institutional investors. Unchanged was the percentage of such investors in USA/Canada, accounting for around 10 percent of the capital stock, followed again by UK/Ireland (9 percent). Not only did Vossloh succeed in attracting a number of new institutional investors in 2010, existing portfolios were in many instances topped up. Once again, investors with value and growth strategies together accounted for the majority among the institutionals yet in contrast to the previous year, the value-oriented category at year-end 2010 made up the largest share.

German  
institutionals  
holding 13 percent  
of capital stock

Since the start of 2008, Generation Investment Management LLP, London, UK, has held stakes in Vossloh AG ranging between 2.92 and 5.02 percent (as of February 1, 2010), according to German Securities Trading Act (“WpHG”) notifications. On November 19, 2010, and December 6, 2010, it announced that its stake was 4.76 and 2.91 percent, respectively.



Ownership structure of Vossloh AG, survey as of Jan. 31, 2011, by IPREO

**Analysts:** At the turn of 2010/11, altogether 21 equity research firms were regularly reviewing Vossloh stock. Seven financial analysts then recommended “hold,” two “sell,” and twelve “buy.” The price targets ranged between €74 (the bottom-end fair value) and a maximum of €110, the average being €93. During the financial crisis, it had been the defensive nature of Vossloh’s business model that prompted the favorable assessments by the capital market community; at the start of 2011 it was the sustainable growth prospects of the rail technology market in general that had taken precedence along with the expectation that Vossloh would obtain for itself a more-than-commensurate share of the market.

**Sustainability ratings and initiatives:** Vossloh With products and services almost exclusively directed at the rail technology market, Vossloh operates in a sector with an inherently green environmental balance. Product developments at Vossloh play a part in the more economical use of fossil fuels, a virtual elimination of emissions, and less noise from rail and bus traffic. Given these circumstances, Vossloh has in recent years increasingly attracted the attention of sustainability investors. Since 2008, it has been aware of three sustainability ratings that qualify the Company as an investment for sustainability funds: oekom research, Inrate, and Sarasin. Since 2007, Vossloh has also been reporting to the Carbon Disclosure Project (CDP).

**Capital market dialog:** In fiscal 2010, Vossloh’s Investor Relations team continued its close capital market dialog in the form of some 500 individual contacts. Once again, IR efforts centered on one-on-one interviews and conference calls with investors and financial analysts. **stepping up** Vossloh participated in seven investor conferences in and outside Germany and staged ten road shows in Europe and North America.

In the course of the 2010 InnoTrans trade fair held in Berlin in September, the Executive Board and IR provided an opportunity for investors and financial analysts to find out more about Vossloh products. Rounding off the annual program are two firm fixtures—Vossloh AG’s own conferences for the capital market staged in the spring and fall.



Presentation documents, detailed information on Vossloh stock and financial reports are available for downloading from the Vossloh website at [www.vossloh.com](http://www.vossloh.com)  
These documents can also be forwarded to you by post or email or you can contact us personally at [investor.relations@ag.vossloh.com](mailto:investor.relations@ag.vossloh.com) or by phone (+49-2392) 52-359.

*Succeeding in  
attractive  
markets.*



*Urged on by proliferating urbanization and mushrooming global trade, the railbound movement of people and goods as well as local public transport are growing sustainably. Vossloh operates in the market for rail technology, an attractive and sustainably sound segment. For 2010, the Group again reported a record year and has clearly outperformed the overall market in terms of growth in the past five years.*

The threatening gridlock in the metropolises plus the green energy and emission scorecard of rail and local public transport are weighty arguments when opting for a mode of transport. Therefore and despite tight public budgets, political support is stepping up. Relocating transport to the rail is not only a declared aim of the European Union and other European nations. Numerous countries in Asia, the Middle East, North Africa and on the American continent, too, prefer new and extended rail infrastructure over other modes of transport. All relevant studies forecast sustained global growth for transport services and, as a consequence, for the rail technology market, too.

In the infrastructure business, Vossloh holds world-leading market positions for rail fasteners and switches. In both product areas, Vossloh is an established single-source supplier for all applications—from local via heavy-haul to high-speed lines. At the start of 2010, the Group widened its infrastructure competence significantly and has since added to its lineup comprehensive services for the rails themselves. In the transportation sector, Vossloh is a leading specialist in clearly defined submarkets. Diesel locomotives or (sub)urban rail services—when it comes to individual vehicles, even in small batches, operators find a suitable product from Vossloh. The same is true of services, vehicle refurbishment, electric traction equipment and hybrid drive technology for light rail vehicles and buses.



*Sighting and  
seizing opportunities.*



*The challenges to come for railway and (sub)urban transit operators are many and varied: maintaining and expanding rail network capacity, increasing demands on efficiency, political and social requirements as far as safety and comfort are concerned, as well as tighter regulatory constraints, especially in terms of environmental protection. Given these considerations, Vossloh sees numerous opportunities for growth rates outpacing the market average and will seize these as best it can.*

Such developments are taking place in an overall market for railway technology that will steadily grow as confirmed by market researchers and industry associations. In 2010, Vossloh raised its capital outlays for products and capacities and for tapping new markets. In fiscal 2011, capital spending will peak at around €90 million and for next year another €60 million is planned so far.

The opportunities for organic growth are promising. With its capital expenditure plans, Vossloh is generating the necessary momentum to exploit growth opportunities after 2012 as well and enable the Group to address especially the issues of geographic expansion, technical innovation, and operational excellence.



*Penetrating markets  
through local presence.*



*Growth as well as the reduction of risks in individual markets can be achieved especially through accessing new regions with corresponding investments. In this way, Vossloh managed to widen its share of non-European business in 2010 to around 30 percent.*

The regional rail markets are largely very national in character, a consequence of the former strategic significance of railway routes. For international suppliers, some markets are opening up only gradually.

This makes it important for Vossloh to have customer references in as many countries as possible for such infrastructure products as rail fasteners and switches. A supplier has to be locally present—this is a widely spread customer wish and, in many cases, political policy. Vossloh responds to this in a suitable manner, for instance with joint ventures, its own production plants or by acquiring domestic market players.





## Rail fasteners for Russia

With around 87,000 kilometers in length, Russia runs the second largest railway network worldwide. By 2030, up to €380 billion is set to be invested in route modernization and extension. The infrastructure in the world's biggest country in terms of area is exposed to climatic extremes. Temperatures can drop below  $-50^{\circ}\text{C}$ ; however, the material has to withstand temperatures at the other end of the thermometer as well. With the W 30 rail fastening system, Vossloh has a suitable, specifically developed product approved since September 2010 in Russia. The state-run Russian rail operator RZD signed a supply contract with Vossloh Fastening Systems in the fall of 2010. Start-up of construction work on a Russian production facility is scheduled for 2011.

## Turnouts for China's local transport

An existing market, too, can offer significant growth potential through a broadened product range as shown by the example of China. Since 2006, Vossloh has established itself in this the world's biggest-volume rail technology market as a reliable supplier of rail fasteners installed on high-speed lines. To date, China has commissioned around 7,500 kilometers of newly laid trackage and, according to government statements, another 10,000 kilometers of high-speed lines are planned. By the end of 2011, a switch production plant will have been built in Wuhu by a joint venture of the Chinese family-owned Huaxing Group, the China Railway Material Group (CRMG) and Vossloh Cogifer where up to 500 workers will turn out some 2,600 switches annually—specifically for the fast-growing local transport segment. Vossloh Cogifer will hold a 50-percent stake in the joint venture.





## Bundled infrastructure capabilities for Turkey's rail network

In 2009, Vossloh had opened a much expanded rail fastener production plant in Erzincan, Turkey. When the country's state rail, TCDD, inaugurates the new high-speed Ankara–Konya service in May this year the new 212-km line will also feature 86 newly developed multiple-drive actuation switches from Vossloh Cogifer for cost-efficient and safe operation. Vossloh Rail Services has already completed welding work on several stretches of rail and since December 2010, this business unit has had a subsidiary in the district of Beşiktaş on the European side of Istanbul.

## International use of mobile welding technology

Generally, flash welding is regarded as the most modern and highest-quality rail welding method. It is employed around the world in almost all stationary rail welding plants for producing long rails, as is the case in the four belonging to the new Rail Services business unit in Germany. To maintain the same quality level when laying the continuous rails on site, mobile welding modules mounted to two-way or railbound vehicles or semistationary welding plants for large or long-term sites are required. Vossloh Rail Services commands more than 15 years of experience in mobile flash welding and can come up with reference projects from three continents, including high-speed lines for 300 km/h. Besides its rail fastening systems and switches, Vossloh can thus also offer high-grade rail infrastructure services on a global basis.



# *Picking up pace through product innovations.*

*Vossloh continually develops new products and solutions and in this way consolidates its engineering supremacy.*

*The inherent safety, efficiency and greenness of railbound transport—already foremost in the competition among the various modes of haulage—are set to improve even further. This development is being driven by rising demands posed on rail infrastructure through higher speeds and wheelset loads and not least of all the higher standards of ride comfort and operational reliability.*









## Tougher, more elastic rail fasteners

Higher-speed lines place new requirements on track elasticity as with the rising speed of trains, dynamic forces increase as well. These arise from rapid load changes at sleepers, imbalances at wheels or rail irregularities. To divert these forces into the ground with as little material stress as possible, the track bed has to possess a certain degree of elasticity. To give the tracks the required stability, the ballast bed undergoes much greater compaction nowadays. Therefore, the rail fastener has to have higher elasticity. Vossloh has developed the system W 21 specifically for concrete sleepers in ballast tracks. It can be used worldwide in all climatic zones and features much more elasticity than former standard systems with, at the same time, an ability to absorb much greater mechanical punishment. The new W 21 fastening system is being installed in Argentina, Japan, Sweden, and elsewhere.



## Fastening system for Russia's climate

The W 30 fastening system was mainly developed for the Russian market and is suitable for temperatures between  $-60$  and  $+50$  °C. Its approval in the fall of 2010 was preceded by a highly challenging homologation process with numerous individual tests for requirements specific to Russia. An international patent application has been filed for the W 30 system.



## Lower infrastructure costs for the heavy-haul US market

One variety of the W 30 is a heavy-haul version—W 30 HH (= Heavy Haul)—for the US market. It is engineered for axle loads of up to 35 t. Outstanding features of the elastic rail fastening systems from Vossloh over the simpler fastening solutions commonly used in the USA: lower life-cycle costs through extended longevity.

## Compact switch actuation systems

In the years to come, Vossloh will supply in-sleeper switch and crossing actuation systems to Trafikverket in Sweden. Trafikverket is this country's central authority for railway, road, ship and air traffic infrastructure. With a railway network of almost 12,000 kilometers in length and around 11,000 turnouts, Trafikverket is the biggest Northern European infrastructure manager. The system chosen is a customized version of the Easyswitch actuation system developed by Vossloh. The Swedish variety can be used within a temperature range of  $-55$  to  $+60$  °C. Due to its compact and encapsulated design, Easyswitch can be installed even under tight space conditions, as in tunnels, or sandy environments. The system is very maintenance-friendly: due to its modular design, parts can be exchanged quickly.



## Preventive grinding that prevents timetable disruptions

Given the higher wheelset loads, speeds and accelerating forces, there has been an increase in damage caused by rail fatigue. Besides the corrugations and slide damage leading to noisiness, one highly prevalent type of defect is rolling contact fatigue (head checks). Head checks can dramatically lower the track's life-cycle, or, if not remedied early on, cause excessive maintenance costs, since entire chunks of steel can break out of the rail head. With its high-speed grinding (HSG) technique, Vossloh has developed a preventive grinding process to inhibit such damage right from the start. The grinding speed of 80 km/h is unique and allows the grinding train to operate within the regular timetable. When compared to conventional grinding processes, the HSG grinding train also requires only little preparatory work on the trackage. HSG passed the acid test on the high-speed line from Nürnberg to Ingolstadt where it has been working since 2007. In 2010, a total of eleven lines in Germany (Hamburg–Hannover, for instance) and one in Switzerland, have been regularly reground. In answer to vast international interest in high-speed grinding, Vossloh will build several HSG trains at the Vossloh Locomotives plant in Kiel in 2011.



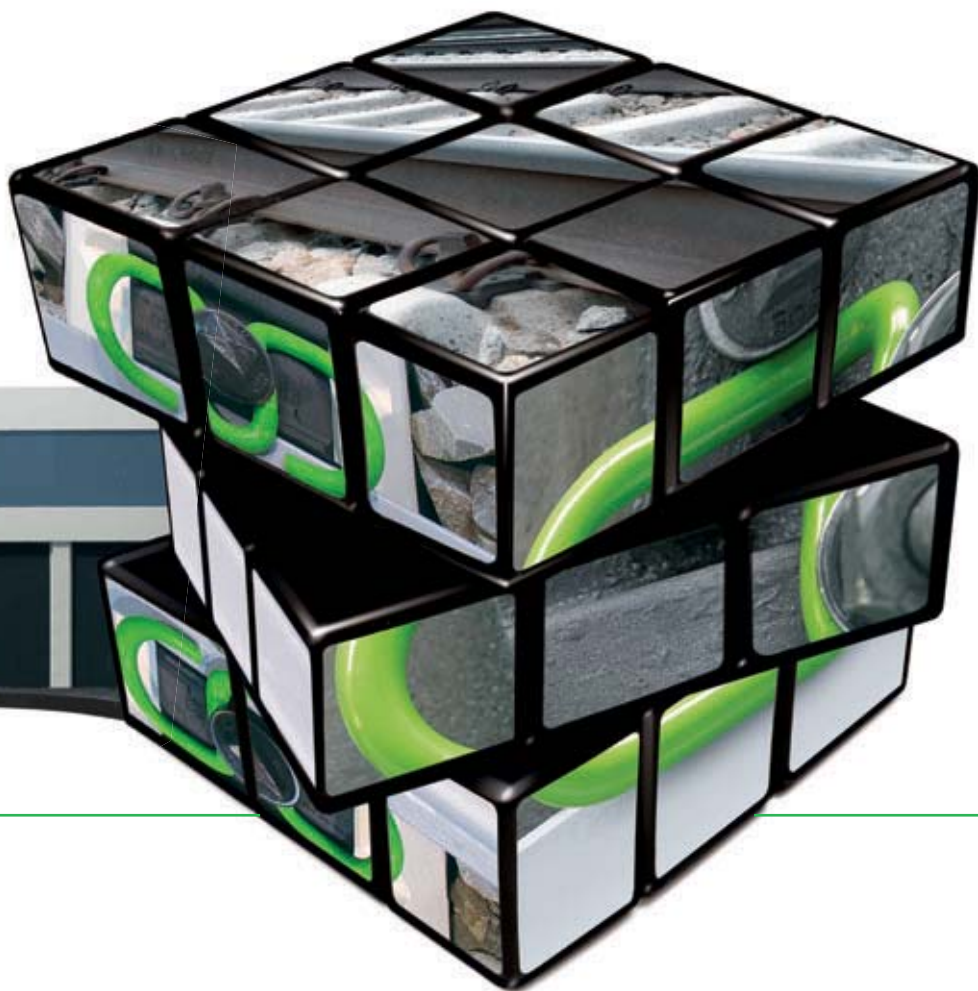




# *Converging our capabilities.*

*The Group's human resources infrastructure has been enhanced to cultivate operative excellence and innovative products.*

The new Technology Center in Werdohl will be a visible example of how capabilities converge and concentrate. Starting from 2011, System Technology including Design and Development as well as Quality Assurance from Vossloh Fastening Systems will all be working at this center. This convergence of capabilities will also promote the business unit's growth as such.



# *Pooling resources for the best solution.*

*Haulage enterprises must work efficiently. At the same time, they have to follow ever stricter regulations in terms of vehicle crashworthiness and emissions, for instance. Vossloh has already invested in developing suitable products and increasingly resorts to in-house technologies developed in intercompany projects. The first all-Vossloh train will go into service on the resort island of Mallorca's Manacor–Artá line. The vehicle is being built at Vossloh Rail Vehicles in Valencia and the electrical equipment is sourced from Vossloh Kiepe in Düsseldorf. The train-tram can run on both mainlines and tramways.*





## The first all-Vossloh tram

Again a joint effort by engineers in Valencia and Düsseldorf, soon the first Vossloh tram with the project name Tramlink will be on duty in European local transport services. Its modular concept allows vehicle lengths of 21 to 50 meters with an end-to-end low floor. The vehicle is very energy efficient and comes with a recuperation system in which braking energy is stored in high-performance capacitors (supercaps). The 32-meter version can transport more than 200 passengers.

## Hybrid drives for buses and trams

Electric drive is highly efficient. Around 80 percent of the energy supplied is utilized—on an I.C. engine a meager 30 percent. Given the global efforts to reduce CO<sub>2</sub> emissions and ever scarcer fossil fuel resources, electric drive systems have a bright future. The hydrogen bus developed under the overall management of Vossloh Kiepe is an innovative approach to tomorrow's local transport. Test vehicles will be underway in Amsterdam and Cologne. Instead of a diesel generator set, the Phileas bus built by the Dutch manufacturer APTS has a fuel cell system at its tail end. Also available for its energy system are batteries and supercaps. The electric storage units are recharged by a recuperative brake system. The electricity generated in this way can then be used when reaccelerating.





Even now, drive systems from Vossloh Kiepe used worldwide on electric buses can be reconfigured for hybrid trolleybuses with brake energy storage systems, as is the case in Milan. Vossloh can apply the same principle to electric rail vehicles.

For its hybrid buses, Vossloh Kiepe has opted for the series variety due to its exceptional fuel efficiency. The diesel engine drives a generator which supplies the electricity for the energy storage units or the electric traction motors. The concept allows more freedom of choice when it comes to control and energy management as well as a more flexible use of varying energy sources and storage units when using the same engineering platform. Hybrid drive systems from Vossloh operate, for instance, in Luxembourg, in the Rhine-Ruhr region, in Dresden and Enschede.

### Vossloh's proprietary diesel-electric driveline

When it comes to choosing a locomotive best suited to their application, operators now have an even wider choice that embraces the driveline. Hand in glove with engineers at Vossloh Kiepe, a diesel-electric driveline has been newly developed within the Group. Depending on operating conditions, diesel-electric traction facilitates fuel-saving operation; shunting times are shrunk thanks to the faster acceleration. Moreover, the additional option offers the engineering platform for innovations such as hybrid and storage technologies, very effective automatic start-stop functions as well as dual-mode operation (electric with the overhead wire or diesel-electric). Last but not least, Vossloh can supply customers in Europe that even now prefer the diesel-electric variety.

## Modular center-cab locomotives

At InnoTrans 2010, the world's most significant railway fair, Vossloh Locomotives had presented the new family of center-cab models. A uniform platform permits modular architecture and a high degree of parts commonality of around 80 percent. This creates synergistic effects when building the locomotives and widens the customer's range of options. Shorter delivery times for parts are another spin-off. Finally, parts commonality leads to reduced maintenance and repair costs, as component installation and removal on all models follow the same principle. This means savings in maintenance time and personnel training. The new family of locomotives complies, of course, with the stricter EU safety and environmental requirements in force as from 2012.

## EUROLIGHT—the mainline locomotive with low axle loads

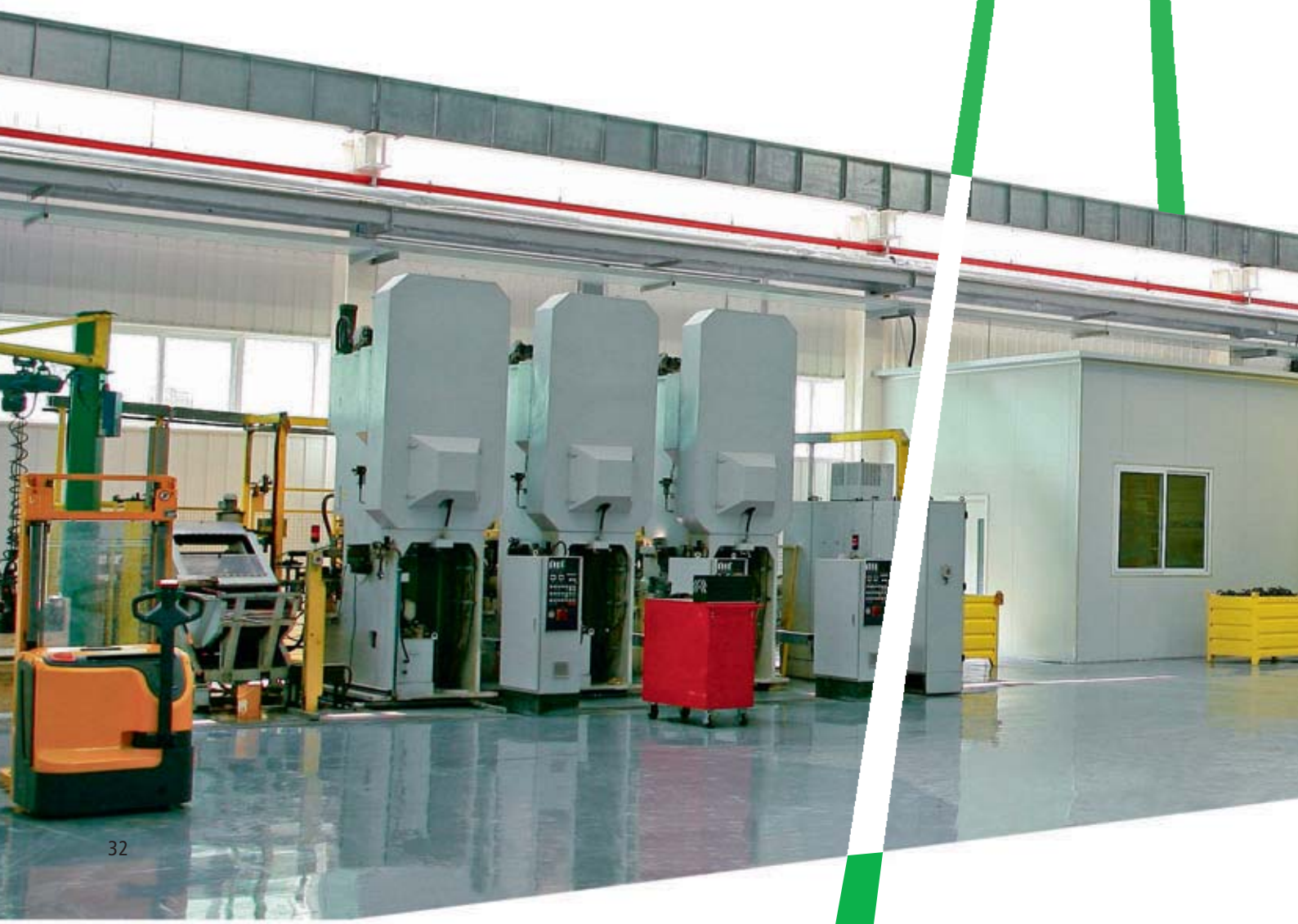
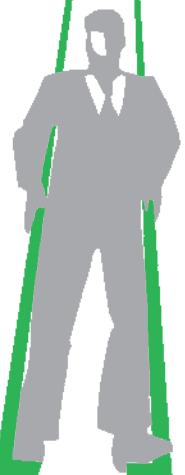
To overcome differences in European railway transport, Vossloh Rail Vehicles has developed in the form of its EURO family a lineup of interoperable diesel locomotives. The firstborn was the EURO 4000 presented in 2006. As the most powerful diesel-electric locomotive currently on the European market, it is fully equipped for the European train control system (ETCS) and fulfills European standards regarding emissions, noise level, safety and fire protection. Many secondary lines in Europe are not electrified and therefore can only be used for vehicles having their own propulsion system. For those, Vossloh Rail Vehicles with the EUROLIGHT has developed a diesel-electric locomotive with an axle load of less than 20 t yet with ample output of 2,800 kW. It complies with the latest EU regulations and is intended for use in Europe, the Middle East and North Africa. The 4-axle locomotive is light enough to negotiate secondary lines and yet muscular enough for mainline haulage chores.





# *Stepping out.*

*Cost management and modernization are self-evident ingredients of efficient company management. Organic growth, moreover, calls for farsightedness when planning capacities.*



By widening its capacity at three production locations, Vossloh is responding to the ongoing growth in its rail fastening business. In 2011, a third bending line will be set up at the plant in China to enhance capacity in Kunshan by around 30 percent. The Turkish production facility will have installed its own continuous pickling plant in 2011. In this way, steel bars and rods can be produced in Erzincan for the downstream tension clamps. This capital outlay will mean that the German parent plant in Werdohl regains capacity for this upstream product which it has been shipping out to the Turkish factory. In 2011, the German production plant will also be getting a new transfer press as well as further hardening and tempering lines which will step up capacity by 25 percent.

The forge in Luxembourg, of major importance in the making of switches and turnouts, is set to be revamped and expanded in 2011/12. For years now, demand for the forged-type switch blades or points has been rising. Thanks to a new press as well as added plant for the forge, not only is capacity lifted, production times, too, are much shorter and quality is even better.

In 2011, Vossloh Kiepe is broadening its Düsseldorf premises to create new development and test laboratory capacities that will accelerate its access into mainline business.



# *Generating momentum for future growth.*

*In the new study "Germany's Top 500—Strategies for Global High Performance," completed by international management consultants in early 2011, Vossloh ranks among the 34 "growth champions" of 2005 to 2009.*



Among the winning ingredients identified by the study are an ability to embrace megatrends as well as effective marketing activities in the emerging countries. Moreover, the analysis shows a comparatively more vigorous organic growth trend among these champions supplemented by judiciously selected, mostly smaller acquisitions which are then absorbed by carefully implemented integration programs.

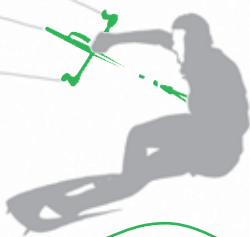
For Vossloh, such a success story is the acquisition of the rail service business, effective as of January 1, 2010. The M&A deal comprised seven German locations of today's Rail Services business unit, mainly specializing in complex solutions for rail welding and logistics as well as preventive rail maintenance. Through this acquisition, Vossloh was able to ideally expand its core competence in rail infrastructure, and the newcomer's integration into the Vossloh Group network was completed quickly and smoothly. Right from the start, Vossloh Rail Services has contributed toward the Group's business success and the prospects for selective internationalization are excellent.

One example of the on-target expansion of existing system competence is the takeover by Vossloh Fastening Systems of the permanent-way segment of SaarGummi Deutschland in May 2010. The acquiree is a leading supplier of highly elastic rail fastening pads. The material used has superior characteristics in terms of its inherent elasticity and fatigue strength besides being impervious to wetness or humidity.

Judicious acquisitions remain an integral part of Vossloh strategy. The criteria are clearly defined: M&A candidates should be leaders in their market segment and able to generate within a short time the ROCE required by Vossloh.

Over the past fiscal years, Vossloh has proven that with a portfolio focused on existing and future mobility requirements and consistent market development efforts, above-average growth is possible. The Group's plans for 2011 and 2012 expect things to continue in this vein.

With the capital expenditures it has earmarked, Vossloh is making sure that it will be in a position to milk market opportunities for organic growth well beyond the immediate planning period.





## Vossloh AG's Supervisory Board

Dr.-Ing. Wilfried Kaiser

Chairman, former executive board member  
of Asea Brown Boveri AG, Munich

Peter Langenbach

Vice-Chairman, lawyer, Wuppertal

Dr. Jürgen Blume

Sworn public auditor and tax accountant,  
Bad Bentheim

Dr. Christoph Kirsch

Former CFO of  
Südzucker AG, Weinheim

Wolfgang Klein

Galvanizer, Chairman  
of the European and Group Works  
Councils, Werdohl

Michael Ulrich

Mechanic, Works Council Chairman  
of Vossloh Locomotives GmbH, Kiel



Dr.-Ing. Wilfried Kaiser,  
Supervisory Board Chairman



# *Report of the Supervisory Board*

During fiscal 2010, Vossloh AG's Supervisory Board duly performed the functions and duties incumbent on it under law, the Company's memorandum & articles of incorporation (the "bylaws"), the German Corporate Governance Code (the "Code") and the Supervisory Board Rules of Procedure, continuously oversaw the conduct of business and provided advice to management. The Supervisory Board obtained timely detailed regular written and oral reports on the business trend of Vossloh AG and its subsidiaries, the strategic alignment of the Group, and the progress of planned M&A transactions and other major projects and events. Supervisory Board membership remained unchanged in 2010.

## **Meetings and attendance**

In 2010 the Supervisory Board convened at five scheduled meetings (March 24, May 18, July 8, September 30, and December 1) and one extraordinary meeting as teleconference on February 2. One resolution was adopted by written circular poll. All meetings were attended by the plenary Supervisory Board.

The Supervisory Board discussed in depth with the Executive Board day-to-day business and the strategic concepts, short- and medium-term corporate plans, capital expenditure and investment budgets, the current income, profitability and cash trends. Any business trends at variance with budget or plan were detailed by the Executive Board. The Supervisory Board deliberated on and throughout approved major capex projects and other Executive Board transactions subject to approval. Other periodical items on meeting agendas and subject of the Executive Board's routine reports were the trend of each business unit's operating activities, especially at Transportation Systems where a still widely observed reluctance to invest left its footprint. Further items discussed regularly were Vossloh's risk position and management, as well as jointly with the Executive Board, significant organizational and personnel changes.

Furthermore, the Supervisory Board had the Executive Board report on the integration of the new Rail Services business unit after the Stahlberg-Roensch/Contrack Groups had been acquired in December 2009 and the deal closed in February 2010. Also discussed and evaluated with the Executive Board were M&A candidates. The actual performance of recent-year acquirees was dealt with in depth particularly by comparing it with the original budget data underlying the various M&A deals.

Additionally on the agenda for several thorough debates were compliance issues, especially the fine-tuning of a code of conduct binding on Vossloh's workforce worldwide.

Upstream of the annual general meeting (AGM) of May 19, 2010, both Boards jointly discussed the proposed agenda.

After having its own efficiency assessed in 2007, the Supervisory Board again resorted to outside expert consultants in 2010 for this purpose and, at two meetings, conferred on the professional development of its members.

On two occasions, when meeting at one subsidiary each, 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

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

## Committee work

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

The Staff Committee has 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 Staff Committee met twice in 2010, besides holding one teleconference. On its agenda were details of the implementation of a long-term incentive component for Executive Board remuneration, bearing in mind that the compensation structure should generally be aligned with Vossloh's sustained and sustainable performance. An outside consultant specializing in compensation issues was commissioned to review the Executive Board's compensation for a fair and reasonable scale and revise the variable-remuneration system. The gist was that the overall compensation of the Executive Board should add up to a fair and reasonable remuneration for each member's functions, duties, and personal performance, as well as for Vossloh's economic situation, successful performance and future prospects, besides being in line with industry peers and in proportion to Vossloh's general pay system.

Solutions were elaborated to be translated into Executive Board employment contracts once these have expired in 2014 and 2015, respectively. After thorough scrutiny, the immediate amendment of the current contract terms to include a compensation structure with long-term components was deemed inappropriate in either Board's opinion.

The Audit Committee convened six times in 2010. Its meetings on April 26, July 27 and October 26 centered on discussing the quarterly reports with the Executive Board prior to publication. Likewise discussed were the analysis and calculation of capital cost (WACC) and return on capital employed (ROCE) of the Group, its divisions and business units in the context of shareholder value management and value added. Other items on the Audit Committee's agenda for joint consideration with the Executive Board was the impact of exchange rates on sales and EBIT. At its March 23 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 2009. No objections were raised, and the Audit Committee approved the statutory auditor's conclusions. At the same meeting, the Audit Committee also dealt in detail with the statutory auditor's declaration of independence and the proposal for the election of the statutory auditors for fiscal 2010 for the Company and the Group. After the AGM had endorsed the proposed election, the audit engagement letter was duly issued by the Audit Committee, also on behalf of the plenary Supervisory Board and in line with the recommendations of the Code.

Audit Committee discussions also focused on risk management at the March 23, July 28 and October 26 meetings; moreover, the Audit Committee had the Executive Board furnish continual reports on the main risks identified for the Vossloh Group. At their September 29 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, 2010. The Audit Committee meeting on November 30 was joined by the Head of Corporate Internal Auditing to report on his work in 2010, and centered on his audit conclusions and his department's effectiveness and efficiency.

The Slate Submittal Committee convened once in 2010, basically to discuss long-range succession planning issues involving Supervisory Board members, also in light of membership mix, diversity and fees as recommended by the Code.

The plenary Supervisory Board convened after each committee meeting, the committee chairmen reported there on their respective committee work and the results of their discussions.

## German Corporate Governance Code

No Supervisory Board member was subject to any clashing interests under the terms of § 5.5 of the Code.

The Supervisory Board continually followed up on the further development of corporate governance standards and implemented measures to ensure compliance with such standards, including by updating its own Rules of Procedure accordingly. Its members voted in favor of a particular staffing mix since diversity in Supervisory Board membership is also in the best interests of Vossloh AG. Bearing in mind Vossloh AG's and the Group's specific situation, the Supervisory Board will respect diversity and aim for personally and professionally qualified candidates, also among women and international nominees. Therefore, the Supervisory Board should have at least one female member and include one member with longstanding sound international expertise.

The subject of a multiyear compensation component and the overall remuneration system for the Executive Board, already discussed by the Staff Committee, was also reviewed by the plenary Supervisory Board on the basis of the outside consultant's analysis and report.

In December 2010, the Executive and Supervisory Boards issued, and made available to the stockholders long term on the Company's website, the unqualified declaration of conformity according to Art. 161 AktG (see page 47).

## Separate and consolidated financial statements 2010

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 2010 (including the accounting), all as prepared by the Executive Board, were examined by the statutory auditor, BDO AG, Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the May 19, 2010 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.

In due course prior to the Supervisory Board's annual accounts meeting on March 30, 2011, 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 2010 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 2010 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, 2010; the separate financial statements as of December 31, 2010, are thus adopted. The Supervisory Board concurs with the combined management report, particularly the statements on Vossloh's further development and the disclosures pursuant to Arts. 289(4) and 315(4) HGB, as well as with the profit appropriation as proposed by the Executive Board, i.e., to distribute a cash dividend of €2.50 per no-par share.

The Supervisory Board thanks the Executive Board and all the employees for once again their highly dedicated contributions and successful input in fiscal 2010.

Werdohl, March 30, 2011

The Supervisory Board  
Dr.-Ing. Wilfried Kaiser  
Chairman

# *Corporate governance report/statement*

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

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

## **Vossloh's management and supervision structure**

Vossloh AG is subject to the provisions of the German Stock Corporation Act, capital market legislation, codetermination law, as well as to its own bylaws. Like any other German stock corporation, too, Vossloh has a two-tier board structure, both the Executive and Supervisory Boards as mandatory bodies being required to perform management or monitoring functions, respectively. The general meeting 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 Relations, Corporate Communication, Internal Auditing, Law/Compliance, and IT. COO Dr.-Ing. Norbert Schiedeck is responsible for Engineering, Marketing, and HR.

The Executive Board performs its duties with a sustainable addition of shareholder value in mind and closely cooperates with the Supervisory Board whose consent is required for certain major transactions and Executive Board actions expressly specified in the Executive Board Rules of Procedure. Based on an agreed plan, each Executive Board member is assigned the responsibility for specific areas of business. Executive Board members work together on a peer basis and brief each other routinely on significant actions, transactions and events within their respective responsibilities and the areas assigned to them. Fundamental

and certain defined issues require a decision by the plenary Executive Board. Any conflict of interests of one Executive Board member would immediately be disclosed to the Supervisory Board and the other Executive Board member. Any sideline activity or membership in a nongroup company's supervisory board requires the Supervisory Board's prior approval. At present, no Executive Board member holds any supervisory board office at a listed nongroup company. For detailed information on Vossloh AG's Executive Board members, turn to page 189 of this annual report.

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

## Supervisory Board

In accordance with the first clause of Art. 10(1) of the bylaws, the composition of Vossloh AG's six-member Supervisory Board is governed by the provisions of the Stock Corporation Act and the Supervisory Board Composition Act, according to which the Supervisory Board must be composed of one-third of employee representatives and two-thirds of stockholder representatives. The owner representatives on the Supervisory Board are elected by the general meeting, the employee representatives by the workforce, for identical terms of office. The term of a Supervisory Board member is five years, the current term expiring at the AGM 2013, which votes on the official discharge for fiscal 2012. As recommended by the Code, the stockholder representatives were elected by the May 21, 2008 AGM by individual poll.

The Supervisory Board oversees and advises the Executive Board in its management and conduct of business. Certain material transactions and Executive Board actions (specified in the Executive Board Rules of Procedure) are subject to prior Supervisory Board approval. The Supervisory Board periodically discusses with the Executive Board Vossloh's business trend, the corporate plan and strategy and their implementation, as well as the risk management and corporate and regulatory compliance issues. Moreover, the Supervisory Board approves the annual budget and decides on the 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.

In the year under review, too, the two boards dealt in depth with Code compliance matters, especially with the amendments approved by the German Corporate Governance Code Government Commission on May 26, 2010. The recommendations of the Code are carried out by Vossloh without exception. In staffing its boards and other executive functions within the Group Vossloh aims for diversity.

The Supervisory Board Rules of Procedure were revised to reflect the amended Code. Bearing in mind Vossloh AG's and the Group's specific situation, the Supervisory Board will respect diversity and aim for personally and professionally qualified candidates, also among women and international nominees. Therefore, the Supervisory Board should have at least one female member and include one member with longstanding sound international expertise.

The Executive and Supervisory Boards issued in December 2010, and published for long-term availability to stockholders on the Company's website, an unqualified declaration of conformity (cf. page 47).

The Supervisory Board comprises a sufficient number of independent members being parties unrelated to either Company or the Executive Board as defined by the law. The Supervisory Board constitutes a quorum if not less than three members participate in voting. Supervisory Board resolutions require the simple majority of votes cast unless statutory or legislative regulations provide otherwise. If a vote results in a tie, any Supervisory Board member has the right to require that the voting be immediately repeated on the same agenda item. The Supervisory Board Chairman has two votes in this second voting process on the same item if it again results in an equality of votes.

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

The three-member Staff Committee is mainly responsible for Executive Board matters and prepares, for decision by the plenary Supervisory Board, the documents for voting on and reviewing the compensation system and total remuneration of each Executive Board member, and on downscaling any emoluments of Executive Board members in accordance with Art. 87(2) AktG, besides being in charge of determining the rules governing the legal relations between the Company and the various Executive Board members (in particular, the execution, amendment, renewal, rescission, cancellation or termination of the employment contracts with Executive Board members), the regulation of the legal relationship between the Company and former Executive Board members, the approval of contracts or agreements with Supervisory Board members, as well as on the grant of loans to Supervisory Board members. The 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 regulatory and corporate compliance issues (which include 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; it is responsible for the Supervisory Board's long-term succession planning and submits to the Supervisory Board a slate of suitable Supervisory Board candidates to be proposed to, for election by, the annual general meeting wherever any Supervisory Board member steps down early. When selecting potential Supervisory Board members proposed first for approval by the plenary Supervisory Board and then for election by the AGM, the Supervisory Board and its Slate Submittal Committee are responsible for seeing that the slate lists only candidates that have the necessary knowledge, capabilities, technical and accounting experience, international background, expertise in internal controls and the Group as such, independence, an age not beyond 70 at the time of election, no clashing interests, and sufficient time for their designated office. 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. No former Executive Board members serve on Vossloh AG's Supervisory Board.

For details of Vossloh AG's Supervisory Board members, see page 190 of this annual report.

## Compliance as the foundation stone of business enterprise and efficiency

Besides the self-evident adherence to the principles of law and order, 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.

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

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

Besides directly contacting the internal Compliance Organization, all group employees may anonymously report any case of noncompliance to an external ombudsperson appointed for this purpose. Information received is immediately analyzed and necessary action taken.

With a view to ensuring the continuous improvement of the Compliance System, external consultants were involved, too.

## Risk management and control environment

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

For details of risk management within the Vossloh Group, see the *Risk 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).

## Declaration of conformity

In 2010, too, Vossloh AG's Executive and Supervisory Boards have dealt in detail with Code requirements, particularly amended legislation and the updated Code as of May 26, 2010. Vossloh's corporate governance practices have been reviewed and revised accordingly.

Vossloh has therefore issued a statement on its implementation of the corporate governance practices which are recommended by the Code (as amended up to June 18, 2009, and May 26, 2010):

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

In fiscal 2010, 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 18, 2009, and May 26, 2010, respectively).

Werdohl, December 2010

Vossloh AG

The Executive and Supervisory Boards”

The current declaration of conformity was issued in December 2010 in conformity with Art. 161 AktG and published for long-term availability on the Company's website.

## Stockholders and their general meeting

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

## Investor Relations

Vossloh attaches high priority to the early, timely and efficient information of all stockholders and other capital market participants at the same time by ensuring a continuous, prompt and concurrent flow of information about the Vossloh Group's economic situation and new facts from the world of Vossloh wherever of relevance. Any corporate news published by Vossloh is promptly published in German and English on the Company's website at [www.vossloh.com](http://www.vossloh.com), including (without limitation) the annual, semiannual and quarterly reports, invitations and other information. The dates scheduled for major recurring or periodical events and publications (such as the AGM, annual and interim reports) are summarized in a financial diary which is published in good time on Vossloh AG's website for long-term availability. The consolidated financial statements are published within 90 days after fiscal year-end while quarterly reports are publicly available within 45 days after closing date. The website also includes the so-called Annual Document according to Sec. 10 German Securities Prospectuses Act ("WpPG") where all the preceding 12 months' information is compiled if of relevance under companies or capital market laws and regulations.

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

## Accounting and annual audit

The Vossloh Group's accounting basis is the International Financial Reporting Standards (IFRS), while the separate financial statements of Vossloh AG are prepared according to German GAAP (viz. the accounting regulations of the Commercial Code), as prescribed by law. Both the consolidated financial statements based on the IFRS and the separate financial statements according to German GAAP were audited by BDO AG, Wirtschaftsprüfungsgesellschaft (the statutory auditor elected by the annual general meeting 2010 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 2010. The semiannual financial report

(condensed interim financial statements and interim management report of the Group) as of June 30, 2010, was reviewed by the statutory auditor.

## Remuneration of the Executive and Supervisory Boards

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

On the Supervisory Board's agenda in 2010 was the Executive Board compensation system. An outside consultant specializing in compensation issues was commissioned to review the Executive Board's compensation and variable-remuneration system for a fair and reasonable scale. The gist was that the overall compensation of the Executive Board does constitute a fair and reasonable remuneration for each member's functions, duties, and personal performance, as well as within the context of Vossloh's economic situation, successful performance and future prospects, besides being in line with industry peers and in proportion to Vossloh's general pay system. Solutions were elaborated to be translated into Executive Board employment contracts once these have expired in 2014 and 2015.

## 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](http://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 86 of this annual report) whereas the other SOPs for both officers and employees are detailed on page 157 hereof.





# *Combined management report*

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## Vossloh AG

Rail Infrastructure  
division

Transportation  
division

Business units:

Vossloh Fastening Systems  
Vossloh Switch Systems  
Vossloh Rail Services

Business units:

Vossloh Transportation Systems  
Vossloh Electrical Systems

# Business and market environment

## Strategy, segmentation, and competitive position

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

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

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

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

Rail Infrastructure offers the related products and services. Besides the Fastening Systems and Switch Systems business units, the division has since the start of fiscal 2010 included a third, Rail Services.

- 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 and turnouts, control and monitoring systems for rail networks. Here, too, the range reaches from light-rail to high-speed lines.
- Vossloh Rail Services specializes in complex rail logistics and welding solutions as well as preventive maintenance of rails.

Fundamental  
strategic  
principles:  
- Focused  
portfolio  
- Value-driven  
growth  
- High  
profitability

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

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

## Organization

Some 90 companies  
within the Group

The Vossloh Group operates on a global scale. It patterns its business on local presence and customer proximity. Key European production plants are in Germany, France, Spain, Luxembourg, Scandinavia, Poland, and Austria. Outside of Europe Vossloh produces switch systems chiefly in Australia and the USA. It has major rail fastener plants in China and Turkey. Vossloh operates through sales companies and branches and has in some instances, together with competent partners, entered into local joint ventures and alliances. At the end of 2010, the Group comprised a total of around 90 companies in 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 Rail Services GmbH, Sevetal, Germany; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España SA, Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

## Controlling system and objectives

As part of its value-driven growth strategy, Vossloh's prime target is to add value, defined as 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, the weighted average cost of capital (debt and equity). Multiplying the premium by average capital employed (CE) produces the value added (VA) in a period in absolute terms. For intragroup controlling purposes, ROCE and value added (VA) are determined before taxes. In line with IFRS 8, VA is disclosed in published reports as the business unit controlling parameter and benchmark.

Key performance indicators: value added and ROCE

Cost of equity is composed of a risk-free rate plus a current premium of 5.0 percent, the interest rate being duly adjusted for its pretax application. Cost of debt is calculated on the basis of the Group's average funding terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not from the balance sheet since it is not only predicated on a benchmark for the funding structure and interest-bearing accruals but also because equity is here based on fair value and not the carrying amounts of the balance sheet.

Intragroup controlling in fiscal 2010 was based on pretax WACC of 11 percent as 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 in 2010 (related to capital employed). Besides this pretax VA used for internal controlling purposes, also the posttax value added is communicated in external reports at group and division levels, based on the current WACC—6.6 percent posttax for fiscal 2010—in order to disclose the actual value trend of relevance to stockholders.

ROCE benchmark: 15 percent

The clearly lower interest rates have leveled down risk-free rates from 4.25 to 3.25 percent and thus also the cost of equity, a process accompanied by a shrinkage of the average cost of debt. Therefore, Vossloh has as from 2011 downscaled the yield expected by lenders and investors to 10 percent while maintaining sustainable ROCE at an unchanged benchmark of 15 percent.

Lower WACC as from 2011

Supplementary  
targets for  
the overall Group

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 taken 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

Following the severe recession, the global economy recovered in 2010 at a rate that exceeded expectations at the start of the year. According to the International Monetary Fund, global GDP grew 5.0 percent. This compares with an overall shrinkage of 0.6 percent the year before.

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

GDP in the eurozone, Vossloh's most important sales market, inched up 1.8 percent in 2010; Germany's 3.6-percent growth was better than average. In the recession year of 2009, Europe's and Germany's GDP had sunk 4.1 and 4.7 percent, respectively. The Central and Eastern European economies neighboring the eurozone likewise reported for 2010 a clear improvement of 4.2 percent (up from a negative 3.6).

The steepest rises in 2010 were again shown by the emerging nations of Asia, with China surging 10.3 percent (up from 9.2). Economic growth in the USA reached 2.8 percent (up from a negative 2.6).

As to Vossloh, the general economic climate is of minor relevance and Vossloh's rail technology markets follow international economic trends to a limited degree. Instead, pertinent are political policies, the current status of rail sector deregulation, and sovereign debt.

There are only a few studies on the global rail technology market and these include the World Rail Market Study published by UNIFE, the Association of the European Rail Industry, and the Worldwide Market for Rail Technology 2010 published by the consultants SCI Verkehr. According to UNIFE, the accessible markets for rail technology amount to around €95 billion with Western Europe leading at €29 billion and Asia/Pacific tight on its heels at nigh €28 billion. Third place is taken by NAFTA at around €20 billion, followed by Eastern Europe and the CIS (mainly Russia) together accounting for some €11 billion.

World Rail Market  
Study surveying  
industry prospects

The rail technology market is subdivided into four segments: Infrastructure, Rolling Stock, Rail Control, and Services. Rolling Stock has the largest share of the accessible market and totals almost €37 billion, followed by Services (around €28 billion) and Infrastructure (some €20 billion). The rest of the market at around €11 billion is attributable to Rail Control. Among these categories, Vossloh with its Rail Infrastructure and Transportation divisions has a footing primarily in the Infrastructure and Rolling Stock segments.

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

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

## M&A transactions

### New Rail Services business unit

The acquisition of the following companies of the Stahlberg-Roensch Group (all based in Seevetal near Hamburg) was officially closed on February 5, 2010:

- Stahlberg Verwaltungsgesellschaft mbH
- Stahlberg, Roensch GmbH & Co. KG
- OBERBAU Beteiligungsgesellschaft mbH
- RCH rail center Handel GmbH & Co. KG,
- Stahlberg Track Asset Verwaltungsgesellschaft mbH
- Stahlberg Track Asset GmbH & Co. KG

as well as of LOG Logistikgesellschaft Gleisbau mbH and ISB Instandhaltungssysteme Bahn GmbH, both of Hannover.

The acquisition covers seven German locations specializing mainly in complex logistics solutions, as well as in the welding and preventive maintenance of rails.

The acquirees form the new Rail Services business unit and are therefore separately dealt with in the segment report.

## Results of operations

Driven by another expansion of business at the Rail Infrastructure division, the Vossloh Group's sales in fiscal 2010 mounted 15.1 percent to €1,351.3 million. Just under one-half of the incremental revenue was due to the first-time inclusion of the acquired Rail Services business unit which reported sales of €84.8 million. Organic growth was 7.9 percent, with contributions coming from the Fastening Systems, Electrical Systems and Switch Systems business units. Vossloh Transportation Systems reported shrinking sales at both its locations.

Group sales up  
15.1 percent

Vossloh Group: sales by business unit

	€ million		%	€ million		%
	2010			2009		
<b>Rail Infrastructure</b>	<b>891.5</b>	<b>66.0</b>		<b>690.3</b>	<b>58.8</b>	
Fastening Systems	369.4	27.3		267.1	22.8	
Switch Systems	439.0	32.5		424.9	36.1	
Rail Services	84.8	6.3		–	–	
Consolidation	(1.7)	(0.1)		(1.7)	(0.1)	
<b>Transportation</b>	<b>459.7</b>	<b>34.0</b>		<b>483.2</b>	<b>41.2</b>	
Transportation Systems	304.8	22.6		336.2	28.6	
Electrical Systems	160.0	11.8		148.5	12.7	
Consolidation	(5.1)	(0.4)		(1.5)	(0.1)	
<b>Holding companies and consolidation</b>	<b>0.1</b>	<b>0.0</b>		<b>0.2</b>	<b>0.0</b>	
	<b>1,351.3</b>	<b>100.0</b>		<b>1,173.7</b>	<b>100.0</b>	

The first-time inclusion of Vossloh Rail Services and Rail Infrastructure's overall vigorous organic growth meant that the division's share of total sales jumped from 58.8 percent in 2009 to 66.0 percent in 2010. All the division's business units boosted their sales volume, most especially Vossloh Fastening Systems. Added sales were generated in China and Turkey as well as through higher shipments from Germany. Vossloh Switch Systems reported reviving revenue compared with the year before. Especially in the US market where demand during the economic and financial crises had slumped, business began to return to normal.

Above all, it was the poor order intake at Kiel in 2009 that whittled down revenue a year later at Vossloh Transportation Systems. Again flourishing were sales at Vossloh Electrical Systems.

Vossloh Group: sales by region

	€ million		%	€ million		%
	2010			2009		
Germany	267.1		19.8	132.3		11.3
France	121.9		9.0	156.0		13.3
Other Western Europe	151.2		11.2	172.0		14.7
Northern Europe	96.5		7.1	100.5		8.6
Southern Europe	273.0		20.2	260.8		22.2
Eastern Europe	42.8		3.2	34.1		2.8
<b>Total Europe</b>	<b>952.5</b>		<b>70.5</b>	<b>855.7</b>		<b>72.9</b>
Americas	106.3		7.9	90.6		7.7
Asia	237.6		17.6	175.6		15.0
Africa	27.6		2.0	22.3		1.9
Australia	27.3		2.0	29.5		2.5
<b>Total</b>	<b>1,351.3</b>		<b>100.0</b>	<b>1,173.7</b>		<b>100.0</b>

Added sales  
almost everywhere

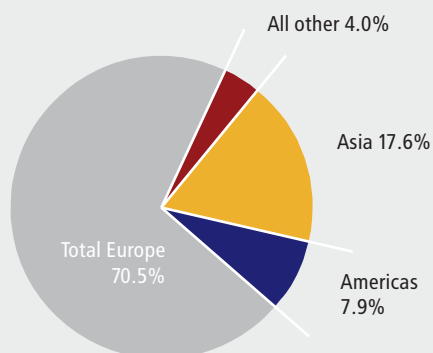
Fiscal 2010 was a period in which the Vossloh Group reported sales hikes in virtually all its markets around the globe. Even though sales on the European home turf rose, the gain was outpaced by surging sales in non-European regions which accounted for 29.5 percent (up from 27.1) of aggregate business. Western Europe generated 40.0 percent of group sales. Germany accounted for sales of €267.1 million, more or less double the prior-year, an essential factor being the first-time consolidation of the Rail Services business unit where annual sales of €84.8 million were largely home-made. Purely organic (like-for-like) sales in Germany soared €52.2 million thanks to Vossloh Electrical Systems whose light rail product group expanded. Vossloh's aggregate sales in Germany made up some 20 percent of the total in 2010.

France and other Western European countries reported lower sales, and so did Scandinavia. In Eastern and especially Southern Europe Vossloh again forged ahead. Spain, Italy and Turkey as well as Poland, and with its first major order now, Russia are all major markets for Vossloh that contributed to rising sales in 2010.

US sales were well up over 2009, a period clouded by softer demand on the part of the Class 1 rail operators who specialize in freight haulage. Central America was another region in which Vossloh Switch Systems posted sales gains. Hence, despite weaker sales in a number of South American countries, the Americas region closed the year with sales totaling €106.3 million (up by 17.4 percent).

Vossloh's main source of business in Asia was again China where sales jumped by over 50 percent. So far, Vossloh has been represented in China through its high-speed rail fasteners. In other Asian countries including the Middle East region, Vossloh is tapping burgeoning demand potential. Ascending sales in 2010 were reported in Kazakhstan, Malaysia, Israel, and Saudi Arabia. Altogether, Asia again advanced in significance for the Group and revenue there amounted to around 18 percent of the Group's aggregate (up from 15).

Asian sales  
surging



Sales breakdown by region in 2010

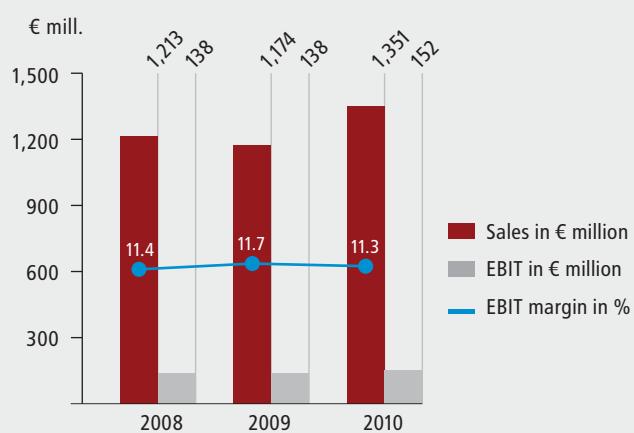


## Vossloh Group: sales and performance

	€ million	%	€ million	%
	2010		2009	
Net sales	1,351.3	100.0	1,173.7	100.0
Gross margin	295.4	21.9	257.3	21.9
Operating result	151.0	11.2	138.0	11.8
EBITDA	191.9	14.2	162.5	13.8
EBIT	152.1	11.3	137.9	11.7
EBT	140.4	10.4	128.5	10.9
Net result of discontinued operations	5.3	0.4	–	–
Group earnings	97.5	7.2	87.9	7.5
Earnings per share (€)	7.32		6.57	

For the Group, cost of sales in 2010 climbed 15.2 percent (from €916.3 million to €1,055.9 million), its rate of increase equaling that of sales; therefore, the relative gross margin remained at an unchanged 21.9 percent.

General administrative and selling (GAS) expenses advanced in 2010 from €134.2 million to €157.7 million; as a share of sales, GAS expenses edged up from 11.4 to 11.7 percent.



Vossloh Group: sales and EBIT trends 2008–2010

With the Group's net other operating income inching down from €26.0 million to €24.2 million and with cost ratios slightly changed, the upward movement of EBIT was shallower than that of sales: Vossloh's EBIT improved 10.3 percent from €137.9 million to €152.1 million while the EBIT margin remained well above the internal benchmark of 10.0 percent.

Group EBIT  
at a record  
€152.1 million

Since the purchase price for the new Rail Services business unit fell due in 2010, net interest expense expanded to €11.7 million (up from €9.4 million). The Group's tax load ratio was an unchanged 25 percent approximately, thanks to the 12.5-percent tax burden in China (still half the customary rate) and the tax subsidy in favor of the local development of new products that benefited Vossloh's Spanish locations.

Group earnings mounted 10.9 percent in 2010 to €97.5 million. In the wake of the divestment in 2008 of Vossloh Infrastructure Services, the ensuing risks were reassessed and accruals of €5.3 million released to income as they were no longer deemed necessary. The minority interests in net income climbed from €8.8 million to €13.6 million. Earnings per share (EpS) of the Vossloh Group for 2010 came to €7.32, up from €6.57 for a virtually unchanged number of shares. Earnings per share from continuing operations reached €6.92 in fiscal 2010.

For fiscal 2010, Vossloh AG's Executive and Supervisory Boards will propose to the stockholders' meeting a dividend of €2.50 per share, equivalent to a total payout of €33.3 million. The respective figures for 2009 had been €2.00 and €26.6 million.

Proposed dividend  
of €2.50

Due to the significantly higher average capital employed, the Vossloh Group's ROCE contracted, as expected, from 20.5 percent a year ago to 17.2 in 2010 but nonetheless remained clearly above Vossloh's internal benchmark of 15 percent. The prime reason for the CE increase was the acquisition of Vossloh Rail Services, another factor was the higher working capital. Despite the elevated CE baseline, Vossloh clearly outearned its WACC of 11 percent (determined for the Group for 2010), the premium being hence over 6 percent.

Group's ROCE  
at 17.2 percent

#### Order intake up

Orders booked by the Vossloh Group in fiscal 2010 added up to €1,344 million (up from €1,140 million). At year-end 2010, order backlog was virtually unchanged at €1,085 million (down from €1,092 million).

Order intake and backlog at Rail Infrastructure were upgraded again. This division reported just under €1 billion worth of new business (precisely, €987 million) and all three units shared in the increase from €754 million the year before. Rail Infrastructure is setting off in 2011 with an order backlog of €517 million as of December 31, 2010.

In contrast, the aftermath of the financial and economic crises was still experienced in the Transportation division in 2010, especially at Vossloh Rail Vehicles in Valencia. Whereas Vossloh Locomotives, Kiel, as well as Vossloh Electrical Systems reported rising order intake and backlog, both figures were down at Vossloh Rail Vehicles. As a consequence, the division's order backlog fell year-on-year from €670 million to €568 million.

Vossloh divisions: order backlog

€ million	2010	2009
Rail Infrastructure	517	422
Transportation	568	670
	<b>1,085</b>	<b>1,092</b>

## 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, 2010, rose to €136.6 million (up €66.4 million from €70.2 million a year ago), basically as the price for the acquisition of the new Rail Services business unit was paid. At year-end 2010, financial debts of €212.5 million (down from €227.5 million) contrasted with cash and cash equivalents of €75.9 million (down from €157.3 million). The net leverage (i.e., the ratio of net financial debt to equity) in 2010 was 23.5 percent (up from 14.3).

Acquisitions raise  
net debts

Vossloh Group: net leverage

		2010	2009
Total equity	€ mill.	580.0	492.6
Net financial debt	€ mill.	136.6	70.2
Net leverage	%	23.5	14.3

Financial debts in 2010, whose total barely changed year-on-year, substantially represented the long-term debt of around €180.3 million raised by Vossloh in 2004 by a two-loan private placement from the US capital market. The first and second fixed-rate US dollar loans (at \$140 million and \$100 million) fall due in 2014 and 2016, respectively. Since the funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and cross-currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively.

The remaining financial debts of a total €32.2 million as of the balance sheet date mainly comprised short-term borrowings, the largest amount being the €15.5 million raised by Vossloh Fastening Systems China alone.

Vossloh Group: cash flow analysis

€ million	2010	2009
Cash flow from operating activities	139.1	44.9
Cash flow from investment activities	(151.1)	(52.3)
Cash flow from financing activities	(71.8)	(84.1)
<b>Net cash outflow</b>	<b>(83.8)</b>	<b>(91.5)</b>

Cash flow  
from operating  
activities at  
€139.1 million

The net cash provided in 2010 by the Group's operating activities soared from €44.9 million a year ago to €139.1 million. In contrast to fiscal 2009, a period adversely affected by the steep buildup of working capital, the higher working capital had only a minor weight on cash flow.

The net cash of €151.1 million used in investing activities in 2010 (up from €52.3 million) chiefly surged due to the cash outflows of a total €57.9 million for added intangible and tangible assets, another heavyweight being the €86.6 million cash paid for the Vossloh Rail Services acquisition and also other M&A. In a year-on-year comparison, fiscal 2009 had seen no major M&A transaction and also far lower expenditures for tangible assets.

The cash outflows for financing activities mainly went into the repayment of €31.9 million for short-term loans and the €36.5 million payout of cash dividends to minority interest holders and Vossloh stock owners, the latter accounting for €26.6 million alone.

The operating leases existing at December 31, 2010, will require future cash outflows of €40.5 million, including €11.2 million in 2011. In 2009, future cash outflows had totaled €40.2 million.

Unutilized cash  
credit facilities of  
€252.3 million

As of December 31, 2010, unutilized cash credit facilities of €252.3 million were available to the Vossloh Group (up from €172 million). For details, see the chapter on risk and reward management starting from page 104. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

## Vossloh Group: capital expenditures and amortization/depreciation

€ million	2010		2009	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	29.3	25.5	21.6	11.5
Transportation	25.2	13.3	19.4	12.2
Holding companies	3.4	0.7	0.9	0.9
	<b>57.9</b>	<b>39.5</b>	<b>41.9</b>	<b>24.6</b>

The Group's capital outlays in 2010 of €57.9 million for intangible and tangible assets, up by €16.0 million, again outstripped by far amortization and depreciation of €39.5 million (up from €24.6 million).

Capex of  
€57.9 million

Both Vossloh divisions significantly boosted their capital expenditures in 2010:

Rail Infrastructure spent €29.3 million (up from €21.6 million), Transportation €25.2 million (up from €19.4 million). The Fastening Systems business unit expanded its capacities, pushing up its total capex from €4.6 million in 2009 to €12.1 million in 2010. Vossloh Switch Systems' outlays centered on modernization and capacity extension projects and shrank to €14.2 million (down from €17.0 million). The Rail Services business unit started on the development of three new trains for its innovative high-speed grinding operations and appropriated most of its capex of €3.0 million to this project.

Expenditures on  
more capacities  
and new products

## Vossloh Group: breakdown of capital expenditures

€ million	2010		2009	
	Capex	%	Capex	%
Development costs	18.1	31.2	9.7	23.2
Other intangibles	1.7	2.9	1.9	4.5
Land and buildings	2.5	4.3	2.2	5.3
Production plant and machinery	14.0	24.2	9.8	23.4
Other plant, factory and office equipment	7.4	12.8	6.5	15.5
Prepayments made, construction in progress	14.2	24.6	11.8	28.2
	<b>57.9</b>	<b>100.0</b>	<b>41.9</b>	<b>100.0</b>



Expenditures of the Transportation Systems business unit totaled €22.4 million in 2010 (up from €15.2 million). Both locations (Kiel and Valencia) substantially pushed ahead with the development of new products. Vossloh Electrical Systems' capex came to €2.8 million (down from €4.2 million); Vossloh Kiepe's spending focused on the modernization, M&R, upkeep and replacement purchases of plant, equipment, and buildings.

## Asset and capital structure

The Group's higher total assets—climbing €67.4 million from €1,338.4 million at the close of 2009 to €1,405.8 million as of December 31, 2010—primarily reflect the newly consolidated Rail Services business unit, which also accounted for the lion's share in the steep fixed-asset ascent by €132.5 million to €590.7 million.

**Equity ratio:** At 41.3 percent, Vossloh's equity ratio improved appreciably year-on-year (up from 36.8 percent at December 31, 2009), a key equity booster being group earnings. In absolute terms, total equity swelled from €492.6 million a year ago by €87.4 million to €580.0 million at December 31, 2010.

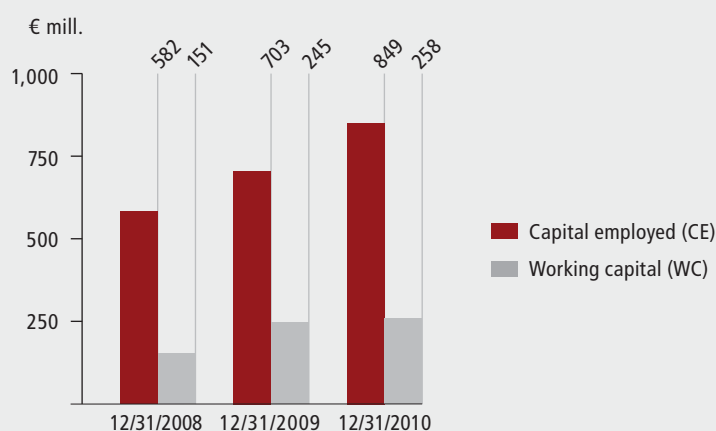
Vossloh Group: asset and capital structure

		2010	2009
Total assets	€ mill.	1,405.8	1,338.4
Total equity	€ mill.	580.0	492.6
Equity ratio	%	41.3	36.8
Closing working capital (WC)	€ mill.	258.0	245.1
Closing capital employed	€ mill.	848.6	703.2
Year-end working capital intensity	%	19.1	20.9
Fixed assets	€ mill.	590.7	458.2
Return on equity (ROE)	%	24.2	26.1

In a year-on-year comparison, the Vossloh Group's closing working capital moved up €12.9 million or 5.3 percent, from €245.1 million to €258.0 million. Related to sales, the working capital intensity as of December 31, 2010, was upgraded to 19.1 percent (down from 20.9). Vossloh's average working capital amounted to €309.0 million (up from €231.7 million). Due to the €77.3 million higher average WC, working capital intensity worsened on average, too (up from 19.7 percent to 22.9). A bulging trade receivables portfolio was the key reason for the Group's average working capital buildup.

Working capital  
intensity:  
19.1 percent

It was chiefly the newly consolidated Rail Services business unit that hiked up closing capital employed, by €145.4 million or 20.7 percent from €703.2 million to €848.6 million. Capital employed in 2010 averaged €884.5 million (up €210.5 million from €674.0 million), essentially due to the first-time inclusion of Vossloh Rail Services, another (albeit minor) CE driver being the average WC buildup within the Group.



Vossloh Group: CE and WC trends 2008–2010

## Shareholder value management

ROCE  
at 17.2 percent  
despite higher  
capital employed

As expected, the Vossloh Group's ROCE contracted in 2010. Although, at 17.2 percent, ROCE did sink from the prior year's 20.5, the internal benchmark of 15 percent was easily outperformed, the M&A-related CE leap notwithstanding. Based on an 11-percent WACC for the Group in 2010, Vossloh earned a premium of 6.2 percent.

The Rail Infrastructure division with an ROCE of 20.6 percent achieved a premium of 9.6 percent. Although this division's EBIT of €141.9 million outgrew the prior year's by 13.5 percent, the rise in average capital employed was steeper in the wake of the first-time consolidation of Vossloh Rail Services.

With an ROCE of 14.5 percent, the Transportation division earned a premium of 3.5 percent in 2010: the year-on-year increase in average capital employed combined with a lower EBIT eroded ROCE.

Vossloh Group: shareholder value management

		2010	2009
Average capital employed	€ mill.	884.5	674.0
ROCE	%	17.2	20.5
Value added (VA) *	€ mill.	54.8	63.7

\*Based on an 11-percent WACC.

The €210.5 million higher capital employed notwithstanding, the Vossloh Group's value added (VA) came to €54.8 million before taxes and after WACC of 11 percent. In 2009, the pretax VA amounted to €63.7 million, based on capital employed of €674.0 million. Rail Infrastructure added value of €66.1 million to the Group's, albeit this was just below the prior-year €67.5 million, it was again the lion's share. The Transportation division contributed €6.6 million to Vossloh's VA (down from €18.6 million).

Value added:  
€54.8 million

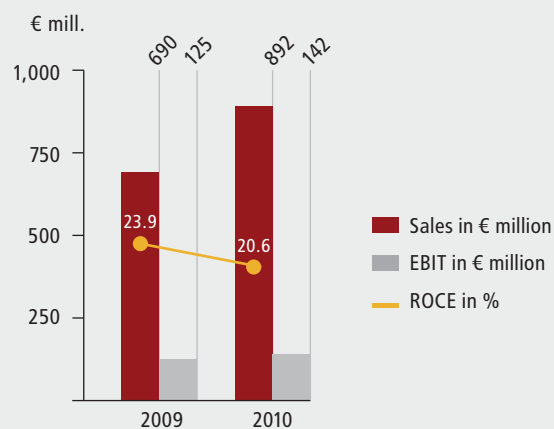
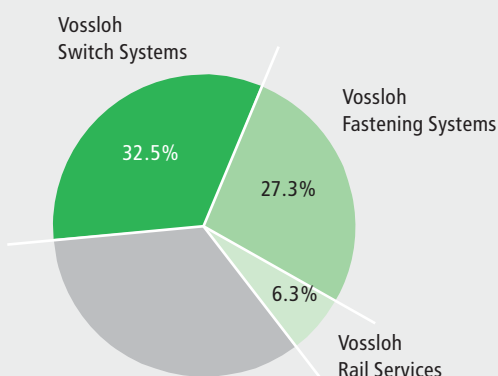
Based on the current WACC, the Vossloh Group's posttax value added in 2010 totaled €48.1 million, breaking down into Rail Infrastructure's of €53.9 million and Transportation's of €6.7 million.

*Vossloh Fastening Systems  
improving sales by over €100 million*



*Vossloh Switch Systems  
still the biggest business unit  
with sales of €439 million*

*Vossloh Rail Services adding  
sales of almost €85 million*



Shares of business units in  
group sales

Rail Infrastructure division: sales, EBIT and ROCE trends

# Rail Infrastructure business trend

Unchanged, the Rail Infrastructure division comprises the two business units, Fastening Systems and Switch Systems, and since January 1, 2010, has also included the newly acquired Rail Services business unit.

Combined, the three units generated sales of €891.5 million in 2010 (up 29.2 percent from €690.3 million). Since the newcomer, Vossloh Rail Services, generated €84.8 million, purely organic growth added up to 16.9 percent. The prime driving force of such growth within this division and indeed throughout the Group was Vossloh Fastening Systems whose annual sales climbed to €369.4 million, a surge of 38.3 percent. The Group's biggest business unit in terms of sales, Vossloh Switch Systems reported a revenue rise of 3.3 percent to €439.0 million. All three business units benefited from a growing rail infrastructure maintenance and revamping demand by operators worldwide. Vossloh Fastening Systems, moreover, generated a major portion of sales and sales gains in China.

Sales rising  
29.2 percent

## Rail Infrastructure

		2010	2009
Sales	€ mill.	891.5	690.3
EBITDA	€ mill.	167.8	136.5
EBIT	€ mill.	141.9	125.0
EBIT margin	%	15.9	18.1
Closing working capital	€ mill.	234.5	210.2
Year-end working capital intensity	%	26.3	30.5
Fixed assets	€ mill.	431.9	310.6
Capital expenditures	€ mill.	29.3	21.6
Amortization/depreciation	€ mill.	25.5	11.5
Closing capital employed	€ mill.	666.5	520.8
Average capital employed	€ mill.	688.7	522.3
ROCE	%	20.6	23.9
Value added	€ mill.	66.1	67.5

At €66.1 million, the value added (VA) by the Rail Infrastructure division in 2010 virtually nudged the prior-year €67.5 million. Despite the first-time consolidation of the new business unit, the ROCE of 20.6 percent was well above the 15-percent corporate benchmark. All three business units added value.



ROCE at  
20.6 percent;  
value added at  
€66.1 million

The slight downturn in VA and ROCE was basically attributable to the significant €166.4 million rise in average capital employed to €688.7 million in the year under review, mainly in the wake of the Vossloh Rail Services acquisition. Another (albeit weaker) CE-raising factor was the average working capital of €269.4 million, which swelled from €220.3 million a year ago thanks to the sales uptrend. In contrast, average working capital intensity improved from 31.9 percent in 2009 to 30.2 in the period.

The Rail Infrastructure division succeeded in 2010 in again stepping up its EBIT to a new record level, from the high prior-year €125.0 million by another 13.5 percent to €141.9 million. Since cost of sales as a percentage of sales climbed, the division's EBIT margin, though missing the 2009 record, stayed at a very commendable 15.9 percent.

## Vossloh Fastening Systems

Business  
branching out in  
all the big regions

Business at Vossloh Fastening Systems again forged ahead in fiscal 2010, with sales at €369.4 million leaping 38.3 percent or €102.3 million. As in preceding periods, most of the growth momentum was generated outside of Germany although here, too, sales were likewise higher. Advances were most emphatic in China and Turkey. Other countries with sizable shares of revenue were Italy, Austria, Russia, Kazakhstan, Libya, Netherlands, Saudi Arabia, Poland, the USA, and Taiwan. Sales abroad accounted for about 90 percent, outside of Europe for 60 percent. Vossloh Fastening Systems ships its products to over 65 countries.

Since 2007, Vossloh Fastening Systems has had its own local production subsidiary in China and in fiscal 2010 the joint venture, run together with two Chinese partners (Vossloh's stake 68 percent), was mostly concerned with fitting out the high-speed rail line from Beijing to Shanghai. The last of the shipments for this megaproject was completed at the start of October 2010. Sales in China were up by over 50 percent. In August 2010, Vossloh Fastening Systems China was awarded another megacontract by the Chinese Railways Ministry for likely execution in 2011 and 2012. The fasteners are destined for the Lanzhou–Urumqi line in the northwest of the country. An additional bending line in China will help expand local production capacities by about one-third and address the expected steep demand for high-speed rail fasteners.

The Russian state railway RZD awarded Vossloh Fastening Systems in October 2010 its first contract for rail fasteners intended for upgrading existing lines. The order is worth around €10 million. The fasteners have been specifically engineered for the Russian climate. The nation is the world's third-biggest rail market and here, too, Vossloh Fastening Systems plans to enter a joint venture with a local partner.

An order intake of €421.4 million and a year-end order backlog of €206.0 million represent new all-time highs for Vossloh Fastening Systems (up from €349.0 million and €154.1 million, respectively).

New all-time highs  
in order intake  
and backlog

Capital expenditures by this business unit zoomed from the prior year's €4.6 million to €12.1 million. The production locations in Werdohl, China, and Turkey all expanded their capacities. For this year, the business unit has earmarked again rising outlays at around €17 million. A large share will go to the setting-up of a rail fastener facility in Russia.

Value added by Vossloh Fastening Systems shrank year-on-year from €58.0 million to €54.3 million, mainly due to this business unit's thicker receivables portfolio and consequently higher average capital employed.

## Vossloh Switch Systems

This business unit reported sales of €439.0 million in 2010 (up 3.3 percent or €14.1 million). Western European sales were up—especially in France, Netherlands, and Switzerland—and so were Southern European. US sales likewise regained their pre-2009 magnitude. On balance virtually unchanged were sales in Scandinavia. Business in Australia stayed buoyant. In Asia as well as Eastern and Northern Europe sales were down.

Sales of  
€439.0 million

Order intake at Vossloh Switch Systems in 2010 swelled from €405.7 million to €482.8 million. Year-end 2010 orders on hand amounted to €310.9 million (up from €267.1 million). The biggest item was the contract awarded in August 2010 worth €77.5 million for fitting out two planned railway lines in Libya by 2012. Likewise of significance is the framework contract awarded in the summer 2010 by Trafikverket, the Swedish infrastructure authority, for the supply of "Easyswitches" over a period of ten years with an option for another five. The total deal is valued at around €100 million and will be booked as new business as and when the orders are actually placed.

Order intake of  
€482.8 million

Capital expenditures added up to €14.2 million (down by €2.8 million). Several locations carried out modernization and capacity expansion work in 2010. Expenditures are set to rise appreciably to €27 million this year. Most will be absorbed by a new switch facility on the Wuhu site (close to Nanjing, Anhui Province) scheduled for completion by the end of 2011, and to be built together with two local partners. Also planned are modernization and capacity expansion expenditures.

Value added by the Switch Systems business unit contracted year-on-year from €9.6 million to €5.2 million as its capital employed grew.

## Vossloh Rail Services

As from January 1, 2010, the Vossloh Group has included the new Rail Services business unit among its consolidated companies. Most of the constituent companies currently operate in Germany and focus their business on rail welding, rail logistics, and rail maintenance. Sales amounted to €84.8 million.

New orders in 2010 totaled €85.7 million; orders on hand at year-end were negligible since the business unit supplies its services on demand on the basis of short waiting and execution times.

Vossloh Rail Services has developed an innovative, preventive maintenance technique for rails—high-speed grinding (HSG). The rails are ground at speeds of over 80 km/h. Vossloh Rail Services sees a substantial demand in and outside Germany for this service and is therefore investing in the development of three new HSG trains which will constitute the major item of expenditure of €15 million earmarked for this business unit in 2011. Capital expenditures by Vossloh Rail Services totaled €3 million in 2010, most of which went into the development of the new grinding train.

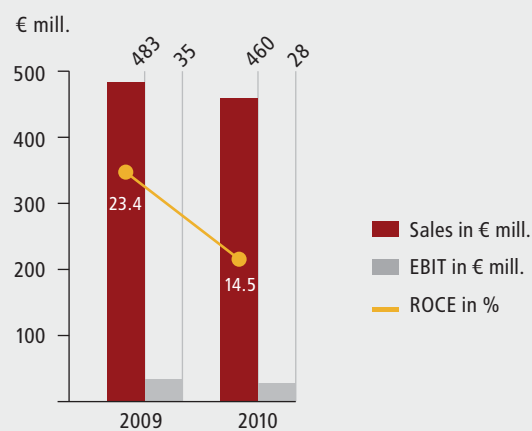
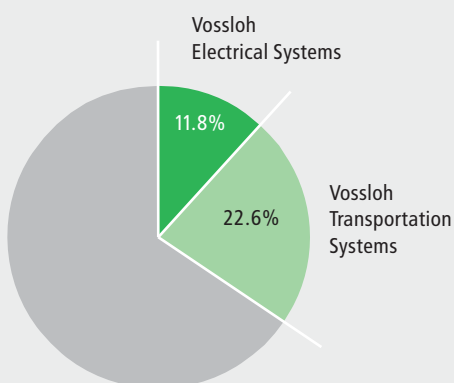
High-speed  
grinding with  
plenty of potential

Value added by Vossloh Rail Services came to €6.7 million in 2010.

*Transportation Systems still affected by the aftermath of the financial crisis, hence sales and order backlog down*

*Electrical Systems again growing*

*Expenditures on new locomotive models and a complete lineup for local transit*



Shares of business units in group sales

Transportation division: sales, EBIT and ROCE trends

# Transportation business trend

The turn of 2009/10 saw a renaming of certain Vossloh Group divisions and business units. One outcome was that the previous *Motive Power & Components* is now *Transportation*. This division still includes the Group's vehicle and component products and subdivides into the two business units of Electrical Systems and (renamed) Transportation Systems (previously *Locomotives*). The two production locations of Vossloh Transportation Systems are (still) Kiel, again known as Vossloh Locomotives, and Valencia, now renamed Vossloh Rail Vehicles. The more precise redesignation of the Spanish location does justice to its broader product range that meanwhile extends beyond the development of locomotives to embrace a complete lineup of local transport rail vehicles and trams.

Sales by the Transportation division in 2010 added up to €459.7 million, 4.9 percent short of the prior year's. Both locations of Vossloh Transportation Systems reported shrinking sales. The slump in freight haulage caused by the economic and financial crises had led to a significant reduction in locomotive orders in fiscal 2009 and in turn to shrinking sales at the Kiel location in 2010. Valencia-based Vossloh Rail Vehicles managed to largely offset poor locomotive business through rising sales from commuter trains. Nonetheless, its business as a whole was likewise down. Vossloh Electrical Systems, in contrast, maintained its recent years' growth. Repeated vigorous demand for trams and other light rail vehicles drove business at this unit.

Locomotive business weaker; trams and other LRVs stronger

The surging capital employed combined with a shrinking EBIT slashed Transportation's ROCE from 23.4 percent a year ago to 14.5 in 2010. Value added by the division slimmed down year-on-year from €18.6 million to €6.6 million. The Transportation division's average capital employed rose from the previous year's €150.8 million to €189.5 million in fiscal 2010, essentially in the wake of a working capital surge: in 2010 the 12-month average soared to €45.9 million (up from €18.1 million). The reason for the working capital increase was the still sluggish locomotive order intake and the accompanying lower downpayment volume.

ROCE of 14.5 percent; value added €6.6 million



The Transportation division's EBIT receded from €35.2 million to €27.5 million, the EBIT margin sliding from 7.3 to 6.0 percent. Both business units made positive contributions to EBIT.

Transportation			
		2010	2009
Sales	€ mill.	459.7	483.2
EBITDA	€ mill.	40.7	47.4
EBIT	€ mill.	27.5	35.2
EBIT margin	%	6.0	7.3
Closing working capital	€ mill.	31.3	40.9
Year-end working capital intensity	%	6.8	8.5
Fixed assets	€ mill.	149.1	136.6
Capital expenditures	€ mill.	25.2	19.4
Amortization/depreciation	€ mill.	13.3	12.2
Closing capital employed	€ mill.	180.3	177.5
Average capital employed	€ mill.	189.5	150.8
ROCE	%	14.5	23.4
Value added	€ mill.	6.6	18.6

## Vossloh Transportation Systems

### Sales falling to €304.8 million

The Transportation Systems business unit reported a 9.3-percent year-on-year downturn in sales from €336.2 million to €304.8 million, with revenue receding at both locations. The share of sales per location varied barely: Kiel-based Vossloh Locomotives accounted for about 34 percent at around €102 million whereas Vossloh Rail Vehicles in Valencia contributed some 66 percent at approximately €203 million.

### Total order inflow down

Order intake picked up conspicuously at Kiel; at Valencia, the rate of new orders retroceded. Altogether, Vossloh Transportation Systems reported an order influx of €195.9 million (down from €253.0 million). At year-end 2010, orders on hand came to €339.2 million (down from €448.1 million), enough for almost twelve months of production. In Q1/2011, Vossloh Transportation Systems received new orders of €100+ million, including a megacontract for 29 locomotives (models EURO 4000 and EURO 3000) awarded to the Valencia location, as well as several center-cab locomotives ordered from the Kiel plant.

Capital expenditures at Vossloh Transportation Systems totaled €22.4 million (up from €15.2 million) for the period. Efforts directed by both locations at developing new products were stepped up appreciably and another €20 million will probably be spent in 2011 on continuing these projects. Even in 2010, a large share of Kiel's incoming business was sourced from new locomotive models. In 2011, both Kiel and Valencia are expecting stronger demand for their new models.

Given the tepid business, the Transportation Systems business unit reported value added of a red €9.0 million in 2010 (down from a black €1.7 million a year ago).

#### **Valencia location**

Vossloh Rail Vehicles reported sales of €202.5 million (down from €215.3 million) for 2010, with locomotive business accounting for only around 32 percent of revenue compared with 59 the year before. Among the customers shipped out to in 2010 was again the French state rail SNCF which received diesel locomotives from Vossloh, acting as a subcontractor of Alstom. Customers of the EURO 4000 diesel locomotives were leasing companies and private freight haulage operators in France and Spain.

Valencia location  
with sales of  
€202.5 million

Business in commuter trains and light rail vehicles rose sharply in 2010. A good 68 percent of Vossloh Rail Vehicles' sales was generated from the production of urban rail vehicles, bogies, and other components. Key account in this product segment in 2010 was FGV (Ferrocarrils de la Generalitat Valenciana), the metro, light rail and tram operator of Valencia and Alicante.

First order for  
LRVs with Vossloh's  
proprietary  
electric driveline

Capital expenditures by Vossloh Transportation Systems in 2010 for Valencia amounted to €11.1 million (up from €8.0 million) and focused on the development of the freight and passenger locomotive *EUROLIGHT* plus a new type of tram with electrical components sourced from the Electrical Systems business unit. This year, spending at Valencia is targeting ongoing development work on the *EUROLIGHT* and on trams.

#### **Kiel location**

Sales at Kiel-based Vossloh Locomotives again fell expectedly short in 2010, sinking 15.8 percent or €19.2 million from €121.7 million to €102.5 million. Kiel develops and builds center-cab locomotives solely for freight haulage. This is a market segment that was weaker in 2009 as a result of the plunge in freight haulage. Given the extended lead times typical of this business, it was in 2010 only that the curbed order activity impacted on sales. Shipments last year totaled 31 units (down from 48). Most of the units comprised the proven G 1000, G 1206 and G 2000 series. The first of the new G 6 were also delivered.

Kiel location  
with sales down  
but order  
intake recovering

As the year progressed, there were evident indications of a recovery in the market for shunting locomotives. Orders booked by Vossloh Locomotives, Kiel, shot up by over 150 percent but were nonetheless still short of the figure for 2008. A big portion of the new business was accounted for by the G 6 launched in 2008 and of which 26 were sold. These ultramodern triple-axle shunters are stimulating interest not only in Germany but elsewhere in Europe, too.

Capital expenditures at Vossloh Locomotives rose from €7.2 million to €11.3 million and were largely absorbed by development work on the diesel-electric locomotives fitted out with electric traction systems from Vossloh Kiepe. The first prototype of the new series supplementing the Vossloh Locomotives lineup of diesel-hydraulic units was showcased at the industry fair InnoTrans in September 2010. Named DE 12 and DE 18, the two diesel-electrics are members of a family engineered to a uniform platform whose modularity delivers substantially improved quality, cost-efficiency and serviceability benefits. This year further expenditures have been earmarked for this family.

## Vossloh Electrical Systems

Sales up  
7.8 percent

As in previous periods, Vossloh Electrical Systems upped its sales in 2010, this time by 7.8 percent or €11.5 million to €160.0 million. The added revenue was mostly sourced from electrical systems fitted to trams and other light rail vehicles. In contrast, sales in the buses product group were down. Geographically, the main markets were Germany and elsewhere in Europe. During the year, Vossloh Electrical Systems fitted out and revamped new and existing light rail vehicles operating in Düsseldorf, Dortmund, Bremen, Manchester and Edinburgh. Trolleybus projects were carried out for Lausanne, Winterthur, Milan, etc.

For several years now, the business unit together with selected associates has been involved in the development and manufacture of hybrid buses. The first of these were shipped out to Luxembourg back in 2008. They were succeeded in 2010 by others to Düsseldorf, Wuppertal/Hagen/Ennepetal, and Dortmund. Last year, Vossloh Electrical Systems was awarded new orders for fitting out hybrid buses for Leipzig, Dresden, Lübeck, and Darmstadt.

Vossloh Electrical Systems is playing a major development role in the electric traction systems for the new locomotives and commuter trains from Kiel and Valencia. This work has been going on since 2009 together with Transportation Systems' two production locations. The business unit is also supplying the electric traction system for the train-tram destined for Mallorca to be supplied by Vossloh Rail Vehicles. The DE 18 diesel-electric locomotive showcased at InnoTrans and the DE 12 also feature a Vossloh Kiepe driveline.

Electric drive  
systems for  
locomotives and  
commuter trains

Order intake at Vossloh Electrical Systems mounted from €134.4 million to €170.1 million; orders on hand at year-end climbed, too, from €222.1 million to €232.2 million, and so orders are enough to keep the Electrical Systems business unit busy for well over a year. Due for shipment in 2011 and thereafter are projects involving refurbished and new products for Berlin, Cologne, Bonn, Bielefeld as well as Belgrade, Kraków, and elsewhere. Once again, it will be the light rail and tram product groups that generate the major share of sales.

Order intake and  
backlog up

The business unit's capital expenditures dropped from €4.2 million to €2.8 million and focused on revamping, maintaining and replacing plant and machinery, buildings and equipment. Spending this year is budgeted at around €9 million a substantial share of which will be absorbed by the purchase of additional plant premises including office buildings in Düsseldorf to improve workflows and facilitate the necessary capacity expansion.

The value added by Vossloh Electrical Systems slipped from €16.9 million to €15.7 million.

# Vossloh AG

As management and financial holding company, Vossloh AG parents the Vossloh Group, and 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—€1.2 million (down from €1.4 million) for 2010—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 2010, the administrative expenses of €20.7 million were €1.1 million above the prior year's, basically as trade fair expenses surged in the wake of InnoTrans, the international transport technology fair held every other year in Berlin. Personnel expenses shrank by €0.7 million to €8.2 million; the annual average headcount moved down by 3 employees to 48. Year-on-year, the Company's other operating income climbed €0.8 million to €16.7 million and includes mainly income from the apportionment to subsidiaries of taxes, marketing fees and IT expenses.

In addition to the administrative expenses and the net other operating income or expense, the net financial result, which inched up from €39.9 million a year ago to €40.9 million in 2010, impacts materially on Vossloh AG's EBT since the Company is also the financial holding company of the Group and therefore owns its major subsidiaries.

Key components of the net financial result for 2010 were the €10.0 million dividend income from Vossloh France SAS, as well as the profits transferred by Vossloh-Werke GmbH, Vossloh Kiepe GmbH, and Vossloh Rail Services GmbH, together accounting for €49.4 million (down from €55.4 million).



Interest expense of €14.8 million (up from €14.6 million)—primarily for refinancing the Group’s capital requirements—contrasted in 2010 with interest income of €7.7 million (up from €6.1 million) from granting short-term credit or medium-term loans to consolidated subsidiaries. A major weight on net financial income was the loss of a total €11.6 million absorbed from subsidiaries, mainly Vossloh Locomotives GmbH (up from €3.8 million). Vossloh AG’s net income of €32.1 million for 2010 is €3.0 million above the prior year’s, thanks not only to the somewhat upgraded operating and financial results but also the lighter income tax load (down from €2.2 million to €0.5 million). In contrast, extraordinary expenses of €3.8 million weighed on net income due to the first-time application of the new German accounting legislation (BilMoG).

Newly applying the BilMoG provisions to the balance sheet was also the reason for the plunge in total assets as of December 31, 2010: these wilted year-on-year from €815.4 million to €734.8 million since the treasury stock, previously stated non-netted, is now disclosed neither on the asset side nor within the reserves retained from earnings but its theoretical par value of €3.7 million is directly offset against the capital stock. The amended disclosure rule resulted in a €102.6 million decrease in the balance sheet total. The stock repurchase program (commenced October 15, 2008, and ended March 20, 2009) resulted in 1,470,630 treasury shares being held as of December 31, 2010, acquired at an average cost of €69.52 per share.

Other factors impacting on the Company’s asset and capital structure were higher fixed assets, intercompany receivables/payables, and changes in the finance mix. The €27.4 million rise in fixed assets to €506.0 million as of year-end 2010 is largely attributable to the €23.0 million increase in Vossloh Rail Services GmbH’s share capital, as well as to mounting capital expenditures for this subsidiary’s Werdohl location. Intercompany receivables and payables climbed €74.9 million and €48.5 million, respectively. Given the amended treasury stock disclosure, Vossloh AG’s equity totaled €394.1 million, down year-on-year by €96.7 million despite the €32.1 million net income. The equity ratio slipped from 60.2 to 53.6 percent.



Vossloh AG's financial position depends on the funds needed by subsidiaries and the borrowings made by the Company to refinance such requirements. The debt raised in 2004 from the US capital market by way of private placement, carried within sundry liabilities, amounted to an unchanged €203.9 million. The other borrowings crumbled from €26.0 million a year ago to €0.1 million as of December 31, 2010; cash and cash equivalents were slimmed down by €47.9 million to €0.7 million.

## Board compensation report

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

### Remuneration of Executive Board members in 2010

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. In fiscal 2010, an outside consultant specializing in compensation issues reviewed the Executive Board's compensation for a fair and reasonable scale and concluded that the overall compensation of the Executive Board represents fair and reasonable remuneration for each member's functions, duties, and personal performance, as well as for Vossloh's economic situation, successful performance and future prospects, besides being in line with industry peers and in proportion to Vossloh's general pay system.

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

In fiscal 2010, Vossloh AG's executive officers received a total compensation of €2,839,517 (down from €3,050,230), including €759,326 of fixed, and €2,045,300 variable, remuneration. In addition, they received noncash fringes of €34,891 (tax base) as payments in kind (PIK), basically in the form of private company car use. PIK income is taxable income of each executive officer.

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

Moreover, they have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 15 (Dr.-Ing. Schiedeck) or 35 percent (Werner Andree), and are stepped up by 4 percent annually (as from April 1, 2010, or Jan. 1, 2005, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2010, a total €1,182,489 was provided for accrued pension obligations to Executive Board members (up from €508,867). Current postretirement pensions are adjusted annually in line with the collective pay trend of white-collar employees.

The table below itemizes the remuneration of each executive officer:

€	Short-term benefits				Retirement benefits	
	Fixed salary	PIK	Profit share	Total	Provision in 2010	Total accrued
CEO Werner Andree	461,767	15,315	1,247,134	1,724,216	923,828	2,604,120
COO Dr.-Ing. Norbert Schiedeck	297,559	19,576	798,166	1,115,301	258,661	381,502
<b>Total</b>	<b>759,326</b>	<b>34,891</b>	<b>2,045,300</b>	<b>2,839,517</b>	<b>1,182,489</b>	<b>2,985,622</b>

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 any change of control.

No loans or advances were granted in 2010 to any Executive Board member.

The compensation paid as current pensions to former executive officers and their surviving dependants totaled €612,274 (down from €674,597).

Pension obligations to former executive officers and their surviving dependants amounted to €11,411,253 (up from €8,648,353) and are fully covered by accruals.

The option introduced in 2008 by the Supervisory Board to grant Executive Board members a discretionary bonus was not exercised in 2010.

### Remuneration of Supervisory Board members in 2010

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 business performance.

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

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

In accordance with the bylaws, Supervisory Board members will receive a total €689,375 (up from €612,125), including €222,500 fixed and €466,875 variable, performance-related fees. The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Dr.-Ing. Wilfried Kaiser, Chairman	60,000	135,000	195,000
Peter Langenbach, Vice-Chairman	42,500	84,375	126,875
Dr. Jürgen Blume	30,000	56,250	86,250
Dr. Christoph Kirsch	40,000	78,750	118,750
Wolfgang Klein	30,000	67,500	97,500
Michael Ulrich	20,000	45,000	65,000
<b>Total</b>	<b>222,500</b>	<b>466,875</b>	<b>689,375</b>

In addition to these fees, no Supervisory Board member received in 2010 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2010 to any Supervisory Board member.

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

### **Capital stock breakdown**

Vossloh AG's capital stock of €37,825,168.86 is divided into 14,795,920 no-par bearer shares of common stock entitling to one vote each. In the course of 2010, options were exercised under the stock option programs, raising the capital stock by €127.82.

### **Restraints on voting rights or share transfer**

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

Voting right exercise and share transfer by members of the Vossloh Family Pool ("Familiengemeinschaft Vossloh GbR") have been pooled by contractual agreement.

### **Direct or indirect shareholdings of 10+ percent**

The Executive Board is aware that a direct voting interest above 10 percent in the Company's capital stock exists: The Vossloh Family Pool has notified Vossloh AG that, as of February 2011, its members owned a stake of nigh 31 percent in the Company's capital stock.

### **Shares with controlling rights, etc.**

No such shares exist at Vossloh AG.

### **Voting control of employee shareholdings**

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

### **Appointment/removal of Executive Board members; amendment of the bylaws**

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

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

Art. 4(8) of the bylaws further entitles the Supervisory Board to update the bylaws accordingly after the capital stock has been increased by utilizing authorized or contingent capital.

#### **Stock issuance or repurchase authority of the Executive Board**

Art. 4 of the bylaws specify the Executive Board's powers to issue new stock while the authority to repurchase treasury stock is based on the AGM resolution of May 19, 2010.

##### **(a) Authorized capital**

The provisions of Art. 4(2) of the bylaws authorize the Executive Board, subject to the Supervisory Board's approval, to increase the capital stock on or before May 19, 2014, by an aggregate maximum of €7,500,000 by issuing once or several times new no-par bearer shares of common stock against cash and/or noncash contributions ("Authorized Capital") while duly granting stockholders their statutory subscription right. However, after first obtaining approval from the Supervisory Board, the Executive Board may exclude this subscription right:

- (i) for fractions entailed by the subscription ratio;
- (ii) in order to (a) grant to holders of conversion rights, options and/or warrants which are outstanding when the Authorized Capital is utilized or (b) satisfy conversion obligations ensuing from convertible and/or warrant bonds previously floated or issuable by the Company or any of its wholly-owned subsidiaries, the right to subscribe for new shares to the extent which they would be entitled to as stockholders upon exercise of their conversion rights and/or options or upon satisfaction of their conversion obligations;
- (iii) if (a) the new stock is issued against cash contributions at a price that is not significantly below the stock market price current for same-class Vossloh stock at the time at which the final issuance price is fixed, and (b) the newly issued stock exceeds an aggregate ten percent of the capital stock neither at the effective date nor at the date of exercise of this authority. Any such shares are counted toward this capital ceiling as are disposed of ex rights (i.e., without granting a subscription right to stockholders) during the validity period of this authority by applying the

provisions of Art. 186(3) clause 4 AktG. Shares issued or issuable to service convertible and/or warrant bonds or satisfy conversion obligations shall also be counted toward said 10-percent ceiling provided that the bonds are issued ex rights during the validity period of this authority in application of the provisions of Art. 186(3) clause 4 AktG;

- (iv) for any capital increase against noncash contributions.

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

(b) Contingent/conditional capital

- (i) Pursuant to Art. 4(3) of the bylaws, the Company's capital stock has been conditionally raised by €6,979,134.18 by issuing 2,730,000 bearer shares of common stock. This contingent capital increase will be implemented only to the extent that, under the warrant bond issues floated by Vossloh AG and/or its (directly or indirectly) wholly owned non-German subsidiaries on or before June 28, 1999, the warrant holders exercise their right to subscribe for common stock. The new common stock ranks for dividend as from the fiscal year in which it is created by option exercise.
- (ii) Pursuant to Art. 4(4) of the bylaws, the Company's capital stock has been conditionally increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to employees under an SOP authorized by the annual stockholders' meetings of June 25, 1998, and/or June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year's AGM votes.
- (iii) Pursuant to Art. 4(5) of the bylaws, the Company's capital stock has been conditionally raised by €1,468,225.77 by issuing 574,320 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to officers, executives and other management staff under a long-term incentive plan (LTIP) authorized by the annual stockholders' meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year's AGM votes.

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

(c) Repurchase of treasury stock

According to the AGM resolution of May 19, 2010, and pursuant to Art. 71(1) No. 8 AktG, the Company is authorized on or before May 18, 2015, to acquire treasury stock equivalent to an aggregate maximum of ten percent of Vossloh AG's then capital stock. At the Executive Board's discretion, treasury stock may be acquired either through a stock market or by public repurchase offer or public invitation to bid.

If shares are acquired through a stock market, the amount paid by the Company for each Vossloh share may neither be more than ten percent above or below the Vossloh stock price as quoted at the trading day's opening auction of the Xetra trade at the Frankfurt Stock Exchange. In the event that the stock is acquired by public repurchase offer or public invitation to bid, the purchase price offered or the limits of the purchase price spread per share shall not be more than ten percent above or below the average closing prices as quoted by the Xetra system on the three trading days preceding publication of either the repurchase offer or the public invitation to bid. In the event that, subsequent to the publication of either the repurchase offer or the public invitation to bid, the governing share price differs considerably, the repurchase offer or invitation to bid may be adjusted accordingly on the basis of the average closing prices as quoted by the Xetra system (or any successor system in lieu of and replacing the Xetra system) on the three trading days prior to publication of any such stock price adjustment. The repurchase offer or invitation to bid may include further stipulations. If the shares offered exceed the number



required (in the case of a repurchase offer), or if not all bids out of several equivalent ones are accepted (in the case of an invitation to bid), offer or bid acceptance shall be prorated (i.e., based on proportionate allocation). The purchase terms may provide for the preferential acceptance of small lots of 100 shares or less per stockholder.

The Executive Board is authorized, after first obtaining Supervisory Board approval, to use treasury shares for any lawful purposes, including (without being limited to) to dispose of the treasury stock in a form other than through a stock market or by offering them to all Vossloh stockholders, however, provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the stock market price then current for same-class Vossloh stock.

The Executive Board is further authorized, after first obtaining Supervisory Board approval, to sell treasury stock ex rights to third parties in return for noncash contributions, including (without limitation) in connection with business combinations or when acquiring other enterprises or equity interests therein. The treasury stock may be used to settle obligations under convertible and/or warrant bonds issued by the Company and/or any of its wholly-owned subsidiaries.

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

At December 31, 2010, the Company held 1,470,630 shares of treasury stock.

**Agreements upon any change of control, etc.:**

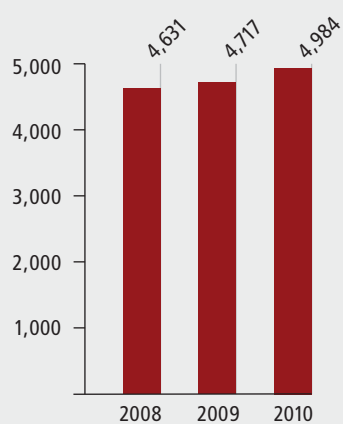
No agreements have been made with third parties that are contingent on a change of control in the wake of a takeover bid.

**Compensation agreements upon change of control:**

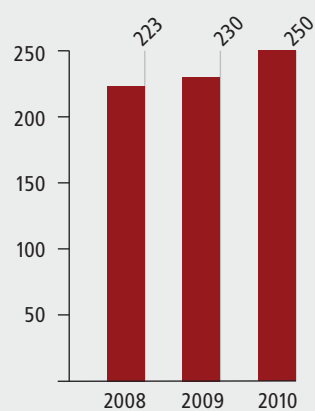
No arrangements for post-takeover indemnification or other compensation of Executive Board members or Vossloh employees upon a change of control have been made either.

## *M&A raise headcount*

*17 percent employees  
outside of Europe*



Average group headcount



Personnel expenses in € million

# Workforce

At December 31, 2010, the Vossloh Group employed a workforce worldwide of 4,906, up 4.2 percent or 198 compared with the 4,708 at year-end 2009. The consolidation of new companies added 368 employees of whom 323 at Vossloh Rail Services and 45 at Global Rail Systems.

## Employee-related indicators

		2010	2009	2008
Payroll per capita	k€	50.1	48.7	48.2
Sales per capita	k€	271.1	248.8	261.9
Payroll intensity	%	61.5	61.9	61.3
Value created per capita	k€	81.4	78.7	78.7

Altogether 83 percent worked at the Group's European locations and 17 percent outside of Europe. Of the latter, North America accounted for 42.4 percent (up from 42.2) while the production locations in China and India together for some 44 percent (down from 47).

83 percent  
employees  
in Europe

There were only marginal changes in the age structure of the group employees and their average length of service with each subsidiary despite the acquisitions. The proportion of employees aged below 35 slipped slightly to 31 percent, and the share with ten service years or less inched down to 56 percent.

## Personnel expenses (payroll)

€ million	2010	2009	% change
Pay	202.1	185.9	8.7
Social Security	43.3	40.0	8.3
Pension expense	4.1	3.7	10.8
<b>Total personnel expenses</b>	<b>249.5</b>	<b>229.6</b>	<b>8.7</b>

Since the employees of the acquirees of fiscal 2009 had been included only pro rata temporis, the Group's average headcount rise from 2009 to 2010 was steeper than at year-end. Whereas in 2009 the Group had employed a workforce of 4,717 on an annual average, this figure went up by 5.7 percent to 4,984 in the period under review.

In 2010, personnel expenses advanced by 8.7 percent from €229.6 million to €249.5 million. The average payroll per capita climbed by 2.9 percent from k€48.7 to k€50.1. Alongside pay hikes, this addition is chiefly due to the acquisitions.

Value created—defined as the excess of total operating performance over cost input and amortization/depreciation—per capita jumped from k€78.7 to k€81.4.

Payroll intensity at  
61.5 percent

Hence, the ratio of payroll to value created (*a.k.a.* payroll intensity) improved slightly from 61.9 to 61.5 percent. Sales per capita ascended to k€271.1 (up 9.0 percent from k€248.8).

## Rail Infrastructure

M&A-related, the annual average workforce in the Rail Infrastructure division climbed by about 16 percent from 2,710 to 3,155.

Average payroll per capita rose 7.2 percent from k€40.4 to k€43.3. Value created per capita mounted from k€87.6 to k€89.5. The payroll intensity totaled 48.4 percent (up 2.4 percentage points). Sales per capita advanced 11.0 percent from k€254.7 to k€282.6.

## Transportation

The annual average number of Transportation employees fell by 8.9 percent from 1,956 to 1,781. Most of the reduction occurred at the Spanish location.

Sales per capita were stepped up 4.5 percent from k€247.0 to k€258.1, value created per capita slipped from k€74.9 to k€74.3. Payroll per capita increased 3.3 percent from k€56.8 to k€58.7. Payroll intensity climbed 3.2 percentage points from 75.8 to 79.0 percent.

Employees 2010

	Annual average*			Year-end		
	Germany	Abroad	Total	Germany	Abroad	Total
Rail Infrastructure	647	2,508	3,155	670	2,477	3,147
Transportation	972	809	1,781	968	744	1,712
Vossloh AG	48	0	48	47	0	47
<b>Total</b>	<b>1,667</b>	<b>3,317</b>	<b>4,984</b>	<b>1,685</b>	<b>3,221</b>	<b>4,906</b>

\*Annual average based on monthly data

## Recruiting and developing employees

For Vossloh, employees are the key to success and hence high-quality apprenticeship courses and carefully compiled HR development programs command high priority.

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

There are also wide-ranging blue-collar courses on such subjects as welding, load securing/hazardous goods, and the operation of forklift trucks.

The Vossloh Academy is an intercompany institute with a web portal from where (initially only) employees in Germany can register online for seminars. Dealt with are topics of assistance in daily work to ensure that future challenges are successfully addressed.

Launched in 2009, the program under the title “We lead Vossloh” went into its second successful round last fiscal year. It acts as a platform for regularly sharing ideas among staff in key positions across all business units. Concurrently, the program serves as a basis for the ongoing personal development of these employees and thus as an essential component for strengthening staff loyalty and planning for jobholder succession.

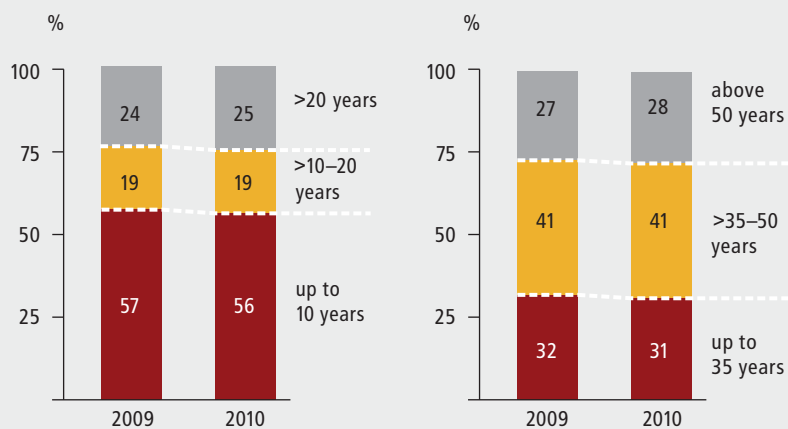
To make sure we recruit in good time well-trained and qualified employees, there are widely ranging relations with schools and universities, especially with European institutions of relevance to our industry. Some of these take the form of research and other project work.

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

Besides the direct-entry options we have the newly developed Vossloh start-up program to ease young engineering graduates' transition from university to professional life.

Proportion  
of apprentices:  
5.5 percent  
in Germany

Vossloh's own in-house apprenticeship courses play a major role in our talent recruitment efforts. During the period, the German companies hired 22 new blue-, white- and gray-collar apprentices and at year-end, the Werdohl, Düsseldorf, Kiel, Moers and Trier locations together employed 81 apprentices, equivalent to around 5.5 percent of the workforce at the German operations with apprenticeship opportunities.



Service years in %

Age structure in %

## OSH project

During the period, Vossloh's Executive Board and the European Works Council promoted the subject of occupational safety and health (OSH) to action priority #1. This is not only in response to the existing legislative parameters it is also to exercise responsibility for employees that this subject will be treated as a standing initiative on the European Works Council. It was agreed to set up a project group briefed to analyze in its entirety the situation regarding OSH, introduce a reporting system and on the basis of this, map out suitable measures.

## Thanks to the employees

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 respective markets and are constantly investing in product and service improvements. One of their prime aims is to satisfy the specific requirements of customers in the various market regions. In addition, Vossloh repeatedly works on pioneering new solutions. Activities in this area were again intensified in 2010 in order to broaden the product portfolio and adapt it to emerging development trends on the markets. In research and development (R&D), the business units resort to cooperation both intragroup and with external specialists, and to partnerships with universities and scientific institutions. Since a large share of R&D takes place in connection with specific contracts, the associated costs are reflected in the cost of sales and not in R&D expenses.

## W 30 for Russian conditions

A major innovation driver at Vossloh Fastening Systems is the development of individual customer solutions to address requirements specific to a certain region. The period saw the successful completion of further developed W 30 rail fasteners. In Russia, the W 30 has to cope with temperatures ranging between  $-60$  and  $+50$  °C while in the North American market, it is the heavy-haul lines where it is chiefly used. For the US market and elsewhere, new rail fastening systems were developed, some with new materials. Vossloh Fastening Systems' long-range R&D efforts are looking into noise-abatement options and the interaction between dowels and concrete sleepers.

Vossloh Switch Systems assembled the first prototype of a new switch developed in recent years and now undergoing track tryout. Further engineering tests were carried out on eco-friendly zero-lubrication switches with a view to coming up with coatings that minimize rail chair friction resistance. Official approval was given to a novel kind of spring-roller rail chair. This will reduce the force required to actuate very long and high-speed switches.

Together with associates, Vossloh Cogifer is scouting for (combinations of) materials to replace the timber sleepers still being used in many countries. Work pushed ahead on various switch machines to help extend maintenance and service intervals. Also to be tested in 2011 are new features on conventional switch machines and a new kind of multiple-drive actuation switch for high-speed tracks. Completed in 2010 was work on the Algerian version of a new switch monitoring system NUMCOM; using Internet telephony the system can also be modified to match a variety of regional markets.



## Further developing switch actuation and monitoring systems

Vossloh Rail Services developed and designed in 2010 a new-generation high-speed rail grinding train. These new vehicles featuring advanced high-speed grinding technology are being built in close teamwork with Kiel-based Vossloh Locomotives. Acquired at the start of 2010, this business unit again developed semistationary welding techniques. These are two disciplines essential to the planned international expansion of Vossloh Rail Services.

High-speed  
grinding

A much talked-about rail industry subject in 2010 was the extension of Vossloh Transportation Systems' product portfolio. There is about to be an addition to the family of new modular center-cab locomotives at Kiel where engineers are busy working on the four-axle G 12 and DE 12 (up to 1,200 kW) and the G 18 and DE 18 (up to 1,800 kW) for shunting and mainline freight haulage. The "G" stands for *Gelenkwellenantrieb* (articulated shaft drive) on the diesel-hydraulic models; DE for "diesel-electric." All four-axle models in this locomotive family come with a choice of output, weight, software and now, driveline. Kiel's new diesel-electric driveline is a joint effort with Vossloh Electrical Systems. The Valencia location presented its *EUROLIGHT*, an offshoot of the best-selling EURO 4000. Underweight, it will also run on lines destined for limited axle loads and is intended for European secondary lines. A forthcoming addition to the Valencia breed will be the EURO 3000. Big steps forward were taken in 2010 by the first all-Vossloh train, a new local transport vehicle based on the proven train-tram to come into service on Mallorca in 2011. The Valencia engineers, too, teamed up closely with Vossloh Electrical Systems in developing the train-tram's driveline. Vossloh Transportation Systems is engaged in a whole series of R&D projects probing into options for a further reduction in locomotive exhaust and noise emissions.

Modular  
locomotive  
family with  
Vossloh's  
proprietary  
driveline

Hybrid technology for buses was again the R&D focus at Vossloh Electrical Systems in 2010. Heading the agenda was another reduction in environmental impact and improved cost savings through, for instance, less fuel consumption (enhancing energy efficiency). Contributing toward this goal are such features as automatic start-stop (diesel engine switches off when vehicle stops) and an intelligent energy management system (satellite-based vehicle position location to calculate in advance power and energy needs and accordingly manage the deployment of resources). In the course of a pilot project, tests started on a fuel-cell drive system running on eco-friendly hydrogen. In 2010, four such local-transit buses traveled to Amsterdam and Cologne where they will go into regular service over a number of years.

Hybrid technology  
again focal point

The business unit was largely involved in developing Vossloh's new diesel-electric driveline for locomotives and commuter trains.

# *Environmental protection*

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

Vossloh's diesel locomotive developers naturally make sure that their vehicles are as fuel-efficient as possible and thus minimize CO<sub>2</sub> emissions. The principle of "zero emissions" also applies to the (trolley)buses with traction technology from Vossloh Kiepe. Another benefit derived from these local transport vehicles is that they are very quiet in operation, a fact much appreciated by passengers and bystanders alike. Conventional buses can also improve their environmental profile with Vossloh technology in the form of hybrid drive for reducing exhaust and noise emissions. Other buses fitted with even greener fuel-cell hydrogen systems from Vossloh are presently being put to the test.

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 rated by Inrate, Sarasin 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 local environmental authorities demonstrate the consistent observance of all the legal and official limits and compliance with the permitted ceilings, in some cases even by a wide margin. As far as possible, residues are consistently recycled, while solid wastes are systematically separated.

Fiscal 2010 was a period in which the Vossloh Group scaled new heights in terms of sales. Accordingly, production volumes mounted at nearly all the locations. Despite the efficient use of natural resources, the added business led to a rise in total consumption of power (67.6 million kWh and 7 percent over 2009) and gas (123.1 million kWh and 14 percent up). Most of the extra gas was consumed by new hardening and tempering equipment in the German and Chinese rail fastener facilities. District heating consumption rose 15 percent to 13.4 million MWh as did water consumption to 139,500 m<sup>3</sup>, up 5 percent.



The disproportionate rise in district heating was due to the Switch Systems business unit. Fuel oil consumption, in contrast, fell by 3 percent to 1,127 million liters. Altogether, energy costs mounted 10.4 percent from €12.5 million to €13.8 million. As these costs showed a shallower rise than sales, their ratio to sales dropped to 1.0 percent. So as to obtain even better control of energy and water consumption, a groupwide uniform energy measuring system has been gradually introduced since 2009.

Energy costs  
1 percent of sales

At its Werdohl headquarters, Vossloh is currently step by step implementing a new energy concept one of whose components is to exploit the heat discharged by the hardening and tempering equipment. 2010 saw the decommissioning of the central steam boiler which until now had produced all the process and other heat. Process steam is now generated where needed by small, highly efficient local units. The right temperature in the production shops is ensured by likewise high-efficiency radiant heaters. Energy efficiency was also a criterion in the design of Vossloh Fastening Systems' new Technology Center which completely dispenses with fossil fuels, utilizes waste heat from the plant and machinery for its heating and transfers any surplus energy to other buildings.

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

The 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. Vossloh Rail Vehicles, Valencia, and Vossloh Kiepe Main Line Technology, Düsseldorf, followed on the heels of Vossloh Kiepe Austria, Vienna, and were awarded certification to IRIS (International Railway Industry Standard) in the course of 2010. 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. In accordance with the principle of sustainability in economic, ecological, safety and health respects, Vossloh Cogifer is in the process of merging its environmental management with quality and safety management to yield an integrated risk management system.

DIN EN ISO 14001  
at the  
large locations

# *Risk and reward management*

## Organization

Risks and rewards are, according to plan, identified, analyzed, assessed, reported, monitored and controlled at all levels of the Vossloh Group. To this end, Vossloh has set up a groupwide risk and reward management system. This proactive and systematic risk and reward management system ensures that the impact of possible adverse changes is avoided or contained and that any opportunities arising are indicated and seized. In this way, the system plays a major role in achieving financial targets and hence adding sustainable value to the Vossloh Group.

The risk and reward management system is part of the business, planning and controlling mechanisms. The system's setup is defined and described in groupwide principles, policies and procedures. The organizational setup is based on the structure of the operating processes and procedures of the respective unit. Risk owners, risk officers and risk controllers are appointed at all group levels. The identification of risks and rewards is ensured by a perpetual risk inventory in which relevant risks are identified effectively, timely, and systematically. Risks are registered and profiled 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 interval between the worst case and best case and the most probable impact on earnings are determined. These are supplemented by an assessment of loss probability. For the best and worse case scenarios, a value-at-risk approach with a minimum probability of 5 percent is assumed.

All the (direct or indirect) Vossloh subsidiaries, both in Germany and abroad, are integrated into the risk and reward management system irrespective of their consolidation. Those acquired in 2010 were integrated into the system in good time.

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



These reports are addressed to Vossloh AG's Executive Board as well as the 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 report below accounts for those risks and rewards which were of relevance at the time the consolidated financial statements were prepared and which are material to the Vossloh Group's future development. Risks whose impact has already been recognized in the balance sheet in the form of write-down, allowances, haircuts and/or provisions or which have been shifted by contract, e.g. to insurers, are not covered by the following report unless deemed essential for the overall evaluation of the risk situation, such as if a material residual risk is retained. Rewards and opportunities chiefly result from operating business (e.g., through incremental revenue). For added details on these turn to the *Prospects* chapter.

## General economic and sector risks and rewards

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

Rail business is normally less volatile compared with the economy in general. Certain submarkets display, moreover, signs of an upswing only after a certain time lag. Despite the evident economic recovery in 2010 there is still the latent risk that here and there state and/or private customers will shelve or even in some cases cancel contracts.

Restraints on funds might also depress future business. The financing capabilities of the public sector are limited by the current sovereign-debt situation. Increasingly under review for new projects are alternative financing arrangements such as public-private partnerships. Austerity measures in the maintenance market, one of significance to Vossloh, are of only limited duration and restricted scope due to the expanding volume of rail haulage.

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 Transportation, Vossloh ranks among the foremost suppliers on selected rail industry markets. The markets of relevance to Vossloh are oligopolistic by nature both on the demand and supply sides. Most of the customers are rail and network operators, as a rule still under public-sector control. This implies dependence on public-spending patterns. Vossloh attempts to abate such risks by expanding its international presence. Exploiting market opportunities as they surface, especially in the Rail Infrastructure division, brings about a balancing effect. At the focus of Vossloh's internationalization drive are presently the growth markets China, Russia, other Eastern European countries, the MENA states, the United States, and South America. In recent years the Group has much reduced its reliance on individual European markets. In 2010, non-European sales at 29.5 percent were at an all-time high. The share in 2009 had been 27.1 percent. For 2011, non-European sales are expected to once more rise.

Rail markets in Western Europe and North America are more or less stable in terms of their political and economic environments and hence as far as these core markets are concerned, there are no major risks confronting the Group. Accessing new markets elsewhere, especially Asia and Africa, does expose Vossloh not only to opportunities but also risks possibly arising from political and social instability, exchange rate fluctuations and legal uncertainties. As the percentage of sales in these markets grows, both opportunities and risk exposure rise.

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



## Operating risks and rewards

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

Vossloh attempts to counteract purchase price (input market) risks especially by long-term procurement contracts or price escalator clauses through agreements with customers. Exchange rate risks from purchasing are normally contained by currency forwards. With commodities (especially steel and oil) becoming scarcer, this will lead in the medium term to higher production costs, especially for Rail Infrastructure. Component prices at Transportation impact on earnings. Price hikes in 2010 could not be wholly downloaded onto customers. The medium-term planning assumptions of increases in the cost of materials and components are based on such factors as supplier information and market analyses. Any rises significantly above these assumptions may drain profitability as forecast by the divisions. Rewards may accrue from material and component prices that turn out to be lower than budgeted.

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

Along the value-adding chain, Vossloh subsidiaries are exposed to work interruption, quality 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 or policies that govern project and quality management, product and occupational safety, as well as environmental protection. The essential Vossloh locations have been certified to the DIN ISO 9001 quality management system and moreover the large ones such as the Chinese rail fastener facility fulfill the criteria of the ISO 14001 environmental management standard.

Project complexity is another source of risks. 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 financial penalties. Contractual provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. Especially exposed to risks of this nature is Transportation. Rewards may arise when risk provisions are not (fully) utilized.

Project risks arising in 2010 and still existing have been provided for as required by the IFRS.

## **Financial risks and rewards**

Financial risks are monitored and managed, and the Group's finances precision-engineered, by Corporate Treasury. The goals, principles, responsibilities and accountabilities are defined in policy statements. The overriding aim is to contain financial risks that might affect the survival and profitability of the Vossloh Group. This also means, however, that potential rewards are very sparse. 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 forecast transactions. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, turn to the notes to the consolidated financial statements starting on page 172. The following financial risks are controlled: liquidity risks, price risks, default and counterparty risks, as well as cash flow risks.

### **Liquidity risks**

Liquidity risks may arise if the Group is potentially unable to provide the funds required to meet its obligations in due course and fully. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies) through a rolling cash management system. An intragroup financial netting concept through cash pooling and intercompany loans ensures the best possible application of any surplus cash at certain subsidiaries to meet the liquidity requirements at other group companies. As of December 31, 2010, the Vossloh Group had cash and cash equivalents (including short-term securities) of a total €75.9 million. In addition, bilaterally committed, unutilized credit facilities of another €252.3 million were at Vossloh's disposal, mostly due within one year.

The two major long-term borrowings raised need not be refinanced before 2014 and 2016. The very low net leverage ensures that no financial or cash bottlenecks occur.

**Cash flow risks**

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

**Price risks**

Price risks arise from the possibility that the value of a financial instrument is changed by higher or lower market interest or exchange rates. With a view to benefiting for a long term from the low interest rates, the Group restructured its finances in 2004 by raising one ten-year and one twelve-year loan under a US private placement of a total \$240.0 million (around €200 million). As part of its proactive risk management concept, Vossloh has fully hedged future principal and interest payments through interest rate and cross-currency swaps on a euro basis. For details, see the notes to the consolidated financial statements, starting from page 180. Current or expected currency receivables and payables represent an unmatched position which is generally closed by contracting currency forwards.

**Default risks**

Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to Vossloh. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies. As of December 31, 2010, cash investments and financial derivatives with a positive fair value were allocable at 37 percent to counterparties rated between AA+ and AA–, at 46 percent to those rated from A+ to A–, at 15 percent to counterparties rated BBB+ (according to Standard & Poor's), and 2 percent to BB-rated or non-rated counterparties. In fiscal 2010, the rating of banks essentially remained unchanged. Monies are centrally deposited in Germany 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.

Many of our customers are government agencies, and the risk of their default is regarded as very low.

In export business, the risk of customer default is usually counteracted by using documentary credits.

On balance, the Vossloh Group's net earnings were in 2010 not affected to any significant degree by financial risks.

### Legal risks and rewards

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

None of these legal risks influenced the Group's earnings in 2010 to any substantial negative degree.

### Other risks and rewards

These are mainly of a human resources or IT nature. The Group's economic situation may well suffer as a result of substandard staffing such as shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, poor training, mistakes or theft committed by employees. Vossloh has a whole menu of measures to abate such risks: in particular, 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. The control of operational and strategic business processes largely relies on complex and powerful IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability, confidentiality and security. Such mechanisms and instruments also ensure efficient information processing.

None of these "other risks" influenced the Group's earnings in 2010 to any substantial degree.

## Overall assessment of the risk and reward situation

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

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

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

### **Vossloh ICS/RMS definitions and elements**

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).

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

Responsible at group level for the ICS are substantially 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 separate and consolidated financial statements, as well as the focal interim audit procedures upstream of the annual audit of the separate financial statements are essential process-unrelated monitoring procedures that center on the corporate accounting system.

## **IT**

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

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

### **Safeguards for a valid and reliable accounting system**

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. The Manual is periodically revised and updated and then placed in due course at the disposal of all those involved in the Group's accounting process.



After transactions have been recorded in the local accounting system of each subsidiary, the monthly accounts are reviewed at the level of the business unit 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 ICS and RMS substantially ensure (i) the complete accounting for, as well as the processing and assessment of, Vossloh-related transactions and events, and (ii) the faithful representation thereof in the consolidated financial statements.

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

### **Limitations**

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

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

For the corporate governance report (which is an integral part of the combined management report) see page 42 of this annual report. The annual report is also available long term on Vossloh AG's website at [www.vossloh.com](http://www.vossloh.com)

## Subsequent events

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

*Market-outpacing growth  
budgeted for 2011 and 2012*

*EBIT margin to be maintained  
at 11.0 to 11.5 percent*

*Capex of €90 million (2011)  
and €60 million (2012) to better  
exploit market opportunities*

*Net debt remaining low*

*Sufficient financial scope for  
acquisitions in selected sectors*



# Prospects

The years 2011 and 2012 are expected to see a continuation in economic recovery. Accordingly and for this year, the International Monetary Fund (IMF) is counting on a global economic growth of 4.4 percent to be followed by 4.5 percent in 2012. In those markets chiefly of relevance to Vossloh—Euroland, China, North America, and the CIS—the IMF likewise predicts stable growth rates. Whereas the eurozone countries—driven especially by the ongoing resurgence in Germany—are likely to show rates of 1.5 and 1.7 percent in 2011 and 2012, respectively, US figures are gauged at 3.0 and 2.7 percent for these two years. As to the CIS, the IMF is looking to 4.7 and 4.6 percent expansion in 2011 and 2012, respectively. China's gains are set at 9.6 and 9.5 percent. These are all regions where Vossloh generates just under three-quarters of its total business.

Propelled by the general economic trend, global trading volumes will advance significantly over the years ahead. For 2011, the IMF expects a growth of 7.1 percent and the year thereafter, 6.8 percent. Trading volumes and the related demand for haulage services are among the prime driving forces in the rail technology markets. These latter will also benefit over the coming years from ongoing urbanization and the increasing significance of ecological issues.

Rail technology  
market driven  
by rising haulage  
volumes and  
urbanization

The Association of the European Rail Industry predicts in its Worldwide Rail Market Study 2010 annual growth rates of around 2.3 percent in the rail technology market for the period up to 2015/16. The study carried out by The Boston Consulting Group (BCG), estimates the value of the presently accessible market at €95 billion, which will then proceed to €112 billion by 2015/16.

The study assesses the global rail infrastructure market currently at around €20 billion, with Western Europe accounting for €6.6 billion, NAFTA for €5.6 billion and Asia/Pacific for €4.9 billion, these being the biggest regions for rail infrastructure products and services. The compound annual growth rate for the years ahead is stated at 0.7 percent. Experts expect exceptional growth especially in the CIS and Latin America. Risks over the period ahead might emanate from possible reductions in China's rail infrastructure expenditures.

The accessible rolling stock market is gauged by the study at just under €37 billion, the major share accounted for by Asia/Pacific at 40 percent and Western Europe at 28 percent. This market's growth over the next few years is assessed at an annual 2.5 percent.

Outpacing the market in general will be Eastern Europe and the CIS due to their urgent replacement needs and the USA because of rising freight traffic.

Vossloh planning growth to outpace market	<p>For 2011 and 2012, Vossloh is acting on the assumption of being able to outgrow the rail infrastructure market just as it has done in the past. Over the preceding six years, Vossloh's growth rate has comfortably surpassed that of the global rail infrastructure's annual average 4.6 percent. Whereas the overall market is predicted to advance annually by 0.7 percent in the years to come, Vossloh is forecasting for itself an annual rate of about 5 percent. It is especially in Asia that we are looking to better-than-average gains in our rail infrastructure business. And for our Transportation division, we are for up to 2012 counting on expansion rates superior to the annual overall 2.5 percent.</p>
Expenditures on new locations	<p>A contributing factor in Rail Infrastructure's growth will be continuing internationalization. Among the items of expenditure in the years to come will be around €15 million for setting up a rail fastener production plant in Russia. In China, we have concluded an agreement with local venturers for manufacturing switch systems for commuter and industrial rail networks. Vossloh's share of the outlay is also in the region of €15 million. The Rail Services business unit is proceeding according to plan on the further development of its high-speed grinding technique so that this service can be marketed on an international scale, too. To this end, around €13 million has been earmarked. Many of the division's locations are planning expenditures for broadening their capacities and updating their production facilities in 2011 and 2012.</p>
New locomotives allow access to new markets	<p>The Transportation division sees cargo haulage and local public transport as the markets in which it commands a solid position. Both these can be expected to show definite growth in the years ahead. Especially promising are the newly developed products. The new Kiel-based center-cab locomotives are based on a modular platform. Also, the diesel-electric drivelines developed at Kiel together with the Electrical Systems business unit not only mean greater vertical integration, for the first time they also allow Vossloh access to the high-growth markets of Eastern Europe and the MENA states. The new locomotives comply with the modified legislation regarding crashworthiness, noise abatement, and emission control. Expenditures in the development of the modular center-cab locomotive family—the work will be completed in 2012—add up to €24 million. Of this, €6 million will be spent this year.</p>

Following the recent economic crisis, the latter half of 2010 saw an evident resurgence in demand for locomotives built at Kiel. The Valencia location is likewise well equipped thanks to its new products. Joining the EURO 4000 is now the *EUROLIGHT*, a locomotive designed for sections of rail with limited axle loads to allow entry into new markets with such rail lines as in Eastern Europe, Southern Europe, and secondary lines in Western Europe.

Altogether €11 million is being invested in this development and of this amount €3 million will be incurred in 2011. Alongside the train-tram and the metros, the local transport product portfolio in 2011 will be extended by the first all-Vossloh tram developed together with Vossloh Electrical Systems. Total expenditures on this amount to €14 million, including €6 million in 2011. Both development projects are set to be completed more or less in 2011. In contrast to the Kiel location, demand at Valencia was still weak in 2010 in the wake of the economic crisis. Hence, for 2011 we are expecting significantly lower sales than in the preceding years. Nonetheless, we do expect rising demand this year. At the start of 2011, a major contract was awarded for fifteen EURO 3000 and fourteen EURO 4000 locomotives.

Megacontract  
for Valencia

In all, Vossloh will in 2011 and 2012 spend €90 million and €60 million, respectively, in order to propel its organic growth and strengthen its market positions. Both years, the expenditures will therefore once again outstrip amortization/depreciation at €40 million and €45 million, respectively.

Vossloh Group: sales and performance trends

		2010	2011p
Sales	€ bill.	1.35	approx. 1.4
EBIT	€ mill.	152.1	>160
EBIT margin	%	11.3	11 to 11.5
ROCE	%	17.2	approx. 17
Value added	€ mill.	54.8	approx. 65
Earnings per share (EpS) from continuing operations	€	6.92	approx. 7.20

p = plan

Profitable growth  
planned for  
the years ahead

The Vossloh Group is budgeting sales in 2011 and 2012 that will exceed the all-time high of 2010. For 2011, we are forecasting sales of around €1.4 billion (up from €1.35 billion in 2010). For 2012, Vossloh is planning sales of around €1.5 billion. In 2011, EBIT should top €160 million and, in 2012, even €170 million. So, the EBIT margin in both years will be unchanged versus 2010 and stand at between 11.0 and 11.5 percent and hence remain above the 10-percent benchmark. Group earnings should rise from €95 million in 2011 to about €100 million in 2012. Accordingly, EpS in 2012 will amount to around €7.50 compared with €7.20 in 2011. Value added as the key performance indicator will advance slightly—despite the heavy capex budgeted—from around €55 million in 2010 to about €65 million in 2011 and then to €75 million in 2012.

## Vossloh Group: indicators

		2010	2011 p
Closing working capital	€ mill.	258.0	approx. 260
Year-end working capital intensity	%	19.1	approx. 19
Capital expenditures*	€ mill.	57.9	approx. 90
Average capital employed	€ mill.	884.5	900 to 950
Net financial debt	€ mill.	136.6	100 to 150
Net leverage	%	23.5	20 to 25

p = plan

\*excl. M&amp;A

Working capital will close 2011 at around €260 million and should remain at the level of 2010 and, in 2012—in line with rising sales—again mount. Working capital intensity at the end of 2011 would then again be 19 percent. As to capital employed, we expect this to rise to €900 million or €950 million in 2011 and again slightly in 2012. ROCE will therefore in fiscal 2011 amount to around 17 percent and in 2012 this will climb to 18 percent. In both fiscal periods, it will be comfortably above the 15-percent benchmark.

Despite the heavy expenditures, the Group's net debt in 2011 and 2012 will remain at a conservative level. Net leverage will range between 20 and 25 percent. Net financial debt over the next two years will be between €100 million and €150 million.

Net financial debt  
to remain moderate

Besides general economic conditions, Vossloh's sales plans are based above all on assumptions specific to the various business units, concerning such factors as product prospects, expected maneuvers by competitors, project probability and market opportunities and risks in individual regions. Unlike other industries, the rail has more reliable parameters for its own plans. Vossloh's customers are public and private short-distance and long-haul operators that invest according to long-term decision processes and longer-term financing settings. In our partnering role, we side with our customers over many years. Together, we develop and plan specific solutions for their individual product requirements.



Opportunities  
from global  
presence and  
accessing  
new markets

As a rule, this leads to protracted delivery and project execution times. Accordingly, our order backlog covers a number of months and in some cases, contracts awarded take several years to complete. Risks may therefore emanate partly from the cyclic order-placing response of public and private customers in the individual markets. The compulsion to consolidate public budgets in certain regions may impact adversely on rail technology markets. Fluctuations in certain regions have in the past been largely offset by Vossloh through its global presence. In recent years, this has been amplified by accessing new markets especially in Asia, North America, and Eastern Europe. In our Rail Infrastructure division in past years we have been involved in acquisitions and new establishments in these regions, too, or are planning such measures for the years ahead. Nonetheless, besides opening up new opportunities, accessing new markets is also associated with additional risks. These may surface from political and social instability or legal uncertainties. In August 2010 and in the course of the rebuilding of the Libyan rail network, Vossloh was awarded two megacontracts worth a total €115 million. Following the violent clashes in Libya in early 2011 deliveries were suspended at the request of the general contractor. The sales shortfall of up to around €70 million in 2011 will largely be offset by additional sales in other regions. Regarding further risks affecting the medium-term plan, refer to the risk report on page 104.

Prospects:  
Vossloh AG

The bottom line of Vossloh AG as a genuine management and financial holding company is primarily affected by administrative expenses and net financial results. General administrative expenses are set to remain at their current level in 2011 and 2012, too.

M&A may supple-  
ment organic  
growth

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. Acquirees should always meet group requirements from the outset while adding value. The medium-term plan figures in the form represented refer to the envisaged organic growth alone.





# *Consolidated financial statements of Vossloh AG as of December 31, 2010*

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## Income statement for the year ended December 31, 2010

€ million	Note	2010	2009
Net sales	(1)	1,351.3	1,173.7
Cost of sales	(2.1)	(1,055.9)	(916.3)
General administrative and selling expenses	(2.2)	(157.7)	(134.2)
R&D expenses	(2.3)	(10.9)	(11.2)
Net other operating income	(3)	24.2	26.0
<b>Operating result</b>		<b>151.0</b>	<b>138.0</b>
Net P/L from associated affiliates		1.4	(0.2)
Other financial income	(4)	0.1	0.6
Other financial expenses	(5)	(0.4)	(0.5)
<b>EBIT (earnings before interest and taxes)</b>		<b>152.1</b>	<b>137.9</b>
Interest income		11.5	13.4
Interest expense		(23.2)	(22.8)
<b>EBT (earnings before taxes)</b>		<b>140.4</b>	<b>128.5</b>
Income taxes	(6)	(34.6)	(31.8)
Net result of discontinued operations	(7)	5.3	–
<b>Total net income</b>		<b>111.1</b>	<b>96.7</b>
thereof <b>group earnings</b> (Vossloh stockholders)		97.5	87.9
thereof minority interests	(8)	13.6	8.8
Earnings per share (EpS)			
Undiluted/fully diluted EpS* (€)	(9)	7.32	6.57

\*During fiscal 2010 and 2009, altogether 13,320,338 and 13,380,908 no-par shares of stock, respectively, were issued and outstanding on average.

## Statement of comprehensive income for the year ended December 31, 2010

€ million	2010	2009
<b>Total net income</b>	<b>111.1</b>	<b>96.7</b>
<b>Statement at fair value of derivatives in CFHs</b>		
Change in OCI	2.9	(12.7)
Gains/losses recycled from OCI to income statement	(0.2)	0.7
<b>Statement at fair value of securities available for sale</b>		
Change in OCI	0.0	0.0
<b>Currency translation differences</b>		
Change in OCI	11.6	0.0
<b>Deferred taxes</b>		
on OCI changes	(0.8)	3.5
<b>Total OCI</b>	<b>13.5</b>	<b>(8.5)</b>
<b>Comprehensive income</b>	<b>124.6</b>	<b>88.2</b>
thereof Vossloh stockholders	108.2	80.2
thereof minority interests	16.4	8.0

## Cash flow statement for the year ended December 31, 2010

€ million	2010	2009
<b>Cash flow from operating activities</b>		
EBIT	152.1	137.9
Net result of discontinued operations	5.3	–
Amortization/depreciation/write-down (less write-up) of noncurrent assets	39.8	24.6
Change in noncurrent accruals	(9.5)	21.3
<b>Gross cash flow</b>	<b>187.7</b>	<b>183.8</b>
Noncash change in shares in associated affiliates	(1.4)	0.2
Other noncash income/expenses, net	11.8	(4.7)
Net book loss/(gain) from the disposal of tangibles and intangibles	0.3	(4.7)
Cash outflow for income taxes	(34.7)	(30.9)
Change in working capital	(7.3)	(92.3)
Change in other assets/liabilities, net	(17.3)	(6.5)
<b>Net cash provided by operating activities</b>	<b>139.1</b>	<b>44.9</b>
<b>Cash flow from investing activities</b>		
Cash outflow for additions to intangibles/tangibles	(57.9)	(39.5)
Cash outflow for investments in noncurrent financial instruments	(6.6)	(5.7)
Cash inflow from the disposal of intangibles/tangibles	0.3	0.8
Cash (outflow for)/inflow from short-term securities (purchased)/sold, net	(0.4)	(0.7)
Cash inflow from the disposal of noncurrent financial instruments	1.0	0.1
Cash outflow for additions to shares in associated affiliates	(0.9)	–
Cash outflow for the acquisition of consolidated subsidiaries and other units	(86.6)	(7.3)
<b>Net cash used in investing activities</b>	<b>(151.1)</b>	<b>(52.3)</b>
<b>Cash flow from financing activities</b>		
Change in treasury stock	0.4	(43.5)
Cash (outflow for)/inflow from changes in equity	0.0	0.0
Cash outflow for dividend payout	(36.5)	(45.9)
Net finance from short-term loans	(31.9)	20.4
Net finance from medium-/long-term loans	2.6	(1.4)
Cash inflow from interest	16.7	9.1
Cash outflow for interest	(23.1)	(22.8)
<b>Net cash used in financing activities</b>	<b>(71.8)</b>	<b>(84.1)</b>
Net outflow of cash and cash equivalents	(83.8)	(91.5)
Change in cash and cash equivalents from initial consolidation/derecognition	1.9	0.2
<b>Opening cash and cash equivalents</b>	<b>156.5</b>	<b>247.8</b>
<b>Closing cash and cash equivalents</b>	<b>74.6</b>	<b>156.5</b>

## Balance sheet

Assets in € million	Note	12/31/2010	12/31/2009
Intangible assets	(10)	406.2	322.1
Tangible assets	(11)	162.0	121.6
Investment properties	(12)	6.1	4.5
Shares in associated affiliates (at equity)	(13)	5.5	0.4
Other noncurrent financial instruments	(14)	11.0	9.6
Sundry noncurrent assets	(15)	0.4	0.8
Deferred tax assets	(16)	35.2	30.6
<b>Total noncurrent assets</b>		<b>626.4</b>	<b>489.6</b>
Inventories	(17)	300.5	342.0
Trade receivables	(18)	360.6	298.9
Income tax assets	(19)	6.2	3.8
Sundry current assets	(20)	36.2	46.8
Short-term securities	(21)	1.3	0.8
Cash and cash equivalents	(22)	74.6	156.5
<b>Total current assets</b>		<b>779.4</b>	<b>848.8</b>
<b>Total assets</b>		<b>1,405.8</b>	<b>1,338.4</b>

Equity and liabilities in € million	Note	12/31/2010	12/31/2009
Capital stock	(23.1)	37.8	37.8
Additional paid-in capital	(23.2)	42.7	42.7
Treasury stock	(23.3)	(105.8)	(106.2)
Reserves retained from earnings	(23.4)	467.7	410.5
Undistributed group profit		7.0	4.5
Group earnings		97.5	87.9
Accumulated other comprehensive income	(23.5)	5.2	(5.0)
<b>Stockholders' equity</b>		<b>552.1</b>	<b>472.2</b>
Minority interests	(23.6)	27.9	20.4
<b>Total equity</b>		<b>580.0</b>	<b>492.6</b>
Pension accruals	(24)	11.7	9.7
Noncurrent tax accruals	(25)	0.0	2.7
Other noncurrent accruals	(25)	75.8	83.7
Noncurrent financial debts	(26.1)	187.0	167.9
Other noncurrent liabilities	(26.4)	26.2	47.2
Deferred tax liabilities	(16)	36.9	24.3
<b>Total noncurrent liabilities and accruals</b>		<b>337.6</b>	<b>335.5</b>
Current tax accruals	(25)	10.1	3.8
Other current accruals	(25)	157.9	137.3
Current financial debts	(26.1)	25.5	59.6
Trade payables	(26.2)	204.9	229.9
Income tax liabilities	(26.3)	3.9	5.3
Other current liabilities	(26.4)	85.9	74.4
<b>Total current liabilities and accruals</b>		<b>488.2</b>	<b>510.3</b>
<b>Total equity and liabilities</b>		<b>1,405.8</b>	<b>1,338.4</b>

## 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
<b>Balance at 1/1/2009</b>	<b>37.8</b>	<b>42.7</b>	<b>(62.7)</b>	<b>315.4</b>	<b>0.1</b>	<b>139.4</b>	<b>3.1</b>	<b>475.8</b>	<b>16.9</b>	<b>492.7</b>
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
Change in equity interests				(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)
<b>Balance at 12/31/2009</b>	<b>37.8</b>	<b>42.7</b>	<b>(106.2)</b>	<b>410.5</b>	<b>4.5</b>	<b>87.9</b>	<b>(5.0)</b>	<b>472.2</b>	<b>20.4</b>	<b>492.6</b>
Carryforward to new account					87.9	(87.9)		0.0		0.0
Transfer to reserves retained from earnings				57.2	(57.2)			0.0		0.0
Change due to derecognition					(0.3)		(0.5)	(0.8)	(0.5)	(1.3)
Change due to initial consolidation					(1.3)		0.0	(1.3)	1.5	0.2
Comprehensive income						97.5	10.7	108.2	16.4	124.6
Capital increases from EBP 2010 and SOPs	0.0	0.0						0.0		0.0
Dividend payout					(26.6)			(26.6)	(9.9)	(36.5)
Disposal of treasury stock			0.4					0.4		0.4
<b>Balance at 12/31/2010</b>	<b>37.8</b>	<b>42.7</b>	<b>(105.8)</b>	<b>467.7</b>	<b>7.0</b>	<b>97.5</b>	<b>5.2</b>	<b>552.1</b>	<b>27.9</b>	<b>580.0</b>



## Segment information by division/business unit

€ million		Fastening Systems	Switch Systems	Rail Services	Consolidation	Rail Infrastructure
<b>Value added</b>	2010	54.3	5.2	6.7	(0.1)	<b>66.1</b>
	2009	58.0	9.6	–	(0.1)	<b>67.5</b>
<b>Net external sales</b>	2010	363.6	438.7	84.7	0.1	<b>887.1</b>
	2009	259.4	424.9	–	0.2	<b>684.5</b>
<b>Intersegment transfers</b>	2010	5.8	0.3	0.1	(1.8)	<b>4.4</b>
	2009	7.7	0.0	–	(1.9)	<b>5.8</b>
<b>Interest income</b>	2010	0.5	0.6	0.1	0.0	<b>1.2</b>
	2009	0.2	0.6	–	(0.1)	<b>0.7</b>
<b>Interest expense</b>	2010	(3.5)	(3.1)	(1.9)	0.0	<b>(8.5)</b>
	2009	(1.6)	(3.2)	–	(0.2)	<b>(5.0)</b>
<b>Amortization/depreciation</b>	2010	4.7	9.9	10.9	0.0	<b>25.5</b>
	2009	3.0	8.5	–	0.0	<b>11.5</b>
<b>Net P/L from associated affiliates</b>	2010	0.5	–	0.9	–	<b>1.4</b>
	2009	(0.2)	–	–	–	<b>(0.2)</b>
<b>Income taxes</b>	2010	17.2	16.0	4.3	(0.1)	<b>37.4</b>
	2009	18.4	17.5	–	(0.2)	<b>35.7</b>
<b>Net result of discontinued operations</b>	2010	–	–	–	5.3	<b>5.3</b>
	2009	–	–	–	–	<b>–</b>
<b>Other major noncash segment expenses</b>	2010	25.1	16.6	4.7	0.0	<b>46.4</b>
	2009	14.8	18.6	–	(0.2)	<b>33.2</b>
<b>Write-down of intangibles, tangibles and investment properties</b>	2010	0.3	–	–	–	<b>0.3</b>
	2009	0.0	0.0	–	0.0	<b>0.0</b>
<b>Write-up</b>	2010	–	–	–	–	<b>–</b>
	2009	–	–	–	–	<b>–</b>
<b>Total assets</b>	2010	218.3	423.0	113.6	197.5	<b>952.4</b>
	2009	199.8	379.9	–	200.0	<b>779.7</b>
<b>Liabilities</b>	2010	115.5	147.4	82.8	9.1	<b>354.8</b>
	2009	127.6	152.9	–	(0.5)	<b>280.0</b>
<b>Capital expenditures for noncurrent assets</b>	2010	12.1	14.2	3.0	0.0	<b>29.3</b>
	2009	4.6	17.0	–	0.0	<b>21.6</b>
<b>Shares in associated affiliates</b>	2010	0.9	–	4.6	–	<b>5.5</b>
	2009	0.4	–	–	–	<b>0.4</b>
<b>Average headcount</b>	2010	503	2,333	319	–	<b>3,155</b>
	2009	447	2,263	–	–	<b>2,710</b>

Transportation Systems	Electrical Systems	Consolidation	Transportation	Holding companies	Consolidation	Group
(9.0)	15.7	(0.1)	6.6	(14.4)	(3.5)	54.8
1.7	16.9	0.0	18.6	(14.0)	(8.4)	63.7
304.8	153.2	0.1	458.1	0.3	0.0	1,345.5
336.2	146.3	0.0	482.5	0.3	0.0	1,167.3
0.0	6.8	(5.2)	1.6	0.9	(1.1)	5.8
0.0	2.2	(1.5)	0.7	1.1	(1.2)	6.4
10.2	0.1	0.0	10.3	8.0	(8.0)	11.5
11.1	0.7	0.0	11.8	6.7	(5.8)	13.4
(6.3)	(1.4)	0.0	(7.7)	(15.2)	8.2	(23.2)
(7.1)	(1.2)	0.0	(8.3)	(15.3)	5.8	(22.8)
10.5	2.8	0.0	13.3	0.7	0.0	39.5
9.8	2.4	0.0	12.2	0.9	0.0	24.6
—	—	—	—	—	—	1.4
—	—	—	—	—	—	(0.2)
1.5	6.4	0.0	7.9	(10.7)	0.0	34.6
2.5	6.1	0.0	8.6	(10.1)	(2.4)	31.8
—	—	—	—	—	—	5.3
—	—	—	—	—	—	—
23.9	18.6	0.0	42.5	6.9	0.0	95.8
32.0	18.2	0.0	50.2	10.3	0.0	93.7
—	—	—	—	—	—	0.3
0.0	0.0	0.0	0.0	0.0	0.0	0.0
—	—	—	—	0.0	—	0.0
—	—	—	—	0.1	—	0.1
417.6	174.1	(2.1)	589.6	848.9	(985.1)	1,405.8
403.0	170.4	(1.8)	571.6	812.2	(825.1)	1,338.4
160.7	58.5	(2.1)	217.1	391.9	(430.4)	533.4
176.5	65.4	(1.8)	240.1	365.1	(300.9)	584.3
22.4	2.8	0.0	25.2	3.4	0.0	57.9
15.2	4.2	0.0	19.4	0.9	0.0	41.9
—	—	—	—	—	—	5.5
—	—	—	—	—	—	0.4
1,144	637	—	1,781	48	—	4,984
1,358	598	—	1,956	51	—	4,717

# Notes to the consolidated financial statements of Vossloh AG as of December 31, 2010

## General

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

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

On March 11, 2011, 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 30, 2011.

## New accounting rules

The following Standards and Interpretations, though published by December 31, 2010, (i) did not require application as of such date or (ii) were not yet endorsed as European law. In the case of (ii), the obligatory first-time application of a Standard or Interpretation as required by the IASB is indicated below.

IASB document	Published	To be applied as from	Endorsed by the EU	Significant effects
<b>New Standards</b>				
IFRS 9 <i>Financial Instruments</i>	November 2009/ October 2010	FY 2013	N/a	Effects of IFRS 9 on Vossloh AG's consolidated financial statements not yet finally assessed
<b>Revised Standards; yet to be endorsed by the EU</b>				
<i>Disclosures—Transfers of Financial Assets</i> (Amendments to IFRS 7)	October 2010	FY 2012	N/a	Additional disclosures in the notes may be required
<i>Improvements to IFRS</i>	May 2010	FY 2011	N/a	None expected

The early-application option was not exercised for 2010.

## First-time application of Standards/Interpretations

Application in fiscal 2010 of the following revised or amended Standards/Interpretations was obligatory for the first time:

IASB document	Published	Endorsed by the EU
<b>Amended Standards</b>		
IFRS 3 <i>Business Combinations</i>	January 2008	June 2009
IAS 27 <i>Consolidated and Separate Financial Statements</i>	January 2008	June 2009
IAS 39 <i>Financial Instruments: Recognition and Measurement</i> —Qualifying underlyings	July 2008	September 2009
IFRS 1 <i>First-Time Adoption of IFRS</i> —Additional Exemptions for First-Time Users	July 2009	June 2010
IFRS 2 <i>Share-Based Payment</i> —Group Cash-Settled Share-Based Payment Transactions	June 2009	March 2010
<i>Improvements to IFRS</i>	April 2009	March 2010
<b>Amended Interpretations</b>		
IFRIC 12 <i>Service Concession Arrangements</i>	November 2006	March 2009
IFRIC 15 <i>Agreements for the Construction of Real Estate</i>	July 2008	July 2009
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	July 2008	June 2009
IFRIC 17 <i>Distributions of Noncash Assets to Owners</i>	November 2008	November 2009
IFRIC 18 <i>Transfers of Assets from Customers</i>	January 2009	December 2009

Only the first-time application of IFRS 3 *Business Combinations*—with the exclusion of any other Standard/Interpretation—had an (if insignificant) effect on the consolidated financial statements, the accounting treatment of acquisition incidentals now being different.

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

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

Estimates are particularly required for the capitalization and impairment testing of goodwill (cf. Note 10), the recognition of deferred taxes (cf. Note 16), the determination of the discount rate for pension accruals (cf. Note 24), as well as for the recognition and measurement of other accruals (cf. Note 25).

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

## Consolidation

### Consolidation principles

Vossloh's consolidated financial statements comprise the financial statements of Vossloh AG and generally all its subsidiaries. Substantially all subsidiaries where Vossloh AG can exercise control through its directly or indirectly held voting majority 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 badwill is directly released to income.

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

Joint ventures are consolidated pro rata according to IAS 31, i.e., the assets, liabilities, income and expenses of joint ventures are included at the percentage of interest held. Capital is consolidated pro rata in analogous accordance with acquisition method principles. Where material, enterprises in which Vossloh owns an equity interest of between 20 and 50 percent and where Vossloh can exercise a significant influence on their business and financial policies (so-called associated affiliates) are carried at equity.

The remaining investees are disclosed at the lower of cost or market within *other noncurrent financial instruments*.

In fiscal 2010, the consolidation group changed as follows:

Consolidation group

As already mentioned in the preceding annual report, the acquisition of several enterprises of the Stahlberg-Roensch (SR) Group as well as of the Contrack Group meant that the following subsidiaries were newly consolidated as of January 1, 2010:

- Vossloh Rail Services GmbH, Werdohl
- Stahlberg, Roensch GmbH & Co. KG, Seevetal
- Stahlberg Verwaltungsgesellschaft mbH, Seevetal
- RCN Rail Center Nürnberg GmbH & Co. KG, Nürnberg
- RCN Rail Center Nürnberg Verwaltungs GmbH, Nürnberg
- RCB Rail Center Bützow GmbH & Co. KG, Bützow
- RCB Rail Center Bützow Verwaltungs GmbH, Bützow
- Stahlberg Roensch Leipzig GmbH, Seevetal
- GTS Gesellschaft für Gleistechnik Süd mbH, Seevetal
- Stahlberg Roensch Hamburg GmbH, Hamburg
- LOG Logistikgesellschaft Gleisbau mbH, Hannover
- RCH rail center Handel GmbH & Co. KG, Seevetal
- Oberbau Beteiligungsgesellschaft mbH, Seevetal
- Stahlberg Track Asset GmbH & Co. KG, Seevetal
- Stahlberg Track Asset Verwaltungsges. mbH, Seevetal
- ISB Instandhaltungssysteme Bahn GmbH, Seevetal

These subsidiaries form the Rail Services business unit. In the meantime, the five latter-mentioned enterprises were merged into other Vossloh Rail Services subsidiaries.

In Q4/2010, the following companies were newly formed as Vossloh Rail Services subsidiaries based in Seevetal:

- Vossloh High Speed Grinding GmbH
- Vossloh Mobile Rail Services GmbH

In addition, the Berlin-based 50-percent associated affiliates held by Stahlberg, Roensch GmbH & Co. KG, viz.

- Alpha Rail Team GmbH & Co. KG and
  - Alpha Rail Team Verwaltungs GmbH,
- are included in the consolidated financial statements and carried at equity.

Two other newcomers to the consolidation group are

- Global Rail Systems, Inc., Marlin, TX, USA, and
- Vossloh Fastening Systems America Corp., Chicago, IL, USA.

Global Rail Systems, acquired in October 2009 (for details, see below), is part of the Switch Systems business unit. Incorporated in 2005, Vossloh Fastening Systems America has been assigned to the Fastening Systems business unit; thanks to its growing significance for the Group, the subsidiary was newly consolidated in 2010.

Three Vossloh Switch Systems companies left the consolidation group in the year under review:

- EAV Durieux SA, Carnières, Belgium,
- J.S. Industries Pvt. Ltd., Secunderabad, India, and
- Dakshin Transtek Pvt. Ltd., Bangalore, India.

Consequently, 60 subsidiaries (including 27 in Germany) were fully consolidated as of December 31, 2010.

Changes in fully consolidated subsidiaries		
	2010	2009
January 1	48	44
newly consolidated	20	4
derecognized	(8)	–
December 31	60	48

As of December 31, 2010, two companies based outside Germany were included pro rata in the consolidated financial statements (unchanged). Three German associated affiliates are carried at equity.

Due to their minor significance to the Group's asset and capital structure, financial position and results of operations, 21 subsidiaries (up from 19) 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** The Rail Services business unit's subsidiaries engage in activities such as rail trading, long-rail (un)loading at construction sites, welding new rails, reconditioning old rails, on-site welding, rail replacement, rail grinding/milling, rail inspection, and construction site supervision. In addition, they organize and monitor just-in-time rail shipments to construction sites and ensure on-site availability of the approved (un)loading systems. They were newly consolidated as of January 1, 2010. The M&A transaction covered the purchase of all shares in the acquirees directly taken over by Vossloh Rail Services GmbH and considerably boosted Vossloh's rail service capabilities.

The share acquisition price of €88.1 million contrasted with the following assets and liabilities:

€ million	Pre-combination book values	Adjustments	Fair values at initial consolidation date
Intangible assets	0.3	16.3	16.6
Tangible assets	14.2	8.7	22.9
Other noncurrent assets	4.0	0.5	4.5
Inventories	4.8	0.5	5.3
Current receivables	7.7	–	7.7
Cash and cash equivalents	7.2	–	7.2
Other current assets	1.7	–	1.7
Financial debts	(12.4)	(1.1)	(13.5)
Accruals	(4.8)	(1.7)	(6.5)
Trade payables	(0.8)	–	(0.8)
Other liabilities	(2.0)	(5.9)	(7.9)
<b>Net assets acquired</b>	<b>19.9</b>	<b>17.3</b>	<b>37.2</b>
Acquisition price			88.1
<b>Residual goodwill</b>			<b>50.9</b>

This goodwill is a token of the future benefits expected to be reaped thanks to the Group's now extended range of services.

€25.1 million out of the goodwill at business unit level is tax deductible.

The acquisition price was fully paid cash. Since their first-time consolidation, the acquirees have contributed €12.0 million to group earnings and €84.7 million to Vossloh's sales.

Global Rail Systems, Inc., a Marlin, TX, USA, based subsidiary acquired in 2009, was likewise newly consolidated as of January 1, 2010.



The acquisition price for the shares taken over, equivalent to €4.4 million, was paid cash and contrasted with the following assets and liabilities:

€ million	Pre-combination book values	Adjustments	Fair values as of initial consolidation date
Intangible assets	–	3.4	3.4
Tangible and other noncurrent assets	0.5	–	0.5
Inventories, current receivables and other current assets	0.3	–	0.3
Cash and cash equivalents	1.6	–	1.6
Financial debts and accruals	(0.3)	–	(0.3)
Trade payables and other liabilities	(0.4)	(1.2)	(1.6)
<b>Acquiree's total net assets</b>	<b>1.7</b>	<b>2.2</b>	<b>3.9</b>
<b>Net assets acquired (prorated)</b>	<b>1.0</b>	<b>1.4</b>	<b>2.4</b>
Acquisition price			<b>4.4</b>
<b>Residual goodwill</b>			<b>2.0</b>

Since its first-time consolidation as of January 1, 2010, Global Rail Systems has contributed €5.2 million and €0.3 million to Vossloh's sales and group earnings, respectively.

April 30, 2010, saw the takeover by asset deal from Saargummi Deutschland GmbH of the latter's permanent-way segment; Vossloh Fastening Systems' value-adding chain was thus extended. The price of €7.0 million paid for the takeover contrasted with the following assets and liabilities:

€ million	Pre-combination book values	Adjustments	Provis. fair values as of initial consolidation date
Intangible assets	3.0	0.1	3.1
Tangible assets	1.0	0.0	1.0
Inventories	0.4	0.0	0.4
<b>Net assets acquired</b>	<b>4.4</b>	<b>0.1</b>	<b>4.5</b>
Acquisition price			<b>7.0</b>
<b>Residual goodwill</b>			<b>2.5</b>

The purchase price was fully paid in cash. Since its first-time consolidation, the acquired operations have contributed €1.1 million and a red €0.4 million to Vossloh's sales and group earnings, respectively. Acquisition of the operations as of January 1, 2010, would have added €1.4 million to the Group's sales and reduced group earnings by €0.3 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 rate (as of first transaction entry), gains or losses accrued by the balance sheet date from translating at the current closing rate any monetary assets and liabilities being duly recognized in the income statement.

The exchange rates of non-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 (ISO code)		2010	2009	2010	2009
Australia	AUD	€1.00	1.31	1.60	1.44	1.77
China	CNY	€1.00	8.77	9.77	8.99	9.53
Denmark	DKK	€1.00	7.46	7.44	7.45	7.45
India	INR	€1.00	59.65	66.86	60.81	67.73
Mexico	MXN	€1.00	16.45	18.64	16.76	18.79
Norway	NOK	€1.00	7.82	8.31	8.01	8.74
Poland	PLN	€1.00	3.97	4.13	4.00	4.34
Serbia	CSD	€1.00	105.47	96.16	102.98	93.98
Sweden	SEK	€1.00	8.98	10.26	9.55	10.62
Turkey	TRL	€1.00	2.06	2.16	2.00	2.16
UK	GBP	€1.00	0.86	0.89	0.86	0.89
USA	USD	€1.00	1.33	1.43	1.33	1.39

## Notes to the consolidated income statement

### (1) Net sales

#### Breakdown of net sales

€ million	2010	2009
Products and services	1,101.3	883.2
PoC contracts	250.0	290.5
<b>Total</b>	<b>1,351.3</b>	<b>1,173.7</b>

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 the 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 at the percentage of completion provided that contract results can be reliably determined.

The segment reports starting on pages 130 and 168 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	2010	2009
Cost of raw materials and supplies	625.8	589.8
Cost of services purchased	89.4	69.1
<b>Cost of materials</b>	<b>715.2</b>	<b>658.9</b>
Wages and salaries	202.1	185.9
Social security and related employee benefits	43.3	40.0
Pension expense	4.1	3.7
<b>Personnel expenses</b>	<b>249.5</b>	<b>229.6</b>
<b>Amortization/depreciation</b>	<b>39.8</b>	<b>24.6</b>
<b>Operating leases</b>	<b>12.7</b>	<b>13.6</b>

Based on the quarterly averages, the workforce structure in 2010 was on average the following:

Workforce structure		
	2010	2009
Executive/Management Boards	69	63
Other officers/executives	123	84
Exempts	1,138	944
Nonexempts	3,569	3,575
Apprentices	80	67
Interns/degree candidates	10	14
	<b>4,989</b>	<b>4,747</b>

The above data includes 122 employees of companies consolidated pro rata (down from 124).

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

(2.1) Cost of sales

Breakdown of GAS expenses		
€ million	2010	2009
Selling expenses	80.9	68.1
General administrative expenses	76.8	66.1
	<b>157.7</b>	<b>134.2</b>

(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 €1.0 million (down from €3.2 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 2010 came to €20.7 million (up from €16.8 million).

(2.3) R&D expenses

(3) Net other operating income

Breakdown of net other operating income

€ million	2010	2009
Income from the release of accruals	14.5	12.5
Foreign exchange gains	9.0	7.7
Insurance claims/indemnities	3.3	0.7
Allowances released and write-up	3.1	0.9
Rental income	1.7	1.4
Income from public grants/subsidies	1.6	2.5
Gains from the disposal of tangibles/intangibles	0.3	0.1
Gains from the disposal of financial instruments	–	4.8
Sundry income	4.7	3.9
<b>Other operating income</b>	<b>38.2</b>	<b>34.5</b>
Foreign exchange losses	(8.7)	(6.1)
Expenses for building M&R	(0.8)	(0.4)
Losses on the disposal of tangibles/intangibles	(0.7)	(0.2)
Sundry expenses	(3.8)	(1.8)
<b>Other operating expenses</b>	<b>(14.0)</b>	<b>(8.5)</b>
<b>Net other operating income</b>	<b>24.2</b>	<b>26.0</b>

The prior-year gain from the disposal of financial instruments had been derived 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/subsidies refers to R&D-related subsidies or government assistance. Payments received on account of such grants are recognized as deferred income which is then amortized to income. Investment/capex-related grants or incentives are offset against cost of the tangible assets concerned. Conditions yet to be met and whose non-satisfaction would entail the repayment of grants do not exist, nor do any contingent liabilities in this context.

(4) Other financial income

Breakdown of other financial income

€ million	2010	2009
Income from investments	0.1	0.0
Income from shares in unconsolidated subsidiaries	–	0.4
Gain from restatement at fair value of financial instruments	–	0.1
Write-up of financial instruments	0.0	0.1
Income from securities	0.0	0.0
<b>Other financial income</b>	<b>0.1</b>	<b>0.6</b>

#### Breakdown of other financial expenses

(5) Other financial expenses

€ million	2010	2009
Write-down of financial instruments	(0.2)	(0.1)
Expenses from loss absorption	(0.2)	(0.4)
Losses on the restatement at fair value of financial instruments	0.0	–
<b>Other financial expenses</b>	<b>(0.4)</b>	<b>(0.5)</b>

#### Breakdown of income taxes

(6) Income taxes

€ million	2010	2009
Current income taxes	34.5	30.8
Deferred taxes	0.1	1.0
<b>Income taxes</b>	<b>34.6</b>	<b>31.8</b>

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

The Vossloh Group's actual tax expense of €34.6 million (up from €31.8 million) is €7.5 million (up from €6.8 million) below the calculated (expected) tax expense which results from applying a groupwide uniform rate of 30 percent to EBT.

Reconciliation of the expected to the actually recognized tax expense:

#### Reconciliation to recognized tax expense

		2010	2009
Earnings before taxes (EBT)	€ mill.	140.4	128.5
Income tax rate incl. municipal trade tax	%	30.0	30.0
Expected tax expense at a single rate	€ mill.	42.1	38.6
Tax reduction due to lower rates abroad	€ mill.	(9.3)	(7.0)
Tax reduction from tax-exempt income	€ mill.	(7.3)	(2.2)
Tax increase for nondeductible business expenses	€ mill.	5.3	2.5
Taxes for prior years	€ mill.	1.4	(1.0)
Tax effect of the write-down/write-up of deferred tax assets	€ mill.	0.9	(1.7)
Double-taxation effects	€ mill.	1.8	2.7
Other differences	€ mill.	(0.3)	(0.1)
Recognized income tax burden	€ mill.	34.6	31.8
Actual income tax rate	%	24.6	24.7

Total deferred taxes from items directly recognized in OCI came to a negative €0.8 million (down from €3.5 million). The deferred taxes arose solely from the intra-OCI restatement at current fair values of derivatives for cash flow hedges.

The dividend payout neither increased nor decreased corporate income tax.

(7) Net result of discontinued operations This result mirrors the net balance of (i) income of €5.4 million from the release of accruals which were recognized in connection with the divestment of the erstwhile Infrastructure Service business unit and (ii) expenses of €0.1 million for deferred taxes.

(8) Minority interests The Group's net income includes minority interests in profit of €13.6 million (up from €9.5 million) and in loss of €0.0 million (down from €0.7 million).

(9) Earnings per share

Earnings per share		2010	2009
Weighted average number of common shares		14,795,908	14,795,863
Weighted number of repurchased shares		(1,475,570)	(1,414,955)
Weighted average shares issued and outstanding		13,320,338	13,380,908
Dilutive effects of LTIP/ESOP options	shares	6	30
Diluted weighted average shares issued and outstanding		13,320,344	13,380,938
Group earnings	€ mill.	97.5	87.9
<b>Basic/fully diluted EPS</b>	<b>€</b>	<b>7.32</b>	<b>6.57</b>
thereof from continuing operations	€	6.92	6.57
thereof from discontinued operations	€	0.40	–

## Notes to the consolidated statement of cash flows

The consolidated statement of cash flows depicts the changes in cash and cash equivalents within the Vossloh Group. Cash covers cash on hand and in bank. Cash equivalents comprise any financial instruments maturing within three months and readily convertible into cash.

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

The cash outflow for the acquisition of consolidated subsidiaries and other units represents the net of (i) an inflow of cash and cash equivalents at €7.2 million and (ii) an outflow for prices paid at €93.8 million.



## Notes to the consolidated balance sheet

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

### (10) Intangible assets

#### Breakdown of intangible assets

€ million	2010	2009
Goodwill	355.2	298.1
Capitalized development costs	31.5	18.7
Concessions/licenses/property rights	19.5	5.0
Prepayments on intangibles	0.0	0.3
	<b>406.2</b>	<b>322.1</b>

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

Pursuant to IFRS 3 in conjunction with IAS 36, goodwill from acquisitions (business combinations) is not amortized but its value tested once annually for impairment as of December 31. To this end, the net book value of goodwill is contrasted to the discounted cash flows (applying a pretax rate of 10.8 percent; up from 10.5) 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 low 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 CGUs' fair values (including assigned goodwill) exceed their book values, no goodwill write-down was required; nor would there have been any need for the write-down of major goodwill items to reflect an impairment loss after the discount rate had been raised by half a percentage point or, alternatively, a flat 7.5-percent markdown applied to expected cash flows.

Goodwill breakdown by segment

€ million	2010	2009
Switch Systems	226.9	223.8
Transportation Systems	52.4	52.4
Rail Services	50.9	–
Electrical Systems	22.5	21.9
Fastening Systems	2.5	–
	<b>355.2</b>	<b>298.1</b>

Development costs are capitalized at cost wherever (i) the latter can clearly be assigned, (ii) the developed product's technical feasibility and future marketability are ensured, and (iii) the development work is reasonably certain to produce future cash inflows.

Cost includes all costs directly or indirectly assignable to the development process, as well as—for qualifying assets as defined by IAS 23—the borrowing costs allocable to the construction period. Capitalized development costs are amortized by straight-line charges based on useful lives of 3 to 10 years.

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

Amortization of intangible assets was charged at €16.6 million to the appropriate functional expenses, cf. Note (2).

Neither in 2010 nor in 2009 was any intangible asset written down.

Movement analysis of intangible assets

€ million	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	Goodwill		Capitalized development costs		Concessions, industrial-property and similar rights and assets, as well as licenses thereto		Prepayments on intangibles		Total intangibles	
<b>Net book value at December 31</b>	<b>355.2</b>	<b>298.1</b>	<b>31.5</b>	<b>18.7</b>	<b>19.5</b>	<b>5.0</b>	<b>0.0</b>	<b>0.3</b>	<b>406.2</b>	<b>322.1</b>
<b>At cost:</b>										
<b>Balance at January 1</b>	<b>299.0</b>	<b>294.4</b>	<b>37.3</b>	<b>27.6</b>	<b>24.3</b>	<b>24.3</b>	<b>0.3</b>	<b>0.1</b>	<b>360.9</b>	<b>346.4</b>
M&A-related changes	55.4	4.2	0.6	–	23.0	–	–	–	79.0	4.2
Changes due to derecognition	(0.4)	–	–	–	–	–	–	–	(0.4)	–
Additions (incl. current capex)	–	–	18.1	9.7	1.7	1.6	–	0.3	19.8	11.6
Disposals	–	–	–	–	(1.9)	(1.5)	–	–	(1.9)	(1.5)
Book transfers	–	–	–	–	0.5	0.1	(0.3)	(0.1)	0.2	0.0
Currency translation differences	1.7	0.4	–	–	0.0	(0.2)	–	0.0	1.7	0.2
<b>Balance at December 31</b>	<b>355.7</b>	<b>299.0</b>	<b>56.0</b>	<b>37.3</b>	<b>47.6</b>	<b>24.3</b>	<b>0.0</b>	<b>0.3</b>	<b>459.3</b>	<b>360.9</b>
<b>Accumulated amortization and write-down:</b>										
<b>Balance at January 1</b>	<b>0.9</b>	<b>0.9</b>	<b>18.6</b>	<b>13.3</b>	<b>19.3</b>	<b>18.6</b>	<b>0.0</b>	<b>0.0</b>	<b>38.8</b>	<b>32.8</b>
M&A-related changes	–	–	–	–	0.1	–	–	–	0.1	–
Additions	–	–	5.9	5.3	10.7	1.8	–	–	16.6	7.1
Disposals	–	–	–	–	(1.9)	(1.1)	–	–	(1.9)	(1.1)
Currency translation differences	(0.4)	–	–	–	(0.1)	0.0	–	–	(0.5)	0.0
<b>Balance at December 31</b>	<b>0.5</b>	<b>0.9</b>	<b>24.5</b>	<b>18.6</b>	<b>28.1</b>	<b>19.3</b>	<b>0.0</b>	<b>0.0</b>	<b>53.1</b>	<b>38.8</b>

(11) Tangible assets

Breakdown of tangible assets

€ million	2010	2009
Land, equivalent titles, and buildings (incl. on leased land)	44.0	37.9
Production plant and machinery	88.4	53.9
Other plant, factory and office equipment	21.2	16.4
Prepayments on tangibles, construction in progress	8.4	13.4
	<b>162.0</b>	<b>121.6</b>

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

Useful lives of tangible assets	
Buildings	5–40 years
Production plant and machinery	2–30 years
Other plant, factory and office equipment	2–25 years

Where the value of a tangible asset is found impaired, appropriate write-down is charged, none being recognized in either 2010 or 2009. Depreciation of €22.6 million is included within the functional expenses in the income statement.

#### Movement analysis of tangible assets

€ million	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	Land, equivalent titles, and buildings (incl. on leased land)		Production plant and machinery		Other plant, factory and office equipment		Prepayments on tangibles, construction in progress		Total tangibles	
<b>Net book value at December 31</b>	<b>44.0</b>	<b>37.9</b>	<b>88.4</b>	<b>53.9</b>	<b>21.2</b>	<b>16.4</b>	<b>8.4</b>	<b>13.4</b>	<b>162.0</b>	<b>121.6</b>
<b>At cost:</b>										
<b>Balance at January 1</b>	<b>75.4</b>	<b>71.7</b>	<b>156.3</b>	<b>149.0</b>	<b>54.6</b>	<b>48.0</b>	<b>13.4</b>	<b>6.6</b>	<b>299.7</b>	<b>275.3</b>
M&A-related changes	2.4	–	23.2	0.0	2.0	0.1	0.3	–	27.9	0.1
Changes due to derecognition	(1.7)	–	(2.2)	–	(0.5)	–	–	–	(4.4)	–
Additions (incl. current capex)	2.5	2.2	14.0	9.8	7.4	6.5	14.2	11.8	38.1	30.3
Disposals	(0.0)	(0.5)	(1.2)	(3.8)	(2.5)	(2.5)	(0.1)	(0.0)	(3.8)	(6.8)
Book transfers	3.7	1.8	12.8	1.1	1.6	2.4	(20.1)	(5.3)	(2.0)	0.0
Currency translation differences	1.4	0.2	3.9	0.2	0.7	0.1	0.7	0.3	6.7	0.8
<b>Balance at December 31</b>	<b>83.7</b>	<b>75.4</b>	<b>206.8</b>	<b>156.3</b>	<b>63.3</b>	<b>54.6</b>	<b>8.4</b>	<b>13.4</b>	<b>362.2</b>	<b>299.7</b>
<b>Accumulated depreciation and write-down:</b>										
<b>Balance at January 1</b>	<b>37.5</b>	<b>35.2</b>	<b>102.4</b>	<b>97.6</b>	<b>38.2</b>	<b>34.1</b>	–	–	<b>178.1</b>	<b>166.9</b>
M&A-related changes	0.0	–	3.3	0.0	0.5	0.0	–	–	3.8	0.0
Changes due to derecognition	(1.1)	–	(1.4)	–	(0.4)	–	–	–	(2.9)	–
Additions	3.1	2.8	13.9	10.1	5.6	4.4	–	–	22.6	17.3
Disposals	(0.0)	(0.4)	(1.1)	(3.7)	(2.3)	(2.3)	–	–	(3.4)	(6.4)
Book transfers	–	–	–	(1.9)	–	1.9	–	–	–	0.0
Currency translation differences	0.2	(0.1)	1.3	0.3	0.5	0.1	–	–	2.0	0.3
<b>Balance at December 31</b>	<b>39.7</b>	<b>37.5</b>	<b>118.4</b>	<b>102.4</b>	<b>42.1</b>	<b>38.2</b>	–	–	<b>200.2</b>	<b>178.1</b>

## (12) Investment properties

### Movement analysis of investment properties

€ million	2010	2009
<b>Net book values</b>	<b>6.1</b>	<b>4.5</b>
<b>At cost:</b>		
Balance at January 1	7.7	7.8
Additions	0.4	–
Book transfers	1.4	–
Currency translation differences	0.5	(0.1)
<b>Balance at December 31</b>	<b>10.0</b>	<b>7.7</b>
<b>Accumulated depreciation and write-down:</b>		
Balance at January 1	3.2	3.0
Additions	0.6	0.2
Currency translation differences	0.1	0.0
<b>Balance at December 31</b>	<b>3.9</b>	<b>3.2</b>

Investment properties include nonessential land and buildings partly leased to nongroup lessees. According to IAS 40, buildings owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years. Rental income in the period came to €1.1 million (up from €0.5 million). Expenses (including depreciation, M&R and incidentals) incurred in 2010 for properties leased out totaled €0.8 million (up from €0.4 million), those for other properties amounting to €0.023 million (virtually unchanged). The expenses for properties leased out include write-down at €0.3 million (up from €0.0 million).

The fair values of investment properties totaled €7.1 million at December 31, 2010 (up from €5.5 million), and are mostly based on current market prices of comparable real estate.

Details of shareholdings in associated affiliates

€ million	2010	2009
<b>Balance at January 1</b>	<b>0.4</b>	<b>0.6</b>
M&A-related additions	2.8	–
Addition from transfer to additional paid-in capital	0.9	–
Prorated profit/(loss)	1.4	(0.2)
Dividend distribution	(0.0)	–
<b>Balance at December 31</b>	<b>5.5</b>	<b>0.4</b>
Total assets	11.6	2.0
Total liabilities	2.7	1.3
Net sales	15.8	5.6
Posttax profit/(loss)	1.0	(0.4)

(13) Shares  
in associated affiliates

These investments refer to the equity interests held in BV Oberflächentechnik GmbH & Co. KG, Werdohl, and Alpha Rail Team GmbH & Co. KG, Berlin, two limited partnerships carried at equity as associated affiliates since they are subject to Vossloh's significant influence. In line with the equity method, the investment book values of these associated affiliates are adjusted for prorated profits or losses, dividends distributed or any other changes in their equity.

Breakdown of other noncurrent financial instruments

€ million	2010	2009
Shares in unconsolidated subsidiaries	3.0	8.1
Interests in joint ventures	5.2	0.0
Shares in other investees	0.7	0.6
Long-term loans	1.3	0.2
Other long-term securities	0.6	0.7
Other noncurrent financial assets	0.2	0.0
	<b>11.0</b>	<b>9.6</b>

(14) Other noncurrent  
financial instruments

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

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

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

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

The other financial instruments below investment level are valued according to their IAS 39 classification. For the reconciliation of the balance sheet line to the IAS 39 valuation categories, see pages 171–179, *Additional disclosures of financial instruments*.

(15) Sundry noncurrent assets

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

(16) Deferred taxes

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

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

Deferred taxes				
€ million	2010		2009	
	Deferred tax		Deferred tax	
	assets	liabilities	assets	liabilities
Intangible and tangible assets	0.9	23.8	0.8	15.2
Inventories	3.1	6.0	3.5	3.6
Receivables	0.7	1.8	0.6	1.8
Other assets	0.1	2.7	0.1	3.0
Pension accruals	1.2	0.8	0.9	0.0
Other accruals	26.2	0.4	19.7	0.4
Liabilities	1.6	1.3	2.5	0.2
Other liability items	0.2	0.1	0.1	0.1
	<b>34.0</b>	<b>36.9</b>	<b>28.2</b>	<b>24.3</b>
Loss carryforwards	1.2	–	2.4	–
<b>Recognized deferred taxes</b>	<b>35.2</b>	<b>36.9</b>	<b>30.6</b>	<b>24.3</b>

As of December 31, 2010, loss carryforwards of €10.7 million (down from €33.2 million) existed in Germany for corporation income tax purposes and of €4.9 million for municipal trade tax purposes (down from €20.5 million). No taxes were deferred for corporation income tax losses of €4.6 million (down from €23.7 million) and municipal trade tax losses of €4.6 million (down from €20.5 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 €10.8 million (up from €10.2 million) for €0.5 million of which (down from €3.3 million) taxes were deferred.

Write-down of €0.8 million was charged to deferred tax assets in 2010 (up from €0.6 million).

#### (17) Inventories

##### Breakdown of inventories

€ million	2010	2009
Raw materials and supplies	136.6	144.9
Work in process	105.6	134.6
Merchandise	13.0	14.4
Finished products	22.6	14.8
Prepayments made	22.7	33.3
<b>Total</b>	<b>300.5</b>	<b>342.0</b>

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 €27.7 million was charged to inventories (up from €23.7 million). The book value of inventories stated at NRV totaled €26.0 million (down from €60.1 million).

As the reasons for previous write-down existed no longer, inventories were written up by €0.5 million (up from €0.4 million) in 2010.



(18) Trade receivables

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

For the current balances of, and the movements in 2010 of allowances for, trade receivables, see the tables below.

Breakdown of trade receivables

€ million	2010	2009
Sundry trade receivables	277.5	242.0
PoC receivables	83.1	56.9
<b>Total</b>	<b>360.6</b>	<b>298.9</b>

Movement analysis of allowances for trade receivables

€ million	2010	2009
<b>Balance at Jan. 1</b>	<b>12.8</b>	<b>9.6</b>
Added	2.4	4.4
Released	(2.5)	(1.1)
Utilized	(0.5)	(0.1)
Currency translation differences	0.1	0.0
<b>Balance at Dec. 31</b>	<b>12.3</b>	<b>12.8</b>

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	2010			2009		
	Receivables	Payables	Total	Receivables	Payables	Total
Total PoC contract costs	273.8	437.1	710.9	234.0	438.4	672.4
Profit at PoC	53.4	54.0	107.4	41.1	51.0	92.1
Loss at PoC	(1.3)	(7.2)	(8.5)	(0.0)	(7.0)	(7.0)
Total PoC contract progress	325.9	483.9	809.8	275.1	482.4	757.5
Prepayments received/billings under PoC contracts	(242.8)	(549.4)	(792.2)	(218.2)	(580.7)	(798.9)
<b>PoC receivables</b>	<b>83.1</b>		<b>83.1</b>	<b>56.9</b>		<b>56.9</b>
<b>PoC payables</b>		<b>65.5</b>	<b>65.5</b>		<b>98.3</b>	<b>98.3</b>

These include €2.7 million of income taxes refundable to companies of the Rail Infrastructure division, plus another €1.5 million to Transportation companies, and €2.0 million to Vossloh AG.

(19) Income tax assets

Breakdown of sundry current assets

€ million	2010	2009
Non-income tax assets	7.0	6.9
Interest receivable	5.6	10.8
Receivable from share sale	3.4	–
Due from unconsolidated subsidiaries	3.2	7.7
Security and similar deposits	2.5	1.9
Prepaid expenses and deferred charges	2.3	2.2
Suppliers with debit balances	1.3	1.3
Due from employees	1.3	1.3
Financial derivatives	0.3	2.5
Short-term loans	0.0	0.9
Due from investees	0.0	0.3
Miscellaneous	9.3	11.0
<b>Sundry current assets</b>	<b>36.2</b>	<b>46.8</b>

(20) Sundry current assets

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

For the current balances and the movements in 2010 of allowances, see the table below.

Movement analysis of allowances/write-down

€ million	2010	2009
<b>Balance at Jan. 1</b>	<b>1.5</b>	<b>1.1</b>
Added	0.2	0.6
Released	(0.6)	(0.0)
Utilized	(0.0)	(0.2)
Currency translation differences	0.0	0.0
<b>Balance at Dec. 31</b>	<b>1.1</b>	<b>1.5</b>

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

For the reconciliation of financial instruments shown as sundry current assets to the IAS 39 valuation categories, see pages 171–179, *Additional disclosures of financial instruments*. The non-income tax assets and the miscellaneous current assets are carried at cost.

(21) Short-term securities This line reflects monies invested in short-term fixed-income securities €1.0 million (up from €0.6 million) of which is classified as held to maturity and hence carried at cost. The remaining securities of €0.3 million are available for sale and stated at fair value. The year before, short-term securities of €0.2 million had been classified as held for trading and carried at fair value, too.

For the reconciliation of short-term securities to the IAS 39 valuation categories, see pages 171–179, *Additional disclosures of financial instruments*.

(22) Cash and cash equivalents Cash encompasses cash on hand and in bank while cash equivalents comprise any financial instruments maturing within three months and readily convertible into cash. Cash and cash equivalents are carried at principal or face value.

(23) Total equity For the statement of changes in equity, see page 129.

(23.1) Capital stock Vossloh AG's capital stock rose in 2010 to €37,825,168.86 and is divided into 14,795,920 no-par bearer shares of common stock only. Unchanged, the capital was increased as stock options were exercised by employees.

	2010		2009	
	€	Shares	€	Shares
Balance at January 1	37,825,041.04	14,795,870	37,824,979.68	14,795,846
Stock options exercised	127.82	50	61.36	24
Balance at December 31	37,825,168.86	14,795,920	37,825,041.04	14,795,870

Employee bonus program 2010 The employee bonus program 2010 (on terms unchanged versus 2009) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares free or eight shares at a discount of 50 percent of the issue price of €85.51 per share (up from €65), determined at market as of the share transfer date. Under this program, Vossloh employees were granted in 2010 altogether 3,148 free shares (up from 1,916) at an expense to the Company of k€269.2 (up from k€124.5).

In 2005, the Vossloh Group had launched stock option programs under which certain executive and managerial staff (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 (freeze) period on March 31, 2007.

#### Stock option programs 2005

The options not yet exercised at the beginning of 2010 were exercisable up to the end of Q1/2010. The stock option programs 2005 were valued in accordance with IFRS 2, the expense for option exercise being distributed over the qualifying period. Consequently, no expenses for these SOPs were recognized in 2009 or 2010.

The number of stock options issued developed as follows:

Movement analysis of stock options

	Number of options	Average strike price (€)
<b>Jan. 1, 2009</b>	<b>74</b>	<b>38.75</b>
exercised	24	38.75
<b>Dec. 31, 2009</b>	<b>50</b>	<b>38.75</b>
thereof exercisable	50	38.75
<b>Options in 2010</b>		
exercised	50	38.75
expired	–	–
<b>Dec. 31, 2010</b>	<b>0</b>	<b>–</b>

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

#### (23.2) Additional paid-in capital

Based on the authority conferred by the AGM of May 21, 2008 (which expired November 20, 2009), the Executive Board, after first obtaining the Supervisory Board's approval, decided October 15, 2008, to repurchase up to 1,479,582 treasury shares, then equivalent to 10 percent of the capital stock.

#### (23.3) Treasury stock

In the period between October 16, 2008, and March 20, 2009, Vossloh AG repurchased treasury shares from the stock market at an average price of €71.86 per share and a total market value of €106,317,071.78. By March 20, 2009, the Company had reacquired out of the total 14,795,846 no-par shares altogether 1,479,582 treasury shares (€3,782,491,32 or 10 percent of the capital stock), thus completing the stock repurchase program as of such date.

On October 26, 2009, the Executive Board decided to reclassify 3,352 no-par shares out of Vossloh AG's treasury stock portfolio to be available to those employees of Vossloh AG or a Vossloh Group company who had registered for participation in the ESOP 2009, in accordance with Art. 71(1) No. 2 AktG. Consequently, 3,352 shares were sold in November 2009 under this program for a total €241,075.84.

On October 25, 2010, the Executive Board decided to reclassify another 5,600 no-par shares of treasury stock and offer these to those employees of Vossloh AG or a Vossloh Group company who had registered for participation in the ESOP 2010.

Consequently, 5,600 shares were used in November 2010 for this program, bringing the treasury stock portfolio to 1,470,630 shares as of December 31, 2010.

#### Stock repurchase

	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
<b>Total 2008</b>	<b>907,000</b>		<b>37,824,979.68</b>	<b>14,795,846</b>	<b>6.13</b>
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
<b>Total 2009</b>	<b>572,582</b>		<b>37,824,979.68</b>	<b>14,795,846</b>	<b>3.87</b>
<b>As of March 31, 2009</b>	<b>1,479,582</b>		<b>37,824,979.68</b>	<b>14,795,846</b>	<b>10.00</b>
November 2009	(3,352)	(241,075.84)	37,825,041.04	14,795,870	(0.02)
<b>As of Dec. 31, 2009</b>	<b>1,476,230</b>		<b>37,825,041.04</b>	<b>14,795,870</b>	<b>9.98</b>
November 2010	(5,600)	(436,074.68)	37,825,168.86	14,795,920	(0.04)
<b>As of Dec. 31, 2010</b>	<b>1,470,630</b>		<b>37,825,168.86</b>	<b>14,795,920</b>	<b>9.94</b>

\*Excl. bank commissions

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

The treasury shares may be acquired via a stock exchange, by public offering or by a public invitation to bid.

The treasury shares thus acquired may be disposed of (i) through a stock market, (ii) by offering them to all Vossloh stockholders, (iii) in return for noncash contributions, particularly in M&A transactions, or (iv) in order to meet obligations from convertible or warrant bond issues, or they may redeemed and withdrawn without requiring another AGM resolution.

The authority conferred by the AGM of May 20, 2009, to repurchase treasury stock was revoked when the AGM resolution of May 19, 2010, took effect.

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

(23.4) Reserves retained from earnings

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 €2.2 million (down from €5.3 million) of hedges of future interest payments for liabilities associated with the US private placement, as well as the deferred taxes thereon of €0.7 million (down from €1.6 million).

(23.5) Accumulated other comprehensive income

Around €15.0 million of these refer to shares held by nongroup owners in Vossloh Switch Systems companies, another €12.0 million to minority interests in the Fastening Systems business unit, plus €0.9 million in Vossloh Transportation Systems companies.

(23.6) Minority interests

#### Movement analysis of pension accruals

€ million	2010	2009
Opening balance at Jan. 1	9.7	8.9
Added on initial consolidation	1.5	0.3
Released by plan change	(0.1)	–
Utilized	(1.2)	(1.0)
Added	1.7	1.5
Currency translation differences	0.1	–
<b>Closing balance at Dec. 31</b>	<b>11.7</b>	<b>9.7</b>

(24) Pension accruals

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 €1.9 million (up from €0.4 million).

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

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

Independent actuarial opinions and reports underlie the pension accruals recognized.

Assumptions underlying pension liability calculation		
%	2010	2009
Discount rate	4.7	5.25
Expected pension rise	2.0	2.0
Expected pay rise	3.0	3.0
Probable employee turnover rate	6.0	6.0
Expected return on plan assets	4.5	4.5

The pension accrual recognized was derived as follows:

Pension accrual analysis		
€ million	2010	2009
Present value of plan-funded DBO	20.5	18.1
Fair value of plan assets	(13.1)	(9.5)
Unrecognized actuarial gains/losses, net	(4.2)	(5.6)
<b>Accrual for plan-funded DBO</b>	<b>3.2</b>	<b>3.0</b>
Present value of plan-unfunded DBO	9.3	7.0
Unrecognized actuarial gains/losses, net	(0.8)	(0.3)
<b>Accrual for plan-unfunded DBO</b>	<b>8.5</b>	<b>6.7</b>
<b>Recognized pension accrual</b>	<b>11.7</b>	<b>9.7</b>

Movement analysis of the present value of the DBO:

Movement analysis of the present value of the DBO		
€ million	2010	2009
Balance at Jan. 1	25.1	21.4
Added on initial consolidation	1.5	1.7
Plan changes	(0.2)	0.2
Service cost	0.6	0.4
Interest cost	1.3	1.2
Actuarial gains/losses	2.1	1.4
Beneficiaries' contributions	0.4	0.1
Pension payments	(1.5)	(1.3)
Currency translation differences	0.5	–
<b>Balance at Dec. 31</b>	<b>29.8</b>	<b>25.1</b>

The fair value of plan assets presented the following movements:

Movement analysis of plan assets		
€ million	2010	2009
Balance at Jan. 1	9.5	7.5
Added on initial consolidation	0.0	1.4
Plan changes	(0.1)	–
Expected return on plan assets	0.6	0.5
Actuarial gains/losses	2.6	0.4
Employer contributions	0.1	–
Beneficiaries' contributions	0.4	0.1
Pension payments	(0.4)	(0.4)
Currency translation differences	0.4	–
<b>Balance at Dec. 31</b>	<b>13.1</b>	<b>9.5</b>

Pension expense was recognized in the income statement as follows:

Breakdown of total annual pension expense		
€ million	2010	2009
Current service cost	0.6	0.4
Interest cost	1.3	1.3
Expected return on plan assets	(0.6)	(0.5)
Amortization of actuarial gains/losses	0.4	0.3
Plan changes	0.0	–
<b>Total annual expense</b>	<b>1.7</b>	<b>1.5</b>

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	2010	2009	2008	2007	2006
Present value of the DBO	29.8	25.1	21.4	21.1	20.7
Fair value of plan assets	(13.1)	(9.5)	(7.5)	(5.8)	(8.4)
<b>Plan-unfunded obligation</b>	<b>16.7</b>	<b>15.6</b>	<b>13.9</b>	<b>15.3</b>	<b>12.3</b>

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

5-year comparative analysis of empirical adjustments

€ million	2010	2009	2008	2007	2006
Empirical adjustments of plan assets	2.6	0.4	(1.5)	(2.6)	0.2
Empirical adjustments of pension liabilities	(0.3)	0.1	0.0	0.9	(0.3)

Plan assets returned in 2010 an actual 3.8 percent. In the present fiscal year 2011 we expect €2.6 million to be added to plan assets.

(25) Other accruals

Breakdown of other accruals

€ million	2010	2009
Personnel-related	11.2	8.4
Accrued trade payables	6.7	3.0
Warranty obligations and follow-up costs	39.0	43.4
Litigation risks and impending losses	5.3	4.5
Sundry	13.6	24.4
<b>Other noncurrent accruals</b>	<b>75.8</b>	<b>83.7</b>
Personnel-related	27.9	27.9
Accrued trade payables	15.2	11.5
Warranty obligations and follow-up costs	69.1	53.8
Litigation risks and impending losses	33.2	36.5
Sundry	12.5	7.6
<b>Other current accruals</b>	<b>157.9</b>	<b>137.3</b>
	<b>233.7</b>	<b>221.0</b>

Accruals are disclosed as current if due within one year, all other being noncurrent. The other accruals provide for all obligations which are identifiable at the balance sheet date, based on past events, and uncertain in terms of amount or timing. Accruals are recognized at amounts likely to be utilized.

If the effect of discount is material, noncurrent accruals are recognized at the present value of the uncertain obligations provided for.

The maximum risk inherent in accrued obligations is €39.7 million above those recognized in the balance sheet (down from €44.5 million). Additional risks of €1.9 million (up from €1.1 million) exist as below-the-line items but are not provided for since their probability is below 50 percent.

Personnel-related accruals provide for obligations to pay profit shares, bonuses, vacation and employment anniversary allowances, as well as for preretirement part-time work.

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

The warranty accruals include both provisions for specific warranty expenses and the general warranty risks empirically derived from past sales. The accrued litigation risks and impending losses account for obligations under lawsuits and for loss risks from uncompleted contracts. As of the balance sheet date, €0.1 million provides for impending losses on purchase obligations (down from €0.5 million).

#### Movement analysis of other accruals

€ million	Opening balance at 1/1/2010	Added upon initial consolidation	Disposed of upon derecognition	Utilized	Released/reversed	Provided for	Currency translation differences	Closing balance at 12/31/2010
<b>Tax accruals</b>	<b>6.5</b>	<b>1.3</b>	<b>(0.0)</b>	<b>(4.0)</b>	<b>(0.2)</b>	<b>6.3</b>	<b>0.2</b>	<b>10.1</b>
Personnel-related	36.3	1.1	(0.0)	(24.6)	(0.4)	26.5	0.2	39.1
Accrued trade payables	14.5	1.0	(0.0)	(9.8)	(0.3)	16.1	0.4	21.9
Warranty obligations and follow-up costs	97.2	0.4	(0.0)	(15.7)	(6.5)	31.6	1.1	108.1
Litigation risks and impending losses	41.0	0.0	(0.0)	(5.7)	(5.9)	9.1	0.0	38.5
Sundry	32.0	0.4	(0.2)	(3.7)	(6.8)	4.3	0.1	26.1
<b>Other accruals</b>	<b>221.0</b>	<b>2.9</b>	<b>(0.2)</b>	<b>(59.5)</b>	<b>(19.9)</b>	<b>87.6</b>	<b>1.8</b>	<b>233.7</b>

#### (26) Liabilities

#### Aged breakdown of liabilities

€ million	2010	2009	2010	2009	2010	2009	2010	2009
<b>Remaining term</b>	≤ 1 year		>1–5 years		>5 years		Total	
Financial debts	25.5	59.6	109.0	98.5	78.0	69.4	212.5	227.5
Trade payables	204.9	229.9	0.0	0.0	0.0	0.0	204.9	229.9
Income tax liabilities	3.9	5.3	0.0	0.0	0.0	0.0	3.9	5.3
Other liabilities	85.9	74.4	15.2	29.3	11.0	17.9	112.1	121.6
	<b>320.2</b>	<b>369.2</b>	<b>124.2</b>	<b>127.8</b>	<b>89.0</b>	<b>87.3</b>	<b>533.4</b>	<b>584.3</b>

## (26.1) Financial debts

### Breakdown of financial debts

€ million	2010	2009
US private placement	180.3	167.8
Other long-term debts to banks	6.6	0.1
Long-term capital leases	0.1	–
<b>Noncurrent financial debts</b>	<b>187.0</b>	<b>167.9</b>
Short-term debts to banks	24.8	59.3
Interest payable	0.5	0.3
Short-term capital leases	0.2	–
<b>Current financial debts</b>	<b>25.5</b>	<b>59.6</b>
<b>Total financial debts</b>	<b>212.5</b>	<b>227.5</b>

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 financial debts to the IAS 39 valuation categories, see pages 171–179, *Additional disclosures of financial instruments*.

Under a US private placement agreement, debt of a total \$240.0 million was raised in 2004 from the capital market, comprising one loan each of \$140.0 million and \$100.0 million; they both have a bullet maturity, their remaining terms being 3.5 and 5.5 years, respectively. Since payment of principal and interest has entirely been hedged by euro-denominated swaps, Vossloh has ensured that both loans carry interest at fixed euro rates of 5.325 and 5.455 percent, respectively. The €180.3 million debt disclosed as of December 31, 2010, corresponds to the dollar debt carried at amortized cost and translated at the current closing rate. Including the currency hedge within *other liabilities*, the hedged repayment sum totals €203.9 million.

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

The payables under capital leases are recognized at the present value of the lease payments and are owed under leases for capital goods within Vossloh Rail Services. The net book values of the capitalized tangible assets total €0.3 million. Since the business unit was newly consolidated in 2010, no prior-year comparatives are quoted.

The minimum lease payments show the following maturity pattern:

Capital leases			
€ million	2010		
	Principal	Discount	Present value
Due ≤1 year	0.2	(0.0)	0.2
Due >1–5 years	0.2	(0.1)	0.1
Due >5 years	–	–	–
	<b>0.4</b>	<b>(0.1)</b>	<b>0.3</b>

#### Breakdown of trade payables

€ million	2010	2009
Sundry trade payables	139.4	131.6
PoC payables	65.5	98.3
<b>Total</b>	<b>204.9</b>	<b>229.9</b>

(26.2) Trade payables

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

The line reflects the income taxes actually owed by various group companies as of December 31, 2010.

(26.3) Income tax liabilities

#### (26.4) Other liabilities

##### Breakdown of other liabilities

€ million	2010	2009
Financial derivatives from fair value hedges	23.2	36.1
Financial derivatives from cash flow hedges	2.2	5.2
Prepayments received	0.4	5.2
Noncurrent deferred income	0.3	0.4
Sundry	0.1	0.3
<b>Noncurrent other liabilities</b>	<b>26.2</b>	<b>47.2</b>
Prepayments received	41.6	27.5
VAT payable	12.9	11.4
Due to employees	5.5	4.6
Statutory Social Security and Health Insurance	4.6	5.1
Other non-income taxes	4.4	4.7
Due to unconsolidated subsidiaries (nontrade)	2.5	1.9
Commissions	2.0	1.9
Customers with credit balances	1.5	2.9
Financial derivatives from fair value hedges	1.5	1.6
Financial derivatives from cash flow hedges	1.2	1.1
Sundry	8.2	11.7
<b>Current other liabilities</b>	<b>85.9</b>	<b>74.4</b>
	<b>112.1</b>	<b>121.6</b>

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

The financial derivatives shown as FVH at €23.2 million (down from €36.1 million) under *noncurrent liabilities* reflect the fair values of the cross-currency swaps hedging the repayment under the US private placement agreement.

For the reconciliation of other liabilities to the IAS 39 valuation categories, see pages 171–179, *Additional disclosures of financial instruments*.

The prepayments received, shown at €41.6 million as *other liabilities*, do not refer to PoC contracts. In accordance with IAS 19, the current liabilities to employees are recognized at the undiscounted amount owed.

## Notes to the segment reports

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

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

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

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

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

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

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

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

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

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

Segment financial information is presented for each division and business unit on pages 130/131.

The major noncash segment expenses reflect provisions.

In the analysis of its results of operations in the management report, the Vossloh Group reports the pretax value added (VA) as a key performance indicator. Besides this pretax VA used for internal controlling purposes, also the posttax value added is communicated in external reports at group and division levels, based on the current WACC—6.6 percent posttax for fiscal 2010—in order to disclose the actual value trend of relevance to stockholders.



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

Reconciliation of VA to recognized EBIT		
€ million	2010	2009
Value added	54.8	63.7
Cost of capital employed	97.3	74.2
<b>EBIT</b>	<b>152.1</b>	<b>137.9</b>

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

Segment information by region				
€ million	2010	2009	2010	2009
	Net external sales		Noncurrent assets	
Germany	267.1	132.3	176.5	74.0
France	121.9	156.0	206.4	205.6
Other Western Europe	151.2	172.0	18.1	17.3
Northern Europe	96.5	100.5	11.7	10.9
Southern Europe	272.9	260.5	84.9	79.4
Eastern Europe	39.4	31.7	5.2	4.8
<b>Total Europe</b>	<b>949.0</b>	<b>853.0</b>	<b>502.8</b>	<b>392.0</b>
Americas	105.2	89.4	37.4	30.3
Asia	236.4	173.1	22.6	18.8
Africa	27.6	22.3	0.0	0.0
Australia	27.3	29.5	12.1	7.9
<b>Total</b>	<b>1,345.5</b>	<b>1,167.3</b>	<b>574.9</b>	<b>449.0</b>

## Additional disclosures of financial instruments

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

### Straight financial instruments

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

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

Financial assets and liabilities are categorized as *loans and receivables, held for trading, held to maturity* or *available for sale*. The Vossloh Group does not exercise the so-called fair value option.

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

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

## Derivative financial instruments

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

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

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

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

Financial derivatives		Fair value	Notional volume	Fair value	Notional volume
€ million		2010		2009	
<b>Interest rate swaps</b>	Time to maturity ≤1 year	—	—	(0.8)	25.6
	>1–5 years	—	—	—	—
	>5 years	—	—	—	—
		—	—	<b>(0.8)</b>	<b>25.6</b>
<b>Cross-currency swaps (USPP)</b>	Time to maturity ≤1 year	—	—	—	—
	>1–5 years	(14.4)	118.9	(23.5)	118.9
	>5 years	(11.0)	85.0	(17.9)	85.0
		<b>(25.4)</b>	<b>203.9</b>	<b>(41.4)</b>	<b>203.9</b>
<b>Currency forwards</b>	Time to maturity ≤1 year	(1.9)	99.6	(0.2)	90.6
	>1–5 years	(0.4)	5.6	0.0	0.0
	>5 years	0.0	0.0	0.0	0.0
		<b>(2.3)</b>	<b>105.2</b>	<b>(0.2)</b>	<b>90.6</b>
<b>Total</b>		<b>(27.7)</b>	<b>309.1</b>	<b>(42.4)</b>	<b>320.1</b>

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

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

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

€ million	Recognized BV at 12/31/2010	Measured acc. to IAS 39			FV at 12/31/2010
		at amortized cost	at FV through OCI	at FV through IS	
<b>Trade receivables</b>	<b>360.6</b>				
loans and receivables	360.6	360.6			360.6
<b>Securities</b>	<b>1.3</b>				
held to maturity	1.0	1.0			1.0
available for sale	0.3			0.3	0.3
<b>Cash and cash equivalents</b>	<b>74.6</b>				
loans and receivables	53.1	53.1			53.1
held to maturity	18.4	18.4			18.4
held for trading	0.1			0.1	0.1
available for sale	3.0		3.0		3.0
<b>Other FI and sundry assets</b>	<b>47.6</b>				
loans and receivables	16.2	16.2			16.2
held to maturity	0.3	0.3			0.3
held for trading	0.0			0.0	0.0
available for sale	1.1	0.6	0.5		1.1
derivatives in hedges	0.3		0.0	0.3	0.3
not covered by IAS 39	29.7				–
<b>Total financial assets</b>	<b>484.1</b>	<b>450.2</b>	<b>3.5</b>	<b>0.7</b>	<b>454.4</b>
<b>Financial debts</b>	<b>212.5</b>				
loans and receivables	212.2	212.2			212.2
capital lease payables	0.3	0.3			0.3
<b>Trade payables</b>	<b>204.9</b>				
loans and receivables	204.9	204.9			204.9
<b>Other liabilities</b>	<b>112.1</b>				
loans and receivables	59.0	59.0			59.0
derivatives in hedges	28.1		3.4	24.7	28.1
not covered by IAS 39	25.0				–
<b>Total financial payables</b>	<b>529.5</b>	<b>476.4</b>	<b>3.4</b>	<b>24.7</b>	<b>504.5</b>

Summary by IAS 39 valuation category

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

Book values (BV), valuation categories and fair values (FV) of FI as of December 31, 2009

€ million	Recognized BV at 12/31/2009	Measured acc. to IAS 39			FV at 12/31/2009
		at amortized cost	at FV through OCI	at FV through IS	
<b>Trade receivables</b>	<b>298.9</b>				
loans and receivables	298.9	298.9			298.9
<b>Securities</b>	<b>0.8</b>				
held to maturity	0.6	0.6			0.6
held for trading	0.2			0.2	0.2
<b>Cash and cash equivalents</b>	<b>156.5</b>				
loans and receivables	107.1	107.1			107.1
held to maturity	48.0	48.0			48.0
held for trading	0.0			0.0	0.0
available for sale	1.4		1.4		1.4
<b>Other FI and sundry assets</b>	<b>56.4</b>				
loans and receivables	24.9	24.9			24.9
held to maturity	0.2	0.2			0.2
held for trading	0.0			0.0	0.0
available for sale	1.1	0.6	0.5		1.1
derivatives in hedges	2.5		0.3	2.2	2.5
not covered by IAS 39	27.7				–
<b>Total financial assets</b>	<b>512.6</b>	<b>480.3</b>	<b>2.2</b>	<b>2.4</b>	<b>484.9</b>
<b>Financial debts</b>	<b>227.5</b>				
loans and receivables	227.5	227.5			227.5
<b>Trade payables</b>	<b>229.9</b>				
loans and receivables	229.9	229.9			229.9
<b>Other liabilities</b>	<b>121.6</b>				
loans and receivables	49.7	49.7			49.7
derivatives in hedges	44.0		6.3	37.7	44.0
not covered by IAS 39	27.9				–
<b>Total financial payables</b>	<b>579.0</b>	<b>507.1</b>	<b>6.3</b>	<b>37.7</b>	<b>551.1</b>

Summary by IAS 39 valuation category

€ million	Recognized BV at 12/31/2009	Measured acc. to IAS 39			FV at 12/31/2009
		at amortized cost	at FV through OCI	at FV through IS	
<b>Financial assets</b>					
loans and receivables	430.9	430.9			430.9
held to maturity	48.8	48.8			48.8
held for trading	0.2			0.2	0.2
available for sale	2.5	0.6	1.9	0.0	2.5
<b>Total financial assets</b>	<b>482.4</b>	<b>480.3</b>	<b>1.9</b>	<b>0.2</b>	<b>482.4</b>
<b>Financial payables</b>					
loans and receivables	507.1	507.1			507.1
<b>Total financial payables</b>	<b>507.1</b>	<b>507.1</b>			<b>507.1</b>

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

Trade payables and other liabilities usually have likewise a short time to maturity, which is why their book values essentially correspond to their fair values. Current market rates have been applied to discount the future cash outflows for principal and interest and thus determine the fair value of noncurrent financial liabilities.

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



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

Assignment to IFRS 7 fair value hierarchy levels			
€ million	Level 1: input of quoted prices	Level 2: input of observable market data	Level 3: no input of observable market data
<b>Financial assets at fair value</b>			
held for trading	0.1		
available for sale		3.8	–
derivatives in hedges		0.3	–
<b>Total</b>	<b>0.1</b>	<b>4.1</b>	<b>–</b>
<b>Financial payables at fair value</b>			
derivatives in hedges		28.1	–
<b>Total</b>		<b>28.1</b>	<b>–</b>

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

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

Net gains/(losses) from financial instruments by valuation category						
€ million	Loans and receivables	FI held to maturity	FI held for trading	FI available for sale	2010	2009
<b>Net gains/(losses) from:</b>						
interest	(13.4)	0.6	0.0	–	(12.8)	(10.9)
<b>Remeasurement</b>						
allowances/write-down	1.1	0.0	–	(0.2)	0.9	(3.4)
currency translation	2.5	–	–	–	2.5	0.9
at fair value	–	–	0.0	–	0.0	0.1
Disposal	–	–	–	–	0.0	4.8
<b>Total</b>	<b>(9.8)</b>	<b>0.6</b>	<b>0.0</b>	<b>(0.2)</b>	<b>(9.4)</b>	<b>(8.5)</b>

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

Gains from the statement at fair value of financial assets available for sale were recognized in 2010 at €0.0 million in OCI (virtually unchanged).

In fiscal 2010, a €12.9 million loss on the higher euro equivalent of the dollar-denominated debt as the underlying in the fair value hedge contrasted with a same-amount gain from the hedging derivative's remeasured fair value. In fiscal 2009, a €3.9 million gain from the lower euro equivalent of the dollar debt principal had contrasted with a same-amount loss.

When the dollar interest payments fell due in 2010, unrealized net gains of €0.2 million (down from €0.7 million) previously accumulated in OCI and corresponding to the hedging cross-currency swap's fair value change were recycled from equity to interest expense.

## Financial risk management

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

### Liquidity risks

Vossloh manages its liquidity risk (i.e., that the Group is not able at all times to meet its payment obligations) through a rolling cash budget and a central cash management system. As of the end of the year under review, cash, cash equivalents and readily salable securities of €75.9 million were at the Group's disposal, besides additional, unutilized credit facilities of €252.3 million to satisfy any future cash requirements. The table below shows the contractual undiscounted payments of principal and interest for financial payables:

Aged analysis of principal and interest payments as of December 31, 2010

€ million	within 1 year		>1–5 years		>5 years	
	principal	interest	principal	interest	principal	interest
Straight financial payables	(25.0)	(11.8)	(109.0)	(34.6)	(78.0)	(2.3)
Derivative financial payables			(14.5)		(11.0)	
Derivative financial assets	0.3					

### Currency risks

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

Currency risks material to the Group would originate from the financial debts of \$240.0 million raised by US private placement (USPP), as well as from future interest payments in US dollars. At the time of borrowing, these risks were fully hedged by contracting cross-currency swaps of matching maturities and amounts.

These derivatives are accounted for as fair value hedge (principal repayment) and cash flow hedge (future interest payments), respectively.

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

If US dollar rates	€1.00 = \$	FV of recognized hedges in € million <sup>1</sup>		FV change of financial debt from USPP in € million <sup>2</sup>
		CFH	FVH	
rise 10 percent	1.46	(5.0)	(39.6)	39.6
remain at the 12/31/2010 current rate	1.33	(2.4)	(23.2)	23.2
fall 10 percent	1.20	1.5	(3.9)	3.9

<sup>1</sup>Before deferred taxes

<sup>2</sup>Change from the hedged principal repayment of €203.9 million

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.

Interest rate risks

The risk of an unfavorable market rate trend and thus higher interest payments for floating-rate notes is contained by contracting interest rate swaps and caps (treated as CFHs in hedge accounting).

Both the hedged underlying sums and the derivatives' fair values are insignificant in comparison to the currency hedges.

The fair value of derivatives used for hedging against currency and interest rate risks, as well as the hedged principal (notional volume) of the underlyings are detailed in the notes to financial instruments (starting on page 171).

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

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

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

Portfolio of gross current receivables

€ million	Receivables neither past due nor impaired	Receivables past due but not impaired	Impaired receivables*	Gross value of receivables
<b>Trade receivables</b>				
2010	253.9	108.4	10.6	372.9
2009	249.7	51.0	10.9	311.6
<b>Other</b>				
2010	33.3	3.0	1.0	37.3
2009	47.3	0.1	0.8	48.2

\*This is the gross balance of impaired trade receivables, the specific bad-debt allowances charged to these totaling €9.3 million (down from €10.6 million).

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

Receivables past due but not impaired		Past due for				
€ million	≤1 month	>1–3 months	>3–6 months	>6–12 months	>12 months	Total
<b>Trade receivables</b>						
2010	51.4	20.5	20.1	12.1	4.3	108.4
2009	22.8	8.0	7.0	10.2	3.0	51.0
<b>Other</b>						
2010	0.0	0.0	3.0	0.0	0.0	3.0
2009	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 their book value (cf. the analysis on page 174).

## Further disclosures

As of December 31, 2010, contingent liabilities totaled €17.3 million (up by €2.7 million from €14.6 million). The Group has incurred contingent liabilities under guaranties/suretyships at €13.8 million in favor of unconsolidated subsidiaries, and for the collateralization of third-party debts at €3.5 million, including €1.3 million allocable to unconsolidated subsidiaries.

### Contingent liabilities

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

The obligations under purchase contracts or firm commitments for buying tangible/intangible assets and inventories total €6.3 million (up from €5.7 million).

### Other financial obligations

The minimum undiscounted future payments under operating and similar leases came to €62.5 million (up from €51.7 million), those under operating leases alone falling due as follows:

#### Financial obligations under operating leases

€ million	2010	2009
due ≤1 year	11.2	11.4
due >1–5 years	28.6	24.9
due after 5 years	0.7	3.9
	<b>40.5</b>	<b>40.2</b>

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

#### Lease payments recognized in net income

€ million	2010	2009
Expense for minimum lease payments	12.0	13.1
Expense for contingent rent	0.7	0.5
Income from subleases	7.5	6.1

Future minimum payments of €33.0 million are expected as income under noncancelable subleases (up from €29.1 million).

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

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

€ million	2010	2009
Current assets	29.3	28.5
Noncurrent assets	6.6	5.8
Current liabilities	13.4	13.9
Noncurrent liabilities	0.0	0.0
Income	34.5	41.0
Expenses	30.3	37.3

**Related parties** Vossloh AG as top-tier controlling parent is at the helm of the Vossloh Group. The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated subsidiaries, joint ventures and associated affiliates. The related entities (unconsolidated companies, joint ventures, and associated affiliates) are all itemized in the list of shareholdings on page 187 et seq.

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

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

€ million	2010	2009
<b>Sale/purchase of goods</b>		
Net sales of finished goods/WIP	5.8	6.4
Cost of sales of finished goods/WIP purchased	1.8	1.0
Trade receivables	2.5	4.5
Trade payables	1.0	0.2
<b>Sale/purchase of other assets</b>		
Receivables from the sale of other assets	0.3	0.8
Payables for the purchase of other assets	1.0	0.7
Prepayments received	0.1	–
<b>Services provided/purchased</b>		
Income from services provided	1.8	1.2
Expenses for services purchased	0.4	0.0
<b>Leases</b>		
Income from operating leases	0.0	0.0
Expenses for operating leases	0.9	0.5
<b>Licenses</b>		
License income	0.0	–
License expenses	3.3	–
<b>Finance</b>		
Interest income from loans granted	0.1	0.1
Interest expense for loans raised	0.0	0.0
Receivables under loans	0.4	1.8
<b>Guaranties/collateral furnished</b>		
Bonds/guaranties furnished	13.8	11.2
Other collateral furnished	3.5	1.3

Active Supervisory Board members will receive short-term benefits of k€689.4 for the year under review (up from k€612.1). For an itemized breakdown by member of this total and further details of the remuneration system, see the Board Compensation Report (an integral part of the Vossloh Group's management report).

Executive Board remuneration		
k€	2010	2009
Short-term benefits	2,839.5	3,050.2
Postretirement benefits	1,182.5	508.9

Former Executive Board members received in 2010 a total k€612.3 (down from k€674.6). Pension obligations to former Executive and Management Board members and their surviving dependants were accrued in full at €11.4 million (up from €8.6 million) and are largely plan-funded.



#### Statutory auditor's fees

The following fees for services rendered by the statutory group auditor, BDO AG, Wirtschaftsprüfungsgesellschaft, as well as by firms of BDO AG's international network were recognized as expense in 2010:

€ million	2010	2009
Statutory audits	1.1	1.0
Other certification or verification services	0.2	0.3
Tax consultancy	0.7	0.6
Other services	0.0	0.0
	2.0	1.9

The fees for services provided in 2010 by the statutory group auditor amount to €0.4 million for audit work, €0.2 million for other certification or verification services, and €0.7 million for tax consultancy.

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

#### German Corporate Governance Code

In December 2010 the Executive and Supervisory Boards issued, and made available to the stockholders on the Group's website, the declaration of conformity pursuant to Art. 161 AktG.

#### Group companies and investees

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

## List of shareholdings

€ million	Footnote	Shareholding in %	through ( )	Consolidation <sup>1</sup>
(1) <b>Vossloh AG, Werdohl</b>				(c)
(2) Vossloh International GmbH, Werdohl		100.00	(1)	(c)
(3) Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	(c)
(4) Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(c)
(5) Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(c)
<b>Rail Infrastructure division</b>				
(6) Vossloh France SAS, Paris, France		100.00	(1)	(c)
<b>Fastening Systems business unit</b>				
(7) Vossloh-Werke GmbH, Werdohl	2	100.00	(1)	(c)
(8) Vossloh Fastening Systems GmbH, Werdohl	2	100.00	(7)	(c)
(9) Vossloh Werdohl GmbH, Werdohl	2	100.00	(7)	(c)
(10) Vossloh Tehnică Feroviară SRL, Bucharest, Romania	3	100.00	(7)	(u)
(11) Vossloh Drážni Technika s.r.o., Prague, Czech Republic	3	100.00	(7)	(u)
(12) Vossloh Sistemi Srl, Sarsina, Italy		100.00	(7)	(c)
(13) Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	3,5	51.00	(7)	(u)
(14) T.O.O. Vossloh-Kasachstan, Almaty, Kazakhstan		50.00	(7)	(u)
(15) BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	(e)
(16) BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	(u)
(17) Vossloh Maschinenfabrik Deutschland GmbH, Werdohl	3	100.00	(7)	(u)
(18) Vossloh Utenzilija d.d., Zagreb, Croatia	3	90.49	(7)	(u)
(19) Vossloh Skamo Sp. z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	(c)
(20) Vossloh Rail Technologies Ltd. Şti., Istanbul, Turkey		99.5/0.50	(7/8)	(c)
(21) Feder-7 Kft., Székesfehérvár, Hungary	3	96.67/3.33	(7/8)	(u)
(22) Vossloh Fastening Systems America Corp., Chicago, USA	4	100.00	(7)	(c)
(23) Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	(c)
(24) Vossloh-Werke China Investment GmbH, Werdohl		100.00	(7)	(c)
(25) ZAO Vossloh Fastening Systems Rus, Moscow, Russia	3	50.10	(7)	(u)
(26) Beijing China Railways Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	(u)
<b>Switch Systems business unit</b>				
(27) Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	(c)
(28) Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(27)	(c)
(29) Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(30)	(c)
(30) Vossloh Nordic Switch Systems AB, Örebro, Sweden		100.00	(27)	(c)
(31) KIHN SA, Rumelange, Luxembourg		89.21	(27)	(c)
(32) DDL SA, Rodange, Luxembourg		100.00	(31)	(c)
(33) Vossloh Laeis GmbH & Co. KG, Trier		100.00	(31)	(c)
(34) Vossloh Laeis Verwaltungs GmbH, Trier		100.00	(31)	(c)
(35) Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(27)	(c)
(36) Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(27)	(p)
(37) Montajes Ferroviarios srl, Amurrio, Spain	3	100.00	(36)	(u)
(38) Burbiola SA, Amurrio, Spain		50.00	(36)	(u)
(39) Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK		50.00	(27)	(p)
(40) Vossloh Cogifer Italia Srl, Bari, Italy		100.00	(27)	(c)
(41) Cogifer Polska Sp. z o.o., Bydgoszcz, Poland		52.38	(27)	(c)
(42) ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(27)	(c)
(43) Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(27)	(c)
(44) Cogifer Americas, Inc., Cincinnati, USA	3	100.00	(27)	(u)
(45) Siema Applications SAS, Villeurbanne, France		100.00	(27)	(c)
(46) Vossloh Min Skretnice AD, Niš, Serbia		100.00	(27)	(c)
(47) J.S. Industries Pvt. Ltd., Secunderabad, India	3,5	51.00	(27)	(u)

<sup>1</sup>Fully consolidated companies are labeled (c), those included at equity (e), ventures consolidated pro rata (p), and unconsolidated companies (u).

<sup>2</sup>Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.

<sup>3</sup>Not included in the consolidation group for lack of materiality to the asset and capital structure, financial position, and results of operations

<sup>4</sup>Newly consolidated in 2010

<sup>5</sup>Fiscal year from April 1 to March 31

<sup>6</sup>In addition, Vossloh Verwaltungsgesellschaft (5) holds a minor equity interest as general partner.

€ million	Footnote	Shareholding in %	through ( )	Consolidation <sup>1</sup>
(48) Vossloh Beekay Castings Ltd., Bhilai, India	5	60.00	(27)	(c)
(49) Dakshin Transtek Pvt. Ltd., Bangalore, India	3,5	100.00	(47)	(u)
(50) Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(c)
(51) Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	(c)
(52) Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(c)
(53) Vossloh Sportek A/S, Horsens, Denmark		100.00	(30)	(c)
(54) Kloos Oving BV, Rotterdam, Netherlands		100.00	(27)	(c)
(55) Global Rail Systems, Inc., Marlin, USA	4	60.00	(3)	(c)
(56) Vossloh France International SAS, Rueil-Malmaison, France	3	100.00	(6)	(u)
(57) Wuhu China-Railway Cogifer Track Co., Huo Long Gang Town, China		50.00	(27)	(u)
<b>Rail Services business unit</b>				
(58) Vossloh Rail Services GmbH, Sevetal	2, 4	100.00	(1)	(c)
(59) Stahlberg, Roensch GmbH & Co. KG, Sevetal	2, 4, 6	96.0/4.0	(58/60)	(c)
(60) Stahlberg Verwaltungsgesellschaft mbH, Sevetal	4	100.00	(58)	(c)
(61) RCN Rail Center Nürnberg GmbH & Co. KG, Nürnberg	2, 4	100.00	(59)	(c)
(62) RCN Rail Center Nürnberg Verwaltungs GmbH, Nürnberg	4	100.00	(59)	(c)
(63) RCB Rail Center Bützow GmbH & Co. KG, Bützow	2, 4	100.00	(59)	(c)
(64) RCB Rail Center Bützow Verwaltungs GmbH, Bützow	4	100.00	(59)	(c)
(65) Stahlberg Roensch Leipzig GmbH, Sevetal	4	100.00	(59)	(c)
(66) GTS Gesellschaft für Gleistechnik Süd mbH, Sevetal	2, 4	100.00	(59)	(c)
(67) Stahlberg Roensch Hamburg GmbH, Hamburg	4	100.00	(59)	(c)
(68) Alpha Rail Team GmbH & Co. KG, Berlin		50.00	(59)	(e)
(69) Alpha Rail Team Verwaltungs GmbH, Berlin		50.00	(59)	(u)
(70) LOG Logistikgesellschaft Gleisbau mbH, Hannover	2, 4	100.00	(58)	(c)
(71) Vossloh Ray Hizmetleri Limited Şirketi, Istanbul, Turkey	3	99.5/0.5	(59/58)	(u)
(72) Vossloh High Speed Grinding GmbH, Sevetal	2, 4	100.00	(58)	(c)
(73) Vossloh Mobile Rail Services GmbH, Sevetal	2, 4	100.00	(59)	(c)
<b>Transportation division</b>				
<b>Transportation Systems business unit</b>				
(74) Vossloh Locomotives GmbH, Kiel	2	100.00	(1)	(c)
(75) Locomotion Service GmbH, Kiel	2	100.00	(74)	(c)
(76) Vossloh España SA, Valencia, Spain		100.00	(1)	(c)
(77) Erion Mantenimiento Ferroviario SA, Madrid, Spain		51.00	(76)	(c)
(78) Vossloh Locomotives France SAS, Antony, France		100.00	(74)	(c)
<b>Electrical Systems business unit</b>				
(79) Vossloh Kiepe GmbH, Düsseldorf	2	100.00	(1)	(c)
(80) Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	2	100.00	(79)	(c)
(81) Vossloh Kiepe Ges.mbh, Vienna, Austria		100.00	(80)	(c)
(82) Vossloh Kiepe Corporation, Vancouver, Canada	3	100.00	(80)	(u)
(83) Vossloh Kiepe Srl, Cernusco sul Naviglio, Italy	3	100.00	(80)	(u)
(84) Vossloh Kiepe Sp. z o.o., Kraków, Poland	3	99.00/1.00	(79/80)	(u)
(85) Vossloh Kiepe Main Line Technology GmbH, Düsseldorf	2	100.00	(80)	(c)
(86) APS electronic AG, Niederbuchsiten, Switzerland		100.00	(80)	(c)
(87) Vossloh Kiepe Inc., Alpharetta, USA	3	100.00	(3)	(u)
<b>Other companies</b>				
(88) Vossloh Schwabe Australia Pty. Ltd., Sydney, Australia	3	100.00	(4)	(u)
(89) Delkor Rail Pty. Ltd., Sydney, Australia	3	100.00	(4)	(u)
(90) Delkor Rail (HK) Ltd., Hong Kong, China	3	100.00	(89)	(u)
(91) Vossloh Track Systems GmbH, Werdohl	3	100.00	(1)	(u)
(92) Vossloh Middle East Business Rail LLC, Abu Dhabi, UAE		49.00	(91)	(u)
(93) Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl	3	100.00	(1)	(u)

<sup>1</sup>Fully consolidated companies are labeled (c), those included at equity (e), ventures consolidated pro rata (p), and unconsolidated companies (u).

<sup>2</sup>Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.

<sup>3</sup>Not included in the consolidation group for lack of materiality to the asset and capital structure, financial position, and results of operations

<sup>4</sup>Newly consolidated in 2010

<sup>5</sup>Fiscal year from April 1 to March 31

<sup>6</sup>In addition, Vossloh Verwaltungsgesellschaft (5) holds a minor equity interest as general partner.

According to German GAAP, Vossloh AG's separate financial statements 2010 show net income of €32,124,074.74 and, after including the profit carryforward of €6,958,237.20, net earnings of €39,082,311.94.

Proposed profit  
appropriation

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €2.50 for each no-par share of the eligible common stock of €34,065,562.96 (13,325,290 shares) and to carry forward the balance of €5,769,086.94. When determining the capital stock ranking for dividend, a total of 1,470,630 treasury shares (€3,759,605.90) was deducted.

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

Vossloh AG's Executive Board

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<sup>2, 4</sup>, Munich, degreed engineer,  
former executive board member of Asea Brown Boveri AG

- EvoBus GmbH: supervisory board member
- ACTech GmbH: advisory board member<sup>5</sup>
- schenck.de AG: supervisory board chairman
- Hugo Kern und Liebers GmbH & Co. KG: director<sup>5</sup>
- VAG Holding GmbH: advisory board chairman<sup>5</sup>

Peter Langenbach<sup>2, 4</sup>, Vice-Chairman, Wuppertal, lawyer

- Credit- und Volksbank eG, Wuppertal: supervisory board chairman  
(up to Aug. 26, 2010)

Dr. Jürgen Blume<sup>3, 4</sup>, Bad Bentheim, sworn public auditor and tax accountant

Dr. Christoph Kirsch<sup>3, 4</sup>, Weinheim, former CFO of Südzucker AG

- GELITA AG: supervisory board member
- HELIKOS SE: member of the board

Wolfgang Klein<sup>1, 2, 3</sup>, Werdohl, galvanizer,  
Chairman of the European and Group Works Councils

Michael Ulrich<sup>1</sup>, Kiel, mechanic

<sup>1</sup>Employee representative

<sup>2</sup>Staff Committee member

<sup>3</sup>Audit Committee member

<sup>4</sup>Slate Submittal Committee member

<sup>5</sup>Optional board

Werdohl, March 11, 2011

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 11, 2011

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, 2010. 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 11, 2011

BDO AG  
Wirtschaftsprüfungsgesellschaft

Fritz	Barhold
Wirtschaftsprüfer	Wirtschaftsprüfer



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# Glossary

Bilateral credit facility	Credit (line) agreement between two parties
Capital employed	Working capital + fixed assets
Capital lease	Type of lease ( <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
Dividend payout ratio	Total dividend payout ÷ group earnings
EBIT	Earnings before interest and income taxes
EBITDA	EBIT before amortization of intangibles and depreciation of tangibles/investment properties
EBIT margin	EBIT ÷ net sales
EBT	Earnings before income taxes
Equity ratio	Equity ÷ total assets
Financial derivative	Contract whose fair value is derived from an underlying (e.g. stock or currency)
Financial debts	Private placement loans + bank debts + notes payable + payables under capital leases
Guaranty facility	Credit line for guaranties and guaranty bonds
IAS/IFRS	International Accounting Standards/International Financial Reporting Standards
Interest rate cap	Option contract for an interest rate ceiling to hedge against rising rates
Interest rate swap	Contract for swapping variable and fixed interest payments based on underlying principal
Investment grade	Rating between AAA and BBB– (S&P's), any credit standing below being "speculative grade"
Long-term incentive program (LTIP)	Incentive-based stock option program for officers/executives

Net financial debt	Financial debts – cash & cash equivalents – short-term securities
Net leverage	Net financial debt ÷ equity
Operating lease	Type of lease which requires the lessor to capitalize the leased asset
Payroll intensity	Personnel expenses ÷ value created
Payroll 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 ÷ average capital employed
Statement at equity	Method for carrying investees whose business policy is subject to significant influence
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 – other current accruals
Working capital intensity	Working capital ÷ net sales

# Financial diary 2011/2012

Annual general meeting	May 25, 2011
Payment of cash dividends	May 26, 2011
Publication of interim report	
as of March 31	May 4, 2011
as of June 30	July 27, 2011
as of September 30	October 27, 2011

For further dates, go to [www.vossloh.com](http://www.vossloh.com)

## Financial diary 2012

Publication of 2011 financial data	March 2012
Press conference	March 2012
DVFA presentation	March 2012
Annual general meeting	May 2012

## Investor Relations

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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 12/31/2010:	13,325,290
Share price (12/31/2010):	€95.50
2010 high/low:	€96.46 / €65.75
Reuters code:	VOSG.F
Bloomberg code:	VOS GR
Dividend proposed:	€2.50

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.  
Trademarks: All trademarks, brands or product names mentioned in this annual report are the property of their respective owners. This applies, in particular, to DAX, MDAX, SDAX, TecDAX and Xetra, which are registered trademarks and the property of Deutsche Börse AG.

## Ten-year overview of the Vossloh Group

		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Income statement data</b>											
Net sales	€ mill.	1,351.3	1,173.7	1,212.7	1,232.1	1,015.2	996.4	917.8	912.5	744.5	903.0
thereof: Rail Technology	€ mill.	1,351.3	1,173.4	1,212.1	1,231.8	1,014.2	996.1	917.5	912.2	743.6	649.7
Lighting	€ mill.	—	—	—	—	—	—	—	—	—	252.8
EBIT	€ mill.	152.1	137.9	137.7	121.5	82.7	90.8	105.6	100.9	78.4	60.0
Net interest expense	€ mill.	(11.7)	(9.4)	(9.3)	(12.3)	(14.1)	(19.6)	(16.0)	(14.7)	(14.8)	(17.2)
EBT	€ mill.	140.4	128.5	128.4	109.2	68.6	71.2	89.6	86.2	63.6	42.8
Group earnings (total)	€ mill.	97.5	87.9	139.4	71.4	20.3	45.1	57.2	55.5	52.4	17.2
Earnings per share (EpS)	€	7.32	6.57	9.48	4.83	1.38	3.07	3.91	3.90	3.85	1.20
Pretax ROS	%	10.4	10.9	10.6	8.9	6.8	7.1	9.8	9.4	8.5	4.7
Pretax ROE	%	24.2	26.1	26.1	25.2	18.5	19.7	27.1	29.0	26.7	13.6
Return on capital employed <sup>1</sup>	%	17.2	20.5	18.8	14.9	12.9	12.0	15.3	16.3	13.3	9.4
Value added	€ mill.	54.8	63.7								
<b>Balance sheet data</b>											
Fixed assets	€ mill.	590.7	458.2	431.4	503.4	423.4	453.3	387.0	377.7	414.5	322.0
capital expenditures	€ mill.	57.9	41.9	37.6	52.6	23.9	34.5	39.4	30.5	25.5	48.2
amortization/depreciation	€ mill.	39.5	24.6	22.8	29.2	25.9	23.9	25.2	24.4	19.7	38.1
Closing working capital <sup>2</sup>	€ mill.	258.0	245.1	300.7	312.8	216.7	303.3	303.2	242.7	175.5	316.3
Year-end working capital intensity	%	19.1	20.9	24.8	25.4	21.3	30.4	33.1	26.6	23.6	35.0
Closing capital employed	€ mill.	848.6	703.2	732.1	816.2	640.1	756.6	690.2	620.4	590.0	638.3
Total equity	€ mill.	580.0	492.6	492.7	434.0	371.1	361.0	331.1	297.6	238.6	314.4
thereof: minority interests	€ mill.	27.9	20.4	16.9	12.1	9.3	6.1	5.8	5.6	4.6	121.2
Net financial debt/(assets)	€ mill.	136.6	70.2	(35.0)	124.9	62.3	220.5	171.1	183.1	227.0	231.2
Total assets	€ mill.	1,405.8	1,338.4	1,339.4	1,326.8	1,198.5	1,091.2	1,016.7	880.3	947.2	899.0
Equity ratio	%	41.3	36.8	36.8	32.7	31.0	33.1	32.6	33.8	25.2	35.0
<b>Cash flow statement data</b>											
Cash flow from operating activities	€ mill.	139.1	44.9	133.8	80.2	186.9	54.6	32.9	16.1	122.9	50.6
Cash flow from investing activities	€ mill.	(151.1)	(52.3)	116.8	(123.6)	(15.4)	(65.5)	(27.5)	22.4	(292.3)	(45.8)
Cash flow from financing activities	€ mill.	(71.8)	(84.1)	(77.0)	(25.7)	(81.5)	(78.9)	110.5	(51.0)	10.8	(9.3)
Net cash inflow/(outflow)	€ mill.	(83.8)	(91.5)	173.6	(69.1)	90.0	(89.8)	115.9	(12.5)	(6.6)	(4.5)
<b>Workforce</b>											
Annual average headcount		4,984	4,717	4,631	5,493	4,765	4,732	4,513	4,422	4,190	5,370
thereof: Germany		1,667	1,312	1,243	1,183	1,168	1,494	1,547	1,558	1,651	2,494
abroad		3,317	3,405	3,388	4,310	3,597	3,238	2,966	2,864	2,539	2,876
thereof: Rail Technology		4,936	4,666	4,585	5,455	4,734	4,701	4,481	4,392	4,167	3,884
Lighting		—	—	—	—	—	—	—	—	—	1,464
Vossloh AG		48	51	46	38	31	31	32	30	23	22
Payroll intensity	%	61.5	61.9	61.3	67.5	71.6	70.8	66.2	66.9	69.0	77.0
Personnel expenses	€ mill.	249.5	229.6	223.2	268.9	223.9	234.5	217.5	213.9	178.4	208.1
Payroll per capita	k€	50.1	48.7	48.2	49.0	47.0	49.6	48.2	48.4	42.6	38.7

## Vossloh AG—Ten-year overview

		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Capital stock	€ mill.	37.8	37.8	37.8	37.8	37.7	37.7	37.4	37.4	36.8	36.8
Dividend per share	€	2.50 <sup>3</sup>	2.00	2.00 + 1.00	1.70	1.30	1.30	1.30	1.30	1.20	0.75
Stock price at Dec. 31	€	95.50	69.52	79.49	80.10	57.14	41.10	36.35	44.80	24.70	22.53
Market capitalization at Dec. 31	€ mill.	1,272.6	926.0	1,104.0	1,185.1	842.0	605.6	530.9	654.2	338.1	310.4

2001–2002 according to US GAAP

As from 2003 according to IFRS

<sup>1</sup>Based on average capital employed since 2009

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

<sup>3</sup>If approved by the AGM

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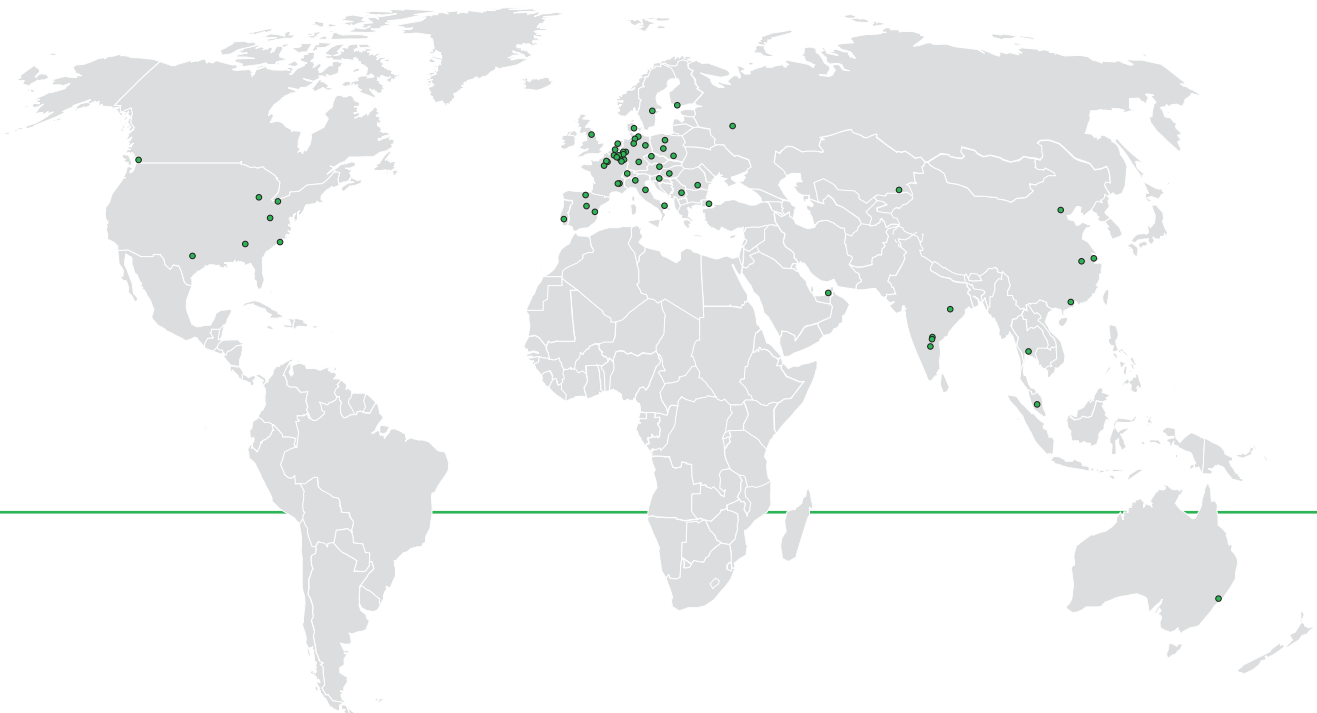
Vossloh AG, Werdohl  
Peter Esser, Düsseldorf  
Getty Images

Production:

Staudt Lithographie GmbH, Bochum

Editorial close: March 2011

This annual report has been published in  
English and German and is also  
downloadable from [www.vossloh.com](http://www.vossloh.com)





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- Momentum for growth.  
Separate financial statements  
of Vossloh AG as of December 31, 2010



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# *Combined management report*

## Vossloh AG

Rail Infrastructure  
division

Transportation  
division

Business units:

Vossloh Fastening Systems  
Vossloh Switch Systems  
Vossloh Rail Services

Business units:

Vossloh Transportation Systems  
Vossloh Electrical Systems

# Business and market environment

## Strategy, segmentation, and competitive position

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

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

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

Fundamental  
strategic  
principles:  
- Focused  
portfolio  
- Value-driven  
growth  
- High  
profitability

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

Rail Infrastructure offers the related products and services. Besides the Fastening Systems and Switch Systems business units, the division has since the start of fiscal 2010 included a third, Rail Services.

- 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 and turnouts, control and monitoring systems for rail networks. Here, too, the range reaches from light-rail to high-speed lines.
- Vossloh Rail Services specializes in complex rail logistics and welding solutions as well as preventive maintenance of rails.

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

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

## Organization

Some 90 companies  
within the Group

The Vossloh Group operates on a global scale. It patterns its business on local presence and customer proximity. Key European production plants are in Germany, France, Spain, Luxembourg, Scandinavia, Poland, and Austria. Outside of Europe Vossloh produces switch systems chiefly in Australia and the USA. It has major rail fastener plants in China and Turkey. Vossloh operates through sales companies and branches and has in some instances, together with competent partners, entered into local joint ventures and alliances. At the end of 2010, the Group comprised a total of around 90 companies in 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 Rail Services GmbH, Sevetal, Germany; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España SA, Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

## Controlling system and objectives

As part of its value-driven growth strategy, Vossloh's prime target is to add value, defined as 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, the weighted average cost of capital (debt and equity). Multiplying the premium by average capital employed (CE) produces the value added (VA) in a period in absolute terms. For intragroup controlling purposes, ROCE and value added (VA) are determined before taxes. In line with IFRS 8, VA is disclosed in published reports as the business unit controlling parameter and benchmark.

Key performance indicators: value added and ROCE

Cost of equity is composed of a risk-free rate plus a current premium of 5.0 percent, the interest rate being duly adjusted for its pretax application. Cost of debt is calculated on the basis of the Group's average funding terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not from the balance sheet since it is not only predicated on a benchmark for the funding structure and interest-bearing accruals but also because equity is here based on fair value and not the carrying amounts of the balance sheet.

Intragroup controlling in fiscal 2010 was based on pretax WACC of 11 percent as 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 in 2010 (related to capital employed). Besides this pretax VA used for internal controlling purposes, also the posttax value added is communicated in external reports at group and division levels, based on the current WACC—6.6 percent posttax for fiscal 2010—in order to disclose the actual value trend of relevance to stockholders.

ROCE benchmark: 15 percent

The clearly lower interest rates have leveled down risk-free rates from 4.25 to 3.25 percent and thus also the cost of equity, a process accompanied by a shrinkage of the average cost of debt. Therefore, Vossloh has as from 2011 downscaled the yield expected by lenders and investors to 10 percent while maintaining sustainable ROCE at an unchanged benchmark of 15 percent.

Lower WACC as from 2011

Supplementary  
targets for  
the overall Group

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 taken 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

Following the severe recession, the global economy recovered in 2010 at a rate that exceeded expectations at the start of the year. According to the International Monetary Fund, global GDP grew 5.0 percent. This compares with an overall shrinkage of 0.6 percent the year before.

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

GDP in the eurozone, Vossloh's most important sales market, inched up 1.8 percent in 2010; Germany's 3.6-percent growth was better than average. In the recession year of 2009, Europe's and Germany's GDP had sunk 4.1 and 4.7 percent, respectively. The Central and Eastern European economies neighboring the eurozone likewise reported for 2010 a clear improvement of 4.2 percent (up from a negative 3.6).

The steepest rises in 2010 were again shown by the emerging nations of Asia, with China surging 10.3 percent (up from 9.2). Economic growth in the USA reached 2.8 percent (up from a negative 2.6).

As to Vossloh, the general economic climate is of minor relevance and Vossloh's rail technology markets follow international economic trends to a limited degree. Instead, pertinent are political policies, the current status of rail sector deregulation, and sovereign debt.

There are only a few studies on the global rail technology market and these include the World Rail Market Study published by UNIFE, the Association of the European Rail Industry, and the Worldwide Market for Rail Technology 2010 published by the consultants SCI Verkehr. According to UNIFE, the accessible markets for rail technology amount to around €95 billion with Western Europe leading at €29 billion and Asia/Pacific tight on its heels at nigh €28 billion. Third place is taken by NAFTA at around €20 billion, followed by Eastern Europe and the CIS (mainly Russia) together accounting for some €11 billion.

World Rail Market  
Study surveying  
industry prospects

The rail technology market is subdivided into four segments: Infrastructure, Rolling Stock, Rail Control, and Services. Rolling Stock has the largest share of the accessible market and totals almost €37 billion, followed by Services (around €28 billion) and Infrastructure (some €20 billion). The rest of the market at around €11 billion is attributable to Rail Control. Among these categories, Vossloh with its Rail Infrastructure and Transportation divisions has a footing primarily in the Infrastructure and Rolling Stock segments.

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

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

## M&A transactions

### New Rail Services business unit

The acquisition of the following companies of the Stahlberg-Roensch Group (all based in Seevetal near Hamburg) was officially closed on February 5, 2010:

- Stahlberg Verwaltungsgesellschaft mbH
- Stahlberg, Roensch GmbH & Co. KG
- OBERBAU Beteiligungsgesellschaft mbH
- RCH rail center Handel GmbH & Co. KG,
- Stahlberg Track Asset Verwaltungsgesellschaft mbH
- Stahlberg Track Asset GmbH & Co. KG

as well as of LOG Logistikgesellschaft Gleisbau mbH and ISB Instandhaltungssysteme Bahn GmbH, both of Hannover.

The acquisition covers seven German locations specializing mainly in complex logistics solutions, as well as in the welding and preventive maintenance of rails.

The acquirees form the new Rail Services business unit and are therefore separately dealt with in the segment report.

## Results of operations

Driven by another expansion of business at the Rail Infrastructure division, the Vossloh Group's sales in fiscal 2010 mounted 15.1 percent to €1,351.3 million. Just under one-half of the incremental revenue was due to the first-time inclusion of the acquired Rail Services business unit which reported sales of €84.8 million. Organic growth was 7.9 percent, with contributions coming from the Fastening Systems, Electrical Systems and Switch Systems business units. Vossloh Transportation Systems reported shrinking sales at both its locations.

Group sales up  
15.1 percent

Vossloh Group: sales by business unit

	€ million		%	€ million		%
	2010			2009		
<b>Rail Infrastructure</b>	<b>891.5</b>	<b>66.0</b>		<b>690.3</b>	<b>58.8</b>	
Fastening Systems	369.4	27.3		267.1	22.8	
Switch Systems	439.0	32.5		424.9	36.1	
Rail Services	84.8	6.3		–	–	
Consolidation	(1.7)	(0.1)		(1.7)	(0.1)	
<b>Transportation</b>	<b>459.7</b>	<b>34.0</b>		<b>483.2</b>	<b>41.2</b>	
Transportation Systems	304.8	22.6		336.2	28.6	
Electrical Systems	160.0	11.8		148.5	12.7	
Consolidation	(5.1)	(0.4)		(1.5)	(0.1)	
<b>Holding companies and consolidation</b>	<b>0.1</b>	<b>0.0</b>		<b>0.2</b>	<b>0.0</b>	
	<b>1,351.3</b>	<b>100.0</b>		<b>1,173.7</b>	<b>100.0</b>	

The first-time inclusion of Vossloh Rail Services and Rail Infrastructure's overall vigorous organic growth meant that the division's share of total sales jumped from 58.8 percent in 2009 to 66.0 percent in 2010. All the division's business units boosted their sales volume, most especially Vossloh Fastening Systems. Added sales were generated in China and Turkey as well as through higher shipments from Germany. Vossloh Switch Systems reported reviving revenue compared with the year before. Especially in the US market where demand during the economic and financial crises had slumped, business began to return to normal.

Above all, it was the poor order intake at Kiel in 2009 that whittled down revenue a year later at Vossloh Transportation Systems. Again flourishing were sales at Vossloh Electrical Systems.

Vossloh Group: sales by region

	€ million		%	€ million		%
	2010			2009		
Germany	267.1		19.8	132.3		11.3
France	121.9		9.0	156.0		13.3
Other Western Europe	151.2		11.2	172.0		14.7
Northern Europe	96.5		7.1	100.5		8.6
Southern Europe	273.0		20.2	260.8		22.2
Eastern Europe	42.8		3.2	34.1		2.8
<b>Total Europe</b>	<b>952.5</b>		<b>70.5</b>	<b>855.7</b>		<b>72.9</b>
Americas	106.3		7.9	90.6		7.7
Asia	237.6		17.6	175.6		15.0
Africa	27.6		2.0	22.3		1.9
Australia	27.3		2.0	29.5		2.5
<b>Total</b>	<b>1,351.3</b>		<b>100.0</b>	<b>1,173.7</b>		<b>100.0</b>

Added sales  
almost everywhere

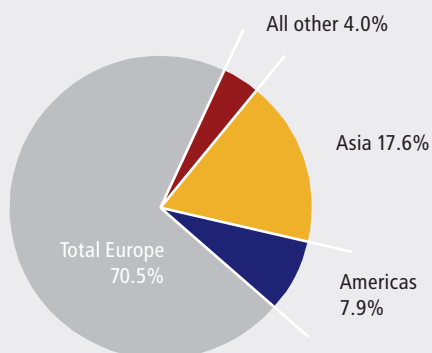
Fiscal 2010 was a period in which the Vossloh Group reported sales hikes in virtually all its markets around the globe. Even though sales on the European home turf rose, the gain was outpaced by surging sales in non-European regions which accounted for 29.5 percent (up from 27.1) of aggregate business. Western Europe generated 40.0 percent of group sales. Germany accounted for sales of €267.1 million, more or less double the prior-year, an essential factor being the first-time consolidation of the Rail Services business unit where annual sales of €84.8 million were largely home-made. Purely organic (like-for-like) sales in Germany soared €52.2 million thanks to Vossloh Electrical Systems whose light rail product group expanded. Vossloh's aggregate sales in Germany made up some 20 percent of the total in 2010.

France and other Western European countries reported lower sales, and so did Scandinavia. In Eastern and especially Southern Europe Vossloh again forged ahead. Spain, Italy and Turkey as well as Poland, and with its first major order now, Russia are all major markets for Vossloh that contributed to rising sales in 2010.

US sales were well up over 2009, a period clouded by softer demand on the part of the Class 1 rail operators who specialize in freight haulage. Central America was another region in which Vossloh Switch Systems posted sales gains. Hence, despite weaker sales in a number of South American countries, the Americas region closed the year with sales totaling €106.3 million (up by 17.4 percent).

Vossloh's main source of business in Asia was again China where sales jumped by over 50 percent. So far, Vossloh has been represented in China through its high-speed rail fasteners. In other Asian countries including the Middle East region, Vossloh is tapping burgeoning demand potential. Ascending sales in 2010 were reported in Kazakhstan, Malaysia, Israel, and Saudi Arabia. Altogether, Asia again advanced in significance for the Group and revenue there amounted to around 18 percent of the Group's aggregate (up from 15).

Asian sales  
surging



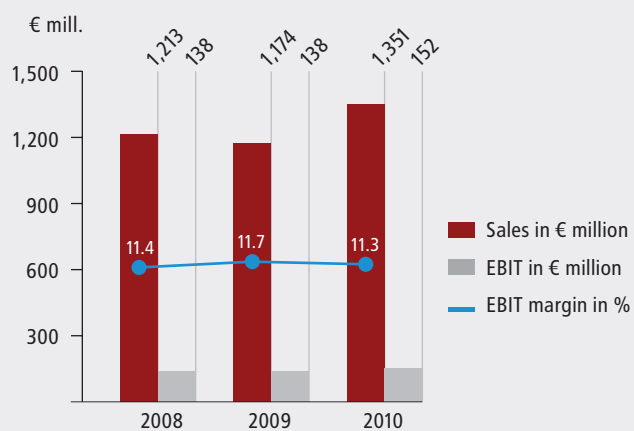
Sales breakdown by region in 2010

## Vossloh Group: sales and performance

	€ million	%	€ million	%
	2010		2009	
Net sales	1,351.3	100.0	1,173.7	100.0
Gross margin	295.4	21.9	257.3	21.9
Operating result	151.0	11.2	138.0	11.8
EBITDA	191.9	14.2	162.5	13.8
EBIT	152.1	11.3	137.9	11.7
EBT	140.4	10.4	128.5	10.9
Net result of discontinued operations	5.3	0.4	–	–
Group earnings	97.5	7.2	87.9	7.5
Earnings per share (€)	7.32		6.57	

For the Group, cost of sales in 2010 climbed 15.2 percent (from €916.3 million to €1,055.9 million), its rate of increase equaling that of sales; therefore, the relative gross margin remained at an unchanged 21.9 percent.

General administrative and selling (GAS) expenses advanced in 2010 from €134.2 million to €157.7 million; as a share of sales, GAS expenses edged up from 11.4 to 11.7 percent.



## Vossloh Group: sales and EBIT trends 2008–2010

With the Group's net other operating income inching down from €26.0 million to €24.2 million and with cost ratios slightly changed, the upward movement of EBIT was shallower than that of sales: Vossloh's EBIT improved 10.3 percent from €137.9 million to €152.1 million while the EBIT margin remained well above the internal benchmark of 10.0 percent.

Group EBIT  
at a record  
€152.1 million

Since the purchase price for the new Rail Services business unit fell due in 2010, net interest expense expanded to €11.7 million (up from €9.4 million). The Group's tax load ratio was an unchanged 25 percent approximately, thanks to the 12.5-percent tax burden in China (still half the customary rate) and the tax subsidy in favor of the local development of new products that benefited Vossloh's Spanish locations.

Group earnings mounted 10.9 percent in 2010 to €97.5 million. In the wake of the divestment in 2008 of Vossloh Infrastructure Services, the ensuing risks were reassessed and accruals of €5.3 million released to income as they were no longer deemed necessary. The minority interests in net income climbed from €8.8 million to €13.6 million. Earnings per share (EpS) of the Vossloh Group for 2010 came to €7.32, up from €6.57 for a virtually unchanged number of shares. Earnings per share from continuing operations reached €6.92 in fiscal 2010.

For fiscal 2010, Vossloh AG's Executive and Supervisory Boards will propose to the stockholders' meeting a dividend of €2.50 per share, equivalent to a total payout of €33.3 million. The respective figures for 2009 had been €2.00 and €26.6 million.

Proposed dividend  
of €2.50

Due to the significantly higher average capital employed, the Vossloh Group's ROCE contracted, as expected, from 20.5 percent a year ago to 17.2 in 2010 but nonetheless remained clearly above Vossloh's internal benchmark of 15 percent. The prime reason for the CE increase was the acquisition of Vossloh Rail Services, another factor was the higher working capital. Despite the elevated CE baseline, Vossloh clearly outearned its WACC of 11 percent (determined for the Group for 2010), the premium being hence over 6 percent.

Group's ROCE  
at 17.2 percent

#### Order intake up

Orders booked by the Vossloh Group in fiscal 2010 added up to €1,344 million (up from €1,140 million). At year-end 2010, order backlog was virtually unchanged at €1,085 million (down from €1,092 million).

Order intake and backlog at Rail Infrastructure were upgraded again. This division reported just under €1 billion worth of new business (precisely, €987 million) and all three units shared in the increase from €754 million the year before. Rail Infrastructure is setting off in 2011 with an order backlog of €517 million as of December 31, 2010.

In contrast, the aftermath of the financial and economic crises was still experienced in the Transportation division in 2010, especially at Vossloh Rail Vehicles in Valencia. Whereas Vossloh Locomotives, Kiel, as well as Vossloh Electrical Systems reported rising order intake and backlog, both figures were down at Vossloh Rail Vehicles. As a consequence, the division's order backlog fell year-on-year from €670 million to €568 million.

Vossloh divisions: order backlog

€ million	2010	2009
Rail Infrastructure	517	422
Transportation	568	670
	<b>1,085</b>	<b>1,092</b>



## 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, 2010, rose to €136.6 million (up €66.4 million from €70.2 million a year ago), basically as the price for the acquisition of the new Rail Services business unit was paid. At year-end 2010, financial debts of €212.5 million (down from €227.5 million) contrasted with cash and cash equivalents of €75.9 million (down from €157.3 million). The net leverage (i.e., the ratio of net financial debt to equity) in 2010 was 23.5 percent (up from 14.3).

Acquisitions raise  
net debts

Vossloh Group: net leverage

		2010	2009
Total equity	€ mill.	580.0	492.6
Net financial debt	€ mill.	136.6	70.2
Net leverage	%	23.5	14.3

Financial debts in 2010, whose total barely changed year-on-year, substantially represented the long-term debt of around €180.3 million raised by Vossloh in 2004 by a two-loan private placement from the US capital market. The first and second fixed-rate US dollar loans (at \$140 million and \$100 million) fall due in 2014 and 2016, respectively. Since the funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and cross-currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively.

The remaining financial debts of a total €32.2 million as of the balance sheet date mainly comprised short-term borrowings, the largest amount being the €15.5 million raised by Vossloh Fastening Systems China alone.

Vossloh Group: cash flow analysis

€ million	2010	2009
Cash flow from operating activities	139.1	44.9
Cash flow from investment activities	(151.1)	(52.3)
Cash flow from financing activities	(71.8)	(84.1)
<b>Net cash outflow</b>	<b>(83.8)</b>	<b>(91.5)</b>

Cash flow  
from operating  
activities at  
€139.1 million

The net cash provided in 2010 by the Group's operating activities soared from €44.9 million a year ago to €139.1 million. In contrast to fiscal 2009, a period adversely affected by the steep buildup of working capital, the higher working capital had only a minor weight on cash flow.

The net cash of €151.1 million used in investing activities in 2010 (up from €52.3 million) chiefly surged due to the cash outflows of a total €57.9 million for added intangible and tangible assets, another heavyweight being the €86.6 million cash paid for the Vossloh Rail Services acquisition and also other M&A. In a year-on-year comparison, fiscal 2009 had seen no major M&A transaction and also far lower expenditures for tangible assets.

The cash outflows for financing activities mainly went into the repayment of €31.9 million for short-term loans and the €36.5 million payout of cash dividends to minority interest holders and Vossloh stock owners, the latter accounting for €26.6 million alone.

The operating leases existing at December 31, 2010, will require future cash outflows of €40.5 million, including €11.2 million in 2011. In 2009, future cash outflows had totaled €40.2 million.

Unutilized cash  
credit facilities of  
€252.3 million

As of December 31, 2010, unutilized cash credit facilities of €252.3 million were available to the Vossloh Group (up from €172 million). For details, see the chapter on risk and reward management starting from page 56. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

## Vossloh Group: capital expenditures and amortization/depreciation

€ million	2010		2009	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	29.3	25.5	21.6	11.5
Transportation	25.2	13.3	19.4	12.2
Holding companies	3.4	0.7	0.9	0.9
	<b>57.9</b>	<b>39.5</b>	<b>41.9</b>	<b>24.6</b>

The Group's capital outlays in 2010 of €57.9 million for intangible and tangible assets, up by €16.0 million, again outstripped by far amortization and depreciation of €39.5 million (up from €24.6 million).

Capex of  
€57.9 million

Both Vossloh divisions significantly boosted their capital expenditures in 2010: Rail Infrastructure spent €29.3 million (up from €21.6 million), Transportation €25.2 million (up from €19.4 million). The Fastening Systems business unit expanded its capacities, pushing up its total capex from €4.6 million in 2009 to €12.1 million in 2010. Vossloh Switch Systems' outlays centered on modernization and capacity extension projects and shrank to €14.2 million (down from €17.0 million). The Rail Services business unit started on the development of three new trains for its innovative high-speed grinding operations and appropriated most of its capex of €3.0 million to this project.

Expenditures on  
more capacities  
and new products

## Vossloh Group: breakdown of capital expenditures

€ million	2010		2009	
	Capex	%	Capex	%
Development costs	18.1	31.2	9.7	23.2
Other intangibles	1.7	2.9	1.9	4.5
Land and buildings	2.5	4.3	2.2	5.3
Production plant and machinery	14.0	24.2	9.8	23.4
Other plant, factory and office equipment	7.4	12.8	6.5	15.5
Prepayments made, construction in progress	14.2	24.6	11.8	28.2
	<b>57.9</b>	<b>100.0</b>	<b>41.9</b>	<b>100.0</b>

Expenditures of the Transportation Systems business unit totaled €22.4 million in 2010 (up from €15.2 million). Both locations (Kiel and Valencia) substantially pushed ahead with the development of new products. Vossloh Electrical Systems' capex came to €2.8 million (down from €4.2 million): Vossloh Kiepe's spending focused on the modernization, M&R, upkeep and replacement purchases of plant, equipment, and buildings.

## Asset and capital structure

The Group's higher total assets—climbing €67.4 million from €1,338.4 million at the close of 2009 to €1,405.8 million as of December 31, 2010—primarily reflect the newly consolidated Rail Services business unit, which also accounted for the lion's share in the steep fixed-asset ascent by €132.5 million to €590.7 million.

**Equity ratio:** At 41.3 percent, Vossloh's equity ratio improved appreciably year-on-year (up from 36.8 percent at December 31, 2009), a key equity booster being group earnings. In absolute terms, total equity swelled from €492.6 million a year ago by €87.4 million to €580.0 million at December 31, 2010.

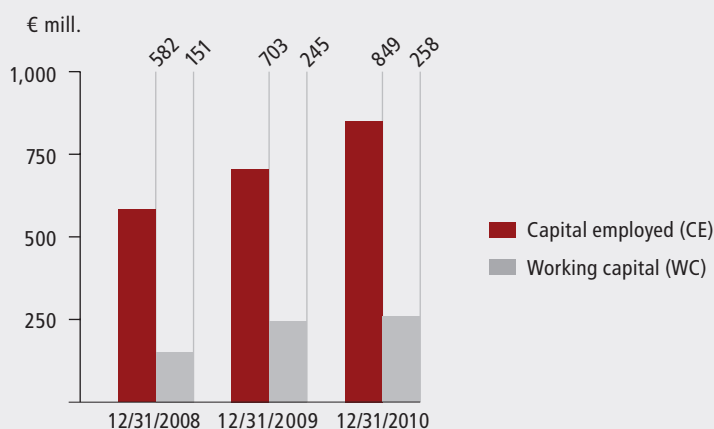
Vossloh Group: asset and capital structure

		2010	2009
Total assets	€ mill.	1,405.8	1,338.4
Total equity	€ mill.	580.0	492.6
Equity ratio	%	41.3	36.8
Closing working capital (WC)	€ mill.	258.0	245.1
Closing capital employed	€ mill.	848.6	703.2
Year-end working capital intensity	%	19.1	20.9
Fixed assets	€ mill.	590.7	458.2
Return on equity (ROE)	%	24.2	26.1

In a year-on-year comparison, the Vossloh Group's closing working capital moved up €12.9 million or 5.3 percent, from €245.1 million to €258.0 million. Related to sales, the working capital intensity as of December 31, 2010, was upgraded to 19.1 percent (down from 20.9). Vossloh's average working capital amounted to €309.0 million (up from €231.7 million). Due to the €77.3 million higher average WC, working capital intensity worsened on average, too (up from 19.7 percent to 22.9). A bulging trade receivables portfolio was the key reason for the Group's average working capital buildup.

Working capital  
intensity:  
19.1 percent

It was chiefly the newly consolidated Rail Services business unit that hiked up closing capital employed, by €145.4 million or 20.7 percent from €703.2 million to €848.6 million. Capital employed in 2010 averaged €884.5 million (up €210.5 million from €674.0 million), essentially due to the first-time inclusion of Vossloh Rail Services, another (albeit minor) CE driver being the average WC buildup within the Group.



Vossloh Group: CE and WC trends 2008–2010

## Shareholder value management

ROCE  
at 17.2 percent  
despite higher  
capital employed

As expected, the Vossloh Group's ROCE contracted in 2010. Although, at 17.2 percent, ROCE did sink from the prior year's 20.5, the internal benchmark of 15 percent was easily outperformed, the M&A-related CE leap notwithstanding. Based on an 11-percent WACC for the Group in 2010, Vossloh earned a premium of 6.2 percent.

The Rail Infrastructure division with an ROCE of 20.6 percent achieved a premium of 9.6 percent. Although this division's EBIT of €141.9 million outgrew the prior year's by 13.5 percent, the rise in average capital employed was steeper in the wake of the first-time consolidation of Vossloh Rail Services.

With an ROCE of 14.5 percent, the Transportation division earned a premium of 3.5 percent in 2010: the year-on-year increase in average capital employed combined with a lower EBIT eroded ROCE.

Vossloh Group: shareholder value management

		2010	2009
Average capital employed	€ mill.	884.5	674.0
ROCE	%	17.2	20.5
Value added (VA) *	€ mill.	54.8	63.7

\*Based on an 11-percent WACC.

The €210.5 million higher capital employed notwithstanding, the Vossloh Group's value added (VA) came to €54.8 million before taxes and after WACC of 11 percent. In 2009, the pretax VA amounted to €63.7 million, based on capital employed of €674.0 million. Rail Infrastructure added value of €66.1 million to the Group's, albeit this was just below the prior-year €67.5 million, it was again the lion's share. The Transportation division contributed €6.6 million to Vossloh's VA (down from €18.6 million).

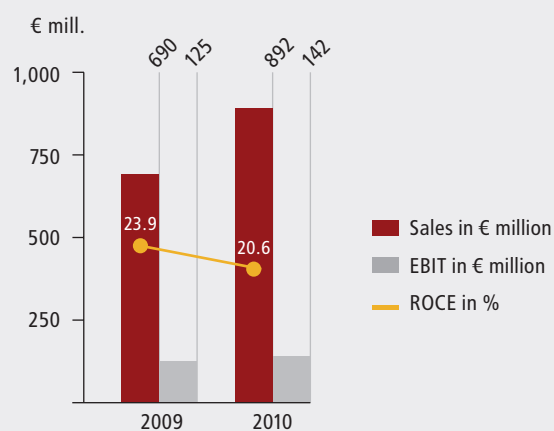
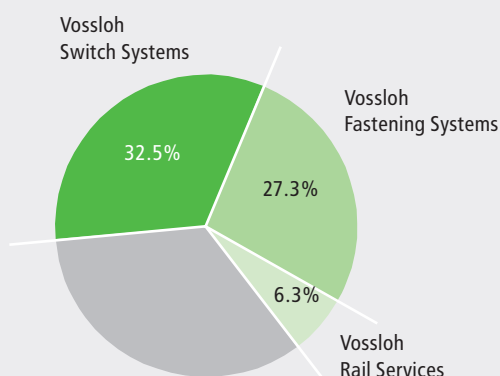
Value added:  
€54.8 million

Based on the current WACC, the Vossloh Group's posttax value added in 2010 totaled €48.1 million, breaking down into Rail Infrastructure's of €53.9 million and Transportation's of €6.7 million.

*Vossloh Fastening Systems  
improving sales by over €100 million*

*Vossloh Switch Systems  
still the biggest business unit  
with sales of €439 million*

*Vossloh Rail Services adding  
sales of almost €85 million*



Shares of business units in  
group sales

Rail Infrastructure division: sales, EBIT and ROCE trends



# Rail Infrastructure business trend

Unchanged, the Rail Infrastructure division comprises the two business units, Fastening Systems and Switch Systems, and since January 1, 2010, has also included the newly acquired Rail Services business unit.

Combined, the three units generated sales of €891.5 million in 2010 (up 29.2 percent from €690.3 million). Since the newcomer, Vossloh Rail Services, generated €84.8 million, purely organic growth added up to 16.9 percent. The prime driving force of such growth within this division and indeed throughout the Group was Vossloh Fastening Systems whose annual sales climbed to €369.4 million, a surge of 38.3 percent. The Group's biggest business unit in terms of sales, Vossloh Switch Systems reported a revenue rise of 3.3 percent to €439.0 million. All three business units benefited from a growing rail infrastructure maintenance and revamping demand by operators worldwide. Vossloh Fastening Systems, moreover, generated a major portion of sales and sales gains in China.

Sales rising  
29.2 percent

## Rail Infrastructure

		2010	2009
Sales	€ mill.	891.5	690.3
EBITDA	€ mill.	167.8	136.5
EBIT	€ mill.	141.9	125.0
EBIT margin	%	15.9	18.1
Closing working capital	€ mill.	234.5	210.2
Year-end working capital intensity	%	26.3	30.5
Fixed assets	€ mill.	431.9	310.6
Capital expenditures	€ mill.	29.3	21.6
Amortization/depreciation	€ mill.	25.5	11.5
Closing capital employed	€ mill.	666.5	520.8
Average capital employed	€ mill.	688.7	522.3
ROCE	%	20.6	23.9
Value added	€ mill.	66.1	67.5

At €66.1 million, the value added (VA) by the Rail Infrastructure division in 2010 virtually nudged the prior-year €67.5 million. Despite the first-time consolidation of the new business unit, the ROCE of 20.6 percent was well above the 15-percent corporate benchmark. All three business units added value.

ROCE at  
20.6 percent;  
value added at  
€66.1 million

The slight downturn in VA and ROCE was basically attributable to the significant €166.4 million rise in average capital employed to €688.7 million in the year under review, mainly in the wake of the Vossloh Rail Services acquisition. Another (albeit weaker) CE-raising factor was the average working capital of €269.4 million, which swelled from €220.3 million a year ago thanks to the sales uptrend. In contrast, average working capital intensity improved from 31.9 percent in 2009 to 30.2 in the period.

The Rail Infrastructure division succeeded in 2010 in again stepping up its EBIT to a new record level, from the high prior-year €125.0 million by another 13.5 percent to €141.9 million. Since cost of sales as a percentage of sales climbed, the division's EBIT margin, though missing the 2009 record, stayed at a very commendable 15.9 percent.

## Vossloh Fastening Systems

Business  
branching out in  
all the big regions

Business at Vossloh Fastening Systems again forged ahead in fiscal 2010, with sales at €369.4 million leaping 38.3 percent or €102.3 million. As in preceding periods, most of the growth momentum was generated outside of Germany although here, too, sales were likewise higher. Advances were most emphatic in China and Turkey. Other countries with sizable shares of revenue were Italy, Austria, Russia, Kazakhstan, Libya, Netherlands, Saudi Arabia, Poland, the USA, and Taiwan. Sales abroad accounted for about 90 percent, outside of Europe for 60 percent. Vossloh Fastening Systems ships its products to over 65 countries.

Since 2007, Vossloh Fastening Systems has had its own local production subsidiary in China and in fiscal 2010 the joint venture, run together with two Chinese partners (Vossloh's stake 68 percent), was mostly concerned with fitting out the high-speed rail line from Beijing to Shanghai. The last of the shipments for this megaproject was completed at the start of October 2010. Sales in China were up by over 50 percent. In August 2010, Vossloh Fastening Systems China was awarded another megacontract by the Chinese Railways Ministry for likely execution in 2011 and 2012. The fasteners are destined for the Lanzhou–Urumqi line in the northwest of the country. An additional bending line in China will help expand local production capacities by about one-third and address the expected steep demand for high-speed rail fasteners.

The Russian state railway RZD awarded Vossloh Fastening Systems in October 2010 its first contract for rail fasteners intended for upgrading existing lines. The order is worth around €10 million. The fasteners have been specifically engineered for the Russian climate. The nation is the world's third-biggest rail market and here, too, Vossloh Fastening Systems plans to enter a joint venture with a local partner.

An order intake of €421.4 million and a year-end order backlog of €206.0 million represent new all-time highs for Vossloh Fastening Systems (up from €349.0 million and €154.1 million, respectively).

New all-time highs  
in order intake  
and backlog

Capital expenditures by this business unit zoomed from the prior year's €4.6 million to €12.1 million. The production locations in Werdohl, China, and Turkey all expanded their capacities. For this year, the business unit has earmarked again rising outlays at around €17 million. A large share will go to the setting-up of a rail fastener facility in Russia.

Value added by Vossloh Fastening Systems shrank year-on-year from €58.0 million to €54.3 million, mainly due to this business unit's thicker receivables portfolio and consequently higher average capital employed.

## Vossloh Switch Systems

This business unit reported sales of €439.0 million in 2010 (up 3.3 percent or €14.1 million). Western European sales were up—especially in France, Netherlands, and Switzerland—and so were Southern European. US sales likewise regained their pre-2009 magnitude. On balance virtually unchanged were sales in Scandinavia. Business in Australia stayed buoyant. In Asia as well as Eastern and Northern Europe sales were down.

Sales of  
€439.0 million

Order intake at Vossloh Switch Systems in 2010 swelled from €405.7 million to €482.8 million. Year-end 2010 orders on hand amounted to €310.9 million (up from €267.1 million). The biggest item was the contract awarded in August 2010 worth €77.5 million for fitting out two planned railway lines in Libya by 2012. Likewise of significance is the framework contract awarded in the summer 2010 by Trafikverket, the Swedish infrastructure authority, for the supply of "Easyswitches" over a period of ten years with an option for another five. The total deal is valued at around €100 million and will be booked as new business as and when the orders are actually placed.

Order intake of  
€482.8 million

Capital expenditures added up to €14.2 million (down by €2.8 million). Several locations carried out modernization and capacity expansion work in 2010. Expenditures are set to rise appreciably to €27 million this year. Most will be absorbed by a new switch facility on the Wuhu site (close to Nanjing, Anhui Province) scheduled for completion by the end of 2011, and to be built together with two local partners. Also planned are modernization and capacity expansion expenditures.

Value added by the Switch Systems business unit contracted year-on-year from €9.6 million to €5.2 million as its capital employed grew.

## Vossloh Rail Services

As from January 1, 2010, the Vossloh Group has included the new Rail Services business unit among its consolidated companies. Most of the constituent companies currently operate in Germany and focus their business on rail welding, rail logistics, and rail maintenance. Sales amounted to €84.8 million.

New orders in 2010 totaled €85.7 million; orders on hand at year-end were negligible since the business unit supplies its services on demand on the basis of short waiting and execution times.

Vossloh Rail Services has developed an innovative, preventive maintenance technique for rails—high-speed grinding (HSG). The rails are ground at speeds of over 80 km/h. Vossloh Rail Services sees a substantial demand in and outside Germany for this service and is therefore investing in the development of three new HSG trains which will constitute the major item of expenditure of €15 million earmarked for this business unit in 2011. Capital expenditures by Vossloh Rail Services totaled €3 million in 2010, most of which went into the development of the new grinding train.

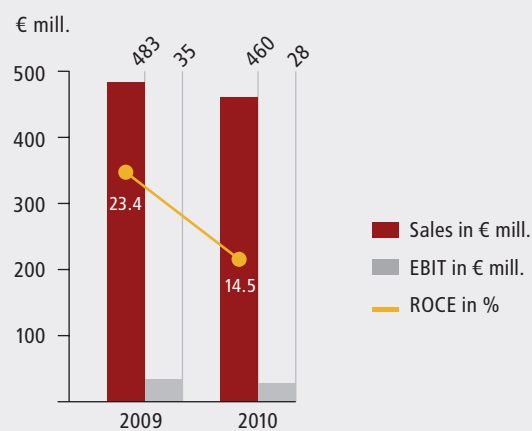
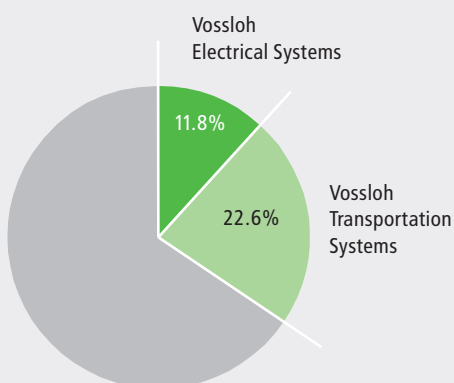
High-speed  
grinding with  
plenty of potential

Value added by Vossloh Rail Services came to €6.7 million in 2010.

*Transportation Systems still affected by the aftermath of the financial crisis, hence sales and order backlog down*

*Electrical Systems again growing*

*Expenditures on new locomotive models and a complete lineup for local transit*



Shares of business units in group sales

Transportation division: sales, EBIT and ROCE trends

# Transportation business trend

The turn of 2009/10 saw a renaming of certain Vossloh Group divisions and business units. One outcome was that the previous *Motive Power & Components* is now *Transportation*. This division still includes the Group's vehicle and component products and subdivides into the two business units of Electrical Systems and (renamed) Transportation Systems (previously *Locomotives*). The two production locations of Vossloh Transportation Systems are (still) Kiel, again known as Vossloh Locomotives, and Valencia, now renamed Vossloh Rail Vehicles. The more precise redesignation of the Spanish location does justice to its broader product range that meanwhile extends beyond the development of locomotives to embrace a complete lineup of local transport rail vehicles and trams.

Sales by the Transportation division in 2010 added up to €459.7 million, 4.9 percent short of the prior year's. Both locations of Vossloh Transportation Systems reported shrinking sales. The slump in freight haulage caused by the economic and financial crises had led to a significant reduction in locomotive orders in fiscal 2009 and in turn to shrinking sales at the Kiel location in 2010. Valencia-based Vossloh Rail Vehicles managed to largely offset poor locomotive business through rising sales from commuter trains. Nonetheless, its business as a whole was likewise down. Vossloh Electrical Systems, in contrast, maintained its recent years' growth. Repeated vigorous demand for trams and other light rail vehicles drove business at this unit.

Locomotive business weaker; trams and other LRVs stronger

The surging capital employed combined with a shrinking EBIT slashed Transportation's ROCE from 23.4 percent a year ago to 14.5 in 2010. Value added by the division slimmed down year-on-year from €18.6 million to €6.6 million. The Transportation division's average capital employed rose from the previous year's €150.8 million to €189.5 million in fiscal 2010, essentially in the wake of a working capital surge: in 2010 the 12-month average soared to €45.9 million (up from €18.1 million). The reason for the working capital increase was the still sluggish locomotive order intake and the accompanying lower downpayment volume.

ROCE of 14.5 percent; value added €6.6 million

The Transportation division's EBIT receded from €35.2 million to €27.5 million, the EBIT margin sliding from 7.3 to 6.0 percent. Both business units made positive contributions to EBIT.

Transportation			
		2010	2009
Sales	€ mill.	459.7	483.2
EBITDA	€ mill.	40.7	47.4
EBIT	€ mill.	27.5	35.2
EBIT margin	%	6.0	7.3
Closing working capital	€ mill.	31.3	40.9
Year-end working capital intensity	%	6.8	8.5
Fixed assets	€ mill.	149.1	136.6
Capital expenditures	€ mill.	25.2	19.4
Amortization/depreciation	€ mill.	13.3	12.2
Closing capital employed	€ mill.	180.3	177.5
Average capital employed	€ mill.	189.5	150.8
ROCE	%	14.5	23.4
Value added	€ mill.	6.6	18.6

## Vossloh Transportation Systems

### Sales falling to €304.8 million

The Transportation Systems business unit reported a 9.3-percent year-on-year downturn in sales from €336.2 million to €304.8 million, with revenue receding at both locations. The share of sales per location varied barely: Kiel-based Vossloh Locomotives accounted for about 34 percent at around €102 million whereas Vossloh Rail Vehicles in Valencia contributed some 66 percent at approximately €203 million.

### Total order inflow down

Order intake picked up conspicuously at Kiel; at Valencia, the rate of new orders retroceded. Altogether, Vossloh Transportation Systems reported an order influx of €195.9 million (down from €253.0 million). At year-end 2010, orders on hand came to €339.2 million (down from €448.1 million), enough for almost twelve months of production. In Q1/2011, Vossloh Transportation Systems received new orders of €100+ million, including a megacontract for 29 locomotives (models EURO 4000 and EURO 3000) awarded to the Valencia location, as well as several center-cab locomotives ordered from the Kiel plant.



Capital expenditures at Vossloh Transportation Systems totaled €22.4 million (up from €15.2 million) for the period. Efforts directed by both locations at developing new products were stepped up appreciably and another €20 million will probably be spent in 2011 on continuing these projects. Even in 2010, a large share of Kiel's incoming business was sourced from new locomotive models. In 2011, both Kiel and Valencia are expecting stronger demand for their new models.

Given the tepid business, the Transportation Systems business unit reported value added of a red €9.0 million in 2010 (down from a black €1.7 million a year ago).

#### **Valencia location**

Vossloh Rail Vehicles reported sales of €202.5 million (down from €215.3 million) for 2010, with locomotive business accounting for only around 32 percent of revenue compared with 59 the year before. Among the customers shipped out to in 2010 was again the French state rail SNCF which received diesel locomotives from Vossloh, acting as a subcontractor of Alstom. Customers of the EURO 4000 diesel locomotives were leasing companies and private freight haulage operators in France and Spain.

Valencia location  
with sales of  
€202.5 million

Business in commuter trains and light rail vehicles rose sharply in 2010. A good 68 percent of Vossloh Rail Vehicles' sales was generated from the production of urban rail vehicles, bogies, and other components. Key account in this product segment in 2010 was FGV (Ferrocarrils de la Generalitat Valenciana), the metro, light rail and tram operator of Valencia and Alicante.

First order for  
LRVs with Vossloh's  
proprietary  
electric driveline

Capital expenditures by Vossloh Transportation Systems in 2010 for Valencia amounted to €11.1 million (up from €8.0 million) and focused on the development of the freight and passenger locomotive *EUROLIGHT* plus a new type of tram with electrical components sourced from the Electrical Systems business unit. This year, spending at Valencia is targeting ongoing development work on the *EUROLIGHT* and on trams.

#### **Kiel location**

Sales at Kiel-based Vossloh Locomotives again fell expectedly short in 2010, sinking 15.8 percent or €19.2 million from €121.7 million to €102.5 million. Kiel develops and builds center-cab locomotives solely for freight haulage. This is a market segment that was weaker in 2009 as a result of the plunge in freight haulage. Given the extended lead times typical of this business, it was in 2010 only that the curbed order activity impacted on sales. Shipments last year totaled 31 units (down from 48). Most of the units comprised the proven G 1000, G 1206 and G 2000 series. The first of the new G 6 were also delivered.

Kiel location  
with sales down  
but order  
intake recovering

As the year progressed, there were evident indications of a recovery in the market for shunting locomotives. Orders booked by Vossloh Locomotives, Kiel, shot up by over 150 percent but were nonetheless still short of the figure for 2008. A big portion of the new business was accounted for by the G 6 launched in 2008 and of which 26 were sold. These ultramodern triple-axle shunters are stimulating interest not only in Germany but elsewhere in Europe, too.

Capital expenditures at Vossloh Locomotives rose from €7.2 million to €11.3 million and were largely absorbed by development work on the diesel-electric locomotives fitted out with electric traction systems from Vossloh Kiepe. The first prototype of the new series supplementing the Vossloh Locomotives lineup of diesel-hydraulic units was showcased at the industry fair InnoTrans in September 2010. Named DE 12 and DE 18, the two diesel-electrics are members of a family engineered to a uniform platform whose modularity delivers substantially improved quality, cost-efficiency and serviceability benefits. This year further expenditures have been earmarked for this family.

## Vossloh Electrical Systems

Sales up  
7.8 percent

As in previous periods, Vossloh Electrical Systems upped its sales in 2010, this time by 7.8 percent or €11.5 million to €160.0 million. The added revenue was mostly sourced from electrical systems fitted to trams and other light rail vehicles. In contrast, sales in the buses product group were down. Geographically, the main markets were Germany and elsewhere in Europe. During the year, Vossloh Electrical Systems fitted out and revamped new and existing light rail vehicles operating in Düsseldorf, Dortmund, Bremen, Manchester and Edinburgh. Trolleybus projects were carried out for Lausanne, Winterthur, Milan, etc.

For several years now, the business unit together with selected associates has been involved in the development and manufacture of hybrid buses. The first of these were shipped out to Luxembourg back in 2008. They were succeeded in 2010 by others to Düsseldorf, Wuppertal/Hagen/Ennepetal, and Dortmund. Last year, Vossloh Electrical Systems was awarded new orders for fitting out hybrid buses for Leipzig, Dresden, Lübeck, and Darmstadt.

Vossloh Electrical Systems is playing a major development role in the electric traction systems for the new locomotives and commuter trains from Kiel and Valencia. This work has been going on since 2009 together with Transportation Systems' two production locations. The business unit is also supplying the electric traction system for the train-tram destined for Mallorca to be supplied by Vossloh Rail Vehicles. The DE 18 diesel-electric locomotive showcased at InnoTrans and the DE 12 also feature a Vossloh Kiepe driveline.

Electric drive  
systems for  
locomotives and  
commuter trains

Order intake at Vossloh Electrical Systems mounted from €134.4 million to €170.1 million; orders on hand at year-end climbed, too, from €222.1 million to €232.2 million, and so orders are enough to keep the Electrical Systems business unit busy for well over a year. Due for shipment in 2011 and thereafter are projects involving refurbished and new products for Berlin, Cologne, Bonn, Bielefeld as well as Belgrade, Kraków, and elsewhere. Once again, it will be the light rail and tram product groups that generate the major share of sales.

Order intake and  
backlog up

The business unit's capital expenditures dropped from €4.2 million to €2.8 million and focused on revamping, maintaining and replacing plant and machinery, buildings and equipment. Spending this year is budgeted at around €9 million a substantial share of which will be absorbed by the purchase of additional plant premises including office buildings in Düsseldorf to improve workflows and facilitate the necessary capacity expansion.

The value added by Vossloh Electrical Systems slipped from €16.9 million to €15.7 million.

# Vossloh AG

As management and financial holding company, Vossloh AG parents the Vossloh Group, and 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—€1.2 million (down from €1.4 million) for 2010—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 2010, the administrative expenses of €20.7 million were €1.1 million above the prior year's, basically as trade fair expenses surged in the wake of InnoTrans, the international transport technology fair held every other year in Berlin. Personnel expenses shrank by €0.7 million to €8.2 million; the annual average headcount moved down by 3 employees to 48. Year-on-year, the Company's other operating income climbed €0.8 million to €16.7 million and includes mainly income from the apportionment to subsidiaries of taxes, marketing fees and IT expenses.

In addition to the administrative expenses and the net other operating income or expense, the net financial result, which inched up from €39.9 million a year ago to €40.9 million in 2010, impacts materially on Vossloh AG's EBT since the Company is also the financial holding company of the Group and therefore owns its major subsidiaries.

Key components of the net financial result for 2010 were the €10.0 million dividend income from Vossloh France SAS, as well as the profits transferred by Vossloh-Werke GmbH, Vossloh Kiepe GmbH, and Vossloh Rail Services GmbH, together accounting for €49.4 million (down from €55.4 million).

Interest expense of €14.8 million (up from €14.6 million)—primarily for refinancing the Group’s capital requirements—contrasted in 2010 with interest income of €7.7 million (up from €6.1 million) from granting short-term credit or medium-term loans to consolidated subsidiaries. A major weight on net financial income was the loss of a total €11.6 million absorbed from subsidiaries, mainly Vossloh Locomotives GmbH (up from €3.8 million). Vossloh AG’s net income of €32.1 million for 2010 is €3.0 million above the prior year’s, thanks not only to the somewhat upgraded operating and financial results but also the lighter income tax load (down from €2.2 million to €0.5 million). In contrast, extraordinary expenses of €3.8 million weighed on net income due to the first-time application of the new German accounting legislation (BilMoG).

Newly applying the BilMoG provisions to the balance sheet was also the reason for the plunge in total assets as of December 31, 2010: these wilted year-on-year from €815.4 million to €734.8 million since the treasury stock, previously stated non-netted, is now disclosed neither on the asset side nor within the reserves retained from earnings but its theoretical par value of €3.7 million is directly offset against the capital stock. The amended disclosure rule resulted in a €102.6 million decrease in the balance sheet total. The stock repurchase program (commenced October 15, 2008, and ended March 20, 2009) resulted in 1,470,630 treasury shares being held as of December 31, 2010, acquired at an average cost of €69.52 per share.

Other factors impacting on the Company’s asset and capital structure were higher fixed assets, intercompany receivables/payables, and changes in the finance mix. The €27.4 million rise in fixed assets to €506.0 million as of year-end 2010 is largely attributable to the €23.0 million increase in Vossloh Rail Services GmbH’s share capital, as well as to mounting capital expenditures for this subsidiary’s Werdohl location. Intercompany receivables and payables climbed €74.9 million and €48.5 million, respectively. Given the amended treasury stock disclosure, Vossloh AG’s equity totaled €394.1 million, down year-on-year by €96.7 million despite the €32.1 million net income. The equity ratio slipped from 60.2 to 53.6 percent.

Vossloh AG's financial position depends on the funds needed by subsidiaries and the borrowings made by the Company to refinance such requirements. The debt raised in 2004 from the US capital market by way of private placement, carried within sundry liabilities, amounted to an unchanged €203.9 million. The other borrowings crumbled from €26.0 million a year ago to €0.1 million as of December 31, 2010; cash and cash equivalents were slimmed down by €47.9 million to €0.7 million.

## Board compensation report

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

### Remuneration of Executive Board members in 2010

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. In fiscal 2010, an outside consultant specializing in compensation issues reviewed the Executive Board's compensation for a fair and reasonable scale and concluded that the overall compensation of the Executive Board represents fair and reasonable remuneration for each member's functions, duties, and personal performance, as well as for Vossloh's economic situation, successful performance and future prospects, besides being in line with industry peers and in proportion to Vossloh's general pay system.

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

In fiscal 2010, Vossloh AG's executive officers received a total compensation of €2,839,517 (down from €3,050,230), including €759,326 of fixed, and €2,045,300 variable, remuneration. In addition, they received noncash fringes of €34,891 (tax base) as payments in kind (PIK), basically in the form of private company car use. PIK income is taxable income of each executive officer.

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

Moreover, they have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 15 (Dr.-Ing. Schiedeck) or 35 percent (Werner Andree), and are stepped up by 4 percent annually (as from April 1, 2010, or Jan. 1, 2005, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2010, a total €1,182,489 was provided for accrued pension obligations to Executive Board members (up from €508,867). Current postretirement pensions are adjusted annually in line with the collective pay trend of white-collar employees.

The table below itemizes the remuneration of each executive officer:

€	Short-term benefits				Retirement benefits	
	Fixed salary	PIK	Profit share	Total	Provision in 2010	Total accrued
CEO Werner Andree	461,767	15,315	1,247,134	1,724,216	923,828	2,604,120
COO Dr.-Ing. Norbert Schiedeck	297,559	19,576	798,166	1,115,301	258,661	381,502
<b>Total</b>	<b>759,326</b>	<b>34,891</b>	<b>2,045,300</b>	<b>2,839,517</b>	<b>1,182,489</b>	<b>2,985,622</b>

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 any change of control.

No loans or advances were granted in 2010 to any Executive Board member.

The compensation paid as current pensions to former executive officers and their surviving dependants totaled €612,274 (down from €674,597).

Pension obligations to former executive officers and their surviving dependants amounted to €11,411,253 (up from €8,648,353) and are fully covered by accruals.

The option introduced in 2008 by the Supervisory Board to grant Executive Board members a discretionary bonus was not exercised in 2010.

### Remuneration of Supervisory Board members in 2010

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 business performance.

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

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

In accordance with the bylaws, Supervisory Board members will receive a total €689,375 (up from €612,125), including €222,500 fixed and €466,875 variable, performance-related fees. The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Dr.-Ing. Wilfried Kaiser, Chairman	60,000	135,000	195,000
Peter Langenbach, Vice-Chairman	42,500	84,375	126,875
Dr. Jürgen Blume	30,000	56,250	86,250
Dr. Christoph Kirsch	40,000	78,750	118,750
Wolfgang Klein	30,000	67,500	97,500
Michael Ulrich	20,000	45,000	65,000
<b>Total</b>	<b>222,500</b>	<b>466,875</b>	<b>689,375</b>

In addition to these fees, no Supervisory Board member received in 2010 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2010 to any Supervisory Board member.



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

### **Capital stock breakdown**

Vossloh AG's capital stock of €37,825,168.86 is divided into 14,795,920 no-par bearer shares of common stock entitling to one vote each. In the course of 2010, options were exercised under the stock option programs, raising the capital stock by €127.82.

### **Restraints on voting rights or share transfer**

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

Voting right exercise and share transfer by members of the Vossloh Family Pool ("Familiengemeinschaft Vossloh GbR") have been pooled by contractual agreement.

### **Direct or indirect shareholdings of 10+ percent**

The Executive Board is aware that a direct voting interest above 10 percent in the Company's capital stock exists: The Vossloh Family Pool has notified Vossloh AG that, as of February 2011, its members owned a stake of nigh 31 percent in the Company's capital stock.

### **Shares with controlling rights, etc.**

No such shares exist at Vossloh AG.

### **Voting control of employee shareholdings**

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

### **Appointment/removal of Executive Board members; amendment of the bylaws**

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

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

Art. 4(8) of the bylaws further entitles the Supervisory Board to update the bylaws accordingly after the capital stock has been increased by utilizing authorized or contingent capital.

#### **Stock issuance or repurchase authority of the Executive Board**

Art. 4 of the bylaws specify the Executive Board's powers to issue new stock while the authority to repurchase treasury stock is based on the AGM resolution of May 19, 2010.

##### **(a) Authorized capital**

The provisions of Art. 4(2) of the bylaws authorize the Executive Board, subject to the Supervisory Board's approval, to increase the capital stock on or before May 19, 2014, by an aggregate maximum of €7,500,000 by issuing once or several times new no-par bearer shares of common stock against cash and/or noncash contributions ("Authorized Capital") while duly granting stockholders their statutory subscription right. However, after first obtaining approval from the Supervisory Board, the Executive Board may exclude this subscription right:

- (i) for fractions entailed by the subscription ratio;
- (ii) in order to (a) grant to holders of conversion rights, options and/or warrants which are outstanding when the Authorized Capital is utilized or (b) satisfy conversion obligations ensuing from convertible and/or warrant bonds previously floated or issuable by the Company or any of its wholly-owned subsidiaries, the right to subscribe for new shares to the extent which they would be entitled to as stockholders upon exercise of their conversion rights and/or options or upon satisfaction of their conversion obligations;
- (iii) if (a) the new stock is issued against cash contributions at a price that is not significantly below the stock market price current for same-class Vossloh stock at the time at which the final issuance price is fixed, and (b) the newly issued stock exceeds an aggregate ten percent of the capital stock neither at the effective date nor at the date of exercise of this authority. Any such shares are counted toward this capital ceiling as are disposed of ex rights (i.e., without granting a subscription right to stockholders) during the validity period of this authority by applying the

provisions of Art. 186(3) clause 4 AktG. Shares issued or issuable to service convertible and/or warrant bonds or satisfy conversion obligations shall also be counted toward said 10-percent ceiling provided that the bonds are issued ex rights during the validity period of this authority in application of the provisions of Art. 186(3) clause 4 AktG;

- (iv) for any capital increase against noncash contributions.

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

(b) Contingent/conditional capital

- (i) Pursuant to Art. 4(3) of the bylaws, the Company's capital stock has been conditionally raised by €6,979,134.18 by issuing 2,730,000 bearer shares of common stock. This contingent capital increase will be implemented only to the extent that, under the warrant bond issues floated by Vossloh AG and/or its (directly or indirectly) wholly owned non-German subsidiaries on or before June 28, 1999, the warrant holders exercise their right to subscribe for common stock. The new common stock ranks for dividend as from the fiscal year in which it is created by option exercise.
- (ii) Pursuant to Art. 4(4) of the bylaws, the Company's capital stock has been conditionally increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to employees under an SOP authorized by the annual stockholders' meetings of June 25, 1998, and/or June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year's AGM votes.
- (iii) Pursuant to Art. 4(5) of the bylaws, the Company's capital stock has been conditionally raised by €1,468,225.77 by issuing 574,320 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to officers, executives and other management staff under a long-term incentive plan (LTIP) authorized by the annual stockholders' meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year's AGM votes.

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

(c) Repurchase of treasury stock

According to the AGM resolution of May 19, 2010, and pursuant to Art. 71(1) No. 8 AktG, the Company is authorized on or before May 18, 2015, to acquire treasury stock equivalent to an aggregate maximum of ten percent of Vossloh AG's then capital stock. At the Executive Board's discretion, treasury stock may be acquired either through a stock market or by public repurchase offer or public invitation to bid.

If shares are acquired through a stock market, the amount paid by the Company for each Vossloh share may neither be more than ten percent above or below the Vossloh stock price as quoted at the trading day's opening auction of the Xetra trade at the Frankfurt Stock Exchange. In the event that the stock is acquired by public repurchase offer or public invitation to bid, the purchase price offered or the limits of the purchase price spread per share shall not be more than ten percent above or below the average closing prices as quoted by the Xetra system on the three trading days preceding publication of either the repurchase offer or the public invitation to bid. In the event that, subsequent to the publication of either the repurchase offer or the public invitation to bid, the governing share price differs considerably, the repurchase offer or invitation to bid may be adjusted accordingly on the basis of the average closing prices as quoted by the Xetra system (or any successor system in lieu of and replacing the Xetra system) on the three trading days prior to publication of any such stock price adjustment. The repurchase offer or invitation to bid may include further stipulations. If the shares offered exceed the number

required (in the case of a repurchase offer), or if not all bids out of several equivalent ones are accepted (in the case of an invitation to bid), offer or bid acceptance shall be prorated (i.e., based on proportionate allocation). The purchase terms may provide for the preferential acceptance of small lots of 100 shares or less per stockholder.

The Executive Board is authorized, after first obtaining Supervisory Board approval, to use treasury shares for any lawful purposes, including (without being limited to) to dispose of the treasury stock in a form other than through a stock market or by offering them to all Vossloh stockholders, however, provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the stock market price then current for same-class Vossloh stock.

The Executive Board is further authorized, after first obtaining Supervisory Board approval, to sell treasury stock ex rights to third parties in return for noncash contributions, including (without limitation) in connection with business combinations or when acquiring other enterprises or equity interests therein. The treasury stock may be used to settle obligations under convertible and/or warrant bonds issued by the Company and/or any of its wholly-owned subsidiaries.

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

At December 31, 2010, the Company held 1,470,630 shares of treasury stock.

**Agreements upon any change of control, etc.:**

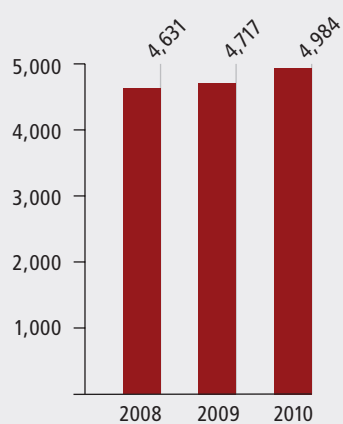
No agreements have been made with third parties that are contingent on a change of control in the wake of a takeover bid.

**Compensation agreements upon change of control:**

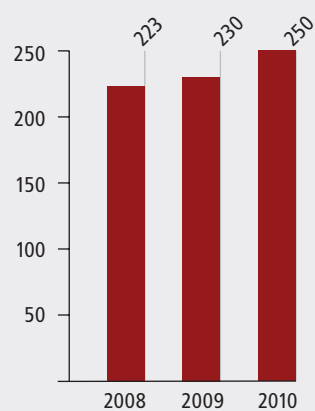
No arrangements for post-takeover indemnification or other compensation of Executive Board members or Vossloh employees upon a change of control have been made either.

## *M&A raise headcount*

*17 percent employees  
outside of Europe*



Average group headcount



Personnel expenses in € million

# Workforce

At December 31, 2010, the Vossloh Group employed a workforce worldwide of 4,906, up 4.2 percent or 198 compared with the 4,708 at year-end 2009. The consolidation of new companies added 368 employees of whom 323 at Vossloh Rail Services and 45 at Global Rail Systems.

## Employee-related indicators

		2010	2009	2008
Payroll per capita	k€	50.1	48.7	48.2
Sales per capita	k€	271.1	248.8	261.9
Payroll intensity	%	61.5	61.9	61.3
Value created per capita	k€	81.4	78.7	78.7

Altogether 83 percent worked at the Group's European locations and 17 percent outside of Europe. Of the latter, North America accounted for 42.4 percent (up from 42.2) while the production locations in China and India together for some 44 percent (down from 47).

83 percent  
employees  
in Europe

There were only marginal changes in the age structure of the group employees and their average length of service with each subsidiary despite the acquisitions. The proportion of employees aged below 35 slipped slightly to 31 percent, and the share with ten service years or less inched down to 56 percent.

## Personnel expenses (payroll)

€ million	2010	2009	% change
Pay	202.1	185.9	8.7
Social Security	43.3	40.0	8.3
Pension expense	4.1	3.7	10.8
<b>Total personnel expenses</b>	<b>249.5</b>	<b>229.6</b>	<b>8.7</b>

Since the employees of the acquirees of fiscal 2009 had been included only pro rata temporis, the Group's average headcount rise from 2009 to 2010 was steeper than at year-end. Whereas in 2009 the Group had employed a workforce of 4,717 on an annual average, this figure went up by 5.7 percent to 4,984 in the period under review.

In 2010, personnel expenses advanced by 8.7 percent from €229.6 million to €249.5 million. The average payroll per capita climbed by 2.9 percent from k€48.7 to k€50.1. Alongside pay hikes, this addition is chiefly due to the acquisitions.

Value created—defined as the excess of total operating performance over cost input and amortization/depreciation—per capita jumped from k€78.7 to k€81.4.

Payroll intensity at  
61.5 percent

Hence, the ratio of payroll to value created (*a.k.a.* payroll intensity) improved slightly from 61.9 to 61.5 percent. Sales per capita ascended to k€271.1 (up 9.0 percent from k€248.8).

## Rail Infrastructure

M&A-related, the annual average workforce in the Rail Infrastructure division climbed by about 16 percent from 2,710 to 3,155.

Average payroll per capita rose 7.2 percent from k€40.4 to k€43.3. Value created per capita mounted from k€87.6 to k€89.5. The payroll intensity totaled 48.4 percent (up 2.4 percentage points). Sales per capita advanced 11.0 percent from k€254.7 to k€282.6.

## Transportation

The annual average number of Transportation employees fell by 8.9 percent from 1,956 to 1,781. Most of the reduction occurred at the Spanish location.

Sales per capita were stepped up 4.5 percent from k€247.0 to k€258.1, value created per capita slipped from k€74.9 to k€74.3. Payroll per capita increased 3.3 percent from k€56.8 to k€58.7. Payroll intensity climbed 3.2 percentage points from 75.8 to 79.0 percent.

Employees 2010						
	Annual average*			Year-end		
	Germany	Abroad	Total	Germany	Abroad	Total
Rail Infrastructure	647	2,508	3,155	670	2,477	3,147
Transportation	972	809	1,781	968	744	1,712
Vossloh AG	48	0	48	47	0	47
<b>Total</b>	<b>1,667</b>	<b>3,317</b>	<b>4,984</b>	<b>1,685</b>	<b>3,221</b>	<b>4,906</b>

\* Annual average based on monthly data



## Recruiting and developing employees

For Vossloh, employees are the key to success and hence high-quality apprenticeship courses and carefully compiled HR development programs command high priority.

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

There are also wide-ranging blue-collar courses on such subjects as welding, load securing/hazardous goods, and the operation of forklift trucks.

The Vossloh Academy is an intercompany institute with a web portal from where (initially only) employees in Germany can register online for seminars. Dealt with are topics of assistance in daily work to ensure that future challenges are successfully addressed.

Launched in 2009, the program under the title “We lead Vossloh” went into its second successful round last fiscal year. It acts as a platform for regularly sharing ideas among staff in key positions across all business units. Concurrently, the program serves as a basis for the ongoing personal development of these employees and thus as an essential component for strengthening staff loyalty and planning for jobholder succession.

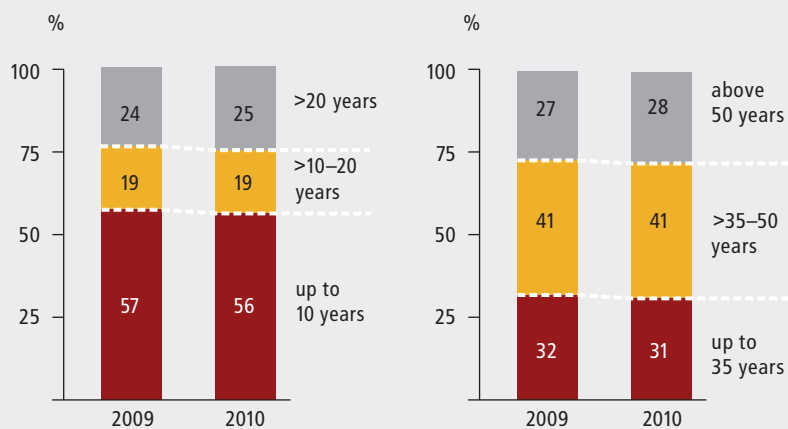
To make sure we recruit in good time well-trained and qualified employees, there are widely ranging relations with schools and universities, especially with European institutions of relevance to our industry. Some of these take the form of research and other project work.

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

Besides the direct-entry options we have the newly developed Vossloh start-up program to ease young engineering graduates' transition from university to professional life.

Proportion  
of apprentices:  
5.5 percent  
in Germany

Vossloh's own in-house apprenticeship courses play a major role in our talent recruitment efforts. During the period, the German companies hired 22 new blue-, white- and gray-collar apprentices and at year-end, the Werdohl, Düsseldorf, Kiel, Moers and Trier locations together employed 81 apprentices, equivalent to around 5.5 percent of the workforce at the German operations with apprenticeship opportunities.



Service years in %

Age structure in %

## OSH project

During the period, Vossloh's Executive Board and the European Works Council promoted the subject of occupational safety and health (OSH) to action priority #1. This is not only in response to the existing legislative parameters it is also to exercise responsibility for employees that this subject will be treated as a standing initiative on the European Works Council. It was agreed to set up a project group briefed to analyze in its entirety the situation regarding OSH, introduce a reporting system and on the basis of this, map out suitable measures.

## Thanks to the employees

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 respective markets and are constantly investing in product and service improvements. One of their prime aims is to satisfy the specific requirements of customers in the various market regions. In addition, Vossloh repeatedly works on pioneering new solutions. Activities in this area were again intensified in 2010 in order to broaden the product portfolio and adapt it to emerging development trends on the markets. In research and development (R&D), the business units resort to cooperation both intragroup and with external specialists, and to partnerships with universities and scientific institutions. Since a large share of R&D takes place in connection with specific contracts, the associated costs are reflected in the cost of sales and not in R&D expenses.

## **W 30 for Russian conditions**

A major innovation driver at Vossloh Fastening Systems is the development of individual customer solutions to address requirements specific to a certain region. The period saw the successful completion of further developed W 30 rail fasteners. In Russia, the W 30 has to cope with temperatures ranging between -60 and +50 °C while in the North American market, it is the heavy-haul lines where it is chiefly used. For the US market and elsewhere, new rail fastening systems were developed, some with new materials. Vossloh Fastening Systems' long-range R&D efforts are looking into noise-abatement options and the interaction between dowels and concrete sleepers.

Vossloh Switch Systems assembled the first prototype of a new switch developed in recent years and now undergoing track tryout. Further engineering tests were carried out on eco-friendly zero-lubrication switches with a view to coming up with coatings that minimize rail chair friction resistance. Official approval was given to a novel kind of spring-roller rail chair. This will reduce the force required to actuate very long and high-speed switches.

## **Further developing switch actuation and monitoring systems**

Together with associates, Vossloh Cogifer is scouting for (combinations of) materials to replace the timber sleepers still being used in many countries. Work pushed ahead on various switch machines to help extend maintenance and service intervals. Also to be tested in 2011 are new features on conventional switch machines and a new kind of multiple-drive actuation switch for high-speed tracks. Completed in 2010 was work on the Algerian version of a new switch monitoring system NUMCOM; using Internet telephony the system can also be modified to match a variety of regional markets.

Vossloh Rail Services developed and designed in 2010 a new-generation high-speed rail grinding train. These new vehicles featuring advanced high-speed grinding technology are being built in close teamwork with Kiel-based Vossloh Locomotives. Acquired at the start of 2010, this business unit again developed semistationary welding techniques. These are two disciplines essential to the planned international expansion of Vossloh Rail Services.

High-speed  
grinding

A much talked-about rail industry subject in 2010 was the extension of Vossloh Transportation Systems' product portfolio. There is about to be an addition to the family of new modular center-cab locomotives at Kiel where engineers are busy working on the four-axle G 12 and DE 12 (up to 1,200 kW) and the G 18 and DE 18 (up to 1,800 kW) for shunting and mainline freight haulage. The "G" stands for *Gelenkwellenantrieb* (articulated shaft drive) on the diesel-hydraulic models; DE for "diesel-electric." All four-axle models in this locomotive family come with a choice of output, weight, software and now, driveline. Kiel's new diesel-electric driveline is a joint effort with Vossloh Electrical Systems. The Valencia location presented its *EUROLIGHT*, an offshoot of the best-selling EURO 4000. Underweight, it will also run on lines destined for limited axle loads and is intended for European secondary lines. A forthcoming addition to the Valencia breed will be the EURO 3000. Big steps forward were taken in 2010 by the first all-Vossloh train, a new local transport vehicle based on the proven train-tram to come into service on Mallorca in 2011. The Valencia engineers, too, teamed up closely with Vossloh Electrical Systems in developing the train-tram's driveline. Vossloh Transportation Systems is engaged in a whole series of R&D projects probing into options for a further reduction in locomotive exhaust and noise emissions.

Modular  
locomotive  
family with  
Vossloh's  
proprietary  
driveline

Hybrid technology for buses was again the R&D focus at Vossloh Electrical Systems in 2010. Heading the agenda was another reduction in environmental impact and improved cost savings through, for instance, less fuel consumption (enhancing energy efficiency). Contributing toward this goal are such features as automatic start-stop (diesel engine switches off when vehicle stops) and an intelligent energy management system (satellite-based vehicle position location to calculate in advance power and energy needs and accordingly manage the deployment of resources). In the course of a pilot project, tests started on a fuel-cell drive system running on eco-friendly hydrogen. In 2010, four such local-transit buses traveled to Amsterdam and Cologne where they will go into regular service over a number of years.

Hybrid technology  
again focal point

The business unit was largely involved in developing Vossloh's new diesel-electric driveline for locomotives and commuter trains.

# *Environmental protection*

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

Vossloh's diesel locomotive developers naturally make sure that their vehicles are as fuel-efficient as possible and thus minimize CO<sub>2</sub> emissions. The principle of "zero emissions" also applies to the (trolley)buses with traction technology from Vossloh Kiepe. Another benefit derived from these local transport vehicles is that they are very quiet in operation, a fact much appreciated by passengers and bystanders alike. Conventional buses can also improve their environmental profile with Vossloh technology in the form of hybrid drive for reducing exhaust and noise emissions. Other buses fitted with even greener fuel-cell hydrogen systems from Vossloh are presently being put to the test.

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 rated by Inrate, Sarasin 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 local environmental authorities demonstrate the consistent observance of all the legal and official limits and compliance with the permitted ceilings, in some cases even by a wide margin. As far as possible, residues are consistently recycled, while solid wastes are systematically separated.

Fiscal 2010 was a period in which the Vossloh Group scaled new heights in terms of sales. Accordingly, production volumes mounted at nearly all the locations. Despite the efficient use of natural resources, the added business led to a rise in total consumption of power (67.6 million kWh and 7 percent over 2009) and gas (123.1 million kWh and 14 percent up). Most of the extra gas was consumed by new hardening and tempering equipment in the German and Chinese rail fastener facilities. District heating consumption rose 15 percent to 13.4 million MWh as did water consumption to 139,500 m<sup>3</sup>, up 5 percent.

The disproportionate rise in district heating was due to the Switch Systems business unit. Fuel oil consumption, in contrast, fell by 3 percent to 1,127 million liters. Altogether, energy costs mounted 10.4 percent from €12.5 million to €13.8 million. As these costs showed a shallower rise than sales, their ratio to sales dropped to 1.0 percent. So as to obtain even better control of energy and water consumption, a groupwide uniform energy measuring system has been gradually introduced since 2009.

Energy costs  
1 percent of sales

At its Werdohl headquarters, Vossloh is currently step by step implementing a new energy concept one of whose components is to exploit the heat discharged by the hardening and tempering equipment. 2010 saw the decommissioning of the central steam boiler which until now had produced all the process and other heat. Process steam is now generated where needed by small, highly efficient local units. The right temperature in the production shops is ensured by likewise high-efficiency radiant heaters. Energy efficiency was also a criterion in the design of Vossloh Fastening Systems' new Technology Center which completely dispenses with fossil fuels, utilizes waste heat from the plant and machinery for its heating and transfers any surplus energy to other buildings.

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

The 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. Vossloh Rail Vehicles, Valencia, and Vossloh Kiepe Main Line Technology, Düsseldorf, followed on the heels of Vossloh Kiepe Austria, Vienna, and were awarded certification to IRIS (International Railway Industry Standard) in the course of 2010. 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. In accordance with the principle of sustainability in economic, ecological, safety and health respects, Vossloh Cogifer is in the process of merging its environmental management with quality and safety management to yield an integrated risk management system.

DIN EN ISO 14001  
at the  
large locations

# *Risk and reward management*

## Organization

Risks and rewards are, according to plan, identified, analyzed, assessed, reported, monitored and controlled at all levels of the Vossloh Group. To this end, Vossloh has set up a groupwide risk and reward management system. This proactive and systematic risk and reward management system ensures that the impact of possible adverse changes is avoided or contained and that any opportunities arising are indicated and seized. In this way, the system plays a major role in achieving financial targets and hence adding sustainable value to the Vossloh Group.

The risk and reward management system is part of the business, planning and controlling mechanisms. The system's setup is defined and described in groupwide principles, policies and procedures. The organizational setup is based on the structure of the operating processes and procedures of the respective unit. Risk owners, risk officers and risk controllers are appointed at all group levels. The identification of risks and rewards is ensured by a perpetual risk inventory in which relevant risks are identified effectively, timely, and systematically. Risks are registered and profiled 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 interval between the worst case and best case and the most probable impact on earnings are determined. These are supplemented by an assessment of loss probability. For the best and worse case scenarios, a value-at-risk approach with a minimum probability of 5 percent is assumed.

All the (direct or indirect) Vossloh subsidiaries, both in Germany and abroad, are integrated into the risk and reward management system irrespective of their consolidation. Those acquired in 2010 were integrated into the system in good time.

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



These reports are addressed to Vossloh AG's Executive Board as well as the 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 report below accounts for those risks and rewards which were of relevance at the time the consolidated financial statements were prepared and which are material to the Vossloh Group's future development. Risks whose impact has already been recognized in the balance sheet in the form of write-down, allowances, haircuts and/or provisions or which have been shifted by contract, e.g. to insurers, are not covered by the following report unless deemed essential for the overall evaluation of the risk situation, such as if a material residual risk is retained. Rewards and opportunities chiefly result from operating business (e.g., through incremental revenue). For added details on these turn to the *Prospects* chapter.

## General economic and sector risks and rewards

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

Rail business is normally less volatile compared with the economy in general. Certain submarkets display, moreover, signs of an upswing only after a certain time lag. Despite the evident economic recovery in 2010 there is still the latent risk that here and there state and/or private customers will shelve or even in some cases cancel contracts.

Restraints on funds might also depress future business. The financing capabilities of the public sector are limited by the current sovereign-debt situation. Increasingly under review for new projects are alternative financing arrangements such as public-private partnerships. Austerity measures in the maintenance market, one of significance to Vossloh, are of only limited duration and restricted scope due to the expanding volume of rail haulage.

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 Transportation, Vossloh ranks among the foremost suppliers on selected rail industry markets. The markets of relevance to Vossloh are oligopolistic by nature both on the demand and supply sides. Most of the customers are rail and network operators, as a rule still under public-sector control. This implies dependence on public-spending patterns. Vossloh attempts to abate such risks by expanding its international presence. Exploiting market opportunities as they surface, especially in the Rail Infrastructure division, brings about a balancing effect. At the focus of Vossloh's internationalization drive are presently the growth markets China, Russia, other Eastern European countries, the MENA states, the United States, and South America. In recent years the Group has much reduced its reliance on individual European markets. In 2010, non-European sales at 29.5 percent were at an all-time high. The share in 2009 had been 27.1 percent. For 2011, non-European sales are expected to once more rise.

Rail markets in Western Europe and North America are more or less stable in terms of their political and economic environments and hence as far as these core markets are concerned, there are no major risks confronting the Group. Accessing new markets elsewhere, especially Asia and Africa, does expose Vossloh not only to opportunities but also risks possibly arising from political and social instability, exchange rate fluctuations and legal uncertainties. As the percentage of sales in these markets grows, both opportunities and risk exposure rise.

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

## Operating risks and rewards

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

Vossloh attempts to counteract purchase price (input market) risks especially by long-term procurement contracts or price escalator clauses through agreements with customers. Exchange rate risks from purchasing are normally contained by currency forwards. With commodities (especially steel and oil) becoming scarcer, this will lead in the medium term to higher production costs, especially for Rail Infrastructure. Component prices at Transportation impact on earnings. Price hikes in 2010 could not be wholly downloaded onto customers. The medium-term planning assumptions of increases in the cost of materials and components are based on such factors as supplier information and market analyses. Any rises significantly above these assumptions may drain profitability as forecast by the divisions. Rewards may accrue from material and component prices that turn out to be lower than budgeted.

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

Along the value-adding chain, Vossloh subsidiaries are exposed to work interruption, quality 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 or policies that govern project and quality management, product and occupational safety, as well as environmental protection. The essential Vossloh locations have been certified to the DIN ISO 9001 quality management system and moreover the large ones such as the Chinese rail fastener facility fulfill the criteria of the ISO 14001 environmental management standard.

Project complexity is another source of risks. 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 financial penalties. Contractual provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. Especially exposed to risks of this nature is Transportation. Rewards may arise when risk provisions are not (fully) utilized.

Project risks arising in 2010 and still existing have been provided for as required by the IFRS.

## **Financial risks and rewards**

Financial risks are monitored and managed, and the Group's finances precision-engineered, by Corporate Treasury. The goals, principles, responsibilities and accountabilities are defined in policy statements. The overriding aim is to contain financial risks that might affect the survival and profitability of the Vossloh Group. This also means, however, that potential rewards are very sparse. 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 forecast transactions. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, turn to the notes to the consolidated financial statements starting on page 172 of the Annual Report. The following financial risks are controlled: liquidity risks, price risks, default and counterparty risks, as well as cash flow risks.

### **Liquidity risks**

Liquidity risks may arise if the Group is potentially unable to provide the funds required to meet its obligations in due course and fully. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies) through a rolling cash management system. An intragroup financial netting concept through cash pooling and intercompany loans ensures the best possible application of any surplus cash at certain subsidiaries to meet the liquidity requirements at other group companies. As of December 31, 2010, the Vossloh Group had cash and cash equivalents (including short-term securities) of a total €75.9 million. In addition, bilaterally committed, unutilized credit facilities of another €252.3 million were at Vossloh's disposal, mostly due within one year.

The two major long-term borrowings raised need not be refinanced before 2014 and 2016. The very low net leverage ensures that no financial or cash bottlenecks occur.

**Cash flow risks**

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

**Price risks**

Price risks arise from the possibility that the value of a financial instrument is changed by higher or lower market interest or exchange rates. With a view to benefiting for a long term from the low interest rates, the Group restructured its finances in 2004 by raising one ten-year and one twelve-year loan under a US private placement of a total \$240.0 million (around €200 million). As part of its proactive risk management concept, Vossloh has fully hedged future principal and interest payments through interest rate and cross-currency swaps on a euro basis. For details, see the notes to the consolidated financial statements as in the Annual Report, pages 180/181. Current or expected currency receivables and payables represent an unmatched position which is generally closed by contracting currency forwards.

**Default risks**

Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to Vossloh. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies. As of December 31, 2010, cash investments and financial derivatives with a positive fair value were allocable at 37 percent to counterparties rated between AA+ and AA–, at 46 percent to those rated from A+ to A–, at 15 percent to counterparties rated BBB+ (according to Standard & Poor's), and 2 percent to BB-rated or non-rated counterparties. In fiscal 2010, the rating of banks essentially remained unchanged. Monies are centrally deposited in Germany 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.

Many of our customers are government agencies, and the risk of their default is regarded as very low.

In export business, the risk of customer default is usually counteracted by using documentary credits.

On balance, the Vossloh Group's net earnings were in 2010 not affected to any significant degree by financial risks.

### Legal risks and rewards

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

None of these legal risks influenced the Group's earnings in 2010 to any substantial negative degree.

### Other risks and rewards

These are mainly of a human resources or IT nature. The Group's economic situation may well suffer as a result of substandard staffing such as shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, poor training, mistakes or theft committed by employees. Vossloh has a whole menu of measures to abate such risks: in particular, 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. The control of operational and strategic business processes largely relies on complex and powerful IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability, confidentiality and security. Such mechanisms and instruments also ensure efficient information processing.

None of these "other risks" influenced the Group's earnings in 2010 to any substantial degree.

## Overall assessment of the risk and reward situation

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

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

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

### **Vossloh ICS/RMS definitions and elements**

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).

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

Responsible at group level for the ICS are substantially 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 separate and consolidated financial statements, as well as the focal interim audit procedures upstream of the annual audit of the separate financial statements are essential process-unrelated monitoring procedures that center on the corporate accounting system.



## **IT**

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

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

### **Safeguards for a valid and reliable accounting system**

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. The Manual is periodically revised and updated and then placed in due course at the disposal of all those involved in the Group's accounting process.

After transactions have been recorded in the local accounting system of each subsidiary, the monthly accounts are reviewed at the level of the business unit 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 ICS and RMS substantially ensure (i) the complete accounting for, as well as the processing and assessment of, Vossloh-related transactions and events, and (ii) the faithful representation thereof in the consolidated financial statements.

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

### **Limitations**

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

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

For the corporate governance report see page 42 of the Annual Report. The Annual Report is also available long term on Vossloh AG's website at [www.vossloh.com](http://www.vossloh.com)

## Subsequent events

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

*Market-outpacing growth  
budgeted for 2011 and 2012*

*EBIT margin to be maintained  
at 11.0 to 11.5 percent*

*Capex of €90 million (2011)  
and €60 million (2012) to better  
exploit market opportunities*

*Net debt remaining low*

*Sufficient financial scope for  
acquisitions in selected sectors*

# Prospects

The years 2011 and 2012 are expected to see a continuation in economic recovery. Accordingly and for this year, the International Monetary Fund (IMF) is counting on a global economic growth of 4.4 percent to be followed by 4.5 percent in 2012. In those markets chiefly of relevance to Vossloh—Euroland, China, North America, and the CIS—the IMF likewise predicts stable growth rates. Whereas the eurozone countries—driven especially by the ongoing resurgence in Germany—are likely to show rates of 1.5 and 1.7 percent in 2011 and 2012, respectively, US figures are gauged at 3.0 and 2.7 percent for these two years. As to the CIS, the IMF is looking to 4.7 and 4.6 percent expansion in 2011 and 2012, respectively. China's gains are set at 9.6 and 9.5 percent. These are all regions where Vossloh generates just under three-quarters of its total business.

Propelled by the general economic trend, global trading volumes will advance significantly over the years ahead. For 2011, the IMF expects a growth of 7.1 percent and the year thereafter, 6.8 percent. Trading volumes and the related demand for haulage services are among the prime driving forces in the rail technology markets. These latter will also benefit over the coming years from ongoing urbanization and the increasing significance of ecological issues.

Rail technology  
market driven  
by rising haulage  
volumes and  
urbanization

The Association of the European Rail Industry predicts in its Worldwide Rail Market Study 2010 annual growth rates of around 2.3 percent in the rail technology market for the period up to 2015/16. The study carried out by The Boston Consulting Group (BCG), estimates the value of the presently accessible market at €95 billion, which will then proceed to €112 billion by 2015/16.

The study assesses the global rail infrastructure market currently at around €20 billion, with Western Europe accounting for €6.6 billion, NAFTA for €5.6 billion and Asia/Pacific for €4.9 billion, these being the biggest regions for rail infrastructure products and services. The compound annual growth rate for the years ahead is stated at 0.7 percent. Experts expect exceptional growth especially in the CIS and Latin America. Risks over the period ahead might emanate from possible reductions in China's rail infrastructure expenditures.

The accessible rolling stock market is gauged by the study at just under €37 billion, the major share accounted for by Asia/Pacific at 40 percent and Western Europe at 28 percent. This market's growth over the next few years is assessed at an annual 2.5 percent.

Outpacing the market in general will be Eastern Europe and the CIS due to their urgent replacement needs and the USA because of rising freight traffic.

Vossloh planning growth to outpace market	<p>For 2011 and 2012, Vossloh is acting on the assumption of being able to outgrow the rail infrastructure market just as it has done in the past. Over the preceding six years, Vossloh's growth rate has comfortably surpassed that of the global rail infrastructure's annual average 4.6 percent. Whereas the overall market is predicted to advance annually by 0.7 percent in the years to come, Vossloh is forecasting for itself an annual rate of about 5 percent. It is especially in Asia that we are looking to better-than-average gains in our rail infrastructure business. And for our Transportation division, we are for up to 2012 counting on expansion rates superior to the annual overall 2.5 percent.</p>
Expenditures on new locations	<p>A contributing factor in Rail Infrastructure's growth will be continuing internationalization. Among the items of expenditure in the years to come will be around €15 million for setting up a rail fastener production plant in Russia. In China, we have concluded an agreement with local venturers for manufacturing switch systems for commuter and industrial rail networks. Vossloh's share of the outlay is also in the region of €15 million. The Rail Services business unit is proceeding according to plan on the further development of its high-speed grinding technique so that this service can be marketed on an international scale, too. To this end, around €13 million has been earmarked. Many of the division's locations are planning expenditures for broadening their capacities and updating their production facilities in 2011 and 2012.</p>
New locomotives allow access to new markets	<p>The Transportation division sees cargo haulage and local public transport as the markets in which it commands a solid position. Both these can be expected to show definite growth in the years ahead. Especially promising are the newly developed products. The new Kiel-based center-cab locomotives are based on a modular platform. Also, the diesel-electric drivelines developed at Kiel together with the Electrical Systems business unit not only mean greater vertical integration, for the first time they also allow Vossloh access to the high-growth markets of Eastern Europe and the MENA states. The new locomotives comply with the modified legislation regarding crashworthiness, noise abatement, and emission control. Expenditures in the development of the modular center-cab locomotive family—the work will be completed in 2012—add up to €24 million. Of this, €6 million will be spent this year.</p>

Following the recent economic crisis, the latter half of 2010 saw an evident resurgence in demand for locomotives built at Kiel. The Valencia location is likewise well equipped thanks to its new products. Joining the EURO 4000 is now the *EUROLIGHT*, a locomotive designed for sections of rail with limited axle loads to allow entry into new markets with such rail lines as in Eastern Europe, Southern Europe, and secondary lines in Western Europe.

Altogether €11 million is being invested in this development and of this amount €3 million will be incurred in 2011. Alongside the train-tram and the metros, the local transport product portfolio in 2011 will be extended by the first all-Vossloh tram developed together with Vossloh Electrical Systems. Total expenditures on this amount to €14 million, including €6 million in 2011. Both development projects are set to be completed more or less in 2011. In contrast to the Kiel location, demand at Valencia was still weak in 2010 in the wake of the economic crisis. Hence, for 2011 we are expecting significantly lower sales than in the preceding years. Nonetheless, we do expect rising demand this year. At the start of 2011, a major contract was awarded for fifteen EURO 3000 and fourteen EURO 4000 locomotives.

Megacontract  
for Valencia

In all, Vossloh will in 2011 and 2012 spend €90 million and €60 million, respectively, in order to propel its organic growth and strengthen its market positions. Both years, the expenditures will therefore once again outstrip amortization/depreciation at €40 million and €45 million, respectively.

Vossloh Group: sales and performance trends

		2010	2011p
Sales	€ bill.	1.35	approx. 1.4
EBIT	€ mill.	152.1	>160
EBIT margin	%	11.3	11 to 11.5
ROCE	%	17.2	approx. 17
Value added	€ mill.	54.8	approx. 65
Earnings per share (EpS) from continuing operations	€	6.92	approx. 7.20

p = plan

Profitable growth  
planned for  
the years ahead

The Vossloh Group is budgeting sales in 2011 and 2012 that will exceed the all-time high of 2010. For 2011, we are forecasting sales of around €1.4 billion (up from €1.35 billion in 2010). For 2012, Vossloh is planning sales of around €1.5 billion. In 2011, EBIT should top €160 million and, in 2012, even €170 million. So, the EBIT margin in both years will be unchanged versus 2010 and stand at between 11.0 and 11.5 percent and hence remain above the 10-percent benchmark. Group earnings should rise from €95 million in 2011 to about €100 million in 2012. Accordingly, EpS in 2012 will amount to around €7.50 compared with €7.20 in 2011. Value added as the key performance indicator will advance slightly—despite the heavy capex budgeted—from around €55 million in 2010 to about €65 million in 2011 and then to €75 million in 2012.



## Vossloh Group: indicators

		2010	2011 p
Closing working capital	€ mill.	258.0	approx. 260
Year-end working capital intensity	%	19.1	approx. 19
Capital expenditures*	€ mill.	57.9	approx. 90
Average capital employed	€ mill.	884.5	900 to 950
Net financial debt	€ mill.	136.6	100 to 150
Net leverage	%	23.5	20 to 25

p = plan

\*excl. M&amp;A

Working capital will close 2011 at around €260 million and should remain at the level of 2010 and, in 2012—in line with rising sales—again mount. Working capital intensity at the end of 2011 would then again be 19 percent. As to capital employed, we expect this to rise to €900 million or €950 million in 2011 and again slightly in 2012. ROCE will therefore in fiscal 2011 amount to around 17 percent and in 2012 this will climb to 18 percent. In both fiscal periods, it will be comfortably above the 15-percent benchmark.

Despite the heavy expenditures, the Group's net debt in 2011 and 2012 will remain at a conservative level. Net leverage will range between 20 and 25 percent. Net financial debt over the next two years will be between €100 million and €150 million.

Net financial debt  
to remain moderate

Besides general economic conditions, Vossloh's sales plans are based above all on assumptions specific to the various business units, concerning such factors as product prospects, expected maneuvers by competitors, project probability and market opportunities and risks in individual regions. Unlike other industries, the rail has more reliable parameters for its own plans. Vossloh's customers are public and private short-distance and long-haul operators that invest according to long-term decision processes and longer-term financing settings. In our partnering role, we side with our customers over many years. Together, we develop and plan specific solutions for their individual product requirements.

Opportunities  
from global  
presence and  
accessing  
new markets

As a rule, this leads to protracted delivery and project execution times. Accordingly, our order backlog covers a number of months and in some cases, contracts awarded take several years to complete. Risks may therefore emanate partly from the cyclic order-placing response of public and private customers in the individual markets. The compulsion to consolidate public budgets in certain regions may impact adversely on rail technology markets. Fluctuations in certain regions have in the past been largely offset by Vossloh through its global presence. In recent years, this has been amplified by accessing new markets especially in Asia, North America, and Eastern Europe. In our Rail Infrastructure division in past years we have been involved in acquisitions and new establishments in these regions, too, or are planning such measures for the years ahead. Nonetheless, besides opening up new opportunities, accessing new markets is also associated with additional risks. These may surface from political and social instability or legal uncertainties. In August 2010 and in the course of the rebuilding of the Libyan rail network, Vossloh was awarded two megacontracts worth a total €115 million. Following the violent clashes in Libya in early 2011 deliveries were suspended at the request of the general contractor. The sales shortfall of up to around €70 million in 2011 will largely be offset by additional sales in other regions. Regarding further risks affecting the medium-term plan, refer to the risk report on page 56.

Prospects:  
Vossloh AG

The bottom line of Vossloh AG as a genuine management and financial holding company is primarily affected by administrative expenses and net financial results. General administrative expenses are set to remain at their current level in 2011 and 2012, too.

M&A may supple-  
ment organic  
growth

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. Acquirees should always meet group requirements from the outset while adding value. The medium-term plan figures in the form represented refer to the envisaged organic growth alone.





# *Separate financial statements of Vossloh AG as of December 31, 2010*

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## Income statement for the year ended December 31, 2010

€ million	2010	2009
Net sales	1.2	1.4
Cost of sales	(0.6)	(1.3)
<b>Gross margin</b>	<b>0.6</b>	<b>0.1</b>
General administrative expenses	(20.7)	(19.6)
Other operating income	16.7	15.9
Other operating expenses	(1.1)	(5.0)
<b>Operating result</b>	<b>(4.5)</b>	<b>(8.6)</b>
Income from investments	10.0	–
thereof from subsidiaries: €10.0 mill. (up from nil)		
Income from P&L transfer agreements	49.4	55.4
thereof from subsidiaries: €49.4 mill. (down from €55.4 mill.)		
Income from other long-term securities/loans	0.3	0.4
thereof from subsidiaries: €0.0 mill. (down from €0.1 mill.)		
Other interest and similar income	7.7	6.1
thereof from subsidiaries: €7.5 million (down from €4.8 million)		
Write-down of financial assets and short-term securities	(0.1)	(3.6)
Expenses for loss absorption	(11.6)	(3.8)
thereof for subsidiaries: €11.6 million (up from €3.8 million)		
Interest and similar expenses	(14.8)	(14.6)
thereof to subsidiaries: €0.5 million (down from €1.0 million)		
<b>Net financial result</b>	<b>40.9</b>	<b>39.9</b>
<b>Result from ordinary operations (EBT)</b>	<b>36.4</b>	<b>31.3</b>
Extraordinary result	(3.8)	–
Income taxes	(0.5)	(2.2)
<b>Net income</b>	<b>32.1</b>	<b>29.1</b>

## Balance sheet

Assets in € million	12/31/2010	12/31/2009
Purchased franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	0.4	0.5
<b>Total intangible assets</b>	<b>0.4</b>	<b>0.5</b>
Land, equivalent titles, and buildings (including on leased land)	3.8	3.2
Sundry plant, business and office equipment	0.3	0.4
Prepayments on tangibles, construction in progress	2.7	0.4
<b>Total tangible assets</b>	<b>6.8</b>	<b>4.0</b>
Shares in subsidiaries	496.9	473.9
Loans to subsidiaries	1.7	–
Other investments	0.1	0.1
Other long-term securities	0.1	0.1
Other long-term loans	0.0	0.0
<b>Total financial assets</b>	<b>498.8</b>	<b>474.1</b>
<b>Total fixed assets</b>	<b>506.0</b>	<b>478.6</b>
Trade receivables	0.0	0.0
Due from subsidiaries	225.3	150.4
Due from investees	–	0.3
Sundry assets	2.7	34.7
<b>Total receivables and sundry assets</b>	<b>228.0</b>	<b>185.4</b>
Cash on hand and in bank	0.7	48.6
Securities/treasury stock	–	102.6
<b>Total current assets</b>	<b>228.7</b>	<b>336.6</b>
<b>Prepaid expenses and deferred charges</b>	<b>0.1</b>	<b>0.2</b>
	<b>734.8</b>	<b>815.4</b>
Stockholders' equity & liabilities in € million	12/31/2010	12/31/2009
Capital stock	37.8	37.8
Treasury shares at notional par	(3.7)	–
	34.1	37.8
Additional paid-in capital	37.6	37.6
Reserves retained from earnings		
Reserve from treasury stock	–	102.6
Other	283.3	279.2
Net earnings	39.1	33.6
<b>Total stockholders' equity</b>	<b>394.1</b>	<b>490.8</b>
Accruals for pensions and similar obligations	5.6	12.8
Tax accruals	3.0	2.9
Other accruals	12.0	11.9
<b>Total accruals</b>	<b>20.6</b>	<b>27.6</b>
Due to banks	0.1	26.0
Trade payables	1.1	1.0
Due to subsidiaries	114.2	65.7
Due to investees	0.5	–
Sundry liabilities	204.2	204.3
thereof for taxes: €0.1 million (virtually unchanged)		
<b>Total liabilities</b>	<b>320.1</b>	<b>297.0</b>
	<b>734.8</b>	<b>815.4</b>

## Fixed-asset analysis

€ million											
	Cost				Balance at 12/31/ 2010	Accumulated amortization/depreciation/write-down				Book values	
	Balance at 1/1/ 2010	Additions	Disposals	Book transfers		Balance at 12/31/ 2010	Additions	Disposals	Write-up	Balance at 12/31/ 2010	Balance at 12/31/ 2009
<b>Intangible assets</b>											
Purchased franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	7.9	0.2	0.0	–	8.1	7.7	0.3	0.0	–	0.4	0.5
	<b>7.9</b>	<b>0.2</b>	<b>0.0</b>	<b>–</b>	<b>8.1</b>	<b>7.7</b>	<b>0.3</b>	<b>0.0</b>	<b>–</b>	<b>0.4</b>	<b>0.5</b>
<b>Tangible assets</b>											
Land, equivalent titles, and buildings (incl. on leased land)	11.2	0.8	(0.1)	0.0	11.9	8.1	0.2	(0.1)	–	3.8	3.2
Sundry plant, business and office equipment	1.2	0.0	(0.1)	–	1.1	0.8	0.1	(0.1)	–	0.3	0.4
Prepayments on tangibles, construction in progress	0.4	2.3	–	0.0	2.7	–	–	–	–	2.7	0.4
	<b>12.8</b>	<b>3.1</b>	<b>(0.2)</b>	<b>0.0</b>	<b>15.7</b>	<b>8.9</b>	<b>0.3</b>	<b>(0.2)</b>	<b>–</b>	<b>6.8</b>	<b>4.0</b>
<b>Financial assets</b>											
Shares in subsidiaries	492.4	23.0	–	–	515.4	18.5	–	–	–	496.9	473.9
Loans to subsidiaries	0.0	1.7	–	–	1.7	–	–	–	–	1.7	–
Other investments	0.1	–	–	–	0.1	–	–	–	–	0.1	0.1
Other long-term securities	0.1	–	–	–	0.1	0.0	–	–	–	0.1	0.1
Other long-term loans	6.2	0.1	0.0	–	6.3	6.3	0.1	–	0.0	0.0	0.0
	<b>498.8</b>	<b>24.8</b>	<b>0.0</b>	<b>–</b>	<b>523.6</b>	<b>24.8</b>	<b>0.1</b>	<b>–</b>	<b>–</b>	<b>498.8</b>	<b>474.1</b>
<b>Total</b>	<b>519.5</b>	<b>28.1</b>	<b>(0.2)</b>	<b>0.0</b>	<b>547.4</b>	<b>41.4</b>	<b>0.7</b>	<b>(0.2)</b>	<b>0.0</b>	<b>506.0</b>	<b>478.6</b>



## Notes

The separate annual financial statements of Vossloh AG as of December 31, 2010, were prepared in accordance with German GAAP, i.e., the provisions of the German Commercial Code (“HGB”) as amended up to May 29, 2009, by BilMoG, the German Accounting Law Modernization Act. Consequently, according to Art. 67(8) Commercial Code Implementation Act (“EGHGB”) and in derogation of the consistency principle, the previously applied accounting methods were changed. The prior-year comparatives were not restated.

Accounting and valuation are governed by the following 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 only. 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, or at the lower of cost or market. The corporation income tax credit distributable in the period from 2010 to 2017 was discounted at 4 percent annually and shown at present value.

Accounting and  
valuation principles

Non-euro receivables/payables are translated at the historical mean forex rate as of first recognition date or any more unfavorable mean current forex rate; this latter rate is always applied to non-euro receivables/payables with a remaining term of one year or less but if hedged, the rate so covered is used for their translation.

According to the amended Commercial Code provisions, treasury shares are no longer capitalized as assets; instead, the repurchased shares at their notional par value are openly offset against the capital stock, the difference between the treasury stock at notional par and at cost being recognized within the free reserves.

Since January 1, 2010, the project unit credit (PUC) method has been used to provide for pensions and similar obligations, based on the 2005G mortality tables of Prof. Dr. Klaus Heubeck and an imputed discount rate of 5.16 percent. This rate—which was published by Deutsche Bundesbank as of December 31, 2010, for obligations with an average 15 years to maturity—was applied in due accordance with German Accruals Discounting Regulations. Further actuarial parameters entering into consideration for pension accruals included a pay rise of 3 percent, an expected pension rise of 2 percent, and an average employee turnover rate of 6 percent. The option offered by Art. 67(1) Clause 1 EGHGB was not exercised and therefore, the full additional provision of €3.8 million was recognized as extraordinary expense in 2010.

So-called plan assets (assets beyond the reach of any creditors and earmarked exclusively for the settlement of pension obligations) are netted against such obligations and consequently no longer shown as sundry assets (down from €11.3 million). Pension accruals were thus reduced by €11.4 million. Income from and expenses for these assets are offset against the interest added back to the related obligations and recognized in the other financial results.

Tax and other accruals are shown at the settlement amounts required in sound business practice and judgment. Accruals with a remaining term of more than one year are discounted at a 7-year average market rate for matching maturities (as determined and published by Deutsche Bundesbank). Liabilities are stated at their current settlement amounts.

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.

**Fixed assets** Classification and movements of fixed assets are detailed in the above fixed-asset analysis.

The additions to shares in subsidiaries refer to Vossloh Rail Services GmbH.

Within financial assets, write-down of k€81 was charged to the other long-term loans; write-up was credited at k€34.

## List of shareholdings

€ million	Footnote	Shareholding in %	through ( )	Consoli- dation <sup>1</sup>	Equity <sup>2</sup>	EAT <sup>2</sup>
(1) <b>Vossloh AG, Werdohl</b>				(c)	394.4	(4.0)
(2) Vossloh International GmbH, Werdohl		100.00	(1)	(c)	23.2	0.0
(3) Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	(c)	20.8	(0.4)
(4) Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(c)	4.3	(0.2)
(5) Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(c)	(6.4)	(0.2)
<b>Rail Infrastructure division</b>						
(6) Vossloh France SAS, Paris, France		100.00	(1)	(c)	237.0	13.7
<b>Fastening Systems business unit</b>						
(7) Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(c)	4.2	19.8
(8) Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(7)	(c)	5.8	3.8
(9) Vossloh Werdohl GmbH, Werdohl	3	100.00	(7)	(c)	5.3	6.9
(10) Vossloh Tehničã Feroviarã SRL, Bucharest, Romania	4	100.00	(7)	(u)	0.0	0.0
(11) Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100.00	(7)	(u)	1.2	0.3
(12) Vossloh Sistemi Srl, Sarsina, Italy		100.00	(7)	(c)	4.5	0.8
(13) Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4,6	51.00	(7)	(u)	1.6	0.7
(14) T.O.O. Vossloh-Kasachstan, Almaty, Kazakhstan		50.00	(7)	(u)	0.3	0.2
(15) BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	(e)	0.7	1.0
(16) BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	(u)	0.0	0.0
(17) Vossloh Maschinenfabrik Deutschland GmbH, Werdohl	4	100.00	(7)	(u)	(0.7)	(0.1)
(18) Vossloh Utenzilija d.d., Zagreb, Croatia	4	90.49	(7)	(u)	1.8	(0.2)
(19) Vossloh Skamo Sp. z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	(c)	4.7	2.2
(20) Vossloh Rail Technologies Ltd. Şti., Istanbul, Turkey		99.5/0.50	(7/8)	(c)	5.5	3.3
(21) Feder-7 Kft., Székesfehérvár, Hungary	4	96.67/3.33	(7/8)	(u)	0.4	0.1
(22) Vossloh Fastening Systems America Corp., Chicago, USA	5	100.00	(7)	(c)	0.8	0.2
(23) Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	(c)	45.4	31.8
(24) Vossloh-Werke China Investment GmbH, Werdohl		100.00	(7)	(c)	10.6	0.6
(25) ZAO Vossloh Fastening Systems Rus, Moscow, Russia	4	50.10	(7)	(u)	0.0	0.0
(26) Beijing China Railways Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	(u)	2.6	2.2
<b>Switch Systems business unit</b>						
(27) Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	(c)	119.0	23.7
(28) Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(27)	(c)	2.4	0.2
(29) Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(30)	(c)	1.5	0.7
(30) Vossloh Nordic Switch Systems AB, Örebro, Sweden		100.00	(27)	(c)	22.7	7.4
(31) KIHN SA, Rumelange, Luxembourg		89.21	(27)	(c)	12.6	1.1
(32) DDL SA, Rodange, Luxembourg		100.00	(31)	(c)	0.1	0.0
(33) Vossloh Laeis GmbH & Co. KG, Trier		100.00	(31)	(c)	3.2	0.9
(34) Vossloh Laeis Verwaltungs GmbH, Trier		100.00	(31)	(c)	0.0	0.0
(35) FutriFer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(27)	(c)	3.2	1.8
(36) Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(27)	(p)	30.7	7.0
(37) Montajes Ferroviarios srl, Amurrio, Spain	4	100.00	(36)	(u)	1.5	0.0
(38) Burbiola SA, Amurrio, Spain		50.00	(36)	(u)	0.3	0.1
(39) Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK		50.00	(27)	(p)	9.0	1.3
(40) Vossloh Cogifer Italia Srl, Bari, Italy		100.00	(27)	(c)	2.4	(1.7)
(41) Cogifer Polska Sp. z o.o., Bydgoszcz, Poland		52.38	(27)	(c)	13.7	1.2
(42) ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(27)	(c)	0.9	0.0
(43) Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(27)	(c)	0.6	0.4
(44) Cogifer Americas, Inc., Cincinnati, USA	4	100.00	(27)	(u)	0.1	0.0
(45) Siema Applications SAS, Villeurbanne, France		100.00	(27)	(c)	2.8	0.6
(46) Vossloh Min Skretnice AD, Niš, Serbia		100.00	(27)	(c)	2.2	0.1
(47) J.S. Industries Pvt. Ltd., Secunderabad, India	4,6	51.00	(27)	(u)	0.0	(0.3)
(48) Vossloh Beekay Castings Ltd., Bhilai, India	6	60.00	(27)	(c)	8.2	2.5
(49) Dakshin Transtek Pvt. Ltd., Bangalore, India	4,6	100.00	(47)	(u)	0.1	0.0
(50) Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(c)	10.7	1.2
(51) Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	(c)	10.1	0.1
(52) Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(c)	7.3	0.9
(53) Vossloh Sportek A/S, Horsens, Denmark		100.00	(30)	(c)	1.2	0.8

€ million	Footnote	Shareholding in %	through ( )	Consoli- dation <sup>1</sup>	Equity <sup>2</sup>	EAT <sup>2</sup>
(54) Kloos Oving BV, Rotterdam, Netherlands		100.00	(27)	(c)	4.6	1.5
(55) Global Rail Systems, Inc., Marlin, USA	5	60.00	(3)	(c)	4.5	0.3
(56) Vossloh France International SAS, Rueil-Malmaison, France	4	100.00	(6)	(u)	0.0	0.0
(57) Wuhu China-Railway Cogifer Track Co., Huo Long Gang Town, China		50.00	(27)	(u)	10.3	0.0
<b>Rail Services business unit</b>						
(58) Vossloh Rail Services GmbH, Seevetal	3, 5	100.00	(1)	(c)	22.8	12.7
(59) Stahlberg, Roensch GmbH & Co. KG, Seevetal	3, 5, 7	96.0/4.0	(58/60)	(c)	22.5	12.3
(60) Stahlberg Verwaltungsgesellschaft mbH, Seevetal	5	100.00	(58)	(c)	1.9	0.5
(61) RCN Rail Center Nürnberg GmbH & Co. KG, Nürnberg	3, 5	100.00	(59)	(c)	2.1	7.1
(62) RCN Rail Center Nürnberg Verwaltungs GmbH, Nürnberg	5	100.00	(59)	(c)	0.1	0.0
(63) RCB Rail Center Bützow GmbH & Co. KG, Bützow	3, 5	100.00	(59)	(c)	1.2	2.4
(64) RCB Rail Center Bützow Verwaltungs GmbH, Bützow	5	100.00	(59)	(c)	0.1	0.0
(65) Stahlberg Roensch Leipzig GmbH, Seevetal	5	100.00	(59)	(c)	2.0	1.3
(66) GTS Gesellschaft für Gleistechnik Süd mbH, Seevetal	3, 5	100.00	(59)	(c)	(0.2)	0.0
(67) Stahlberg Roensch Hamburg GmbH, Hamburg	5	100.00	(59)	(c)	1.0	0.0
(68) Alpha Rail Team GmbH & Co. KG, Berlin		50.00	(59)	(e)	8.2	1.8
(69) Alpha Rail Team Verwaltungs GmbH, Berlin		50.00	(59)	(u)	0.0	0.0
(70) LOG Logistikgesellschaft Gleisbau mbH, Hannover	3, 5	100.00	(58)	(c)	9.4	(1.0)
(71) Vossloh Ray Hizmetleri Limited Şirketi, Istanbul, Turkey	4	99.5/0.5	(59/58)	(u)	0.0	0.0
(72) Vossloh High Speed Grinding GmbH, Seevetal	3, 5	100.00	(58)	(c)	0.1	0.0
(73) Vossloh Mobile Rail Services GmbH, Seevetal	3, 5	100.00	(59)	(c)	0.1	0.0
<b>Transportation division</b>						
<b>Transportation Systems business unit</b>						
(74) Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(c)	40.7	(5.2)
(75) Locomotion Service GmbH, Kiel	3	100.00	(74)	(c)	0.2	0.0
(76) Vossloh España SA, Valencia, Spain		100.00	(1)	(c)	92.2	13.7
(77) Erion Mantenimiento Ferroviario SA, Madrid, Spain		51.00	(76)	(c)	1.9	1.2
(78) Vossloh Locomotives France SAS, Antony, France		100.00	(74)	(c)	(0.1)	0.2
<b>Electrical Systems business unit</b>						
(79) Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(c)	54.9	13.8
(80) Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(79)	(c)	1.4	(0.2)
(81) Vossloh Kiepe Ges.mbH, Vienna, Austria		100.00	(80)	(c)	16.5	1.7
(82) Vossloh Kiepe Corporation, Vancouver, Canada	4	100.00	(80)	(u)	0.3	0.1
(83) Vossloh Kiepe Srl, Cernusco sul Naviglio, Italy	4	100.00	(80)	(u)	0.1	0.0
(84) Vossloh Kiepe Sp. z o.o., Kraków, Poland	4	99.00/1.00	(79/80)	(u)	0.0	0.0
(85) Vossloh Kiepe Main Line Technology GmbH, Düsseldorf	3	100.00	(80)	(c)	3.2	(1.1)
(86) APS electronic AG, Niederbuchsiten, Switzerland		100.00	(80)	(c)	1.7	0.5
(87) Vossloh Kiepe Inc., Alpharetta, USA	4	100.00	(3)	(u)	1.0	0.1
<b>Other companies</b>						
(88) Vossloh Schwabe Australia Pty. Ltd., Sydney, Australia	4	100.00	(4)	(u)	1.1	0.0
(89) Delkor Rail Pty. Ltd., Sydney, Australia	4	100.00	(4)	(u)	2.2	0.5
(90) Delkor Rail (HK) Ltd., Hong Kong, China	4	100.00	(89)	(u)	0.1	0.0
(91) Vossloh Track Systems GmbH, Werdohl	4	100.00	(1)	(u)	0.0	0.0
(92) Vossloh Middle East Business Rail LLC, Abu Dhabi, UAE		49.00	(91)	(u)		
(93) Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl	4	100.00	(1)	(u)	0.0	0.0

<sup>1</sup>Fully consolidated companies are labeled (c), those included at equity (e), ventures consolidated pro rata (p), and unconsolidated companies (u).

<sup>2</sup>For consolidated subsidiaries: as stated in the consolidated financial statements. Non-euro equity is translated at the mean current rate, EAT (net income or loss) at the annual average rate.

<sup>3</sup>Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.

<sup>4</sup>Not included in the consolidation group for lack of materiality to the asset and capital structure, financial position, and results of operations

<sup>5</sup>Newly consolidated in 2010

<sup>6</sup>Fiscal year from April 1 to March 31

<sup>7</sup>In addition, Vossloh Verwaltungsgesellschaft (5) holds a minor equity interest as general partner.

Except for k€399, all receivables and sundry assets fall due within one year.  
The accounts due from subsidiaries are nontrade receivables only.

Receivables and  
sundry assets

## Stockholders' equity

Vossloh AG's capital stock of €37,825,168.86 (up from €37,825,041.04) is divided into 14,795,920 (up from 14,795,870) no-par bearer shares of common stock only.

Capital stock

The annual general meeting of May 20, 2009, authorized new capital of €7,500,000, the authority expiring May 19, 2014.

Authorized capital

The contingent capital—totaling €12,586,846.49 as of December 31, 2010—breaks down as follows:

Contingent capital

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

The Company's capital stock has been conditionally increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to employees under an SOP authorized by the annual stockholders' meetings of June 25, 1998, and/or June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the beginning of the fiscal year in which it is created by option exercise.

When employees exercised some of their options under the ESOP, the capital stock was raised by 50 shares or €127.82.

The Company's capital stock has been conditionally raised by €1,468,225.77 by issuing 574,320 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to officers, executives and other management staff under a long-term incentive plan (LTIP) authorized by the annual stockholders' meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options.

The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal on whose profit appropriation the succeeding fiscal year's AGM votes.

The Company's capital has been conditionally raised by an aggregate €3,782,500 by issuing up to 1,479,585 no-par bearer shares of stock in order to grant new no-par bearer shares to the holders or creditors of such convertible bonds, warrant bonds, participating rights and/or income bonds (or any combination of such instruments) as are issued or floated by Vossloh AG or any of its (directly or indirectly) wholly owned subsidiaries by dint of the authority conferred by the AGM of May 19, 2010, according to Agenda Item 8. The new no-par bearer shares will be issued at a conversion or option price to be determined in accordance with the aforesaid AGM resolution. The conditional capital increase shall be implemented only to the extent that (i) conversion rights or equity warrant options are exercised, (ii) the bondholders, warrant owners or creditors subject to a conversion obligation actually meet their conversion obligations, (iii) no cash compensation is paid in lieu, or (iv) treasury shares or new shares issued by utilizing authorized capital are used. The newly issued no-par bearer shares rank for dividend as from the beginning of the fiscal year in which they are created by conversion or option exercise or by fulfillment of conversion obligations. The authority will expire May 18, 2015.

**Additional paid-in capital** This equity reserve includes the premiums from issuing Vossloh AG stock. As the capital stock was raised from contingent capital, a premium of €1,809.68 (up from €868.64) was transferred to additional paid-in capital.

**Treasury stock** Based on the authority conferred by the AGM of May 21, 2008 (which expired November 20, 2009), the Executive Board, with the Supervisory Board's prior consent, had decided on October 15, 2008, to repurchase up to 1,479,582 treasury shares, then equivalent to 10 percent of the capital stock.

On October 25, 2010, the Executive Board decided to reclassify 5,600 no-par shares of treasury stock and offer them to those employees of Vossloh AG or a Vossloh Group company who had registered for participation in the ESOP 2010.

Consequently, 5,600 shares were used in November 2010 for this program;  
for a summary of treasury stock movements, see the table below.

Stock repurchase

	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
<b>Total 2008</b>	<b>907,000</b>		<b>37,824,979.68</b>	<b>14,795,846</b>	<b>6.13</b>
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
<b>Total 2009</b>	<b>572,582</b>		<b>37,824,979.68</b>	<b>14,795,846</b>	<b>3.87</b>
<b>As of March 31, 2009</b>	<b>1,479,582</b>		<b>37,824,979.68</b>	<b>14,795,846</b>	<b>10.00</b>
November 2009	(3,352)	(241,075.84)	37,825,041.04	14,795,870	(0.02)
<b>As of Dec. 31, 2009</b>	<b>1,476,230</b>		<b>37,825,041.04</b>	<b>14,795,870</b>	<b>9.98</b>
November 2010	(5,600)	(428,519.48)	37,825,168.86	14,795,920	(0.04)
<b>As of Dec. 31, 2010</b>	<b>1,470,630</b>		<b>37,825,168.86</b>	<b>14,795,920</b>	<b>9.94</b>

\*Excl. bank commissions

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

The treasury shares may be acquired via a stock exchange, by public offering or by a public invitation to bid.

The treasury shares thus acquired may be disposed of (i) through a stock market, (ii) by offering them to all Vossloh stockholders, (iii) in return for noncash contributions, particularly in M&A transactions, or (iv) in order to meet obligations from convertible or warrant bond issues, or they may redeemed and withdrawn without requiring another AGM resolution.

The authority conferred by the AGM of May 20, 2009, to repurchase treasury stock was revoked when the AGM resolution of May 19, 2010, took effect.

According to the amended Commercial Code provisions, the treasury stock's theoretical par value of €3,759,605.90 was openly offset against the capital stock, the difference of €98,478,591.70 between the treasury stock's notional par value and its amortized cost being recognized within the free reserves.

Reserves retained from earnings	<p>The reserves retained from earnings totaled €283,367,916.07 as of December 31, 2010 (up from €279,205,558.17).</p> <p>The closing treasury stock portfolio as of December 31, 2010, comprised 1,470,630 shares, carried at amortized cost of €69.52 each.</p>
Accruals	<p>Within the accruals for pensions and similar obligations, certain plan assets (assets beyond the reach of any other creditors and earmarked exclusively for the settlement of pension obligations) were netted against such obligations, their amortized cost and fair value amounting to k€11,363, while the settlement amount of obligations offset came to k€16,928. In the income statement, expenses of k€325 were netted against income of k€49.</p> <p>The plan assets' amortized cost (which equals their fair value) corresponds to the budgeted unearned premium reserve from the employer's pension liability insurance contract, plus the credit balance from premiums refundable (so-called irrevocable capital bonus). This value, moreover, equals the asset value for tax purposes.</p> <p>The other accruals of k€12,042 (up from k€11,864) include k€3,165 for personnel (up from k€2,815) and k€8,877 for sundry administrative purposes (down from k€9,049).</p>
Liabilities (above-the-line and contingent)	<p>k€116,273 of the liabilities recognized in the balance sheet falls due within one year (up from k€93,127), another k€118,946 after one but within five years (virtually unchanged) and k€84,962 after more than five years (virtually unchanged). The noncurrent liabilities (due &gt;1 year) are all <i>sundry liabilities</i>. The accounts due to subsidiaries are throughout nontrade.</p> <p>The contingent liabilities under suretyships and guaranties of k€414,038 (down from k€435,534) were in full incurred for obligations of subsidiaries (unchanged).</p> <p>The limited-amount guaranties in favor of subsidiaries total k€657,113. Sixteen guaranties do not have a stipulated ceiling.</p> <p>Since the subsidiaries will be able to settle the liabilities covered by such guaranties, no liabilities were recognized.</p>



The other financial obligations (exclusively to third parties) total k€509 (down from k€684) and break down into k€314 falling due within one (down from k€324) and another k€195 between one and five years (down from k€360).

No evidence exists that would suggest that a guaranty might be enforced, a conclusion we have arrived at primarily given the many years in which not a single guaranty was called upon. The circumstances prevailing at the balance sheet and the situation up to financial statement preparation do not indicate any such enforcement either.

k€1,225 (down from k€1,429) of net sales, generated in 2010 solely in Germany, basically referred to rental income, including k€881 charged to subsidiaries (down from k€1,068).

#### Results of operations

The functional expenses break down into cost of sales and general administrative expenses.

Cost of sales mainly includes amortization, depreciation, and M&R expenses, while general administrative expenses essentially cover expenses for personnel, trade fairs, management consultancy, as well as amortization/depreciation.

The other operating income came to k€16,730 (up from k€15,914) and chiefly resulted from apportioned taxes of k€11,892 (up from k€11,812) and allocated marketing fees of k€2,413 and IT costs of k€1,223 (up from k€1,208 and k€1,187, respectively). Moreover, financial assets were written up at k€34 (down from k€43).

The net financial result includes write-down of k€81 charged to other long-term loans.

The extraordinary result solely accounts for the effects of the first-time application of the amended Commercial Code.

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 k€8,193 (down from k€8,908), of which k€7,705 (down from k€7,733) is allocable to wages and salaries, another k€448 (down from k€1,175) to Social Security, pension expense and related employee benefits, pension expense alone being a credit of k€53 (up from a k€651 expense). The k€1,045 interest portion in the addition to pension accruals was recognized as interest and similar expenses.

In fiscal 2010, Vossloh AG employed an average white-collar workforce of 46 (down from 50).

The employee bonus program 2010 (on terms unchanged versus 2009) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares free or eight shares at a discount of 50 percent of the issue price of €85.51 per share (up from €65), determined at market as of the share transfer date. Under this program, Vossloh employees were granted in 2010 altogether 3,148 free shares (up from 1,916) at an expense to the Company of k€218.8 (up from k€137.8).

Remuneration of Executive Board members for 2010 totaled k€2,840, including k€759 of fixed and k€2,045 of variable compensation plus k€35 payments in kind (PiK). Former Executive Board members received a total k€612 in 2010. k€11,411 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 2010 came to k€689, including fixed and variable components of k€223 and k€466, 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).

**Financial derivatives and hedge accounting** Vossloh AG's business operations are exposed to exchange and interest rate risks which are contained or eliminated by contracting financial derivatives. The Company's Treasury Management controls and manages groupwide all exchange and interest rate risks.

In order to fully hedge the risks originating from the financial debts of \$240.0 million raised by US private placement (USPP), as well as from the related future interest payments in US dollars, cross-currency swaps of matching maturities and amounts were contracted.

Vossloh AG contracts currency forwards with banks to cover currency risks from the operations of subsidiaries and hedge currency loans extended to subsidiaries.

All hedged underlyings are accounted for at the hedged rate. Since the so-called net method is used, neither any expected loss or gain, nor any decrease/increase in the hedging instrument's value is recognized.

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

Financial derivatives				
€ million	2010		2009	
	Market value	Notional volume	Market value	Notional volume
<b>Currency hedges</b>				
Cross-currency swaps	(25.5)	203.9	(41.4)	203.9
Currency forwards	(1.5)	75.4	(0.1)	72.3
<b>Interest rate hedges</b>				
Interest rate swaps	–	–	(0.8)	25.6
	<b>(27.0)</b>	<b>279.3</b>	<b>(42.3)</b>	<b>301.8</b>

The method of determining market values to measure derivatives depends on the type of instrument.

The market value of 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. Interest rate hedges are marked to market on the basis of bank opinions.

The fair market values of currency forwards were calculated internally by determining the current value at the hedged rate, i.e., 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.

Where the criteria are met, hedge accounting is used for financial derivatives by combining the derivative with the underlying into one valuation unit. Where not, negative market values are accrued, positive market values not being capitalized. In 2010, all financial derivatives were combined as hedging instruments with the related underlyings to form microhedges whose future effectiveness is assessed in terms of matching maturities and volumes, i.e., on the basis of a critical term match.

Hedge accounting against  
currency risks

The cross-currency swaps contracted by Vossloh AG at matching maturities and amounts to hedge its forex obligations from the USPP of US \$240.0 million represent a valuation unit together with the related debts and, therefore, they are recognized according to hedge accounting rules. At December 31, 2010, the hedged sum of €203.9 million exceeded the current value at the closing rate by €23.2 million. The hedged interest expense of €11.0 million was €2.3 million above the current value at the closing rate.

Due to matching maturities and volumes in each currency, Vossloh AG's forex hedging is 100 percent effective.

Underlyings include firmly contracted purchase orders or shipments at fixed dates, as well as currency loans. The contracted cash flow is hedged by buying or selling foreign exchange, thus also closing the currency positions of subsidiaries for the latter's account. As of December 31, 2010, positions in UAE dirhem (AED), Australian dollar (AUD), Swiss franc (CHF), Czech koruna (CZK), Danish krone, Swedish krona (SEK), and US dollar (USD) were hedged.

#### Declaration of conformity

In December 2010, 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 Art. 161 AktG.

#### Notifications acc. to Sec. 21 WpHG

Vossloh AG received the following notifications of attributable voting rights in 2010 under the terms of Sec. 21 German Securities Trading Act ("WpHG"):

Notifying party	Date	Threshold	Voting interest
Generation Investment Management LLP, London, UK	2/04/2010	crossed above 5%	5.02%
Generation Investment Management LLP, London, UK	11/25/2010	crossed below 5%	4.76%
Generation Investment Management LLP, London, UK	12/06/2010	crossed below 3%	2.91%

The following fees for services rendered by the statutory auditor, BDO AG, Wirtschaftsprüfungsgesellschaft (“BDO”), were recognized as expense:

#### Statutory auditor’s fees

€ million	2010	2009
Statutory audits	0.1	0.1
Other certification/verification services	0.2	0.3
Tax consultancy	0.3	0.4
Other services	0.0	0.0
	<b>0.6</b>	<b>0.8</b>

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 (virtually unchanged) for other certification or verification services and €0.0 million (down from €0.1 million) for tax consultancy provided by non-German BDO firms but invoiced through BDO AG. The fees for other certification or verification services mainly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, as well as for quarterly report reviews.

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

#### 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
- Vossloh España SA: Director
- Wohnungsgesellschaft Werdohl GmbH: supervisory board member

#### Vossloh AG's Supervisory Board

Dr.-Ing. Dipl.-Ing. Wilfried Kaiser, Chairman<sup>2, 4</sup>, Munich, degreed engineer, former executive board member of Asea Brown Boveri AG

- EvoBus GmbH: supervisory board member
- ACTech GmbH: advisory board member<sup>5</sup>
- schenck.de AG: supervisory board chairman
- Hugo Kern und Liebers GmbH & Co.: director<sup>5</sup>
- VAG Holding GmbH: advisory board chairman<sup>5</sup>

Peter Langenbach<sup>2, 4</sup>, Vice-Chairman, Wuppertal, lawyer

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

Dr. Jürgen Blume<sup>3, 4</sup>, Bad Bentheim, sworn public auditor and tax accountant

Dr. Christoph Kirsch<sup>3, 4</sup>, Weinheim, former CFO of Südzucker AG

- GELITA AG: supervisory board member
- HELIKOS SE: member of the board

Wolfgang Klein<sup>1, 2, 3</sup>, Werdohl, galvanizer, European and Group Works Council Chairman

Michael Ulrich<sup>1</sup>, Kiel, mechanic

<sup>1</sup>Employee representative

<sup>2</sup>Staff Committee member

<sup>3</sup>Audit Committee member

<sup>4</sup>Slate Submittal Committee member

<sup>5</sup>Optional board

The annual financial statements 2010 close with net income of €32,124,074.74. Including the profit carryover of €6,958,237.20, net earnings amount to €39,082,311.94.

#### Proposed profit appropriation

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €2.50 for each eligible no-par share of the common stock of €34,065,562.96 and carry forward the balance of €5,769,086.94. When determining the eligible capital stock, the total number of treasury shares (1,470,630) was deducted.

#### Proposed profit appropriation

in €	
Net income for 2010	32,124,074.74
Undistributed profit as of January 1, 2010	6,958,237.20
<b>Net earnings as of December 31, 2010</b>	<b>39,082,311.94</b>
<b>Proposed:</b>	
total dividend payout	33,313,225.00
carryforward to new account	5,769,086.94

Werdohl, March 11, 2011

Vossloh AG  
The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

## Management representation

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

Werdohl, March 11, 2011

Vossloh AG

The 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, 2010. 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 11, 2011

BDO AG  
Wirtschaftsprüfungsgesellschaft

Fritz	Barhold
Wirtschaftsprüfer	Wirtschaftsprüfer



[www.vossloh.com](http://www.vossloh.com)